NEW ZEALAND MERINO

2014 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 2014.

NZM finished the 2014 year in good financial shape.

The trading performance was strong, the Board was strengthened with the addition of new director talent, the team are hitting their straps to great effect and the company is in a position to declare the first dividend since the shareholding restructure.

We live and breathe the world of markets, matching the excellence of the Merino with the demand by discerning consumers for products of quality and integrity.

Value creation starts on the farm, but the deal has to be closed with market partners who champion our story and customers who buy our value proposition.

We can only get 'More from Merino' when every link in the value chain is focused on having us standing out from the crowd and demonstrating that at every step we are distinctively different and better than any other offering. Better at production, better at ethical standards, better at discovering and servicing our markets, better at customer delight, and therefore able to command a better price.

That's what makes our business model so special.

Lifting sector performance won't be secured by a return to the failed formula of a compulsory wool levy. Merino growers above all understand that there is no beating a market formula of linking the farm to the finished product.

There are more legs to this model. The board is convinced that we must drive for more critical mass to assure our current platform and create more business opportunities. These prospects are being developed putting the same business model to work.

Year on year and through the volatility of fluctuating commodity cycles the contract system and market enhancement system has paid off for farmer and market partners alike.

In the process of coming through the ranks and having the privilege of assuming the chairmanship of the company I consulted widely. The largest grower shareholder gave me some very sage advice. John Shrimpton urged the Board to declare a dividend so that growers who had huge regard for their stock of the four legged variety would have as much reason to pay attention to the value of their stock holding in NZM.

We are conscious that the constitutional structure of the company constrains liquidity in the shares, a matter that shareholders may want to address at an appropriate time.

The trading year saw the company post a profit after tax of $1.9 million which puts us in a position to declare a dividend of $0.95 million. The profit after tax represents a return of 22% on average shareholders' funds.

There is much more to be done to advance the fortunes of the company. The Board adopted an ambitious business plan at our strategy session in November of 2013 which seeks the doubling of the value of the company over three years – 2X3 as we term it. We are now half way through this process with the financial result in year one representing a pre-tax 27% improvement on the previous year. The current year has started strongly and management are fully focused on advancing these ambitious business goals.

Ultimately our performance is dictated by three factors:

- The quest to continuously graft and innovate in markets where demand patterns and consumer tastes change; bring back the suits say the fine wool growers, while further up the micron category it is a case of bring on the active outdoors types and the niche wool players.
- Next we need to make sure we win the war for talent and attract and retain the bright trading, marketing, scientific and communications minds that drive this business model.
- And finally, we need a Board that can ensure that the company is capable of maintainable earnings which means attention to ensuring performance now and driving new opportunities for the future.

The Board has lifted its game in a number of significant respects over the last year.

The Risk and Finance Committee, now ably chaired by Susan Peterson, one of the new director recruits, is a crucial risk and financial watchdog and is serviced by our excellent Chief Financial Officer (CFO) Peter Floris who was himself a finalist in the 2014 New Zealand CFO of the year awards!

The newly established Human Resources Committee is in the capable hands of Ross Ivey who has instituted best practice in the design and delivery of the first staff engagement survey, market referencing for salary and bonus setting, and the crafting of a new long term incentive scheme.

The composition of the Board itself has undergone change and renewal.

In the process of being elected Chairman I vacated the management appointed director slot which is now filled by our latest addition to the Board, Matanuku Mahuika, himself an experienced commercial director chairing Sealord and taking a leading role in propelling Maori business to a new level.
The grower bench will see renewal at the Annual General Meeting (AGM) with long standing director Tony Jopp retiring making way for a fresh injection of grower thinking.

Being an effective director requires an active and passionate commitment to the cause and I want to acknowledge the long service of Tony and the retiring Chairman, Alan McConnon and thank them for their dedication. We saw Alan off in style at a rugby derby (Crusaders v England) and will toast Tony's contribution prior to the AGM.

The Board has an excellent working relationship with our Chief Executive Officer, John Brakenridge, who in addition to his stellar pursuit of merino markets is acknowledged as an agri-business leader and commands substantial respect for his efforts to promote greater sector collaboration and helping New Zealand raise its global game.

I ask two things of shareholders. Please read this Annual Report in its entirety as it is an important window on your investment in the company and represents a detailed disclosure on how the company is travelling.

And please consider making the effort to attend the AGM as the directors and management alike value your presence and want to be able to brief you on the company's excellent prospects.

Ruth Richardson
CHAIRMAN

Back row: (L-R) Susan Peterson, Matanuku Mahuika, John Brakenridge (CEO), Ben Aubrey, Peter Floris (CFO). Front row: (L-R) Tony Jopp, Ruth Richardson, Ross Ivey.

CEO'S REPORT

This report addresses The New Zealand Merino Company's (NZM) performance for the year ended 30 June 2014, areas of investment and our strategic intent.

PERFORMANCE

As advised in the Chairman's Report, NZM has continued to grow in terms of profitability, balance sheet strength and diversity of income in the year ended 30 June 2014.

NZM has recorded a net profit after tax of $1.9 million for the year, which represents a return of 22% on average shareholders' funds.

Contracts continue to underpin the NZM model with 67% of bales sold being through this mechanism during the year, a similar percentage to the prior year. These contracts continue to provide certainty for the company, our grower suppliers and our brand partners. During the year further meat contracts were also rolled-out through Alpine Origin Merino Limited, our joint-venture programme with Silver Fern Farms Limited, for SILERE alpine origin merino.

Good progress continues to be made on the New Zealand Sheep Industry Transformation project (NZSTX) in collaboration with the government through its Primary Growth Partnership (PGP) programme. Particularly pleasing has been the momentum being gained in production science activities.

We are also pleased to report a continued strengthening of the company balance sheet with debt now sitting comfortably at 42% of total assets. This balance sheet strength has put us in a position where we are now able to pay the first dividend to shareholders for some years.

Our commercial success provides a strong base for NZM to grow and continue to make a meaningful impact for our shareholders, suppliers and stakeholders.

In terms of direct grower value proposition, the net value returned to grower suppliers through contracts and other activities is in excess of $12 million compared to commodity prices.

CHALLENGES

Our industry continues to face many challenges. These include:

- Global prices falling;
- Industry profitability, particularly tough for fine and superfine growers;
- Loss of scale through land tenure and alternative land use;
- Changing consumers' needs and channels to market; and
- Huge increases in fine and super fine fibre production in Australia, albeit much of this recent shift has been influenced by climate.

In addition we have several company and industry specific issues that need to be addressed:

- Industry consolidation and rationalisation (given the total New Zealand wool industry decline).
- Diminishing relevance of our supply base to shareholder base (NZM shares were distributed 12 years ago, however now only 56% of our shareholders are suppliers to the business resulting from growers who have left the industry as well as other shareholding changes).

OPPORTUNITIES

There are numerous opportunities for NZM to continue to grow as a business, delivering value to shareholders and stakeholders alike. These include:

- 'More from Merino'. Merino is our core business and we are investing more to unlock value for our suppliers. Their success leads to our success.
- More from wool. The extension of our business model, firstly into mid micron and now strong wool, has provided greater critical mass. Much of this has been highly complementary to our fine wool business through the synergies achieved.
- More market relevance. Given the dramatic changes in markets, NZM has to ensure that what we supply is wrapped in a value proposition that is relevant to this change. Important areas include digital, reputation and customised quality.

STRATEGIC INTENT

NZM has a clear business goal, set by the board last year, to double the value of the business by 30 June 2016. This will only be achieved through meeting the challenges outlined and capturing the opportunities.

Fundamental to all of this is our focus on wool.

We are recognised for our leadership ranging from wool expertise, through to textile science, production science, environmental science, digital, creative, marketing and sales. There is no other commercial wool entity globally with this depth of functional skills and talent.

The team is highly engaged and is continuing to drive value.

As markets improve their work is going to further realise substantial gains for shareholders and suppliers.

INVESTMENT

As you read the financials within this report you will see the significant investment made by NZM into marketing and innovation.

During the year NZM has invested over $6 million into a wide range of initiatives for short, medium and long term industry benefit. Key areas of investment include:

- Market development for fibre, leather and meat;
- Product development and innovation for fibre, leather and meat;
- Textile science and validation work;
- Forage science;
- Animal health;
- Trait acceleration; and
- Transition and adoption of fine wool sheep.

You will find more information on each area of the business in the following snapshot.

The direct grower contribution to this is around $3.6 million from the marketing and innovation fee and the PGP fee, with the remainder of funding coming from NZM, value chain partners, the PGP, and NZSTX co-funders such as Merino New Zealand Incorporated.

SUMMARY

Whilst NZM has had a solid financial year, the team is highly aware of the need to further lift the intensity in all areas of our activities.

Our model overtly links our success to that of all of our stakeholders.

We have significant further investment planned for 2014/15 across the value chain and an ambitious business plan to realise the benefits for our stakeholders and shareholders.

John Brakenridge
CHIEF EXECUTIVE OFFICER

Awesomely Responsible ZQ Merino campaign

SmartWool

SILERE alpine origin merino

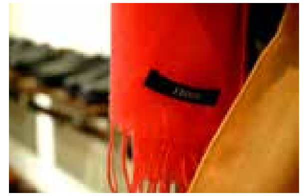
KURA Kohl & Cochineal handbag

Icebreaker

Lupins trial site

Designer Textiles International

Reda - Rembrandt



Erdos

SNAPSHOT 2013/14

LUXURY AND SPECIALISED MARKETS (FINE/ SUPER FINE WOOL)

In this area, the focus of our investment is in product and market development; developing more partners and increased volumes for growers. This year market conditions have been challenging with the flood of fine and super fine wool out of Australia coinciding with soft market demand.

Existing branded contracts and the investment NZM has made in key partnerships have proved their worth this season with these contracts being far in advance of the market. The quality of the partnerships we have with brands like Reda, NIKKE, John Smedley and Cariaggi have been acknowledged through contract renewals at market premiums.

A significant shift has taken place within the luxury sector with many brands demanding sustainably sourced raw materials. Reputational attacks from non-governmental organisations around supply chains (such as the Greenpeace Detox campaign), origin of ingredients and ethics has spurred luxury brands to measure their value chain partners on factors other than quality and price alone.

Large brand houses are setting standards for the suite of brands they own, reflecting the fact that poor performance of one brand within the group will negatively impact the rest by association. NZM is well positioned to capitalise on this shift through the ZQ Merino platform.

Given the rapid response required to new enquiry, NZM has invested in stock supply for fine wools, enabling trials to be fast tracked with potential new partners.

We are writing new business now for 15.5 to 17.5 micron, offered as ZQ contracts, and are determined to build on this by demonstrating our full value proposition to establish long-term partnerships and positioning as we have within the active outdoors market.

As Merino's appeal across market segments builds, we continue to invest in areas that present opportunity for considerable future growth. Reda's exciting RedaActive fabrics, Merino sleep solutions and Andrew Caughey's 17.5 micron Armadillo Merino – winner of a number of innovation awards for apparel geared for professional risk takers, are a few.

NZM is continuing its high level of investment across these markets and has a passionate team of resources dedicated to this area. We are driven to increase both volumes and value.

ACTIVE OUTDOOR AND LIFESTYLE

There are currently two key themes of note in this space.

The first is the evolution of our key brand partners from niche active outdoors brands to serious contenders in the mainstream activewear world.

The outdoor retail environment has been tough in the past 12 months, particularly in the USA. Merino brands are fighting the "winter only" box many consumers put them in, which places a hefty reliance on a cold winter for sales. For some time a diversification from true "outdoors" to apparel that provides a perception of athleticism has been brewing.

Annie Georgia Greenberg, a New York editor for the fastest growing independent style website in the USA, Refinery29, attributes the popularity in mainstream active wear to "the growing consumer preference, especially with teens and Millennials, for comfort and versatility in their everyday clothing. With over 5 million mentions (social media) in the last 12 months, consumers' affinity for wearing yoga pants outside of the studio can be seen as leading this charge". Brands like lululemon and Nike do this well and increasingly we will see merino claim a space in this area.

Leadership changes at Icebreaker and Ibex are reflective of these companies gearing for further global growth. Likewise, SmartWool's VF Corporation owners see huge potential for the brand among its powerful portfolio of global brands. Designer Textiles International's investment in a Vietnamese facility to complement New Zealand production has attracted significant growth opportunities for them and the myriad brands they supply fabric to globally.

As the reach of these brands, and the place of Merino as a fibre choice in the activewear market shifts, so too a shift is occuring in the way Merino brands tackle their value chains and ultimately fibre procurement.

Over the past year, NZM has been working closely with brand partners to engineer planning and purchasing models that will deliver value to them and grower suppliers. As always, there is no substitute for being in-market, working collaboratively with our brand partners.

The second key theme is the focus on content generation in support of growing our existing and new brand partners businesses. With digital content being such a powerful influencer on how end users feel about brands and make their purchase decisions it is imperative that we lead in telling our growers story, bringing to life the unique aspects of Merino farming, the people and environment.

NZM has invested considerably in videos, tech sheets, training apps, performance, ethical and environmental validation, value chain transparency, and more to support and grow our brand partners' presence on social media and digital platforms with quality content.

As in the luxury market, evidence of best practice and sustainability remains key in the activewear space. PETA's recent shearing exposé, while detrimental to the industry as a whole, served to widen the gap between ZQ Merino and "other" Merino offerings, enabling us to illustrate the NZM model and the value of our market links at its best.

NZM is championing industry wide work on Life Cycle Assessment (as part of an International Wool Textile Organisation (IWTO) working group) to ensure wool is best positioned as new global consumer standards are developed for textiles.

INTERIOR TEXTILES

This year NZM has considerably strengthened it's interior textile offering by extending into stronger wools. This enables the team to present a more multi-dimensional offering to interior textile companies which has met success with the likes of Godfrey Hirst.

The broadening of NZM's supply base adds the required critical mass and enables the recruitment of new talent in the area of market development and content development. While existing assets such as ZQ can be leveraged in this area of business extension, distinct new resource is being allocated to it to ensure the efforts in core business are not diluted.

We believe that through increasing bale numbers with strong wool, NZM will assume a platform for growth. Delivering value to shareholders and suppliers via a stronger team of talent and enhanced in-market presence. Ultimately, this will involve placing resource in key markets.

Strategic partnerships are key to success in this area as we seek to harness the wealth of information and relationships that exist within this industry in a way that is relevant to today's end users and is consistent with the application of our business model.

The value of these partnerships has been evident this year with pre and post sale offers to growers at prices ahead of the market.

Emerging opportunities in this area range from footwear, to flooring, to interior furnishings and filtration.

MEAT

Alpine Origin Merino Limited (AOML) continues to expand its presence in both domestic and international markets. The product, SILERE alpine origin merino, is now available in five countries with sales of branded product growing 95% by volume on the previous year and 104% by value. It should be noted that this growth has been achieved while maintaining many of the original pricing structures however, there is some way to go before the whole carcass is sold through branded products.

To ensure a bright future AOML needs to maintain and grow its supply base. Critical mass is fundamental to the programme and allows new market prototypes, such as recent moves into Dubai and the Middle East, and the amplification of our commercial relationships in the existing five markets. The most recent contract (released March 2014) ensures this procurement volume is covered for the majority of next financial year (until end March 2015).

Sales volume growth has being achieved through better carcass utilisation and product mix. This is a key target area of growth so that true sustainable pricing can be offered back to existing growers before the next roll out of the programme. An example of this is the move into specialty retail with City Super in Shanghai, which presents an opportunity for a broader product mix.

Investment in marketing and communication continues to gather momentum, examples include: trade shows, such as, the Fancy Food Show in New York; television profile - Nadia Lim's new television series to screen on Asian Food Channel and New Zealand Food TV; and other bespoke offerings.


Nadia Lim Food TV - SILERE

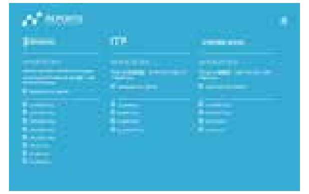

NZM at Canterbury A&P Show


2014 Reda Rewoolution Raiders in New Zealand


SILERE alpine origin merino


ZQ wool week campaign


Product testing


Your NZM Grower Gateway

CPT site progeny

Stock weighing at CPT site

OMA Fine Wool Pix competition entry

DESIGNER GENES Production Science Field Day

Clover trial

Philip Rive, Cecil Peak

LEATHER

The quest for 'More from Merino' has included investigating the ability to add value to leather, typically a by-product of meat. Many hurdles have been overcome on the leather journey thus far. New Zealand Light Leathers proved a quality partner for introducing a premium branded leather innovation to the market. KURA New Zealand Alpine Leather was launched at international trade shows in Europe and Asia. The leather was prototyped and adopted by several brands, such as Deadly Ponies.

The success of this programme has always been dependant upon the market appetite for a new leather story, and our ability to source consistent quality leather without unduly compromising the efficiency of processing.

We are now at a decision point regarding the commercial viability of the programme. The handling of skins has shifted from Silver Fern Farms to Lowe Corporation and we are now working on re-establishing the supply chain. We will continue to invest in leather in the short term as we determine whether the programme has the ability to deliver value longer term.

PRODUCTION SCIENCE

Ensuring the future prosperity of the fine wool sector is at the heart of our production science portfolio. This includes improving the profitability of current fine wool growers, as well as growing the sector by enabling industry expansion into non-traditional areas.

The last twelve months have seen consolidation of the great work in production science made possible by partnerships with the Ministry for Primary Industries (MPI) (through the PGP programme) and Merino New Zealand Incorporated. An independent review by PricewaterhouseCoopers earlier this year of the NZSTX programme provided endorsement of the investment made, concluding that:

"NZSTX is a worthwhile programme that has potential to substantially transform the sheep industry and improve economic outcomes in the sector".

Through this continued investment in production science, we are seeing significant gains for growers throughout New Zealand's fine wool industry.

There has been an evident shift towards a more sophisticated approach in the ram breeding sector. Fine wool ram breeders across the South Island are embracing a new era of breeding, combining visual assessment with estimated breeding values (EBVs). These breeders represent 75% of the rams sold into the fine-wool sector.

The move into EBVs is being enabled by the genetic linkage and comprehensive information being generated by the central progeny test, the largest of its kind in the world, with 3,000 progeny from 80 sires being thoroughly evaluated. The central progeny test represents 90% of the genetic influence in the New Zealand fine wool sector and also allows us to benchmark New Zealand genetics with the best in Australia.

A group of seven stud breeders from across the South Island have formed an alliance to breed specifically for the active outdoor market, targeting producers in non-traditional regions.

Enormous effort is going into finding fine wool sheep that are less susceptible to footrot. This involves inspecting over 35,000 sheep to find those suitable for sampling, then taking DNA samples from over 4,500 of them. This work combines the latest in genomic technologies with traditional breeding approaches to find a new genetic solution to footrot. The results of this hard work are being clarified at present, but the early indications are positive.

In addition, ten sires (from a starting line-up of 700) have demonstrated exceptional resistance to footrot, in the most extreme of conditions. Five of these sires are being further evaluated within the central progeny test and are expected to provide insights for the development of a new genetic solution to footrot.

With an eye to the future, we are gathering DNA samples from more than 500 fine-wool rams across the industry and genotyping them using 50K SNP chips. With the exciting new developments being seen in sheep genomics, this will enable the industry to not only rapidly find future sires with desirable genetics, but also accelerate the uptake of those genetics in their flocks.

On the forage front, the team have been working actively with more than 50 growers across the industry, helping them realise the potential of their high country farms and enhanced genetics through improved forage production. Russell lupins are being trialled across 12 high country farms and this plant is showing real potential to deliver a much needed perennial legume for marginal soils to complement lucerne and clover pastures on better soils.

Throughout the year we have continued to deliver insights into the production science work through several successful field days, as well as facilitating Lifetime Ewe Management groups and Bred Well Fed Well workshops.

Perhaps the most exciting development is the new talent that is now at the industry's disposal – attracting world class talent is at the core of everything we do and our investment in production science has enabled us to bring key skills into the company for the industry's benefit.

Overall, the production science work is well placed to leave a lasting legacy for the fine wool sheep industry in New Zealand. The next twelve months will be critical as we transition the production science programme into its next stage of development.

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 as at 30 June 2014 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 2014.

For and on behalf of the Board of Directors:

Ruth Richardson	Susan Peterson
CHAIRMAN	DIRECTOR
12 September 2014	12 September 2014

COMPANY DIRECTORY

AS AT 30 JUNE 2014

Nature of Business	Wool Marketing and Sales
Registered Office	Level 2, 114 Wrights Road, Addington, Christchurch
Directors	Ruth Richardson (Chairman) Ben Aubrey Anthony Jopp Ross Ivey Susan Peterson Matanuku Mahuika
Auditors	Deloitte, Christchurch
Bankers	Westpac Banking Corporation, Christchurch
Solicitors	Chapman Tripp, Christchurch
Business Location	Level 2, 114 Wrights Road, Addington, Christchurch

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

2013 $000 (Restated) **GROUP AND PARENT**		NOTE	2014 $000 **GROUP AND PARENT**
126,871	Revenue		116,573
(117,814)	Cost of sales		(106,606)
9,057	**Gross profit**		**9,967**
6,968	Other income	1	4,792
134	Share of Alpine Origin Merino Ltd	10	115
7,102	**Other income**		**4,907**
(862)	Net finance costs	2	(651)
(2,740)	Procurement and selling expenses		(3,376)
(4,624)	Marketing expenses		(3,603)
(3,176)	Innovation expenses		(2,343)
(2,968)	Administrative expenses		(2,718)
(357)	Share based arrangements	23	(369)
(236)	Other expenses	3	(301)
(14,963)	**Expenses**		**(13,361)**
1,196	**Profit before income tax**		**1,513**
(326)	Income tax income / (expense)	4	375
870	**Profit / (loss) after tax**		**1,888**
	Other comprehensive income / (loss)		
	Items that may be reclassified subsequently to profit or loss		
(85)	Gains / (losses) from cash flow hedges		136
-	Income tax relating to other comprehensive income		(14)
(85)			122
785	**TOTAL COMPREHENSIVE INCOME**		**2,010**

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

2013 $000 (Restated) GROUP AND PARENT		NOTE	2014 $000 COMPANY
	ASSETS		
	Current assets		
-	Cash and cash equivalents	5	1,053
3,514	Trade and other receivables	6	5,002
6,445	Inventories	7	1,734
-	Derivative financial instruments	14	51
9,959	**Total current assets**		**7,840**
	Non-current assets		
612	Property, plant and equipment	8	618
234	Investment in Alpine Origin Merino Ltd	10	349
1,130	Deferred tax	9	1,743
5,988	Intangible assets and goodwill	11	5,935
7,964	**Total non-current assets**		**8,645**
17,923	**Total assets**		**16,485**
	LIABILITIES		
	Current liabilities		
2,924	Bank overdraft	5	-
1,516	Current portion of term loan	13	1,404
3,417	Trade and other payables	12	3,955
85	Derivative financial instruments	14	-
7,942	**Total current liabilities**		**5,359**
	Non-current liabilities		
2,160	Term loans	13	926
363	Share based arrangements provision	23	652
2,523	**Total non-current liabilities**		**1,578**
10,465	**Total liabilities**		**6,937**
7,458	**Net assets**		**9,548**
	EQUITY		
1,601	Share capital	15	1,681
5,942	Retained earnings	16	7,830
(85)	Cash flow hedge reserve	16	37
7,458	**Total equity**		**9,548**

For and on behalf of the Board of Directors, who authorised the issue of the financial report on 12 September 2014.

Ruth Richardson
CHAIRMAN
12 September 2014

Susan Peterson
DIRECTOR
12 September 2014

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

GROUP AND PARENT $000	NOTE	Share capital	Retained earnings	Cash flow hedge reserve	Total equity
Original balance at 1 July 2012		**1,985**	**4,694**	**-**	**6,679**
Transactions with owners of the company					
Share based arrangements	23	(527)	378	-	(149)
Restated balance at 1 July 2012		**1,458**	**5,072**	**-**	**6,530**
Total comprehensive income for the year					
Profit for the year	16	-	870	-	870
Other comprehensive income	16	-	-	(85)	(85)
Total comprehensive income for the year		**-**	**870**	**(85)**	**785**
Transactions with owners of the company					
Share based arrangements	23	143	-	-	143
Balance at 30 June 2013		**1,601**	**5,942**	**(85)**	**7,458**
Balance at 1 July 2013		**1,601**	**5,942**	**(85)**	**7,458**
Total comprehensive income for the year					
Profit for the year	16	-	1,888	-	1,888
Other comprehensive income	16	-	-	122	122
Total comprehensive income for the year		**-**	**1,888**	**122**	**2,010**
Transactions with owners of the company					
Share based arrangements	23	80	-	-	80
Balance at 30 June 2014		**1,681**	**7,830**	**37**	**9,548**
Carrying amounts					
At 1 July 2012		1,458	5,072	-	6,530
At 30 June 2013		1,601	5,942	(85)	7,458
At 30 June 2014		**1,681**	**7,830**	**37**	**9,548**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

2013 $000 GROUP AND PARENT		NOTE	2014 $000 GROUP AND PARENT
	Net cash from / (used in) operating activities		
	Cash provided from:		
136,177	Receipts from customers		119,877
-	Taxes refunded		-
7	Interest income received	2	5
136,184			119,882
	Cash applied to:		
(134,651)	Payments to suppliers and employees		(113,428)
(869)	Interest paid	2	(656)
-	Income tax paid		(252)
(135,520)			(114,336)
664	**Net operating cash flows**	**17**	**5,546**
	Net cash from / (used in) investing activities		
	Cash applied to:		
(123)	Acquisition of intangibles	11	(71)
(100)	Investment in associate		-
(228)	Purchase of property, plant and equipment	8	(152)
(451)			(223)
(451)	**Net investing cash flows**		**(223)**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

2013 $000 GROUP AND PARENT		NOTE	2014 $000 GROUP AND PARENT
	Net cash from / (used in) financing activities		
	Cash applied to:		
-	Loan from Merino New Zealand Incorporated		(421)
(924)	Bank loan		(925)
(924)			(1,346)
(924)	**Net financing cash flows**		**(1,346)**
(711)	**Net increase / (decrease) in cash balances**		**3,977**
(2,213)	**Cash balances at beginning of year**		**(2,924)**
(2,924)	**Cash balances / (bank overdraft) at the end of year**		**1,053**

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 2014. The financial statements were authorised for issue by the directors on 12 September 2014.

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 share of joint venture in Alpine Origin Merino Limited (AOML). NZM Disestablishment Limited (referred to as the 'subsidiary') was fully liquidated on 12 September 2013. NZM Disestablishment Limited was non-trading for the year ended 30 June 2014.

The nature of the operations of the business is 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 and share based arrangements, which have been measured at fair value, and inventory which has been measured at the lower of cost and net realisable 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.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following accounting policies and notes:
- Share based arrangements. Refer to policy (v) and note 23.
- Goodwill impairment assessment. Refer to policy (h) and note 11.

ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES

The New Zealand Merino Company Limited has recognised share based arrangements in 2014, refer to policy (v) and note 23. There have been no other 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 arising on acquisition 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 and 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.

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 Statement of Comprehensive Income 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, foreign currency gains 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 the statement of comprehensive income 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 Statement of Comprehensive Income, 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.

NZM Disestablishment Limited was non trading for the year ended 30 June 2014 and was fully liquidated in September 2013.

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 the Statement of Comprehensive Income in the period of acquisition.

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

(v) Share Based Arrangements

Equity-settled share-based arrangements with employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of the equity-settled share-based arrangements are set out in note 23.

The fair value determined at grant date of the equity-settled share based arrangements is expensed over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the Statement of Comprehensive Income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

For cash-settled share-based arrangements, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. The fair value determined at grant date of the cash-settled share based arrangement is expensed over the vesting period. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in the Statement of Comprehensive Income for the year.

(w) Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of Goods and Services Tax ("GST"). Operating activities represent all transactions and other events that are not investing or financing activities. Investing activities are those activities relating to the acquisition and disposal of investments and any other property, plant and equipment. Financing activities are those activities relating to changes in the equity and debt capital structure of the Group and those activities relating to the cost of servicing the Company's equity capital.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. OTHER INCOME

2013 $000 GROUP AND PARENT		2014 $000 GROUP AND PARENT
6,352	External funding	4,256
88	Insurance proceeds	-
241	Royalties	260
82	Exchange gains	-
205	Other income	276
6,968		**4,792**

2. NET FINANCE COSTS / (INCOME)

2013 $000 GROUP AND PARENT		2014 $000 GROUP AND PARENT
869	Interest expense	656
(7)	Interest income	(5)
862		**651**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. EXPENSES

2013 $000 GROUP AND PARENT		2014 $000 GROUP AND PARENT
	Other expenses	
116	Depreciation	141
92	Amortisation of other intangibles assets	124
28	Loss on sale of fixed assets / intangible assets	6
-	Exchange losses	29
-	Donations	1
236		**301**
	Personnel expenses (salaries & employer contribution to Kiwisaver included in functional expense categories)	
3,797	Salaries	3,984
357	Share based arrangements	369
146	Kiwisaver employer contributions	166
4,300		**4,519**
	Technical research project costs (included in innovation expenses)	
2,252	**Technical research project costs**	**1,545**

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

2013 $000 GROUP AND PARENT		2014 $000 GROUP AND PARENT
	Income tax expense	
-	Current income tax - Australia	123
325	Relating to origination and reversal of temporary differences	(627)
1	Overseas withholding tax	-
-	Adjustments in respect of Australian current income tax of previous years	129
326	**Income tax expense reported in the Statement of Comprehensive Income**	**(375)**
	Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate	
1,196	Accounting profit before tax from continuing operations	1,513
(134)	Less after tax profit of associate	(115)
1,062		**1,398**
297	At the statutory income tax rate of 28%	391
-	Current income tax - Australia	123
-	Adjustments in respect of NZ current income tax of previous years	315
-	Adjustments in respect of Australian current income tax of previous years	129
(98)	Losses recognised	(1,209)
126	Permanent differences	(124)
1	Overseas withholding tax	-
326	**Aggregate income tax expense / (income)**	**(375)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

4. INCOME TAX (CONTINUED)

Unrecognised temporary difference

The group has tax losses ($000's) of $19,180 (2013: $21,485) to carry forward to the 2015 income year.

A deferred tax asset of ($000's) $1,546 is being recognised equal to the residual income tax expected for the 2015 and 2016 income tax years (2013: $983). These taxable profits have been assessed as being probable of occurring, allowing the recovery of the recorded deferred tax asset.

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

2013 $000 GROUP AND PARENT		2014 $000 COMPANY
	Imputation credit balance	
2,154	**Balance at the end of the year**	**2,154**

5. CASH AND CASH EQUIVALENTS / BANK OVERDRAFT

2013 $000 GROUP AND PARENT		2014 $000 COMPANY
(2,924)	**Bank / (Bank overdraft)**	**1,053**

Overdraft Facility

During the year The New Zealand Merino Company maintained an overdraft facility with the Westpac Banking Corporation of up to ($000) $2,000. At balance date the overdraft was Nil.

From September 2013 through to June 2014, The New Zealand Merino Company maintained a seasonal funding facility of up to ($000) $14,000. At balance date the seasonal facility drawdown was Nil.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

6. TRADE AND OTHER RECEIVABLES

2013 $000 **GROUP AND PARENT**		2014 $000 **COMPANY**
3,439	Trade and sundry receivables	4,894
75	Prepayments	108
3,514		**5,002**

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

2013 $000 **GROUP AND PARENT**		2014 $000 **COMPANY**
6,445	**Stock of wool**	**1,734**

The cost of inventories recognised as an expense during the year in respect of continuing operations was ($000) $106,000 (2013: $117,000).

The cost of inventories recognised as an expense includes ($000) $50 (2013: $500) in respect of write-downs of inventory to net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

8. PROPERTY, PLANT AND EQUIPMENT

GROUP AND PARENT $000	**Office equipment**	**Leasehold improvements**	**Information technology assets**	**Plant and equipment**	**Total**
Cost and Valuation					
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**
Balance at 1 July 2013	200	155	336	37	728
Additions	16	1	131	4	152
Disposals	(4)	(2)	-	-	(6)
Balance at 30 June 2014	**212**	**154**	**467**	**41**	**874**
Depreciation and impairment losses					
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)**
Balance at 1 July 2013	(32)	(16)	(66)	(2)	(116)
Depreciation for the year	(36)	(15)	(86)	(4)	(141)
Disposals	1	-	-	-	1
Balance at 30 June 2014	**(67)**	**(31)**	**(152)**	**(6)**	**(256)**
Carrying amounts					
At 1 July 2012	186	155	146	19	506
At 30 June 2013	168	139	270	35	612
At 30 June 2014	**145**	**123**	**315**	**35**	**618**

9. DEFERRED TAX

Movements in deferred tax:

2014 $000 **COMPANY**	**Opening balance**	**Charged to income**	**Acquisition / disposal**	**Charged to other comprehensive income**	**Closing balance**
Gross deferred tax asset					
Employee entitlements	83	7	-	-	90
Livestock adjustment	62	25	-	-	87
Other accrual	2	32	-	-	34
Unused tax losses	983	563	-	-	1,546
Derivative financial instruments	-	-	-	(14)	(14)
Total deferred tax asset	1,130	627	-	(14)	1,743

The deferred tax benefit relating to tax losses carried forward has been recognised based on the financial forecasts for the 2015 and 2016 income tax years.

2013 $000 **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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

10. INVESTMENT IN ALPINE ORIGIN MERINO LIMITED

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

	$000 Total assets	$000 Total liabilities	$000 Revenues	$000 Profit/(loss)
AOML	698	-	578	230
Ownership 50%	349	-	289	115

Movements in carrying value of AOML

2013 $000 **GROUP AND PARENT**		2014 $000 **COMPANY**
-	Balance as at 1 July 2013	234
100	Original investment	-
134	Share of profit/(loss)	115
234	**Balance as at 30 June 2014**	**349**

A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. AOML is jointly owned by The New Zealand Merino Company Limited (50%), and Silver Fern Farms Limited (50%). AOML is focused on the marketing of fine wool sheep meat.

There are no known risks associated with the investment in AOML as at 30 June 2014.

11. INTANGIBLE ASSETS AND GOODWILL

GROUP AND PARENT
$000

	Goodwill	Trademarks	Computer software	Total
Cost				
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**
Balance at 1 July 2013	5,631	255	194	**6,080**
Acquisitions	-	38	33	71
Disposals	-	-	-	-
Balance at 30 June 2014	**5,631**	**293**	**227**	**6,151**
Amortisation				
Balance at 1 July 2012	**-**	**-**	**-**	**-**
Amortisation for the year	-	(33)	(59)	(92)
Disposals	-	-	-	-
Balance at 30 June 2013	**-**	(33)	(59)	(92)
Balance at 1 July 2013	-	(33)	(59)	(92)
Amortisation for the year	-	(36)	(88)	(124)
Balance at 30 June 2014	**-**	**(69)**	**(147)**	**(216)**
Carrying amounts				
At 1 July 2012	5,631	238	116	5,985
At 30 June 2013	5,631	222	135	5,988
At 30 June 2014	**5,631**	**224**	**80**	**5,935**

11. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

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.

Goodwill has been assessed for impairment by discounting the cash flows expected to occur in the cash generating unit to which the goodwill is allocated (being the company) at a post-tax WACC of 13% and a terminal value growth rate of 0%. The analysis is sensitive to both assessed earnings and discount rate, however no reasonably expected variation to those adopted results in any projected impairment.

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.

12. TRADE AND OTHER PAYABLES

2013 $000 GROUP AND PARENT		2014 $000 COMPANY
2,698	Trade payables	3,088
719	Employee entitlements	867
3,417		**3,955**

Related party payables are detailed in Note 18.

13. TERM LOANS

2013 $000 GROUP AND PARENT		2014 $000 COMPANY
591	Current portion loan Merino New Zealand Incorporated	479
925	Current portion loan Westpac Banking Corporation	925
1,516		**1,404**
309	Long term loan Merino New Zealand Incorporated	-
1,851	Long term loan Westpac Banking Corporation	926
2,160		**926**

Security

On 18 July 2011 the company entered into a term loan with Merino New Zealand Incorporated for ($000) $900.

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 2014 is 6.4% per annum (2013: 5.7%). 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 ($000) $591 of the term loan would be repaid by The New Zealand Merino Company Limited in the year ending 30 June 2014, and that Merino New Zealand Incorporated would use the repaid loan to fund the footrot research.

In 2014 The New Zealand Merino Company Limited agreed to defer a portion of the planned repayment of the loan until the 2015 year due to delays with the footrot research programme.

A further funding arrangement has been signed in July 2014. The remaining balance of the loan will be repaid by The New Zealand Merino Company Limited over the next 12 months, and Merino New Zealand Incorporated will use these additional funds to further footrot research.

On 29 June 2011 the company entered into a term loan with Westpac Banking Corporation for ($000) $4,000. 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 2014 is 5.9% per annum (2013: 5.2%).

The facilities were secured by a General Security Agreement over the assets and undertakings of The New Zealand Merino Company Limited.

14. FINANCIAL INSTRUMENTS

Fair value estimation

The table below analyses financial instruments carried at fair value, by the level of fair value hierarchy. The different levels have been defined as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

(ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's assets and liabilities that are measured at fair value.

2014 $000 **COMPANY**	**Level 1**	**Level 2**	**Level 3**	**Total balance**
Assets				
Forward currency contracts	-	51	-	51
Total assets	**-**	**51**	**-**	**51**
Liabilities				
Forward currency contracts	-	-	-	-
Interest rate swap	-	-	-	-
Share based arrangements provision	-	-	652	652
Total liabilities	**-**	**-**	**652**	**652**

14. FINANCIAL INSTRUMENTS (CONTINUED)

2013 $000 GROUP AND PARENT	Level 1	Level 2	Level 3	Total Balance
Assets				
Forward currency contracts	-	-	-	-
Total assets	**-**	**-**	**-**	**-**
Liabilities				
Forward currency contracts	-	63	-	63
Interest rate swap	-	22	-	22
Share based arrangements provision	-	-	363	363
Total liabilities	**-**	**85**	**363**	**448**

The share based arrangement provision has been valued using a discounted cash flow model, assuming a continuation of current earnings, a 50% likelihood of the option being exercised, and a post tax discount rate of 13%.

A sensitivity analysis has been completed; a 10% increase in earnings together with a 10 percentage point increase in the likelihood of the option being exercised would increase the fair value of the liability to ($000's) $827.

A 10% decrease in earnings together with a 10 percentage point decrease in the likelihood of the option being exercised would decrease the fair value of the liability to ($000's) $492.

There were no transfers between levels during the period.

The nominal value ($000's) of forward currency contracts (cash flow hedges) outstanding at balance date was $440 (2013: $909).

The notional amount ($000's) of the interest rate swap at balance date was $1,369 (2013: $2,062).

Future cash flows are based on bank derived mark to market valuations. The credit risk on forward currency contracts with Westpac Banking Corporation as at 30 June 2014 is assessed as Nil.

14. FINANCIAL INSTRUMENTS (CONTINUED)

(i) Financial risk and capital management

The Company'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 2014 (2013: $Nil).

The Company has a long-term loan of ($000) $1,900 with a current portion of ($000) $900 and maintains an overdraft facility of ($000) $2,000 with Westpac Banking Corporation as at 30 June 2014.

The Company has a loan of ($000) $500 (all of which is current) 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 Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the entity's policies approved by the Board of Directors, which provide written principles on the use of derivative financial instruments.

(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 Company from adverse movements in wool prices where the Company has open sales contract positions.

In 2014 there were no wool futures contracts in place.

14. FINANCIAL INSTRUMENTS (CONTINUED)

(iv) Currency risk

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

The Company 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 Company'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:

	GROUP AND PARENT 2013 $000		COMPANY 2014 $000	
	Notional principal amount	**Fair value**	**Notional principal amount**	**Fair value**
AUD Sell				
Not later than 1 month	105	-	212	-
30-90 days	116	-	285	15
90-365 days	662	8	860	46
1 year to 5 years	-	-	-	-
	883	8	1,357	61
AUD Buy				
Not later than 1 month	-	-	(530)	(5)
30-90 days	-	-	-	-
90-365 days	(716)	(53)	(427)	(3)
1 year to 5 years	-	-	(241)	(1)
	(716)	(53)	(1,198)	(9)
USD Sell				
Not later than 1 month	184	(4)	281	(1)
30-90 days	558	(14)	-	-
90-365 days	-	-	-	-
1 year to 5 years	-	-	-	-
	742	(18)	281	(1)
	909	**(63)**	**440**	**51**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

14. 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 Company. Financial assets, which potentially subject the Company to concentration of credit risk, consist principally of cash, bank balances, trade and other receivables, and advances to subsidiaries. The Company's cash equivalents are placed with high credit quality financial institutions.

The 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 entity's exposures are continuously monitored. The entity measures credit risk on a fair value basis.

Trade and Other Receivables consist of a small number of customers. Approximately 33% of Trade and Other Receivables are due from one customer.

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:

	2013 $000 GROUP AND PARENT	2014 $000 COMPANY
Trade and other receivables	3,514	5,002
Total credit risk	**3,514**	**5,002**

Collateral and other credit enhancements obtained

The Company does not hold any collateral as security over trade and other receivables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

14. 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.

	2013 $000 **GROUP AND PARENT**	2014 $000 **COMPANY**
Current	3,458	4,994
31 – 60 days	52	8
61 – 90 days	-	-
Over 90 days	4	-
	3,514	**5,002**

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 Company may be affected by changes in the general level of interest rates.
The 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 Company's interest-bearing financial instruments was:

	2013 $000 **GROUP AND PARENT**		2014 $000 **COMPANY**	
	Notional principal amount	**Fair value**	**Notional principal amount**	**Fair value**
Fixed rate instruments	2,062	(22)	1,369	-
Variable rate instruments	714	-	961	-
	2,776	**(22)**	**2,330**	**-**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

14. FINANCIAL INSTRUMENTS (CONTINUED)

(vi) Interest rate risk (continued)

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

2014 $000 **COMPANY**	**Year end interest rate**	**Less than 1 year**	**1-2 years**	**2-6 Years**	**Non-interest bearing**	**Total**
Financial assets						
Trade and other receivables		-	-	-	5,002	5,002
Bank		-	-	-	1,053	1,053
Derivative financial instruments		-	-	-	51	51
		-	**-**	**-**	**6,106**	**6,106**
Financial liabilities						
Trade payables		-	-	-	3,955	3,955
Term loan Westpac Banking Corporation	5.90%	925	926	-	-	1,851
Term loan Merino New Zealand Incorporated	6.40%	479	-	-	-	479
Share based arrangements provision		-	-	-	652	652
		1,404	**926**	**-**	**4,607**	**6,937**

14. FINANCIAL INSTRUMENTS (CONTINUED)

(vi) Interest rate risk (continued)

2013 $000 **GROUP AND PARENT**	**Year end interest rate**	**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%	925	1,851	-	-	2,776
Term loan Merino New Zealand Incorporated	5.70%	591	309	-	-	900
Share based arrangements provision		-	-	-	363	363
		4,440	**2,160**	**-**	**3,865**	**10,465**

14. FINANCIAL INSTRUMENTS (CONTINUED)

(vii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company 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 Company has the ability to meet financial obligations as they fall due.

The following contractual maturities tables detail the Company's exposure to liquidity risk:

2014 $000 **COMPANY**	**Less than 1 year**	**1-2 years**	**2-6 years**	**Total**
Financial assets				
Trade and other receivables	5,002	-	-	5,002
Bank	1,053	-	-	1,053
Derivative financial instruments	51	-	-	51
	6,106	**-**	**-**	**6,106**
Financial liabilities				
Trade payables	3,955	-	-	3,955
Term loan Westpac Banking Corporation	1,006	951	-	1,957
Term loan Merino New Zealand Incorporated	497	-	-	497
Share based arrangements provision	-	-	652	652
	5,458	**951**	**652**	**7,061**

14. FINANCIAL INSTRUMENTS (CONTINUED)

(vii) Liquidity risk (continued)

2013 $000 **GROUP AND PARENT**	**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
Share based arrangements provision	-	-	363	363
	7,942	**1,851**	**672**	**10,465**

14. FINANCIAL INSTRUMENTS (CONTINUED)

(viii) Categories of financial instruments

2014 $000 **COMPANY**	**Loan & receivables**	**Financial assets / liabilities at FV**	**Financial liabilities at amortised cost**	**Total**
Assets				
Trade and other receivables	5,002	-	-	5,002
Bank	1,053	-	-	1,053
Derivative financial instruments	-	51	-	51
	6,055	**51**	**-**	**6,106**
Liabilities				
Trade Payables	-	-	3,955	3,955
Term Loan Westpac Banking Corporation	-	-	1,851	1,851
Term loan Merino New Zealand Incorporated	-	-	479	479
Share based arrangements provision	-	410	242	652
	-	**410**	**6,527**	**6,937**

14. FINANCIAL INSTRUMENTS (CONTINUED)

(viii) Categories of financial instruments (continued)

2013 $000 GROUP AND PARENT	Loan & receivables	Financial assets / liabilities at FV	Financial liabilities at amortised cost	Total
Assets				
Trade and other receivables	3,514	-	-	3,514
	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
Share based arrangements provision	-	154	209	363
	-	**239**	**10,226**	**10,465**

15. SHARE CAPITAL

2013 $000 GROUP AND PARENT		2014 $000 COMPANY
	Paid in share capital comprises:	
1,458	Opening balance	1,601
143	Share based arrangements	80
1,601		**1,681**

16. RETAINED EARNINGS AND RESERVES

Retained Earnings

2013 $000 GROUP AND PARENT		2014 $000 COMPANY
5,072	Opening balance	5,942
870	Profit after tax	1,888
5,942		**7,830**

Cash Flow Hedge Reserve

2013 $000 GROUP AND PARENT		2014 $000 COMPANY
-	Opening balance	(85)
(85)	Gains / (losses) for the year	122
(85)		**37**

17. RECONCILIATION OF CASH FLOWS WITH REPORTED NET PROFIT

2013 $000 GROUP AND PARENT		2014 $000 GROUP AND PARENT
870	Profit after tax	1,888
	Non cash items:	
(134)	Share of associates retained surplus	(115)
(72)	Unrealised financial derivative loss / (gain)	-
116	Depreciation	141
28	Loss / (gain) on sale of fixed assets / intangible assets	5
92	Amortisation of intangible assets	124
326	Movement in deferred tax	(627)
357	Share based arrangements expense	369
(25)	Other non cash items	-
	Working capital:	
(3,626)	(Increase) / decrease in inventory	4,711
2,417	(Increase) / decrease in accounts receivable / prepayments	(1,488)
315	Increase / (decrease) in accounts payable	538
664	**Net cash from operating activities**	**5,546**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

18. RELATED PARTY DISCLOSURES

The following investments / balances existed between The New Zealand Merino Company Limited and related parties as at 30 June 2014.

2013 $000 GROUP AND PARENT		2014 $000 COMPANY
234	Investment in Alpine Origin Merino Limited	349
11	Receivable from Alpine Origin Merino Limited	1

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 2014 was $1,293 (2013: $1,117). Key management personnel refers to the Chief Executive Officer and three direct management reports to the Chief Executive Officer. This does not include fees paid to directors.

Refer to note 23 for details of management share based arrangements.

19. COMMITMENTS

Capital Commitments

The Company had no capital commitments as at 30 June 2014 (2013: $Nil).

In respect of its interest in the Alpine Origin Merino Limited joint venture (refer Note 10), the joint venture had no capital commitments as at 30 June 2014.

Operating Lease Commitments

Non-cancellable operating lease rentals are payable as follows:

2013 $000 **GROUP AND PARENT**		2014 $000 **COMPANY**
412	Not later than one year	436
350	Later than one year but not later than two years	124
75	Later than two years but not later than five years	38
-	Later than five years	-
837		**598**

20. EVENTS AFTER BALANCE DATE

There are no significant events post balance date.

21. AUDITOR'S REMUNERATION

The auditor of the Company is Deloitte.

Amounts paid or payable to Deloitte during the year were:

2013 $000 **GROUP AND PARENT**		2014 $000 **GROUP AND PARENT**
22	Audit of the financial statements	22
35	Assurance and advisory	-
57		**22**

22. CONTINGENCIES

The Company had no contingent liabilities as at 30 June 2014 (2013: $Nil)

In respect of its interest in the Alpine Origin Merino Limited joint venture (refer Note 10), the joint venture had no contingent assets or liabilities as at 30 June 2014.

23. SHARE BASED ARRANGEMENTS

On 30 September 2011 the company entered into an arrangement with the chief executive and three other key management personnel whereby shares in the company were issued to them in consideration for them foregoing their notional dividend / profit share schemes with NZM.

These shares have restrictions on them which limit the quantity of shares able to be sold over time and the price at which these shares can be sold. As part of these restrictions, and given the limited liquidity in NZM shares, the agreement with the management shareholders allows them to require the company to buy-back a percentage of the shares at certain dates in the future at the fair value of those shares.

The following share-based arrangement was in existence during the current and prior years;

	Number of shares issued	Issue price	Vesting schedule	Percentage able to be sold back to company	Minimum shareholding while an employee
30/09/2011	602,342	$1.48	25%	-	25%
1/07/2012	-	-	10%	-	35%
1/07/2013	-	-	20%	-	55%
1/07/2014	-	-	20%	-	75%
1/07/2015	-	-	20%	-	50%
1/07/2016	-	-	5%	50%	50%
1/07/2017	-	-	-	75%	50%
1/07/2018	-	-	-	100%	50%

Up until 30 June 2015, the minimum shareholding held by employees in the scheme must be the lower of the shares vested or 75%. From 1 July 2015 the minimum shareholding held by employees in the scheme reduces to 50%.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

23. SHARE BASED PAYMENT (CONTINUED)

The buy-back value per share is to be calculated based on the following formula:

Value per Share	Total Equity Value / Total Shares on Issue
Total Equity Value	Enterprise Value Less Term Debt Plus Surplus Cash
Enterprise Value	Assessed Earnings x Earnings Multiple
Assessed Earnings	Average of last three years EBIT The last two financial years (audited accounts) The budget / reprojected EBIT in year of notice
Earnings Multiple	5

Any vested shares are able to be sold on the open market as with other shareholders.

In line with the share based arrangement terms no payments under the arrangement were made in the year ended 30 June 2014. (2013: $Nil)

Fair Value of share based arrangements

The fair value of share based arrangements as at 30 June 2014 is ($000's) $652. This has been calculated based on management's best estimate for the effects of the exercise restrictions, future earnings of the company and other considerations.

The share based arrangement provision has been valued using a discounted cash flow model, assuming a continuation of current earnings, a 50% likelihood of the option being exercised, and a post tax discount rate of 13%. A sensitivity analysis has been completed; a 10% increase in earnings together with a 10 percentage point increase in the likelihood of the option being exercised would increase the fair value of the liability to ($000's) $827. A 10% decrease in earnings together with a 10 percentage point decrease in the likelihood of the option being exercised would decrease the fair value of the liability to ($000's) $492.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

23. SHARE BASED PAYMENT (CONTINUED)

Prior Years

When the shares were issued to management in the 2012 financial year the costs associated with the issue were expensed and an increase in equity was recorded. A further review of the nature and detail of the scheme for accounting purposes has determined that it falls within the scope of IFRS 2 Share Based Payments and NZ IAS 32 Financial Instruments, and that the initial allocation should have been split between an equity and liability portion, with the fair value of the liability portion recalculated and revalued at each subsequent balance date. The fair value of the liability at each balance date is the net present value of the company's best estimate of what the potential future liability under the arrangement may be, based on assumptions and conditions prevailing at that time. The estimate is sensitive to future earnings, the likelihood of the option being exercised and the discount rate.

An adjustment has been recorded within the 2014 financial accounts to reflect the impact of the share based arrangement. A portion of this adjustment relates to years prior to 30 June 2014. The 2013 comparative numbers have been adjusted as shown below:

	Original balance as authorised	Adjustment amount	Restated balance
Impact on Statement of Changes in Equity as at 1 July 2012 and 30 June 2013			
Equity			
Retained earnings 1 July 2012	4,694	378	5,072
Profit / (loss) after tax 30 June 2013	1,227	(357)	870
Retained earnings 30 June 2013	5,921	21	5,942
Share capital 1 July 2012	1,985	(527)	1,458
Share capital 30 June 2013	1,985	(384)	1,601
Impact on Statement of Financial Position as at 30 June 2013			
Equity			
Retained earnings	5,921	21	5,942
Share capital	1,985	(384)	1,601
Share based arrangements provision	-	363	363
Impact on Statement of Comprehensive Income for the year ended 30 June 2013			
Share based arrangements	-	357	357

AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Deloitte.

INDEPENDENT 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 on pages 13 to 52, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement 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 are 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, we have no relationship with or interests in The New Zealand Merino Company Limited.

OPINION

In our opinion, the financial statements on pages 13 to 52:

- 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 as at 30 June 2014, and its financial performance and its cash flows for the year ended on that date.

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 2014:

- 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 appears from our examination of those records.

Deloitte

CHARTERED ACCOUNTANTS
12 September 2014
Christchurch, New Zealand

STATUTORY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2014

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:

	2014 $000
Base salary:	352
Annual bonus:	161
Kiwisaver:	21

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)	2014 **Number**
$100 - $110	7
$120 - $130	3
$130 - $140	1
$140 - $150	3
$170 - $180	1
$230 - $240	2
$310 - $320	1
$540 - $550	1

STATUTORY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

Directors Holding Office During the Year

The following directors held office during the year ending 30 June 2014:

	Originally Appointed	Resigned
Alan McConnon	1/07/2012	17/06/2014
Susan Peterson	1/07/2013	-
Ben Aubrey	14/10/2011	-
Ross Ivey	14/10/2011	-
Anthony Jopp	14/10/2011	-
Ruth Richardson	12/10/2012	-
Matanuku Mahuika	17/06/2014	-

Directors' Remuneration

Remuneration paid to directors during the year was:

	2014 $000
Alan McConnon	56
Susan Peterson	29
Ben Aubrey	29
Ross Ivey	29
Anthony Jopp	29
Ruth Richardson	29
Matanuku Mahuika	-
	201

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 2014 (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

Ross Ivey

Director & Shareholder	Glentanner Station Limited
Director & Shareholder	Glentanner Park (Mount Cook) Limited

Anthony Jopp

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

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
Director	Alpine Origin Merino Limited
Director	Tracmap Group

Entries in the Company's Interests Register (continued)

Ruth Richardson

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

Susan Peterson

Director & Chair of Audit Committee	Wynyard Group Limited
Tribunal Member	New Zealand Markets Disciplinary Tribunal
Board Member	IHC Incorporated Society
Strategic Advisory Board Member	New Zealand Heart Foundation
Ministerial Appointee	National Advisory Council for the Employment of Women
Director & Chair of Audit Committee	Vista Group International Limited
Director	Scribe NZ Limited

Matanuku Mahuika

Partner	Kahui Legal
Director	Ngati Porou Windfarms Limited
Director	NPWF Holdings Limited
Director	Tuku Korero (2006) Limited
Director	JP Ferguson Trustee Company Limited
Chairman	Sealord Group Limited
Director	Kura Limited
Board Member	New Zealand Geographic Board
Chairman	Ngati Porou Holding Company Limited

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