



OUR WOOL  
OUR BRAND  
OUR FUTURE

*Wools of New Zealand Shareholder Communication No. 80  
16 February 2017*

## From the Chairman

The current dramatic downturn in prices paid at spot market for wool are concerning and well below the cost of production for many of us as growers. Unfortunately, it's not the first time growers have experienced such volatile and unprofitable returns. I am very concerned with the ongoing decline in profitability for the sheep industry and you will know well that wool and lamb meat prices are not performing at the levels required to ensure profitability and stop the ongoing decline in sheep numbers. For these reasons and going back over many years I realised that we as growers needed to do something ourselves to influence how wool moves through the supply chain to the consumer, ultimately ensuring we all have a profitable long-term future. Hence the capitalisation of WNZ four years ago, this week.

From that day it has been our objective at Wools of New Zealand to provide efficient routes to market for our growers' wool, adding value throughout the entire supply chain wherever possible through our branded strategy, seeking to improve returns and profitability for grower shareholders whether it be in adding value to your company or your wool returns, ideally both.

That focus won't change. We are advancing our investment in 'white wool' technology into commercial application, with the next stage being product development alongside our international partners leading to commercial outcomes and benefits in the coming months.

We will communicate more on that as it develops. As a company we also continue to support two-way dialogue between WNZ and our shareholders. We appreciate frank and constructive feedback and it

often influences the way in which we continue to develop and deliver our service to our growers. To that end, we periodically include commentary from our grower shareholders and others in this forum. In this edition, I am pleased to include an excellent contribution by Hawke's Bay shareholders Richard and Becks Tosswill, WNZ shareholders who farm 646 hectares just East of Masterton.

Regards,  
Mark Shadbolt

## My Perspective – Richard Tosswill



Becoming a shareholder of Wools of New Zealand was a no brainer. The current system hasn't worked for us in our short time farming.

We felt we had to break the mould and change from a system that was no longer serving us well. To try something that might help us at least budget ahead with the ability of the forward fixed contracts now becoming available. I believe Wools of New Zealand's intended partnership building using its UK expertise accompanied by forward contracts and backed up by innovation was a significant step up from the traditional trading and ticket clipping that we had long been a part of.

With a decision easily arrived upon and an investment made, it made financial sense to us to protect that investment by supplying 100% of our clip to the company. It frustrates me that as a collective group of growers, we do not always support those companies which we invest in. They are only going to thrive if they have our support aren't they? I have only been in farming for a short period of time compared to most, but am quite

amazed at how we farmers are quick to finger point at others for things not going as we'd like. We want change, we make an investment and then we trade with a competitor often foreign owned! As a family we saw this investment as a risk, but we knew we had to try something different and are realistic that this is going to take some reasonable time to make any traction.

I understand the commercial launch of the whitening process (Glacial XT) is happening over the next few months. This is a first of the innovations and is one reason why I backed the company. So Wools of New Zealand is doing exactly what it said it would do at the beginning.

So has it worked for us? Yes, the new tender system is working well for us and we love the security of the forward contracts. However at the same time, we never expected an instant increase in our wool prices as this is to me a long term plan. Obviously on a rising market there is often little or no premium over the spot market but that's the nature of forward contracts. Of course in a tumbling market like this year they are absolute gold. Lambs wool \$3.50 +kg above the spot market and Second Shear at \$1kg above the spot market...that's serious premiums and one I'd love to see mentioned in the media.

We have supported the forward contracts in previous years, however this year I acted too slow and possibly thought things were in better shape than they are now and the forward contracts had closed before I got around to accepting them. One very expensive lesson learnt, with only myself to blame and hard to take when seeing the specs would have met both available contracts. If you feel like you've been hard done by and missed out, then try and act quickly as they're obviously limited quantities and keep supplying WNZ so you can get first dibs on these contracts.

So my plea is, you have made the investment, now back that investment with your wool clip and so we will all hopefully prosper.

### From the Chief Executive

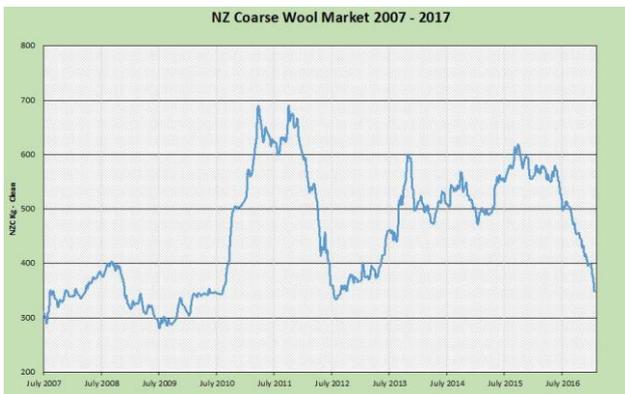
The significant devaluation in wool prices that we have witnessed since July 2016 has been felt particularly over the last two months as the higher seasonal wool volumes flow through the system. Contributing factors to the market situation have been an almost 40% year-on-year fall in NZ wool exports to China, the biggest buyer of NZ wool and a strengthening NZ dollar relative to key trading currencies. Wool exporters are describing the trading conditions as some of the most difficult they've ever seen.

The current situation reinforces WNZ's strategy of seeking long-term partnerships and pricing certainty through forward contracts, of focusing on brand development and continued investment in technology and innovation. It is through these areas of sustained focus that we will reduce our exposure to commodity cycles.

Initiatives that are well advanced include:

- development of forward contracts, for example market leading lambswool and second shear contracts, which are consistently ahead of commodity, auction pricing
- investment into technology and innovation – in particular wool whitening scour technology GlacialXT, which is gaining commercial traction with our global partners
- wool traceability with Oritain, which protects the global integrity of our product and brand.

On their own, these initiatives don't solve the fundamental structural issues that we contend with on a daily basis nor can WNZ do it on its own. In that respect we continue to review options, to develop new sales channels designed to create long term certainty for our shareholders, while engaging with other participants in the industry.



## Wool Scour Merger

The long awaited wool scour merger is proceeding following a ruling by the Court of Appeal that supported the proposal to consolidate the scouring industry and capture efficiencies. This change is important to ensure that New Zealand retains high quality wool scouring capabilities on-shore, which, post the farm-gate, is the first stage of value-add for our wool. Over the next six months Cavalier Wool Holdings (CWH) will be consolidating the scouring operations in to their Timaru and Napier sites.

## General

- As it is peak season we are unable to hold part deliveries – pending delivery of further wool. This is only during peak season and is not a permanent change

- Ensure bales weights are a minimum of 100 kg – maximum 200 kg. Bales outside these limits are less commercially viable and also pose H&S issues for wool handlers. Please aim for 160-180 kg per bale
- Please ensure wool spec sheets are sent to [direct2scour@woolsnz.com](mailto:direct2scour@woolsnz.com) as soon as possible once the wool has left your shed. A copy of the spec sheet must always accompany the truck and the wool on the truck must match what is on the spec sheet. If wool is self-delivered direct from farm, the spec sheet must clearly note this.

Regards,  
Rosstan Mazey

## Contact Us

Please contact your regional Grower Liaison (GL) directly if you wish to discuss anything.

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