OUR WOOL
OUR BRAND
OUR FUTURE

Wools of New Zealand Communication
10 August 2016

From the Chairman

In response to a letter from Ross Townsend published this week in the Rural News, Wools of New Zealand (WNZ) must discharge its fiduciary responsibility to its shareholders by responding to a number of inaccurate allegations as follows:

1. That WNZ loses the WMDC funding mid-2018 and will "almost certainly fail" at that time.

- The Wool Market Development Commitment (WMDC) was specifically set up as a critical stream of funding to enable WNZ to commence its investment in market development and innovations throughout the supply chain.
- WMDC in its current form ceases on 30 June 2018 as part of the commitment by our more than 700 shareholders who provided capital during the 2012/13 WNZ capital raise.
- In 2013/14 when WNZ was capitalised it was totally reliant on WMDC. However, over time WNZ's reliance on the WMDC has been steadily decreasing, as WNZ has developed other revenue streams, for example:
  - In 2013/14 WMDC was $2.2m representing 20% of gross revenue. For 2015/16 the expected WMDC will be $2.6m representing less than 8% of expected total gross revenue – a significant proportional reduction.
  - Our expectations are that revenues will continue to increase due to ongoing increased commercial activity, with the WMDC increasing in $ terms through to 2018 but continuing to decrease as a percentage of WNZ total gross revenue.
- WNZ is now three years into its five-year investment and growth plan and has always known and planned for the WMDC in its current form to end on 30 June 2018 and thereafter for WNZ to be self-supporting and profitable.
- The Board has been working hard to guide the growth trajectory and ensure the company's commercial viability post 2018 with a strategy focused on innovation and engaging with all parts of the supply chain, including the consumers who ultimately determine demand and market prices.
- Strong progress has been made since the capital raise and more particularly in the last 15 months with a focus on:
  - Value driven contracts
  - The improved Direct to Scour (D2S) model creating efficiencies in the way wool moves to market
  - Investment into new technologies which will differentiate the WNZ fibre and create brand value
- The ongoing strategy, effort and investment is helping improve grower returns and the overall performance of WNZ.
- For the year ended 30 June 2016 WNZ is expected to report a maiden operating profit in excess of $600,000 and return a net profit after tax in excess of $1.1m (subject to final audit and Board of Directors approvals).

2. ***By then $20m will have been "burned" in just five years, or $4m per year.***

- $20m will not have been "burned" in five years – this is a flawed proposition. The statement implies that money has been spent without any benefit to the company and/or shareholders. To the contrary, there have been targeted strategic investments that the company has made including:
  - Wool sales and marketing programmes with continuous improvement being a focus
  - Value chain development with strategic partners to pull through our wool with points of difference that support a premium and add real value
  - New Technologies such as Oritain, GlacialXT & Kiteq which have attracted significant government funding to accelerate commercialisation
  - These are all aspects of a targeted sales and marketing strategy unique within the crossbred industry.
- In accordance with the Prospectus Grower Shareholders contributed $6.2m in capital in 2013 with the remaining estimated $13.5m to be derived from WMDC over the ensuing five years to June 2018.
- WMDC is directly linked to annual wool production and charged on a per kilogram basis.
- The capital raise and spread of the WMDC commitment over five years was intentional. This was to ensure that the WMDC provides funding to invest in market development and new innovations to deliver future returns to Grower Shareholders by way of improved wool prices, dividends and share value.
- Based on performance to date, the 2016 financial year-end positive result and revenue projections over the next two years, we believe WNZ will be in a strong position by 2018 which will benefit the growers who recognised the need to commit and invest beyond the farm gate.

3. ***"The Financial Markets Authority should look at WNZ performance vs Prospectus and call the directors to account".***

- WNZ directors are acutely aware of their statutory and fiduciary responsibilities and each of them is actively engaged with WNZ and fully committed to the strategy and ensuring shareholder value.
- WNZ's performance is very much aligned with Prospectus forecasts up to the end of the financial year 2014 (there are no forecasts beyond that in the Prospectus).

As a grower I am bitterly disappointed with the ongoing destructive behaviour of individuals and entities in the sheep industry who would rather see the ongoing exodus of growers (particularly emphasised by this season's 13% decline in volumes of wool exported as well as this weeks announced decline in the sheep population by at least 3%) rather than see a thriving and prosperous sheep industry.

As WNZ director Craig Hickson said eight years ago "The sheep industry needs two reliable and sustainable streams of revenue in meat and wool if it is to be profitable". This was reiterated recently by Sir Graeme Harrison of Anzco, who said "Without a second income stream, sheep farming will continue to struggle and finding that is the absolute key to better returns."

If growers are profitable, then so too will the industry throughout the supply chain.

Wools of New Zealand is proud of its achievements to date as the only 100% New Zealand grower-owned wool sales and marketing company aiming to improve returns to growers. Transparency, collaboration and cooperation will continue to be a key focus for WNZ as we seek to grow and strengthen our company.

Mark Shadbolt, Chairman

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