Independent Advisor's Report In Relation to Takeover Offer by Millstream Equities Limited for Montana Group (NZ) Limited

(Pursuant to clause 19, Second Schedule, Takeovers Code)

31 July 2001

PRICEWATERHOUSECOOPERS

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Independent Advisor's Report in Relation to Takeover Offer by Millstream Equities Limited for Montana Group (NZ) Limited

Dear Sirs

1 *Introduction*

1.1. Introduction and Background

On Wednesday 4 July 2001, Montana Group (NZ) Limited ("Montana" or "the Company") received a Notice of Takeover Offer under the Takeovers Code ("the Code") from Millstream Equities Limited ("Millstream") advising of its intention to make a full offer to purchase all the fully paid ordinary shares in Montana other than the 58,017,717 shares in Montana already held by Millstream ("the Millstream offer"). Millstream is a wholly-owned subsidiary of Allied Domecq plc, a company listed on the London Stock Exchange.

Millstream's offer for shares in Montana stipulates a consideration of $4.80 per share and, as required under the Code, is conditional on Millstream obtaining sufficient acceptances such that the shares acquired, when combined with its existing holding of approximately 27%, give Millstream an aggregate ownership interest in Montana exceeding 50%.

The Millstream offer remains open for acceptance until 17 August 2001, unless extended. Payment for all shares is required to be made by Millstream within seven days of the offer becoming unconditional. Full particulars of the Millstream offer are set out in its formal Takeover Offer document dated 19 July 2001, the dispatch of which to Montana shareholders was confirmed on 20 July 2001.

This Report presents PricewaterhouseCoopers' assessment of the merits of the Millstream offer, for the purpose of assisting Montana's shareholders assess whether or not to accept the Millstream offer.

1.2. Requirements Under the Takeovers Code and Montana's Constitution

The requirements of the Takeovers Code, which came into effect on 1 July 2001, and which are incorporated within the New Zealand Stock Exchange ("NZSE") Listing Rules and Montana's Constitution, govern the process and timetable for the making of a full or partial takeover offer for Montana. The Code also prescribes the responsibilities and obligations for Millstream (as the offeror) and Montana (as the "target") in respect of submitting a formal takeover offer, and the subsequent response to that offer by the target, by way of a "target company statement"("TCS"). The TCS must be accompanied by an independent advisor's report (or a summary thereof) prepared pursuant to Rule 21 of the Code. The information to be included within the target company statement is prescribed in the Second Schedule of the Code.

Under the Code, Montana is required to dispatch its TCS and accompanying independent advisor's report to shareholders within 14 days after it receives the Takeover Notice, or within 14 days after it receives the Dispatch Notice confirming that the formal offer document has been sent to all shareholders. In this instance the Dispatch Notice in respect of the Millstream offer is dated 20 July 2001, and accordingly Montana must send its TCS and the independent advisor's report to shareholders not later than Friday 3 August 2001. Where only a summary report accompanies the target company statement, then the full report must be available for inspection.

The appointment of PricewaterhouseCoopers as independent advisor to assess the merits of the Millstream offer was confirmed by the Takeovers Panel ("the Panel") on 5 July 2001.

The Panel had originally approved PricewaterhouseCoopers to prepare an independent report covering both the Millstream offer and also the partial offer by Lion Nathan Enterprises Limited ("the Lion offer") which had been notified to Montana on 1 July 2001. Lion Nathan Enterprises Limited is a wholly-owned subsidiary of Lion Nathan Limited, a Company listed on the New Zealand and Australian Stock Exchanges. However, the Panel subsequently determined that the Lion offer did not comply with the Code, and accordingly the Lion offer, as notified to Montana, will not proceed.

Therefore, this Report addresses only the Millstream offer.

1.3. Purpose of Report

The purpose of the Report is primarily to assist Montana shareholders other than Millstream to evaluate the Millstream offer by presenting our assessment of the merits of the Millstream offer, and in so doing, to assist shareholders in forming their own opinions as to whether or not they should accept the Millstream offer for all or part of their shareholding.

We note that each shareholder's circumstances and investment objectives will be different. It is therefore not possible to prescribe or advise what action an individual shareholder should take in response to the Millstream offer. Our advice will necessarily be general in nature and is intended to assist each shareholder to form their own opinion as to what action they should take in the circumstances.

1.4. Overview of Approach to Assessing the Merits of the Offer

Rule 21 of the Code requires that the Report assess "*the merits of [the] offer*". There are no authoritative New Zealand guidelines as to how the merits of an offer should be assessed, and accordingly we believe that an offer must be assessed in light of its own features and the prevailing circumstances surrounding the offer and the target company's situation.

We have therefore undertaken our assessment in two stages. First, we have considered whether the offer price stipulated in the Millstream offer is "fair", and secondly we have evaluated other considerations relevant to a shareholder's assessment of the Millstream offer.

Our analysis of the fairness of the offer price has been undertaken by comparing our assessment of the current "fair market value" of Montana's shares against the offer price stipulated in the Millstream offer. Our assessment of the current fair market value of shares in Montana is set out in section 4.

Our evaluation of the "other considerations" relevant to the Millstream offer includes:

- the likelihood that the Millstream offer will be declared unconditional, requiring that Millstream receives sufficient acceptances so that the shares acquired when combined with its existing holding, exceed, in aggregate, 50% of Montana's issued capital;
- the prospect of a competing bid emerging, such as the previous partial offer by Lion;
- if the Millstream offer does not proceed, whether a better offer, either from Millstream or another bidder, may emerge; and
- in the event that the Millstream offer lapses, the likely market value for Montana shares.

Our analysis of these other considerations is set out in section 5.

PricewaterhouseCoopers prepared a comprehensive independent appraisal report dated 10 December 2000 ("the December Report") in relation to Restricted Transfer Notices ("RTN") issued by Lion and Masfen Holdings Limited, under the then applicable NZSE Listing Rules. Lion then issued a subsequent RTN in April 2001 whereby it announced its intention to acquire up to 100% of Montana's issued capital. We issued a further independent appraisal report on this subsequent RTN dated 7 May 2001 ("the May Report"). Although the December and May Reports were prepared in compliance with the previous NZSE Listing Rules and the pre-Takeovers Code regime then applicable, the Reports contained considerable detail concerning Montana's history, background to the Company's business, industry conditions, and other information of a historical or generic nature. Most Montana shareholders will have received the December and May Reports, and copies of both reports can also be viewed on Montana's website (www.montanawines.co.nz). Montana Group will provide any shareholder who requires a copy of either Report with one upon request, free of charge.

Although we have updated our valuation of Montana and the information referred to above, given the extensive coverage of this background material and our previous valuations in respect of Montana in the December and May Reports, we have not repeated much of the detail within this Report.

However, in order to provide shareholders with a reasonably complete, albeit condensed, report, we have also repeated a considerable amount of background narrative concerning Montana's history, operations, key issues facing the Company, and its future prospects within the Report, with only fairly minor changes being made from the descriptions contained in the May Report.

1.5. Information

The sources of information which we have had access to and relied upon are listed in Appendix 1.

1.6. Declarations, Qualifications, Disclaimer, Restrictions and Limitation of Liability

This Report should be read in conjunction with the statements and declarations set out in Appendix 3, regarding our independence, qualifications, restrictions upon the use of this report, reliance on information, a general disclaimer, and an indemnity.

1.7. Note

All monetary amounts in this report are expressed in New Zealand currency and are stated exclusive of Goods and Services Tax ("GST"), unless indicated to the contrary. Generally, references to "year" should be taken as referring to Montana's financial year ending on 30 June. For example, references to the "2000 year" refer to the financial year ended 30 June 2000. However, as Montana is changing its balance date in 2001 to 30 September, references to forecast financial years refer to the financial years ending 30 September, so that for example, references to the "2002 year" refer to the year ending 30 September 2002. As the current financial period will cover 15 months to 30 September 2001, references to the "2001 year" refer to either the full 15 month period, or alternatively the 12 months ending 30 September 2001, depending on the context.

1.8. Glossary

Term	Meaning
Allied	Allied Domecq Plc
CompCo	Comparable Companies
Corbans	Corbans Wines Limited
DCF	Discounted Cash Flow
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EV	Enterprise Value
GST	Goods and Services Tax
Interbrand	Interbrand Group Plc
LCE	Latest Current Estimate
Lion	Lion Nathan Limited, Lion Nathan Group Ventures Limited or Lion Nathan Enterprises Limited
M	Million
Masfen	Masfen Holdings Limited
Millstream	Millstream Equities Limited
Montana	Montana Group (NZ) Limited
Montana Wines	Montana Wines Limited, a wholly-owned subsidiary of Montana
NC	Not Calculated
NPV	Net Present Value
NTA	Net Tangible Assets
NZSE	New Zealand Stock Exchange
Record Date	The Record Date of the Millstream Offer, being 16 July 2001
RTN	Restricted Transfer Notice
Seagram	Seagram & Co. Ltd
TCS	Target Company Statement required under the Takeovers Code
The Code	The Takeovers Code approved by the Takeovers Act
The Company	Montana Group (NZ) Limited
The Lion Notice	Lion Notice of Takeover issued on 1 July 2001
The May Report	Independent appraisal report dated 7 May 2001
The December Report	Independent appraisal report dated 10 December 2000
The Market Surveillance Panel	NZSE Market Surveillance Panel
The Notice	Millstream Notice of Takeover issued on 4 July 2001
The Panel	The Takeovers Panel
The Report	This independent advisor's report
The Standing Committee	The Standing Committee appointed by the NZSE Market Surveillance Panel
The Standing Committee Decision	The decision of the Standing Committee with respect to certain purchases by Lion
The Takeover Panel Decision	The decision of the Takeovers Panel with respect to the Lion Notice
UK	United Kingdom
US	United States
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital
YTD	Year-to-Date

2 Conclusion on the Merits of the Millstream Takeover Offer for Montana

Current Fair Market Value for Montana Shares

We have updated our DCF valuation of Montana, based on the most recent information available concerning the Company's financial performance, financial position and future outlook. Whilst there has been a modest adverse change in the short-term earnings projection, the Company's longer-term outlook has not materially changed from the situation which existed when we prepared our December and May Reports. Our overall valuation range for Montana's shares at the present time is also virtually unchanged from our assessment in the May Report, at $4.28 to $4.72 (compared to $4.24 to $4.72).

Fairness of Millstream Offer

Given our valuation of Montana's shares, we consider that the Millstream offer price of $4.80 for all shares in Montana represents a "full and fair" offer. As an existing industry participant, we expect that Montana will have greater value to Allied (relative to the Company's standalone value), and the premium implicit within Allied's offer pricing reflects some sharing of the anticipated synergy gains with Montana's shareholders. The bid pricing also reflects the competitive bidding situation that has surrounded Montana over the course of this year.

Implications of Takeovers Code Regime

The new Takeovers Code regime, which took effect from 1 July 2001, introduces significant changes to the manner in which a takeover offer can progressed. In particular:

- shareholders can no longer be treated on a "first come-first served" basis;
- shareholders will have until the specified closing date to decide whether to accept the offer, and will be notified whether the offer will proceed based on satisfaction of the conditions; and
- in this instance the critical condition which must be satisfied is that Millstream must acquire sufficient shares in Montana so that, when combined with its existing 27.03% shareholding, it has a greater than 50% voting interest.

Unless Millstream declares its offer unconditional prior to the closing date, Montana's shareholders will not know when accepting the offer whether or not it will be declared unconditional. However, the closing date cannot be accelerated and shareholders will always have until the closing date to accept.

Other Background Circumstances

The background to Millstream's takeover offer for Montana is significant in a number of respects:

- the Millstream offer represents the latest, but not necessarily final, event in a long-running, highly publicised contested takeover bid situation;
- there is some uncertainty over the procedural compliance associated with Allied's earlier share purchases, but this should not affect the status of the Millstream offer unless the closing date is extended;
- although Lion has been required to withdraw its most recent proposed partial offer, the prospect of further initiatives by Lion cannot be discounted; and
- Lion is required to complete divestment of a 19% shareholding held through Penthouse Nominees Limited ("the Penthouse shareholding") by 10 August 2001, thereby reducing its interest in Montana to approximately 44%.

Millstream Offer Timetable

Assuming Millstream does not extend its specified closing date, then the closing date of its offer will be 17 August 2001.

The last date upon which Millstream can declare its offer unconditional will then be 14 days after the closing date, being 31 August. However, if Millstream's offer conditions are satisfied earlier, then it is obliged to immediately notify Montana, the Panel and the NZSE. This could occur prior to the scheduled closing date of 17 August, but, in the absence of Lion accepting the Millstream offer, cannot possibly occur prior to Lion completing its divestment of the Penthouse shareholding.

Lion must complete its divestment of the Penthouse shareholding by 10 August, and we understand that Lion cannot announce any new takeover offer until after that date.

Furthermore, if the Millstream closing date is extended (notification of which must occur prior to 3 August), then it is possible that the offer could be further complicated by the results of the Standing Committee inquiry into the Allied/Masfen Holdings' transactions, based on the hearing scheduled for 18 August, although it is not known when a decision will be released on this matter.

Prospects of Millstream Offer Being Declared Unconditional

In order for the Millstream Offer to be declared unconditional so that shareholders receive the offer price of $4.80 per share, Millstream must acquire a further 22.98% of Montana's issued capital in order to increase its voting interest above the critical 50% threshold.

Only approximately 8% of Montana's capital is in the hands of other investors (institutions and the public) who can accept the Millstream offer. Even if all these other shareholders were to accept, Millstream would still require acceptances in respect of a further 15% of Montana's capital. In the absence of an acceptance from Lion, Millstream requires acceptances in respect of approximately 15% of the 19% Penthouse shareholding. In reality, a greater level of acceptances in respect of the Penthouse shareholding may be necessary, on the basis that not all other shareholders will accept. For example, if only 50% of the other shareholders accept (ie. 4% out of the 8% available), then Millstream would require acceptances in respect of the entire 19% Penthouse shareholding.

We believe that prospective purchasers of the Penthouse shareholding (likely to be institutions or substantial professional investors) will evaluate the arbitrage opportunity that is presented, in terms of acquiring these shares for the purpose of on-selling them into the Millstream offer or a possible alternative offer by Lion. However, details of any future Lion offer will not be available prior to completion of the Penthouse divestment process.

On the other hand, a purchaser of all or part of the Penthouse shareholding exceeding approximately 4% will have an ability to effectively frustrate the Millstream offer.

In summary, the prospects of the Millstream offer being declared unconditional will depend on:

- whether Lion elects to accept the Millstream offer in respect of its own shares (ie. excluding the 19% Penthouse shareholding). This possibility, whilst apparently remote, cannot be discounted, as it would realise a substantial profit for Lion, and does not preclude Lion from making future strategic moves into the wine sector elsewhere;
- whether purchasers of the Penthouse shareholding accept in respect of at least 15% out of the total 19% interest available; and
- whether Montana's other shareholders accept to the extent of at least 4% out of the approximately 8% shareholding available.

It is not possible to present a more definitive analysis regarding these various factors, which are, by their very nature, subject to a number of uncertainties at the present time. It is possible that other factors will come into play, not least of which is the prospect of a fresh offer for Montana emerging from Lion, either before or after the closing date under the Millstream offer.

Prospects of a Competing Bid Emerging

Although the prospect of an alternative offer (apart from Lion's) for Montana arising cannot be entirely discounted, the takeover battle for Montana has been well publicised and there is already considerable information in the public domain and no other bidders for the Company have emerged. Moreover, as we believe that the Millstream offer fully values Montana, any alternative bid would need to be more attractive to Montana's shareholders to have any prospect of success.

On the other hand, Montana continues to have strong international appeal as a "new world" wine producer, and is well positioned for existing industry participants, that can complement Montana's brands by offering strong distribution channels. However, despite the synergistic opportunities that would ordinarily encourage bidder interest in Montana, we believe that given the current ownership situation, the contested bids for control of the Company and the procedural requirements under the Takeovers Code, the prospect of an alternative bidder other than Lion now emerging for Montana is unlikely.

Market Value of Montana Shares if Millstream Offer Lapses

In the event that the Millstream offer does not become unconditional and no other takeover offer for Montana emerges, this would leave Montana in a situation where no single party has outright control of the Company. Assuming the Penthouse shareholding has been divested, Lion would remain the single largest shareholder with approximately 44%, followed by Allied with approximately 27%. Approximately 29% of the Company's capital would be held by institutions and the public. Trading liquidity in the Company's shares may become limited as a consequence of the restricted spread of ownership.

In our view the value of Montana's shares should ultimately reflect its business fundamentals. However, in the short-term at least, the abatement of takeover activity could see Montana's share price subside from current levels, possibly to below $4.00 for a time.

However, we believe that Montana's share price should recover, on the basis that its medium to long-term earnings prospects are underpinned by its strong competitive position and international appeal and shareholders can expect an improving dividend yield. There will also continue to be an expectation that Montana's ultimate ownership situation will eventually be resolved, most probably via a full offer for the Company from either Allied or Lion (possibly as a consequence of some accommodation reached between these rival bidders).

How Should Montana Shareholders Respond to the Millstream Offer?

In our opinion the Millstream offer presents an attractive exit opportunity for Montana's shareholders, on the basis that the offer price exceeds our assessed "fair market value" for Montana's shares at the present time.

The key issue, however, is whether or not the Millstream offer is declared unconditional. If the offer does not become unconditional the offer will lapse.

Assuming Millstream's offer closes on 17 August 2001, under the Code it will have until 31 August to declare its offer unconditional. However, any fresh offer by another bidder such as Lion could not now be made with a closing date prior to 31 August, meaning that in any event a shareholder who accepts the Millstream offer would still be notified that the offer is not proceeding in time to accept an alternative offer.

In summary, we believe Montana's shareholders are best to defer any decision to accept the Millstream offer until much closer to the closing date, whilst being mindful that acceptances must be received by 5pm on Friday 17 August 2001 (assuming the closing date is not extended). By deferring their decision shareholders will have the greatest prospect of knowing whether or not an alternative offer is likely to be forthcoming, and may also have more information concerning Lion's divestment of the Penthouse shareholding, which will have a pivotal influence on whether the Millstream offer can become unconditional.

As at the date of this report we have evaluated all the information available to us. It is likely that further information will come to light after the date of this report which may be relevant to a shareholder's assessment as to whether they should accept the Millstream offer. The various uncertainties surrounding the Millstream offer, including the sell-down of the Penthouse shareholding by Lion, and the possibility of an alternative Code offer being initiated by Lion, are unlikely to be clarified until after 10 August at the earliest. Therefore, shareholders will need to continue monitoring the Montana ownership situation carefully during the intervening period following the date of this Report up until the closing date under the Millstream offer.

This section of our Report is a summary only, and should be read in conjunction with our full Report, as set out in the remaining sections of this document. Furthermore, this Report and the opinions expressed above must be read subject to the statements set out in Appendix 3.

3 *Montana Background*

3.1. Business Overview

Following its acquisition of Corbans Wines Limited ("Corbans") in November 2000, Montana Wines Limited ("Montana Wines") has consolidated its position as New Zealand's largest wine maker and distributor with an estimated domestic market share of approximately 57% (by volume). Montana Wines is also New Zealand's leading wine exporter, accounting for approximately 49% of all wine exports, with a strong presence and established brands in the United Kingdom, as well as key European, Australian, North American and Asian export markets.

Montana Wines is positioned as a niche producer of distinctive "new world" wines, most notably Sauvignon Blanc and increasingly Pinot Noir, with its brands occupying premium positions in both domestic and key overseas markets. Whilst the general outlook is for a world oversupply of wine, New Zealand accounts for less than 0.2% of global production, and less than 1% of total global wine exports. New Zealand's wines generally feature in the "premium" category and above, and their distinctive character means they occupy a niche that should be relatively well insulated from the global wine supply and demand dynamics that will undoubtedly impact major volume producers.

Montana Wines now owns or leases more than 2,900 hectares of viticultural land in the major wine producing regions of Marlborough, Hawke's Bay and Gisborne. Grapes from these vineyards are processed at the Company's modern wine-making facilities located in each of these regions. Montana Wines operates all its bottling, warehousing, distribution, marketing, and administration activities from its Tamaki facility located in Auckland.

To further leverage its domestic distribution infrastructure, Montana handles a selection of agencies for other leading New Zealand wine makers such as Babich Wines, Lawson's Dry Hills, Wither Hills, Waiheke Vineyards and C J Pask. Montana also distributes several overseas wine agency products such as Frescobaldi, Deutz, Cordier, Schlumberger, Delas, Tatachilla, and also Evian mineral water.

The purchase of New Zealand's second largest wine producer, Corbans, provided a unique opportunity to acquire the only other domestic wine producer that operated on a scale both domestically and internationally that was similar (albeit somewhat smaller) than Montana. In many respects the operations of Corbans paralleled those of Montana, thereby offering significant opportunities to rationalise the two businesses into a single operation with even greater economies of scale. The Corbans acquisition increased the scale of Montana Wines to a point where it is virtually impossible for any New Zealand-based competitor to match its range of brands, production capability, domestic market position, and export penetration.

Montana's acquisition of Corbans is the most significant event in the Company's recent history. Although Montana only completed its acquisition of Corbans in mid-November 2000, management of Montana Wines have now completed the process of integrating Corbans' operations into Montana Wines. Substantial and wide-ranging opportunities for extracting cost-savings and deriving synergy gains were identified during the acquisition process and plans have been implemented to realise these benefits, which will be reflected in operating and financial results for the current year and beyond.

Because of the relatively recent timing of the Corbans acquisition, less than nine months ago, Montana Wines' management are still in the process of fully evaluating the financial consequences of the integration, particularly in terms of the longer term effect on overall financial performance for the fully integrated business.

3.2. Chronology of Recent Events

1 October 2000	Montana assumed effective economic ownership of Corbans.
13 November 2000	Montana took management control of Corbans following settlement of its purchase on 10 November 2000.
24 November 2000	Lion issued a Restricted Transfer Notice ("RTN") advising its intention to acquire up to a further 48,801,700 shares in Montana, comprising approximately 22.73% of Montana's issued capital, at prices of between \$3.20 and \$3.80 per share. Lion already held 28.27% of Montana's capital, including 19.9% acquired in May 2000.
4 December 2000	Masfen Holdings issued an RTN advising its intention to acquire up to a further 66,614,157 shares in Montana, comprising approximately 31.0% of Montana's issued capital, also at prices of between \$3.20 and \$3.80 per share. Masfen Holdings already held 19.95% of Montana's capital.
10 December 2000	In response to the Lion and Masfen Holdings' RTNs the Independent Directors of Montana released an independent appraisal report by PricewaterhouseCoopers which concluded that the fair market value of shares in Montana was between \$4.16 and \$4.64 ("the December Report").
7 February 2001	Allied, via Millstream, filed an RTN, indicating its intention to offer \$4.40 per share to all shareholders, conditional upon the purchase of 50.01% of Montana's share capital.
8 February 2001	Lion responded to Allied's announcement by offering to purchase Montana shares at prices between \$4.65 and \$4.80 per share. Lion obtained a waiver from the NZSE to bypass the normal two day notice and pause period.
9 February 2001	Lion acquired 39 million shares on market at \$4.65 per share, increasing its holding in Montana from 28.27% to 46.45%.
13 February 2001	Lion announced that it had acquired a further 9.8 million shares at \$4.65, increasing its shareholding in Montana to 51.00%.

26 February 2001	The Market Surveillance Panel appointed a Standing Committee pursuant to LR 4.7.8, to issue Rulings on certain matters relating to the purchases by Lion in February 2001.
20 April 2001	Allied issued a further RTN indicating its intention to acquire up to 100% of Montana's share capital, at prices of between $4.16 and $4.64 per share, conditional on obtaining a 50.01% shareholding in Montana.
24 April 2001	Lion issued a further RTN offering to acquire up to 100% of Montana at prices of between $3.95 and $4.70 per share.
7 May 2001	In response to Lion's RTN dated 24 April 2001 the Independent Directors of Montana released a second independent appraisal report by PricewaterhouseCoopers which concluded that the fair market value of shares in Montana was between $4.24 and $4.72 ("the May Report").
11 May 2001	Allied announced that Millstream had acquired a further 21.4 million shares at an average price of $4.64, increasing its shareholding in Montana to 10.00%. This included 7.2 million shares purchased from Masfen Holdings, at $4.80 per share, and 0.65 million shares purchased from Masfen Holdings at $4.55 per share.
14 May 2001	Lion announced it had acquired a further 2.3 million shares at $4.59, increasing its shareholding in Montana to 52.07%.
15 May 2001	Lion amended its bid price range in its RTN to between $4.65 and $5.05 per share.
17 May 2001	Lion announced that it had acquired a further 21.3 million shares at $5.04, increasing its shareholding in Montana to 61.99%.
17 May 2001	Allied increased its maximum offer price to $5.05 per share.
25 May 2001	Allied announced that Millstream had acquired a further 36 million shares at $4.80, increasing its shareholding in Montana to 26.77%. This included a further 34.9 million shares purchased from Masfen Holdings.
25 May 2001	Lion announced that it had acquired a further 0.6 million shares at $4.81, increasing its shareholding in Montana to 62.28%.
5 June 2001	The Standing Committee released its decision that Lion was a "defaulter" under the NZSE Listing Rules, by virtue of its purchases on 8 and 9 February 2001.
15 June 2001	The Standing Committee announced its investigation into complaints that have been made by Lion regarding certain purchases of shares by Millstream.
29 June 2001	Allied, through Millstream, announced an irrevocable promise to purchase up to 50,081,000 shares in Montana, before 16 August 2001, at $4.80 per share.
29 June 2001	The Standing Committee determined that all of Lion's securities in Montana constitute "defaulters securities", and Lion was ordered to divest part of its shareholding that represents 19% of the shares in Montana, to a party or parties independent of Lion, within one month.

29 June 2001	Allied announced that Millstream had acquired a further 0.6 million shares at $4.80, increasing its shareholding in Montana to 27.03%.
30 June 2001	Lion announced it had acquired a further 1.2 million shares at $4.95, increasing its shareholding in Montana to 62.84%.
1 July 2001	Lion issued a Partial Takeover Notice pursuant to the Takeovers Code offering to acquire 11% of Montana at $5.50 per share.
1 July 2001	The Takeovers Panel announced that Millstream's 29 June 2001 "irrevocable promise" may not be compliant with the Code, and as such required Millstream to comply with the Code and temporarily stand down from trading.
4 July 2001	Allied issued the Millstream Takeover Notice, offering to acquire 100% of Montana at $4.80 per share, leading to the commissioning of this independent report.
5 July 2001	Millstream alleged that the Lion Takeover Notice was in breach of the Standing Committee decision that required Lion to divest shares equal to 19% of the share capital of Montana.
6 July 2001	The Takeovers Panel extended the 1 July 2001 temporary restraint on Millstream, restraining Millstream from acquiring shares in Montana for 21 days from 6 July until 27 July 2001.
11 July 2001	The Takeovers Panel issued a temporary order restraining Lion from acquiring shares in Montana. The Panel decided that, in making public statements linking the $5.50 partial offer with the proposed $3.70 subsequent offer for remaining shares in Montana, Lion may not be acting in compliance with the Code.
16 July 2001	The Standing Committee decided that the Lion partial offer breached the original Standing Committee decision and therefore the Listing Rules. The Market Surveillance Panel extended Lion's sell-down period for the 19% shareholding by a period equivalent to the period between the date of the hearing on 12 July 2001 and the date when the Standing Committee gives its reasons.
17 July 2001	The Takeovers Panel decided that the Lion offer breached the Code, and barred Lion from buying any more shares in Montana for 21 days from 16 July, until 6 August 2001.
19 July 2001	The Standing Committee held a meeting to consider complaints that have been made by Lion regarding certain purchases of shares by Millstream.. It was decided to hold a full hearing on Saturday 18 August.
20 July 2001	Millstream dispatched its full takeover offer to Montana shareholders.
24 July 2001	Lion announced that given the decision of the Takeover Panel on 17 July 2001, it will not be proceeding with the Lion Takeover Notice.
25 July 2001	The Standing Committee issued its reasons for the 16 July 2001 finding that Lion was in breach of the 29 June 2001 Standing Committee decision. This release meant Lion then had an additional 13 days to divest its defaulter securities, extending the deadline to 10 August 2001.

3.3. Ownership

Montana's ownership as at 27 April 2001, being the date of the Lion RTN that was the subject of the May Report, and as at 16 July 2001, being the Record Date for the Millstream Offer, is summarised as follows:

	As at 27 April 2001		As at 16 July 2001	
	Number of Shares	%	Number of Shares	%
Lion Nathan Enterprises Limited	109,476,856	51.00	94,104,620	43.84
Masfen Holdings Limited(1)	42,823,496	19.95	73,498	0.03
Penthouse Nominees Limited(2)	-	-	40,785,501	19.00
Millstream Equities Limited	56,956	0.03	58,017,717	27.03
Other "Top 20" Shareholders	23,338,330	10.87	9,734,130	4.53
Total "Top 20" Shareholders	175,695,638	81.85	202,715,466	94.43
Balance (approximately 5,100 shareholders) (8,000 at 27 April 2001)	38,964,890	18.15	11,945,062	5.57
TOTAL	**214,660,528**	**100.00**	**214,660,528**	**100.00**

Source: Montana.

(1) Masfen Holdings Limited is no longer in the Top 20, however is included in the above table for comparison.
(2) Penthouse Nominees Limited's holding represents the 19% shareholding that Lion must divest under the 29 June 2001 Standing Committee decision.

Since 27 April 2001 Millstream has acquired a further approximately 58 million shares in Montana, at a volume weighted average price of $4.74 per share, increasing its holding from 0.03% to 27.03%.

Montana's Executive Chairman, Peter Masfen, sold the majority of his 19.95% interest in the Company to Millstream in three parcels; 0.65 million shares on 11 May 2001 at $4.55 per share, 7.2 million shares on 15 May 2001 at $4.80 per share, and 34.9 million shares on 25 May 2001 at $4.80 per share. At 16 July 2001, its holding represented only 0.03% of Montana's issued share capital.

Since 27 April 2001, Lion Nathan Enterprises Limited ("Lion") has acquired a further 25.4 million shares in Montana, at a volume weighted average price of $4.99 per share, increasing its holding from 51% to 62.84%. However, under the Standing Committee Ruling, Lion is required to divest 40,785,501 shares, representing 19% of Montana's issued share capital. Once this has been completed, Lion's holding will reduce to 43.84%.

The distribution of Montana's shareholder base as at 16 July 2001 and a listing of the top 20 shareholders are summarised in the tables below:

Number of Shares Held	As at 16 July 2001		
	Number of Shareholders	% of Shareholders	% of Total Capital
1 – 99	402	7.85	0.01
100-999	2,011	39.26	0.38
1,000-4,999	2,120	41.38	1.98
5,000-9,999	352	6.87	1.04
10,000-49,999	206	4.02	1.72
50,000-99,999	13	0.25	0.56
100,000 and above	19	0.37	94.31
TOTAL	**5,123**	**100.00**	**100.00**

Source: Montana.

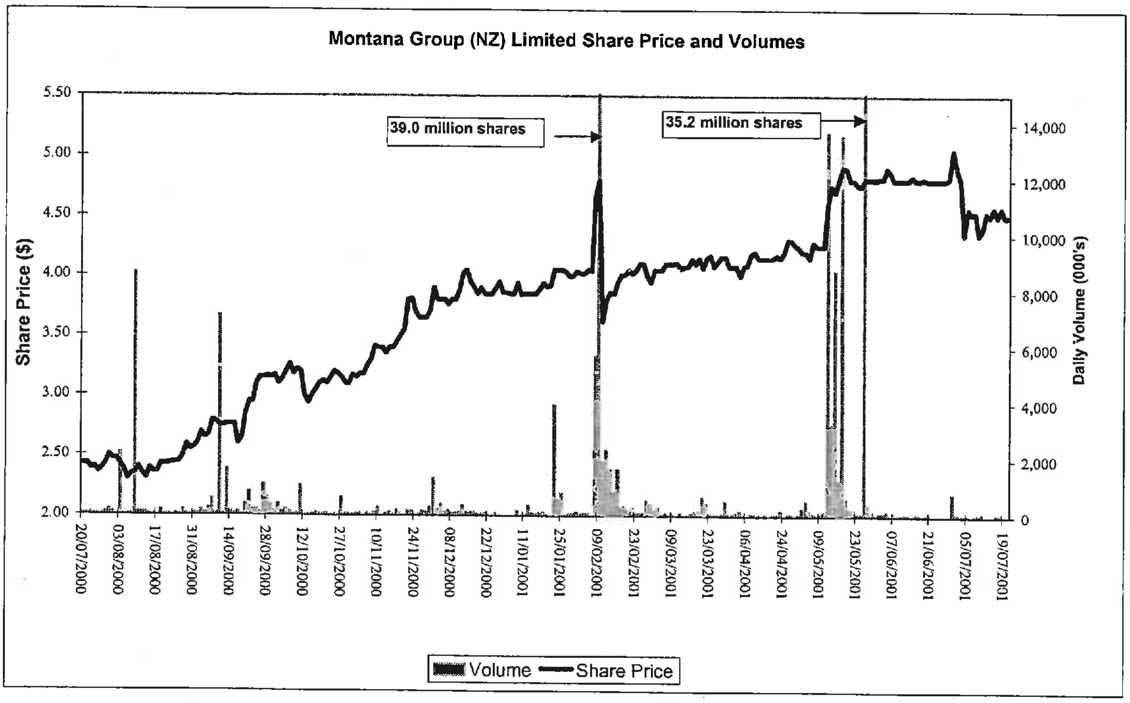
	As at 16 July 2001	
	Number of Shares	%
Lion Nathan Enterprises Limited	94,104,620	43.84
Millstream Equities Limited	58,017,717	27.03
Penthouse Nominees	40,785,501	19.00
National Nominees	2,366,283	1.10
AMP Superannuation Tracker Fund	2,086,004	0.97
Citibank Nominees	1,276,909	0.59
BNZ Nominees	992,432	0.46
Credit Suisse First Boston Custodians	461,890	0.22
Tea Custodians NZ MidCap Index Fund	443,426	0.21
Tracker Nominees – AMP Investments	429,503	0.20
Westpac Banking Corporation	278,191	0.13
Tea Custodians No 2 Account	218,745	0.10
Public Nominees Ltd – NZ Equity Index Trust	210,500	0.10
Courtenay Nominees Limited	209,574	0.10
Stanley Verdun Green	182,095	0.08
NZ Permanent Trustees	169,504	0.08
B K & D A Otto	125,000	0.06
M W D & E B & M M Benjamin	100,000	0.05
D J Stevenson	99,710	0.05
The New Zealand Guardian Trust Company	84,364	0.04
Total "Top 20" Shareholders	202,641,968	94.40
Balance (approximately 5,100 shareholders) (8,000 at 27 April 2001)	12,018,560	5.60
TOTAL	**214,660,528**	**100.00**

Source: Montana.

We note that approximately 2% of Montana's capital is held by passive (ie. index tracking) funds which may not be able to sell their holdings until a compulsory acquisition notice is issued, once an acquirer has attained a shareholding exceeding 90%. In addition, approximately 0.04% of the Company's shares are owned by parties that can not be contacted.

3.4. Share Price/Trading Volume

Montana's share price and trading volumes over the 12 months prior to 20 July 2001 are depicted in the following graph:



Source: Bloomberg.

Since 20 July 2000 the Company's share price has fluctuated between a high of $5.08 on 2 July 2001, and a low of $2.30 on 7 August 2000. The volume weighted average price ("VWAP") of Montana's shares over this twelve month period was $4.27, and over the 20 trading days prior to 20 July 2001 was $4.83.

Trading in Montana shares over this period has been dominated by the Millstream and Lion share purchases. Between our 7 May Report and 20 July 2001 80,501,344 shares have traded at a VWAP of $4.79.

3.5. Year-to-Date ("YTD") Results

A summary of Montana's financial performance for the six months to 31 December 2000 and the 12 months to 30 June 2001 is set out below:

Montana Financial Performance Year to Date	6 mths to 31 Dec 00 Actual $M	6 mths to 31 Dec 99 Actual $M	Increase/ (Decrease) $M	12 mths to 30 June 01 Actual $M	12 mths to 30 June 00 Actual $M	Increase/ (Decrease) $M
Volumes (litres 000s)						
Domestic	19,217	13,405	5,812	34,947	24,076	10,871
Export	3,658	3,604	54	7,429	7,197	232
Total Volume	**22,875**	**17,009**	**5,866**	**42,376**	**31,273**	**11,103**
Revenue						
Domestic	97.6	69.4	28.2	170.6	119.0	51.6
Export	33.8	29.5	4.3	65.1	61.6	3.5
Total Revenue	**131.4**	**98.9**	**32.5**	**235.7**	**180.6**	**55.1**
Gross Profit	**55.6**	**44.0**	**11.6**	**97.1**	**83.2**	**13.9**
Gross Margin	*42.3%*	*44.5%*		*41.2%*	*46.1%*	
EBITDA	**37.0**	**31.2**	**5.8**	**62.3**	**53.3**	**9.0**
Depreciation	(2.8)	(2.9)	0.1	(7.1)	(4.5)	(2.6)
Goodwill Amortisation	(0.2)	-	(0.2)	(1.1)	-	(1.1)
Operating EBIT	**34.0**	**28.3**	**5.7**	**54.1**	**48.8**	**5.3**
Operating EBIT Margin	*25.9%*	*28.6%*		*23.0%*	*27.0%*	
Corporate Expenses and Other Revenue	(0.8)	(1.1)	0.3	(1.7)	(2.0)	0.3
EBIT	**33.2**	**27.2**	**6.0**	**52.4**	**46.8**	**5.6**

Source: *Montana. All figures except 30 June 2000 unaudited.*
Note: *Excludes discontinued businesses.*

In the twelve months to 30 June 2001, Montana Wines (including nine months contribution from Corbans) reported a $5.6M increase in EBIT from $46.8M to $52.4M. However, the Operating EBIT margin fell from 27.0% to 23.0%. The decline in Operating EBIT margin reflects the relatively lower margins achieved by Corbans' products and the Corbans product mix.

Montana has now largely completed rationalisation of the Corbans' brand portfolio and trade terms, and management are confident that the Operating EBIT margin will return to historical levels, and further improve as the merger benefits flow through in full throughout the coming months, and Corbans' stock to be discontinued is sold. Whilst Montana has had effective economic ownership of Corbans from 1 October 2000, it only took management control from 13 November 2000, and has therefore had only a limited period to implement changes and see the consequential financial benefits emerge.

3.6. Summary of Financial Position

A summary of Montana's financial position is as follows:

Montana **Statement of Financial Position**	**30 June 2000 $000**	**31 March 2001 $000**	**30 June 2001 $000**
Current Assets			
Cash at Bank	57	-	333
Receivables	38,093	44,196	45,372
Inventories	101,214	145,689	148,629
Other Current Assets	7,402	10,199	10,324
Total Current Assets	146,766	200,084	204,658
Current Liabilities			
Bank Overdraft	4,001	-	6,409
Trade Accounts Payable	15,886	23,801	12,338
Other Current Liabilities	21,526	33,743	33,191
Total Current Liabilities	41,413	57,544	51,938
Working Capital	**105,353**	**142,540**	**152,720**
Current Ratio	*354%*	*348%*	*394%*
Non Current Assets			
Fixed Assets	207,667	334,000	338,243
Investments	2,477	803	863
Brands	67,359	67,359	67,359
Goodwill	-	27,704	27,348
Future Tax Benefit	2,452	3,527	4,067
Total Non-Current Assets	279,955	433,393	437,880
Non-Current Liabilities			
Term Borrowings	107,250	163,310	172,440
Net Assets	**278,058**	**412,623**	**418,160**
Capital Funds			
Share Capital	203,562	203,562	203,562
Reserves	74,496	84,061	89,598
Shareholders' Funds	**278,058**	**287,623**	**293,160**
Capital Notes	-	125,000	125,000
Total Capital Funds	**278,058**	**412,623**	**418,160**
Debt to Shareholders' Funds(2)	40.0%	100.2%	103.6%
Debt to Total Assets	26.1%	45.5%	47.3%
Net Tangible Assets per Share ($)(1)	0.98	0.90	0.92

Source: *Annual Report for 30 June 2000 and unaudited management accounts at 31 March 2001 and 30 June 2001.*
Note: 1. *Adjusted for 1 for 2 share consolidation in September 2000.*
2. *Capital notes have been treated as term debt for the purpose of our valuation analysis although for financial reporting purposes they are included within Capital Funds.*

3.7. Dividends

On 19 February 2001, Montana announced its interim result for the six months ended 31 December 2000 and a fully imputed interim dividend of 5 cents per share amounting to a payment of $10.7M was declared. This compares to an interim dividend of 3.5 cents for the previous corresponding period and reflects the Company's policy of distributing approximately 55% of tax paid profits to shareholders.

As at the date of this report, no further dividends have been declared.

3.8. Intangibles and Brands

The brand value recorded in Montana's financial statements ($67.4M), represents the value attributed to Montana's brands by Interbrand Group Plc ("Interbrand"), who conducted a brand valuation in June 1995. In 1997, Montana's brands were re-valued by Interbrand at $91.4M, although the book value was not increased. The book value of these brands has not been amortised.

The purchase of Corbans resulted in approximately $28.4M of goodwill being recognised, and after amortising $1.1M of goodwill YTD, this leaves a balance of $27.3M as at 30 June 2001. Goodwill is being amortised over a 20 year period.

3.9. Borrowings

At 30 June 2001, Montana had bank borrowings of $178.8M, at a current average cost of approximately 6.4%. In addition Montana has $125M of Capital Notes on issue. The current coupon rate paid on the Capital Notes is 9.3%.

For the purposes of our valuation of the shares in Montana, we have deducted debt of $303.8M from Montana's assessed Enterprise Value, made up as follows:

	\$'000
Bank borrowings and overdraft	178,849
Capital Notes	125,000
Total	**303,849**

3.10. Forecast Performance

Set out in the table below is a summary of Montana's five year forecast of financial performance, which incorporates the impact of the Corbans acquisition.

Montana Statement of Financial Performance For the year ended 30 September	**2000(1) Actual $M**	**2001(2) Forecast $M**	**2002 Forecast $M**	**2003 Forecast $M**	**2004 Forecast $M**	**2005 Forecast $M**
Volumes (litres 000s)						
Domestic	24,076	39,816	40,229	39,680	39,577	39,532
Export	7,197	8,888	12,669	17,191	21,875	24,119
Total Volume	**31,273**	**48,704**	**52,898**	**56,871**	**61,452**	**63,651**
Volume Growth	*2.4%*	*55.7%*	*8.6%*	*7.5%*	*8.1%*	*3.6%*
Revenue						
Domestic	119.0	194.3	210.3	216.1	221.9	222.9
Export	61.6	77.7	113.5	154.8	195.3	215.9
Total Revenue	**180.6**	**272.0**	**323.8**	**370.9**	**417.2**	**438.8**
Revenue Growth	*14.7%*	*50.6%*	*19.0%*	*14.5%*	*12.5%*	*5.2%*
Gross Profit	**83.2**	**111.4**	**149.5**	**174.0**	**199.4**	**211.5**
Gross Margin	*46.1%*	*41.0%*	*46.2%*	*46.9%*	*47.8%*	*48.2%*
EBITDA	**53.3**	**80.3**	**110.7**	**135.2**	**159.6**	**170.6**
Depreciation	(4.5)	(10.3)	(12.3)	(14.2)	(14.8)	(15.2)
Goodwill Amortisation	-	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Operating EBIT	**48.8**	**68.6**	**97.0**	**119.6**	**143.4**	**154.0**
EBIT Margin	*27.0%*	*25.2%*	*30.0%*	*32.2%*	*34.4%*	*35.1%*
Corporate Expenses	(2.0)	(3.4)	(1.5)	(1.5)	(1.5)	(1.5)
EBIT	**46.8**	**65.2**	**95.5**	**118.1**	**141.9**	**152.5**
EBIT Growth	*26.4%*	*39.3%*	*46.5%*	*23.7%*	*20.2%*	*7.5%*
Interest – Bank Borrowings	(7.5)	(11.7)	(16.1)	(16.8)	(16.6)	(14.8)
Interest – Capital Notes	-	(9.9)	(11.6)	(11.6)	(11.6)	(11.6)
Net Surplus Before Taxation	**39.3**	**43.6**	**67.8**	**89.7**	**113.7**	**126.1**
Tax	(12.6)	(10.3)	(22.3)	(29.4)	(37.1)	(41.0)
Net Surplus After Taxation	**26.7**	**33.3**	**45.5**	**60.3**	**76.6**	**85.1**
Earnings per Share (cents)	12.4	15.5	21.2	28.1	35.7	39.6

Source: *Montana Wines' management forecasts.*
Note: 1. *2000 figures do not include Corbans and are based on Montana's result to 30 June 2000.*
2. *Montana's balance date has been changed to 30 September and the Company will report its results for a 15 month period to 30 September 2001, however, the figures in the table are for the 12 months to 30 September 2001, being the period when Montana has owned and integrated Corbans.*

Key Changes to Montana's 2001 Earnings Estimates

The current year for Montana Wines has been amended from budget to incorporate the "latest current estimate" ("LCE") prepared recently by management for the 2001 year. The key changes relative to the budget we reviewed in May 2001 are highlighted below:

- Export sales volumes have exceeded the previous estimate for the 12 month period by 255,000 litres. However, due to a greater proportion of lower margin product sales, the export gross margin has reduced slightly from $29.5M to $29.3M.
- Domestic sales volumes have fallen short of budget by 1,843,000 litres (5%), as a result of:
  - customer de-stocking in May and June. Some of Montana's key domestic customers have actively been reducing their number of days stock on hand, which has had a temporary adverse impact on Montana's sales; and
  - "out of stocks" in some lines, which have arisen because of the delayed release of the 2001 vintage which required further maturation.
- Domestic margins and revenue have also been negatively impacted by sales of a greater proportion of lower margin product.
- Partially offsetting the above trading performance factors, some previously unanticipated savings and surplus asset realisations are now expected in the 2001 year, including:
  - the sale of surplus Corbans nursery equipment and vine plants; and
  - savings from a reduced level of advertising and sponsorship activity in the remaining months of the 2001 year.
- The above factors are expected to reduce the overall impact on Montana's Operating EBIT to a net $2.5M reduction, from $71.1M as per the March 2001 LCE to $68.6M as per the latest LCE update.
- Corporate expenses have not changed from the May Report. This is because additional costs incurred in relation to the inquiry into Lion's share purchases and the protracted takeover activity have been, or are expected to be, recovered. There is also a prospect that rulings will be made by the Standing Committee that will enable Montana to recover further costs.

The above points summarise the short term earnings effects, apparent in the 2001 year, arising from a number of predominantly residual non-recurring issues. Montana Wines' Management are confident that these issues will be resolved during the period, and will not affect the expected sales, margins and earnings in subsequent periods. In particular, Montana's current year performance in the UK market has been affected by certain difficulties surrounding distribution of Corbans' product, combined with an inability to meet market demand for certain products. Montana is now holding orders for the UK market that provide management with a high degree of confidence over the forward sales projections for this market.

Basis Of Earnings Forecast Compilation

The forecasts summarised above were compiled by Montana Wines' management using Montana Wines' five year plan as a base. Management have updated the 2001 forecast to incorporate the LCE projection. In addition, management reviewed the overall cost structure for the combined business and have prepared detailed estimates of the likely savings and synergy gains that result from the Corbans acquisition. Appendix 2 contains a summary of the principal assumptions upon which Montana's management forecasts have been based.

Management are currently preparing detailed budgets for the 2002 year, and are undertaking a comprehensive planning exercise to update their five year projections as part of the general planning cycle for the 2002 year and beyond. This exercise was still "in progress" at the date of this Report.

We have discussed the forecasts, key assumptions, potential risks and growth opportunities with management and the Independent Directors. We focused our inquiries on changes to Montana Wines' position and trading outlook which have emerged since our review in May 2001. In the absence of updated forecasts and after discussion with management, we have accepted these forecasts, whilst possibly outdated, as being the "best available estimates" of the likely future results for Montana's business.

We note that the forecasts referred to do not include various new initiatives that are likely to have a positive earnings effect for Montana (such as additional land purchases). Management therefore advise that these forecasts reflect the minimum achievable targets for Montana in terms of future financial performance over the forecast period.

3.11. Current Issues Affecting Montana

Corbans' Integration

The integration of Corbans into Montana was largely completed by early this year. The two brand portfolios have been aligned and rationalised and all Corbans' products are now being sold on the same trade terms as for Montana products. Corbans' bottling line has been transferred to Montana's Tamaki bottling hall. Corbans' former office premises at Ti Rakau Drive are being used to temporarily accommodate the northern region sales force. Space in the Ti Rakau premises is also being used to partially meet Montana's warehousing requirements, whilst other space is presently being reconfigured. The Company has negotiated a long term lease for the warehouse and a substantial part of the office space, and it is intended that the property will be sold.

The entire former Corbans' head office, accounting system, marketing, distribution and warehousing functions have been disestablished. These functions are now fully integrated into Montana's existing systems and facilities, based at Montana's Tamaki site. Redundancies arising as a consequence of the closure of these Corbans' functions have occurred.

Management have advised us that the integration process has proceeded smoothly and the total integration costs are now expected to be similar to the initial restructuring provision of $10.5M. The projected synergy benefits have been realised in line with original expectations.

Initially, Corbans' Stoneleigh winery in Marlborough was expected to be sold intact; however, it was decided instead to transfer the wine making equipment and tanks to Montana's nearby Brancott Estate winery. This will reduce the expected asset sale proceeds for this property in 2002 by approximately $5.5M, but capital expenditure for wineries will also reduce by a similar amount.

2001 Vintage

Montana has completed its harvesting of the 2001 vintage. There has been a significant shortfall in the North Island vintage from Montana's own vineyards in Hawke's Bay and Gisborne, in the order of 50%. Contract growers in these North Island regions, who provide significant grape volumes to Montana, have also suffered a reduced harvest, with their shortfall being close to 50%. Montana's own vineyards in the Hawke's Bay and Gisborne regions have yielded approximately 5,000 tonnes less than anticipated, whilst the yield from contract growers was down approximately 10,000 tonnes.

The overall effect of the reduced 2001 vintage for Montana will be less marked than the outright harvest outcome might otherwise suggest, in part because the majority of Montana's own vineyards are in Marlborough, rather than in the North Island, and therefore the Company was less exposed to the poor 2001 vintage. The Marlborough vintage exceeded 13,000 tonnes, which was broadly in line with original expectations.

Montana Wines' management have assessed the effect of the vintage shortfall across the various North Island products. With few exceptions (notably in the "ultra-premium" category), management are confident that the Company will have sufficient supply to meet projected sales over the next two-three years when product from the 2001 vintage would normally be sold. To achieve this, Montana is able to draw upon stock already held, whilst also releasing future vintages earlier than might have otherwise occurred.

This is a core feature of Montana's business whereby both good and bad vintages will inevitably occur, which directly influence the amount of wine that goes into inventory in any given year. However, as Montana's projections are based on an assumption of average (ie. normalised) harvest levels over time, meaning that the forecasts include both the excellent and poor vintages that will occur, taken together with Montana's trend-line of increasing plantings and harvest levels, it is reasonable to expect that "bumper" harvests in future periods should compensate for the 2001 vintage shortfall.

Montana is able to employ a number of other strategies to mitigate the effect of the harvest shortfall. There are limited opportunities to use South Island grape resource in substitution, although nonetheless Montana will suffer an overall shortage in respect of some of its premium North Island varieties. Montana will be able to make some compensating adjustments amongst its own brands, in terms of substituting imported wine to optimise returns. The effect of the poor vintage will also be partially off-set by greater reliance on agency brands which will in part replace margin that might otherwise be lost in respect of Montana's own product. Montana expects to be able to mitigate the harvest shortfall from its contract growers by securing alternative supply through imports, at competitive prices.

As was the case in the May Report, at this stage management are not in a position to accurately assess the full financial consequences arising from the poor 2001 vintage. In any event, effects would not generally be felt until the 2002 and subsequent years, when the 2001 vintage would typically be sold. However, there is no direct correlation between the 2001 vintage shortfall and the sales and earnings in subsequent years, due to a number of factors.

In the short term, the poor vintage may in fact have a positive cash flow effect, as Montana draws down inventory to maintain supply, and also has a reduction in payments to growers. Off-setting this will be some additional payments required in respect of imported wine. Montana's cash operating costs in respect of its vineyards and wineries will be largely unaffected by the reduced 2001 harvest. Most direct vineyard costs have already been incurred, and there is only a marginal effect on variable vineyard and winery costs.

In summary, it is quite possible that the poor 2001 vintage will have no net effect on sales, earnings and cash flow, although at this early stage following the harvest, it is difficult for management to be precise, given the complex dynamics of the business. After discussions with management, for the purposes of our valuation we have made an adjustment to earnings and cash flow over the 2002 and 2003 years of $3M in total. The forecasts for these years, as prepared by management and set-out in Section 3.10, do not contain this adjustment.

As a further side-effect of the reduced 2001 vintage, Montana will defer a small amount of capital expenditure, estimated at approximately $1-$2M.

United Kingdom Market

The UK market has traditionally been Montana's strongest export market, and the Company has achieved notable successes in terms of its market penetration. Management are confident that this will continue. Montana currently supplies the UK market through a combination of direct supply to major customers (eg. leading supermarkets), together with a two-tiered distribution arrangement, whereby Montana manages key accounts directly, with its UK distributor holding inventory and arranging dispatch, and the balance of its UK trade accounts are handled entirely by its UK distributor as a full service wholesaler.

Montana has a long standing UK distribution agreement with Seagram & Co. Ltd ("Seagram"), a subsidiary of Vivendi Universal SA. Seagram's wine and spirits distribution business has been conditionally sold to Diageo Plc and Pernod Ricard SA. Management do not consider this sale will have a significant impact on the UK distribution channel as Montana currently directly manages seven key accounts and has plans to take over management of a further 20 key customers. These 27 key accounts, together with Montana's major trade accounts that are supplied directly from New Zealand, will represent over 90% of Montana's UK business.

Nonetheless, with the imminent sale of Seagram, Montana's management have reviewed their options for future UK distribution. Heads of Agreement have recently been signed with Waverley Vintners, a subsidiary of Scottish & Newcastle plc, to handle the UK distribution function. The Seagram distribution agreement will be terminated on 31 August 2001.

Montana's Lindauer sales to the UK have been adversely affected by overstocking in the sparkling wine sector. Millennium sales of sparkling wines were lower than projected and consequently the trade has been de-stocking, resulting in lower sales and margins. There is now evidence that sales of Lindauer are recovering.

In summary, Montana (including Corbans) has experienced some sales difficulties in the UK market during the current year which appear to be largely short term. The situation has been compounded by the change in Seagram's ownership and the uncertain ownership of Montana. However, Montana's acquisition of Corbans provides it with critical mass so that it is now much better placed to provide continuous year-round supply to meet the large volume requirements from key UK customers.

United States

The US market has continued to perform in line with expectations, with the net sales and contribution per litre amongst the highest of Montana's export markets, reflecting the fact that only premium product is supplied to the US. However, the continued uncertainty over Montana's future ownership is not assisting the Company's initiatives in the US market.

Australia

Australia represents approximately 13% of Montana's export market by volume. Australian sales ex-warehouse are up 35% on last year but this has not been reflected in YTD profits, which are based on shipments to Australia.

Under previous contract warehousing arrangements in Australia, excess inventory levels had to be removed prior to Montana establishing a new distribution arrangement to improve its control over the market and product requirements. The destocking exercise had a once-off impact on 2001 earnings of $2M, but leaves Montana better positioned to market and sell its products in Australia in future.

Montana is also looking at other initiatives in Australia, including the possibility of handling other agency lines to complement its existing product range and better leverage its distribution and sales infrastructure in that market.

Domestic Market

As expected, the domestic market fluctuates from month-to-month, with a pronounced seasonal impact over the Christmas period. The overall trend shows volumes are below expectations. This has resulted from a lack of product, particularly over the last two months, and destocking by key domestic customers. These effects are mainly of a short term nature, and have been incorporated in the LCE and are reflected in the reduced earnings' projection for the 2001 year.

Montana has completed the process of reviewing its options concerning the future of Corbans' brands, and believes there is considerable opportunity to enhance the value within certain Corbans' brands. The rationalisation of brands, realignment of pricing and centralisation of production facilities mean that future margins on former Corbans' product will equate to the margins generated on equivalent Montana product. The latest indication in terms of product costing indicates that the combined production level is in fact generating lower production costs (ie. greater synergy benefits) than was originally expected.

The overall outlook for the domestic market has not changed materially from the situation which existed when the May Report was written. Montana is now operating in the domestic market as a single supplier, albeit with an enlarged portfolio of brands. The post-Corbans acquisition restructuring has been completed, the brands and product lines rationalised, and prices aligned. Management are committed to achieving domestic LCE targets for the three months to 30 September 2001.

3.12. Longer Term Outlook and Issues

Land Purchases and New Plantings

In addition to its existing undeveloped land holdings, which will be progressively planted over approximately the next three years, Montana plans to continue acquiring strategically located land suitable for viticulture and expects to plant not less than 450 acres per year in new vineyards.

Montana enjoys a considerable cost advantage relative to other New Zealand producers, and is therefore better positioned to acquire land and undertake new vineyard development whilst still obtaining a positive economic return. Management's hurdle rate for such projects indicates that they should generate incremental value for the Company.

Other competitors and possibly new participants may seek to enter the market and compete with Montana to acquire land and undertake vineyard development, which would therefore be expected to drive up costs and reduce returns. However, we concur with management that Montana remains well placed to compete under this scenario, although the prospect of competition, particular in the medium to long term, cannot be entirely discounted.

The financial forecasts upon which our valuation is based include only the completion of vineyard development in respect of existing land holdings, and do not take into account the purchase and development of new land holdings and the associated revenues. In this regard, the forecasts can be considered to be conservative, with a consequent effect on our valuation assessment. However, we believe that inclusion of a 1% real growth rate beyond the end of the forecast period under our "high-value" scenario provides a reasonable proxy for measuring the effect of additional land acquisitions and new plantings in terms of the overall effect on Montana's value.

Global Supply and Demand Outlook

Heavy planting in the 1980s and 1990s has created a global excess of supply over demand of between 4,600 million litres and 6,400 million litres per annum. However, New Zealand's total domestic production for the year ended 30 June 2000 was estimated by the Wine Institute of New Zealand at 60.1 million litres, or less than 0.2% of world production.

Whilst global wine consumption is expected to grow at approximately 1% per annum, consumption of premium wine is expected to grow at 8% to 10 % per annum. Much of the growth in demand will be for the New World producers (principally United States, Chile, South Africa, Australia and New Zealand) which have a growing reputation for producing consistent quality wines which are sold at relatively attractive prices. Montana's exports are positioned towards the upper end of the premium segment of the market, which is likely to be the best position in terms of brand value.

Further, New World producers have a cost advantage over Old World producers as their business models are typically more modern and they are not encumbered by history and tradition. New World wineries generally have more efficient infrastructure and the structure of the markets in which they operate facilitate more effective outsourcing of capital intensive activities such as grape growing. Land prices in the New World are also substantially lower than for Old World producers in most cases, resulting in a lower level of invested capital. Therefore New World producers generally have lower overall production costs relative to their Old World counterparts.

A report prepared earlier this year by economic forecaster BIS Shrapnel on the outlook for the Australian wine industry describes the Australian wine industry's predictions concerning global demand as "wildly optimistic".

Montana's management contend that New Zealand will remain a niche player in the global wine industry, selling a relatively unique and distinctive product at the premium end of the New World wine market. This position should insulate leading New Zealand producers such as Montana from many of the risks facing the global wine industry, including the prospect of an oversupply of new world wines.

New Zealand is not immune from these supply and demand dynamics, with a potential doubling of total domestic harvest volumes over the next three years, representing an increase broadly equivalent to Montana's total current harvest. However, Montana is in relative and absolute terms, the largest importer of wine into New Zealand which gives it a high degree of flexibility not enjoyed by its New Zealand-based competitors.

In addition, branding and distribution are the key elements required for a wine producer to generate above average returns. Montana has both a strong portfolio of New Zealand wines and established distribution channels to maximise returns on its expanding grape resource.

Overall, we believe that the outlook in terms of global supply and demand, and the position of Montana relative to its competitors in New Zealand and globally, remains largely unchanged from the position which existed late last year, as represented in the December Report.

Foreign Exchange Assumptions

Whilst specific exchange rates and foreign exchange forward cover assumptions are employed for the 2001-2003 years, the succeeding years in the forecast reflect exchange rate assumptions that produce a more conservative projection compared to the figures that would result if current exchange rates were used. Montana is a net exporter, with its major trading currency being Sterling, where an assumed exchange rate of 0.32 has been used in the forecast. Over the medium to long term, Montana expects to have a relatively neutral exposure to the US dollar, although currently Montana is a net importer in respect of US currency. Therefore, on an overall basis, further decline in the New Zealand dollar relative to the assumed Sterling exchange rate may increase earnings and cash flow.

Other Risks and Growth Opportunities

As with the global market outlook referred to under the preceding heading, our assessment of other risks likely to confront Montana's business, and the opportunities available to the Company, remains relatively unchanged from that set out in the December Report. However, given its relevance, we have repeated this commentary from the December Report below:

"Like any business, Montana Wines is susceptible to various risk factors that are capable of impacting future earnings and cash flow. In the course of our [December] analysis and review of the projections for Montana Wines, as summarised above, we have taken into consideration a range of specific risk factors, including:

- fluctuations in the annual grape harvest and vintage quality, which may occur through climatic and biological factors, some of which fall outside management's control;
- the ability to adapt to changing consumer preferences, such as a shift in demand towards red wine, and the possibility that consumers may have a change in preference away from the distinctive New Zealand white varietals;
- the prospect of a general oversupply of new world wines, and the positioning of Montana Wines' product in the global market given this scenario;
- reliance on international marketing initiatives to create and maintain brand equity;
- international distribution arrangements, particularly in key overseas markets such as the UK and US;
- potential changes in the domestic excise tax regime;

- the prospect of appreciation in the New Zealand dollar relative to Montana Wines' major trading currencies, especially Sterling; and
- management's ability to extract the full extent of projected cost savings and synergy gains.

We have discussed these points with management, and considered the potential ramifications of various scenarios on Montana Wines' financial performance and future strategy. We have also assessed the risk profile of Montana Wines relative to the New Zealand wine industry as a whole and compared to other participants in the sector. Overall, we believe that Montana Wines is relatively much less exposed to these risks compared to other New Zealand wine producers.

The forecasts prepared for Montana Wines do not reflect the full range of growth opportunities available to the business. We have considered various other strategies and growth opportunities that are available to Montana Wines, and the potential effect these might have on future financial performance.

In particular, the forecasts do not assume any additional land purchases, notwithstanding the steady pattern of selective land acquisition and new planting which has occurred over recent years. In all likelihood we believe Montana Wines will acquire additional strategic land parcels, especially where the land is situated in close proximity to Montana Wines' existing vineyards.

The forecasts also do not assume any increase in the purchase of free market grapes beyond 2005. This factor, in combination with the lack of any new vineyard development, combine to mean that production volume is static from year seven onwards, although modest increases in revenue continue, due to the changing mix.

Given the significant accumulation of cash (or reduction in debt) as a consequence of retained profits over the forecast period (after taking account of a projected 55% dividend pay-out ratio), Montana Wines will have funds available for additional investment. The unique market positioning of Montana Wines, and its focus on export growth in niche markets, mean that Montana Wines is capable of undertaking new investments or further expansion that will generate incremental value for the Company.

We have also discussed the potential for other New Zealand acquisitions to be made within the wine sector. Montana Wines believes that further acquisitions are unlikely, although the possibility of selective transactions occurring over the forecast period has not been eliminated. We consider that the challenges that will confront the New Zealand industry generally, as a result of the dramatic increase in the grape harvest, may well mean that favourable acquisition opportunities do present themselves for consideration."

4 *Valuation Of Montana*

Our evaluation of the merits of the Millstream offer for shares in Montana includes a comparison of our assessment of the current fair market value of Montana's shares against the price stipulated in the Millstream Notice.

4.1. DCF Valuation of Montana

We updated our valuation of Montana by re-running our DCF analysis of the Company's core operating business, Montana Wines. Our valuation of Montana Wines is based on its detailed financial forecasts, as referred to in the preceding section. The key elements of our DCF valuation were described in the December Report, and are repeated below, together with any material changes from the May Report which have been reflected in our updated valuation:

- significant earnings growth, both as a consequence of organic growth by the existing Montana Wines' business, as well as the incremental growth resulting from the Corbans acquisition and the cost savings and synergy benefits that accrue from combining these two businesses;
- Operating EBIT for the 2001 year down from $71.1M to $68.6M;
- an aggregate $3M reduction in pre-tax earnings over the 2002 and 2003 years as a flow-on effect from the poor 2001 vintage;
- allowance for capital expenditure of $57.4M over the next two-and-a-quarter years, and ongoing "maintenance" capital equating approximately to the annual depreciation allowance thereafter. The decision to retain the Stoneleigh winery's plant and equipment has reduced projected capital expenditure by approximately $6M;
- increased working capital of approximately $92M over the next four and a quarter years, to fund the increased turnover that Montana Wines is anticipating;
- realisation of surplus assets arising from the Corbans acquisition as well as minor residual non-core assets, in aggregate estimated to produce $20M over the next two years, after allowing for the retention of the Stoneleigh winery assets and the modified divestment plan for the Ti Rakau premises;
- subtraction of Montana's net external debt of approximately $303.8M, an increase of $4.8M compared to the position as at 31 March 2001 (the net external debt position at 31 March included a Provision for Dividend of $10.7M);

- allowance for continuing real growth in cash flows beyond the discrete 10 year forecast period of between 0% and 1%, giving our "high" and "low" valuation points. Ordinarily we would not assume that a company could achieve real growth in perpetuity because that implies returns greater than the industry cost of capital, which would be expected to draw in competition to lower the excess return to the cost of capital. However, Montana Wines has a unique position in the New Zealand wine industry and given its scale it is difficult to see a significant real competitor emerging. In addition, Montana Wines is able to generate significant returns from adding incremental volumes. We consider that a 1% real growth rate assumption is justified to reflect this position; and
- a nominal WACC of 10.3% as the discount rate (equating to a real WACC of 8.4%). The increase of 0.3% over the WACC used in the May Report reflects a further increase in the five year Government Stock rate.

The following table summarises our DCF valuation of the shares in Montana:

Summary of Montana DCF Valuation	**Low $M**		**High $M**	
Real WACC		8.4%		8.4%
NPV of 9 years and 3 months discounted cash flow		532.4		532.4
Terminal year cash flow (Year 11)	116.0		116.1	
Real terminal growth rate	nil		1%	
Terminal value	1,387.3		1,577.9	
NPV of terminal value		689.4		783.8
Enterprise Value (EV)		1,221.8		1,316.2
Less:				
Net Debt at 30 June 2001		(303.8)		(303.8)
Equity Value		**918.0**		**1,012.4**
Number of Shares on Issue (million)		214.7		214.7
Value per Share		**4.28**		**4.72**

Although the WACC has increased by 0.3% since our May Report and the projected earnings for 2001 have declined by $2.5M our valuation range has narrowed marginally from $4.24 to $4.72 per share to $4.28 to $4.72 per share. Other things being equal, an increase in the WACC applied to a set of cash flow projections will result in a lower present value of the cash flows and a narrower value range. However, in this instance, the decrease in value caused by an increase in the WACC estimate has been offset in part by the cash generated by the business between 31 March 2001 and 30 June 2001 which has funded capital expenditure and working capital and also because the projected stream of increasing cash flows are now three months closer than they were at the date of our last valuation.

Whilst the market frequently tends to focus on relatively short term earnings announcements, the $2.5M reduction in Montana's 2001 earnings projection represent approximately one cent per share in absolute value terms and is not considered significant in the context of the changes that the Company has undergone since acquiring Corbans. This short term adjustment must also be viewed in context, whereby the Company's longer term prospects and outlook, which dominate any analysis of value, have remained largely unchanged.

4.2. Implied Multiple Reconciliation

As a cross-check on our DCF valuation of Montana, we analysed the resulting earnings before interest, tax, depreciation and amortisation ("EBITDA"), EBIT, EV/Sales and Equity Value:NTA multiples for Montana implied by our DCF valuation and compared these against a range of comparable company ("CompCo") multiples based on our updated review of listed wine companies, together with data for industry transactions that have occurred in New Zealand, Australia, and the United States.

As the historical earnings for both Montana and Corbans combined do not reflect the projected cost saving and synergy gains, we have calculated implied prospective earnings multiples for 2001, 2002, and 2003 to reflect the forecast multiples over the financial years when the majority of the expected cost savings and synergy gains will flow through to Montana's earnings.

In addition, to enable a better comparison between the various earnings multiples implied by our DCF valuation and the CompCo multiples, we have separated out the value of the projected synergy gains and cost savings arising from the merger of Montana Wines and Corbans. We have then calculated "adjusted implied multiples" by deducting from the mid-point of our DCF valuation range the value attributable to the synergy gains and cost savings, to arrive at an enterprise value which we have divided by the combined 2001 EBITDA, EBIT and Sales figures for Montana Wines and Corbans as originally forecast on a stand-alone basis.

The implied multiples and adjusted implied multiples based on the mid-point of our DCF valuation range are set out in the table below:

Implied Multiple	2001	2002	2003
EV/EBITDA	16.2	11.6	9.5
EV/EBIT	18.5	13.0	10.5
EV/Sales	4.7	3.9	3.4
Equity Value/NTA	4.9	nc	nc
Adjusted Implied Multiple	**2001**	**2002**	**2003**
EV/EBITDA	11.0	7.8	6.4
EV/EBIT	12.5	8.8	7.1
EV/Sales	3.2	2.6	2.3

nc = not calculated

The CompCo analysis of Australian listed wine companies indicates a weighted average 2001 EBITDA multiple (including a 20% premium for control) of 14.2 times and a weighted average 2001 EBIT multiple (including a 20% premium for control) of 18.4 times. Both multiples have also been reduced by a market relativity factor of 0.9 to reflect research we have undertaken which indicate that, on average, New Zealand listed companies trade at multiples approximately 90% of their Australian counterparts.

These Australian CompCo multiples are lower than the implied 2001 EBITDA multiple for Montana of 16.2 times and the implied 2001 EBIT multiple for Montana of 18.5 times. However, Montana's 2001 earnings do not reflect the full benefits of the Corbans acquisition. The adjusted implied 2001 EBITDA multiple of 11.0 times and EBIT multiple of 12.5 times are actually lower than the weighted average 2001 EBITDA and EBIT multiples for the Australian CompCos.

The adjusted implied prospective multiples are within the range of average transaction EBIT multiples of between 11.4 to 15.7 times historical EBIT that we have derived by analysing approximately 16 wine company transactions in New Zealand, Australia and the United States over the last three years. These transactions evidence a relatively wide range of transaction multiples, reflecting the unique circumstance pertaining to each transaction. In particular, the higher multiples evident in some transactions reflect the fact that strategic value and substantial synergy gains are available to the acquirer.

Where a company consistently trades at multiples higher than its peers this usually indicates the existence of either higher growth or lower risk (or both). We note that in July 2000, prior to the Corbans acquisition being announced, Montana was trading at an EBITDA multiple of 11.1 times 2000 earnings and an EBIT multiple of 13.6 times 2000 earnings, when its share price was $2.50. These historical Montana multiples are broadly consistent with the adjusted implied multiples calculated above.

We therefore consider that the 2001 prospective multiples implied by the mid-point of our DCF valuation range, after adjusted for the impact of synergy gains not yet reflected in 2001 earnings, are not unreasonable having regard to Montana's strong growth prospects and relative risk profile.

4.3. Valuation Comparison

As a further cross-check we summarise below the movements in the Comparable Company share prices between our December report, and the date of the Millstream offer:

Australian Comparable Companies	Market Capitalisation ($AM)	Price 20 July 2001 A$	Price 28 November 2000 A$	% Change
Southcorp Ltd	4,533	7.25	5.31	36.5%
BRL Hardy Ltd	1,572	10.30	7.61	35.3%
Simeon Wines Ltd	201	2.60	2.48	4.8%
McGuigan (Brian) Wines Ltd	145	3.41	2.90	17.6%
Petaluma Ltd	130	5.35	4.50	18.9%
Peter Lehmann Wines Ltd	89	2.68	2.28	17.5%
Cranswick Premium Wines Ltd(1)	55	1.18	2.45	(51.8%)
Normans Wines Ltd(2)	5	0.15	0.80	(81.3%)
Weighted Average Price Change				34.0%
ASX All Ordinaries Index		3,328.10	3,251.90	2.3%

Source: Bloomberg

(1) Cranswick Premium Wines Limited recently announced an interim result 59% lower than the previous corresponding period, and its interim dividend was suspended. It currently has its Haselgrove Winery, valued at A$25M to A$30M for sale.

(2) Normans Wines Limited is heavily indebted. Merger negotiations have recently failed and on 30 July a receiver was appointed.

Since December 2000 share prices for most of the listed Australian wine companies used in our CompCo analysis have strengthened, the exceptions being Cranswick Premium Wines and Normans Wines. The weighted average increase of 34% compares with only a 2.3% increase in the Australian All Ordinaries Index. We believe that the stronger share prices reflect in part increasing interest in the sector and also speculation concerning further takeover activity, similar to the consolidation seen in the New Zealand wine industry.

4.4. Valuation Conclusion

Overall, we believe that our assessed value range for Montana of between $4.28 and $4.72 is reasonable, given the Company's key attributes. These were summarised in the December and May Reports' and are repeated below:

- a long established domestic business, with a comprehensive portfolio of well known brands and widespread distribution, which will now be even stronger following the Corbans acquisition;
- New Zealand's leading wine exporter, with unrivalled brand equity and market penetration in key overseas markets, and following the Corbans acquisition, an improved ability to meet previously unsatisfied export demand;
- a virtually unassailable position as New Zealand's leading wine producer, operating on a scale that no other New Zealand wine producer can approach. This offers Montana Wines considerable benefits in terms of economies of scale, and an ability to not only serve the needs of the domestic market but also to exploit the opportunities provided as a niche exporter of wine to overseas markets;
- excellent distribution arrangements that have worked extremely well in key overseas markets, combined with direct representation where appropriate;
- large vineyards with leading viticultural practices, that produce excellent quality vintages whilst also offering significant cost efficiencies, with the Company-owned vineyards focused on the production of premium grapes destined for higher margin products;
- through the Corbans acquisition, Montana Wines has captured a unique opportunity to acquire the only other New Zealand wine producer of similar scale, and thereby achieve significant benefits in terms of even greater scale and thereby reduced production costs and overheads, whilst also obtaining a much needed increase in grape resource;
- it is difficult to envisage how any other New Zealand wine producer can erode Montana Wines' across-the-board strength and market leadership in both the domestic and export markets;
- Montana Wines' export positioning as a niche supplier of distinctive New Zealand varietal wines insulates it from many of the risks facing the global wine industry, including the prospect of an oversupply of new world wines;
- the forecast for Montana Wines, whilst displaying substantial sales growth, primarily derived from export markets, is still relatively conservative because it does not include any allowance for new vineyards or other expansion of grape supply or production capacity beyond the planting of the existing Company-owned land and the changes occurring as a consequence of the Corbans acquisition; and
- Montana is lead by an extremely capable management team with extensive industry expertise, a strong commitment to the long-term success of the business, and a track record of proven performance.

4.5. Other Valuation Considerations

4.5.1. Dividends

Montana paid a fully imputed interim cash dividend of 5 cents per share on 6 April 2001. Based on its policy of distributing 55% of tax-paid profits, Montana can be expected to pay a further cash dividend of 4-5 cents per share (fully imputed) in respect of the 15 months ending 30 September 2001, equating to an annualised gross dividend yield of approximately 2.0%, based on Montana's VWAP over the 20 trading days prior to 20 July 2001. This same level of dividend applied to our DCF value range produces an implied historical dividend yield of between 2.0% and 2.2%. This gross dividend yield range is substantially below the weighted average gross yield for the NZSE40 stocks of approximately 6.4%. However, Montana's forecasts indicate that its dividends should increase substantially over the next four years, assuming a 55% dividend pay-out ratio and the forecast increase in earnings.

Based on Montana's forecast, the projected dividend per share for the 2002, 2003, and 2004 years should exceed 11 cents, 15 cents, and 19 cents respectively. These dividends should be fully imputed. Therefore, Montana's gross dividend yield should more than double over the next three years, to a level closer to the NZSE40 average.

4.5.2. Asset Backing

Montana had net tangible assets ("NTA") per share of 0.92 cents as at 30 June 2001, after subtracting the value of Montana's intangible assets comprising brands ($67.4M) and goodwill arising from the acquisition of Corbans ($27.3M). Our value range implies a Price:NTA multiple of between 4.7 to 5.1, which represents a significant premium to the Company's underlying NTA. We believe this premium is justified by Montana's valuable intangible assets, in particular its brands, the Company's strong competitive position, its strategically significant and valuable land holdings, and the substantial earnings growth that it expects to achieve.

4.5.3. Share Price/Bid Premium

Montana's VWAP over the twelve months prior to 20 July 2001 was $4.27 and the VWAP over the 20 trading days prior to 20 July 2001 was $4.83. Since 17 May 2000, when Lion undertook its stand in the market and acquired its original 19.9% interest in the Company at $2.30 per share, there has been a steady upwards trend in Montana's share price. We estimate that the weighted average cost of Millistream's 27.03% holding is approximately $4.74 per share.

The mid-point of our value range represents approximately a 5.4% premium over the twelve month VWAP, and a 6.8% discount from the VWAP during the 20 trading days prior to 20 July 2001. The discount and relatively low premium reflects the continued takeover speculation surrounding Montana since Allied's initial takeover announcement in February 2001 and Lion's subsequent move to increase its holding to 51% and possibly 100%. Therefore, the takeover premium that might otherwise be expected has largely been factored into Montana's share price already.

4.5.4. Additional Synergy Value

We have assessed the value of Montana on a stand-alone basis, reflecting the Company's present business plan, and the projections set out in its financial forecast, including the impact of the Corbans acquisition. Our valuation of the Company does not incorporate any additional value that might be available as a consequence of synergistic benefits resulting from an alternative ownership structure, including 100% ownership by Millstream or another industry participant.

It is possible that another acquiror, most likely an overseas wine producer or other beverages company, would see opportunities for further synergy gains from ownership of Montana, such as the opportunity to handle its overseas sales, marketing, and distribution. Savings in this area could be significant, increasing the value of Montana to such an acquiror.

5 Other Considerations

In this section we set out our opinion on a range of factors that we regard as relevant to an assessment of the merits of the Millstream offer and Montana shareholders' responses to this offer. Because the Millstream offer has resulted from a highly publicised takeover bid for Montana, there is already a considerable amount of information and speculation in the public domain concerning the Millstream offer and its prospects of success. Many of our opinions in this section address prospective events which by their very nature are uncertain. Moreover, further events or information may arise subsequent to the release of this Report which could have a material bearing on the Millstream offer and its prospects of success.

5.1. Fairness of the Millstream Offer

We have concluded that the offer price by Millstream of $4.80 for all shares in Montana represents a "full and fair" offer, by comparison to our assessed current fair market value for Montana shares of between $4.28 and $4.72.

We believe that the Millstream offer price of $4.80 incorporates a reasonable level of takeover premium relative to the Company's share price prior to any takeover speculation occurring, reflecting some sharing of the potential synergy gains available to Allied from ownership of Montana. We would expect Montana to have greater value to Allied than the price indicated (relative to Montana's standalone value). Equally, we would not expect Allied (or any other bidder) to share the full extent of the value-upside with Montana's shareholders. However, the competitive bidding situation surrounding Montana means that shareholders are being offered a "bid premium" that is possibly greater than they might otherwise have expected.

It is also possible that a higher price could arise, if a further bid emerges, as Millstream is entitled to increase its offer price, which would then be payable in respect of all acceptances under its offer (assuming it is declared unconditional). Based on its 63% shareholding, Lion presently has an average cost for its Montana shares of approximately $3.69, whereas Allied's average cost for its 27.03% shareholding is approximately $4.74.

Given its lower average price to date, Lion may be able to justify paying a higher average price for the remaining shares in Montana, compared to Allied. However, other considerations are likely to have an equal or greater influence on pricing decisions by either bidder. In particular, any bidder will assess the synergy gains and strategic opportunities presented by the acquisition, and because these factors are very bidder specific, the quantum will differ between bidders. Therefore, Montana has a value to Allied that will almost certainly differ from its value to Lion. It is not possible to say which party will place the greater value on Montana as we are not privy to their respective strategic assessments of Montana.

Having concluded that Montana's shareholders are being presented with a "full and fair" offer for their shares, the critical question then becomes whether, given the new Takeovers Code regime, the Millstream offer will be declared unconditional, meaning that shareholders who accept the Millstream offer will in fact receive a payment of $4.80 for their Montana shares.

5.2. Implications of the New Takeovers Code Regime

It is important for shareholders to appreciate that the new Takeovers Code regime, which took effect from 1 July 2001, introduces a number of significant changes to the manner in which a takeover offer can be progressed, in any situation where the offeror already has a 20% or greater voting interest, and the target is a "Code company". Both these criteria exist in the case of Allied's bid for Montana.

Previously, takeovers were governed by the provisions contained in a company's constitution, which were required to also conform with the NZSE Listing Rules. Effectively, listed companies had a choice of three options in terms of how a takeover offer could be progressed. Montana operated with the relatively common "notice and pause" rules which required that an offeror with a greater than 20% interest and that was an "insider" had to wait at least 15 business days after announcing a takeover offer, before it could commence purchasing shares pursuant to that offer. In the case of an acquiror that was not an insider then the notice and pause period was only three business days. The Companies Amendment Act 1963 also contained procedural requirements applicable to written takeover offers.

A Code offer mounted by an offeror with less than a 50% voting interest, as is the case with Allied, must include a mandatory condition that cannot be waived by the offeror, whereby the takeover offer must be conditional on the offeror achieving sufficient acceptances such that the acceptances, when combined with the offeror's existing shareholding, provide more than a 50% voting interest.

This means that although shareholders may submit acceptances in response to the Millstream offer, the offer cannot be declared unconditional until this 50% requirement can be satisfied. Rule 25(5) requires Millstream to immediately notify Montana, the Panel and the NZSE once this condition has in fact been satisfied, based on the acceptances received.

The Code also requires the Millstream offer to remain open for acceptances until at least the stipulated closing date. This means that shareholders are not dealt with on a "first come-first served" basis, but instead all acceptances received by the closing date will be dealt with under the terms of the offer. Since the Millstream offer is for 100% of Montana, all Montana shareholders who accept the offer will receive the offer price, in the event that the offer is declared unconditional. If the Millstream offer conditions (primarily relating to the 50% threshold) are satisfied prior to the closing date and this is notified, shareholders will then be in a position to know that if they accept the Millstream offer, they will receive payment, providing their acceptances are received prior to the closing date.

5.3. Background Circumstances

Since Lion first publicly announced its interest in acquiring Montana in December 2000, there has been a highly publicised contest for ownership and control of Montana. When Lion released its original RTN last December, there was considerable speculation about the prospect of an alternative bidder emerging. This occurred in February 2001 when Allied first announced its intentions.

More recently, Lion launched its formal partial offer under the Code on 1 July, closely followed by Allied's full offer which was notified to Montana on 4 July.

Lion's proposed partial offer was subsequently held to not be in compliance with the Code, and has been formally withdrawn, meaning that currently, the Millstream offer is the only offer for Montana shares open for acceptance.

It is also very significant that whilst Lion presently has control of approximately 63% of Montana's capital, it is required to complete a divestment of the 19% Penthouse shareholding by 10 August, reducing its interest to approximately 44%.

During the contested bid period there have been a number of allegations made by Lion and Allied concerning the conduct of each other's respective bids. Lion presently has a complaint before the Panel's Standing Committee concerning an allegation that a prior relationship existed between Allied and Masfen Holdings Limited, meaning that Allied's purchases of Montana shares from Masfen Holdings occurred in breach of the then applicable Listing Rule notice and pause provisions. If this allegation is proven, then all or part of Allied's accumulated interest in Montana may be declared to be "defaulter securities", with a requirement for these shares to be divested.

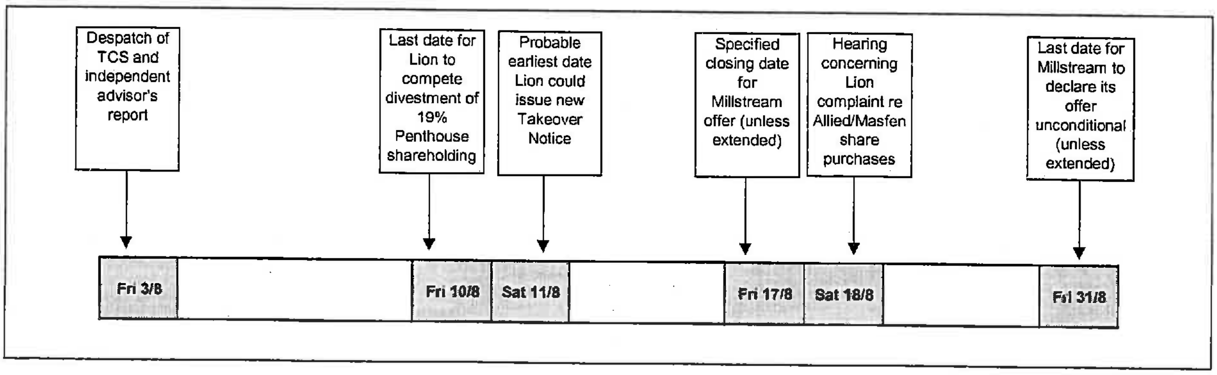
This background is relevant to an assessment of the Millstream offer for several reasons:

- the Millstream offer represents the latest, but not necessarily final, event in a long-running, highly publicised contested takeover bid situation;
- there continues to be some uncertainty over the procedural compliance associated with the earlier Allied share purchases ex Masfen Holdings; and

- although Lion has withdrawn its most recent partial offer, the prospect of further initiatives by Lion cannot be discounted.

5.4. Millstream Offer Timeline

Millstream dispatched its takeover offer documentation to Montana's shareholders on or about 20 July, thereby imposing a requirement on Montana to issue its Target Company Statement and this accompanying report by Friday 3 August. A timeline for the Millstream offer from that date, together with the timetable for divestment of Lion's 19% interest in Montana, is depicted in the following diagram:



As at the date of this Report, it is still possible for Millstream to notify an extension of its closing date beyond 17 August. The last date for Millstream to notify an extension will be Friday 3 August, being 14 days before the original scheduled closing date.

The last date upon which Millstream can declare its offer unconditional is then 14 days after the closing date, being Friday 31 August, assuming a closing date of 17 August. However, if the offer conditions are satisfied earlier, then Millstream is obliged to *immediately* notify the Company, the Panel and the NZSE that its offer has become unconditional. This could occur prior to the scheduled closing date of 17 August, but, in the absence of Lion electing to accept the Millstream offer, will not occur prior to Lion completing its divestment of the Penthouse shareholding.

The last date for Lion to complete its divestment of the Penthouse shareholding is Friday 10 August. As a consequence of the Panel's ruling regarding Lion's lack of compliance with the Code, Lion is restrained from acquiring any Montana shares unless in compliance with the Code. We therefore understand that on the basis of this ruling Lion is effectively prevented from announcing a new takeover offer until this divestment process has been completed, in which case the earliest it could announce a new offer (whether a full offer or partial offer) would be 11 August.

A further potentially complicating factor is the Standing Committee's inquiry into the Allied/Masfen Holdings share purchases. A hearing on this matter is scheduled for Saturday 18 August, although it is not known when a decision will be released. Therefore, this hearing and any decision will not occur until after the scheduled closing date of the Allied offer, but the outcome could have a subsequent bearing on Allied's position as a shareholder in Montana.

In summary, the key events affecting the Millstream offer process and therefore a Montana shareholder's response, are:

- completion of Lion's divestment of the Penthouse shareholding, because without access to these shares (or other shares owned by Lion), the Millstream offer cannot possibly become unconditional (refer next section); and
- the closing date of the Millstream offer (17 August) and the time required before Millstream declares its offer unconditional (or not).

Under the current timing for the Millstream offer, the Standing Committee's hearing into the Allied/Masfen Holdings' transactions will not occur until after the closing date, and will therefore not directly affect the Millstream offer process other than adding to the general uncertainty. However, if the Millstream offer closing date is extended, then it is possible that the Standing Committee decision on this issue could be released prior to the closing date. In a "worst case" situation for Millstream, it could find that all or a substantial part of its shareholding is declared to be "defaulter's securities", meaning that the prospects of its offer becoming unconditional would become remote.

It is quite likely that subsequent events will emerge after the date of this Report and issuance of Montana's Target Company Statement which will affect an assessment of the Millstream offer. In our opinion, such events, such as announcements of a fresh offer by Lion, are most likely to occur during the period after Lion completes divestment of the Penthouse shareholding, that is most probably after 10 August.

5.5. Prospects of Allied Offer Becoming Unconditional

A key consideration addressed in this section of the Report is the prospect of the current Millstream offer being declared unconditional. In order for this to occur, Allied must achieve sufficient acceptances in response to the Millstream offer so that these acceptances, when combined with its existing 27.03% holding, provide Millstream with more than 50% of the voting rights in Montana.

Given Millstream presently has a 27.03% interest, it requires acceptances in respect of a further 22.98% of Montana's issued capital in order to achieve over 50% ownership and control.

Montana's current ownership is divided as follows:

	%
Millstream	27.03
Lion	43.84
Penthouse	19.00
Others (Institutions/Public)	10.13
TOTAL	**100.00**

The relative ownership positions in Montana mean that in the absence of acceptances from Lion (refer below), Millstream cannot reach the 50% threshold without acquiring more than three quarters of the Penthouse shareholding. We assume these shares will not be available to Millstream until Lion completes divestment of the Penthouse shareholding.

The "other shareholders" in Montana comprise a mix of institutions, passive funds, public shareholders, as well as a number of shareholdings where the holder is not contactable. We understand that approximately 2% of the Company's capital is in the hands of passive, typically index-linked, investment funds, and that generally these funds are not entitled to accept an offer and must await compulsory acquisition. We have assumed therefore that the Millstream offer will not be accepted in respect of these shares.

Approximately 0.04% of Montana's capital is held by shareholders who cannot be contacted (typically because addresses have changed). We therefore assume that acceptances will not be forthcoming in respect of these shares either.

On this basis we estimate that only approximately 8.1% of Montana's capital held by the other shareholders in Montana is "available" in response to the Millstream offer.

Millstream must acquire a minimum 22.98% additional shareholding in Montana. Therefore, even if Millstream receives acceptances in respect of the entire 19% Penthouse shareholding post-divestment (refer below), it would still require acceptances in respect of a further approximately 4% of Montana's capital, or approximately half the available "other shareholdings".

We note that Lion holds sufficient shares such that it is able to lodge acceptances to take Millstream's ownership pass the 50% threshold and make the Millstream offer unconditional.

When assessing the likely level of acceptances from Montana's other shareholders, it is apparent that the larger shareholders will have much greater influence on the eventual outcome. In this regard, we note that the top 20 remaining other shareholders collectively hold approximately 4.5% of the Company's issued capital, although it is not clear how many of these shareholdings belong to passive funds which will not be able to accept.

In our view, the critical determinant of whether or not Millstream's offer is declared unconditional will be the extent to which acceptances are received in respect of the Penthouse shareholding. As noted in the preceding section, Lion is required to complete its divestment of the Penthouse shareholding by 10 August. Lion has control over this divestment process, subject to the stipulation in the Standing Committee's Ruling that the shares must be transferred to unrelated parties, without any contract, arrangement or understanding (direct or indirect) existing between the purchaser and Lion whereby Lion has any form of continuing entitlement to or interest in the shares. However, the Standing Committee's decision expressly recognised that a purchaser of all or part of the Penthouse shareholding may subsequently elect to accept an offer from Lion for these shares, should Lion launch a fresh takeover offer for Montana, providing this does not occur pursuant to any form of contract, arrangement or understanding in place at the time of transfer.

As Millstream requires acceptances in respect of a further 22.98% of Montana's issued capital, even if all remaining other shareholders were to accept (say, 8%), Millstream would still need acceptances in respect of approximately 15% of the 19% Penthouse shareholding, assuming Lion does not accept.

Some indication concerning the manner of Lion's proposed divestment programme for the Penthouse shareholding is available from the Standing Committee decision released on 25 July. Lion had engaged Macquarie Bank to manage a competitive tender process for the Penthouse shares. A number of institutions in Australasia had been approached to participate and had confirmed their interest, before the tender process was terminated following receipt of the initial round of bids on 12 July.

The divestment process has recommenced and must be completed by 10 August. We presume that a similar sale process will be adopted, with institutions and other substantial professional investors being asked to bid for all or part of the Penthouse shareholding. To the extent that any bidder does not acquire greater than a 5% shareholding in Montana (when combined with any existing holding), disclosure will not be required by the purchaser regarding its identity and level of shareholding (pursuant to the Securities Amendment Act 1988), although Lion is obliged to confirm that the divestment has been completed.

We believe that prospective purchasers of all or part of the Penthouse shareholding will evaluate the potential arbitrage opportunity, in terms of bidding for Montana shares and then selling these shares into the Millstream offer or a possible offer by Lion, although the details of any future Lion offer will not be known prior to completion of the Penthouse divestment process.

We expect that bidders will evaluate their offer price for the Penthouse shareholding based primarily on Montana's fundamental value, but also in the knowledge of the existence of the Millstream offer (which will still be conditional in the absence of an acceptance from Lion) and Lion's previously disclosed "target pricing" under its two-tiered partial offer. This previous partial offer provided an expectation that investors would be able to sell Montana shares at an average price of at least $4.38 (assuming Allied did not accept the Lion partial offer), or $4.05 (assuming Allied did accept).

Collectively, the purchaser(s) of the Penthouse shareholding has the ability to accept the Millstream offer and be reasonably, but not absolutely, confident that the Millstream offer will be declared unconditional. This will turn on the extent to which other shareholders, including other purchasers of the Penthouse shares, accept the Millstream offer, with a minimum requirement for acceptances from at least half the remaining public shareholders (holding collectively approximately 4%).

A more realistic scenario may therefore be to assume that approximately half the remaining other shareholders in Montana accept, in which case Millstream must obtain acceptances in respect of the entire Penthouse shareholding, assuming Lion does not accept.

In any case, unless Millstream can obtain acceptances in respect of at least 15% out of the 19% Penthouse shareholding, its offer will not become unconditional (again assuming Lion does not accept). This means a purchaser of part of the Penthouse shareholding (greater than 4%) can effectively frustrate the Millstream offer and ensure it is not declared unconditional. Providing this shareholder has less than a total 5% interest in Montana, its identity need not be disclosed.

It is possible that an institutional shareholder could acquire part of the Penthouse shareholding in this manner, and elect not to accept the Millstream offer, on the basis that it would prefer to see Lion gain control of Montana. This may arise because the institutional investor is also a significant investor in Lion, and believes that its overall portfolio value will be maximised through such a strategy, notwithstanding that the $4.80 offer price available for all its shares under the Millstream offer may be higher than any offer price forthcoming from Lion.

In summary, the prospect of the Millstream offer being declared unconditional will turn on:

- whether Lion elects to accept the Millstream offer in respect of its own shares (ie. excluding the 19% Penthouse shareholding). This possibility whilst apparently remote, cannot be discounted, as it would realise a substantial profit for Lion, and does not preclude Lion from making further strategic moves into the wine sector elsewhere;
- whether purchasers of the Penthouse shareholding accept in respect of at least 15% out of the total 19% interest available; and
- whether Montana's other shareholders accept to the extent of at least 4% out of the approximately 8% shareholding available.

The relative levels of required acceptances in respect of the Penthouse shareholding and Montana's other shareholders in order for Millstream to acquire a further 23% of Montana's capital is summarised in the following table:

Penthouse Acceptance Level %	Other Shareholders' Acceptance Level %	Total Acceptances %
15	8	23
16	7	23
17	6	23
18	5	23
19	4	23

It is not possible to present a more definitive analysis regarding these various factors, which are, by their very nature, subject to a number of uncertainties at the present time. It is likely that other factors will come into play, not least of which is the prospect of a fresh offer for Montana emerging from Lion.

5.6. Prospects of a Competing Bid Emerging

Lion has clearly declared, both through its previous offer and via numerous media releases, its strong desire to obtain control of Montana. Although Lion withdrew its partial offer, which had been declared invalid, we believe that the prospect (or even likelihood) of an alternative bid from Lion cannot be excluded from any analysis.

Unfortunately from the standpoint of this Report, we have no knowledge of whether and when such an offer will emerge, and if so what the details might be. As noted above, any fresh offer from Lion under the Code will not occur until after it completes divestment of the Penthouse shareholding, most probably after 10 August. Nonetheless, Montana shareholders may be in receipt of details of a fresh offer from Lion prior to the closing date.

We have also previously noted that Lion's average price for Montana shares acquired to date is approximately $3.69. The information accompanying its partial offer and proposed sell-down of the Penthouse shareholding disclosed a willingness by Lion to pay an average price of approximately $4.38 for the balance of Montana if all shareholders (excluding Allied) accepted Lion's offer. This average price declined to $4.05 if Allied had accepted the Lion offer. Whether Lion would make a fresh offer for all of Montana at the same price cannot be ascertained. It is possible that Lion may improve its offer pricing, but equally, it may feel that the same pricing is no longer justified (in which case we consider that a fresh offer from Lion is unlikely to succeed even if made).

In summary, Montana's shareholders are presently faced with a full offer from Millstream, with the prospective of an alternative bid emerging from Lion, possibly but not necessarily prior to the closing date under the Millstream offer. Rather than attempt to speculate on the terms of any fresh offer from Lion, we believe that shareholders in Montana are best deferring any decision to accept the Millstream offer until closer to the closing date, so that they possess maximum information concerning the Millstream offer and any competing offer that Lion may announce for their shares in Montana.

Although the prospect of an alternative offer (apart from Lion) for Montana arising cannot be entirely discounted, the takeover battle for Montana has been well publicised and there is already a considerable amount of information in the public domain concerning the Company and no other bidders for the Company have emerged. Moreover, as outlined in section 4, we believe that the Millstream offer fully values Montana, and any alternative bid would need to be more attractive to Montana's shareholders to have any prospect of success.

On the other hand, Montana continues to have strong international appeal as a "new world" wine producer, and is well positioned to complement existing industry participants, whether based in the "new world" or "old world". This is especially so for producers (or other companies) that can complement Montana's brands by offering strong distribution channels.

Despite the synergistic opportunities that would ordinarily encourage bidder interest in Montana, we believe that the current ownership situation, the existing battle for control of the Company and the procedural requirements under the Takeovers Code, mean that the prospect of an alternative bidder other than Lion now emerging for Montana is unlikely.

5.7. Market Value of Montana Shares if Millstream Offer Lapses

In the event that the Millstream offer does not become unconditional and there is no further takeover offer for Montana, this would leave Montana in a situation where no single party has outright control of the Company. Assuming the Penthouse shareholding has been divested, Lion would remain the single largest shareholder with approximately 44%, followed by Allied with approximately 27%. Approximately 29% of the Company's capital would be held by institutions and the public. Trading liquidity in the Company's shares may become limited as a consequence of the restricted spread of ownership.

In our view the value of Montana's shares should ultimately reflect its business fundamentals. However, in the short-term at least, the abatement of takeover activity could see Montana's share price subside from current levels, possibly to below $4.00 for a time.

However, we believe that Montana's share price should recover, on the basis that its medium to long-term earnings prospects are underpinned by its strong competitive position and international appeal and shareholders can expect an improving dividend yield. There will also continue to be an expectation that Montana's ultimate ownership situation will eventually be resolved, most probably via a full offer for the Company from either Allied or Lion (possibly as a consequence of some accommodation reached between these rival bidders).

Therefore, whilst we have concluded that the Millstream offer price of $4.80 is attractive on the basis that it exceeds our assessment of Montana's current "fair market value", we nonetheless believe that there is a reasonable prospect of shareholders being offered an exit price at around this level or possibly higher, at a future date. In the intervening period we expect that Montana's share price may decline in the short-term, due to the lack of takeover activity, but this trend should reverse in line with the Company's improving earnings, increasing dividends, and sound business fundamentals.

5.8. How Should Montana Shareholders Respond to the Millstream Offer?

In our opinion the Millstream offer presents an attractive exit opportunity for Montana's shareholders, on the basis that the offer price exceeds our assessed "fair market value" for Montana's shares at the present time.

The key issue, however, is whether or not the Millstream offer is declared unconditional. If the offer does not become unconditional, the offer will lapse.

In view of the various uncertainties surrounding the Millstream offer, including the sell-down of the Penthouse shareholding by Lion, and the possibility of an alternative Code offer being initiated by Lion, neither of which is likely to become public until some time after 10 August, Montana's shareholders will need to continue monitoring the situation carefully before making a final decision whether or not to accept the Millstream offer.

Assuming Millstream's offer closes on 17 August, under the Code it will have until 31 August to declare its offer unconditional. However, any fresh offer by another bidder such as Lion could not now be made with a closing date prior to 31 August, meaning that in any event a shareholder who accepts the Millstream offer would still be notified that the Millstream offer is not proceeding in sufficient time for them to then accept an alternative offer.

In summary, we believe Montana's shareholders are best to defer any decision to accept the Millstream offer until much closer to the closing date, whilst being mindful that acceptances must be received by 5pm on Friday 17 August 2001 (assuming the closing date is not extended). By deferring their decision shareholders will have the greatest prospect of knowing whether or not an alternative offer is likely to be forthcoming, and may also have more information concerning Lion's divestment of the Penthouse shareholding, which will have a pivotal influence on whether the Millstream offer can become unconditional. However, there is no certainty that any details will be disclosed concerning the Penthouse shareholding divestment, as this will depend on the identity of the purchasers and the number of shares they acquire.

As at the date of this report we have evaluated all the information available to us. It is likely that further information will come to light after the date of this report which may be relevant to a shareholder's assessment as to whether they should accept the Millstream offer. Therefore, shareholders will need to continue monitoring the Montana ownership situation carefully during the intervening period following the date of this Report up until the closing date under the Millstream offer.

Yours faithfully
PricewaterhouseCoopers

David Bridgman
Partner
Financial Advisory Services

Roger France
Consultant
Financial Advisory Services

Appendix 1

Sources of Information

1. Copies of the Notice filed by Millstream.
2. Millstream's takeover offer, dated 19 July 2001.
3. Montana Constitution.
4. Montana Annual Reports for the last four years.
5. Montana Capital Notes prospectus dated 3 November 2000.
6. Montana's audited financial statements and management reports for the twelve months ended 30 June 2001.
7. Montana Wines' Five Year Strategic Plan.
8. Corbans' 15 Year Plan.
9. Corbans Integration Model and details relating to the Corbans purchase.
10. Various management reports, reconciliations, and projections.
11. Meetings and discussions with management at Montana and Montana Wines and the Independent Directors of Montana.
12. Strategy papers and relevant minutes from recent Board Meetings.
13. Details of banking facilities, debt margins and facility fees.
14. Details of non-core assets and businesses.
15. Various decisions of the Takeovers Panel and NZSE Standing Committee.
16. Lion's Takeover Notice dated 1 July 2001.
17. Various brokers' reports on Montana and the wine industry.
18. Breakdown of shareholder statistics as at 16 July 2001.
19. Wine Institute of New Zealand Incorporated presentations and reports.
20. Most recent Annual Reports for other local and international industry participants.
21. NZIER and Infometrics economic forecasts.
22. Comparable company and takeover data sourced from Bloomberg, SDC Platinum and others.
23. Other publicly available information.

Appendix 2

Summary of Principal Assumptions on Which Montana Management's Forecasts for Five Years Ending 30 September 2005 are Based

1. General

During the forecast period:

a) There will be no material changes in the current general economic or fiscal conditions.

b) There will be no significant change in the nature of the competitive environment in which the Company operates.

c) There will be no legislative or regulatory changes which will affect operations.

d) The Company's accounting policies will remain consistent.

e) There will be no material change in the tax environment affecting the Company's operations.

f) There will be no material change in excise tax rates.

g) Interest rates will remain at current levels.

h) All projections are expressed in 2001 dollar (ie real) terms and therefore no allowance has been made for inflation.

i) There will be no material change in the foreign exchange rates of the major currencies in which the Company exports or imports over the forecast period from NZ$1 equals UK 32 pence and Australia 80 cents.

2. Production/Capacity

a) Each tonne of fruit will yield 750 litres of wine.

b) The yield per acre from mature vines (ie. in the fifth year after planting) on Company owned land will be 4.39 tonnes per acre.

c) Additional plantings will be made on Company-owned land as follows:

Financial Year	Number of Acres
2001	521
2002	19

d) No purchases of additional land will be made by the Company.

e) There will be no material increase in grower-owned land.

f) The yield per acre from mature vines (ie. in the fifth year after planting) on grower - owned land will be 6.23 tonnes per acre.

g) Corbans litres will increase progressively from 8.8 million to 12.2 million over the five years, which is over and above the litres generated from Montana corporate vineyard forecasts.

h) There will be approximately 3.5 million litres per annum of non-New Zealand wine sold in glass.

i) There will be approximately 2.2 million litres of beverage/fortified wine sales included in total wine sales.

j) Between 0.7 million and 1.138 million litres of agency sales will be made per annum.

k) Ullage (losses in the manufacturing process) of 2.8% of production will occur.

3. *Purchasing*

a) 1.5 million litres of wines will be acquired on the free market per annum.

b) In 2002 2,000 tonnes of grapes will be acquired on the free market, thereafter free market purchases will progressively increase to 5,000 tonnes per annum by 2005.

4. *Sales*

a) Sales price assumptions include the following:

- The sales price per litre of product sold in glass will increase between 1% and 3% per annum.
- The sales price per litre of product sold in casks will not increase.
- Free market wines sale price per litre will not increase.

b) Sales volume assumptions include the following:

- Volumes of wine sold in glass on the domestic market will grow between 1% and 3% per annum.
- Volumes of wine sold in casks on the domestic market will decrease between 1% and 7% per annum.
- Volumes of export sales increase at the following annual rates

Financial Year	% increase
2001	45
2002	21
2003	36
2004	27
2005	10

c) Export and domestic demand for the Company's wines will grow in line with the increase in production.

5. *Gross Margins*

a) The gross margin on sales in glass in the domestic market will increase between 1% and 6% per annum.

b) The gross margin on sales in glass in the export market will increase between 3% and 5% per annum.

c) The gross margin on sales in casks will not increase, except in 2002 when it increases by 19% reflecting Corbans integration benefits.

d) Bottling synergies of between 6 and 12c per litre will be obtained on all products sold in glass.

e) Winery synergies of between 14 and 17c per litre will be obtained on all products sold in glass sales.

f) Additional synergies of between 12 and 14c per litre will be obtained on all Corbans glass products.

6. *Costs*

a) Excise will be charged at $1.90 per litre.

b) Domestic co-operative marketing costs will represent 3% of annual sales (excluding excise tax).

c) Other expenses/overheads will grow at between 3 and 4% per annum, reflecting the increase in net sales.

d) Corporate expenses will be $1.5M per annum.

e) An average accounting tax rate of 32% will apply.

f) Depreciation will average approximately 6% of the net book value of fixed assets.

7. *Receivables Collection*

a) Trade debtors days for domestic sales will be 36 days.

b) Trade debtors days for export sales will be 120 days.

8. *Other*

a) The Company will obtain and utilise finance to manage seasonal peak cash flow requirements each year. An interest rate of 7.35% per annum was assumed (although this does not impact on the DCF valuation).

b) No income or benefit has been budgeted as a result of further land purchases, as such benefits are unknown.

Appendix 3

Declarations

This Report has been prepared by PricewaterhouseCoopers at the request of the Independent Directors of Montana, to fulfil the reporting requirements under the Takeovers Code (Rule 21) in relation to a Takeover Notice issued by Millstream Equities Limited dated 4 July 2001, whereby Millstream offered to purchase up to 100% of the shares in Montana, at $4.80 per share.

This Report should not be used for any other purpose.

This Report is provided for the benefit of the shareholders of Montana, and PricewaterhouseCoopers consents to the distribution of this Report to the shareholders of Montana.

Qualifications

This Report has been prepared by the Corporate Finance division of PricewaterhouseCoopers, which provides advice on mergers, acquisitions and divestments, valuations, independent experts reports and appraisals, financial investigations and strategic corporate advice.

The Partner responsible for this Report is David Bridgman (MCom, LLB, CA), who has considerable experience in corporate advisory matters, valuations, and the preparation of independent appraisal reports.

Independence

We consider ourselves to be independent in terms of the Takeover Panel's policy for the appointment of independent advisors. Our appointment has been approved by the Takeovers Panel.

As at the date of issuing this Report neither PricewaterhouseCoopers nor any personnel involved in the preparation of this Report:

(a) have had, or will have, any relationship with the parties to the proposed transaction except as disclosed below;

(b) will receive any fees for the preparation of this Report contingent on the success or implementation of the proposed transaction; and

(c) have had any involvement in the formulation of the proposed transaction.

PricewaterhouseCoopers provides external audit services and limited taxation advisory services to Montana. Our audit fees for the June 2000 year amounted to $243,000. In addition, we received fees of $75,000 for non-audit services in the 2000 year. Our audit fees for the September 2001 period have yet to be finalised but are expected to be similar to the prior year.

PricewaterhouseCoopers prepared an independent appraisal report dated 10 December 2000 in relation to Restricted Transfer Notices lodged by Lion Nathan Enterprises Limited and Masfen Holdings Limited. PricewaterhouseCoopers also prepared an independent appraisal report dated 7 May 2001 in relation to a Restricted Transfer Notice lodged by Lion Nathan Group Ventures Limited.

PricewaterhouseCoopers confirms that it has no conflict of interest that could affect our ability to provide an unbiased report.

Disclaimer and Restrictions on Scope of Our Work

The statements and opinions expressed in this Report are based on information available as at the date of the Report.

Although PricewaterhouseCoopers is the auditor of Montana, in preparing this Report, we have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of Montana. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

In forming our opinion, we have relied on forecasts and assumptions prepared by Montana management, about future events which by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

The statements and opinions expressed in this Report have been made in good faith and on the basis that all relevant information for the purposes of preparing this Report has been provided by Montana management and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise. Accordingly, neither PricewaterhouseCoopers not its partners, 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.

Our opinion has been arrived at based on economic, market and other conditions prevailing at the date of this Report. Such conditions may change significantly over relatively short periods of time.

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.

Advance drafts of this Report were provided to Montana's Independent Directors, solely for the purpose of verifying factual matters contained in the Report. Minor changes were made to the drafting of the Report as a result of the circulation of the draft Report. However, there was no alteration to any part of the substance of this Report, including the methodology, valuations or conclusions as a result of issuing these drafts.

Indemnity

Montana has agreed that to the extent permitted by law, it will indemnify PricewaterhouseCoopers and its partners, employees and consultants in respect of any liability suffered or incurred as a result of or in connection with the preparation of the Report. This indemnity will not apply in respect of any negligence, wilful misconduct or breach of law. Montana has also agreed to indemnify PricewaterhouseCoopers and its partners and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where PricewaterhouseCoopers or its employees and officers are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, PricewaterhouseCoopers shall reimburse such costs.