

Wools of New Zealand Shareholder Communication No. 16
1 November 2013

Stable Prices Needed

At an estimated average production cost of \$4.50/kilo of greasy wool, crossbred wool growers have only had two years of profitable returns over the past decade, continuing a 30-year downward cycle.

Writing in the Wools of New Zealand Annual Report for the 2012/2013 year, Mark Shadbolt, Chairman of Wools of New Zealand, says the industry's primary concern has to be with price volatility.

When there's a price spike manufacturers switch away from wool, eroding demand and fuelling further volatility. Wools of New Zealand have developed a stable pricing model designed to stabilise prices for growers and customers alike, which over time will provide incremental growth in demand and ultimately returns at farm gate.

The company has developed two six month stable price contracts direct with customers. To our knowledge this is unique in the industry and will be a mechanism used widely as Wools of New Zealand develops. Our customers are looking for a stable supply of fit-for-purpose product and most importantly sustainable prices where growers and customers are rewarded equitably.

An example of that is the contract for supply of Laneve lambs' wool to Camira Fabrics UK, for the third year in succession. As validation of the Laneve brand programme, Wools of New Zealand has also agreed to enter discussions with Camira on a rolling three year basis,

incorporating a stable pricing mechanism for a wider range of wools.

In the Chief Executive's report Ross Townshend adds that the company will be embarking on a pathway of 'price discovery' rather than price taking at the end of the textile 'food chain'. Our strategy is centred on market pull. It is encouraging that more than 50 significant customers are committed to the Wools of New Zealand brand, with about 20 taking the next step and co-branding with our Laneve brand, a position truly unique to Wools of New Zealand.



Annual General Meeting

A reminder that the Wools of New Zealand Annual General Meeting will be held at the Heartland Hotel, Croyden, Gore at 12pm on Wednesday, 20 November. For more information please visit www.ourwool.co.nz.

International Market Update - UK

UK economic output rose by 0.8% between July and September, the best quarterly performance since 2010.

Retail sales grew by 0.6% in September compared with the previous month fuelled by aggressive discounting and competition. Furniture sales provided the biggest driver for the monthly rise in sales, owing to a pick-up in the housing market.

Supply of housing remains an issue and Government schemes to address the problem are resulting in much lower quality housing where inferior quality synthetic carpets or hard flooring are specified. At the same time, low-end carpet retailer Carpet Right reported a sharp drop in sales over the last 10 weeks to October reflecting struggling home buyers as lenders require 25% deposits.

The above factors reinforce our focus on the mid to high-end of the UK interiors market. Wools of New Zealand manufacturing trade partners report concerns with rising and volatile raw material costs which increases risk. We also have reports about inconsistent quality of wool. Price stability and delivering consistent, fit-for-purpose wools remain key objectives.

Auction Results

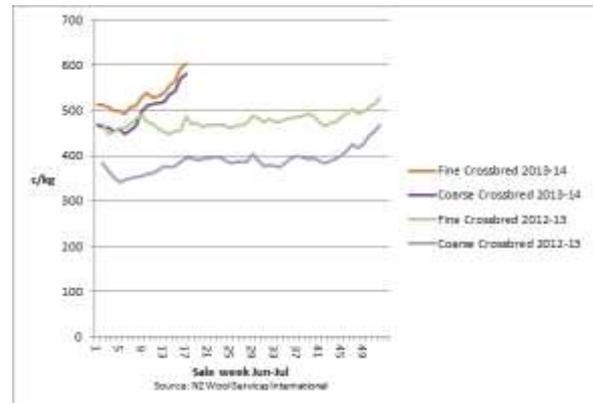
New Zealand Wool Services International reported the following from this week's wool sale:

The 6,100 bales on offer from the North Island this week saw a 99% clearance with prices generally lifting compared to the last sale on 24 October. Fine Crossbred Full Fleece 32 to 35

micron was firm to 2% dearer, with 3 to 5 inch wools up to 1.5% dearer, 3 to 4 inches 2-4% dearer, 2 to 4 inches up 6-10% and 2 to 3 inches 1-2% firmer.

Coarse Crossbred Full Fleece lifted 1-2% with all shears 2-3.5% firmer while Long Oddments remained firm with shorter types ranging from firm to 2% stronger.

The next sale on 7 November will comprise approximately 4,700 bales from the South Island.



Contact Us

As always, please feel free to contact us if you wish to discuss anything.

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