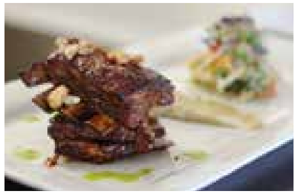













NEW ZEALAND MERINO

2013 ANNUAL REPORT

CONTENTS

CHAIRMAN'S REPORT

It gives me great pleasure to present the Annual Report for The New Zealand Merino Company Limited (NZM) for the year ended 30 June 2013.

NZM GROUP PERFORMANCE

The 2012/13 year has been a solid one for the company with net profit before tax of $1.55 million, a significant improvement on last year's result. This result is all the more pleasing as it comes in the face of a continued difficult trading environment largely driven by adverse economic conditions in key markets, particularly Europe and the United States of America.

Contracts, and in particular branded contracts, are at the heart of NZM's business model. These contracts continue to provide certainty for the company, its grower suppliers and our brand partners. It has also been pleasing to see our wool contracts complemented by meat contracts through the Alpine Origin Merino Limited (AOML) joint venture with Silver Fern Farms Limited for the SILERE alpine origin merino programme.

The need for continual innovation and change remain fundamental to our business, as is the need for significant investment in the marketing and differentiation of our portfolio of unique products. The New Zealand Sheep Industry Transformation project (NZSTX), a collaboration with the Government's Primary Growth Partnership programme, has been a key driver of innovation during the year. The production science components, in particular, have gained some real momentum as we work on initiatives to improve on-farm productivity, develop the 'perfect sheep', and to substantially increase the production of fine wool sheep over time.

This year the company has put a particular focus on its balance sheet given the levels of debt taken on two years ago to finance the purchase of the shares in NZM previously held by PGG Wrightson. I am pleased to report good progress has been made in this area with debt now at 56% of total assets, compared to 60% 12 months ago. We have also reached an agreement with Merino New Zealand Incorporated whereby a significant portion of that loan will be repaid in the coming year to enable them to provide funding for our FeetFirst project that addresses genetic solutions for footrot. Our intention is to reduce overall debt levels further in the coming year.

While we are satisfied with this year's trading result, we are conscious that it is lower than the levels projected in the Information Memorandum distributed by Merino Grower Investments Limited (MGIL) in May 2011 as part of the documentation around the purchase of the PGG Wrightson shares in the company. Ultimately this is the result of the trading environment being more difficult than we envisaged at that time, and the length of time it will take to translate NZSTX production science work into greater volumes. These factors are also likely to have an impact on 2013/14 results relative to the projections made in the MGIL document.

The board is not in a position to pay a dividend at present as the company has a requirement from its bank to further reduce term debt levels. Future dividend payments will be reviewed again next year.

GOVERNANCE

I would like to thank my fellow directors for the commitment and high quality inputs they provide on your behalf at a governance level for the business. I would particularly like to acknowledge the contributions of Sara Lunam and Peter Rose who both retired from the board on 30th June 2013 after six and four years service respectively. Their wisdom and stewardship have served the company well, particularly as we have worked our way through the restructuring issues of recent years.

During the year The Honorable Ruth Richardson joined the board as the employee shareholders' appointee. This is Ruth's second term on the NZM board having previously served as a director for three years in NZM's formative years. We also welcomed Susan Peterson as an independent director from 1 July 2013. Susan has previously held a number of senior roles at ANZ Bank, and is currently a director of recently floated Wynyard Group Limited, and the IHC Incorporated Society, amongst others.

We hope to make a further independent director appointment soon.

OUTLOOK

We expect that we will continue to see market uncertainty and volatility in the 2013/14 year, and as a result anticipate that the financial result for the year will be similar to the 2012/13 result. The focus for NZM will be on NZSTX project outcomes, consolidation of our relationships with both long-standing and new brand partners while at the same time looking for strategic opportunities to further grow the business.

CONCLUSION

The NZM Group has a model that is unique in the New Zealand primary sector. It remains well placed to continue to consolidate it's position as the leading marketer of Merino and Mid Micron wool, and Merino meat.

Alan McConnon
CHAIRMAN

CEO SNAPSHOT

A fundamental premise at The New Zealand Merino Company Limited (NZM) is that our success is dependent on that of our stakeholders. Our aim is to continue to create wealth for our shareholders and community by connecting the best of New Zealand with the world's leading brands.

We remain dedicated to delivering long-term value through smart investment in marketing and innovation. It is this investment that is setting our industry apart; both in the eyes of our customers around the world and grower suppliers.

The New Zealand Government through the Primary Growth Partnership (PGP), along with contributions from growers, value chain partners and retail brands is further investing in our industry through The New Zealand Sheep Industry Transformation project (NZSTX).

The following snapshot will provide an overview of key areas of activity in luxury markets, active outdoors and lifestyle, interior textiles, Alpine Origin Merino Limited and KURA New Zealand Alpine Leather, along with production science initiatives.

LUXURY MARKETS

NZM is investing in superfine and fine Merino to combat significant challenges, including the substantial lift in supply volumes in Australia and the global clothing movement towards casualisation.

Perseverance in developing key relationships in the area of superfine and fine Merino has resulted in: establishing 'Romance of the Regions' with NIKKE, a brand of fabrics from 12.5-17.5 micron, in addition to growing the existing MAF and Golden MAF business with NIKKE; joining forces with Reda to develop their Rewoolution active wear brand using 17.5 micron; supporting the establishment of Armadillo Merino, base layers for professional risk takers; evolving the traceability story for ERDOS; and developing new opportunities in bedding.

New multi-year contracts have been established with Italian fine yarn spinner, Cariaggi, for high crimp fibre which is used in their ZQ Merino New Zealand Lakes collection.

Demand generated through these initiatives has been reflected in both contracts and auction throughout the year. There is still a lot of investment occuring at all levels as we move to re-energise the fine end of the market.

ACTIVE OUTDOORS AND LIFESTYLE MARKETS

ZQ Merino is a premium mark of quality, sustainability and provides substance around performance and integrity through commitment to best practice for brand partners, their retailers, and end users.

Qualifying brand partners using ZQ Merino accreditation include: Armadillo Merino, Cariaggi, Designer Textiles International, ERDOS, Icebreaker, Ibex, John Smedley, Mokopuna, NIKKE, Reda, Rewoolution, Saint James and SmartWool. Other brands, through Designer Textiles International's network, also choose to carry the ZQ Merino brand.

The active outdoors Merino category has experienced rapid growth in the past few years, and Icebreaker, Smartwool, Ibex and Designer Textiles International (DTI) remain the leaders. It must be recognised, however, that it is entering a new phase, which is challenging this growth. This can be attributed to a difficult economic environment, particularly in Europe, and unfavourable climatic conditions, along with a rise of competitive offerings at lower price points, including cheaper Merino offerings, synthetics and cotton.

Our brand partners remain upbeat about their growth potential globally. They do recognise, however, that there is going to be significant investment required to achieve their aspirations, in both the traditional active outdoors market and as they target 'qualified consumers' in adjacent market categories.

As the market continues to evolve, NZM is extending the reach of existing brand partners through research and development. For example, while base layers are well accepted, mid-layer Merino has been a tougher sell. A layering study has been completed to help communicate the benefits of a Merino layering system and in turn, help brand partners to sell more Merino.

Innovation and new market development remains critical. We are constantly exploring new opportunities in niche areas, and new ways of communicating the virtues of premium Merino to drive demand.

In addition NZM is investing significantly in sustainability and ethics based research and development, ensuring the reputation of ZQ Merino is maintained and enhanced. This work has been undertaken through engagement between international non-governmental and standard setting organisations, the ZQ Merino accreditation programme and brand partners.

INTERIOR TEXTILES MARKETS

The Mid Micron area, previously written off by many, has proven to be a highly complementary component to our business. New market opportunities have been realised and harnessed in the active outdoors category, and further market and product development is now occurring within the category of interior textiles.

The ZQ Premium New Zealand Wool brand is an evolution of Mid Micron. It has been renamed to develop a stronger identity and appeal to the requirements of premium interior textile markets.

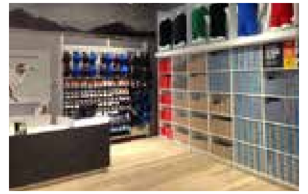
Brand and product opportunities in bedding, felting and boutique carpets are emerging for this fibre and NZM is now working on converting interest into commercial outcomes. The first outcome is with a leader in the interior textiles category, who has signed up 25 tonnes of 27-29 micron fibre for one of their specialty programmes.

SmartWool Outdoor Retailer advert

New ZQ Merino website

2013 REDA Rewoolution Raid winners

Monocle – Armadillo t-shirt

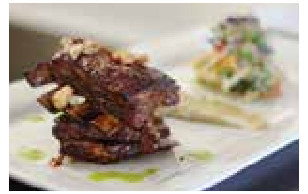


Icebreaker concept store

ZQ
PREMIUM
NEW ZEALAND WOOL

New Mid Micron logo

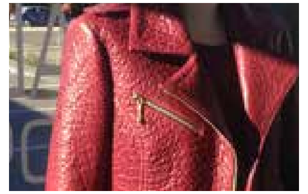
Ascend rug



SILERE sticky spare ribs

Chef Sean Connolly

KURA Kohl & Cochineal handbag



KURA Deval jacket

KURA texture closeup

Forage

Animal Health

ALPINE ORIGIN MERINO LIMITED

Alpine Origin Merino Limited (AOML) has continued to establish its SILERE alpine origin merino brand in premium restaurants in the domestic market. The sales growth of SILERE has increased significantly year on year. This growth has been achieved while maintaining the original pricing structure, which in some cases is 40-60% above a substitute offering. To develop markets for the entire carcass, the Hellers Alpine Origin Merino pattie has been launched.

The support of foundation growers has been fundamental to the success of AOML so far. Without the critical mass provided by these growers, the programme would not exist. However, we need to recognise that AOML is in its infancy, and it is vital that we find markets for more of the current supply before we extend contracts.

Investment in marketing and communications has achieved recognition on chef Sean Connolly's TV series On The Grill, in print media and representation at various food shows and events. A large part of this success has been the authentic connection to growers and the 'high' of the high country.

New international market opportunities for SILERE are being developed by the joint venture. One major opportunity is the collaboration with Marx Foods, Silver Fern Farm's USA distributor, based in Seattle. Through Marx Foods, SILERE has featured at the high profile 2013 Aspen Food and Wine Classic and at the New Zealand themed Waiheke Island Yacht Club restaurant at the America's Cup, San Francisco.

KURA NEW ZEALAND ALPINE LEATHER

NZM has partnered with New Zealand Light Leathers to investigate the potential for leather as an extension of the grower product portfolio. New Zealand Light Leathers are suppliers to the global elite of luxury brands. Through the partnership, these brands are now being presented with the opportunity to use Merino leather.

The first KURA handbags are for sale with Deadly Ponies, www.deadlyponies.co.nz, and the unique offering will be showcased at international fairs in the coming months.

PRODUCTION SCIENCE

The suite of projects under production science is considerable and it is NZM's intention that findings be open and widely available within the industry, to ensure rapid uptake of the insights. Some projects are well advanced, others still have considerable work to complete and some have been challenged by weather and other events, but we are confident that the industry will gain significant benefit over future seasons, in productivity and efficiency.

To create long-term sustainability for our industry Dr Mark Ferguson, NZM's Production Science Project Manager, and his team of experts are working towards giving growers the opportunity to make all fine wool sheep truly multi-purpose animals. The NZSTX project is addressing many of the challenges the industry faces that have previously been deemed "too hard".

Programmes include:

- A central progeny test, based at Waipara, will make it possible to quote estimated breeding values (EBVs) on rams across New Zealand.
- Animal health projects that are critical to understanding how we can get more from fine wool sheep: FeetFirst (finding the link between genetics and footrot, in partnership with Merino New Zealand Incorporated), Lifetime Ewe Management (optimising breeding ewe nutrition), and Bred Well Fed Well workshops (an introduction to genetics and nutrition).
- A focus on increasing the quality of high country forage, which translates into high quality fibre and meat.

SUMMARY

The next 12 months will be challenging and exciting. We are committed to further realising the opportunities for NZM as a highly relevant and prosperous business internationally.

NZM continues to challenge the status quo to ensure the business stays true to the ethos of innovation, sustainability and added value for all stakeholders. We actively monitor new thinking and insights to anticipate opportunities and challenges that we may face. This also informs our direction regarding brand partners' needs, new product and new market development.

Our focus this year is on partnerships: continuing to deliver wealth to our shareholders, realising the value we create in market for growers and the value chain, developing a specialised team, and demonstrating our value proposition to existing and potential partners.

We look forward to your continued support on this journey and an exciting year ahead.

John B.

John Brakenridge
CHIEF EXECUTIVE OFFICER

DIRECTOR'S STATEMENT

The Directors are responsible for preparing the financial statements and ensuring that they comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company and Group as at 30 June 2013 and the results of the operations and cash flows of the Company and Group for the year ended on that date.

The Directors consider that the financial statements of the Company and Group have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgments and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position and financial performance of the Company and Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The Directors are pleased to present the financial statements of The New Zealand Merino Company Limited and Group for the year ended 30 June 2013.

For and on behalf of the Board of Directors:

Alan McConnon	Ben Aubrey
CHAIRMAN	DIRECTOR
6 September 2013	6 September 2013

COMPANY DIRECTORY

AS AT 30 JUNE 2013

Nature of Business	Fine Wool Marketing and Sales
Registered Office	Level 2, 114 Wrights Road, Addington, Christchurch
Directors	Alan McConnon (Chairman) Ruth Richardson Ben Aubrey Anthony Jopp Ross Ivey Sara Lunam (Resigned 30/06/2013) Peter Rose (Resigned 30/06/2013)
Auditors	Deloitte, Christchurch
Bankers	Westpac Banking Corporation, Christchurch
Solicitors	Buddle Findlay, Christchurch Chapman Tripp, Christchurch
Business Location	Level 2, 114 Wrights Road, Addington, Christchurch

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

2012 $000 GROUP	2012 $000 PARENT		NOTE	2013 $000 GROUP	2013 $000 PARENT
162,185	**-**	**Revenue**		**126,871**	**126,871**
(153,502)	-	Cost of sales		(117,814)	(117,814)
8,683	**-**	**Contribution margin**		**9,057**	**9,057**
4,434	-	Other income	1	6,968	6,968
-	-	Share of associate's earnings	11	134	134
4,434	**-**	**Other income**		**7,102**	**7,102**
(651)	(263)	Net finance costs	2	(862)	(862)
(2,674)	-	Procurement and selling expenses		(2,740)	(2,740)
(4,613)	-	Marketing expenses		(4,624)	(4,624)
(1,968)	-	Innovation expenses		(3,176)	(3,176)
(2,037)	(149)	Administrative expenses		(2,968)	(2,968)
(1,399)		Executive shareholding expenses	3	-	-
(577)	-	Other expenses	3	(236)	(236)
(13,919)	**(412)**	**Expenses**		**(14,606)**	**(14,606)**
(802)	**(412)**	**Profit before income tax**		**1,553**	**1,553**
1,207	1,337	Income tax expense	4	(326)	(326)
405	**925**	**Profit/(Loss) after tax**		**1,227**	**1,227**
		Other comprehensive income/(loss)			
		Items that may be reclassified subsequently to profit or loss			
-	-	Gains/(losses) from cash flow hedges		(85)	(85)
-	-			(85)	(85)
405	**925**	**TOTAL COMPREHENSIVE INCOME**		**1,142**	**1,142**

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

2012 $000 GROUP	2012 $000 PARENT		NOTE	2013 $000 GROUP	2013 $000 PARENT
		ASSETS			
		Current assets			
5,931	5,931	Trade and other receivables	6	3,514	3,514
2,819	3,023	Inventories	7	6,445	6,445
8,750	**8,954**	**Total current assets**		**9,959**	**9,959**
		Non-current assets			
506	500	Property, plant and equipment	8	612	612
-	6,557	Investment in NZM Disestablishment Ltd	10	-	-
-	-	Investment in Alpine Origin Merino Ltd	11	234	234
1,456	1,456	Deferred tax asset	9	1,130	1,130
5,985	3,379	Intangible assets and goodwill	12	5,988	5,988
7,947	**11,892**	**Total non-current assets**		**7,964**	**7,964**
16,697	**20,846**	**Total assets**		**17,923**	**17,923**
		LIABILITIES			
		Current liabilities			
2,213	2,213	Bank overdraft	5	2,924	2,924
300	300	Current portion of term loan	15	1,516	1,516
3,102	3,246	Trade and other payables	13	3,417	3,417
-	3,485	Intercompany payable	14	-	-
103	103	Derivative financial instruments	16	85	85
5,718	**9,347**	**Total current liabilities**		**7,942**	**7,942**
		Non-current liabilities			
4,300	4,300	Term loans	15	2,160	2,160
4,300	**4,300**	**Total non-current liabilities**		**2,160**	**2,160**
10,018	**13,647**	**Total liabilities**		**10,102**	**10,102**
6,679	**7,199**	**Net assets**		**7,821**	**7,821**
		EQUITY			
1,985	1,985	Share capital	17	1,985	1,985
4,694	5,214	Retained earnings	18	5,921	5,921
-	-	Cash flow hedge reserve	18	(85)	(85)
6,679	**7,199**	**Total equity**		**7,821**	**7,821**

For and on behalf of the Board of Directors:

Alan McConnon
CHAIRMAN
6 September 2013

Ben Aubrey
DIRECTOR
6 September 2013

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

GROUP
$000

	Share capital	Retained earnings	Cash flow hedge reserve	Total equity
Balance at 1 July 2011	**1,456**	**4,289**	**-**	**5,745**
Total comprehensive income for the year				
Profit for the year	-	405	-	405
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**405**	**-**	**405**
Transactions with owners of the Company				
Issues of ordinary shares related to business combination				
Issue of ordinary shares (602,342 shares)	892	-	-	892
Share buy-back (274,389 shares)	(363)	-	-	(363)
Total contributions by and distributions to owners of the company	**529**	**-**	**-**	**529**
Balance at 30 June 2012	**1,985**	**4,694**	**-**	**6,679**
Balance at 1 July 2012	**1,985**	**4,694**	**-**	**6,679**
Total comprehensive income for the year				
Profit for the year	-	1,227	-	1,227
Other comprehensive income	-	-	(85)	(85)
Total comprehensive income for the year	**-**	**1,227**	**(85)**	**1,142**
Balance at 30 June 2013	**1,985**	**5,921**	**(85)**	**7,821**
Carrying amounts				
At 1 July 2011	1,456	4,289	-	5,745
At 30 June 2012	1,985	4,694	-	6,679
At 30 June 2013	**1,985**	**5,921**	**(85)**	**7,821**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

PARENT
$000

	Share capital	Retained earnings	Cash flow hedge reserve	Total equity
Balance at 1 July 2011	**1,456**	**4,289**	**-**	**5,745**
Total comprehensive income for the year				
Profit for the year	-	925	-	925
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**925**	**-**	**925**
Transactions with owners of the Company				
Issues of ordinary shares related to business combination				
Issue of ordinary shares (602,342 shares)	892	-	-	892
Share buy-back (274,389 shares)	(363)	-	-	(363)
Total contributions by and distributions to owners of the company	**529**	**-**	**-**	**529**
Balance at 30 June 2012	**1,985**	**5,214**	**-**	**7,199**
Balance at 1 July 2012	**1,985**	**5,214**	**-**	**7,199**
Total comprehensive income for the year				
Profit for the year	-	1,227	-	1,227
Loss upon amalgamation with subsidiary	-	(520)	-	(520)
Other comprehensive income	-	-	(85)	(85)
Total comprehensive income for the year	**-**	**707**	**(85)**	**622**
Balance at 30 June 2013	**1,985**	**5,921**	**(85)**	**7,821**
Carrying amounts				
At 1 July 2011	1,456	4,289	-	5,745
At 30 June 2012	1,985	5,214	-	7,199
At 30 June 2013	**1,985**	**5,921**	**(85)**	**7,821**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

2012 $000 GROUP	2012 $000 PARENT		NOTE	2013 $000 GROUP	2013 $000 PARENT
		Net cash from/(used in) operating activities			
		Cash provided from:			
161,682	-	Receipts from customers		136,177	136,177
110	19	Taxes refunded		-	-
14	2	Interest income received		7	7
161,806	**21**			**136,184**	**136,184**
		Cash applied to:			
(165,215)	(251)	Payments to suppliers and employees		(134,651)	(134,651)
(666)	(264)	Interest paid		(869)	(869)
(562)	-	Income tax paid		-	-
(166,443)	(515)			(135,520)	(135,520)
(4,637)	**(494)**		**19**	**664**	**664**
		Net cash from/(used in) investing activities			
		Cash applied to:			
(170)	-	Acquisition of intangibles		(123)	(123)
-	-	Investment in associate		(100)	(100)
(406)	(17)	Purchase of property, plant and equipment		(228)	(228)
(576)	**(17)**			**(451)**	**(451)**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

	2012 $000		NOTE		2013 $000
GROUP	**PARENT**			**GROUP**	**PARENT**
		Net cash from/(used in) financing activities			
		Cash provided from:			
900	900	Loan from Merino New Zealand Incorporated		-	-
891	891	Issue of Shares		-	-
1,791	**1,791**			**-**	**-**
		Cash applied to:			
-	(1,025)	Advance to subsidiary		-	-
(363)	(363)	Purchase of shares		-	-
(300)	(300)	Bank loan		(924)	(924)
(663)	(1,688)			(924)	(924)
1,128	**103**			**(924)**	**(924)**
(4,085)	**(408)**	**Net increase/(decrease) in cash balances**		**(711)**	**(711)**
1,872	**418**	**Cash balances at beginning of year**		**(2,213)**	**(2,213)**
-	(2,223)	Cash acquired from subsidiary		-	-
(2,213)	**(2,213)**	**Cash balances / (bank overdraft) at the end of year**		**(2,924)**	**(2,924)**

STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The New Zealand Merino Company Limited is a company domiciled in New Zealand, and is registered under the Companies Act 1993.

The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The financial statements of The New Zealand Merino Company Limited are for the year ended 30 June 2013. The financial statements were authorised for issue by the directors on 6 September 2013.

Financial statements for the Parent and Group are presented. The consolidated financial statements comprise the Company and its subsidiary (together referred to as the 'Group') and the Groups interest in associates.

The nature of the operations of the business is fine wool marketing and sales.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit-oriented entities.

MEASUREMENT BASE

The financial statements are prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

The financial statements are prepared on a going concern basis.

PRESENTATION CURRENCY

These financial statements are presented in New Zealand dollars, which is the company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, except when otherwise indicated.

CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

In the process of applying the Group's accounting policies management is required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from direct sources. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Directors do not consider there are any critical judgements in the year under review.

ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES

There have been no significant changes to accounting policies during the year.

ADOPTION OF NEW STANDARDS AND INTERPRETATIONS

In the current year, the Group has adopted all mandatory new and amended standards and interpretations. None of the new and amended standards and interpretations have had a material impact on these financial statements.

We are not aware of any standards in issue but not yet effective which would materially impact the amounts recognised or disclosed in the financial statements.

The following specific accounting policies, which materially affect the measurement of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows, have been applied in these financial statements:

(a) Property, Plant and Equipment

Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Where an item of property, plant or equipment is disposed of, the gain or loss recognised in the Statement of Comprehensive Income is calculated as the difference between the net sale price and the carrying amount of the asset.

Subsequent Costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income as an expense when incurred.

(b) Depreciation

Depreciation on property, plant and equipment is calculated on a straight-line basis to allocate the cost of an asset, less any residual value, over its useful life. Depreciation is charged to the Statement of Comprehensive Income.

The estimated useful lives of property, plant and equipment are as follows:

Office furniture and equipment	2 – 14 years
Leasehold improvements	5 – 14 years
Information technology assets	2 – 5 years
Capitalised research & development	3 years

The residual value of assets is reassessed annually. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(c) Goodwill Arising on Acquisition

Goodwill arising on acquisition represents the excess of the purchase consideration over fair value of the identifiable net assets acquired. Goodwill is stated at cost less accumulated impairment losses.

(d) Non Derivative Financial Instruments

Non derivative financial instruments comprise trade and other receivables, bank overdraft, loans and borrowings, and trade and other payables.

(e) Intangible Assets

Trademarks are stated at cost, and once fully developed are amortised to the Statement of Comprehensive Income on a straight line basis over the useful life applicable to the trademark.

Software is stated at cost and amortised to the Statement of Comprehensive Income on a straight line basis over the useful life applicable to the software.

Goodwill is recorded at cost less any impairment losses.

(f) Trade and Other Receivables

Trade and other receivables are measured at amortised cost less any impairment losses.

Collectability of trade and other receivables is reviewed on an ongoing basis.

Individual debts that are known to be uncollectable are written off when identified. An impairment provision is recognised when there is objective evidence that the Company will not be able to collect the receivable. Financial difficulties of the debtor or default payments are considered objective evidence of impairment.

(g) Inventories

All inventories of wool are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business.
Cost is based on actual cost for all wool purchased and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition.

(h) Impairment

The carrying amounts of the Group assets, other than inventories, are reviewed at balance date to determine whether there is any objective evidence of impairment. If any such indication exists the assets recoverable amount is estimated. In addition, at least annually, goodwill and intangible assets with indefinite useful lives are tested for impairment by comparing their estimated recoverable amounts with their carrying amounts.

Recoverable amount is the higher of an assets fair value less costs to sell, and value-in-use. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the Statement of Comprehensive Income.

(i) Share Capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(j) Employee Entitlements

Employee entitlements related to salaries and wages and annual leave are recognised when they accrue to employees. In determining the estimated liability for employee entitlements, any entitlements due at balance date are recorded as a current liability.

(k) Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the liability.

(l) Trade and Other Payables

Trade and other payables are stated at amortised cost.

(m) Revenue

Revenue from the sale of goods is recognised in the Statement of Comprehensive Income when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from fees and charges is recognised in the Statement of Comprehensive Income when the transaction has been completed.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods.

External funding is recognised on an accrual basis when it is probable that future economic benefits will flow to the entity (when agreed milestones are met) and the amount of revenue can be measured reliably. External funding which compensates the Group for expenses incurred is recognised in the profit or loss as other income in the same period in which the expenses are recognised.

(n) Expenses

Operating Lease Payments
Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease.

Finance Income and Expenses
Finance income comprises interest income, dividend income, and changes in the fair value of financial assets at fair value through the Statement of Comprehensive Income. Interest income is recognised as it accrues using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discounts on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through the Statement of Comprehensive Income and losses on hedging instruments that are recognised in the Statement of Comprehensive Income. All borrowing costs are recognised in profit or loss using the effective interest method.

(o) Foreign Currency Transactions

Transactions denominated in foreign currency are translated into New Zealand currency at the spot exchange rate. Amounts receivable and payable in a foreign currency at balance date are translated at the exchange rate at that date. Foreign exchange differences arising on their translation are recognised in the Statement of Comprehensive Income.

(p) Derivative Financial Instruments

The Company uses foreign exchange contracts to hedge its exposure to foreign exchange risks arising from future sales or purchases of goods in foreign currencies. The Company uses interest rate swap contracts to hedge its exposure to interest rate fluctuations. The Company also uses wool futures contracts to hedge its exposure to price risks arising from future sales or purchases of wool.

In accordance with the treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Cash Flow Hedges
Foreign exchange contracts, interest rate swap contracts and wool futures contracts are recognised in the Statement of Financial Position at their fair value. Transaction costs are expensed immediately. Where the foreign exchange contracts, interest rate swap contracts or wool futures contracts are designated as a hedge, the effective portion of changes in the fair value of the instrument is initially recognised in the Cash Flow Hedge Reserve, and subsequently transferred to the Statement of Comprehensive Income at the point at which the sale and associated debtor are recorded. Any ineffective portion of foreign exchange contracts is recognised in the Statement of Comprehensive Income.

(q) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted, or substantively enacted, by the reporting date.

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

(r) Goods and Services Tax

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

(s) Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash on hand and short term deposits with an original maturity of three months or less. These are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

(t) Research & Development

All research expenditure is recognised in the Statement of Comprehensive Income as incurred.

Development expenditure is recognised as an asset when it can be demonstrated that the commercialisation of the project will commence. Where development expenditure has been recognised as an asset it is stated at cost and amortised on a straight-line basis over the period of expected benefits. Amortisation begins at the time that commercialisation commences. All other development expenditure is recognised in the Statement of Comprehensive Income as incurred.

(u) Basis of Consolidation

The group financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being The New Zealand Merino Company Limited (the parent entity) and its subsidiary NZM Disestablishment Limited. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. Consistent accounting policies are employed in the preparation and presentation of the Group financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair value of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit or loss in the period of acquisition.

The group financial statements, all intragroup balances and transactions, and unrealised profits arising within the group are eliminated in full.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. OTHER INCOME

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
3,954	-	External funding	6,352	6,352
334	-	Insurance proceeds	88	88
-	-	Royalties	241	241
-	-	Exchange gains / (losses)	82	82
146	-	Other income	205	205
4,434	**-**		**6,968**	**6,968**

2. NET FINANCE COSTS / (INCOME)

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
667	265	Interest expense	869	869
(16)	(2)	Interest income	(7)	(7)
651	**263**		**862**	**862**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

3. EXPENSES

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
		Other expenses		
222	-	Depreciation	116	116
101	-	Amortisation of other intangibles assets	92	92
41	-	Loss / (gain) on sale of fixed assets / intangible assets	28	28
9	-	Exchange (gains) / losses	-	-
202	-	Loss / (gain) on derivative financial instruments	-	-
2	-	Donations	-	-
577	**-**		**236**	**236**
		Personnel expenses (salaries & employee contribution to Kiwisaver included in functional expense categories)		
3,215	-	Salaries	3,797	3,797
1,399	-	Executive shareholding expenses	-	-
126	-	Kiwisaver employer contributions	146	146
4,740	**-**		**3,943**	**3,943**

In the year 2012 the Chief Executive and senior management received $1.399 million (including PAYE tax and employer contributions to Kiwisaver) in exchange for foregoing their notional dividend/profit share schemes with NZM Disestablishment Limited. These individuals used these funds to purchase shares in The New Zealand Merino Company Limited. As a result of this The New Zealand Merino Company Limited issued 602,342 new shares at a post-tax issue price of $1.48 per share. These shares have restrictions placed on them which limit the quantity of shares able to be sold over time and the price at which these shares can be sold.

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
		Technical research project costs (included in innovation expenses)		
1,249	**-**	**Technical research project costs**	**2,252**	**2,252**

Technical research projects include research into genetic acceleration, animal health, forage production and livestock trials, the validation of the sustainability of farming and processing systems, and research to validate the technical performance of textiles and wool fibre.

4. INCOME TAX

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
		Income tax expense		
40	-	Current income tax charge	-	-
(1,337)	(1,337)	Relating to origination and reversal of temporary differences	325	325
-	-	Overseas withholding tax	1	1
90	-	Adjustments in respect of current income tax of previous years	-	-
(1,207)	**(1,337)**	**Income tax expense reported in the Statement of Comprehensive Income**	**326**	**326**
		Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate		
(802)	(412)	Accounting profit before tax from continuing operations	1,553	1,553
-	-	Less after tax profit of associate	(134)	(134)
(802)	**(412)**		**1,419**	**1,419**
(224)	(115)	At the statutory income tax rate of 28%	397	397
90	-	Adjustments in respect of current income tax of previous years	-	-
(1,222)	(1,222)	Prior year losses recognised	(98)	(98)
87	-	Non-deductible expenses	26	26
-	-	Overseas withholding tax	1	1
62	-	Losses to carry forward	-	-
(1,207)	**(1,337)**	**Aggregate income tax expense / (income)**	**326**	**326**

4. INCOME TAX (CONTINUED)

Unrecognised temporary difference

The group has tax losses ($000's) of 21,485 (2012: $23,271) to carry forward to the 2014 income year.

A deferred tax asset of ($000's) $983 is being recognised equal to the residual income tax expected for the 2014 and 2015 income tax years (2012: $1,326).

The amount of tax losses are subject to confirmation from the IRD.

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
		Imputation credit balance		
2,154	2,154	Balance at the beginning of the year	2,454	2,154
(150)	-	Income tax refunded	-	-
450	-	Income tax payments during the year	-	-
-	-	Other	(300)	-
2,454	**2,154**		**2,154**	**2,154**

5. CASH AND CASH EQUIVALENTS / BANK OVERDRAFT

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
(2,213)	**(2,213)**	**Bank Overdraft**	**(2,924)**	**(2,924)**

Overdraft Facility

During the year The New Zealand Merino Company maintained an overdraft facility with the Westpac Banking Corporation of up to $15 million. At balance date $2.924 million was outstanding on the overdraft.

The facility is secured by a General Security Agreement over the assets and liabilities and undertakings of The New Zealand Merino Company Limited.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

6. TRADE AND OTHER RECEIVABLES

2012			2013	
$000			$000	
GROUP	PARENT		GROUP	PARENT
5,578	5,578	Trade and sundry receivables	3,439	3,439
241	241	Prepayments	75	75
112	112	Other receivables	-	-
5,931	**5,931**		**3,514**	**3,514**

Normal terms of trade for Auction receivables are 11 days after date of Auction, and for Contracts they are 11 days from date of invoice. Other receivables are due 20th of the following month of the invoice. There are no impaired trade and other receivables.

7. INVENTORIES

2012			2013	
$000			$000	
GROUP	PARENT		GROUP	PARENT
2,819	**3,023**	**Stock of wool**	**6,445**	**6,445**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

8. PROPERTY, PLANT AND EQUIPMENT

GROUP
$000

	Office equipment	Leasehold improvements	Information technology assets	Plant and equipment	Total
Cost and Valuation					
Balance at 1 July 2011	**270**	**294**	**1,351**	**-**	**1,915**
Additions	174	118	47	19	358
Disposals	(198)	(238)	(834)	-	(1,270)
Balance at 30 June 2012	**246**	**174**	**564**	**19**	**1,003**
Balance at 1 July 2012	246	174	564	19	1,003
Additions	14	-	196	18	228
Disposals	(60)	(19)	(424)	-	(503)
Balance at 30 June 2013	**200**	**155**	**336**	**37**	**728**
Depreciation and impairment losses					
Balance at 1 July 2011	**(192)**	**(240)**	**(1,063)**	**-**	**(1,495)**
Depreciation for the year	(32)	(17)	(170)	(3)	(222)
Impairment loss	5	238	3	-	246
Disposals	159	-	812	3	974
Balance at 30 June 2012	**(60)**	**(19)**	**(418)**	**-**	**(497)**
Balance at 1 July 2012	(60)	(19)	(418)	-	(497)
Depreciation for the year	(32)	(16)	(66)	(2)	(116)
Disposals	60	19	418	-	497
Balance at 30 June 2013	**(32)**	**(16)**	**(66)**	**(2)**	**(116)**
Carrying amounts					
At 1 July 2011	78	54	288	-	420
At 30 June 2012	186	155	146	19	506
At 30 June 2013	**168**	**139**	**270**	**35**	**612**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

8. PROPERTY, PLANT AND EQUIPMENT

PARENT
$000

	Office equipment	Leasehold improvements	Information technology assets	Plant and equipment	Total
Cost and Valuation					
Balance at 1 July 2011	**-**	**-**	**-**	**-**	**-**
Additions	186	155	140	19	500
Disposals	-	-	-	-	-
Balance at 30 June 2012	**186**	**155**	**140**	**19**	**500**
Balance at 1 July 2012	186	155	140	19	500
Additions	14	-	196	18	228
Disposals	-	-	-	-	-
Balance at 30 June 2013	**200**	**155**	**336**	**37**	**728**
Depreciation and impairment losses					
Balance at 1 July 2011	**-**	**-**	**-**	**-**	**-**
Depreciation for the year	-	-	-	-	-
Impairment loss	-	-	-	-	-
Disposals					
Balance at 30 June 2012	-	-	-	-	-
Balance at 1 July 2012	-	-	-	-	-
Depreciation for the year	(32)	(16)	(66)	(2)	(116)
Disposals	-	-	-	-	-
Balance at 30 June 2013	**(32)**	**(16)**	**(66)**	**(2)**	**(116)**
Carrying amounts					
At 1 July 2011	-	-	-	-	-
At 30 June 2012	186	155	140	19	500
At 30 June 2013	**168**	**139**	**270**	**35**	**612**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

9. DEFERRED TAX

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
(4)	(4)	Depreciable assets	-	-
1,326	1,326	Losses carried forward	983	983
134	134	Employee entitlements	83	83
-	-	Livestock adjustment	62	62
-	-	Other accrual	2	2
1,456	**1,456**		**1,130**	**1,130**
372	372	Current portion of deferred tax	570	570
1,084	1,084	Non-current portion of deferred tax	560	560

The deferred tax benefit relating to tax losses carried forward has been recognised based on the financial forecasts for the 2014 and 2015 income tax years.

Movements in deferred tax: $000

2013 GROUP AND PARENT	Opening balance	Charged to income	Acquisition / disposal	Charged to other comprehensive income	Closing balance
Gross deferred tax asset					
Employee entitlements	134	(51)	-	-	83
Livestock adjustment	-	62	-	-	62
Other accrual	-	2	-	-	2
Unused tax losses	1,326	(343)	-	-	983
Depreciable assets	(4)	4	-	-	-
Total deferred tax asset	1,456	(326)	-	-	1,130
Attributable to: Continuing operations	**1,456**	**(326)**	**-**	**-**	**1,130**

2012 GROUP AND PARENT	Opening balance	Charged to income	Acquisition / disposal	Charged to other comprehensive income	Closing balance
Gross deferred tax asset					
Employee entitlements	-	15	119	-	134
Unused tax losses	-	1,326	-	-	1,326
Depreciable assets	-	(4)	-	-	(4)
Total deferred tax asset	-	1,337	119	-	1,456
Attributable to: Continuing operations	**-**	**1,337**	**119**	**-**	**1,456**

10. INVESTMENT IN NZM DISESTABLISHMENT LIMITED

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
-	**6,557**	**Investment in NZM Disestablishment Limited**	**-**	**-**

11. INVESTMENT IN ALPINE ORIGIN MERINO LIMITED

The company's share of profits in a joint venture Alpine Origin Merino Limited (AOML) (launched October 2012) has been equity accounted from that date.

Ownership	$000 Total assets	$000 Total liabilities	$000 Revenues	$000 Profit/(loss)
50%	468	-	543	268

Movements in carrying value of AOML

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
-	-	Balance as at 1 July 2012	-	-
-	-	Original investment	100	100
-	-	Share of profit/(loss)	134	134
-	**-**	**Balance as at 30 June 2013**	**234**	**234**

AOML is jointly owned by The New Zealand Merino Company Limited (50%), and Silver Fern Farms (50%). AOML is focused on the marketing of fine wool sheep meat.

12. INTANGIBLE ASSETS AND GOODWILL

GROUP $000	Goodwill	Trademarks	Computer software	Total
Cost				
Balance at 1 July 2011	**5,631**	**287**	**570**	**6,488**
Acquisitions	-	76	85	161
Disposals	-	(125)	(539)	(664)
Balance at 30 June 2012	**5,631**	**238**	**116**	**5,985**
Balance at 1 July 2012	5,631	238	116	5,985
Acquisitions	-	45	78	123
Disposals	-	(28)	-	(28)
Balance at 30 June 2013	**5,631**	**255**	**194**	**6,080**
Amortisation				
Balance at 1 July 2011	**-**	**(103)**	**(460)**	**(563)**
Amortisation for the year	-	(22)	(79)	(101)
Disposals	-	125	539	664
Balance at 30 June 2012	**-**	**-**	**-**	**-**
Balance at 1 July 2012	-	-	-	-
Amortisation for the year	-	(33)	(59)	(92)
Balance at 30 June 2013	**-**	**(33)**	**(59)**	**(92)**
Carrying amounts				
At 1 July 2011	5,631	184	110	5,925
At 30 June 2012	5,631	238	116	5,985
At 30 June 2013	**5,631**	**222**	**135**	**5,988**

Goodwill arises due to the acquisition of the assets and business of NZM Disestablishment Limited on the 30 June 2012, and as a result of The New Zealand Merino Company Limited purchasing the remaining 50% shares in NZM Disestablishment Limited from PGG Wrightson Limited in June 2011.

Trademarks are amortised over the life applicable to each trademark. The life of all current trademarks is 10-15 years.

Computer software is amortised over a 2-5 year period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

12. INTANGIBLE ASSETS AND GOODWILL

PARENT $000	Goodwill	Trademarks	Computer software	Total
Cost				
Balance at 1 July 2011	**-**	**-**	**-**	**-**
Acquisitions	3,025	238	116	3,379
Disposals	-	-	-	-
Balance at 30 June 2012	**3,025**	**238**	**116**	**3,379**
Balance at 1 July 2012	3,025	238	116	3,379
Acquisitions	2,606	45	78	2,729
Disposals	-	(28)	-	(28)
Balance at 30 June 2013	**5,631**	**255**	**194**	**6,080**
Amortisation				
Balance at 1 July 2011	**-**	**-**	**-**	**-**
Amortisation for the year	-	-	-	-
Disposals	-	-	-	-
Balance at 30 June 2012	**-**	**-**	**-**	**-**
Balance at 1 July 2012	-	-	-	-
Amortisation for the year	-	(33)	(59)	(92)
Balance at 30 June 2013	**-**	**(33)**	**(59)**	**(92)**
Carrying amounts				
At 1 July 2011	-	-	-	-
At 30 June 2012	3,025	238	116	3,379
At 30 June 2013	**5,631**	**222**	**135**	**5,988**

Goodwill was acquired as part of the acquisition of the assets and business of NZM Disestablishment Limited on 30 June 2012. Goodwill also arises in the current year due to an amalgamation of the company with its subsidiary (NZM Disestablishment Limited), and represents the company purchasing the remaining 50% shares in NZM Disestablishment Limited (then The New Zealand Merino Company Limited) from PGG Wrightsons Limited in June 2011.

Trademarks are amortised over the life applicable to each trademark. The life of all current trademarks is 10-15 years.

Computer software is amortised over a 2-5 year period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

13. TRADE AND OTHER PAYABLES

	2012 $000			2013 $000
GROUP	**PARENT**		**GROUP**	**PARENT**
2,528	2,672	Trade payables	2,698	2,698
574	574	Employee entitlements	719	719
3,102	**3,246**		**3,417**	**3,417**

Related party payables are detailed in Note 20.

14. INTERCOMPANY PAYABLE

	2012 $000			2013 $000
GROUP	**PARENT**		**GROUP**	**PARENT**
-	**3,485**	**NZM Disestablishment Limited**	**-**	**-**

The intercompany payable balance owed to NZM Disestablishment Limited was the balance owed on the purchase of the assets and liabilities of NZM Disestablishment Limited on 30 June 2012. This balance was interest free and payable on demand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

15. TERM LOANS

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
		Current portion loan Merino New Zealand Incorporated	591	591
300	300	Current portion loan Westpac Banking Corporation	925	925
300	**300**		**1,516**	**1,516**
900	900	Long term loan Merino New Zealand Incorporated	309	309
3,400	3,400	Long term loan Westpac Banking Corporation	1,851	1,851
4,300	**4,300**		**2,160**	**2,160**

Security

On 18 July 2011 the company entered into a term loan with Merino New Zealand Incorporated for $0.9 million.

The term of the loan from Merino New Zealand Incorporated is 5 years. It is an interest only loan. The interest rate payable as at the 30 June 2013 is 5.7% per annum (2012: 5.6%). The New Zealand Merino Company Limited entered into an agreement with Merino New Zealand Incorporated in 2013 to develop a programme for research into footrot. As part of this agreement it was agreed that $591,000 of the term loan would be repaid by The New Zealand Merino Company Limited in the year ending 30 June 2014.

On 29 June 2011 the company entered into a term loan with Westpac Banking Corporation for $4.0 million. The term of the loan from Westpac Banking Corporation is 5 years. The interest rate payable on the fixed portion of this loan as at 30 June 2013 is 5.2% per annum (2012: 5.1%)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

16. FINANCIAL INSTRUMENTS

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
		The fair value of derivative financial instruments outstanding at balance date was:		
(90)	(90)	Forward currency contracts – cash flow hedges	(63)	(63)
(13)	(13)	Forward wool futures contracts – cash flow hedges	-	-
-	-	Interest rate swap – cash flow hedges	(22)	(22)
(103)	**(103)**		**(85)**	**(85)**

The nominal value ($000's) of forward currency contracts (cash flow hedges) outstanding at balance date was $909 (2012: $4,945).

The nominal value ($000's) of forward wool futures contracts (cash flow hedges) outstanding at balance date was Nil (2012: $77).

The notional amount ($000's) of the interest rate swap at balance date was $2,062.

(i) Financial risk and capital management

The Parent and Group's capital includes share capital, reserves, retained earnings and secured term loan facilities. When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The Company reviews its capital structure on a regular basis. As the market changes the Company may change the amount of dividends to be paid to shareholders, return capital to shareholders, or issue new shares.

The Company did not pay dividends in 2013 (2012: $Nil)

The Company has a long-term loan of $2.8 million with a current portion of $0.9 million and maintains an overdraft facility of $4 million with Westpac Banking Corporation as at 30 June 2013.

The Company has a long-term loan of $0.9 million with a current portion of $0.6 million with Merino New Zealand Incorporated.

The Company is not subject to any externally imposed capital requirements, other than the covenants required under our borrowing agreements. During the year there were no breaches of these covenants.

There have been no material changes to the Company's management of capital during the period.

The Parent and Group do not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's policies approved by the Board of Directors, which provide written principles on the use of derivative financial instruments.

16. FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, and the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability, are included in the statement of accounting policies.

(iii) Wool price risk

Wool price risk is the risk of a loss to the Group from adverse movements in wool prices where the Group has open sales contract positions.

In 2012 the group had entered into a wool swap contract to reduce the impact of spot market price changes on open sales contracts positions.

The following table details the notional principal amounts, fair value and remaining terms of wool swap contracts outstanding as at the reporting date:

	2012 $000		2013 $000	
	Notional principal amount	Fair value	Notional principal amount	Fair value
Not later than 1 month	-	-	-	-
30-90 days	-	-	-	-
90-365 days	77	(13)	-	-
1 year to 5 years	-	-	-	-
	77	**(13)**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

16. FINANCIAL INSTRUMENTS (CONTINUED)

(iv) Currency risk

Currency risk is the risk of a loss to the Group arising from adverse fluctuations in exchange rates.

The Group has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities. Where exposures are certain, it is the Group's policy to hedge these amounts as they arise.

The following table details the notional principal amounts, fair values and remaining terms of any forward currency contracts outstanding as at the reporting date:

	2012 $000		2013 $000	
PARENT AND GROUP	Notional principal amount	Fair value	Notional principal amount	Fair value
AUD Sell				
Not later than 1 month	920	3	105	-
30-90 days	2,060	(52)	116	-
90-365 days	2,449	(44)	662	8
1 year to 5 years	-	-	-	-
	5,429	(93)	883	8
AUD Buy				
Not later than 1 month	-	-	-	-
30-90 days	-	-	-	-
90-365 days	-	-	(716)	(53)
1 year to 5 years	(484)	3	-	-
	(484)	3	(716)	(53)
USD Sell				
Not later than 1 month	-	-	184	(4)
30-90 days	-	-	558	(14)
90-365 days	-	-	-	-
1 year to 5 years	-	-	-	-
	-	-	742	(18)
	4,945	**(90)**	**909**	**(63)**

16. FINANCIAL INSTRUMENTS (CONTINUED)

(v) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, resulting in a financial loss to the Parent and Group. Financial assets, which potentially subject the Parent and Group to concentration of credit risk, consist principally of cash, bank balances, trade and other receivables, and advances to subsidiaries. The Group's cash equivalents are placed with high credit quality financial institutions.

The consolidated entity has adopted a policy of only dealing with creditworthy counterparties and, in the case of trade receivables, for the most part only releasing wool for delivery once it has been paid for as a means of mitigating the risk of financial loss from defaults. The consolidated entity exposures are continuously monitored. The consolidated entity measures credit risk on a fair value basis.

Trade and Other Receivables consist of a small number of customers. As noted above, for the most part, wool is not released until it has been paid for.

Approximately 57% of Trade and Other Receivables are due from three customers. With this exception, the consolidated entity does not have any significant credit risk exposure to any single counterparty.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Total credit risk was comprised as follows:

		2012 $000		2013 $000
	GROUP	PARENT	GROUP	PARENT
Trade and other receivables	5,931	5,931	3,514	3,514
Total credit risk	**5,931**	**5,931**	**3,514**	**3,51**

Collateral and other credit enhancements obtained

The Parent and Group do not hold any collateral as security or other credit enhancements over trade and other receivables.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

16. FINANCIAL INSTRUMENTS (CONTINUED)

(v) Credit risk (continued)

Trade and other receivables that are either past due or impaired

The table below sets out information regarding the ageing of trade and other receivables. Debts owing in excess of 30 days are considered past due. These have not been assessed as impaired as management believes that these amounts will be fully recovered.

		2012 $000		2013 $000
	GROUP	PARENT	GROUP	PARENT
Current	4,139	4,139	3,458	3,458
31 – 60 days	1,739	1,739	52	52
61 – 90 days	46	46	-	-
Over 90 days	7	7	4	4
	5,931	**5,931**	**3,514**	**3,514**

Renegotiated trade and other receivables

There are no amounts included within trade and other receivables whose terms have been renegotiated.

(vi) Interest rate risk

Interest rate risk is the risk that the Parent and Group may be affected by changes in the general level of interest rates. The consolidated entity is exposed to interest rate risk as it borrows funds at floating interest rates.

At the reporting date the interest rate profile of the Parent and Group's interest-bearing financial instruments was:

		2012 $000		2013 $000
PARENT AND GROUP	Notional principal amount	Fair value	Notional principal amount	Fair value
Fixed rate instruments	-	-	2,062	(22)
Variable rate instruments	-	-	714	-
	-	**-**	**2,776**	**(22)**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

16. FINANCIAL INSTRUMENTS (CONTINUED)

(vi) Interest rate risk (continued)

The following interest rate re-pricing tables detail the Parent and Group's exposure to interest rate risk:

GROUP 2013 $000	Weighted average interest	Less than 1 year	1-2 years	2-6 Years	Non-interest bearing	Total
Financial assets						
Trade and other receivables		-	-	-	3,514	3,514
		-	**-**	**-**	**3,514**	**3,514**
Financial liabilities						
Bank overdraft	8.95%	2,924	-	-	-	2,924
Trade payables		-	-	-	3,417	3,417
Derivative financial instruments		-	-	-	85	85
Term loan Westpac Banking Corporation	5.20%	714	2,062	-	-	2,776
Term loan Merino New Zealand Incorporated	5.70%	900	-	-	-	900
		4,538	**2,062**	**-**	**3,502**	**10,102**

PARENT 2013 $000	Weighted average interest	Less than 1 year	1-2 years	2-6 Years	Non-interest bearing	Total
Financial assets						
Trade and other receivables		-	-	-	3,514	3,514
		-	**-**	**-**	**3,514**	**3,514**
Financial liabilities						
Bank overdraft	8.95%	2,924	-	-	-	2,924
Trade payables		-	-	-	3,417	3,417
Intercompany payable		-	-	-	-	-
Derivative financial instruments		-	-	-	85	85
Term loan Westpac Banking Corporation	5.20%	714	2,062	-	-	2,776
Term loan Merino New Zealand Incorporated	5.70%	900	-	-	-	900
		4,538	**2,062**	**-**	**3,502**	**10,102**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

16. FINANCIAL INSTRUMENTS (CONTINUED)

(vi) Interest rate risk (continued)

The following interest rate re-pricing tables detail the Parent and Group's exposure to interest rate risk:

GROUP 2012 $000	Weighted average interest	Less than 1 year	1-2 years	2-6 Years	Non-interest bearing	Total
Financial assets						
Trade and other receivables		-	-	-	5,931	5,931
		-	**-**	**-**	**5,931**	**5,931**
Financial liabilities						
Bank overdraft	8.40%	2,213	-	-	-	2,213
Trade payables		-	-	-	3,102	3,102
Derivative financial instruments		-	-	-	103	103
Term loan Westpac Banking Corporation	5.60%	3,700	-	-	-	3,700
Term loan Merino New Zealand Incorporated	5.60%	900	-	-	-	900
		6,813	**-**	**-**	**3,205**	**10,0118**

PARENT 2012 $000	Weighted average interest	Less than 1 year	1-2 years	2-6 Years	Non-interest bearing	Total
Financial assets						
Trade and other receivables		-	-	-	5,931	5,931
		-	**-**	**-**	**5,931**	**5,931**
Financial liabilities						
Bank overdraft	8.40%	2,213	-	-	-	2,213
Trade payables		-	-	-	3,246	3,246
Intercompany payable		-	-	-	3,485	3,485
Derivative financial instruments		-	-	-	103	103
Term loan Westpac Banking Corporation	5.60%	3,700	-	-	-	3,700
Term loan Merino New Zealand Incorporated	5.60%	900	-	-	-	900
		6,813	**-**	**-**	**6,834**	**13,647**

16. FINANCIAL INSTRUMENTS (CONTINUED)

(vii) Liquidity risk

Liquidity risk is the risk that the Group and Parent will not be able to meet their financial obligations as they fall due. The Group monitors its liquidity daily, weekly and monthly and maintains appropriate liquid assets and bank funding facilities to meet all obligations in a timely and cost effective manner. Management of liquidity is designed to ensure that the Group has the ability to meet financial obligations as they fall due.

The following contractual maturities tables detail the Parent and Group's exposure to liquidity risk:

GROUP 2013

$000	Less than 1 year	1-2 years	2-6 years	Total
Financial assets				
Trade and other receivables	3,514	-	-	3,514
	3,514	**-**	**-**	**3,514**
Financial liabilities				
Bank overdraft	2,924	-	-	2,924
Trade payables	3,417	-	-	3,417
Derivative financial instruments	85	-	-	85
Term loan Westpac Banking Corporation	925	1,851	-	2,776
Term loan Merino New Zealand Incorporated	591	-	309	900
	7,942	**1,851**	**309**	**10,102**

PARENT 2013

$000	Less than 1 year	1-2 years	2-6 years	Total
Financial assets				
Trade and other receivables	3,514	-	-	3,514
	3,514	**-**	**-**	**3,514**
Financial liabilities				
Bank overdraft	2,924	-	-	2,924
Trade payables	3,417	-	-	3,417
Intercompany Payable	-	-	-	-
Derivative financial instruments	85	-	-	85
Term loan Westpac Banking Corporation	925	1,851	-	2,776
Term loan Merino New Zealand Incorporated	591	-	309	900
	7,942	**1,851**	**309**	**10,102**

16. FINANCIAL INSTRUMENTS (CONTINUED)

(vii) Liquidity risk (continued)

The following contractual maturities tables detail the Parent and Group's exposure to liquidity risk:

GROUP 2012

$000	Less than 1 year	1-2 years	2-6 years	Total
Financial assets				
Trade and other receivables	5,931	-	-	5,931
	5,931	**-**	**-**	**5,931**
Financial liabilities				
Bank overdraft	2,213	-	-	2,213
Trade payables	3,102	-	-	3,102
Derivative financial instruments	106	(3)	-	103
Term loan Westpac Banking Corporation	300	300	3,100	3,700
Term loan Merino New Zealand Incorporated	-	-	900	900
	5,721	**297**	**4,000**	**10,018**

PARENT 2012

$000	Less than 1 year	1-2 years	2-6 years	Total
Financial assets				
Trade and other receivables	5,931	-	-	5,931
	5,931	**-**	**-**	**5,931**
Financial liabilities				
Bank overdraft	2,213	-	-	2,213
Trade payables	3,246	-	-	3,246
Intercompany Payable	3,485	-	-	3,485
Derivative financial instruments	106	(3)	-	103
Term loan Westpac Banking Corporation	300	300	3,100	3,700
Term loan Merino New Zealand Incorporated	-	-	900	900
	9,350	**297**	**4,000**	**13,647**

16. FINANCIAL INSTRUMENTS (CONTINUED)

(viii) Categories of financial instruments

GROUP 2013

$000	Loan & receivables	Financial assets/liabilities at FV	Financial liabilities at amortised cost	Total
Assets				
Trade and other receivables	3,514	-	-	3,514
Total financial assets	**3,514**	**-**	**-**	**3,514**
Liabilities				
Bank overdraft	-	-	2,924	2,924
Trade Payables	-	-	3,417	3,417
Derivative financial instruments	-	85	-	85
Term Loan Westpac Banking Corporation	-	-	2,776	2,776
Term loan Merino New Zealand Incorporated	-	-	900	900
Total financial liabilities	**-**	**85**	**10,017**	**10,102**

PARENT 2013

$000	Loan & receivables	Financial assets/liabilities at FV	Financial liabilities at amortised cost	Total
Assets				
Trade and other receivables	3,514	-	-	3,514
Total financial assets	**3,514**	**-**	**-**	**3,514**
Liabilities				
Bank overdraft	-	-	2,924	2,924
Trade payables	-	-	3,417	3,417
Intercompany payable	-	-	-	-
Derivative financial instruments	-	85	-	85
Term loan Westpac Banking Corporation	-	-	2,776	2,776
Term loan Merino New Zealand Incorporated	-	-	900	900
Total financial liabilities	**-**	**85**	**10,017**	**10,102**

16. FINANCIAL INSTRUMENTS (CONTINUED)

(viii) Categories of financial instruments (continued)

GROUP 2012

$000	Loan & receivables	Financial assets/liabilities at FV	Financial liabilities at amortised cost	Total
Assets				
Trade and other receivables	5,931	-	-	5,931
Total financial assets	**5,931**	**-**	**-**	**5,931**
Liabilities				
Bank overdraft	-	-	2,213	2,213
Trade Payables	-	-	3,102	3,102
Derivative financial instruments	-	103	-	103
Term Loan Westpac Banking Corporation	-	-	3,700	3,700
Term loan Merino New Zealand Incorporated	-	-	900	900
Total financial liabilities	**-**	**103**	**9,915**	**10,018**

PARENT 2012

$000	Loan & receivables	Financial assets/liabilities at FV	Financial liabilities at amortised cost	Total
Assets				
Trade and other receivables	5,931	-	-	5,931
Total financial assets	**5,931**	**-**	**-**	**5,931**
Liabilities				
Bank overdraft	-	-	2,213	2,213
Trade payables	-	-	3,246	3,246
Intercompany payable	-	-	3,485	3,485
Derivative financial instruments	-	103	-	103
Term loan Westpac Banking Corporation	-	-	3,700	3,700
Term loan Merino New Zealand Incorporated	-	-	900	900
Total financial liabilities	**-**	**103**	**13,544**	**13,647**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

17. SHARE CAPITAL

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
		Paid in share capital comprises:		
1,456	1,456	Ordinary shares	1,985	1,985
(363)	(363)	Share buy back	-	-
892	892	Share issue	-	-
1,985	**1,985**		**1,985**	**1,985**

Paid in Share Capital comprises 3,543,191 fully paid ordinary shares (2012: 3,543,191). All shares carry equal rights in respect of voting and the receipt of dividends, and upon winding up, rank equally with regard to the Company's residual assets.

18. RETAINED EARNINGS AND RESERVES

Retained Earnings

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
4,289	4,289	Opening balance	4,694	5,214
-	-	Loss upon consolidation with subsidiary	-	(520)
405	925	Profit after tax	1,227	1,227
4,694	**5,214**		**5,921**	**5,921**

Cash Flow Hedge Reserve

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
-	-	Opening balance	-	-
-	-	Gains/(losses) for the year	(85)	(85)
-	**-**		**(85)**	**(85)**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

19. RECONCILIATION OF CASH FLOWS WITH REPORTED NET PROFIT

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
405	925	Profit after tax	1,227	1,227
		Non cash items:		
-	-	Share of associates retained surplus	(134)	(134)
201	-	Unrealised financial derivative loss / (gain)	(72)	(72)
222	-	Depreciation	116	116
41	-	Loss / (gain) on sale of fixed assets / intangible assets	28	28
101	-	Amortisation of intangible assets	92	92
110	119	Other non cash items	(25)	(85)
-	5,715	Purchase of subsidiary working capital	-	-
(1,337)	(1,456)	Movement in deferred tax	326	326
		Working capital:		
(301)	(3,023)	(Increase) / decrease in inventory	(3,626)	(3,422)
(2,476)	(5,907)	(Increase) / decrease in accounts receivable / prepayments	2,417	2,417
(1,332)	3,133	Increase / (decrease) in accounts payable	315	171
(271)	-	Increase / (decrease) in taxation	-	-
(4,637)	**(494)**	**Net cash from operating activities**	**664**	**664**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

20. RELATED PARTY DISCLOSURES

The following investments / balances existed between The New Zealand Merino Company Limited and related parties as at 30 June 2013.

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
-	6,557	Investment in NZM Disestablishment Limited	-	-
-	(3,485)	Payable to NZM Disestablishment Limited	-	-
-	-	Investment in Alpine Origin Merino Limited	234	234
-	-	Receivable from Alpine Origin Merino Limited	11	11

The Company entered into transactions for the sale and purchase of wool with entities associated with Ben Aubrey, Anthony Jopp and Ross Ivey, directors during the course of the year. These transactions were made on the same terms as to other third parties.

The Company owns a 50% share in Alpine Origin Merino Limited (AOML). The Company has paid for expenses on behalf of AOML and is 100% reimbursed monthly. At year end there is a receivable recorded for unpaid invoices.

Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

Key Management Personnel

The Company has not entered into any transactions with key management personnel of the business outside of the employment relationship.

Total remuneration (000's) paid to key management personnel in 2013 was $1,117 (2012: $2,404). Key management personnel refers to the CEO and three direct management reports to the CEO. This does not include fees paid to directors.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

21. COMMITMENTS

Capital Commitments

The Company had no capital commitments as at 30 June 2013 (2012: $Nil).

In respect of its interest in the Alpine Origin Merino Limited joint venture (refer Note 11), the joint venture had no capital commitments as at 30 June 2013.

Operating Lease Commitments

Non-cancellable operating lease rentals are payable as follows:

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
502	502	Not later than one year	412	412
341	341	Later than one year but not later than two years	350	350
333	333	Later than two years but not later than five years	75	75
-	-	Later than five years	-	-
1,176	**1,176**		**837**	**837**

22.EVENTS AFTER BALANCE DATE

There are no significant events post balance date.

23. AUDITOR'S REMUNERATION

The auditor of the Company is Deloitte.

Amounts paid or payable to Deloitte during the year were:

2012 $000 GROUP	2012 $000 PARENT		2013 $000 GROUP	2013 $000 PARENT
35	9	Audit of the financial statements	22	22
20	-	Other services	35	35
55	**9**		**57**	**57**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

24. CONTINGENCIES

The Company had no contingent liabilities as at 30 June 2013 (2012: $Nil)

In respect of its interest in the Alpine Origin Merino Limited joint venture (refer Note 11), the joint venture had no contingent assets or liabilities as at 30 June 2013.

25. EARTHQUAKE

Throughout the 2011 and 2012 financial years, Christchurch experienced a number of earthquakes that resulted in damage to items of property, plant and equipment as well as business interruption. The Company has made a number of insurance claims in relation to these events. As at 30 June 2013 all claims have been settled.

2012 $000 **GROUP**		2013 $000 **GROUP**
	Expenses in relation to:	
45	Business Interruption	-
	Insurance recoveries in relation to:	
-	Material Damage	(88)
(120)	Business Interruption	-
(214)	Impairment of Property, Plant and Equipment	-

AUDITOR’S REPORT

FOR THE YEAR ENDED 30 JUNE 2013

Deloitte.

INDEPENDANT AUDITOR’S REPORT TO THE SHAREHOLDERS OF THE NEW ZEALAND MERINO COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of The New Zealand Merino Company Limited and group on pages 11 to 48, which comprise the consolidated and separate statements of financial position of The New Zealand Merino Company Limited, as at 30 June 2013, and the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company’s shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company’s shareholders those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company’s shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

BOARD OF DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR’S RESPONSIBILITIES

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor and the provision of other assurance services, we have no relationship with or interests in The New Zealand Merino Company Limited or any of its subsidiaries.

OPINION

In our opinion, the financial statements on pages 11 to 48:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of The New Zealand Merino Company Limited and group as at 30 June 2013, and their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2013:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by The New Zealand Merino Company Limited as far as it appears from our examination of those records.

Deloitte

CHARTERED ACCOUNTANTS
Christchurch, New Zealand
9 September 2013

STATUTORY INFORMATION

FOR THE YEAR ENDED 30 JUNE 2013

Employee's Remuneration

The cash remuneration package of the Chief Executive contains three components:

(a) Base salary;

(b) Annual bonus – based on the achievement of predetermined key performance indicators; and

(c) Kiwisaver.

During the year remuneration payments to the Chief Executive in the above categories were:

	2013 $000
Base salary:	352
Annual bonus:	45
Kiwisaver:	16

In addition the Chief Executive is provided with a vehicle which is available for private use.

During the year the following number of employees received total remuneration and other benefits including incentive payments of at least one hundred thousand dollars.

Band ($000)	2013 Number
$100 - $110	5
$110 - $120	3
$120 - $130	1
$130 - $140	2
$140 - $150	1
$200 - $210	1
$220 - $230	2
$270 - $280	1
$420 - $430	1

STATUTORY INFORMATION

FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

Directors Holding Office During the Year

The following directors held office during the year ending 30 June 2013:

	Originally Appointed	Resigned
Alan McConnon	1/7/12	-
Sara Lunam	1/7/12	30/6/13
Peter Rose	1/7/12	30/6/13
Ben Aubrey	14/10/11	-
Ross Ivey	14/10/11	-
Anthony Jopp	14/10/11	-
Ruth Richardson	12/10/12	-
John Brakenridge	9/5/12	12/10/12

Directors' Remuneration

Remuneration paid to directors during the year was:

	2013 $000
Alan McConnon	56
Sara Lunam	29
Peter Rose	29
Ben Aubrey	29
Ross Ivey	29
Anthony Jopp	29
Ruth Richardson	22
	223

Directors' Indemnity and Insurance

The Company has given indemnities to, and has effected insurance for, directors and executives of the Company, which indemnify directors and executives against liabilities to other parties that may arise from their position as directors or executives. The indemnity and insurance does not cover liabilities arising from criminal actions.

STATUTORY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

Entries in the Company's Interests Register

Pursuant to Section 140 (2) of the Companies Act 1993, directors have disclosed interests in the following entities:

Ben Aubrey

Director & Shareholder	The Cairn Station Limited
Director	NZM Disestablishment Limited

Ross Ivey

Director & Shareholder	Glentanner Station Limited
Director & Shareholder	Glentanner Park (Mount Cook) Limited
Director & Shareholder	Mega Merino New Zealand Limited
Director	NZM Disestablishment Limited

Anthony Jopp

Managing Director & Shareholder	Moutere Station Limited
Managing Director & Shareholder	Kiatoa Station Limited
Director	NZM Disestablishment Limited

Sara Lunam

Corporate Services Manager	Port of Tauranga Limited
Director	Te Arahono Limited
Chairman	Tapper Transport Limited
Director	Cubic Transport Limited
Director	Metro Pack Limited
Director	NZM Disestablishment Limited
Trustee	Harbour Workers Superannuation Scheme

Alan McConnon

Director & Shareholder	Aorangi Laboratories Limited
Director & Shareholder	Lifevent Limited
Director & Shareholder	Innovative Learning Holding Limited
Chairman & Shareholder	Vinpro 2004 Limited
Independent Director	Mt Difficulty Wines Limited
Independent Chairman	Polson Higgs
Chairman	NZM Disestablishment Limited
Director	Alpine Origin Merino Limited
Director	Tracmap Group

STATUTORY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

Entries in the Company's Interests Register

Pursuant to Section 140 (2) of the Companies Act 1993, directors have disclosed interests in the following entities:

Ruth Richardson

Chairman	Jade Software
Chairman	Syft Technologies Limited
Chairman	Kiwi Innovation Network Limited
Chairman	Kula II Fund Limited
Chairman	Synlait Limited
Director	Synlait Milk Limited
Director	Ruth Richardson (NZ) Limited

Peter Rose

General Manager, Strategy and Business Development	Ngai Tahu Property Limited
Director & Shareholder	Yellow Jersey Limited
Director & Shareholder	Rack Clothing Limited
Director & Shareholder	Flow Software Limited and associated holding companies
Director	Flow Software Pty Limited
Director & Shareholder	Perpetual Property Holdings Limited
Director & Shareholder	3 Day Weekend Limited
Director & Shareholder	Snapperhead Limited
Director & Shareholder	Born Global Limited
Director	NZM Disestablishment Limited

John Brakenridge

Director	Alpine Origin Merino Limited
Director	Landcorp Farming Limited

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