Independent Adviser's Report

Open Country Dairy Limited

Prepared Pursuant to Rule 21 of the New Zealand Takeovers Code in Relation to a Partial Takeover Offer from Talley's Group Limited

February 2014

Statement of Independence

Northington Partners Limited confirms that it:

- Has no conflict of interest that could affect its ability to provide an unbiased report; and
- Has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Northington Partners Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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Abbreviations and Definitions

Agreement	The agreement between Talley's and Olam pursuant to which Talley's has agreed to purchase from Olam (subject to the provisions of the Code) up to 24,232,788 shares in the Company
Code	The Takeovers Code
Creep Shares	The 8,342,788 shares in the Company purchased by Talley's from Olam in January 2014 under the creep provisions of the Code
EBIT	Earnings before Interest and Tax
EBITA	Earnings before Interest, Tax, and Amortisation
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
Fonterra	Fonterra Co-operative Group Limited
GDT	GlobalDairyTrade, being the international online auction platform for globally-traded dairy products established by Fonterra
GFC	Global financial crisis
Northington Partners	Northington Partners Limited
NPAT	Net Profit After Tax
NTA	Net Tangible Assets
NZ$	New Zealand dollars
Offer	The offer from Talley's on or around 24 February 2014 to purchase 15,889,665 ordinary shares on issue in Open Country
Offer Price	NZ$1.85 for each Open Country ordinary share
Olam	Olam International Limited
Open Country or Company	Open Country Dairy Limited
SMP	Skim Milk Powder
Specified Number	15,889,665 shares in Open Country, being the number of ordinary shares subject to the Offer
Specified Percentage	24.02%, being the percentage of shares in Open Country not owned by Talley's which is subject to the Offer
Synlait	Synlait Milk Limited
Talley's	Talley's Group Limited
Takeover Notice	The notice from Talley's received by Open Country on 7 February 2014 setting out Talley's intention to make the Offer
WMP	Whole Milk Powder

1.0 Assessment of the Merits of the Offer

1.1 Introduction

Open Country Dairy Limited ("**Open Country**" or "**Company**") is an unlisted public company with its registered office in Auckland. Open Country operates in New Zealand as a dairy ingredient manufacturer, processing milk from its suppliers into a range of milk powders, milk proteins, milk fats and cheeses that are used in food, beverage and nutritional applications. Further details on Open Country are set out in Section 3.0.

Open Country is majority owned by Talley's Group Limited ("**Talley's**"), a diversified agribusiness company providing a range of seafood, vegetable and dairy products. Further details on Talley's are set out in Appendix 1.

Open Country has one class of equity securities, being 167,566,804 ordinary shares. On 23 December 2013, Talley's entered into an agreement ("**Agreement**") to purchase from Olam International Limited ("**Olam**") up to 24,232,788 shares, representing approximately 14.46% of the total shares on issue in the Company. Open Country is a "Code Company" as defined by the Takeovers Code ("**Code**") and the Agreement must therefore comply with the provisions of the Code.

As majority shareholder, Talley's can increase its control position in the Company by up to 5.00% in any one year under the Code's creep provisions without the need to make a takeover offer. Talley's has recently exercised this right, agreeing on 17 January 2014 to purchase 8,342,788 (or 4.98%) of the Company's shares from Olam ("**Creep Shares**") at a price of $2.05 per share. Following the purchase of the Creep Shares, Talley's currently holds or controls 60.52% of the Company's total shares on issue[1].

The Code requires that the purchase of any further shares by Talley's (i.e. in addition to the Creep Shares) up to the 14.46% level contemplated by the Agreement must either be approved by an ordinary resolution of Open Country or facilitated by either a full or partial takeover offer.

On 7 February 2014 Talley's sent to Open Country a notice ("**Takeover Notice**") setting out its intention to make a partial takeover offer for 15,889,665 shares (the "**Specified Number**") on issue in Open Country ("**Offer**"). The Offer represents 24.02% (the "**Specified Percentage**") of the shares Talley's does not currently own or control (after accounting for the acquisition of the Creep Shares). The Offer is at a cash price of $1.85 ("**Offer Price**").

Talley's Offer will be sent to Open Country shareholders on or around 24 February 2014, and will remain open for acceptance until on or around 24 May 2014 (unless that date is extended by Talley's or the Takeovers Panel in accordance with the provisions of the Takeovers Code).

1.2 Offer Conditions

The Offer is subject to a number of conditions, the full details of which are set out in the Offer document that will be sent to Open Country shareholders. Key conditions are also summarised in Appendix 2 of this report.

Each condition may be waived by Talley's, other than the condition relating to it achieving acceptances that, when taken together with its current shareholding, will allow Talley's to hold or control 70.00% of the total voting rights in Open Country (this condition cannot be waived pursuant to the rules of the

[1] Talley's is the legal and beneficial owner of 99,398,671 shares in the Company (being 59.32% of the total shares). FNZ Custodians Limited holds 2,008,427 shares as bare trustee for Talley's (representing 1.20% of Open Country's total shares on issue).

Code). However, as described further in section 1.4.2 below, we note that the satisfaction of this condition is effectively assured by the existence of the Agreement with Olam.

The Offer conditions (which are standard in a takeover offer of this type) are solely for the benefit of Talley's and are designed to protect Talley's from substantial changes to Open Country or the markets within which Open Country operates while the Offer is open for acceptance.

1.3 Requirements of the Takeovers Code

As mentioned, Open Country is a "Code Company" for the purposes of the Code. Talley's Offer and the Company's response to the Offer must therefore comply with the provisions set out in the Code.

Rule 21 of the Code requires the directors of Open Country to obtain a report from an independent adviser on the merits of the Offer. The Company's independent directors requested Northington Partners Limited ("**Northington Partners**") to prepare the Rule 21 report, and our appointment was subsequently approved by the Takeovers Panel. Further details on the regulatory requirements and scope of this report are set out in Appendix 3.

This report will accompany the Target Company Statement to be sent to all Open Country shareholders and sets out our opinion on the merits of Talley's Offer. This report should not be used for any other purpose and should be read in conjunction with the declarations, qualifications and consents set out in Appendix 7.

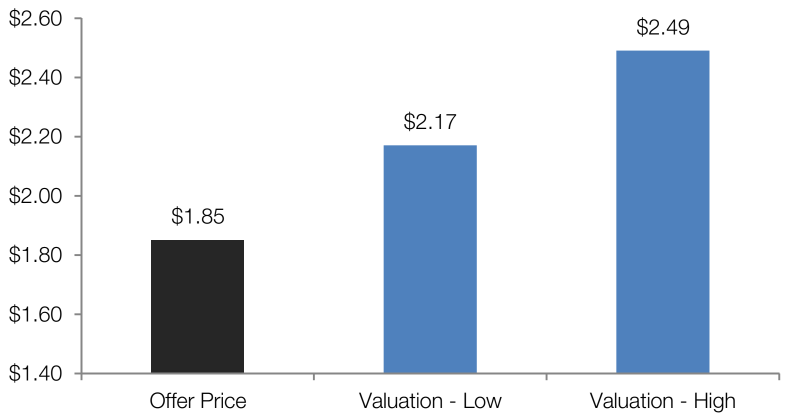
1.4 Summary of Our Assessment

1.4.1 Value of the Offer

In our opinion, the full underlying value of Open Country's shares is in a range between $2.17 and $2.49 per share. This value range represents the value of acquiring 100% of the equity in Open Country and therefore includes a premium for control. The valuation range is determined primarily on the basis of an earnings multiple approach, considering Open Country's current financial position, earnings outlook and risk profile. Full details of our valuation approach and conclusions are set out in Section 4.0.

Figure 1 below compares Talley's Offer Price with our assessment of the full underlying value of Open Country's shares. The Offer Price of $1.85 per share is below the bottom end of our value range ($2.17 per share) and we therefore conclude that the Offer Price undervalues the Company.

Figure 1: Comparison of Offer Price to our Assessed Valuation Range



1.4.2 Possible Outcomes of the Offer

If all the conditions of the Offer are satisfied or waived by Talley's and the Offer is declared unconditional, Talley's control position in the Company will increase to 70.00%. Given the existence of the Agreement, there are no other possible outcomes that can be achieved. That is, either:

- Olam will be the only shareholder that agrees to sell shares into the Offer with the result that Talley's will purchase a further 9.48% of the Company's shares from Olam; or
- Olam and other shareholders will agree to sell shares into the Offer with the result that Talley's will own or control 70.00% of the Company's shares through a combination of purchasing further shares from Olam and other accepting shareholders.

Acceptance levels under the Offer will determine the nature of scaling (as prescribed by the Code) and, therefore, the number of shares that Olam will be able to sell to Talley's pursuant to the Agreement. In all circumstances if the Offer is declared unconditional, Talley's will end up owning or controlling 70.00% of the total shares on issue in the Company.

By moving from its current shareholding position of 60.52% to 70.00% of the shares on issue in Open Country, Talley's:

- Will continue to control the outcome of any ordinary resolutions put to shareholders (requiring acceptances over 50% of the shares voting on the resolution), and thereby control the day-to-day operations of the Company;
- May now also have effective control over special resolutions of the Company (such as those required to approve "major transactions" or change the constitution of Open Country). Special resolutions require approval by more than 75% of the shares outstanding (and voting on the resolution), and almost all other shareholders would therefore have to vote against Talley's to defeat a special resolution. If one or more of the larger minority shareholders either supported Talley's or did not vote, the passing of the special resolution would almost be assured; and
- Will be permitted to "creep" towards a 90% shareholding in Open Country over time by buying up to a further 5.00% of the shares on issue each year, commencing 12 months after the Offer closes. However, Talley's would not have to wait 12 months if it wished to make another partial or full offer after the current Offer closes.

1.4.3 90% Compulsory Acquisition Threshold

Talley's Offer is a partial offer for 24.02% of the shares in Open Country it does not currently own or control. As noted above, given the existence of the Agreement, Talley's is guaranteed to reach a control position of 70.00% if the Offer is declared unconditional. It will not be possible for Talley's to reach the compulsory acquisition threshold of 90.00%.

The only way Talley's could reach the 90.00% threshold is under the "creep" provisions of the Code (i.e. buying up to a further 5.00% of the shares on issue each year, commencing 12 months after the Offer closes) or by making another takeover offer. If the 90.00% threshold was ever reached, Talley's would be entitled to effect the compulsory acquisition provisions of the Code to acquire the remaining shares it did not own or control.

1.4.4 Factors that May Affect the Outcome of the Offer

Talley's will own or control 70.00% of Open Country's shares if the Offer is declared unconditional. Low acceptance levels by minority shareholders will not impact on the level of control that Talley's will end up with given the existence of the Agreement with Olam. As a result, there is no incentive for Talley's to increase the Offer Price (or otherwise vary the terms of the Offer) in response to low acceptance levels from other minority shareholders.

The Offer will close on or around 24 May 2014, being 90 days from and including the proposed date of the Offer. Because this represents the "maximum period" for which the Offer can remain open under Rule 24 of the Code, Talley's cannot extend the Offer beyond the proposed closing date if acceptances from minority shareholders before that date are lower than targeted. In any event, as already noted, Talley's will attain its desired 70.00% control position in the Company irrespective of the acceptance levels of minority shareholders given the Agreement with Olam.

1.4.5 Likelihood of Alternative Offers

In our view, the likelihood of an alternative offer emerging for Open Country is extremely low. If Talley's declares the Offer unconditional, Talley's will hold or control 70.00% of the shares in the Company and any alternative takeover offer would therefore require the support of Talley's. For Talley's to sell into such an alternative offer would constitute a significant about-turn given it has clearly signalled through the Offer that it wishes to further increase its control position in the Company.

1.4.6 Partial Liquidity Opportunity

Open Country shares are tightly held and trade very infrequently. We are not aware of any intention on the part of Talley's to continue to increase its control position in the Company beyond the 70.00% level it will attain if the Offer is declared unconditional. Notwithstanding our view that the Offer Price undervalues the Company, the Offer does provide an opportunity for minority shareholders to sell down a percentage of their shareholding and realise some value from their investment. Minority shareholders will therefore have to weigh up the value of the Offer against the opportunity for a partial liquidity event, taking into account the considerable uncertainty as to when or if another liquidity opportunity may be presented to them.

1.4.7 Scaling

If a minority shareholder accepts the Offer for the Specified Percentage of its shares, or a lesser number of shares, Talley's will purchase all of the shares accepted by that shareholder. However, if a shareholder accepts the Offer for more than the Specified Percentage, then the level of acceptances may be subject to scaling. Scaling will occur if the total number of shares accepted under the Offer exceeds the Specified Number of shares. Any scaling will occur in accordance with the rules set out in the Code; full details of which are set out in the Offer.

1.4.8 Prospects for Open Country with Talley's Increasing its Control Position

At the completion of the Offer, Talley's will continue to have effective control of the Company and we do not expect any significant change to Open Country's prospects. In particular:

- We understand that Talley's intends the strategic focus of the business to remain as a producer of commodity products, with no plans to move into areas such as infant formula production that is favoured by a number of other New Zealand processors;
- The Board of Directors' current policy of not paying dividends is likely to continue for the foreseeable future, with an ongoing focus on re-investment in the business and retiring debt; and
- Talley's is likely to continue to run the business under management as it does now. We are not aware of any intention on the part of Talley's to change key personnel at the senior management level. However, we note that under the Company's constitution Olam will lose the right to appoint directors to the Board when their shareholding level falls below 20%. Although Olam's two representatives on the Board will therefore need to resign, we understand that Talley's have

agreed to discuss and work with Olam (albeit no formal agreement is in place) to explore options for Olam to maintain its board representation.

1.4.9 Summary of our Assessment

We believe that the Offer undervalues the Company, with an Offer Price which is approximately 15% below the bottom end of our assessed valuation range. Purely from a valuation perspective, we conclude that the Offer Price is not compelling for the minority shareholders in Open Country.

Talley's is guaranteed to own or control 70.00% of the Company's shares when the Offer closes due to the existence of the Agreement with Olam. Thus, in a practical sense, it will have full control of Open Country. While Talley's may make another offer at some point in the future in an attempt to further increase its shareholding, there is no guarantee that this will happen. Thus, the ability of non-accepting shareholders to achieve another liquidity event is uncertain. In the interim, minority shareholders will likely be left holding a very illiquid shareholding in a non-dividend paying business with relatively volatile earnings prospects. Shareholders therefore need to carefully weigh the partial liquidity opportunity that the Offer provides against the value of the Offer.

1.4.10 Acceptance or Rejection of the Offer

This report represents one source of information that Open Country shareholders may wish to consider when forming their own view on whether to accept or reject the Offer. It is not possible to contemplate all shareholders' personal circumstances or investment objectives and our assessment is therefore general in nature. The appropriate course of action for each shareholder is dependent on their own unique situation. If appropriate, shareholders should consult their own professional adviser(s).

2.0 Industry Background

2.1 The New Zealand Dairy Industry

2.1.1 Overview

The New Zealand dairy industry contributes significantly to the economy. Although the primary sector accounts for only around 8% of GDP, primary products make up 56% of New Zealand's exports, with dairy commodities being the single largest contributor[2].

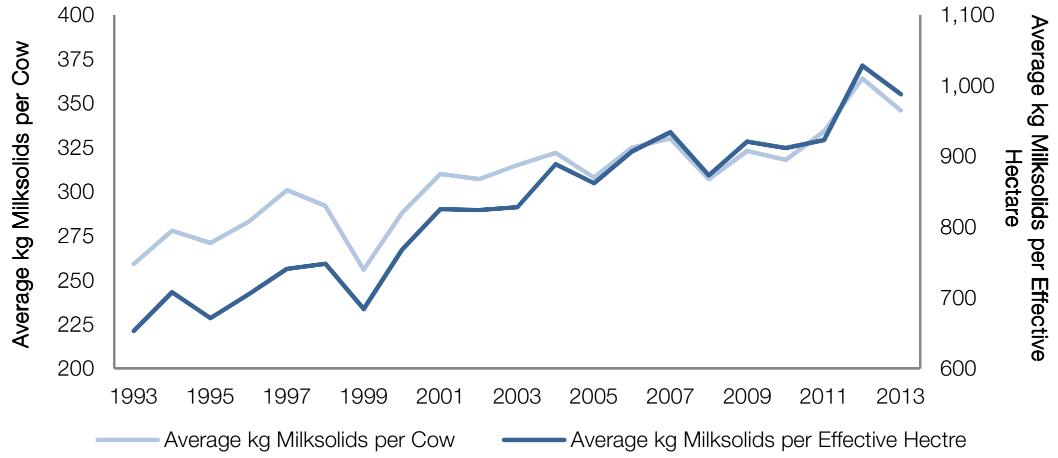
The New Zealand milk season runs from June to May each year, with peak production typically occurring in the October-November period. For the 2012/13 season, New Zealand produced 18.9 billion litres of milk containing 1.66 billion kilograms of milk solids ("**kgMS**") from 4.78 million cows[3]. Only a relatively small percentage of this milk is sold as liquid milk (including cream), with the vast majority being processed into stable milk products.

Approximately 89% of the milk produced in New Zealand is collected and processed by Fonterra Co-operative Group Limited ("**Fonterra**"), a co-operative owned by its suppliers. The balance is collected by independent processors including Open Country, Synlait Milk Limited ("**Synlait**"), Miraka Limited, Tatua Co-operative Dairy Company Limited, and Westland Co-operative Dairy Company Limited. A number of other parties (including Yashili New Zealand Limited and Oceania Dairy Limited) intend to become future independent processors, with plants currently planned or in the development stage.

2.1.2 Key Trends

As set out in Figure 2 below, over the last 20 years New Zealand dairy production has seen rapid growth in efficiency. Although production is still subject to climatic conditions (e.g. the widespread drought in 2013 caused production to dip), the overall trend of increasingly efficient production has come about through advancements in both on and off-farm operations, technology, irrigation and monitoring.

Figure 2: Efficiency of Milk Solids Production



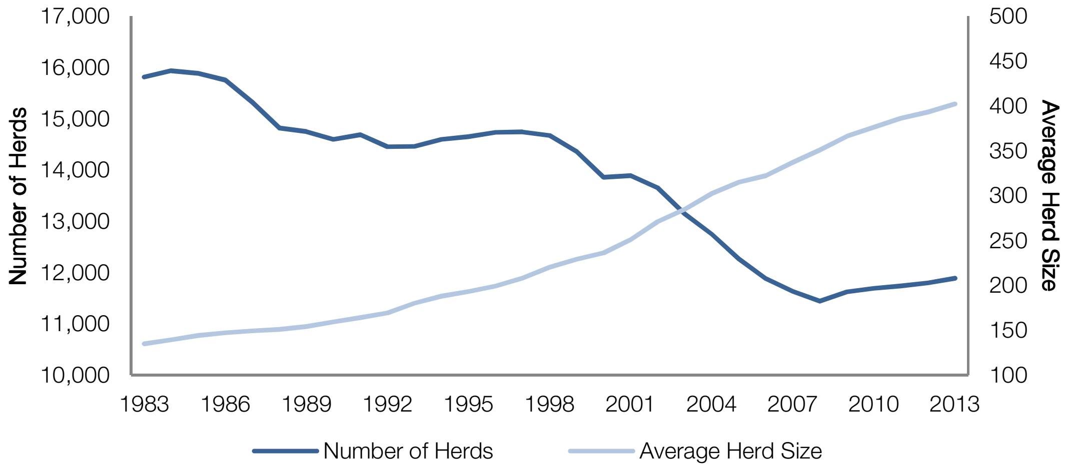
Source: DairyNZ-LIC, New Zealand Dairy Statistics

Another key trend has been the year-on-year increase in herd sizes, which reached an average of 402 cows for the 2012/13 season. In parallel, the number of herds has fallen from just under 16,000 in 1983

[2] Source: Statistics New Zealand, "New Zealand in Profile 2013"
[3] Source: DairyNZ-LIC, "New Zealand Dairy Statistics 2012-13"

to less than 12,000 in 2013. This shift highlights the ongoing corporatisation of dairy farming, and the associated benefits of greater scale.

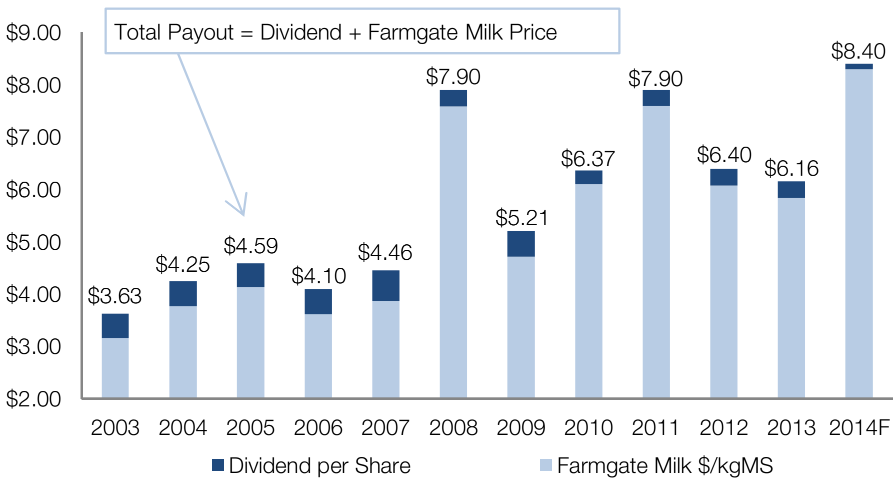
Figure 3: Herd Size and Herd Numbers



Source: DairyNZ-LIC, New Zealand Dairy Statistics

Fonterra's annual pay-out comprises two components: the base price that it pays for milk supplied by its farmer shareholders ("**Farmgate Milk Price**") plus any declared dividend amount. While output prices in the sector continue to show year-to-year volatility, the forecast payout for the 2013/14 season represents a record high.

Figure 4: Historical and Forecast Fonterra Pay-out



Source: Fonterra

2.1.3 Dairy Industry Restructuring Act 2001

The Dairy Industry Restructuring Act 2001 ("**DIRA**") facilitated the formation of Fonterra as the dominant player in the New Zealand dairy industry through a merger of The New Zealand Dairy Board, The New Zealand Co-operative Dairy Company Limited, and Kiwi Co-operative Dairies Limited. To partially counter that dominance in the milk procurement market, DIRA imposed obligations on Fonterra with the intent of creating a competitive environment that could create opportunities for new processors to enter the industry.

Upon its introduction, key components of DIRA (and associated regulations) included:

- **Open Entry and Exit**: Fonterra was precluded from raising barriers for farmers to exit the co-operative. It had to provide farmers with the ability to withdraw supply of milk and realise the capital that the farmer has invested in Fonterra at an assessed fair value, as determined on an annual basis. Conversely, Fonterra was obligated to accept all milk offered by farmers (subject to minimum volume requirements and some location restrictions) and could not discriminate between new and existing suppliers. These restrictions were designed to ensure that Fonterra could not control the growth in supply.
- **Guaranteed Supply of Milk to Other Processors**: Fonterra was required to supply a prescribed minimum volume of milk to third-party processors at a formula-based price. Initially, the annual obligation for supply to third party processors was up to 400 million litres, of which 250 million litres were reserved for New Zealand Dairy Foods (now Goodman Fielder). All other processors were limited to a maximum of 50 million litres.
- **Prohibited Exports**: To assist with Fonterra's establishment, independent processors were prohibited from exporting specified dairy products to designated markets for a period between six and ten years. The markets covered by the legislation included the European Union, Japan, the United States and Canada, generally chosen where the importing country had "country specific tariff quotas" for specified dairy products of New Zealand origin. Fonterra's exclusive access to these markets began to expire progressively in 2007 with all of the exclusive arrangements lifted by 2010.

2.1.4 Dairy Industry Restructuring Amendment Act 2012

DIRA was amended by the Dairy Industry Restructuring Amendment Act 2012. Although most of the key principles remain, the main amendments sought to improve the transparency in the setting of the Farmgate Milk Price and enable Fonterra to proceed with its capital restructure known as "Trading Among Farmers" ("**TAF**").

Key components of the current legislative framework relevant to independent processors are as follows:

- **Open Entry and Exit**: Subject to some exceptions, the obligation remains on Fonterra to accept applications to supply raw milk or increase the supply of raw milk by shareholding farmers who can make the required capital contributions (see below). A process also exists for withdrawal by farmers who wish to reduce or cease raw milk supplies.
- **Capital Contributions**: Farmers who are new entrants to the dairy industry and who wish to supply Fonterra have their production levels estimated and are required to buy shares at the market rate to supply Fonterra. Farmers must own one share for every kilogram of milk solids their farm produces in a season ("**Wet Shares**"). A farmer may also hold non-production backed shares in excess of their minimum holding for the season ("**Dry Shares**"), subject to a restriction that no farmer holds more than 5% of the total Dry Shares on issue.
- **Trading Among Farmers**: Prior to the introduction of TAF, Fonterra's obligation to redeem shares exposed it to the risk that it might have had to pay large sums of money to farmer shareholders who stopped or reduced their supply of milk. TAF was designed to remove this

redemption risk for Fonterra and provide it with a stable capital base. Further details on TAF are set out in Section 2.1.5 below.

- **Guaranteed Supply of Milk to Other Processors**: The total amount of raw milk to be made available to independent processors can be increased to five percent of Fonterra's milk collection. The Dairy Industry Restructuring (Raw Milk) Regulations 2012 has increased Fonterra's annual supply obligation to independent processors to a maximum of 795 million litres of raw milk. The previous limits of up to 250 million litres for Goodman Fielder and 50 million litres for all other processors remain. However, the 50 million litres cap is subject to an "own supply rule" which disentitles independent processors from supply of raw milk from Fonterra in a season beginning on or after 1 June 2016 if their own supply of raw milk in each of the three consecutive previous seasons was 30 million litres or more.
- **Farmgate Milk Price**: The Farmgate Milk Price is calculated in accordance with the Farmgate Milk Price Manual, a publically available document produced by Fonterra. The Commerce Commission is required to review and report each season on the extent to which the Farmgate Milk Price Manual and the calculation of the Farmgate Milk Price are consistent with the statutory purpose of promoting the setting of a Farmgate Milk Price that incentivises Fonterra to operate efficiently while providing contestability in the market for the purchase of milk from farmers. Given Fonterra's significant market presence, the price that the majority of independent milk processors pay for milk is typically linked to the Farmgate Milk Price.

2.1.5 Trading Among Farmers

There are two main components to TAF: the Fonterra Shareholders' Market ("**FSM**") and the Fonterra Shareholders' Fund ("**Fund**"). The FSM is a market on which Fonterra's farmer shareholders can buy and sell shares on any business day among themselves, not with Fonterra. The FSM operates as a private, registered market that can only be used by farmer shareholders, the appointed "market maker" (which facilitates transactions) and Fonterra.

The Fund trades "units" in the public arena. The units confer on the holder the economic rights to Fonterra shares, being the right to any capital gains/losses from a change in the price of the units, and the right to the same distributions (e.g. dividends) that apply to Fonterra shares. The units do not entitle the holder to the right to vote in Fonterra or the right to receive a milk price; these rights remain with the farmer shareholder who has sold the economic rights.

The Fund provides an essential role in supporting the FSM. Given farmers are likely to want to buy and sell shares at similar times in a season, the Fund is designed to smooth out the spikes and troughs that could otherwise occur by introducing a wider group of investors who are likely to trade units on a more regular basis.

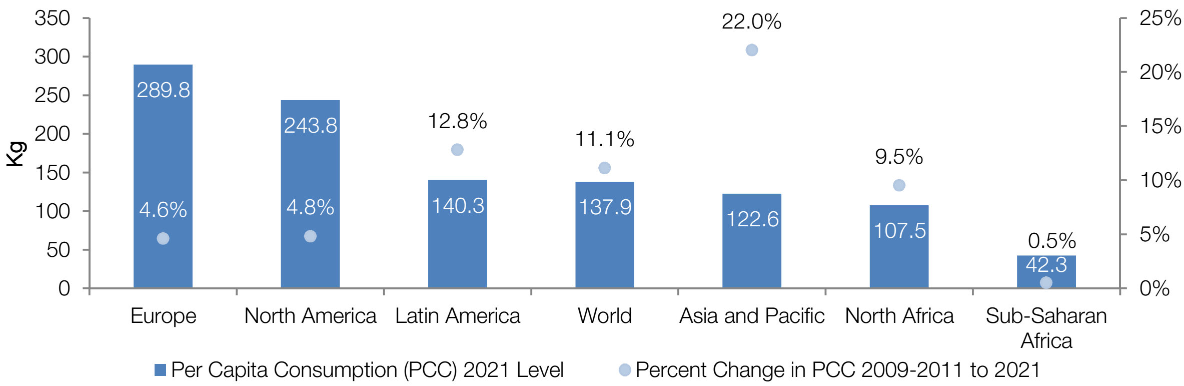
The sale of the economic rights of Wet Shares to the Fund cannot happen on a day to day basis, but only when Fonterra allows them to be sold. To date, farmer shareholders have had two opportunities to sell the economic rights of their Wet Shares (at launch in November 2012 and in May 2013). Those opportunities have allowed farmer shareholders to sell to a level of 25% of their Wet Shares. The level that farmer shareholders can sell to can be changed at any time by the Fonterra board, but currently they cannot go over the 33% limit set by Fonterra's constitution.

2.2 Global Demand for Dairy Products

Global dairy consumption is forecast to continue to increase over the next decade. Key drivers of demand include world population growth, improved perceptions of the nutritional benefits of dairy products, and growth in average incomes - particularly in developing countries in the Asia-Pacific region and Latin America. Demand is also expected to be firm in developed regions such as the European Union and North America.

As set out in Figure 5, by 2021 consumption of milk equivalents is expected to increase by 11% per capita globally, with per capita consumption in Asia and Pacific countries forecast to increase by 22%.

Figure 5: Forecast Growth in Per-capita Consumption (in Milk Equivalent) to 2021



Source: OECD/FAO Agricultural Outlook 2012-2021

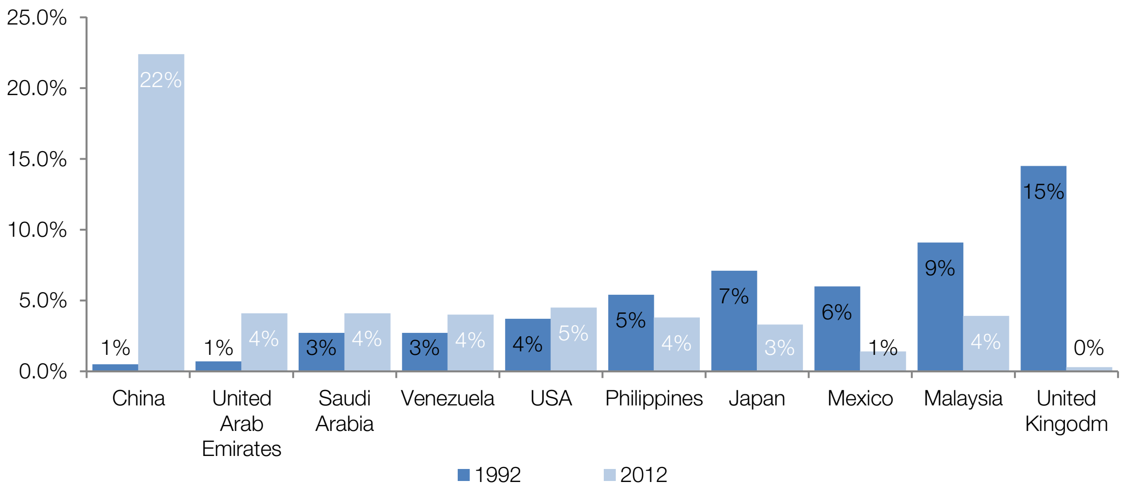
The fundamentals of demand for dairy products in developing markets have not been undone by higher prices to consumers. In many of these countries, expanding middle classes are unlikely to stop consuming dairy as income growth is helping to offset the higher costs. The improving perceptions of the nutrition, convenience and taste benefits of dairy have seen it become a more staple part of diets which is sustaining consumer demand.

As average incomes in emerging economies rise, consumers tend to become increasingly focused on product quality and safety. This was well demonstrated in China during the 2008 melamine scandal, where consumers prioritised safety and reputation over price which led to a significant increase in demand for foreign infant formula products.

In 2013, the Chinese market for infant formula was estimated to be worth around US$15 billion per annum, and is expected to almost double in the next 4 years[4]. The steady increase in Chinese demand for dairy products (particularly infant formula) is graphically illustrated by the growing proportion of New Zealand's dairy exports destined for China over the last two decades.

[4] Source: Euromonitor International, Retail value of the baby milk formula market from 2007 to 2017.

Figure 6: Destination of New Zealand Dairy Exports (1992 v 2012)



Source: Statistics New Zealand

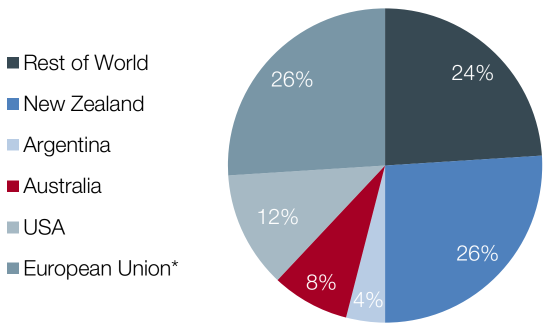
Although regulatory measures are being rolled out in China to restore confidence in the quality of locally produced and imported infant formula and nutritional products, this is unlikely to have any impact on the overall level of Chinese consumer demand. Rather, demand is likely to be directed towards those companies who meet the new regulatory requirements, including domestic companies who have Chinese Government support.

2.3 Global Supply

Global milk production is projected to increase 2% per annum between 2012 and 2021, slightly below the 2.1% annual growth rate recorded between 2002 and 2011[5].

Many of the large dairy producing countries and regions are focused on supplying fresh milk and other perishable dairy products to their domestic markets. By comparison, New Zealand's milk production is predominantly used to manufacture shelf-stable dairy products for export; these products accounted for 25% of New Zealand's total export trade in 2012[6]. As set out Figure 7 below, New Zealand is the world's largest dairy exporting country, accounting for 26% of global dairy exports.

Figure 7: 2012 Share of Global Dairy Exports (Milk Equivalents)



Source: Bulletin of the International Dairy Federation, "The World Dairy Situation 2012".

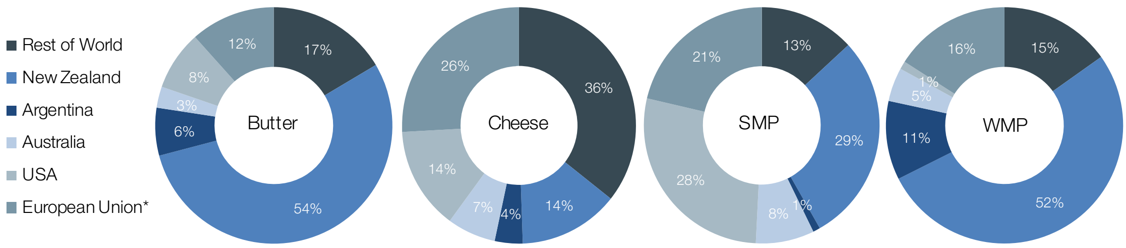
[5] Source: OECD/FAO Agricultural Outlook 2012-2021
[6] Source: Statistics New Zealand, "New Zealand in Profile 2013"

International dairy trade has increased strongly over the last decade, predominantly to meet demand for milk products in emerging markets that could not be satisfied by local milk production. All major global players increased exports. While higher dairy prices have provided incentives to increase production, growth in European Union milk output has been limited by legislated production quotas under Europe's Common Agricultural Policy. These quotas have been increasing gradually (typically by one percent every year between 2009/10 and 2013/14) ahead of their abolition in 2015.

Global production volumes are highly influenced by weather and the economic environment, particularly in markets such as the United States and the European Union where total milk production is far greater than that of New Zealand. Small changes in these regions can have a notable effect on export volumes available from those regions, and therefore on global supply.

In New Zealand, the dairy industry's ability to rapidly increase production and exports is expected to be constrained by lead-times in building dairy herds, competing land uses and increasing compliance costs associated with government regulation on effluent disposal. Nonetheless, strong growth in dairy exports is expected to continue. As Figure 8 demonstrates, by 2021 New Zealand is expected to have consolidated its strong position as an exporter of butter, whole milk powder ("**WMP**") and skim milk powder ("**SMP**").

Figure 8: Estimated Share of Dairy Exports by Product in 2021



Source: OECD/FAO Agricultural Outlook 2012-2021

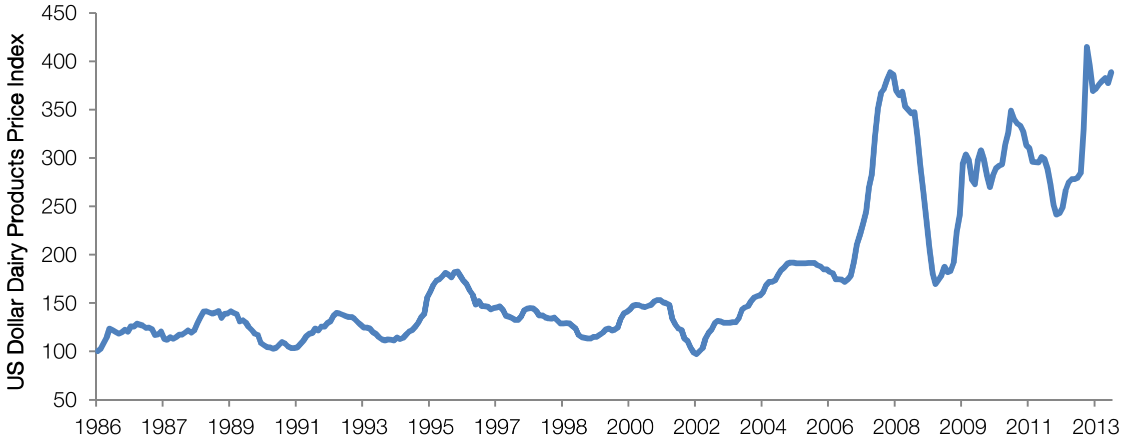
2.4 Global Dairy Prices

Rising incomes, population growth and pressures on the limited availability of agricultural land and products are sustaining higher world food prices. Recent years have seen a significant increase in international dairy prices – with ramifications for all players in the dairy supply chain. The ability of demand to hold up as increased costs are passed on to consumers will play a key part in determining market price levels in future years.

In 2008 Fonterra launched GlobalDairyTrade ("**GDT**"), an international online auction platform for globally-traded dairy products including butter, cheese and milk powders. GDT has become a leading price reference indicator for the industry. Auctions are run twice each month, with GDT currently hosting over 700 qualified bidders from 90 countries.

As set out in Figure 9 below, global prices for dairy commodities have generally exhibited an upward trend since 1986, particularly within the last decade, but with significant periods of volatility.

Figure 9: Global Dairy Prices (Indexed to 100)



Source: ANZ Commodity Price Index

Although it is difficult to predict the future outlook for global dairy prices, they are likely to be driven by a combination of growing but price sensitive demand, and supply levels based on economic and weather conditions within the major dairy production countries.

3.0 Profile of Open Country

3.1 Background

3.1.1 Overview

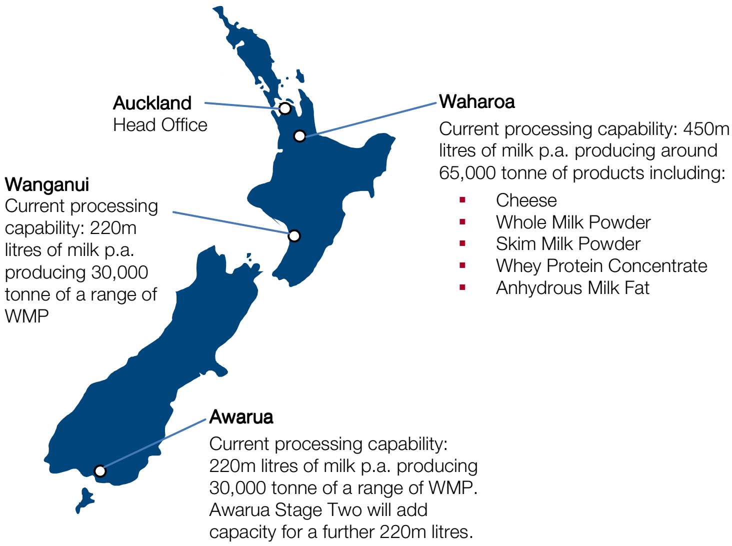
Open Country was established in late 2001 by a small group of founding shareholders looking to exploit the opportunities that they believed were provided by a change in the regulations governing the New Zealand dairy industry. The introduction of the DIRA eliminated the "single desk seller" system which to that point had provided the New Zealand Dairy Board with statutory authority as the sole exporter of dairy products. Because DIRA allowed for the formation of Fonterra as a national co-operative with a dominant position in the industry, it also provided for countervailing measures designed to foster competition and allow independent processors to export dairy products.

The main objective at the inception of Open Country was to construct an efficient cheese plant to manufacture and export cheese made from New Zealand milk. After considerable research and planning, the construction of the Waharoa plant commenced in December 2003 and was commissioned in October 2004 at the beginning of the 2004/05 season. The initial aim was to develop a cheese plant capable of producing approximately 20,000 tonnes of product per annum.

Since 2004, the Company has embarked on a significant investment programme to further develop the Waharoa site, including adding a whey plant, an anhydrous milk fat plant, a WMP plant, and the recent completion of a significant upgrade to the cheese plant. In addition, the Company has developed two further WMP factories - one at Awarua in Southland in 2008 and the other in Wanganui in 2009. A major and ongoing project relates to the installation of a second drier at the Awarua site ("**Awarua Stage Two**"), which is expected to be completed in September 2014: approximately $18.0 million of the total capital cost has been spent to date. Awarua Stage Two is expected to make a material contribution to the Company's ongoing profitability levels.

The location of Open Country's operations is set out in Figure 10 below.

Figure 10: Location of Open Country's Operations



Source: Open Country

The Company's strategy has been to site its factories in the pre-eminent dairying regions of New Zealand and source milk from the areas surrounding its factories. The Company is currently supplied by over 500 independent dairy farmers. With a combined processing capacity from its three sites of around 900 million litres of milk per annum (soon to be increased to around 1.05 billion litres per annum upon the completion of Awarua Stage Two), Open Country is the second largest dairy processor in New Zealand and exports to around 45 countries world-wide.

3.1.2 Significant Historical Events

Key milestones in Open Country's history are summarised below:

- 2001: Establishment of Open Country, contemporaneous with the enactment of DIRA.
- 2003: Talley's Fisheries acquire a cornerstone shareholding in Open Country.
- 2003: Construction commenced on the cheese plant in Waharoa.
- 2004: Initial offer of shares to the public, resulting in the issue of 15,000,000 shares at $1.00 per share.
- 2004: The cheese plant at Waharoa was commissioned.
- 2005: Renounceable 1-for-10 rights issue completed, resulting in the issue of approximately 3.4 million shares at $1.60 per share. Completion of the first season of processing operations.
- 2006: A whey plant was added to the site at Waharoa.
- 2007: Completion of an initial takeover offer for all outstanding Open Country shares, resulting in Dairy Trust Limited (an entity established by AFFCO Holdings Limited) holding 52.4%. Olam simultaneously acquired 19.9% of the outstanding shares by taking a stand in the market.
- 2007: An anhydrous milk fat plant was added to the site at Waharoa.
- 2008: A WMP plant was added to the site at Waharoa and a WMP factory was established at Awarua in Southland.
- 2008: A second takeover offer was launched by Dairy Trust Limited.
- 2009: A WMP factory was established at the Wanganui site.
- 2012: The Company raised $50 million from a one-for-two non-renounceable rights issue.
- 2013: Completion of a significant upgrade of the cheese plant at Waharoa.
- 2013: Commencement of the Awarua Stage Two project.

3.2 Strategy, Competitive Position and Risks

3.2.1 Strategy

Open Country's strategy is to produce commodity products only. It has made a conscious decision not to move into value-added areas such as the production of infant formula that is favoured by a number of other existing and prospective New Zealand based processors. Although Open Country produces a range of cheeses and other products, the predominant focus is on WMP, which represents the vast majority of the Company's sales.

The Company was established on the premise that a small focussed processing operation should be capable of delivering higher returns than those achieved by Fonterra. A smaller operation has the potential to exploit niche marketing opportunities that require lower volumes, and new plants could possibly deliver operating flexibilities and efficiencies compared to Fonterra. Success for Open Country will be dependent on exploiting these opportunities.

3.2.2 Competitive Position

Given the strong tie between Open Country's input milk price and the returns generated by Fonterra, the Company will only be able to generate superior returns on investment compared to the industry average on the basis that it can attract better prices for its final products or operate its manufacturing plant at a lower unit cost.

Raw milk procurement represents approximately 80% of the total costs of production and, because this cost is closely linked to Fonterra's Farmgate Milk Price, Open Country has a very limited opportunity to gain an advantage in relation to the input milk price. In essence, any general change in commodity prices is effectively passed on to the Company's suppliers through the milk price. Open Country is therefore a competitor with Fonterra on the basis of operating margin, with future prospects that are not overly reliant on the absolute future level and direction of commodity prices.

Given Open Country's focus on producing and selling what can be considered commodity products, achieving higher than average output prices on a consistent basis will require a commitment to quality and enhancements to its commodity products through such means as vitamin fortification.

In summary, the main ways the Company seeks to achieve a competitive advantage are through:

- Continual refinements to its processing plants to maximise capacity utilisation;
- Continual improvements in operating efficiencies; and
- Endeavouring to achieve output prices superior to those that can be achieved on GDT by entering into a number of bi-lateral contracts with customers.

Thus, the return on investment achieved by Open Country is dependent on the Company's ability to outperform Fonterra in terms of production and capital efficiency, and its ability to achieve superior output prices from niche marketing.

3.2.3 Risks

The on-going cost of milk supplied to Open Country will continue to be benchmarked against Fonterra's Farmgate Milk Price. The Fonterra Farmgate Milk Price is in turn determined by a combination of global commodity prices, product mix, exchange rates and Fonterra's processing and other overhead costs. Although there are likely to be some timing mismatches, any increase or decrease in future output prices for Open Country's products will therefore largely be reflected in the input costs of the milk (as benchmarked to Fonterra) and the processing margin generated by Open Country should be largely insulated from market price movements. That means that the ability of Open Country to generate a reasonable return on investment is reliant on its ability to effectively match Fonterra's performance.

If Open Country cannot operate as efficiently or achieve output prices in line with Fonterra, then the profit margins generated by Open Country could be significantly impacted. This risk factor arises directly from the fact that the relative outperformance by Fonterra will be incorporated into the input milk costs for Open Country – as a co-operative, any increase in commodity returns achieved by Fonterra should be passed directly to suppliers via an increase in the Farmgate Milk Price.

We expect that any divergence between the financial performance of Open Country relative to Fonterra will be driven by three main factors:

- Exchange rate hedging;
- Mismatch in product offering; and
- Mismatch in the proportion and timing of forward sales.

Fonterra's currency hedging program is not publicly released. As such, it is not possible for Open Country to have a high level of confidence that it can accurately match Fonterra's hedging positions. Any material differences between the hedging positions could lead to significant differences in the relative output prices achieved by Open Country and Fonterra, in turn leading to similarly significant differences in the profitability of the two businesses.

Given Open Country's predominant focus on WMP, it will be exposed to the product mismatch issue for the foreseeable future (although we note the fact that the Company also produces SMP and cheese products means this issue is not as acute as it is for single commodity focussed processors). If the relative market prices of other commodity products (such as SMP and cheese) exceed WMP prices and Fonterra is more weighted towards these other commodity groups, then Fonterra's better overall output prices will lead to a raw milk cost for Open Country that is not matched by increased revenue. This product price mismatch was a key reason that led Open Country to record a significant loss after tax in each of FY2010 and FY2011 (see section 3.4.1 below).

Finally, even if Open Country and Fonterra were perfectly matched in terms of product offering, both entities may employ vastly different forward sales policies. For example, if Open Country has a smaller proportion of its products forward sold than Fonterra and market prices rise, Open Country should end up in a relatively better position than Fonterra by being able to sell into the market at these higher prices. Conversely, if in this situation market prices were to fall, Open Country would be forced to sell into the market at lower overall prices than Fonterra would have achieved through its higher proportion of forward sales. Thus, any differential with Fonterra in the amount and timing of forward sales could work for or against Open Country, depending on the ultimate movement in market prices.

3.3 Capital Structure and Ownership

As at 18 February 2014, Open Country had 167,566,804 ordinary shares on issue held by 58 shareholders. The Company's top 10 shareholders are set out in Table 1 below. Open Country is very closely held, with the top three shareholders owning almost 90% of the Company's shares.

Table 1: Top 10 Shareholders

	Shareholder	Number of Shares Held	Shareholding Percentage
1	Talley's Group Limited	99,398,671	59.32%
2	Olam International Limited	33,548,879	20.02%
3	Dairy Investment Fund Limited	16,996,033	10.14%
4	Balle Bros Holdings Limited	7,560,353	4.51%
5	Waipahi Dairy Farms Limited	2,928,579	1.75%
6	FNZ Custodian Limited	2,227,927	1.33%

7	Hugh Green Investments Limited	863,235	0.52%
8	R G Paterson Holdings Limited	853,713	0.51%
9	Prospect Custodian Limited	600,000	0.36%
10	LP Trust Co Limited	544,185	0.32%
	Top 10 Shareholders	**165,521,575**	**98.78%**
	Remaining 48 Shareholders	2,045,229	1.22%
	Total Shares on Issue	**167,566,804**	**100.00%**

Source: Open Country

3.4 Financial Information

Financial information for Open Country during the period FY2009 to FY2013 is set out in the sections below. We note that during this period the Company has twice changed its balance date. The first change took place in FY2009, with the balance date moving from 31 May to 31 July. The second change occurred in FY2013, with the balance date moving from 31 July to 30 September to align with the balance date adopted by Talley's, the Company's majority shareholder.

3.4.1 Financial Performance

A summary of the financial performance of Open Country for the period FY2009 to FY2013 is set out in Table 2 below.

Table 2: Open Country Historical Financial Performance

Year Ended	14 months 31 July 2009 ($000)	12 months 31 July 2010 ($000)	12 months 31 July 2011 ($000)	12 months 31 July 2012 ($000)	14 months 30 Sept 2013 ($000)
Revenue	299,396	497,307	679,000	640,592	634,928
Cost of Sales	(241,466)	(486,505)	(674,506)	(591,188)	(582,944)
Gross Profit	57,930	10,802	4,494	49,404	51,984
Other Income	1,452	300	176	91	115
Total Operating Income	**59,382**	**11,102**	**4,670**	**49,495**	**52,099**
Leasing Expenses	(284)	(330)	(466)	(333)	(335)
Administration Expenses	(13,087)	(13,678)	(14,463)	(12,767)	(14,517)
Directors Fees and Expenses	(354)	(275)	(239)	(194)	(231)
EBITDA	**45,657**	**(3,181)**	**(10,498)**	**36,201**	**37,016**
Depreciation	(7,863)	(10,622)	(11,018)	(11,320)	(13,585)
Net Gain/(Loss) from FX	2,185	15,067	(2,696)	10,218	3,327
Net Interest Income/(Expense)	(7,042)	(7,436)	(8,218)	(8,567)	(4,949)
Net Change in Value of Derivatives	(25,964)	(2,061)	(2,540)	472	3,442
Profit before Tax	**6,973**	**(8,233)**	**(34,970)**	**27,004**	**25,251**
Income Tax	(2,073)	122	5,432	(3,770)	(7,096)
Profit after Tax	**4,900**	**(8,111)**	**(29,538)**	**23,234**	**18,155**

Source: Open Country Dairy Limited Audited Financial Statements

The main features of Open Country's historical financial performance can be summarised as follows:

- The business has demonstrated significant volatility in profitability, due largely to mismatches on sales phasing, currency conversion and product mix. The milk price paid to suppliers is based effectively on an "optimal" mix. The Open Country model has failed to match its sales revenue to the optimal mix used by Fonterra to calculate the Farmgate Milk Price (against which Open Country needs to benchmark) and this has had a material impact on earnings.
- The decline in profit before tax in FY2011 was primarily attributable to the record pay-out to milk suppliers, putting significant pressure on processing margins. On-going volatility in the world commodity and financial markets saw the NZD trade between 69 and 85 US cents and WMP range between $2,700 and $4,600 per metric tonne.
- In FY2012, Open Country changed to a new pay-out system which involved a condensed pay-out period and a constant advance rate. This resulted in the Company being able to more closely match revenues to costs. Investment in plant enhancements also resulted in greater product mix flexibility.

3.4.2 Financial Position

Table 3 summarises Open Country's financial position for the period FY2009 to FY2013.

Table 3: Open Country Statement of Historical Financial Position

As at	31 July 2009 ($000)	31 July 2010 ($000)	31 July 2011 ($000)	31 July 2012 ($000)	30 Sept 2013 ($000)
Assets					
Cash and Cash Equivalents	2,613	59	3,495	10,519	3,615
Inventories	16,685	42,542	59,088	31,060	136,484
Derivatives	4,529	3,332	1,743	513	4,366
Current Tax Assets	36	-	-	2	-
Trade and Other Receivables	18,654	27,848	28,014	31,711	18,337
Plant, Property and Equipment	206,918	216,381	211,499	204,612	217,481
Intangible Assets	66,020	65,922	65,605	64,711	64,372
Assets Classified as Held for Sale	5,974	5,974	-	-	-
Total Assets	**321,429**	**362,058**	**369,444**	**343,128**	**444,655**
Liabilities					
Cash and Cash Equivalents	213	560	-	-	-
Secured Bank Loans	80,000	103,000	130,500	79,079	58,000
Derivatives	332	1,196	2,147	445	858
Trade and Other Payables	35,985	60,636	75,101	23,399	120,341
Deferred Tax Liability	5,554	5,432	-	3,770	10,866
Total Liabilities	**122,084**	**170,824**	**207,748**	**106,693**	**190,065**
Net Assets	**199,345**	**191,234**	**161,696**	**236,435**	**254,590**
Issued Capital	193,366	193,366	193,366	244,871	244,871
Retained Earnings	5,979	(2,132)	(31,670)	(8,436)	9,719
Total Equity	**199,345**	**191,234**	**161,696**	**236,435**	**254,590**

Source: Open Country Dairy Limited Audited Financial Statements

The main features of Open Country's financial position are summarised as follows:

- In FY2012 Open Country offered a one for two pro rata non-renounceable rights issue. The proceeds of the offer were used to reduce bank debt and to provide flexibility to move to a new farmer payment system that pays farmers earlier for Open Country's milk supply.
- The significant increase in the balance of inventories at the end of FY2013 compared to the end of FY2012 reflects the change in balance date to 30 September (i.e. a date being far closer to the peak of the dairy season).

3.4.3 Cash Flows

Table 4 below summarises Open Country's historical cash flows for the period FY2009 to FY2013.

Table 4: Open Country Statement of Historical Cash Flows

Year Ended	14 months 31 July 2009 ($000)	12 months 31 July 2010 ($000)	12 months 31 July 2011 ($000)	12 months 31 July 2012 ($000)	14 months 30 Sept 2013 ($000)
Cash Flows from Operating Activities					
Receipts from Customers	309,663	505,496	672,289	652,800	652,281
Cash Paid to Suppliers and Employees	(89,040)	(115,414)	(129,599)	(124,537)	(145,877)
Payments for Milk	(190,335)	(386,554)	(555,081)	(508,778)	(461,437)
Net Interest	(6,666)	(7,436)	(8,218)	(8,267)	(4,657)
Income Tax Paid	-	35	-	-	-
Net Cash Flow from Operating Activities	**23,682**	**(3,873)**	**(20,609)**	**11,218**	**40,310**
Cash Flows from Investing Activities					
Proceeds from Sale of PPE	3,893	-	3,256	13	57
Acquisition of Minority Interest	(49,561)	-	-	-	-
Acquisition of Property, Plant and Equipment	(67,474)	(21,822)	(6,112)	(4,280)	(26,141)
Acquisition of Intangible Assets	(1,013)	(206)	(39)	(11)	(51)
Interest Capitalised to Assets	(756)	-	-	-	-
Net Cash Flow from Investing Activities	**(114,911)**	**(22,028)**	**(2,895)**	**(4,278)**	**(26,135)**
Cash Flows from Financing Activities					
Receipt from Term Loan	80,000	23,000	27,500	-	-
Repayment of Borrowings	(34,288)	-	-	(51,421)	(21,079)
Issue of Share Capital	78,472	-	-	51,505	-
Net Cash Flow from Financing Activities	**124,184**	**23,000**	**27,500**	**84**	**(21,079)**
Net Increase (Decrease) in Cash Held	**32,955**	**(2,901)**	**3,996**	**7,024**	**(6,904)**
Opening Cash	(30,482)	2,400	(501)	3,495	10,519
Effect of Exchange Rate Fluctuations on Cash Held	(73)	-	-	-	-
Cash and Cash Equivalents	2,400	(501)	3,495	10,519	3,615

Source: Open Country Dairy Limited Audited Financial Statements

4.0 Valuation of Open Country

4.1 Valuation Summary

Our valuation assessment of the Open Country business is based primarily on an earnings multiple approach. Estimated maintainable earnings relate to the projected level of EBITDA for the financial year ending 30 September 2014, adjusted to reflect some normalisations that we believe are appropriate and an allowance for the earnings impact of Awarua Stage Two. Our EBITDA multiple range of between 8.5 and 9.0 times is based on a combination of recent transaction evidence and the implied trading multiples for a small set of comparable companies.

We have estimated a fair value range for Open Country's shares of between $2.17 and $2.49 per share. A summary of the full acquisition value is set out in Table 5.

Table 5: Summary of Full Acquisition Value for Open Country

Component	Low	High
Maintainable EBITDA	$54.0m	$57.0m
Valuation Multiple	8.5x	9.0x
Enterprise Value	$459.0m	$513.0m
plus Surplus Assets	$13.3m	$13.3m
less Net Debt	($108.3m)	($108.3m)
Aggregate Equity Value	$364.0m	$418.0m
Number of Shares on Issue	167,556,804	167,556,804
Value per Share	**$2.17**	**$2.49**

Source: Northington Partners analysis

Details of our adopted valuation approach and assumptions are provided in the remainder of this section.

4.2 Valuation Methodology

In general terms, the value of equity in any company can be determined using a deductive approach that starts with an estimate of the underlying enterprise value. Enterprise value represents the aggregate value of the company's on-going operations assuming that the assets are entirely equity funded. In order to estimate the aggregate value of equity, the enterprise value is adjusted to account for the level of debt carried by the company and the values of any other assets and liabilities of the company that are not needed to maintain the core operations of the business.

A summary of the steps needed to estimate the aggregate equity value of Open Country is set out in Table 6 below.

Table 6: General Framework for Assessing Equity Value

	Step	Comment
	Value of Operating Assets	Represents the aggregate value of the operating assets of the business. Can be estimated using a variety of methods (see discussion in Section 4.2.1 below).
Plus	Surplus Assets (if any)	The value of assets that are not required to support the on-going operation of the business and which can therefore be sold.
Less	Net Debt	Defined as interest-bearing debt less cash reserves.
Less	Other Liabilities (if any)	Accounts for other liabilities that would be borne by the new owner of the company, such as the net present cost of derivative exposures.
equals	Equity Value	Directly comparable to Market Capitalisation

In almost all cases, estimating enterprise value is the most difficult part of the process.

4.2.1 Alternative Methodologies

For a company viewed on a going-concern basis, enterprise value should be determined as a function of the estimated level of cash returns that the operating assets are expected to generate in the future. The specific approach that is used to estimate this value is dependent on the nature of the company and the expectations regarding future performance. The two main approaches usually adopted in the valuation of publicly listed companies are summarised as follows:

- Earnings Multiple: This method determines enterprise value by applying a valuation multiple to the assessed level of maintainable annual earnings (or cash flows), where the multiple is chosen to reflect the risk associated with the future performance of the business. Depending on the nature of the business, earnings can be appropriately measured at the EBITDA, EBITA, EBIT, or NPAT levels.
- Discounted Cashflows ("DCF"): A DCF approach is based on an explicit forecast of the annual cash flows that will be generated over a specified forecast period (typically between 5 and 10 years). The value of cash flows that may occur after the end of the explicit forecast period are incorporated into the valuation process by capitalising an estimate of maintainable cash flows for the terminal period. A DCF model is therefore usually made up of two components:
  - (i) The present value of the projected cash flows during the forecast period; and
  - (ii) The present value of all other cash flows projected to occur after the explicit forecast period. This component is commonly referred to as the terminal value.

Each approach has some advantages and disadvantages, and the most appropriate choice is dependent on the characteristics of the business under consideration and the quality of the market data that is available. The key advantage of the earnings multiple approach is its simplicity. Total enterprise value can be determined on the basis of the actual earnings results for the most recent financial reporting period or the equivalent projection for next year. Companies with well-established operations should be in a position to supply reasonably reliable earnings projections for the next one or two years, and the valuation model is therefore only reliant on an independent assessment of the appropriate earnings multiple. Estimates of an appropriate multiple are typically based on data derived from other companies that are considered to be comparable to the target company in relation to growth prospects, capital expenditure requirements, and risk profiles.

Unfortunately, it is extremely rare that the target company will have any close comparables with respect to all of these important characteristics. In many cases, earnings multiples extracted from a set of businesses within exactly the same industry will have a wide range of values that reflect company specific factors rather than the underlying risk level of the industry itself. It then becomes a matter of judgement to make a series of adjustments to the implied multiples to properly account for the differences between the companies. These adjustments are often arbitrary and very difficult to benchmark.

In the majority of cases, the earnings multiple approach is therefore most suited to businesses with a relatively stable earnings outlook, low capital expenditure requirements, and limited growth opportunities. For companies with these characteristics, the multiples derived from market data are more likely to accurately reflect the market's perception of the underlying quality of the projected earnings stream.

The DCF approach can provide a better valuation treatment for companies with future growth prospects and high capital expenditure requirements. Because each of these factors can be explicitly incorporated into the valuation process, the DCF model directly accounts for many important value drivers of the business under consideration. Accessing the necessary data for a DCF model can however be problematic, especially when there is no credible process by which to construct the future forecasts of free cash flows. The discounting process is also reliant on an estimate for the required rate of return. Because this estimate is not directly observable and must be derived from data collected from other comparable companies, the DCF value is also reliant on the existence of other companies that have the same risk profile.

4.2.2 Preferred Valuation Approach

We believe that the Earnings Multiple valuation framework is most appropriate for Open Country. The business operation has matured over the last 2-3 years and, beyond the completion of Awarua Stage Two, does not have any explicit growth plans or extraordinary capital expenditure requirements. The biggest valuation issue relates to the significant earnings volatility that the Company has experienced in the past and is likely to continue to experience in the future. On-going uncertainty over market demand, commodity prices and performance relative to Fonterra clearly makes the assessment of a maintainable earnings figure more difficult for Open Country than for companies with a relatively stable earnings outlook. However, the issue of accurately projecting future earnings levels is even greater for the DCF approach, which must effectively incorporate a forecast of the degree and timing of the cyclical highs and lows of the industry.

4.3 Valuation of Open Country Shares

4.3.1 Assessed Enterprise Value Range

The assessed enterprise value of Open Country is determined with reference to estimates of the maintainable earnings for the business and an appropriate earnings multiple. Our analysis and conclusions for each of these inputs is summarised below.

Estimate of Maintainable Earnings

Our estimate of maintainable earnings for Open Country is based primarily on the Company's recent performance and forecast for FY2014. Table 7 below summarises actual EBITDA levels for the three year period between FY2011 and FY2013, along with the current forecast for FY2014. We note that:

- For consistency, the earnings for FY2013 relate to the 12-month period to 31 July 2013 as opposed to the earnings reported in the statutory accounts for the 14-month period to 30

September 2014. FY2013 earnings for the 12-month period are taken from management accounts;

- In addition to the forecast earnings for FY2014 (12-month period to 30 September 2014), we have also estimated pro-forma earnings for FY2014 assuming that Awarua Stage Two had been commissioned and fully operational at 100% capacity for the full financial year. This reflects the fact that the development is well advanced and that a significant proportion of the required milk supply for the additional capacity has already been secured. Our assessment of maintainable earnings should therefore make some allowance for the earnings impact of the expansion.

Table 7: Open Country Historical Earnings, Forecast and Pro-Forma Earnings for FY2014

	2011 Actual FYE 31 July ($m)	2012 Actual FYE 31 July ($m)	2013 Actual FYE 31 July ($m)	2014 Forecast FYE 30 Sept ($m)	2014 Pro-Forma (Including Awarua Stage Two) ($m)
Revenue	679	641	572	945	1,055
Total Operating Cost	(689)	(604)	(534)	(895)	(996)
EBITDA	**(10)**	**37**	**38**	**50**	**59**
EBITDA Margin	(1.5%)	5.7%	6.6%	5.3%	5.6%

Sources: Open Country's 2011 and 2012 Audited Financial Statements, Open Country's 2013 and 2014 Management Accounts, Northington Partners Analysis.

In determining a maintainable earnings level for Open Country, the key features of the historical and forecast earnings are as follows:

- FY2014 turnover is budgeted at a materially higher level than FY2013. While this partly reflects an increase in processing volume compared to the previous period, the main driver of the increase is the sustained increase in commodity prices compared to earlier periods;
- While future operating profits will to some extent be affected by cyclical changes to dairy commodity prices, Open Country is effectively a tolling operator which generates its earnings via a manufacturing margin. Commodity price increases (decreases) are generally matched by increases (decreases) in the milk price (Open Country's main operating cost), and the resulting level of earnings should, all else being equal, remain relatively stable;
- However, as discussed in Section 3, Open Country's profitability is materially exposed to Fonterra's performance and pay-out level because these are a key determinant of Open Country's cost of production. Differences between the two company's product mix, currency positions and operational efficiency will generate year to year volatility in Open Country's earnings.
- We also note Fonterra's announcement that the expected milk price for the current season does not fully reflect current commodity prices. To the extent that this variation from the milk price formula is not maintained in the future, Open Country's expected earnings for FY2014 incorporate the one-off benefit of a lower cost of milk; and
- Our Pro-forma forecast for FY2014 indicates that Awarua Stage Two is expected to add approximately $9.0m of EBITDA. This is based on output prices and operating costs currently included in the forecast for the FY2014 period.

On balance, we suggest that the pro-forma FY2014 forecast (including Awarua Stage Two) provides a reasonable framework for the maintainable earnings estimate, but with a normalisation adjustment to account for the historically high pay-out during the FY2014 period and the lower than benchmark milk cost. While it is difficult to determine whether the current historically high prices will persist in the future, we suggest that it is prudent to assume that prices will fall off the current highs and that the resulting margins will be generated off a lower revenue base. Based on that adjustment and other benchmarking analysis, we conclude that the appropriate range for Open Country's maintainable EBITDA level is between $54m and $57m.

Determining Appropriate Earnings Multiples

A valuation multiple range can be derived from two sources:

- Implied multiples from recent transactions involving similar target companies; and
- Publically traded companies that are considered to be comparable to the subject company.

There is data available for a small number of transactions that have some relevance to this valuation. We suggest that the most useful data relates to a transaction that involved Open Country itself and the very recent takeover process for Warrnambool Cheese and Butter. A summary of the valuation metrics for the selected transactions is contained in Table 8 below, with more detailed information set out in Appendix 4.

Table 8: Recent Relevant Transactions

Target	Acquirer / Transaction	Country	Date	Implied EV (NZ$M)	Implied EBITDA Multiple
Open Country Dairy	Talley's	New Zealand	Jan-14	$451	8.1x
Warrnambool Cheese and Butter	Saputo Inc.	Australia	Feb-14	$681	12.3x
Tutara Milk Industries	Bega Cheese Limited	Australia	Oct-11	$194	6.6x
Burra Foods Pty. Ltd.	ITOCHU Coal Resources Australia Pty Limited	Australia	Aug-09	$95	6.5x
Australian Co-operative Foods Limited	National Foods Limited	Australia	Aug-08	$1,071	12.8x
Average					**9.3x**

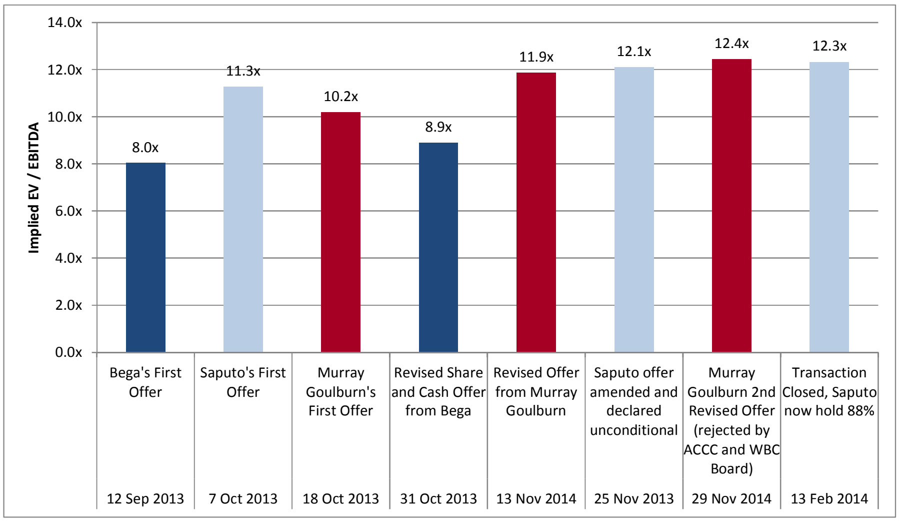
Source: Capital IQ and other Public Reports

The transaction involving Open Country relates to the recent acquisition by Talley's of the Creep Shares (approximately 8.3m shares) from Olam (as discussed in Section 1.1). The agreed transaction price was $2.05 per share. This acquisition related to approximately 5% of the total shares on issue and was agreed as part of the broader negotiations between the parties that ultimately led to the formation of the Offer. While we are not privy to Olam's strategy or motivation for the sale, we suggest that the transaction price is likely to incorporate a discount to reflect both the minority interest represented by the share parcel and the very limited level of liquidity for Open Country's shares.

The takeover process for Warrnambool Cheese and Butter ("**Warrnambool**") also provides a relevant valuation benchmark for Open Country. Warrnambool is the oldest dairy company in Australia, producing a range of dairy products for the domestic and export markets. As summarised in Figure 11, a number of parties competed for control of Warrnambool starting in September 2013, with the initial bid at an implied

EBITDA multiple level of 8.0x. Saputo eventually gained control of the company in February 2014 with a bid at an implied multiple of 12.3x.

Figure 11: Summary of Bid Values for Warrnambool



Warrnambool was viewed by all participants in the contested process as a platform for growth in Australia and through which to expand in the Asia-Pacific region. The company was also viewed as an attractive target because it provides:

- A strong supply base and relationship with farmers; and
- Strong domestic sales (50% of sales) across a wide range of products. This gives Warrnambool the ability to switch between export and local sales when international commodity prices are less favourable.

While we believe that Open Country shares some of these attributes, it is very difficult to determine whether it would attract the same level of interest if offered for sale through a competitive process. Unlike New Zealand, there is no dominant player in the Australian market and we believe that this difference in market structure is likely to lead to a lower strategic premium being offered for Open Country.

Relevant valuation evidence from publicly traded businesses is also relatively limited. While data for a range of companies is presented below in Table 9, we believe that most of the evidence should be viewed with considerable caution given the many differences between the nature of Open Country's business and that of the selected comparable companies.

Table 9: Comparable Trading Multiples

Company	Country	EV (NZ$m)	EV/EBITDA
Fonterra Co-Operative Group	New Zealand	14,351	10.2x
Synlait Milk Limited[1]	New Zealand	638	9.1x
Goodman Fielder Ltd.	Australia	1,939	8.6x
Bega Cheese Limited[1]	Australia	969	12.6x
Select Harvests Limited[1]	Australia	473	7.6x
Dean Foods Company	United States	2,682	6.1x
Parmalat SpA	Italy	6,046	8.4x
Unibel S.A.	France	2,805	5.5x
Bongrain SA	France	2,140	4.5x
Yashili International Holdings	China	1,828	12.5x
Morinaga Milk Industry Co., Ltd.	Japan	1,746	5.2x
China Dairy Group Ltd.	Singapore	58	3.9x
Average			**7.8x**
Median			**8.0x**

Source: Capital IQ (18 February 2014)

[1]Multiple is based on forward EBITDA estimate

We believe that Synlait provides the most useful comparator for our valuation assessment of Open Country. In our view, some of the key factors to consider when comparing the relative values of the two businesses are as follows:

- Synlait currently operates from a single site at Dunsandel, producing WMP, SMP, anhydrous milkfat products and infant formula. Synlait is currently upgrading its special milks dryer to produce lactoferrin (a key ingredient for infant formula), and has a range of other development plans geared towards further value-added products;
- While Synlait has a stated strategy of focusing on value-added products, its current product mix is still dominated by commodities. The speed with which the company can transition from commodities to value-added products is uncertain and will inevitably involve some risk;
- We would therefore characterise the Synlait business as a higher growth, higher risk business compared to Open Country.

Considering the risk profile and future outlook for the Open Country business, we conclude that an appropriate EBITDA multiple range is 8.5x to 9.0x. This selected range also reflects the fact that our estimate of maintainable earnings incorporates the expected growth from Awarua Stage Two.

Enterprise Value Range

Based on our estimates for maintainable earnings and an appropriate earnings multiple, the resulting enterprise value range for Open Country is summarised in Table 10. These values represent our assessment of the full acquisition value of Open Country, and implicitly incorporate a premium for control and acquisition synergies.

Table 10: Earnings Multiple Valuation Assessment

	Valuation Range	
	Low	High
Maintainable EBITDA	$54.0m	$57.0m
EBITDA Multiple	8.5x	9.0x
Enterprise Value	**$459.0m**	**$513.0m**

Source: Northington Partners' Analysis

Cross-Check Valuation

We have cross-checked our enterprise value assessment using a DCF model. The model is based on an explicit forecast period of 10 years and includes an allowance for a terminal value based on the projected EBITDA level in year 10. This valuation approach allows us to directly model the outstanding capital expenditure for completion of Awarua Stage Two, the anticipated build up to full utilisation over a 2-3 year period, and the value impact of Open Country's current tax losses.

Based on a set of reasonable assumptions for other key parameters, our DCF value range is broadly consistent with the earnings multiple valuation assessment reported above in Table 10.

4.3.2 Aggregate Equity Value and Value per Share

The assessed range for the value of 100% of the shares on issue in Open Country is set out in Table 11. Our equity valuation reflects:

- A $13.3m allowance for surplus land assets, based on the cost of properties acquired at Horotiu and Moerewa (plus an allowance for value uplift since acquisition). Neither site is likely to be used by Open Country in the foreseeable future and therefore could be made available for sale; and
- A net debt value of $108.3m, based on our assessment of core debt as at the valuation date; our estimate incorporates an allowance for the seasonality of funding requirements and the projected capital expenditure for completion of Awarua Stage Two.

The resulting equity value corresponds to a range of $2.17 to $2.49 per share.

Table 11: Total Equity Value and Value per Share

	Low Value	High Value
Assessed Enterprise Value ($m)	$459.0m	$513.0m
plus Surplus Assets ($m)	$13.3m	$13.3m
less Net Debt ($m)	($108.3m)	($108.3m)
Total Equity Value ($m)	$364.0m	$418.0m
Shares on Issue	167,556,804	167,556,804
Value per Share	**$2.17**	**$2.49**

Source: Northington Partners' Analysis

We note that the projected net tangible assets ("**NTA**") of the Company at the completion of Awarua Stage Two is approximately $1.69 per share. Given the high level of asset intensity required for this type of business and Open Country's projected profit margins, we believe that the relativity between the forecast NTA and our assessed value range is appropriate.

Appendix 1: Summary Profile of Talley's

Talley's is a privately owned company associated with the Talley family. With its headquarters in Motueka, Talley's operates as a diversified agribusiness providing a range of products across a number of primary industry categories.

The company has three main divisions:

- Seafood Division: the Company's oldest division, founded in 1936. Owns and operates a number of seafood processing factories and a fleet of inshore and deep water fishing vessels. Also has an interest in mussel farms, cool storage facilities and a fleet of freezer trucks.
- Vegetable Division: commenced the processing of vegetables in 1978. Today, the division operates as a fully integrated grower and processor, with operations spanning planting, harvesting, processing, freezing, packing and cold storage of vegetables. The main processing plants are based in Blenheim and Ashburton.
- Dairy Division: commenced operations in 1995. Involved in the production of premium and super premium ice cream from a plant based in Mouteka under the brands Crème de la Crème and Guilt Free.

In addition to the above operations, Talley's other main investments include its holding in Open Country and a 100% shareholding in meat processing company AFFCO New Zealand Limited.

Further details on Talley's can be found on its website: www.talleys.co.nz

Appendix 2: Offer Conditions

A summary of the key conditions of Talley's Offer are as follows (a more detailed list of the conditions are contained in the Offer):

- Acceptances being received by Talley's which will result in Talley's holding or controlling 70.00% of the total voting rights in Open Country; and
- Between 17 January 2014 and the date on which Talley's may declare the Offer unconditional:
  - No material action, claim, litigation, prosecution or other form or proceedings (that was not already publicly notified or commenced) is commenced against Open Country or any of its subsidiaries (together, the "**Open Country Group**");
  - No action, claim, litigation, prosecution or other form or proceedings is commenced against any member of the Open Country Group or Talley's in respect of the Offer;
  - No liquidator, receiver or similar official is appointed to any member of the Open Country Group or any of its assets, and no proceeding to appoint such a person is commenced; and
  - There not being any event in the nature of those outlined above or in connection with any agreement to which any member of the Open Country Group is a party which does or may give rise to a material adverse change.

Talley's Takeover Notice indicates it has no present intention to make any material changes to the business activities, material assets or capital structure of any member of the Open Country Group.

Appendix 3: Regulatory Requirements and Scope of this Report

Takeovers Code Requirements

The Takeovers Code, which came into effect on 1 July 2001, sets out rules governing the conduct of company takeovers in New Zealand. The provisions of the Takeovers Code apply to any company that is a "Code Company" (as defined in the Takeovers Code). Open Country is a "Code Company" because it has 50 or more shareholders and 50 or more share parcels.

The fundamental rule of the Takeovers Code is set out in Rule 6 and prevents any entity (together with its associates) from becoming the holder or controller of 20% or more of the voting rights in a "Code Company", or increasing its control position if it already owns 20% or more of the voting rights, other than via one of several courses of action prescribed in Rule 7 of the Takeovers Code.

Pursuant to Rule 7 of the Takeovers Code, a person who holds 20% or more of the voting rights in a Code Company may (among other exceptions) become the holder of an increased percentage of the voting rights "by an acquisition under a partial offer". A "partial offer" requires the offeror to make an offer for a specified percentage (i.e. being less than 100%) of the equity securities in the Code Company that it does not already own.

Talley's Offer is a "partial offer" for the purposes of the Takeovers Code. Talley's Offer and the response by Open Country to the Offer must comply with the provisions set out in the Takeovers Code. Rule 21 of the Takeovers Code requires the directors of Open Country to obtain a report from an independent adviser on the merits of the Offer.

The exact meaning of the word "*merits*" is not prescribed in the Takeovers Code and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered when assessing the merits of a takeover offer. Although the Takeovers Panel has published a guidance note about the role of an Independent Adviser, it has been careful not to limit the scope of the assessment and states that the relevant factors that should be taken into consideration will depend on the features of the proposed transaction as well as the prevailing circumstances of the parties involved. However, the Takeovers Panel suggests that a merits assessment is broader than a valuation assessment and will include other positive and negative aspects of a transaction.

Basis of Assessment

Northington Partners has assessed the merits of Talley's Offer by taking into account the following factors:

- Our estimate of the underlying value range of the ordinary shares in Open Country (based on an assessment of the intrinsic value of the Company)
- A comparison of our estimated value range with Talley's Offer Price;
- The prospects, attractiveness and risk profile of the Company;
- The impact of the Offer and Agreement with Olam on the control position of the Company; and
- The current level of liquidity for Open Country's shares and other potential opportunities shareholders may have to sell shares in the future.

Appendix 4: Comparable Transaction Data

A description of the transactions listed in Table 8 in Section 4 is set out below.

Table 12: Details for Recent Relevant Transactions

Target	Description	Acquirer / Transaction	Country	Date	Implied EV (NZ$m)	Implied EBITDA Multiple
Open Country Dairy	Manufacturer of various dairy products including cheese and milk powder.	Talley's	New Zealand	Jan-14	$451	8.1x
Warrnambool Cheese and Butter	Warrnambool Cheese and Butter Factory Company Holdings Limited, together with its subsidiaries, produces and sells dairy products in Australia and internationally.	Saputo Inc.	Australia	Feb-14	$681	12.3x
Tutara Milk Industries	Manufacturer of various dairy products including cheese, milk powder and infant formula.	Bega Cheese Limited	Australia	Oct-11	$194	6.6x
Burra Foods Pty. Ltd.	Burra Foods Pty. Ltd., a dairy ingredient processing company, produces and markets dairy products to the food manufacturing market worldwide.	ITOCHU Coal Resources Australia Pty Limited	Australia	Aug-09	$95	6.5x
Australian Co-operative Foods Limited (nka:Dairy Farmers Limited)	Dairy Farmers Limited produces dairy products in Australia.	National Foods Limited	Australia	Aug-08	$1,071	12.8x
Average						**9.3x**

Source: Capital IQ, Company Announcements and Financials, Northington Partners' Analysis

Appendix 5: Comparable Company Data

Some further information and a summary description of the companies listed in Table 9 in Section 4 are set out below.

Table 13: Detailed Comparable Trading Multiples

Company Name	Country	EV (NZ $m)	Market Cap (NZ$m)	EV / LTM EBITDA	EV / NTM EBITDA	EV / LTM EBIT	EV / NTM EBIT	P /BV	EBITDA Margin	Net Income Margin
Fonterra Co-Operative Group	NZ	14,351	9,963	10.2x	12.1x	15.0x	20.6x	1.5x	7%	2%
Synlait Milk Limited	NZ	638	533	17.5x	9.1x	23.9x	11.8x	3.2x	9%	2%
Goodman Fielder Ltd.	Australia	1,939	1,330	8.6x	6.8x	13.0x	9.1x	0.8x	10%	2%
Bega Cheese Limited	Australia	969	853	15.1x	12.6x	22.7x	18.1x	2.5x	6%	2%
Select Harvests Limited	Australia	473	386	20.6x	7.6x	26.4x	8.4x	2.0x	11%	4%
Dean Foods Company	USA	2,682	1,623	6.1x	6.4x	10.7x	12.1x	1.9x	4%	0%
Parmalat SpA	Italy	6,046	7,470	8.4x	7.9x	12.7x	11.8x	1.5x	8%	4%
Unibel S.A.	France	2,805	2,057	5.5x	n/a	7.0x	n/a	1.5x	11%	3%
Bongrain SA	France	2,140	1,357	4.5x	4.6x	7.4x	8.6x	0.7x	7%	2%
Yashili International Holdings	China	1,828	2,314	12.5x	12.2x	14.0x	14.0x	3.7x	18%	11%
Morinaga Milk Industry Co.	Japan	1,746	897	5.2x	5.7x	13.4x	13.9x	0.6x	5%	1%
China Dairy Group Ltd.	Singapore	58	50	3.9x	n/a	9.7x	n/a	0.8x	4%	1%
Average				**9.8x**	**7.1x**	**14.7x**	**10.7x**	**1.7x**	**8%**	**3%**
Median				**8.5x**	**7.2x**	**13.2x**	**11.8x**	**1.5x**	**8%**	**2%**

Source: Capital IQ 18 February 2014

Table 14: Detailed Comparable Company Descriptions

Company Name	Description
Fonterra Co-Operative Group Ltd.	Fonterra Co-operative Group Limited is engaged in the collection, manufacture, and sale of milk and milk derived products in New Zealand, Europe, Asia, Australia, the United States, and internationally.
Synlait Milk Limited	Synlait Milk Limited engages in the manufacture and sale of milk ingredient products, infant formulas, and nutritional products.
Goodman Fielder Ltd.	Goodman Fielder Limited engages in the manufacture, marketing, and distribution of food ingredients, as well as consumer branded food, beverage, and related products.
Bega Cheese Limited	Bega Cheese Limited receives, processes, manufactures, and distributes dairy and associated products in Australia.
Select Harvests Limited	Select Harvests Limited processes, packages, markets, and distributes edible nuts, dried fruits, seeds, and a range of natural health foods.
Dean Foods Company	Dean Foods Company, a food and beverage company, processes and distributes milk, other fluid dairy products, and plant-based beverages.
Parmalat SpA	Parmalat SpA, together with its subsidiaries, produces and distributes milk, dairy products, and fruit beverages.
Unibel S.A.	Unibel S.A. engages in the production and sale of cheese products primarily in Western Europe, Eastern Europe, the Middle East, and Africa.
Bongrain SA	Bongrain SA produces and distributes cheese and other dairy specialties, and dairy ingredients in France, other countries in Europe, and internationally.
Yashili International Holdings Limited	Yashili International Holdings Ltd, an investment holding company, engages in the manufacture and sale of diary and nourishment products in the People's Republic of China.
Morinaga Milk Industry Co., Ltd.	Morinaga Milk Industry Co., Ltd. engages in the research, development, production, distribution, sale, and marketing of a range of food products in Japan and internationally.
China Dairy Group Ltd.	China Dairy Group Ltd, an investment holding company, engages in manufacturing and trading milk and related products in the People's Republic of China.

Source: Capital IQ 18 February 2014

Appendix 6: Sources of Information Used in This Report

Other than the information sources referenced directly in the body of the report, this assessment is also reliant on the following sources of information:

- Annual reports for Open Country from 2010 to 2013
- Audited financial statements for Open Country for the period FY2009 to FY2013
- Open Country's management budget for FY2014
- Discussions with senior management personnel of Open Country
- The websites of Open Country and Talley's
- Talley's Takeover Notice dated 7 February 2014
- Various other documents that we considered necessary for the purposes of our analysis

Appendix 7: Declarations, Qualifications and Consents

Declarations

This report is dated 24 February 2014 and has been prepared by Northington Partners at the request of the directors of Open Country to fulfil the reporting requirements pursuant to Rule 21 of the Code. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to Open Country for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all of the shareholders of Open Country (other than Talley's, Olam or any entity associated with Talley's or Olam) that are subject to the Offer, and Northington Partners consents to the distribution of this report to those people. The engagement terms did not contain any term which materially restricted the scope of our work.

Qualifications

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D and Steven Grant B.Com, LLB (Hons). Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Northington Partners has been responsible for the preparation of numerous Independent Reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and NZX Listing Rules.

Independence

In September 2008, Northington Partners prepared an Independent Adviser's Report required by Rule 21 of the Code in relation to the full takeover offer for Open Country Cheese Limited by Dairy Trust Limited. We were approved by the Takeovers Panel for the preparation of that report, and were in no way involved in the origination, structuring, funding, or execution of that proposed transaction.

Northington Partners has not been previously engaged on any other matter by Open Country or Talley's or (to the best of our knowledge) by any other party to the proposed transaction. None of the Directors or employees of Northington Partners have any other relationship with any of the Directors or substantial security holders of the parties involved in the proposed Offer.

The preparation of this Rule 21 report will be Northington Partners' only involvement in relation to the Offer. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

Disclaimer and Restrictions on the Scope of Our Work

In preparing this report, Northington Partners has relied on information provided by Open Country. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its Directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

Indemnity

Open Country has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report, except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

Open Country has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

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