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Aotearoa Fisheries Ltd Share Valuation

28 January 2009

TE OHU
KAIMOANA

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Dear Peter

AFL Share Valuation

1. Introduction

Taylor Duignan Barry Limited (TDB) has prepared a valuation of 100% of the shares in Aotearoa Fisheries Limited (AFL) as at 30 September 2008 for Te Ohu Kai Moana Trustee Limited (TOKM).

The objectives of the valuation are to:

- provide information to iwi that can be used by them as an input into their determination of the value of their AFL Income Shares (and, potentially, for use by iwi in establishing the carrying values of these shares for financial reporting purposes); and

- provide relevant information to assist TOKM in its monitoring role with respect to AFL.

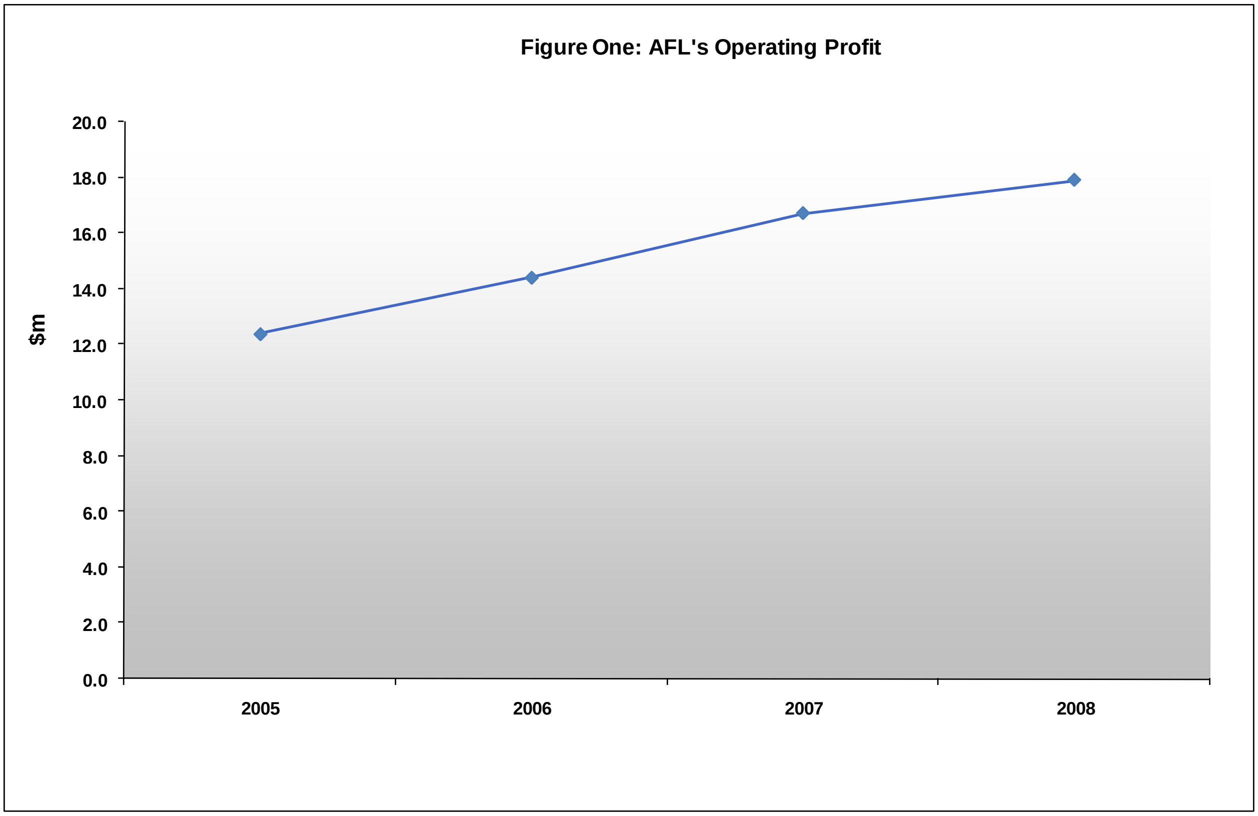
A glossary of the technical terms and abbreviations used in this report is provided in Annex One of this report.

2. Summary

AFL has three principal assets: its 50% shareholding in Sealord Group Ltd. (Sealord), its quota holdings and its 100% interest in its Operating Divisions. The Operating Divisions of AFL consist of the Inshore Division (wetfish and lobster), the Abalone Division (covering paua and food processing), the Aquaculture Division (oysters) and OPC Fish and Lobster (OPC). The Operating Divisions themselves are comprised of several different trading entities. During the year, AFL shifted its head office from Wellington to Auckland.

Figure One below presents the operating profit[1] for AFL as a whole over the last four years (ie, since AFL was established). As the graph shows, AFL's operating profit has increased steadily over the period.[2] At the divisional level, increasing profits from AFL's Operating Divisions have more than offset declining operating profits from Sealords over the period.

[1] Operating profit is net profit after tax, excluding gains or losses on sales or revaluations of assets.
[2] AFL's financial year ends 30 September while Sealord's financial year ends 30 June. The 2005 to 2007 numbers in the graph differ slightly from those in last year's report, primarily because of IFRS adjustments.



AFL has two classes of shares: Income Shares and Voting Shares. 80% of the Income Shares are held by iwi (or TOKM until allocated and transferred to iwi), while the remaining 20% must be held by TOKM. The Income Shares are tradeable amongst iwi two years after they receive them. All the Voting Shares must be held by TOKM.

The methodology adopted in our valuation is similar to that used in our previous valuation report dated 1 December 2007. The first step in the valuation was to assess the fair market value of AFL's net assets (total assets less liabilities including debt) on the assumption that there were no restrictions to putting all the assets to their highest value use. This assumption is equivalent to assuming that the various practical and legal impediments to the full unrestricted sale of the Income and Voting Shares together could be ignored (referred to in this report as an "Unrestricted Sale" basis). We adopted a conventional valuation approach and took the higher of the Discounted Cash Flow (DCF)[3] valuation of the business and the Net Realisable Value (NRV)[4] of the assets.[5] This Unrestricted Sale valuation assumes a buyer could obtain total control of the business and places the value of the net assets in a range of $393m to $480m with a central estimate of around $436m.

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3 DCF analysis projects the cash flows of the business going forward over time and discounts the expected net cash flows in each year by an appropriate discount rate.

4 NRV is the value that would be expected to be realised on sale of the assets of the business (after allowing for sale costs).

5 The NRV of the assets of AFL is currently likely to exceed the DCF value of the business, primarily because the assessed market value of AFL's and Sealord's quota exceeds the DCF value of using the quota within the respective businesses (refer section 7.2 below).

We then assessed the value of 100% of the Income Shares given the actual restrictions on control and taking AFL's strategic plan, management and governance structure as given. AFL's Income Shares have no voting rights but receive all the financial benefits associated with ownership of AFL (i.e., dividends[6] and distributions on wind-up). We therefore base our valuation of 100% of AFL's Income Shares on the DCF valuation of AFL's projected future net cash flows under AFL's current strategic plan. This valuation places the value of 100% of the Income Shares in a range of $265m to $324m with a central estimate of around $295m.

Next, we assessed the value of the Voting Shares. The Voting Shares receive no financial benefits (neither dividends nor distributions on wind-up) and are not transferable. We therefore consider the Voting Shares have zero financial value.

Finally, we assess the value of AFL's total shares: the value of 100% of both the Income Shares and the Voting Shares, given the legislative and governance regime that AFL operates within. Under the Maori Fisheries Act (MFA) and AFL's constitution, the Income and Voting Shares are separate and are not able to be held by the same party.[7] As a result, the synergies that would normally be expected from combining the two rights (i.e., the income and voting rights) are not able to be obtained. Therefore, the total value of the shares of AFL is simply the sum of the parts: that is, the sum of the values of 100% of the Income Shares and the Voting Shares.

We conclude that the value of 100% of AFL's total shares (Income Shares and Voting Shares) as at 30 September 2008 lies in a range of around $265m to $324m, with a central estimate of approximately $295m.[8]

Table 1: Valuation of AFL shares

As at 30 September	2008			2007
	Midpoint	+10%	-10%	Midpoint
100% of AFL's Income Shares	295	324	265	325
AFL's Voting Shares	0	0	0	0
All Shares in AFL	295	324	265	325

Our central estimate valuation of the shares as at 30 September 2008 of $295m compares with our central estimate valuation of $325m as at 30 September 2007. The estimated decline in value (a 9% decline year-on-year) reflects the net effect of several changes. On the positive side, managements' forecasts of future cashflows are up reflecting their expectation of continued favourable trading conditions, lower fuel costs and the benefits of the Ocean Ranch acquisition. On the negative side, our expectation of a decline in seafood prices and increased debt (to finance

6 Dividends are not required to be paid before 31 October 2009.

7 With the exception of TOKM which must hold 100% of the Voting Shares and must hold at least 20% of the Income Shares.

8 The $141m difference between the assessed value of AFL's net assets on an Unrestricted Sale basis (central estimate of around $436m) and our valuation of AFL's total shares (central estimate of around $295m) is consistent with a purchaser being prepared to pay around a 50% premium (on the AFL shares valuation of $295m) for control of AFL. In practice, other factors might lead a buyer to pay a higher or lower price.

the Ocean Ranch acquisition) are the main factors dragging the estimated value of the shares down. While the exchange rate has come back significantly, such an exchange rate adjustment had already been built into last year's valuation.

Given the extreme volatility in financial markets and the uncertain international economic outlook, a wider margin of error than usual must be attached to this valuation.

The estimated 9% decline in the value of the shares in AFL over the year to 30 September 2008 compares with a 44% decline in the NZX 40 over the period, a 27% decline in the MSCI World Index, and a 30% decline in our index of internationally listed fisheries companies.[9] In contrast, over the period Sanford's share price has increased 35%. Sanford's price, however, has been supported by strong earnings, with operating profit for the year to 30 September 2008 double that achieved in the preceding year. Over the same period, AFL's operating profit increased by 7%.

We have not been asked to consider the value of individual parcels of the Income Shares. We have therefore not incorporated in our valuation any allowance for factors that the valuer of an individual parcel of shares might consider relevant such as a "liquidity discount" or the tax position of the particular shareholder. Given the volatility in financial markets and the uncertainty about the international market, it is important that this valuation be updated before any trading in shares. If seafood prices fall further than is assumed in this report or if the international economy deteriorates more rapidly, the value of the AFL shares could be materially less than is estimated in this report. Section 9 of this report discusses the major risks (upside and downside) to this valuation and presents the results of sensitivity modelling.

This summary and the rest of the report should be read in the context of the disclaimer below.

3. Disclaimer

This valuation has been prepared based on information available to TDB as at the date of this report. We reserve the right, but will be under no obligation, to review or amend our valuation if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

Additionally, our valuation is based on prevailing market conditions. The international economic outlook is particularly uncertain at present, with unprecedented capital market volatility, and sharp declines in equity and property prices. The seafood business will inevitably be impacted by these events. The seafood business is also sensitive to changes in the exchange rate, white fish prices and international demand and supply conditions more generally. The Total Allowable Commercial Catch (TACC) is subject to re-assessments of the fishery status. Inevitably, some assumptions made in this valuation may not materialise and unanticipated events and

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9 Companies in our listed seafood companies index are Aker Seafoods, Leroy Seafood and Marine Harvest (all of Norway), Nippon Suisan Kaisha Ltd and Toyo Suisan Kaisha Ltd of Japan, Oceano Group of South Africa, Pescanova of Spain, Sanford of New Zealand and Tassal Group of Australia. The index is a simple unweighted average of local currency share prices.

circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts and projections upon which we have relied. These variations may be material.

Ernst & Young Transaction Advisory Services Limited has prepared the financial models of Sealord and AFL that underlie our DCF valuation, but was not responsible for the data and assumptions underlying the models. TDB has relied upon the computational accuracy of these models and that the key assumptions are correctly reflected in the outputs. The assumptions used in this valuation are based on information provided by and discussions with the management of Sealord and AFL. Information provided by management included draft annual accounts, monthly management accounts, budgets and strategic plans. TDB has relied on the assumptions provided by management as being a fair reflection of the prospects of AFL and Sealord and therefore an appropriate basis for preparing financial forecasts of the companies going forward. TDB has tested these assumptions, and believes that the information provided was reliable and not misleading and has no reason to believe that any material facts have been withheld.

TDB has not audited any of the historical financial information of either Sealord or AFL. No due diligence has been undertaken on Sealord or AFL.

It is not intended that this report should be used or relied upon for any purpose other than as an expression of TDB's opinion on the valuation of 100% of the shares in AFL. TDB expressly disclaims any liability to any AFL shareholder that relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

TDB does not have at the date of this report, and has not had any relationship with AFL, TOKM, Sealord or related companies that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to this valuation.

TOKM has agreed to indemnify and hold harmless TDB, its personnel and its agents against any claims, suits or proceedings (including without limitation, attorney's fees associated therewith) brought against TDB, its personnel or its agents arising out of or relating to services provided in relation to the preparation of this valuation, except (subject to certain conditions) to the extent finally determined to have resulted from the breach of the terms of the letter of engagement, negligence or willful misconduct of TDB personnel.

This report has been prepared by TDB with care and diligence and the statements and opinions given by TDB in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by TDB or any of its officers, employees or agents for errors or omissions however arising in the preparation of this report, provided that this shall not absolve TDB from liability arising from an opinion expressed recklessly or in bad faith.

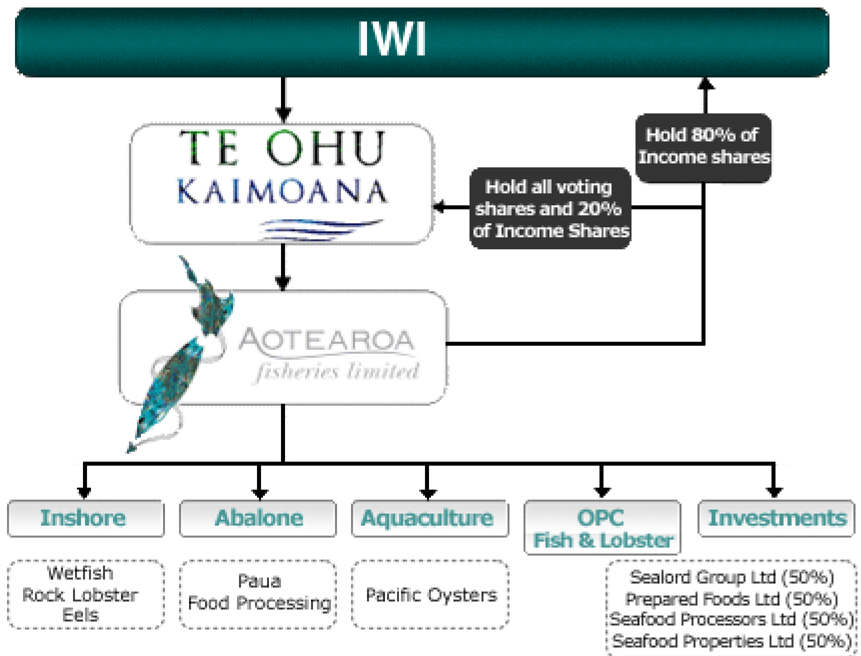
As outlined in the objectives for this valuation, this report is provided for the benefit of TOKM and the iwi shareholders in AFL and TDB consents to the distribution of this report to those parties.

4. Lines of business

The MFA established AFL and TOKM, with AFL to manage the commercial arm of certain settlement assets into the future and TOKM to act as a governance body for those Maori interests in the marine environment.

AFL has three principal assets: its 50% shareholding in Sealord Group Ltd (Sealord), its investment in quota and its 100% interest in its Operating Divisions. AFL currently leases its entire quota to its Operating Divisions so for the purposes of this valuation, the future cashflows associated with AFL's quota are reflected in the future cashflows of its Operating Divisions.[10]

ALF's organisational structure is summarised in the diagram below.



Source: http://afl.maori.nz/about/afl_structure.htm .

AFL's own operating businesses are structured into four divisions: the Inshore, Abalone and Aquaculture Divisions and OPC. The Inshore Division (2008 revenue: $67m) comprises the Wetfish and Rock Lobster (Crayfish) operations of Moana Pacific Fisheries. It previously included also Eels operations, but following the reduction in TACC for Eels, AFL's Eels operations have been closed and the ACE will be sold. The key species where the Inshore Division has access to quota are Lobster, Snapper, Bluenose and Tarakihi. After its successful restructuring, the Wetfish business unit has made a profit in each of the last two years. The Lobster business unit has landings of around 250T p.a. with operations in the North Island and the Chatham Islands. The Abalone Division (2008 revenue: $17m) includes Prepared Foods Ltd (PFL). PFL is NZ's leading marketer of Abalone products. The Abalone Division also produces

[10] If the Operating Divisions have any surplus Annual Catch Entitlements they sell it and the cashflows are reflected in the business units.

food in retort pouches for military customers. The Aquaculture Division (2008 revenue: $8m) grows, processes and markets Pacific Oysters operating as Pacific Marine Farms. OPC (2008 revenue: $15m) was acquired last year and is a business that sells wetfish, lobster and scallops into the local and international markets, specialising in fresh, chilled and live product.

In the past year AFL has acquired two significant parcels of quota shares. One was a parcel of around 830mt of mixed inshore stock (Snapper, Tarakihi) that will be utilised by OPC to service the local and Australian chilled fish markets. The second was to buy out AFL's long-standing partner (Ocean Ranch Ltd) in the PFL joint-venture paua operation. The Ocean Ranch acquisition (which takes effect from 1 October 2008) places AFL as significant player in a number of paua fisheries around NZ.

In addition to its operating businesses, AFL has a head office that is now located in Auckland.

Sealord is owned 50% by AFL and 50% by Nippon Suisan Kaisha Limited (Nissui) under a joint venture arrangement. In 2008, Sealord's revenue was around $529 m with Earnings before Interest and Tax (EBIT) of $42 .5 m.[11]

During the year Sealord was restructured into six operating divisions:

- NZ Fish Co. (buys the New Zealand ACE from Quota Co at a market price and carries out fishing, processing and marketing operations of the NZ quota base);
- Quota Co. (holds NZ quota and sells ACE to NZ Fish at a market price);
- Fresh Co. (a 50% owned joint venture carrying out inshore fishing operations);
- Aquaculture Co. (holds the Group's water-space licences and mussel long-lines and carries out the growing, harvesting, processing and marketing operations of mussels);
- Marketing Co. (a standalone offshore marketing operations (including NZ marketing) which sources product mainly from independent sources); and
- International Fishing Co. (holds the assets of all the Group's international fishing joint ventures).

Domestically, Sealord sources seafood from harvesting under its own quota entitlements and from purchasing Annual Catch Entitlements (ACE) from other quota holders. Internationally, Sealord now has eleven business operations worldwide and sells in some 50 countries. In the 2008 calendar year the Nelson mussel operation underwent a significant downsizing as the strategy changed from higher-volume, commodity half-shell product to producing less labour-intensive mussel without-shell product.

[11] Financial results for Sealord relate to a financial year ending June 30. Financial results for AFL's Operating Divisions and AFL relate to a financial year ending September 30.

5. Valuation framework

The standard of value used in our valuation is “fair market value”. Fair market value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction. When interpreting the fair market value standard, we follow the approach outlined by Pratt et al.:

> “In most interpretations of fair market value, the willing buyer and willing seller are hypothetical persons dealing at arms length, rather than any particular buyer or seller. In other words, a price would not be considered representative of fair market value if influenced by special motivations not characteristic of a typical buyer or seller.”[12]

Our valuation of the shares in AFL is based on the following four-step process.

1. We commenced the valuation by assessing the fair market value of AFL’s net assets (total assets less liabilities including debt) on the assumption that there were no restrictions to putting all the business’s assets to their highest value use. This assumption is equivalent to assuming that the various practical and legal impediments to the full Unrestricted Sale of the Income and Voting Shares together could be ignored. In assessing the value of the net assets on this Unrestricted Sale basis, we adopted a conventional valuation approach and took the higher of the DCF valuation and the NRV of the assets.[13] This stage one valuation of AFL’s net assets assumes a buyer was able to obtain total control of the business.

2. The second step of the valuation was to assess the value of 100% of AFL’s Income Shares (i.e., in isolation from the Voting Shares). Under AFL’s Constitution, the Income Shares are separate from the Voting Shares and the Income Shares have no voting rights attached to them. TOKM holds all the Voting Shares in AFL. Therefore under the current share structure, control rests with TOKM regardless of who owns the Income Shares. As a consequence, we base our valuation of 100% of AFL’s Income Shares on the DCF valuation of AFL’s projected future net cash flows under AFL’s current strategic plan.

3. The third step is to assess the financial value of 100% of the Voting Shares themselves (i.e., in isolation from the Income Shares).

4. Finally, we assess the value of AFL’s total shares: the value of 100% of both the Income Shares and the Voting Shares, given the legislative and governance regime that AFL operates within.

It should be noted that TDB’s terms of reference expressly require us to express an opinion on the value of 100% of the shares in AFL but not to consider the value of individual parcels of Income Shares. We have therefore not incorporated any allowance for factors that the valuer of an individual parcel of shares might consider relevant, such as the costs associated with transactions in smaller parcels of unlisted shares (commonly referred to as a “liquidity discount”).

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[12] S. Pratt et al., “Valuing a Business”, 4th ed. McGraw Hill, 2000, p29.

[13] The available evidence indicates that the NRV of the assets of AFL is likely to exceed the DCF value of the business (refer section 7.2 below).

It should also be noted that in assessing the value of the shares, our valuation has used the corporate tax rate as is required by the fair market value standard noted above.[14] AFL is, however, a Maori Authority and is taxed at 19.5%. The imputation credits attached to dividends received from Sealord therefore shelter income generated within AFL that would otherwise be taxed. This means that higher levels of cash dividends are possible than in circumstances where the standard corporate tax rate applied. Further, those iwi shareholders which are structured as charitable trusts will be able to claim a refund of credits attached to any taxable distribution from AFL, further lowering the tax finally borne on income derived by AFL. These factors would need to be taken into account in any valuation of the individual parcels of shares and may mitigate, in part or in whole, the liquidity discount referred to above.

Our valuation for AFL has been cross-checked against valuation multiples for comparable companies and comparable acquisitions. The principal comparator company we used was Sanford Ltd (Sanford), a publicly listed company involved in broadly similar lines of business to AFL.

6. Key assumptions

The key assumptions underlying our valuation are documented below.

The projected cash flows underlying our valuation are based on AFL's and Sealord's managements' forecasts, adjusted for factors identified in the course of discussions between TDB and the respective management teams. The cash flows are calculated on an annual basis over the period from 2009 to 2018 and a "terminal value" is calculated based on cash flows in 2018 with an assumed nominal growth factor from that year of 2.3% p.a.[15]

The projected net cash flows are discounted using a Weighted Average Cost of Capital (WACC) of 9.6% nominal post-tax.[16]

A projected domestic inflation rate of 2 to 3% p.a. and a projected average international inflation rate of around 2% p.a. have been applied to unit prices.[17] As a result of the current international slowdown, average real seafood prices are assumed to decline 5% in each of 2009 and 2010 (in annual average terms), before increasing again by 1% p.a. in real $US terms until 2017/18 (the end of the forecast period). Thereafter international seafood prices are assumed to remain constant in real terms.

Material volume movements are projected to arise from the following:

- purchase of quota and small corporate acquisitions;

[14] We use the current 30% corporate income tax throughout the valuation period.
[15] Based on the rate of inflation for New Zealand projected by Global Insight.
[16] The WACC used in our 2007 report was slightly lower at 9.5%.
[17] Based on forecasts from Global Insight.

- a reduction in the national hoki quota to 90,000 tonnes from the 2007/08 fishing year[18] with a subsequent gradual recovery to 130,000 tonnes p.a. by 2013/14 and some other minor movements in TACC; and

- strong growth in volumes of product purchased and sold offshore by Sealord to 2018 (similar to the growth rates achieved over the period 2000-2008).

Costs are linked to the growth in activity and are projected to increase by 2 to 3% p.a. in nominal terms.

New Zealand's exchange rate (trade-weighted index) has been volatile in recent months and has depreciated towards its historical 10 year average. As with previous years, we assume the exchange rate trends towards its 10 year-historical average over the next two years and then remains at this long-run historical average rate over the rest of the forecast period.[19]

It should be noted that there is, inevitably, considerable uncertainty around the financial projections underlying any valuation. To the extent that outcomes for the key value drivers - notably white-fish prices, the NZ dollar (NZD), levels for the TACC and government regulation – differ from those assumed in this report, the value of the assets will vary from the valuation presented in this report (refer to the discussion on the sensitivity analysis in section 9 below).

7. Valuation of the components of AFL

7.1 Valuation of 50% of Sealord

The DCF Enterprise Value (EV)[20] of 100% of Sealord has been assessed to be in a range of $389m to $475m, with a central estimate of around $432m. This estimate incorporates an adjustment to the 'full' EV of Sealord to reflect the reduced marketability of AFL's 50% interest in Sealord. The central estimate for the EV of Sealord of $432m compares with the company's book value (BV) of Total Capital Employed (TCE) as at 30 June 2008 of $594m.

Deducting Sealord's debt of $152m from the central estimate of the EV of $432m gives an equity valuation of $280m, 50% of which is $140m. This DCF central estimate of the value of AFL's investment in Sealord of $140m (with an accompanying range of $126m to $154m) compares to the BV of AFL's investment in Sealord at 30 September 2008 of $191.6m.

As a cross-check on our DCF valuation of Sealord, we compare the valuation multiples derived for Sealord with those pertaining to Sanford in Table 2 below:

[18] The fishing year starts on 1 October and the main hoki catching period is in July/August so the reduction in hoki quota has its main effect from mid 2008.

[19] The 10-year historical rates used in our valuation are $1NZ = $AUS0.86; $US0.59; JPY67; GBP 0.34; and EUR0.51.

[20] EV is the market value of the equity plus net interest-bearing liabilities.

Table 2: DCF valuation of Sealord and comparison with Sanford

	Sealord	Sanford (1)
	YE Jun 2008	YE Sep 2008
TCE ($m)	594	607
EV ($m)	432	641
EV / Revenue (2010)	0.9x	1.4x
EV / EBIT (2010)	11.1x	9.9x
EV / TCE	0.7x	1.1x

(1) Based on sharebrokers' estimates of the value of Sanford's shares using the DCF methodology (at around $5.95 per share) and sharebrokers' projections of future EBIT. The brokers' DCF valuations for Sanford and our DCF valuation for Sealord are broadly comparable in that neither includes a premium for control.

The analysis in the table above indicates that the estimated EV/Revenue (2010) ratio derived for Sealord from the DCF analysis is 0.9 times while the EV/Revenue (2010) ratio pertaining to Sanford is 1.4 times. The lower EV/Revenue ratio for Sealord reflects the lower margins that are projected to be obtained from Sealord's offshore distribution business (which comprises over half of Sealord's revenue).[21] The higher EV/EBIT (2010) ratio for Sealord reflects the higher future EBIT growth rates projected for Sealord.

7.2 Valuation of AFL's Operating Divisions

As noted above, AFL operates four divisions: Inshore, Abalone, Aquaculture and OPC.

The DCF value (EV) of AFL's Operating Divisions (after deducting Head Office and other administration costs) is assessed to be in a range of $235m to $287m, with a central estimate of around $261m.[22]

At 1 October 2008 AFL had $107m in net interest bearing debt which needs to be deducted from the overall EV when calculating the value of the net assets.[23] AFL also had Redeemable Preference Shares (RPS) on issue of $20m as at 30 September 2008. The RPS are held by TOKM. Based on our discussions with TOKM management, we understand the probability of the RPS being redeemed is very low. We have therefore assumed the present value of this liability is not material and have not made an explicit deduction from the assessed EV in calculating the value of the shares in AFL.

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[21] Sanford does not have an equivalent business.

[22] AFL's corporate administration costs (administration costs at AFL's Head Office and at each of the Operating Divisions) have not been allocated to the individual AFL business units so these costs need to be deducted when calculating the EV of AFL's Operating Divisions. At around $6.9m p.a., the present value of these corporate administration costs is $67m.

[23] We take the 1 October 2008 rather than 30 September 2008 debt levels because AFL's debt increased at 1 October to finance the Ocean Ranch acquisition and the cashflows from Ocean Ranch are included in the valuation.

The DCF valuation multiples for AFL's Operating Divisions are compared to those for Sanford in Table 3 below:

Table 3: DCF valuation of AFL's Operating Divisions and comparison with Sanford

	AFL 's Operating Divisions (1)	Sanford (2)
TCE ($m) (30 Sept 2008)	230	607
EV ($m) (30 Sept 2008)	261	641
EV / Revenue (2010)	2.1x	1.4x
EV / EBIT (2010)	16.1x	9.9x
EV / TCE	1.1x	1.1x

(1) AFL's Head Office costs have been attributed in full to AFL's Operating Divisions. In previous years only the divisional overheads were deducted when calculating the EV of AFL's Operating Divisions.
(2) Refer to the footnote to Table 2.

Our estimated 2010 EV/EBIT ratio for AFL's Operating Divisions is significantly higher than that estimated by brokers for Sanfords, reflecting the stronger growth prospects for AFL implicit in our forecasts. Our higher EV/Revenue ratio for AFL's Operating Divisions (relative to that for Sanford) reflects the stronger operating margin that AFL's Operating Divisions achieve (relative to Sanford) through their sales of higher value products such as abalone and crayfish.

AFL's most valuable asset is its holdings of quota. With a BV of $181m at 30 September 2008, the quota accounted for around 78% of the BV of AFL's (non-Sealord) assets.[24] Valuations of quota vary quite widely in the seafood industry and there is therefore a relatively broad range around the value of AFL's total quota holdings.

TDB has applied a discount of 15% to the broker value of AFL's quota (of $334m) when determining the value of the quota on a NRV basis, resulting in an estimate for the NRV of the quota of $286m. The resulting central estimate for the NRV of the total assets of AFL's Operating Divisions is $315m (a value which is above the central estimate of the DCF valuation for the EV of AFL's Operating Divisions of $261m).[25]

As noted in section 5 above, when valuing AFL's net assets on an Unrestricted Sale basis we use the higher of the DCF value and NRV. We therefore use the NRV when valuing AFL's Operating Divisions on this Unrestricted Sale basis. The resulting central estimate of the value (EV) of AFL's Operating Divisions on an Unrestricted Sales basis is $315m.

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[24] The other assets of AFL excluding Sealord are principally working capital and plant and equipment.

[25] In the NRV calculation of AFL excluding Sealord, working capital is valued at full value while the other assets (i.e., principally plant and equipment) are valued conservatively at half their BV of $34m.

8. Valuation of the shares

8.1 Step One: Net assets valuation assuming Unrestricted Sale

Assessing the amount a hypothetical willing buyer would be prepared to pay for AFL's net assets (or equivalently, for 100% of the Income and Voting Shares together in AFL, putting aside the various practical and legal impediments to a full Unrestricted Sale) involved:

- determining the value of AFL's 50% interest in Sealord (using the higher of NRV and DCF);
- determining the value of AFL excluding Sealord (using the higher of NRV and DCF);[26] and
- subtracting the market value of AFL's net debt.

The resulting valuation of AFL's net assets assuming an Unrestricted Sale is presented in Table 4 below:

Table 4: Valuation of AFL's net assets assuming an Unrestricted Sale

	$m
NRV of 50% shareholding of Sealord	228
EV of AFL excl. Sealord (NRV)	315
Unrestricted Sale EV of AFL	543
Less AFL net debt	(107)
Unrestricted Sale value of net assets	436

On an Unrestricted Sales basis, the central estimate of the value of AFL's net assets is around $436m.[27]

8.2 Step Two: Valuation of the Income Shares

As noted above, AFL has a dual share structure in that there are Voting Shares and Income Shares. Our terms of reference require us to consider the allocation of value between 100% of the Voting Shares and 100% of the Income Shares.

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[26] The estimated NRV of Sealord exceeds the DCF value of Sealord. The NRV of Sealord is calculated on the same basis as for AFL's Operating Divisions: ie, a 15% discount is applied to the broker value of Sealord's quota, working capital is valued at book values and a 50% discount is applied to the book value of Sealord's other assets to obtain the estimated realisation value of the assets.

[27] For the purposes of this hypothetical valuation, it is assumed that all of AFL's and Sealord's Head Office costs are able to be avoided on break-up (ie, no allowance is made for redundancy costs).

80% of the Income Shares are held by iwi (or TOKM until allocated and transferred to iwi), while the remaining 20% must be held by TOKM. The Income Shares do not hold voting rights, while the Voting Shares receive no income. The Income Shares are tradeable amongst iwi 2 years after they receive them. The Voting Shares are not tradeable and are all held by TOKM. The Voting Shares can only be transferred to mandated iwi organisations following a review process laid out under the MFA.[28] This review could take place at any time up to seven years from now and the outcome cannot be determined. The shares in TOKM itself are not tradeable. The Board of Directors of TOKM is appointed by the "electoral college", Te Kawai Taumata, whose members in turn are appointed by the 10 groups of iwi who hold the Income Shares and one representative from the group of representative Maori organisations listed in Schedule 5 of the MFA.

The NRV valuation of AFL's Operating Divisions can only be realised through a change in strategy (which might include the full or partial disposal of quota assets) or operational performance (i.e., over and above the improvements in performance already projected in AFL's strategic plan). Since a buyer of the Income Shares cannot force a change in strategy, it is reasonable to assume such a buyer would heavily discount the additional value represented by the excess of the NRV based valuation over the DCF based valuation in forming a view on the amount it was willing to pay for the Income Shares.

We therefore consider it is reasonable to assume a buyer of the Income Shares would have regard to the assessed DCF value but not the NRV. In some respects, the difference between the NRV and DCF valuation can be viewed as representing a discount for the lack of control over future direction that is implicit in ownership of the Income Shares in isolation from the Voting Shares. It follows that it would be inappropriate to discount the DCF valuation we have derived for the inability of Income Shareholders (or outside shareholders) to exert control on the business. To the extent that AFL's share structure gives rise to weaker performance in the company, this would be expected to be manifested in the net cash flows generated by AFL, now and into the future, that are used in our DCF valuation. No separate discount for a lack-of-control should therefore be applied to our DCF-based valuation to reflect AFL's share structure.

In summary, the valuation of 100% of AFL's Income Shares involved:

- determining the value of AFL's 50% interest in Sealord and the value of AFL's Operating Divisions on a DCF basis; and

- subtracting the market value of AFL's net debt.

The resulting valuation of all of the Income Shares of AFL is presented in Table 5 below:

[28] Sections 66(3) and 127(3) of the MFA.

Table 5: Valuation of 100% of AFL's Income Shares

	$m
Sealord 50% shareholding	140
EV of AFL's Operating Divisions	261
EV of AFL	402
Less AFL net debt	(107)
Value of AFL Income Shares	295

TDB assess the central estimate of the value of 100% of AFL's Income Shares as approximately $295m based on the DCF methodology.

8.3 Step Three: Valuation of the Voting Shares

Next, we assessed the value of the Voting Shares. The Voting Shares receive no financial benefits (neither dividends nor distributions on wind-up) as the full financial/economic interests of the company accrue to the holders of the Income Shares and any change to those rights would require the support of a super-majority (75%) of the Income shareholders.[29]

Some financial value might accrue to the Voting Shares if the Voting Shares were tradeable. If the Income Shareholders could hold and aggregate Voting Shares, they may be able to enforce strategy changes that unlock additional value (such as that represented by the indicative $141m excess of NRV over the DCF EV of AFL).

The MFA, however, requires that all of the Voting Shares be held by TOKM and the shares are not tradeable. The possibility exists that these shares might get transferred to mandated iwi organisations and ultimately be tradeable, but this would only occur as the result of a review process that could be held up to 7 years away and whose outcome can only be speculated upon. TDB has therefore concluded that the Voting Shares are not tradeable and that no practical value can be attributed to their potential to unlock additional value for the Income Shareholders.

For the above reasons, TDB assigns no financial value to the Voting Shares.

8.4 Step Four: Valuation of 100% of the shares

Finally, we turn to the valuation of the total shares (ie, 100% of the Income Shares and Voting Shares) of AFL.

As discussed above, TDB concludes that the central estimate of the value of 100% of the Income Shares on their own is around $295m and the value of 100% of the Voting Shares on their own is nil.

[29] Clause 10.2 of AFL's Constitution refers.

Normally, voting rights and income rights are combined in a single instrument – an ordinary share in a company – which grants the holder the rights to both receive dividends and to vote on matters that are put to the shareholder vote. This combination of rights provides the shareholders, who receive the financial benefits and who carry the ultimate financial risks if the company fails, an incentive to monitor the company's performance and to change the Board if the company's strategy is not maximising shareholders' wealth over the longer run.

However, in the case of AFL, as noted above, under the MFA and AFL's constitution, the Income and Voting Shares are separate and are not able to be held by the same party.[30] As a result, the synergies that would normally be expected from combining the two rights (income and voting rights) are not able to be obtained. Therefore, the total value of the shares of AFL is simply the sum of the parts: that is, the sum of the values of 100% of the Income Shares and the Voting Shares.

We conclude that the central estimate of the value of 100% of the shares of AFL is around $295m.[31]

The sensitivity analysis in the next section addresses the likely range surrounding this central value of $295m for all of the shares of AFL.

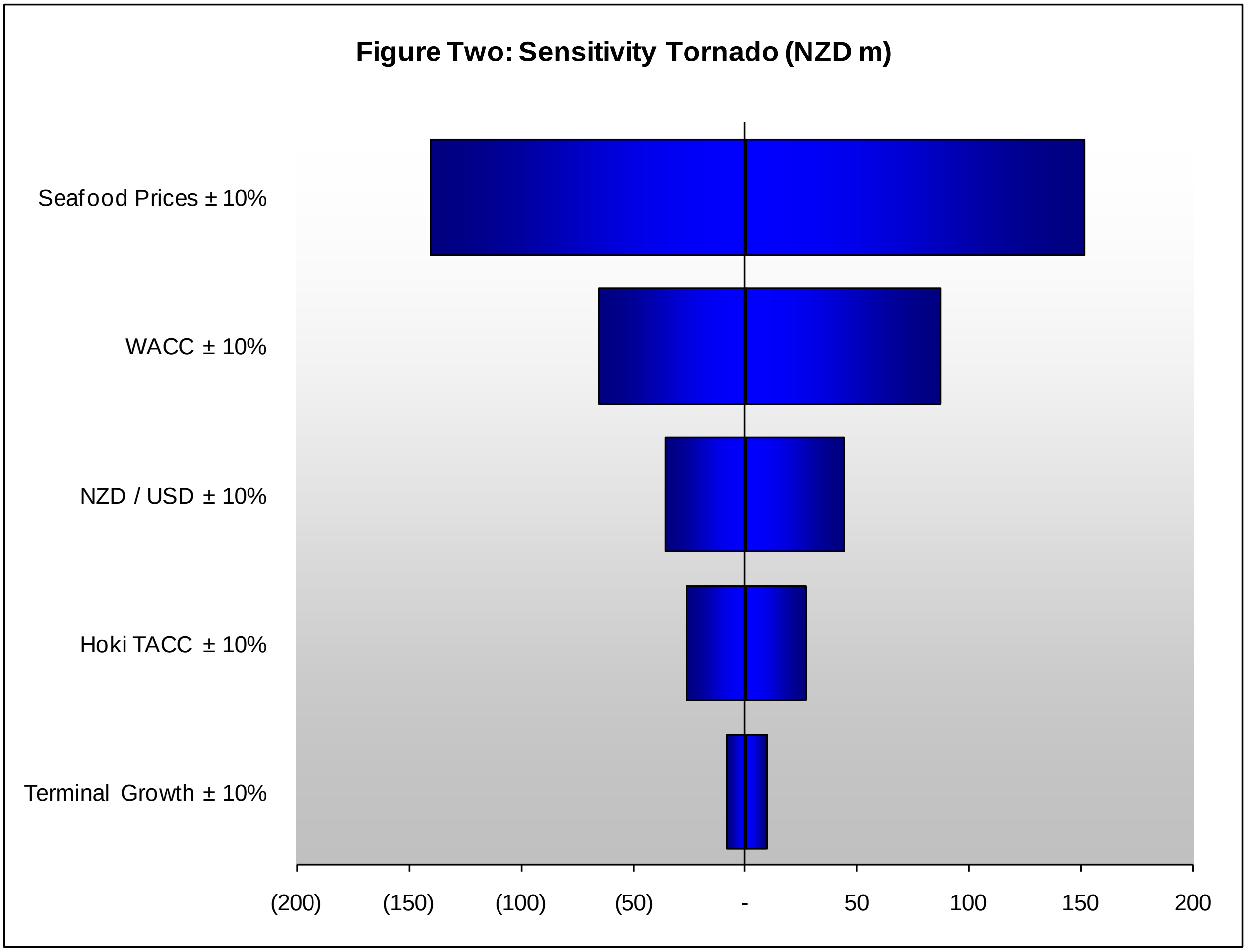
9. Valuation sensitivity

As with any valuation, the results of our valuation are sensitive to changes in the underlying assumptions.

Figure Two below provides the results of the sensitivity analysis. The graph shows the impact on the valuation of all of the AFL shares (midpoint of $295m) of varying each key assumption by around 10%. These sensitivities are indicative only – they do not take into account "second-round" effects such as the effect of changes in seafood prices on ACE quota prices or the impact of changes in exchange rates on market prices or industry cost structures.

[30] With the exception of TOKM which must hold 100% of the Voting Shares and at least 20% of the Income Shares.

[31] The around $141m difference between the assessed value of AFL's net assets on an Unrestricted Sale basis (central estimate of around $436m) and our valuation of AFL's total shares (central estimate of around $295m) is consistent with a purchaser being prepared to pay around a 50% premium (on the AFL share valuation of $295m) for control of AFL. In practice, other factors might lead a buyer to pay a higher or lower price.



The analysis indicates that the valuation is most sensitive to changes in projected seafood prices. If average seafood prices are 1% p.a. higher in real terms over the period 2009 to 2018 (so that prices are around 10% higher in real terms by 2018 than in our base-case valuation) and remain at the higher level thereafter, the value of the AFL shares would be around 50% higher. Conversely, if average seafood prices are a corresponding amount lower, the value of the AFL shares would decrease by around 50%.

Varying the exchange rate ($NZ/$US) assumption by 10% changes the total valuation of the AFL shares by around 15% (with a lower NZD increasing the value of the AFL shares).

If the assumed WACC decreases by 10% (ie, decreases by around 1 percentage point from our base-case assumption of 9.6% to 8.6%), the estimated value of the AFL shares would increase by around 29%, while if the assumed WACC increases by 1 percentage point (to 10.6%), the estimated value of the AFL shares would decrease by around 22%.

Varying the projected national hoki quota by 10% (ie, by around 13,000T. p.a. by 2014) results in a 9% change in the total valuation of AFL's shares.

Varying the assumed terminal growth rate by 10% results in around a 3% change in the valuation.

10. Comparison with 2007 valuation

Last year we estimated that the value of the AFL shares as at 30 September 2007 lay in a range of around $292m to $357m, with a central estimate of around $325m. The 2008 midpoint valuation of $295m represents a 9% decline in the estimated mid-point value of the shares.

Figure Three below examines the factors that have contributed to the change in the valuation of the AFL shares (with positive changes shown in blue and negative changes in red). On the positive side, managements' forecasts of future cashflows are up considerably, reflecting their expectation of continued favourable trading conditions, lower fuel costs and the benefits of the Ocean Ranch acquisition. However, more than offsetting these positive factors are the impacts of our expectation of a decline in average seafood prices over the next two years and the increased debt necessary to finance the quota acquisitions. While the exchange rate has declined significantly over the last year, a large exchange-rate adjustment had already been built into last year's valuation so there is no significant further value uplift to be gained there.

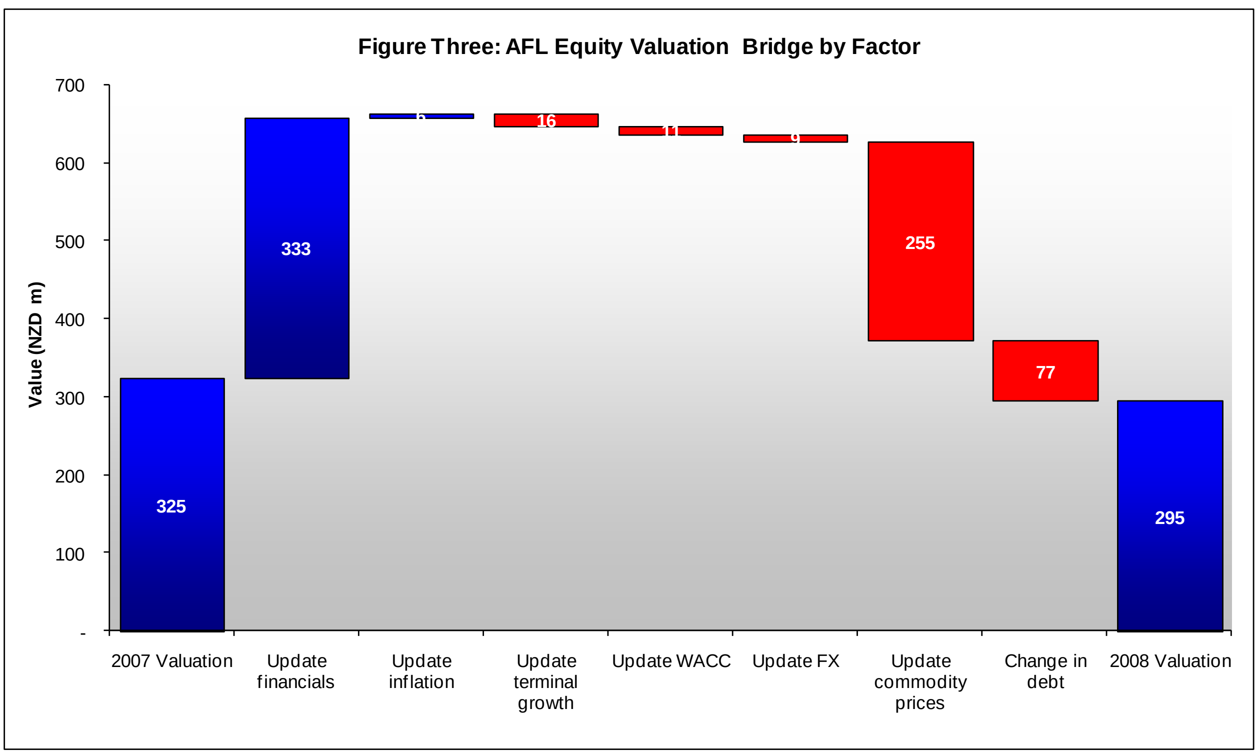
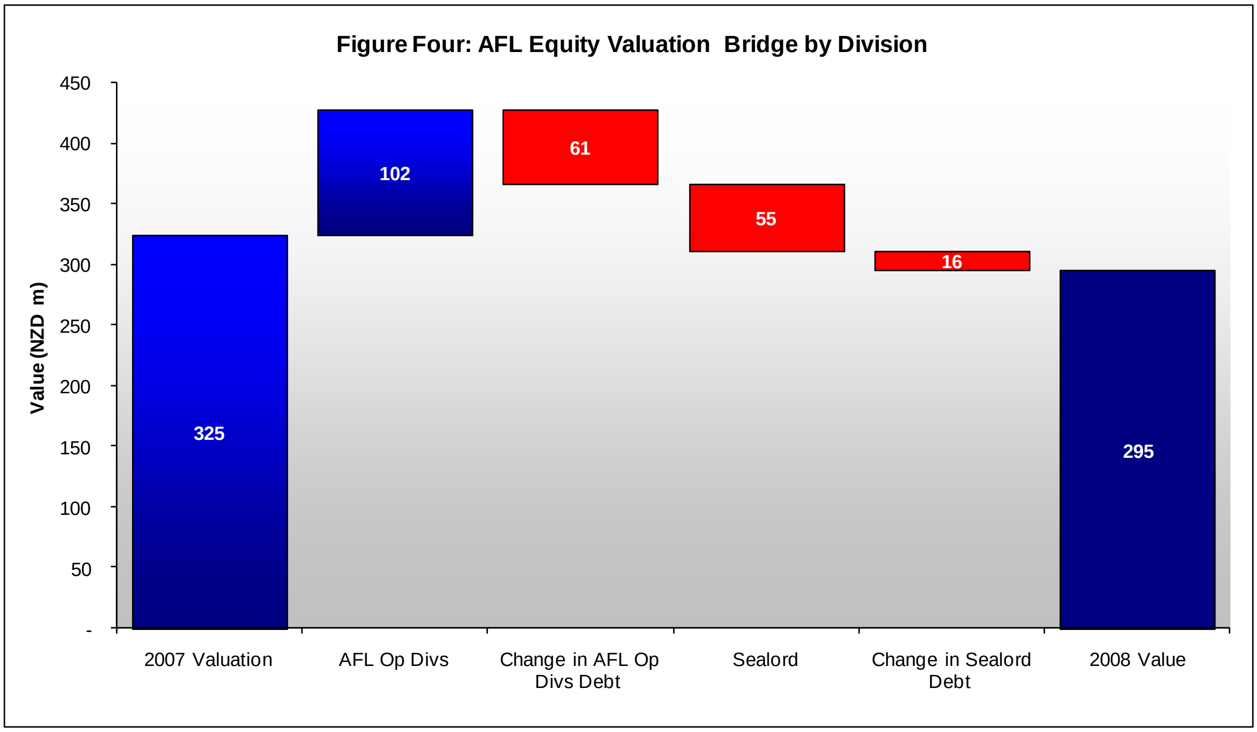


Figure Four below presents the changes in the value of the shares broken down between AFL's Operating Divisions and Sealord.[32] The increase in the value of the AFL Operating Divisions largely reflects the expected gains (after debt-financing costs) from the acquisition of Ocean Ranch. In contrast, Sealord's value has declined, reflecting its deteriorating operating performance in recent years and the impact of our expectation of lower seafood prices over the coming two years. Overall, relative to last year's valuation, the estimated net value of AFL's Operating Divisions has increased by around $41m (after allowing for the additional debt) while the estimated net value of Sealord has declined by around $71m.



11. Conclusions

In conclusion, TDB considers the value of 100% of AFL's shares as at 30 September 2008 lies in a range of around $265m to $324m, with a central estimate of approximately $295m. We consider all the value should be attributed to the Income Shares: that is, there is no financial value attributable to the Voting Shares.

We have not been asked to consider the value of individual parcels of the Income Shares. We have therefore not incorporated in our valuation any allowance for factors that the valuer of an

[32] It is not possible to present an analysis of the change in the valuation of AFL and Sealord at a more disaggregated level this year because of the organisational changes that have occurred (especially at Sealord) over the last year.

individual parcel of shares might consider relevant such as a "liquidity discount" or the tax position of the particular shareholder.

Yours sincerely,

Phil Barry
Principal, Taylor Duignan Barry Ltd

ACE	Annual Catch Entitlement
AFL	Aotearoa Fisheries Limited
AFL excluding Sealord	AFL's Operating Divisions plus AFL's Head Office
AFL's Operating Divisions	The four operating business units of AFL: Inshore, Abalone, Aquaculture, and OPC.
BV	Book Value, i.e., the amount shown in the financial statements
DCF	Discounted cash flow analysis
EBIT	Earnings Before Interest and Tax
EV	Enterprise Value, the market value of equity plus net interest-bearing liabilities
FX	Foreign exchange
MFA	Maori Fisheries Act, 2004
NRV	Net Realisable Value, the value that would be expected to be realised on sale of the assets of the business (after allowing for sale costs).
Net assets	Total assets less liabilities including debt
OPC	OPC Fish and Lobster, a division of AFL
RPS	Redeemable Preference Shares
Sealord	Sealord Group Limited
Strategic Plan	AFL's 2008 Strategic Plan Update
TACC	Total Allowable Commercial Catch
TCE	Total Capital Employed, the BV of equity and net interest-bearing liabilities
TDB	Taylor Duignan Barry Limited
TOKM	Te Ohu Kai Moana Trustee Limited
WACC	Weighted Average Cost of Capital
YE	Year End (financial)