

AUSTRALIAN WOOL INNOVATION LIMITED



ANNUAL REPORT 2009/10



AWI'S MISSION

AWI's mission is to invest in research, development, marketing and promotion in order to:

- enhance the profitability, international competitiveness and sustainability of the Australian wool industry; and
- increase demand and market access for Australian wool.

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ABOUT AWI

WHAT AWI DOES

Established in 2001, AWI is a not-for-profit company owned by over 29,000 wool levy payers who have registered as AWI shareholders.

The company invests along the global supply chain for Australian wool - from woolgrowers through to retailers.

AWI's vision is for it to be a significant contributor to a vibrant, stable and profitable wool industry providing the world with the best natural fibre.

AWI's goal is to help increase the demand for wool through investments in marketing, innovations and R&D - from farm to fashion.

BUSINESS MODEL

In the WoolPoll conducted of woolgrowers in November 2009, our shareholders voted to continue the current wool levy at two per cent. The investment of wool levy funds and Government contribution will be allocated as follows:

Research & Development 50%		Marketing 50%
On-farm R&D 30%	Off-farm R&D 20%	Off-farm Marketing 50%
On-farm activities 30%	Off-farm activities 70%	

HOW AWI IS FUNDED

AWI investments are funded through a wool levy paid by woolgrowers (currently two per cent of the sale price received for their shorn greasy wool) and a matching contribution from the Australian Government for eligible R&D activities, capped at 0.5 per cent of the value of gross national value of wool production.

The sale of Woolmark licences contributes a further source of income for AWI, directly funding AWI's International Sales Network.

Woolgrowers vote every three years on the percentage of wool proceeds they would like to invest in wool innovation, marketing, sales, off-farm R&D and on-farm R&D. In the most recent vote - WoolPoll 2009 - 73.13 per cent of votes cast were in favour of a levy of two per cent or more.

An agreement exists between AWI and the Australian Government, called the Statutory Funding Agreement, which defines the conditions under which AWI may invest levy and Government-matched funds. A new three year Statutory Funding Agreement came into effect on 1 July 2010.

HOW AWI HAS EVOLVED

On 1 January 2001, Australian Wool Services (AWS) replaced the Australian Wool Research and Promotion Organisation (AWRAP), which had been operating since 1993. AWS was established with two subsidiaries: AWI and The Woolmark Company Pty Ltd.

On 30 April 2002 AWI separated from AWS to become a fully independent public company limited by shares.

In October 2007, AWI acquired The Woolmark Company Pty Ltd from AWS. Most notably, AWI became the owner of the Woolmark - the world's best known textile fibre brand.

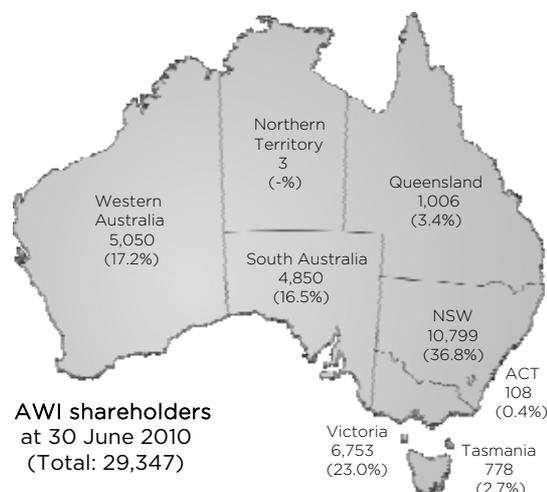
AWI SHAREHOLDERS

AWI has more than 29,000 shareholders who are Australian woolgrowers. The shareholders of AWI contribute to the wool levy. The shareholders are able to shape the decision making process of the company via their access to information and right to vote at Annual General Meetings.

AWI shareholders are entitled to one vote for every \$100 of wool levy paid in the three financial years before any vote. A share in AWI is not tradeable and is of no capital value. Paying wool levies does not make the levy payer automatically a shareholder of AWI. Levy payers who are not already an AWI shareholder can contact the AWI share registry at Link Market Services on 1800 113 373 (free call) to enquire about becoming a shareholder.

Wool is produced across a range of environments in Australia. AWI shareholders are therefore located across a broad area of the country, from the high rainfall areas, to the wheat/sheep zone, out to the drier pastoral zone.

AWI had 29,347 shareholders at 30 June 2010, a decrease of 407 shareholders over the past 12 months. There were a total of 64,728 wool levy payers at 30 June 2010.



STRATEGY FOR THE FUTURE

While this Annual Report covers AWI's activities during 2009/10, it should be noted that from 1 July 2010, AWI has been operating under a new three-year Strategic Plan for the years 2010/11 through to 2012/13.

Following extensive industry and government consultation, the strategies adopted and being implemented in the Strategic Plan are:

1. Wool industry R&D – On-farm

Objective: To help build a sustainable Australian wool industry through improvements in productivity and profitability on-farm.

Strategy 1: Sheep health, welfare and productivity

Strategy 2: Wool harvesting and clip quality

Strategy 3: The environment, climate change and carbon

Strategy 4: Education and extension.

2. Wool industry R&D – Off-farm

Objective: To help increase demand for Australian Merino wool by recognising and addressing through off-farm R&D the product and process barriers to consumption at trade level through consumer-driven, targeted research, development and innovation programs.

Strategy 1: Quality assurance, eco and carbon management

Strategy 2: Health and environmental attributes and benefits of wool

Strategy 3: Performance apparel and safety attributes

Strategy 4: Fibre quality, innovation and textile development

Strategy 5: Interior textiles and floor coverings

Strategy 6: Marketplace extension of fibre knowledge and textile innovation.

3. Marketing Australian wool

Objective: To help increase demand for Australian Merino wool by recognising and addressing the information barriers to consumption at consumer and trade level, and informing people of the Merino wool fibre story.

Strategy 1: Fibre marketing partnerships

Strategy 2: Product partnership marketing

Strategy 3: Market intelligence.

4. International Sales Network/Woolmark

Objective: To review the role and value of the Woolmark brand, revitalise it and, where markets and partners permit, maximise the presence and income streams of the brand.

Strategy 1: Build Woolmark brand presence through partnership marketing

Strategy 2: Maximise income and royalties from AWI brands

Strategy 3: Evaluate feasibility of extending Woolmark into retail operations.

5. International trade and market access

Objective: To define threats and opportunities facing the wool industry, and build strategies and programs to ensure market access, sustainable production and improved trading environment across the supply chain.

Strategy 1: Expand market access for Australian wool

Strategy 2: Identify and develop new markets for Australian wool.

HIGHLIGHTS OF 2009/10



AWI's lightweight Merino Cool™ collection redefined Merino as an all year around fibre.



AWI's Merino Casual collection addressed the global fashion trend of casualisation.



Several initiatives are underway to help woolgrowers overcome wild dog predation.



2,619 shearers and wool handlers were trained through AWI training programs.

MARKETING AND OFF-FARM R&D

Merino Casual collection launched

AWI launched its Merino Casual autumn/winter 2010/11 collection, at the SpinExpo trade show in New York, to address the global trend toward the modern, less formal style of dressing.

Merino Cool™ collection launched

AWI launched its new range of lightweight Merino Cool™ woven fabrics, redefining Merino as a natural fibre that can be worn with comfort 52 weeks of the year, not just during the 12 weeks of the autumn/winter season.

Merino and cotton range launched

A major cotton apparel manufacturer has introduced Australian Merino wool into a range of its cotton yarns to provide trans-seasonal garments with a softer and more luxurious feel.

Marketing collaboration builds demand

AWI is building partnerships with key processing, manufacturing and retail apparel companies around the world, and encouraging them to take up new wool fabrics, yarns and products that will give their business an edge.

Woolmark brand revitalised

A new range of retail merchandising materials, including new signage, care claim booklets and educational materials, has been released to promote the natural benefits of wool.

Retail staff trained about wool

AWI has been working with many of its retail partners to help educate their sales staff about the natural properties and benefits of wool, so they can advise their consumers more appropriately.

Fashion designers encouraged

AWI has established relationships with an important group of emerging fashion designers, to help foster the use of wool in the designers' collections, which in turn encourages the use of wool in wider apparel markets.

Interiors market bolstered

Woolmark Interiors licensees are benefiting from a vibrant Woolmark Interiors program that builds on the refreshed branding of last year.

ON-FARM R&D

Flystrike R&D continued

AWI continued to fast track its R&D program, including genetic research and breeding and intradermals, to deliver welfare improved methods of flystrike prevention.

Shearers and wool handlers trained

1,392 shearers and 976 wool handlers have been trained directly through the AWI shearer and wool handler training program in 2009/10. An additional 251 participants attended a shearing or wool handler workshop.

Lice management intensified

AWI has helped growers make sense of the increasing problem of lice infestations with a new extension program, known as LiceSense, rolled out during 2009/10.

Wild dog control strengthened

The wool industry has acted to combat a growing number of attacks by wild dogs on stock, with several initiatives being undertaken by the Invasive Animals CRC, with support from AWI.

For further information on AWI program operations during 2009/10, refer to the reports beginning on page 10.

FINANCIAL SUMMARY

REVENUE FOR 2009/10

Total revenue for 2009/10 was \$62,437,000, compared to \$61,716,000 in 2008/09. Sources of revenue are shown in the table below.

	2008/09 \$'000	2009/10 \$'000
Wool levy	34,307	35,319
Government contributions	11,395	10,483
Licence fees	9,134	10,606
Interest	3,267	2,713
Sales of goods and services	1,531	1,253
Royalties	1,805	1,300
Rents and sub-lease rentals	0	74
Other operating revenue	277	92
Other income	0	597
Total revenue	61,716	62,437

EXPENDITURE FOR 2009/10

Total expenditure in 2009/10 was \$45,687,000, a 42 per cent decrease over total expenditure in 2008/09 of \$78,577,000. Expenditure is shown in the table below. More detailed information can be found in the Financial Report beginning on page 34.

	2008/09 \$'000	2009/10 \$'000
International network	23,359	16,893
Global Marketing	11,757	6,569
Off-farm R&D	10,729	5,447
On-farm R&D	17,444	9,551
Corporate services	15,288	7,227
Total expenditure	78,577	45,687

FINANCIAL HISTORY AND FORECASTS

AWI's expenditure was more than its revenue in four out of the previous five years. Consequently, AWI reserves had fallen significantly. By running the company in a leaner, commercially oriented manner in 2009/10, this trend was reversed, with expenditure significantly less than revenue. AWI plans to maintain its current reserves in the future.

	2004/05 \$'000	2005/06 \$'000	2006/07 \$'000	2007/08 \$'000	2008/09 \$'000	2009/10 \$'000	Forecast 2010/11 \$'000
Revenue	64,999	57,035	63,964	90,812*	61,716	62,437	52,104
Expenditure	78,497	82,678	75,453	85,354	78,577	45,687	52,104
Balance	(13,498)	(25,643)	(11,489)	5,458	(16,861)	16,750	0
AWI reserves	102,992	77,349	65,860	71,318	54,457	71,207	71,207

* This includes a one-off \$15 million grant from the Australian Government to purchase The Woolmark Company Pty Ltd.

AUSTRALIAN WOOL PRODUCTION HISTORY AND FORECASTS

AWI's revenue is largely dependent on wool levy income. Wool production and prices are used to calculate wool levy income using the following formula: Eastern Market Indicator (EMI) price in cents per kg clean *multiplied* by shorn greasy wool production adjusted to kilogram clean *multiplied* by the levy percentage (two per cent).

	2006/07	2007/08	2008/09	2009/10	Forecast 2010/11
Market price EMI* (cents per kg clean)	856	948	793	872	900 (f)
Flock size** (opening sheep numbers, in millions)	91.0	85.7	76.9	72.7(e)	70.0 (f)
Wool production** (shorn greasy wool*** in millions of kg)	430	400	362	343 (e)	340 (f)

* Actual figures from AWEX. Forecast figure from ABARE.

** Figures from the Australian Wool Innovation Production Forecasting Committee.

*** Clean wool under this model is assumed to represent approximately 65% of the weight of greasy wool.

(e) Estimate

(f) Forecast

AWI BOARD OF DIRECTORS



Mr Walter B Merriman



Mr Roger J Fletcher



Mr George B S Falkiner



Mr Chick R Olsson



Dr Meredith L Sheil



Mr Brian P van Rooyen



Mr David A A Webster

THE BOARD OF AWI

The Board continued to meet regularly during 2009/10.

The number of Board members reduced from nine to seven members during the year, following the resignations of Dr Kevin Bell and Mr Laurence Modiano.

In 2010 the AWI Board set the Company's strategic direction and delegated responsibility for day-to-day management to the Chief Executive Officer (CEO). The Board is committed to governance systems that enhance performance and ensure AWI operates according to accountability provisions required by various Government Acts and ASIC Regulations and Guidelines. A report on corporate governance is on page 25.

The Board has established a number of committees that monitor and guide specific activities. These committees assist the Board to effectively implement, monitor and enforce appropriate corporate governance throughout the Company. There are currently three Board committees:

Finance & Audit Committee chaired by Chick Olsson

Directors appointed by the Board provide advice to the Board and to the CEO to assist in fulfilling their responsibilities relating to accounting, reporting and compliance practices of the Company. The Finance & Audit Committee meets periodically to address all matters within its charter.

Remuneration & Appointments Committee chaired by Roger Fletcher

This Committee provides input and guidance to the Board and the CEO in matters pertaining to recruitment and retention of employees and the policies governing remuneration for current and potential employees. The Remuneration & Appointments Committee meets periodically to address all matters within its charter.

On-Farm RDI Scientific & Welfare Committee chaired by George Falkiner

This Committee was established to provide support to the Board in defining policies and input to the Board and CEO on the conduct of programs relating to activities undertaken by AWI that utilise science or impact animal welfare activities. The On-Farm RDI Scientific & Welfare Committee meets periodically to address all matters within its charter.

The objectives and responsibilities of the Board committees is set out in the 'Charter of the Committees of the Board' available on the AWI website www.wool.com and from the AWI Helpline on 1800 070 099.

The Directors' Report is on page 30.

The Directors of Australian Wool Innovation Limited, their qualifications, experience and special responsibilities as at 30 June 2010 are listed below.

MR WALTER B MERRIMAN, CHAIRMAN OF AWI

Mr Merriman is Managing Director of the Merryville Stud. He oversees extensive commercial pastoral interests giving him broad farming and grazing experience. Mr Merriman has served on several industry boards, including National Woolgrower Forum, Major Woolgrowers Group and is past president of both NSW and Australian Stud Merino associations. Also, Mr Merriman has strong links with the Italian wool industry.

Special responsibilities:

Remuneration & Appointments Committee member
On-Farm RDI Scientific & Welfare Committee member.

MR ROGER J FLETCHER, DEPUTY CHAIRMAN OF AWI

Mr Fletcher is the Managing Director of Fletcher International Exports Pty Limited (Dubbo Abattoirs and Wool Scour & Top Making Plant) New South Wales, and Fletcher International WA (Narrakup Abattoirs) Western Australia. He is also a wheat and wool farmer. He is Chairman of the National Export Lamb, Sheep and Goat Industries Council and Director of the Australian Meat Industry Council.

Special responsibilities:

Chair, Remuneration & Appointments Committee
Finance & Audit Committee member.

MR GEORGE B S FALKINER BCOMM, OPM (HARVARD BUSINESS SCHOOL)

Mr Falkiner is the Principal and Managing Director of Haddon Rig Pty Ltd, an extensive cropping and grazing property in Central NSW, and home to the renowned Peppin Merino Stud. Through Haddon Rig Pty Ltd, Mr Falkiner has assisted more than 300 professional woolgrowers in remaining industry competitive, with a focus on market specifications and efficiency. Mr Falkiner is a member of the NSW Government Agricultural Ministerial Advisory Committee; and a past Board member of Sotheby's auction house and George Brown electronics.

Special responsibilities:

Chair, On-Farm RDI Scientific & Welfare Committee
Finance & Audit Committee member.

MR CHARLES (CHICK) R. OLSSON BEC, MAICD

Mr Olsson is part of the Olsson family group of companies, known for their agricultural and salt mining interests throughout Australia. His business career has essentially been involved in business management and marketing roles. Mr Olsson runs fine wool Merinos at 'Royal Oak' Goulburn in NSW.

Special responsibilities:

Chair, Finance & Audit Committee
Remuneration & Appointments Committee member.

DR MEREDITH L SHEIL MBBS FRACP PHD

Dr Sheil is a specialist paediatrician with over 20 years experience working in intensive medicine and research with children. She is also a commercial woolgrower and a Medical and Veterinary Research Scientist who has extensive experience dealing with the health and welfare of children and animals undergoing surgical and non surgical procedures. Dr Sheil was responsible for inventing / developing a wound anaesthetic for lambs undergoing mulesing and, in conjunction with Sydney University Veterinary School, is currently pursuing research into the development of similar practical and affordable pain relief medications for on farm use in livestock industries. This work is supported by a linkage grant from the Australian Research Council. Dr Sheil is a local government councillor, and is an Honorary Associate of the University of Sydney Veterinary School.

Special responsibilities:

On-Farm RDI Scientific & Welfare Committee member.

MR BRIAN P VAN ROOYEN

Mr van Rooyen is currently Chairman of Australian Country Spinners Pty Ltd and a Director of PFG Australia Pty Ltd and Power Farming New Zealand Ltd.

Special responsibilities:

Finance & Audit Committee member
Remuneration & Appointments Committee member
On-Farm RDI Scientific & Welfare Committee member.

MR DAVID A A WEBSTER

Mr Webster has spent his working life putting together a wool growing, livestock and cropping enterprise. A keen student of economics, he is a strong advocate of private enterprise commerciality and competition. He has very strong views on upholding the rights of farmers without undue regulation and impediments to running their businesses. Mr Webster places a high priority on giving value to shareholders, particularly for compulsory levy payers. He is also a Director of Australian Wool Testing Authority Ltd.

Special responsibilities:

Finance & Audit Committee member
Remuneration & Appointments Committee member.

COMPANY SECRETARY

The Company Secretary is Ms Sally Holmes (BSc., LLB (Hons), Dip Leg Prac, GAICD, Unrestricted Legal Practising Certificate).

CHAIRMAN'S REPORT



I was delighted to see such a resounding endorsement at WoolPoll 2009 of the marketing and integrated off-farm and on-farm R&D direction that AWI is now following. I was also very pleased that more wool levy payers voted in this poll than in the previous poll in 2006.

Australian woolgrowers spoke decisively and have allowed us to continue our new momentum to sell more wool, and reignite

global demand for the world's best natural fibre. Thank you for backing our plans.

This is still a challenging time for Australia's wool industry, but one full of hope. The drought that has plagued the industry is all but broken in the east, and we are seeing price movement for the first time in the right direction. Our work in assessing consumer sentiment shows that the world is searching for exactly what our sustainable industry has – a natural and renewable fibre that is stylish and comfortable.

AWI Strategic Plan

The Australian wool industry is aware of its evolving market environment. As the industry's marketing and R&D body, AWI is particularly aware of the challenges facing the Australian wool industry. Over the past twelve months AWI has engaged in a comprehensive strategic planning process – involving woolgrowers and other major stakeholders – to develop a roadmap that will allow the Australian wool industry to best navigate these evolving market conditions.

The key elements of AWI's new three-year Strategic Plan are the use of marketing, and integrated on-farm and off-farm R&D to:

- increase demand for Australian Merino wool;
- build a sustainable Australian wool industry; and
- maximise woolgrower profitability and productivity.

With hard work and a focus on the business, we believe the new Strategic Plan will help the wool industry to shift to a stable base, and in turn to continuously improve our product and its delivery to consumers around the world.

Importance of marketing

This year, we have focused our attention on current and potential partners in the supply chain who, like AWI, believe the wool fibre story is of value to consumers. We have engaged with them in planning a range of global activities to grow demand and improve returns to woolgrowers. The Campaign for Wool and the Gold Woolmark Campaign in China are examples of our strategic planning processes beginning to bear fruit.

Because AWI works in partnership with industry, it is in a strong position to ensure that our marketing initiatives best reflect industry demands.

The relationship between marketing and R&D is essential to grow the demand for wool products, particularly in new markets and product lines.

Merinos: more important than ever

The Australian wool industry is at a pivotal moment in its history. Falling sheep numbers and wool production

over the past decade have been worrisome, but it looks like this trend has bottomed out.

Merinos have long been the foundation of the national flock, and they are now as important to the sheep industry as ever. Pure self-replacing Merino businesses are returning solid profits when run well – something that woolgrowers are realising, with ram sales well up.

It is vital to rebuild the national Merino flock. This can only be achieved by the positive decisions of individual woolgrowers. AWI is helping, by its endeavours to increase global demand for Australian Merino wool and thereby the price that Merino woolgrowers get for their hard work. AWI is also focusing its on-farm R&D efforts on helping build woolgrowers' resources and confidence to build and maintain a sustainable and profitable wool industry.

Corporate governance

AWI has implemented a number of initiatives which address a range of governance issues, including those identified in the Review of Performance. We are ensuring that governance of the organisation is based on best practice. Independent expert advice has been obtained, where required.

The scope of this work has included developing and adopting new strategic planning processes, setting measureable objectives and KPIs, and reporting performance against those objectives. It also includes enhanced monitoring of compliance and risk, fraud prevention, and increased opportunities for stakeholder consultation. A formal conflicts policy has been introduced, as well as a grievance policy, and a procedure for annual Board performance assessment. The governance issues raised by the Productivity Commission have already been addressed in our new Statutory Funding Agreement with the Government.

I particularly want to note that the current democratically elected AWI Board has extensive industry experience and strong grass roots connections. Its combined skills base includes marketing, research, governance, accounting and business skills. This skills-based board is recognised and endorsed by the company's shareholders.

Working for woolgrowers

AWI has reviewed its performance and structure over the past 18 months, streamlined the business to reduce overheads, and reviewed every program and project to ensure we are aligned with woolgrowers' expectations.

AWI has implemented a comprehensive stakeholder consultation process which feeds into its investment program. AWI's consultation program includes all stakeholders who are impacted by investment outcomes – woolgrowers, retailers, government and R&D vendors.

You have my commitment that AWI – your company – is working for a better future for woolgrowers.

Wal Merriman
Chairman, Australian Wool Innovation
6 October 2010

CEO'S REPORT



This year was one in which Australian woolgrowers showed great faith in wool's future and in the ability of AWI to generate returns for levy payers – at WoolPoll nearly three quarters of all votes cast were in favour of a levy of two per cent or more.

AWI has continued to progress the plans so strongly supported by woolgrowers at WoolPoll. We have changed the way the

company operates, with a greater emphasis on cost effective, results-driven marketing and R&D.

Marketing

During the year, AWI issued a marketing brief to a group of eight international marketing agencies for them to respond with strategy and creative. In July we appointed Euro RSCG who are now working with brand and retail partners to promote and educate consumers about the many benefits of wool, with the key focus being the 2010/11 autumn/winter northern hemisphere retail season.

AWI has been working hard on major marketing campaigns that are now being rolled out across Europe and Asia. This is the first time in a decade that widespread and targeted marketing campaigns are taking place across key northern hemisphere markets.

One of these initiatives is The Campaign for Wool, supported by patron His Royal Highness The Prince of Wales, which is a five year campaign. It enjoys the support of over 100 retailers and brands including Austin Reed, Jaeger, John Lewis and Pringle of Scotland. It focuses primarily on the ecological benefits of using wool as a natural, biodegradable and renewable fibre.

Running parallel to the Campaign for Wool is the Gold Woolmark Campaign in China which is the largest wool promotion ever undertaken in that region. This high end promotion is repositioning the Woolmark alongside a number of premium UK and Italian brand partners in the fast growing luxury market of domestic China.

The Woolmark brand, as the world's best known textile brand, is central to all the marketing that we undertake. The value of the brand is well established the world over in the apparel and interior textiles sectors.

Quality is the backbone of the Woolmark brand, and AWI has this year reviewed and strengthened this element of its business. The brand is backed up by technical specifications and stringent testing.

Off-farm R&D and commercialisation

AWI developed and launched important new collections of wool innovations this year to inspire high volume manufacturers and brands to work with Merino wool.

The Merino Casual and Merino Touch™ collections position Merino wool to take advantage of two strengthening consumer trends: the casualisation of fashion and affordable luxury.

A key strategy of AWI has been to work directly with key processing, manufacturing and retail apparel companies around the world to increase the demand for

Australian wool and fast track their commercialisation. AWI has been working closely with the retail industry by aligning its product development and marketing to fit in with the retailers' own fashion calendar.

Global trade events were an important part of this engagement strategy. These have been followed by retail seminars with key partners.

On-farm R&D

Flystrike prevention remains AWI's highest on-farm research priority. With clips launched into the marketplace, investment has continued into genetic research, breeding for flystrike resistance, the development of an intradermal technology, as well as flystrike prevention education and extension activities. The first breeding values for breech wrinkle were launched in September 2009 by Sheep Genetics, and the Skintraction™ alternative continues to show encouraging results ahead of APVMA approval.

This year, AWI has helped growers control the increasing problem of lice infestations with the new LiceSense extension program.

AWI has also supported an integrated and co-ordinated national approach to develop and implement strategic landscape level control of wild dogs. Several initiatives have been undertaken by the Invasive Animals CRC and collaborators, with support from AWI.

Our commitment to shearer and wool handler training continued, with 1,392 shearers and 976 wool handlers trained directly through the AWI program in 2009/10, and an additional 251 participants who attended a shearing, wool handler or crutching workshop.

The future

Since being appointed as CEO in March, AWI has finalised its Strategic Plan for the next three years. The plan sets out initiatives which are focused on increasing demand for wool – and the price you are paid for it – and improving productivity and profitability on-farm.

For us to deliver this Strategic Plan, we have reviewed and refined our resource requirements, aligning them to the mandate we received from woolgrowers.

The company's finances are very healthy. Last year's expenditure was not as high as we forecast. This was due to us devoting time to ensuring our marketing plans were thoroughly prepared and reviewed. Now that they are complete, we anticipate our marketing expenditure to increase accordingly in 2010/11, within the tolerances laid out in WoolPoll. The Board has approved a budget to break even in 2010/11; however should opportunities arise, management and the Board will pursue those opportunities utilising the cash surplus at hand.

In all our endeavours we recognise that our best resources in meeting these expectations are our people. Well trained, motivated and responsive management and staff with autonomy and budget will be key in delivering the results woolgrowers expect.

Stuart McCullough
CEO, Australian Wool Innovation
6 October 2010

MARKETING & OFF-FARM R&D

REVITALISED WOOLMARK BRAND

Since purchasing the assets of The Woolmark Company in October 2007, AWI has been revitalising the Woolmark brand to enhance its appeal to today's consumers.

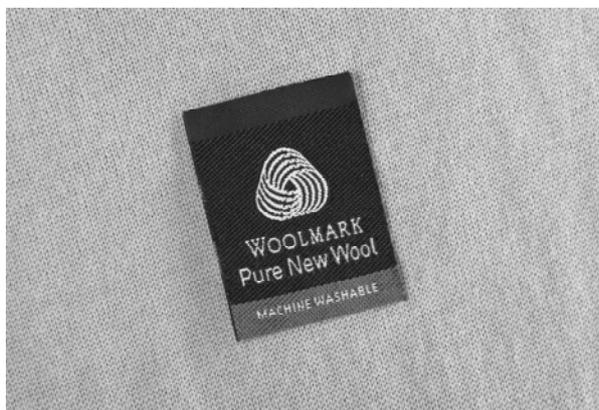
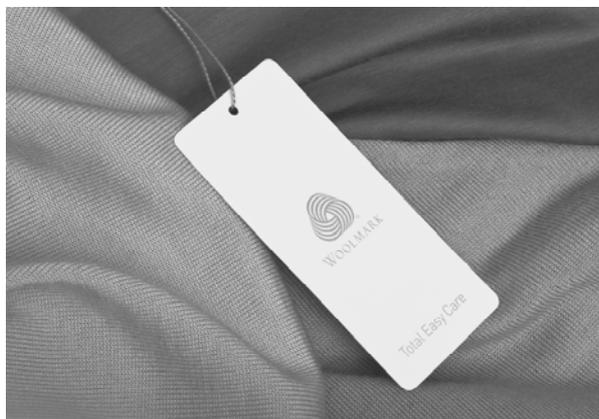
New look swing tickets and labels for the apparel market which give the Woolmark brand a fresh, contemporary look and feel that builds on the natural, timeless qualities of wool were launched in early 2010, with an initial roll out in the UK and further expansion globally over the rest of 2010.

There is also a new range of retail merchandising materials, including new signage, care claim booklets and educational materials which promote the natural benefits of wool.

Quality is the backbone of the Woolmark brand, and AWI has reviewed and strengthened this element of its business.

Following on from our initial review and update of Woolmark product specifications in 2008, we notified our licensees of further improvements in December 2009 with an effective date of 1 January 2011.

We have continued to introduce independent AWI authorised laboratories, which test products to ensure licensees comply with Woolmark product specifications. These laboratories regularly participate in inter lab trials to maintain high quality and consistent application of the Woolmark test methods.



Woolmark collateral has an updated design, added security and a more efficient ordering process.

MARKETING COLLABORATION

Forming relationships and collaborating financially and intellectually with other organisations along the wool supply chain is an important and fundamental part of AWI strategy. Collaboration helps ensure AWI delivers the best return for Australian woolgrowers.

A key strategy of AWI has been to work directly with key processing, manufacturing and retail apparel companies around the world to increase the demand for Australian wool.

AWI has targeted leading and influential companies in key markets including the processing and manufacturing powerhouse of China, the influential trend setting centres of Europe, the global retail brand and sportswear hub of the US, emerging markets such as India, and the world knitwear centre of Hong Kong.

AWI has been building partnerships with these companies, the decision-makers in world apparel, and encouraging them to take up new wool fabrics, yarns and products that will give their business an edge.

Trade events were an important part of this engagement strategy, and AWI participated in a targeted selection of international trade fairs such as Pitti Filati (Italy), Première Vision (France), Intertextile (Shanghai), and SpinExpo (New York and Shanghai). These created valuable introductions to buyers and designers, increased awareness of the Woolmark brand, and helped drive new business for Woolmark licensees.

AWI has also been working closely with the retail industry by aligning its product development and marketing to fit in exactly with the retailers' fashion calendar. We do our product marketing at precisely the time the retailers are considering what products to put in their seasonal collections.

AWI has a 'window of opportunity' to convince brands and retailers to stock wool for a particular season - it's important to get the timing right. There would be no point in us doing our marketing a month after the brands and retailers had already made their buying decisions.

Our retail seminars have been specifically designed to create demand for the Woolmark brand among retailers. Here, buyers and designers have been educated about the innovation potential of wool, wool trends, Woolmark quality specifications, and the value of sourcing through a trusted Woolmark supply chain.

AWI has also been marketing its product innovations to the large spinners, knitters and weavers, to persuade them to switch fibres to wool, because this is where retailers target their buying strategies. The knitters and weavers must be able to work with wool, to enable the retailers to buy wool products to put on their shelves.

AWI also collaborated in 2009/10 with organisations and companies in product technology research. These organisations included the Cooperative Research Centre (CRC) for Sheep Industry Innovation, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and AgResearch in New Zealand. This research underpins a range of technical developments in wool processing and textile design.

MARKETING CASE STUDY: CHINA

Zhejiang Qianqiu Knitwear Co Ltd, a knitting company in China, last year had been looking to strengthen its brand position by working with a quality fibre and a well-respected ingredient brand.

Due to AWI involvement, Merino wool and the Woolmark brand are the centerpiece of Qianqiu's new marketing campaign.

AWI provided technical and marketing assistance to Qianqiu, which improved the quality of the company's knitwear and also provided it with an effective branding strategy for the launch of its autumn/winter 2009/10 product range.

Qianqiu, a Woolmark licensee, has about 400 retail outlets, mainly in eastern and northern China. It sells men's and women's knitwear products – about one million pieces of wool knitwear a year. This consumes more than 300 tons (about 300,000 kilograms) of Merino wool.

Since working with AWI, the company's sales have increased by 200,000 pieces. AWI will continue to strengthen its relationship with Qianqiu by offering training seminars about new textile innovations from AWI, the Woolmark brand and knitwear trends to the company's staff.

MARKETING CASE STUDY: INDIA

India's largest private-sector company, Reliance Industries Ltd, might not be a household name in Australia, but with annual revenue of US\$32 billion – equivalent to the revenues of American Express, Coca Cola, Apple and DuPont – it is the type of partner with which AWI is keen to do business.

Last year AWI began a joint marketing campaign with Reliance in India. The campaign promoted an innovative range of trans-seasonal wool/polyester worsted suiting in a market dominated by polyester. The Fresca range is Wool Blend-certified. Its major feature is its antibacterial, 'feel fresh' properties.

A modest campaign investment of \$90,000 by AWI was more than matched by Reliance, with the textile giant's spending on marketing totaling many times more than AWI's investment.

Collaboration with key decision-makers in the apparel industry such as Reliance, helps AWI deliver a strong return for Australian woolgrowers.

In this campaign, AWI leveraged marketing funds in an extremely efficient manner. It is a very cost-effective way of operating. Reliance is a Fortune Global 500 company and the largest private-sector company in India. By working 'business to business to consumer' through targeted campaigns like this, AWI is making more Australian Merino wool available at retail.

Media activity for the autumn/winter 2009/10 season began at the start of August 2009 and ran to the end of November 2009.

The Fresca product is produced by Reliance under its flagship textile brand 'VIMAL'. It is being sold in VIMAL's 400 retail outlets across India; plus it is being distributed to thousands of multi-brand outlets across the country.



Chinese knitting company Qianqiu's new marketing campaign was built around the Woolmark brand.

MERINO AND COTTON

A major cotton apparel manufacturer has introduced Australian Merino wool into a range of its cotton yarns to provide trans-seasonal garments with a softer and more luxurious feel.

The yarns, developed by the Esquel Group with AWI support, are indicative of a new trend by cotton apparel manufacturers to achieve a more comfortable feel in their garments by using cotton/Merino wool blends instead of 100 per cent cotton.

The Esquel Group is one of the world's leading producers of premium cotton apparel. Based in Hong Kong with production facilities in China, Malaysia, Vietnam, Mauritius and Sri Lanka, the group manufactures for some of the world's best known brands, including Tommy Hilfiger, Hugo Boss, Nike, and major retailers such as Marks & Spencer.

By blending Merino wool with cotton, AWI and Esquel have created yarns that are softer and more comfortable to touch and wear than 100 per cent cotton. The yarns are lighter, breathe better, have more elasticity and provide better UV protection.

The launch of the Comerino™ yarns was particularly significant last year given that 2009 was the United Nations International Year of Natural Fibres.

MERINO CASUAL COLLECTION

In July 2009, AWI launched its Merino Casual autumn/winter 2010/11 collection at the SpinExpo trade show in New York.

This inaugural Merino Casual collection was a collection of distinctive knitted and woven garments and fabrics that combine casual comfort with style, functionality and performance. The collection demonstrates the natural versatility of the Merino fibre, with a range of relaxed garments suited to business, party, everyday and street or casual wear.

We have developed the Merino Casual collection, together with our Woolmark supply chain partners, to address the global trend toward the casualisation of fashion and the more informal style of dressing. Busy lifestyles and changing workplace fashions have reduced the need for consumers to have multiple wardrobes – and there is also an increasing desire for individualism.

Today's consumers are seeking garments that are versatile, that can be worn in different situations and environments, and that ultimately save consumers' time, effort and money.

A range of novel dyeing and finishing techniques has been applied to the Merino wool to create garments with distinctive textures and aesthetics.

Following a very positive response at the season's textile trade shows around the world, our technical teams in Asia then worked to transfer the technology to the suppliers of some of the major retailers and brands.



AWI's new Merino Casual collection positions Merino wool to take advantage of the casualisation of fashion.

MERINO COOL™ COLLECTION

Merino wool is truly a fibre for all seasons. If anyone needed any proof, then they should take a look at the new Merino Cool™ collection of lightweight yarns and fabrics that AWI released in early 2010 to inspire buyers and merchandisers for the spring/summer 2011 season.

Benefiting from the natural properties and soft handle of Australian Merino wool, the Merino Cool™ collection is made from fine yarns, some with a higher than normal twist, making it ideal for high fashion and smart casual trans-seasonal garments.

This second annual Merino Cool™ collection is now available for cool knits as well as wovens.

The original International Wool Secretariat's (IWS) 'Cool Wool' program, launched nearly 30 years ago, sought to change the perception of wool from being only a heavy, warm product. In many ways the campaign was very successful. However, AWI's new Merino Cool™ takes the concept even further for the 21st century with even lighter weight fabrics and yarns.

The new range of lightweight Merino Cool™ woven fabrics are defining Merino as a natural fibre that can be worn with comfort 52 weeks of the year, not just during the autumn/winter season.

The new collection is the result of AWI collaboration with Woolmark and Woolmark Blend licensees around the world. It is a global collection showcasing the products of European, Turkish, Korean and Chinese manufacturers. Through their technical expertise, the licensees have created finer and finer yarns and fabrics, which make Merino Cool™ work so well in spring and summer wear.

SHOWER CLEAN RANGE

The Shower Clean Suit – the suit that can be cleaned using a domestic shower – which was a joint product development between AWI and leading Japanese suit retailer Konaka & Co Ltd has been very popular and well received since the launch in Spring 2008.

Since the launch of the 'Shower Clean Suit', Konaka & Co Ltd has extended the Shower Clean product range to the 'Shower Clean Dress Shirt' made of Merino wool, also with AWI's technical assistance.

For this spring/summer 2010 season, Konaka introduced new Shower Clean Merino Shirts, which are whiter than the first generation range, as well as Shower Clean Men's Shoes to complete their Shower Clean series.

The new Shower Clean Merino Shirt, released in May in Japan is made of 80 per cent wool and 20 per cent polyester. It comes in five different colours including the new whiter shade, and is priced at 6,195 yen. The shirt is sold at over 350 Konaka and Futata shops across Japan.

A new television commercial advertisement was launched in May, celebrating the expansion of the Shower Clean line.

Konaka says the Shower Clean Suit is the best selling item in the store and has sold 230,000 units since the launch.

TRAINING RETAIL STAFF

AWI has been working with many of its retail partners to help educate their sales staff about the natural properties and benefits of wool, so they can advise the consumer more appropriately.

Having retail staff who are informed about the properties of a product can often be the clincher that secures a purchase.

The retailer training takes place at two broad levels. First, there is training of shop floor staff. This focuses on the staff who actually talk to, interact with and sell products to customers. Retail store managers can also be trained, who in turn train their own staff.

Second, there are the retail decision makers such as the company's buyers, merchandisers, designers and technologists. This training is focused on providing them with a 'toolkit' that both stimulates interest and builds their confidence to invest in wool product lines.

This year, AWI offices around the globe have been providing information and education to retail partners so that they can take full advantage of wool's technical and aesthetic properties.

For example, in October 2009, AWI staff in the US trained 60 sales staff and managers of the giant outdoor retailer The North Face in the top three key markets of Chicago, Boston and New York. The Merino products sold are base layers, part of the company's Summit Series®.

In Japan, we have training programs with several retail chains and department stores in Japan, such as apparel retailer Lacoste. We trained 300 of their shop managers and staff in October about the benefits of wool and the Woolmark assurance of quality.

INTERIORS

Woolmark Interiors licensees are benefiting from a vibrant Woolmark Interiors program that builds on the refreshed branding of last year. The successful product themes – 'sleep', 'walk' and 'sit on wool' – form the basis of our marketing materials and promote the versatility of the interiors offering.

The 'natural fibre' story is a key element of the Woolmark Interiors brand message.

AWI, in association with Wools of New Zealand, has produced colour trend information for our interior textile licensees with a focus on floor coverings.

The colour trend service is helping licensees stay relevant and competitive in the global market.

AWI continued to serve its interior textiles licensees by promoting the Woolmark brand at leading trade events such as Inter Tex in Shanghai, and Heimtextil in Frankfurt, where licensees were able to present their products to potential buyers and generate new business.

AWI provided technical training services to its interior textile licensees through workshops that focus on Woolmark product specifications and raw material selection to improve product quality.



AWI staff in Japan last year trained 300 staff of apparel retailer Lacoste about the benefits of wool.

FASHION AND DESIGN

During 2009/10, the Woolmark Trend Service by world-renowned style and innovation agency Peclers Paris provided wool specific fashion guidance for AWI's seasonal workshops in the lead up to the autumn/winter 2011/12 yarn and fabric events. This included a concise colour and fabric sampler for a wide range of fashion styles in the menswear and womenswear markets.

These valuable and generally costly forecasting services gave licensees advanced market information at no cost.

AWI key account managers, trained by Peclers Paris, have conducted workshops, unveiling colour and fashion trends, and supplying yarn and fabric samples.

In Australia, AWI has established relationships with an important group of emerging fashion designers, ensuring they have access to the best quality Australian Merino wool fabrics and yarns available in the market.

AWI has been assisting them with fabric and yarn sourcing through local and international Woolmark licensees. This ensured their collections, which showcased at Rosemount Australian Spring Summer Fashion Week, featured Australian Merino wool.

These relationships with several of the young guns of Australian fashion help foster the use of wool in the designers' collections, which in turn encourages the use of wool in wider apparel markets.

MARKETING & OFF-FARM R&D OPERATIONAL REPORT 2009/10

Tickets and labels

Action	Progress
Finalise contract with the new preferred vendor, (SML Group) of tickets and labels. Ticket design and paper choice to be finalised.	Contract signed.
Map out processes and responsibilities across regions and with SML.	Responsibilities outlined and signed off by senior management.
Implement link to the on-line ordering system via the new wool.com website.	All communication materials for licensees refer to wool.com/tickets.
Develop sales pitch pack aimed at licensees to sell in benefits and ensure uptake.	Standard licensee pack completed, which is tailored according to local market requirements.
Develop roll-out plan for the introduction of refreshed tickets and labels and the new preferred global supplier.	Implementation Plan developed and being monitored. AWI aims to ensure that only the updated tickets and labels are used in the northern hemisphere autumn/winter season 2011. Initial roll-out commenced in Europe in April 2010 with Asia countries following in the second half of 2010.

Branding

Action	Progress
Finalise branding platforms options with key stakeholders and determine go-forward strategy and hierarchy for base, premium and top tier strategy in Apparel, MerinoPerform and Interiors. Revise any brand management policies that currently exist to reflect new hierarchy.	Branding strategy finalised and brand management policies revised. This included notifying all current Woolmark licensees in December 2009 of changes to sub-brands.
Review and rationalise other AWI/TWC brands.	Trademark portfolio reviewed continuously to ensure it reflects the current brand strategy.
Develop overall fibre and brand stories (Apparel, Interiors, MerinoPerform) to be used in sales presentation materials, on website, at trade fairs and all other key collateral.	A range of marketing collateral prepared for use globally by Key Account Managers. Where necessary this was translated into local languages for ease of use.
Update core brand toolkits, as required and as economically and simply as possible including swing tags, labels, base brochures, posters, core imagery, and educational materials.	Woolmark Brand Guidelines produced. Standard 'Introduction to Woolmark' brochure and flyer produced for use globally. Standardised swing tickets and labels have been developed as part of the Global ticket and label project and are being implemented over the next 6 to 12 months.

Business intelligence

Action	Progress
Conduct internally driven market research in all of the regions across the supply chain to determine the true information needs – what information would our supply chain partners be willing to pay a premium for?	Internal review of existing and desired information needs commenced in February 2010. Ongoing project to define and create internal Market Intelligence function commenced July 2011. Wool Production Forecasting Committee process mapped and under revision with a view to reduce overall cost, partner with industry to continue delivery of accurate forecast at a reduced project budget. Intelligence offer (mediums and mechanisms) to be defined by September 2010. Function due to be resourced and operational October 2010.
Develop potential service offering and delivery medium (newsletter, alerts, online) for supply chain partners and pressure test revenue potential.	Basic level of information to be provided to all licensees as a value add to license fees. Fee for service available for detailed regional analysis.

Increasing sales in apparel

Action	Progress
Initiate regional sales and marketing plans and reporting process. Prioritise potential targets and identify.	Sales and marketing plans were developed following the company's technical innovation meeting. Regional and consolidated reports are produced monthly detailing the brands/retailers with which we are working and the volumes of wool usage.
Develop sales 'pitch pack' (one for retailers/manufacturers and one for retailers and one for supply chain partners.	Global sales pitch packs were implemented for use by all AWI Key Account Managers. This comprises a presentation of AWI's new product offerings (AWI collections) and a brochure detailing the benefits of becoming a Woolmark licensee.
Continue defining and improving the value propositions for each tier within the structure - encourage a continuous improvement culture.	We have continued to fine tune what we can offer licensees regarding market intelligence, identifying each area's needs, eg retailers are interested in information about sourcing wool yarns, manufacturers are interested in information about new business opportunities by geographical regions.
B2B2C - Europe, Asia, USA and Australia - begin discussions with retailers and develop deal shapes to market and sell more Merino wool.	We have identified markets where (1) wool has been lacking, or (2) there is a possibility that the market would switch fibres to wool, ie where there is a chance of new business for wool. This has been successful and has resulted in AWI signing contracts with new licensees.
Develop separate list by region of potential licensees in addition to the target list. The goal will be to re-engage and sign-up former licensees and to secure new licensees.	A list of other large global players and influencers, where there is a possibility of to switch fibres to wool, has been developed and pursued.
Summarise results on a quarterly basis.	Results have been reported on a monthly basis.
Finalise corporate social responsibility (CSR) project plan and secure pilot retailer/manufacturer.	A CSR system has been trialled but is not being progressed.

Product innovation and marketing

Action	Progress
Knitwear and wovens.	AWI launched two new knitwear collections at SpinExpo New York: the Merino Touch™ collection and the Merino Casual collection, which take advantage of two strengthening consumer trends: the love of affordable luxury, and the casualisation of fashion. AWI also showcased the innovations at other trade shows, including Milano Unica in Milan - one of Europe's most prestigious woven apparel shows - Première Vision in Paris and the Spin Expo trade fair in Shanghai. AWI followed up the introductions made at the trade shows by conducting retailer and processor workshops in Asia, USA and Europe. AWI then worked with our supply chain partners to help transfer the technology and innovation to develop the products.
Product technology.	A project to develop an alternative to conventional chlorine-based shrink proofing is scheduled to commence with the Italian industry in September 2010. Assessment has been completed of four additional alternative technologies which provide alternatives to chlorine-based shrink proofing. AWI continues to access alternative technologies.

Merino Perform™

Action	Progress
Determine business model including licensing approach for both products. Finalise strategy including key targets and resources required.	Strategy completed. Merino Perform™ Next to Skin based on a license fee structure and Merino Perform™ Advantage (Sportwool™) continuing on a royalty base.
Merino Perform™ Next to Skin and Merino Perform™ Advantage licensees signed up.	Although there was target of 5, we have achieved 13 licensed partners spread over Japan (4), Europe (2), Korea (2), China (1), Australia (3) and Mauritius (1).
Develop pitch packs and any additional marketing collateral – the royalty program for Merino Perform™ Advantage needs to be given special attention.	Brochure, banners and flyers produced and collections developed and issued to the regional teams.
Product development launch. Technical Merino Perform™ socks. Two groups 'active' and 'thermal'.	Awaiting project approval. Initial discussions had with potential partners.
Launch B2B2C marketing programs with key 'hero brand' licensees in each sports segment (outdoor, golf, bikewear).	Project moved forward to 2010/11 pending the company general marketing development. Planned launch of activities around the ISPO fair in February. Exhibiting at the fair will allow a strong presence and good base for promotion of the Merino Perform™ programs as well as the introduction of new moisture management innovations.

Interior textiles

Action	Progress
Finalise the Interior Textile strategy and the global target list of manufacturers and retailers for B2B2C partnerships. Pursue potential partnership strategy with Wools of New Zealand, IWTO and British Wool Marketing Board.	Strategy defined in the AWI Strategic and Operational plan 2009/2010.
Review and revise the existing testing policy and associated charges.	Work in progress – all Woolmark testing is under ongoing review, as part of the Woolmark accredited laboratory project. This is conducted in consultation with key Industry bodies and Institutes worldwide.
Develop a sales pitch pack and product suitcase including: Sleep Study and/or similar scientific research studies, trend services, product collection ranging from affordable luxury to high-end mass market with information on supply chain and technology transfer, Point-of-Sale marketing materials, and link with apparel offers.	Updated point of sale content and care instructions created and launched at Heimtextil 2010 (Frankfurt). This collateral has been translated into Russian, Spanish, Italian and Serbian and in many cases has been produced by licensees so as to include the licensee's brand.
Strengthen our relationships with existing licensees, identify and establish relationship with key retailers globally to add to our target list	Woolmark Key Account Managers have worked actively to build relationships with new and existing companies. Linking our colour trend forecasting to Point of Sale collateral supports key benefits and features of wool bedding and flooring.
Participate in one or more trade shows such as Heimtextil in Europe, Intertext in China, Surfaces in USA.	Woolmark once again hosted the Woolmark Wool Arena. The Woolmark stand, along with its licensee co-exhibitors, not only markets the natural benefits of wool but showcases new and innovative products. In January 2010, Woolmark co-exhibited with eight partners. The co-exhibition model allows Woolmark participation to be a cost neutral exercise.

PR

Action	Progress
Develop concept, project plan and budget for Global Design Competition in consultation with stakeholders.	Concept developed with IMG (International Management Group). Proposal was terminated.
Identify and recruit leading designer targets and support programs that position Merino as the natural fibre for the world's best fashion.	Commitment from targeted designers to partner with AWI and introduction of wool into their collections and/or increase in volume used.

Building and transferring knowledge – off-farm

Action	Progress
Supply chain education.	<p>Korean apparel manufacturer Cheil has demonstrated its appreciation of the importance of sustainable land management by contributing money to an Australian land-management initiative. One day “Wool Appreciation Course” tailored for retail head office staff delivered to:</p> <ul style="list-style-type: none"> • Key European partners: Marks & Spencer, Pink, Debenhams, Thomas Pink, Mango, Induyco, Orfama and Mango (March). • Key Australian partners: Fletcher Jones (April) and Country Road (May). • (To be offered in the USA November 2010) <p>Hong Kong:</p> <ul style="list-style-type: none"> • Bi-monthly Merino School, offered by AWI Hong Kong, is a series of seminars covering updated information relating to technology, product innovation, and colour and fashion trends. The participants are practitioners in textiles and apparel business. • Program partnered with local trade and professional bodies, such as Clothing Industry Training Authority (CITA), Knitwear Innovation & Design Society (KIDS), Textile Institute-HK Section (TI), Textile Council of HK (HKTC), Hong Kong Apparel Society (HKAS), Development Centre of Vocational Training Council (VTC). • Program topics included: knitwear manufacturing (addressing perennial fabric faults), dyeing Innovations, Woolmark colour trends. • Partnered with Industry and vocational training provider to deliver in mill training. <p>Japan:</p> <ul style="list-style-type: none"> • Over 10 days during October and November 2009, Konaka, the third largest menswear specialty chain-store in Japan, sent all 1,107 employees from 200 retail stores to attend a one-day workshop delivered by AWI technical staff. Topics covered “Why wool for Suits?” and “High-performance suiting”.

Endorsements

Action	Progress
Finalise product endorsement strategy including: expansion of existing licensee brands to other countries and conversion of key non-licensee brands in all regions.	Endorsement strategy completed for Woolmark Apparel Care. Opportunities for both Woolmark Apparel Care and Woolmark Interiors Care continue to be explored. One technology endorsed.
Creation of wool-specific dry cleaning standard and assurance program.	Technical specification for dry cleaners drafted. Trial program planned for Japan. Preliminary trial initiated in Japan.

ON-FARM R&D

COMBATTING LICE

AWI has helped growers make sense of the increasing problem of lice infestations with a new extension program, known as LiceSense, rolled out during 2009/10.

With the spread of resistance to some backliners and the removal of diazinon as a registered sheep dipping agent, AWI has been offering support to growers.

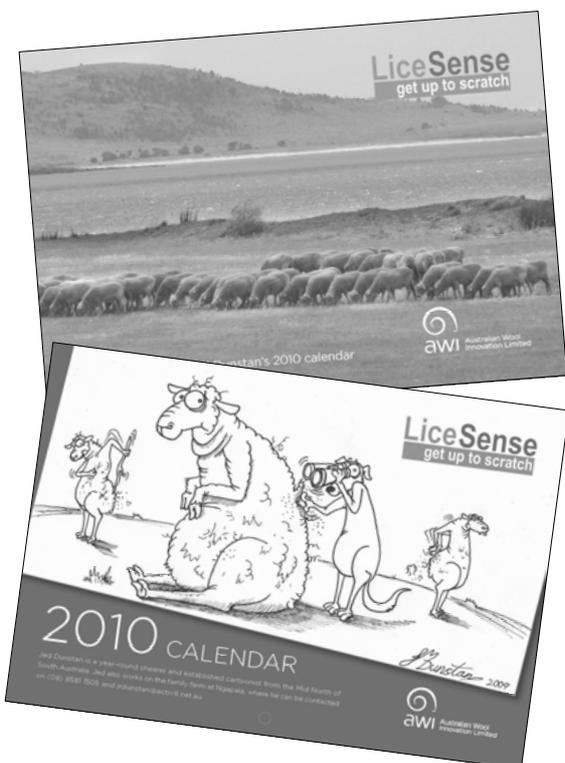
The LiceSense lice extension campaign was delivered by Landmark, Elders and Rural Co and by the state departments of agriculture in South Australia, Tasmania, Queensland, New South Wales, Victoria and Western Australia. Over 610 growers were trained.

The LiceSense program included a handy guide for woolgrowers on managing sheep lice. Over 7800 lice control manuals were distributed to growers.

A new test that can diagnose unseen lice infestations at shearing, made available during 2009/10, was the culmination of many years' financial investment and cooperative research between AWI, the NSW Department of Primary Industries and CSIRO Livestock Industries.

The accurate laboratory test uses washings from the cleaning of shearers' combs and cutters. The washings detect protein from chopped-up lice, trapped in grease accumulated on the combs and cutters as lousy sheep are shorn.

The test is economical for those woolgrowers that would normally treat without seeing lice and gives woolgrowers confidence not to dip or backline as a precaution, thereby reducing chemical usage and hence residues in wool.



The LiceSense manual and calendar

BREECH FLYSTRIKE PREVENTION

AWI continues to fast track its R&D program to deliver welfare improved methods of flystrike prevention.

- Genetic research and breeding:** Research over the past five years based at Armidale (CSIRO) and Mt Barker (Department Of Agriculture and Food WA) confirms that Australia does have the genetics to produce sheep that are highly resistant to flystrike. However, there are huge differences in breech strike susceptibility between sites and sires. Breech wrinkle, breech cover and especially dags explain the largest differences between the highly susceptible and resistant sires.
- Intradermals:** AWI-assisted research continues with the Cobbett Technologies 'Skintraction™' option that involves using a needleless applicator and air pressure to apply the Skintraction™ product to the breech of lambs. Stage three is underway to confirm the optimal applicator settings on a range of sheep types and to evaluate application of the Skintraction™ system by a number of mulesing contractors. The system is potentially on track to be commercially available during 2011 pending APVMA registration.
- National Wool Declaration (NWD):** The NWD is giving the supply chain transparency about woolgrowers' flystrike prevention strategies. The number of declarations indicating NM (non mulesed), PR (pain relief) and CM (ceased mulesed) has increased steadily to almost 14 per cent of all bales offered for sale in June 2010. In the superfine micron area more than 55 per cent are now being declared and about 40 per cent being declared as either NM, PR or CM.
- Pain relief:** Around the country, a large proportion of growers use best practice, welfare-enhanced surgery with pain relief.
- Clips:** Leader Products continues to make breech clips commercially available to farmers.
- Training:** AWI continues to support training for best practices in clip application and mulesing.

BREECH WRINKLE ASBV

The first breeding values for breech wrinkle were launched in September 2009 by Sheep Genetics.

This is a major achievement that will greatly help the industry in its efforts to breed productive sheep that can be managed safely without mulesing. Australian Sheep Breeding Values (ASBVs) for breech wrinkle allow farmers to identify, select and breed from productive sheep that have improved natural resistance to flystrike.

The ASBV for Early Breech Wrinkle gives Merino sheep producers the potential to fast-track their progress to reduce breech wrinkle in their flocks. As breech wrinkle is strongly associated with flystrike, selecting rams with low Early Breech Wrinkle ASBVs will contribute to progeny with enhanced natural resistance to breech flystrike.

This is the result of five years of intensive investment in research and breeding initiatives across the country. It is indicative of the enormous and ongoing commitment of the industry to address this complex health and welfare problem and a further illustration of Australian sheep producers' investment in enhancing flystrike prevention alternatives. The research was funded by AWI and Meat and Livestock Australia, together with Australian Merino Sire Evaluation Association and the Sheep CRC.

EVERGRAZE

Phase 1 of the EverGraze research and extension program, a partnership with the Future Farm Industries CRC and Meat & Livestock Australia, was completed. Planning for the next phase of research and extension activities is underway.

EverGraze has been developing and testing new farming systems in different environments across the high rainfall zone of southern Australia. The target is to increase profitability by up to 50 per cent and at the same time improve water management, use of perennials, biodiversity and soil health.

Over 13,500 people participated in the program, and approximately 3,300 producers adopted EverGraze principles. 130 knowledge products were developed, and there was engagement with 11 Catchment Management Authorities (CMAs) and a further six agribusiness groups.

SHEARER AND WOOL HANDLER TRAINING

Skilled staff are seen by the Australian wool industry as being integral to the harvesting and preparation of the Australian wool clip.

During 2009/10, AWI therefore funded training for 'improver' and professional shearers, as well as for novice and improver wool handlers. Provided by registered training organisations, the training focuses on shearers and wool handlers in the shed, particularly on increasing their productivity and skill development.

1392 shearers and 976 wool handlers have been trained directly through the AWI program in 2009/10, with an additional 251 participants who attended a shearing, wool handler or crutching workshop.

In 2009/10, AWI continued its focus on reduced operating costs in shearer and wool handler training, to allow more of its funding to be targeted directly to the training.

AWI's shearer and wool handler training program has aimed to:

- help the wool harvesting industry ensure the availability of competent workers through the delivery of industry relevant training programs and credible skill assessment;
- attract and retain new entrants;
- build the capacity of existing workers;
- increase the profitability of woolgrowers; and
- maximise government funding and support for shearer and wool handler training.



Improving the numbers, quality and productivity of shearers and wool handlers is a focus for AWI

WILD DOG CONTROL INITIATIVES

AWI has supported an integrated and co-ordinated national approach to develop and implement strategic landscape level control of wild dogs. Several initiatives have been undertaken by the Invasive Animals CRC and collaborators, with support from AWI.

Seven local area planning groups have been established in the North Flinders ranges of South Australia. In Queensland, groups have been established in the Murweh and Balonne shires with local management plans developed. There have been several initiatives in Victoria, including community based management meetings in North East and Gippsland. Groups have also been established as part of a pilot trial with Victoria DPI. An agreement for four NSW wild dog control association plans has been negotiated. Regional planning for Southern Downs Shire (Qld) and Northern New England LHPA (NSW) has been agreed.

In 2010/11, AWI will continue to invest in community development and review of landscape level wild dog management plans nationally. AWI will also invest in a demonstration site in Northern NSW and compile evidence for registration of aerial 1080 baiting rates.

A new toxin option for control of wild dogs, and foxes, with improved target specificity and faster, more humane action is under development. One agent, para-aminopropiophenone (PAPP) has shown considerable promise. The submission process has commenced with the APVMA. An antidote compound has been developed for instances when baits are accidentally taken by working dogs.

R&D COLLABORATION

R&D collaboration with other organisations during 2009/10 made AWI investments more efficient and effective by reducing duplication, maximising leverage and providing a greater platform for adoption.

Collaboration, especially with other rural research and development corporations (RDCs), helped AWI and the collaborating parties address the Government's National Research Priorities (NRPs) and Rural Research and Development Priorities (RRDPs) – see the following section.

Given that the primary ruminant at the heart of AWI's R&D and marketing efforts (ie sheep) is also of interest to a number of other RDCs, AWI has a demonstrated history of collaborating on R&D projects with other members of the RDC family. Almost 20 per cent of AWI's R&D expenditure in 2009-10 was directed at projects involving at least one other RDC.

During 2009/10, AWI was involved in a significant number of collaborations with research bodies such as rural RDCs, government departments of agriculture, industry organizations, CSIRO, universities and commercial partners.

Major collaborations during 2009/10 include:

- WormBoss, which is helping producers with worm management practices (with the CRC for Sheep Industry Innovation and leading Australian parasitologists, researchers and consultants);
- LiceBoss, which is helping producers with lice-management issues in their flock (with the Qld, WA and Tas departments of agriculture);
- FlyBoss, which is helping producers with worm management practices (with the CRC for Sheep Industry Innovation MLA and the state departments of primary industry);
- fast-tracking the development of a new breech strike prevention product called Skintraction™ with Cobbett Technologies;
- helping to overcome predation by wild dogs and foxes, and helping to develop new control options for rabbits (with the Invasive Animals CRC);
- Sheep Genetics, which is enabling breeders to achieve higher rates of genetic gain (with MLA);
- SheepGenomics, which aims to discover sheep genes and their functions (with MLA and nine other partners);
- EverGraze, which is helping high rainfall producers increase the profitability of grazing systems (with Meat & Livestock Australia (MLA) and the Future Farm Industries CRC);
- shearer and wool handler training with Registered Training Organisation providers around Australia;
- a number of projects with the CRC for Sheep Industry Innovation, including postgraduate training, Information Nucleus, WormBoss, FlyBoss and greenhouse gas abatement;
- Making More From Sheep, which is the best practice manual plus ongoing workshops for sheep producers (with MLA); and
- Extension activities with state and regional based organisations and departments of agriculture, including BESTWOOL/BESTLAMB (Vic), Sheep Connect NSW, The Sheep's Back (WA), Bestprac (Pastoral), Sheep Connect SA, Leading Sheep (Qld), Sheep Connect Tas.

GOVERNMENT FUNDING AND RESEARCH PRIORITIES

The Australian Government is a major investor in the Australian wool industry by providing statutory levy collection power plus taxpayer funds.

AWI is obliged to contract with the Australian Government on the use of the levy monies. This contract is called the Statutory Funding Agreement (SFA). The SFA requires AWI to allocate funds to authorised research, development, innovation and marketing activities to ensure that the projects in which AWI invests are for the benefit of Australian woolgrowers, and that projects are efficient, effective and ethical. The SFA is available on the AWI website www.wool.com.

AWI gratefully acknowledges the funds provided by the Australian Government to support the initiatives undertaken by the company for the benefit of Australian woolgrowers. AWI believes that it is using the funds in an effective way to maximize the creation and adoption of R&D and innovation along the global wool supply chain.

AWI takes into account the Government's National Research Priorities (NRPs) and Rural Research and Development Priorities (RRDPs) when planning and reporting on its programs.

National Research Priorities

The Government's NRPs aim to highlight areas of particular social, economic and environmental importance to Australia, and where a whole-of-government focus has the potential to improve research and broader policy outcomes.

Further information about the NRPs is available on the Department of Education, Employment and Workplace Relations website: www.dest.gov.au.

Rural Research and Development Priorities

The Government's RRDPs are intended to make the national innovation effort more coordinated, efficient and effective, and better position Australia's agricultural, fisheries, forestry and food industries to maintain a competitive edge in the face of economic and climatic challenges.

The RRDPs and each of their objectives are:

- Productivity and Adding Value: To improve the productivity and profitability of existing industries and support the development of viable new industries.
- Supply Chain and Markets: To better understand and respond to domestic and international market and consumer requirements and improve the flow of such information through the whole supply chain, including to consumers.
- Natural Resource Management: To support effective management of Australia's natural resources to ensure primary industries are both economically and environmentally sustainable.

- Climate Variability and Climate Change: To build resilience to climate variability and adapt to and mitigate the effects of climate change.
- Biosecurity: To protect Australia's community, primary industries and environment from biosecurity threats.

The supporting RRDPs and their objectives are:

- Innovation Skills: To improve the skills to undertake research and apply its findings.
- Technology: To promote the development of new and existing technologies.

Further information about the RRDPs is available on the Department of Agriculture, Fisheries and Forestry website: www.daff.gov.au.

Alignment of AWI programs to Government research priorities

The table below summarises how the programs undertaken by AWI during 2009/10 align with the RRDPs and the NRPs. Each AWI program is aligned with more than one research priority.

ALIGNMENT OF AWI PROGRAMS TO GOVERNMENT RESEARCH PRIORITIES

National Research Priorities (NRP)	Rural Research & Development Priorities (RRDP)	AWI program	Global Marketing	International Network	Off-farm R&D	On-farm R&D	TOTAL
Promoting and Maintaining Good Health (including strengthening Australia's social & economic fabric)	Productivity and Adding Value	\$ 1,205,537 % 26.3	0 0.0	0 0.0	3,379,947 73.7	4,585,485 100.0%	
	Supply Chain and Markets	\$ 2,233,533 % 12.6	14,752,113 83.1	735,952 4.1	36,134 0.2	17,757,733 100.0%	
An Environmentally Sustainable Australia	Natural Resource Management	\$ 0 % 0.0	0 0.0	0 0.0	54,320 100.0	54,320 100.0%	
	Climate Variability and Climate Change	\$ 50,180 % 2.0	591,260 23.1	1,513,729 59.0	409,010 16.0	2,564,180 100.0%	
Safeguarding Australia	Biosecurity	\$ 0 % 0.0	0 0.0	0 0.0	536,438 100.0	536,438 100.0%	
Frontier Technologies for Building and Transforming Australian Industries	Innovation Skills and Technology (supporting RRDPs)	\$ 3,079,953 % 25.5	664,190 5.5	3,197,721 26.5	5,134,452 42.5	12,076,316 100.0%	
TOTAL		\$ 6,569,204	16,007,563	5,447,402	9,550,301	37,574,470	

Note: Figures may not add due to rounding.

ON-FARM R&D OPERATIONAL REPORT 2009/10

Healthy and profitable sheep

Action	Progress
Effective genetic benchmarking	<ul style="list-style-type: none"> • Australian Sheep Breeding Values (ASBVs) for breech wrinkle now available through MERINOSELECT. • Website expanded to include semen and sale catalogues. • Improved analysis for Number of Lambs Weaned. • Accuracies introduced for indexes. • Merino Bloodline Comparison 1999-2010 released. • Merino Superior Sires No 15 released. • Sire Evaluation Site Reports released.
Commercialisation of DNA-based tools	<ul style="list-style-type: none"> • R&D continues into genomic enhanced estimated breeding values. • Improved DNA parentage technology likely to be released by private sector in near future.
Healthier sheep	<ul style="list-style-type: none"> • LiceSense lice extension campaign delivered by Landmark, Elders and Rural Co and by South Australia, Tasmanis, Queensland, New South Wales, Victoria and Western Australia departments of agriculture. Over 610 growers trained and over 7800 lice control manuals were distributed to woolgrowers. • The submission process for the registration dossier for the para-aminopropiophenone (PAPP) canid bait has commenced with the Australian Pesticides and Veterinary Medicines Authority currently reviewing the first half of the submission. • AWI continues to provide financial support for training in best practice mulesing, including the use of pain relief. Training conducted in South Australia and Western Australia: 18 EOI, 11 attended, 11 assessed Competent. A training delivery contract for the National Mulesing Assurance Program has been approved and negotiations with a training provider are continuing. • AWI will provide support for training, via the Livestock Contractors Association, in the application of Leader Products' "Anti Flystrike Clips" in the 2010 lambmarking season. • Breech Strike Prevention R&D Update held on 23 June; four sound slides and all PowerPoint presentations loaded on the AWI website at www.wool.com/flystrike. • Trials of Skintraction™ intradermal breech strike prevention method continue. • AWI Animal Welfare Forum, that includes the key animal welfare groups in Australia, met on a 6 monthly basis. • Ongoing communications with global retailers and retailer associations. Australian Veterinary Association quarterly audit of AWI's Breech Strike Prevention R&D program. • Global flystrike communication strategy developed and commenced implementation.

Lower cost wool preparation and early stage selling

Action	Progress
Shearer and wool handler training	<ul style="list-style-type: none"> • Training of 2368 participants as part of the Regional Coaching in Shearing and Skilled Wool Handler Training Program in six states, with an additional 251 workshop attendees.
Logistical efficiencies	<ul style="list-style-type: none"> • Commercial Upright Posture Shearing Platforms now readily available. Peak Hill Industries "ShearEzy" now selling around 20+ units per year. Hecton's "Highlander" sold ex. Western Australia, <10 units, and "CalmShear" formerly Gum Hill (Lines family) also <10 units annually. Manufacturers report some overseas interest. • Specialist "ram shearer" businesses are emerging using Upright Posture Shearing Platform technology. One established in southern New South Wales using Hecton Highlander and a second commencing in Victoria using ShearEzy. • Alternative comb and cutter sharpening technology developed and proven to early stage shed testing. It requires further evaluation under Australian conditions. • Producer case studies now provide best practice guidelines of how to improve working conditions in shearing sheds. Examples are available on the AWI website www.wool.com.
Alternatives to shearing	<ul style="list-style-type: none"> • Project terminated as part of re prioritising of projects to meet lower on-farm expenditure targets for 2009/10.

Building and transferring knowledge - on-farm

Action	Progress
Professional development for growers	<ul style="list-style-type: none"> • AWI has continued to support the state based extension networks which reach over 3,500 woolgrowers and secure an estimated \$1.872million in funding and in-kind contributions from state departments and woolgrowers. In 2009/10, nearly 800 new members became involved within the networks. • Making More From Sheep Phase 2 has been refunded, with Meat & Livestock Australia as the managing agent. The second phase will have a greater emphasis on measured practice change and increases in skills knowledge and confidence of producers. The modules will be reviewed in 2010/11.
Australian Wool Production Forecast	<ul style="list-style-type: none"> • A new process is under development with a view to reducing overall cost and achieving efficiencies in the model.
Future leaders	<ul style="list-style-type: none"> • Four AWI funded PhD students completed their degrees in the areas of animal health and reproduction, pastoral grazing systems at Universities of Western Australia (2) Melbourne and Sydney.

Environmental sustainability

Action	Progress
Preparing for a carbon economy	<ol style="list-style-type: none"> 1. CCRSPI (Climate Change Research Strategy for Primary Industries) Phase 2 complete: Successfully co-ordinated research proposals for DAFF funding and developed network of collaboration, co-ordination, knowledge sharing between RDCs and agencies. 2. AWI participates in the National Reducing Emission from Livestock Research Program (REFLP) and AWI funding is directed to two projects: <ul style="list-style-type: none"> • Developing an individual measuring system for ruminants • Metagenomic analysis of feed utilisation and hydrogen balance for lower methane emissions. 3. Phenotyping of sheep at Falkiner Memorial Field Station for methane emissions completed. Sheep have moved to Sheep CRC projects for further analysis. 4. EverGraze complete: <ul style="list-style-type: none"> • Over 13,500 people participated in the project. Approximately 3,300 producers adopted EverGraze principles • 130 knowledge products developed, engagement with 11 Catchment Management Authorities (CMAs) and a further 6 agribusiness groups • 2010/11 planning year for R, D & E to June 2014. Additional data will be collected from three Native Pasture sites during 2010/11.

Supply chain and quality assurance – on-farm

Action	Progress
Fibre and product quality specification	<ul style="list-style-type: none"> • Evaluation of electronic bale identification. Farm to broker and early stage processor (ESP) trial conducted. No identifiable cost or operational efficiencies were identified at the farm or broker level. Potential for improved efficiencies of stock management for ESPs appears to exist.

SUPPORT OPERATIONS

CORPORATE GOVERNANCE FRAMEWORK

Governance principles

The Board is committed to governance systems that enhance performance and ensure AWI operates according to accountability provisions required by various Government Acts, ASIC Regulations and Guidelines and the Statutory Funding Agreement.

The key Board functions are:

- Establishing goals, setting strategic direction, approving the annual budget and approving large items of expenditure
- Developing and approving a three year Strategic Plan, based on Performance Evaluation, WoolPoll results and Government Rural Research and Development Priorities; an Annual Operational Plan, Portfolio Budget Statement and an Annual Report
- Establishing and approving policies for the operation of AWI
- Ensuring that risk assessment and management frameworks are in place to minimise business and financial risk
- Ensuring that R&D and Marketing resources are allocated to address priority issues effectively
- Ensuring compliance with applicable laws and provisions of the *Commonwealth Authorities and Companies Act 1997*
- Ensuring that Directors and staff maintain the highest ethical standards in accordance with the Code of Conduct
- Appointing, appraising, and setting the level of remuneration for the Chief Executive Officer
- Evaluating its own performance and that of its committees against agreed indicators.

Conflict of interest policy

AWI endeavours to be recognised as an organisation committed to high ethical standards in business.

The Board acknowledges that transactions involving Directors and Officers may occur in the ordinary course of AWI's business since the Board includes members actively involved in the wool industry.

Therefore the Board has adopted a Code of Conduct and a Board Charter to assist it to undertake decisions in an ethical and responsible way without being influenced by improper considerations, and to ensure that AWI's contracts are at arms length commercial terms and are consistent with AWI's legal obligations.

Details of this policy and its implementation are available from AWI's Company Secretary.

Fraud Control Plan

AWI is committed to accountability and transparency in conducting its business.

The AWI Board believes that a strong corporate governance culture regarding fraud control is one of the cornerstones of this commitment and AWI's approach is to minimise the incidence of fraud and "other unethical behaviour" through the development, implementation and regular review of a range of fraud prevention and detection actions.

The desired outcome of this commitment is the elimination of fraud against AWI programs by staff and other persons. AWI considers that this policy applies to all Directors, employees, agents and contractors.

AWI will consider all avenues to recover losses due to fraud against the Company. Staff may also face action for misconduct under AWI's Code of Conduct and Obligations to Stakeholders, and restitution of money or property lost through fraudulent activity will be pursued through legislative means.

The main objective of the Fraud Control Plan is to minimise the risk of fraud against AWI. This objective is achieved through reference to the Commonwealth Fraud Control Guidelines including the adoption of the Australian Standard on Risk Management (ISO 31000-2009) and the Australian Standard on Fraud and Corruption Control (AS 8001-2008) to identify fraud risks and to develop and implement actions to manage those risks.

Risk Management Policy and Framework

There are expectations by key stakeholders, including key business partners and financiers, that risk is being managed efficiently and effectively.

In addition the Department of Agriculture, Fisheries and Forestry requires AWI to have a Risk Management Plan and a Fraud Control Plan as a condition under the Statutory Funding Agreement.

More importantly, a more formal approach to risk and opportunity management serves to enhance the quality of business decision making and acts as another form of assurance of the quality of our operations and services.

AWI Board and Management recognise risk management is everyone's business, however, it is also recognised that responsibility for driving a strong risk management culture throughout an organisation requires management focus.

Corporate governance documents

The AWI corporate governance documentation is on the AWI website at www.wool.com and includes:

- AWI's Constitution
- Statutory Funding Agreement
- Corporate Governance Policy
- Code of Conduct - Obligations to Stakeholders
- Board Charter
- Code of Conduct - Directors and Officers
- Charters of the Committees of the Board
- Conflicts of Interest Policy
- Rules and Procedures Governing Election of Directors.

AWI'S STAKEHOLDER LINKS

During 2009/10, AWI has had extensive and robust links with its key stakeholder groups: the Australian wool industry and the Australian government.

Wool industry partnership

The organisation's partnership with the Australian wool industry is underlined by:

- The various mechanisms by which woolgrowers can directly influence the direction of AWI and its marketing, R&D and industry services activities. Specifically:
 - o The triennial WoolPoll, which allows eligible woolgrowers to vote on their preferred levy rate, endorse broad investment decisions, and provide feedback on other issues relevant to the industry;
 - o The biennial election of AWI Board directors
 - o Six monthly woolgrower workshops; and
 - o Six monthly industry consultative committee meetings.
- AWI's industry engagement strategy, which focuses on establishing and nurturing an extensive network of industry and commercial partners, who value and support AWI, its business strategies and mutual benefits through partnering. These relationships provide AWI with effective conduits to delivery market information, R&D and marketing outcomes for the Australian wool industry. Mechanisms by which AWI engaged industry during 2009/10 include:
 - o Regular meetings with woolgrower representative bodies and key processors;
 - o Numerous forums with woolgrowers in wool producing areas; and
 - o Outreach publications – primarily the quarterly *Beyond the Bale* magazine, and the AWI website (www.wool.com).

Government partnership

AWI's partnership with the Australian Government during 2009/10 was underlined by:

- regular interaction with the Government (through formal six monthly and quarterly meetings, participation in such government processes as Senate Estimates, and day-to-day discussions);
- the import that AWI places on the government's Rural Research and Development Priorities in developing its Strategic and Annual Operating Plans;
- the renegotiation of, and ongoing compliance with, the SFA; and
- AWI's development of a Statement of Intent for the National RD&E Framework.

Partnership outcomes

As a result of its strong links with government and the wool industry, AWI is strongly positioned to:

- adapt to changing market conditions;
- deliver R&D solutions that are responsive to industry and government needs; and
- provide a vital link between government and industry to ensure efficient and effective investment in R&D.

AUDIT

AWI continues to maintain a strong focus on accountability and on its internal control environment. It engages the services of the following leading professional services firms:

PricewaterhouseCoopers is engaged annually to conduct the external audit and report to shareholders.

Ernst & Young and **WHK Howarth** provide specific advice on taxation and other related matters pertaining to AWI and TWC respectively, as required.

INTELLECTUAL PROPERTY

AWI has a portfolio of intellectual property (IP) assets comprising patents, plant breeders' rights, trademarks, registered design, business names, copyright, domain names, unregistered know-how and contractual rights. Many of these assets are owned jointly with other organisations, including Government departments, statutory corporations, CSIRO and commercial R&D companies.

In addition to the above IP assets, AWI is the beneficial owner of all IP assets owned by The Woolmark Company Pty Limited (TWC) and its associated entities. These include the WOOLMARK logo, WOOLMARK BLEND logo and WOOL BLEND logo which are registered in over 90 countries across multiple classes of goods (see page 10).

IP is an important company asset. AWI's objective is to control and manage its IP to the maximum benefit of Australian woolgrowers by ensuring rapid, widespread adoption or commercialisation of its IP along the wool supply chain.

AWI seeks to develop revenue from IP and invest it back into R&D and marketing on behalf of woolgrowers.

Royalty income from IP assets owned by AWI, excluding TWC assets contributed \$67,402.49 in 2009/10 representing income earned in the 2008/09 year. Income earned in the 2009/10 year will not be realised until midway through the 2010/11 financial year.

Registered IP which is owned by AWI (including TWC) or in which AWI has an interest is included in the table opposite.

During 2009/10 AWI signed 23 commercial contracts with industry and commercial entities for use of its IP.

IP ASSETS OWNED BY AWI AND ITS ASSOCIATED ENTITIES

Below is a list of IP assets owned by AWI and its associated entities, as at 30 June 2010:

PATENTS (registered in Australia and overseas)

* Altered Wool & Hair Fibres * Chemically assisted protein annealing treatment * Control circuit for a power driven tool and touch activated shearing system incorporating same * Control of wool growth in sheep and related animals * Device for sampling liquids * DNA encoding ovine adenovirus and its use as a viral vector * Doffing animal coats and fleece removal * Fitting Animal Coats * Gene therapy using ovine adenoviral vectors * Heated Wool Garment System * Iron regulated promoter * Method for separating keratinous proteins from materials * Non Surgical Mulesing * Plasma Treatment of Wool-Apparatus and Method * Raised Shearing Platform * Saponin Adjuvant Composition * Shearing Platform * Sorting pneumatically conveyed material * Stretching of staple fibres * Treatment of sheep to reduce flystrike * Twisting Device

PATENTS (registered in Australia – not overseas)

* Annual Rye Grass Toxicity * Detection and isolation of, and protective immunization against, the phomopsis mycotoxins * Detection of Parasites * Drenchrith-Larval development assay * Heated Wool Textile * Improved process & apparatus for stretching slivers of animal fibre * Methods and compositions for skin necrosis (provisional patent) * Method for administering a composition to an animal * Semi Synthetic Material * Vaccine and assay

PATENTS (registered overseas – not in Australia)

* Instrument for on-line detection of coloured contaminants in white fibre mass * Leg restraint for use in treating or shearing animals * Malathion Carboxylesterase * Method of harvesting wool * Sheep handling and manipulation for automated shearing * Stretching of Wool Fibre

REGISTERED DESIGNS (registered in Australia and overseas)

* Breech Clip * Dog Bone Clip * Hockey Stick Clip

TRADEMARKS (registered in Australia & overseas)

* a Device * Arcana * Australian Wool Innovation * Cool Wool * Flyboss * Liceboss * Merino Active * Merino Perform * MerinO2 * merinotouch * merinotravel * OPTIM * Red Island * Superior Merino * Superior Merino Blend * awi & Swirl Device * Australian Wool Innovation & Swirl Device * Wool Blend * Woolscience * Wormboss

TRADEMARKS (registered in Australia – not overseas)

* Bestprac * FutureFleece * Grass Gro * Licesense * Merino Innovation * Rampower * SGP * Timerite * Woolcheque * Woolpoll

TRADEMARKS (registered overseas – not in Australia)

* Arnhem Land * Born To Be Worn * Device Mark * Heartmark * Laine Superlavable * Merino Extrafine Wool * merinofresh * Merino Rich * merinocool * merinoeasyclean * Merion Exelana * Neva-Shrink * Siroset * Solospun * Sportwool * Sportwool Pro * Super Crimp * Super S * Superlavabile * Superlavabile superwash * Superwash * Take Comfort In Wool * Total Easy Care * Vivalana * Wollsiegel * Wool in heart * Wool Plus * Wool Rich Blend * Wool The Heart Of A Good Carpet * Wool Plus * woolscientific

TRADEMARKS (registered globally)

* Woolmark * Woolmark Blend * Australian Merino

PLANT VARIETIES (registered in Australia – not overseas)

* Cefalu Clover * Balansa Clover-Bolta * Balansa Clover-Frontier * Barrel Medic-Caliph * Barrel Medic-Jester * Barrel Medic-Scimitar * Biserrula-Mauro * Burr Medic-Cavalier * French Serradella-Cadiz * French Serradella-Margurita * French Serradella-Erica * Grazplan * Lucerne-Aquarius * Lucerne-Eureka * Lucerne-Genesis * Lucerne-Hallmark * Lucerne-Sceptre * Lucerne-Sequel * Lucerne-Venus * Melilotus-Jota * Mitchell Grass-Turanti * Mitchell Grass-Yanda * Persian Clover-Lusa * Persian Clover-Nitroplus * Phalaris-Atlas * Phalaris-Australian II * Phalaris-Holdfast * Phalaris-Landmaster * Serradella-Charano * Serradella-Santorini * Serradella-Yelbini * Strand Medic-Toreador * Subterranean Clover-Coolamon * Subterranean Clover-Denmark * Subterranean Clover-Gosse * Subterranean Clover-Goulburn * Subterranean Clover-Izmir * Subterranean Clover-Leura * Subterranean Clover-Mintaro * Subterranean Clover-Napier * Subterranean Clover-Riverina * Subterranean Clover-Urana * Subterranean Clover-York * Sulla-Moonbi * Sulla-Wilpena * Wallaby Grass-Bunderra * Wallaby Grass-Taranna

SOFTWARE (registered in Australia – not overseas)

* Sirodec

NEW IP LODGED OR ACQUIRED IN 2009/10

TRADEMARKS (registered in Australia only)

* Making More from Sheep

Note: the term 'registered' is used to describe an asset that is either registered or where an application for registration has been filed

SUPPORT OPERATIONAL REPORT 2009/10

Corporate communications

Action	Progress
Manage the WoolPoll 2009 process to conclusion.	Woolgrowers supported the 2% levy at WoolPoll 2009. 73.13% of votes cast were in favour of a levy of 2% or more. This result was from 53.70% of votes cast, and an increase from WoolPoll 2006. The voluntary poll of wool levy payers sets the future level of wool levy to be paid by woolgrowers towards marketing, research and development from July 2010.
Build a proactive relationship with the Federal Department of Agriculture, Fisheries and Forestry (DAFF) and monitor the requirements of the Statutory Funding Agreement (SFA) between the Commonwealth of Australia and AWI.	AWI has re-established a productive, open and positive relationship with DAFF. This is reflected by the successful completion of a number of key bodies of work including seamless negotiation of the 2010-2013 SFA, completion of the 2010-11 AWI Annual Operating Plan and completion of the 2010/11-2012/13 AWI Strategic Plan – all in accordance with government objectives and priorities.
Tender and reduce overall costs for <i>Beyond the Bale</i> and Annual Report.	We now write the <i>Beyond the Bale</i> magazine in-house which has reduced total costs (including printing and postage costs) to approximately \$1.25 per copy. We reduced the production and printing costs of the 2008/09 AWI Annual Report by over 85% from the previous year, a reduction of over \$100,000.
Project manage events, communication aspects of the Annual General Meeting (AGM). Identify opportunities to reduce costs of the AGM and regional meetings.	The 2009 AWI AGM was successfully held in Sydney and resulted in significant budget saving compared to previous inter-state AGMs.
Revise current market research plan aimed at growers to be more targeted and executed in a more cost effective manner.	AWI has undertaken a survey of growers regarding low cost, targeted, online delivery of information. The roll out of such online information dissemination is now underway.
Australian Wool Industry Free Trade Committee.	Priority for progressing this action was revised due to the slow developments in the China Free Trade Agreement.

Online communications

Action	Progress
Develop new messaging to support the overall brand structure and enter new content on web.	New content uploaded onto AWI website. Content is continually reviewed and updated.
Online developments.	A consolidated wool.com was launched: 17 sites were consolidated into a single point of access for all stakeholders. The new tickets and labels process was launched via wool.com. New social media initiatives were undertaken including a new Woolmark page on Facebook at www.facebook.com/woolmark .
Upgrade internal intranet to improve communication and adoption of tools.	Upgrade implemented.

Consolidation of project proposals/contracts

Action	Progress
Review proposed consolidated project proposal/contract document (aimed at simplifying the process) with legal and operational areas.	Completed, available for internal use from August 2009.
Create one-page overview and flowchart of new simplified process.	Completed, new process commenced from August 2009.
Implement revised process and document.	Completed August 2009.
Begin process mapping other key areas within the business to identify opportunities to simplify and improve.	Ongoing and is being integrated into AWI's feasibility work for an ERP system.

FINANCIAL REPORT

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Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Australian Wool Innovation Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

Directors

The following persons were directors of Australian Wool Innovation Limited during the whole of the financial year and up to the date of this report:

Mr W B Merriman (Chairman)
 Mr R J Fletcher (Deputy Chairman)
 Mr B P van Rooyen
 Mr C R Olsson
 Mr G B S Falkiner
 Dr M L Sheil
 Mr D A A Webster

Mr L S Modiano and Dr K J Bell were directors from the beginning of the financial year until their dates of resignation of 28 May 2010 and 1 November 2009 respectively.

Principal activities

Australian Wool Innovation Limited is a not-for-profit company. Its principal activity as recorded in its adopted strategic plan is to drive research, development, innovation and marketing that will increase the long term profitability of Australian woolgrowers and the Woolmark brands. To achieve this mission, the Group receives funding from the Commonwealth Government of Australia by way of a statutory wool levy imposed upon Australian woolgrowers and a capped matching fund contribution. Funding is also generated from revenue in respect of the Woolmark certification and ordinary trademark annual licence fees.

Significant changes in the state of affairs

There has been no matter or circumstance which has arisen since 30 June 2010 that has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

Review of operations and results

	2010	2009
	\$'000	\$'000
Revenue	61,840	61,716
Profit/(loss) from continuing operations	17,523	(17,393)

Matters subsequent to the end of the financial year

There were no significant matters subsequent to the end of the financial year.

Likely developments and expected results of operations

In August 2010, AWI appointed a marketing agency to work with AWI's brand and retail partners to promote and educate consumers about the many benefits of wool. This is a significant development; expenditure by AWI on marketing will increase accordingly. Other significant marketing efforts, related to the 'Campaign for Wool' project in northern hemisphere markets and 'Merino Gold' project in China, will increase AWI's expenditure on marketing even further.

As decided by woolgrowers at WoolPoll 2009, AWI will allocate half its expenditure on R&D and half on marketing. Thirty per cent of expenditure will be on on-farm R&D, twenty per cent will be on off-farm expenditure.

AWI will continue its focus on reduced operating costs to enable more funding to be targeted directly to marketing.

By actively and efficiently marketing wool and its attributes through investments in marketing and R&D - from farm to fashion - AWI aims to achieve its goal of increasing the demand for wool.

Company secretary

On 16 June 2010 Ms S Holmes (BSc., LLB (Hons), Dip Leg Prac, GAICD, Unrestricted Legal Practising Certificate) was appointed as Company Secretary of Australian Wool Innovation Limited, having acted as Assistant Company Secretary prior to the appointment. Ms Holmes, who has extensive experience in private practice law with various industries, and as in-house corporate counsel, also acts as General Counsel for the Company.

Past company secretaries were Mr D Smith (BA, LLB, LLM, Dip Legs, FAICD, FCIS), (set term contract from 1 April 2010 - 15 June 2010) and Ms S C Myers (BA, LLB, FCIS), (5 May 2009 - 31 March 2010).

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

Director	Committees									
	Full meetings of directors		Finance & Audit		Remuneration & Appointments		Marketing & Intellectual Property**		On-Farm RDI Scientific & Welfare	
	A	B	A	B	A	B	A	B	A	B
Mr W B Merriman	14*	14	-	-	4	4	2	1	9	8
Mr R J Fletcher	14	13^	4	3^	4*	4	-	-	-	-
Mr B P van Rooyen	14	11^	2	2	4	3	-	-	3	3
Mr C R Olsson	14	11	4*	3	4	3	2*	2	-	-
Mr G B S Falkiner	14	14	4	3^	-	-	2	1	9*	9
Dr M L Sheil	14	14	-	-	-	-	2	2	9	7
Mr D A A Webster	14	14	4	4	4	4	-	-	-	-
Mr L S Modiano (resigned 28 May 2010)	14	12	-	-	-	-	2	1	-	-
Dr K J Bell (resigned 1 November 2009)	4	3^	-	-	-	-	-	-	3	2^

A = number of meetings held when a director

B = number of meetings attended by director

* = denotes Chairman as at 30 June 2010

^ = denotes leave of absence granted

** Marketing & Intellectual Property Committee was dissolved on 8 April 2010

Chairmanship

Mr W B Merriman was reappointed Chairman of the Board on 27 November 2009.

Mr R J Fletcher was reappointed Deputy Chairman of the Board and Chairman of the Remuneration & Appointments Committee on 27 November 2009.

Mr C R Olsson was reappointed Chairman of the Finance & Audit and Marketing & Intellectual Property Committees on 27 November 2009.

Mr G B S Falkiner was reappointed Chairman of the On-Farm RDI Scientific & Welfare Committee on 27 November 2009.

Insurance of officers

During the financial year, Australian Wool Innovation Limited paid a premium to insure directors and officers of the consolidated entity. The insurance policy specifically prohibits disclosure of the nature and liability covered and the amount of the premium paid.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Directors' report (continued)

Non-audit services

The Group may decide to appoint the auditor on assignments additional to their statutory audit duties where the auditor's experience with the Group and/or the consolidated entity are important.

Details of the amounts paid to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 27 to the Financial Statements.

Dividends Paid

AWI's Constitution does not allow the company to pay any dividend.

Environmental regulation

The entity's operations are not subject to any particular or significant environmental regulations under either Commonwealth or State legislation.

Statutory funding agreement obligations

In addition to annual reporting requirements, there are additional reporting requirements imposed upon the company under clauses 16-18 of the Statutory Funding Agreement between Australian Wool Innovation Limited and The Commonwealth of Australia.

A number of the matters identified in this report contain commercial in confidence information and the company has elected to exercise its prerogative to provide that report separately to the Commonwealth on an 'in confidence' basis.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 33.

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.



Mr W B Merriman
Chairman

Sydney
6 October 2010

Auditor's Independence Declaration

As lead auditor for the audit of Australian Wool Innovation Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Wool Innovation Limited and the entities it controlled during the period.



Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
6 October 2010

Financial Report – 30 June 2010

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This financial report covers both Australian Wool Innovation Limited as an individual entity and the consolidated entity consisting of Australian Wool Innovation Limited and its controlled entities (as listed in note 31 to the financial report). The financial report is presented in the Australian currency.

Australian Wool Innovation Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 30, 580 George Street
Sydney NSW 2000

A description of the nature of the consolidated entity's operations and principal activities is included with the review of operations and activities in the directors' report on page 30, which is not part of this financial report.

The financial report was authorised for issue by the directors on 6 October 2010. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available on our website: www.wool.com.

Statements of comprehensive income

For the year ended 30 June 2010

	Notes	Consolidated		Parent entity	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue from continuing operations					
Operating revenue	3	59,053	58,449	46,228	46,359
Other revenue	3	2,787	3,267	2,682	3,215
		61,840	61,716	48,910	49,574
Other income	4	597	-	375	-
Expenses					
Project expenditure	6	(17,236)	(29,846)	(12,665)	(27,333)
International network	6	(11,387)	(20,679)	(2,325)	(4,717)
Global marketing	6	(2,817)	(6,062)	(2,692)	(5,211)
On-farm research & development	6	(2,683)	(2,528)	(2,683)	(2,528)
Off-farm research & development	6	(3,448)	(4,225)	(2,200)	(2,896)
Corporate services	6	(7,227)	(15,228)	(17,227)	(15,288)
Profit/(loss) before income tax		17,639	(16,912)	9,493	(8,399)
Income tax expense	7	(116)	(481)	-	-
Profit/(loss) from continuing operations		17,523	(17,393)	9,493	(8,399)
Profit/(loss) for the year		17,523	(17,393)	9,493	(8,399)
Other comprehensive income for the year, net of tax					
Currency translation differences	25	(773)	532	-	-
Total comprehensive income for the year		16,750	(16,861)	9,493	(8,399)
Attributable to:					
Members of Australian Wool Innovation Limited		16,750	(16,861)	9,493	(8,399)

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheets

As at 30 June 2010

	Notes	Consolidated		Parent entity	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
ASSETS					
Current assets					
Cash and cash equivalents	8	11,382	9,493	7,329	5,546
Held-to-maturity investments	9	55,367	43,749	55,003	43,000
Trade and other receivables	10	8,030	9,261	5,369	5,988
Inventories	11	19	145	-	-
Total current assets		74,798	62,648	67,701	54,534
Non-current assets					
Property, plant and equipment	12	2,300	4,271	1,851	3,618
Investment in controlled entities	13	-	-	-	10,000
Intangible assets	14	10,708	10,867	708	867
Receivables	15	-	-	10,568	6,462
Livestock	16	-	35	-	35
Other assets	17	571	725	75	118
Total non-current assets		13,579	15,898	13,202	21,100
Total assets		88,377	78,546	80,903	75,634
LIABILITIES					
Current liabilities					
Trade and other payables	18	8,134	10,313	3,968	6,257
Provisions	19	1,433	3,327	1,433	3,290
Current tax liabilities	20	113	542	-	-
Deferred income	21	6,410	8,705	44	-
Total current liabilities		16,090	22,887	5,445	9,547
Non-current liabilities					
Provisions	22	304	278	304	278
Other	23	776	924	776	924
Total non-current liabilities		1,080	1,202	1,080	1,202
Total liabilities		17,170	24,089	6,525	10,749
Net assets		71,207	54,457	74,378	64,885
EQUITY					
Contributed equity*	24	-	-	-	-
Reserves	25(a)	(241)	532	-	-
Retained profits	25(b)	71,448	53,925	74,378	64,885
Total equity		71,207	54,457	74,378	64,885

*As at 30 June 2009 and 2010 contributed equity in the consolidated and parent entity was \$100.

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity

For the year ended 30 June 2010

Consolidated	Notes	Attributable to owners of Australian Wool Innovation Limited			Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	
Balance at 1 July 2008		-	-	71,318	71,318
Comprehensive income for the year					
Profit/(loss)	25	-	-	(17,393)	(17,393)
Currency translation differences	25	-	532	-	532
Total comprehensive income for the year		-	532	(17,393)	(16,861)
Balance at 30 June 2009		-	532	53,925	54,457
Balance at 1 July 2009		-	532	53,925	54,457
Comprehensive income for the year					
Profit/(loss)	25	-	-	17,523	17,523
Currency translation differences	25	-	(773)	-	(773)
Total comprehensive income for the year		-	(773)	17,523	16,750
Balance at 30 June 2010		-	(241)	71,448	71,207
Parent					
	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2008		-	-	73,284	73,284
Comprehensive income for the year					
Profit/(loss)	25	-	-	(8,399)	(8,399)
Total comprehensive income for the year		-	-	(8,399)	(8,399)
Balance at 30 June 2009		-	-	64,885	64,885
Balance at 1 July 2009		-	-	64,885	64,885
Comprehensive income for the year					
Profit/(loss)	25	-	-	9,493	9,493
Total comprehensive income for the year		-	-	9,493	9,493
Balance at 30 June 2010		-	-	74,378	74,378

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statements

For the year ended 30 June 2010

	Notes	Consolidated		Parent entity	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash flows from operating activities					
Levy, licence, government grant and other receipts (inclusive of goods and services tax)		62,541	68,703	51,766	54,247
Payments to suppliers and employees (inclusive of goods and services tax)		(51,645)	(82,679)	(36,369)	(63,040)
		10,896	(13,976)	15,397	(8,793)
Interest received		2,426	3,444	2,321	3,392
Income taxes paid		(116)	(625)	-	-
Net cash outflow (inflow) from operating activities	34	13,206	(11,157)	17,718	(5,401)
Cash flows from investing activities					
Payments for property, plant and equipment		(145)	(450)	(105)	(277)
Proceeds from sale of property, plant and equipment		216	58	198	38
Proceeds from finalisation of purchase of business		-	1,262	-	-
Payments for held-to-maturity investments		(12,002)	(43,512)	(12,002)	(43,000)
Redemption of held-to-maturity investments		384	-	-	-
Payments of website development costs		-	(867)	-	(867)
Funding to related parties		-	-	(4,106)	(4,809)
Net cash (outflow) inflow from investing activities		(11,547)	(43,509)	(16,015)	(48,915)
Net increase (decrease) in cash and cash equivalents					
		1,659	(54,666)	1,703	(54,316)
Cash and cash equivalents at the beginning of the financial year		9,493	64,574	5,546	59,862
Effects of exchange rate changes on cash and cash equivalents		230	(415)	80	-
Cash and cash equivalents at end of year	8	11,382	9,493	7,329	5,546

The above cash flow statements should be read in conjunction with the accompanying notes.

Notes to the financial statements

30 June 2010

NOTE 1: Summary of significant accounting policies

Australian Wool Innovation Limited is a company limited by shares, incorporated and domiciled in Australia and is a not-for-profit company.

The nature of the Group's operations and principal activities are described in the Directors' Report.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Historical cost convention

This financial report has been prepared under the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. There are no material areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Australian Wool Innovation Limited as at 30 June 2010 and the results of all controlled entities for the year then ended. Australian Wool Innovation Limited and its controlled entities together are referred to in this financial report as the consolidated entity or the Group.

Where control of an entity is obtained during a financial year, its results are included in the consolidated income statement and balance sheet from the date on which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

The effects of all transactions between entities in the consolidated entity are eliminated in full.

(c) Segment reporting

Australian Wool Innovation Limited is not required to disclose segment reporting and accordingly has not done so.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Australian Wool Innovation Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- from 1 July 2008 all resulting exchange differences have been recorded as a separate component of equity.

Notes to the financial statements

30 June 2010

(continued)

NOTE 1: Summary of significant accounting policies (continued)

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Wool levies and government grants are brought to account when received or receivable from the Federal Government. Reasonable assurance that the Commonwealth Matching Funds grant will be received occurs when the Group complies with all conditions outlined in the Statutory Funding Agreement.

Invoiced licence fees are deferred as a liability on the balance sheet and brought to account as revenue over the 12 months of the licence period.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue for the sale of goods is recognised when goods have been delivered to a customer and the risks and rewards of ownership have transferred to the customer.

Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide services.

Revenue for the disposal of non-current assets is recognised when control of the asset has passed to the buyer.

(f) Income tax

(i) Parent entity

Australian Wool Innovation Limited is exempt from income tax in Australia under Section 50-40 of the *Income Tax Assessment Act 1997*.

(ii) Consolidated entity

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Australian Wool Innovation Limited has not, but its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (net of any incentives received from the lessor) and are charged to the income statement on a straight-line basis over the period of the lease.

NOTE 1: Summary of significant accounting policies (continued)

(h) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. As a not-for-profit organisation, value in use may be assessed on the basis of depreciated replacement costs for a similar asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, floating rate notes, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for doubtful debts) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is doubtful. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(l) Inventories

(i) Raw materials and finished goods

Raw materials and finished goods are stated at the lower of cost and net realisable value in the balance sheet. The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(ii) Livestock

Livestock are carried on the balance sheet at the lower of cost and net realisable value.

Notes to the financial statements

30 June 2010

(continued)

NOTE 1: Summary of significant accounting policies (continued)

(m) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in current trade and other receivables (note 10) and non-current receivables (note 15) in the balance sheets.

(ii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in current assets as they have maturities less than 12 months from the reporting date.

Recognition and derecognition

Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Loans, receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

(n) Property, plant and equipment

All assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Purchases of property, plant and equipment costing less than \$2,000 are expensed in the year of acquisition.

Depreciation is calculated on a straight line basis to write off the net cost amount of each item of property, plant and equipment (excluding land) over its expected useful life to the economic entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

	2010	2009
- Buildings	10-20 years	10-20 years
- Plant and equipment	2-10 years	2-10 years
- Leasehold improvements	10 years	10 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter.

NOTE 1: Summary of significant accounting policies (continued)

(p) Intangible assets

(i) Research and development

Research expenditure is recognised as an expense as incurred.

(ii) Trademarks

This represents the Woolmark certification trademarks acquired by the Group. The Woolmark is well established and is expected to generate cash inflows for the Group for an indefinite period. Therefore the certification trademarks are carried at cost without amortisation, but are tested for impairment in accordance with (note 1(i)).

(iii) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised are external direct costs of materials and service. Amortisation is calculated on a straight-line basis over 5 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) Employee benefits

(i) Short-term obligations

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long-term employee benefit obligations

The liability for long service leave is recognised in provisions and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

The provision for employee entitlements includes on-costs of superannuation, payroll tax and workers compensation.

(s) Dividends

AWI's Constitution does not allow the company to pay any dividend.

(t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

(u) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Notes to the financial statements

30 June 2010

(continued)

NOTE 2: Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange, other price risks and aging analysis for credit risk.

Risk management is carried out by the Finance department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

The Group and the parent entity hold the following financial instruments:

	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents	11,382	9,493	7,329	5,546
Trade and other receivables (excluding prepayments)	7,635	8,350	5,212	5,748
Held-to-maturity investments	55,367	43,749	55,003	43,000
	74,384	61,592	67,544	54,294
Financial liabilities				
Trade and other payables	8,134	10,313	3,968	6,257

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the CNY, EUR and USD currencies.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations.

The Group's foreign exchange management policies includes wherever possible creating natural hedges with the collection of licence income in the same currencies as the expenditure being incurred. The Group also purchased foreign exchange contracts during the year to minimise the exposure to fluctuations in the currency markets based on a proportion of budgeted cash flows. The Group had no outstanding foreign exchange hedges at 30 June 2010 or 30 June 2009.

The Group's exposure to foreign currency risk at the reporting date, expressed in Australian dollars, was as follows:

	30 June 2010			30 June 2009		
	CNY	EUR	USD	CNY	EUR	USD
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Bank accounts	2,657	609	846	2,706	1,199	1,392
Trade receivables	361	2,136	449	60	1,662	752
Trade payables	-	(839)	(6)	-	(133)	(83)

Group sensitivity

Based on the financial instruments held at the 30 June 2010, had the Australian dollar weakened/strengthened by 10% against the main trading currencies with all other variables held constant, the Group's income statement exposure expressed in Australian dollars, would have been affected as follows:

	30 June 2010			30 June 2009		
	CNY	EUR	USD	CNY	EUR	USD
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
10% Higher	274	173	117	251	248	187
10% Lower	(335)	(212)	(143)	(307)	(303)	(229)

NOTE 2: Financial risk management (continued)

Parent entity sensitivity

The parent entity operates predominantly in Australia and has no significant exposure to foreign exchange risk.

(ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from cash and term deposit investments. The company's investment policy is to maintain a prudent and conservative investment profile that is risk averse.

As at reporting date, the Group's exposure to interest rate risk and the effective weighted average interest rates are as follows:

	30 June 2010		30 June 2009	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash on hand - interest bearing	4.00%	498	3.17%	656
Cash on hand - non-interest bearing*		5,384		5,814
Funds invested - term deposits	5.59%	60,867	3.97%	46,772
Net exposure to cash flow interest rate risk		66,749		53,242

*The majority of the non-interest bearing cash is held in overseas jurisdictions where restrictions for repatriation and low interest regimes exist.

Group sensitivity

At 30 June 2010, if interest rates had changed by +/-100 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been \$609,000 lower/higher (2009 - change of 100 bps: \$468,000 lower/higher) or post tax (loss) for the year would have been \$609,000 higher/lower (2009 - change of 100 bps: \$468,000 higher/lower), mainly as a result of lower/higher interest income from cash and cash equivalents and held-to-maturity investments.

Parent entity sensitivity

The parent entity's main interest rate risk arises from cash and cash equivalents and held-to-maturity investments. At 30 June 2010, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been \$605,000 lower/higher (2009 - change of 100 bps: \$467,000 lower/higher) or post tax (loss) for the year would have been \$605,000 higher/lower (2009 - change of 100 bps: \$467,000 higher/lower), as a result of lower/higher interest income from these financial assets.

(b) Credit risk

The Group has no significant concentrations of credit risk and credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Customers risk rating is assessed by the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings and compliance with credit limits by customers is regularly monitored by management.

Australian Wool Innovation Limited's funds investment policy is conservative and designed to minimise principal, interest rate and currency risk.

Risk of principal amounts invested is minimised by only investing in deposits with Standard & Poor's ratings AAA, AA+, AA and AA- for long term and A.1+ for short term.

Risk of loss due to adverse interest rate movements is minimised by investing in term deposits for terms per the AWI investment policy.

Funds invested at 30 June 2010 were predominantly in Australian dollars thereby minimising any foreign exchange risk.

Notes to the financial statements

30 June 2010

(continued)

NOTE 2: Financial risk management (continued)

As at 30 June, Australian Wool Innovation Limited had the following categories of funds invested:

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Cash and held-to-maturity investments				
Deposits with Australian banks (rated A2 or better)	62,250	48,426	62,249	48,426
Deposits with overseas banks	4,499	4,816	83	120
	66,749	53,242	62,332	48,546

The Group has policies in place to ensure that customers have an appropriate credit history. Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and having funding available. Head office finance aims at maintaining flexibility in funding by keeping funds on call and term deposits with regular rolling maturity dates. The Group manages liquidity risk by continually monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Given the cash reserves available borrowing facilities are not required.

Financial liabilities of the Group relate to trade and other payables amounting to \$8,134,000 (2009: \$10,313,000) all of which are payable within one year (parent entity \$3,968,000 (2009: \$6,257,000)).

(d) Fair value measurements

The net fair value of cash and cash equivalents, other financial assets and financial liabilities approximate their carrying values.

NOTE 3: Revenue

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
From continuing operations				
<i>Operating revenue</i>				
Wool levy	35,319	34,307	35,319	34,307
Government contributions	10,483	11,395	10,483	11,395
Licence fees	10,606	9,134	-	-
Sale of goods and services	1,253	1,531	317	505
Royalties	1,300	1,805	78	107
Other	92	277	31	45
	59,053	58,449	46,228	46,359
<i>Other revenue</i>				
Rents and sub-lease rentals	74	-	74	-
Interest	2,713	3,267	2,608	3,215
	2,787	3,267	2,682	3,215
	61,840	61,716	48,910	49,574

NOTE 4: Other income

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Net gain on disposal of property, plant and equipment	186	-	184	-
Net foreign exchange gains	411	-	191	-
	597	-	375	-

NOTE 5: Expenses

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<i>Depreciation and amortisation</i>				
Depreciation - buildings	382	270	382	270
Depreciation - property, plant and equipment	541	787	283	496
Depreciation - leasehold improvements	199	194	189	181
Amortisation - intangible assets	159	-	159	-
Total depreciation and amortisation	1,281	1,251	1,013	947
<i>Other losses</i>				
Impairment - inventories	119	-	-	-
Impairment - property, plant and equipment	1,004	(122)	1,004	-
Impairment - controlled entity receivable	-	-	1,016	1,442
Impairment - of investment of controlled entity	-	-	10,000	-
Net foreign exchange losses	-	2,633	-	694
Net loss on disposal of property, plant and equipment	-	34	-	32
Total other losses	1,123	2,545	12,020	2,168
<i>Rental expense relating to operating leases</i>				
Minimum lease payments	1,701	2,116	830	835
<i>Defined contribution superannuation expense</i>				
	805	1,157	536	716
<i>Impairment losses - financial assets</i>				
Trade receivables	295	584	159	59

Notes to the financial statements

30 June 2010

(continued)

NOTE 6: Research, development and marketing expenditure

Consolidated:	2010			2009		
	External costs \$'000	Internal costs \$'000	Total \$'000	External costs \$'000	Internal costs \$'000	Total \$'000
International network						
Asia	2,863	6,115	8,978	2,290	9,885	12,175
Europe	1,625	4,287	5,912	140	9,340	9,480
Americas	129	985	1,114	301	1,454	1,755
	4,617	11,387	16,004	2,731	20,679	23,410
Global marketing	3,752	2,817	6,569	5,695	6,062	11,757
On-farm research & development	6,868	2,683	9,551	14,916	2,528	17,444
Off-farm research & development	1,999	3,448	5,447	6,504	4,225	10,729
	12,619	8,948	21,567	27,115	12,815	39,930
Corporate services	-	7,227	7,227	-	15,288	15,288
Total expenditure	17,236	27,562	44,798	29,846	48,782	78,628

'External costs' represent payments to suppliers directly related to individual projects and programs. 'Internal costs' are the cost of staff who manage those projects and programs, their related expenses and other operating expenses.

Internal costs

Consolidated:	2010 \$'000	2009 \$'000
Contractor, legal & professional fees expenses	2,193	4,864
Employee expenses	14,523	20,585
Infrastructure expenses	5,085	6,266
Restructure expenses	(520)	5,436
Travel expenses	1,396	2,821
Other expenses from ordinary activities	4,885	8,810
	27,562	48,782

Parent entity:

As above except for \$10,435,390 (2009: \$18,142,365) international network expenses plus impairment of investment in controlled entity of \$10,000,000 (2009: nil) and \$4,571,079 (2009: \$2,512,675) project expenditure relating to The Woolmark Company Pty Ltd and AWI USA LLC (both 100% owned subsidiaries of AWI).

NOTE 7: Income tax expense

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
(a) Income tax expense				
Current tax	292	469	-	-
Adjustments for current tax of prior periods	(176)	12	-	-
	116	481	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit/(loss) from continuing operations before income tax expense	17,639	(16,912)	9,493	(8,399)
Tax at the Australian tax rate of 30% (2009 - 30%)	5,292	(5,074)	2,848	(2,520)
Tax exempt under section 50-40 of the <i>Income Tax Assessment Act 1997</i>	(5,848)	2,520	(2,848)	2,520
Tax losses and temporary differences not brought to account	713	3,211	-	-
Difference in overseas tax rates	(41)	(176)	-	-
Income tax expense	116	481	-	-

The Group has not recognised deferred tax assets relating to tax losses or temporary differences arising from loss making operations as it is not probable that the benefits will be realised. The parent entity is tax exempt and is seeking tax exempt status for other Australian controlled entities.

NOTE 8: Current assets - Cash and cash equivalents

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	5,882	6,470	1,829	2,523
Term deposits	5,500	3,023	5,500	3,023
	11,382	9,493	7,329	5,546

Further details of cash and cash equivalents are set out in note 9.

Notes to the financial statements

30 June 2010

(continued)

NOTE 9: Current assets - Held-to-maturity investments

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Term deposits	55,367	43,749	55,003	43,000

	Consolidated	
	2010	2009
	\$'000	\$'000
Cash and cash equivalents (note 8) and held-to-maturity investments (note 9) are represented as follows:		
Unrestricted	30,949	6,942
Restricted as security against guarantees issued by the company's bankers ^(a)	2,700	2,700
Restricted by the Directors in respect of:		
Forward contract commitments ^(b)	8,100	22,200
Emergency funds ^(c)	5,000	5,000
Operating funds ^(c)	20,000	16,400
	66,749	53,242

(a) Bank guarantees have been issued to a number of parties in respect of the company's liabilities. The company has given its primary bankers security over term deposits in respect of those amounts, such deposits attracting commercial interest rates.

(b) A reserve of \$8.1 million has been created to cover forward commitments.

(c) The directors resolved in September 2007 to set aside \$5 million as emergency funds to cover any unforeseeable expenditure and nine months of operating costs in respect of future liabilities.

NOTE 10: Current assets - Trade and other receivables

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Net trade receivables				
Trade receivables	3,471	4,123	406	671
Provision for doubtful receivables (note (a))	(716)	(912)	(59)	(59)
	2,755	3,211	347	612
Net related party receivable				
Related party receivable	-	-	4,351	3,332
Provision for impairment of related party receivable	-	-	(4,349)	(3,332)
	-	-	2	-
Net other receivables				
Commonwealth matching funds & wool levy accruals	4,182	4,583	4,182	4,583
Other receivables	698	556	681	553
	4,880	5,139	4,863	5,136
Prepayments				
Insurance	110	163	92	150
Other	285	748	65	90
	395	911	157	240
	8,030	9,261	5,369	5,988

NOTE 10: Current assets – Trade and other receivables (continued)**(a) Impaired trade receivables**

As at 30 June 2010 current trade receivables of the Group with a nominal value of \$2,236,000 (2009 - \$2,424,000) were impaired. The provision for doubtful debts was \$716,000 (2009 - \$912,000). The impaired receivables mainly relate to licence fees. As at 30 June 2010 current trade receivables of the parent with a nominal value of \$119,000 were impaired. The provision for doubtful debts was \$59,000 (2009 - \$59,000).

(b) Past due but not impaired

Past due but not impaired trade receivables are immaterial.

NOTE 11: Current assets – Inventories

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Raw materials - at cost	19	26	-	-
Other inventories - at net realisable value	-	119	-	-
	19	145	-	-

NOTE 12: Non-current assets – Property, plant and equivalent

Consolidated	Buildings \$'000	Freehold land \$'000	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Year ended 30 June 2009					
Opening net book amount	1,893	425	1,664	1,258	5,240
Additions	47	-	395	8	450
Disposals	(7)	-	(74)	(11)	(92)
Reclassification	(24)	-	-	24	-
The Woolmark Company Pty Ltd acquisition	-	-	(198)	-	(198)
Depreciation charge	(270)	-	(787)	(194)	(1,251)
Impairment write-back/(loss) (note (a))	-	-	122	-	122
Closing net book amount	1,639	425	1,122	1,085	4,271
At 30 June 2009					
Cost or fair value	2,747	425	7,560	1,406	12,138
Accumulated depreciation	(1,108)	-	(6,438)	(321)	(7,867)
Net book amount	1,639	425	1,122	1,085	4,271

Notes to the financial statements

30 June 2010

(continued)

NOTE 12: Non-current assets - Property, plant and equivalent (continued)

Consolidated	Buildings \$'000	Freehold land \$'000	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Year ended 30 June 2010					
Opening net book amount	1,639	425	1,122	1,085	4,271
Exchange differences	-	-	43	(3)	40
Additions	-	-	67	78	145
Disposals	-	-	(30)	-	(30)
Depreciation charge	(382)	-	(541)	(199)	(1,122)
Impairment write-back/(loss) (note (a))	(1,004)	-	-	-	(1,004)
Closing net book amount	253	425	661	961	2,300
At 30 June 2010					
Cost or fair value	616	425	6,692	1,475	9,208
Accumulated depreciation	(363)	-	(6,031)	(514)	(6,908)
Net book amount	253	425	661	961	2,300
Parent entity	Buildings \$'000	Freehold land \$'000	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Year ended 30 June 2009					
Opening net book amount	1,893	425	812	1,229	4,359
Additions	47	-	230	-	277
Disposals	(7)	-	(51)	(13)	(71)
Reclassification	(24)	-	-	24	-
Depreciation charge	(270)	-	(496)	(181)	(947)
Closing net book amount	1,639	425	495	1,059	3,618
At 30 June 2009					
Cost or fair value	2,747	425	3,076	1,356	7,604
Accumulated depreciation	(1,108)	-	(2,581)	(297)	(3,986)
Net book amount	1,639	425	495	1,059	3,618
Parent entity	Buildings \$'000	Freehold land \$'000	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Year ended 30 June 2010					
Opening net book amount	1,639	425	495	1,059	3,618
Additions	-	-	27	78	105
Disposals	-	-	(14)	-	(14)
Depreciation charge	(382)	-	(283)	(189)	(854)
Impairment write-back/(loss) (note (a))	(1,004)	-	-	-	(1,004)
Closing net book amount	253	425	225	948	1,851
At 30 June 2010					
Cost or fair value	616	425	2,440	1,433	4,914
Accumulated depreciation	(363)	-	(2,215)	(485)	(3,063)
Net book amount	253	425	225	948	1,851

(a) Impairment write-back/(loss)

At 30 June 2010 an impairment loss of \$1,004,368 relating to Falkiner Memorial Field Station irrigation and fencing assets owned by AWI was recognised in the consolidated and parent income statements. The assets were tested for impairment and deemed to have a recoverable amount of nil because no further economic benefit was expected to be derived in the current or future financial years.

NOTE 12: Non-current assets – Property, plant and equivalent (continued)

In 2009 an impairment write-back of \$122,000 relating to the Optim machine owned by The Woolmark Company Pty Ltd was recognised in the consolidated income statement due to a recovery from its former owner, Graziers' Investment Company Limited. The asset was carried in the consolidated balance sheet at its estimated recoverable amount at 30 June 2009.

NOTE 13: Non-current assets – Investment in controlled entities

	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Investment in controlled entities	-	-	10,013	10,013
Provision for impairment of investment in controlled entities	-	-	(10,013)	(13)
	-	-	-	10,000

Australian Wool Innovation LLC was incorporated on 13 September 2005 in the USA with an initial capital contribution of \$13,000 (USD\$10,000.00), which represented 100% of the equity holding.

Woolmark Holdings Pty Ltd was incorporated on 28 February 2007 in Australia with an initial capital contribution of \$1.00 being 100% of the equity holding.

On 5 October 2007 Australian Wool Innovation Limited purchased key assets of Australian Wool Services Limited (AWS) for \$10 million.

At 30 June 2010 an impairment loss of \$10,000,000 relating to AWI's investment in the subsidiary The Woolmark Company Pty Ltd was recognised in the parent entity income statement. The investment is considered impaired due to ongoing operating losses incurred by The Woolmark Company Pty Ltd and its controlled entities ("TWC"). As a result of changes made to the International Network operating model of the Group, TWC now incorporates activities and incurs expenses, previously undertaken by AWI, the parent entity. This has no impact on the consolidated entity's net assets or results.

NOTE 14: Non-current assets – Intangible assets

Consolidated	Certification trademarks \$'000	Website development costs \$'000	Total \$'000
Year ended 30 June 2009			
Opening net book amount	10,000	-	10,000
Additions	-	867	867
Closing net book amount	10,000	867	10,867
At 30 June 2009			
Cost	10,000	867	10,867
Net book amount	10,000	867	10,867
Consolidated	Certification trademarks \$'000	Website development costs \$'000	Total \$'000
Year ended 30 June 2010			
Opening net book amount	10,000	867	10,867
Amortisation charge*	-	(159)	(159)
Closing net book amount	10,000	708	10,708
At 30 June 2010			
Cost	10,000	867	10,867
Accumulated amortisation and impairment	-	(159)	(159)
Net book amount	10,000	708	10,708

Notes to the financial statements

30 June 2010

(continued)

NOTE 14: Non-current assets - Intangible assets (continued)

Parent entity	Website development costs \$'000	Total \$'000
Year ended 30 June 2009		
Additions	867	867
Closing net book amount	867	867
At 30 June 2009		
Cost	867	867
Net book amount	867	867
Parent entity		
	Website development costs \$'000	Total \$'000
Year ended 30 June 2010		
Opening net book amount	867	867
Amortisation charge*	(159)	(159)
Closing net book amount	708	708
At 30 June 2010		
Cost	867	867
Accumulated amortisation and impairment	(159)	(159)
Net book amount	708	708

*Amortisation of \$159,000 (2009 - nil) is included in note 5.

A value of \$10,000,000 is allocated to the Woolmark certification and ordinary trademarks and based on a review of the current operations to date and intentions for future use, the directors are satisfied that no impairment of the carrying value has arisen since acquisition.

NOTE 15: Non-current assets - Receivables

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Net related party receivables				
The Woolmark Company Pty Ltd	-	-	10,568	6,462

NOTE 16: Non-current assets - Livestock

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Livestock (sheep) value - at cost	-	35	-	35

Livestock are carried on the balance sheet at cost, with adjustment made to reflect net market value as appropriate.

The consolidated and parent entity closing sheep stock on hand as at 30 June 2010 was nil (2009: 2,384).

NOTE 17: Non-current assets - Other assets

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Lease deposits	571	725	75	118

NOTE 18: Current liabilities - Trade and other payables

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Trade payables	1,360	1,643	707	1,296
Project payment accruals	2,106	3,562	2,106	3,562
Other payables	4,668	5,108	1,155	1,399
	8,134	10,313	3,968	6,257

NOTE 19: Current liabilities - Provisions

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Long service leave	-	62	-	25
Restructuring (a)	1,433	3,265	1,433	3,265
	1,433	3,327	1,433	3,290

(a) Movement in provisions

	Restructuring	Total
	\$'000	\$'000
Consolidated and Parent Entity - 2010		
Carrying amount at start of year	3,265	3,265
- amounts utilised	(1,312)	(1,312)
- unused amounts reversed	(520)	(520)
Carrying amount at end of year	1,433	1,433

NOTE 20: Current liabilities - Current tax liabilities

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Income tax	113	542	-	-

Notes to the financial statements

30 June 2010

(continued)

NOTE 21: Current liabilities - Deferred income

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Unearned sub-lease income	44	-	44	-
Unearned licence income	6,366	8,705	-	-
	6,410	8,705	44	-

NOTE 22: Non-current liabilities - Provisions

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Long service leave	131	105	131	105
Make good - 580 George St	173	173	173	173
	304	278	304	278

NOTE 23: Non-current liabilities - Other

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Lease incentive - 580 George St fitout	776	924	776	924

The lease incentive will decrease on a straight line basis as a reduction of the lease expense over the 8 year lease term.

NOTE 24: Contributed equity

	Parent entity		Parent entity	
	2010	2009	2010	2009
	Shares	Shares	\$	\$
(a) Share capital				
Ordinary shares - fully paid	37,462	37,462	100	100

(b) Movements in ordinary share capital:

Date	Details	Number of shares	\$
1 July 2008	Opening balance	37,462	100
30 June 2009	Balance	37,462	100
1 July 2009	Opening balance	37,462	100
30 June 2010	Balance	37,462	100

NOTE 24: Contributed equity (continued)**(c) Ordinary shares**

A person has a right to one share in the Company if the Board is satisfied that their rolling wool levy or wool tax contribution is \$100 or more during the 3 previous financial years or the person is engaged in a wool producing business, as defined by the Company's constitution. This right does not entitle the shareholder to participate in any profit distributions or in any proceeds on the winding up of the entity. Where a person fails to satisfy these share criteria the share is returned to and held by the Company.

(d) Shareholder statistics

Details	30 June 2010	30 June 2009
Australian Capital Territory	108	110
New South Wales	10,799	10,890
Northern Territory	3	3
Queensland	1,006	1,064
South Australia	4,850	4,876
Tasmania	778	775
Victoria	6,753	6,798
Western Australia	5,050	5,238
Balance	29,347	29,754

NOTE 25: Reserves and retained earnings

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
(a) Reserves				
Foreign currency translation reserve	(241)	532	-	-
Movements:				
<i>Foreign currency translation reserve</i>				
Balance 1 July 2009	532	-	-	-
Currency translation differences arising during the year from the Group:	(773)	532	-	-
Balance 30 June 2010	(241)	532	-	-
(b) Retained earnings				
Retained surplus at the beginning of the financial year	53,925	71,318	64,885	73,284
Net surplus/(deficit) attributable to the shareholders of Australian Wool Innovation Limited	17,523	(17,393)	9,493	(8,399)
Retained surplus at the end of the financial year	71,448	53,925	74,378	64,885

Notes to the financial statements

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NOTE 26: Key management personnel disclosures

(a) Non-executive directors

The following persons were non-executive directors of Australian Wool Innovation Limited during the financial year:

Mr W B Merriman (Chairman)
 Mr R J Fletcher (Deputy Chairman)
 Mr B P van Rooyen
 Mr C R Olsson
 Mr G B S Falkiner
 Dr M L Sheil
 Mr D A A Webster
 Mr L S Modiano (resigned 28 May 2010)
 Dr K J Bell (resigned 1 November 2009)

(b) Other key management personnel*

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
Mr S K McCullough (appointed 24 May 2010)	Chief Executive Officer and interim Chief Executive Officer (from 9 March 2010 until 23 May 2010)	AWI Limited
Ms B J McGahan (until 8 March 2010)	former Chief Executive Officer	AWI Limited
Ms S Holmes (appointed 16 June 2010)	Company Secretary & General Counsel	AWI Limited
Mr D Smith (from 1 April 2010 until 15 June 2010)	former Company Secretary & General Counsel	AWI Limited
Ms S C Myers (until 31 March 2010)	former Company Secretary & General Counsel	AWI Limited
Ms T Marshall	General Manager - Finance & IT	AWI Limited
Mr J Jackson	General Manager - Product Development and Commercialisation	AWI Limited
Mr P Senkoff	General Manager - Asia	IWS Nominee Company Limited
Mr N Bensid	General Manager - Europe	Woolmark International Pty Ltd
Mr E Nazario	General Manager - Americas	AWI LLC
Mr S Mahoney (until 29 January 2010)	former Head of Marketing & Communications	AWI Limited
Ms K M Newton	Human Resource Manager	AWI Limited
Ms J Littlejohn (from 1 January 2010)	Acting General Manager - Wool Production	AWI Limited

*For the period in which they held a key management personnel position.

NOTE 26: Key management personnel disclosures (continued)**(c) Key management personnel compensation**

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Non-executive directors				
Short-term employee benefits	660,216	701,724	660,216	701,724
Post-employment benefits	59,420	63,055	59,420	63,055
	719,636	764,779	719,636	764,779
Other key management personnel				
Short-term employee benefits	2,908,375	3,387,070	1,632,760	2,249,808
Post-employment benefits	180,480	205,701	130,480	155,701
Termination benefits	95,411	1,402,707	95,411	1,402,707
	3,184,266	4,995,478	1,858,651	3,808,216

The above key management personnel compensation table includes both non-executive directors and other key management personnel amounts for the period in which they held a key management personnel position.

Compensation includes salaries, wages, superannuation and other employee provisions paid, payable or provided to or on behalf of Australian Wool Innovation Limited.

(d) Remuneration principles and policies*(i) Principles used to determine the nature and amount of remuneration*

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the innovation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency

In consultation with external remuneration consultants from time to time, the Group has structured an executive remuneration framework that is market competitive, attracts and retains high calibre executives and is complementary to the reward strategy of the organisation.

(ii) Directors' fees

All directors are non-executive, and fees and payments to directors reflect the demands which are made on, and the responsibilities of, the directors. All directors' fee payments are reviewed by the Board. The Chairman's fees are determined independently to the fees of directors based on comparative roles in the external market. Both the Chairman and non-executive directors receive additional fees for their membership on committees.

Superannuation payments are made in accordance with the Superannuation Guarantee legislation to the director's choice of superannuation fund.

(iii) Executive pay

The executive pay consists of base pay, benefits and superannuation. These are structured at the executives' discretion as a total employment cost package, which may be delivered as a mix of cash and non-cash benefits. The value of non-financial benefits is calculated on the basis of the total cost to the Group, so that the total expense to the Group is no more than it would have been had the Group paid cash salary plus statutory superannuation contributions.

Superannuation payments are made in accordance with the Superannuation Guarantee legislation in Australia and per overseas jurisdictions, to the executive's choice of superannuation fund. Australian Wool Innovation Limited does not offer a defined benefits retirement plan.

There are no guaranteed pay increases in any senior executive contracts.

(iv) Executive Service Agreements

Remuneration and other terms of employment for the Executive Management Team are formalised in service agreements. These service agreements state a salary package (which is calculated on a total cost to the Group basis). None of these service agreements include share options or termination conditions in excess of six months.

Notes to the financial statements

30 June 2010

(continued)

NOTE 26: Key management personnel disclosures (continued)

(e) Details of remuneration

(i) Non-executive Directors of Australian Wool Innovation Limited

2010	Short-term employee benefits		Post-employment benefits	Total
	Directors' base fees paid	Committee fees paid	Superannuation	
Name	\$	\$	\$	\$
Mr W B Merriman	112,000	15,400	11,466	138,866
Mr R J Fletcher	84,000	14,000	8,820	106,820
Mr B P van Rooyen	56,000	9,800	5,922	71,722
Mr C R Olsson	56,000	22,050	7,025	85,075
Mr G B S Falkiner	56,000	22,400	7,056	85,456
Dr M L Sheil	56,000	11,200	6,048	73,248
Mr D A A Webster	56,000	12,600	6,174	74,774
Mr L S Modiano (resigned 28 May 2010)	51,334	4,433	5,019	60,786
Dr K J Bell (resigned 1 November 2009)	18,667	2,332	1,890	22,889
Total	546,001	114,215	59,420	719,636

2009	Short-term employee benefits		Post-employment benefits	Total
	Directors' base fees paid	Committee fees paid	Superannuation	
Name	\$	\$	\$	\$
Mr W B Merriman	90,533	13,108	9,327	112,968
Mr R J Fletcher	73,267	11,317	7,612	92,196
Mr B P van Rooyen	77,867	8,517	7,774	94,158
Mr C R Olsson	56,000	16,112	6,490	78,602
Mr G B S Falkiner (appointed 19 November 2008)	35,000	14,181	4,426	53,607
Dr M L Sheil (appointed 19 November 2008)	34,533	8,283	3,854	46,670
Mr D A A Webster (appointed 19 November 2008)	35,000	7,508	3,825	46,333
Mr L S Modiano (appointed 19 November 2008)	35,000	3,267	3,444	41,711
Dr K J Bell	56,000	8,750	5,828	70,578
Dr C J Abell (resigned 19 November 2008)	23,333	9,916	2,993	36,242
Mr K A Boundy (resigned 19 November 2008)	23,333	5,250	2,573	31,156
Ms R Clubb (resigned 19 November 2009)	23,333	2,916	2,263	28,512
Dr J S Keniry (resigned 19 November 2009)	23,333	6,067	2,646	32,046
Total	586,532	115,192	63,055	764,779

NOTE 27: Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
(a) Audit services				
Audit fees - domestic	146,160	172,000	146,160	172,000
Audit fees - international	108,586	158,914	-	-
Other audit services	40,780	22,200	40,780	22,200
Total remuneration for audit services	295,526	353,114	186,940	194,200
(b) Non-audit services				
<i>Audit and other assurance services</i>				
Advisory services	182,442	127,925	122,633	21,779
<i>Taxation services</i>				
Tax compliance services	62,684	64,095	-	-
Total remuneration for non-audit services	245,126	192,020	122,633	21,779
Total Remuneration	540,652	545,134	309,573	215,979

NOTE 28: Contingencies

Contingent liabilities

The parent entity and Group had contingent liabilities at 30 June 2010 in respect of potential tax liabilities in two Asian countries. If proven, the majority of the liability pre-dates the acquisition of The Woolmark Company Pty Ltd and therefore would be the responsibility of the former owner, Graziers' Investment Company Limited.

NOTE 29: Commitments

(i) Research and development

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Commitments in relation to research and development are payable as follows:				
Within one year	2,163	5,298	2,163	5,298
Later than one year but not later than five years	5	2,400	5	2,400
	2,168	7,698	2,168	7,698

(ii) Non-cancellable operating leases

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	1,717	1,677	983	890
Later than one year but not later than five years	3,948	3,528	3,505	3,080
Later than five years	228	1,095	228	1,095
	5,893	6,300	4,716	5,065

Notes to the financial statements

30 June 2010

(continued)

NOTE 30: Related party transactions

(a) Parent entities

The parent entity within the Group is Australian Wool Innovation Limited.

(b) Directors

The names of persons who were directors of the company at any time during the financial year are as follows: W B Merriman, R J Fletcher, B P van Rooyen, C R Olsson, G B S Falkiner, M L Sheil, D A A Webster, L S Modiano and K J Bell. All of these persons were also directors during the year ended 30 June 2009.

(c) Subsidiaries

Interests in subsidiaries are set out in note 31.

(d) Remuneration

Disclosures relating to directors and key management personnel remuneration are set out in note 26.

(e) Other transactions with directors and key management personnel or entities related to them

(i) Loan transactions and balances

There were no loan transactions or balances with directors and key management personnel or entities related to them during the year ended 30 June 2010.

(ii) Other transactions and balances

No director, or director-related entity entered into a contract or had any other transactions other than normal terms and conditions with Australian Wool Innovation Limited during the year ended 30 June 2010.

Other transactions relating to subsidiaries:

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<i>Current receivables</i>				
Loan to AWI LLC (US subsidiary)	-	-	4,350,864	3,332,487
Provision for impairment of intercompany receivable	-	-	(4,348,741)	(3,332,487)
Total	-	-	2,123	-

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<i>Non-current receivables</i>				
The Woolmark Company Pty Ltd	-	-	10,568,296	6,461,837

(f) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<i>Sales of goods and services</i>				
Sale of co-funded projects and testing services to key management personnel* of the entity or its parent	9,092	-	9,092	-
<i>Purchases of services</i>				
Purchases of project services relating to animal health and welfare, sheep genetics and wool testing from key management personnel* of the entity or its parent	158,321	886,254	123,660	826,567

*For the period in which they held a key management personnel position.

NOTE 30: Related party transactions (continued)

(g) Outstanding balances arising from purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<i>Current payables (purchases of services)</i>				
Key management personnel of the entity or its parent	678	66,132	537	65,598

NOTE 31: Controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2010	2009
			%	%
Subsidiaries controlled by Australian Wool Innovation Limited:				
Australian Wool Innovation LLC	USA	Ordinary	100	100
Woolmark Holdings Pty Limited	Australia	Ordinary	100	100
Woolshare Nominees Pty Limited	Australia	Ordinary	100	100
Subsidiaries controlled by Woolmark Holdings Pty Ltd:				
The Woolmark Company Pty Ltd	Australia	Ordinary	100	100
Australian Merino Pty Ltd	Australia	Ordinary	100	100
Subsidiaries controlled by The Woolmark Company Pty Ltd:				
Woolmark International Pty Ltd	England	Ordinary	100	100
IWS Nominee Company Limited	England	N/A	100	100
Woolmark (Americas) Inc.	USA	N/A	100	100
Stichting International Wool Secretariat	Netherlands	N/A	100	100
Osterrelchischer Wollsiegel-Verband des Internationalen Vollsekretariates	Austria	N/A	100	100
Wollsiegel Verband	Germany	N/A	100	100
IWS Marke AG	Switzerland	Ordinary	100	100
Woolmark (Italy) SRL	Italy	Ordinary	100	100
The Woolmark Company (HK) Limited	Hong Kong	Ordinary	100	100
The Woolmark (Shanghai) Company Limited	China	Ordinary	100	100
Woolmark Services India Private Limited	India	Ordinary	100	100

NOTE 32: Economic dependency

Australian Wool Innovation Limited is dependent upon the receipt of Wool Levy and Matching Funds from the Commonwealth Government per Schedule 1 of the Statutory Funding Agreement between Australian Wool Innovation Limited and The Commonwealth of Australia.

Notes to the financial statements

30 June 2010

(continued)

NOTE 33: Events occurring after the balance sheet date

There were no events occurring after the balance sheet date which are known to the company or its directors.

NOTE 34: Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit/(loss) from continuing operations	17,523	(17,393)	9,493	(8,399)
Depreciation and amortisation	1,281	1,251	1,013	947
Acquisition depreciation adjustment	-	198	-	-
Net (gain)/loss on sale of non-current assets	(186)	34	(184)	32
Effect of movements in exchange rates	(1,043)	947	(80)	-
Impairment of assets	1,004	(122)	1,004	-
Impairment of investment in controlled entity	-	-	10,000	-
Change in operating assets and liabilities, net of effect from purchase of controlled entity				
Decrease (increase) in trade debtors	456	4,782	265	3,116
Decrease (increase) in prepayments	516	(522)	83	(160)
Decrease (increase) in other operating assets	189	438	78	145
Decrease (increase) in other receivables	259	104	271	169
Decrease (increase) in inventories	126	816	-	-
Increase (decrease) in creditors	(2,179)	(3,153)	(2,290)	(2,838)
Increase (decrease) in provisions	(1,868)	1,558	(1,831)	1,734
Increase (decrease) in deferred income	(2,295)	1,462	44	-
(Decrease) increase in other operating liabilities	(148)	(1,409)	(148)	(147)
(Decrease) increase in current tax liabilities	(429)	(148)	-	-
Net cash inflow (outflow) from operating activities	13,206	(11,157)	17,718	(5,401)

Directors' declaration

30 June 2009

In the directors' opinion:

- (a) the financial statements and notes set out on pages 34 to 64 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Mr W B Merriman
Chairman

Sydney
6 October 2010

Independent auditor's report

30 June 2010

Independent auditor's report to the members of Australian Wool Innovation Limited

Report on the financial report

We have audited the accompanying financial report of Australian Wool Innovation Limited (the company), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Australian Wool Innovation Limited and the Australian Wool Innovation Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

- (a) In our opinion, the financial report of Australian Wool Innovation Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.



PricewaterhouseCoopers



Matthew Lunn
Partner

Sydney
6 October 2010

APPENDICES

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PROJECT LIST 2009/10

This list contains details of AWI projects in which payments to providers made during 2009/10 totalled more than \$75,000 or more for each project.

The payment figures (in the right-hand columns) include both contract and ancillary payments. The payments in this list represent 'external costs' to suppliers directly related to the projects and not the 'internal costs' of AWI staff who manage those projects and other operating expenses.

This project list does not form part of the audited financial reports.

*The key providers indicated for each project are listed in alphabetical order. The list of providers is not necessarily a complete list of all providers for the project.

MARKETING AND OFF-FARM R&D PROJECTS

Project title	Key providers*	\$ paid in 2009/2010
Chlorine Free Shrink Resistance	CSIRO Textile & Fibre	280,524
Consultant for Woolmark Sales and B2B Marketing in Japan	Yoshimitsu Hamano	189,491
Consumer and Retail Marketing with Lotte/Cheil	Lotte/Cheil	255,990
Corporate Social Responsibility Development (Europe)	Internal Costs, Lorraine Zhang, GSM	93,461
Development of New Generation Inorganic Fluorescent Whitening Agents	AgResearch Ltd - Textiles Group	87,500
Global Sales Team - Travel Costs	Internal Costs	118,955
Global Ticket and Label Supplier	Diane Almond/SML	148,427
Gold Woolmark	Paper Stone Scissors Pty Ltd	80,741
HRH Prince of Wales Wool Renaissance Campaign	British Wool Marketing Board, Conde Nast, Clarence House, Fashion Industry Stakeholders	229,239
Implement of the Italian Strategy	Fabrizio Servente	436,049
Interior Trend Forecasting Service	Catapult Graphics, Esther Lorber, Zegna Baruffa - Lane Borgosesia S.p.a.(ZB)	75,049
Italy - Indesit	Indesit Company Spa, Baroni Spa, Armedoe Ferrante Srl, Gruppo Manerbiesi Srl, Cose Di Lana Spa	283,741
Knowledge Education and Training Program	Re-mix Shanghai, View Shop Shanghai	199,974
L'Oréal Melbourne Fashion Festival (LMFF) Designer Award presented by Woolmark	Belgair Graphics Pty Ltd, L'Oréal Melbourne Fashion Festival	91,752
Lacoste Japan	Lacoste Japan	130,253
Merino Cool™ Mens (Japan): Aoyama/TSC	Aoyama Trading Co. Ltd	159,453
Merino Cool™ Womenswear (Japan): Flandre, Isetan, Sanyo, World	Flandre, Isetan, Sanyo, World	274,766
Merino Heritage - Five Foxes	Five Foxes	148,928
Merino Touch™	Morado Co. Ltd, Superior Co. Ltd, GS Home Shopping	77,237
Milano Unica	Milano Unica	321,183
PeclersParis Colour Range for Autumn/Winter 2011/12 and Spring/Summer 2012	Peclers Paris	435,461
Program 12: Woolmark Trade Communication	Woolmark Japan licensees, Japan Worsted & Woollen Weavers Association	86,804
Program 13r: POP Production for Licensees (B2B2C)	Woolmark Japan licensees	79,404
Pure Merino School Uniform: Nikke - Ozaki/Tombo	The Japan Wool Textile Co. Ltd	87,387
Ragno	Ragno	143,175

MARKETING AND OFF-FARM R&D PROJECTS (continued)

Project title	Key providers*	\$ paid in 2009/2010
Sheep CRC 2 - 2.1.1 Skin Comfortmeter for Knitted Wool Fabrics	Sheep CRC	210,000
Sheep CRC 2 - 2.2.1 Whiter Lightfast Wools	Sheep CRC	150,000
Sheep CRC 2 - 2.3.1 Desirable Wool Handle	Sheep CRC	150,000
Sheep CRC 2 - 4.2.1 Information Nucleus - Operations	Sheep CRC	87,500
Smart Casual Men's Jacket : Raglax-Takashimaya	Raglax-Takashimaya	151,740
Technical Support for Woolmark Testing and Specifications	Australian Wool Testing Authority Ltd, Belgair Graphics Pty Ltd, James H Heal, Macquarie Textiles Group Limited	87,159
Total Easy Care Casualwear Product Marketing in Japan: Hankyu, Isetan, Aoki, Women's Apparel	Toyoshima & Co. Ltd, Aoki Holdings Inc., Aoyama Trading Co. Ltd, Isetan	128,739
Trade Shows 2009	Artvue Printing Pty Ltd, Catapult Graphics, CHIC ARTIST Pty Ltd, DHL International (Aust) Pty Ltd, Downing Displays, Fair bright Consultants Limited, Peclers Paris, Relax, Studio Nuvu, Well Link Consultants Ltd.	260,132
Trademark Branding	Lakshmi Kumaran and Sridharan, Spruson & Ferguson	214,001
Vogue Japan - United Arrows Collaboration (Japan)	United Arrows	119,307
Woolmark Trade Communication Program	China National Garment Association	86,559
Woolmark Washing Machine Promotion/New Licensee Development	China Household Electrical Appliances Research Institute	147,462
Zero AOX Surface Preparation Treatments for Shrink Proofing Wool with Hercosett	AgResearch Ltd - Textiles Group	80,000

ON-FARM R&D PROJECTS

Project title	Key providers*	\$ paid in 2009/2010
Bestprac 2007-10 (Pastoral Extension Program)	Rural Directions Pty Ltd	177,143
BESTWOOL/BESTLAMB 2008-2011 (Vic Extension Program)	Department of Primary Industries, Victoria	175,000
Breeding for Breech Strike Resistance	Agriculture Western Australia, CSIRO Livestock Industry	487,546
Cobbett Intradermal Phase 2	Cobbett Pty Ltd	457,288
Comparison of programs for the control of blowfly-strike in Merino sheep in south-eastern Australia	University of Melbourne	102,915
Eradication of virulent ovine footrot by sequential specific vaccination	University of Sydney	124,240
Future Farm Industries CRC - EverGraze 2010/11	Future Farm Industries CRC	161,600

ON-FARM R&D PROJECTS (continued)

Project title	Key providers*	\$ paid in 2009/2010
Future Farm Industries CRC - EverGraze	AgVivo Pty Ltd, Australian Alpine Valleys Agribusiness Forum, Border Rivers - Gwydir Catchment Management Authority, Central Highlands Agribusiness Forum, Coutts J&R, CRC for Plant based management of Dryland Salinity, Department of Agriculture of Western Australia (DAWA), Evergreen Farming, GR & SL Saul Trading as PSA Services, Holbrook Landcare Group, Lachlan Catchment Management Authority, Meat & Livestock Australia, Namoi Catchment Management Authority, NSW Department of Industry and Investment, NSW Department of Primary Industries, SARDI, South Coast Natural Resource Management Inc., University of Tasmania, VIC Department of Primary Industries, Warren Catchments Council Committee of Manjimup	628,613
Increased Resources for Mulesing Alternative Project and Other High Priority Research Projects at the University of Adelaide	The University of Adelaide	100,000
Invasive Animals CRC Wild Dogs	Invasive Animals Ltd	250,384
Leading Sheep 2008-2011 (Qld Extension Program)	Queensland Government Dept of Primary Ind	100,000
LiceSense	Australia Post, David Daniel, Elders Limited, Jed Dunstan, Queensland Government Dept of Primary Ind, University of Tasmania	88,632
Making More from Sheep - Delivery Strategy	Department of Primary Industries and Water, Department of Primary Industries, Victoria, Elders Limited, Jarrapool Project Management and Consulting Pty Ltd, JRL Hall & Co, L & L Communications Australia P/L trading as LCUBED, Meat & Livestock Australia, NSW Department of Primary Industries, Primary Industries And Resources SA, Queensland Government Dept of Primary Ind, Sefton & Associates Pty Ltd, VIC Department of Primary Industries	226,521
Methane Mitigation	Meat & Livestock Australia	200,390
MLA Agent - SheepGenomics Biostatistics Support CSIRO	Meat & Livestock Australia	75,546
Pastures Australia	Rural Industries R & D Corp, Telstra Corporation Limited	881,469
Phase 2 - Pasture selection tool for Pastures Australia	CSIRO Land and Water	128,000
RHD Boost - Rabbit Bio-control	NSW Department of Primary Industries	75,000
Shearer and Wool Handler Training - NSW Training Delivery 2008-09	TAFE NSW - Western Institute	79,320
Shearer and Wool Handler Training - NSW Training Delivery 2009-10	Sports Shear Australia Association Incorporated (SSAA), TAFE NSW - Western Institute, The Ringer	245,049
Shearer and Wool Handler Training - SA Training Delivery 2009-10	TAFE SA	107,080
Shearer and Wool Handler Training - Vic Training Delivery 2009-10	Primary Skills Victoria, SCAA Shearer Woolhandler Training Inc	130,705
Shearer and Wool Handler Training - WA Training Delivery 2009-10	C Y OConnor College of TAFE, Great Southern Regional TAFE	100,133

ON-FARM R&D PROJECTS (continued)

Project title	Key providers*	\$ paid in 2009/2010
Sheep Connect NSW 2008-11 (NSW Extension Program)	NSW Department of Primary Industries	151,124
Sheep Connect SA 2008-11 (SA Extension Program)	Primary Industries And Resources SA	150,822
Sheep Connect Tasmania 2009-2012	University of Tasmania	102,062
Sheep CRC 2 - Greenhouse Gas Abatement	Sheep CRC	84,976
Sheep CRC 2 - Postgraduate Training - CRC for Sheep Industry Innovation	Sheep CRC	100,000
Sheep CRC 2 - Project 4.1.1 Information Nucleus - Design and Analysis	Sheep CRC	102,500
Sheep CRC 2 - Project 4.2.1 Information Nucleus - Operations	Sheep CRC	262,500
Sheep Genetics - MERINOSELECT	Meat & Livestock Australia	336,052
The Sheeps Back 2007-10 (WA Extension Program)	JRL Hall & Co	150,000
Vaccine Potential of Surface Antigens of <i>Dichelobacter Nodulus</i>	Monash University	204,187

SUPPORT PROJECTS

Project title	Key providers*	\$ paid in 2009/2010
Beyond the Bale	Belgair Graphics Pty Ltd, Catapult Graphics, Coretext Pty Ltd, Rural Photos	114,343
Digital Support Services	5Limes Pty Ltd, Anchor Systems Pty Ltd, Fresh Web Solutions Pty Ltd, Massmedia, Media Monitors Australia Pty Ltd	121,603
Strategic/Operating Plan and Productivity Commission Submission	PricewaterhouseCoopers, RPC Solutions Pty Ltd	109,349
WoolPoll 2009	ASX Perpetual Registrars Ltd, Australia Post, Belgair Graphics Pty Ltd, Currie Communications P/L, Ms Helen Cathles, Will Roberts trading as Victoria Downs Stud Holding	566,881

Australian Wool Innovation Limited

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Australian Wool Innovation Limited gratefully acknowledges the funds provided by the Australian Government to support the research, development, innovation and marketing detailed in this publication.

Printed in Australia by
Belgair Graphics Pty Ltd.

This document has been produced according to sound environmental practices.

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France (also responsible for North Africa)

Lezennes, France
t. +33 3 59 57 77 19

Germany/Austria/Switzerland

Neuss, Germany
t. +49 2131 1526-66

Hong Kong

Kowloon
t. +85 2 2330 0813

India/South East Asia

New Delhi, India
t. +91 11 4061 2100

Italy

Biella
t. +39 015 848 7611

Japan

Tokyo and Ichinomiya
t. +81 3 3238 7151

Korea

Seoul
t. +82 2 541 4477

North America

New York, USA
t. +1 212 626 6744

Spain/Portugal

Barcelona, Spain
t. +34 93 492 04 69

Taiwan

Taipei
t. +886 2 2664 8529

Turkey

Istanbul
t. +90 216 617 00 01

United Kingdom

London, England
t. +44 207 845 5888

AWI also has local representatives and marketing agents in the following countries and regions:

- Brazil
- Czech Republic/Slovakia
- Egypt/Middle East
- Greece
- Mexico
- Nordic (administered by AWI Australia)
- Poland
- Romania/Bulgaria/Moldova
- Slovenia/Croatia/Bosnia/Herzegovina/Serbia/Macedonia/Montenegro
- Uruguay