



MERCER GROUP LIMITED

RIGHTS OFFER DOCUMENT

2.25 FOR 1 RENOUNCEABLE RIGHTS ISSUE OF ORDINARY SHARES

Dated: 1 November 2016

This Offer Document is an important document. It explains Mercer Group Limited's plans to raise \$7,019,335 in new capital and your right to participate in this capital raise. The rights issue described in this Offer Document gives each Eligible Shareholder the opportunity to purchase 2.25 new ordinary shares for every 1 existing ordinary share they hold on the rights issue record date (5:00pm on Wednesday 2 November 2016), at a price of \$0.01 per share.

You should read this Offer Document carefully and in full before deciding whether to purchase any shares. If you do not understand any aspect of the Offer or any part of this Offer Document, or have any doubts as to what you should do, please consult your broker, financial, investment or other professional adviser.

IMPORTANT INFORMATION

This Offer Document

This Offer Document has been prepared by Mercer Group Limited ("**Mercer**") in relation to a 2.25 for 1 pro-rata renounceable rights issue of new ordinary shares on the terms set out in this Offer Document ("**Offer**").

The Offer is made under the exclusion in clause 19 of Schedule 1 of the Financial Markets Conduct Act 2013 ("**FMCA**"). This document is not a product disclosure statement for the purposes of the FMCA and does not contain all of the information that a product disclosure statement would contain or which an investor may require in order to make an informed investment decision about the Offer or Mercer. This Offer Document is prepared as at, and dated, 1 November 2016.

No person is authorised to give any information or make any representation in connection with the Offer that is not contained in this Offer Document, the enclosed Entitlement and Acceptance Form, the Cleansing Notice associated with the Offer, or in other forms of written communication from the Directors of Mercer.

Additional Information about Mercer

As a listed company, Mercer is subject to continuous disclosure obligations under the Listing Rules. Market releases by Mercer, including its most recent financial statements, are available at www.nzx.com under stock code MGL. Further background and historical information in connection with Mercer can be found at Mercer's website www.mercers.co.nz.

Offer Eligibility and Restrictions on Distribution of Offer Document

The Offer is only open to Eligible Shareholders, being those persons who are Shareholders at 5:00pm on the Record Date and:

- (a) whose address is shown in Mercer's share register as being in New Zealand; or
- (b) to whom Mercer is satisfied (in its reasonable opinion) it would not be unduly onerous to make the Offer under all applicable laws.

If you are an Ineligible Shareholder, you are not able to participate in the Offer. However, the Rights attributable to Existing Shares held by all Ineligible Shareholders at 5.00pm on the Record Date will be issued to a nominee who will endeavour to sell those Rights and the proceeds (less transaction costs) will be paid to those Ineligible Shareholders on a pro-rata basis. Any New Shares attributable to the unsold Rights of Ineligible Shareholders will be issued to other Shareholders (under the Oversubscription Facility) or the Underwriter.

Any overseas Shareholders wishing to participate in this Offer should contact Mercer, to allow Mercer to determine whether it is possible and/or appropriate for the Shareholder to participate in this Offer.

This Offer Document is intended for use only in connection with the Offer to Eligible Shareholders, and does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

This Offer Document may not be sent or given to any person outside New Zealand in circumstances in which the Offer or distribution of this Offer Document would be unlawful.

No Guarantees

Nothing contained in this Offer Document should be taken as a promise of profitability or of investment returns in respect of Mercer. No person named in this Offer Document (including Mercer or any of its Directors, officers, employees or any other person) gives any guarantee or promise as to the future performance of Mercer or the future value of its Share price or the return of capital or payment of any distributions in relation to any Shares in Mercer.

Decision to Participate in the Offer

Before making an investment decision in connection with this Offer, you should read this Offer Document in full and consider any relevant risk factors previously disclosed to the market.

The information in this Offer Document does not constitute financial product advice or a recommendation to acquire New Shares. This Offer Document has been prepared without taking into account the investment objectives, or particular needs or circumstances (including financial or tax position) of any investor. You should decide whether or not to invest in New Shares based on your personal circumstances. If there is any matter on which you are unsure or require further information, you should consult your broker, financial, investment or other professional advisor.

Withdrawal

Mercer reserves the right to cancel the Offer and the issue of New Shares at any time prior to the Allotment Date.

Privacy Act

Any personal information you provide on the Entitlement and Acceptance Form will be held by Mercer and/or the Registrar at the addresses set out in the Directory below. This information will be used for the purposes of administering your investment in Mercer. This information will only be disclosed to third parties with your consent or if otherwise required by law. Under the Privacy Act 1993, you have the right to access and correct any personal information held about you.

Governing Law

This Offer Document, the Offer and the contracts formed on acceptance of the Entitlement and Acceptance Form are governed by the laws of New Zealand. By submitting an Entitlement and Acceptance Form you submit to the exclusive jurisdiction of the courts of New Zealand.

Defined Terms

Capitalised terms used in this Offer Document have the specific meaning given to them in the Glossary at the back of this Offer Document.

Enquiries

Enquiries about the Offer can be directed to a NZX Primary Market Participant or your broker, financial, investment or other professional advisor. If you have any questions about the number of New Shares to which you are entitled, or how to complete the Entitlement and Acceptance Form, please contact Mercer's Registrar, Link Market Services Limited on +64 9 375 5998.

CHAIRMAN'S LETTER

Dear Shareholder

As previously stated in our announcement to the market on 29 August 2016, it has been our intention to undertake a much needed recapitalisation of your company. As detailed in this document, other prior announcements and in our annual report, the need to do so is driven by a number of principal factors:

- The return of Titan machines with resulting losses.
- The disposal of loss making and non-core businesses within the group.
- After a thorough and much needed strategic analysis of Mercer's activities, it was the view of your board that the future focus of the group should be on our IP driven businesses. This resulted in a comprehensive restructuring which is largely complete.

I can assure shareholders that the efforts of management and board to address and deal with these matters have been unstinting and more importantly, with a firm eye on the future. As stated at the 2015 annual meeting, we need to be fit for purpose and fit for the future. This rights issue is an essential part of being fit for meeting those goals.

I will repeat here the near term goals of your company and the reasons for supporting this capital raising:

1. First and foremost, to allow Mercer to capitalise on its S-Clave technology. By working within a partnership model, our goal of having a commercially acceptable machine in the market within a sensible timeframe, should be achievable. The risks and potential are further outlined in this document.
2. To build an integrated and recognised brand reputation in our food processing and packaging business, with technically competent support to back up that reputation for the longer term while also developing 21st century automation value add to those products.
3. To rebuild existing, and develop further strategic partnerships in our target markets, and in particular with our international Titan and S-Clave partners.

Finally, I should bring your attention to the fact that your board fully understands that the S-Clave business is not a logical bedfellow of the other group businesses, and subject to the progress made in that technological endeavour in the coming months, we will be considering options that would more logically sit with the differing capital and strategic needs and goals of the S-Clave and the wider Mercer group.

Yours sincerely

John Dennehy
Chairman
Mercer Group Limited

SUMMARY OF MAIN TERMS OF THE OFFER

Issuer	Mercer Group Limited (NZX:MGL)
The Offer	A pro-rata renounceable rights issue of 2.25 Rights for every 1 Existing Share at 5.00pm on the Record Date.
Rights	<p>Each Right entitles, but does not oblige, you to subscribe for 1 New Share by paying the Issue Price.</p> <p>The number of Rights which each Eligible Shareholder is entitled to will be set out in an Eligible Shareholder's Entitlement and Acceptance Form.</p> <p>Eligible Shareholders may take up some or all or none of their Rights.</p> <p>You do not pay for the Rights themselves, only for New Shares which will be issued to you if you choose to take up all or some of your Rights.</p>
Eligible Shareholders	<p>Means any person who is registered as a Shareholder at 5:00pm on the Record Date and:</p> <ul style="list-style-type: none"> (a) whose address is shown in Mercer's share register as being in New Zealand; or (b) to whom Mercer is satisfied (in its reasonable opinion) it would not be unduly onerous to make the Offer under all applicable laws.
Issue Price	\$0.01 per New Share, payable on application.
New Shares	New Shares issued on completion of the Offer are of the same class and will rank equally with Existing Shares on the Allotment Date.
Offer Size	The maximum amount that could be raised under the Offer is \$7,019,335.
Oversubscriptions	Eligible Shareholders who accept their Entitlement in full may also apply for Additional New Shares in excess of their Entitlement at the same Issue Price through the Oversubscription Facility.
Existing Shares on issue prior to the Offer	311,970,446
Maximum number of New Shares being offered	701,933,504
Maximum number of Shares on issue on completion of the Offer	1,013,903,950
Rights Trading	The Offer is renounceable and Rights that are not taken up may be sold. Rights will be quoted on the NZX Main Board under the ticker "MGLRB" from Tuesday 1 November 2016 until Thursday 17 November 2016. The sale of your Rights may incur brokerage fees.

How to apply	Application must be made using the Entitlement and Acceptance Form that accompanies this Offer Document together with payment in New Zealand dollars. See "Actions to be taken by Eligible Shareholders" later in this Offer Document.
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KEY DATES

Offer Document released	Tuesday 1 November 2016
Rights trading commences on NZX Main Board (Ex Date)	Tuesday 1 November 2016
Record Date for determining Entitlements	5:00pm on Wednesday 2 November 2016
Offer Document and Entitlement and Acceptance Form sent to Eligible Shareholders	Monday 7 November 2016
Opening Date	Monday 7 November 2016
Rights trading ends on NZX Main Board	Thursday 17 November 2016
Closing Date (last day for receipt of the completed Entitlement and Acceptance Form with payment)	5:00pm on Wednesday 23 November 2016
Allotment of New Shares and expected date for quotation of New Shares	On or before 5:00pm on Friday 25 November 2016

The above timetable is indicative only. Mercer reserves the right to amend the dates and times without prior notice (subject to the Listing Rules and any applicable laws). Any changes will be announced on the NZX Main Board.

ACTIONS TO BE TAKEN BY ELIGIBLE SHAREHOLDERS

Available Actions

If you are an Eligible Shareholder, accompanying this Offer Document is an Entitlement and Acceptance Form showing the number of Rights you have to subscribe for New Shares under the Offer. You may take one of the following actions in respect of your Rights:

- **accept all or some** of your Rights;
- **accept all** of your Rights and apply for Additional New Shares;
- **sell all or some** of your Rights;
- **accept some** of your Rights and **sell all or some** of the balance; or
- **do nothing** with **all or some** of your Rights.

Important: If you do nothing with your Rights before the Closing Date, they will lapse and you will not be able to subscribe for any New Shares under the Offer or realise any other value for your Rights.

Accepting Your Entitlement

Eligible Shareholders who wish to accept all or some of their Rights should return their completed Entitlement and Acceptance Form and deliver it to the Registrar, along with payment of the Issue Price in full by no later than the Closing Date, in accordance with the instructions set out in the Entitlement and Acceptance Form.

There is no minimum number of New Shares which you must subscribe for under the Offer. You will not be treated as having offered to purchase a greater number of New Shares other than the number for which payment is made.

Applying for Additional New Shares

Eligible Shareholders who wish to accept their full Entitlement may also apply for Additional New Shares through the Oversubscription Facility. Eligible Shareholders that wish to apply for Additional New Shares should return their completed Entitlement and Acceptance Form and deliver it to the Registrar, along with payment of the Issue Price in full by no later than the Closing Date, in accordance with the instructions set out in the Entitlement and Acceptance Form.

Additional New Shares will be allocated in accordance with the process described in the "Details of the Offer" section of this Offer Document. You may not be allocated all or any of the Additional New Shares you apply for, and will not be allocated any greater number of Additional New Shares than the number for which you have applied and paid.

Selling Your Entitlement

The Rights are renounceable. This enables Eligible Shareholders who do not wish to accept all or part of their Entitlement to sell those Rights not accepted.

If you wish to sell all or some of your Rights, this can be effected on the NZX Main Board by instructing an NZX Primary Market Participant to sell all or part of the number of Rights specified in your Entitlement and Acceptance Form. You will need to provide your Authorisation Code (FIN) and your Common Shareholder Number (CSN) to the NZX Primary Market Participant who you wish to sell your Rights through. You may be required to pay brokerage in respect of that sale.

Alternatively, you may transfer your Rights off-market by completing the "Security Renunciation/Security Transfer Form" of the Entitlement and Acceptance Form and returning it to the Registrar.

Trading of Rights will commence on the NZX Main Board under the ticker MGLRB on Tuesday 1 November 2016 and will cease at 5:00pm on Thursday 17 November 2016. Your Rights may be sold on the NZX Main Board between these dates, should you choose not to accept your full Entitlement. If you wish to sell your Rights using this method you must do so before close of trading on the NZX Main Board at 5:00pm on Thursday 17 November 2016.

Renunciations must be lodged with the Registrar not later than the Closing Date. Details on how to return your Entitlement and Acceptance Form to the Registrar are on the Entitlement and Acceptance Form.

Accepting Part of Your Entitlement and Selling the Balance

You can choose to accept as many or as few of your Rights as you wish. If you wish to accept some of your Rights and sell the balance, you should:

- instruct an NZX Primary Market Participant to sell the number of Rights you wish to renounce; and
- indicate the number of New Shares you wish to accept in the Entitlement and Acceptance Form and send your completed Entitlement and Acceptance Form, together with the application monies for the number of New Shares applied for, directly to the NZX Primary Market Participant through whom you sold your Rights.

If Mercer receives, on or before the Closing Date both an acceptance and a renunciation by an Eligible Shareholder in respect of the same Rights, the renunciation will be given effect in priority to the acceptance.

Payment Instructions

Payment instructions are provided in the instructions on the Entitlement and Acceptance Form. Payment can only be made by direct debit, cheque or bank draft or through NZClear. Please choose only one payment option.

Option 1:

To pay by direct debit you will need to complete your Entitlement and Acceptance Form and select the relevant box authorising the Registrar to direct debit the nominated bank account for the amount applied for on the Entitlement and Acceptance Form on the day the Entitlement and Acceptance Form is received by the Registrar (you cannot specify a direct debit date). The nominated bank account must be with a New Zealand registered bank.

Option 2:

By bank draft in New Zealand dollars or a cheque drawn from a New Zealand registered bank and made out in New Zealand dollars. Cheques must be made payable to "Mercer Group Limited", crossed "Not Transferable" and must not be post-dated (as cheques will be banked on the day of receipt). If your cheque is dishonoured, Mercer may cancel your allotment of Shares and pursue any other remedies available to it at law.

Options 3:

If you would like to pay through NZClear, please contact Mercer's Registrar, Link Market Services Limited (contact details below).

No Confirmation of Receipt

No receipt or confirmation of payment or receipt of Entitlement and Acceptance Forms will be provided.

Status of Acceptances

By completing and returning an Entitlement and Acceptance Form and applying for New Shares, you agree to accept the New Shares:

- subject to the terms set out in Mercer's constitution (available at www.business.govt.nz/companies under company name "Mercer Group Limited" for no cost); and
- on the terms and conditions set out in this Offer Document and the Entitlement and Acceptance Form.

Applications for New Shares are irrevocable and cannot be withdrawn. Mercer has the sole discretion to accept or reject any application for New Shares.

Enquiries

If you have any queries about the number of Rights shown on your Entitlement and Acceptance Form, or how to complete the Entitlement and Acceptance Form, please contact the Registrar at:

Link Market Services Limited

Physical address: Level 11, Deloitte Centre, 80 Queen Street, Auckland 1010, New Zealand

Postal address: PO Box 91976, Auckland 1142

Telephone: +64 9 375 5998

Fax: +64 9 375 5990

Email: Kevin.Wong@linkmarketservices.com

DETAILS OF THE OFFER

The Offer

The Offer is an offer of new ordinary shares in Mercer under a pro-rata renounceable rights issue. Under the Offer, Eligible Shareholders are entitled to subscribe for 2.25 New Shares for every 1 Existing Share they hold at 5.00pm on the Record Date. Any fractional entitlements will be rounded down to the nearest share.

The maximum number of New Shares being offered under the Offer is 701,933,504.

Eligibility

The Offer is only open to Eligible Shareholders, being those persons who are Shareholders at 5:00pm on the Record Date and:

- (a) whose address is shown in Mercer's register as being in New Zealand; or
- (b) to whom Mercer is satisfied (in its reasonable opinion) it would not be unduly onerous to make the Offer under all applicable laws.

Issue Price

The Issue Price is \$0.01 per New Share. The Issue Price must be paid in full on application with a completed Entitlement and Acceptance Form delivered to the Registrar in accordance with the instructions set out in the Entitlement and Acceptance Form.

Purpose of Offer

The Directors intend that the proceeds of this Offer will be used to:

- Partially repay existing debt to Bank of New Zealand in an amount of \$1,000,000;
- Repay existing debt to Gresham Finance Limited;
- Fund general working capital (see below under heading "Mercer's Businesses" for a description of Mercer's working capital requirements); and
- Fund transaction costs.

Mercer's Businesses

Following a change of management and strategic direction in 2015 and the subsequent restructure and financial losses Mercer is now seeking to recapitalise and position itself for future growth. Mercer has two business units:

1. **Food Processing and Packaging Technologies:** the design and supply of innovative food processing and packaging technologies. This is an established business with a range of technology led machines that assist food companies in automation and efficiency. The key products are Titan Slicer, Aico packaging equipment, the Beta range of cheese processing equipment, the PV valves and a cooking and cooling range. The industrial fabrication business that is a leader in the manufacture of products for the dairy sector, also sits in this division.

This division is the historical core business of Mercer, but Mercer is changing its focus to intellectual property ("IP") led products where it owns the IP. This is a strategic shift in the business away from industrial jobbing where the business is largely selling hours, to a value based business where Mercer is selling a product. The rationale for this is that IP based products are further up the value chain, offer the ability to provide innovative

solutions to customers (particularly focused on automation), allow the growth of a servicing and spares business, and are export orientated. However, executing this strategy requires a change in the way Mercer's business is structured. Going forward, Mercer will need to increase its design, engineering and controls software resource. Mercer is comfortable with its manufacturing footprint in Christchurch today (following the downsizing of its New Plymouth operation, this operation is now viewed as non-core and may be exited), as the business model moves towards a 'design and assemble' model.

- S-Clave:** The S-Clave is the disruptive sterilisation technology that has been developed by Mercer over a number of years. Mercer has pivoted its approach to the S-Clave from carrying out all research and development and projected commercialisation in house, to a collaborative approach with industry players. In that regard, as announced in June 2016, Mercer is now partnering with A.E.Atherton & Sons, Australasia's leading manufacturer and supplier of steam sterilisation products, to bring the S-Clave to market in Australia initially. Mercer will continue to own all of the intellectual property related to the S-Clave. The S-Clave is an exciting technology that has the potential to be disruptive in the large global sterilisation market. The Board is confident that the change in approach will result in the S-Clave getting to market earlier than previously anticipated. Mercer is targeting operating revenue from the S-Clave in the 2017 financial year.

There remain significant challenges in fully commercialising the S-Clave and realising significant returns from this product (set out in detail in the "Risks to Mercer and its Businesses" section below). The S-Clave is also the subject of inventors' agreements under which Mercer is required to pay between 1.5% and 5% of the net revenue derived from the sale of S-Clave, related products and licensing revenue to the employees who assisted with the invention of the S-Clave. However, if these risks and challenges can be overcome, and subject to these revenue sharing obligations, the returns from the S-Clave are potentially significant. Mercer considers that it is not possible to quantify such returns with any precision at this stage of the project.

Mercer has a new management team and a clear vision on where it is heading. Over the past 12 months the business has been restructured and is now positioned to move forward and execute on its strategy. The next 12 months will be a transition period after which Mercer should be able to grow and generate shareholder returns.

For further information on Mercer please see the 2016 annual report. Mercer also made a detailed presentation at its annual meeting on 18 October 2016 at The George Hotel, 50 Park Terrace in Christchurch. Both documents are available at www.nzx.com under stock code MGL.

Risks to Mercer and its Businesses

Damage to Edendale Silo 4

As noted in market announcements on 6 October 2016 and 27 October 2016, Mercer's subsidiary, Mercer Stainless Limited, designed, constructed and installed silo 4 at the Edendale dairy factory which collapsed on 16 September 2016. No final or definitive findings on the cause of the collapse, quantum of loss and any liability have yet been made. Mercer is insured in respect of potential liability but the extent to which this insurance will fully indemnify Mercer Stainless Limited will depend on a number of factors, including the findings of the investigation, the extent of Mercer Stainless' liability (if any), the amount of cover under Mercer's insurance policies (which could be less than the extent of any liability) and any relevant exclusions in the policies themselves.

Risks associated with food processing and packaging technologies and change in business model

There are a number of risks in the execution of the change in business model described above relating to food processing and packaging technologies, including:

- It requires more design, engineering and software programming resource, which is more costly and forms larger overhead which increases risk if the sales do not eventuate
- Mercer does not have significant scale or growth capital to invest in technology or markets
- The markets for the products are largely export markets making Mercer susceptible to the high New Zealand dollar
- Mercer is reliant on distributors and agents to build the business for it in many overseas markets
- Offering a reliable servicing and spares function is vital and can be expensive to implement
- The recent issues with Titan damaged the reputation of that brand which, while improving, is still a potential inhibitor of near term growth
- The New Plymouth site was downsized in 2016 and is now seen as non-core. If sufficient work cannot be secured or a purchaser for the business found it may be closed resulting in redundancy and other costs

Despite these and other risks, Mercer believes that moving the business strategically towards its own IP driven products that can be exported offers a good opportunity for sustainable profitable growth.

Risks and Challenges for S-Clave

A more detailed description of the S-Clave opportunity is contained in Mercer's 2016 annual report and was included in the presentation to the 2016 annual meeting. However, for the purposes of this Offer, it should be noted that there remain significant challenges in fully commercialising the S-Clave and realising significant returns from this product. These challenges and risks include:

- Unforeseen technical challenges with the commercial machine. While we are comfortable that the testing undertaken in the prototypes to date achieves and exceeds currently acceptable protocols, we do not yet have a final commercial ready machine, and cannot rule out technical challenges ahead.
- Unforeseen technical challenges with the consumable solution. We are currently working with two leading New Zealand based plastics companies on the consumable solution of a bag and/or container but not as yet to the commercial ready product. The technical challenges that still need to be overcome are the actual material to be used (needs to be able to withstand heat and pressure), the sealing mechanism and the opening mechanism. While our current progress does not see these as significant issues, we are only now starting initial tests on prototypes.
- The market does not accept the S-Clave
- There are unforeseen regulatory issues
- Our partners do not continue to support the S-Clave
- We do not have sufficient capital to commercialise the S-Clave
- The consumable business model is not profitable – this would be the case if the bag and/or container solution could not be produced for an acceptable cost
- An alternative technology enters the market which makes the S-Clave technology redundant.

Deferred Tax Asset

Shareholders' attention is drawn to the fact that a significant asset on Mercer's statement of financial position as at 30 June 2016 was a deferred tax asset of \$4,754,000 (as further described in note 16 to Mercer's financial statements). Mercer will not be able to carry this loss forward to future tax years if, as a consequence of the composition of the take up of this Offer, it is unable to meet the shareholder continuity test requiring 49% shareholder continuity over the period during which the relevant losses accrued.

Dilutionary Impact

While not a risk for Mercer *per se*, Mercer notes that Shareholders who do not subscribe for New Shares to which they are entitled under this Offer will have their proportionate shareholding in Mercer diluted. The dilutionary impact will differ depending on the extent to which Shareholders subscribe for New Shares to which they are entitled under this Offer.

Opening and Closing Dates

The Offer will open for receipt of acceptances on Monday 7 November 2016. The last day for receipt of the completed Entitlement and Acceptance Form with payment of the application monies is 5:00pm on Wednesday 23 November 2016, subject to Mercer varying those dates in accordance with the Listing Rules and Mercer's discretion to accept late applications or late application monies.

No Minimum Amount to be Raised

There is no minimum amount that must be raised for the Offer to proceed.

Allotment and Issue of New Shares

New Shares issued pursuant to the exercise of Entitlements are expected to be allotted and issued by Friday 25 November 2016 (the "**Allotment Date**"). Transaction statements confirming the allotment of your New Shares will be issued and mailed in accordance with the Listing Rules.

Applications for New Shares

Application must be made using the Entitlement and Acceptance Form that accompanies this Offer Document together with payment in New Zealand dollars. See further details under the heading "Actions to be taken by Eligible Shareholders".

Mercer reserves the right to accept late applications and application monies, but has no obligation to do so. Mercer reserves the right to:

- (a) accept or reject (at its discretion) any Entitlement and Acceptance Form which it considers is not completed correctly;
- (b) correct any errors or omissions on any Entitlement and Acceptance Form; and/or
- (c) reject any Entitlement and Acceptance Form if (in its opinion) the resulting allotment would breach the Takeovers Code.

Subject to Mercer's discretion to accept late applications or late application monies, if you fail to exercise any Rights you hold on or before the Closing Date such Rights will lapse.

Any application monies received pursuant to the Offer will be held in a trust account established by Mercer with the Registrar until the corresponding New Shares are allotted or the application monies are refunded. Interest

earned on the application monies will be for the benefit, and remain the property of Mercer and will be retained by Mercer whether or not the issue and allotment of New Shares takes place. Any refunds of application monies will be made without interest within 10 Business Days of allotment.

Oversubscription

Eligible Shareholders who accept their Entitlement in full may also apply for Additional New Shares at the same Issue Price through the Oversubscription Facility. You may apply for any number of Additional New Shares but there is no guarantee that you will be allocated any or all of the Additional New Shares for which you apply.

The number of New Shares available under the Oversubscription Facility will be the number of New Shares for which valid applications are not received by the Closing Date.

New Shares in the Oversubscription Facility will be allocated as follows:

- (a) First, to the extent available (and pro-rata to their Entitlements to the extent not) to applicants for Additional New Shares who would otherwise hold less than the Minimum Holding after the Offer, to the extent necessary to enable them to hold a Minimum Holding; and
- (b) Second, in respect of any New Shares remaining unallocated in the Oversubscription Facility, all applicants for Additional New Shares will be allocated the lesser of:
 - (i) the number of Additional New Shares applied for; and
 - (ii) the number of Additional New Shares applied for, scaled in direct proportion to the Entitlements of the applicants for Additional New Shares, as at the Record Date; and
- (c) Finally, in respect of any remaining Additional New Shares, pro-rata to their Entitlement amongst remaining unsatisfied applicants for Additional New Shares.

You will not be allocated any greater number of Additional New Shares than the number for which you have applied and paid.

In the event that the total number of Additional New Shares for which applications are received exceeds the total number of New Shares in the Oversubscription Facility, Mercer may (at its discretion) scale the oversubscription applications (on the basis set out above) and to the extent that an applicant's application for Additional New Shares is scaled back or rejected, the excess application monies will be refunded to Applicants without interest within 10 Business Days of allotment.

Underwrite

In order to ensure that the Offer is successful, Mercer has arranged for the Underwriter to fully underwrite the Offer, pursuant to which the Underwriter has agreed to subscribe for any shortfall in New Shares for which valid applications are not received by the Closing Date. Mercer has agreed to pay the Underwriter a fee of \$280,773.40 plus GST (if any).

Withdrawal of Offer

Mercer reserves the right to cancel the Offer and the issue of New Shares at any time prior to allotment, in which case all application monies will be refunded within 10 Business Days of the Offer being withdrawn. No interest will

be payable on amounts refunded. If the Offer is withdrawn before the allotment of New Shares, all Rights will lapse and any prior trades in Rights which have not settled will be cancelled.

Participation is Not Mandatory

If you are an Eligible Shareholder, you are not required to accept any or all of your Rights to which you would be entitled under the Offer. You may accept all or a proportion of your Rights or allow your Entitlement to lapse. See further details under the heading "Actions to be taken by Eligible Shareholders".

If you choose to allow your Entitlement to lapse, the New Shares which are attributable to your Entitlement may be allocated in accordance with the Oversubscription Facility, and any remaining New Shares will be issued to the Underwriter.

Terms and Ranking of New Shares

New Shares issued will be fully paid and shall rank equally in all respects with other Shares on issue in Mercer which are quoted on the NZX Main Board on the Allotment Date. It is a term of the Offer that Mercer will take any necessary steps to ensure that the New Shares are, immediately after their issue, quoted.

Each New Share will give the holder the right to one vote on a poll on a resolution at a meeting of Shareholders (subject to any restrictions in Mercer's constitution, the Companies Act 1993 ("**Companies Act**") or the Listing Rules), the right to a proportionate share of any dividends authorised by the Board and the right to a proportionate share in any distribution of surplus assets of Mercer on any liquidation.

NZX Quotation

An application has been made to NZX for quotation of the Rights on the NZX Main Board and all requirements of NZX that can be complied with on and before the date of this Offer Document have been duly complied with. The New Shares have been accepted for quotation on the NZX Main Board by NZX and will be quoted upon completion of allotment procedures. However, NZX accepts no responsibility for the contents of or any statement in this Offer Document and the fact that NZX may approve the Rights or New Shares for quotation on the NZX Main Board is not to be taken in any way as an indication of the merits of the Offer or Mercer.

NZX is a licenced market operator under the FMCA and the NZX Main Board is a licenced market operated by NZX. NZX accepts no responsibility for any statements in this Offer Document.

Dividend Policy

Mercer does not have a stated policy of distributing a fixed percentage of earnings by way of dividend in any year. Rather, in determining a dividend for any year, it considers a number of factors including provisions of the Companies Act, current and forecast earnings, internal capital requirements, growth options, covenants relating to debt instruments and Mercer's debt equity position.

The payment of any dividends will be at the sole discretion of the Board after taking into account factors mentioned above.

Financial Statements

The latest available audited financial statements for Mercer are the audited financial statements for the year ended 30 June 2016, which were announced to NZX on 29 August 2016 in accordance with the Listing Rules and are also available on the Companies Office website: www.companies.govt.nz. Mercer's financial statements for the six months ended 31 December 2015 were announced to NZX on 31 March 2016.

GLOSSARY

"**Additional New Shares**" means New Shares which an Eligible Shareholder may apply for over and above their Entitlement pursuant to the Oversubscription Facility.

"**Allotment Date**" means the date the New Shares are allotted, which is expected to be by 5:00pm on Friday 25 November 2016.

"**Board**" means the board of directors of Mercer.

"**Business Day**" has the meaning given to that term in the Listing Rules.

"**Cleansing Notice**" means the notice associated with this Offer, released to NZX on 1 November 2016 pursuant to clause 20(1)(a) of Schedule 8 of the Financial Markets Conduct Regulations 2014 and clause 19 of Schedule 1 of the FMCA.

"**Closing Date**" means 5.00pm on Wednesday 23 November 2016, or such other date as Mercer may specify.

"**Directors**" means the directors of Mercer.

"**Eligible Shareholder**" means any person who is registered as a Shareholder at 5:00pm on the Record Date and:

- (a) whose address is shown in Mercer's share register as being in New Zealand; or
- (b) to whom Mercer is satisfied (in its reasonable opinion) it would not be unduly onerous to make the Offer under all applicable laws.

"**Entitlement**" means the number of Rights to which an Eligible Shareholder is entitled to under the Offer.

"**Entitlement and Acceptance Form**" means the personalised entitlement and acceptance form enclosed with this Offer Document to be completed to exercise Entitlements.

"**Existing Share**" means a fully paid ordinary Share in Mercer on issue on the Record Date.

"**FMCA**" means the Financial Markets Conduct Act 2013.

"**Ineligible Shareholder**" means any Shareholder who is not an Eligible Shareholder.

"**Issue Price**" means \$0.01 per New Share.

"**Listing Rules**" means the listing rules of the NZX Main Board market, as amended from time to time.

"**Mercer**" means Mercer Group Limited (New Zealand Company Number 125412).

"**Minimum Holding**" means the minimum parcel shareholding permitted under the Listing Rules (as set out in Appendix 2 of the Listing Rules).

"**New Shares**" means the 701,933,504 fully paid ordinary shares in Mercer that are the subject of this Offer and would rank equally in all respects with Existing Shares if issued.

"**NZClear**" means the clearing and settlement system operated by the Reserve Bank of New Zealand.

"**NZX**" means NZX Limited.

"**NZX Primary Market Participant**" means any company, firm, organisation or corporation designated or approved as a Primary Market Participant from time to time by NZX.

"**Offer**" means the offer to Eligible Shareholders to subscribe for New Shares, pursuant to the Rights issue detailed in this Offer Document.

"**Offer Document**" means this Offer Document dated Tuesday 1 November 2016.

"**Opening Date**" means Monday 7 November 2016.

"**Oversubscription Facility**" means the facility that entitles an Eligible Shareholder who accepts their Entitlement of New Shares in full to also apply for an additional number of New Shares (details of which are set out in the "Details of the Offer" section of this Offer Document).

"**Record Date**" means 5.00pm on Wednesday 2 November 2016.

"**Registrar**" means Link Market Services Limited.

"**Right**" means a renounceable right to subscribe for one New Share at the Issue Price.

"**Share**" means one fully paid ordinary share in Mercer.

"**Shareholder**" means a registered holder of a Share.

"**Underwriter**" means Asset Management Limited.

Note: All references to:

- time are to time in New Zealand;
- currency are to New Zealand dollars; and
- legislation are references to New Zealand legislation,

in each case unless stated or defined otherwise.

DIRECTORY

Directors of Mercer

John Dennehy

Richard George Rookes

Paul Richard Smart

Mercer's Registered Office

53 Lunns Road,

Middleton,

Christchurch 8024,

New Zealand

Mercer's Contact Details

Telephone: +64 6 281 1812

Website: www.mercers.co.nz

Mercer's Registrar

If you have any queries about your Entitlement and Acceptance Form please contact the Registrar:

Link Market Services Limited

Telephone: +64 9 375 5998

Facsimile: +64 9 375 5990

Email: Kevin.Wong@linkmarketservices.com

Mercer's Legal Advisers

Buddle Findlay

83 Victoria Street

Christchurch

New Zealand

Telephone: +64 3 379 1747