

Australian Wool Innovation Limited

ABN 12 095 165 558

CORPORATE GOVERNANCE POLICY

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CORPORATE GOVERNANCE POLICY

Governance principles

The main provisions governing the activities of AWI are:

- legislation applicable to AWI including the Wool Services Privatisation Act;
- other legislation applicable to both companies and not-for-profit entities;
- the Statutory Funding Agreement with the Commonwealth whereby AWI receives certain funding as the designated research body for the Wool Industry; and
- its Constitution.

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.

AWI's governance framework meets the best practice guidelines in the ASX Corporate Governance Principles and Recommendations (Principles and Recommendations) in implementing a corporate governance framework. While AWI is not a listed company, it uses these Principles and Recommendations as guidance in its governance practices to the extent that they are reasonably applicable to AWI's circumstances as a not for profit entity with charitable objects to act in the best interests of Australian woolgrowers.

Board functions and responsibilities

Key functions and responsibilities for the Board are set out in the Board Charter. The board charter specifies board responsibilities including general oversight of AWI; governance; risk management; people and remuneration; Chairperson responsibilities and communication with shareholders. Operational matters delegated to the CEO are delineated.

There are 3 standing sub-committees being:

- Audit and Risk Committee;
- Research Development Education and Extension Committee;
- People and Culture Committee;

There is also a Board Nomination Committee which is convened in director election years.

The board charter and charters for each of the board committees are available on the website at www.wool.com/governance

Board Nomination Committee

From 2019, the Board Nomination Committee has 3 external members who are specifically described in the updated Charter for this Committee and 2 incumbent board directors. The composition of the committee is as follows –

- A Chair independent of the wool industry and independent from AWI, initially appointed by the Secretary of the Department of Agriculture, Water and the Environment;
- Two (2) independent non-executive Directors of the Company (other than the Chair of the Company);
- One (1) representative of the wool industry independent from the Company, nominated by the Wool Industry Consultation Panel;

- One (1) representative from an international executive search firm, nominated by the CEO of the Company (subject to approval by the independent Chair of the Board Nomination Committee).

Corporate governance documents

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

- AWI Constitution
- 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
- Statutory Funding Agreement

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.

AWI Board skills matrix

With the assistance of an external governance adviser, core skill areas were reviewed by the board as part of the 2020 review of board performance to ensure that they cover existing and emerging business and governance issues. The review included a self-assessment and external review of the currency of skill and experience in each of the core areas in order to assist the board to identify any gaps in its collective skills which may need to be addressed. The following skills matrix shows the extent to which directors collectively possess the desired skills and experience. The results demonstrate that the board collectively has a good level of knowledge and skill to carry out its responsibilities effectively. At the same time, directors may access further expertise in the core skill areas, and in other areas not shown in the matrix, from within AWI and externally as appropriate.



Review of Independence of Directors

The board maintains a Directors Disclosure of Interests Register which is reviewed as a standing agenda item at all board meetings. The materiality of disclosures is assessed by the board to determine whether they may interfere with, or reasonably be seen to interfere with, a director's capacity to bring independent judgement to bear on matters before the board. This provides a systematic approach for the board's oversight of the independence of all directors.

In addition, directors who have served in that position for more than 10 years are assessed by the Board annually thereafter, as to whether they have become too close to management to be considered independent. This is in accordance with guidelines in the ASX Corporate Governance Principles. The review in 2020 was undertaken as a part of the annual board review, and the methodology was for self and peer assessments by all directors.

This process involves an externally facilitated peer and self-assessment using criteria which closely reflect the factors identified in the ASX guidelines for evaluating the independence of directors, with an emphasis on length of tenure and relationship with management.

In 2020, one director's tenure had exceeded ten years. An assessment was conducted in conjunction with the board performance review process and the board found that the director met the criteria to a high level and was endorsed as an independent director. All directors meet all of the criteria for independence in accordance with the ASX Corporate Governance Principles and Recommendations.

Board Effectiveness

As part of the board's annual review of its performance, increased emphasis has been placed on evaluating the effectiveness of the board in contributing to the overall performance of the organisation. The review found that the board was particularly effective in setting clear direction for management; in ensuring that control systems are in place; and working to protect the organisation against fraud and reputation risk and in working efficiently, in a unified way, in the interests of woolgrowers. The board continues to maintain a strong governance framework.

Performance of the board at a strategic level is evident in the data provided in the 3 year Strategic Plan and Annual Operating Plan.

Consultation with Industry stakeholders has been enhanced with the establishment of the Wool Industry Consultation Panel and the wider Woolgrower Consultation Group in 2019.

Code of Conduct and Business Ethics

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

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.

AWI has a Code of Conduct and Business Ethics to ensure decisions are made 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 consistent with AWI's legal obligations.

The Code is available on AWI's website at www.wool.com/governance.

COMPARISON OF AWI'S CORPORATE GOVERNANCE PRINCIPLES TO ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (4TH EDITION)

Principle 1 Lay solid Foundations for management and oversight

Recommendation 1.1

A listed entity should have and disclose a board charter setting out:

- a) the respective role and responsibilities of its board and management;
and
- b) those matters expressly reserved to the board and those delegated to management.

AWI Commentary

Refer to Board Charter at www.wool.com/governance

Recommendation 1.2

A listed entity should:

- a) undertake appropriate checks before appointing a director or senior executive, or putting someone forward for election as a director; and
- b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

AWI Commentary

Background checks on director candidates are undertaken by the Board Nomination Committee.

The process for senior executive appointments includes background checking.

Recommendation 1.3

A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

AWI Commentary

Offer letters are sent to new directors on appointment. All staff, including senior executives, are required to enter into engagement letters prior to commencement of duties.

Recommendation 1.4

The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

AWI Commentary

The company secretary is accountable directly to the board on all matters relating to board functions. The company secretary has a direct reporting line to the board chairman.

Recommendation 1.5

A listed entity should:

- a) have and disclose a diversity policy; and
- b) through its board or a committee of the board set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally; and
- c) disclose in relation to each reporting period:
 1. the measurable objectives set for that period to achieve gender diversity;
 2. the entity's progress towards achieving those objectives; and

3. either:
 - the respective proportions of men and women on the board, in senior executive positions and across the whole workforce (including how the entity has defined “senior executive” for these purposes); or
 - if the entity is a “relevant employer” under the Workplace Gender Equality Act, the entity’s most recent “Gender Equality Indicators”, as defined in and published under that Act.

AWI Commentary

The Diversity Policy is on the website at: www.wool.com/governance.

AWI is not a “relevant employer” under the Workplace Gender Equality Act.

The proportion of women at the date of this report is –

- Board. 2 out of 7 women, including the current Chairman (28%).
- Senior executives. 4 out of 8 women. Definition based on key management in accounting standards (50%).
- Workforce. 63% women.

Recommendation 1.6

A listed entity should:

- a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and
- b) disclose, for each reporting period, whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period

AWI Commentary

Board review is undertaken annually with assistance from an external governance practitioner. The review includes evaluation of board performance overall and individual directors.

Recommendation 1.7

A listed entity should:

- a) have and disclose a process for evaluating the performance of its senior executives at least once every reporting period: and
- b) disclose for each reporting period, whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.

AWI Commentary

Performance evaluations for senior executives are undertaken annually.

Principle 2 Structure the board to be effective and add value

Recommendation 2.1

The board of a listed entity should:

- a) have a nomination committee which:
 1. has at least three members, a majority of whom are independent directors; and
 2. is chaired by an independent director, and disclose:
 3. the charter of the committee;
 4. the members of the committee; and
 5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

- b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

AWI Commentary

Board Nomination Committee has 5 members of whom 3 are external persons and 2 are incumbent AWI directors. The Chair is one of the external persons. Refer to BNC Charter at www.wool.com/governance.

Recommendation 2.2

A listed entity should have and disclose a board skills matrix setting out of the mix of skills that the board currently has or is looking to achieve in its membership.

AWI Commentary

Board Skills Matrix is included in the Annual Report.

Recommendation 2.3

A listed company should disclose:

- a) the names of the directors considered by the board to be independent directors;
- b) if a director has an interest, position or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position or relationship in question and an explanation of why the board is of that opinion; and
- c) the length of service of each director.

AWI Commentary

Independence of directors is reviewed on an ongoing basis.

The length of service of each director is noted in their biographies in the Annual Report.

Recommendation 2.4

A majority of the board of a listed entity should be independent directors.

AWI Commentary

All directors are considered to be independent directors in terms of the criteria in the ASX Corporate Governance Principles.

Recommendation 2.5

The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.

AWI Commentary

The role of the Chair and CEO are not undertaken by the same person.

Recommendation 2.6

A listed entity should have a program for inducting new directors and for periodically reviewing whether there is a need for existing directors to undertake professional development to maintain the skills and knowledge needed to perform their role as directors effectively.

AWI Commentary

There is a substantial induction procedure for new directors after appointment. Professional development opportunities for all directors include the AICD Company Directors course.

Principle 3 Instil a culture of acting lawfully, ethically and responsibly

Recommendation 3.1

A listed entity should articulate and disclose its values.

AWI Commentary

The AWI Strategic Plan includes a statement on Vision, Mission, Goal and Values.

Recommendation 3.2

A listed entity should:

- a) have a code of conduct for its directors, senior executives and employees; and
- b) ensure that the board or a committee of the board is informed of any material breaches of that code.

AWI Commentary

Refer to Code of Conduct and Business Ethics at www.wool.com/governance.

Recommendation 3.3

A listed entity should:

- a) have and disclose a whistleblower policy; and
- b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy.

AWI Commentary

Refer to Whistleblower Policy at www.wool.com/governance.

Recommendation 3.4

A listed entity should:

- a) have and disclose an anti bribery and corruption policy; and ensure that the board or a committee of the board is informed of any material incidents reported under that policy; and
- b) Ensure that the board or a committee of the board is informed of any material breaches of that policy.

AWI Commentary

AWI does not have a separate anti bribery and corruption policy, and instead deals with this as a part of the Code of Conduct and Business Ethics.

Principle 4 Safeguard the integrity of corporate reports

Recommendation 4.1

The board of a listed entity should:

- a) Have an audit committee which:
 1. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and
 2. is chaired by an independent director, who is not the chair of the board, and disclose:
 3. the charter of the committee;

4. the relevant qualifications and experience of the members of the committee; and
 5. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

AWI Commentary

Refer to Audit & Risk Committee Charter at www.wool.com/governance.

The biographies for directors include their qualifications and committee memberships. The directors report in the Annual Report includes details of meetings held and attendances during the year.

Recommendation 4.2

The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

AWI Commentary

The board receives requisite declarations from the CEO and CFO.

Recommendation 4.3

A listed entity should disclose its process to verify the integrity of any periodic corporate reports it releases to the market that is not audited or reviewed by an external auditor.

AWI Commentary

Not applicable to AWI as an unlisted public company.

Principle 5 Safeguard the integrity of corporate reports

Recommendation 5.1

A listed entity should have and disclose a written policy for complying with its continuous disclosure obligations under listing rule 3.1

AWI Commentary

Not applicable to AWI as an unlisted public company.

Refer to Communications Strategy at www.wool.com/governance.

Recommendation 5.2

A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.

AWI Commentary

Not applicable to AWI as an unlisted public company.

Procedure for external releases requires communications to all shareholders to be sent to all directors at the time of distribution.

Recommendation 5.3

A listed entity that gives a new and substantive investor or analyst presentation materials on the ASX Market Announcements Platform ahead of the presentation.

AWI Commentary

Not applicable to AWI as an unlisted public company.

Principle 6 Respect the rights of security holders

Recommendation 6.1

A listed entity should provide information about itself and its governance to investors via its website.

AWI Commentary

Refer to governance suite at www.wool.com/governance

Recommendation 6.2

A listed entity should have an investor relations program that facilitates effective two-way communication with investors

AWI Commentary

Not applicable to AWI as an unlisted public company.

However, AWI has substantial stakeholder consultation arrangements including via the AWI Woolgrower Industry Consultation Panel and AWI Woolgrower Consultation Group.

Recommendation 6.3

A listed entity should disclose how it facilitates and encourages participation at meetings of security holders

AWI Commentary

Refer to Communications Strategy at www.wool.com/governance.

Annual General Meetings in recent years have included a capacity for shareholders to attend via webcast. The webcast for the most recent AGM is on AWI's website, and the results of elections and voting on resolutions are outlined on AWI's website at www.wool.com/agm

Recommendation 6.4

A listed entity should ensure that all substantive resolutions at a meeting of security holders are decided by a poll rather than a show of hands.

AWI Commentary

The use of a Poll is standard practice.

Recommendation 6.5

A listed entity should give security holders the option to receive communications from, and send communications to the entity and its security registry electronically.

AWI Commentary

This is standard practice. AWI encourages shareholders and levy payers to provide electronic access details for efficiency reasons.

Principle 7 Recognise and manage risk

Recommendation 7.1

The board of a listed entity should:

- a) have a committee or committees to oversee risk, each of which:
 1. has at least three members, a majority of whom are independent directors; and
 2. is chaired by an independent director, and disclose:
 3. the charter of the committee;
 4. the members of the committee; and
 5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

AWI Commentary

Refer to Audit & Risk Committee Charter at www.wool.com/governance.

The directors report in the Annual Report includes details of committee meetings held and attendances during the year.

Recommendation 7.2

The board or a committee of the board should:

- a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and that the entity is operating with due regard to the risk appetite set by the board; and
- b) disclose, in relation to each reporting period, whether such a review has taken place.

AWI Commentary

Refer to Audit & Risk Committee Charter at www.wool.com/governance.

The risk management framework is reviewed by this committee bi-annually.

Recommendation 7.3

A listed entity should disclose:

- a) if it has an internal audit function, how the function is structured and what role it performs; or
- b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its governance, risk management and internal control processes.

AWI Commentary

AWI does not have an internal audit function but relies on the processes and functions it employs to evaluate and continually improve the effectiveness of its governance, risk management and internal control process. Through this risk management process, any internal audit requirements identified are dealt with on a case by case basis. When necessary, external internal auditors have been engaged to fulfil specific reviews and report to the Audit and Risk Committee.

Recommendation 7.4

A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.

AWI Commentary
AWI reports on risks in its Annual Report.

Principle 8 Remunerate fairly and responsibly

Recommendation 8.1

The board of a listed entity should:

- a) have a remuneration committee which:
 1. has at least three members, a majority of whom are independent directors; and
 2. is chaired by an independent director, and disclose:
 3. the charter of the committee;
 4. the members of the committee; and
 5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

AWI Commentary

Refer to People & Culture Committee Charter at www.wool.com/governance.

The directors report in the Annual Report includes details of committee meetings held and attendances during the year.

Recommendation 8.2

A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

AWI Commentary

Refer to People & Culture Committee Charter at www.wool.com/governance.

AWI undertakes an external benchmarking of remuneration for non-executive directors every 3 years.

Remuneration for senior executives is benchmarked annually.

Recommendation 8.3

A listed entity which has an equity-based remuneration scheme should:

- a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
- b) disclose that policy or a summary of it.

AWI Commentary

Not applicable to AWI as an unlisted public company.