



AWI Australian Wool
Innovation Limited

AUSTRALIAN WOOL INNOVATION LIMITED



ANNUAL REPORT 2015/16



AWI'S MISSION

AWI's mission is to make strategically targeted investments to:

1. enhance the profitability, international competitiveness and sustainability of the Australian wool industry
2. 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 more than 24,000 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 highly valued contributor to a vibrant, profitable and sustainable Australian wool industry.

AWI's goal is to increase the profitability, and support the sustainability of the Australian wool industry through strategically targeted investments in research, development and marketing designed to optimise return on investment. In working towards this goal AWI always strives to deliver an appropriate return on woolgrowers' and Government's investment of levies.

AWI invests in:

- Research, Development, Extension and skills training from farm to fashion
- Marketing
- Global Business Services.

AWI is not a peak industry body, does not create or execute industry policy, and is not an advocate on issues outside its core functions.

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 is a further source of income for AWI.

Woolgrowers vote every three years on the percentage of wool proceeds they would like to invest in industry research, development and marketing activities. In WoolPoll 2015, woolgrowers voted in favour of a two per cent levy.

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.

BUSINESS MODEL

In both WoolPoll 2012 and Wool Poll 2015, wool levy payers voted to continue the wool levy at two per cent for the three year periods 2013/14-2015/16 and 2016/17-2018/19 respectively. The current allocation of funds is as follows:

| | |
|----------------------------------|------------------|
| RESEARCH & DEVELOPMENT 40% | MARKETING 60% |
|----------------------------------|------------------|

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 brand – the world's best known textile fibre brand.

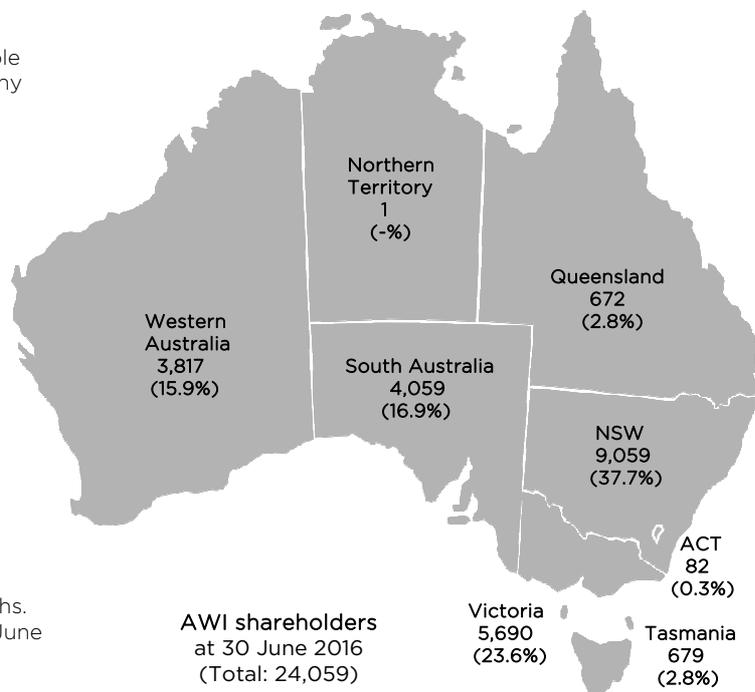
AWI SHAREHOLDERS

AWI has more than 24,000 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 24,059 shareholders at 30 June 2016, a decrease of 948 shareholders over the past 12 months. There were a total of 51,061 wool levy payers at 30 June 2016, a decrease of 665 over the past 12 months.



AWI'S NEW STRATEGIC PLAN

Since 1 July 2016, AWI has been operating under a three-year Strategic Plan for the years 2016/17 through to 2018/19.

The AWI 2016/17-2018/19 Strategic Plan is available in PDF and interactive versions on the AWI website at www.wool.com/consultation

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

| Marketing |
|--|
| <p>Objective:</p> <ul style="list-style-type: none"> Increase demand for Australian wool <p>Strategies:</p> <ul style="list-style-type: none"> Fashion Sportswear Global campaigns |

| Sheep Production |
|---|
| <p>Objective:</p> <ul style="list-style-type: none"> Increase the profitability and sustainability of woolgrowing <p>Strategies:</p> <ul style="list-style-type: none"> Healthy productive sheep Farm automation & software development Feedbase & fibre advocacy |

| Woolgrower Services |
|---|
| <p>Objective:</p> <ul style="list-style-type: none"> Increase woolgrower profitability Provide cost effective services to woolgrowers and other parties on their behalf <p>Strategies:</p> <ul style="list-style-type: none"> Training & technology uptake Consultation |

| Processing Innovation & Education Extension |
|--|
| <p>Objective:</p> <ul style="list-style-type: none"> Increase the profitability and sustainability of wool processing <p>Strategies:</p> <ul style="list-style-type: none"> Processing Innovation Education extension |

| Business Services |
|---|
| <p>Objective:</p> <ul style="list-style-type: none"> Enable AWI to operate cost effectively through the efficient provision of a range of cross-company support services <p>Strategies:</p> <ul style="list-style-type: none"> Corporate services Woolmark Digital services |

HIGHLIGHTS OF 2015/16



Members of the Lifetime Ewe Management group at Frankland in WA developing their condition scoring skills.



A premium woven 100 per cent Merino wool fabric from The Nanshan Group, developed with support from AWI.



Campaign for Wool: Models showcasing the very best wool apparel amongst the sheep, the media and the public on Savile Row.

ON-FARM R&D

Lifetime Ewe Management (LTEM) training

AWI continued funding hands-on on-farm LTEM training for producers in the management and nutrition of breeding ewes to maximise reproduction efficiency. In 2015/16, 400 producers funded by the most recent AWI contract graduated from LTEM and an additional 570 producers are still currently enrolled. See page 16.

Wild dog control

28 new community wild dog control groups were established in 2015/16, with 43 currently active groups at 30 June 2016, through funding from AWI. See page 12.

Flystrike R&D continued

AWI continued to fast track its R&D program, including genetic research and breeding, to deliver welfare improved methods of flystrike prevention. See page 11.

National Merino Challenge (NMC) educational initiative

The NMC this year attracted 138 participants. To date, over four years, 363 students have participated in the NMC from more than 25 schools, TAFEs, colleges and universities. See page 23.

OFF-FARM R&D

New range of innovative wool fabrics

Collaboration between AWI and one of China's leading textile enterprises, The Nanshan Group, has created a new innovative range of 100 per cent Merino wool fabrics. See page 26.

Skin health studies benefit Merino wool

The combination of skin health studies of eczema and allergy are challenging the strongly held consumer perceptions of wool as prickly to wear and a cause of allergy. See page 27.

New supply chain for Australian wool

AWI is working with more than 50 manufacturers in Vietnam to help them develop wool products and establish a complete supply chain in the SE Asia country. See page 25.

MARKETING

Campaign for Wool

The Campaign for Wool, which educates consumers about the environmental benefits of wool, continues to be celebrated on an unprecedented scale, driving a new demand for wool across international consumer markets. See page 36.

International Woolmark Prize

The International Woolmark Prize continues to be AWI's most successful marketing strategy, showcasing the versatility and quality of Merino wool to the fashion industry, and providing design talent across the globe with the opportunity to be stocked in some of the world's most influential retailers. See page 38.

The Wool Lab

AWI's The Wool Lab - the seasonal guide to the best wool fabrics and yarns in the world - continued to be a global success and an important tool for the fashion industry, including brands, retailers, manufacturers, spinners and weavers. See page 33.

Digital communications enhanced

AWI boosted its digital and social media communications and engagement with its three key stakeholder groups: woolgrowers, consumers and the textile trade. See page 31.

For further information on AWI program operations during 2015/16, refer to the reports beginning on page 10.

FINANCIAL SUMMARY

REVENUE FOR 2015/16

Total revenue for 2015/16 was \$79,317,000, compared with \$74,282,000 in 2014/15. Sources of revenue are shown in the table below.

| | 2014/15 \$'000 | 2015/16 \$'000 |
|-----------------------------|-------------------|-------------------|
| Wool levy | 48,304 | 50,331 |
| Government contributions | 12,478 | 13,424 |
| Licence fees | 7,324 | 8,063 |
| Interest | 2,737 | 2,354 |
| Royalties | 1,663 | 1,998 |
| Sales of goods and services | 1,518 | 2,918 |
| Rents and sub-lease rentals | 213 | 204 |
| Other operating revenue | 45 | 25 |
| Total revenue | 74,282 | 79,317 |

EXPENDITURE FOR 2015/16

Total expenditure in 2015/16 was \$76,641,000 compared with \$71,119,000 in 2014/15. Expenditure is shown in the table below. More detailed information can be found in the Financial Report beginning on page 58.

| | 2014/15 \$'000 | 2015/16 \$'000 |
|--------------------------|-------------------|-------------------|
| On-farm R&D | 13,635 | 15,259 |
| Off-farm R&D | 8,170 | 10,003 |
| Global marketing | 25,986 | 28,330 |
| International Network | 11,233 | 11,812 |
| Corporate services | 12,095 | 11,237 |
| Total expenditure | 71,119 | 76,641 |

FINANCIAL HISTORY AND FORECASTS

AWI will invest future funds in line with its 2016/17–2018/19 Strategic Plan, drawing on some of its reserves when appropriate.

| | 2008/09 \$'000 | 2009/10 \$'000 | 2010/11 \$'000 | 2011/12 \$'000 | 2012/13 \$'000 | 2013/14 \$'000 | 2014/15 \$'000 | 2015/16 \$'000 | Forecast 2016/17 \$'000 |
|--------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------------------|
| Revenue | 61,716 | 62,437 | 72,698 | 73,970 | 69,257 | 68,639 | 74,282 | 79,317 | 73,394* |
| Expenditure | 78,577 | 45,687 | 48,307 | 66,162 | 75,262 | 82,694 | 71,119 | 76,641 | 78,394 |
| Balance | (16,861) | 16,750 | 24,391 | 7,808 | (6,005) | (14,055) | 3,163 | 2,676 | (5,000) |
| AWI reserves | 54,457 | 71,207 | 95,598 | 103,406 | 97,401 | 83,346 | 86,509 | 89,185 | 84,924 |

* This forecast revenue includes levy income forecast based on an EMI of 1225c/kg clean. This figure differs from the 1300c/kg clean forecast by ABARES (see table below).

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).

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | Forecast 2016/17 |
|--|---------|---------|---------|---------|---------|-----------------|---------------------|
| Market price EMI* (cents per kg clean) | 1138 | 1198 | 1034 | 1070 | 1099 | 1254 | 1300 (f) |
| Flock size** (opening sheep numbers, in millions) | 70.8 | 73.1 | 74.7 | 75.5 | 72.6 | 70.9 (e) | 70.0 (f) |
| Wool production** (shorn greasy wool*** in millions of kg) | 345 | 342 | 352 | 341 | 346 | 322 (e) | 320 (f) |

* Figures derived from AWEX data. Forecast figure from ABARES (June 2016 Agricultural Commodities).

** Figures from the Australian Wool Innovation Production Forecasting Committee (April 2016 report). 2016/17 forecast figure from MLA's 'Australian sheep: Industry projections 2016' (April update).

*** 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

The Directors of Australian Wool Innovation Limited, their qualifications, experience and special responsibilities as at 30 June 2016 are listed below.



MR WALTER B MERRIMAN CHAIRMAN OF AWI

Experience and expertise:

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. Mr Merriman also has strong links with the Italian wool industry.

Special responsibilities:

Finance & Audit Committee member
Remuneration & Appointments Committee member
Science & Welfare Committee member.



MR PAUL COCKING BACHELOR APPLIED SCIENCE (AG), GRAD DIP ED, MAICD

Experience and expertise:

Paul Cocking has more than 25 years' experience in the wool industry as a managing director of his own companies which he developed and as a commercial woolgrower. He previously owned and managed Riverina

Wool Testers Pty Ltd and an animal nutrition business. He also manages his own commercial wool-growing properties in southern NSW. Mr Cocking is a member of the Australian Institute of Company Directors and has previous board experience with the Regional Development Board. He has a broad knowledge of key stakeholders in the wool industry and extensive industry experience. He strongly believes in a profitable and sustainable wool industry and in delivering shareholders value for money and providing transparency.

Special responsibilities:

Remuneration & Appointments Committee member
Science & Welfare Committee member.



MS COLETTE GARNSEY OAM

Experience and expertise:

Ms Garnsey is Executive Director at Premier Investments' The Just Group. She is a member of the Trade & Investment Policy Advisory Council (TIPAC). Ms Garnsey has previously been a board member of the Melbourne Fashion Festival (since 2006), a

judge of the Veuve Clicquot Business Woman of the Year, a Committee member of CEW, and also a

Committee member of the Textile, Clothing and Footwear (TCF) Innovation Council (since 2010). She has had more than 30 years' experience in retail and was formerly in senior management at Pacific Brands, and David Jones Limited for more than 20 years holding the position of Group General Manager. Ms Garnsey has had many years of manufacturing, wholesale and distribution experience. She has spent several years in consultancy across design, retail and manufacturing for various companies within the Textile, Clothing and Retail industries in addition to spending three years as an Advisory Board member of the CSIRO Textile, Clothing Footwear & Leather (TCF&L) Sector Advisory committee.

Special responsibilities:

Chair, Remuneration & Appointments Committee



MR JOCK LAURIE

Experience and expertise:

After working as a jackaroo in Victoria and southern NSW, Mr Laurie returned to the family grazing business in 1979, and continued working in it until 2000. Since then, he and his family have been operating a farming business that consists of wool, lamb, beef and grain on properties at Walcha,

Bendemeer and Gunnedah. Mr Laurie has also been actively involved in agricultural policy and lobbying since 2000. He spent four years as President of the NSW Farmers Association and two and a half years as President of the National Farmers Federation. During this period, he gained experience and training in both corporate governance and as a director. Through his role at the National Farmers Federation, he was exposed to international trade negotiations that are very important to the profitability of Australian agriculture. Mr Laurie has long term experience in the agriculture industry, and also ten years of board and agricultural policy experience. He aims to direct his skills at driving profitability in the wool industry.

Special responsibilities:

Finance & Audit Committee member
Science & Welfare Committee member.



MR JAMES MORGAN

Experience and expertise:

Mr Morgan is presently the Managing Director of the Mutooroo Pastoral Company, which operates an extensive pastoral Merino and Beef Cattle enterprise in the North East region of South Australia. Additionally, he operates Outalpa Station with his wife and children, and administers a

large livestock enterprise in the Hunter Valley region of NSW. Mr Morgan has over 30 years' experience in pastoral and high rainfall wool production, and on-shore marketing. Being a committed commercial woolgrower,

Mr Morgan has a strong faith in the industry and in wool's natural ability to offer the world's textile and industrial producers a raw material which is both cost effective and eco-friendly.

Special responsibilities:

Chair, Science & Welfare Committee
Finance & Audit Committee member.



DR MEREDITH L SHEIL MBBS FRACP PhD
GAICD

Experience and expertise:

Dr Sheil is a specialist Paediatrician, Medical and Veterinary Research Scientist, Honorary Associate of the Sydney University Veterinary School, and a Commercial Woolgrower. Dr Sheil is a

founding director of Medical and Animal Ethics R&D, responsible for inventing / developing a wound anaesthetic for lambs undergoing mulesing and is currently pursuing research into the development of similar practical and affordable pain relief medications for livestock, companion animals and humans. Dr Sheil is a local government councillor, member of the board of NSROC (North Shore Regional Organisation of Councils) and a Graduate of The Australian Institute of Company Directors.

MR DAVID A A WEBSTER

Experience and expertise:

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 advocates 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. Mr Webster is Chairman of iron ore resources company Athena Resources Limited. He is also a Director of Australian Wool Testing Authority Ltd.

Special responsibilities:

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

COMPANY SECRETARY

The Company Secretary is Mr Jim Story BA, LLB, FGIA.

THE BOARD OF AWI

The Board continued to meet regularly during 2015/16 in accordance with its schedule of meetings.

The AWI Board sets the Company's strategic direction and delegates 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 Acts, Regulations and Guidelines. A report on corporate governance is on page 50.

The Board has 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 sub-committees and a Board Nomination Committee:

Finance & Audit Committee

Chaired by David Webster

Directors are appointed by the Board provide guidance and recommendations to the Board and to the CEO to assist in fulfilling their responsibilities relating to risk, 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 Colette Garnsey

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

Science & Welfare Committee

Chaired by James Morgan

This Committee was established to provide guidance and recommendations to the Board and CEO regarding the scientific and research policies of the Company and on the conduct of programs relating to activities undertaken by the Company that utilise science or impact animal welfare activities. The Science & Welfare Committee meets periodically to address all matters within its charter.

Board Nomination Committee

Established to assess the skills of those seeking election to the Board of AWI, the five-member Committee was introduced in 2011 in accordance with AWI's Statutory Funding Agreement with the Australian Government. It convenes in each Director's election year. The Committee members comprise three external members and two AWI Board members. The Chair is one of the external members. For 2015, the members of the Board Nomination Committee were: Mr Ian Armstrong, former Deputy Premier of NSW and former leader of the National Party in NSW (Committee chair in 2015); Mr Will Wilson, independent investor relations adviser; Mr Rob Ashby, past President of the World Federation of Merino Breeders, and Member of the Order of Australia; and AWI Directors Colette Garnsey and Brian van Rooyen (who has since retired from the AWI Board).

The objectives and responsibilities of the Board sub-committees are set out in the 'Charter of the Committees of the Board' and the objectives and responsibilities of the Board Nomination Committee are set out in the 'Board Nomination Committee Charter'. Both of these documents are available on the AWI website www.wool.com.

CHAIRMAN'S REPORT



The role of the Board of Australian Wool Innovation (AWI) is to set the strategic direction for the wool industry's research, development and marketing company – a direction that aims to increase the profitability of Australian woolgrowers.

This direction is guided by the result at WoolPoll plus ongoing

consultation between AWI, woolgrowers and industry stakeholders. It was heartening to see at WoolPoll 2015 an increased level of support for the 2% levy rate.

The Board is very conscious that AWI handles a significant investment from woolgrowers which is in part matched by our biggest stakeholder, the Federal Government. All our major research, development and marketing investments are measured, by an independent third party, for the benefit they deliver to woolgrowers.

The past three-year strategic period, which ended on 30 June 2016, has been one of substantial progress at AWI against a backdrop of global market uncertainty. In some key markets, such as Europe, there is still ongoing economic uncertainty. However the underlying demand for wool has improved in other markets, such as the US and Japan, with more consumers in touch with the benefits of the great natural fibre we produce.

The company's marketing is successfully positioning wool as a premium fibre for luxury apparel and sportswear, with many natural qualities that synthetic fibres don't possess – natural qualities for which consumers are willing to pay a premium price.

The market for premium clothing is projected to continue to grow, not only in the three dominant regions of North America, Western Europe and 'Affluent Asia' (eg Japan, South Korea), but increasingly in China which offers significant growth potential. Australia produces about 90% of the world's fine apparel wool (<19.5 micron), and so we are well placed to take advantage of growth in these markets.

The company works with key global partners in these markets, helping them target their consumers, create and promote key marketing tools that focus on the benefits of wool, and educate and motivate consumers to purchase wool products. AWI's subsidiary The Woolmark Company is a well-respected and sought-after co-marketing partner with brands and retailers. We are conscious of the need to continually build the demand for Australian wool.

Ultimately, our work in marketing aims to increase the demand for wool and thereby lift the Eastern Market Indicator (EMI). During 2015/16 the average EMI rose to 1254c, which is more than 150c higher than the previous year's average. Furthermore, the EMI was relatively stable during the year with the average monthly EMI higher than 1200c for all 12 months of year.

In the on-farm R&D area, AWI has continued to invest in the areas that woolgrowers have told us they want us to invest: combatting wild dogs, flystrike protection, shearer and woolhandler training, genetics and woolgrower networks.

On-farm gains are also being achieved through popular extension programs such as Lifetime Ewe Management. To date more than 2,400 sheep producers across Australia, representing about a quarter of the national ewe flock have participated in this program. Participants have typically recorded a lift in weaning rates of 7-8 per cent and a significant reduction in ewe mortality.

Healthy demand for our fibre and higher on-farm productivity – and better seasonal conditions lately – are returning confidence to the Australian wool industry. It might take some time for woolgrowers to rebuild their flocks, but it is necessary so that Australian woolgrowers can take advantage of the higher largely demand-driven wool prices. Merinos have long been the foundation of the national flock, and they are now as important to the sheep industry as ever.

Also of note during the year, the independent Wool Selling Systems Review panel submitted to the AWI Board its final report. This review explored opportunities to reduce the cost of selling wool for woolgrowers, reduce the barriers for those wanting to buy wool and help bring the wool industry into the digital age. The panel's final report included a number of substantial findings and recommendations including the creation of an online Wool Exchange Portal (WEP). AWI subsequently engaged a working group to assess the viability of a WEP with a decision as to whether to push forward with the WEP to be made by the time of this year's AWI AGM.

AWI's new three-year Strategic Plan, covering the period to 30 June 2019, contains five portfolios across which we plan to execute 13 strategies and 23 programs. These strategies seek to address key industry issues and opportunities. It continues our broad directional strategy that was established by WoolPoll 2015.

You have my commitment that this company – your company – will continue to operate for the benefit of its shareholders, Australian woolgrowers, and help build the profitability, competitiveness and sustainability of the Australian wool industry

Wal Merriman
Chairman, Australian Wool Innovation
19 August 2016

CEO'S REPORT



The 2015/16 year was the last year covered by the three-year 2013/16 AWI Strategic Plan, and I am pleased to report to woolgrowers that the company attained or exceeded three quarters of the targets in the Plan, with significant progress achieved in most of the remaining targets.

This is a great result for an R&D and industry marketing

organisation, especially one working in such uncertain economic times as we have experienced during the past few years across our key markets.

I said in my report last year that, having achieved a sustained four-digit Eastern Market Indicator (EMI) in recent years, our new aim was a 1200-cent indicator. Due to improved demand along with supply factors, the average monthly EMI increased to more than 1200 cents for the entire 2015/16 year. This increase has been very rewarding to watch and, more importantly, rewarding financially for many woolgrowers.

My aim going forward is to ensure this indicator level is sustained in the short term and increases even further in the future. I anticipate that AWI's new three-year Strategic Plan, which began on 1 July 2016, will help us achieve this goal.

The Plan reflects not only the aims and goals of the company in this next strategic period, but also demonstrates our emphasis on transforming AWI into a digital and service orientated company. We are determined to ensure that all parts of the wool supply chain are innovation rich and that Australian woolgrowers are the significant beneficiary.

All AWI staff are very aware that they are accountable to Australian woolgrowers. I ensure they are regularly reminded of the 'woolgrower test', which underpins the day-to-day operations of all AWI staff across the globe: "would this action be acceptable to woolgrowers?".

Marketing

During 2015/16, our Marketing portfolio has invested in targeted programs to help create demand for Australian wool amongst consumers in key markets across the world, and thereby increase returns to woolgrowers.

Our Fibre Marketing strategy continued to have great success. The interest in the International Woolmark Prize from the fashion communities and media globally continues to be phenomenal - it is helping put wool back on the agendas of fashion designers across the world, and consequently into retail stores for consumers to purchase. 2015 also saw the completion of the Campaign for Wool's sixth year, as the global initiative continues to educate consumers about the fibre's environmental benefits, with great support from His Royal Highness The Prince of Wales.

Out Trade Education program has been particularly busy this year, for example exhibiting at 16 international trade shows, opening the Wool Resource Centre in Hong Kong, educating a broad range of fashion and

textile students across the world, creating trade education marketing collateral that brands and retailers can utilise, and showcasing AWI's seasonal guide to the best wool fabrics and yarns in the world, The Wool Lab.

Our Product Promotion strategy also continued to create new demand for wool through a comprehensive range of global and local collaborative promotions with designers, brands, retailers and media that targeted high income consumers of luxury goods and premium apparel. We moved away from asset specific programs (Sports & Outdoor, Nurture by Nature, Urban, No Finer Feeling, Woolmark Gold and Cool Wool) to investments driven more by the demand of AWI's individual marketing partners. The aim of these collaborations between AWI and its individual marketing partners is always to increase the demand for Australian wool.

Research and Development

Investment by AWI's On-farm R&D and Off-farm R&D portfolios both increased in dollar terms in 2015/16 from the previous year.

The Off-farm R&D portfolio this year facilitated the creation of business opportunities through the transfer of new technologies to, and diversifying the location of, the global manufacturing supply chain; fibre advocacy initiatives such as funding trials that show suitably selected fine Merino products are healthy for the skin; and R&D initiatives to establish and communicate the eco-credentials of wool.

The On-farm R&D portfolio this year delivered a range of targeted tools, skills and knowledge to help woolgrowers improve their on-farm productivity and profitability.

Lifetime Ewe Management training continues to be extensively funded by AWI to help woolgrowers develop the practical skills to improve animal nutrition, lambing percentages and weaning rates. To reduce wild dog predation across Australia, 28 new community wild dog control groups were established this year, with 43 currently active groups at 30 June. The amount of shearer and wool handler training this year increased from last year, due to cost savings. Protecting the national flock from flystrike remains a top research priority at AWI. To help with extension, our seven state-based extension networks have seen another successful year, with increases in participation and the reported benefit by woolgrowers.

I am very proud of the progress that the company has made - for the benefit of woolgrowers across the country, who we serve - and I am confident that the company's new three-year Strategic Plan will continue to benefit woolgrowers into the future.

Stuart McCullough
CEO, Australian Wool Innovation
19 August 2016

ON-FARM R&D

OBJECTIVE

Increase the profitability and sustainability of growing wool.

OUTCOMES

New knowledge will be delivered to woolgrowers on improving wool quality and productive wool growing to reduce costs of production and improve on-farm profitability.

INVESTMENT PHILOSOPHY

Focussing on key priorities for wool sheep producers, we invest in the extension of existing technologies and best practice, low risk short term R&D and long-term high risk R&D. The balance is weighted towards extension and short-term R&D.

| | | | |
|--|---|--|--|
| <p>STRATEGY 1 Sheep Health, Welfare & Productivity</p> |  | <p>Health, welfare and productivity gains are all linked. Some important investments for efficient production and wool quality are: improvements to fly, lice and worm management, reduced impact of wild dog predation, reduced impact of invasive husbandry and improved tools for labour efficiency, efficient reproduction rate and genetic gain.</p> | <p>PROGRAMS</p> <ol style="list-style-type: none"> 1 Parasites & Diseases 2 Wild Dogs 3 Invasive Husbandry 4 Genetics & Genomics 5 Reproduction |
| <p>STRATEGY 2 Wool Harvesting & Quality Preparation</p> |  | <p>Efficient delivery of high-quality wool clips depends on investment in: recruitment into shearing through career promotion, delivery of high-quality training, and retention of those trained within the sector.</p> | |
| <p>STRATEGY 3 Production Systems & Eco-Credentials</p> |  | <p>Managing productive and profitable wool growing systems while enhancing the eco-credentials of wool requires investment in new and improved tools that help woolgrowers make better informed decisions. These include: nutrient-use efficiency, grazing and pasture management, carbon management, feed utilisation and chemical-use efficiency.</p> | <p>PROGRAMS</p> <ol style="list-style-type: none"> 1 Managing the Resource Base 2 Carbon |
| <p>STRATEGY 4 Education & Extension</p> |  | <p>Grower confidence in the wool industry requires investment in: effective communications, new skills training, peer support and networking, leadership and mentoring, and availability of experts. The community's confidence in the wool industry depends on investment in: effective communications, availability of experts, and collaboration and unity of purpose across organisations.</p> | <p>PROGRAMS</p> <ol style="list-style-type: none"> 1 Grower Skills Capacity (extension) 2 Stakeholder and Market Place Education & Awareness |



STRATEGY 1: SHEEP HEALTH, WELFARE & PRODUCTIVITY

STRATEGY 1 RESOURCES DURING 2015/16

\$6,927,000 project expenditure + 5.5 AWI staff (full time equivalent)



PROGRAM 1: PARASITES & DISEASES

INVESTMENT FOCUS

- Consolidation of parasite extension tools into one "ParaBoss" tool for accessibility
- Funding of regional lice groups to assist growers to share information relevant to lice management
- Scoping investments for improved lice management
- Development of technologies to minimise dags and flystrike in sheep
- Reports on the monitoring of pesticide use and R&D on environmentally friendly pesticides
- Support for NWD and engagement, education and support through the supply chain
- Minimise impacts on the flow of wool from farms arising from biosecurity threats.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|--|--|
| Increase scientific knowledge on causes and potential minimisation of scouring. | Partly achieved. A technical review of 'dags' and 'causes of scouring' was completed, and identified possible new research projects. Analysis of the Murdoch University project into causation of scouring was delayed, but will be completed in August 2016. |
| By 2017, a 5% reduction in economic losses from breech strike across 20% of woolgrowers. | Partly achieved. A survey conducted in early 2016 showed 6% of sheep producers have adopted FlyBoss recommendations with 5% of all sheep producers realising an average financial gain of \$3,900 each or \$4.7 million across the industry. |
| By 2017, an increase of 20% of woolgrowers using best practice worm control. | Partly achieved. A survey conducted in early 2016 showed 16% of sheep producers have adopted WormBoss recommendations with 13% of sheep producers realising an average financial gain of \$2,000 each or \$6.2 million a year across the industry. |

KEY RESULTS DURING 2015/16

- ParaBoss (with co-funding from MLA) has consolidated the three products WormBoss, LiceBoss and FlyBoss into one co-ordinated ParaBoss. The total number of website users per month has increased from 7,000 users per month in 2014 to 11,000 users per month in 2016. The number of users during 2016 has increased by 27% for WormBoss, 42% for FlyBoss and 22% for LiceBoss when compared to the same period (Jan-May) in 2015.
- The Australian Pesticides and Veterinary Medicines Authority approved the registration of SkinTraction® with tight label requirements in May 2015. Cobbett Technologies, the owner of the IP, had exclusive rights to commercialise the technology and make accessible to Industry within 12 months which did not occur. AWI continue to hold discussions with Cobbett Technologies regarding the way forward.
- The breech strike resistant and susceptible lines at Mt Barker, WA (DAFWA) and Armidale, NSW (CSIRO) have shown the importance of lower breech wrinkle, tail wrinkle, dags, urine stain, wool colour and breech cover for reducing the risk of breech strike. However there are still a large number of breech strikes where the cause remains unknown and investigations continue into skin odour and bacteria to determine their risk factors. Selection within the resistant and susceptible bred lines at both sites has ceased but the sheep have

been retained to provide fresh wool samples. The R&D into odour and bacteria is complex and progress has been slow until early 2016 where visiting scientists were instrumental in several breakthroughs which now need to be validated.

- Following on from the mapping of the Fly Genome which discovered some 2,062 completely unique genes in the blowfly, a project commenced to create the gene editing protocols for the blowfly as was a project looking into the (1) genes that are active at the larval and gravid fly stages, (2) to determine the extent of variation of these genes across Australia and (3) investigate a potential parasite of the fly.

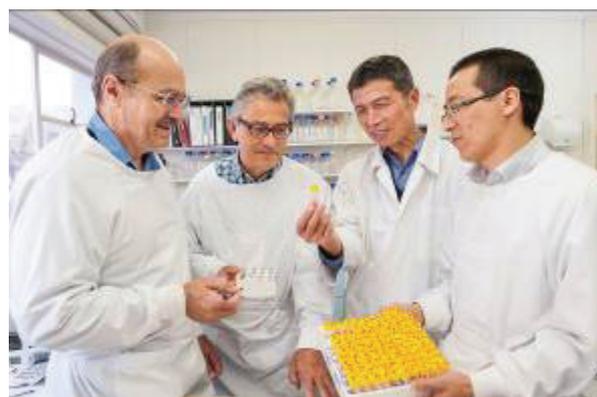


Sheep from the breech flystrike resistant line at the CSIRO's Armidale research site.

- The Australian Veterinary Association auditors (Dr Bruce Allworth and Dr David Hucker) review the Breech Strike RD&E program on a six-monthly basis and concluded: *“AWI continues to invest in research aimed at decreasing breechstrike and specifically to decrease the reliance of wool producers on mulesing. Interestingly, this work, while initially aimed at ‘solving’ the mulesing issue, has resulted in and continues to support much broader sheep welfare outcomes. In this current period reviewed, AWI has supported work on better understanding animal welfare markers, and work aimed at analgesic formulations that will have much wider sheep welfare applications.”*
- The Genetic Reviewers for the Breech Strike RD&E program (Dr Peter James and Dr Forbes Brien) review the program on an annual basis and in summary concluded: *“Research toward new and better methods of control has been accompanied by a vigorous extension campaign and we congratulate the numerous agencies and individuals involved in the design and delivery of breech strike extension programs and preparation of trainer resource material, particularly for the breeding and genetics component of these. The effort that has been expended to digest the research results, to develop them to practical tools suitable for use by woolgrowers with different selection objectives, philosophies and approaches, and to extend them to industry to enable timely implementation is commendable.”*
- Monitoring greasy wool chemical residues continued with the overwhelming majority of lots tested showing very low residue levels. The process and analysis were reviewed, and a revised protocol agreed with AWTA. The scope of the survey was expanded to include New Zealand. The aggregated Australasian data will be used to refute negative

claims being made about wool’s environmental cleanliness by some environmental groups.

- Biosecurity: The National Wool Biosecurity RD&E Strategy was renewed. AWTA commenced construction of a containerised industrial prototype wool bale decontamination system, and a major review of wool bale traceability systems was successfully completed.
- Australian National RD&E Framework. AWI continued its involvement sectoral and cross-sectoral in RD&E Strategies, and major developments were the renewal of the National Wool RD&E Strategy and the Wool Biosecurity RD&E Strategy.



Department of Agriculture and Food (WA) senior research officer Dr Johan Greeff (left) and senior veterinary officer Dr Dieter Palmer with Dr Shimin Liu, University of Western Australia, and Chinese visiting scholar Dr Zhong Quan Zhao discussing the importance of conducting faeces testing for long term reduction in worm egg count along with reducing dags.



PROGRAM 2: WILD DOGS

INVESTMENT FOCUS

- Support of community groups undertaking wild dog control with long-term aim for groups to be self-funded
- Provision of training to growers
- Support of R&D to refine existing tools
- Monitoring of wild dog populations and their impact on the environment.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|--|--|
| 12 new community groups established each year. | Achieved. 28 new groups established in 2015/16 (12 NSW, 7 Vic, 4 WA, 4 Qld, 1 SA). |
| 22 active groups supported each year. | Achieved. 28 active groups supported during 2015/16 (13 NSW, 6 Vic, 4 WA, 4 Qld, 1 SA). |
| Support for any individual wild dog group is nominally a maximum of three years. | Achieved. Two Victoria-based groups have reached the 36 month limit and have been given final assistance to achieve sustainability. AWI management continues to monitor length of support. |
| Value of avoided stock loss (sheep) is greater than costs to woolgrowers and AWI combined. | Achieved. Questions relating to stock losses are included in the Community Wild Dog Control Initiative producer survey. Results to-date, from 42 valid group surveys representing 501 producer responses, showed an average reduction in losses due to wild dog predation of 1,485 sheep (all classes) – from 1,790 head average per group per year before group activities, to 305 head per group after activities. This represents an average benefit per group of \$144,006. Average AWI investment per group is currently \$19,160. |

KEY RESULTS DURING 2015/16

- 28 new community wild dog control groups were established. Demand was steady across much of the year, with usual swings in demand associated with PR activity. Promotion of the approaching '3 year limit' for groups prompted an immediate response in inquiry from groups seeking a 'hand to get over the line' to longer term sustainability.
- At 30 June 2016, there were 43 currently active community wild dog control groups, with three requests for assistance under consideration. The first request from a 'cell' or 'cluster' group has been financed and completed, and its final report received. This group continues to have issues with residual dogs and the population of dogs in a cluster continues to surprise cluster members. Producer meetings in central western Queensland have resulted in the first of an expected run of 'cluster clean-out' applications.
- Issues with planning, coordination and reporting remain; but management response is now standard operating procedure. Of particular note is the prevalence of Landcare-based groups (>75%) in default of milestone obligations at the end of their contracts.
- Following the adoption of the '3 year limit' to AWI support for groups in 2014-15, management continues to monitor the length of support for individual groups. End of year support is an average of \$19,160 per group. Two groups in Victoria were successful in providing evidence that 'severance support' for an additional 1-2 years would enable them to become self-sufficient.
- AWI continues to fund 'wild dog coordinators' to facilitate collaboration between landholders (in new or existing wild dog management groups) and with other key stakeholders, locally and across shires. They also help coordinate on-ground wild dog control activities. Coordinators funded by AWI during 2015/16 are: NSW (western division): Bruce Duncan; NSW (north-east): Dave Worsely; Queensland: Brett Carlsson; Victoria (Gippsland): Brian Dowley and David Krajca; Victoria (north-east): Tim Enshaw; WA (Northern Ag regions): Meja Aldrich (commenced February 2016); National Wild Dog Facilitator: Greg Mifsud.
- In south-east NSW, Local Land Services (SE LLS) has seen the value provided by wild dog coordinators and created a SE Wild Dog Coordinator position based in Cooma and Bega. This position almost provides coverage for the wild dog affected area in south-east NSW and AWI has negotiated agreement with SE LLS to provide funding to extend the coordinator's role to the eastern ends of Murray and Riverina LLS. Informal coordination with the Victorian-based Gippsland and north-east Vic coordinators is already occurring, and this extension will complete coordinated coverage of 'south-east Australia' - north of Melbourne: south of Goulburn and east of the Hume Freeway.
- In South Australia, two short term wild dog coordinator positions are/were established using Federal drought funding. One of these positions has now completed their contract and AWI management is reviewing a request for a permanent South Australia wild dog coordinator position.
- AWI management has worked to facilitate the development of a strong network amongst wild dog coordinators/facilitators by bringing them together to share their experiences and for technical updates from both researchers and field workers, including doggers. AWI provided support for coordinators to attend a week-long course in Community Engagement at the Muresk Institute at Northam in Western Australia in May 2016. Evidence is already emerging that this training is providing benefits in the day-to-day activities of coordinators.
- AWI has played an important role in supporting groups with funds for doggers, training and other support. The flexible nature of AWI funding continues to be commended by woolgrowers. AWI funding provides for the most important activity as determined by the group (within AWI criteria) rather than the prescriptive use of funds.
- AWI management continues to seek new and effective ways to provide significant and effective assistance to woolgrowers suffering wild dog predation.



Coordination and cooperation are crucial to effective wild dog control. Pictured here is the Flinders Shire Wild Dog Management Committee planning control efforts at a workshop facilitated by AWI's Queensland wild dog coordinator Brett Carlsson (second left).



AWI is investing in the development of an early warning 'Wild Dog Alert' system. Pictured is a wild dog caught on camera and being analysed with facial recognition technology. The green markers are used to extract biometric information. PHOTO: IACRC.

- An additional baiting option for reducing wild dog and fox numbers is now available to woolgrowers and other landholders across Australia. Para-aminopropiophenone (PAPP) is a new chemical (toxin) that is now being manufactured and sold in baits by Animal Control Technologies Australia Pty Ltd (ACTA) under the product names DOGABAIT® for wild dog control and FOXECUTE® for fox control. PAPP was developed with funding support from AWI and is designed to allow baiting to still be an option in places where 1080 use is restricted, or for land managers who would prefer not to use 1080. PAPP also has an antidote in the event that a non-target animal such as a working stock dog is accidentally poisoned. Known as 'Blue Healer', the antidote can only be administered by a registered veterinarian, and must be delivered within 30 minutes of the dog eating the bait.



DOGABAIT is commercially available in pails of 10 baits (total 600g) or 50 baits (total 3kg).



PROGRAM 3: INVASIVE HUSBANDRY

INVESTMENT FOCUS

- New knowledge on analgesic options for sheep for development by the commercial pharmaceutical and veterinary sector.
- Delivery of new knowledge on the timing (relative to age/size) of existing husbandry procedures and extension to stakeholders to inform welfare best practice.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|---|
| Deliver a significant reduction in adverse welfare response from current technologies within best practice by 2017. | Achieved. Buccalgesic, a pain relief paste, placed into the space between the lower molars and cheek has shown to improve animal welfare responses following castration, tail docking and mulesing. |
| Develop pain relief alternatives with a maximum added cost of 50 cents per head per application by 2017. | Partly achieved. A meloxicam product Buccalgesic is planned to be registered by the APVMA and will be available to woolgrowers as a S4 in late 2016, for a cost of around 45 cents per head. Another meloxicam based product Metacam was registered and approved by the APVMA in April 2016. |

KEY RESULTS DURING 2015/16

- Following on from earlier studies showing good pain relief outcomes using a meloxicam based product (Buccalgesic) with castration and tail docking, further welfare trials were conducted assessing the benefits with mulesing. The mulesing trial compared a topical local anaesthetic (Tri-Solfen), with the non-steroidal anti-inflammatory drug (Buccalgesic) along with the combined use of both products, with encouraging results to date. Further trials are planned comparing options for sheep treated with the Liquid Nitrogen Process.
- Work was undertaken to support the broadening of registered use purposes of local anaesthetic pain relief products to include shearing cuts.
- R&D into the relative size and age of mulesing continues.
- See Program 1: Parasites & Diseases (page 11) for alternative options to mulesing.



The meloxicam product Buccalgesic being applied to the internal cheek of a lamb during trials, to provide pain relief during marking.



PROGRAM 4: GENETICS & GENOMICS

INVESTMENT FOCUS

The focus of this program is consolidating around broad industry engagement in the conduct of all forms of genetic improvement (eg sheep classing skills, wether trials, sire evaluation, and MERNOSELECT), and addressing limitations of existing methods (eg the Merino Lifetime Productivity trial).

- Support for genetic benchmarking for wool sheep across Australia (wether trials, sire evaluation, Merino Lifetime Productivity and MERNOSELECT).
- Completion of a new business plan for Sheep Genetics, which provides much greater transparency of private good (provision of breeding values to clients) and public good (ongoing research and development by AWI and MLA) components, reduces risks to core operations' continuity, and strengthens engagement with industry.
- Increase in collection of lifetime fleece, body, and fertility data across wool sheep flocks, in close cooperation with stud breeders.
- Revision of MERNOSELECT indexes to better account for environmental costs of genetic progress.
- Review of the genetics and genomics portfolio, with particular emphasis on value proposition, technology uptake, subsidisation, and service commercialisation.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|--|--|
| Increase use of genetic benchmarking by 5% a year to 2017 across stud animals. | On track. Participation by Merino breeders in MERINOSELECT increased by 2.6% in 2015/16, and has averaged 8.8% per annum growth for the 5 years from July 2011. The Dohne Merino component declined by 5.2% in 2015/16, and by an average of 5.1% for the period since July 2013, when transfer of the Dohne membership from Advanced Breeding Services to MERINOSELECT was completed. Combined membership increased by 1% in 2015/16, and has averaged 7.0% growth since July 2013. Significant increase in sires involved in AMSEA/AWI trials through Merino Lifetime Productivity trial and Merino Sire Evaluation sites with interest in new sites encouraging. |
| Preliminary target of 6% increase in the current rate of genetic gain across the industry by 2017. | Progressing. Significant increases in MERINOSELECT indexes have been observed over the past five years providing strong evidence of genetic progress at an individual animal level. AMSEA reporting highlights widespread usage of Merino Superior Sires in the Australian wool industry. Further work is required to explore potential divergence of views about applicability of genetic progress on a per hectare basis compared to per animal basis. |

KEY RESULTS DURING 2015/16

Merino Lifetime Productivity project

- Three sites are currently participating in the AWI funded Merino Lifetime Productivity (MLP) project. The project is being conducted in partnership with the AMSEA.
- The Elders Balmoral site (Tuloona in Victoria) has completed two joinings for the trial (2015 and 2016) while the MerinoLink (Temora, NSW) and Pingelly (Western Australia) sites joined foundation ewes for the first time in 2016.
- A fourth site representing a higher summer rainfall is under active consideration for inclusion in the project with an expected first joining likely in 2017.
- Strong industry interest exists from other sites with an expectation that the interest will be strong enough to dictate a review of the project at AWI Board level to consider expansion of the project to include additional sites across Australia.
- The long-term trial will explore a suite of productivity and profitability related attributes for a broad diversity of leading Merino genetics across a range of environmental conditions.
- The first 'Tuloona' field day showcasing the first MLP trial lamb drop (2015 lambs) attracted very strong woolgrower interest with visitors keen to

observe the early performance of the diversity of genetics on offer at the site. Information on the performance of progeny from the range of sires will continue to be generated and disseminated over the life of the project.

- Similar field days will occur at other sites (NSW and WA) as lambs are born and data is collected.
- Project expansion has led to an expected increase in the number of sires to be used in the MLP project increasing from 120 up to 135.



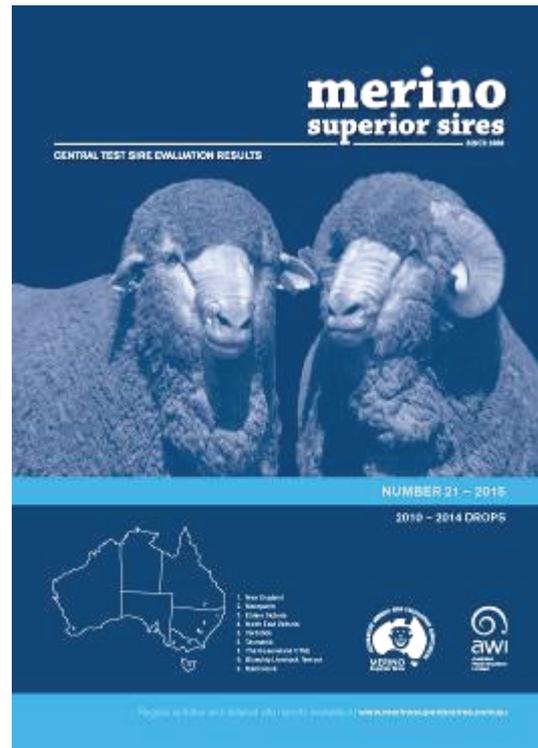
A large number of woolgrowers attended the 'Elders Balmoral' sire evaluation site field day in April to view the latest sire evaluation progeny, including the Merino Lifetime Productivity project's first drop of ewe progeny.

Sire evaluation and Sheep Genetics

- 2,000 copies of the 2015 edition of the Merino Superior Sires (MSS) report (No.21) were distributed. It included the results of the 184 sires evaluated over the past five years. Excellent visitation growth continues to be observed for the MSS website (www.merinosuperiorsires.com.au) with particular interest in the MSS 21 report.
- Renewed interest in establishing/re-establishing Merino sire evaluation sites across Australia is being reported. In part, this renewal of interest highlights the success of current AMSEA work and demonstrates the value of data produced in reports such as MSS and projects like the MLP project for woolgrowers in Australia.
- The existing Sheep Genetics business plan was successfully concluded, particularly from a wool industry perspective. For the 5 years from July 2011, Merino breeder membership in MERINOSELECT grew at an average of 8.8% per annum, compared to an average 0.9% per annum decline in LAMBPLAN membership over the same period. In terms of market failure, Sheep Genetics cost recovery targets were comfortably exceeded in each of the past 2 years.
Through 2015/16, MLA and AWI collaborated to develop a new Sheep Genetics Business Plan for the period to 2020. This planning process was guided by AWI Board determination that the MERINOSELECT service no longer requires financial subsidisation, and the focus of AWI funding should be on genetic research activities.

Other initiatives

- An updated analysis of wether and ewe trial data collected over the past decade was released in June 2016. See www.wool.com/merinobloodline. The analysis covered 25 wether and ewe trials with 77 bloodlines in the analysis. This compares to the 2014 analysis which included 23 trials and 71 bloodlines and the 2010 trial with 57 trials and 268 bloodlines. A further analysis will be conducted in 2018.
- The updated wether and ewe trial report included results from the 2014-2016 Peter Westblade Memorial Merino Challenge. Full reports from the 2014-16 challenge have been produced and published. The results add to the knowledge bank generated by AMSEA work and projects such as the MLP project that show significant differences exist between Merino types in key productivity traits and also in profit generating potential in different environments.
- Good progress continues to be observed with work to improve conception results from cervical



2,000 copies of the 2015 edition of the Merino Superior Sires (MSS) report (No.21) were distributed. It included the results of the 184 sires evaluated over the past five years. The report is also available on the MSS website at www.merinosuperiorsires.com.au

artificial insemination using frozen semen. A broad range of strategies are being examined. It is hoped that the work may lead to a technique that allows a substantial increase in usage of elite Merino genetics by the Australian wool industry via relatively low cost cervical artificial insemination.

- There has been excellent progress made in a project exploring techniques/processes to facilitate sexing of ram semen. It is possible that commercialisation of the methodology will occur in the near future.
- There has been excellent progress made in reviewing the existing Visual Sheep Scoring system used by the wool industry. Consensus has been reached for scores requiring slight modification with several new traits also identified as priorities for preparation of draft Visual Sheep Scores. An amended Visual Sheep Scoring booklet will be generated, published and made available in the coming months.



PROGRAM 5: REPRODUCTION

INVESTMENT FOCUS

- Improving reproductive performance of the National Merino flock is a high priority for AWI and investment in this area will increase further during the 2016/17–2018/19 strategic plan.
- The main area of investment will aim to improve ewe and lamb survival and hence the profitability of sheep producers
- The program will continue to establish and provide hands-on woolgrower training to deliver applied knowledge and practical skills to enhance woolgrowers' ability to achieve the targets below.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|---|
| <p>For growers running Merinos:</p> <ul style="list-style-type: none"> • Average increase of 10% in lambs weaned. • Subject to maximum additional annual cost of \$2 per ewe carried. • Adoption across 9 million Merino x Merino joining. | <p>Partly achieved.</p> <ul style="list-style-type: none"> • More than 400 producers have graduated from Lifetime Ewe Management (LTEM) training during 2015/16 and an additional 570 producers are currently enrolled. The total number of wool producers that have participated in LTEM is expected to exceed 3,000 by 31 December 2016. • Producers that graduated from LTEM in 2015/16 increased the number of lambs weaned by about 5% (103% before LTEM to 108% after LTEM) and reduced ewe mortality by 0.8% (3.4% pre-LTEM to 2.6% post LTEM). This latest cohort of LTEM graduates managed an average of 3,000 breeding ewes, and about 73% of these were Merino ewes. • The LTEM program has been delivered to producers responsible for management of more than 10 million or about 25% of the national ewe flock. It is estimated that this includes 7-8 million Merino ewes. |

KEY RESULTS DURING 2015/16

- AWI continued funding for Lifetime Ewe Management (LTEM) training that provides hands-on on-farm training for small groups of producers (average five) in the management and nutrition of breeding ewes to maximise reproduction efficiency. In 2015/16, 400 producers funded by the most recent AWI contract graduated from LTEM and an additional 570 producers are still currently enrolled.
- On-going evaluation of group members continues to show significant benefits to participants through improving weaning rates and reducing ewe mortality. Producers that graduated from LTEM in 2015/16 increased the number of lambs weaned by about 5% (103% before LTEM to 108% after LTEM) and reduced ewe mortality by 0.8% (3.4% pre-LTEM to 2.6% post LTEM). There is some evidence that the impacts of LTEM on weaning rates and ewe mortality have reduced, and the evaluation can attribute this to lower rates of adoption of pregnancy scanning for multiples and differential management of twin-bearing ewes. Strategies have been developed to ensure the impacts of LTEM increase amongst future graduates.
- The use of the LTEM iPhone App has increased amongst LTEM graduates and producers in the process of completing the LTEM course. The App has proved popular with more than 1,100 downloads during 2015/16.
- The AWI Reproduction Strategy for 2016-2019 has been completed. AWI-funded RD&E is expected to deliver a 6.3% increase in weaning rate by 2030 and the BCA indicates that if the strategy is successful it will return \$5.60 to growers for every \$1 invested by AWI.
- Multiple new RD&E initiatives to underpin the reproduction strategy have been developed and are already delivering benefits to woolgrowers. Some of these initiatives include:
 - Quantifying the effects lambing density on lamb survival and developing recommendations for mob size and stocking rates at lambing.
 - Development and testing of 'Smart-tags' for rapid determination of dam parentage and animal location and behaviours related to production and welfare outcomes.
 - 'Merino ewe displacement' to identify regions where Merinos are being displaced by other breeds, to determine opportunities, constraints and barriers of Merino production systems and develop research, development and extension activities that address the decline and grow the Merino ewe population.
 - Updating AWI Feed of Offer Library and developing feed budget tools applicable to a broader range of pasture types.



The LTEM course is very hands-on, being entirely based in the sheep yards, shearing sheds and paddocks of the participating woolgrowers; the course is run in groups of four to six woolgrowers who meet six times each year with the facilitation of a trainer.

STRATEGY 2: WOOL HARVESTING & QUALITY PREPARATION

STRATEGY 2 RESOURCES DURING 2015/16

\$2,185,000 project expenditure + 2.3 AWI staff (full time equivalent)

INVESTMENT FOCUS

- Main investment is in supporting in-shed coaching of people holding basic skills (regional coaching in shearing and woolhandling).
- Support for in-shed coaching of experienced shearers and wool handlers.
- Promotion and development of awards for excellence - shearing and woolhandling competitions.
- Provision of information on industry to potential students (high schools and TAFE) and the community more broadly to support recruitment.
- Support of regular workshops for trainers - professional development and promote national consistency.
- R&D for labour saving in sheep handling.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|---|
| Meet or exceed COP requirements - based on improvements in Sports Shear Australia judging standards for shearing and wool clip quality. | Achieved. Regular judging workshops conducted to increase judging standards and consistency which flows into on-the-job performance. |
| Increase shed productivity by, on average, 4 sheep per run by 2017 across shearing contractors. | Partly achieved. Monitored via milestone reports and surveys of contractors and shearers; productivity increased by longevity and retention. |
| Cost per person trained remains constant in real terms. | Achieved. Cost per person trained has remained constant. |

KEY RESULTS DURING 2015/16

| SHEARER AND WOOL HANDLER TRAINING ACTIVITIES | NSW | WA | Vic | SA | Qld | Tas | 2015/16 TOTAL | |
|--|----------------------|-----|-----|-----|-----|-----|---------------|--------------|
| In-shed shearer coaching | Days: | 265 | 138 | 251 | 60 | 25 | 45 | 784 |
| | Number trained: | 965 | 367 | 763 | 220 | 101 | 62 | 2,478 |
| In-shed wool handler coaching | Days: | 85 | 40 | 113 | 57 | 25 | 66 | 386 |
| | Number trained: | 194 | 70 | 311 | 165 | 58 | 230 | 1,028 |
| Novice, high school workshops | Days: | | | | | | | 288 |
| | Number of attendees: | | | | | | | 760 |
| Total training days provided | | | | | | | 1,458 | |
| Total number coached/trained | | | | | | | 4,266 | |

- In 2015/16 AWI funded training for shearers and wool handlers across a range of skill development activities. These included from learner to professional shearers and from novice to professional wool handlers. Provided by Registered Training Organisations (RTOs), and AWI's Independent Coaching Program (ICP), the training focused on shearers and wool handlers in the shed, particularly on increasing their productivity, skills development and professionalism. Training was also offered in the form of short term, intensive workshops across a range of skill levels.
- The ICP is now entrenched and proving very successful. This program provides AWI with an avenue to contract directly with experienced trainers, reducing administrative costs and is proving a cost effective way of delivery.
- Cost savings meant an increase in the number of days contracted (1,458 days training delivered) with an increase in the numbers trained (4,266) from the 2014/15 year. Cost per person trained remained on target.



AWI provides support to shearing and wool handling competitions at local, state and national levels. The aim is to promote excellence and encourage better techniques in shearing and wool handling. Pictured are wool handlers Tara Smith and Sarah Moran taking part in the Trans-Tasman Test against New Zealand at Hamilton in Victoria at the end of September 2015.



AWI undertakes courses for school students to help attract them into the wool harvesting industry and make them job ready for shed work. Pictured are students from Warren Central School and Gilgandra Public School during AWI-funded training at Haddon Rig, NSW.



Year 10 student Shania Willison was one of eleven students from Years 10, 11 and 12 at WA College of Agriculture, Harvey, who attended a five-day shearing and wool handling school, funded by AWI, at Rylington Park near Boyup Brook in November 2015.

- A combination of In Shed training, Novice schools, High School groups and workshops serve an important role in providing a range of training services to the wool industry – through improver to advanced and professional workshops for continued development of wool harvesting professionals.
- High school students in WA in the Agricultural school system were provided with training in the wool harvesting industry by AWI-funded coaches. This is reflected in the WA in-shed training coaching figures and a subsequent increase in the workshops figures.
- Exchange programs have continued with New Zealand for young potential trainers, and both interstate and with New Zealand for senior trainers.
- AWI provided support to all local shearing competitions affiliated with Sports Shear Australia in 2015/16. Part of AWI's support includes payment of entry fees for learner shearers and novice wool handlers. AWI also provided support to state and the national shearing and woolhandling championships. The aims of providing support to shearing competitions are to promote excellence in the wool harvesting industry, encourage young people to join the industry, and encourage continued development of techniques in shearing and woolhandling.
- AWI continued to distribute the Woolshed Safety Signage Kit, which includes 36 safety signs. The aim of these signs is to help improve and promote safety in woolsheds. The kit is now available to purchase online at www.wool.com/shedsafety
- More than 37,000 Shearing Shed 'Code of Conduct' posters were also distributed through AWI's *Beyond the Bale* magazine and additional copies

are available to woolgrowers on request. For additional copies call the AWI Helpline on 1800 070 099.

- AWI training resources are in constant demand which has resulted in all AWI's shearing and wool handling digital format tutorials being now available on USBs and also on You Tube. The tutorials are a complete reference guide for shearers, wool handlers, woolgrowers, instructors and students working in various areas of wool harvesting. Packed with tips, hints and practical advice, the tutorials include advice from experienced shearers, wool handlers and wool classers.



AWI's shearer trainers also help out in AWI marketing initiatives. Jonesy & Amanda of WSFM Radio took their leading breakfast show on an outside broadcast to the Sydney Royal Easter Show where the duo tried their hand at shearing. Under the expert guidance of AWI's shearing industry development coordinator Jim Murray and leading shearer Ian Elkins the radio hosts relayed their positive experiences live to their large Sydney audience.

STRATEGY 3: PRODUCTION SYSTEMS AND ECO-CREDENTIALS

STRATEGY 3 RESOURCES DURING 2015/16

\$1,095,000 project expenditure + 1.3 AWI staff (full time equivalent)

PROGRAM 1: MANAGING THE RESOURCE BASE

INVESTMENT FOCUS

- Research into new pasture species and models of pasture growth.
- Shifting the feed base to new and more reliable legume species in light of increased climate variability (optimising nitrogen supply).
- Increased healthy pasture soils: 20% increase in pasture growth due to less pathogens such as phytophthora.
- Increased focus on action on the ground (through participatory R&D; that is, better engagement between grower and researchers); extension and engagement of woolgrowers on:
 - Sustainable grazing management, eg Enrich follow up; dual purpose crops.
 - Technology transfer from research repositories such as livestock systems design (EverGraze).
 - Agronomy packages and companion species.
 - Rabbit control.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|--|
| 20% increase in pasture production or increase in stocking rate capacity (2-4 dry sheep equivalent per ha). | Achieved. Benefits have been generated across two major projects – EverGraze VI (the final phase) and Farm300. An external review of investment identified benefits to sheep farms of \$2.9 million and \$1.4 million respectively. |
| Adoption across 50,000 ha of perennial pasture within five years. | Target revised. This target has been revised to: “Collect and disseminate relevant grower case studies attesting to good stewardship practices”. Funding for the development and communication of case studies has been allowed in the 2016/17 financial year. |

KEY RESULTS DURING 2015/16

Nutrient use efficiency

- The low Phosphorous (P) use efficiency of Australian pasture systems and the consequent need to apply considerably more P as fertilizer than is exported in animal products, together with the rising price of P, has driven recent investment in this area. Research is under way to investigate the transformation of applied P, plant's abilities to access free and locked pools of P and those pasture species that access locked P more efficiently. Key results to date include:
 - Research suggests that substantially more P-efficient pasture systems than currently in use are within reach for temperate southern Australia.
 - Legumes such as the serradellas and biserrula have root morphologies better suited to soil exploration and nutrient acquisition than subterranean clover and white clover.
 - In P-deficient soils, the serradellas substantially out-yield subterranean clover, provided they are growing in a soil to which they are well adapted as they require relatively free-draining soil for optimal production and persistence.
- Of particular interest is the impact of fertilisers on native grasses and naturalised legumes which are already widespread in pastures. The research outcomes include:
 - Where there is a sufficient density of high-quality native grasses, fertility can be increased to moderate levels without the expense of resowing.
 - Applied P boosts the legume component of native pastures but too much leads to annual grasses and weeds.
 - Rotational grazing, particularly in summer and autumn, is critical to ensuring the long-term survival of native and sown perennial grasses.
 - The more productive areas of the farm such as valleys with deep soils should be the first priority in applying fertilisers.
 - Native pasture species have differing responses to P so it's important to know what species are present.

Grower-facing website and tools

- The Timerite® website, a tool to assist in the management of Red Legged Earth Mite (RLEM) has been revised and rebuilt and the associated RLEM brochure updated.
- The EverGraze website is being updated and will be completed in early 2016/17. Tools relevant to Whole Farm Grazing Strategies have been simplified and improved and associated videos updated.

Pasture legume performance and grazing management

- Research continues into the permanent resistance to Phytophthora Root Disease. Testing of the high number of samples that have been returned by producers in NSW, Vic, SA and WA is under way. It is anticipated that these samples will assist in determining resistant legume species, and estimating the severity of root disease impacts in the areas sampled.

- Research continues on assessing the ease of establishment, persistence and animal performance of several newer, more productive legume species and cultivars (including serradellas, biserrula, prima and bladder clover). This work will be completed in 2017.

Improved weed management

- Research continues into the best management practices to address the production impediments of Silverleaf Nightshade. A benefit/cost analysis is being developed to assist with the uptake of best management practices by producers.



PROGRAM 2: CARBON

INVESTMENT FOCUS

- Identification of different pasture species and consistent feed sources that will increase feed conversion efficiency (FCE).
- Examination of genetic factors that increase FCE without reducing value of other important traits.
- Investment in scientific to demonstrate impacts of new technologies on methane emissions.
- Develop tools and methods for accurately measuring greenhouse gas emissions from wool production.
- Dependent on demand and through collaborative R&D with government develop methodologies that enable woolgrowers to participate in voluntary carbon markets such as the Australian Emissions Trading Scheme (AETS), EU Emissions Trading Scheme (EUETS), Carbon Exchange.
- Extension of information on carbon balances on wool growing properties, changes in government policies and avenues for growers to participate in future carbon markets.
- Quantify and address technical issues related to wool’s environmental footprint (including chemical, energy, and water and land-use efficiency).

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|-------------------------|
| By 2020, support development of technologies suitable across 20% of woolgrowers that enables a 5% increase in FCE without a loss in profit. | Partly achieved. |
| Provision of robust scientific data to support methane emission reductions that is consistent with the Australian Government’s greenhouse gas reduction policy. | Partly achieved. |
| Deliver robust data to support the green image of wool. | Partly achieved. |

KEY RESULTS DURING 2015/16

Wool production credentials and emission reductions

- Research findings have provided an insight into the grazing preferences and impacts of fertiliser on Nitrate-accumulating shrubs. These shrubs have the potential to render previously barren or salt-affected lands into valued components of production systems. The shrubs respond well to the application of fertiliser to boost nitrate and sulphate concentrations in leaves. These shrubs also contain other plant secondary compounds such as saponins that have been reported to reduce methane.
- AWI continues to participate in the Climate Change Research Strategy for Primary Industries (CCRSPI). This initiative directs their research funds on priority climate change research projects and activities and communicates with government and policy makers on key climate change issues facing the primary industries sector.

Assessment of adaptation options to provide resilience to likely climate change by 2030

Key findings from an analysis of options across 5 Australian extensive grazing, mixed grazing and cropping systems include:

- With the exception of WA “high risk/high return” adaptation strategies seemed to consistently provide better economic returns under the projected climate change conditions than the “low risk/low return” options. The “high risk/high return” adaptation strategies were more flexible allowing

greater responsiveness to unfolding climatic conditions.

- Greenhouse gas emissions were higher under all the future scenarios considered and across all farming systems regardless of adaptation options employed.
- Economic returns were very variable across all the case study sites and enterprises examined, although predominantly lower than for the current practice. Generally the high risk/high return type adaptation options resulted in comparable economic returns to present day levels, although year-to-year variation was much higher.
- Whilst the high input adaptation packages provided the potential for the most substantial improvements in productivity, they were the most capital-intensive and technically challenging to develop and/or implement. In many cases the options are still in development and are yet to be proven.
- The low risk/low return adaptation options generally resulted in a slow decline in economic returns and a loss of profitability.

Wool life cycle assessment

- AWI continues to fund scientific research to improve the current body of life cycle assessment (LCA) studies and provide a more accurate analysis of wool’s environmental benefits – see page 28.



STRATEGY 4: EDUCATION AND EXTENSION

STRATEGY 4 RESOURCES DURING 2015/16

\$2,368,000 project expenditure + 1.4 AWI staff (full time equivalent)



PROGRAM 1: GROWER SKILLS CAPACITY

INVESTMENT FOCUS

- The main AWI investment will be the continued support of extension networks.
- The investment also seeks to develop skills across specific segments including young woolgrowers and women. AWI will stay in touch with growers through woolgrower forums and road shows, direct mail, and a range of e-learning and electronic media.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|--|
| Increase in the number of participating woolgrowers across the extension networks. | Achieved. All states have increased their member databases, with more than 9,000 woolgrowers around Australia participating. |
| Average annual cost saving to participating woolgrowers of \$700. | Achieved. All states are performing well above target with the national average annual cost saving in 2015/16 being \$3,334, which is an increase from \$2,546 in 2014/15. |
| Total cost saving to AWI from reduced extension cost for other technologies that AWI delivers to industry and where utilisation of the extension network is deemed suitable. | Achieved. Solid progress was made across the 2013/15–2015/16 strategic period, with AWI's extension networks used to deliver biosecurity workshops, wild dog information and promote Lifetime Ewe Management courses, as well as a number of other topics. |
| By June 2015, BredWell FedWell will deliver 90 workshops with a participation target of 1800 to educate growers in key production benefits of genetics, plus feed management for improved reproduction. | Target revised. AWI ceased funding BredWell FedWell at the end of July 2014. Prior to ceasing funding, 45 workshops were conducted from 1 July 2013 to 31 July 2014 to a total of 1,116 participants. |
| At least 70% of sheep producers (22,000) will be aware of Making More From Sheep (MMFS) by 2015. At least 50% of participating sheep producers applying at least one procedure, from at least one module to their sheep enterprise that delivers improved productivity and profitability. | Partly achieved. An MLA (currently managing MMFS) study shows that 58% of sheep producers are aware of MMFS, with monitoring and evaluation showing that 46% of participating sheep producers are applying at least one procedure from at least one module. |

KEY RESULTS DURING 2015/16

- Breeding Leadership was held in February 2016 in Clare SA, and 26 young people were selected, based on their applications, from various facets of the wool industry all across Australia. Demand for the program once again outstripped the number of positions available in the biennial program.
- AWI continued to support multiple wool and sheep industry young grower initiatives across Australia, contributing to the Monaro Farming Systems traineeship program, Young Stud Masters Muster at the Australian Sheep & Wool Show, University of New England Farming Futures, Farm Business Bootcamp, Charles Sturt University & University of Sydney Sheep & Wool Tour, Murdoch University Sheep & Wool Tour, Hay Inc rural traineeship program and SA Sheep Expo, to name a few.
- AWI-supported extension networks continue to provide opportunities for producers to get involved in practical programs that focus on making positive changes to on-farm production and management practices. The networks are fundamental to the spread of new ideas, continuing education and the adoption of best practice, as well as giving AWI a direct link to what is happening on-ground.
- Networks are present in each wool-growing state and all woolgrowers are encouraged to get involved. The AWI-supported extension networks – BESTWOOL/BESTLAMB (Victoria), Leading Sheep (Queensland), Sheep Connect Tasmania, Sheep Connect SA, Sheep Connect NSW and The Sheep's Back (WA) – have seen another successful year, with increases in participation and the reported benefit by woolgrowers.
- AWI's pastoral grower network, Pastoral Profit, which commenced in July 2014/15, has continued delivery through 2015/16. Pastoral Profit is a collaboration between AWI and MLA, and is targeted at wool, sheepmeat and beef producers in the southern pastoral zones of Queensland, NSW, SA and WA.
- 136 Making More From Sheep (MMFS) events were held around Australia in 2015/16 with 2,990 attendees. The MMFS program is a best practice package of information and tools for sheep producers supported by a range of events and workshops.



PROGRAM 2: STAKEHOLDER & MARKET PLACE EDUCATION & EXTENSION

INVESTMENT FOCUS

- Teacher and Student Support – AWI will promote the wool industry and its features to primary and secondary teachers (and their students) and provide support through participation in learning programs, resources/tools and professional development activities.
- AWI will support wool industry advocates seeking to learn more about their own and other industries, and share their knowledge through advisory panels, committees and marketing activities.
- Professional development for researchers, advisors, extension specialists and AWI network coordinators through AWI-supported R&D updates and conferences focused on the role of wool sheep in a profitable enterprise mix.
- The National Merino Challenge aims to increase the skills, knowledge and capacity of young people in agriculture, and entering the wool industry through training sessions and demonstrations coupled with theoretical and practical challenges. It will support the increased capacity of teachers and lecturers in teaching the principles of Merino breeding and selection.
- Briefings prepared that demonstrate welfare credentials to protect market access and enhance the demand for wool through support for the National Wool Declaration and integration with AWI's Global Business Services.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|---|
| Support and develop leadership skills through Australian Rural Leadership Program (ARLP) (one annually), Nuffield Farming Scholarships (one annually) and Young Farming Champion initiatives (up to four annually). | Achieved. In 2015/16, AWI supported two ARLP positions, awarded one Nuffield Farming Scholarship and took on two new Young Farming Champions, whilst continuing to support its existing Young Farming Champions. |
| Distribute up to 300 Learn About Wool teachers kits each year. | Achieved. Demand for the Learn About Wool kits remains strong across Australia, with interest rising following AWI's presence at a number of key teacher conferences across the country. |
| The National Merino Challenge (NMC) will attract at least 60 participants each year and up to 25 trainers for the Train-the-Trainer Workshops. | Achieved. The National Merino Challenge was held in May 2016 and attracted 138 participants, with the February 2016 NMC Train-the-Trainer Workshop attracting 18 participants. |
| Up to eight forums will be held each year to inform, update and keep in touch with industry. | Achieved. AWI continues to actively participate in industry forums to speak with woolgrowers directly about what is impacting on their businesses. |

KEY RESULTS DURING 2015/16

- The National Merino Challenge (NMC) was held in Sydney in May 2016 and attracted 138 participants. The NMC was held four times in the 2013/14–2015/16 strategic period – the first three times within its pilot phase (August 2013, May 2014, May 2015), and the fourth (May 2016) as a full project. To date, 363 students have participated in the NMC from more than 25 schools, TAFEs, colleges and universities, as well as 97 teachers having completed the NMC Train-the-Trainer Workshops.
- Jack England of Kingston in South Australia was awarded AWI's 2015/16 Nuffield Farming Scholarship to investigate the benefits and costs of using variable rate technology (VRT) for fertiliser and trace element prescription use in livestock systems.
- AWI continues to support Amy Carpenter, studying in her final year at the University of New England, and Royce Pitchford, studying at the University of Adelaide, through the Horizon Scholarship program (a joint initiative of RDCs to support students studying agriculture). This year, AWI started supporting Katherine Bain who has commenced her studies at Marcus Oldham College.
- Continued investment was made to the Young Farming Champions (YFC) program, with Chloe Dutschke from Belton, South Australia, and Max Edwards from Wellington, NSW, joining AWI's existing network of YFCs in representing the wool industry in schools.
- AWI's Australian Rural Leadership Program positions were awarded to Carol Huggins and Bert Matthews, both from Hay, NSW.



Condition scoring was one of the seven activities in the National Merino Challenge educational initiative.

OFF-FARM R&D

OBJECTIVE

To facilitate the creation of business opportunities within the wool-processing sector, which foster diversification of regional processing capacity, and support the creation of demand for Australian wool.

OUTCOMES

Generate and transfer knowledge which fosters the creation of business opportunities, enhances sustainability practice, and diversifies regional capacity within the wool-processing pipeline, thereby actively contributing to creation of sustainable demand for Australian wool.

INVESTMENT PHILOSOPHY

AWI investment will be weighted towards low to moderate risk activities that extend existing technologies to wool-processing regions as well as regions where new processing capacity is emerging. Investment in new technology development will be focused on processes where longer term environmental gains can be achieved, with emphasis on reducing the carbon footprint in manufacturing, garment care, recycling and decomposition. Investment will also be made in the acquisition of data that enables us to advocate the benefits of wool fibre in preference to other fibres in terms of health, safety, protection, comfort and softness.

STRATEGY 5 Technical Services



Foster diversification of regional wool-processing capacity, and growth in human resource skills and know-how within the wool-processing sector, by providing technical support to wool processors in existing and emerging wool processing hubs, such as China and Vietnam.

PROGRAMS

- 1 Supply Chain Diversification
- 2 Technology Transfer

STRATEGY 6 Fibre Advocacy & Eco- Credentials



Acquisition of data which enables us to advocate the benefits of wool fibre in preference to other fibres in terms of health, safety, protection, comfort and softness.

Reduce or eliminate the risk to our business from environmentally related threats, by the development of more sustainable and ecological manufacturing processes and reducing our carbon footprint in manufacturing, garment care, recycling and decomposition.

PROGRAMS

- 1 Fibre Advocacy
- 2 Eco-Credentials



STRATEGY 5: TECHNICAL SERVICES

STRATEGY 5 RESOURCES DURING 2015/16

\$1,099,000 project expenditure + 9 AWI staff (full time equivalent)



PROGRAM 1: SUPPLY CHAIN DIVERSIFICATION

INVESTMENT FOCUS

- Identifying manufacturing companies interested and committed to learning how to make and commercialise premium quality products made from Australian wool.
- Provision of training (theoretical and practical) by transfer of knowledge and technology.
- Increasing their knowledge, expertise and confidence so that they can consistently produce products which meet the Woolmark standards of quality.
- Advising mills on the types and supplier of wool materials, (greasy or scoured wool, tops, yarns etc), textile processing chemicals and dyestuffs, wool-processing machinery and components.
- Assisting them with trade marketing collateral and events to promote their wool product ranges.
- Introducing them to potential new customers.
- Provision of ongoing assistance and advice when technical issues arise.
- Offering companies a strong value proposition so that they become Woolmark licensees.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|---|
| 75 new businesses working with AWI in emerging manufacturing countries, such as Vietnam, Russia and Belorussia. | Achieved. More than 100 new manufacturers of wool products in these regions are working with AWI, including more than 54 in Vietnam, 40 in Russia and 10 in Belorussia. AWI has also worked with many more allied industry partners and sourcing and buying offices. |
| 25 new Woolmark licensee applicants in these regions by 2016. | Partly achieved. 9 Woolmark licensees in Vietnam and Russia. |
| 750,000 kg increase in demand/consumption per annum for Australian wool by 2016 (based on an average 10,000 kilos per company). | Achieved. During the 2013/14-2015/16 period, AWI will have invested \$1.8 million in this program with a benefit to Australian woolgrowers estimated at \$7.8 million in present value terms. |

KEY RESULTS DURING 2015/16

Vietnam

- AWI has continued to establish a complete supply chain in Vietnam, via its Out of Vietnam project.
- AWI continues to assist project partners, educating them how to manufacture premium wool garments made from Australian Merino wool. This activity continuously builds and consolidates the first stage in the supply chain (garment manufacturers).
- AWI has focussed on the second stage in the supply chain (spinners) by educating companies how to manufacture wool and wool blended yarns. Three companies trained by AWI – in dyeing, spinning and marketing – plan to launch in September 2017 new ranges of wool and wool blend yarns for knitting and woven applications.
- AWI is now at the next stage, helping set up further stages in the supply chain (top making, scouring etc) in Vietnam, by introducing companies to Vietnamese Government authorities and other companies that want joint partnerships.
- At the retail level, AWI has helped Vietnamese companies develop wool products based on buyer-led new product development concepts. For instance, Canifa has sold Woolmark and Woolmark Blend licensed products in the Vietnam market, worth \$2.3 million in the autumn/winter 2015/16 season. The company's production of wool products increased by 66% from 2014/15 to 2015/16 to more than 110,000 pieces.

Russia

- Despite the decline in the rouble, the conflict in the Ukraine and political tensions with the West, AWI has been able to continue to establish business relationships with many companies (eg topmakers, knitters, weavers, retailers, designers).
- Although the amount of Australian wool being exported direct to Russia has been restricted over the past year, Australian wool has been reaching Russia via other countries such as China, a country with which Russia has had more intense cooperation recently.
- Russian retailers and brands have set up their own high-end brands using Merino wool, to replace high-end brands from overseas.

Belorussia

- Most of the manufacturing sector in Belorussia is state-owned and AWI has continued working with the relevant government departments to help set up a supply chain that will use Australian wool.
- The Belorussian government has invested €55 million in the upgrade of Kamvol's textile manufacturing factory. The new equipment is now enabling Kamvol to manufacture products using good quality finer wool, ie Australian wool. Kamvol has the capacity to produce four million metres of woven fabric.



PROGRAM 2: TECHNOLOGY TRANSFER

INVESTMENT FOCUS

- Identifying manufacturing companies interested and committed to increasing profitability through increasing productivity or through cost reductions, or adopting technologies which enables them to produce more added value products.
- Development of technical marketing and information packages, e.g. (a) Increased profitability by increased productivity and reducing costs, and (b) Increased profitability by the adoption of “added value” innovative technologies.
- Transferring technologies aimed at increasing profitability, to partners along the manufacturing supply chain e.g. top-makers, spinners, dyeing and finishers, knitters, weavers and making-up companies.
- As part of the Easy Care re-launch, transfer of technology, with particular focus on the knitted product sector, to increase the number of suppliers of good and reliable quality Easy Care wool products.
- Industry training sessions/workshops on “Increasing profitability”.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|---|
| Production of two technical packages based on increasing profitability. | Progressing. TEC knitwear manufacturing training package for Chinese knitters in development. |
| Transfer of technology aimed at increasing profitability through increased productivity and/or cost reduction to 4 companies per year, and by adoption of added-value technologies to 15 companies per year, between 2013 and 2016. | Achieved. The number of companies working with AWI over 2013/14, 2014/15 and 2015/16 were 28, 25 and 22 respectively. In 2015/16, transfer of technology by adoption of added-value technologies to 18 companies: 9 in China, 5 in Hong Kong, 2 in India, 2 in Europe. |
| Increase in annual demand/consumption of Australian wool by, on average, 10,000kg per company with which AWI engages. | Achieved. An average of 18,000kg (over 12 mills that responded) in the 2013-14 survey. The survey is being repeated during 2016 to capture 2014-15 consumption. |

KEY RESULTS DURING 2015/16

- Collaboration between AWI and one of China’s leading textile enterprises, The Nanshan Group, has created a new innovative range of 100 per cent Merino wool and wool blend fabrics. The new range, comprising four different fabrics known as NEULANA, was launched at the Intertextile Shanghai Apparel Fabrics trade show in October 2015.
 - NEULANA Elite is for elegant and luxury suits
 - NEULANA Protect is for machine washable and weather resistant coats and jackets
 - NEULANA Air is for upper or smart casual wear
 - NEULANA Accessori is for accessories including scarves and shawls.

Nanshan has created an extra 140 tonnes of Merino wool business using this technology.
- Installation of sample weaving and product development facilities at Nanshan has improved the efficiency of the product development process and created additional business for 200 tonnes of Australian Merino wool.
- AWI helped iconic Australian tailored menswear brand and Woolmark licensee Anthony Squires to produce an Australian first: a 100 per cent Australian Merino wool trench coat that is wind resistant and water repellent.
- Innovative developments in wool fabrics and yarns for base-, mid-, and outer-layer apparel have triggered a widespread uptake of Merino wool by major global sports and outdoorwear companies through to niche brands. Merino wool has enjoyed a strong history in base-layers, but more and more we are seeing the fibre in mid- and outer-layer clothing.
 - ABMT is supplying Sirofil jersey fabric to a leading European sports brand for running shirts.
 - Chinese company and Woolmark licensee Diyang Merino Textile Limited launched Wooloft jacket filling material at the prestigious ISPO trade show for outdoor products. Wooloft is a brand for wool fill garments – warm, light, fluffy and breathable even in the extremely wet and cold environment.
 - The Chicks underwear brand in Hong Kong continues to sell its 100% Merino Perform™ base layer range based on Moisture Management technology developed in conjunction with TWC. Merino Perform™ Pro is a special double-faced 100 per cent MerinoPerform fabric that quickly moves sweat to the fabric’s outer side.
 - A major easy care top processor in China is implementing AWI recommendations for improving yields and reducing water consumption of the continuous easy care top treatment.
 - As denim continues to remain one of the world’s most popular fabrics, the interest in the use of Wool Denim is on the rise. AWI has worked with development partners to produce a wool/cotton denim blend that replaces some of the traditional denim yarns with machine-washable wool.
 - Moufung, a denim mill established in Hong Kong, supplied 10,000m of Merino denim fabric commercially.
 - Collaborating with Italian weaver Berto’s high-end denimwear department Blue Selvage and Dutch suit manufacturer The Makers, AWI presented three Wool Denim suits at the world’s leading denim show Amsterdam Denim Days, introducing traditional tailoring to a contemporary customer.
 - Blackberrys India launched a machine washable Merino t-shirt for their Liverpool brand.



STRATEGY 6: FIBRE ADVOCACY AND ECO-CREDENTIALS

STRATEGY 6 RESOURCES DURING 2015/16

\$1,099,000 project expenditure + 1.7 AWI staff (full time equivalent)



PROGRAM 1: FIBRE ADVOCACY

INVESTMENT FOCUS

Investment activities will largely involve partnership with credible research institutions around the globe in conduct of consumer-based research evaluating the comparative benefits of wool in the areas of:

- Sleep quality and quantity – sleeping on or under wool bedding, or in wool (sleepwear).
- Dermatology – challenging the widespread misconception that wool is an allergen, and demonstrating that suitably selected fine Merino products are healthy for the skin, especially for those with the most sensitive skin.
- Flammability – demonstration of wool's inherent flame retardance properties in support of product development and marketing opportunities.

As a complement to these efforts, investments will address the development of technical specifications for trading and assurance of product qualities where these address wellness attributes of wool products.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|--|--|
| Complete and communicate to technical and trade audiences research that: | |
| Unequivocally demonstrates that wool is not an allergen. | Achieved. A review of historical literature claiming wool allergy has been undertaken by eminent skin health specialists challenging the credibility of historical studies and demonstrating there is in fact no credible evidence for allergy to wool. The paper will be submitted for publication in the Journal <i>Allergy</i> . |
| Demonstrates the role of fine Merino base-layers in ameliorating chronic skin conditions associated with microclimate management of the skin, such as Atopic Dermatitis. | Achieved. Clinical studies have been undertaken and scientific papers have been submitted for publication demonstrating that Atopic Dermatitis sufferers derive substantial benefit from wearing properly specified next-to-skin wool garments. |
| Supports the recognition of wool bedding as part of a healthy night's sleep, and development of Merino sleepwear and maternity-wear markets. | Ongoing. The favourable outcome of an initial study of the effect of Merino sleepwear on sleep health has been published. A more comprehensive clinical study of wool sleepwear is under way at Sydney University. |
| Supports development of product market opportunities in categories such as corporate wear, safety wear, medical products and infantswear. | Ongoing. A project has been initiated to enhance wool's access to base-layer garment markets for emergency services and the military. Existing flammability standards have not kept up with advances in textile processing technology and now present a barrier to the adoption of wool in these markets. |

KEY RESULTS DURING 2015/16

Skin health:

- Two clinical studies assessing the skin health benefits of superfine Merino wool have been completed with the successful findings documented and planned for publication in high rating dermatological journals.
- Eczema or Atopic Dermatitis (AD) is described as approaching epidemic levels in Western nations, with up to 28% of all children born in Australia falling somewhere on the AD scale. Sufferers of AD have more sensitive skin than the rest of the population, yet properly specified wool base-layer garments have been found to be therapeutic for them. A study of babies and young children at the Murdoch Children's Research Institute in Melbourne showed significant advantages of wool clothing over cotton in ameliorating the symptoms of AD. The beneficial impacts of wool have been reported at dermatology conferences in Australia, Brazil and France and have generated recent media interest.
- A parallel study of adolescent and adult sufferers of AD in Brisbane by the Queensland Institute of Dermatology (QID) has confirmed the beneficial findings and the associated paper will shortly be submitted for publication.
- A literature review of wool as a cause of Allergy has been undertaken by a team of eminent medical experts (immunologists, dermatologists and allergists) leading to a scientific paper challenging the historical understanding of wool as a cause of allergy. This paper will be submitted for publication in the journal *Allergy*.
- The combination of these skin health studies of eczema and allergy will enable strongly held consumer perceptions of wool as prickly to wear and a cause of allergy to be challenged. A communications and marketing plan has been prepared to effectively take this message to target markets.

Sleep health:

- Wool sleepwear represents a key strategic opportunity for knitters and growers of fine Merino wool, while wool bedding, underlays and duvets, represent an opportunity for mid-micron wools.
- The findings of an AWI-funded clinical study comparing wool and cotton sleepwear at Sydney University have indicated that next-to-skin wool garments promote earlier sleep onset in cooler conditions. The study also indicated trends towards increased total sleep time and sleep efficiency. The associated paper has recently been published in the journal *The Nature and Science of Sleep*.
- A more comprehensive follow-up study assessing the impact of wool, cotton and polyester sleepwear of the baby boomer demographic (50–70 years) under warm summer conditions is currently under way.

Development of product market opportunities:

- A study has been initiated to improve flammability testing standards for base-layer garments. Wool's natural attributes – including breathability, odour resistance and flame resistance as well as the fact that it does not melt – provide a competitive advantage in emergency service and military markets. Modern warfare involving the use of Improvised Explosive Devices generates sufficient heat to melt fabrics into the skin, potentially causing massive injury. However the lightweight knitted base-layers now produced burn much more

readily than the heavier outer-layer garments for which the standards were designed, hence there is a clear need for a base-layer specific section in flammability standards.

Health-related documents and publications arising from AWI activities during the year included:

- The effects of fabric for sleepwear and bedding on sleep at ambient temperatures of 17°C and 22°C. Mirim Shin, Mark Halaki, Paul Swan, Angus Ireland and Chin Moi Chow. Published in *The Nature and Science of Sleep*.
- Determining Effects of Superfine Sheep Wool in Infantile Eczema: a randomized paediatric cross over study. John Su et al. Submitted to the *British Journal of Dermatology*
- A Round Trial of Wool ComfortMeters. H. Wang and Crowe, D.W. IWTO Congress, Sydney, April, 2016.
- Supplement to IWTO DTM 66, Modifications to the set-up of the Wool ComfortMeter and changes to the precision limits. Submitted to IWTO, Sydney, April, 2016.
- Why Cotton as Linen? The Use of Wool in Beds in Norway. Ingun Klepp, Tone Tobassian, Kirsi Laitala. Published in *Textile: The Journal of Cloth & Culture*.



PROGRAM 2: ECO-CREDENTIALS

INVESTMENT FOCUS

Investment activities will largely involve:

- Continuing to monitor environmental issues and changing legislation which may pose a potential threat to the wool business.
- Identification of areas of most concern in relation to chemicals commonly used in wool processing, and identify where possible suitable alternatives. Where no alternatives exist, develop alternative solutions.
- Identifying unwanted residuals on wool products and develop techniques to remove or eliminate them which the manufacturer can adopt before the products leave the factory.
- Enhancing and transferring knowledge relating to the reduction of water and energy during manufacturing. Developing guidelines outlining options for wool manufacturers in this area.
- Developing processes that can be carried out during manufacturing, which enable Easy Care wool products to be successfully domestically laundered (effective cleaning and stain removal etc.) at reduced temperatures during washing, and reduced drying times during tumble drying.
- Developing a strategy relating to recycling of wool.
- Conducting work to have a better understanding of the parameters which effect wool's rate of decomposition, from which advisory notes and best practice guidelines can be developed.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|--|
| Prepare and publish annually Best Practice Guidelines highlighting improvements or new options for the wool-manufacturing sector. | Target revised. Feedback from China indicated that this activity would be better managed through AWI's Trade Education Program. |
| Develop techniques to remove unwanted residues on wool during processing. | Achieved. Various techniques were developed to laboratory and pilot scale level to improve removal of pollutants including COD and AOX during 2014/15. Discussions are under way between Deakin University and wool processors on undertaking industrial scale trials in China. |
| Identify areas of chemical use of concern to the industry and support development of alternative processing methods or inputs. | Completed. A zero AOX process was developed and tested at pilot scale however alternative techniques developed by industry have proven to be more robust. |

STRATEGIC TARGETS (continued)

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|--|---|
| <p>New Target: International collaborative effort with IWTO on Wool Lifecycle Analysis (LCA):</p> <ul style="list-style-type: none"> • Complete research into co-product allocation rules for wool lifecycle analysis and publish in a relevant peer reviewed journal • Complete a journal publication on use-phase and post-use phase components of the wool lifecycle • Ensure the wool industry is represented in BSI, FAO LEAP and SAC, MADE-BY LCA standard and fibre rating tool technical processes. | <p>Achieved. The listed papers were published during 2014/15 with significant engagement with apparel environmental ratings agencies such as SAC, FAO, BSI, and Made-By during 2015/16 to encourage the adoption of improved methodologies in their ratings tools.</p> |

KEY RESULTS DURING 2015/16

Wool processing improvements

- Wool is a natural, resilient and ultimately biodegradable fibre, however raw wool contains substantial amounts of natural pollutants (about 40% by weight) that require scouring for contaminant removal prior to downstream processing. Contaminants dispersed in the scouring effluent include dirt, residual grease (lanolin) and a high level of chemical oxygen demand (COD). The guidelines for disposal of this effluent in processing countries are becoming increasingly tight. AWI-funded research at Deakin University has generated new techniques which have demonstrated the potential for significant contaminant reductions. The improvements have been proven at laboratory and pilot scale levels but are yet to be verified at industry scale in commercial plants. During 2015/16 the trial results were presented to industry in China for consideration of industry-scale trialing.

- Two studies are under way to help address the data gap for consumer use of wool apparel. The use phase is an environmental strength for wool garments due to the lower need for washing and machine drying than other fibre types, as well as wool's longer life. Whilst a strength, it remains a challenge to obtain reliable and representative data reflecting consumer use of wool.
- A study on recycling of a wool sweater is under way. This case study has been devised to examine how to more accurately include the benefits of second use of wool fibres in wool LCA.
- Knowledge gaps exist on the environmental impact of aspects of the wool processing supply chain. Three early stage wool processors have volunteered their data to provide up-to-date information to help fill the critical data shortages. Some gaps remain in later-stage processing and options for filling these are being explored.

Wool Lifecycle Analysis (LCA)

- A paper published by AWI's Wool LCA Technical Advisory Group proposing improved methodology for wool LCAs where wool is produced alongside meat is leading to better reporting of wool's environmental performance. The environmental ratings agency the Sustainable Apparel Coalition has accepted the paper's recommendation for allocating greenhouse gas impact on the basis of protein mass rather than the economic value of wool and meat, as currently used. The impact of this methodology change will be to reduce the carbon footprint of the on-farm stage for fine wool production by approximately 35%, which in turn reduces the size of the full lifecycle (all life stages) by 17%.
- A document, 'Guidelines for conducting a life cycle assessment of the environmental performance of wool textiles', providing technical guidance for undertaking a wool LCA has been finalised and is being published on the IWTO website. This technical guidance is intended for use by LCA practitioners, with the objective of achieving more accurate and consistent methods and reporting for wool's environmental performance.
- A non-technical discussion paper has been written outlining why LCA of natural fibres, and particularly wool, is complex and why results can be inaccurate. It will be published in a prominent industry magazine such as *Ecotextile News*. The paper aims to raise awareness that reported LCA results for wool should not be taken at face value and that LCA indexes cannot currently reflect all of wool's positive characteristics.

Publications

- Resource use and greenhouse gas emissions from three wool production regions in Australia. Stephen Wiedemann, Beverley Henry. Accepted for publication in the *Journal of Cleaner Production*.
- Review of wool recycling and reuse. Stephen Russell, Paul Swan, Mariell Trebowicz, Angus Ireland. Published in *Natural Fibres: Advances in Science and Technology Towards Industrial Applications* (pp. 415-428). Springer Netherlands.
- Critical review of the state of knowledge relating to linkages between wool production and biodiversity status of land used for rearing apparel wool sheep. Kerry Bridle, Perpetua Turner.
- Guidelines for conducting a life cycle assessment of the environmental performance of wool textiles. Beverley Henry, Stewart Ledgard, Barbara Nebel, Stephen Wiedemann.

MARKETING

OBJECTIVE

To help increase demand for Australian wool by recognising and addressing the information barriers to consumption at consumer and trade level.

OUTCOMES

Build demand for Australian wool through investment in marketing-related developments and promotions, filling required gaps in consumer and trade understanding of the fibre and its benefits. Increase sales volume growth through specific apparel promotional activities undertaken in conjunction with supply chain and retail partners that deliver a positive return on investment.

INVESTMENT PHILOSOPHY

We seek to position wool at the pinnacle of the fashion industry by working with supply chain partners to develop and deliver creative marketing campaigns. Marketing investments will be made in low to medium-risk activities, consolidating AWI expertise and experience across all forms of promotional media. Investment activities will be well within ethical boundaries established under existing Australian industry standards and those of other regions in which we operate.

| | | |
|--|---|---|
| <p>STRATEGY 8 Fibre Marketing & Eco-Credentials</p> |  <p>Development of content to support fibre advocacy, and implement campaigns that explain to consumers and trade the relevant benefits of Australian wool. These benefits include its ecological credentials, suitability for fashion and specialist apparel. The approach used is to have thought leaders (designers, advocates and ambassadors) speak on behalf of the fibre in relevant traditional, digital and social media.</p> | <p>PROGRAMS</p> <ol style="list-style-type: none"> 1 The Story of Wool 2 Trade Engagement and Marketing Services 3 Campaign for Wool 4 PR and International Woolmark Prize |
| <p>STRATEGY 9 Product Promotion</p> |  <p>Provision of marketing services that generate sales of specific wool products with key partners and in priority markets and segments. These programs will generate incremental new demand, or result in an improvement of the quality of products sold. For 2015/16, Strategy 9 was expanded to include investment that would have otherwise been made in the previous Strategy 7 (Category Management).</p> | |



STRATEGY 8: FIBRE MARKETING & ECO-CREDENTIALS

STRATEGY 8 RESOURCES DURING 2015/16

\$12,364,000 project expenditure + 34.5 AWI staff (full time equivalent)



PROGRAM 1: THE STORY OF WOOL – CONTENT ORIGINATION AND DISTRIBUTION

INVESTMENT FOCUS

- Creation of content (still, editorial, video and animated) around the key benefits of wool and its provenance will fuel both direct consumer response and provide content for partner brands to help us tell the wool story.
- Effective content delivery through presence on the web (owned) and in editorial and social media (earned). This involves the development and maintenance of digital media including three core websites, social media channels, mobile applications and links to campaign-specific digital media.
- Effective use of search optimisation for our digital assets, and deploying search engine management activities will ensure higher levels of traffic to our content-rich websites.
- Production of content for various AWI publications and campaigns. Includes preparation of corporate publications (eg Annual Report and *Beyond the Bale*) and material for other AWI programs.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|--|
| Continuous improvement of three core websites and social media activities. | Achieved. AWI's websites – including Merino.com (for consumers), Woolmark.com (for the textile trade) and Wool.com (for woolgrowers) – were migrated onto a single content management system which has improved website performance and content delivery. Website traffic in some cases is up more than 100%, in part as a result of this. Our social media traffic and audience also increased dramatically and helped drive traffic back into AWI's digital eco-system. |
| Cost saving achieved from provision of materials based on 40% of commercial rate. | Achieved. Our Graphic Design, Video Production and Editorial teams produced a wide range of quality collateral at significantly less than 40% of the cost that external providers would charge. |
| Increase cost-effectiveness of websites by reducing cost per hit to \$1.40 by 2016. | Achieved. Cost per hit has been reduced due to increased website traffic and performance, plus reduced ongoing maintenance costs. There is a continual focus on forward planning around campaigns to maximise return on investment. |

KEY RESULTS DURING 2015/16

Digital communications

- AWI continued to enhance its web communications to its three key stakeholder groups: woolgrowers (Wool.com), consumers (Merino.com) and the textile trade (Woolmark.com).
 - AWI continued this year to upload to Wool.com regular information for woolgrowers about lifting on-farm productivity and profitability, information about where AWI invests woolgrower levies, and AWI shareholder/corporate information. Various e-newsletters were sent to woolgrowers, including a monthly update e-newsletter, a weekly wool market review e-newsletter and the *Beyond the Bale* e-newsletter.
 - AWI placed more focus this year on uploading more regular, engaging content onto its Merino.com website. The website shares information about the latest in wool fashion and the benefits of this premium natural fibre, so that consumers and fashion designers are inspired to discover and enjoy its unique properties. The site has both Chinese and Japanese variants.
- The Woolmark.com website continued to provide an authoritative source of wool-related information for Woolmark licensees and other textile businesses including spinners, weavers, knitters, designers, brands and retailers. Its aim is inspire companies along the textile production chain to choose wool in the manufacture of their products.
- An online presence for specific marketing projects, such as the International Woolmark Prize (Woolmarkprize.com) and Wool4School (Wool4school.com) continued with event-related content updates.
- A new regular fortnightly 'WOOL' e-newsletter was produced and distributed to consumers and the textile trade informing of them of the latest in wool fashion and textiles.
- A new 'WOOL' online magazine for consumers began to be produced in April 2016 (available at <http://magazine.merino.com>). Three editions were produced in 2015/16 on the topics of: Suiting, Activewear and the International Woolmark Prize. The magazine also has a limited print run.



The Woolmark Company, owned by AWI, launched a new 'WOOL' magazine for consumers in April 2016. Available online (at <http://magazine.merino.com>) and in print, the magazine showcases the benefits and qualities of Merino wool in a high-end editorial format. Three editions were produced in 2015/16 on the topics of: *Suiting, Activewear and the International Woolmark Prize* (pictured). The online version of the magazine is also optimised in tablet and smartphone versions.

- AWI rolled out a new content management system across the business to run its websites. This enabled AWI to update all of its digital platforms from the one system and ensure both integration of data and increases in efficiencies. While doing this AWI also took the opportunity to streamline the information architecture and search engine optimisation of its websites helping to increase traffic by 28% and improve the bounce rate by 27%.
- AWI deployed a new digital content marketing strategy, commissioning the production of a range of new articles based on real-time information of what people were searching for in relation to wool. These content pieces addressed real-time needs of potential wool customers, helping to work through their questions/problems while at the same time allowing AWI to introduce them to the benefits of wool and hopefully convert them to subscribers or customers. This strategy helped create a 27% increase in new users and a 22% increase in AWI's email database.
- AWI began using a new email-marketing strategy which will, over time, allow the company to tailor its email communications based on user behaviour. Although only in its early stages AWI is already seeing open rates for our targeted emails over 30%, which is almost twice the industry average, demonstrating people are responding to relevant content.

Social media

- AWI continues to build its social media audiences around the world with an increase in audience size of more than 36% giving 'wool' an audience of more than 1.1 million across all of the company's social media networks. It is expected this will grow in the coming years as the company expands out onto newer social networks such as Snapchat (which the company have already begun working with).
- AWI has also streamlined its social strategy around effective communication to the company's audiences on the platform. This has seen an increase of almost 400% in engagement rates across our content for each \$1 invested.

Graphic design and video production

- As well as its digital (web, social, mobile applications) staff and resources, AWI has in-house creative resources to produce content and collateral: Video Production, Graphic Design, Editorial. The utilisation of these in-house resources has provided considerable costs savings to the business. It has also provided a more efficient workflow, reduced turnaround, and more consistent and effective output.
- AWI's in-house Graphic Design team completed more than 520 jobs during the 2015/16 financial year. The in-house team has helped to create a consistent, strong brand identity for Australian Wool Innovation and The Woolmark Company. This year the branding for The Woolmark Company was refreshed to reflect a more fashion forward, sophisticated look and feel. Many marketing and off-farm R&D related jobs are translated in up to 16 different languages for our global audience.
- Across all projects, the Graphic Design team created artwork in many forms including brochures, flyers, factsheets, magazines, info-graphics, corporate plans, media walls, press releases, posters/billboards, promotional items, clothing prints and embroideries, press ads, training manuals, certificates, trade-stand design and many other forms of printed and digital collateral.
- AWI's in-house Video Production team produced more than 85 videos in relation to marketing, covering our major campaigns and global brand partnerships, and on-farm and off-farm R&D and extension. AWI has also produced video content for brands and media networks globally to use in their own advertising campaigns.

Beyond the Bale

- The *Beyond the Bale* magazine was produced four times during the year and is posted to 36,000+ wool levy payers and other stakeholders. The magazine aims to inform woolgrowers of products and practices to reduce the cost of production on their farms. The magazine also aims to increase awareness of initiatives and activities in wool textiles to increase the demand for Australian wool. *The Broader View* magazine for non-Merino woolgrowers was also produced during the year.
- An interactive online edition of the *Beyond the Bale* magazine, which complements the hard copy edition of the magazine, was also made available. The interactive online edition provides readers with access to AWI digital content: pop-up videos; pop-up image galleries; hyperlinks to other digital content; search and print features; and the ability to share pages (via email, Facebook and Twitter). It received 200,000 page views during the year.



Beyond the Bale is very well regarded by woolgrowers.



PROGRAM 2: TRADE ENGAGEMENT AND MARKETING SERVICES

Note: Aspects of this program were undertaken in conjunction with Strategy 12 (Trade Education); refer page 47.

INVESTMENT FOCUS

- Expansion and delivery of The Wool Lab as a key element in both educating the trade and stimulating demand for wool at the targeted premium end of apparel and interiors markets.
- An effective database and system of building and managing relationships with trade across the pipeline (Customer Relationship Management).
- Development of educational content for use at specific levels of knowledge (initial, detailed and technical) and delivery of this content to and through trade partners via electronic means.
- Work with regions on key B2B partner campaigns and collateral requirements that form part of their country strategies.
- Roll-out globally.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|--|--|
| Expansion of The Wool Lab into an inspirational seasonal tool that is delivered in person (via workshops with Key Accounts), as a preview (to spinners and weavers) and to a broader audience in a differentiated 'lighter' digital format. | Achieved. For the third year in a row, The Wool Lab was presented in a preview format for spinners and weavers three months prior to the release of the main The Wool Lab book. A magazine format was also available for a broader audience and is already well positioned between the top players in trend magazines. |
| An effective database and system of building and managing relationships with tiered trade partners across the pipeline and on a global basis. | Achieved. During 2015/16 AWI implemented an enhanced CRM strategy (utilising Salesforce.com) to support the ongoing development and servicing of all AWI's customers and enable AWI's digital strategy. This system is now underpinning the majority of our digital resources and has helped facilitate an increase of more than 20% in our database numbers. |
| Development, delivery and adoption of educational content for use at specific levels of knowledge (initial, developed and technical), by various channel partners (processing, manufacturing, retail and consumer) and delivered by a flexible range of media at 40% of commercial cost. | Achieved. A very broad range of trade education content produced and targeted at varying levels and geographic locations of partners. The collateral that was produced in-house was significantly less than 40% of the cost that external providers would charge. |

KEY RESULTS DURING 2015/16

The Wool Lab

- AWI's "The Wool Lab" - the seasonal guide to the best wool fabrics and yarns in the world - continues to be a global success and an important tool for the fashion industry, including brands, retailers, manufacturers, spinners, weavers and the media. The Wool Lab contains a selection of the most innovative and quality wool fabrics and yarns commercially available on the market from the best spinners and weavers in the world.
- The Wool Lab guide for the spring/summer 2017 retail season was launched at the Pitti Uomo trade show in Florence, Italy in January 2016. There were eight themes in this edition including two themes, known as The Wool Lab Sport, focusing on wool in sport and activewear. The Wool Lab guide for autumn/winter 2017/18 was launched in June 2016 at Pitti Uomo with seven themes including one for athleisure and one for homewares/interiors.
- Both editions of The Wool Lab were also released in a preview format for spinners and weavers (for purchase) three months prior to the release of the main The Wool Lab book.
- A magazine format of both editions of The Wool Lab Preview was also made available (for purchase) for a broader audience. The magazine is sold in the best trade fairs and professional bookstores between the most leading trend books (such as



The Wool Lab guide to the best wool fabrics and yarns in the world is proving increasingly popular - here the The Wool Lab is being showcased at the TWC stand at the Pitti Uomo trade show in June 2016.

Views, Trends, Collezione etc). The magazine is distributed in more than 12 countries and has achieved a sales target of 300 copies sold worldwide per season. The availability of the magazine in the best bookstores and fairs helps to increase the awareness of The Wool Lab and allows AWI to become a market reference in wool products and innovation research for all fashion and textile professionals.

- During the year, our team of The Wool Lab specialists had more than 300 one-on-one meetings with clients showcasing the autumn/winter 2016/17 edition, an increase from the previous autumn/winter edition. There were more than 330 meetings for the spring/summer 2017 edition, a 50% increase from the number of meetings for the previous spring/summer edition. Clients were located in Australia, Benelux, China, France, Germany, Hong Kong, Italy, India, Korea, North Europe, Turkey, UK and USA. The Wool Lab spring/summer 2017 season generated more than 9,000 requests for swatches, an increase of 80% compared to the previous season.
- A complementary AWI initiative - The Berlin Wool Lab Project - this year saw 12 of Germany's top emerging design talents be inspired by The Wool Lab and choose innovative Merino wool fabrics for outfits in their spring/summer 2016 collections

Trade education collateral

- More than 1,000 new rights-owned images were generated for distribution and use in marketing communications activities. They were made available to AWI global staff for use by trade and supply chain partners, brands, retailers and the media.
- Marketing, sales, training and market intelligence materials were added to AWI's internal iPad App to assist AWI global staff communicate with trade customers in the most timely and cost-effective manner irrespective of location. The internal dashboard also went through an extensive development and design upgrade to make it easier for global usage and asset search capabilities.
- The AWI Marketing team supported the TWC presence at trade shows and the publicity of wool's benefits by providing refreshed marketing collateral, from trade show booth design (with a globally consistent look and feel) to brochures and posters. More than 350 pieces of artwork have been transferred to the new look.



The design produced in-house by AWI staff for The Woolmark Company stand at the Première Vision trade show in February 2016.



AWI's presence at trade shows provides an important source of leads for continual business development.

Trade shows and other trade development

- AWI attended 16 international trade shows to showcase its new product developments and The Wool Lab to brands and retailers and inform them about the benefits of wool. The target audience at each of these trade shows is retail buying teams, designers and manufacturers. Trade shows attended during 2015/16 included:
 - Heimtextil (Frankfurt) for interior textiles
 - India Fashion Forum (Mumbai) for apparel fabrics
 - Intertextile (Shanghai) for apparel fabrics
 - ISPO (Munich) for sports and outdoor wear
 - JITAC - European Textile Fair (Tokyo) for European fabrics
 - Milano Unica (Milan) for high end textiles and fashion
 - Outdoor Retailer (Salt Lake City) for outdoor wear
 - Pitti Filati (Florence) for knitting yarns and knitwear
 - Pitti Uomo (Florence) for menswear apparel
 - Première Vision (Paris and Istanbul) for woven fabrics and wovenwear
 - SpinExpo (Shanghai) for knitting yarns and knitwear.
- Following trade shows, workshops about AWI's innovation collections and The Wool Lab (see previous page) were held individually with retailers and brands.
- Other general training of retail decision makers, such as the company's buyers, merchandisers, designers and technologists, was also undertaken, focusing on providing them with a 'toolkit' that both stimulates interest and builds their confidence to invest in wool product lines. It enables them to take full advantage of wool's technical and aesthetic properties.
- Retail workshops were held to help educate sales staff in several locations across the world about the natural properties and benefits of wool, so they can advise consumers more appropriately. Retail store managers were also trained, who in turn train their own staff.
- Expert advice on engagement strategies with the global textile trade was secured from notable consultants including Peter Ackroyd (UK) and Fabrizio Servente (Italy).

Wool Resource, Development and Education Centres

- AWI opened a Wool Resource Centre in Hong Kong to showcase Australian wool and help supply chain partners develop, produce and market products in this important region for wool. The multi-functional space will act as a global hub for wool, enabling visitors – including spinners, knitters, weavers, retailers, designers, students and garment makers – to discover the versatility of Australian wool. Australian woolgrowers travelling to Hong Kong area are also welcome to visit the Wool Resource Centre and utilise it as an office space for meetings or presentations to industry.
- The Wool Development Centre (WDC), established in China in October 2013 by AWI and leading woollen textile enterprises The Nanshan Group, has this year been successful at developing innovative, high-value woven fabrics produced from Australian Merino wool. An example is the development of the Nanshan Group’s new NEULANA fabric range, launched at the Intertextile trade show in Shanghai in October 2015. The initial work was carried out on sample equipment at the WDC, before scaling up to industrial scale production.
- The International Wool Education Centre (I-WEC), opened in China in October 2014 to complement the WDC, this year continued to educate university students on most aspects of wool manufacturing. Both the WDC and the I-WEC are helping drive the expansion of the Chinese wool textile industry.

Student education

- AWI supported leading textile student design prizes to educate early career textile designers about the benefits of working with Merino wool. Examples this year included the UK’s Texprint design award and the Bradford Textile Society design award, the Hong Kong PolyU Institute of Textiles and Clothing’s graduation award, the China Graduate Fashion Week awards, and locally the St George TAFE NSW Tailoring award in Sydney.
- Seminars explaining the attributes, benefits and versatility of wool to textile and fashion students in the early stage of their career are an important component of AWI strategy. Examples of this type of seminar held this year are the ‘Naturally Inspiring’ seminars held in London in February 2016, Sydney in August 2015 and June 2016, and two in Melbourne in August 2015, the Merino Wool seminar held at the Première Vision trade show in



Students from the Istanbul Fashion Academy in Turkey on an AWI-supported visit to one of the world’s largest wool fabric producing companies in the world – the Altinyildiz factory – to learn about Merino wool fabric and apparel production.

February 2016, and the inaugural ‘Merino Wool - From Farm to Runway’ seminar in China in May 2016. AWI and luxury fashion label Missoni also joined forces to show Italian design students, on a Master’s course in Knitting Design, how Merino wool can be used in knitwear for all seasons.

- AWI helps support wool supply chain study tours of Australia for students. Examples this year included tertiary students at New York’s Fashion Institute of Technology in January 2016, the winners of the AWI-supported Hong Kong PolyU Institute of Textiles and Clothing’s graduation awards in August 2015 and four ‘Biella Masters’ postgraduate students in September 2015.
- AWI helps support wool supply chain tours for overseas students. An example this year was students from the Istanbul Fashion Academy who visited the Altinyildiz factory in Turkey to gain insights into the production process that transforms Merino wool fibre into finished product.
- AWI continued to hold its successful Wool Appreciation Courses offering insights into the production pipeline of Merino wool apparel – from fibre to garment. It also details the unique benefits, performance and fabric attributes of wool and wool products. Delivered by AWI’s technical experts to brands, designers and manufacturers, the courses can be tailor-made for individual companies and educational institutions, to provide simple and practical explanations of wool processing.
- AWI’s Wool4School fashion design competition continues to go from strength to strength. Now in its sixth year, the Wool4School competition builds knowledge about wool among Australian school students. The fashion design project has been planned carefully to fit within the Australian Design and Technology curriculum. More than 12,000 Australian school students have registered for the 2016 Wool4School, a 23% increase from last year.
- Following on from last year’s successful launch of Wool4School in Hong Kong, AWI once again held the competition in this important textile region to help the next generation champion Australian wool.
- As an extension of AWI’s successful Wool4School fashion design competition, AWI’s ‘Learn About Wool’ website (www.learnaboutwool.com), tailored to both primary and high school teachers and students, continued to offer a flexible and interactive range of resources that can easily be incorporated into everyday classroom activities.



AWI CEO Stuart McCullough, AWI Chairman Wal Merriman, the Australian Consular General in Hong Kong Paul Tighe and the Hon Felix Chung of the Legislative Council of Hong Kong (Textiles & Garment constituency) at the launch of the Wool Resource Centre.



PROGRAM 3: THE CAMPAIGN FOR WOOL

INVESTMENT FOCUS

The centrepiece of the Campaign for Wool (CFW) is promotion of wool products for a week-long period (in Wool Week) in different regions throughout the September, October and November months (except Australia) each year in cooperation with AWI retail partners. A collaborative marketing program is developed with individual retailers and further support is provided through:

- Support of trade events and intensive PR.
- Point-of-sale materials (such as swing tickets, window displays, posters and information material on wool attributes).
- Consumer marketing through high-impact events (such as street events) featuring sheep and Merino wool.
- Online activities such as the CFW website and participation on Twitter and Facebook.

The contents of the campaign increasingly consist of three key elements – rich media focused on the ‘Natural, Biodegradable, Renewable’ core platform; consumer leverage through the effective promotion with the supply chain and retailers during peak consumption periods – hallmarked by Wool Week promotions; and sheep and wool made tangible in urban events.

- Roll-out in: United Kingdom, Italy, France, Germany, Netherlands, Belgium, China, Japan, Australia, and Korea.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|--|--|
| Number of retail partners involved to increase from 445 to 800 by 2015/16. | Partly achieved. Total partners engaged in the program reached more than 400 in 2014/15 with about 2,500 stores involved. In 2015/16, an increasingly targeted approach delivered – across the seven Wool Weeks in which AWI was directly involved – engagement with 242 brand partners with the number of stores reaching around 650. |
| An average increase in wool sales per store involved with the program of 1020 units a year or 675 kg of wool. | Partly achieved. Sales were estimated at an average of 520 units per store. While the return in 2015/16 was lower than in previous years, it is estimated that during the three-year strategic period, AWI investment of \$9.1 million delivered a solid return of \$28.3 million in present value returns back to woolgrowers. |
| Media value to reach GBP 18 million in 2015/16. Social media targets a follower base of 100,000 by 2015/16, with websites hitting 500,000 that year. | Partly achieved. Global PR and digital results for 2015: <ul style="list-style-type: none"> • The Editorial Value Equivalent (EVE) for the seven Wool Weeks that The Woolmark Company ran reached \$16.6 million. • 4.8 million Facebook impressions during Wool Weeks. • 34.0 million Instagram impressions during Wool Weeks. • 10.2 million Twitter impressions during Wool Weeks. |

KEY RESULTS DURING 2015/16

- 2015 saw the completion of the Campaign for Wool's sixth year, as the global initiative continues to encourage manufacturers, retailers and designers of apparel and interiors products to live naturally and choose wool, and in turn educate consumers about the fibre's environmental benefits.
- 242 global retail partners participated in the seven Wool Weeks that AWI ran during the 2015 campaign (out of a total of eleven) with promotional material on display in around 650 stores across the world.
- Digital channels have become a vital medium through which to market The Campaign for Wool's messages to consumers. AWI (through The Woolmark Company's digital channels) amplified the Campaign's own digital messaging to an even larger audience – with The Woolmark Company's Facebook, Instagram and Twitter receiving close to 50 million Campaign for Wool-related impressions during international Wool Weeks.
- An important part of the Campaign for Wool is the promotion of wool of all microns, including of a broader micron and crossbred wool. The campaign therefore continues to promote wool for the interior textiles sector – including bedding, carpets and furnishing – as well as the apparel sector.
- Wool Weeks formed a key part of the Campaign for Wool, helping to promote wool as a natural, renewable and biodegradable alternative to synthetic fibres and increase sales of wool product.
- **Australia** held its Wool Week in May 2016, scheduled to coincide with the start of the mid-winter retail season. There was a series of events, with some of Australia's biggest apparel retailers joining boutique shops, designers and woolgrowers in highlighting and celebrating Australian wool. Leading shopping centre Westfield joined the campaign as a major partner. Westfield Sydney, Miranda and Doncaster hosted in-centre activations promoting wool including pop-up shops and exhibitions from leading textile artists. Westfield Sydney also hosted a Designer Yarns series, with shoppers invited to intimate Q&A sessions with leading fashion designers from STRATEAS CARLUCCI, M.J. Bale, Bianca Spender and Ginger & Smart. Westfield Sydney, in partnership with The Powerhouse Museum, also showcased a preview of the 'Isabella Blow: A Fashionable Life' exhibition which opened during Wool Week and which ran until 28 August – showcasing her affinity to wool and commitment to nurturing emerging designers.

No matter where in Australia you were, Australians also had the chance to promote wool by taking a wool-themed photo and sharing it on Instagram and tagging #WoolWeek with the chance to win a \$1,000 voucher to be spent at a Campaign for Wool retail partner.

- Countries in key consumer markets across the northern hemisphere created their own program of activity for their international Wool Weeks during their autumn/winter retail seasons. Highlights included:
 - **United Kingdom** – The showcase event of Wool Week in the UK was sheep taking up residence on Savile Row in London, which was transformed into a green pasture, and models showcased the finest in men's tailoring. With more than 200 metres of the finest wool cloth, 80 metres of grass pasture, 60 sheep, 25 models, 25 bespoke menswear outfits, 25 tailoring houses, 28 weavers and merchants, two specially constructed wool sheds and a sheepdog – Wool Week UK was certainly launched in style. 26 other retailers and brands of central London also hosted Wool Night Out – a special shopping night showing the latest in wool fashion. A 'Wool This Way' map provided a consumer guide for the night event.
 - **Netherlands** – At the heart of the Netherlands' Wool Week celebrations was a glossy 76-page WOOL magazine, containing images of designs – many from Dutch brands with an international distribution – all crafted from wool. All products were available in stores as part of the brands' autumn/winter collections. 36,000 copies of the magazine were distributed to subscribers of *ELLE* and *Harper's BAZAAR* and were also available in participating stores during Wool Week. It is also available via AWI's website www.merino.com/cfw2015NL
 - **Italy** – From the latest in Merino wool fashion to a flock of sheep on Milan's high-end shopping hub Via Montenapoleone, Wool Week in Italy was a true showcase of all things wool. The proceedings were officially opened by campaign patron, HRH The Prince of Wales via a pre-recorded video message. Ten of the world's best emerging design talents sent a crew of models down a runway during the annual ON STAGE fashion show in Milan, showcasing their latest collections where Merino wool has played a pivotal role.



A selection of models wearing wool with sheep on Savile Row in London being photographed by the media.



Campaign for Wool marketing collateral in Japan featuring an Australian Merino sheep.

- **Japan** – Iconic department store Isetan Shinjuku played host to several exciting wool-themed activities, including the promotion of more than 20 fashion brands working with wool. Shoppers were treated to a virtual trip to Australia, thanks to virtual reality headsets, transporting visitors to a Tasmanian wool-growing property to discover more about Australian Merino wool. With Isetan Shinjuku also being a proud retail partner of the coveted International Woolmark Prize, it was only fitting that 2015 womenswear winner Marcia Patmos was in store to showcase her winning collection alongside 2015 International Woolmark Prize Asia finalist VMAJOR. Celebrated British menswear designer Jeremy Hackett also threw his support behind the Campaign, hosting a seminar for Isetan.
- **France** – This year's Wool Week France unleashed a multi-sensory feast for the eyes inside the iconic Palais de Tokyo in Paris as it opened its doors for a series of performances, workshops and displays promoting wool. Sports brand adidas had dancers high on energy as they exhibited wool as a high-performance and odour resistant fibre; Electrolux showcased that caring for wool is easy; tailors for Dormeuil displayed the superb drape, exquisite tailoring and natural breathability of Merino wool; and blanket manufacturer Brun de Vian-Tiran highlighted wool's benefits that enhance a good night's sleep.
- **China** – Major Chinese brands showcased their best wool fashion for the autumn retail season, with 13 brands proudly supporting the Campaign for Wool, including Croquis, Depot 3, Eachway, Icicle, JNBY, jnby by JNBY, Mark Fairwhale, Masfer.Su, Tina Gia, Upper, White Collar and Yousoku. Fashion-savvy shoppers could also enjoy pop-up stores, special events and product giveaways and were treated to a special wool event with celebrity stylist/model Li Ai. Adding a unique twist to the Campaign, Wool Week China collaborated with China's largest jazz festival, the JZ Festival. With world-class musicians and Grammy award winners including Joss Stone, Victor Wooten, Lu Guang Zhong and Shunza amongst the line-up, more than 40,000 people experienced China's best wool fashion as they listened to the sounds of the world's best jazz bands.



PROGRAM 4: PR AND INTERNATIONAL WOOLMARK PRIZE

INVESTMENT FOCUS

International Woolmark Prize (IWP)

- Up to twenty emerging designers are nominated from six regions each year to submit a collection of wool garments for judging by a panel of judges at a regional level. Regional winners then compete for the international prize and the winner's collection is made available for sale through leading global retail partners.
- An active, high-value alumni consisting of the combination of the world's leading designers and design influencers, with the contestants and winners of various levels of the competition, all centred around and brought together by wool.
- AWI funds are used to promote the IWP through partners such as Vogue and for administration of regional and international events, including prize money for finalists.

Other projects

- Public Relations (PR) activity around the fibre and its source through global and local PR support across retailers, designers and key partners.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|--|---|
| Engagement of markets growing from the current 21 to 30 by 2015/16, with the number of retailers carrying IWP garments expanding to 15 across key markets. | Achieved. The initiative expanded from 23 countries in 2015/16 to 62 countries for the 2016/17 competition currently under way. 10 retail partners, 15 trade partners, 28 nominating bodies and 8 sponsors were secured for 2016/17. |
| Media reach in the first four months of this campaign was 515 million; on a full year basis we expect this to exceed 600 million in 2013/14, 800 million in 2014/15 and 1 billion in 2015/16. The latter would have a media value in excess of \$40 million. | Partly achieved. Media reach statistics in 2015/16 reached 2.2 billion. The weak Australian dollar resulted in less than expected editorial value, however this was largely offset by a large increase in social media coverage. |
| An additional 700,000 wool garments sold each year. | Achieved. Based on an average garment weight of 650 grams and 75% wool content, the increase in wool was estimated at 340,000 kg a year. It is estimated that during the three-year strategic period, AWI investment of \$15 million delivered an impressive return of just under \$50 million in present value returns back to woolgrowers. |

KEY RESULTS DURING 2015/16

International Woolmark Prize

- To achieve its mission of increasing the global demand for Australian wool, it is vital for AWI to reinforce the presence of Australian Merino wool in the international fashion industry. In 2015/16, the International Woolmark Prize continued to be the 'jewel' in AWI's fashion promotion activities. It is designed to generate long-term incremental demand by connecting emerging designers, emerging markets and consumers. New demand comes from the creation of increased knowledge of and lifetime loyalty to wool amongst designers, along with the immediate presence of Woolmark-branded Merino wool collections in the top boutiques and retailers across the globe.
- The regional finals for 2015/16 International Woolmark Prize were held following a global search, reaching across 23 countries and involving 70 emerging designers (41 womenswear, 29 menswear) nominated by fashion industry figures in their respective regions. For the 2015/16 competition, the number of regional finals expanded from five to six, now including the British Isles as well as Asia; Australia; Europe; India, Pakistan & Middle East; and the USA. The 2016/17 competition - currently under way - further expanded the number of countries involved to 62.
- Following the expansion of the competition into menswear as well as womenswear in 2014/15, SUKETDHIR from India became the winner of the International Woolmark Prize menswear competition for 2015/16, presenting Merino wool



*Suket Dhir with AWI CEO Stuart McCullough after his eponymous label won the menswear edition of the International Woolmark Prize in January.
PHOTO: Studio Nonamephoto Firenze.*



A design of London-based label Teatum Jones that won the 2015/16 International Woolmark Prize womenswear final during New York fashion Week in February. PHOTO: Billy Farrell Agency.

tailoring with elements of the designer's national dress. The menswear final was held at the prestigious Pitti Uomo menswear trade show in Florence during January 2016. The menswear final achieved more than \$6.1 million PR coverage in one month. The winner has the opportunity to be stocked in the most important retailers around the globe. These include Isetan Mitsukoshi (Japan), David Jones (Australia), Saks Fifth Avenue (New York) and Boon The Shop (South Korea).

- British label Teatum Jones was chosen as the winner of the 2015/16 International Woolmark Prize for womenswear during a special event as part of New York Fashion Week in February 2016. Their Merino wool capsule collection featured geometric foil prints and hand embroideries on skirts and jackets. The womenswear final achieved more than \$4.9 million PR coverage in one month. The winner has the opportunity to be stocked in the most important retailers around the globe, including MyTheresa.com (online), David Jones (Australia), Harvey Nichols (UK), Boutique 1 (UAE), Isetan Mitsukoshi (Japan), Saks Fifth Avenue (USA), Verso (Belgium) and Boon the Shop (South Korea).
- At the trade level, the competition in 2015/16 attracted a high calibre of supporters from nominating bodies including the British Fashion Council and the Council of Fashion Designers of America, as well as retailers. The Trade Partnership Program, introduced in 2014/15, continued in 2015/16 to connect promising designers with the best spinners and weavers specialising in wool.
- At the jury level, there is the engagement with an alumnus of the world's leading influencers of fashion, such as International Editor of *Vogue*, Suzy Menkes; and founder, CEO and Editor-in-Chief of *Business of Fashion*, Imran Amed – who were

judges in 2015/16 – and who donate their time at no cost and all of whom not only have a shared and stated interest in the development of new talent and new markets, but also help attract enormous media attention worldwide to expose the innovative nature and versatility of Australian wool.

- The International Woolmark Prize imbues the participating designers with a long-term knowledge and love of wool that continues throughout their professional lives, as shown in some their latest collections on show at fashion weeks across the world. For example:
 - Since winning the 2013/14 final, designer Rahul Mishra has launched numerous collections showcasing Australian Merino wool, including in his latest collection, for fall/winter 2016/17, presented at Paris Fashion Week in January.
 - Melbourne label STRATEAS CARLUCCI, which won both the menswear and womenswear Australian regional finals for 2014/15, presented its fall/winter 2016/17 collection – featuring Woolmark-certified pieces – at Paris Fashion Week in January.
 - Wool was again on show in Dion Lee's fall/winter 2016/17 collection at New York Fashion Week in February. Dion won the Australian regional final of the International Woolmark Prize to represent the country in the 2012/13 final.

Other projects

- AWI engaged a professional media monitoring service so that the company could review and track that it was achieving the optimal level and targeting for its PR activities. Total editorial value for 2015/16 was \$37.5 million.



2014/15 womenswear winner Marcia Patmos (second from right) from the USA with three farming generations at 'Ahgunyah' in NSW during a visit to Australia to launch her winning collection at David Jones.



STRATEGY 9: PRODUCT PROMOTION

STRATEGY 9 RESOURCES DURING 2015/16

\$8,889,000 project expenditure + 24 AWI staff (full time equivalent)

INVESTMENT FOCUS

- Continue to create new demand for wool through a comprehensive range of global and local collaborative promotions with targeted designers, brands, retailers and media that target high income consumers of luxury goods and premium apparel and seek to educate them and motivate them to purchase.
- Simplify Woolmark branding and usage, and focus AWI investment with partners who will either build or leverage the value of the Woolmark brand.
- Key markets are: USA, Japan, Greater China, United Kingdom, Italy, France, Germany, Australia and Korea.
- Projects will be reviewed and approved based on their ability to position the fibre, build partnerships with brands, retailers and media, and generate incremental sales opportunities.

Note: In the second half of 2014/15, AWI made the decision to move away from asset specific programs (Sports & Outdoor, Nurture by Nature, Urban, No Finer Feeling, Woolmark Gold and Cool Wool) to investments driven more by the demand for marketing assets by AWI's individual marketing partners. The aim of the collaborations between AWI and its individual marketing partners was to increase the demand for Australian wool. Consequently, for 2015/16, Strategy 9 (Product Promotion) was expanded to include investment that would have otherwise been made in Strategy 7 (Category Management). Targets under the previous programs were aggregated.

STRATEGIC TARGETS

| Targets for 2015/16 | Progress during 2015/16 |
|--|---|
| Maintain global media reach of 750,000+ people per annum. | Achieved. Global media reach in 2015/16 far surpassed target. |
| Expand number of partners to a consistent 50 partners in the premium/luxury space per annum. | Achieved. 75 partners achieved. |
| Increase wool sales across campaign partners by 1 million kg per annum with estimated additional sales across non-partners of 15%. | Achieved. New demand estimated at 1.7 million kg. |
| Continue development and roll-out of demand-growth programs in China reaching a minimum of 500 million people per annum. | Achieved. According to the monitoring data, the total reach was more than 560 million by the end of June 2016. |
| Increase preference for wool as a luxury product across consumers by 1% per annum (as measured by Nielsen research). | Achieved. Nielson research shows an increase by 1% of surveyed consumers willing to pay either whatever it costs for 100% wool or if it costs more than any other fabric. |
| Increase annual Cool Wool ticket and label sales by 5% per year. This is equivalent to an increase of 750,000kg a year by 2016. | Partly achieved. The volume of Cool Wool ticket and label sales in 2015/16 was approximately 250,000 which demonstrates a reasonable level of interest from retail partners globally to label their products Woolmark/Woolmark Blend Cool Wool. The volume target has only been partially achieved – at 530,000kg. |

KEY RESULTS DURING 2015/16

- The **No Finer Feeling** fibre advocacy program continued to be available, as a marketing platform, to AWI's marketing partners to help them position their Merino wool apparel as products of choice for fine, contemporary fashion. Since its inception, the program has involved AWI strengthening its partnerships with well-known designers and fashion houses to promote wool across the world. The program has had well above the target of 42 that AWI set out to achieve in its 2013/14–2015/16 Strategic Plan.
- Leading marketer of ultrafine wool products **Scabal** collaborated with AWI to release a new collection of 'Noble Fleece' fabrics produced by ultrafine woolgrowers. Prestigious menswear publication *The Rake* with AWI support produced an associated two-part feature, plus two short films, highlighting the fibre to fashion journey and re-establishing the emotional connection between the exquisite fabrics and their origins.
- Italian weaver **Reda** marked its 150th anniversary by showcasing the luxurious attributes of superfine Merino wool and the company's close working relationship with Australian woolgrowers. An exclusive exhibition, produced by Reda in collaboration with AWI, showcased the fabric maker's rich history with artful images of Reda's wool supply chain – from farm to fabric – shot by five influential Magnum Photos Agency photographers.
- AWI supported a ground-breaking exhibition in Florence that showcased **Nino Cerruti** and Merino wool to international press and fashion influencers. As a major partner, AWI played a key role in the exhibition, which launched during the influential men's tradeshow Pitti Uomo. The beauty and the quality of Merino wool was well-expressed throughout the exhibition.



Scabal collaborated with AWI to release an innovative collection of ultrafine Noble Fleece fabrics, produced by the newly formed Scabal Noble Wool Club.

- With AWI support, UK menswear designer **Lou Dalton** worked closely with leading Italian mill **Lanificio Fratelli Cerruti** to include Merino wool wovenwear in her collections on the runways of London for both her spring/summer and autumn/winter collections.
- The benefits of Australian Merino wool and the role of the fibre in the history of leading Italian knitting brand **Missoni** were showcased at a grand exhibition 'Missoni, Art, Colour' held in Italy and the UK. AWI supported the Missoni initiative to stimulate the market to sell more Merino wool, thereby benefiting Australian woolgrowers.
- The 'Inside Out' event in June 2015, at which AWI joined forces with the bespoke tailors of **Savile Row** to highlight the importance of Merino wool in men's suiting, also marked the launch of The Ambassadors Project. Together with *British GQ* and London Collections Men fashion week, the project saw each Savile Row Bespoke house team up with and style an appointed ambassador; the behind the scenes process of kitting out the ambassadors was traced through social media in the lead up to London Collections Men in January 2016.
- Collaborating with Italian weaver **Berto** and Dutch suit manufacturer **The Makers**, AWI presented an update to traditional tailoring at the world's leading denim show Amsterdam Denim Days. The 65 per cent Merino wool and 35 per cent cotton fabric was manufactured into three Wool Denim suits, introducing traditional tailoring to a contemporary customer.
- **OSMAN**, the eponymous label from leading fashion designer Osman Yousefzada, launched a collection of key-piece trousers for **Harvey Nichols** in collaboration with AWI. Called The Perfect Five, the collection celebrates the timeless style of five iconic women and highlights wool as the ultimate below-the-waist fibre.
- **Woolrich John Rich & Bros** launched two new versions of its famous Arctic Parka - the Polar Parka and the Mackinaw Parka - both made with Loro Piana's 100 per cent Merino wool Storm System® fabric. With support from AWI, the company undertook an advertising campaign across Europe, promoting the Merino outerwear in magazines in Italy, Switzerland, Germany, France, the UK and the Netherlands.
- AWI was a proud supporter of the annual **Istanbul Fashion Conference** organised by the Turkish Clothing Manufacturers Association (TGSD) which was held in conjunction with the International Apparel Federation's World Fashion Convention. AWI secured British fashion designer Gordon Richardson, the Creative Director of **TOPMAN**, as a keynote speaker for the event.
- AWI partnered with Loro Piana in the annual **Loro Piana Record Bale competition**, as a way to celebrate the commitment of Australian woolgrowers to achieving an extremely high standard of fineness and quality for their Merino wool. The world record for the finest bale of wool was broken by Australian woolgrowers Pamela and Robert Sandlant of 'Pyrenees Park' in Victoria who produced a bale of Merino wool of 10.3 microns.
- For its spring/summer 2015/16 collection, **M.J. Bale** partnered with AWI to promote lightweight Cool Wool suiting fabrics specially woven by a prestigious group of weavers that included Italy's Vitale Barberis Canonico. More than 150,000 wool products were promoted during this period.
- Well-known American fashion designer **Thom Browne** - best known for his cropped take on the classic men's suit - unveiled his spring/summer 2016 collection featuring a number of Cool Wool-certified garments, becoming the first American designer to do so. Browne and AWI have signed a two-season partnership, with the New York-based designer who is a long-time champion of Australian Merino wool.
- With the support of AWI, a group of six well-known **Indian and Pakistani fashion designers** joined forces to champion the lightweight properties of wool united at a special event in Mumbai to each present a Cool Wool collection that highlighted the versatility of the trans-seasonal fibre, whilst staying true to each designer's personal aesthetics.



Stephanie Field modelling an Australian wool garment on her family's property in NSW, as part of Jeanswest's new 'Australian Wool Collection' that contained Woolmark-certified knitwear. Jeanswest is an example of a fashion brand using the provenance of Australian wool to help market its collection to consumers.

- AWI collaborated with **Influential men's fashion magazine GQ** in three key consumer markets for Australian wool – the UK, China and India – to help promote the latest premium Merino wool apparel from some of the world's leading menswear brands.
 - **Britain:** In an interesting transatlantic twist, the six-page Wool Britannia feature showcases some of the best wool fashion available from major US brands: Tom Ford, Tommy Hilfiger, Thom Browne, J Crew, Brooks Brothers and Ralph Lauren. *British GQ* has a readership of nearly 400,000 with the digital version having more than 9 million monthly page views.
 - **China:** AWI was one of the proud sponsors of this year's GQ China Men of the Year Awards – including a showcase of Cool Wool garments, imagery and video – and which followed three months of advertorial in *GQ China* featuring models and celebrities. *GQ China* has a readership of nearly 800,000 with the digital version having more than 187 million monthly page views.
 - **India:** *GQ India* included a 6-page Q&A feature with leading Indian designers Rajesh Pratap Singh and Suket Dhir, each one explaining their personal journey with Merino wool and passion for the fibre. AWI also supported the GQ India Men of the Year event. *GQ India* has a readership of nearly 200,000 with the digital version having more than 4.5 million monthly page views.
- AWI's **Woolmark Gold** marketing platform continued to position Australian Merino wool as the prestigious fibre of choice in the rapidly growing Chinese domestic market for luxury goods. The premium Woolmark Gold brand represents recognition of outstanding achievement in the weaving and knitting of Australia's finest micron wools. AWI has expanded its Woolmark Gold yarn and fabric partners.
- AWI showcased the latest in luxury menswear tailoring at **Shanghai Fashion Week** in April 2016, collaborating with four Chinese menswear brands – TRANDS, Kevin Kelly, ICICLE and Beautyberry – all of which featured Woolmark Gold premium fabrics in their latest 2016 autumn/winter collections.
- Since the establishment of a marketing partnership in 2012 between AWI and **GS Home Shopping** – Korea's most popular online shopping destination – demand for the Korean company's Merino wool products has increased by 25 to 30 per cent each year. In 2015 the retail giant sold more than 240,000 Woolmark and Woolmark Blend certified apparel items.
- AWI held retail seminars – titled 'Shawl Style' – in the industry hub of Punjab in India to help connect its partners across manufacturing, merchandising and fashion – with the aim to increase the use of Australian Merino wool in the **shawl** industry, both domestically and internationally where they are well regarded as a sophisticated and comfortable style accessory.
- The world's largest trade show for **interior textiles**, Heimtextil, continues to grow, with reports from the 2016 show there is increasing momentum in demand for wool in this sector – which is good news for woolgrowers whose clip is broader micron and crossbred wool. Bringing together Woolmark licensees Jaspa Herington, Baur Vliesstoffe, Bönning + Sommer and DBCwool, the Wool Arena was co-hosted by AWI and the IWTO and showcased the latest innovations in wool bedding, carpets and furnishings.
- Working with AWI, **Jeanswest** launched a new Woolmark-certified 'Australian Wool Collection' comprising women's and men's knitwear – and the fashion brand is highlighted the source of the fibre, Australian wool-growing properties, as the backdrop to its marketing campaign, in-store and online. AWI also collaborated with Jeanswest to offer wool training programs to Jeanswest team members that was passed on and reflected in their marketing to consumers.
- AWI's activities at the **Sydney Royal Easter Show** provided the opportunity for AWI to educate Sydney's city folk on the importance of Australia's wool industry and to help bridge the gap from sheep to shop. Education was a key focus at AWI's exhibits – including the ever-popular shearing demonstrations – with staff providing information on the wool supply chain and AWI's many marketing initiatives such as the Wool4School fashion design initiative.
- Working alongside AWI, acclaimed fashion designer **Jenny Kee** released a new collection of jumpers, cardigans, scarves and beanies, made from 100 per cent Australian Merino wool, which references seminal works from her vintage knitwear, including the new Blinky Knit which is a modern adaption of the original koala knit famously worn by Princess Diana in 1982.
- Through AWI's **Fibre of Football** campaign, woolgrowers, shearers, agents and studmasters have continued to be joined by top AFL players to celebrate the rich heritage connecting the Australian wool industry and Australian Football. The sales of more than 140 different lines of wool supporter gear available through AFL and club shops outstripped all expectations with many clubs having to re-order stock.
- While AWI's Fibre of Football campaign has been dedicated to Australian football and the AFL, supporters in the rival code of **rugby league and the NRL** also had the chance to buy some wool supporter gear of their own. Simple yet stylish, the Supporter Knit by ClubKnit was available for all 16 NRL clubs, as well as the 18 AFL clubs, in men's and ladies' styles.



Geelong star Tom Hawkins was in Hamilton last year to officially open Sheepvention and be an advocate for AWI's Fibre of Football campaign. Tom – seen here wearing a Rodd & Gunn wool jumper – is one of a growing list of AFL stars keen to remind people of the importance of wool-growing to Australia.



AWI has continued this year to work with adidas, one of the world's leading sports brands. Pictured is Lindsey Calla of the 'Calla in Motion' blog wearing an adidas Merino wool t-shirt in the Californian desert. PHOTO: Marianna Massey.

Sports & Outdoor

- AWI continued to promote wool's presence in the sports and outdoor market, collaborating with leading apparel manufacturers and brands. At recent **sports and outdoor trade shows** attended by AWI, including ISPO in Munich and Outdoor Retailer in Salt Lake City, the number of products incorporating Merino wool across a variety of sports of varying intensity levels continued to increase.
 - A majority of the world's leading outdoor brands now incorporate Merino wool innovations in their collections - and brands' designers and developers have continually **sought AWI's advice and assistance** in incorporating or extending their product ranges with Merino wool. Educational and training sessions were held by AWI with multiple brands and retailers in Europe and the US.
 - **Technological innovations** and Australian Merino wool's natural performance benefits are helping cement the fibre's presence in the markets for base-layer, mid-layer and outer-layer apparel. As well as continuing to promote the uptake of Merino wool for next-to-skin apparel, AWI has also placed a large focus on wool outerwear:
 - The innovative **MerinoPerform™ WP** woven fabric is generating large interest - this 100 per cent Australian Merino wool fabric is a unique, high-performance machine-washable fabric resistant to wind and rain.
 - **Wool wadding** is also gaining momentum and is being introduced by new brands each season.
 - Merino wool's ability to combine comfort and flexibility with casual elegance is also making it well placed to cater to the growing market for **athleisure** - a term used for activewear that can be used for non-active and casual, everyday use - with a modern, comfy and stylish look.
- In response to industry demand and to complement the success of The Wool Lab - AWI's seasonal sourcing guide to the world's best commercially available wool fabrics and yarns - AWI unveiled a new guide completely dedicated to sport, emphasising wool's unique technical performance benefits for this market. **The Wool Lab Sport** helps designers source performance fabrics and yarns from the top manufacturers across the world. It has been very well received by sports brands and retailers as well as fabric manufacturers, with lots of new connections and sourcing supply chains developed.
 - AWI has continued to work with **adidas**, one of the world's leading sports brands, which prides itself on technical innovation. adidas continues to promote its range of innovative knitted seamless wool-blend T-shirts, but wool is not just an apparel story for adidas: the company has launched a wool version of its widely heralded Ultra Boost running shoe, with a fully knit and engineered upper, which adidas said delivered your 'greatest run ever' and magazine after magazine agreed.
 - A collaboration between AWI and iconic Italian brand '**Australian**' - the oldest sports brand in the Italian market - went public during the Italian Open tennis tournament in Rome during May with the launch of the world's first pure Merino wool tennis collection. It comprises polo shirts, T-shirts and shorts.
 - Leading German mountaineering/ski brand **Ortovox** displayed a comprehensive wool education section at the ISPO trade show, showcasing the wool fibre's journey from Australia to retail in Europe and the US. This follows the company's visit to Australia last year, when Ortovox brought all its wool suppliers to help facilitate sourcing of 100% Australian Merino wool.
 - The famous **Schuster** sports brand and store in Munich, Germany, held a four-week consumer campaign promoting wool in outdoorwear. The campaign included educational displays, window and in-store exhibits, and point of sale material. There was a significant increase in turnover during the campaign period.
 - UK sportswear brand **Ashmei** launched a range of Merino wool cycling apparel to complement its successful Merino wool running apparel range.



There is a growing 'athleisure' market. Pictured is an image from the HBFIT blog (www.hbfit.com) post: 'Everyday luxury with Merino wool activewear'.

GLOBAL BUSINESS SERVICES

OBJECTIVE

To enable AWI to operate cost-effectively through the efficient provision of a range of cross-company support services. In addition, provide commercially oriented services to the supply chain to support AWI's strategic vision.

OUTCOMES

In keeping with AWI's mission, objectives, and statutory obligations, internal and external stakeholders will be provided with a range of efficiently delivered support services, relevant to business needs. These services will be delivered across AWI and along the wool pipeline in commercially oriented forms, including in the areas of business intelligence, performance monitoring and evaluation, market access, trade education, intellectual property management, and support for the global Woolmark network.

INVESTMENT PHILOSOPHY

AWI will pursue cost-effective provision of internal services benchmarking investment against commercial providers. We have a nil tolerance for compliance breaches across all jurisdictions in which we operate. Investment will also be made to continually improve our engagement with stakeholders and industry.

| | | |
|--|---|--|
| <p>STRATEGY 10 Business Intelligence & Measurement</p> |  | <p>PROGRAMS</p> <ol style="list-style-type: none"> 1 Business Intelligence & Measurement 2 Monitoring & Evaluation |
| <p>STRATEGY 11 Corporate Affairs & Market Access</p> |  | <p>PROGRAMS</p> <ol style="list-style-type: none"> 1 Corporate Affairs 2 Industry Engagement 3 Market Access & International Trade Policy |
| <p>STRATEGY 12 Trade Education</p> |  | <p>PROGRAMS</p> <ol style="list-style-type: none"> 1 Supply Chain Education 2 Retail & Consumer Education 3 Trade Shows |
| <p>STRATEGY 13 Woolmark</p> |  | <p>PROGRAMS</p> <ol style="list-style-type: none"> 1 Woolmark Licensing Program and Endorsement 2 Quality Control |
| <p>STRATEGY 14 Corporate Services</p> |  | <p>PROGRAMS</p> <ol style="list-style-type: none"> 1 Finance & IT 2 Human Resources 3 Legal Services |

Note: The number of AWI staff (full time equivalent) working on each of the AWI strategies is listed at the start of each strategy in this Annual Report. In addition to those numbers, there are 11 AWI staff (full time equivalent) that work across the whole company and are therefore additional to the total of those numbers.



STRATEGY 10: BUSINESS INTELLIGENCE & MEASUREMENT

STRATEGY 10 RESOURCES DURING 2015/16

\$970,000 project expenditure + 1 AWI staff (full time equivalent)

INVESTMENT FOCUS

- Maintenance and improvement of Australia's capacity to predict wool production volumes and value.
- Maintaining a retail and trade intelligence database, and disseminating this in a timely fashion to AWI partners and other stakeholders.
- Tracking consumer attitudes, awareness, and barriers to consumption in key wool retail markets.
- The 2010-13 Strategic Plan placed significant emphasis on Business Intelligence. Reflecting the rapidly changing consumer market environment, and rapid evolution of regional wool textile activity, the current Strategic Plan will increase emphasis in this area.
- Overall, our intent is to comfortably exceed AWI's statutory obligations for measurement and evaluation, ensuring that measurement and evaluation processes are effectively integrated in all areas of AWI's planning and operations.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|--|--|
| Business intelligence: Accurate forecasting of Australian wool production. | Achieved. Three Australian Wool Production Forecasting Committee reports were released – in August 2015, December 2015 and April 2016. AWI and MLA's joint 'Wool and Sheepmeat' surveys of producers were conducted in October 2015, February 2016 and June 2016. |
| Business intelligence: Generate and disseminate analysis of global retail and trade market data. | Achieved. AWI's monthly Market Intelligence Reports were provided as part of AWI's monthly e-newsletter for Australian woolgrowers and on the Wool.com and Woolmark.com websites. AWI's Weekly Price Reports were provided each Friday via email and were available on the Wool.com and Woolmark.com websites. Market intelligence data was also disseminated at various woolgrower and trade events throughout the year. Trade data and market intelligence reports were provided on demand to trade participants, educational institutions, manufacturers and retailers. Ongoing market intelligence wool pricing updates and special interest reports were provided quarterly in <i>Beyond the Bale</i> . There was also physical presentation of market intelligence reporting at trade conferences, seminars, field days and congresses. |
| Business intelligence: Monitor consumer attitudes and awareness. | Achieved. AWI continued to collect consumer insight and trend monitor information from a range of sources – these have been provided to key staff in the AWI Marketing and Global Business Development areas. Consumer tracking surveys continued to be undertaken to assess consumer attitudes and awareness to wool and Merino products, barriers to increased consumption, target consumer segments, and consumer information-sourcing behaviours. |
| Monitoring & Evaluation: Implement evaluation plans for all AWI program investment areas. | Achieved. Evaluation approaches successfully developed for all investment areas and performance reporting to the AWI Board on a quarterly basis. |
| Monitoring & Evaluation: Comprehensive reporting of investment performance. | Achieved. 28 program evaluations completed as well as an assessment of returns to Australian woolgrowers on total investment over 2013-2016. |
| Monitoring & Evaluation: Routine evaluation of all investment proposals. | Partly Achieved. Internal processes adhered to for evaluation of only on-farm investment proposals received. |



STRATEGY 11: CORPORATE AFFAIRS & MARKET ACCESS

STRATEGY 11 RESOURCES DURING 2015/16

\$1,286,000 project expenditure + 1 AWI staff (full time equivalent)

INVESTMENT FOCUS

- To ensure statutory compliance by nurturing productive relationships with government stakeholders.
- To manage sensitive issues in order to protect the industry from external threats.
- To enhance productive relationships with grower representative groups, promote two-way exchange of information and incorporate industry views in AWI's strategic framework.
- To build awareness of AWI's business and activities, providing an understanding of what, how, and why AWI does what it does.
- To create, enhance and protect the wool industry's trade and market access opportunities.
- To reduce obstacles to market access and commercial trade by working with government and key domestic and international stakeholders.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|---|
| Corporate Affairs: Ensure compliance with regulatory requirements. | Achieved. All regulatory reporting requirements completed. |
| Corporate Affairs: Voter participation rate increased, and budget at least maintained for next WoolPoll. | Achieved. Voter participation in WoolPoll 2015 returned to long-term trend. The budget was reduced from 2012. |
| Corporate Affairs: Independent Review of Performance (ROP) appropriately reflects AWI business environment and improvement since previous ROP. | Achieved. The ROP shows ongoing improvement in AWI's performance and delivery of benefits to woolgrowers including \$2.90 for every dollar AWI invests in R&D. |
| Industry Engagement: Facilitate improved two-way dialogue and understanding with State Farming Organisations (SFOs) and grower representative groups. | Achieved. Regular communication was undertaken with industry representative bodies and woolgrower groups. AWI's Woolgrower Industry Consultative Committee meetings were held in October 2015, March 2016 and June 2016. |
| Industry Engagement: Measured positive change in industry and stakeholder awareness of AWI's activities and outcomes (evidenced through bi-annual stakeholder survey). | Achieved. The most recent stakeholder survey shows increased satisfaction with AWI's performance amongst woolgrowers. |
| Market Access: Develop and implement an integrated market access and trade strategy that underpins, complements and builds on investments in marketing and product development. | Achieved. Market access activities worked closely with AWI activities in emerging markets to ensure an integrated approach to support the international competitiveness for wool. |



STRATEGY 12: TRADE EDUCATION

Note: Aspects of this program were undertaken in conjunction with Strategy 8's Trade Engagement and Marketing Services program; refer page 33.

STRATEGY 12 RESOURCES DURING 2015/16

\$3,901,000 project expenditure + 29 AWI staff (full time equivalent)

INVESTMENT FOCUS

- Educational Resource Development. This will involve the updating and consolidating AWI trade manuals, including development of an online format for the manual and technical notes. Secondary school and tertiary education materials will also be updated and transferred to a digital format. AWI will continue to support retail and brand partners with relevant training materials and point of sale fact sheets and videos.
- Material Delivery. AWI will continue to provide training to trade participants, through individual mill visits and regular presentations, workshops and seminars.
- Trade Shows. AWI will continue to exhibit at the most influential trade shows that will support investment across our Off-Farm and Marketing areas. AWI's presence at trade shows provides an important source of leads for continual business development as well as the opportunity to support our trade partners.
- We will use these trade shows to affirm The Woolmark Company's role as a leading authority in the fashion and textile industry, through media coverage and B2B partner feedback (including post-trade show follow up).
- Delivery of The Wool Lab, by face-to-face and digital media.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|--|---|
| Operate under a fixed annual budget, maximise access to educational material across three levels of relevance (consumer, trade and manufacturing). | Achieved. |
| Operating under a fixed annual budget maximise trade participants attaining certification. | Achieved. |
| Operating under a fixed annual budget, maximise trade visitors and leads from trade show exhibitions. | Achieved. |
| Complete 350 presentations of The Wool Lab to pipeline businesses each year, achieving a minimum annual editorial value of €200,000 and a base revenue increase from €300,000 to €450,000 by 2016. | Achieved. More than 630 presentations to pipeline businesses (designers, manufacturers, etc) and more than 17,000 swatches requests were generated (for potential business) this year. Annual editorial value is worth more than €600,000. |



STRATEGY 13: WOOLMARK

STRATEGY 13 RESOURCES DURING 2015/16

\$790,000 project expenditure + 11 AWI staff (full time equivalent)

INVESTMENT FOCUS

- Demonstrate through market research an increase in consumer understanding of the Woolmark brand as a wool content and quality symbol for textile products over the 3 year period.
- Improved Key Account Management processes, with partners having a clear service offer and improved satisfaction in their relationship with The Woolmark Company.
- A robust, skilled international network that successfully executes global and local marketing campaigns and product development initiatives.
- Authorisation of a network of independent, high-quality and reliable laboratories used for Woolmark testing globally.
- Respond appropriately to changing commercial drivers to ensure the ongoing relevance and applicability of Woolmark Specifications and Test Methods. This includes the development of new Specifications and Test Methods to support opportunities for new Woolmark product certification.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|--|--|
| During 2013 stabilise our licence numbers globally relative to 2012 levels. The international network will then grow licence numbers by 2% year on year. | Minor Slippage. Consolidation of the global wool textile industry has resulted in slight declines overall. |
| Increase the use of Woolmark, Woolmark Blend and Wool Blend tickets on end products by 5% year on year. | Achieved. Growth in ticket and label volumes has been reported through TWC's preferred supplier. |
| The Woolmark Company is positioned as the authority on wool and the leader in Merino wool innovation. | Achieved. Anecdotal feedback from trade partners supports this. |
| Maintain licensee revenue in real terms. | Minor slippage. Income in US\$ declined. Declines in recent years have reduced against long term trends. |
| Consistent application of the three-stage quality control program (Acceptance testing, Quality Assurance testing and Retail sampling), demonstrated by the objective data obtained from AWI's authorised laboratories. | Achieved. AWI has continued to focus on robust and consistent application of the testing and QC procedures globally. |
| Measurable improvement in the perception of the Woolmark as a quality symbol. | Achieved. Global consumer survey data shows an improvement in the perception of the Woolmark symbol as a mark of quality in 2015. |



STRATEGY 14: CORPORATE SERVICES

STRATEGY 14 RESOURCES DURING 2015/16

\$1,293,000 project expenditure + 21.3 AWI staff (full time equivalent)

INVESTMENT FOCUS

- **Stakeholder Engagement:** This includes regional engagement events with woolgrowers, the AWI Helpline, *Beyond the Bale* magazine for stakeholders, and supply chain support in Australia.
- **Finance:** This strategic period will focus on consolidation and continual enhancements to the progress we made in providing a reliable and flexible business system that meets the requirements of the company in Australia and internationally.
- **Information Technology:** In this dynamic time, the role of IT is shifting and the desired outcomes are to balance the absolute need for stability and security with a more flexible 'ecosystem' that accounts for increased workforce mobility.
- **Human Resources:** Our goal is to have inclusive leaders who foster a culture of employee engagement and commitment by developing our current employees, recruiting strategically and providing a safe workplace. We achieve this by fostering a performance-based culture and delivering consistent HR advice, support and coaching to both managers and team members.
- **Legal Services:** AWI employs four lawyers across different parts of the organisation. Legal services are an integral support service for the businesses. The aim for this support service is to deliver high-quality and timely legal advice to business units at all times.

STRATEGIC TARGETS

| Targets for three-year period 2013/14 to 2015/16 | Progress during 2015/16 |
|---|--|
| Stakeholder Engagement: Undertake regional engagement events with woolgrowers and AWI shareholders. | Achieved. AWI has attended events across Australia to consult with and inform woolgrowers about AWI activities and to promote wool. |
| Stakeholder Engagement: Undertake grower and industry consultation on specific industry challenges and opportunities. | Achieved. Forums held on topics including wool selling systems review, brokering and exporting, and animal health and welfare. |
| Stakeholder Engagement: Undertake liaison between AWI and the supply chain to assist the wool trade promote their business. | Achieved. Facilitation undertaken including organising visits by the overseas wool trade partners to Australian farms and providing sourcing information. |
| Finance: Ensure forward Contracts Reserve is sufficient to cover global contractual commitments on an annual basis. | Achieved. |
| Finance: Operating Reserves should be set each year end as the equivalent of 75% of operating cost for the next financial year. | Achieved. |
| Finance: Maintain emergency Reserve of \$5 million to cover our obligations under the EADRA. | Achieved. |
| IT: High availability of systems with no planned outages – at 99% stability. | Achieved. |
| IT: Internal support task respond within defined internal service levels. | Achieved. |
| HR: Employee engagement activities undertaken, actions developed to target opportunities for improvement. | Achieved. |
| HR: Action learning leadership program successfully completed by potential future leaders. | Achieved. Action Learning Program undertaken in Turkey which has resulted in a number of positive changes to how AWI manages this region. |
| HR: Paper based processes replaced by on-line electronic processes. | Achieved. AWI constantly looks at ways to improve current processes. |
| HR: Compliance with employment laws and statutory requirements in each jurisdiction. | Achieved. AWI constantly ensures it keeps updated with changing requirements in each jurisdiction. |
| Legal: Manage the Board's adherence to the Board and committee charters, the constitution, the Statutory Funding Agreement and other guiding documents. | Achieved. Adherence to all corporate governance commitments has been attained. |
| Legal: Continue to ensure AWI's commercial needs are reflected in its contracts, using wherever possible, a range of standard contract templates. | Achieved. Legal Services team provided advice and support in relation to all legal matters and ensured that its contracts were up-to-date and accurate. |
| Legal: Manage AWI's IP portfolio to ensure that AWI's IP assets are protected and commercialised in accordance with the IP policy. | Achieved. Legal Services team provided sound commercial and legal advice in relation to all matters relating to IP. |

GOOD BUSINESS

CORPORATE GOVERNANCE FRAMEWORK

Governance principles

The Board is committed to governance systems that enhance performance and ensure AWI operates legally and responsibly on all matters and maintains the highest ethical standards.

The key Board functions and responsibilities, as set out in the Board Charter, include:

- Oversight of the Company, including its control and accountability systems
- Appointing and removing the CEO (or equivalent), including determining the remuneration for the position
- Providing input into, and final approval of, management's development of corporate strategy, programs, policies and performance objectives
- Oversight of the implementation and performance of research and development and marketing programs and projects aimed at enhancing the long-term profitability of Australian woolgrowers
- Ensuring the Company has an appropriate corporate governance framework, that the Company operates in accordance with that framework, that it acts legally and responsibly on all matters and maintains the highest ethical standards
- Evaluating implementation of strategy, and programs to assess its effectiveness and continuing suitability
- Monitoring and evaluating financial and other reports to understand the health of the Company and identify the need for any follow up actions
- Approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures
- Reviewing and ratifying systems for risk management, internal compliance and control, codes of conduct and legal compliance
- Ensuring that the Company complies with all requirements under the Statutory Funding Agreement with the Commonwealth of Australia
- Appointing and, where appropriate, removing the Company Secretary
- Approving the appointment, terms and conditions and, where appropriate, removal of senior executives reporting to the CEO
- Ensuring appropriate resources are available to senior executives for achievement of the strategic and operational objectives
- Monitoring senior executives' performance and their implementation of strategy
- Providing transparent, balanced and accurate reporting of the Company's activities to shareholders
- Regularly evaluating its performance, including that of individual directors, to ensure it is functioning effectively and efficiently. The performance of the Board as a whole and its sub-committees will be reviewed annually and the performance of individual directors will be reviewed:
 - (a) annually by the Chairperson who will provide feedback on an individual basis; and
 - (b) biennially by self and peer evaluation.

Corporate governance documents

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

- AWI Constitution
- Statutory Funding Agreement
- Board Charter
- Charter of the Committees of the Board
- Board Nomination Committee Charter
- Code of Conduct and Business Ethics
- Corporate Governance Policy
- Communications Strategy
- Rules and Procedures Governing the Election of Directors

AWI continues to review and develop these documents on a regular basis to ensure they remain relevant to the Company and encapsulate the high standards the Board and management are committed to achieving.

Code of Conduct and Business Ethics

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

The Board acknowledges that transactions connected, directly or indirectly, to 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 Business Ethics 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 arm's 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.

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 Commonwealth Government requires AWI to have a Risk Management Plan and a Fraud Control Plan under the Statutory Funding Agreement.

Most 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.

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 Business Ethics, and restitution for any money or property lost through fraudulent activity will be pursued.

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.

WOOL SELLING SYSTEMS REVIEW

The independent panel commissioned by AWI on behalf of Australian woolgrowers to examine the wool selling system issued in February 2016 its final report which included a number of substantial findings and recommendations.

This very significant Wool Selling Systems Review (WSSR) was conducted at arms-length to AWI. It involved almost 100 submissions and many more issues raised from a wide variety of viewpoints and much discussion and debate. This review explores some great opportunities to reduce the cost of selling wool for woolgrowers, reduce the barriers for those wanting to buy wool and help bring the wool industry into the digital age.

The final report of the WSSR panel and further information about the review is available on the AWI website at www.wool.com/wssr.

INDEPENDENT REVIEW OF AWI PERFORMANCE

AWI is required to have an Independent Review of Performance (ROP) conducted every three years, to assist woolgrowers determine the value for money they receive and benefits delivered. This Review is completed before WoolPoll to give woolgrowers an independent report card of how AWI has performed and what benefits AWI has delivered for them.

Deloitte Private undertook the ROP for the three years from July 2012 to June 2015 and delivered a report in August 2015 that shows that AWI's actions and investments over those three years contributed to increasing market demand and created savings through on-farm and off-farm productivity.

One of the main findings of the 2012-2015 report conducted by Deloitte Private is that, on average, every dollar invested by AWI generates a \$2.90 return for growers.

The report stated that AWI has achieved a number of achievements across engagement and collaboration, governance, operations and statutory compliance.

AWI REVIEW OF PERFORMANCE JULY 2012 TO JUNE 2015

KEY FINDINGS

Engagement and collaboration

- AWI has effectively implemented and evolved arrangements for engagement, consultation, and communication with, and feedback to, woolgrowers and other stakeholders. This includes providing opportunities for levy payers to influence the investment of levies
- AWI's M&E Framework underpins the Annual Planning and Consultation Cycle, and AWI ensures that the Strategic Plan and subsequent annual operating plans are developed to reflect the needs and expectations of the stakeholders and broader industry.

Governance

- AWI continue to improve the governance, structure and operations of the organisation to ensure good practice and appropriate mechanisms of corporate governance.

Operations

- AWI has soundly developed and implemented its Strategic and Annual Operational plans, and been effective as an organisation in meeting the priorities, targets and budgets as set out in these plans.
- AWI have achieved benefits for woolgrowers, the community and broader industry by increasing farm gate returns.

Statutory compliance

- AWI has met its obligations under the Statutory Funding Agreement 2013-16 (SFA) with the Commonwealth.
- AWI has demonstrated an increased effectiveness of their intellectual property, risk management and fraud control plans, which are monitored by the Finance and Audit Committee (FAC).
- AWI has addressed all and implemented the adopted three of the four recommendations from previous Review.

Source: Deloitte Private, 'AWI Independent Review of Performance 2015', August 2015

The ROP concluded that organisational improvements, including engagement and collaboration, governance and operations, strategy and structure had created value for woolgrowers in several ways:

- Increased market demand through AWI's marketing and promotion activities
- Higher wool prices, in part attributed to AWI's marketing and promotion activities
- Improved on-farm and off-farm productivity through AWI's R&D activities
- Cost savings as a result of AWI's on-farm and off-farm R&D activities.

Woolgrowers were sent a summary of this ROP report with their WoolPoll Voter Information Memorandum. The full ROP report is available at www.wool.com/rop

AWI'S STAKEHOLDER LINKS

AWI has developed a comprehensive stakeholder engagement strategy to ensure the views of AWI shareholders (woolgrowers and the Australian Government) and other key stakeholders are considered and incorporated in AWI's planning and operations. This strategy encompasses engaging individual woolgrowers, woolgrower representative groups, domestic non-woolgrower industry organisations, and others throughout the wool supply chain.

Working in partnership with the wool industry

AWI's investment in on-farm R&D, off-farm R&D and marketing requires the company to consult a wide range of stakeholders along the supply chain – from woolgrowers to consumers. While AWI has a robust and broad-ranging consultative framework, engagement with woolgrowers remains a key priority.

In 2015/16 AWI engaged directly with woolgrowers to improve awareness of AWI's activities, promote two-way exchanges of information and ensure stakeholder views are incorporated into key corporate planning and activities.

Supply chain partners support AWI by partnering in business and marketing collaborations that deliver benefits to the Australian wool industry. These relationships assist AWI in delivering market information and RD&M outcomes for Australian woolgrowers.

Examples by which AWI engaged stakeholders during 2015/16 include:

- Woolgrower Industry Consultative Committee (ICC) meetings – containing delegates from the Australian Association of Stud Merino Breeders, Australian Superfine Wool Growers' Association, Australian Wool Growers Association, WoolProducers Australia, Pastoralists & Graziers Association (PGA) - Western Australia, a non-Merino breed representative. The Department of Agriculture & Water Resources is an observer of the ICC.
- Regular communications with AWI advisory committees such as the IWTO Sustainable Practices Working Group, Animal Welfare Forum, National Wild Dog Action Plan Stakeholder Consultative Group and the Rabbit Advisory Group.
- Participating in more than 40 forums and events with woolgrowers in regional areas – plus more 20 forums in the lead-up to WoolPoll 2015, at which woolgrowers could discuss how AWI had performed over the previous three years.
- Trade, retailer and brand workshops
- Woolmark licensee workshops and meetings
- Meetings with manufacturers and media partners in key markets
- Communications such as the quarterly *Beyond the Bale* magazine, AWI's online newsletters and the AWI website (www.wool.com).

Further detail on AWI's current consultation processes is shown in Figure 1 opposite.

Government partnership

In 2015/16 AWI continued to review and implement its government relations strategy to strengthen relationships with government stakeholders. As one of fifteen rural RDCs, AWI's engagement with the Australian Government is underpinned by the Statutory Funding Agreement (SFA), a contract which governs AWI's expenditure of levy and matching government funding for eligible R&D activities.

Examples by which AWI engaged government during 2015/16 are:

- regular interaction with the Australian Government through informal discussions and formal meetings, participation in government processes, and day-to-day discussions
- production of a SFA compliance report to further demonstrate, on a six-monthly basis, the company's ongoing compliance with SFA requirements
- production of briefing packages for Department of Agriculture & Water Resources
- AWI's participation in activities of the Council of Rural Research and Development Corporations
- AWI's participation in the development strategies under the National RD&E Framework
- Trial project in-market (China) to improve the understanding and engagement of government stakeholders of AWI's activities right along the supply chain.

Partnership outcomes

As a result of its strong links with its stakeholders in 2015/16, AWI is strongly positioned to:

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

INVESTMENT POLICY

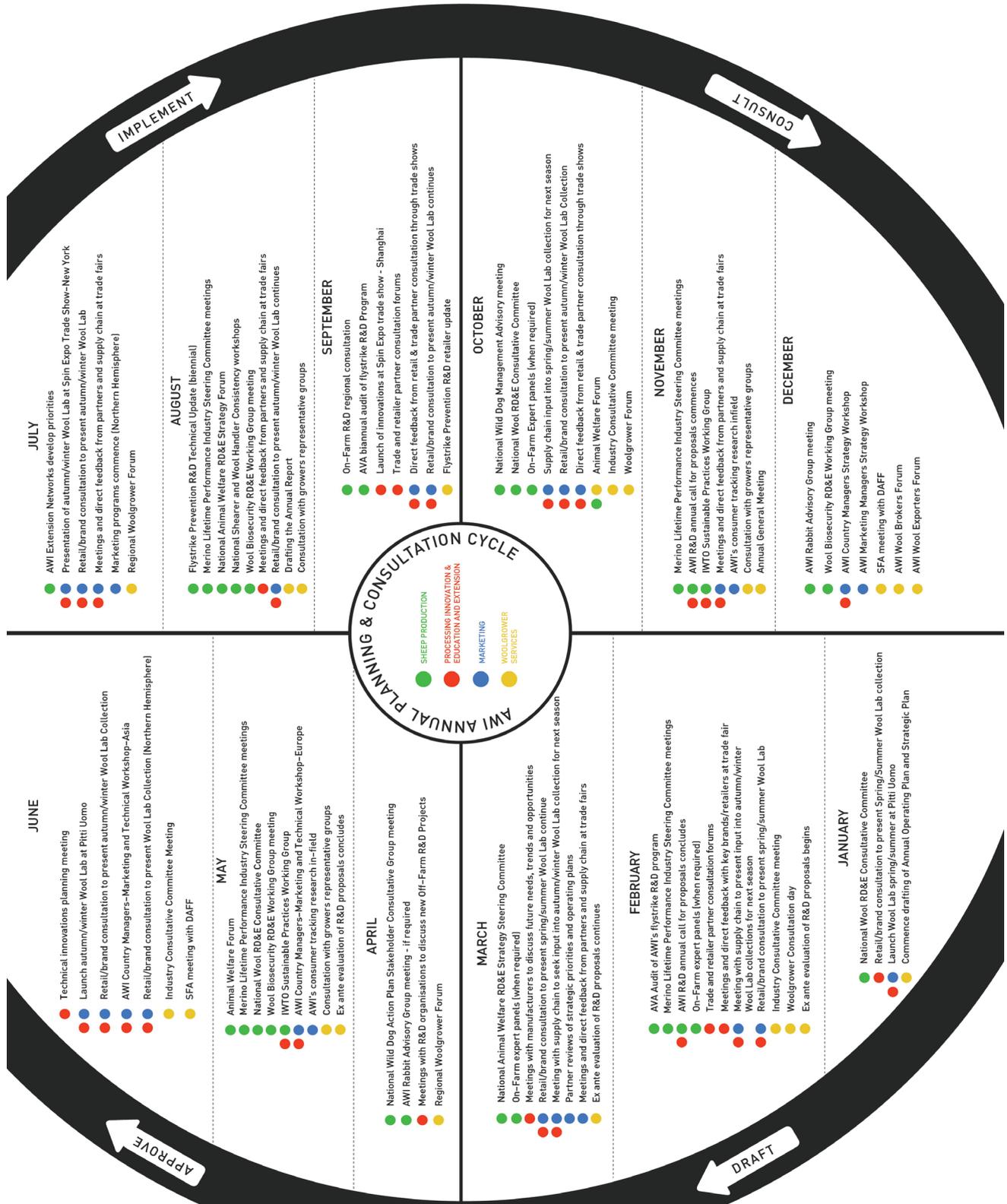
AWI is the custodian of woolgrowers' investment in their future prosperity and the matching eligible R&D provided by Government. Therefore we seek to balance our risk position between:

- investing in higher risk activities that may drive substantial growth in the demand for wool; and
- the need to remain a stable organization with the capacity to continue to work for woolgrowers long into the future.

Therefore our risk appetite is necessarily towards the middle of the risk-taking spectrum. Depending on our results from year to year, we may choose to increase or decrease our appetite for higher risk activities.

Investment is made with an overall business target of delivering a return to woolgrowers of \$3 from every dollar invested and to provide services on a cost competitive basis. We seek to have a low-medium risk weighting for our portfolio, delivering most benefits in the short to medium term. Our appetite for higher risk and longer time frames is towards on-farm R&D and processing innovation.

Figure 1: AWI's Annual Planning and Consultation Cycle



MONITORING & EVALUATION ACROSS AWI

Over 2015/16, AWI continued to strengthen evaluation and reporting processes across the organisation, consistent with AWI's Monitoring and Evaluation (M&E) framework (2014). Our overriding objective was to continue to develop M&E processes that effectively link the three-year Strategic Plan with operational activities across all areas of AWI investment. Key elements of the developed approach include:

Strategic targets

Sound performance measurement and reporting is based on measuring progress towards set targets on a regular basis. The specification of targets drives investment and allocation of staff resources in specific activities, and the extent to which they are achieved will determine the success or otherwise of AWI through time. These targets also provided a point of reference for the reporting of progress in AWI's Annual Reports, the 2015 Independent Review of Performance by Deloitte and the 2016 assessment of AWI performance against the 2013-16 Strategic Plan by AWI's Evaluation Group.

Processes to report progress and plan future investment

AWI has continued to refine its internal planning and reporting systems to assess investment performance and to make any changes required in strategic direction. This process placed emphasis on the responsibility, at all levels in the organisation, to manage investment funds to maximise returns to Australian woolgrowers and other stakeholders. Over 2015/16, progress against Strategic Plan targets were assessed and reported quarterly to the AWI Board. Program Achievement Reports have been streamlined to better integrate financial and project data with broader Program targets and allocation of staff across AWI's global network. AWI has continued to commission external reviews of investment programs. To date 28 programs have been evaluated, and over 2015/16 evaluation processes were increasingly built into routine program management functions. All program evaluations will be fully internalised over the 2016-2019 Strategic Planning period and audited by external parties on a regular basis.

Robust and relevant data collection

Effective M&E requires 'real time' data on investment impacts so that any changes can be readily managed and changes made accordingly. More important, AWI recognises the need to firmly embed data collection methods and processes to demonstrate investment impacts for individual programs on an on-going basis rather than as a separate and unrelated activity once investment has ceased. Over 2015/16, data collection methods and processes have continued to be developed and are now established across all areas of AWI investment.

Over 2015/16 considerable effort was directed at implementing robust data collections to support the evaluation of AWI marketing programs. AWI's marketing data collection processes include:

- Consumer attitudes changes – AWI continues to commission an annual global consumer tracking survey (Nielsen) to measure changes in consumer

attitudes toward wool and willingness to pay. These surveys also test consumer attitudes towards key AWI marketing campaigns and platforms such as the International Woolmark Prize, Cool Wool, No Finer Feeling and the Campaign for Wool.

- Partner sales data – AWI marketing programs are typically delivered in partnership with global apparel businesses and brands. Data on sales volumes are provided by partners on a confidential basis so that global impacts on wool sale volumes can be determined.
- Consumer exit surveys – consumer exit surveys have been successfully developed and implemented using iPads in selected partner stores. Data is collected at the point of sale and is used to identify the share of sales volume reported by partners that represents new demand.

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 **PricewaterhouseCoopers** provide specific advice on taxation and other related matters pertaining to AWI and The Woolmark Company, as required.

GOVERNMENT FUNDING AND RESEARCH PRIORITIES

The Australian Government is a major investor in AWI, collecting and disbursing statutory levies and providing taxpayer funds for eligible industry research, development and extension (RD&E) activities. As the wool industry's rural Research and Development Corporation (RDC), AWI is the Australian Government's primary vehicle for funding innovation in the wool industry.

National RD&E Framework

AWI's plans for RD&E delivery align where relevant with the National RD&E Framework, an Australian Government initiative to improve the efficiency and effectiveness of RD&E delivery nationally. The initiative includes strategies for all agricultural sectors including wool, and cross sector strategies including animal welfare, biosecurity and climate change. The RDCs, including AWI, the State Government agencies, CSIRO and universities are all signatories to the initiative. AWI participates in the National RD&E Framework through its own sector strategy, the National Wool RD&E Strategy, and also through support for three cross-sectoral Strategies, in partnership with other RDCs – the National Animal Welfare RD&E Strategy, the Climate Change Research Strategy for Primary Industries, and the National Animal Biosecurity RD&E Strategy.

National Wool RD&E Strategy

The original National Wool Industry RD&E Strategy was completed in 2011, with the Department of Agriculture and Food Western Australia and NSW Department of Primary Industries acting as lead agencies.

In 2015/16, the renewal of this national strategy was successfully completed, through a dedicated Steering Committee involving representatives of the major co-investors in wool RD&E, and wider industry reference forum. The new Wool Industry – National RD&E Strategy 2016 – 2020 has a number of key features which build on the experiences gained in implementation of the original strategy:

1. This strategy renewal has been intentionally timed to align with the renewal of AWI's Strategic Plan for 2016/17-2018/19, and is focussed on ensuring complementarity with the new AWI Strategic Plan, and the new red meat industry strategic plans (SISP2020, and MISP2020).
2. The RD&E Plan is backed with comprehensive economic modelling which for the first time evaluates seven industry development scenarios out to 2030 across the red meat and wool sectors, and explores key industry outcome including wool and meat sector GVP.
3. Key performance indicators are defined for the life of the plan, and to 2030, which align with the AWI Strategic Plan 2016/17-2018/19 and clearly support achievement of targets in MISP2020 and SISP2020.

National Animal Biosecurity RD&E Strategy

AWI has continued to support the NAB RD&E Strategy financially and operationally, and has continued to actively drive the wool sector's own biosecurity RD&E strategy, through the Federation of Australian Wool Industries, and internationally, through the International Wool Textile Organisation's (IWTO) Wool Biosecurity Working Group. Notable 2015/16 activities included:

- Wool bale disinfection – following a successful pilot trial through Australian Wool Testing Authority Limited, AWI-funded construction of a containerised prototype system for conduct of industrial trial has commenced, with field trialing expected to commence later in 2017/18.
- Bale traceability – successful completion of a wool traceability review process, and conduct of traceability exercises with industry stakeholders.
- Continued support for the internationally co-funded wool biosecurity RD&E information-sharing process, through the IWTO.

National Animal Welfare RD&E Strategy

Membership of the Animal Welfare Strategy includes a range of Livestock RDCs (Australian Egg Corporation, Australian Pork Limited, Australian Meat Processor Corp, AWI, Dairy Australia, LiveCorp, MLA, Rural Industries R&D Corporation Chicken Meat), Universities, State Government Departments and the CSIRO. The University of Melbourne provides executive support and Australian Pork Limited manage the administration of the Strategy. Key activities during 2015/16 included:

- An annual forum investigating potential projects with across sector support
- A project register and audit of Animal Welfare RDE capability in Australia
- A review of novel biochemical markers for the measurement of pain in animals.

R&D collaboration during 2015/16

R&D collaboration with other organisations during 2015/16 made AWI investments more efficient and effective by reducing duplication, maximising leverage and providing a greater platform for adoption. Collaboration, especially with other RDCs, also helped AWI and the collaborating parties address the Government's National Research Priorities (NRPs) and Rural Research and Development Priorities (RRDPs) – see the section below.

AWI has a demonstrated history of collaborating on R&D projects with other members of the RDC family.

During 2015/16, around one in every 6 dollars that AWI invested in on-farm R&D was invested in collaboration with another RDC. This number does not include in-kind contributions from RDCs, nor cash contributions from other parties such as DPIs, and so is a conservative indication of the amount of collaboration undertaken by AWI.

AWI was involved during 2015/16 in a significant number of on-farm R&D collaborations with RDCs and other research bodies such as government departments of agriculture, industry organisations, CSIRO, universities and commercial partners.

Major collaborations during 2015/16 included:

- Vertebrate Pest Control – a major co-investment program involving AWI, MLA, and the Commonwealth through the Invasive Animal CRC was initiated, establishing a Wild Dog Alert system and supporting the development and release of new biocontrols for rabbits.
- Sheep Genetic improvement – AWI and MLA continued to collaborate in the conduct of the Sheep Genetics service.
- Pain relief – collaboration with MLA in development of low-cost practical pre-operative analgesic products for sheep surgical operations.
- Sheep health – AWI, MLA, the Sheep Industry CRC and other industry stakeholders continued to support ParaBoss, a suite of three products developed to help producers manage blowflies, worms and lice.
- Shearer and wool handler training with Registered Training Organisation providers around Australia.
- Making More From Sheep, which is the best practice manual plus ongoing workshops for sheep producers (with MLA).
- Extension activities with state and regional based organisations and departments of agriculture, including BESTWOOL/BESTLAMB (Vic), Sheep Connect NSW, The Sheep's Back (WA), Pastoral Profit (Pastoral), Sheep Connect SA, Leading Sheep (Qld) and Sheep Connect Tasmania.

Research priorities

While AWI's R&D and marketing priorities are determined by woolgrowers as identified by industry through AWI's Annual Planning and Consultation Cycle, AWI has also taken into account the Australian Government's National Research Priorities (NRPs), announced by the Australian Government on 5 December 2002, and Rural Research and Development Priorities (RRDPs), announced by the Australian Government on 8 May 2007, in setting its R&D investments in addition to other directives and priorities the Government communicates to AWI.

National Research Priorities

The Government's NRPs focused on key areas of social, economic and environmental importance to Australia, where a whole-of-government focus had the potential to improve research and broader policy outcomes.

The priorities were:

- promoting and maintaining good health
- an environmentally sustainable Australia
- safeguarding Australia
- frontier technologies for building and transforming Australian industries.

Rural Research and Development Priorities

The Government's RRDPs were 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 related objectives were:

- Productivity and Adding Value: Improve the productivity and profitability of existing industries and support the development of viable new industries.
- Supply Chain and Markets: 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: Support effective management of Australia's natural resources to ensure primary industries are both economically and environmentally sustainable.
- Climate Variability and Climate Change: Build resilience to climate variability and adapt to and mitigate the effects of climate change.
- Biosecurity: Protect Australia's community, primary industries and environment from biosecurity threats.
- Innovation Skills: To improve the skills to undertake research and apply its findings.
- Technology: To promote the development of new and existing technologies.

Alignment of AWI investment to Government research priorities

The table below summarises how investment undertaken by AWI during 2015/16 aligns with the NRPs and RRDPs.

| National Research Priorities (NRP) | Rural Research & Development Priorities (RRDP) | \$'000s | % |
|--|---|-----------------|-------------|
| Promoting and Maintaining Good Health (including strengthening Australia's social & economic fabric) | Productivity and Adding Value | \$9,870 | 13% |
| | Supply Chain and Markets | \$58,422 | 76% |
| An Environmentally Sustainable Australia | Natural Resource Management | \$410 | 1% |
| | Climate Variability and Climate Change | \$308 | 1% |
| Safeguarding Australia | Biosecurity | \$2,634 | 3% |
| Frontier Technologies for Building and Transforming Australian Industries | Innovation Skills and Technology (supporting RRDPs) | \$4,875 | 6% |
| TOTAL (external) | | \$76,519 | 100% |

INTELLECTUAL PROPERTY

AWI has a portfolio of intellectual property (IP) assets comprising patents, plant breeders' rights, trademarks, registered design, business names, copyright, domain names, and unregistered/confidential know-how. Some 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 more than 90 countries across multiple classes of goods.

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 \$61,843.25 to the 2015/16 income being royalties received from 2013/14. Income earned from the 2014/15 royalties will not be realised until midway through the 2016/17 financial year.

IP ASSETS OWNED BY AWI AND ITS ASSOCIATED ENTITIES

This is a list of registered IP owned by AWI (including TWC) or in which AWI has an interest, as at 30 June 2016:

PATENTS (registered in Australia and overseas)

* Treatment of sheep to reduce flystrike

REGISTERED DESIGNS (registered in Australia and overseas)

* Breach Clip * Dog Bone Clip * Hockey Stick Clip

TRADEMARKS (registered in Australia & overseas)

* Cool Wool * Circle Logo * Flyboss * Liceboss * Merino Active * Merino Perform * MerinO2 * merinotravel * MMX Wool Without Limits & Device * Red Island * Sam The Lamb * Superior Merino * Superior Merino Blend * Pure Merino Wool * awi & Swirl Device * Australian Wool Innovation & Swirl Device * Wormboss * WOOL4SCHOOL * XWOOL Device

TRADEMARKS (registered in Australia – not overseas)

* Australian Wool Innovation * Evergraze * Licesense * Making More from Sheep * merinotouch * Timerite * Woolcheque

TRADEMARKS (registered overseas – not in Australia)

* Arnhem Land * Gold Woolmark * Heartmark * IWS * Lintrak * Merinocool * MERINOEASYCLEAN * Merino Extrafine Wool * merinofresh * Merino Rich * Mother and baby device * Neva-Shrink * No Finer Feeling * OPTIM * Pure New Wool * SGP * Siroset * Solospun * Sportwool * Sleep in Merino * Super Crimp * Super S * Superwash * Take Comfort In Wool * We Love Wool * Wool in heart * Woolmark Gold * Wool Plus * Wool Rich Blend * Wool Runs On Grass

TRADEMARKS (registered globally)

* Woolmark * Woolmark Blend * Wool 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

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

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 2016.

Directors

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

Mr W B Merriman (Chairman)
 Mr P Cocking
 Ms C Garnsey
 Mr J Laurie (elected 20 November 2015)
 Mr J Morgan
 Dr M L Sheil
 Mr B P van Rooyen (until 20 November 2015)
 Mr D A A Webster

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 research and development matching fund contribution. Funding is also generated from revenue in respect of the Woolmark certification and ordinary trademark annual licence fees.

Review of operations and results

| | 2016 \$'000 | 2015 \$'000 |
|-----------------------------------|----------------|----------------|
| Revenue | 79,317 | 74,282 |
| Profit from continuing operations | 2,667 | 2,325 |

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group during the year.

Matters subsequent to the end of the financial year

There has been no matter or circumstance which has arisen since 30 June 2016 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.

Likely developments and expected results of operations

By actively and efficiently marketing wool and its attributes through investments in marketing and R&D - from farm to fashion and interiors - AWI aims to achieve its goal of increasing the demand for wool. Pursuant to the result of WoolPoll 2015 and following AWI's extensive planning and consultation cycle, AWI developed a three-year Strategic Plan in which there is a 60%:40% split in expenditure between marketing and R&D programs.

AWI will continue to pursue stronger and more strategically driven programs, with an emphasis on transforming AWI into a digital and service orientated company. AWI's investments will be centred around five key portfolios:

1. Marketing - to increase demand for Australian wool
2. Sheep Production - to increase the profitability and sustainability of woolgrowing
3. Woolgrower Services - to increase woolgrower profitability and provide cost effective services to woolgrowers and other parties on their behalf
4. Processing Innovation & Education and Extension - to increase the profitability and sustainability of wool processing
5. Business Services - to enable AWI to operate cost effectively through the efficient provision of a range of cross-company support services.

AWI will continue to operate in a cost effective manner.

Directors' report (continued)

Company secretary

The Company Secretary is Mr Jim Story BA, LLB, FGIA.

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 2016, and the numbers of meetings attended by each director were:

| Director | Meetings of Committees | | | | | | | |
|--------------------|----------------------------|----|-----------------|----|-----------------------------|----|-------------------|----|
| | Full meetings of directors | | Finance & Audit | | Remuneration & Appointments | | Science & Welfare | |
| | A | B | A | B | A | B | A | B |
| Mr W B Merriman | 9 | 9* | 8 | 8 | 3 | 3 | 8 | 8 |
| Mr P Cocking | 9 | 9 | - | - | 1 | 1 | 8 | 8 |
| Ms C Garnsey | 9 | 9 | - | - | 3 | 3* | - | - |
| Mr J Laurie** | 5 | 5 | 4 | 4 | - | - | 4 | 4 |
| Mr J Morgan | 9 | 9 | 8 | 8 | - | - | 6 | 6* |
| Dr M L Sheil | 9 | 9 | - | - | - | - | 2 | 2 |
| Mr B P van Rooyen^ | 4 | 4 | 4 | 4 | 2 | 2 | 4 | 4 |
| Mr D A A Webster | 9 | 9 | 8 | 8* | 3 | 3 | 8 | 8 |

A = number of meetings held during the time the director held office or was a member of the committee during the year.
B = number of meetings attended.

* = denotes Chairman as at 30 June 2016.

^ = Mr B P van Rooyen resigned from the Board on the 20 November 2015.

** = Mr J Laurie was elected to the Board on the 20 November 2015.

Chairmanship

Mr W B Merriman was the Chairman of the Board throughout the year.

Insurance of officers

During the financial year, Australian Wool Innovation Limited paid a premium to insure directors and officers of the Group. 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*.

Non-audit services

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

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 23.

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 further reporting requirements imposed upon the parent company under 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 62.

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)
Director

Sydney
19 August 2016

Auditor's Independence Declaration

As lead auditor for the audit of Australian Wool Innovation Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;
and
2. 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.



Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
19 August 2016

Financial Report – 30 June 2016

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This financial report covers the consolidated financial statements of the consolidated entity consisting of Australian Wool Innovation Limited and its controlled entities as listed in note 26 to the financial report. The financial report is presented in Australian dollars.

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 6, 68 Harrington Street
The Rocks
Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 59, which is not part of this financial report.

The financial statements were authorised for issue by the directors on 19 August 2016. The directors have the power to amend and reissue the financial statements.

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

Consolidated statement of comprehensive income

For the year ended 30 June 2016

| | | Consolidated | |
|---|-------|----------------|----------------|
| | Notes | 2016 \$'000 | 2015 \$'000 |
| Revenue from continuing operations | | | |
| Operating revenue | 3 | 76,759 | 71,332 |
| Other revenue | 3 | 2,558 | 2,950 |
| | | 79,317 | 74,282 |
| Other loss | 4 | (102) | (1,110) |
| Expenses | | | |
| Project expenditure | 6 | (44,269) | (39,226) |
| International Network | 6 | (11,691) | (10,794) |
| Global marketing | 6 | (4,347) | (4,215) |
| On-farm research & development | 6 | (1,663) | (1,502) |
| Off-farm research & development | 6 | (3,313) | (2,848) |
| Corporate services | 6 | (11,237) | (12,095) |
| Profit before income tax | | 2,695 | 2,492 |
| Income tax expense | 7 | (28) | (167) |
| Profit from continuing operations | | 2,667 | 2,325 |
| Profit for the year | | 2,667 | 2,325 |
| Other comprehensive income | | | |
| Exchange differences on translation of foreign operations | 21 | 9 | 838 |
| Total comprehensive income for the year | | 2,676 | 3,163 |
| Total comprehensive income for the year is attributable to: | | | |
| Members of Australian Wool Innovation Limited | | 2,676 | 3,163 |

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

Consolidated balance sheet

As at 30 June 2016

| | | Consolidated | |
|--|-------|----------------|----------------|
| | Notes | 2016 \$'000 | 2015 \$'000 |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 6,544 | 11,438 |
| Trade and other receivables | 10 | 16,604 | 16,101 |
| Inventories | 11 | - | 9 |
| Held-to-maturity investments | 9 | 74,017 | 65,877 |
| Total current assets | | 97,165 | 93,425 |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 2,982 | 1,216 |
| Intangible assets | 13 | 10,000 | 10,000 |
| Other non-current assets | 14 | 569 | 578 |
| Total non-current assets | | 13,551 | 11,794 |
| Total assets | | 110,716 | 105,219 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 15 | 11,120 | 9,015 |
| Provisions | 16 | - | 487 |
| Deferred income | 17 | 8,571 | 8,743 |
| Total current liabilities | | 19,691 | 18,245 |
| Non-current liabilities | | | |
| Provisions | 18 | 390 | 465 |
| Other non-current liabilities | 19 | 1,450 | - |
| Total non-current liabilities | | 1,840 | 465 |
| Total liabilities | | 21,531 | 18,710 |
| Net assets | | 89,185 | 86,509 |
| EQUITY | | | |
| Contributed equity* | 20 | - | - |
| Reserves | 21 | 1,482 | 1,473 |
| Retained earnings | 21 | 87,703 | 85,036 |
| <i>Capital and reserves attributable to owners of Australian Wool Innovation Limited</i> | | 89,185 | 86,509 |
| Total equity | | 89,185 | 86,509 |

*As at 30 June 2015 and 2016 contributed equity in the consolidated entity was \$100.

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

Consolidated statement of changes in equity

For the year ended 30 June 2016

| | Notes | Attributable to owners of Australian Wool Innovation Limited | | | Total equity \$'000 |
|--|-------|--|--------------------|-----------------------------|------------------------|
| | | Contributed equity* \$'000 | Reserves \$'000 | Retained earnings \$'000 | |
| Balance at 1 July 2014 | | - | 635 | 82,711 | 83,346 |
| Profit/(loss) for the year | 21 | - | - | 2,325 | 2,325 |
| Other comprehensive income | 21 | - | 838 | - | 838 |
| Total comprehensive income for the year | | - | 838 | 2,325 | 3,163 |
| Balance at 30 June 2015 | | - | 1,473 | 85,036 | 86,509 |
| Balance at 1 July 2015 | | - | 1,473 | 85,036 | 86,509 |
| Profit/(loss) for the year | 21 | - | - | 2,667 | 2,667 |
| Other comprehensive income | 21 | - | 9 | - | 9 |
| Total comprehensive income for the year | | - | 9 | 2,667 | 2,676 |
| Balance at 30 June 2016 | | - | 1,482 | 87,703 | 89,185 |

*As at 30 June 2015 and 2016 contributed equity in the consolidated entity was \$100.

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

Consolidated statement of cash flows

For the year ended 30 June 2016

| | Notes | Consolidated | |
|--|-------|-----------------|----------------|
| | | 2016 \$'000 | 2015 \$'000 |
| Cash flows from operating activities | | | |
| Levy, license, government grant and other receipts (inclusive of goods and services tax) | | 70,850 | 63,647 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (67,410) | (68,672) |
| | | 3,440 | (5,025) |
| Other revenue | | 1 | - |
| Interest received | | 2,276 | 2,935 |
| Income taxes paid | | (28) | (166) |
| Net cash inflow (outflow) from operating activities | | 5,689 | (2,256) |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | 12 | (2,437) | (426) |
| Payments for held-to-maturity investments | | (8,140) | 7,623 |
| Proceeds from sale of property, plant and equipment | | 20 | 6 |
| Net cash (outflow) inflow from investing activities | | (10,557) | 7,203 |
| Net (decrease) increase in cash and cash equivalents | | (4,868) | 4,947 |
| Cash and cash equivalents at the beginning of the financial year | | 11,438 | 7,382 |
| Effects of exchange rate changes on cash and cash equivalents | | (26) | (891) |
| Cash and cash equivalents at end of year | 8 | 6,544 | 11,438 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

30 June 2016

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 these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Australian Wool Innovation Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Australian Wool Innovation Limited is a not-for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with Australian Accounting Standards Reduced Disclosure Requirements

The consolidated financial statements of the Australian Wool Innovation Limited Group comply with Australian Accounting Standards Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB).

(ii) 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.

(iii) Critical accounting estimates

The preparation of financial statements 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.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Estimated impairment of the Woolmark certification trademarks

The Group tests annually whether the value of \$10,000,000 allocated to the Woolmark certification trademarks has suffered any impairment, in accordance with the accounting policy stated in note 1(h). These calculations require the use of assumptions regarding the separately identifiable future cash inflows relating to the brand, estimates of future costs required to support the brand and discount rates. Management determined budgeted cash flows based on license fees billed for the coming year and budgeted costs based on past performance and expectations for the future.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Wool Innovation Limited ('company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the year then ended. Australian Wool Innovation Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of comprehensive income 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.

NOTE 1: Summary of significant accounting policies (continued)

(c) 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 and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

(iii) Group companies

The results and financial position of foreign operations (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:

- income and expenses for each consolidated income statement and consolidated statement of comprehensive income 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
- all resulting exchange differences are recognised in other comprehensive income.

(d) 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 period of the licence.

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.

(e) Income tax

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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 end of the reporting period 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 foreign operations where the company 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.

Notes to the financial statements

30 June 2016

(continued)

NOTE 1: Summary of significant accounting policies (continued)

(e) Income tax (continued)

Woolmark Holdings Pty Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. Australian Wool Innovation Limited is not a party to the tax consolidated Group as it is exempt from tax.

(f) 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 statement of comprehensive income on a straight line basis over the period of the lease.

(g) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition-date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(h) 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).

(i) 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.

(j) 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.

NOTE 1: Summary of significant accounting policies (continued)

(k) Inventories

Inventories 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.

(l) Investments and other financial assets

Classification

The Group classifies its financial assets 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 the end of 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 period which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(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 non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

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.

Measurement

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

(m) 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 profit or loss 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:

| | |
|------------------------|-------------|
| Buildings | 10-20 years |
| Plant and equipment | 2-10 years |
| Leasehold improvements | 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 (h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Notes to the financial statements

30 June 2016

(continued)

NOTE 1: Summary of significant accounting policies (continued)

(n) 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.

(o) Intangible assets

(i) Research and development

Research expenditure is recognised as an expense as incurred.

(ii) Trademarks and licences

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(h).

(p) 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.

(q) Provisions

Provisions for make good obligations and restructuring are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(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 plus overseas pension benefits 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 consolidated 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 statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(v) Parent entity financial information

The financial information for the parent entity, Australian Wool Innovation Limited, disclosed in note 29 has been prepared on the same basis as the consolidated financial statements, except investments in subsidiaries which are recorded at cost in the financial statements of Australian Wool Innovation Limited.

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 Head Office Finance under policies approved by the board of directors. Group Head Office Finance identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. 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, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

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 include 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.

Forward Exchange Contracts (Derivatives) are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent adjustment in the fair value of contract is recorded in the income statement with a corresponding impact in the Forward contract asset or liability.

(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.

(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 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+, A-1 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.

Wherever possible funds invested are held in Australian dollars thereby minimising any foreign exchange risk.

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.

(d) Fair value measurements

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

Notes to the financial statements

30 June 2016

(continued)

NOTE 3: Revenue

| | Consolidated | |
|-----------------------------------|---------------|---------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| From continuing operations | | |
| <i>Operating revenue</i> | | |
| Wool levy | 50,331 | 48,304 |
| Government contribution | 13,424 | 12,478 |
| License fees | 8,063 | 7,324 |
| Royalties | 1,998 | 1,663 |
| Sale of goods and services | 2,918 | 1,518 |
| Other | 25 | 45 |
| | 76,759 | 71,332 |
| <i>Other revenue</i> | | |
| Interest | 2,354 | 2,737 |
| Rents and sub-lease rentals | 204 | 213 |
| | 2,558 | 2,950 |
| | 79,317 | 74,282 |

NOTE 4: Other loss

| | Consolidated | |
|---------------------------|--------------|---------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Net foreign exchange loss | (102) | (1,110) |

NOTE 5: Expenses

| | Consolidated | |
|---|--------------|------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| <i>Depreciation and amortisation</i> | | |
| Buildings | 2 | 37 |
| Plant and equipment | 402 | 459 |
| Leasehold improvements | 244 | 232 |
| Total depreciation and amortisation | 648 | 728 |
| Rental expense relating to operating leases | 2,390 | 2,372 |
| Defined contribution superannuation expense | 1,496 | 1,321 |

NOTE 6: Research, development and marketing expenditure

| | Consolidated | |
|---------------------------------|---------------|---------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| International Network | 11,691 | 10,794 |
| Global marketing | 28,330 | 25,986 |
| On-farm research & development | 15,259 | 13,635 |
| Off-farm research & development | 10,003 | 8,170 |
| | 65,283 | 58,585 |
| Corporate services | 11,237 | 12,095 |
| Total RDI expenditure | 76,520 | 70,680 |

NOTE 7: Income tax expense

| | Consolidated | |
|--|--------------|------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| (a) Income tax expense | | |
| Current tax | 28 | 168 |
| Deferred tax | - | (1) |
| | 28 | 167 |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| Profit from continuing operations before income tax expense | 2,695 | 2,492 |
| Tax at the Australian tax rate of 30% (2015 - 30%) | 809 | 748 |
| Tax losses and temporary differences not brought to account | (688) | (657) |
| Differences in overseas tax rates | (27) | 21 |
| Adjustments for current tax of prior periods | (66) | 55 |
| Income tax expense | 28 | 167 |

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. AWI exempt from income taxes not indirect taxes.

Notes to the financial statements

30 June 2016

(continued)

NOTE 8: Current assets – Cash and cash equivalents

| | Consolidated | |
|--------------------------|--------------|--------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Cash at bank and in hand | 6,544 | 11,438 |

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

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

| | Consolidated | |
|---------------|--------------|--------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Term deposits | 74,017 | 65,877 |

Cash and cash equivalents (note 8) and held-to-maturity investments are represented as follows:

| | | |
|--|---------------|---------------|
| Unrestricted | 30,906 | 28,515 |
| Restricted as security against guarantees issued by the company's bankers ^(a) | 3,455 | 3,500 |
| Forward contract commitments ^(b) | 17,400 | 16,300 |
| Emergency funds ^(c) | 5,000 | 5,000 |
| Operating funds ^(c) | 23,800 | 24,000 |
| | 80,561 | 77,315 |

- (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 \$17.4 million has been created to cover contracted forward commitments.
- (c) The directors resolved in September 2007 to set aside \$5 million as emergency funds to cover any contingent expenditure arising from the Wool industry's obligation under the Emergency Animal Disease Response Agreement. Operating funds represent nine months of AWI operating costs to cover unexpected cessation of levy and grant revenue.

NOTE 10: Current assets – Trade and other receivables

| | Consolidated | |
|--|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 |
| Net trade receivables | | |
| Trade receivables | 5,520 | 4,856 |
| Provision for doubtful receivables | (25) | (11) |
| | <u>5,495</u> | <u>4,845</u> |
| Net other receivables | | |
| Commonwealth matching funds and wool levy accruals | 6,552 | 7,810 |
| Other receivables | 3,545 | 2,432 |
| | <u>10,097</u> | <u>10,242</u> |
| Prepayments | | |
| Insurance | 198 | 60 |
| Other | 814 | 955 |
| | <u>1,012</u> | <u>1,015</u> |
| | <u>16,604</u> | <u>16,101</u> |

NOTE 11: Current assets – Inventories

| | Consolidated | |
|-------------------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 |
| Raw materials - at cost | - | 9 |

Notes to the financial statements

30 June 2016

(continued)

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

| | Freehold land \$'000 | Plant and equipment \$'000 | Leasehold improvements \$'000 | Total \$'000 |
|---------------------------------|----------------------------|----------------------------------|-------------------------------------|-----------------|
| At 1 July 2014 | | | | |
| Cost or fair value | 976 | 5,507 | 1,574 | 8,057 |
| Accumulated depreciation | (513) | (4,729) | (1,294) | (6,536) |
| Net book amount | 463 | 778 | 280 | 1,521 |
| Year ended 30 June 2015 | | | | |
| Opening net book amount | 463 | 778 | 280 | 1,521 |
| Exchange differences | - | 62 | 11 | 73 |
| Revaluation surplus / (deficit) | - | (4) | - | (4) |
| Additions | - | 354 | - | 354 |
| Depreciation charge | (37) | (459) | (232) | (728) |
| Closing net book amount | 426 | 731 | 59 | 1,216 |
| At 30 June 2015 | | | | |
| Cost or fair value | 976 | 3,529 | 1,598 | 6,103 |
| Accumulated depreciation | (550) | (2,798) | (1,539) | (4,887) |
| Net book amount | 426 | 731 | 59 | 1,216 |
| Year ended 30 June 2016 | | | | |
| Opening net book amount | 426 | 731 | 59 | 1,216 |
| Exchange differences | 1 | (74) | - | (73) |
| Revaluation surplus / (deficit) | - | 25 | (9) | 16 |
| Additions | 20 | 481 | 1,996 | 2,497 |
| Disposals | - | (26) | - | (26) |
| Depreciation charge | (2) | (402) | (244) | (648) |
| Closing net book amount | 445 | 735 | 1,802 | 2,982 |
| At 30 June 2016 | | | | |
| Cost or fair value | 954 | 3,290 | 2,171 | 6,415 |
| Accumulated depreciation | (509) | (2,555) | (369) | (3,433) |
| Net book amount | 445 | 735 | 1,802 | 2,982 |

NOTE 13: Non-current assets – Intangible assets

| | Certification trademarks \$'000 | Total \$'000 |
|---|---------------------------------------|-----------------|
| At 1 July 2014 | | |
| Cost | 10,000 | 10,000 |
| Accumulated amortisation and impairment | - | - |
| Net book amount | 10,000 | 10,000 |
| Year ended 30 June 2015 | | |
| Opening net book amount | 10,000 | 10,000 |
| Amortisation charge | - | - |
| Closing net book amount | 10,000 | 10,000 |
| At 30 June 2015 | | |
| Cost | 10,000 | 10,000 |
| Accumulated amortisation and impairment | - | - |
| Net book amount | 10,000 | 10,000 |
| Year ended 30 June 2016 | | |
| Opening net book amount | 10,000 | 10,000 |
| Amortisation charge | - | - |
| Closing net book amount | 10,000 | 10,000 |
| At 30 June 2016 | | |
| Cost | 10,000 | 10,000 |
| Accumulated amortisation and impairment | - | - |
| Net book amount | 10,000 | 10,000 |

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.

The Woolmark certification and trademarks, with an indefinite expected useful life, are expected to generate cash flows over an indefinite period of time.

The directors are committed to providing market research to support the profile of the certification and the trademarks.

The directors strive to build the reputation of the Woolmark certification and trademarks to consolidate its brand recognition globally.

NOTE 14: Non-current assets – Other assets

| | Consolidated | |
|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 |
| Lease deposits | 569 | 578 |

Notes to the financial statements

30 June 2016

(continued)

NOTE 15: Current liabilities - Trade and other payables

| | Consolidated | |
|-------------------------------|---------------|--------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Trade payables | 3,754 | 3,706 |
| Other payables | 4,960 | 3,476 |
| Project payables and accruals | 2,406 | 1,833 |
| | <u>11,120</u> | <u>9,015</u> |

NOTE 16: Current liabilities - Provisions

| | Consolidated | |
|---------------------------|--------------|--------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Make good - 580 George St | - | 487 |

NOTE 17: Current liabilities - Deferred income

| | Consolidated | |
|---------------------------|--------------|--------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Unearned license income | 8,521 | 8,693 |
| Unearned sub-lease income | 50 | 50 |
| | <u>8,571</u> | <u>8,743</u> |

NOTE 18: Non-current liabilities - Provisions

| | Consolidated | |
|--------------------|--------------|--------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Long service leave | 390 | 465 |

NOTE 19: Non-current liabilities - Other

| | Consolidated | |
|---|--------------|--------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Lease incentive - 68, Harrington St. fitout | 1,450 | - |

NOTE 20: Contributed equity

| | 2016 | 2015 | 2016 | 2015 |
|------------------------------|--------|--------|------|------|
| (a) Share capital | Shares | Shares | \$ | \$ |
| Ordinary shares - fully paid | 37,462 | 37,462 | 100 | 100 |

(b) Movements in ordinary share capital

There was no movement in ordinary share capital during the year.

(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

| <i>Details</i> | 30 June 2016 | 30 June 2015 |
|------------------------------|---------------|---------------|
| Australian Capital Territory | 82 | 81 |
| New South Wales | 9,059 | 9,411 |
| Northern Territory | 1 | 1 |
| Queensland | 672 | 724 |
| South Australia | 4,059 | 4,249 |
| Tasmania | 679 | 694 |
| Victoria | 5,690 | 5,880 |
| Western Australia | 3,817 | 3,967 |
| | 24,059 | 25,007 |

NOTE 21: Reserves and retained earnings

| | Consolidated | |
|--|--------------|--------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| (a) Other reserves | | |
| Foreign currency translation | 1,482 | 1,473 |
| Movements: | | |
| Foreign currency translation | | |
| Balance 1 July | 1,473 | 635 |
| Currency translation differences arising during the year | 9 | 838 |
| Balance 30 June | 1,482 | 1,473 |

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(c) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Notes to the financial statements

30 June 2016

(continued)

NOTE 21: Reserves and retained earnings (continued)

| | Consolidated | |
|--|---------------|--------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| (b) Retained earnings | | |
| Retained surplus at the beginning of the financial year | 85,036 | 82,711 |
| Net surplus attributable to the shareholders of Australian Wool Innovation Limited | 2,667 | 2,325 |
| Retained surplus at the end of the financial year | 87,703 | 85,036 |

NOTE 22: Key management personnel disclosures

| | Consolidated | |
|--|------------------|-----------|
| | 2016 | 2015 |
| | \$ | \$ |
| (a) Key management personnel compensation | | |
| Non-executive directors | | |
| Short-term employee benefits | 593,134 | 590,342 |
| Post-employment benefits | 55,357 | 56,082 |
| | 648,491 | 646,424 |
| Other key management personnel | | |
| Short-term employee benefits | 1,960,528 | 1,952,169 |
| Post-employment benefits | 196,775 | 185,456 |
| Termination benefits | 811,934 | - |
| | 2,969,237 | 2,137,625 |

The key management personnel of Australian Wool Innovation Limited includes those executives who have the authority and responsibility for offices of the company, either directly or indirectly, being 8 individuals.

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.

(b) 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.

NOTE 22: Key management personnel disclosures (continued)

(b) Remuneration principles and policies (continued)

(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 benefit 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.

(c) Details of remuneration

(i) Non executive Directors of Australian Wool Innovation Limited

| 2016 Name | Short-term employee benefits | | Post-employment benefits | Total |
|-------------------|------------------------------|---------------------|--------------------------|---------|
| | Directors' base fees paid | Committee fees paid | Superannuation | |
| | \$ | \$ | \$ | \$ |
| Mr W B Merriman | 122,666 | 21,467 | 13,693 | 157,826 |
| Mr P Cocking | 61,333 | 10,943 | 6,858 | 79,134 |
| Ms C Garnsey | 61,333 | 8,499 | 6,634 | 76,466 |
| Mr J Laurie | 37,652 | 6,554 | 3,035 | 47,241 |
| Mr J Morgan | 61,333 | 16,866 | 7,393 | 85,592 |
| Dr M L Sheil | 61,333 | 3,067 | 6,118 | 70,518 |
| Mr B P van Rooyen | 23,852 | 8,354 | 3,278 | 35,484 |
| Mr D A A Webster | 61,333 | 26,548 | 8,349 | 96,230 |
| Total | 490,835 | 102,298 | 55,358 | 648,491 |

| 2015 Name | Short-term employee benefits | | Post-employment benefits | Total |
|-------------------|------------------------------|---------------------|--------------------------|---------|
| | Directors' base fees paid | Committee fees paid | Superannuation | |
| | \$ | \$ | \$ | \$ |
| Mr W B Merriman | 121,452 | 21,254 | 13,557 | 156,263 |
| Mr P Cocking | 60,726 | 7,591 | 6,490 | 74,807 |
| Ms C Garnsey | 60,726 | 8,414 | 6,568 | 75,708 |
| Mr J Morgan | 60,726 | 7,591 | 6,490 | 74,807 |
| Dr M L Sheil | 60,726 | 12,145 | 6,923 | 79,794 |
| Mr B P van Rooyen | 60,726 | 21,254 | 7,788 | 89,768 |
| Mr D A A Webster | 60,726 | 26,285 | 8,266 | 95,277 |
| Total | 485,808 | 104,534 | 56,082 | 646,424 |

Notes to the financial statements

30 June 2016

(continued)

NOTE 23: 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 | |
|---|----------------|----------------|
| | 2016 | 2015 |
| | \$ | \$ |
| (a) Audit services | | |
| Audit fees - domestic | 171,471 | 170,350 |
| Audit fees - international | 111,141 | 97,184 |
| Total remuneration for audit and other assurance services | 282,612 | 267,534 |
| (b) Non-audit services | | |
| Tax compliance services | 88,024 | 68,238 |
| Advisory services | 69,074 | 52,768 |
| Total remuneration of network firms of PwC Australia | 157,098 | 121,006 |
| Total auditors' remuneration | 439,710 | 388,540 |

NOTE 24: Commitments

(i) Research, development and marketing

| | Consolidated | |
|--|--------------|--------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Commitments payable in relation to research, development and marketing | 15,310 | 17,377 |

(ii) Non-cancellable operating leases

| | Consolidated | |
|--|--------------|--------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 1,707 | 2,199 |
| Later than one year but not later than five years | 4,969 | 5,863 |
| Later than five years | 192 | 996 |
| | 6,868 | 9,058 |

The group leases various offices under non-cancellable operating leases expiring within two to eight years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

(iii) Forward exchange contracts

| | Consolidated | |
|---|--------------|--------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Commitments payable in relation to forward exchange contracts | 12,454 | 8,913 |

The group treasury policy stipulates the parameters to protect known foreign currency exposures via forward exchange contracts.

NOTE 25: Related party transactions

(a) Parent entities

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

(b) Directors

The names of persons who were directors of the company at any time are as follows: W B Merriman, P Cocking, C Garnsey, J Laurie J Morgan, M L Sheil, B P van Rooyen and D A A Webster.

(c) Subsidiaries

Interests in subsidiaries are set out in note 26.

(d) Remuneration

Disclosures relating to directors and key management personnel remuneration are set out in note 22.

(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 2016.

(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 2016.

(f) Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | |
|--|--------------|---------|
| | 2016 | 2015 |
| | \$ | \$ |
| <i>Sales of goods and services</i> | | |
| Sales of services relating to marketing and wool testing activities to key management personnel of the entity* | - | 9,509 |
| <i>Purchases of goods</i> | | |
| Purchases of goods and services relating to marketing and wool testing activities from key management personnel of the entity* | 190,516 | 366,362 |
| *For the period in which they held a key management personnel position. | | |

(g) Outstanding balances arising from sales or purchases of services

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

| | Consolidated | |
|---|--------------|--------|
| | 2016 | 2015 |
| | \$ | \$ |
| Current receivables (sales of goods and services) | | |
| Key management personnel of the entity | 6,552 | - |
| Current payables (purchase of goods) | | |
| Key management personnel of the entity | 52,838 | 10,291 |

Notes to the financial statements

30 June 2016

(continued)

NOTE 26: Controlled entities

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

| Name of entity | Country of incorporation | Class of shares | Equity holding | |
|--|--------------------------|-----------------|----------------|-----------|
| | | | 2015 % | 2014 % |
| Subsidiaries controlled by Australian Wool Innovation Ltd: | | | | |
| 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 |
| Digibale Pty Ltd | Australia | Ordinary | 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 |
| Wollsiegel Verband | Germany | N/A | 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 27: Economic dependency

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

NOTE 28: Events occurring after the reporting period

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

NOTE 29: Parent entity financial information**(a) Summary financial information**

The individual financial statements for the parent entity show the following aggregate amounts:

| | 2016 \$'000 | 2015 \$'000 |
|-------------------------------------|----------------|----------------|
| Balance sheet | | |
| Current assets | 82,084 | 78,480 |
| Non-current assets | 52,713 | 52,149 |
| Total assets | 134,797 | 130,629 |
| Current liabilities | 7,459 | 5,942 |
| Non-current liabilities | 1,840 | 465 |
| Total liabilities | 9,299 | 6,407 |
| Net assets | 125,498 | 124,222 |
| <i>Shareholders' equity</i> | | |
| Retained earnings | 124,222 | 123,690 |
| | 124,222 | 123,690 |
| Profit / (loss) for the year | 1,276 | 532 |
| Total comprehensive income | - | - |

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

Directors' declaration

30 June 2016

In the directors' opinion:

- (a) the financial statements and notes set out on pages 63 to 87 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 consolidated entity's financial position as at 30 June 2016 and of its performance for the 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, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Mr W B Merriman (Chairman)
Director

Sydney
19 August 2016

Independent auditor's report

30 June 2016

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 consolidated balance sheet as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Australian Wool Innovation (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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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 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 consolidated 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.

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

Independence

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

Auditor's opinion

In our opinion, the financial report of Australian Wool Innovation is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*.



PricewaterhouseCoopers



Peter Buchholz
Partner

Sydney
19 August 2016

REPORT ON COMPLIANCE WITH THE SFA

As a demonstration of AWI's transparency and good governance, AWI is including in this annual report, the report below by PricewaterhouseCoopers regarding AWI's compliance with the Statutory Funding Agreement between the Commonwealth of Australia and AWI, and the efficacy of AWI's accounting systems, processes and controls during the 2015/16 financial year.

To the Directors of Australian Wool Innovation Limited

Report on compliance with the Statutory Funding Agreement

We have performed assurance procedures with regards to the compliance and operating effectiveness of Australian Wool Innovation Limited (the Company) with the requirements of section 6 (Management of Funds) and 7 (Application of the Funds) of the Statutory Funding Agreement dated 20 June 2013 (the "Agreement") between the Commonwealth of Australia (the "Commonwealth") and the Company, as measured by the criteria outlined in Sections A and B below.

Use of Report

This report has been prepared for the Directors of Australian Wool Innovation Limited in accordance with the Agreement. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the directors of Australian Wool Innovation Limited, or for any purpose other than that for which it was prepared.

A. Reasonable Assurance on Compliance with the Agreement

Respective Responsibilities

Management of the Company are responsible for compliance with the Agreement as measured by clauses 6 and 7 of the Agreement. Our responsibility is to express a conclusion on compliance with the Agreement as measured by the clauses 6 and 7 of the Agreement, in all material respects.

Our audit has been conducted in accordance with applicable Standards on Assurance Engagements (ASAE 3100 *Compliance Engagements*) to provide reasonable assurance that Australian Wool Innovation Limited has complied with the Agreement as measured by the criteria in clauses 6 and 7 of the Agreement for the year ended 30 June 2016.

Our procedures included examining, on a sample basis, information to provide evidence supporting the compliance with clauses 6 and 7 of the Agreement. These procedures have been undertaken to form a conclusion as to whether Australian Wool Innovation Limited has complied in all material respects, with the Agreement, as measured by clauses 6 and 7 of the Agreement for the period from 1 July 2015 to 30 June 2016.

Inherent Limitations

Because of the inherent limitations of any internal control framework, it is possible that fraud, error or non compliance may occur and not be detected. An audit is not designed to detect all instances of non compliance with the Agreement as measured by clauses 6 and 7 of the Agreement, as an audit is not performed continuously throughout the period and the audit procedures performed in respect of compliance with the Agreement as measured by clauses 6 and 7 of the Agreement are undertaken on a test basis. The audit conclusion expressed in this report has been formed on the above basis.

Conclusion

In our opinion, Australian Wool Innovation Limited has complied, in all material respects, with Sections 6 and 7 of the Agreement for the period from 1 July 2015 to 30 June 2016.

REPORT ON COMPLIANCE WITH THE SFA (continued)

B. Limited assurance regarding operating effectiveness of accounting systems, processes and controls

Respective Responsibilities

Management of the Company are responsible for the efficacy of the accounting systems, processes and controls to comply with paragraph 6.1 of the Agreement. Our responsibility is to express a conclusion regarding the operating effectiveness of the accounting systems, procedures and controls in accordance with the requirements of paragraph 6.1 of the Agreement.

Our review has been conducted in accordance with applicable Standards on Assurance Engagements (ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*) to provide limited assurance that Australian Wool Innovation Limited has complied with the Agreement as measured by paragraph 6.1 of the Agreement. Our procedures included examining, on a sample basis, information to provide evidence supporting the operating effectiveness of the accounting systems, processes and controls with paragraph 6.1 of the Agreement. These procedures have been undertaken to form a conclusion, that nothing has come to our attention that causes us to believe that the systems, processes and controls related to the management of funds were not operating effectively, in all material respects, in accordance with the requirements of paragraph 6.1 of the Agreement for the period from 1 July 2015 to 30 June 2016.

Inherent Limitations

Because of the inherent limitations of any internal control framework, it is possible that fraud, error or non compliance may occur and not be detected.

A review is not designed to detect all weaknesses in operating effectiveness as measured by paragraph 6.1 of the Agreement as it is not performed continuously throughout the period and tests performed are on a sample basis. Also, a review does not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

Any projection of the evaluation of the effectiveness of accounting systems, processes or controls to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the degree of compliance with them may deteriorate.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accounting systems, processes and controls of Australian Wool Innovation Limited related to the management of funds, were not operating effectively, in all material respects, in accordance with the requirements of paragraph 6.1 of the Agreement for the period from 1 July 2015 to 30 June 2016.

PricewaterhouseCoopers

Peter Buchholz
Partner

Sydney
19 August 2016

PROJECT LIST 2015/16

This list contains details of AWI projects in which costs incurred during 2015/16 totalled more than \$120,000 for each project.

The cost figures (in the right-hand columns) include both contract and ancillary payments. The costs 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.

ON-FARM R&D PROJECTS

| Project title | Key providers* | \$ Paid in 2015/16 |
|---|--|--------------------|
| Achieving Low Cost AI with Frozen Ram Semen | University Of Sydney | 220,826 |
| Analgesia for sheep | CSIRO; University Of Sydney | 457,600 |
| Australian Pasture Genebank | Department of Primary Industries & Regions, South Australia | 142,697 |
| AWI Farmtek Collaboration | Farmtek Pty Ltd; JT Agri-Source Pty Ltd; R.Hadi Widjaja Utama S.Kom | 138,508 |
| Bestwool/Bestlamb 2014-2017 | Department of Environment, Land, Water and Planning, Victoria | 270,517 |
| Community Wild Dog Control Initiative | Longreach Regional Council; Louth Chamber of Commerce Pest Control; Rangelands Fibre and Produce Association; Shire Of Esperance; Eastern Wheatbelt Biosecurity Group | 789,920 |
| Future Harvesting Methods Support | Andrew James Wytkin; Ranken Research Pty Ltd; Slamp Pty Ltd; | 215,969 |
| Genetics of Blowfly Parasitism | University Of Melbourne | 140,000 |
| Grower Extension and Promotion Materials | Horizon Print Management; Kainox Technology Ltd | 134,221 |
| Improving Lamb Survival by Optimising Lambing Density | The Department of Economic Development, Jobs, Transport and Resources, Victoria | 168,958 |
| Invasive Animals CRC Contribution 2012-13 to 2016-17 | Invasive Animals Ltd | 170,000 |
| Leading Sheep 2015-2018 | Department of Agriculture and Fisheries, Queensland | 157,954 |
| Lifetime Productivity (AMSEA) Project | Australian Merino Sire Evaluation | 553,310 |
| Merinos to Market and Evaluation advice | JT Agri-Source Pty Ltd | 194,436 |
| National Merino Challenge | Australian Public Address; BF & FL Watts, Bralca; Student Edge | 229,930 |
| NRM Spatial Hub for Whole Farm & Grazing | Spatial Information Systems Research | 120,000 |
| Pastoral Profit 2014-17 | Meat & Livestock Australia Limited | 150,668 |
| Pasture Legumes in Mixed Farming | Murdoch University | 187,400 |
| R&D Vertebrate Pest | Invasive Animals Ltd | 235,975 |
| Reproduction Management Training Package V | Rural Industries Skill Training Centre | 485,000 |
| Reproduction Strategic Advice | Andrew Thompson Consulting; David Masters; Farming Systems Analysis Service; Ken Solly Agribusiness Consultant; Livestock Dynamics | 234,858 |
| Residue Deletion Studies Pain Relief | Redcap Solutions Pty Ltd; Veterinary Health Research Pty Limited | 248,725 |
| Sensor Tech - Dam Records | ActiGraph LLC | 210,478 |
| Shearer & Wool Handler Industry Competitions 2015/16 | Australian National Shearing (WA); Sports Shear Australia Association; Sports Shear Australia (NSW) Inc; Sports Shear Australia Victoria; Sports Shear Tasmania Inc | 214,263 |
| Shearer & Wool Handler Training Portfolio 2015/16 | Great Southern Institute of Technology; Kevin Gellatly; Indigenous Land Corporation; Primary Employers Tasmania; Rylington Park Management Committee; SCAA Shearer Woolhandler Training Institute; TAFE NSW - New England Institute; TAFE SA | 1,760,196 |

*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.

ON-FARM R&D PROJECTS (continued)

| Project title | Key providers* | \$ Paid in 2015/16 |
|-------------------------------------|---|--------------------|
| Sheep Connect SA 2014-17 | Department of Primary Industries and Regions, South Australia | 204,298 |
| Sheep Connect Tasmania 2015-2018 | University of Tasmania | 150,000 |
| State Wild Dog Coordinators Stage 2 | Agforce Queensland; Department of Environment, Land, Water and Planning, Victoria; Invasive Animals Ltd; Meja Hannah Aldrich; NSW Farmers Association | 855,532 |
| The Sheep's Back 2014-17 | MR8 Pty Ltd ATF The Ritchie Family | 192,509 |
| Wild Dog Control Training | Gwymac Incorporated; Hunter Valley Combined Wild Dog Association; NSW Farmers Association | 194,275 |

OFF-FARM R&D PROJECTS

| Project title | Key providers* | \$ Paid in 2015/16 |
|---|--|--------------------|
| Digital Trade Development and Maintenance | Deakin University; Levo Group Pty Ltd; Lowe Profero Pty Ltd | 218,688 |
| Face to Face and Digital Content | Deakin University; Facebook Ireland Limited; Gary Robinson | 212,180 |
| Global Trade Shows 2015/16 | Carruthers Associates; Fiera Milano SpA; Georgia Pearson; GL Events Services; Messe Frankfurt (HK) Ltd; Press Box Pty Ltd; Well Link Consultants Ltd; Woodmax Business Co Ltd | 979,816 |
| Investigation of the Impact of Sleepwear Fibre | University Of Sydney | 160,999 |
| Life Cycle Assessment Tech Advisory Group | Agri Escondo Pty Ltd; Nonwovens Innovation & Research Institute; Thinkstep Pty Ltd | 218,110 |
| New Supply Chain Development | Deakin University; Dr Tran Van Quyen; Gary Robinson; Novetex Textiles Limited; Russia-Europe Textile Alliance; Zhejiang New Chuwa Wool Co Ltd; Zhejiang Xinao Textiles Inc | 578,607 |
| Technology Transfer Technical Services | Deakin University; Richard Goodstein Inc; China Textile Information Centre; Florence Floral Design & Sculpture; Zhangjiagang Yangtse Spinning Co | 533,681 |
| Trade Content and Imagery | Australian School of Mountaineering; Press Box Pty Ltd; R.Hadi Widjaja Utama S.Kom; Shannon Stuart Pawsey; Sodus Pty Ltd | 176,498 |
| The Wool Lab – Off-Farm | Riccardo Rami Studio SRL; Vanzi SRL | 1,050,042 |
| Training & Education Packages – Asia | Beijing Top Fashion Exhibition Co; Images Multimedia Pvt Ltd; Various | 211,132 |
| Training & Education Packages – Europe & Americas | Cult Idea SRL; Texprint Ltd; Textile Arts Center LLC; The Barbican Centre | 201,586 |
| Wool Allergy Consensus Group | Allergy & Immunology Services; Jenny Cahill; L&CH Welyczko Pty Ltd; Mimi Tang; Murdoch Children's Research Institute; Queensland Allergy Services; Su Dermatology; The University of Manchester; Veracity Clinical Research, | 121,815 |

MARKETING PROJECTS

| Project title | Key providers* | \$ Paid in 2015/16 |
|---|---|--------------------|
| Advertising campaign in GQ | Nick Leary Photography; The Conde Nast Publications Ltd | 239,995 |
| Australia and New Zealand Woolmark Partner Collaborations | Graphitype Printing Services; Heritage Clothing Company Pty Ltd; News Life Media Pty Ltd; Rodd & Gun Australia Limited; The Apparel Group | 232,594 |

*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 PROJECTS (continued)

| Project title | Key providers* | \$ Paid in 2015/16 |
|---|---|--------------------|
| Biella Mill Tour International Media | Baglioni Hotels SpA; Corrado Calza Food & Co SRL; Suitsupply USA Inc | 122,172 |
| Campaign for Wool 2013-2015 | Arter; Isetan Mitsukoshi Ltd; Montagu Events Limited; NewReach Design & Communications; Riceevent Service Corp; Shanghai Yuese Performance Co; The Campaign for Wool Ltd; Urban Productions SRL; Utop Public Relations Consulting | 2,630,122 |
| Christopher Raeburn 'Comforts' | Christopher Raeburn; Exposure Promotions Ltd | 235,362 |
| Colin McDowell | Colin McDowell | 159,001 |
| Cool Wool – Australia | Berkeley Apparel International Pty Ltd; NewBale Clothing Pty Ltd | 122,090 |
| Cool Wool – India 2015/16 | Conde Nast India Pvt Ltd; Nachiket Exim India Pvt Ltd; Toast Events Private Limited | 349,949 |
| Cool Wool – Korea | Lotte Department Store; Parkland Co Ltd; We Media; Wishing Nine Corp | 146,317 |
| Cool Wool Launch Campaign (Greater China) | Beijing Deco Ads Co Ltd; Shanghai Conde Nast Advertising Co; Utop Public Relations Consulting Co | 437,512 |
| Council of Fashion Designers of America | The Council of Fashion Designers of America, Inc | 183,386 |
| Digital Consumer Development | Cloud Sherpas Pty Ltd; Levo Group Pty Ltd; Lowe Profero Pty Ltd | 244,894 |
| Digital Content Creation (Trade) | Alaud Pty Ltd; Coburn Communications Limited; Design by Lyndal; Georgina Kate Safe | 120,855 |
| Digital Content Partnerships | Association Ente Per le Arti Application; Bubble Bobble Limited; Janet Prescott; Lucrezia Seu Ltd | 173,823 |
| Digital Infrastructure # Hosting | Atlassian Pty Ltd; EPiServer AB; Siteimprove Australia Pty Ltd | 214,989 |
| Digital Infrastructure # Support | Laughing Mind Pty Ltd; Lowe Profero Pty Ltd; Stonebridge Systems Pty Ltd | 181,982 |
| Digital Marketing | Facebook Ireland Ltd; Google Asia Pacific Pte Ltd; Hong Kong Myanmar Manufacturers' Association; Lowe Profero Pty Ltd; Twitter Asia Pacific Pty Ltd | 637,778 |
| Digital Social Media | Jonathan Daniel Pryce; Klick Communications Pty Ltd | 199,637 |
| Esquire Media Partnership Fall 2015 | Hearst Communications Inc, USA | 241,405 |
| Fibre of Football | Audio Network Australia Pty Ltd; BK Vince Investment Trust; Fleet Foot Promotions Pty Ltd; PlayCorp Pty Ltd | 207,808 |
| France PR Agency | PR Consulting Paris | 132,005 |
| Global Behavioural Tracking | Significance Systems | 164,582 |
| Global Media Monitoring 2015/16 | DMR SRL; iSentia Pty Limited | 134,835 |
| Global PR Agencies 2015/16 | Communion KK; Nac Group Pty Ltd; PR Consulting Inc; Relative Mo Ltd; Smith Petersen SRL | 812,551 |
| Greater China PR & Social Media Agency | New Reach Design and Communications; Shanghai CatchOn & Company Limited; Utop Public Relations Consulting Co | 282,377 |
| International Consultants Travel | Egencia Australia Pty Ltd; Fabrizio Servente; R Peter Ackroyd Ltd | 132,370 |
| International Fibre Advocacy | R Peter Ackroyd Ltd | 306,510 |
| International Woolmark Prize | Agi & Sam; Inca Productions Limited; Teatum Jones | 274,895 |
| International Woolmark Prize – Australia | 10 Magazine Australia Pty Ltd; Bianca Spender; Camilla Lowther Ltd; Chic Management Pty Ltd; LAB & Co Pty Ltd; News Life Media Pty Ltd; P.Johnson; Three60 Media Pty Ltd; Urban Productions SRL | 974,764 |
| International Woolmark Prize – Asia | JKOO; Lucrezia Seu Ltd; Munsoo Kwon; Riceevent Services Corp; Superpress | 299,842 |

*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 PROJECTS (continued)

| Project title | Key providers* | \$ Paid in 2015/16 |
|--|---|--------------------|
| International Woolmark Prize – Europe | Namus; Pry SRL; The Moodstudio | 590,315 |
| International Woolmark Prize – India | Namus; Taller Marmo | 209,131 |
| International Woolmark Prize – USA | MGP Productions LLC; Palmer Schwartz Agency; SIKI IM Studio LLC; Tanya Taylor Designs LLC | 847,160 |
| Italian Industry & The Wool Lab Strategy | Fabrizio Servente | 404,627 |
| Jakarta Fashion Week | PT Azura Activation | 149,555 |
| Julie Gilhart Consultancy | Julie Gilhart | 138,706 |
| Korea Extrafine Smart Casual with Lotte | CAPA Media & Communications; Sangsang Design Co; The Spring Company Inc | 140,835 |
| Live Studio in Wool | Gelardin Management Ltd | 179,982 |
| Lora Piana Record Bale Nov 2015 | Loro Piana SpA | 121,734 |
| Major Agricultural Show Support | Always Perfect Grass; Microhire Pty Ltd; Royal Agricultural Society of NSW | 202,942 |
| Media Planning and Placement | Diane Almond Marketing & PR Services Ltd | 250,497 |
| On Stage Milan Sept 2015 | Prt SRL; RCS Media Group SpA; Urban Productions SRL; W3 SRL | 198,803 |
| Osmans 'Perfect 5' Wool Pant | Osman Studio Ltd | 164,893 |
| Paul Smith Collaboration | Mediasmith, Paul Smith Ltd | 496,004 |
| Reda 150th Events | Successori Reda SpA | 120,005 |
| Rome Tennis Tournament | Australian by l'Alpina Maglierie | 171,164 |
| Seminars, Workshops and Training | Buck Design Australia Pty Ltd; Carruthers Associates; Epicure | 199,851 |
| Still and Video Content Creation | Buck Design Australia Pty Ltd | 193,275 |
| Trade Advertising | Deutscher Fachverlag GmbH | 185,416 |
| The Wool Lab Marketing | Class Pubblicita SpA; Cult Idea SRL; Serena Campelli | 425,236 |
| UK PR Agency | The Communications Store Ltd | 159,614 |
| Vogue Italy-China Issue | Edizioni Conde Nast SpA | 122,758 |
| Westfield Wool Activation | Nac Group Pty Ltd; Samantha Gazal | 128,126 |
| Woolmark Gold Relaunch | FEU China Limited; Riccardo Rami Studios SRL; Shanghai CatchOn Company Limited; Shanghai International Fashion Centre; Shanghai Rayband Media; The Muse Advertising; Uangle | 577,023 |

CORPORATE SERVICES PROJECTS

| Project title | Key providers* | \$ Paid in 2015/16 |
|------------------------------------|---|--------------------|
| Beyond the Bale 2015/16 | D&D Mailing Services; Hyde Media Pty Ltd; Newstyle Printing Co Pty Ltd | 285,903 |
| External Audit – Off-Farm RDE | Carruthers Associates; Craig Vanderoef; NewBale Clothing Pty Ltd | 178,367 |
| Face to Face Grower Engagement | Various | 152,073 |
| Global Market Intelligence | Aroq Ltd; Euromonitor International Ltd; Textiles Intelligence Ltd; The Future Laboratory Ltd UK; World Textile Information Network Ltd | 191,428 |
| ICC and Stakeholder 2015/16 | Various | 201,591 |
| Investment Evaluations 2015/16 | BDA Economics & Environment Pty Ltd | 301,660 |
| IWTO 2016 Congress – Sydney | Various | 160,149 |
| KAM Training 2015/16 | Prediktiv Thinking | 187,276 |
| Regional Engagement Events 2015/16 | Various | 214,958 |
| Stakeholder Consultation | Kreab Gavin Anderson | 132,854 |
| Supply Chain Facilitation 2015/16 | Ausfine Pty Ltd; Australian Football League; Kristina Diane Jackson | 233,984 |
| Wool Selling Systems Review | Bernard Wonder; Eubindal Pty Ltd; Fox & Lillie Pty Ltd; Graeme Samuel; Joe Dimasi Advisory; William Wilson | 302,560 |
| WoolPoll 2015 | Currie Communications Pty Ltd; Link Market Services Ltd; M.N. Roberts & N.M. Roberts & W.L. Roberts | 430,053 |

*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.

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

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- Poland
- Slovenia/Croatia/Bosnia/Herzegovina/Serbia/Macedonia/Montenegro

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More information:

Information on AWI activities and products are available via publications, events and online.

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- *Beyond the Bale* magazine online:
<http://beyondthebale.wool.com>

AWI produces several free e-newsletters:

- Weekly wool market review
- Monthly AWI woolgrowers' e-newsletter
- *Beyond the Bale* e-newsletter
- WOOL e-newsletter (textiles and fashion)

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