The New Zealand Merino Company Limited
Annual Report — 2022

Contents

Omarama Station
Mackenzie Country

Chairman's Report

On behalf of the Board, I'm delighted to update you on another successful year at The New Zealand Merino Company Group (NZM).

NZM achieved earnings before interest and tax of $6.9 million for the financial year ended 30 June 2022 (FY2022), an increase of $0.5 million compared with the financial year ended 30 June 2021 (FY2021).

After a prior year dominated by corporate activity (major constitutional reform, a capital raise and a listing on the Unlisted Securities Exchange (USX)), alongside dealing with the challenges of Covid-19, 2022 saw a welcome opportunity to refocus on our strategic priorities.

NZM's listing on the USX has continued to drive steady improvement in liquidity and price over the past year, with 107,000 shares traded and a maximum price of $6.87 achieved. Whilst we are pleased with this progress, we are confident that there is further to go in terms of generating greater liquidity and price discovery and this continues to be a focus. This may include consideration of a listing on the main board of the NZX.

After two years of Covid-19, we were delighted to see restrictions easing around the world and, significantly, the reopening of borders in New Zealand earlier this year. NZM is a company which thrives on relationships and whilst we have been hugely buoyed by the support that we have received from all our partners throughout the 'Zoom' years, the team was delighted to be able to resume face to face contact after such a long time.

An ever-growing appetite from consumers for ethically sourced, natural products, which have a light touch on the environment, shows no sign of abating and this plays to NZM's strengths. We have continued to seek opportunities to enhance our core customer relationships by wrapping our ZQRX regenerative programme around our ethical wool offering, but we have also been delighted by the unprecedented level of enquiry from new brand partners wishing to join us on the journey.

We are also pleased to report very encouraging outcomes from our quest for transformational change in the strong wool industry. Our 7-year Sustainable Food & Fibre Futures Programme in partnership with MPI, W3 Wool Unleashed, came to an end in June this year, with some noteworthy results: 234,000 bales sold resulting in an additional $13.9 million in value captured for strong wool above the market, 80% of bales in Year 7 sold through contract, diverting wool away from the commodity auction market, significant contracts established with key brand partners, including IKEA, Bremworth, Best Wool and Glerups and consultancy work with Bremworth helped them shape their strategic move to 100% natural fibres going forward.

In the face of significantly increased demand for our ethical wool, the need to nurture and develop our supply base has never been so great. Throughout 2022, we have focused on protecting and promoting our core New Zealand offering, continuing to offer our growers high quality long-term contracts and access to the best prices through RWS at auction. The enhancement of our ZQ assurance programme, with the development of the ZQRX framework, has helped to sustain high demand for our wool in a market where good environmental and animal welfare outcomes are increasingly non-negotiable.

With Mike Hargadon's retirement in June, rebuilding the wool team has been a top priority. We were pleased to be able to persuade Matt Hand to join NZM as General Manager Global Supply earlier this year and his skill and experience have already made a significant contribution. He has also been instrumental in starting to develop our supply base of ethical fine wool in Australia, as we start to hit supply constraints in New Zealand.

Our ZQRX framework for on-farm regenerative practice continues to keep us in front of the competition, but we are not complacent. As the world comes to grips with the scale of the environmental crisis that faces it, demand for goods and services that not only do no harm to the planet, but actively regenerate it, will increase dramatically. We are resolved to build out the substance of the ZQRX framework, whilst working with growers and brand partners to ensure that the tools, methodologies and systems are practical, user-friendly and well understood.

In time, we plan to extend the application of the Regenerative Index (RX) to other complementary natural fibre value chains and work continues with several of our brand partners to explore the possibilities of this.

Given the financial performance of the business in FY2022, I'm pleased to advise that the Board has approved the payment of a dividend at the higher end of the range in our Dividend Policy, at 50% of net profit after tax. This will result in a dividend of 41.6 cents per share and will be paid following the Annual Meeting in October.

I would like to congratulate John Brakenridge and the NZM team for another successful year. The company's continued dominance of the ethical wool sector, despite the headwinds of Covid-19, is testament to the team's professionalism, vision and commitment, as well as the long-standing relationships that are NZM's touchstone.

My thanks also go to my fellow directors for their continued stewardship of the business. NZM is an ambitious and fast-moving business, and their experience and counsel has been invaluable as we navigate the challenges ahead of us.

On behalf of the Board, I would like to take this opportunity to acknowledge the continued support of our shareholders and to thank the NZM team all their efforts this year.

Ngā mihi nui,

Kathryn Mitchell
Chairman

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1. **Kathryn Mitchell**
   Chairman
2. **Ben Todhunter**
   Deputy Chairman
3. **Matanuku Mahuika**
4. **Bill Sutherland**
5. **Paul Ensor**
6. **John Penno**
7. **John Brakenridge**
   Chief Executive
8. **Peter Floris**
   Chief Financial Officer

Godley Peaks Station
Canterbury

CEO's Report

Writing this report provides a great moment in time to pause and ensure, as we assemble all the required information, that we are staying on course to our 'True North'.

There are three key lenses we look through as we align those coordinates – firstly, our investor needs and aspirations. Secondly, our stakeholders, especially grower suppliers, brand partners and staff. The third area is best described as 'planet' and aligned to the notion of being a good ancestor – might NZM be considered as such?

One element to do this is eliminating global 'greenwashing' in favour of a highly connective, regenerative impact model utilising modern technology tools but anchored off fundamentals of our traditional approach of building deeply personal relationships from growers to market.

Investor lens
We are particularly delighted to report our third successive record year of profit achievement. In 2020, NZM became a fully liberated business entity, raising capital from existing shareholders and new investors. We were very clear about this investment – it is about investing in a business that is highly ambitious in terms of building enterprise value. This is particularly through profit achievements, dividend yields, wise strategic deployment of capital, business growth, development of talent and a share trading platform that provides for multiples and liquidity that rewards investors. Since listing on the USX, shares sold has increased from around 3,500 to around 107,000 annually. Our share price has gone from $1.00 in 2019, to a list price in 2020 of $3.80, to the last trade for June 2022 year of $6.87.

Stakeholder lens
NZM has shone as a lighthouse demonstrating businesses are able to generate good returns and provide significant value for stakeholders – most notably grower suppliers and brand partners. This almost always has come through the company's vision, preparedness to be disruptive and strategically in front of the curve.

The ZQRX regenerative initiative demonstrates this value – providing for growers' continuity of financial rewards for their wool contracts, building a system to remove the pressures of compliance, leading the world in systems and technology, with the steadfast determination to keep both status and fun for our growers. Where growers are recognised for their 'Heroes' Journey'.

Planet lens
Much has been made about purpose-led organisations. What people want now is proof! Honesty and action are the next big disruptors. Businesses now must step up and demonstrate to their investors and stakeholders demonstrable pathways and improvements! To this end, I want to give a huge shout out to firstly our grower suppliers who have continued to exemplify 'actionists', environmentalists and incredible guardians of the land. It is also such a privilege to work alongside such a passionate team at NZM on this journey.

Our Regenerative Index (RX), as highlighted in the Snapshot, is multifaceted and the sustainability indicators are designed to ensure maximum impact. This model has allowed stakeholders to focus on the key initiatives important to them and take action across lead areas such as biodiversity, carbon, water, soil...

Important also continues to be our social impact, another lead indicator within RX.

For the planet we must empower people with the right tools – these are being built through our joint venture partnership with Actual in California.

Summary
What a pleasure to be able to submit this Annual Report not only recognising a strong financial performance for the year, but more importantly, to clearly demonstrate the great strategic inroads for our shareholders, stakeholders and planet.

Ngā mihi nui,

John B.

John Brakenridge
Chief Executive


icebreaker
2022

Snapshot

NZM Update

- NZM is proud to have welcomed 86 growers in New Zealand and 63 growers in Australia to the ZQ community.
- We farewelled General Manager Supply Innovation and Logistics, Mike Hargadon, into a well-deserved retirement after 21 years with NZM and 50 years in the wool industry.
- CEO John Brakenridge joined Prime Minister Jacinda Ardern's Trade Mission to the United States to reconnect with a key global market alongside other leading New Zealand primary sector business leaders.
- NZM launched the inaugural Intern Director programme for emerging governance leaders within our grower community, and welcomed Joanne Stevenson as the first appointee.
- We were pleased to formalise our partnership with Silicon Valley-based, Actual, to power the platform technology of ZQRX. The platform's initial priority focus is the simplification of net carbon measurement for all ZQRX properties while modelling predictive intelligence for on-farm mitigations.
- Senior Managers Dave Maslen and Ashlan Campbell represented NZM and the wool industry at World Expo 2020 Dubai. With 192 nations participating, the World Expo 2020 Dubai is inspiring collective and meaningful action to address the world's most critical challenges and opportunities.

- NZM held a 'Heroes' Journey' Conference in July 2021 attended in-person by over 620 world-leading growers, shareholders, and New Zealand value chain partners. We were joined by our extensive network of overseas brands and affiliates digitally, all who came together to celebrate our 'actionist' ecosystem and scaling impact for people and planet.
- We appointed European Market Manager, Mackenzie Muir, in the UK and intend to relocate Regenerative Transformation Manager, Donna Chan, to the USA to support global growth and brand outreach, and welcomed 22 new staff members into the NZM whānau.
- To enable the scale and momentum of our regenerative initiative, the NZM Group established an innovative subsidiary, Made for Good RX, to advance the development of the ZQRX regenerative platform. Made for Good RX will be primarily focused on accelerating the impact of the platform for growers and brand partners, while driving the science, substance, narratives and resources towards a scalable offering.

Active Outdoors and Lifestyle Markets

- Brands such as Helly Hansen, Smartwool, icebreaker, Mons Royale and Fjällräven have all experienced record growth in the past twelve months – a direct result of the renewed passion for the active outdoors following tumultuous periods of lockdown.
- Smartwool was recognised in Fast Company's '10 Most Innovative Companies in Corporate Social Responsibility of 2022', for its efforts to be both carbon-neutral and 100% circular by 2030.
- icebreaker reached 95% of its 'plastic-free by 2023' goal and released its 5th comprehensive Transparency Report – 'Nature has the answers'.
- B-Corp certified Rewoolution signed a three-year sponsorship with TorX, one of the most prestigious endurance trail circuits in the world, and launched a collection of Merino baselayer products to showcase the performance qualities of wool in high pressure environments.
- Untouched World received a '2022 Common Objective Top 10' award. The prestigious award recognises just ten international leaders who are at the forefront of sustainable practices.

News from our Brands

- A number of ZQ and ZQRX brand partners were highly rated in the latest 'Animal Welfare in Fashion' report released by Four Paws, in partnership with Good on You. Another Tomorrow, icebreaker, and Smartwool were celebrated among the top 10% of scores.
- ZQRX foundational partner Allbirds was listed in the 'Time 100 Most Influential Companies of 2022'.
- NZM team members attended the VF Corporation Supply and Brand Summit in Singapore in June 2022, followed by the Presidents of icebreaker and Smartwool, among other VF Corporation key executives, travelling to New Zealand and Australia to connect with their grower community.
- ZQRX brand partner Maggie Marilyn achieved B-Corp certification while being identified as a world leader in social and environmental impact.

Luxury and Specialised Markets

- Reda Group became a 'Benefit Company', embodying their commitment to create a material positive impact on society and the environment through responsible operations.
- The Sustainability Hub presented by Greenroom Voice was a unique opportunity for European Market Manager, Mackenzie Muir, to present to attendees at the ISPO Outdoor Event in Munich. Alongside value chain partner, Südwolle, they spoke about this year's focus on traceability & transparency, ZQRX, and the future of regenerative wool.
- Italian luxury brand Loro Piana welcomed new CEO Damien Bertrand, previously Managing Director of Christian Dior Couture.
- John Smedley focused on growth in the Chinese market by conducting a number of digital initiatives for consumers, notably an e-commerce shop on WeChat – the most popular app in China.
- We solidified a partnership with UPW (Hong Kong based leader in woollen yarn production, transparency and efficiency), in an effort to better support our brands accessing ZQ and ZQRX.

Australia

- We expanded our team's reach in Australia by welcoming Matt Hand (General Manager Global Supply) onboard and relocating Emma Subtil (ZQ and ZQRX Relationship Manager) to support the interest, growth and extension of our model.
- We hosted a team from VF Corporation at Mt Hesse Station, including icebreaker brand president Jan Van Mossevelde, and Smartwool brand president Jennifer McLaren, alongside over 100 growers from across Australia.
- Our regional activities included attending open days, field days, ram sales, and workshops throughout the year. We also held our inaugural display at the Australian Sheep and Wool Show in Bendigo along with a shared site at Sheepvention in Hamilton with AWN.

Strong Wool

- Bremworth launched a three-year research initiative and prototype of a fully compostable rug in a bid to drastically reduce the volume of textiles entering landfills, and proudly secured the US contract to supply more than 3,000 square metres of wool carpet for the Brooklyn Tower in New York.
- Glerups growth through the pandemic (suitably coined 'the lockdown shoe') reinforced their significant investment into their new manufacturing facility in Romania, which has the capacity to triple their volumes over the next three years.
- Best Wool celebrates their 40th anniversary this year and continues to experience strong growth due to differentiated branding, enhanced facilities and innovative manufacturing.
- 110-year-old New Zealand brand Swanndri launched in Australia with David Jones' flagship store in Sydney and has been undertaking biodegradation studies in New Zealand on supplier properties to demonstrate their eco-credentials.




Innovation

- Allbirds launched its first regenerative product in-market, a ZQRX capsule collection of accessories made with regenerative wool from Temple Peak Station.
- World leader of worsted yarn spinning, Südwolle, launched its innovation hub, Südwebs. Their mission is to inspire designers and producers in a B2B environment and present new ideas, technologies, collaboration possibilities and products.
- Sheep Inc. won the 'Environmental Innovator of the Year' award at the Positive Luxury Awards 2022, celebrating those who drive a global conversation about the future of luxury. This award recognises brands that have demonstrated innovation within an environmental sustainability initiative.
- Bremworth is transitioning from using natural gas to electric heat pump technology at its Napier wool spinning plant, and is installing a radio frequency dryer to dry woollen yarn in Whanganui in a bid to dramatically reduce its carbon dioxide emissions.
- Shear Edge launched their first product in-market in collaboration with Victory Knives and Ironclad Pan, quickly followed by the Kakapo Kayak in partnership with Torpedo7. Having incubated the business as part of the W3 programme, we are delighted that the inventor Logan Williams will now become the majority owner in the business and will provide new capital to commercialise Shear Edge.
- Te Hono celebrated their 10th year driving the transformation of the New Zealand primary sector from volume to value and being a catalyst for action environmentally, socially, and economically. For a decade, Te Hono has focused on innovation and disruption through 'strengthening relationships by linking to the land and connecting to the world'.


ZQ / ZQRX

- Version 5.0 of the ZQ accreditation programme launched with updates to align to consumer demands and ensure our ZQ growers remain forefront in industry leadership around environmental integrity, social responsibility and animal welfare.
- As at 30th June 2022, we are pleased to report 499 growers signed up to ZQRX across New Zealand and Australia, 249 of which have had their initial baseline assessment against the index. Our New Zealand ZQRX growers represent over 2 million hectares of land – equivalent to over 15% of New Zealand's pastoral land.
- A Textile Exchange published landscape analysis of regenerative programmes identified ZQRX as a global leader and one of the few that take an outcomes-based approach.
- In June 2022, the partnership between ZQRX and the Savory Institute's Land to Market programme was formalised. The Savory Institute's Ecological Outcome Verification (EOV) is being used to quantify progress in the ZQRX Land KPI. Global outreach and awareness were amplified by the significant investment from VF Corporation to support the roll-out of EOV on-farm to monitor and improve land health.
- ZQRX was recognised in leading global publications such as Forbes, Glossy, Fast Company, TechCrunch, Tag24 and Sourcing Journal.
- In October 2021, we launched our quarterly ZQRX Brand Hui – an online event created to connect our global ZQRX brand partners and provide updates and insights on the programme. Since the launch, we have had over 200 attendees on the calls from over 25 brands.

Production Science

- In November 2021, alongside neXtgen Agri, NZM ran genetics workshops for stud and commercial breeders to build skills around genetic decision making.
- The ninth group of progeny were born at the Central Progeny Test (CPT) site at Mt Grand. Since birth, their lifetime production data has been recorded for inclusion in the trans-Tasman Estimated Breeding Value (EBV) database, providing extensive data and linkage for the associated studs.
- NZM supported the neXtgen Muster, an event run at Glenthorne Station, which upskilled young people in the industry in a range of topics, such as genetic selection, forage assessment and mental wellbeing.
- Over time, the industry has shifted towards a decentralised data contribution model, where the driving force behind the fine wool industry's EBVs is coming from data collected in stud flocks at home rather than at the CPT, which is a credit to the fine wool stud breeders. The 2021-born CPT sheep are the last group of CPT sheep to be managed by NZM, due to the shift away from reliance on the CPT for EBV generation.

Silere

- In a record year, Silere suppliers have delivered circa 192,000 lambs into the programme – an impressive 29% increase on the previous year.
- A new partner in Malaysia has added significant value to the programme by increasing carcass utilisation and supporting expansion within the Asia market.
- Online platform, Ocado, in the UK continued to drive product demand from discerning customers, delivering consumer ratings over 90%.
- We are anticipating a further increase in supply will be required to meet growth in the China market.

Glerups New Zealand

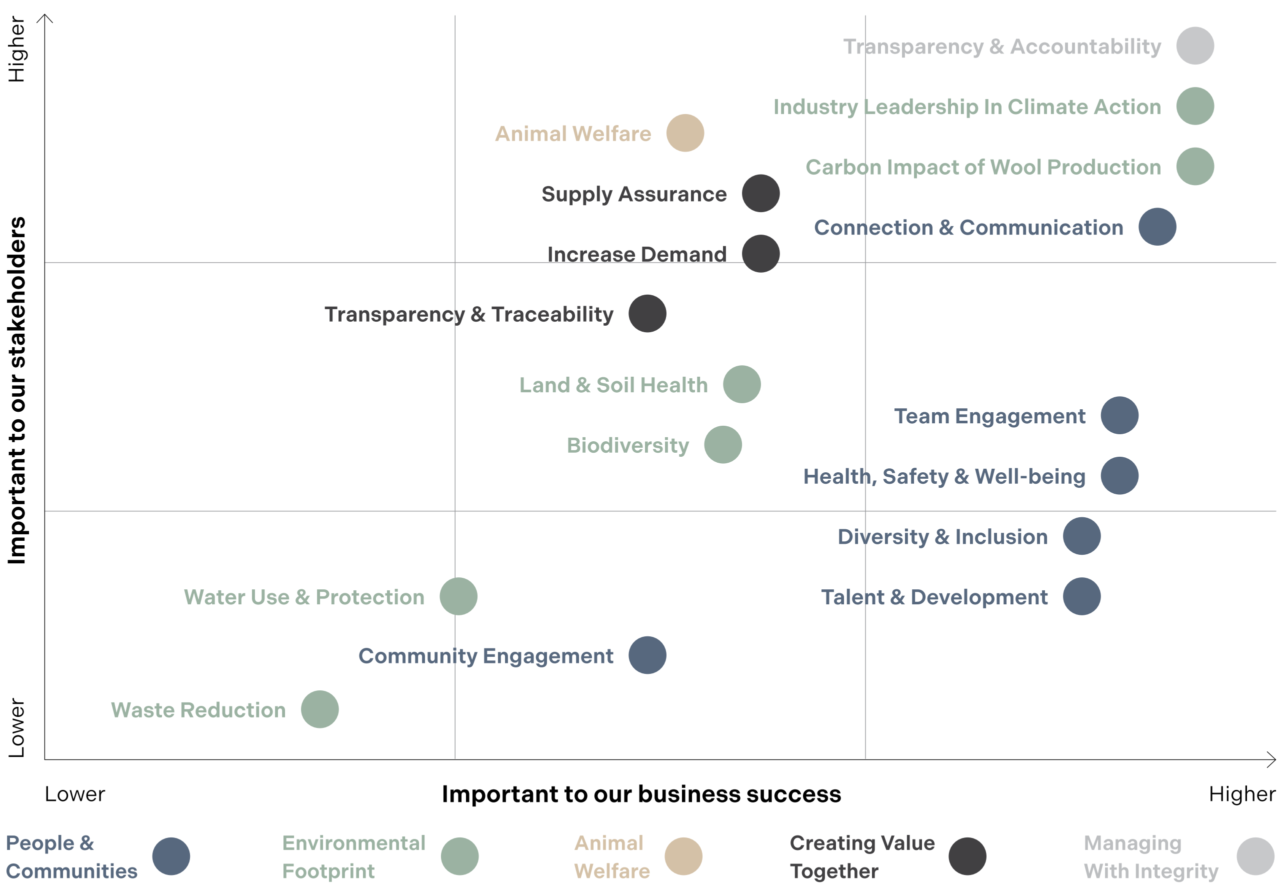
- Glerups New Zealand online sales increased significantly, reporting a 200% growth rate year-on-year.
- We extended distribution into Australia for online customers and expect this sales channel to grow considerably over the coming year.
- Glerups were proudly featured as the 'Best Women's Wool Slippers' in New York Magazine, and one of the 'Best Slippers for Men in 2022' in the globally read Men's Journal.

ESG Impact Report Summary

We are pleased to release our first public facing ESG Report alongside our Annual Report for FY2022. 'Environmental, Social & Governance' (ESG), is an important business lens for measuring progress in sustainable development. Since the inception of our business 25 years ago, sustainability has been central to our business strategy and our core differentiation in the market. As a purpose-driven business, we are proud to be formalising this work through deeper stakeholder engagement and reporting in this financial year.

Vital to developing our ESG strategy was the completion of a materiality assessment to help identify the most important environmental, social and governance topics for our company. The creation of this report included a total of 131 surveys and 47 interviews with our growers, brand partners, supply chain partners, as well as our board, executive team, shareholders, and employees. As a part of this process, we also conducted a benchmarking assessment that helped us understand the current and emerging global ESG trends in the agricultural sector and how we are positioned to meet these.

Materiality Matrix



Highlights from FY2022 ESG Impact Report include:

- **Global roll out of ZQRX - the world's first regenerative wool platform**
- **NZM's first net emissions Life Cycle Assessment, reporting 40% reductions in on-farm net emissions footprint (included both sources and sinks on-farm)**
- **Quantifying NZM's carbon footprint**
- **The first ZQRX reduced-carbon product in market**
- **NZM's first ZQRX farm achieving carbon zero certification as verified by Toitū Envirocare**
- **NZM's strategic partnership with Silicon Valley-based company, Actual, to power the technology behind the Made for Good RX platform**
- **NZM's strategic partnership with Savory Institute's Land to Market programme**
- **Establishment of the NZM Australia team, expanding the ZQ supply base**

In terms of the current ESG landscape, we know that climate action is paramount: decarbonisation remains a key focus for our business and our efforts to support our growers. We have measured our own carbon footprint this year and we will be designing projects to reduce our emissions in the coming year. Enhancing biodiversity is equally an immediate priority within our areas of impact, recognising the potential for cascading benefits across other environmental spheres. The ZQRX Regenerative Index creates a way of measuring progress over time across these and other sustainability indicators as NZM growers strive for better outcomes on-farm.

The proliferation of ESG-related standards in agriculture, health, finance, etc., means increasing scrutiny of these ESG-related standards and claims. Moreover, consumers want to know that they can trust the products they buy. Our ZQ programme continues to lead the industry in the ethical wool space and ZQRX positions us well to lead the industry in regeneration. We are committed to ensuring our growers and our brand partners continue to lead the way.

Our next steps will be formalising our ESG strategy, along with setting goals and targets, and outlining accountabilities. We will report on our updated ESG strategy and our progress working towards these goals in the next iteration of our ESG Impact Report. We look forward to continually reporting on our ESG journey on an annual basis.

We know our team is deeply committed to driving sustainability outcomes for our growers, our brands and our business. We are committed to using this framework and the critical insights gained through the materiality process to drive improvements across our business.

Our 2022 ESG Impact Report has been prepared on the basis of the Global Reporting Initiative (GRI) – Core Option, and reflects the material issues raised by our stakeholders. The ESG Impact Report is available for download on our website: The New Zealand Merino Company (nzmerino.co.nz).

CFO's Report

Highlights

$6.9 million ^8%
EBIT[1]

$7.5 million ^18%
Trading EBIT[2]

$4.4 million ^3%
NPAT

135,000 ^30%
Bales Sold

[1] EBIT is profit before income tax with net finance costs added back

[2] Trading EBIT is EBIT with share-based arrangements costs added back

Summary

The NZM Group has completed another very successful financial year with record volumes of bales sold and record earnings.

The catalyst for this has been the foundation laid in the previous financial year where in the face of the threat of Covid-19 we developed our ZQRX initiative to respond to the emerging trend of conscious consumers demanding the adoption of regenerative agricultural practices and the highest standards of ethical production for products they are purchasing.

This positioning has resonated strongly with the market, our brand partners, and our growers and has driven the very good growth in demand seen during the year.

Business Performance

The NZM Group has recorded earnings before interest and tax (EBIT) of $6.9 million, an increase of 8% on the previous year, and an increase of 82% on the PDS prospective financial information. This is now the third consecutive record profit performance for the business. Over the past five years the business has delivered a compound annual growth rate (CAGR) in EBIT of 13.3%.

EBIT includes provisions relating to share-based arrangements, if these are excluded underlying trading EBIT was $7.5 million, an increase of 18% on the previous year.

On a net profit after tax basis the result is $4.4 million, an increase of 3% on the previous year.

This result represents a post-tax return on year-end shareholder equity for the year of 14.2%.

Bales sold volumes for the year increased by 31,000 bales or 30%, with good growth in both fine wool and strong wool volumes. Fine wool volumes increased by 22,000 bales or 39% to 79,000 bales, while strong wool volumes increased by 9,000 bales or 19% to 56,000 bales.

On the back of these sales volumes total operating revenue increased to $197 million, a 44% lift on the previous year. Gross profit increased by 20% to $22.5 million. The overall reduction in the gross profit percentage in the 2022 financial year is a result of the back to back nature of contracts entered into during the year and the prices paid to growers.

During the year the Group procured a significant volume of wool out of Australia and South Africa to support the growth in market demand. In the last quarter of the financial year however a ban on shipping South African procured wool to China due to foot and mouth concerns meant we had around $8 million of South African wool that we had to hold in store. This has impacted negatively on our year-end inventory balances and on our operating cash flows for the year.

In recent weeks, the impasse between the South African and Chinese authorities has been resolved and this wool can now again be utilised to fulfil brand partner requirements and shipped to China for processing.

The capital raise undertaken in the 2021 financial year and the strong results of recent years have underpinned the Group's financial strength.

Year-end equity as a percentage of total assets is a healthy 61%, down slightly on the 67% recorded in the prior year due to the high inventory levels resulting from the South African situation.

Dividend

Balancing the strong financial performance of the business with the need to invest in our growth initiatives, the Board has determined that a dividend of 50% of after-tax profits should be paid to shareholders. This equates to a dividend of 41.6 cents per share.

The dividend will be fully imputed and will be paid on 4 November 2022.

Based on the year-end share price of $6.87 the dividend represents a yield of 6.1%.

Share Trading

We continue to see moderate volumes of NZM shares being traded on the Unlisted Securities Exchange (USX).

Over the course of the year 107,000 shares were traded with shares trading in a range of $4.50 to $6.87. The closing price on 30 June 2022 was $6.87. This volume compares to 135,000 shares traded in the seven months NZM shares were listed on the USX in the previous financial year.

While this level of activity and pricing is a significant improvement on the pre-USX listing activity, there is still some way to go before shares can be considered fully liquid.

Outlook for 2022/23

Our expectation is that the strong bale growth we have seen in recent years will continue in the 2022/23 financial year and this will impact positively on earnings. This will be enabled through investing further in our ZQRX initiative and in deepening our presence in the Australian procurement market to support this growth.

CFO's Report (continued)

Offsetting this however are a number of key factors that are expected to impact negatively on earnings, including:

- The cessation of the Sustainable Food and Fibre Futures funding for our strong wool initiatives on 30 June 2022. This provided $2.2 million of income in the 2021/22 financial year;
- Significant cost increases across the board driven by global inflationary pressures and exacerbated by increased market travel now that international borders have reopened; and
- The level of investment being committed to the ZQRX and Australian initiatives to drive further earnings lifts in out years.

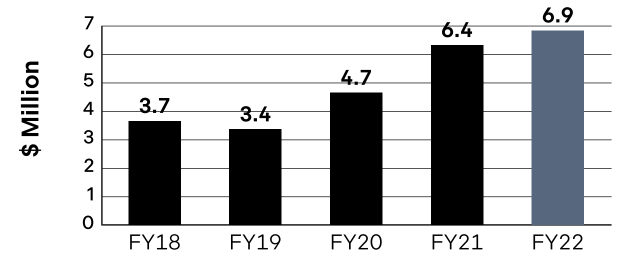
Our expectation therefore is for earnings in the 2022/23 financial year to be a little softer than in the previous financial year with a budgeted EBIT in the range of $5.8 to $6.4 million.

Ngā mihi nui,

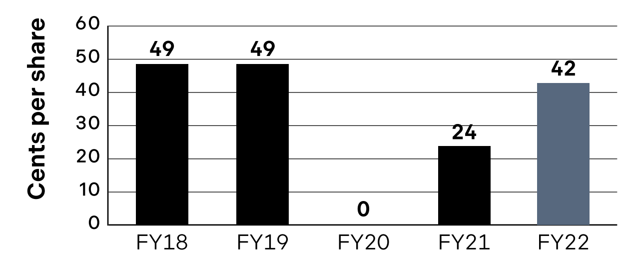
Peter Floris
Chief Financial Officer

Key Financial Information - 5 Year Trends

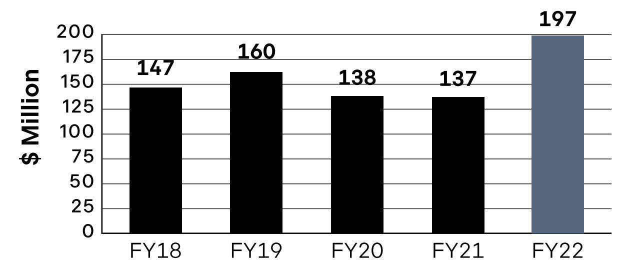
Earnings before interest and tax



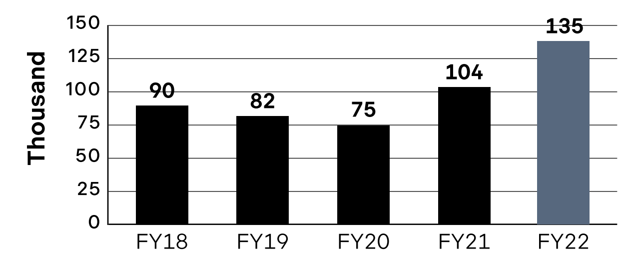
Dividend declared



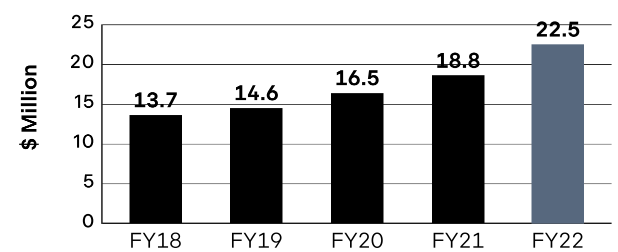
Operating revenue



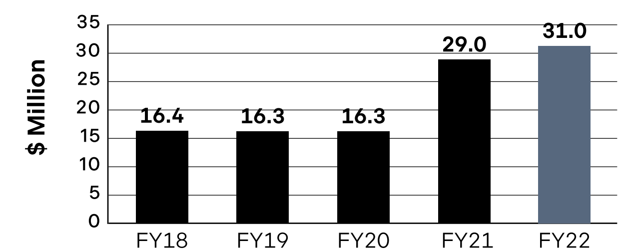
Bales sold



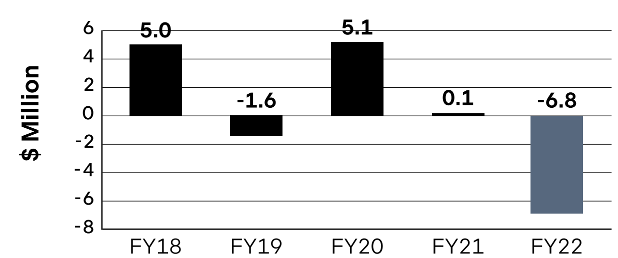
Gross profit



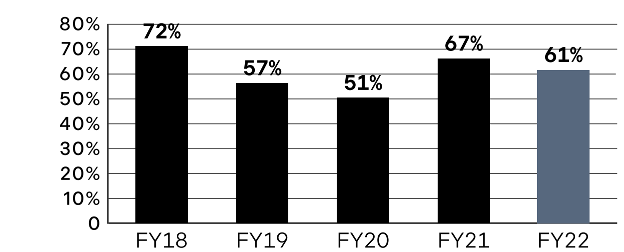
Total equity



Operating cash flow



Equity as a percentage of total assets



Group Directory

As at 30 June 2022

Nature of Business	Wool Marketing, Sales and Innovation
Registered Office	Level 2, 123 Victoria Street, Christchurch
Directors	Kathryn Mitchell (Chairman) Ben Todhunter (Deputy Chairman) Bill Sutherland Paul Ensor Matanuku Mahuika John Penno
Auditors	Deloitte Limited, Christchurch
Bankers	ASB Bank, Christchurch
Solicitors	Chapman Tripp, Christchurch Minter Ellison Rudd Watts, Auckland
Share Registrar	Link Market Services, Ashburton
Business Location	Level 2, 123 Victoria Street, Christchurch

Directors' Statement

The Directors are responsible for preparing the consolidated financial statements and ensuring that they comply with New Zealand Generally Accepted Accounting Practice and fairly represent the financial position of The New Zealand Merino Company Limited and its subsidiaries Keravos Limited and Made For Good RX Limited as at 30 June 2022 and the results of the operations and cash flows of the Group for the year ended on that date.

The Directors consider that the consolidated financial statements of the Group have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements 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 Group and facilitate compliance of the consolidated financial statements with the Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the 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 consolidated financial statements for The New Zealand Merino Company Limited and its subsidiaries Keravos Limited and Made For Good RX Limited for the year ended 30 June 2022.

For and on behalf of the Board of Directors:

Kathryn Mitchell
Chairman

27 September 2022

Paul Ensor
Chairman, Audit & Risk Committee

27 September 2022

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2022

	Note	2021 $000	**2022 $000**
Revenue	1	137,189	**197,255**
Cost of sales		(118,400)	**(174,751)**
Gross profit		18,789	**22,504**
Other income	2	3,464	**4,519**
Share of investments in joint ventures	11	32	**26**
Gain from investments in other entities	11	9	**66**
Other income		3,505	**4,611**
Net finance costs	3	(427)	**(338)**
Procurement and selling expenses		(3,672)	**(5,552)**
Marketing expenses		(3,781)	**(4,761)**
Innovation expenses		(3,663)	**(5,066)**
Administrative expenses		(4,413)	**(3,807)**
Share-based arrangements	28,29	-	**(614)**
Other expenses	4	(404)	**(425)**
Expenses		(16,360)	**(20,563)**
Profit before income tax		5,934	**6,552**
Income tax expense	5	(1,673)	**(2,144)**
Profit / (loss) after tax		4,261	**4,408**
Profit / (loss) attributable to:			
Shareholders of the company		4,312	**4,353**
Non-controlling interest	12	(51)	**55**
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Gains / (losses) from cash flow hedges		1,889	**(1,611)**
Income tax relating to other comprehensive income	10	(529)	**575**
		1,360	**(1,036)**
Total comprehensive income		5,621	**3,372**
Total comprehensive income attributable to:			
Shareholders of the company		5,672	**3,317**
Non-controlling interest	12	(51)	**55**
Earnings per share (cents)			
Basic earnings per share	16	98.34	**82.07**
Diluted earnings per share	16	98.34	**80.86**

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Financial Position

As at 30 June 2022

	Note	2021 $000	**2022 $000**
ASSETS			
Current assets			
Cash and cash equivalents	6	6,407	**202**
Trade and other receivables	7	9,759	**12,590**
Inventories	8	13,076	**23,700**
Derivative financial instruments	15	445	**600**
Total current assets		29,687	**37,092**
Non-current assets			
Property, plant and equipment	9	2,074	**1,912**
Investments in joint ventures	11	31	**56**
Investments in other entities	11	24	**90**
Deferred tax	10	138	**959**
Intangible assets and goodwill	13	5,993	**6,091**
Derivative financial instruments	15	12	**23**
Right-of-use assets	22	4,655	**4,736**
Total non-current assets		12,927	**13,867**
Total assets		42,614	**50,959**
LIABILITIES			
Current liabilities			
Trade finance and overdraft facilities	6	-	**2,762**
Current portion of share-based arrangements provision	28	974	**1,253**
Income in advance	26	20	**100**
Trade and other payables	14	6,412	**7,235**
Derivative financial instruments	15	67	**1,360**
Lease liabilities	22	524	**573**
Total current liabilities		7,997	**13,283**
Non-current liabilities			
Derivative financial instruments	15	19	**504**
Non-current portion of share-based arrangements provision	28	759	**974**
Lease liabilities	22	4,830	**5,187**
Total non-current liabilities		5,608	**6,665**
Total liabilities		13,605	**19,948**
Net assets		29,009	**31,011**

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Financial Position (continued)

As at 30 June 2022

	Note	2021 $000	**2022 $000**
EQUITY			
Share capital	16	8,458	**8,701**
Share-based arrangements reserve	17	-	**244**
Non-controlling interest	12	(51)	**4**
Retained earnings	18	20,335	**23,198**
Cash flow hedge reserve	18	267	**(893)**
Total equity		29,009	**31,011**

For and on behalf of the Board of Directors, who authorised the issue of the financial report on 27 September 2022.

Kathryn Mitchell
Chairman

27 September 2022

Paul Ensor
Chairman, Audit & Risk Committee

27 September 2022

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

	Note	Share capital $000	Retained earnings $000	Cash flow hedge reserve $000	Share-based arrangements reserve $000	Non-controlling interest $000	**Total equity $000**
Balance at 1 July 2020		1,471	15,971	(1,093)	-	-	**16,349**
Profit for the year	12,18	-	4,312	-	-	(51)	**4,261**
Other comprehensive income	18	-	-	1,360	-	-	**1,360**
Share-based arrangements	18	-	52	-	-	-	**52**
Share issue	16	9,940	-	-	-	-	**9,940**
Share buy-back	16	(2,328)	-	-	-	-	**(2,328)**
Share issue costs	16	(625)	-	-	-	-	**(625)**
Balance at 30 June 2021		8,458	20,335	267	-	(51)	**29,009**
Balance at 1 July 2021		8,458	20,335	267	-	(51)	**29,009**
Profit for the year	12,18	-	4,353	-	-	55	**4,408**
Lease adjustment	18,22	-	(212)	-	-	-	**(212)**
Other comprehensive income	18	-	-	(1,160)	-	-	**(1,160)**
Share-based arrangements	17	-	-	-	244	-	**244**
Dividend	30	-	(1,278)	-	-	-	**(1,278)**
Balance at 30 June 2022		8,458	23,198	(893)	244	4	**31,011**
Carrying amounts							
At 1 July 2020		1,471	15,971	(1,093)	-	-	**16,349**
At 30 June 2021		8,458	20,335	267	-	(51)	**29,009**
At 30 June 2022		8,458	23,198	(893)	244	4	**31,011**

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	Note	2021 $000	**2022 $000**
Net operating cash flows			
Cash provided from:			
Receipts from customers		134,574	**197,591**
Sustainable Food & Fibre Futures funding		1,786	**1,217**
		136,360	**198,808**
Cash applied to:			
Payments to suppliers and employees		(135,139)	**(202,860)**
Short-term lease payments	22	(73)	**(86)**
Income tax payments		(644)	**(2,370)**
Interest paid	3	(153)	**(57)**
Interest paid on leases	3	(274)	**(281)**
		(136,283)	**(205,654)**
Net cash from / (used in) operating activities	19	77	**(6,846)**
Net investing cash flows			
Cash applied to:			
Acquisition of intangibles	13	(330)	**(216)**
Purchase of property, plant and equipment	9	(155)	**(125)**
		(485)	**(341)**
Net cash from / (used in) investing activities		(485)	**(341)**
Net financing cash flows			
Cash provided from:			
Proceeds from share issue	16	9,940	-
		9,940	-
Cash applied to:			
Share issue costs	16	(625)	-
Share buy-back	16	(2,328)	-
Dividend	30	-	**(1,278)**
Payments for leases	22	(447)	**(502)**
		(3,400)	**(1,780)**
Net cash from / (used in) financing activities		6,540	**(1,780)**
Net increase / (decrease) in cash balances		6,132	**(8,967)**
Cash and cash equivalents at beginning of year		275	**6,407**
Cash and cash equivalents at the end of year		6,407	**(2,560)**

The accompanying notes form an integral part of these financial statements

Statement of Accounting Policies

For the year ended 30 June 2022

Reporting Entity
The consolidated financial statements (financial statements) presented are those of the Group, including The New Zealand Merino Company Limited and its subsidiaries Keravos Limited and Made For Good RX Limited.

The parent company, The New Zealand Merino Company Limited, is a company domiciled in New Zealand, and is registered under the Companies Act 1993 and listed on the Unlisted Securities Exchange.

The New Zealand Merino Company Limited is a FMC reporting entity under the Financial Market Conducts Act 2013 and its financial statements comply with that Act.

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

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. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

Basis of Consolidation
The Group's financial statements consolidate the financial statements of The New Zealand Merino Company Limited and its subsidiaries, accounted for using the acquisition method, and the results of its associates, accounted for using the equity method. Intercompany transactions and balances between Group companies are eliminated upon consolidation.

Subsidiaries are entities over which the Group has control. Control is achieved when the Group:

- has power over the entity;
- is exposed to, or has right to, variable returns from its involvement with the entity; and
- can use its power to affect returns.

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 Group's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, except when otherwise indicated.

Statement of Accounting Policies (continued)

For the year ended 30 June 2022

Critical Judgements 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 (w) and Notes 28 and 29.
- Goodwill impairment assessment. Refer to policy (g) and Note 13.
- Principal versus Agent classification. Refer to policy (l) and Note 1.

Accounting Policies

Changes in Accounting Policies
There were no new standards, amendments or interpretations that had a material impact on the Group financial statements.

In April 2021 the International Financial Reporting Interpretations Committee (IFRIC) published an agenda decision clarifying how arrangements that are classified as Software-as-a-Service should be accounted for. There is no impact on the financial statements for the year ended 30 June 2022. The Group may incur future costs and will continue to assess the impact that this will have on the consolidated financial statements in future periods.

New Standards and Interpretations Not Yet Adopted
The Group is not aware of any standards, amendments or interpretations issued but not yet effective that would materially affect the amounts recognised or disclosed in the financial statements.

Statement of Accounting Policies (continued)

For the year ended 30 June 2022

The following specific accounting policies, which materially affect the measurement of the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated 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 Consolidated 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 Group and the cost of the item can be measured reliably. All other costs are recognised in the Consolidated Statement of Comprehensive Income as an expense when incurred.

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 Consolidated Statement of Comprehensive Income.

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

Office equipment	2 – 14 years
Leasehold improvements	5 – 14 years
Information technology assets	2 – 5 years
Plant and equipment	2 – 14 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.

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

c. Non Derivative Financial Instruments
Non derivative financial instruments comprise trade and other receivables, bank overdraft, loans and borrowings, lease liabilities, and trade and other payables.

d. Intangible Assets
Trademarks are stated at cost, and once fully developed are amortised to the Consolidated Statement of Comprehensive Income on a straight line basis over the useful life applicable to the trademark. Trademarks are reviewed at balance date and expensed to the Consolidated Statement of Comprehensive Income when they no longer meet the definition of an intangible asset.

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

The residual value of intangible assets is

Statement of Accounting Policies (continued)

For the year ended 30 June 2022

reassessed annually. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Goodwill is recorded at cost less any impairment losses.

e. Trade and Other Receivables
Trade and other receivables are measured at amortised cost less any impairment losses. The Group uses the expected credit loss model to determine whether there are 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. Refer to Note (g) for the impairment policy.

f. 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.

g. Impairment
The Group uses the expected credit loss model for all financial assets not held at fair value through profit or loss. For trade receivables, the Group applies the simplified approach in calculating expected credit losses with adjustments based on historical credit loss experience and adjusted for forward-looking factors specific to the debtors and the economic environment.

In addition, at least annually, goodwill is tested for impairment by comparing the estimated recoverable amount with the carrying amount.

Recoverable amount is the higher of an asset's 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 Consolidated Statement of Comprehensive Income.

h. 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.

Earnings Per Share

Basic and diluted earnings per shares (EPS) are presented for ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the number of shares outstanding to include the effects of all potential dilutive shares.

i. 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.

Statement of Accounting Policies (continued)

For the year ended 30 June 2022

j. Provisions
A provision is recognised when the Group 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.

k. Trade and Other Payables
Trade and other payables are stated at amortised cost.

l. Revenue
The Group recognises revenue from the following major sources:

- Contract and Auction sales
- Wool Fees and Charges

Revenue is measured based on the consideration specified in a contract. The Group recognises revenue in the following way:

Contract and Auction Sales

Revenue is recognised in the Consolidated Statement of Comprehensive Income when control has been transferred to the buyer. This represents the point in time at which the Group satisfies its performance obligation to release the wool and the right to consideration becomes unconditional. There are no rights of return or warranties in regards to the sale of wool. The Group is a principal in regards to all sale of wool transactions due to the level of control during the transaction. The Group is an agent in regards to insurance and freight on select wool sales.

Wool Fees and Charges

Wool fees and charges revenue is recognised in the Consolidated Statement of Comprehensive Income at the same time as the purchase of wool from suppliers or sale of wool to customers. This represents the point in time at which the Group satisfies its performance obligation to transact the wool and the right to consideration becomes unconditional.

m. Other Income

External Funding

External funding comprises government and other third party funding which is recognised on an accrual basis when agreed milestones are met and the amount of the revenue can be measured reliably. External funding which compensates the Group for expenses incurred is recognised in the Consolidated Statement of Comprehensive Income as other income in the same period the expenses are recognised.

Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

Management Fees

Management fees are recognised on an accrual basis when services for management have been provided.

n. Leases
The Group assesses whether a contract is, or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all

Statement of Accounting Policies (continued)

For the year ended 30 June 2022

lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straightline basis over the term of the lease.

Lease Liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate when the rate implicit in the lease is not easily determinable.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments.

The lease liability is remeasured whenever there is a change in the lease term or a change in the lease payment.

Right-of-Use Lease Assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Lease periods for leased assets are:

Buildings	3 – 14 years
Motor vehicles	3 years
Office equipment	4 years

o. Finance Income and Expenses

Finance income comprises interest income which is recognised as it accrues using the effective interest method. Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

p. 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 Consolidated Statement of Comprehensive Income.

q. Derivative Financial Instruments

The Group uses foreign exchange contracts to hedge its exposure to foreign exchange risks arising from future sales or purchases of goods in foreign currencies. The Group 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 Group 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

The Group designates certain derivatives as cash flow hedging instruments in respect of foreign currency risk and wool price risk.

Statement of Accounting Policies (continued)

For the year ended 30 June 2022

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and the hedged item, along with the risk management objectives and strategy for undertaking various hedge transactions. On an on-going basis the Group documents whether the hedging instrument is effective in offsetting the changes in fair value of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk is not greater than the value changes that result from the economic relationship; and
- the hedge ratio of the hedging relationship is the same as the hedge ratio resulting from the actual quantity of the hedged item and the actual quantity of the hedging instrument.

Sources of hedge ineffectiveness include; credit value adjustments to the hedge instrument, shortfalls in the amount of the expected exposure, and changes in the transaction timing. These sources are considered immaterial risks of hedge ineffectiveness.

The Group designates the full change in the fair value of forward contracts and futures contracts as the hedging instrument for all its hedging relationships involving forward contracts and futures contracts.

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

r. Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated 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

Statement of Accounting Policies (continued)

For the year ended 30 June 2022

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.

The Group chooses to apply NZ IAS 12 requirements to the leasing transaction as a whole to account for the deferred tax treatment on leases under NZ IFRS 16.

s. 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.

t. Treasury Stock
Treasury stock is the portion of shares that the Group keeps in its own treasury. Treasury stock arises from a buyback from shareholders. These shares do not receive dividends, have no voting rights and are not included in shares outstanding calculations.

u. Cash and Cash Equivalents
Cash and cash equivalents in the Consolidated 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.

v. Research & Development
All research expenditure is recognised in the Consolidated 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 Consolidated Statement of Comprehensive Income as incurred.

w. Share-Based Arrangements
Equity-settled share-based arrangements with employees of the Group and others providing similar services are measured at the fair value of the equity instruments at the grant date. 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 Consolidated 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 Consolidated Statement of Comprehensive Income for the year. The Group recognises any reduction in the fair value of cash-settled share-based arrangements through

Statement of Accounting Policies (continued)

For the year ended 30 June 2022

current year retained earnings in the Consolidated Statement of Financial Position.

x. Statement of Cash Flows
The Consolidated 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 Group's equity capital.

y. Subsidiaries
Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of the acquisition is measured at fair value, which is calculated as the sum of the assets given, liabilities incurred or assumed, and equity instruments issued by the Group, at acquisition date, in exchange for control of the acquiree.

Acquisition related costs are recognised in the Consolidated Statement of Comprehensive Income as incurred. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date of acquisition or up to the date of disposal as appropriate.

z. Investments in Joint Ventures
A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group accounts for investments in joint ventures using the equity method of accounting. All investments in joint ventures are initially recognised in the Consolidated Statement of Financial Position at cost and subsequently increased or decreased to recognise the Group's share of profit or loss.

The investments in joint ventures share of profit or loss is recognised in the Consolidated Statement of Comprehensive Income.

aa. Investments in Other Entities
The Group classifies its investments in other entities as financial assets and liabilities designated at fair value through profit and loss. All investments in other entities are measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

All changes in the fair value of investments in other entities are recognised in the Consolidated Statement of Comprehensive Income.

ab. Segment Reporting
An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses. A segment's operating results are regularly reviewed by management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Group currently operates as one reportable segment and discrete financial information is not provided on a geographical or product basis. The operating results are reviewed at a Group level.

Notes to the Financial Statements

For the year ended 30 June 2022

1. Revenue

The Group derives revenue as a principal in the following major product lines.

	2021 $000	2022 $000
Contract revenue		
Fine wool	89,692	**131,799**
Strong wool	11,840	**21,485**
	101,532	**153,284**
Auction revenue		
Fine wool	22,094	**29,477**
Strong wool	3,416	**742**
	25,510	**30,219**
Wool fees and charges revenue	10,147	**13,752**
Total revenue	137,189	**197,255**

Customers who contribute more than 10% to total revenue are Motion Wool Limited, United Wool Company Proprietary Limited, and Tianyu Wool Proprietary Limited who are first stage processors in key brand partners' supply chains.

2. Other Income

	2021 $000	2022 $000
Sustainable Food & Fibre Futures funding	2,026	**2,207**
Other external funding	48	**47**
Royalties	516	**1,619**
Gain on sale of fixed assets	1	**-**
Management fees	364	**329**
Other income	509	**317**
	3,464	**4,519**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

3. Net Finance Costs / (Income)

	2021 $000	2022 $000
Interest expense	153	**57**
Interest expense on leases	274	**281**
	427	**338**

4. Expenses

	Note	2021 $000	2022 $000
Other expenses			
Depreciation		279	**287**
Amortisation of other intangible assets		83	**118**
Exchange losses		19	**1**
Donations		23	**19**
		404	**425**
Personnel expenses (salaries & employer contribution to Kiwisaver included in functional expense categories)			
Salaries		7,339	**7,821**
Share-based arrangements	28	-	**494**
Share-based long term incentives	29	-	**119**
Kiwisaver employer contributions		303	**281**
		7,642	**8,715**
Technical research project costs (included in innovation expenses)			
Technical research project costs		706	**948**

Technical research projects include livestock trials, the validation of the sustainability of farming and processing systems, research to validate the technical performance of textiles and wool fibre, research into new uses for wool fibre, and research into methodologies for measuring and reporting on environmental impacts.

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

5. Income Tax

	2021 $000	2022 $000
Income tax expense		
Current income tax - New Zealand	(1,723)	**(2,120)**
Current income tax - Australia	(10)	**(8)**
Relating to origination and reversal of temporary differences	60	**(8)**
Adjustments in respect of New Zealand current income tax of previous years	(1)	**(9)**
Adjustments in respect of Australian current income tax of previous years	1	**1**
Income tax expense reported in the Statement of Comprehensive Income	(1,673)	**(2,144)**
Numerical reconciliation between aggregate tax expense recognised in the Consolidated Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate		
Accounting profit before tax from continuing operations	5,934	**6,552**
Plus after tax (profit) / loss of joint venture	(32)	**(26)**
	5,902	**6,526**
At the statutory income tax rate of 28%	(1,652)	**(1,827)**
Adjustments in respect of New Zealand current income tax of previous years	-	**(9)**
Adjustments in respect of Australian current income tax of previous years	9	**1**
Permanent differences	(30)	**(309)**
Aggregate income tax (expense) / income	(1,673)	**(2,144)**
Imputation credit balance		
Balance at the beginning of the year	628	**2,289**
Imputation credits attached to dividends received/(paid)	-	**(497)**
Income tax paid for prior year	9	**251**
Income tax payable	1,652	**2,119**
Balance at the end of the year	2,289	**4,162**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

6. Cash and Cash Equivalents

	2021 $000	2022 $000
Bank	6,407	**202**
Bank overdraft	-	**(262)**
Trade finance facility	-	**(2,500)**
Bank / (Bank overdraft)	6,407	**(2,560)**

Working Capital Facility

During the year the Group maintained an overdraft facility of up to ($000) $3,000 and utilised a trade finance facility of up to ($000) $23,000 with ASB Bank Limited. At balance date the Group is utilising ($000) $262 of the overdraft facility and ($000) $2,500 of the trade finance facility. The Group holds other cash surpluses in foreign currency accounts. The Group also has a Business Visa limit of ($000) $500 (2021: $500).

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

7. Trade and Other Receivables

	2021 $000	2022 $000
Trade receivables	9,220	**11,984**
Prepayments	539	**606**
	9,759	**12,590**

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. Some customers have negotiated terms of trade that allow for extended payment terms of up to 120 days. Other receivables are due 20th of the following month of the invoice. The value of foreign currency denominated trade and other receivables is as follows ($000) AUD $3,451 (NZD $3,790), USD $1,095 (NZD $1,621) (2021: AUD: $54 (NZD $58), USD $214 (NZD: $308)).

The Group uses the expected credit loss model to determine impairment of trade and other receivables. Due to prior creditor history and no other indicators of impairment there is no material impairment of trade and other receivables as at 30 June 2022.

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

8. Inventories

	2021 $000	2022 $000
Stock of wool	13,076	**23,700**

The cost of inventories recognised as an expense during the year in respect of continuing operations was ($000) $174,751 (2021: $118,400).

The cost of inventories recognised as an expense includes ($000) $628 (2021: $162) in respect of write-downs of inventory to net realisable value.

Stock on hand as at 30 June 2022 with an age of greater than one year is ($000) $103 (2021: $318).

9. Property, Plant and Equipment

	Office equipment $000	Leasehold improvements $000	Information technology assets $000	Plant and equipment $000	Total $000
Cost and valuation					
Balance at 1 July 2020	452	2,046	630	48	**3,176**
Additions	72	1	46	52	**171**
Disposals	(2)	(24)	(5)	-	**(31)**
Balance at 30 June 2021	522	2,023	671	100	**3,316**
Balance at 1 July 2021	522	2,023	671	100	**3,316**
Additions	23	12	90	-	**125**
Disposals	-	-	-	-	**-**
Balance at 30 June 2022	545	2,035	761	100	**3,441**
Accumulated depreciation					
Balance at 1 July 2020	(236)	(226)	(490)	(30)	**(982)**
Depreciation for the year	(49)	(176)	(51)	(3)	**(279)**
Disposals	1	14	4	-	**19**
Balance at 30 June 2021	(284)	(388)	(537)	(33)	**(1,242)**
Balance at 1 July 2021	(284)	(388)	(537)	(33)	**(1,242)**
Depreciation for the year	(49)	(176)	(57)	(5)	**(287)**
Disposals	-	-	-	-	**-**
Balance at 30 June 2022	(333)	(564)	(594)	(38)	**(1,529)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

9. Property, Plant and Equipment (continued)

	Office equipment $000	Leasehold improvements $000	Information technology assets $000	Plant and equipment $000	Total $000
Carrying amounts					
At 1 July 2020	216	1,820	140	18	**2,194**
At 30 June 2021	238	1,635	134	67	**2,074**
At 30 June 2022	212	1,471	167	62	**1,912**

10. Deferred Tax

Movements in deferred tax:

	Opening balance 2022 $000	Charged to income 2022 $000	Charged to other comprehensive income 2022 $000	Closing balance 2022 $000
Gross deferred tax asset / (liability)				
Employee entitlements	164	94	-	**258**
Other accrual	3	3	-	**6**
Capital contribution to tenant fitout	(4)	2	-	**(2)**
Net lease liabilities	79	101	-	**180**
Income in advance	-	13	-	**13**
Derivative financial instruments	(104)	-	451	**347**
Share-based arrangements	-	33	124	**157**
Total deferred tax asset	138	246	575	**959**

	Opening balance 2021 $000	Charged to income 2021 $000	Charged to other comprehensive income 2021 $000	Closing balance 2021 $000
Gross deferred tax asset / (liability)				
Employee entitlements	142	22	-	**164**
Other accrual	4	(1)	-	**3**
Capital contribution to tenant fitout	15	(19)	-	**(4)**
Net lease liabilities	21	58	-	**79**
Derivative financial instruments	425	-	(529)	**(104)**
Total deferred tax asset	607	60	(529)	**138**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

11. Investments in Other Entities

(i) Joint ventures

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.

Alpine Origin Merino Limited (AOML)
AOML is jointly owned by The New Zealand Merino Company Limited (50%), and Alliance Group Limited (50%) and is incorporated in New Zealand. AOML is focused on the marketing of fine wool sheep meat. AOML's place of business is in New Zealand.

The financial year end date of AOML is 30 September. This was the reporting date established when AOML was incorporated, and a change of reporting date is not permitted in AOML.

The Group's share of profits in AOML has been previously equity accounted for. AOML has undertaken no direct transactions during the year, with all transactions undertaken by Alliance Group Limited. The Group ceased equity accounting in 2018 due to the share of losses being greater than the carrying amount of AOML.

There is no assessed impairment associated with the investment in AOML as at 30 June 2022.

Glerups New Zealand Limited (GNZL)
GNZL is jointly owned by The New Zealand Merino Company Limited (50%) and Aktieselskabet Glerups.dk ApS (50%). GNZL is incorporated in New Zealand. GNZL is focused on the marketing and distribution of Glerups indoor shoes within New Zealand. The financial year end date of GNZL is 30 June.

The Group's share of profits in GNZL is being equity accounted.

There is no assessed impairment associated with the investment in GNZL as at 30 June 2022.

2022 $000	Total assets	Total liabilities	Revenues	**Profit / (loss)**
GNZL	552	440	906	**51**
Ownership interest (50%)	276	220	453	**26**
2021 $000	Total assets	Total liabilities	Revenues	**Profit / (loss)**
GNZL	117	30	491	**63**
Ownership interest (50%)	59	15	246	**31**

The carrying value of GNZL at 30 June 2022 is ($000) $56 (2021: $31).

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

11. Investments in Other Entities (continued)

(ii) Other interests

Sheep Included Limited (Sheep Inc)
During the year ended 30 June 2022 the Group obtained 18,949 warrants in the form of ordinary shares in Sheep Inc. Sheep Inc's principal place of business and country of incorporation is the United Kingdom.

As at 30 June 2022 the Group holds 25,847 ordinary shares in Sheep Inc. This represents a total shareholding of 1.2%. The cost price of Sheep Inc shares at 30 June 2022 is ($000) $90 (2021: $24).

12. Subsidiary Companies

	Principal activity	Date of incorporation	Equity holding 30 June 2021	Equity holding 30 June 2022
Keravos Limited	Natural fibre innovation	21/10/2020	80%	80%
Made For Good RX Limited	ESG Technology Platform	26/05/2022	0%	100%

Keravos Limited
On 21 October 2020 The New Zealand Merino Company Limited incorporated a company, Keravos Limited, owned 80% by The New Zealand Merino Company Limited and 20% by the inventor of the Keravos technology, Logan Williams. Keravos Limited has a 30 June balance date.

Keravos Limited is focused on innovation utilising New Zealand strong wool.

Impact on the Results of the Group

During the year ended 30 June 2022 Keravos Limited has contributed ($000) $13 (2021: $2) to revenue, and a profit before tax of ($000) $360 (2021: $253 loss) to the Group's total comprehensive income. The profit before tax was due to the forgiveness of outstanding debts with The New Zealand Merino Company Limited.

Non-controlling Interest

For the year ended 30 June 2022 the after tax profit attributable to the non-controlling interest in Keravos Limited is ($000) $55 (2021: $51 loss). The total non-controlling interest recognised in equity is ($000) $4 (2021: $51 loss).

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

12. Subsidiary Companies (continued)

Made For Good RX Limited
On 26 May 2022 The New Zealand Merino Company Limited incorporated a company, Made For Good RX Limited. As at 30 June 2022 Made For Good RX Limited is 100% owned by The New Zealand Merino Company Limited.

Made For Good RX Limited has been incorporated for the purpose of extending the regenerative agricultural strategic initiatives of the Group.

Impact on the results of the Group

There have been no transactions in Made For Good RX for the year ended 30 June 2022. Made For Good RX Limited will commence trading on 1 July 2022.

13. Intangible Assets and Goodwill

$000	Goodwill	Trademarks	Computer software	Patents	Total
Cost					
Balance at 1 July 2020	5,631	307	463	-	**6,401**
Acquisitions	-	152	171	7	**330**
Disposals	-	(4)	-	-	**(4)**
Balance at 30 June 2021	5,631	455	634	7	**6,727**
Balance at 1 July 2021	5,631	455	634	7	**6,727**
Acquisitions	-	97	119	-	**216**
Disposals	-	-	-	-	**-**
Balance at 30 June 2022	5,631	552	753	7	**6,943**
Amortisation					
Balance at 1 July 2020	-	(288)	(363)	-	**(651)**
Amortisation for the year	-	(19)	(64)	-	**(83)**
Disposals	-	-	-	-	**-**
Balance at 30 June 2021	-	(307)	(427)	-	**(734)**
Balance at 1 July 2021	-	(307)	(427)	-	**(734)**
Amortisation for the year	-	(18)	(100)	-	**(118)**
Disposals	-	-	-	-	**-**
Balance at 30 June 2022	-	(325)	(527)	-	**(852)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

13. Intangible Assets and Goodwill (continued)

$000	Goodwill	Trademarks	Computer software	Patents	Total
Carrying amounts					
At 1 July 2020	5,631	19	100	-	**5,750**
At 30 June 2021	5,631	148	207	7	**5,993**
At 30 June 2022	5,631	227	226	7	**6,091**

Goodwill arises due to the acquisition of the assets and business of NZM Disestablishment Limited.

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 Group) at a post-tax WACC of 13% (2021: 13%) and a terminal value growth rate of 3% (2021: 0%). The analysis is sensitive to both the terminal growth rate and discount rate. A reduction of 0.5% in the terminal growth rate or 0.5% change in the discount rate do not result in an impairment.

Trademarks are amortised over the life applicable to each trademark. The life of all current trademarks is 10 years. Computer software is amortised over a 2-5 year period. Patents are amortised over a 20 year period.

14. Trade and Other Payables

	2021 $000	**2022 $000**
Trade payables	3,901	**4,223**
Income tax payable	1,652	**2,119**
Employee entitlements	860	**893**
	6,412	**7,235**

Related party payables are detailed in Note 20.

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

15. 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 Group's assets and liabilities that are measured at fair value.

2022 $000	Level 1	Level 2	Level 3	**Total balance**
Assets				
Investments in other entities	-	-	90	**90**
Derivative financial instruments	-	623	-	**623**
Total Assets	-	623	90	**713**
Liabilities				
Derivative financial instruments	-	1,864	-	**1,864**
Total Liabilities	-	1,864	-	**1,864**

2021 $000	Level 1	Level 2	Level 3	**Total balance**
Assets				
Investments in other entities	-	-	24	**24**
Derivative financial instruments	-	457	-	**457**
Total Assets	-	457	24	**481**
Liabilities				
Derivative financial instruments	-	86	-	**86**
Total Liabilities	-	86	-	**86**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

15. Financial Instruments (continued)

The net nominal value of forward currency contracts (cash flow hedges) outstanding at balance date was ($000) $18,796 (2021: $11,782). The net nominal value of wool futures (cash flow hedges) outstanding at balance date was ($000) $3,615 (2021: $4,147).

Future cash flows of forward currency contracts are based on bank derived mark to market valuations. Future cash flows of wool futures contracts are based on the exchange quoted forward prices.

Financial risk and capital management
The Group's capital includes share capital, reserves, and retained earnings.

When managing capital, the Group's objective is to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

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

The New Zealand Merino Company Limited's shares are listed on the Unlisted Securities Exchange. During the year the Group did not complete any share issues or share buy-backs.

The Group paid a dividend in 2022 of $1,278 ($000) (2021: nil).

At 30 June 2022 the Group is utilising ($000) $262 of the overdraft facility and ($000) $2,500 of the trade finance facility. The Group holds other cash surpluses in foreign currency accounts. The Group can utilise an overdraft facility of up to ($000) $3,000 and a trade finance facility of up to ($000) $23,000 with ASB Bank Limited. The Group has obtained a trade finance facility to cover its cash flow requirements for the 2023 financial year.

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

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

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

15. Financial Instruments (continued)

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

The Group has entered into wool futures contracts to reduce the impact of spot market price changes on open sales contracts positions.

The average exchange quoted forward price for wool futures at 30 June 2022 is $18.76 per kilogram (2021: $17.72). The total kilograms contracted at 30 June 2022 is 200,500 kilograms (2021: 247,500).

A sensitivity analysis has been conducted on the exchange quoted forward wool price. A 3% increase in the exchange quoted forward wool price would increase the fair value, and total comprehensive income by ($000) $111 (2021: $133) with no effect on profit / (loss) after tax. A 3% decrease in the exchange quoted forward wool price would decrease the fair value, and total comprehensive income by ($000) $111 (2021: $133) with no effect on profit / (loss) after tax.

The following table details the notional principal amounts, fair value and remaining terms of wool futures contracts outstanding as at 30 June 2022:

	Notional principal amount	Fair value	**Notional principal amount**	**Fair value**
	2021	2021	**2022**	**2022**
	$000	$000	**$000**	**$000**
Not later than 1 month	-	-	**186**	**8**
30-90 days	776	60	**954**	**26**
91-365 days	3,104	206	**2,049**	**40**
1 year to 5 years	267	11	**426**	**23**
	4,147	277	**3,615**	**97**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

15. Financial Instruments (continued)

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

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

The Group is mainly exposed to the currency of Australia (AUD), the United States of America (USD), China (CNY) and Europe (EUR). A 1% increase in the contract close out rates would increase the fair value, and total comprehensive income by ($000) $186 (2021: $117) with no effect on profit / (loss) after tax. A 1% decrease in the contract close out rates would decrease the fair value, and total comprehensive income by ($000) $190 (2021: $119) with no effect on profit / (loss) after tax.

At 30 June 2022 the average market rate for AUD foreign exchange contracts is 0.9193, the average market rate for USD foreign exchange contracts is 0.6684, the average market rate for EUR foreign exchange contracts is 0.5990 and the average rate for CNY foreign exchange contracts is 4.3990.

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

	Notional principal amount	Fair value	**Notional principal amount**	**Fair value**
	2021	2021	**2022**	**2022**
	$000	$000	**$000**	**$000**
AUD Sell				
Not later than 1 month	1,946	6	**7,570**	**(147)**
30-90 days	2,519	(9)	**7,336**	**(86)**
91-365 days	3,487	3	**5,335**	**(119)**
1 year to 5 years	1,771	(6)	**-**	**-**
	9,723	(6)	**20,241**	**(352)**
AUD Buy				
Not later than 1 month	(155)	-	**(6,604)**	**66**
30-90 days	(1,288)	29	**(2,265)**	**30**
91-365 days	(4,898)	86	**(10,433)**	**410**
1 year to 5 years	-	-	**-**	**-**
	(6,341)	115	**(19,302)**	**506**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

15. Financial Instruments (continued)

(ii) Currency risk (continued)

	Notional principal amount 2021 $000	Fair value 2021 $000	**Notional principal amount 2022 $000**	**Fair value 2022 $000**
USD Sell				
Not later than 1 month	445	(1)	**2,341**	**(268)**
30-90 days	777	(2)	**869**	**(72)**
91-365 days	6,979	(44)	**6,994**	**(543)**
1 year to 5 years	2,629	(13)	**6,100**	**(503)**
	10,830	(60)	**16,304**	**(1,386)**
USD Buy				
Not later than 1 month	(336)	10	**-**	**-**
30-90 days	(1,307)	32	**-**	**-**
91-365 days	-	-	**-**	**-**
1 year to 5 years	-	-	**-**	**-**
	(1,643)	42	**-**	**-**
CNY Sell				
Not later than 1 month	-	-	**-**	**-**
30-90 days	-	-	**-**	**-**
91-365 days	-	-	**1,776**	**(107)**
1 year to 5 years	-	-	**-**	**-**
	-	-	**1,776**	**(107)**
EUR Buy				
Not later than 1 month	(787)	3	**(223)**	**2**
30-90 days	-	-	**-**	**-**
91-365 days	-	-	**-**	**-**
1 year to 5 years	-	-	**-**	**-**
	(787)	3	**(223)**	**2**
	11,782	94	**18,796**	**(1,337)**

(iii) Credit risk

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

15. Financial Instruments (continued)

(iii) Credit risk (continued)

The Group 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 Group's exposures are continuously monitored. The Group measures credit risk based on the expected credit loss model.

Trade receivables consist of a small number of customers. Approximately 72% of trade receivables are due from four customers (2021: Approximately 73% due from two customers).

The net credit risk on forward currency contracts with ASB Bank Limited as at 30 June 2022 is nil (2021: $94). The net credit risk on wool future contracts with the various counterparties as at 30 June 2022 is ($000) $97 (2021: $277). All counterparties for forward currency contracts are considered to be of a high quality based on credit ratings. All counterparties for wool futures contracts are assessed based on credit reports and considered to be of a good quality.

Total credit risk was comprised as follows:

	2021 $000	**2022 $000**
Trade receivables	9,220	**11,984**
Total credit risk	9,220	**11,984**

Collateral and other credit enhancements obtained

The Group does not hold any collateral as security over trade receivables.

Trade receivables that are either past due or impaired

The table below sets out information regarding the ageing of trade receivables. Debts owing in excess of 30 days past their due date are considered past due. These have not been assessed as impaired as the expected credit loss is not considered to be material.

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

15. Financial Instruments (continued)

(iii) Credit risk (continued)

	2021 $000	2022 $000
Current	8,795	**11,404**
31-60 days	296	**365**
61-90 days	129	**203**
Over 90 days	-	**12**
	9,220	**11,984**

Renegotiated trade receivables

There are no amounts included within trade receivables whose terms have been renegotiated (2021: Nil).

(iv) Interest rate risk

Interest rate risk is the risk that the Group may be affected by changes in the general level of interest rates. The Group is exposed to interest rate risk as it borrows funds at floating interest rates. No interest rate swaps have been entered into during the year.

At 30 June 2022 the interest rate on the trade finance facility is 3.58%. The Group entered into a trade finance facility for 12 months and drawdown and repay the trade finance facility monthly.

The interest rate on the overdraft facility is 4.53%.

At the reporting date the Group had the following interest-bearing financial instruments which are subject to variable floating interest rates:

	Principal amount 2021 $000	Fair value 2021 $000	**Principal amount 2022 $000**	**Fair value 2022 $000**
Bank overdraft	-	-	**262**	**262**
Trade finance facility	-	-	**2,500**	**2,500**
	-	-	**2,762**	**2,762**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

15. Financial Instruments (continued)

(v) Liquidity risk

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

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

2022 $000	Less than 1 year	1-2 years	2-6 Years	**Total**
Financial assets				
Bank	202	-	-	**202**
Trade receivables	11,984	-	-	**11,984**
Investments in other entities	90	-	-	**90**
Derivative financial instruments	600	23	-	**623**
	12,876	23	-	**12,899**
Financial liabilities				
Trade finance and overdraft facilities	2,762	-	-	**2,762**
Trade payables	7,235	-	-	**7,235**
Derivative financial instruments	1,360	504	-	**1,864**
Lease liabilities	573	604	4,583	**5,760**
Share-based arrangements provision	1,253	974	-	**2,227**
	13,183	2,082	4,583	**19,848**

2021 $000	Less than 1 year	1-2 years	2-6 Years	**Total**
Financial assets				
Bank	6,407	-	-	**6,407**
Trade receivables	9,220	-	-	**9,220**
Investments in other entities	24	-	-	**24**
Derivative financial instruments	445	12	-	**457**
	16,096	12	-	**16,108**
Financial liabilities				
Trade payables	6,412	-	-	**6,412**
Derivative financial instruments	67	14	5	**86**
Lease liabilities	524	557	4,273	**5,354**
Share-based arrangements provision	974	759	-	**1,733**
	7,977	1,330	4,278	**13,585**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

15. Financial Instruments (continued)

(vi) Categories of financial instruments

2022 $000	Financial assets / liabilities at fair value through profit and loss	Financial assets / liabilities at amortised cost	Total
Assets			
Bank	-	202	**202**
Trade receivables	-	11,984	**11,984**
Investments in other entities	90	-	**90**
Derivative financial instruments	623	-	**623**
	713	12,186	**12,899**
Liabilities			
Trade finance and overdraft facilities	-	2,762	**2,762**
Trade and other payables	-	7,235	**7,235**
Derivative financial instruments	1,864	-	**1,864**
Lease liabilities	-	5,760	**5,760**
Share-based arrangements provision	2,227	-	**2,227**
	4,091	15,757	**19,848**

2021 $000	Financial assets / liabilities at fair value through profit and loss	Financial assets / liabilities at amortised cost	Total
Assets			
Bank	-	6,407	**6,407**
Trade receivables	-	9,220	**9,220**
Investments in other entities	24	-	**24**
Derivative financial instruments	457	-	**457**
	481	15,627	**16,108**
Liabilities			
Trade and other payables	-	6,412	**6,412**
Derivative financial instruments	86	-	**86**
Lease liabilities	-	5,354	**5,354**
Share-based arrangements provision	1,733	-	**1,733**
	1,819	11,766	**13,585**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

16. Share Capital

	2021 $000	**2022 $000**
Opening balance	1,471	**8,458**
Share issue	9,940	**-**
Share buy-back	(2,328)	**-**
Share issue costs	(625)	**-**
	8,458	**8,458**
Number of ordinary shares:		
Opening balance	3,301,073	**5,304,249**
Share issue	2,615,677	**-**
Share buy-back	(612,501)	**-**
Closing balance	5,304,249	**5,304,249**

At 30 June 2022 no ordinary shares were held by the Group as treasury stock (2021: nil).

During the year ended 30 June 2021 The New Zealand Merino Company Limited undertook a share capital raise which resulted in 2,615,677 shares being issued at $3.80 per share. Gross share capital of ($000) $9,940 was raised. The New Zealand Merino Company Limited also undertook a share buy-back and cancellation which resulted in 612,501 shares being repurchased for $3.80 per share. The value of the gross shares repurchased and cancelled was ($000) $2,328. The New Zealand Merino Company Limited incurred ($000) $625 of transaction and legal costs in relation to the share capital raise. The net amount of share capital raised during the period was ($000) $6,987.

Earnings Per Share

	2021 $000	**2022 $000**
Profit attributable to the ordinary shareholders of the Group (basic)	4,312	**4,353**
Weighted average number of ordinary shares (basic)	4,384,826	**5,304,249**
Weighted average number of ordinary shares (diluted)	4,384,826	**5,383,513**
Earnings per share (cents)		
Basic earnings per share	98.34	**82.07**
Diluted earnings per share	98.34	**80.86**

The diluted earnings per share are basic earnings per share adjusted for contingently issuable shares under the share-based long term incentive scheme 1. Refer to Note 29 for further information on share-based long term incentives.

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

17. Share-Based Arrangements Reserve

	2021 $000	2022 $000
Opening balance	-	-
Share-based arrangement expense	-	120
Deferred tax on share-based arrangement	-	124
Closing balance	-	244

18. Retained Earnings and Reserves

Retained Earnings

	2021 $000	2022 $000
Opening balance	15,971	20,335
Profit after tax	4,312	4,353
Share-based arrangements	52	-
Lease adjustment	-	(212)
Dividend	-	(1,278)
	20,335	23,198

For the year ended 30 June 2021 the fair value of the cash-settled share-based arrangements was a reduction of ($000) $52. The reduction was recognised directly in retained earnings. For the year ended 30 June 2022 there has been an increase in the fair value of the cash-settled share-based arrangements which has been recognised in expenses. Refer to Note 28 and policy w.

The lease adjustment is comprised of a ($000) $296 adjustment in the right-of-use asset and lease liability from a lease incentive adjustment (refer to Note 22) and the associated tax effect of the lease adjustment ($000) $84.

Cash Flow Hedge Reserve

	2021 $000	2022 $000
Opening balance	(1,093)	267
Foreign exchange contracts	(81)	(1,031)
Wool futures contracts	1,441	(129)
	267	(893)

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

19. Reconciliation of Cash Flows with Reported Net Profit

	2021 $000	2022 $000
Profit after tax	4,261	4,408
Non-cash items:		
Share of associates retained (surplus) / loss	(31)	(26)
Investments in other entities	(9)	(66)
Depreciation	279	287
Depreciation on right-of-use lease assets	539	523
Lease adjustment	417	94
Loss / (gain) on sale of fixed assets / intangible assets	1	-
Amortisation of intangible assets	83	118
Movement in deferred tax	(60)	(246)
Share-based arrangements expense	-	614
Working capital:		
(Increase) / decrease in inventory	(1,146)	(10,624)
(Increase) / decrease in accounts receivable / prepayments	(4,177)	(2,831)
Increase / (decrease) in accounts payable	353	823
Increase / (decrease) in income in advance	(433)	80
Net cash from operating activities	77	(6,846)

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

20. Related Party Disclosures

Alpine Origin Merino Limited (AOML)
As at 30 June 2022 the Group owns a 50% share in Alpine Origin Merino Limited (AOML) with the other 50% being owned by Alliance Group Limited. During the year the Group did not pay any expenses or receive any income from AOML due to AOML not directly engaging in any operating activities as these were done through Alliance Group Limited (2021: nil).

There are no receivable balances with AOML as at 30 June 2022 (2021: nil).

During the year ended 30 June 2022 the Group has recorded expenses of ($000) $92 (2021: $120) with Alliance Group Limited. There are no receivable balances with Alliance Group Limited as at 30 June 2022 (2021: nil).

Glerups New Zealand Limited (GNZL)
As at 30 June 2022 the Group owns a 50% share in Glerups New Zealand Limited (GNZL). During the year the Group paid expenses of ($000) $7 (2021: $10) to GNZL. As at 30 June 2022 the receivable from GNZL is ($000) $165 (2021: $140). This comprises management fees for GNZL.

As at 30 June 2022 the investment in GNZL is ($000) $56 (2020: $31).

Directors
The Group entered into transactions for the sale and purchase of wool with entities associated with the following directors during the course of the year. These transactions were made on the same terms as to other third parties. There are no outstanding balances as at 30 June 2022.

	2022 $000
Bill Sutherland	**2,169**
John Penno	**38**
Paul Ensor	**399**
Matanuku Mahuika	**121**
Ben Todhunter	**258**

Key Management Personnel
The Group has not entered into any transactions with key management personnel of the business outside of the employment relationship.

Total remuneration provided to key management personnel in 2022 was ($000) $2,901 (2021: $2,449). Key management personnel refers to the Chief Executive Officer and seven (2021: seven) direct management reports to the Chief Executive. This does not include fees paid to directors.

Refer to Note 28 and Note 29 for details of management share-based arrangements.

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

21. Commitments

Capital Commitments
The Group had no capital commitments as at 30 June 2022 (2021: nil).

In respect of its interest in the Alpine Origin Merino Limited joint venture (refer Note 11), the joint venture had no capital commitments as at 30 June 2022 (2021: nil).

In respect of its interest in the Glerups New Zealand Limited joint venture (refer Note 11), the joint venture had no capital commitments as at 30 June 2022 (2021: nil).

22. Leases

The Group leases buildings, motor vehicles and office equipment.

The related lease expense for short-term leases is recognised in the Consolidated Statement of Comprehensive Income ($000) $86 (2021: $73).

Information for leases of which the Group is a lessee is presented below:

$000	Buildings	Motor vehicles	Office equipment	**Total**
Right-of-use asset				
Opening right-of-use asset at 1 July 2020	5,191	108	9	**5,308**
Depreciation charge for the year	(431)	(96)	(12)	**(539)**
Additions to right-of-use assets	160	120	38	**318**
Derecognition of right-of-use assets	(13)	-	(2)	**(15)**
Landlord contribution to right-of-use assets	(417)	-	-	**(417)**
Closing right-of-use asset at 30 June 2021	4,490	132	33	**4,655**
Opening right-of-use asset at 1 July 2021	4,490	132	33	**4,655**
Depreciation charge for the year	(396)	(117)	(10)	**(523)**
Additions to right-of-use assets	-	308	-	**308**
Remeasurement of right-of-use assets	296	-	-	**296**
Closing right-of-use asset at 30 June 2022	4,390	323	23	**4,736**

The right-of-use asset depreciation charge for the year has been recognised in Administrative expenses in the Consolidated Statement of Comprehensive Income.

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

22. Leases (continued)

$000	Buildings	Motor vehicles	Office equipment	Total
Lease liability				
Opening lease liability at 1 July 2020	5,275	198	25	**5,498**
Decrease in lease liability	(339)	(96)	(12)	**(447)**
Additions to lease liabilities	160	120	38	**318**
Derecognition of lease liabilities	(13)	-	(2)	**(15)**
Closing lease liability at 30 June 2021	5,083	222	49	**5,354**
Opening lease liability at 1 July 2021	5,083	222	49	**5,354**
Decrease in lease liability	(376)	(117)	(9)	**(502)**
Additions to right-of-use assets	-	221	-	**221**
Remeasurement of lease liabilities	703	-	(16)	**687**
Closing lease liability at 30 June 2022	5,410	326	24	**5,760**

The decrease in lease liability of ($000) $502 is comprised of cash payments of ($000) $783 less the associated interest expense on the lease liabilities of ($000) $281.

The current portion of the lease liability is ($000) $573 (2021: $524). The non-current portion of the lease liability is ($000) $5,187 (2021: $4,830).

Lease adjustment

A transition adjustment has been realised in the current year as a correction to the right-of-use asset and lease liabilities due to a lease incentive received on inception of the lease at 123 Victoria Street. The remeasurement of the right-of-use assets is an increase of ($000) $62. The remeasurement of lease liabilities is an increase of ($000) $261. A decrease has been taken into retained earnings of ($000) $296. The remaining effect has been taken through profit and loss ($000) $97. A tax effect of ($000) $84 has been realised in retained earnings to correct the prior year's tax effect. The net effect in retained earnings is ($000) $212.

Maturity Analysis	2021 $000	**2022 $000**
Not later than one year	664	**725**
Later than one year but not later than two years	614	**669**
Later than two years but not later than five years	1,638	**1,688**
Later than five years	3,530	**3,582**
	6,446	**6,664**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

23. Events After Balance Date

Sale of Keravos Limited
On 1 July 2022 the Group sold the majority of its interest in Keravos Limited to Logan Williams for $1. The Group still holds a 10% interest in Keravos Limited.

Trade Finance Facility
The Group has obtained a trade finance facility to cover its cash flow requirements for the 2023 financial year.

Dividend
The board has determined that a dividend of 50% of after-tax profits should be paid to shareholders. This equates to a dividend of 41.6 cents per share.

The dividend will be paid on Friday 4 November 2022 to all shareholders on the register at 5pm on Friday 28 October 2022.

There are no other significant events post balance date.

24. Auditor's Remuneration

The auditor of the Group is Deloitte Limited.

Amounts paid or payable to Deloitte Limited during the year were:

	2021 $000	**2022 $000**
Audit of the financial statements	41	**68**
Advisory services	78	**12**
	119	**80**

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

25. Contingencies

The Group has no contingent liabilities as at 30 June 2022 (2021: $23). The Group has no contingent assets as at 30 June 2022 (2021: nil).

In respect of its interest in the Alpine Origin Merino Limited joint venture (refer Note 11), the joint venture had no contingent assets or liabilities as at 30 June 2022 (2021: nil).

In respect of its interest in the Glerups New Zealand Limited joint venture (refer Note 11), the joint venture had no contingent assets or liabilities as at 30 June 2022 (2021: nil).

26. Income In Advance

The current portion of income in advance is $100 ($000) (2021: $20). The non-current portion of income in advance is nil ($000) (2021: nil).

27. Covid-19

During the year ended 30 June 2022 the Board of Directors and management have been actively monitoring the ongoing impact of Covid-19. Measures to mitigate any risks arising from Covid-19 have been put in place immediately after any risks are identified. The Group's financial position and performance for the year ended 30 June 2022 has not been adversely affected by Covid-19.

28. Share-Based Arrangements - Cash Settled

On 30 September 2011 The New Zealand Merino Company Limited (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 the Company.

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

28. Share-Based Arrangements - Cash Settled (continued)

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 the Company's shares, the agreement with the management shareholders allows them to require the Company to buy-back a percentage of the shares at certain dates based on a contractually agreed formula, as detailed below.

During the 2015 year the board approved changes to the share-based arrangement whereby a percentage of the shares were able to be sold back to the Company on 1 July 2014 or 1 July 2015. The minimum shareholding required to be held while an employee was also reduced to 20% of the shares issued.

During the 2022 year there were no buy-backs and cancellation of any shares held under the arrangement (2021: nil).

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

	Number of shares issued	Issue price	Total vested	Pecentage able to be sold back to company	Minimum shareholding while an employee
30/09/2011	602,342	$1.48	25%	-	25%
01/07/2012	-	-	35%	-	35%
01/07/2013	-	-	55%	-	55%
01/07/2014	-	-	75%	20%	20%
01/07/2015	-	-	95%	30%	20%
01/07/2016	-	-	100%	50%	20%
01/07/2017	-	-	100%	75%	20%
01/07/2018 onwards	-	-	100%	100%	20%

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 three years EBIT; The last two full financial years (audited accounts) The budget / reprojected EBIT in year of notice
Earnings Multiple	5

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

28. Share-Based Arrangements - Cash Settled (continued)

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

During the year ended 30 June 2022 no payments were made under the arrangement (2021: nil).

Fair Value of Share-Based Arrangements

The fair value of share-based arrangements as at 30 June 2022 is ($000) $2,227 (2021: $1,733). This has been calculated based on management's best estimate for the effects of the exercise restrictions, future earnings of the Group and other considerations.

At 30 June 2022 the number of shares outstanding in the share-based arrangements is 360,224 (2021: 360,224).

The share-based arrangements provision has been valued using an earnings multiple of 5 and has been based on forecasted earnings with a 90% (2021: 90%) likelihood of the option being exercised, and a post tax discount rate of 13% (2021: 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) $2,531. 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) $1,936.

Impact of the Share-Based Arrangement on the Consolidated Statement of Comprehensive Income

	2021 $000	**2022** **$000**
Share-based arrangements - cash settled	-	**494**

29. Share-Based Arrangements - Equity Settled

Under the share-based long term incentive scheme, participants are granted share options which have the potential to be exercised for ordinary shares in the Company. The number of options that will vest is determined by the Group's three year cumulative earnings before interest and tax (EBIT) versus board approved targets for the respective plans ending date and the continuous employment of the participant. These are generally considered to be vesting performance conditions.

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

29. Share-Based Arrangements - Equity Settled (continued)

Share-Based Long Term Incentive Scheme 1
During the year ended 30 June 2021 the Group agreed to a share-based long term incentive scheme with the Chief Executive Officer and five direct management reports, aligned to the Group's growth goals for the three years ending 30 June 2023.

The grant date of the scheme was 30 July 2021, however the cumulative EBIT period commenced on 1 July 2020. Due to the scheme's conditions commencing a significant period of time prior to the grant date, the perfomance condition of the share-based long term incentive Scheme 1 is considered to be a non-vesting condition. The assessment of probability of achievement of the target is taken into account in the grant date fair value and in the event the performance condition is not met, the associated expenses can not be recovered.

Share-Based Long Term Incentive Scheme 2
During the year ended 30 June 2022 the Group agreed to a share-based long term incentive scheme with the Chief Executive Officer and seven direct management reports, aligned to the Group's growth goals for the three years ending 30 June 2024. The finalisation and grant date for the scheme was 9 September 2021.

The fair value of the options has been determined using the Black Scholes option pricing model. Key inputs and assumptions used in deriving the options fair value under each scheme is outlined below.

	Scheme 1	Scheme 2
Key inputs and assumptions used in the fair value of options:		
Share price at grant date	$4.50	$5.50
Term (years)	1.92	2.81
Exercise price	$3.80	$3.96
Dividend yield	7.50%	6.18%
Expected volatility	22%	22%
Risk free rate	0.50%	1.04%
Weighted average fair value of options granted	$0.53	$1.08
Movement in Share-Based Long Term Incentive Sheme options:		
Opening balance at 1 July 2021	-	-
Granted during the year	332,076	161,614
Exercised during the year	-	-
Lapsed during the year	(37,895)	(15,152)
Closing balance at 30 June 2022	294,181	146,462

For the year ended 30 June 2022 the impact of the equity settled Share-Based Arrangements on the Consolidated Statement of Comprehensive Income is ($000) $120. The related movement in deferred tax asset is ($000) $124. The effect on equity is ($000) $244 (refer to Note 17).

Notes to the Financial Statements (continued)

For the year ended 30 June 2022

30. Dividend

The Group paid a dividend during the year ended 30 June 2022 of ($000) $1,278 (2021: nil). This represented a dividend per share of 24 cents.

31. Comparison to Prospective Financial Information

Pursuant to Section 11.1 of the Financial Reporting Standard 44, the following is a comparison between the forecasted financial information that was disclosed in the 2021 prospective financial information and the actual financial information as reported in these financial statements.

	Forecast 2021 $000	Actual 2021 $000	**Forecast 2022 $000**	**Actual 2022 $000**
Revenue	119,263	137,189	**140,104**	**197,255**
Contribution margin	13,303	18,875	**15,884**	**21,549**
EBITDA	2,360	6,723	**4,264**	**7,295**
EBIT	1,916	6,361	**3,784**	**6,890**
Net profit after tax	1,111	4,261	**2,478**	**4,408**
Balance Sheet and Cash Flow Items				
Dividends paid	-	-	**556**	**1,278**
Total assets	43,096	42,614	**41,066**	**50,959**
Cash and cash equivalents	6,846	6,407	**9,965**	**202**
Total liabilities	14,943	13,605	**10,991**	**19,948**
Total debt	-	-	**-**	**(2,762)**
Net cash flows from operating activities	(2,235)	77	**4,258**	**(6,846)**

EBITDA includes depreciation expense from the right-of-use lease assets.

At the time of preparing the prospective financial information the Group expected there to be a significant adverse impact on earnings resulting from Covid-19. This did not occur and the Group has experienced very strong demand for wool resulting in significantly improved revenue, contribution margin and earnings.

Deloitte.

Independent Auditor's Report

To the Shareholders of The New Zealand Merino Company Limited

Opinion

We have audited the consolidated financial statements of The New Zealand Merino Company Limited (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 30 June 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 30 to 74, present fairly, in all material respects, the financial position of the Group as at 30 June 2022, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm has been engaged by the Group to perform advisory services relating to internal pricing arrangements within the Group. These services have not impaired our independence as auditor of the Group. In addition to this, partners and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. The firm has no other relationship with, or interest in, the Group.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Revenue recognition – Contract revenue The Group has reported total contract revenue of $153.3 million in the year ended 30 June 2022, as set out in note 1. Contract revenue is recognised at a point in time when the wool is released to the customer and the right to consideration becomes unconditional. The continued impacts of the Covid-19 pandemic have caused global shipping disruptions. Potential delays in shipping can have an impact on the timing of revenue recognition around year end and could result in revenue being recorded in the incorrect period. We have determined the recognition of contract revenue as a key audit matter because material revenue transactions can occur close to year-end and the on-going impacts of Covid-19 may result in potential shipping disruptions.	**We have evaluated the application of sale contract terms relating to contract revenue by performing the following:** We obtained an understanding of and evaluated the design and implementation of internal controls used by the Group to ensure that the correct sale contract terms for each contract are used to recognise revenue at the appropriate point in time. Performed targeted testing particularly on contract sales by obtaining third party confirmations. For a sample of contract sales recognised for the six week period prior to 30 June 2022, we obtained the specific documentation that outlined the sales and delivery terms. We read this documentation, noted the specific terms and conditions and checked that revenue was recognised at the appropriate time in accordance with those conditions.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Our responsibility is to read the other information identified above when it becomes available and consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and consider further appropriate actions.

Independent Auditor's Report

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Group's shareholders, as a body. Our audit has been undertaken so that we might state to the Group'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 Group's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Heidi Rautjoki, Partner for Deloitte Limited
Christchurch, New Zealand
27 September 2022

This audit report relates to the consolidated financial statements of The New Zealand Merino Company Limited and its subsidiaries (the 'Group') for the year ended 30 June 2022 included on the Group's website. The Directors are responsible for the maintenance and integrity of the Group's website. We have not been engaged to report on the integrity of the Group's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 27 September 2022 to confirm the information included in the audited consolidated financial statements presented on this website.

Statutory Information

For the year ended 30 June 2022

Employee Remuneration

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

(a) Base salary; and

(b) Kiwisaver.

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

	2022 $000
Base salary:	776
Kiwisaver:	31

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

Band ($000)	Number
$100 - $110	3
$110 - $120	4
$120 - $130	1
$130 - $140	2
$140 - $150	3
$150 - $160	6
$160 - $170	1
$170 - $180	2
$220 - $230	1
$250 - $260	1
$300 - $310	1
$330 - $340	1
$390 - $400	1
$400 - $410	1
$800 - $810	1

Statutory Information (continued)

For the year ended 30 June 2022

Directors' Disclosures

Directors Holding Office During the Year

The following directors held office during the year ended 30 June 2022:

	Originally Appointed
The New Zealand Merino Company Limited	
Kathryn Mitchell	04/10/17
Ben Todhunter	17/10/14
Bill Sutherland	12/11/15
Paul Ensor	07/11/19
Matanuku Mahuika	17/06/14
John Penno	15/10/20
Keravos Limited	
Logan Williams	21/10/20
Peter Floris	21/10/20
John Brakenridge	21/10/20
Made for Good RX Limited	
Peter Floris (resigned 16/06/2022)	26/05/22
John Penno	16/06/22
Traci Houpapa	16/06/22
Wayne Norrie	16/06/22
Matanuku Mahuika	16/06/22
Derek Lyons	16/06/22

Directors' Remuneration

Remuneration paid to directors of The New Zealand Merino Company Limited during the year ended 30 June 2022:

	2022 $000
Kathryn Mitchell	90
Ben Todhunter	54
Bill Sutherland	45
Paul Ensor	54
Matanuku Mahuika	54
John Penno	45
	342

No directors fees have been paid to directors of Keravos Limited or Made For Good RX Limited.

Statutory Information (continued)

For the year ended 30 June 2022

Directors' Holdings

The following Directors held interests, either directly or indirectly, in securities issued by The New Zealand Merino Company Limited as at 30 June 2022:

	Ordinary shares
Kathryn Mitchell	26,316
Ben Todhunter	30,000
Bill Sutherland	90,000
Paul Ensor	26,500
Matanuku Mahuika	20,000
John Penno	26,315

Directors' Indemnity and Insurance

The Group has given indemnities to, and has effected insurance for, directors and executives of the Group, 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.

Entries in the Company's Interests Register

Pursuant to Section 140 (2) of the Companies Act 1993, directors of The New Zealand Merino Company Limited have disclosed interests in the following entities during the year:

Kathryn Mitchell	
Director	Morrison Horgan Limited
Director	Helping Hands Holdings Limited
Director	Chambers @ 151 Limited
Director	Christchurch International Airport Limited
Director	FarmRight Limited
Director	Firsttrax Limited
Director	Heartland Bank Limited
Director	Heartland Group Holdings
Chairman	Link Engine Management Limited

Statutory Information (continued)

For the year ended 30 June 2022

Entries in the Company's Interests Register *(continued)*

Ben Todhunter	
Director	Cleardale Station Limited
Director	Southern Cross Sheep Limited
Director	Sri Taniwha Limited
Director	StockX Limited
Director	StockX Systems Limited
Director	StockX Nominees Limited
Director	High Bare Peak Limited
Partner	B J Todhunter and D M Field Partnership
Bill Sutherland	
Partner	Benmore Station
Partner	Ahuriri Downs
Director	Benmore Irrigation Company Limited
Chairman	Omarama Saleyards Limited
Paul Ensor	
Director	Glenaan Station Limited
Director	Hemprino Limited
Matanuku Mahuika	
Partner	Kahui Legal
Director	Ngati Porou Windfarms Limited
Director	NPWF Holdings Limited
Director	JP Ferguson Trustee Company Limited
Director	Eastland Group Limited
Director	Eastland Network Limited
Director	Pakihiroa Farms Limited
Director	Eastland Port Limited
Director	Gisborne Airport Limited
Director	Callaghan Innovation Limited
Director	Pohewa Limited
Director	Ngati Porou Berries Limited
Director	Te Tira Toi Whakangao Limited
Advisory Board Member	Futurity Group Limited
Director	Made For Good RX Limited

Statutory Information (continued)

For the year ended 30 June 2022

Entries in the Company's Interests Register *(continued)*

John Penno	
Chairman	Synlait Milk Limited
Director	Okuora Farms Limited
Director	Okuora Holdings Limited
Chairman	The Pure Food Co Limited
Chairman	Wangapeka River Hops Limited
Director	Leaft Foods Limited
Director	Stem and Stalk Limited
Chairman	Dairy Works Limited
Trustee	John Penno Trust
Director	Made For Good RX Limited

Pursuant to Section 140 (2) of the Companies Act 1993, directors of Made For Good RX Limited have disclosed interests in the following entities during the year:

Wayne Norrie	
Director	Distinction Limited
Director	Figured Limited
Director	Furnware Limited
Advisor	Future Products Group Limited
Director	JB Were Private Investments
Director	Now Networks Limited
Director	Paradise Consulting Limited
Director	Resero Limited
Director	Resero IP Limited
Director	Sportsground Limited
Director	New Zealand Trade and Enterprise

Traci Houpapa	
Chairman	Federation of Maori Authorities
Chairman	National Advisory Council on the Employment of Women
Chairman	Hineuru Holdings Limited
Chairman	Te Arawa Group Holdings Limited
Co-Chairman	Australia New Zealand Leaders Forum Indigenous Business Sector Group
Director	Chiefs Rugby Club Limited
Director	Ontario Teachers' Pension Plan New Zealand Forests Investment Limited
Director	New Zealand Trade and Enterprise
Advisor	Stuff Limited
Te Hapai O Māori Advisory Group Member	New Zealand Public Service Commission
Council Member	Massey University
Board Member	National Science Challenge Science for Technology and Innovation
Risk and Audit Committee Member	New Zealand Police
Advisor	Asia New Zealand Foundation

Derek Lyons	
Director	Actual Systems Incorporated

Statutory Information (continued)

For the year ended 30 June 2022

Entries in the Company's Interests Register *(continued)*

Matanuku Mahuika

Refer to page 81.

John Penno

Refer to page 82.

Peter Floris (resigned 16/06/2022)	
Director	Keravos Limited
Director	Glerups New Zealand Limited
Director	Alpine Origin Merino Limited
Chief Financial Officer	The New Zealand Merino Company Limited

Shareholder Information

Top 10 Shareholders as at 30 June 2022

Shareholder	Number of ordinary shares	Percentage of holding
John Donald Brakenridge	479,992	9.05%
Jeremy Trevor Blake & Rachel Michele Blake & Brett Robin Gamble	330,000	6.22%
Glenthorne Station Limited	200,000	3.77%
Peter Floris	170,652	3.22%
Michael Hargadon	139,326	2.63%
FNZ Custodians Limited	138,578	2.61%
Keith James Ovens	107,000	2.02%
The Muller Station Limited	103,844	1.96%
Robert William Butson & Linda Kathleen Butson	99,627	1.88%
Andrew James Sutherland & William Henry Sutherland	90,000	1.70%
	1,859,019	35.05%

Distribution of Ordinary Shares as at 30 June 2022

Size of holding	Number of shareholders	Percentage of holding	Number of ordinary shares	Size of holding percentage
1 - 5,000	349	61.99%	625,965	11.80%
5,001 - 10,000	107	19.01%	787,827	14.85%
10,001 - 25,000	73	12.97%	1,050,499	19.80%
25,001 - 50,000	19	3.37%	654,319	12.34%
50,001 - 100,000	7	1.24%	516,247	9.73%
Over 100,000	8	1.42%	1,669,392	31.48%
	563	100.00%	5,304,249	100.00%

The New Zealand Merino Company Limited

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