NZ FARMERS LIVESTOCK

NZ FARMERS LIVESTOCK LIMITED
INDEPENDENT VALUATION REPORT

Prepared by

CAMPBELL MACPHERSON LTD

CORPORATE ADVISORS

October 2015

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GLOSSARY

AFL	Allied Farmers Limited
AFRL	Allied Farmers Rural Limited
Agentco	Agent Company Limited
AHL	Alan Hiscox Limited
Campbell MacPherson	Campbell MacPherson Limited
DCF	Discounted Cash Flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation & amortisation
EV	Enterprise value
FMEL	Farmers Meat Export Limited
FSE	Future sustainable earnings
NPV	Net present value
NTA	Net tangible assets
NZFL, the Company	NZ Farmers Livestock Limited
NZSX	New Zealand Stock Exchange
NZX	NZX Limited
Redshaw	L I Redshaw Limited
Stockmans	Stockmans Holdings Limited
WACC	Weighted Average Cost of Capital

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1. EXECUTIVE SUMMARY

1.1 Background & Purpose

Allied Farmers Limited (**AFL**) is a public company listed on the New Zealand Stock Exchange. AFL is a 57% shareholder in private company NZ Farmers Livestock Limited (**NZFL**) and is contemplating acquiring an additional shareholding in NZFL from other NZFL shareholders.

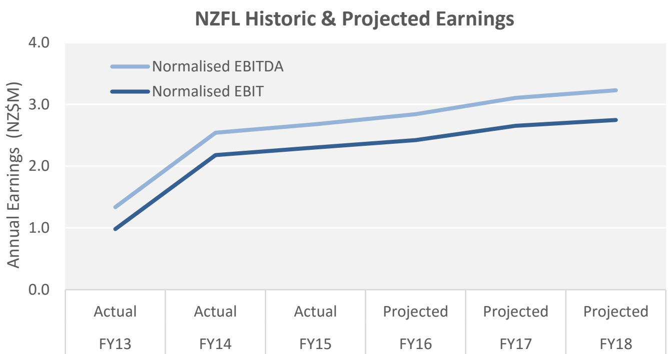
AFL has engaged Campbell MacPherson Limited (**Campbell MacPherson**) to prepare a confidential report (**Report**) for the Board of AFL providing our independent opinion on the fair value of 100% of NZFL. The Report is expected to form part of AFL's regulatory requirements in respect of compliance with NZX Listing Rules in relation to its share purchase in the event that this proceeds.

1.2 NZFL Fundamentals

NZFL was incorporated by AFL in 2011 as a separate legal entity to acquire the rural livestock business owned by AFL (formerly known as the Allied Farmers Rural division. It acquired these business assets in two key stages, the first in December 2011 (acquisition of the "business") and the second in September 2013 (acquisition of AFL interests in the sale yard assets).

NZFL has two key operating segments, a livestock agency business earning commissions and other revenue on the sale of NZ livestock, and a bobby calf business run by NZFL's wholly owned subsidiary Farmers Meat Export Limited (**FMEL**). NZFL generates annual revenues of nearly $15 million with approximately 2/3 coming from the livestock agency business and the balance from FMEL. Both parts of NZFL's business are profitable although the bobby calf business delivers more volatile returns and has significant seasonal working capital requirements.

NZFL has delivered solid earnings over the past two years with Normalised EBITDA averaging $2.6 million p.a. Earnings are expected to increase in FY16 due to improved margins from the FMEL business and an initial contribution from the investment in L I Redshaw Limited. Projected EBITDA and EBIT through to FY18 are shown in the adjacent graph.



1.3 Valuation Methodology & Results

Campbell MacPherson has assessed the fair value of NZFL on the basis of the fair market value of 100% of the Company.

Utilising available information including historic financial performance and a model of projected financial performance through to FY18 developed by NZFL, Campbell MacPherson has applied the Discounted Cash Flow method and the Capitalisation of Earnings method to assess the fair market value of NZFL.

Based on our detailed analysis outlined in Section 4, we assess the current fair market value for 100% of NZFL to be in the range of **$872 to $1,137 per share.**

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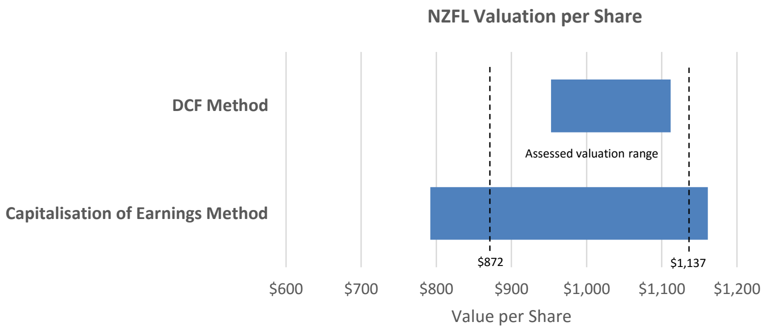
Our assessed valuation range for NZFL equates to a historic FY15 EV / Normalised EBITDA multiple of 4.8x to 5.9x and a forward FY16 EV/EBITDA multiple of 4.6x to 5.5x.



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2. SCOPE AND LIMITATIONS

2.1 Background

Allied Farmers Limited (**AFL**) currently owns approximately 57% of NZ Farmers Livestock Limited (**NZFL**) and is considering increasing its shareholding in NZFL via a private treaty purchase of NZFL shares from Stockmans Holdings Limited (**Stockmans**). It is anticipated that new AFL shares (the **Consideration Shares**) will be issued to Stockmans as consideration for the sale of its relevant shares in NZFL. We note that the exact terms of the transaction (**Proposed Transaction**), including the purchase price for the NZFL shares and the number of Consideration Shares to be issued, are yet to be agreed.

This transaction will trigger related party and materiality thresholds for public companies, and accordingly, the Directors of AFL are required to comply with the appropriate NZX listing rules in respect of any such transaction. Campbell MacPherson notes that the Company will be applying for a waiver from NZX Limited (the **NZX**) from the requirement for a full Appraisal Report to accompany any notice of meeting to be sent to shareholders. It is anticipated that this waiver will be granted provided that AFL commissions an independent valuation of the shares in NZFL to be acquired.

Accordingly, Campbell MacPherson has been engaged by the Directors of AFL to provide our independent opinion on the 'fair value' of NZFL. AFL also intends to use our opinion to assist it in its negotiations with Stockmans in relation to finalising the price and terms of the Proposed Transaction.

We note that Campbell MacPherson was approved by the NZX on 25th September 2015 to prepare this independent valuation report (**Report**).

2.2 Scope and Limitations

This Report is issued to the Directors of AFL to assist them in forming their own opinion on the value of NZFL. We acknowledge that a copy of this Report will be provided by AFL to the NZX and will be available in the public domain. This Report is not an Independent Advisers Report under the Takeovers Code nor does it constitute an Independent Appraisal Report under the NZX Listing Rules.

This Report is not to be used or relied upon by the Directors of AFL for any purpose other than as an expression of Campbell MacPherson's opinion, as at the date of the Report, as to the fair value of NZFL. We understand that the NZX may or may not require certain disclosures to be made by AFL in relation to this Report.

This Report is supplied to the Directors of AFL, subject to the conditions outlined in Appendix 1- Important Information. Appendix 1 should be read carefully since it places certain risks and responsibilities on you, the recipient of this Report. The terms and conditions in Appendix 1 are expressly accepted by you, the recipient of this Report, by the retention of this document.

2.3 Sources of Information

This Report relies exclusively upon information provided by AFL and NZFL together with discussions with AFL's and NZFL's senior management team and upon publicly available sources of data. Campbell MacPherson has not undertaken an audit of AFL or NZFL nor any of their subsidiaries.

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3. PROFILE OF NZ FARMERS LIVESTOCK

3.1 Background and Ownership

AFL is listed on the main board of the New Zealand Stock Exchange (**NZSX**) and has a current market capitalisation of approximately $6 million (as at 9 October 2015). NZFL is a private New Zealand company which was incorporated in 2011 to acquire AFL's rural livestock business. NZFL has a single wholly-owned subsidiary Farmers Meat Export Limited (**FMEL**). AFL holds its equity ownership in NZFL via AFL's 100%-owned subsidiary Allied Farmers Rural Limited (**AFRL**).

AFL (via AFRL) sold its rural livestock business to NZFL on 1 December 2011 coincident with the sale of part of its NZFL shareholding to Stockmans Holdings Limited (**Stockmans**) and other related parties of AFL. AFRL retained a 67% shareholding in NZFL following the initial transaction.

On 6 September 2013 AFL sold its sale yards interests in Taranaki, Manawatu, Waikato and King Country to NZFL for $3,643,000, being the registered valuation. AFRL subsequently sold a further 1,026 shares (10% shareholding) in NZFL to Stockmans in August 2014 for $1 million. AFRL currently holds 5,846 ordinary shares in NZFL representing 56.96% of the Company's ordinary shares on issue.

The business operations currently owned by NZFL were first established in 1913 following the formation of The Farmers Co-operative Organisation Society of New Zealand Limited (now AFL), which was established to supply Taranaki farmers with farming requirements such as general merchandise, seeds, fertiliser and livestock trading. Throughout the 1990's AFL expanded its livestock business into the King Country, Waikato and Manawatu regions, and in 2008 opened its South Island livestock operation. The Company's online trading website, MyLiveStock.co.nz, was launched in 2007.

NZFL has a single class of shares on issue comprising 10,263 ordinary shares held by four shareholders as shown below.

NZFL Shareholders		
Shareholder	**Shares Held**	**% Held**
Allied Farmers Rural Limited	5,846	56.96%
Stockmans Holdings Limited	2,796	27.24%
Agent Company Limited	1,460	14.23%
Alan Hiscox Limited	161	1.57%
Total	**10,263**	**100%**

Stockmans is a private NZ company owned 50% by NZFL Director Oliver Carruthers and 50% by NZFL General Manager Bill Sweeny. Agent Company Limited **(Agentco)** is a private New Zealand Company owned by 43 NZFL staff and related parties of those staff. Alan Hiscox Limited (**AHL**) is owned by Alan Hiscox, an NZFL Regional Manager.

3.2 Board of Directors & Management

NZFL's Board currently comprises four Directors.

NZFL – Directors	
Name	**Role**
Garry Bluett	Chairman
Oliver Carruthers	Director
Philip Luscombe	Director
Simon Williams	Executive Director

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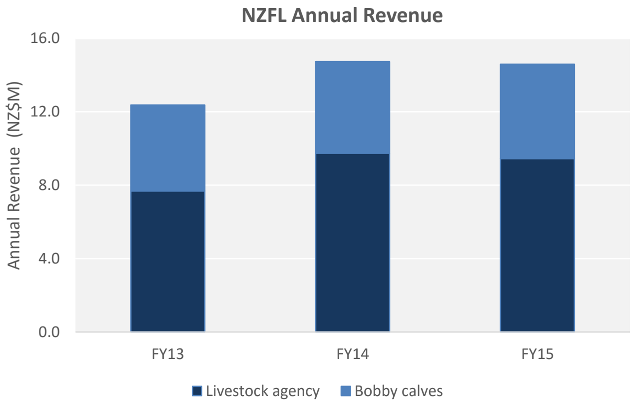
Mr Bluett and Mr Luscombe are also Independent Directors of AFL and represent AFL on the Board of NZFL. Mr Carruthers is a Director of Stockmans and represents the interests of Stockmans. Mr Williams is a Director of Agentco and represents the interests of Agentco.

NZFL employs approximately 56 staff including 33 agents and 6 commission-only agents. The Group has an experienced senior management team led by CEO Steve Morrison and General Manager Bill Sweeney.

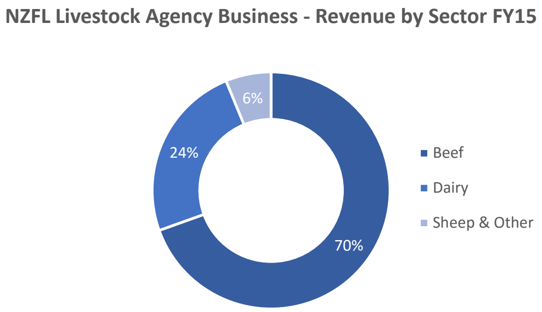
3.3 Business Model and Service Offering

NZFL has two key operating segments, a livestock agency business earning commissions and other revenue on the sale of NZ livestock, and a bobby calf business (run by FMEL) comprising procurement of bobby calves and sale of bobby calf products. NZFL generates annual revenues of nearly $15 million with approximately 2/3 coming from the livestock agency business and the balance from FMEL as shown below.



Livestock Agency Business

AFL operates a nationwide livestock agency business. This business generates annual revenues of $9 million – $10 million with the bulk of earnings (>90%) from beef and dairy livestock sales as shown below.



The livestock agency business is run along regional lines divided into geographic areas as follows:

- Waikato
- Taranaki
- King Country
- Manawatu
- South Island
- Hawkes Bay

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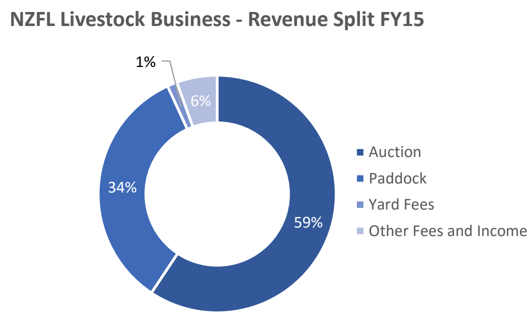
Teams of agents operate in each of these regions and each agent has access to a range of sale yards in their region where livestock auctions are conducted on a regular basis. These sale yards may be owned by NZFL, held under Joint Venture arrangements (**JV's**), or may be owned by third parties (e.g. farmer-owned yards etc.). Agents report to a Regional Manager and may be employees or contractors to AFL.

The Hawkes Bay region is serviced by L I Redshaw Limited (**Redshaw**). On 1 July 2015 NZFL entered into an unconditional agreement to acquire 52% of the shares in Redshaw over time. Redshaw is a well-established livestock agency business with 10 agents and an access licence to the Stortford Lodge sale yards in Hastings. Further information on the terms of this acquisition are provided in Section 4.4.

NZFL conducts regular auction sales through the sale yards and also on-site auctions at farms. The latter are typically bull sales for pedigree breeders. NZFL receives a selling commission on all auction sales along with a proportional share of the net profit from its ownership of selected sale yards. Auction sales are settled on a 14 day basis with NZFL paying the vendor and the purchaser paying NZFL. Whilst NZFL is taking the risk on the purchaser there are penalties for late payment and historically bad debts have been very low.

Agents also generate business outside of the sale yards including paddock sales and dairy herd forward sale contracts. Paddock sales are typically dairy but can include drystock as well. For dairy, settlement is usually on 31 May with the forward contract sale being arranged up to 10 months in advance. NZFL also occasionally procures stock for export by third parties and facilitates livestock financing of some stock transactions, with financing sourced from third parties.

As shown below NZFL generates the bulk of its livestock agency business revenues from auction sales commission (approximately 60%) and paddock sales commission (circa 35%) with the balance from yard fees and other fees and income.



The full or partial ownership of sale yards is a critical strategic element of the livestock agency business, guaranteeing access and helping to facilitate auction activity and commission income on the sale of livestock. AFL's current ownership interests in various sale yards in New Zealand are summarised below.

NZFL – Ownership of Livestock Sale Yards (excluding Redshaw interest)			
Region	**Location**	**AFL Share**	**Third Party Share**
Manawatu	Rongotea	100%	0%
Waikato	Frankton	50%	50% PGG Wrightson
Waikato	Morrinsville	0%	Operates under licence
King Country	Te Kuiti	33%	33% PGG Wrightson, 33% Carrs
King Country*	Taumaranui	50%	n/a
Taranaki	Stratford	50%	50% PGG Wrightson
South Island	Tenuka	0%	Operates under licence

* About to be closed

The yards are run via a series of joint venture operations referred to as "Associated Auctioneers". These operate the activities of each sale yard including facilitating the sales of livestock via auction, maintaining the sale yards in working order, collecting levies on livestock sales and meeting the operating costs of the yards. Generally speaking the yards are operated on a "cost neutral" basis with

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small losses or surpluses from each yard in a given year. Any profits or losses are shared by the joint venture owners on a pro-rata basis in proportion to their ownership in the yard.

NZFL also operates the mylivestock.co.nz website which provides an online listing service for livestock sales. This is not currently an auction site although NZFL is considering the potential benefits of building transactional functionality into the site in the future. Currently livestock purchasers are referred to the relevant agent who then arranges the sale.

Bobby Calf Business

The bobby calf business is run by NZFL subsidiary FMEL and operates a procurement and contract processing and marketing model that complements NZFL's expertise in its livestock agency business. FMEL purchases bobby calves from farmers at market prices. Te Kuiti Meat Processors then undertake the non-skin processing and ANZCO markets almost all of the non-skin products. Tomoana (Lowe Corporation) processes and markets the skins. Both ANZCO and Tomoana receive a commission on their sales of bobby calf products, most of which are exported. Virtually every part of the bobby calf is processed with very little wastage. Key products include:

- Various cuts of veal
- Skin
- Kidneys, livers, sweetbreads etc.
- Bones and rib cages
- Skins
- Tails
- Vells
- Pet food

The bobby calf business delivers relatively volatile returns and has significant seasonal working capital requirements. The season for bobby calves is typically June to September with most of the product sold by December. A key driver of profitability is the annual procurement cost and transport cost of each calf which can vary significantly from year to year and also within a given season.

3.4 Industry Analysis and Competitive Position

The meat and dairy industry is a critical part of the New Zealand economy. There are currently over 56,000 farms in New Zealand with over 88 million stock units. Over the past ten years sheep, beef and deer numbers have been in decline while dairy cattle numbers have increased 31%.

NZ Livestock Numbers as at 30 June (millions)

	2004	2014p	
Sheep	39.27	29.56	-25%
Beef cattle	4.45	3.64	-18%
Dairy cattle	5.15	6.75	31%
Deer	1.76	0.95	-46%

Source: Compendium of New Zealand Farm Facts, 2015

Beef and dairy herds dominate the trading base of NZFL's livestock agency business. These herds have collectively increased 8% over the past decade to 10.4 million stock units, providing a solid base for growth.

Livestock Agency Market

We estimate there are currently around 500 – 600 livestock agents operating in New Zealand. NZFL is an important player in the New Zealand livestock agency market, along with others such as PGG Wrightson and Elders. PGG Wrightson is the largest player in the New Zealand livestock agent sales market with circa 250 – 300 agents. It has a national footprint and operates from over 70 sale yards

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throughout New Zealand. It also operates online auctions and other livestock services via its website agonline.co.nz

The livestock agency market is a mature sector and growth opportunities principally come from acquisition of regional agency businesses and adding additional agents in new geographic locations. NZFL has potential to grow its market share through the recent acquisition of a majority stake in Redshaw in the Hawkes Bay and other similar acquisitions in the future.

Technology is also having an impact on the sector with the growing presence of online sales of livestock through sites such as agonline.co.nz, trademe.co.nz, stockx.co.nz and newcomer myloadingramp.nz. NZFL is currently trialling a new phone app and is also looking to develop a direct sales platform on its website and an app to complement its current agent-based model. Trading of livestock directly via online platforms will likely grow over time although the traditional agent-based model is expected to continue to dominate.

Bobby Calf Market

New Zealand generates over NZ$5.5 billion in meat exports each year, of which around $116 million (2%) comprise sales of bobby calf products. In addition, bobby calf skins are also sought after by apparel makers due to their quality and unblemished condition.

NZFL leverages its existing knowledge and farmer relationships to purchase a minor share of the annual NZ bobby calf market, competing against other meat processors such as AFFCO, Silver Fern Farms, ANZCO, Greenlea Meats and others. Higher value meat products are generally sold into the North American market. A significant proportion is minced in the USA and therefore the US red meat market pricing is a good indicator of returns. The recent devaluation of the NZD against the USD during 2014/15 has been of benefit.

Skin markets across many farmed species (including bobby calves) have been poor in recent years due to weak global markets. Calf skins fetch premium pricing with medium weight skins used in garments and heavier weight skins used for footwear.

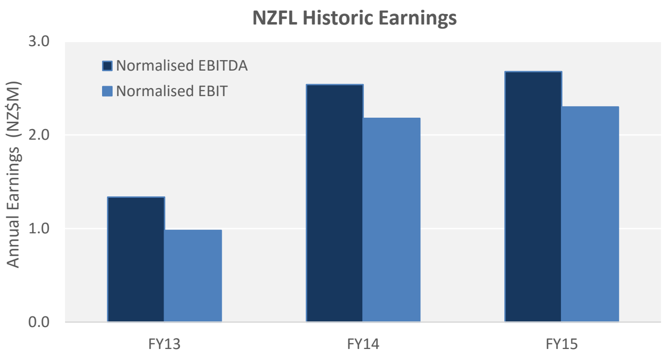
NZFL is a small niche player in the bobby calf market and is essentially a price taker with limited leverage. NZFL's ability to grow this part of its business is currently constrained by available contract processing capacity and its ability to procure its share of annual bobby calf sales at reasonable prices. Despite its historic volatile earnings the business continues to deliver profitable returns to NZFL and FY16 earnings are expected to return to gross margin levels in excess of 20%.

3.5 Summary Historic Financial Information

Annual accounts for NZFL and its subsidiary FMEL are prepared on a consolidated basis as at 30 June each year.

Financial Performance

NZFL's historical financial performance over the past two years has been good, rebounding from a poor year in FY13. The FY13 year was impacted by weak performance from the livestock agency business due to the poor brand image of its parent AFL and pressure in the market from competitors seeking to leverage this to gain market share. Normalised EBITDA has averaged around $2.6 million in FY14 and FY15.



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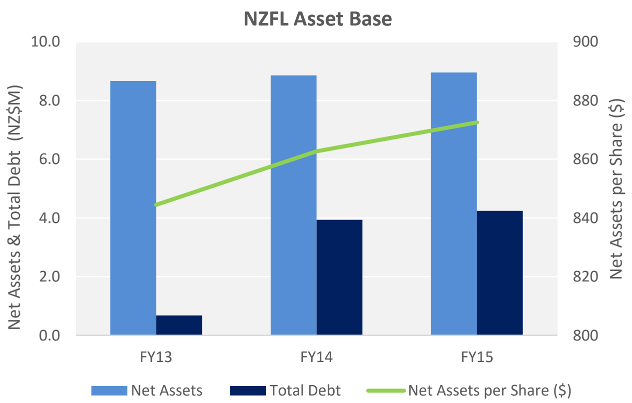
Summary financial performance for the last three years is shown below. Sale of goods essentially relates to the FMEL bobby calf business whilst commission income relates to revenues from the livestock agency business.

NZFL - Consolidated Financial Performance				
NZ$000's	Notes	FY13	FY14	FY15
Revenue				
Sale of goods		4,693	4,984	5,139
Interest income		129	133	95
Commission income		7,682	9,750	9,456
		12,504	14,867	14,690
Expenses				
Cost of inventory sold		3,203	4,219	4,540
Rental and operating leases		158	119	107
Employee benefit expense		4,223	4,750	4,375
Other operating expenses		3,577	3,327	3,233
		11,161	12,415	12,255
EBITDA		**1,343**	**2,452**	**2,435**
Depreciation & amortisation		356	361	377
EBIT		**987**	**2,091**	**2,058**
Normalisations				
(Gain)/loss on sale of fixed assets		(7)	-	242
Loss on disposal of intangible assets		-	87	-
Normalised EBITDA		**1,336**	**2,539**	**2,677**
Normalised EBIT		**980**	**2,178**	**2,300**

Financial Position

NZFL acquired the livestock agency and bobby calf business from AFL in December 2011 and subsequently acquired the underlying interests in the sale yards in September 2013. NZFL borrowed to acquire the sale yards and retains significant debt facilities secured against these assets as shown in the adjacent graph. Total debt as at 30 June 2015 was $4.24 million including $2.65 million in mortgage facilities.



NZFL has increased its net assets per share over the past three years to $873 per share in FY15. A significant proportion of these net assets relates to intangible assets arising as a result of the purchase of the business from AFL. Intangible assets comprised $676 per share in FY15 and are assessed on an annual basis by both NZFL and AFL for any impairment. AFL audited accounts as at 30 June 2015 noted no impairment in its interests in NZFL.

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NZFL's summary historical financial position for the past three years is provided below.

NZFL - Consolidated Financial Position				
NZ$000's	**Notes**	**FY13**	**FY14**	**FY15**
Current Assets				
Cash and cash equivalents		1,054	2,599	1,613
Trade and other receivables		5,417	4,792	5,191
Inventory - Livestock		48	-	47
Other current assets		71	88	164
		6,590	7,479	7,015
Non-current Assets				
Deferred tax asset		-	-	134
Property, plant and equipment		1,265	4,406	4,750
Intangible assets		7,117	6,984	6,933
		8,382	11,390	11,817
Total Assets		**14,972**	**18,869**	**18,832**
Current Liabilities				
Trade and other payables		5,256	4,846	5,202
Borrowings incl finance leases		403	-	635
Provisions		372	1,230	432
		6,031	6,076	6,269
Non-current Liabilities				
Borrowings incl finance leases		275	3,939	3,608
Total Liabilities		**6,306**	**10,015**	**9,877**
Net Assets		8,667	8,854	8,955
Net Assets per Share ($)		*844*	*863*	*873*
Net Tangible Assets per Share ($)		*151*	*182*	*197*

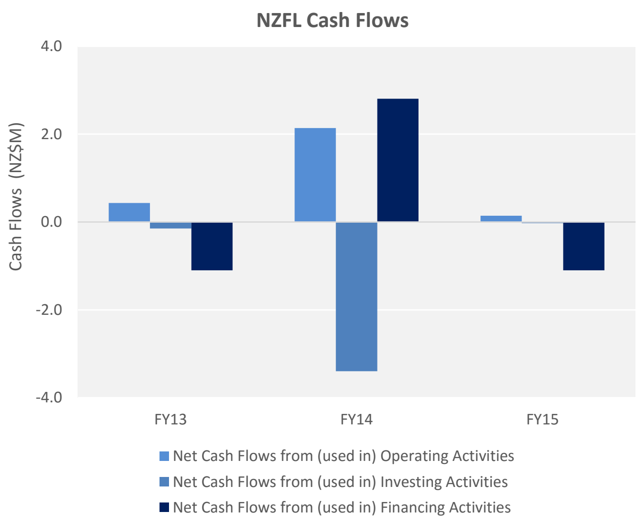
Cash Flows

NZFL's operating cash inflows increased in FY14 and FY15 reflecting higher revenue from customers. However, net operating cash flows were highly variable due to timing issues, ranging from $2.14 million in FY14 to $0.14 million in FY15.

Investing cash flows have largely been linked to the (debt funded) acquisition of the sale yards as well as minor purchases of other plant and equipment.

Annual dividend payments have ranged between $370,000 and $1 million over the past three years and are subject to annual Board approval.

NZFL's historical cash flows for the past three years are summarised below.



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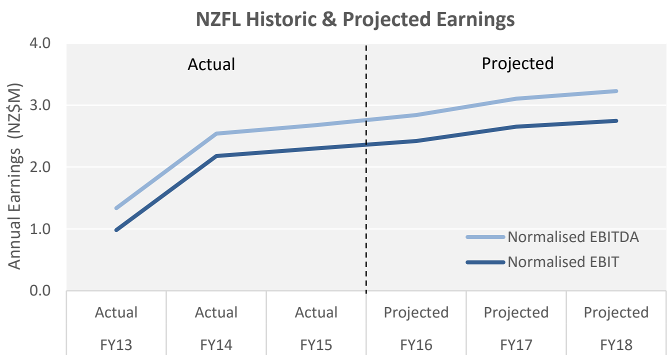
NZFL - Consolidated Cash Flows				
NZ$000's	Notes	FY13	FY14	FY15
Cash Flows from Operating Activities				
Cash was provided from:				
Receipts from customers		11,381	15,382	14,221
Interest received		129	133	95
		11,510	15,515	14,316
Cash was applied to:				
Payments to suppliers and employees		(10,772)	(12,867)	(13,073)
Interest payments		(113)	(449)	(577)
Taxation paid		(191)	(60)	(524)
		(11,076)	(13,376)	(14,174)
Net Cash Flows from (used in) Operating Activities		**434**	**2,139**	**142**
Cash Flows from Investing Activities				
Cash was provided from:				
Sale of Property, plant & equipment		-	-	181
Cash was applied to:				
Purchase of property plant & equipment and intangible assets		(147)	(3,398)	(204)
Net Cash Flows from (used in) Investing Activities		**(147)**	**(3,398)**	**(23)**
Cash Flows from Financing Activities				
Cash was provided from:				
Borrowings		-	3,595	-
Cash was applied to:				
Borrowings		(377)	(418)	(93)
Dividends Paid		(721)	(372)	(1,009)
		(1,098)	(790)	(1,102)
Net Cash Flows from (used in) Financing Activities		**(1,098)**	**2,805**	**(1,102)**
Net Increase (decrease) in cash and cash equivalents		**(811)**	**1,546**	**(983)**

3.6 Projected Financial Performance



AFL management have provided Campbell MacPherson with an unaudited three year model for projected financial performance through to the end of FY18. The model uses a range of inputs and assumptions based on the historic performance of the business, the FY16 budget and the forecast performance of the livestock agency and bobby calf businesses.

Revenues from the livestock agency business are expected to continue to grow organically with bobby calf product and skin revenues remaining at current levels. Earnings contributions from the Redshaw acquisition will increase as NZFL's equity stake in Redshaw increases

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to 52%. Overall EBITDA is expected to rise to $2.8 million in FY16 with further increases to $3.1 million if FY17 and $3.2 million in FY18.

A summary of NZFL's projected financial performance provided below.

NZFL - Projected Consolidated Financial Performance				
NZ$000's	**Notes**	**FY16**	**FY17**	**FY18**
Revenue				
Sale of bobby calf products		5,971	5,852	5,910
Interest income		120	95	98
Commission income		9,189	9,908	10,379
		15,280	15,855	16,387
Expenses				
COGS - bobby calves		4,759	4,722	4,799
Selling		260	285	270
Employee expense		5,900	6,312	6,629
Occupancy		149	164	167
Vehicle		416	466	509
Administration		652	685	755
FMEL Expenses		360	323	356
		12,496	12,957	13,486
Earnings from other initiatives	1	57	207	328
EBITDA		**2,842**	**3,105**	**3,229**
Depreciation & amortisation		422	452	482
EBIT		**2,419**	**2,652**	**2,747**

Notes

1. Principally relating to the impact of the Redshaw acquisition.

Key assumptions underlying the financial model include:

- Declining livestock sales in FY16 due market conditions, rebounding in FY17 and FY18.
- Increasing bobby calf revenues in FY16 due to improved market conditions and exchange rates, levelling off in FY17 and FY18.
- Improving bobby calf gross margin in FY16 based on increased revenues and relatively static cost base.
- Increase in agent staff costs as commissions rise on FY17 and FY18 livestock sales growth.
- Minor increases in other operating costs in line with overall growth.
- Treatment of sale yards as operating assets (no adjustment for notional sale and lease back).
- Progressive earnings contribution from Redshaw based on the increasing ownership position of NZFL over the three year period – up to a maximum of 52%.
- Depreciation estimate based on FY15 depreciation charge rolled forward.

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4. VALUATION ANALYSIS

4.1 Valuation Basis

We consider that the most appropriate valuation approach is to assess the value of 100% of NZFL on the basis of fair market value. Fair market value is defined as;

"The price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, both acting at arm's length."

4.2 Valuation Methodology

In general terms, the aggregate value of the assets in a Company represents the present value of the future cash flows able to be generated by such assets. There are a number of methodologies used in valuing shares and businesses. The most commonly applied methodologies include:

- Discounted Cash Flow (**DCF**).
- Capitalisation of earnings / dividends
- Net assets or estimated proceeds from an orderly realisation of assets (Net Asset Value or **NAV**).

Each of these valuation methodologies is applicable in different circumstances. The appropriate methodology is determined by a number of factors including the future prospects of the business, the stage of development of the business and the valuation practice or benchmark usually adopted by purchasers of the type of business involved.

Discounted Cash Flow (DCF) Method

The DCF method is the fundamental valuation approach used to assess the present value of future cash flows, recognising the time value of money and risk. The value of an investment is equal to the value of future free cash flows arising from the investment, discounted at the investor's required rate of return.

DCF valuations generally require management to prepare detailed long-range cash flow projections for the business, together with an assessment of the appropriate cost of capital or "discount rate" that should be applied to determine the present value of those future cash flows.

Furthermore, it is difficult to determine cash flows beyond the explicit forecast period and these are often capitalised based on certain assumptions around the long-term sustainable cash flows of the business (commonly referred to as the "terminal value"). Valuations derived using the DCF method are often highly sensitive to the cost of capital used and the terminal value.

Capitalisation of Earnings / Dividends Method

The capitalisation of earnings method is an adaptation of the DCF method. It requires an assessment of the future maintainable earnings of the business and a selection of a capitalisation rate (or earnings multiple) appropriate to that particular business for the purpose of capitalising the earnings figure. This method is based on the principle that comparable companies engaged in similar business activities will have similar operating and financial risks and returns and can therefore be valued using a similar multiple of earnings.

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A multiple is often applied to earnings before interest, tax, depreciation and amortisation (**EBITDA**) or earnings before interest and tax (**EBIT**) in order to determine the enterprise value (**EV**) of the business. In the event that a company has negative earnings, a multiple of sales is sometimes used as a proxy for comparative purposes.

The EV represents the value of the business as a whole and a deduction is often then made for net debt and any surplus assets or one-off charges to determine the equity value of the business and the implied value per share.

Comparable multiples are generally derived using two key sources of information;

- Implied multiple of earnings data based on recent historical (and/or forecast) earnings of comparable publically traded companies relative to their Enterprise Value (derived from the current market capitalisation).
- Implied multiple of earnings data based on recent historical (and/or forecast) earnings of comparable companies relative to their Enterprise Value (derived from the acquisition price paid for a company in a recent transaction).

Comparable transaction data is often the most applicable guide to determining the fair market value of a company. However, this data is often confidential and is therefore difficult to obtain due to its commercial sensitivity.

The capitalisation of dividends method is similar to a capitalisation of earnings approach and is generally used to value minority equity shareholdings. This method involves a direct determination of the equity value of a company using an assessment of the future maintainable dividends. The future maintainable dividends are capitalised using an appropriate dividend yield to determine the value of equity and value per share.

Capitalisation of earnings methodologies are generally most appropriate for established companies with stable earnings. The advantage of an earnings-based method over the DCF method is that earnings multiples can be directly observed in the market.

Asset-based Methods

An asset based methodology is often used in circumstances where the assets of a company have a market value independent of the profitability of the company that owns them. A valuation based on an orderly realisation of assets is normally restricted to instances where the investor holds sufficient control to effect a sale of the assets and/or there is some indication that an orderly realisation is contemplated. This approach may also be used to test a preferred valuation approach by providing an estimate of a minimum value for the company.

4.3 Valuation Approach

Our preferred valuation approach for assessing the fair market value of NZFL is utilise the two most common and accepted valuation methods for going concern businesses, namely;

- the DCF method, and;
- the Capitalisation of Earnings method

We have considered the overall results of each method in forming our view on the fair market valuation range for NZFL.

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4.4 DCF Valuation

Inputs & Assumptions

Free Cash Flow

Free Cash Flow (**FCF**) represents the cash available to be distributed to all equity security holders in a company after accounting for capital expenditure and investment in working capital. Typically a long range forecast (i.e. at least 5 years) is used to undertake a DCF valuation. In the case of NZFL, management has provided Campbell MacPherson with projected financial performance for the FY16 – FY18 period which is a shorter period than we would prefer. The implications of this in terms of valuation include:

a) Greater emphasis on the terminal value and related assumptions when forming a view on the valuation range.
b) Resultant wider value range due to (a) above.
c) Potential to undervalue the company where growth in free cash flows beyond FY18 exceeds the growth rate assumptions made in calculating the terminal value.

Prospective financial performance and the key assumptions relating to these financial projections are detailed in Section 3.6. These projections form the basis of the DCF valuation and have been adjusted remove the effects of debt gearing and to include taxes.

Treatment of the Sale Yard Assets

Significant capital is currently tied up in the sale yard assets owned or part-owned by NZFL (land and improvements). We have considered treating these assets as surplus assets for the purposes of this valuation and deducting a notional lease cost from NZFL's future earnings. However, in our view this approach is not optimal for the following reasons:

- NZFL is only part-owner of many of these assets and it is questionable whether it could sell any of these assets at the full market price.
- There are very limited number of prospective trade buyers and some of those buyers may or may not be able to transact due to Commerce Commission restrictions.
- Interests in sale yards are viewed as strategically important by both NZFL and its competitors.
- It is unclear what a reasonable market lease would be given the lack of direct earnings generated by the Associated Auctioneer JV's that own them.

For these reasons we have chosen to consider the sale yard interests as operating assets for the purposes of our valuation of NZFL

Discount Rate

The discount rate applied to future FCF should represent the Weighted Average Cost of Capital (**WACC**) for the business which in turn is a function of the riskiness of its cash flows. The discount rate is an important driver of any valuation, and the final Net Present Value (**NPV**) of a business is often highly sensitive to the discount rate used.

We have applied the commonly used formula and inputs to determine the cost of equity for New Zealand companies based on the Capital Asset Pricing Model (**CAPM**) modified to allow for dividend imputation.

Given the lack of comparable public-listed companies to NZFL in the New Zealand market we have used the equity beta for AFL as a proxy, together with a small company risk premium of 2% - 4%, to reflect

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the greater risk of NZFL as a small private company. Our resulting assessed cost of equity for NZFL ranges from 18.1% to 20.1% at an assumed gearing ratio of 30%.

NZFL's current weighted average cost of debt is 7.5%. Combining our assessed cost of equity and cost of debt for NZFL we have determined an overall WACC of 14.3% to 15.7% for the Company.

Terminal Growth Rate

The terminal value of a company represents the present value of FCF realised beyond the forecast period. As the nature of such FCF is unknown, an assumption must be made around the future growth of NZFL. Terminal growth rates typically range from 2% to 4% per annum which predominantly reflects nominal growth in the wider economy.

We consider a terminal growth rate of 2% per annum is appropriate to apply to NZFL in the context of its expected stable earnings beyond FY18 without further acquisitions.

Adjustment to Terminal FCF

We have therefore normalised the underlying FCF used for the terminal value calculation on the basis that the capital expenditure requirement for NZFL on a long-term sustainable basis beyond FY18 is approximately $250,000 per annum. This principally reflects capital expenditure to replace the vehicle fleet as it ages and for minor replacement capex on buildings and fittings relating to NZFL's operations.

Net Debt

Net debt has been assessed based on the outstanding loans and finance leases as at 30 June 2015 less cash at bank.

Working Capital

A working capital analysis has been undertaken by Campbell MacPherson based on FY15 monthly balance sheets provided by AFL for the NZFL livestock business and for FMEL. The livestock business typically operates with negative working capital due to significant agent commission funds held in trust on a rolling basis. FMEL has a marked seasonal working capital profile with major working capital funding typically required during the August-October period when the bobby calves are being purchased and processed.

A working capital adjustment has been made based on the working capital position as at 30 June 2015 compared against the average monthly working capital position for each business unit over the FY15 period.

Redshaw Purchase Price

The total investment in Redshaw is $900,000 over 3 years comprising $650,000 for a 52% equity stake and a further $250,000 contribution to working capital by way of a shareholder loan from NZFL. The NPV of the cost of this purchase has been deducted from the value of NZFL as a one-off adjustment.

DCF Results

Utilising the DCF inputs and assumptions outlined above we have determined an estimated Enterprise Value (**EV**) range for the NZFL business (before adjusting for the cost of the Redshaw purchase) of between $13.8 and $15.4 million. The table below summarises the results of the DCF analysis.

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NZFL - DCF Valuation					
NZ$000's		Year 1	Year 2	Year 3	Terminal
Free Cash Flow		**1,908**	**2,212**	**2,310**	
Discounted Cash Flow - Lower Range					
WACC	15.7%				
Terminal Growth Rate	2.0%				
Discounted Free Cash Flow	4,793	1,649	1,653	1,492	
Terminal Value	9,006				16,136
NPV of FCF	**13,799**				
Discounted Cash Flow - Upper Range					
WACC	14.3%				
Terminal Growth Rate	2.0%				
Discounted Free Cash Flow	4,910	1,670	1,693	1,547	
Terminal Value	10,532				17,973
NPV of FCF	**15,442**				

Summary	Lower	Upper
NPV of FCF	**13,799**	**15,442**

Adjusting for net debt and the Redshaw purchase our resulting value range for NZFL shares using the DCF method is $953 to $1,112 per share as shown in the table below.

NZFL - DCF - Value per Share		
NZ$000's	Lower	Upper
Assessed EV	13,799	15,442
Net Debt	(2,630)	(2,630)
Redshaw purchase	(776)	(785)
Working capital adjustment	(615)	(615)
Equity value ($000's)	**9,778**	**11,411**
Shares on issue	10,263	10,263
Value per share ($)	**953**	**1,112**

4.5 Capitalisation of Earnings Valuation

Inputs & Assumptions

Future Sustainable Earnings

EBITDA and EBIT are both commonly used as the basis for a company's future sustainable earnings (**FSE**) when undertaking a Capitalisation of Earnings valuation. In some circumstances EBIT can be a better

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measure of a company's earnings as it allows for the relative capital intensity of the business (assuming depreciation is a reasonable proxy for capital expenditure). However, EBIT can be misleading as it is impacted by a company's depreciation policy and other non-cash adjustments.

Campbell MacPherson has elected to use EBITDA as the basis for NZFL's FSE as comparative company data is largely EBITDA based. Our assessment of NZFL's FSE is based on our review of the Company's historic and projected financial performance. Key factors we have considered in assessing NZFL's FSE are set out below.

NZFL – FSE Drivers	
Factor	**Comment**
Historical performance	NZFL has recovered well from the challenges of FY13 and delivered stable Normalised EBITDA averaging circa $2.6 million over the past two years. Historic performance has still been held back by weaker earnings from FMEL during recent years.
Projected performance	Significantly improved EBITDA is expected in FY16 due to improved margins from FMEL. Average projected EBITDA for the next three years is circa $3.06 million.
Economic/market conditions	The livestock agency business is relatively stable and the recent downturn in dairy prices has not significantly impacted earnings projections.
Competitive position	NZFL is well positioned in the livestock agency market and is expected to grow modestly through strategic acquisition and building its agent numbers. FMEL is a niche business that leverages well off the NZFL's knowledge and farmer relationships but is exposed to greater risk of margin squeeze.

Taking into consideration the above factors, Campbell MacPherson has assumed a future sustainable EBITDA of $2.7 million to $2.9 million for the purposes of assessing the current value of NZFL using the Capitalisation of Earnings method.

<u>Valuation Multiple</u>

As noted in Section 4.2, multiples derived from comparable transactions are often the most relevant when determining the fair market value of a private company. However, the implied multiple for any given transaction can vary depending on a number of factors including:

- Investment conditions / sentiment at the time of the transaction.
- The competitiveness of the sale process.
- Economic conditions.
- Strategic or synergistic benefits to the acquirer.

Campbell MacPherson has reviewed selected EV/EBITDA multiples for a range of traded public companies and announced transactions in the primary sector in New Zealand (See Appendix II). We note that the scale of these companies and transactions means that many of the EBITDA multiples are considerably higher than those at which AFL trades at, and are also generally higher than previous transactions/valuations relating to the sale of NZFL assets/shares (Appendix III). Caution must be therefore applied when considering these multiples for the valuation of a private company such as NZFL.

Each of our approaches to assessing an appropriate earnings multiple for NZFL are summarised in the table below.

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NZFL – Valuation Multiples	
Dataset	**Summary Results**
Selected trading and transaction multiples	Historic EV/EBITDA multiples for our selected comparable transactions average 9.0x with a median of 7.5x, although data varies widely, with a minimum of 4.3x and a maximum of 21.9x. Given the small scale and private ownership of NZFL we would anticipate a selling multiple towards the lower end of the observable multiple range. Historic EV/EBITDA multiples for our selected comparable companies average 9.9x with a median of 6.2x, although this data also varies widely, with a minimum of 4.8x and a maximum of 17.6x. AFL trades on a comparative basis against its peers on an EV/EBITDA multiple of 5.3x. We note that, due to NZ IFRS accounting rules, AFL's EBITDA includes 100% of the consolidated performance of NZFL despite AFL's equity interest in NZFL being only 57%. See Appendix II for details.
NZFL transactions/valuations	Previous valuations/transactions relating to NZFL and/or its business assets imply an EV/Normalised EBITDA multiple of between 4.8x and 5.9x. A valuation of Allied Famers Rural Services Division Deloitte in 2009 used an EBIT multiple range of 6.0x to 7.0x (midpoint 6.5x), equivalent to a midpoint EBITDA multiple of 5.9x. However, AFRS comprised a considerably larger and more profitable business at that time including ownership of 14 merchandise stores and EBITDA of over $5 million p.a. See Appendix III for details.

Taking into account all of these factors, together with Campbell MacPherson's knowledge of private company transactions in the New Zealand market, we consider that the appropriate EBITDA multiple to apply to NZFL's assessed FSE (EBITDA) is 4.5x to 5.5x.

Capitalisation of Earnings - Valuation Results

Based on the inputs and assumptions summarised above, Campbell MacPherson has assessed the enterprise value of NZFL to be in the range of $12.2 million to $16.0 million.

Adjusting for net debt and the Redshaw purchase our resulting value range for NZFL shares using the Capitalisation of Earnings method is $792 to $1,161 per share as shown in the table below.

NZFL - Capitalisation of Earnings - Value per Share		
NZ$000's	**Lower**	**Upper**
Assessed EV	12,150	15,950
Net Debt	(2,630)	(2,630)
Redshaw purchase	(776)	(785)
Working capital adjustment	(615)	(615)
Equity value ($000's)	**8,129**	**11,920**
Shares on issue	10,263	10,263
Value per share ($)	**792**	**1,161**

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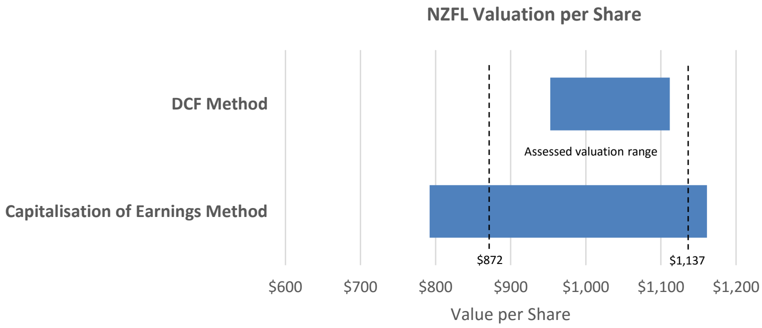
4.6 Assessed Valuation Range for NZFL

Taking into account the results of our DCF and Capitalisation of Earnings analysis, we assess the current fair market value for 100% of NZFL to be in the range of **$872 to $1,137 per share.**



This valuation range equates to the following NZFL historic and prospective EV/EBITDA multiples:

NZFL Valuation - Implied EV/EBITDA Multiples		
	Lower	**Upper**
FY15 Actual Normalised EBITDA	4.8x	5.9x
FY16 Budget EBITDA	4.6x	5.5x
FY17 Projected EBITDA	4.2x	5.1x

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APPENDIX I: IMPORTANT INFORMATION

This Report (**Report**) has been prepared by Campbell MacPherson Limited (**Campbell MacPherson**) based on information supplied by AFL and NZFL. It details information on NZFL and has been prepared for the Board of Directors of AFL.

This Report is supplied to the Board of Directors of AFL (the **Recipient**) subject to the terms and conditions of the following paragraphs.

Campbell MacPherson
Campbell MacPherson is supplying this information as a matter of interest to the Recipient. The Recipient must make its own assessment of that information. Although it is tendered in good faith Campbell MacPherson, and their respective agents, employees, consultants, directors and officers make no representations or warranties concerning the accuracy or implications of the Report. NZFL's relationship is such with Campbell MacPherson that the directors, shareholders, and employees of Campbell MacPherson do not assume personal liability to NZFL or the Recipient or any other party in respect of the Report.

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Estimates and Projections
The estimates and projections contained in this Report involve significant elements of subjective judgment and analysis which may or may not be correct. There are usually differences between forecast and actual results because events and circumstances frequently do not occur as forecast and these differences may be material. The Recipient should make their own independent review of the relevant assumptions, calculations and accounting policies upon which the opinions, estimates and projections in this Report are based.

Not a Recommendation
The information in this Report is provided to the Recipient as a matter of interest only and it does not amount to an offer for securities or recommendation either expressly or by implication.

Indemnity
AFL has fully indemnified Campbell MacPherson in relation to the contents of this Report in accordance with the terms of Campbell MacPherson's mandate letter with AFL.

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APPENDIX II: TRADING AND TRANSACTION MULTIPLES

Information sourced from Capital IQ.

NZFL - Selected Transaction Multiples

Date	Target	Acquirer	Transaction Value ($M)	% Sought	Implied EV ($M)	Historical EV/EBITDA	Forward EV/EBITDA
Feb-14	Open Country Dairy Limited	Talleys Group Limited	29	9.5	364	11.4x	n/a
Nov-11	Turners & Growers Ltd. (nka:T&G Global Limited)	BayWa AG	254	73.1	300	21.9x	n/a
Dec-10	PGG Wrightson Limited	New Hope Group Co., Ltd.; Agria (Singapore) Pte Limited	141	31.0	744	11.2x	11.9x
Jun-10	AFFCO Holdings Ltd.	Talleys Group Limited	88	47.2	267	6.6x	n/a
Jun-09	Seeka Kiwifruit Industries	Fresh MD Holdings Inc.	9	18.8	85	4.3x	n/a
May-06	RD1 Limited	Landmark Operations Limited	n/a	50.0	n/a	6.3x	5.7x
Jul-05	Wrightson Ltd.	Pyne Gould Guinness Reid Farmers Ltd. (nka:PGG Wrightson Limited)	490	100.0	490	12.1x	15.5x
Mar-05	Turners & Growers Ltd. (nka:T&G Global Limited)	n/a	34	17.2	240	5.6x	n/a
Dec-04	Williams & Kettle Ltd.	Wrightson Ltd.	99	80.1	119	9.0x	n/a
Apr-04	Wrightson Ltd.	Rural Portfolio Investments Limited	85	37.0	256	8.5x	8.9x
Sep-03	Wrightson Ltd.	n/a	17	7.8	199	6.2x	6.8x
Jul-01	Wrightson Ltd.	RD1.Com Limited (nka:RD1 Limited)	27	19.9	117	4.4x	4.1x
Min			9		85	4.3x	4.1x
Max			490		744	21.9x	15.5x
Average			**116**		**289**	**9.0x**	**8.8x**
Median			**85**		**256**	**7.5x**	**7.9x**

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NZFL - Selected New Zealand Trading Multiples

	Industry Classicication	Exchange:Ticker	Market Cap ($M)	EV ($M)	Historical EV/EBITDA	Forward EV/EBITDA
Allied Farmers Limited	Agricultural Products	NZSE:ALF	6	10	5.3x	n/a
Livestock Improvement Corporation Limited	Packaged Foods and Meats	NZSE:LIC	133	148	4.8x	n/a
PGG Wrightson Limited	Agricultural Products	NZSE:PGW	302	421	6.2x	6.6x
Sanford Ltd.	Packaged Foods and Meats	NZSE:SAN	459	658	14.5x	9.7x
Scales Corporation Limited	Packaged Foods and Meats	NZSE:SCL	282	328	6.0x	6.0x
Seeka Kiwifruit Industries Limited	Agricultural Products	NZSE:SEK	52	84	5.8x	n/a
Speirs Group Limited	Packaged Foods and Meats	NZSE:SGL	2	6	13.6x	n/a
Synlait Milk Limited	Packaged Foods and Meats	NZSE:SML	364	626	15.7x	9.1x
T&G Global Limited	Agricultural Products	NZSE:TGG	231	427	17.6x	n/a
Min			2	6	4.8x	6.0x
Max			459	658	17.6x	9.7x
Average			**204**	**301**	**9.9x**	**7.8x**
Median			**231**	**328**	**6.2x**	**7.8x**

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APPENDIX III: PREVIOUS NZFL TRANSACTIONS / VALUATIONS

Information sourced from AFL

NZFL - Transactions / Valuations					
NZ$000's	Date	Assessed / Implied EV - Mid Point	EBITDA	EBIT	Implied EV/EBITDA
Valuations					
Deloitte Valuation of AFRS[1]	Jun-09	33,898	5,764	5,215	5.9x
Transactions					
Sale of AFRS business assets to NZFL[2]	Dec-11	7,546	1,372	1,312	5.5x
Sale of 10% share in NZFL to SHL[3]	Sep-14	12,153	2,539	2,178	4.8x

Notes

1. Assessed EV based on Deloitte valuation of Allied Farmers Rural Services (a Division of AFL at that time prior to its sale to NZFL). EBITDA based on normalised earnings.
2. Implied EV based on the sale price of the assets. EBITDA based on an average of 3 years forward earnings over the FY12 - FY14 period (adjusted to include sale yard rental costs).
3. Implied EV based on pro-rata equity value adjusted for net debt and working capital. Normalised FY14 EBITDA used.

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