This Report has been prepared by Cameron & Company Limited for the benefit of the shareholders of New Zealand Dairy Foods Limited to be used by them when considering the Takeover Offer from Hollingbourne Holdings Limited, a wholly owned subsidiary of Rank Group Limited.

The Report is provided on the basis outlined in the section entitled "Important Information and Disclaimers'.

New Zealand Dairy Foods Ltd

Independent Report in regard to the Takeover Offer from Hollingbourne Holdings Limited, a wholly owned subsidiary of Rank Group Limited

26 April 2002

CAMERON & COMPANY
Investment Bankers

1 Important Information and Disclaimers

1.1 Statement by Independent Adviser

Cameron & Company Limited (Cameron & Company) is a New Zealand investment bank with offices in Auckland and Wellington. Cameron & Company was established in 1995. Cameron & Company is wholly owned by its partners. Cameron & Company provides advisory and transaction management services but does not provide sharebroking, distribution or banking services.

Cameron & Company provides the following advisory services:

TRANSACTIONS

- Mergers, acquisitions and divestments.
- Capital raising and return.
- Contract design and negotiation.
- Deal origination, structuring and capital raising for private equity.

CORPORATE FINANCE

- Valuation.
- Capital structure analysis.
- Capital restructuring.
- Expert opinions and appraisal reports.

STRATEGIC ADVICE

- Business strategy.
- Governance arrangements.
- Executive compensation.
- Organisational strategy.

Cameron & Company has specific prior experience in the areas of advising on sale processes requiring shareholder approval and takeovers of publicly listed companies (including in regard to Wrightson, Ernest Adams, Contact Energy, Air New Zealand and NGC). Cameron & Company has undertaken numerous valuation exercises (including of BIL, Telecom, Ports of Auckland, New Zealand

Post, Air New Zealand, Contact Energy, Frucor and Wrightson) and has prior experience in the Fast Moving Consumer Goods (FMCG) sector (including with Ernest Adams, Frucor and New Zealand Dairy Foods).

Cameron & Company has previously advised New Zealand Dairy Foods Limited (NZDF) in connection with NZDF's supply contracts and in connection with regulatory issues pertaining to the establishment of Fonterra Cooperative Group Limited (Fonterra). However Cameron & Company has not previously advised NZDF on any aspect of this sale process or the takeover offer.

The aforementioned advice was provided to NZDF during the period February 2001 to September 2001. The advice tendered by Cameron & Company was concerned with the following:

- Advice to NZDF and representation of NZDF in negotiations with government officials (MAF and Treasury) in regard to the regulatory regime to be established as a result of the formation of Fonterra. The principal areas of regulation concerned:
  - The supply of raw milk by Fonterra to other industry participants (including NZDF).
  - The ability of non-Fonterra companies to acquire milk supply direct from supplier/shareholders of Fonterra.
- Advice to NZDF and representation of NZDF in negotiations with Fonterra in regard to the supply and pricing arrangements of raw milk, cheese and butter.

Cameron & Company has not provided any advice directly to Fonterra or, to the best of the knowledge of its directors, any of the shareholders of NZDF. In 1996, Cameron & Company was retained to advise New Zealand Dairy Group (NZDG), one of the parties that amalgamated to form Fonterra, in regard to long term energy supply contracts. Other than this, Cameron & Company has not advised any of the parties that formed Fonterra.

Cameron & Company has not provided any advice directly to Rank Group Limited or any of its subsidiaries, owners or directors. Cameron & Company has not provided any advice to Burns, Philp & Company Limited.

Cameron & Company, its directors and its shareholders will not benefit (financially or otherwise) from the success or failure of the takeover offer. Cameron & Company will receive remuneration for producing this independent report. The basis of this remuneration is not affected in any way by the outcome of this takeover process.

Cameron & Company has no conflict of interest that could affect Cameron & Company's ability to provide an unbiased report.

1.2 Sources of Information

Cameron & Company has used and relied upon, without verification, the following information in preparing this report.

- Printed information that was made available to bidders in the NZDF sale process including (but not limited to):
  - NZDF management and board reports.
  - NZDF management plans and forecasts.
  - NZDF statutory records.
  - Key supplier and customer contracts.
  - Personnel Information.
- Interviews with senior executives of NZDF.
- Publicly available information regarding the dairy industry in New Zealand, and businesses similar to NZDF in other countries.

Under the terms of its engagement, Cameron & Company is unable to fully disclose the forecasts and other key material used in its assessment due to the commercially sensitive nature of the information.

1.3 Assumptions and Disclaimers

This report is provided to the shareholders of NZDF to assist them in assessing the merits of the takeover offer (the Rank Offer) from Hollingbourne Holdings Limited, a wholly owned subsidiary of Rank Group Limited (together referred to as Rank). It is provided on the following basis:

- In preparing the report, Cameron & Company has relied on information supplied by NZDF and third parties and has assumed the honesty and accuracy of this information. In preparing this report, time has been limited and Cameron & Company does not warrant that it has identified or verified all matters that a more thorough investigation or due diligence might disclose. Cameron & Company takes no responsibility for inaccurate information supplied by NZDF or any third party or for any failure by NZDF or any third party to provide relevant information.

- This report is based in part on forecasts of NZDF performance which have been provided to Cameron & Company by NZDF. Cameron & Company has placed reliance on the assumption that such forecasts have been prepared fairly and reasonably from the best available information, are based on reasonable assumptions and do not reflect any material bias. Cameron & Company's use of any forecasts in no way warrants the achievability of such forecasts.
- This report is supplied for the exclusive use of NZDF shareholders for the purpose of assisting them with their assessment of the merits of the Rank Offer. It is not to be relied on by parties other than the intended recipients. The opinions expressed by Cameron & Company should not be considered as a recommendation whether to accept or reject the Rank Offer. Shareholders should exercise their own judgment in considering this decision using all relevant information pertaining to the Rank Offer, should seek professional guidance where appropriate and consider their individual position and circumstances.
- This report is based in part on market conditions and economic rates and indicators prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. Cameron & Company has no obligation to advise of any changes in these conditions or to update this report.

2 Executive Summary

2.1 Background

The Dairy Industry Restructuring Act 2001 (the Restructuring Act) that led to the formation of Fonterra Cooperative Group Limited (Fonterra) stipulated that Fonterra must dispose of its 50.0004% shareholding in New Zealand Dairy Foods Limited (NZDF). NZDF is a code company for the purposes of the New Zealand Takeovers Code (the Code). Under the Code, a party making an offer for Fonterra's shares in NZDF must (unless 50% of the non-interested shareholders have consented) make the offer available to all NZDF shareholders.

Subsequent to the enactment of the Restructuring Act, the Board of NZDF initiated a global sale process to solicit offers for up to 100% of NZDF.

At the conclusion of that sale process, Hollingbourne Holdings Limited, a wholly owned subsidiary of Rank Group Limited (hereafter in this section, collectively referred to as "Rank") has made an offer (the Rank Offer) to acquire up to 100% of the shares in NZDF. The original price of the Rank Offer was $1.70 per share. This has been subsequently raised to $1.75 per share. The Rank Offer is conditional on 50% acceptances.

Fonterra has irrevocably agreed to accept the Rank Offer. The substantial condition of the Rank Offer is thereby met and Rank will assume control of NZDF upon closing. Other NZDF shareholders must now decide whether to accept or reject the Rank Offer.

2.2 New Zealand Dairy Foods

NZDF is one of two major firms in the New Zealand dairy products sector. The other is Mainland Products Limited (83% owned by Fonterra). Together these two firms account for over 80% of dairy products sales in New Zealand. Total retail revenues from dairy product sales in New Zealand are estimated at approximately $1.1 billion. Fresh milk and cream account for approximately $570 million of retail sales.

NZDF has three business divisions:

- Beverages – predominantly fresh milk and cream. In the year ended May 31 2001, NZDF had revenues of $186 million from the Beverages division.

- Foods – including butter, cheese, powders; cultured foods such as yoghurts and cottage cheese; and specialty cheeses. In the year ended May 31 2001, NZDF had revenues of $205 million from the Foods division.

- International – principally the sale of UHT beverages and fresh foods sourced from the Foods division to other countries. In the year ended May 31 2001, NZDF had revenues of $29 million from the International division.

The following table summarises the financial performance of NZDF for recent years and the forecast results for the year ending 31 May 2002.

NZDF – FINANCIAL PERFORMANCE YEAR END 31 MAY Y/E 31 MAY ($ MILLIONS)	1998	1999	2000	2001	2002EST
Milk Cost (NZ$/kg)	3.69	3.88	3.95	5.04	5.20
Revenue	398	384	395	417[1]	455
EBITDA	48	49	45	15	35[2]
EBIT	42	42	37	6	25[2]
Net Interest	1	1	1	5	6
Net profit before tax	41	41	36	1	19
Capex	9	7	27	26	24
Debt	0	0	26	65	65

Source: NZDF Annual Reports and Cameron & Company/NZDF Forecasts. The forecast for 2002 is based on prices, cost structures and monthly sales levels remaining materially unchanged for the remainder of the year.

Profitability, capital expenditure and debt levels have been adversely affected by the following:

- Significant increases in the costs of raw milk between 2000 and 2002. Price increases lagged the cost increases significantly.
- A large increase in capital expenditure that NZDF describes as principally catch-up and renewal costs plus the costs of an expansion into the South Island beverages market.
- A one-off dividend payment of 16.8c per share ($23.5 million in total) in August 2000.

2.3 Valuation

We value NZDF using a Discounted Cashflow (DCF) methodology at between $1.75 and $1.98 per share.

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[1] This figure differs slightly from the sum of the divisional revenues due to rounding and the impact of intra- company sales.

[2] Excludes non-reoccurring items. Total forecast EBIT for FY02 is $28m.

Our assumptions produce an EBIT forecast for 2003 of approximately $36 million. This is slightly below the management forecast for that period. The major assumptions in our forecast are:

- Price changes in Beverages that adjust for expected changes in the raw milk costs to provide EBIT margins that are equivalent to those earned in 1999/2000 adjusted for the impact of changes in channel and product mix since that time.
- Maintained margins in Foods, combined with changes in sales volumes that generally reflect changes in total category sales.
- Incremental improvement in International profitability.
- No major capital expenditure initiatives.

Beyond 2003, our forecasts of EBIT performance are driven principally by the following assumptions:

- Continuing pressure on margins in the Beverages Division. This pressure arises from a continuation of the observed trends in channel mix (principally a greater proportion of milk being sold at lower margins through supermarkets and in housebrands); an increased prospect of competition; and greater transparency in industry costs.
- Continuing medium-term decline in EBIT contribution from butter and cheese due principally to changes in consumption patterns.

This will be offset to a greater or lesser extent by:

- Some short-term volume gains in Beverages from the entry into the South Island milk market.
- Maintained margins in Cultured Foods and Specialty Cheeses coupled with volume growth in line with the underlying categories.
- Slowly increasing EBIT contributions from International.

In our view, the net impact is for total EBIT to increase slowly from our base forecast for 2003.

Our valuation provides a forward Value/EBIT multiple (ie based on our EBIT forecast for 2003) of approximately 9. This is toward the lower end of comparable companies internationally. In our view, this is appropriate given the relative market growth of different countries and the margin pressure we are forecasting for NZDF.

2.4 Factors to Consider in Regard to the Offer

The following factors have been considered in regard to assessing the merits of the Rank Offer.

The Rank Offer is at the low end of our valuation range. However, our valuation is only appropriate for a long term shareholder. Shareholders are unlikely to secure an exit price for their shares that is equal to or higher than the Rank Offer in the near future. Shareholders are also likely to continue to face a material discount to value if they wish to sell their shares over the medium to long term.

A higher value offer or sale opportunity is not likely to arise. Rank has already increased its offer after discussions with the NZDF Board and the substantive condition of the Rank Offer has already been met (with Fonterra's acceptance). Therefore, there is no reason to expect that Rank will increase its current offer. A higher offer from another party involved in the current sales process must be regarded as extremely unlikely as no other potential offeror could expect to secure control unless Rank is willing to sell.

Shareholders should also note that, as control has essentially passed, a listing on the Stock Exchange could only occur with Rank approval. Rank is reported as stating it has no intention of seeking such a listing.

Rank has not articulated any plans for NZDF, other than a statement within the offer documentation as follows:

> *Rank's plans for NZDF will evolve over time and may include running the business on a stand-alone basis, integrating the business wholly or partly with any other business in which Rank has or may have an interest, merging with another business or entering into joint ventures or other forms of partnership or joint arrangements.*

Accordingly, it is impossible to quantify the value impact that Rank may have as a controlling shareholder compared to Fonterra. However, shareholders should consider that Rank has had the opportunity to form a view on the underlying value of NZDF, the ability of Rank to improve on that value and the value at which to make an offer to provide an expectation of a satisfactory return to Rank.

Shareholders that reject the offer are fully exposed to the positive or negative impact of new management plans and financial policies that may emerge under Rank control. Rank has made no substantive announcements in regard to these issues. Shareholders that reject the offer face the risk that, subsequent to the control change, one or more of the following occurs:

- That the management plan pursued under Rank control is not good for value.
- That the financial policies pursued under Rank control are unsuitable. This may be due to the borrowing policy or dividend policy adopted under Rank control.

Should either of these situations arise, the options available to shareholders are extremely limited:

- Collectively or individually, minority shareholders will have no real ability to change or influence the operations of the company.
- The ability for shareholders to subsequently exit without a substantial discount may be remote.

Shareholders that reject the offer should also be aware that the extent to which NZDF, under Rank control, provides information in excess of statutory requirements that allows shareholders to monitor their position, is uncertain.

2.5 Conclusions

The purpose of this report is not to provide a recommendation to shareholders. Shareholders should exercise their own judgement in considering the decision whether to accept or reject the Offer. Shareholders should use all relevant information, should seek professional guidance where appropriate and consider their individual positions and circumstances.

However, we expect that shareholders who reject the offer and elect to remain as shareholders will have a long term investment horizon, have firm views that Rank has the capability to add value to NZDF and be indifferent to the financial policies the company may potentially adopt. We would expect that shareholders who do not meet this description are more likely to accept the offer.

3 Background to the Report

3.1 The Requirement for a Sale Process

The Dairy Industry Restructuring Act 2001 (the Restructuring Act), facilitated the formation of Fonterra Cooperative Group Limited (Fonterra). Fonterra was created by the combination of New Zealand Cooperative Dairy Company Limited (NZDG), Kiwi Cooperative Dairies Company Limited (Kiwi) and the New Zealand Dairy Board (NZDB).

Fonterra has the following presence in the New Zealand dairy industry:

- It has supply contracts that represent around 95% of the available milk supply in New Zealand.
- It is responsible for nearly all dairy exports from New Zealand.
- It owns 83% of Mainland Products Limited (Mainland) and 50.0004% of NZDF. These two firms are estimated to account for over 80% of domestic sales of dairy products.

The Restructuring Act came into effect in September 2001. The Restructuring Act stipulated that Fonterra must dispose of all its shares in NZDF within 12 months of that date. The disposal is required to ensure control does not pass to a party that is an associated person of Fonterra (in practical terms this means Fonterra and NZDF cannot have substantially the same shareholders and Fonterra cannot own more than 25% of any shareholder in NZDF).

3.2 Overview of the NZDF Sale Process

NZDF is a code company for the purposes of the New Zealand Takeovers Code (the Code). Under the Code, a party making an offer for Fonterra's shares in NZDF must (unless 50% of the non-interested shareholders have consented) make the offer available to all NZDF shareholders.

After considering this and other factors, the Board of NZDF, believed the appropriate action that was in the interests of all shareholders was for the Board of NZDF to run a sale process, inviting offers for up to 100% of the shares in NZDF.

A sale process was initiated in September 2001, with a large number of potential buyers internationally being canvassed. Interested and qualifying parties had the opportunity to perform an extensive due diligence investigation of NZDF.

As a result of this process, Hollingbourne Holdings Limited, a wholly owned subsidiary of Rank Group Limited made an offer to acquire up to 100% of the shares in NZDF at $1.70 per share, conditional on 50% acceptances. After discussions between the Board of NZDF and Rank, the price of the Rank Offer was increased to $1.75 per share.

Fonterra, the owner of 50.0004% of NZDF voting securities has irrevocably agreed to accept this offer. Accordingly, the only substantive condition of the Rank Offer has been met.

3.3 The Position of NZDF Shareholders Other Than Fonterra

The offer of $1.75 per share is being made to all shareholders in NZDF.

Shareholders must decide whether to accept or reject the offer:

- If a shareholder accepts the offer, they will receive $1.75 per share.
- If a shareholder rejects the offer, they face one of the following outcomes:
  - Remaining as a shareholder in NZDF, with Rank as the new controlling shareholder.
  - Having their shares compulsorily acquired in accordance with the provisions of the Code (if acceptances total more than 90% of the shares and Rank exercises its right to compulsorily acquire the outstanding shares).

4 Scope and Structure of the Report

4.1 Code Requirements

Under the Code, NZDF Directors must obtain a report from an independent adviser on the merits of the offer. This report fulfils that obligation.

The Code does not further define the phrase "merits of the offer".

4.2 Scope of Report

In order to comment on the merits of the offer pertinent to NZDF shareholders, this report considers the following issues:

- An assessment of the value of the offer compared to our independent valuation of the company.
- An assessment of other factors relevant to the decision faced by shareholders. This includes:
  - The prospects for higher value sale alternatives arising. This is in turn requires an assessment of:
    - The quality of the sale process that was undertaken.
    - The position of Fonterra in regard to the offer.
  - The prospective impact on value arising from the change in controlling shareholder. This includes consideration of:
    - The intentions of Rank in regard to the business plan and financial policies of NZDF.
    - The impact of Fonterra exiting as controlling shareholder.
  - The investment horizon of shareholders.
  - The impact on shareholders as suppliers to the dairy industry and as Fonterra shareholders.
  - The risks to shareholders of remaining as minority shareholders.

4.3 Layout of Report

The remainder of this report is laid out as follows:

- Section 5 describes the Rank Offer.
- Section 6 provides an overview the New Zealand dairy sector.
- Section 7 provides a profile of NZDF.
- Section 8 contains our independent valuation of NZDF and related discussion.
- Section 9 contains our assessment of the factors that are relevant to shareholders in considering the merits of the offer.
- Section 10 concludes our analysis on the merits of the offer.

5 The Takeover Offer

5.1 The Offer

Hollingbourne Holdings Limited, a wholly owned subsidiary of Rank Group Limited has made an offer to all shareholders. The salient points of the offer are as follows:

- The offer is for all the ordinary shares in NZDF.
- The consideration is $1.75 per share.
- The offer is conditional on receipt of acceptances which take HHL's voting rights to more than 50% of the voting rights in NZDF. Fonterra has irrevocably agreed to accept the Rank Offer so this condition is now satisfied.
- The offer also has a number of standard conditions in regard to the behaviour of NZDF between the date of the offer and the date it is declared unconditional by Rank.

5.2 The Offeror

The offeror is Hollingbourne Holdings Limited (HHL), a wholly owned subsidiary of Rank Group Limited (hereafter collectively referred to as "Rank"). Both companies are controlled by New Zealand businessman Graeme Hart. Graeme Hart is the only listed shareholder in Rank and is the sole director of HHL.

The major assets of Rank are securities in Burns, Philp & Company Limited (Burns Philp). Burns Philp is based in Australia and is principally a food ingredients manufacturer. It has operations in more than 25 countries and in the year ended June 2001 had sales of A$1.4 billion and net profit after tax of A$88.5 million.

Burns Philp has three security instruments listed on the Australian Stock Exchange – ordinary shares, convertible preference shares and options. Based on prices at the close of trading on 5 April 2002, we estimate that in total, Rank held approximately 55% of these securities (by value) with an approximate value of A$850 million.

Prior to the takeover offer, neither Rank, nor any of its associates held or controlled equity securities in NZDF.

5.3 Plans for the Company

Rank has made the following announcements in regard to its plans for NZDF:

- "Rank's plans for NZDF will evolve over time and may include running the business on a stand-alone basis, integrating the business wholly or partly with any other business in which Rank has or may have an interest, merging with another business or entering into joint ventures or other forms of partnership or joint arrangements." – from the offer documentation provided by HHL.
- "Rank ... had no interest in listing [NZDF] on the Stock Exchange, or in immediate changes to the company's management ... Hart would not comment on his plans for the business". New Zealand Herald 6 April 2002.

5.4 Other Offer Considerations

Fonterra has entered into a binding irrevocable written undertaking that it will accept the Rank Offer in respect of all its voting securities in NZDF. Fonterra owns 50.0004% of the voting securities in NZDF.

Fonterra has also given an undertaking that it will not supply milk to the region of New Zealand above Taupo from a facility within that region for a period of three years. Essentially, Fonterra is agreeing to not build a milk processing facility in the upper North Island for that period.

The agreement with Fonterra also requires Fonterra to enter into a licence deed with NZDF after completion of the Rank Offer. This licence deed will provide NZDF with an exclusive, free and perpetual right to use the key trademarks of Anchor, Fernleaf and Chesdale in New Zealand. This licence deed will replace the existing licence arrangements Fonterra and NZDF for these trademarks.

6 The New Zealand Dairy Sector

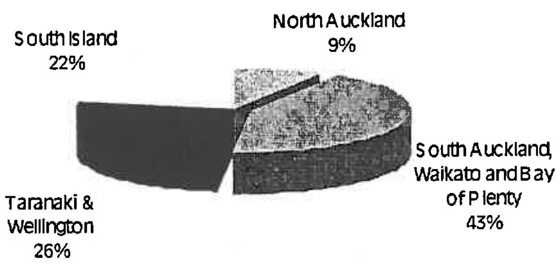
6.1 Production and Export

In 2001 there were approximately 14,000 dairy farms in New Zealand managing an estimated 3.3 million dairy cows.

New Zealand's total milk production during the 1999/2000 season was nearly 12 billion litres. Total production during the 2000/2001 season was an estimated 12.4 billion litres.

The majority of New Zealand's total milk production, 52%, is sourced from the upper North Island (North Auckland, South Auckland, Waikato and Bay of Plenty).

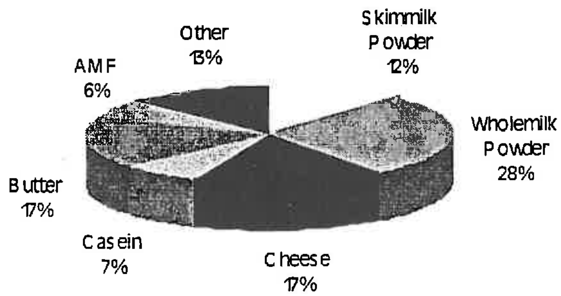
Distribution of New Zealand's Milk Production



Source: NZDB, Dairy Facts and Figures 1999/2000

New Zealand exports approximately 95% of its dairy production. By product type, over 74% of total volume is in Butter, Cheese and Dry products. Wholemilk powder has traditionally been the single largest dairy product exported by both volume and value measures.

Volume of NZ dairy exports by product type 99/00



Source: NZDB, Dairy Facts and Figures 1999/2000

6.2 The Creation of Fonterra

New Zealand dairy industry production has historically been undertaken by the various farmer co-operatives. These cooperatives in turn owned the New Zealand Dairy Board (NZDB), which until September 2001, held a statutory monopoly on dairy exports. The co-operatives' primary focus was the production of dairy products for export, with NZDB focussing on marketing that production internationally.

Industry mergers led to the two major cooperatives, NZDG and Kiwi, controlling around 95% of the country's total milk production in the 2000/2001 season.

Under the Restructuring Act, Kiwi and NZDG amalgamated to become Fonterra. Fonterra now controls 95% of raw milk production and is the sole owner of NZDB following the buyout of the interests of other minority dairy cooperative companies.

Fonterra is deemed a co-operative company for the purposes of the Co-operative Companies Act 1996.

The Restructuring Act deemed Fonterra's creation legal and authorised for the purposes of the Commerce Act.

The Restructuring Act requires Fonterra to unconditionally dispose of all its shares in NZDF within 12 months of enactment. The divestment must not result in control of the assets of NZDF passing to a party associated with Fonterra. The assets must be those held by NZDF as at 1 June 2001, and any other assets acquired after that date and prior to divestment.

The remaining dairy co-operatives operating in New Zealand that did not become part of Fonterra are Westland Co-operative Dairy Company Ltd ("Westland ") and Tatua Co-operative Dairy Company Ltd ("Tatua").

Westland, based in Hokitika, is involved in the production, supply and export of milk powder and butter. Westland also supplies butter to the domestic market.

Tatua manufactures and processes a number of high value, low-volume, dairy products for the domestic and export markets at its single manufacturing site at Tatuanui (Waikato). These products include a variety of milk proteins, aerosol creams and UHT beverages.

6.3 Regulation of Industry

Regulation of the dairy industry in New Zealand was also reformed by the Restructuring Act, which came into effect on 27 September 2001.

In addition to the creation of Fonterra through the amalgamation of NZDG, Kiwi and NZDB, other important aspects of this legislation for NZDF include:

- Provisions which require Fonterra to supply milk and milk products to independent processors and establish pricing methodologies for this supply.
- The establishment of principles for the fair entry and exit of Fonterra shareholders, improving the ability of independent processors to secure direct supply of raw milk independent of Fonterra.
- The removal of NZDB's statutory monopoly over the export of milk products.

6.3.1 Independent Processor's right to obtain milk from Fonterra

The government issued the Dairy Industry Restructuring (Raw Milk) Regulations 2001 in early November 2001 (the Regulations). The Regulations provide the minimum terms of a methodology for establishing the wholesale price of raw milk and set minimum quantities of raw milk, which Fonterra is required to make available for supply to independent processors such as NZDF.

The relevant Minister may make a recommendation for an Order in Council to terminate the Regulations once a wholesale market for raw milk has been developed in New Zealand.

The key elements of the Regulations are as follows:

- The total volume of raw milk that Fonterra must supply to NZDF and its interconnected body corporates is limited to 250 million litres per season.
- Fonterra may require independent processors to estimate the quantity of raw milk to be supplied by Fonterra.
- Fonterra may require an independent processor to contract to buy a quantity of raw milk not exceeding 80% of the quantity of raw milk estimated by the independent processor.

- Independent processors may require Fonterra to contract to sell a quantity of raw milk not exceeding 120% of the quantity of raw milk estimated by NZDF.
- Fonterra may require that a contract to supply raw milk to independent processors includes terms that are reasonable with regards to industry practice before commencement of the Regulations.

- Regulation does not allow Fonterra to require that a contract to supply raw milk to independent processors includes a take or pay requirement.

The supply arrangements contained within the Regulations have largely been superseded by contractual arrangements established between Fonterra and NZDF (see section 7.4).

6.3.2 Right to Export

Under the previous industry structure, the NZDB controlled all exports of dairy products produced in New Zealand. Following the creation of Fonterra, the NZDB's statutory monopoly on the export of dairy products was repealed. The Restructuring Act provides for a specific regime controlling access to certain designated markets in respect of which the New Zealand government has negotiated export quotas.

6.3.3 Pricing

The Regulations state that Fonterra and independent processors may agree on the price for the supply of raw milk. However, independent processors may require Fonterra to supply raw milk at the default milk price. For every season after 2002 this default milk price applies to:

- Raw milk required by the independent processor from Fonterra in October; and
- Raw milk required by the independent processor in August or September or November or December or January or February or March or April that does not exceed by more than 10% the raw milk required by the independent processor from Fonterra in October in that series of months.

The default milk price for raw milk supplied to NZDF in a season is the Wholesale Milk Price (WMP) for the season plus:

a. for raw milk, except organic milk or winter milk (May, June or July), the reasonable cost of transporting the raw milk to NZDF; and

b. for organic milk:

    1. the reasonable cost of transporting the raw milk to NZDF; and

    2. the reasonable additional costs to Fonterra of procuring and supplying the organic milk; and

c. for winter milk:

1. the reasonable cost of transporting the raw milk to NZDF; plus
2. the additional cost of winter milk in the island in which the winter milk is supplied.

WMP is an attempt to define true farm-gate prices for milk by subtracting from the total payout a farmer receives a portion representing the annualised value of the off-farm activities of Fonterra. WMP is derived as follows:

- Fonterra is required to annually establish a fair value for its shares.
- From this valuation, the Annualised Share Value (ASV) is determined. ASV is the annuity that discounts to equal the per share valuation.
- The ASV is then deducted from the sum of the total payout for the season and any retention (ie retained earnings).
- The result is WMP.

6.4 The Domestic Market

Total retail revenues from dairy product sales in New Zealand are estimated at approximately $1.1 billion. The sector has two major categories:

- Beverages – predominantly fresh milk and cream. These two products account for approximately $570 million of sales.
- Foods – including butter, cheese, powders and cultured foods such as yoghurts and cottage cheese.

The major players in the domestic market for dairy products in New Zealand are NZDF and Mainland. These two companies have operations spanning all significant segments of the market, hold either the number one or number two positions in each of these markets and have a combined market share estimated at around 80% of dairy product sales.

A detailed description of NZDF is contained in section 7.

6.4.1 Mainland

Mainland is NZDF's major competitor in the New Zealand domestic market for dairy products.

Mainland is 83% owned by Fonterra and 17% by Aorangi Laboratories Ltd. Aorangi Laboratories is a private company.

Mainland's major business activities include:

- The acquisition of unprocessed milk for manufacturing fresh and UHT milk, cream, yoghurt and specialty cheeses.
- Packing, wholesaling and marketing of certain dairy products for the domestic market.
- The manufacture and packaging of specialty cheeses for export.
- Wholesaling of processed meats and other small goods.
- Supply of chilled food products.

The major trademarks used by Mainland include Mainland, Valumetric, Galaxy, Ferndale, Tararua and Meadow Fresh.

6.4.2 Other Beverages Competitors

United Milk Limited (United) is a joint venture company between a group of independent milk suppliers and a major retailer (Foodstuffs Wellington). United supplies Foodstuffs Wellington's cooperative members. At present, United produces an estimated 14.6 million litres per annum. This equates to a market share in milk volumes of approximately 18.3% in the lower North Island, and accounts for 4.2% of the national total.

There are also a number of smaller companies operating in the domestic dairy market, typically with a geographic focus (for example, Gisborne Milk, Top Milk Ltd, Southern Fresh Milk Company)

In the Fresh Flavoured Milk category, where products are positioned in the market as cold beverages, competing with products such as soft drinks and juices, NZDF (Primo) and Mainland (Nature's Energy) face competition from Australian firm Bonlac (Wave) and Cadbury New Zealand (Cadbury).

6.4.3 Other Foods Competitors

In addition to Mainland, there are a number of competitors in the Dairy Foods section of the market including:

- National Foods in yoghurt and dairy foods.
- Bonlac, in UHT Milk, processed cheese and cream cheese.
- Kapiti, in specialty cheeses.
- Unilever, in blends and spreads; and

- Goodman Fielder Ltd, in blends and spreads.

National Foods is a publicly listed Australian consumer foods products company with a market capitalisation of A$870 million. Sales for 2001 were A$970m of which approximately 90% was generated from milk and dairy foods.

Bonlac is an Australian dairy co-operative. The company processes and supplies milk, produces dairy ingredients and distributes consumer food products.

Kapiti is a privately-owned New Zealand specialty cheese manufacturer located in the lower North Island

Unilever is a major international consumer goods company. In New Zealand it manufactures branded and packaged consumer goods.

Goodman Fielder is a publicly listed Australian company with a market capitalisation of A$1,910 million. The company manufactures and sells consumer foods in Australasia and internationally. Sales for 2001 were A$3,062 million of which approximately 17% were generated in New Zealand.

7 Profile of NZDF

NZDF is a fast-moving consumer goods (FMCG) company that processes, manufacturers and markets fresh milk and related dairy products in New Zealand and overseas. NZDF operates in three divisions:

- Beverages
- Foods
- International

7.1 Beverages

Beverages Division produces a broad range of products under some of New Zealand's most well known brand names and enjoys strong market shares in fresh milk, flavoured milk and cream.

In the year ended 31 May 2001, the Beverages Division processed 170 million litres of milk, equivalent to roughly 45%[3] of the fresh milk consumed domestically in New Zealand and earned over $186m in revenues.

The products and brands included under Beverages Division are listed below:

PRODUCT	BRAND
Fresh white milk	Simply Organic, Anchor
Fresh flavoured milk	Primo, Bullet
Yoghurt drink	Fresh 'n Fruity Smoothie
Cream	Anchor
UHT Flavoured milk	Primo
Juices and Drinks	Zing, Olè

NZDF owns the intellectual property for most of the above brands with the exception of the Anchor brand, which NZDF licences from Fonterra. The licence agreement is for an initial term of 20 years and is renewable in 5 year terms by NZDF in perpetuity.

Beverages currently produces approximately 120 stock keeping units (SKU's).

[3] Unless otherwise stated, market size and share data are sourced from NZDF.

7.1.1 Milk

Fresh white milk comprises over 90% of the total volume sold in this category. Fresh flavoured milk and fresh cream make up 4% and 3% respectively.

The two key participants in the national fresh milk and cream market are NZDF and Mainland. We estimate that these two companies account for 86% of total national sales in fresh milk and cream.

NZDF products in the fresh flavoured milk category are sold under the Primo, Bullet and Fresh n Fruity Smoothie brands. The products are positioned in the market as cold beverages, competing as substitutes with products such as soft drinks and juices. This category represents less than 2% of the Key Account Total Cold Beverage market in New Zealand, but is growing.

However, increased competition is also expected in this category from such companies as Mainland, Premium and Bonlac.

7.1.2 Geographical Characteristics and Growth

The table below shows the trends in milk volumes sold by NZDF.

	1999A	2000A	2001A	2002F
Volume (litres million)	166.7	164.7	170.1	174.7
Growth (%)		-1.2%	3.3%	2.7%

The total market for milk in New Zealand is not expected to grow ahead of population growth and there is some expectation of declining per capita consumption.

The market for fresh milk in New Zealand has distinct geographical characteristics. NZDF has its competitive strength between Warkworth and Taupo, whereas Mainland is strongest in the lower North Island (through the Tararua brand), and the South Island (through the Meadow Fresh brand).

For NZDF, growth ahead of population trends has arisen from geographic expansion and resulting market share gains.

The geographic expansion of NZDF has occurred mainly through acquisitions. In 1997, NZDF merged with Intermilk Ltd (Bay Milk), expanding its presence in the Bay of Plenty region. In 2000, NZDF took a 50% stake in regional company Marlborough Milk Company Ltd, its first direct investment in the South Island.

In September 2001, NZDF decided to build a new milk processing facility, capable of producing white milk and cream, based in Christchurch and to be operational by April/May 2002.

The new Christchurch plant will give NZDF the opportunity to capture market share in the South Island. It also supports NZDF's strategy of being a national milk supplier, reducing the probability of other potential market milk start-ups in the South Island.

7.1.3 Retail Distribution Channels

There are two distinct retail groupings for milk sales. These are:

- Key Accounts – principally supermarkets. Within this category, NZDF provides proprietary branded product and product branded for the supermarkets (housebrands).
- Non-Key Accounts (or route trade) – principally convenience stores, oil company (petrol stations) and home delivery.

Margins earned on sales to Non-key Accounts are generally materially higher than those earned from Key Accounts.

Important recent developments in the retail channel mix are as follows:

- Non-key Accounts have lost market share to the Key Accounts channel.
- Within the Key Accounts Channel, there has been a noticeable shift from proprietary brands to housebrands. The dramatic increase in raw milk costs during 2001 saw propriety brands' retail prices increase 14% in six months, contributing significantly to growth in housebrand share. Margins earned on housebrand volumes are lower than for branded product.
- Oil companies are the single largest grouping within the Non-key Accounts group. These customers are increasingly aggregating their buying power and behaving more like Key Account customers with a consequential negative impact on margins.

7.2 Foods

The Foods Division within NZDF has operations in three business streams:

- Cultured foods.
- Butter, cheese and dry (ie powders).
- Speciality cheese.

The following table outlines NZDF product and brand offerings in the Foods Division.

PRODUCT	BRAND
Yoghurt	Fresh 'n Fruity®, Swiss Maid®, Metchnikoff®, De Winkel®, Slimmers' Choice®, Simply Organic®, Cartoons® (licenced)
Dairy Food	Swiss Maid Calci-Yum®, Cartoons® (licenced), Hairy Maclary® (licenced)
Cultured cheese	Country Goodness®, Slimmers Choice®
Custard	Swiss Maid®
Dips	Country Goodness®
Butter, spreads	Anchor®, Fernleaf®, Anchor Country Soft®, Anchor Spreadable®
Block cheese	Anchor®, Cloverlea®
Grated cheese	Anchor®, Hostess®
Processed cheese	Chesdale®
Specialty cheese	Ornelle®, Royal Tasman®, Anchor®, Bouton d'or®, Puhoi, Aakronia, Golden Goat
Sweetened condensed milk	Anchor®
Powdered Milk	Anchor®

Note: All Anchor® brands are used under licence

Source: NZDF

The division has approximately 540 SKU's. Specialty cheeses and cultured foods make up a significant proportion of this number.

NZDF has strong market positions in all the major product segments within the Foods Division.

NZDF has ownership rights over the intellectual property of proprietary brands used in the Foods Division, other than the Anchor, Fernleaf and Chesdale brands which are used under an exclusive licence agreement from Fonterra.

Within this division, NZDF's key focus is on the high growth categories of cultured foods and specialty cheese. Key Account volumes have grown in excess of 5% per annum in recent years.

7.2.1 Cultured Foods

This segment includes fruited yoghurt, health yoghurt, diet yoghurt, dairy food, custard, cultured cheeses and treats. All products are manufactured at NZDF's Takanini site. This business stream generated NZ$83 million in revenue during 2001.

Fruited yoghurt is the biggest selling product in the cultured foods category. NZDF's key brand, Fresh n Fruity commands a 54% market share.

The Health yoghurt segment is relatively small but has grown steadily in recent years. NZDF's market share of Key Accounts in Health Yoghurt is approximately 45%.

NZDF's Swiss Maid Calci-Yum leads the dairy foods category with competition from Yoplait and Meadow Fresh among others. NZDF commands a 61% market share of the dairy foods category sold through Key Accounts.

The category of cultured cheese consists of sour cream, cream cheese, cottage cheese and dairy based dips. NZDF brand Country Goodness is currently the number two brand in cultured cheese and is the largest dairy based brand in the fast growing dips sector. NZDF's market share of Key Accounts for the category is 37%.

7.2.2 Butter, Cheese and Dry

The key product categories in this segment are butter, blends, natural cheese, processed cheese and UHT milk powders. In FY2001, the segment generated NZ$103 million in revenues.

Butter is part of the broader "spreads" market and accounts for approximately 44% of all spreads. Butter is experiencing decreases in volume as consumer preferences switch to alternative spreads.

The most prominent brand in the market is "Anchor", the brand licenced to NZDF. NZDF commands a 69% share of the butter market. NZDF's major competitors in the spreads category include Meadowlea Foods Ltd (owned by Goodman Fielder). Meadowlea Foods has manufacturing and marketing operations in Auckland and is the leading margarine supplier with the Meadowlea and Olivani brands. Unilever is the second margarine supplier with its Flora and Olivio brands which are manufactured in Australia.

NZDF sources its butter in bulk from Fonterra. Margins on butter are low.

Block cheese is the largest category in the cheese market and is led by NZDF and Mainland. However there is almost no volume growth occurring in this market. The two key NZDF brands are Anchor (used under licence) and Cloverlea. The block cheese sector of the market is highly price competitive. NZDF commands 38% market share for block cheese.

NZDF sources its block cheese in bulk from Fonterra. Margins on block cheese are low.

All the processed cheese manufactured in New Zealand is made by Pastoral Foods Ltd (owned by Fonterra) which supplies both NZDF and Mainland. There is very little product differentiation because of this common supply source. Growth has been driven by the two leading brands Chesdale (NZDF) and Mainland (Mainland). Bonlac of Australia has recently introduced its Bega brand. NZDF has 36% market share for processed cheese.

The grated cheese sector is experiencing rapid growth off a very small base as consumers discover the convenience of the product. The sector is led by NZDF and Mainland principally through their Anchor and Mainland brands. NZDF has a 40% market share in the segment.

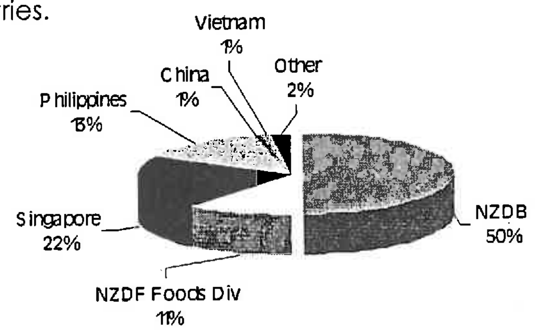
7.2.3 Specialty Cheese

The specialty cheese category covers a wide range of cheese types that sell for higher prices and in smaller sized units. This stream generated NZ$19 million in revenue in FY2001.

The market for specialty cheeses have grown by 10% per annum over the last 5 years. With the acquisition of Puhoi in 2000, NZDF holds the number 1 position with a market share of approximately 50% with competition from Mainland and Kapiti.

7.3 International

The two main product lines of NZDF's International Division are UHT beverages and fresh food products (which includes cultured foods and specialty cheese sourced from NZDF's Foods Division). International had sales last year of $29 million and sells directly under NZDF brands[4] into many South East Asian countries.



Source: NZDB, Dairy Facts and Figures 1999/2000

NZDF uses the Country Goodness brand in Asia for UHT. Markets include Vietnam, Malaysia, Philippines, Hong Kong and China.

Recently, NZDF has made substantial investments in its UHT plant including a total rebuild of the processing, packaging and downsteam equipment in order to ensure product is of the highest quality and has the required shelf life of 9 months.

The UHT plant has a manufacturing capacity of 32 million litres which is approximately 40% higher than current volumes.

Improving margins and growth are the two key challenges for the International Division.

[4] Country Goodness for UHT and Fresh n Fruity for cultured foods.

7.4 Supply Arrangements

7.4.1 Supply from Fonterra

The terms on which Fonterra must supply NZDF with milk and milk products are set out in three key supply agreements negotiated between Fonterra and NZDF. These are:

- Unprocessed Milk Supply Agreement.
- Cream Supply Agreement.

- Dairy Products Supply Agreement.

There are also two licensing agreements in place providing NZDF with rights to use the Anchor and Fernleaf brands in the domestic market as well as the Chesdale brands.

The key principles underlying the negotiation of the supply agreements included:

- Efficient operation of New Zealand's dairy markets.
- Vigorous and genuine competition between Fonterra's subsidiary Mainland and NZDF.
- Fonterra treating NZDF on equal terms with Mainland in the supply of raw milk, butter, cheese and ingredients.

These have resulted in supply agreements which give NZDF volume flexibility and pricing options, providing a high level of confidence that NZDF has a competitive cost base relative to Mainland.

The Unprocessed Milk Supply Agreement requires Fonterra to supply NZDF with up to 250 million litres of raw milk per year. The agreement commenced on the effective date of the Fonterra merger (16 October 2001) and is for an initial term of 10 years or until a wholesale milk market develops in New Zealand.

Under the agreement, NZDF is not required to take any minimum quantity of milk and may at any time purchase milk from any third party.

The Cream Supply Agreement governs the supply of cream by Fonterra to NZDF and the resale of up to 2 million litres of cream per season by NZDF back to Fonterra. The agreement is for a term of 10 years and commenced on the effective date of the Fonterra merger.

NZDF is not required to take any minimum quantity of cream under the agreement and may at any time purchase cream from any third party.

The Dairy Products Supply Agreement governs the terms and conditions on which Fonterra supplies manufacturing dairy products to NZDF. The main product categories covered by the agreement include butter, cheese and dry ingredients. Products supplied under the agreement include wrapped products packaged under the Fernleaf, Anchor, Chesdale and Cloverlea brands and unwrapped bulk products.

The Dairy Products Supply Agreement is particularly important as these categories are not covered by the Regulations. The contract has a 10 year term. NZDF is free to develop alternative sources of supply during the period of the agreement.

7.4.2 Own Supply

Independent dairy processors are currently dependent upon Fonterra for the supply of raw milk, block cheese and butter, but have the option under the Regulations to source raw milk directly from Fonterra suppliers.

Own supply would allow NZDF to access additional milk volumes to support export growth and expansion into milk product markets in Asia and to customise the terms on which milk is supplied. Own supply will also ensure supply security beyond the expiry of regulated supply arrangements.

Currently 95% of existing dairy farmers are supplier shareholders of Fonterra. Farmers are entitled to receive fair value for their shares in Fonterra if they decide to switch supply to another company.

NZDF is developing plans to secure own supply. On current estimates the 250 million litre cap on Fonterra supply will be reached in FY2005.

7.5 Production

7.5.1 Beverages Division

Currently all the products of NZDF's Beverages Division are produced at the Milk production facility in Takanini and are despatched via the main cool store on site. The Takanini site houses a plastics blow moulding operation and a beverages processing and filling operation.

The Takanini Beverages facility receives, pasteurises and packages liquid milk, cream and milk based products. Total capacity is dependent on SKU's produced and the hours the facility is operating. On the current setup, the plant is capable of around 160 million litres per annum.

In addition to the facility in Takanini, NZDF has a 50% interest in Marlborough Milk Company (MMC), acquired in 2000. MMC supplies milk to Blenheim and the northern regions of the South Island.

NZDF is completing the construction of a stand alone milk processing facility in Christchurch. The facility will initially have the capacity to process 50,000 litres per day over 2 shifts.

7.5.2 Foods Division

The manufacturing and processing operations of the Foods Division are spread over three sites:

- The main Takanini plant.
- Puhoi.
- Spartan Road, Takanini.

The main Takanini foods factory manufactures and packages fresh food products. The primary items manufactured are dairy food, fresh yoghurt and other cultured dairy products.

Currently the factory manufactures 350 to 450 tonnes of product a week into 145 SKUs and runs 5 days per week on 2 shifts per day. Capacity is dependent on batch size, packaging type and packaging weight. The factory is capable of operating 7 days per week.

The factory receives fresh skim and cream milk from the Beverages Division factory on site and supplements this with a powdered milk base.

The plant has two main batching lines, one dedicated to the manufacture of yoghurt and the other to non-cultured dairy products. These account for 80% of all products in the factory. In addition there is a third half-size batching plant for small volumes and a plant for the production of cottage cheese, cream cheese and sour cream.

The Puhoi Specialty Cheese Factory is a modern purpose–designed 1400 square metre facility built to full export standards. The factory operates on a 7 day per week basis with capacity up to 30 tonnes per week, depending on product mix. Current output is 1000 tonnes per annum. The plant produces soft white mould, fresh cheese and processed cheese, and processes both cows and goats milk. The plant also undertakes cutting and packing of all categories of cheese including yellow cheese, hard cheese and blue cheese.

Puhoi also operates as landlord to a second processing facility on site with capacity of 100 tonnes per annum. This plant is contracted to supply blue cheese and cream based products to Puhoi.

The Spartan Road Specialty Cheese Factory is a leased site and is currently in the process of being relocated to the Puhoi site. The current capacity of the plant is 500 tonnes per annum, operating in split shift seven days per week. The plant produces soft white mould cheese, uses manual wrapping and packing and meets export standards.

7.5.3 International Division

The UHT plant based in Takanini is capable of Aseptic heat treatment and packaging of milk, cream and other liquid based products.

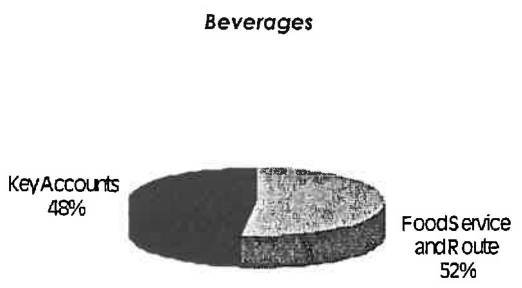
The plant has the capacity to produce 32 million litres per annum over six days but is currently operating a 4 day roster producing 23 million litres.

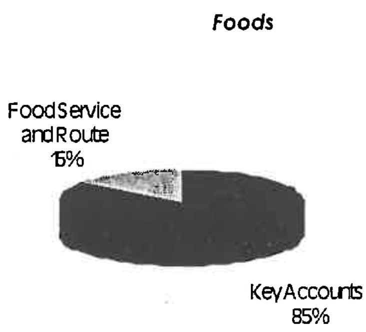
7.6 Channels and Distribution Arrangements

NZDF sells products through 3 main distribution channels:

- Key Accounts (supermarkets).
- Non-key Accounts comprising:
  - Route (convenience outlets and home delivery).
  - Food Service (caterers, national chains).

The chart shows the approximate revenue split for NZDF across the different channels.





Source: NZDB, Dairy Facts and Figures 1999/2000

7.6.1 Key Accounts Channel

This channel is dominated by three groups:

- Woolworths (NZ) Ltd – owned by Dairy Farm International Holdings Ltd (Hong Kong).
- Progressive Enterprises Ltd – owned by Foodland Associated Ltd (Australia).
- Foodstuffs – an affiliation of regional grocery cooperatives.

It is estimated that 85% of total grocery spend in New Zealand takes place through Key Accounts.

Characteristics of this channel are as follows:

- Contractual structures for the delivery of fresh milk. Gains or losses of market share and volumes can be significant as a result of the gain or loss of a single contract.
- High levels of price focus.
- Strong requirement for on-going promotional support.
- Rapidly increasing market share of housebrands in Beverages. This is not a feature of Foods.

7.6.2 Route Channel

The Route Channel comprises a retail universe of approximately 5,000 independent convenience outlets (eg dairies) and organised convenience outlets (the majority being owned by oil companies). The Route Channel is characterised by a low incidence of price promotion.

7.6.3 Food Service Channel

The major segments in the Food Service channel are National Contracts (eg KFC and Wendy's) and caterers and institutions (eg Hospitals). Characteristics of the operating environment include:

- The channel is contract driven for the large customers, typically with 2 to 3 year terms.
- National Contracts typically buy a narrow product range. The caterers buy a wide product range.

7.6.4 Distribution

The distribution mechanisms used by the Beverages Division include:

- Franchise distributors (Route Channel, Key Accounts in provincial areas and home-gate delivery).
- NZDF direct delivery.

There are over 80 NZDF franchised distributors throughout the North Island, who are self-employed owners of milk distribution franchises. The Beverages Division services these franchisees through a network of cool room depots. The franchisees on-sell product to home-gate delivery, route trade and food service accounts. Volume sold through franchisees continues to decline due to the shift to Key Accounts.

NZDF supplies Key Account customers in the Auckland area directly from Takanini using a combination of its own and contract drivers. Key Account customers outside of Auckland are supplied ex-depot using franchised distributors.

The distribution mechanisms used by the Foods Division include:

- Agency distributors.
- Key Account distributors (direct distribution via external operators to Key Account central warehouses or direct to store).

Agency distributors are owner-operated businesses that distribute both NZDF and other non-NZDF products and operate on a commission basis. There are 9 agency distributors in the North Island and 2 in the South Island. The agency distributors have contracts with the Foods Division on the basis of an exclusive regional territory. Over the last 3 years there has been a move from significant dependence on the regional network of agency distributors toward direct delivery to Key Accounts or to their central warehouses. The longer term role of the Foods Division agency distributors will be to serve the Food Service and Route Channels only.

7.7 Staff and Management

NZDF employs 859 staff with the majority being based at the main Takanini site. There are a small number of sales staff employed in Wellington and Christchurch and nine sales and operations staff employed at Puhoi Specialty Cheese Plant.

Summary of Employees

	WAGES	SALARY	TOTAL
Production/Distribution	577	57	634
Administration	29	196	225
Total	606	253	859

The Foods and Beverages Divisions together employ 721 staff with the majority being involved in production and distribution.

Of the employees, 467 have Collective Employment Contracts and are part of the New Zealand Dairy Workers Union. A further 369 employees have Individual Employment Agreements with company. The remaining 23 staff have Collective Contracts under the New Zealand Engineering, Printing and Manufacturing Union.

NZDF has a highly capable management team with extensive experience in industries including FMCG and dairy products. The team has expertise in:

- New product development.
- Branded goods management.
- Category and key account management.
- Cool chain distribution.
- Dairy product manufacturing.

7.8 Capital Expenditure

The table below shows recent capital expenditure by NZDF.

YEAR END 31 MAY	1998	1999	2000	2001	2002 (EST)
Capex $m	8.7	6.5	26.5	25.7	24.1

Prior to 2000, NZDF had relatively low levels of capital expenditure which allowed for an annual distribution to the shareholder (NZDG) of close to 100% of earnings.

With the reduction in NZDG's ownership to 50.0004% in 1999 and the establishment of its own governance structure, NZDF directors determined that significant re-investment was required to ensure the asset base of the business was protected, and the capabilities of the company enhanced.

Capital expenditure has been high in FY2000, FY2001 and 2002, as the company has undertaken 'catch-up' capital expenditure. In addition, the 2002 figures include the costs of the plant required for the expansion into the South Island.

7.9 Financial Performance

Summary revenue performance for NZDF is shown in the table below.

NZDF – REVENUE PERFORMANCE BY DIVISION Y/E MAY ($MILLIONS)	2000	2001	2002F
Beverages	179	186	202
Cultured Foods	81	83	92
Butter, Cheese, Dry	107	103	106
Specialty Cheese	9	19	21
Total Foods	197	205	219
International	23	29	34
Inter-company Adjustments	-4	-3	-
Total Revenue	395	417	455

Source: NZDF Annual Reports and Cameron & Company/NZDF Forecasts

Set out below is a summary of the financial performance for NZDF for recent years and the forecast results for the year ending 31 May 2002:

NZDF – FINANCIAL PERFORMANCE YEAR END 31 MAY					
Y/E 31 MAY ($ MILLIONS)	1998	1999	2000	2001	2002EST
Milk Cost (NZ$/kg)	3.69	3.88	3.95	5.04	5.20
Revenue	398	384	395	417	455
EBITDA	48	49	45	15	35[5]
EBIT	42	42	37	6	25[5]
Net Interest	1	1	1	5	6
Net profit before tax	41	41	36	1	19
Capex	9	7	27	26	24
Debt	0	0	26	65	65

Source: NZDF Annual Reports and Cameron & Company/NZDF Forecasts. The forecast for 2002 is based on prices, cost structures and monthly sales levels remaining materially unchanged for the remainder of the year.

NZDF explains the decline in financial performance and the growth in capital expenditure between 1999 and 2001 as follows.

- In FY2001, large and unexpected increases in the cost of raw milk which were retrospectively applied to milk supplied from the start of the financial year, had a major impact on profitability.
  - Typically, the price paid for milk during the year was not known until the very end of the financial year. In FY2001, NZDG's milk cost forecast was NZ$3.70/kg for the first half of the financial year, revised upwards in December to NZ$4.00/kg and yet again in January to NZ$4.50/kg, with all increases being retrospective to the start of the year. The cost of milk was NZ$4.60/kg by March 2001.
  - Increases in price were implemented in August 2000, April 2001 and again in August 2001 in a bid to restore profitability. However a combination of the timing of the price increases and the retrospective nature of the cost increase created a large profit shortfall.
- A substantial amount of the increased capital expenditure is described as "catch-up" for previous under-investment.
  - These amounts increased as the original capital allocated to the upgrade work (known as the Dairy 2000 project) was insufficient. This meant compromises were made that could not ultimately be sustained and had to be remedied on a permanent basis. In the past financial year, NZDF was forced to commit additional capital to achieve operational stability.

[5] Excludes non-reoccurring items. Total forecast EBIT for FY02 is $28m.

- The capital also includes amounts associated with the construction of the South Island beverages plant.

7.10 Financial Position

Set out below is NZDF's financial position as at 31 May 2001 and as at 31 March 2002.

NZDF – Financial Position as at	31 May 2001	31 March 2002
Cash	1.6	0.0
Receivables	45.8	42.6
Inventories	31.5	33.2
Total Current Assets	78.9	75.8
Payables	55.1	49.3
Short Term Borrowings	64.7	62.6
Prov for Tax	-2.3	0.9
Total Current Liabilities	117.5	112.9
Net Working Capital	-38.6	-37
Fixed Assets	81.5	90.8
Other Term Assets	4.9	4.0
Deferred Taxation	2.2	
Total Non-Current Assets	88.6	94.8
Total Assets	**167.5**	**170.6**
Share Capital	18.2	18.2
Reserves	31.0	40.6
Minority Interests	0.8	0
Total Equity	**50.0**	**58.8**

Source: NZDF Annual Reports and Forecasts. (Totals may not add due to rounding).

7.11 Capital Structure/Ownership

NZDF has 140 million ordinary voting shares on issue. Fonterra owns 50.0004% of the company with 70,000,528 shares and approximately 6,200 farmer shareholders collectively own 49.9996% with 69,999,472 shares. There has been minimal trading in the shares since trading became possible in December 1999. Consequently, with the exception of Fonterra, the share register is dominated by small holdings.

Until 2002, debt funding for NZDF was provided via short-term borrowing facilities from Fonterra. NZDF now has its own banking facilities with the Bank of New Zealand.

NZDF's only dividend to shareholders since becoming a stand-alone entity was a fully imputed 16.8 cents per share which was paid in August 2000.

8 Valuation

8.1 Overview

We have assessed the value of NZDF by estimating the fair market value of its combined operating divisions and then adjusting for the value of borrowings. The valuation reflects the value of NZDF as a going concern. Our valuation of NZDF's shares is made as at 31 March 2002, with reference to the available historical and forecast information relating to the business of NZDF and the industry in which it operates.

8.2 Valuation Approaches

There are two principal methodologies commonly used for valuing a business as a going concern:

- Discounted Cash Flow (DCF) analysis.
- Capitalisation of earnings.

8.2.1 Discounted Cash Flow Analysis

Under the DCF approach, assessing the value of the company involves calculating the net present value (NPV) of projected cash flows using a discount rate that reflects the risk associated with those cash flows. The discount rate used is the company's weighted average cost of capital (WACC). DCF analysis allows both the timing and risk of cash flows to be explicitly considered in the valuation. The most common approach involves an explicit forecast of cash flows for a specific period and the use of a terminal value calculation to assess the value of cash flows beyond the explicit forecast period.

8.2.2 Capitalisation of Earnings

Capitalisation of earnings methodologies value a company on the basis of observed market pricing multiples for listed companies with similar characteristics. It is most commonly applied in valuing businesses where a future "maintainable" earnings stream can be established with a degree of confidence and growth prospects are expected to be consistent with peer group companies for which market pricing multiples can be observed.

Generally, this applies in circumstances where the business is relatively mature, has a proven track record, relatively steady growth prospects and a reasonable set of comparator companies.

Capitalisation multiples can be applied to either estimates of future earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, and tax (EBIT) or net profit after tax (NPAT). Of these, the first two are generally preferred as they allow for comparisons that are independent of the capital structure of the companies being considered. The appropriate multiple to be applied to such earnings is usually derived by observing stock market trading in shares in companies that are considered to be comparable and with reference to recent merger and acquisition transactions involving similar companies.

8.2.3 Other Valuation Material

Other guides to value that were considered but not used are as follows:

- The 1999 PricewaterhouseCoopers ("PWC") Valuation.
- Recent prices at which NZDF shares have traded.

These options are discussed in the following two sub-sections.

1999 PricewaterhouseCoopers ("PWC") Valuation

In March 1999 PWC prepared a fair market valuation of NZDF "B" Shares. This valuation was based on actual EBIT of $41.9 million for 1998, and forecast EBIT for 1999 of $44.9 million growing to $50 million by 2003. Using these forecasts, PWC assessed the midpoint for the enterprise value of NZDF at $415 million (an implied Value/EBIT multiple of 9.2 times the 1999 forecast EBIT) and assessed the fair market value of the "B" Shares at a midpoint of $130 million or $1.86 per share after adjusting for the specific constraints facing the B shareholders.

We believe that the results of this valuation are no longer relevant. Since the time of the valuation NZDF has not met the implied forecasts. Furthermore, there has been a number of structural changes in the operating environment facing NZDF.

Prices of Share Transfers

Trading in NZDF shares has been very limited. Most transactions have been for small parcels of shares and in many cases the transfer price has not been disclosed. Of the transfers that do disclose a value, the majority have transacted at $1.86 per share. This price is equal to the midpoint valuation from the July 1999 Prospectus, and may be simply reflecting the only publicly available valuation information.

In addition, many of these recent transfers have been made under circumstances where the transfer has been to a related party such as transferring family ownership into trusts or companies. We do not consider the prices of these past transactions to be relevant for the purposes of our valuation.

8.3 Our Valuation Approach

Our approach has been to use DCF analysis to derive an enterprise value for NZDF. We have then subtracted the value of the debt in the company to derive a value for the equity. The DCF analysis is based on forecast cash flows and a terminal value calculation. The forecast cash flows have been derived from a combination of our own analysis and management's forecasts. We have cross checked the enterprise value derived from our DCF analysis against the implied Value/EBIT multiple. The implied Value/EBIT multiple for NZDF has been compared with the Value/EBIT multiples derived from an analysis of the sharemarket trading and transactions involving similar companies as described more fully in section 8.11 of this report.

8.3.1 Projected Cash flows

The projected cash flows used in our DCF valuation are based on a combination of management's projections and our analysis. The future performance of NZDF is dependent on the uncertain behaviour of their suppliers, consumers, the grocery channel, competitors and changes in the underlying economy. Despite detailed forecasting by product, the actual results can differ markedly from the forecasts. We have also discussed with management the potential risks and "downsides" facing NZDF, and we are satisfied these factors have been taken into account in our forecasts.

Generally we have placed a higher level of reliance on management forecasts in areas under management control such as the company's cost structure and capital expenditure.

In other areas such as market share and pricing we have made adjustments to management forecasts to reflect our judgements on NZDF's operating environment. In particular, we have more conservative views regarding the ability to sustain margins in the face of competition and the impact of changes in the proportion of sales accounted for by different distribution channels.

We have used an explicit forecast period of six years (to FY08) and a terminal value calculation to assess the value of cash flows beyond the explicit forecast period.

8.3.2 Terminal Value

We have forecast a terminal group trading EBIT margin of 9.1%. We have assumed a nominal perpetual growth rate of 2.5%, reflecting a real growth rate that is below expected long term GDP growth but in line with forecast long term population growth.

8.3.3 Discount Rate – WACC

We have discounted net operating cash flows using our assessment of NZDF's WACC. The WACC weights the risk adjusted returns required by the company's shareholders and debt providers by the respective proportions of equity and debt in the company's capital structure. The key parameter in estimating a company's WACC is the "asset beta" which measures the systematic risk of the company's business activities. We have estimated the asset beta for NZDF by reference to asset betas calculated for comparable listed companies. The key inputs for estimating NZDF's WACC are shown in the table below.

WACC INPUT	VALUE
Asset Beta	0.58
Risk Free Rate	6.95
Market Risk Premium	8.0
Corporate Tax Rate	33%

These inputs produce a nominal WACC for NZDF of 9.3%.

8.3.4 Net Debt

As at 31 March 2002, NZDF had group borrowings of $62.6 million. This figure has been deducted from our enterprise value to achieve a value for the equity of NZDF.

8.3.5 DCF Valuation Summary

Cameron & Company has estimated the equity value of NZDF as at the date of this report in the range of $308 million to $340 million or $1.75 to $1.98 per share. The table below summarises our DCF valuation of NZDF.

SUMMARY OF NZDF DCF VALUATION	LOW	HIGH
Nominal WACC	9.3%	9.3%
Enterprise Value	$308.1 m	$340.1 m
Less Net Debt as at 31 March 2002	$62.6 m	$62.6 m
Equity Value	**$245.5 m**	**$277.5 m**
Number of Shares on Issue (million)	140	140
Value per share	**$1.75**	**$1.98**

8.4 Factors Relevant to the Valuation

We have tested the outcome of our DCF valuation by considering a range of sensitivity analyses, based around the key drivers affecting the value of the NZDF business. Value drivers are those assumptions that have a large impact on the valuation outcome. They can be divided into those that are more certain and those that are less certain.

The key value drivers we have focused on are variables that we believe represent the highest areas of uncertainty. These are as follows:

- The gross margin on milk – this is the key driver affecting the earnings and cashflow of NZDF.
- Volumes of milk sales.
- Category and market share growth in the Foods Division.

We consider that most areas of expenditure other than the cost of milksolids (the impact at which we capture in our discussion on milk margins in section 8.5.5), such as manufacturing costs and marketing and sales costs, are areas of greater certainty and less significant to our sensitivity analyses. These areas, although significant in absolute terms, are more predictable in nature and are under a greater degree of control by management. Our assumptions with regard to operating cost structures and capital expenditure are in line with those of management.

The capital expenditure plan includes expenditure on new product development in the cultured food category that will be required to support and facilitate growth and maintain current market shares. Other capital expenditure is largely renewal type expenditure associated with replacing and updating ageing plant and is generally at or slightly above levels of depreciation.

We do not consider the assumptions around the International Division to be a major value driver in this valuation given its small relative contribution to value. A very significant difference to the management view on this division is required to impact total value materially.

In the sections below we outline by business division the major factors considered in our assessment of the value of NZDF.

8.5 Beverages Division

8.5.1 Growth Prospects

In recent years total liquid milk consumption in New Zealand has been slowly increasing at a rate similar to the rate of population growth. We assume that this trend will continue. Charges in consumer preferences have resulted in a per capita consumption decline in plain whole milk, while consumption of fat reduced and enhanced milks is increasing.

In addition to underlying growth in line with population, we expect further growth for NZDF in the short term as a result of its expansion into the South Island. NZDF has received a favourable response from major potential customers in the South Island. However, we assume market share growth will be constrained by a desire to avoid value-destroying price competition.

8.5.2 Beverages EBIT Margin

We believe the factors outlined in the next three sections have permanently changed the wholesale milk market and are likely to mean that sustainable EBIT margins, already lower than those experienced prior to 2000, are likely to trend lower. EBIT margins of milk processors in Australia and Europe are materially lower than those experienced by NZDF prior to 2000.

8.5.3 Change in Channel Mix

Historically the Route Channel, which provides higher margins for milk sales has been the dominant channel. Over the last few years there has been a structural shift in the channel mix with supermarkets taking distribution away from convenience stores. This has resulted in a material shift in channel mix to lower margin Key Accounts.

Within the Key Account channel, there has also been a noticeable shift from proprietary milk brands to housebrands over the past five years. Housebrands accounted for 46% of Key Account sales in September 2001, compared with approximately 30% in 1996. This shift became more marked over the last 18 months as retail price for milk increased sharply. This trend has put pressure on margins as housebrand margins are lower than branded margins.

Additionally, Oil companies, which account for a significant portion of the Route Channel are increasingly behaving more like Key Accounts. Through their considerable aggregated purchasing power they are negotiating lower margins and in one instance have created their own housebrand.

We expect these three trends to continue with consequential increasing pressure on margins.

8.5.4 Competition

Mainland and NZDF have strong market positions in terms of national fresh milk sales. NZDF estimates these two companies account for 86% of total national sales in fresh milk and cream. The substantial national processing and distribution infrastructure of both companies is a competitive advantage for servicing national accounts. While small companies may be important in some areas, they lack critical mass to supply large customers.

A recent entrant into the milk processing industry is United. United processes fresh milk for Foodstuffs (Wellington). At present United produces an estimated 15 million litres per annum. One of the other supermarket chains may look to replicate the United initiative either in the Upper North Island or the South Island. This threat constrains the prospects for margin growth.

Geographic expansion by both NZDF and Mainland has led to competition between NZDF and Mainland brands with NZDF beginning to penetrate Mainland's traditional markets and vice versa. This geographic expansion creates the risk of potential competitive response, and is likely to create downward pressure on margins. This risk is increased where additional capacity has been created as part of geographic expansion, as is the case with NZDF in the South Island. We expect that NZDF's entry into the South Island will have the impact of reducing average margins.

8.5.5 Volatility of, and Responses to, Raw Milk Prices

Between 1999 and 2002, NZDF's financial performance was severely impaired by the combination of the following:

- Rapid increases in raw milk costs.
- NZDF's raw milk costs being applied retrospectively.

Recent forecasts for raw milk costs suggest a significant decrease in input costs is likely over the next 12 months. This raises the question of the extent to which NZDF can benefit from withholding or delaying the delivery of the benefits of these price reductions to the market place.

Under deregulation we expect to see greater transparency in the input cost of raw milk. Fonterra is now required to update NZDF regularly on forecast pricing details and generally there are greater levels of public reporting on forecast raw milk prices. Additionally, one of the major supermarket chains is now in the business of processing milk. We would expect that over time these factors will increase the correlation between wholesale and retail milk prices and the pricing lags associated with previous pricing mechanisms and information levels should be reduced significantly.

We believe the forecast decrease in milk input cost for FY2003 will enable NZDF to further recover margin lost in FY2001. We expect NZDF should be able to recover to pre 2001 levels adjusted for changes in channel mix, since that time (itself a material decrease). However, beyond that we expect that decreases in milk input costs will be reflected in lower prices.

Increasingly, we believe that changes in milk input costs will be passed through to retailers and consumers and the underlying downward pressure on margins outlined in our discussion in section 8.5.2 will dominate.

8.5.6 Sensitivity Analysis - Beverages

To measure the value impact from changes in margins on milk sales, we have examined the effect of a plus or minus 1% change in the EBIT margin for milk in each year of the forecast period and thereafter. A 1% change in the EBIT margin translates into approximately a 15 cent adjustment to NZDF's value per share.

With respect to milk volumes, we have calculated the impact on NZDF value of none of the volume growth anticipated in the South Island after 2003 being achieved. In effect, this would mean that volume growth was restricted to levels associated with population growth. This volume reduction translates into approximately a 9 cent decrease in the share value.

8.6 Foods Division

The dairy food categories in New Zealand are estimated to account for sales of approximately $500m market value per annum. NZDF has strong market share positions in all major product categories.

The Foods Division at NZDF is focused on three business divisions:

- Cultured Foods which includes yoghurts, cultured cheeses, and treats
- Butter, Cheese, and Dry Products
- Specialty cheese

Although NZDF is still market leader in butter, the Foods Division has been shifting its focus away from the more commoditised products of block cheese and butter and towards branded, value added products.

8.6.1 Cultured Foods

Cultured foods delivers the highest gross margin within the Foods Division. Gross margin for cultured foods is forecast to be flat to slightly increasing. This reflects efficiencies in the manufacturing and packaging areas being offset by:

- Relatively high levels of competition in these categories.
- Continued costs of product development and innovation.
- The impact on profitability from aggressive attempts to grow market share.
- The observation that current margins are in line with similar FMCG categories.

8.6.2 Butter Cheese and Dry

The total market for butter has been declining over recent years as consumer preferences shift to margarine and other spreads. The retail sector of the butter market has been experiencing volume decline of approximately 5% per annum. NZDF is still the market leader in butter.

Block cheese sales volumes have been declining slowly over recent years and this trend is expected to continue.

Our forecast has NZDF volumes for Butter, Cheese and Dry continuing to decline for the next three years and thereafter assuming zero growth in line with our expectation for the category. NZDF is essentially a retail packager and reseller of Fonterra products in this category. Margins are slim and NZDF has no real ability to affect them. We forecast margins to maintain current levels.

8.6.3 Specialty Cheese

The specialty cheese market has grown rapidly in recent years (10% per annum over the last 5 years) but still accounts for less than 10% of the total cheese market (compared to Europe where it is in the order of 20-30%). We believe this relatively immature market should continue to enjoy high single figure sales growth over the medium term. Increased brand marketing as well as new entrants into the category has added to category growth but intensified the competitive environment.

The acquisition of Puhoi Valley Cheese in 2000 by NZDF made it market leader in this category. We expect NZDF to achieve growth roughly equivalent to forecast category growth. However, we expect competition from Mainland, Kapiti and other new entrants should keep this a very competitive market. Therefore we expect any manufacturing efficiencies in this area to be offset by increased competition, keeping margins at current levels.

8.6.4 Sensitivity Analysis – Foods Division

To assess the value impact of margin fluctuations in Foods Division sales, we have examined the effect on value from assuming a plus or minus 1% change in EBIT margin (compared to our base case). A 1% change in EBIT margin translates into approximately a 12 cent adjustment to NZDF's value per share.

To measure the value impact of sales volume fluctuations in the Foods Division, we have measured the effect on NZDF share value assuming a plus or minus 1% change in volume growth for all Foods Division categories throughout the forecast period. A 1% change in volume growth translates into approximately a 6 cent adjustment to NZDF value per share.

8.7 International Division

NZDF's International Division has two main product lines - UHT beverages and fresh food products. The fresh food products are primarily sourced from NZDF's Food Division.

Our valuation is based on management's volume assumptions for both UHT beverages and fresh foods. However we have adopted more conservative margin assumptions that reflect the historical results of this division.

The removal of restrictions previously imposed by NZDB on dairy exports now provides NZDF with an opportunity to develop its export business. Export opportunities identified by NZDF include:

- A broader offering of UHT.
- Supply of ingredients to food services businesses.
- Expanding food distribution.
- Specialty cheese exports to a wider range of markets.

Although NZDF has close proximity to fast growing Asian markets it currently has limited distribution infrastructure in place. An additional challenge that NZDF will face is the difficulty of building brands internationally.

8.7.1 Sensitivity Analysis – International Division

We have assessed the value impact of margin fluctuations in the International Division by assuming a plus or minus 1% change in EBIT margin for the International Division throughout the forecast period and thereafter.

A 1% change in EBIT margin translates into approximately a 4 cent adjustment to NZDF's value per share.

To measure the impact on value from changes to assumptions regarding sales volumes in the International Division, we have assumed a plus or minus 3% absolute change in volume growth per annum throughout the forecast period. This change translates into approximately a 6 cent adjustment to NZDF value per share.

8.8 Other Factors Relevant to the Valuation

8.8.1 Relative Cost Structure of Direct Supply

NZDF has a contracted supply agreement with Fonterra. Fonterra is required to supply NZDF with up to 250 million litres of milk per annum. The agreement commenced on the effective date of the Fonterra merger and is for an initial term of 10 years. In principle, this supply agreement offers NZDF supply terms no worse than those of Mainland, its main domestic competitor. NZDF's current annual milk requirement is approximately 200 million litres. Our forecasts for milk supply required by NZDF show volume exceeding 250 million litres by 2005.

NZDF has stated its desire to secure its own direct supply of milk independent of Fonterra. We believe that in the short term it is unlikely NZDF will be able to source milk on better terms than the current contract with Fonterra permits. In addition, the current supply agreement allows NZDF to operate without the added need to manage a supply network, the associated testing of product and supplier relations and communications etc. In the medium to long term we believe there may be some advantages to NZDF from securing a direct supply of milk. Direct supply will further secure the company's domestic position in the milk processing market, create options for expansion and insulate NZDF from potential gaming of raw milk prices or volumes by its main competitor.

If NZDF chooses to develop its own direct supply, both its Takanini and Christchurch based processing plants are well placed geographically near large supply catchment areas.

Our valuation assumes that NZDF can secure direct supply as required on terms that neither materially enhance nor impair its cost base compared to the current situation.

8.8.2 Possible Strategic Initiatives – Powder Plant

Given changes in the regulatory environment, NZDF is now free to enter new business activities. For example, NZDF could secure direct supply agreements and compete with Fonterra in commodity export markets. A possible example is the construction of a wholemilk powder plant.

We have not incorporated any potential value from such a strategic initiative into our valuation for the following reasons:

- The markets in question are commodity markets. Prices are generally sufficient to allow an efficient competitor to earn its cost of capital (ie the return gives a value equal to the cost of building the plant). Under this assumption the construction of such a plant would have no value impact.
- Given its relative size, NZDF will have difficulty building a plant, or producing volumes for sale, of economic size.
- The production of a single commodity is unlikely to be efficient compared to manufacturing a range of dairy commodities. To be competitive, NZDF would need to find profitable ways of using the by-products created in production.

- It is possible that such an aggressive move by NZDF would lead to a competitive response domestically from Fonterra.

8.9 Model Outputs

The estimate of Y/E 2003 performance used in our valuation is shown in the table below:

NZDF – FINANCIAL PERFORMANCE YEAR END 31 MAY Y/E 31 MAY ($ MILLIONS)	1999	2000	2001	2002EST	2003EST
Milk Cost (NZ$/kg)	3.88	3.95	5.04	5.20	4.20
Revenue	384	395	417	455	459
EBITDA	49	45	15	35[6]	48
EBIT	42	37	6	25[6]	36
Net Interest	1	1	5	6	6
Net profit before tax	41	36	1	19	30
Capex	7	27	26	24	23
Debt at Year End	0	26	65	65	57[7]

Source: NZDF actuals plus Cameron & Company forecasts. See section 7.9 for 2002 forecast assumptions.

Our assumptions produce an EBIT forecast for 2003 of approximately $36 million. This is slightly below the management forecast for that period. The major assumptions in our forecast are:

- Price changes in Beverages that adjust for expected changes in the raw milk costs to provide EBIT margins that are equivalent to those earned in 1999/2000 adjusted for the impact of changes in channel and product mix since that time.
- Maintained margins in Foods, combined with changes in sales volumes that generally reflect changes in total category sales.
- Incremental improvement in International profitability.
- No major capital expenditure initiatives.

Beyond 2003, our forecasts of EBIT performance are driven principally by the following assumptions:

- Continuing pressure on Beverages margins.
- Continuing declines in contribution from butter and cheese.

This will be offset in part by:

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[6] Excludes non-reoccurring items. Total forecast EBIT for FY02 is $28m.

[7] The year-end debt position assumes no dividend is paid.

- Some short-term volume gains in Beverages from the entry into the South Island milk market.

- Maintained margins in Cultured Foods and Specialty Cheeses coupled with growth in line with the underlying categories.
- Slowly increasing EBIT contributions from International.

In our view, the net impact is for EBIT to increase slowly from our base forecast for 2003.

8.10 Valuation Sensitivity Analysis

In addition to testing the key operating sensitivities in the section above we have tested the outcome of our DCF valuation by considering changes to the underlying valuation model assumptions.

The valuation is very sensitive to the assumptions of discount rate and the terminal growth rate. The table below shows the relationship between changes in these assumptions and the valuation of NZDF shares.

Sensitivity Analysis – Implied Share Price ($)			
	Terminal Growth Assumption		
WACC	2.0%	2.5%	3.0%
8.8%	$1.89	$2.05	$2.23
9.3%	$1.73	**$1.86**	$2.01
9.8%	$1.58	$1.69	$1.82

8.11 Compco and Implied Multiple Reconciliation

As a cross check of our DCF valuation, we have analysed the Value/EBIT multiples implied by our DCF valuation and compared these against a range of comparable company Value/EBIT multiples.

The implied multiples based on the mid-point of our DCF valuation range and our estimates for FY2002 and FY2003 EBIT are set out in the table below:

IMPLIED MULTIPLE	2002	2003
EV/EBIT	12.9	9.0

8.11.1 Comparable Company (Compco) Analysis

We have undertaken a Compco analysis to consider whether or not the multiples implied by our DCF valuation are reasonable. The comparable companies have been identified based on our review of listed dairy processing, manufacturing, marketing and distribution companies and dairy industry transactions in New Zealand, Australia and the European Community. To compensate for the paucity of listed dairy companies in Australia and New Zealand we have also reviewed a selection of Australasian FMCG companies. Where the comparable multiple is for an overseas company, we also show the multiple adjusted for market relativity, recognising that there are fundamental differences between the New Zealand market and markets in other jurisdictions.

The following table summarises our earnings multiple comparisons

COMPARABLE COMPANIES					
COMPANY	COUNTRY	MARKET CAP	HISTORIC EV/EBIT MULTIPLE	FORECAST EV/EBIT MULTIPLE	RELATIVITY ADJ. FORECAST EV/EBIT MULTIPLE
Dairy Sector					
Groupe Danone	France	38,536	13.4	12.2	9.7
Parmalat	Italy	5,992	11.2	10.5	9.3
Dairy Crest Plc	United Kingdom	1,979	17.9	9.3	9.6
Bols Wessanen	Netherlands	1,410	6.8	7.7	7.6
National Foods	Australia	1,020	11.9	9.7	10.1
Simple Average			**12.2**	**9.9**	**9.3**
FMCG Sector in Australia and New Zealand					
Lion Nathan	Australia	3,066	10.7	9.9	10.3
Goodman Fielder	Australia	2,312	NM	10.0	10.5
DB Group	New Zealand	311	4.7	9.6	9.6
Simple Average			**7.7**	**9.8**	**10.1**

This Compco analysis of overseas dairy companies indicates an unweighted average prospective 2002/03 Value/EBIT multiple of 10.1 times. On a market relativity adjusted basis, this figure is 9.6 times.

- Groupe Danone is involved in the production and distribution of fresh dairy products as well as bottled water and biscuits.
- Parmalat is an international dairy company that produces and markets milk and other dairy products, as well as fruit juices, tea-based drinks, tinned foods and snacks.

- Dairy Crest is the third largest dairy company in the UK. The company is the fourth largest fresh liquid milk supplier and the market leader in cheese. Dairy Crest supplies fresh dairy products under the Yoplait brand name.

- BolsWessanen is involved in the production and sale of dairy products, convenience foods and cereal.
- National Foods is one of Australia's largest producers of milk and dairy products and household consumer products. In addition, it exports to Asia and the Pacific Rim.

Like for like comparison of multiples between companies is difficult given the lack of truly comparable companies. Of the companies listed above, Dairy Crest Plc is the only company that does not have any substantial non-dairy interests, which makes it the most pure dairy play for comparison purposes. In addition many of the Dairy companies listed above operate in Europe where compared to New Zealand and Australia the dairy industry is highly regulated and subsidised.

8.11.2 Analysis of Dairy Processing Industry Transactions

We have reviewed a range of transactions that have occurred in the dairy industry over the last five years. A summary of these transactions is set out in the following table:

COMPARABLE ACQUISITION ANALYSIS						
Date	**Target**	**Target Country**	**Acquirer**	**Purchase Price NZD$M**	**% Acquired**	**Historical EBIT Multiple**
Apr-97	Waterford Foods Plc	UK	Avonmore Foods	216	100%	5.3
Sep-97	Morning Star Group	US	Suiza Foods	1,807	100%	16.9
Jan-98	Express Dairies	UK	Shareholders	2,082	100%	10.0
May-98	Pauls Limited	Australia	Parmalat Aust.	601	100%	9.1
Apr-00	Ben & Jerry's Homemade	US	Unilever	265	100%	17.4
Apr-00	Bonlac Foods	Australia	NZDB	194	25%	5.7
Oct-00	Puleva	Spain	Azucarera Ebro Agricolas SA	807	100%	12.1

Dec-00	National Foods	Australia	NZDB	774	8%	8.9
Dec-00	Michael Foods	US	Investor Group	91	100%	5.8
Apr-00	Dean Foods Company	US	Suiza Foods	991	100%	7.5
Jul-01	Dreyer's Ice Cream Inc	US	Nestle SA	95	12%	22.9
Mar-02	National Foods	Australia	Dairy Farmers	691	8%	10.1
Simple Average						**11.0**

This review of comparable transactions indicates an unweighted average historic Value/EBIT multiple (adjusted for market relativity) of 11.0. This is lower than the comparable figure for NZDF derived from our valuation. It also suggests (based on the relativity between the historic and forward multiples of the Compco analysis) a forward looking multiple in line with our view for NZDF. The relatively wide range of transaction multiples may be explained by the unique circumstances pertaining to each transaction. For example, where there are large synergy gains available to the acquirer then a higher Value/EBIT multiple may be justified.

8.11.3 Conclusion – Implied Multiple Reconciliation

The implied Value/EBIT multiple of 9.0 times resulting from our midpoint DCF value and our estimate for FY2003 EBIT is at the lower end of the multiples implied by the share prices of other listed international dairy companies but possibly in line with the implied forward looking multiples and recent transactions involving dairy companies. We expect differences are due to the following:

- The current growth outlook for GDP in New Zealand is below the expected levels of growth for Australia and the other countries reviewed in our Compco analysis.
- We believe NZDF is facing a period of major pressure in its key Beverages Division. This assumption places pressure on company margins. By comparison the comparable companies whose margins are already at lower levels are expecting to maintain those margin levels. This means that for the comparable companies a greater proportion of underlying growth in revenue is expected to be converted to earnings growth.

Both of these factors suggest a Value/EBIT multiple toward the lower end of the Compco range is appropriate.

9 Factors to Consider in Regard to the Offer

9.1 Valuation

The revised Rank Offer is for $1.75 per share. Our independent valuation values the company at between $1.75 and $1.98 per share. The Rank Offer is at the bottom end of our assessed valuation range.

9.2 The Prospects of a Better Offer Arising

After discussions with the NZDF Board, Rank increased its offer from $1.70 to $1.75 per share. With the agreement of Fonterra to sell into the Rank Offer, the only substantive condition of the Rank Offer is met. Accordingly, there appears no reason to expect that in the event of non-acceptance by other shareholders, Rank will improve its offer.

In order to assess whether a better offer is likely to arise from a source other than Rank, it is important to consider two issues:

- The quality of the sale process.
- The impact of Fonterra's acceptance.

These issues are discussed in the following sections.

9.2.1 The Sale Process

NZDF appointed ABN AMRO as its advisers to the sale in the middle of 2001. ABN AMRO is a major global investment bank and is experienced in managing transaction processes of this nature.

The sale process that was followed by NZDF was substantial. Eighty-one potential trade buyers and 40 potential financial buyers across 16 countries were contacted and had the opportunity presented by the sale of NZDF actively marketed to them.

Of these, 27 expressed interest in and received a detailed presentation on NZDF and the opportunity presented by the sales process.

We have reviewed the sales process in detail and make the following comments:

- It is unlikely that a potential buyer of any material probability was unaware of the sale process or did not have the chance to participate.
- Participants in the sale process had access to high levels of information, had the opportunity to undertake extensive due diligence on NZDF and received high quality presentations from NZDF management.
- The valuation uncertainties created by the recent developments in the New Zealand dairy sector (the creation of Fonterra, the new regulatory environment, the uncertain nature of competition, the significant increases in raw milk prices and the dramatic reduction in NZDF profitability in 2001) make it extremely unlikely that a higher value offer with a confident prospect of being able to be accepted will be forthcoming from a party not involved in due diligence.
- The sales process provided sufficient time for potential bidders to organise themselves, form views on value, seek appropriate regulatory clearances and obtain financing (the fact that some did not is not in our view a fault of the sale process).
- The sale process retained high levels of discipline in terms of confidentiality and competitive tension.

From our review of the sale process, we observe:

- We have no reason to believe the sale process was not well run and there is nothing to suggest that an alternative sale process would have resulted in a higher offer.
- It is not likely that a credible offer will be forthcoming from a party not involved in the full process.

Other parties were involved in the full process and had the opportunity to submit offers. However, the prospects of a higher offer from these is now unlikely given Fonterra's acceptance of the Rank Offer.

9.2.2 Fonterra's Acceptance

Fonterra owns 50.0004% of the ordinary voting shares of NZDF. It has entered into a binding and irrevocable undertaking to sell its shares to Rank as part of this offer.

Control of NZDF will irrevocably pass to Rank. No higher offer could now secure control without the agreement of Rank.

Accordingly, in the absence of agreement from Rank, any party making an offer to NZDF shareholders now would be making it with the expectation of becoming a minority shareholder.

It must be regarded as extremely unlikely that an offer higher than the Rank Offer will be made on this basis.

9.3 The Prospects for an IPO

Given Fonterra's acceptance of the Rank Offer, the decision regarding whether to seek a listing on the New Zealand Stock Exchange is (in practical terms) subject to the agreement of Rank.

Rank is reported as stating it does not intend to seek a listing on the Stock Exchange. Accordingly, whether listing would represent higher value to non-Fonterra NZDF shareholders is probably not a useful avenue of investigation when considering the merits of the Rank Offer.

However, we would observe that the value that may have been achieved by Fonterra in exiting via a listing is uncertain:

- Fonterra and/or the Board of NZDF would have faced residual liabilities in regard to statements made in any prospectus. This leads to some degree of conservatism in IPO pricing.
- In order to improve the prospects of a successful float, IPO's usually list at a discount to the value observed in the trading immediately after the listing.
- The fact that Fonterra (a major shareholder) would have been exiting may have depressed the IPO price.

Given its controlling position and the proximity of the Rank Offer to our valuation range, it is not unreasonable for Fonterra to prefer a trade sale at the offer price rather than assuming the risks of an IPO exit.

9.4 The Impact on Value from the Change in Control

In making a decision on whether to accept the Rank Offer or remain as shareholders, shareholders may wish to consider the following:

- Whether Rank may be able to improve the value of NZDF above the level reflected in our valuation which is based on the current management plan.
- Whether the exit of Fonterra may have positive or negative value consequences for NZDF.

9.4.1 Rank as Controlling Shareholder

We believe Rank has no existing interests in the New Zealand dairy products sector and on current information will not through virtue of its ownership be able to extract synergies with NZDF.

Accordingly any short-term value enhancement from Rank ownership is likely to come from the stand-alone plans that Rank has for NZDF. In its offer documentation, Rank has stated the following:

> *Rank's plans for NZDF will evolve over time and may include running the business on a stand-alone basis, integrating the business wholly or partly with any other business in which Rank has or may have an interest, merging with another business or entering into joint ventures or other forms of partnership or joint arrangements.*

Rank is also reported as stating it has no interest in immediate changes to the current management team. Other than this, Rank has not commented on its plans for the business.

This does not allow us to produce a quantitative assessment of the prospective value of NZDF under the control of Rank. The following qualitative observations can be made, but cannot be weighted for their relative importance:

- Rank is an experienced investor in the wider food industry.
- Rank does not appear to have previous exposure to the New Zealand dairy sector or to the New Zealand FMCG sector. However, Rank has stated it has no immediate plans to change the management team of NZDF which has considerable experience in these sectors.
- NZDF is a significant investment for Rank, whereas it is a relatively minor investment for Fonterra.
- Rank is likely to believe it can make a satisfactory return at an entry price of $1.75.

Shareholders should consider that Rank has had the opportunity to form a view on the underlying value of NZDF, the ability of Rank to improve on that

value and the value at which to make an offer to provide an expectation of a satisfactory return to Rank.

9.4.2 The Exit of Fonterra

There is a risk that, once separated from Fonterra ownership, the competitive attitude of Fonterra will change in a manner that has a negative impact on NZDF value compared to our valuation. This negative impact could manifest itself in one of two ways:

- On the market side - through increased competitive activity in Beverages and Foods.
- On the supply side - through impairment of NZDF's relative ability to secure raw milk, butter and cheese or to use its key trademarks.

While there is some increased risk of these behaviours, we do not think the increased risk has a material impact on value for the following reasons:

- NZDF and Mainland have had common Fonterra control for a relatively short time-frame (ie since November 2001). Prior to the formation of Fonterra, NZDF and Mainland had distinctly separate shareholdings. The competitive attitude of both organisations was established at this time.
- The New Zealand dairy sector is substantially a two player market with Mainland and NZDF dominating most sales categories. Both companies are substantial, well funded and able to respond to aggressive competitive behaviour from the other. A dramatic increase in competitive behaviour is unlikely to be in either party's interest.
- NZDF has secured long term supply arrangements with Fonterra for its key raw materials and trademarks. The arrangements for these elements are already established on an arms-length basis that is independent of ownership. The terms of the contracts provide confidence in regard to the security of supply and in regard to the relative input prices between NZDF and Mainland.
- NZDF is expected to develop its own direct raw milk supply over time.

Further, Rank has secured undertakings from Fonterra in regard to the following:

- Fonterra will not supply milk to the region of New Zealand above Taupo from a facility within that region for a period of three years. Essentially, Fonterra is agreeing to not build a milk processing facility in the upper North Island for that period.

- Fonterra will enter into a licence deed with NZDF after completion of the Rank Offer. This licence deed will provide NZDF with an exclusive, free and perpetual right to use the key trademarks of Anchor, Fernleaf and Chesdale in New Zealand. This licence deed will replace the existing licence arrangements between Fonterra and NZDF for these trademarks.

These undertakings support our view about the moderate nature of the risk of increased competitive behaviour from Fonterra. However, we see the value implications of the specific undertakings being relatively moderate:

- Fonterra can already supply the upper North Island region without building further capacity in that region. Based on our discussions with NZDF management we do not believe the change in cost structure Fonterra would observe by constructing new capacity further north is substantial. The risks of competition from Fonterra exist regardless of whether new facilities are constructed. Furthermore, in terms of new capacity, potentially greater risks are posed by Key Accounts or independent operators with support from Key Accounts establishing plants in the upper North Island or South Island to provide housebrand milk into these regions.
- The existing licence periods on the key trademarks are substantial. Extending those rights does not have a material impact on the current value of NZDF.

In summary, it is difficult to make a strong prima-facie case that immediate value is likely to be materially different between Fonterra control and Rank control.

9.5 The Investment Horizon of NZDF Shareholders

Our valuation is based on the present value of the future cashflows we expect the firm to generate into perpetuity - ie this is the value today if the shareholder intends to be a shareholder forever. The extent to which this value can be realised by way of sale at any particular time is heavily dependent on the situation facing the seller at the time of sale.

To achieve a sale within our valuation range has an implicit assumption of a relatively liquid and informed market for NZDF shares. The reality post-takeover is that remaining shareholders will hold small minority parcels in an unlisted (and therefore relatively illiquid) stock.

While our valuation range is appropriate for a shareholder that intends to hold shares for the long term, where shareholders believe they may wish to sell their shares at some future stage, it is likely the price they will receive will be at a discount.

Discounts for small stakes in illiquid private companies can be significant. Research suggests these can range between 10% and 35%.

In our view and in the absence of revisions or changes to NZDF's business plan, it is extremely unlikely that post-takeover an existing shareholder would receive full value for its shares in a sale. In our view, based on our valuation range, a price per share of $1.75 would represent a good price for a small parcel of shares that was sold in the short to medium term after the expiry of the Rank Offer.

In our view this is an important issue for shareholders to consider. The Rank Offer is at the bottom of our valuation range. However, shareholders are unlikely to secure an exit price for their shares that is equal to or higher than the Rank Offer in the near future. Shareholders are likely to face a material discount to value if they wish to sell their shares over the medium to long term.

9.6 Shareholders as Suppliers

Given that (with possibly few exceptions) the non-Fonterra shareholders are all suppliers of milk to the dairy industry, it is appropriate to consider whether acceptance or rejection of the Rank Offer has any implications for the value of their total interests in the dairy industry.

It is possible that the plans of potential controlling shareholders could have wider implications for shareholders. For example, the entry of an organisation with the intention of aggressively building commodity export capacity would have implications for expected farm-gate milk prices, farm values and potentially for the value of shareholdings in Fonterra. Shareholders may wish to consider these implications.

However, when considering the merits of the Rank Offer, we do not believe this is a useful line of investigation for the following reasons:

- As the change in control is already assured due to Fonterra's acceptance, the subsequent acceptance or rejection by individual minority shareholders is not likely to change the impact of the transaction on other elements of their dairy industry interests.
- Rank has provided no detail of its plans that allows for a quantitative analysis of this impact.

9.7 The Risks of Continued Ownership

If shareholders reject the Rank Offer, then unless total acceptances reach 90% and Rank exercises its option to compulsorily acquire outstanding shares, the rejecting shareholders position in NZDF will be characterised as follows:

- No ability either individually or collectively to assert control.
- Generally small shareholdings (average holding of about 0.008%) in an unlisted company.

Shareholders should consider the risks of this shareholding position.

9.7.1 Lack of Control or Influence

NZDF has a relatively standard Constitution. This allows most resolutions to be passed by an Ordinary Resolution (ie a 50% majority). Given Fonterra's acceptance, Rank is already assured of this level of control. Resolutions that require a Special Resolution (ie a 75% majority) include the following:

- Any action that affects the rights which attach to the shares of the company.
- The alteration of the company's constitution.
- The approval of a major transaction.

Shareholders should consider that after the Rank Offer closes, while ordinary control will definitely reside with Rank, shareholders that reject the offer may also be exposed to Rank acquiring in excess of 75% of the voting rights.

Shareholders that reject the Rank Offer and remain as shareholders will have no formal ability to influence:

- The appointment of Directors.
- The management plan of NZDF (ie what business activities are engaged in and what strategies are followed).
- The financial policies of NZDF (ie the amount of borrowings and dividend policies of the company).

At a formal level, the position of shareholders is essentially unchanged from the current position where Fonterra exercises these control rights. However, shareholders may consider that given their wider relationship with Fonterra (and their combined level of ownership in Fonterra), their ability to exercise influence is materially reduced with control vesting in Rank. Shareholders may also consider that given the history of NZDF ownership, Fonterra's (and its predecessors) expected choices on how it might exercise control were more predictable than they are with Rank as an incoming controlling shareholder.

Shareholders that reject the offer are fully exposed to the positive or negative impact of new management plans and financial policies that may emerge under Rank control. Other than as outlined earlier in this report, Rank has made no announcements in regard to these issues. Shareholders that reject the offer face the risk that subsequent to the control change one or more of the following occurs:

- That the management plan pursued under Rank control is not good for value.
- That the financial policies pursued under Rank control are unsuitable. This may be due to the borrowing policy or dividend policy adopted under Rank control.

Should either of these situations arise, the options available to shareholders are extremely limited:

- **Collectively or individually, minority shareholders will have no real ability to change or influence the operations of the company.**
- **As we have outlined in section 9.5, the ability for shareholders to exit without a substantial discount may be remote.**

In our view this is an important issue for shareholders to consider.

9.7.2 Minority Ownership in an Unlisted Company

Rank is reported as stating that it has no intention of seeking a Stock Exchange listing for NZDF. Shareholders should therefore assume that if they reject the Rank Offer their holding will be in an unlisted company.

If at least 50 shareholders remain after the Rank Offer has closed, NZDF will remain a company subject to compliance with the Takeovers Code. Shareholders can have some confidence that should Rank subsequently sell its stake, they will be afforded the opportunity to participate in that sale on equal terms.

However, compared to a listed company, unlisted companies generally have the following characteristics:

- Lower disclosure requirements. The obligation on an unlisted company to disclose information to shareholders is less than for a listed company.
- Extremely limited external monitoring. The extent to which other parties (such as analysts and the media) assist in the monitoring of the behaviour of a controlling shareholder is less for an unlisted company.

Shareholders that reject the offer should be aware that the extent to which NZDF, under Rank control, provides information in excess of statutory requirements that allows shareholders to monitor their position, is uncertain.

In our view, this is an important issue for shareholders to consider.

10 Conclusions

In our view the major issues that determine the merits of the offer and should be considered by shareholders when making their decision whether to accept or reject the offer are as follows:

- The Rank Offer is at the bottom end of our valuation range. A higher offer is not expected to emerge.
- Rank is an experienced food industry investor, has had the opportunity to value NZDF, assess its ability to add value and make an offer that should position Rank for making a satisfactory return based on those views.
- Our valuation is relevant for a long term shareholder. Any shareholder that wishes to sell subsequent to the Rank Offer, is likely to face a substantial discount to value in order to exit. Based on our valuation range and the expected position of shareholders who reject the Rank Offer, it is unlikely that a shareholder selling in the short-medium term will secure an exit price higher than the Rank Offer.
- As minority shareholders, remaining shareholders will have essentially no ability to control or influence the business plan and financial policies of NZDF, may have limited access to information and monitoring capabilities and may face difficulty in selling their shares at other than a material discount to value.

The purpose of this report is not to provide a recommendation to shareholders. Shareholders should exercise their own judgement in considering the decision whether to accept or reject the Offer. Shareholders should use all relevant information, should seek professional guidance where appropriate and consider their individual positions and circumstances.

However, we expect that shareholders who reject the offer and elect to remain as shareholders will need to have a long term investment horizon, have firm views that Rank has the capability to add value to NZDF and be indifferent to the financial policies the company may potentially adopt. We would expect that shareholders who do not meet this description are more likely to accept the offer.

Appendix – Defined Terms

A$	Australian dollars
Bonlac	Bonlac Foods Ltd
Cultured	Food products category comprising of yoghurts, dairy food (desserts), custard, sour cream and treats
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
FMCG	Fast-Moving Consumer Goods
Fonterra	Fonterra Co-operative Group Ltd
FY	Financial Year, ending 31 May
GDP	Gross Domestic Product
Gisborne Milk	Gisborne Milk Co-op Ltd
Goodman Fielder	Goodman Fielder Ltd
HHL	Hollingbourne Holdings Ltd
Housebrands	Supermarket label brands
Kapiti	Kapiti Cheeses Ltd
Key Accounts	Large supermarket chain outlets
Kg	Kilogram
Kiwi	Kiwi Co-operative Dairies Company Limited
Mainland	Mainland Products Ltd
MAT	Moving Annual Total
National Foods	National Foods Ltd
NZ$	New Zealand Dollar
NZ$000	New Zealand Dollar thousand
NZ$b	New Zealand Dollar billion
NZ$m	New Zealand Dollar million
NZDB or the Board	New Zealand Dairy Board
NZDF	New Dairy Foods Limited
NZDG	New Zealand Co-operative Dairy Company Ltd, commonly known as New Zealand Dairy Group
Puhoi	Puhoi Valley Cheese Company
Rank	Rank Group Limited and HHL collectively
Regulations	Dairy Industry Restructuring (Raw Milk) Regulations 2001
Route Trade	Independent convenience outlets (eg dairies)
SKU	Stock Keeping Unit
Tatua	Tatua Co-operative Dairy Company Ltd
UHT	Ultra-Heat Treated
Unilever	Unilever N.V and Unilever Plc
United	United Milk Limited
WACC	Weighted Average Cost of Capital
Westland	Westland Co-operative Dairy Company Ltd
WMP	Wholesale Milk Price