



AWI Australian Wool
Innovation Limited

AUSTRALIAN WOOL INNOVATION LIMITED



ANNUAL REPORT 2012/13



AWI'S MISSION

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

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

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ABOUT AWI

WHAT AWI DOES

Established in 2001, AWI is a not-for-profit company owned by more than 25,000 wool levy payers who have registered as AWI shareholders.

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

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

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

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 the most recent vote – WoolPoll 2012 – 60.34 per cent of votes cast were in favour of a levy of two per cent or more. In total, 60.94 per cent of all possible woolgrower votes were cast at WoolPoll 2012, the biggest return since the triennial vote began 12 years previously.

An agreement exists between AWI and the Australian Government, called the Statutory Funding Agreement, which defines the conditions under which AWI may invest levy and Government-matched funds. A new three year Statutory Funding Agreement came into effect on 1 July 2013.

BUSINESS MODEL

In the WoolPoll conducted in November 2009, wool levy payers voted for a wool levy at two per cent for the three years 2010/11 to 2012/13, ie **including the period covered by this annual report**. Allocation of levy funds with the Government's matching contribution for eligible R&D activities was as follows:

On-farm R&D 30%	Off-farm R&D 20%	Off-farm Marketing 50%
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In Wool Poll 2012, wool levy payers voted to continue the wool levy at two per cent for the three years 2013/14 to 2015/16. The allocation of funds, **from 1 July 2013**, is as follows:

On-farm R&D 25%	Off-farm R&D 15%	Off-farm Marketing 60%
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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.

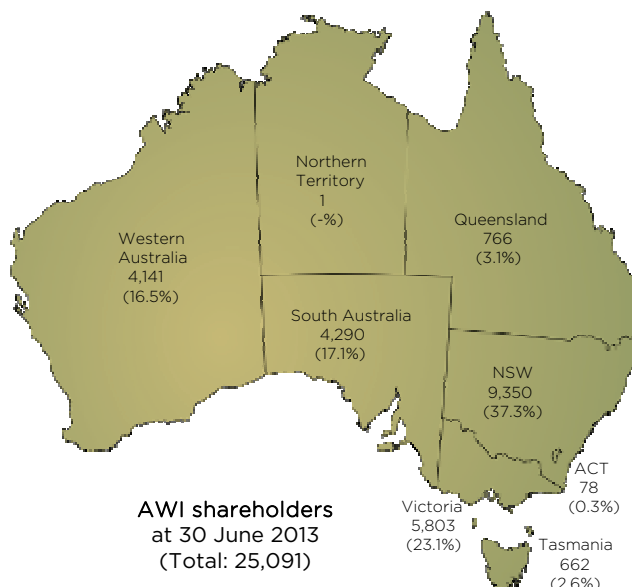
AWI SHAREHOLDERS

AWI has more than 25,000 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 25,091 shareholders at 30 June 2013, a decrease of 2,360 shareholders over the past 12 months. There were a total of 51,557 wool levy payers at 30 June 2013, a decrease of 628 over the past 12 months.



STRATEGY FOR THE FUTURE

While this Annual Report covers AWI's activities during 2012/13, it should be noted that since 1 July 2013, AWI has been operating under a three-year Strategic Plan for the years 2013/14 through to 2015/16.

The AWI 2013/14 to 2015/16 Strategic Plan is available on the AWI website at www.wool.com

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



On-farm R&D	Marketing
<p>Objective: To increase the profitability and sustainability of growing wool.</p> <p><i>Strategy 1:</i> Sheep health, welfare and productivity <i>Strategy 2:</i> Wool harvesting and quality preparation <i>Strategy 3:</i> Production systems and eco-credentials <i>Strategy 4:</i> Education and extension</p>	<p>Objective: To help increase demand for Australian wool by recognising and addressing the information barriers to consumption at consumer and trade level.</p> <p><i>Strategy 8:</i> Fibre marketing and eco-credentials <i>Strategy 9:</i> Product promotion</p>
Off-farm R&D	Global business services
<p>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.</p> <p><i>Strategy 5:</i> Technical services <i>Strategy 6:</i> Fibre advocacy and eco-credentials</p>	<p>Objective: To enable AWI to operate 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.</p> <p><i>Strategy 10:</i> Business intelligence and measurement <i>Strategy 11:</i> Corporate affairs and market access <i>Strategy 12:</i> Trade education <i>Strategy 13:</i> Woolmark <i>Strategy 14:</i> Corporate services</p>
Off-farm R&D	Marketing
<p><i>Strategy 7:</i> Category management</p>	

HIGHLIGHTS OF 2012/13



3340 shearers and wool handlers were trained/coached through AWI programs.



AWI's Wool Lab trend guide was presented at international textile trade shows.



The International Woolmark Prize promoted wool to a vast global audience.

ON-FARM R&D

Shearers and wool handlers trained

1,571 shearers and 983 wool handlers have been trained directly through the AWI shearer and wool handler training program in 2012/13. An additional 786 participants attended crutching and other introductory workshops, and 1370 high school students received an introduction to wool harvesting. See page 11.

State grower groups expand

AWI has continued to invest and grow its state based extension networks which have expanded their membership during 2012/13 to 8100 producers. Strong partnerships with state departments, private providers and woolgrowers have secured ongoing funds for all networks. See page 11.

Flystrike R&D continued

AWI continued to fast track its R&D program, including genetic research and breeding and intradermals, to deliver welfare improved methods of flystrike prevention. See page 10.

OFF-FARM R&D

Vietnam: supply chain for Australian wool

Through its "Out of Vietnam" project, AWI has been working to develop a sustainable supply chain for Australian wool in Vietnam. After visits and meeting with potential partners, the key message to emerge is that "the time is right for wool" in Vietnam. See page 18.

The Wool Lab trend guide

AWI launched to the trade three versions of this innovative guide to the best wool fabrics and yarns in the world: the Spring/Summer 2014 edition, the Autumn/Winter 2014/15 edition, and the inaugural Interiors edition. See page 18.

Merino in the outdoor apparel market

Following widespread uptake of Merino wool for next-to-skin products in the sports and outdoor market, a majority of the world's leading outdoor brands are now incorporating the latest innovations of Merino wool into their collections. See page 19.

MARKETING

Merino Wool. No Finer Feeling™ campaign

AWI's five-year global "Merino Wool. No Finer Feeling™" fibre advocacy campaign this year involved AWI strengthening its partnerships with well-known designers and fashion houses and promoting Merino wool across the world through numerous high-profile publications. See page 27.

Campaign for Wool

The Campaign for Wool was celebrated this year on an unprecedented global scale across international consumer markets, with more countries than ever before creating their own program of activity for 'International Wool Week' during the northern hemisphere autumn retail season. See page 26.

International Woolmark Prize

This year's International Woolmark Prize competition has been incredibly successful at showcasing the versatility and quality of Merino wool to the fashion and textile industries and consumers. It has gained extraordinary momentum over the past 12 months, generating significant interest across the globe. See page 27.

Cool Wool campaign

The consumer launch of the Cool Wool program was undertaken, focused on educating consumers about the natural performance benefits of lightweight Merino fabrics for warmer climates and seasons. See page 29.

For further information on AWI program operations during 2012/13, refer to the reports beginning on page 10.

FINANCIAL SUMMARY

REVENUE FOR 2012/13

Total revenue for 2012/13 was \$69,257,000, compared to \$73,970,000 in 2011/12. Sources of revenue are shown in the table below.

	2011/12 \$'000	2012/13 \$'000
Wool levy	48,089	43,745
Government contributions	12,454	13,293
Licence fees	5,901	6,093
Interest	5,510	4,445
Royalties	1,504	1,068
Sales of goods and services	304	381
Rents and sub-lease rentals	111	192
Other operating revenue	97	40
Total revenue	73,970	69,257

EXPENDITURE FOR 2012/13

Total expenditure in 2012/13 was \$75,262,000, a 13.75 per cent increase over total expenditure in 2011/12 of \$66,162,000. Expenditure is shown in the table below. More detailed information can be found in the Financial Report beginning on page 44.

	2011/12 \$'000	2012/13 \$'000
On-farm R&D	14,022	16,311
Off-farm R&D	8,956	10,488
Global marketing	25,588	29,860
Global business development	9,082	8,514
Corporate services	8,514	10,089
Total expenditure	66,162	75,262

FINANCIAL HISTORY AND FORECASTS

The company has been run in a leaner, commercially oriented manner in the past four years. AWI will invest future funds in line with its new Strategic Plan, drawing on some of its reserves when appropriate.

	2005/06 \$'000	2006/07 \$'000	2007/08 \$'000	2008/09 \$'000	2009/10 \$'000	2010/11 \$'000	2011/12 \$'000	2012/13 \$'000	Forecast 2013/14 \$'000
Revenue	57,035	63,964	90,812*	61,716	62,437	72,698	73,970	69,257	72,091
Expenditure	82,678	75,453	85,354	78,577	45,687	48,307	66,162	75,262	87,091
Balance	(25,643)	(11,489)	5,458	(16,861)	16,750	24,391	7,808	(6,005)	(15,000)
AWI reserves	77,349	65,860	71,318	54,457	71,207	95,598	103,406	97,401	82,401

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

AUSTRALIAN WOOL PRODUCTION HISTORY AND FORECASTS

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

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Forecast 2013/14
Market price EMI* (cents per kg clean)	943	794	872	1138	1198	1034	1080 (f)
Flock size** (opening sheep numbers, in millions)	85.7	76.9	72.7	70.8	73.1 (e)	75.1 (f)	74.4 (f)
Wool production** (shorn greasy wool*** in millions of kg)	400	362	343	345	342 (e)	350 (f)	345 (f)

* Actual figures from AWEX. Forecast figure from ABARES.

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

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

(e) Estimate

(f) Forecast

AWI BOARD OF DIRECTORS



Mr Walter B Merriman



Mr Roger J Fletcher



Mr George B S Falkiner



Ms Colette Garnsey



Dr Meredith L Sheil



Mr Brian P van Rooyen



Mr David A A Webster

THE BOARD OF AWI

The Board continued to meet regularly during 2012/13.

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 37.

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

Finance & Audit Committee

Chaired by David Webster

Directors 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 (appointed 21 November 2012)

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 George Falkiner

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

Chaired by Jock Laurie

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 2010-2013 Statutory Funding Agreement with the Australian Government. The Committee members for 2013 comprise three external members and two AWI Board members: Mr Jock Laurie, former President of the National Farmers' Federation; Mr Ian Armstrong (former Deputy Premier of NSW & former leader National Party in NSW); Mr Will Wilson, independent investor relations adviser, together with AWI Chairman Mr Wal Merriman and AWI Deputy Chairman Mr Roger Fletcher.

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 and from the AWI Helpline on 1800 070 099.

The Directors' Report is on page 45.

The Directors of Australian Wool Innovation Limited, their qualifications, experience and special responsibilities as at 30 June 2013 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:

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

MR ROGER J FLETCHER, DEPUTY CHAIRMAN OF AWI

Experience and expertise:

Mr Fletcher is the Managing Director of Fletcher International Exports Pty Limited (Dubbo Abattoirs) New South Wales, and Fletcher International WA (Narrakup Abattoirs) Western Australia. He is also a wheat, cotton and wool farmer. He is Deputy Chairman of the National Export Lamb, Sheep and Goat Industries Council and sits on the Board of Infrastructure NSW.

Special responsibilities:

Remuneration & Appointments Committee member (resigned as Committee Chair on 21 November 2012)
Finance & Audit Committee member
Remuneration & Appointments Committee member
Board Nomination Committee member.

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

Experience and expertise:

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

Special responsibilities:

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

MS COLETTE GARNSEY OAM

Experience and expertise:

Ms Garnsey is Core Brands Director at Premier Investments, previously Group General Manager at Pacific Brands Underwear Group. She is a board member of the L'Oréal Melbourne Fashion Festival (since 2006), a judge of the Veuve Clicquot Business Woman of the Year, a Committee member of CEW, and until recently was a Committee member of the Textile, Clothing and Footwear (TCF) Innovation Council (since 2010). She has had over 30 years' experience in retail and was formerly in senior management at David Jones

Limited for over 20 years most recently holding the position of Group General Manager. Ms Garnsey has also had five years manufacturing, wholesale and distribution experience and spent three 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 (appointed as Committee Chair on 21 November 2012).

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 was 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, Deputy Mayor of Hunter's Hill Council and a Graduate of The Australian Institute of Company Directors.

Special responsibilities:

Science & Welfare Committee member.

MR BRIAN P VAN ROOYEN

Experience and expertise:

Mr van Rooyen is currently Chairman of Australian Country Spinners Pty Ltd and a Director of PFG Australia Pty Ltd, Cologix Inc (USA) and Power Farming New Zealand Ltd. He was formerly a Director of Bruck Textiles Pty Ltd, Norwellan Textiles Ltd, Woolstock Australia Ltd and Spinrite Inc. He has had extensive experience in wool processing, sales and marketing.

Special responsibilities:

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

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 has very strong views on upholding the rights of farmers without undue regulation and impediments to running their businesses. Mr Webster places a high priority on giving value to shareholders, particularly for compulsory levy payers. 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, FCIS.

CHAIRMAN'S REPORT



The role of the Board of Australian Wool Innovation is to set the strategic direction for the wool industry research, development and marketing company – a direction that aims to increase the profitability of growing wool for shareholders, increase consumer demand for our fibre, revitalise the Woolmark brand and extend market access.

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.

Through WoolPoll 2012, AWI communicated its future direction. The participation in this poll was significant and the result gave a strong endorsement of the new 60:40 investment policy for AWI across marketing: research and development.

The 2012/13 financial year was characterised by significant global uncertainty which in turn affected all markets. While the wool price through much of this time was relatively subdued it was stable in comparison to many commodity and share markets, and held up very well.

Marketing

One of the highlights as Chairman has been the opportunity to host His Royal Highness The Prince of Wales, not once, but twice on his trip to Australia in late 2012. It is thanks to HRH that we have the global Campaign for Wool of which he is patron. This massive campaign has seen Australian wool become so visible at retail outlets in key markets. By collaborating with hundreds of retailers and brands across the world, the Campaign for Wool has been able to sell the wonderful attributes of our natural fibre and help place it back where it belongs.

Alongside the Campaign for Wool, the reinvention of the International Woolmark Prize is creating significant interest in wool by the world's leading designers, the Merino Wool No Finer Feeling program helps our fibre set the fashion agenda and has now attracted more than 40 partners, while Woolmark Gold is getting more Chinese consumers in touch with Australian Merino wool as something to wear when dressing with style.

In our new Strategic Plan you will see how all programs across the entire company are now measured against targets. This is an accountability that this Board has brought to the culture of AWI.

Research and development

Research and development, both on-farm and off-farm works hand-in-hand with marketing. A good example of this is the carding market which has enjoyed strong prices. Much of the demand for this market is being generated by knitwear, a segment that has been stimulated by off-farm research and development over the years with technologies such as circular knitting and mercerisation.

AWI continues to explore new areas for wool in both consuming and processing in a bid to reduce our heavy reliance on China. Vietnam is an example of a country keen to produce quality apparel but has never used Merino wool before. The Out of Vietnam program is successfully assisting Vietnamese textile processors switch to fine Merino wool and in turn produce a higher quality garment.

Just over 20 years ago Russia was buying and processing almost a third of the national clip. AWI continues to explore the opportunity for Russian textile interests to re-enter the wool trade and I am pleased to report that raw Australian wool is now being exported to Russia once again with about one million kilograms exported last year.

On-farm

Our focus for on-farm research and development has been developed with ongoing woolgrower consultation. Through this, protecting flocks against flies, lice and wild dogs remain significant issues just as shearer training and extension remain key areas of investment.

On-farm gains are also being achieved through popular extension programs such as Lifetime Ewe Management and the various state woolgrower networks which are improving stock husbandry and in turn increasing weaning rates and weights.

The largest threat to the Australian wool industry is not only poor prices but wild dogs. Woolgrowers from around Australia have told us of the significant problems being faced in so many regions. In response, AWI has been able to assist over 50 wild dog management groups combat this most insidious problem with more than \$2.7 million invested this past year in measures to reduce the wild dog population across vast areas of pastoral and alpine country.

As Chairman of the AWI Board I am proud of what we have been able to achieve over the 2012-13 financial year and look forward to further gains for our fibre.

Wal Merriman
Chairman, Australian Wool Innovation
15 August 2013

CEO'S REPORT



It has been an honour to work for woolgrowers throughout the 2012-13 financial year as the CEO of the wool marketing, research and development body. There are very few organisations with a brief wider than AWI - from working to get wool into the collections of the world's finest fashion houses as well as helping woolgrowers protect their flocks from wild dog attacks, flies and worms.

WoolPoll 2012 was a significant event during this period and with good reason, as it was shareholders' opportunity to cast their vote on AWI's performance and direction. The result was that shareholders voted to continue paying a two per cent levy to AWI, with 40 per cent to be spent on research and development and 60 per cent on marketing, effective from 1 July 2013.

The outcome of the poll also forms the basis of AWI's new Strategic Plan, which outlines the key investment priorities and activities for the next three years. The plan is based on woolgrower and government priorities for expenditure, which AWI sought through a robust consultation process during development of the plan.

Marketing

Building demand for wool is the purpose of AWI's marketing activities which are significant and extend across our key markets. Through various campaigns we are assisted by the world's most recognisable textile logo: The Woolmark. The familiar interwoven logo is owned by Australian woolgrowers and can be seen at the heart of our consumer campaigns to lift the awareness of the fibre.

In key markets across Asia, Europe and America we continue to see more wool in store. This is no coincidence as AWI has been working hard to influence and re-connect retailers, brands and designers with the many great qualities of Australian wool. Through key advocates, the messages of wool as a natural, fashionable and versatile fibre have been echoed across hundreds of retail stores across the world.

A very significant development this year has been the re-emergence of the International Woolmark Prize. With regional winners in all key markets, this award has attracted very significant attention across the globe and has placed Australian wool front of mind for a new generation of influential designers, publishers and in turn millions of consumers.

The Campaign for Wool is now in its third year and has attracted over 600 retailers across over a dozen countries. "Live naturally: choose wool" has been the theme communicated in many languages across the world and we have one person to thank: HRH The Prince of Wales, the patron and instigator of this wonderful and ongoing campaign.

There is no doubting the importance of China in the global economy. As we know, more than 75 per cent of Australian wool is now exported to this economic powerhouse, lesser known is the fact that half of that amount remains in China and is eventually sold at retail making it our most single most significant market. Through the Woolmark Gold campaign AWI and its

brand partners are continuing to place Merino wool in this market as an aspirational product of the growing middle class in China.

Alongside these significant campaigns, AWI is placing wool in product categories where it has rarely been before. The urban and mothers and babies markets are new areas for our fibre and continue to offer opportunities, while the sports and active outdoor market is now a significant area for Merino wool.

Off-farm R&D

Pursuing new wool processing opportunities in areas such as Vietnam and Eastern Europe continue to show promise as we aim to reduce our reliance on China as an early stage processor of wool. Our Vietnam personnel report of manufacturers placing orders for wool while I am pleased to report progress towards the resumption of direct wool trading with Russia after a 25 year absence from the auction room.

One of the great tools we have for promoting the versatility of wool in The Wool Lab, a trend guide of woollen and worsted fabrics. We have now released versions of the Wool Lab across both summer and winter apparel seasons, and interior textiles also has a version of the Wool Lab to display and discuss with textile buyers at the world's most important trade fairs.

On-farm R&D

AWI has a rigorous cycle of consultation with woolgrowers and through this process we hear plenty of feedback about our on-farm investments. We have continually heard how wild dogs, flystrike, lice, genetics, extension and shearer training are the key areas of concern for the industry.

This consultation has dictated the on-farm investment, and new flystrike trials using liquid nitrogen and laser technology are a significant development in this area. Over one million dollars has been committed to helping wild dog groups protect their flocks and hundreds of shearers and shedhands were trained in the past year.

AWI networks across every state continue to be well attended by woolgrowers as it the highly successful Lifetime Ewe Management program which has now influenced well over 15 per cent of the national sheep flock.

The future

The 2013/14-2015/16 Strategic Plan has now been finalised and printed for all to see. This document has been produced with much care and diligence. It is a very accurate reflection of what AWI aims to achieve over the next three years and I recommend any woolgrower to see where their levies are to be invested to assist the profitability of woolgrowing.

I am very optimistic for the future of the wool industry and very proud to be part of it.

Stuart McCullough
CEO, Australian Wool Innovation
15 August 2013

ON-FARM R&D

Objective: Through careful investment in R&D projects address opportunities to help improve productivity and build demand for Australian wool.

FAST TRACKING R&D INTO BREECH FLYSTRIKE PREVENTION

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

- Genetic and genomic R&D into breech strike resistance and susceptibility
- Intradermals: SkinTraction™ and two new novel alternatives, Liquid Nitrogen and Laser applications
- Completing the fly genome and implications for new chemical prevention products
- Pre- and post-operative pain relief combinations
- Training
- R&D program audits and discussion with welfare groups
- International retailer association information and support.

R&D FOR GENETIC AND GENOMIC GAIN IN MERINO FLOCKS

Since 2001, AWI has invested approximately 15 per cent of the on-farm R&D and extension budget into genetics and genomics R&D and extension.

Major genetics and genomics projects funded by AWI include:

- Sheep Genetics MERINOSELECT
- Australian Sire Evaluation Association
- Merino Bloodline Performance (ewe and wether trials).
- Assistance for “Production Classes” and school wether competitions
- Sheep CRC Information Nucleus Flock
- Planning for a Merino Ewe Lifetime Productivity Trial
- Update of the Visual Score Guide.



AWI is investing in the R&D and extension of breeding tools to improve genetic gain in Merino flocks.

LIFETIME EWE MANAGEMENT DELIVERS

Lifetime Ewe Management (LTEM) is a flagship training program funded by AWI. LTEM is designed to assist woolgrowers improve their understanding of ewe nutrition and to develop the skills and confidence to improve their management.

More than 1500 producers managing more than six million breeding ewes or 15 per cent of the National ewe flock have enrolled in the LTEM training program between 2006/07 and 2012/13.

For the past two years, 60 per cent to 70 per cent of producer groups have been located outside Victoria and 55 per cent to 65 per cent of all groups have been located in the wheat-sheep zone.

A recent analysis of changes in attitudes, skills, management practices and productivity of almost 300 producers who graduated from LTEM between 2008 and 2012 indicates that the impacts from participation in LTEM have been consistent across the five year period.

It is estimated that the combined increase in stocking rate and lamb marking percentage that have resulted from participation in LTEM has increased the number of lambs marked per hectare by more than 25 per cent (2.7 vs. 3.5 lambs/ha). On average, participants have increased stocking rates by 13 per cent (7.9 vs. 9.1 DSE/ha), increased whole farm lamb marking percentage by 11 per cent (92.7 vs. 103.7 per cent) and reduced adult ewe mortality by 33 per cent (4.0 vs. 2.7 per cent).

LTEM training provides hands-on on-farm training for small groups of producers (average five). In 2012/13, 39 AWI-funded groups completed LTEM; 53 groups commenced training in all states. In total AWI funding has supported 120 groups completing LTEM training. Strong demand for LTEM training continues.



Producers at the Rankin Springs - Lake Cargelligo LTEM group in NSW condition scoring maiden Merino ewes.

INCREASED SHEARER AND WOOL HANDLER TRAINING

Adequate numbers of highly skilled professional staff to harvest and handle a high quality Australian wool clip in a timely manner are key to the profitability of the Australian wool industry.

In 2012/13 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, the training focused on shearers and wool handlers in the shed, particularly on increasing their productivity and skill development. Training was also offered as short term, intensive “schools” across a range of skill levels.

1571 shearers and 983 wool handlers were trained directly through AWI-funded programs across Australia in 2012/13, with an additional 786 participants who attended crutching and other shearing and woolhandling workshops. These workshops serve an important role in providing a range of training services to the wool industry – from an introduction to wool harvesting and basic skills for new shearers and wool handlers, through improver to advanced and professional workshops for continued development of wool harvesting professionals.

In addition to these training numbers, 1370 high school students received an introduction to wool harvesting as a career option through in-school and in-shed demonstrations by AWI-funded trainers.

In 2012/13, AWI increased investment in both promotion and recruitment of shearers and wool handlers, as well as training and this was reflected in significant increases in numbers trained at all levels – see table below.

AWI has worked during the year on the expanded AWI Shearing Industry Development Program that aims to:

- continue to train shearers and wool handlers across a broad range of skills
- strategically fund training to complement state and federal training initiatives in a way which maximises leverage for woolgrower funding
- provide flexibility in funding to ensure that a continuous training pathway from beginner/novice to highly skilled professional is available in all wool growing states

- attract, induct and assist producers to retain new entrants to the shearing industry
- provide support to shearing competitions at local, state and national levels to promote excellence, and further development, within the shearing industry
- promote the shearing industry as a desirable career choice to the wider community including non-traditional areas; and
- increase the promotion of the shearing industry to young people at schools and tertiary institutions.

STATE GROWER GROUPS EXPAND THEIR MEMBERSHIP

AWI has continued to invest and grow its state based extension networks which have expanded their membership during 2012/13 to 8100 producers.

Strong partnerships with state departments, private providers and woolgrowers have secured ongoing funds for all networks:

- Leading Sheep (Queensland)
- Sheep Connect NSW
- BESTWOOL/BESTLAMB (Victoria)
- Sheep Connect Tasmania
- Sheep Connect South Australia
- The Sheep’s Back (Western Australia)
- Bestprac (pastoral).

AWI state networks provide opportunities for woolgrowers to get involved in educational and practical programs that focus on making positive changes to their production and management practices, such as grazing management and price risk management. Woolgrowers identify what they would like to focus on and determine the outcome. The networks are about self-directed learning.

AWI’s grower networks are fundamental to the spread of new ideas, continuing education and the adoption of best practice. They are integral to AWI’s strategy for delivering research and development outcomes.

All woolgrowers are encouraged to get involved. To learn more about the networks and how to get involved, call the AWI Helpline on 1800 070 099 to get the contact details of the network coordinator in your state/region.

SHEARER AND WOOL HANDLER TRAINING ACTIVITIES		NSW	WA	Vic	SA	Qld	Tas	2012/13 TOTAL	2011/12 TOTAL
In-shed shearer coaching	Days:	206	85	107	60	30	45	533	442
	Number trained:	599	315	337	178	59	83	1571	1304
In-shed wool handler coaching	Days:	116	35	83	60	29	36	359	338
	Number trained:	279	113	321	170	47	53	983	886
Crutching schools; Novice, improver S&WH workshops; Shearing industry vocational education in schools; Advanced shearing schools; Industry funded enrolment assistance	Number of schools/days:	70	89	50	27	20	49	305	125
	Number of attendees:	128	327	186	62	24	59	786	422
Total training days provided		392	209	240	147	79	130	1197	905
Total number coached/trained		1006	755*	844	410	130	195	3340	2612

* Plus 1370 school students in WA were provided with an introduction to the wool harvesting industry by AWI-funded coaches through in-shed or at school demonstrations of shearing and woolhandling.

EVERGRAZE REGIONAL INFORMATION PACKAGES

For the first time, the results and recommendations from the EverGraze research program have been presented as regionally relevant information packages to help producers across the high rainfall zone of southern Australia manage their pasture and livestock systems.

The information quantifies the productivity, economic, environmental, risk and lifestyle impacts of implementing changes on farm.

The regional packages are available on the new EverGraze website (www.evergraze.com.au) and are a fitting legacy from the research program carried out across six large-scale research sites (proof sites) and more than 60 on-farm demonstration sites in NSW, Victoria, WA, SA and Tasmania between 2003 and 2013.

The new packages cover the following five regions:

- South West Victoria (Lower)
- North East Victoria, Southern NSW and South West Victoria (Upper)
- Central Tablelands NSW
- North West Slopes NSW
- South Coast WA.

Within the regional packages, information is provided according to each region's soils, climate, pastures, livestock systems, and key production and environmental factors. Producers from other regions across the high rainfall zone of southern Australia will also find the tools and information useful.

The aims of the EverGraze program were to design, test and implement farming systems based on perennials, which significantly increase profitability of livestock enterprises and at the same time reduce ground water recharge and soil loss by water and wind in the high rainfall zone of southern Australia. To achieve the aims, the project applied a set of principles, which can be summarised as *Putting the Right Plant in the Right Place for the Right Purpose with the Right Management*.

Using a range of extension methods, over the period of the project, EverGraze has engaged over 14,000 farmers and advisors and achieved practice change on more than 4000 farms and at least 200,000ha, with measured increases in productivity and profitability, resulting in a return on funds invested of 5:1.

EverGraze is funded by AWI in partnership with the Future Farm Industries CRC and CMAs and Meat & Livestock Australia.



Implementing farming systems based on EverGraze principles can improve pasture productivity.

FUNDING TO HELP COMMUNITIES COMBAT WILD DOGS

Wild dogs cost the wool industry \$20.95 million every year. The impact of wild dogs is felt across Queensland, the pastoral and now cereal zones of Western Australia, the NSW pastoral zone, and along the Great Dividing Range in NSW and Victoria.

In April, the AWI Board endorsed the investment of \$1 million as part of a new 'Community Wild Dog Control Initiative'. The initiative follows on from AWI's current wild dog control program which has achieved control methods across 1.3 million square kilometres of country in every mainland state of Australia through almost 50 wild dog control groups.

Survey results of 259 participants revealed how:

- 41% intend to reintroduce sheep
- 71% noticed an increase in native animals
- 68% intend to increase sheep numbers
- 94% reported better wellbeing as a result of participating.

AWI invests in a comprehensive suite of projects in wild dog control, including: baiting, coordination and support to implement wild dog management plans, supporting woolgrower participation in wild dog advisory groups, understanding social influences on wild dog control, training, and research and analysis.

Funding goes towards practical on-ground control activities such as purchasing refrigeration to keep fresh meat for baiting, aerial baiting programs, assistance with wild doggers, and establishing new producer groups.

AWI investment is leveraged with funding from local governments and natural resource managers and woolgrowers, to help grower groups protect and rebuild their flocks. AWI is keen to help groups develop long term solutions.

YOUNG FARMING CHAMPIONS SHARE THEIR PASSION FOR WOOL

Helping bridge the divide between the city and regional areas, Young Farming Champions are breaking the stereotypes of the conventional Australian farmer.

Co-sponsored by AWI, the initiative is a program developed by Art4Agriculture – a network of young people who share a passion about teaching others the pivotal role Australian farmers play in feeding and clothing the world.

This program is not only helping build the capability of young rural people to farm with resilience and confidence, but it provides a great platform to spark the next generation's interest in an agricultural career.

AWI currently has seven recipients chosen to represent the wool industry and become local faces of sustainable primary production.

They go to schools to engage with the students, share stories and improve understanding about woolgrowers and farming, and work together to find possible solutions to the challenges facing the wool industry and the wider community.

City students are given an insight into modern woolgrowing practices and the efforts our woolgrowers undertake. In turn, the meetings provide the Young Farming Champions with a better understanding of woolgrowers' urban customers.

OPERATIONAL REPORT 2012/13 – ON-FARM R&D

Strategy 1: Sheep health, welfare and productivity

Program	Progress
Sheep health, welfare and productivity	<p>Genetics and genomics</p> <ul style="list-style-type: none"> • Sheep Genetics, a joint venture between MLA and AWI, continues to produce Australian Sheep Breeding Values for nearly 20 traits. The number of MERINOSELECT animals assessed has doubled over the past five years. It is estimated that 75 to 80 per cent of Merino semen sold has ASBVs. Solid gains are being achieved overall by industry at both the trait level and index level for super fine, fine and fine/medium types with some studs achieving excellent gains across a wide range of traits. • A review to improve MERINOSELECT indexes and their compatibility with Merino Bloodline” Indexes” was undertaken and will be implemented over the next two years. • AWI funding for the Sheep CRC Information Nucleus Flock continues until 2014 to collect genomic information on all key traits and increase accuracies. An AWI part-funded pilot trial of genomic enhanced ASBVs continues. • Co-funded pilot trials for SNP based pedigree and horn poll tests continues to provide important information to industry and feedback to the CRC ahead of pre-commercialisation trials. • Merino Superior Sires number 18 was released by the Australian Merino Sire Evaluation Association. Sires entered over the past 10 years show solid genetic gains, increasing use of high performing sires and new entrants looking to increase linkage and commence the process of obtaining breeding values. • Ongoing support to the Merino Bloodline Performance project which every two years produces updated results from wether and ewe trials across Australia. The next report is due late 2013. • Assistance commenced for “Production Classes” at major Sheep Shows and Sales and for school wether competitions. • A trial with DAFWA showed to optimize gains in staple strength, wool length should be 9 to 12 months growth and directly measured for staple strength. Fibre Diameter Variability can be used to achieve more modest gains at a significantly lower cost. • A genomic trial continues assessing whether DNA, SNP technology can assist in the identification of breech flystrike resistant or susceptible animals. • A review of the AWI and MLA Visual Score Guide released five years ago was updated with a Urine Stain score. • Planning for a trial into Merino Ewe Lifetime Productivity continues. A Literature Review was completed and a process commenced to ensure that all data from past breeding flocks will be centralised into one database at AGBU, University of New England. <p>Lifetime Ewe Management (LTEM)</p> <ul style="list-style-type: none"> • LTEM training 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. On-going evaluation of group members continues to show significant benefits to participants through improving net reproduction rate. • In 2012/13, 39 AWI-funded groups completed LTEM; 53 groups commenced training in all states. In total AWI funding has supported 120 groups completing LTEM training. • Strong demand for LTEM training continues. <p>Reduce impact of dog predation</p> <ul style="list-style-type: none"> • The new toxin option, para-aminopropiophenone (PAPP), for control of wild dogs, and foxes, with faster, more humane action, is in commercialisation phase. AWI investment is complete. • Research continues into 1080 aerial baiting to determine efficacy at different deployment rates for bait registration. • AWI funded the National Wild Dog Facilitator position. • AWI Wild Dog Coordinators in Queensland, Victoria and SA have provided landholders with cross-group coordination, removed barriers to participation or control, coordinated training or education needs, introduced technologies such as aerial or ground baiting with 1080 or other methods, and identified issues to solve. • Wild dog extension has been undertaken with agencies and landholders in WA, SA, NSW, Victoria and Queensland to increase the area of land under agreed management plans. • Cash grants have been provided to groups with wild dog management plans, to cover baits, traps, trappers, freezers, tubs, meat drying racks, meat and helicopter hire. • Training by trappers has been funded in Queensland and the Western Division of NSW where access to trappers is difficult and landholders request training.

OPERATIONAL REPORT 2012/13 – ON-FARM R&D

Strategy 1: Sheep health, welfare and productivity (continued)

Program	Progress
Sheep health, welfare and productivity (continued)	<p data-bbox="464 376 762 405">Reduce impact of flystrike</p> <ul data-bbox="464 409 1461 1288" style="list-style-type: none"> <li data-bbox="464 409 1461 616">• Research based at Armidale (CSIRO) and Mt Barker (Department of Agriculture and Food WA) into the breeding of breech strike resistant sheep continued with further divergence between the resistant and susceptible lines. Dags, Breech Wrinkle, Urine Stain and Breech Cover are the lead indicator traits although there are other as yet undetermined traits, likely to be odours that repel or attract flies that influence the risk of breech strike. Sniffer dogs can differentiate wool from the two lines of sheep. Results are disseminated via newsletters, FlyBoss, breeder presentations and updates on the AWI website at www.wool.com <li data-bbox="464 620 1461 696">• Trials of the SkinTraction™ intradermal breech strike prevention method by Cobbett Technologies continued with promising results. A decision on registration through the APVMA is now due February 2014. <li data-bbox="464 701 1461 777">• A “proof of concept” was achieved for the application of Liquid Nitrogen to breech and tail wrinkle to reduce wrinkle and breech wool cover. Trials to improve the applicator and efficiency of the application have commenced. <li data-bbox="464 781 1461 835">• A “proof of concept” was not achieved for the use of lasers to permanently remove from breech and tail but warrant further investigations which will continue in 2013 /14. <li data-bbox="464 840 1461 869">• Trials using combinations of pre and post-operative pain relief continue. <li data-bbox="464 873 1461 949">• A project with the University of Melbourne to complete the gene sequencing of the remaining 50 per cent of the fly genome commenced, to be followed by an assessment of this information for fly prevention chemicals and future resistance. <li data-bbox="464 954 1461 1061">• Field sampling has been completed on broad populations of sheep blowfly to enable testing for cryomazine and dicyclanil resistance. This will help determine whether the risk of a low level resistant population of the NSW Monaro is an isolated case or just one representative of a new phenotype found in other locations. <li data-bbox="464 1066 1461 1142">• Extension of the outcomes of the research and how breeders can best address the risk of breech flystrike are available on the Sheep CRC’s FlyBoss website and workshops and the AWI website at www.wool.com <li data-bbox="464 1146 1461 1200">• Six monthly meetings with animal welfare groups continue allowing two-way feedback to occur. <li data-bbox="464 1205 1461 1258">• Independent audits of AWI’s Breech Flystrike program continue by the Australian Veterinary Association (two times per year) and by the Genetic Review (once per year). <li data-bbox="464 1263 1461 1288">• There is ongoing communications with the global retailers and retailer associations. <p data-bbox="464 1292 954 1321">Reduce impact of worm and lice infestation</p> <ul data-bbox="464 1326 1461 1917" style="list-style-type: none"> <li data-bbox="464 1326 1461 1429">• The WormBoss website was redeveloped by AWI and the Sheep CRC and launched in November 2012 at www.wormboss.com.au. The WormBoss decision support system aims to help woolgrowers maximise the timing and effectiveness of drenching and other worm management practices. <li data-bbox="464 1433 1461 1536">• The LiceBoss website was redeveloped by AWI and the Sheep CRC and launched in June 2013 at www.liceboss.com.au. The LiceBoss decision support system aims to help woolgrowers control lice more effectively, minimise pesticide residues and reduce the cost of lice control. <li data-bbox="464 1541 1461 1671">• The WormBoss and LiceBoss websites are aligned with the FlyBoss website to deliver an integrated suite of decision support tools, hosted by the Sheep CRC, for woolgrowers to control parasites in their flocks. A project is under way to further integrate the current WormBoss, LiceBoss and FlyBoss tools to reduce duplication and improve efficiencies. <li data-bbox="464 1675 1461 1704">• Monthly wool residue surveys were funded and undertaken. <li data-bbox="464 1709 1461 1812">• As part of the Weanersafe project, a drench resistance testing survey and time-based rotational grazing trials have been completed on properties across different rainfall zones of southern Queensland to help develop region-specific rotational grazing recommendations. <li data-bbox="464 1816 1461 1917">• Focus farms and groups have been established in NSW and South Australia to help ensure “woolgrower ownership” of the eradication of sheep lice, especially a younger generation of farmers who have not previously been exposed to such learning and engagement processes.

OPERATIONAL REPORT 2012/13 – ON-FARM R&D

Strategy 2: Wool harvesting and clip preparation

Program	Progress
Shearer and wool handler training	<ul style="list-style-type: none"> • 1571 shearers and 983 wool handlers were trained directly through AWI-funded programs in 2012/13 across NSW, WA, Vic, SA, Qld and Tas. • An additional 786 participants attended a range of shearing and wool handling workshops. These workshops serve an important role in providing training across a wide range of skills and knowledge. • 1370 school students in WA were provided with an introduction to the wool harvesting industry by AWI-funded coaches through in-shed or at school demonstrations of shearing and woolhandling. • AWI increased investment across recruitment and training activities in 2012/13 and this was reflected in a significant increase in participation. • AWI provided support to 47 shearing competitions to a total of \$127,100 in 2012/13. Part of AWI's support includes payment of entry fees for learner shearers and novice wool handlers. The aims 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. • Consistency workshops for trainers were conducted in August 2012 at Dubbo (NSW) for Queensland and northern NSW trainers; Ballarat (Vic) for southern NSW, Victoria, Tasmania and South Australia trainers, and at Narrogin (WA) for CY O'Connor College of TAFE and Great Southern Institute of Technology (WA) trainers. Planning was undertaken for consistency workshops conducted in July/August 2013 at Wagga Wagga (NSW) and Katanning (WA). • Exchange programs have been established with New Zealand for young potential trainers, and both interstate and with New Zealand for senior trainers. • Elite trainer workshops have been conducted for: <ul style="list-style-type: none"> ○ Shearers – Dubbo (NSW) ○ Woolhandlers – Ballarat (Vic) ○ Sharpening & Grinding – Roseworthy (SA)

Strategy 3: Environment, climate change and carbon

Program	Progress
Environment and climate change	<p><i>Improving phosphorous use efficiency</i></p> <ul style="list-style-type: none"> • Three projects are under way that seek to explore ways by which producers can better utilize phosphorous (P) which is the key nutrient in legume driven pasture systems. This is expected to reduce the cost of fertilizer use by at least 30 per cent. • P efficiency rankings and critical P requirements by legume genotype has been completed. • Work is progressing that seeks to address questions of how productivity and P efficiency could be increased from native or naturalised pastures. Initial results indicate that the commonly-sown pasture species accessed relatively little sparingly soluble P, whereas the native grasses took up a much larger proportion of their P from these forms. Sparingly soluble P is defined as P that is not extracted by the Colwell extract. • New techniques to measure the capacity of plants to access “stored P” that is not detected by conventional soil tests of ‘plant-available’ P such as Olsen and Colwell are being tested. These techniques permit a comparison of the capacity of different pasture species (native and naturalised) to access “stored P” from major soil groups in the perennial pasture zone of southern Australia.

OPERATIONAL REPORT 2012/13 – ON-FARM R&D

Strategy 3: Environment, climate change and carbon (continued)

Program	Progress
Environment and climate change (continued)	<p><i>Optimising grazing system for whole farm profitability and improved natural resource management outcomes</i></p> <ul style="list-style-type: none"> • Work is under way to generate decision making tools for producers on management of an intensive rotational system for improved and native pastures, as well as implications for carbon sequestration. • Over 300 producers and agricultural students have visited experimental sites at the Orange Agricultural Institute and Panuara in 2012/2013 to learn about stocking rate, paddock number and rotation speed, for a typical productive native and introduced pasture. • The extension and adoption phase of EverGraze continued with the development of decision making regional packages. A new interactive website has been developed, where woolgrowers can access extensive information on farming systems based on perennials. <p><i>Reduce the impact of climate and seasonal variability</i></p> <ul style="list-style-type: none"> • Key outcomes from the Southern Livestock Adaptation to climate variability project (undertaken in 89 distinct locations across southern Australia) were distributed in brochure form. • The Climate Champions continue to work with scientists and the wool industry to provide relevant tailored information, feedback on research results and adaptation options for wool production.
Carbon	<ul style="list-style-type: none"> • The Wool Carbon Alliance met twice for robust discussions on carbon and environmental issues across the wool supply chain and make recommendations to AWI. • Work is progressing in field testing of an intra-ruminal device for measuring gases from ruminants. This will help wool producers measure the amount of wasted energy released through ruminal gases (including methane), hence improve feed use efficiency and opportunity to participate in carbon markets. • The 'Carbon Credentials for the Australian Wool Industry' are being assessed to determine the relative contribution of wool in the landscape. This will assist AWI to demonstrate and market the industry's environmental stewardship. To do this, carbon stores and fluxes in the mixed sheep/cropping zone in Western Australia and the high rainfall specialist wool production regions in western Victoria will be assessed. • Woolgrowers in the Eyre Peninsula, and south-east South Australia have taken the initiative to understand the role of wool in carbon capture and enhancing mixed farming productivity through increasing carbon stocks and soil health. The farm carbon story has been completed on 15 farm businesses, detailing sequestration and emissions on 19 enterprises.
Provenance, verification and promotion of wool carbon eco-credentials	<ul style="list-style-type: none"> • The wool lifecycle analysis (LCA) is being concluded. Extensive on-farm data collection and modelling is expected to confirm the low carbon footprint of wool (from cradle to farmgate). The findings will be communicated to the IWTO. Peer reviewed publication is under way. • Work is progressing in the development of a woolgrower self-assessment tool which covers animal welfare, people and carbon among other things. In particular, the AWI On-farm team is building robust science to support the carbon component of the tool to meet market requirements and provide credibility in a LCA and standards based framework.

OPERATIONAL REPORT 2012/13 – ON-FARM R&D

Strategy 4: Education and extension

Program	Progress
Education and extension to woolgrowers	<ul style="list-style-type: none"> • AWI has continued to invest and grow its state based extension networks which have again expanded their membership to 8100 producers. Strong partnerships with state departments, private providers and woolgrowers have secured ongoing funds for Leading Sheep (Qld), Sheep Connect NSW, BESTWOOL/BESTLAMB (Vic), Sheep Connect Tasmania, Sheep Connect South Australia, The Sheep's Back (WA) and Bestprac (pastoral) networks. • Making More from Sheep has continued in partnership with Meat & Livestock Australia. 1430 producers have participated in events. A strong emphasis has been placed on evaluation of the events and capturing changes of knowledge, skills, aspirations and attitudes amongst participants. • AWI delivered its Wool Clip series of events with local partners to provide growers an update on the outcomes of AWI investments at a local level. A total of 16 events were held across Australia with 728 attendees. • Bredwell Fedwell has continued in partnership with Meat & Livestock Australia with 1031 producers participating in workshops held across the country. • AWI continued to invest in leadership opportunities for the industry including 2013 Nuffield Scholar Matthew Ispen of Wareek, Victoria who is studying world's best practice in sheep reproduction and lamb survival.
Education and extension to stakeholders and the marketplace	<ul style="list-style-type: none"> • AWI continued its investment in future professionals of the industry through the Sheep CRC Postgraduate Program. AWI supported undergraduate student Lauren Crothers who is studying at the University of Queensland, through the Horizon Scholarship program – a joint initiative of RDCs. • AWI fostered young advocates for the wool industry as a partner in the Young Farming Champions program which saw Stephanie Grills, Sammi Townsend and Lauren Crothers visit schools and tell their wool story to primary and secondary students involved in the Art4Agriculture program. See page 12. • AWI, DAFWA, and NSW DPI lead the implementation of the National Wool RD&E Strategy. The 2012 Researcher Forum process identified six proposals for further development in the areas of apps, parasite extension, remote monitoring for production and animal welfare and selecting for lifetime productivity. Projects commissioned this year from the 2011 forum are the impact of mob size during lambing on twin lamb survival, fail safe guides to grazing pregnant and lambing ewes on cereals and collecting and reviewing past unpublished and published research on fibre quality to identify research gaps to fill market opportunities. These projects collaborate with MLA, DPI Victoria, Murdoch University, CSIRO, Deakin University, AWTA, University of New England and University of Sydney.
Wool forecasting and market feedback	<ul style="list-style-type: none"> • The Australian Wool Production Forecasting Committee (AWPFC) process continued in 2012/13, under the streamlined arrangements implemented in 2010/11, with AWI providing funding, analytical and secretarial support for the AWPFC, and providing the vehicle for grower and trade communication. Three AWPFC reports were released in 2012/13 (August and December 2012, and April 2013), following the State and National Committee processes. The reports have been made available on AWI's new website for woolgrowers via www.wool.com/en/market-intelligence and AWI's wool trade website via www.woolmark.com/market-intelligence. • AWI and MLA continued to collaborate in conduct of the joint "Sheepmeat and Wool" surveys of producers – surveys were conducted in June and October 2012, and February 2013. • AWI and MLA co-invested in conduct of an expert review of the respective wool and lamb production forecasting processes, seeking to identify areas for improvement in forecasting accuracy. While current wool production forecasting accuracy is comparatively very good, at around +/- 2 per cent, some opportunities for ongoing improvement have been identified, and will be considered by the AWPFC.

OFF-FARM R&D

Objective: To develop a range of product and process innovations that address opportunities to increase the use of wool in apparel and interiors.

“OUT OF VIETNAM” PROJECT: NEW MARKETS FOR WOOL

Through its “Out of Vietnam” project, AWI has this year been working to develop a sustainable supply chain for Australian wool in Vietnam. After visits and meeting with potential partners, the key message to emerge is that “the time is right for wool” in Vietnam.

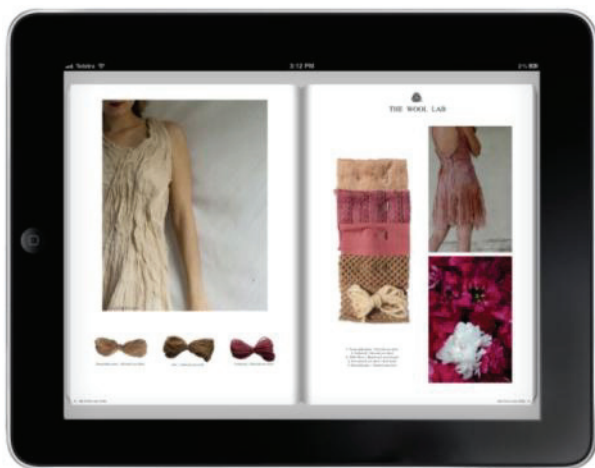
Vietnam offers an alternative to Australia relying so heavily upon China as the major buyer of its greasy wool. Vietnam meets a host of essential criteria, including: its low sovereign risk; it has a large, well-established textile manufacturing industry and infrastructure; a large, skilled workforce; it is already a large and growing exporter of textile products; it has large trade access including a Free Trade Agreement with the USA; and an abundant supply of water.

Given Vietnam’s good experience working with cotton and man-made fibres, the future for establishing and developing a wool manufacturing industry in the country looks promising.

AWI staff undertook several visits to Vietnam during the year to identify potential partners for the project. AWI has subsequently been transferring the know-how to Vietnamese manufacturers, sending industry technical specialists to Vietnam to teach the dyeing, knitting and finishing processes. Some companies have already started with commercial orders.

Already, a healthy relationship has been established between AWI and Vinatex – the government arm of the Vietnamese textile industry.

It is anticipated that AWI’s Out of Vietnam project will generate growth in the Vietnam wool processing industry that will result in increased demand for Australian Merino wool. Vietnam is the world’s second largest exporter to the USA and the third largest to Japan. It is also a top destination for Korean companies for investment in textiles.



As well as being launched at trade events across the world, *The Wool Lab* seasonal guide is also available as an iPad app.

THE WOOL LAB: A GUIDE TO THE BEST WOOL FABRICS AND YARNS

Since its launch in 2011, *The Wool Lab* – AWI’s seasonal guide to the best wool fabrics and yarns in the world – has quickly become a well-respected and widely recognised tool for companies in the fashion industry, inspiring them to use wool in their apparel collections.

During the year, AWI released three versions of the guide: the Spring/Summer 2014 edition launched in January at the Pitti Uomo trade show in Florence; the Autumn/Winter 2014/15 edition launched in June at the Pitti Uomo trade show; and the inaugural Interiors edition, which showcases the most interesting and innovative applications of wool in the furnishing and interior textile sectors, launched in April at the Milan Furniture Exhibition.

Each edition of *The Wool Lab* is organised by macro-trends, not only from fashion, but also from lifestyle, the world of design, pop culture and trends in consumer values across many other fields. *The Wool Lab* includes swatches, mood boards and presentations that tell a trend story and encourage retailers and brands to view and source wool as a premium fibre.

The Wool Lab contains quality wool fabrics and yarns made with the latest innovations in production techniques and special treatments. It also contains archive pieces expressing the long lasting and fascinating history of wool to be rediscovered and reproduced with a contemporary twist.

The guide is the result of intensive research. The fabrics and yarns in *The Wool Lab* have been selected by AWI from the collections of some of the world’s leading textile companies. All the fabrics and yarns are commercially available to retailers and designers and feature Merino wool products from partner mills and spinners such as Zegna Baruffa and Botto Poala.

Subsequent to *The Wool Lab*’s exhibition at trade shows, AWI has held one-on-one meetings with companies across the world, held a multitude of workshops and seminars, as well as retail and manufacturer training sessions, all of which have proved to be extremely valuable for industry stakeholders.

It was following the global success of the apparel editions of *The Wool Lab*, that AWI this year extended this guide of wool-related macro trends into the interiors sector. *The Wool Lab Interiors* aims to increase the demand for wool in the interiors and furnishings sector, which supports the proportion of the clip that is broader micron and crossbred wool. Doubling as both an inspirational trend book and a practical work tool, *The Wool Lab Interiors* is intended for specialized professionals such as architects, designers and manufacturers.

Editions of *The Wool Lab* are also available free of charge as an iPad app from Apple iTunes. Viewers are able to discover the new seasonal trends, be inspired by the mood boards, and zoom in on images of fabric and yarn swatches.

MERINO CONSOLIDATES ITSELF IN SPORTS AND OUTDOOR MARKET

Following a widespread uptake of Merino wool for next-to-skin products in the sports and outdoor market, a majority of the world's leading outdoor brands are now incorporating the latest innovations of Merino wool into their collections.

A continuous feed of new innovations is crucial in this competitive and technical market sector.

Building on the already comprehensive MerinoPerform™ range, AWI presented at trade shows the latest commercial developments and highlighted fabrics and products which offer maximum innovation, comfort and performance. Four standout products AWI exhibited were:

MerinoPerform™ wool hiking trousers and jackets in woven fabrics

One new area is woven performance fabrics, whereby Merino wool is making the difference through its built-in thermo-regulating properties as well as its high-capacity breathability. This product offers flexibility and is suitable for a wide variety of climates.

MerinoPerform™ wool fill

This new product has already generated a lot of interest and brings about exciting advantages to the outer-layer, such as a wool-filled ski jacket. Merino wool offers superior insulation, thermo-regulation and breathability, all of which work seamlessly together, providing comfort no matter what the season.

MerinoPerform™ soft and hard shell linings

A soft or hard shell jacket lined with Merino wool – drop or bonded – stops the chill transportation and cleverly absorbs both vapour and condensation, creating a dry and comfortable insulating microclimate.

NEULANA Sport

A unique woven fabric based on a process where the wool fibre is mechanically stretched and then consolidated. It involves a process that delivers an almost waterproof and windproof 100 per cent wool fabric without the assistance of membranes or coatings and with maintained breathability and moisture management.



"In wool we trust." That's the philosophy behind leading Swiss snow sports brand Mover.

COMMERCIALISATION OF MERINO CASUAL INNOVATIONS

There has been a global trend towards a more informal style of dressing over the past two decades. To enable wool to take advantage of this trend, AWI continues to work closely with the manufacturing industry to develop new processes that provide a range of unique and stylish effects on wool.

A range of dyeing and finishing techniques has produced a collection of Merino wool knitted and woven garments with distinguishing visual and textural effects.

AWI's technical teams in Asia have worked to transfer the technology to the suppliers of major retailers and brands. The apparel is now commercially available at retail. Examples of recently commercialised Merino Casual innovations available include:

3-D Merino

3-D Merino is an extra dimension for Merino wool knitwear caused by milling or felting being limited to specific areas, creating a subtle pattern. The felted and non-felted areas vary in thickness giving a 3-dimensional aspect.

Vintage Merino

Faded and washed out effects are popular in casual garments. This can be achieved through garment dyeing and works for both worsted-spun and woolen-spun piece-dyed garments. Each garment is unique within a defined range.

Merino Retract

Merino Retract has contemporary boiled wool looks, but has the resilience and pilling performance of normal wool. Boiled wool is popular because it gives a casual look to garments and an alternative texture.

INTERIORS MARKET: SUPPORTING THE BROADER MICRON WOOL

Australian woolgrowers whose clip is of a broader micron and crossbred wool will be pleased to hear that, according to Woolmark licensees that attended this year's influential Heimtextil trade show in Germany, wool in the interiors sector – including bedding, carpets and furnishings – continues to grow despite the challenging economic climate.

Heimtextil is the biggest international trade show for home and contract textiles – this year 66,000 visitors from 128 countries came to see the latest innovations on offer at this show.

AWI once again co-hosted the Wool Arena – a focal point for the industry to promote wool at Heimtextil. AWI, along with Woolmark licensee co-exhibitors, showcased the superior natural benefits of wool to visitors. Suppliers, buyers, designers and retailers along the wool pipeline could meet to discuss new, innovative products and technologies.

To help support the market for wool interiors, AWI also this year launched the inaugural edition of The Wool Lab Interiors – a guide to the best wool textiles and the most interesting and innovative applications of wool in the furnishing and interior textile sectors.

AWI has also developed a range of new brochures, fact sheets and PowerPoint presentations to help AWI market the benefits of wool interiors to trade and consumer audiences.

OPERATIONAL REPORT 2012/13 – OFF-FARM R&D

Strategy 1: Quality assurance, eco and carbon management

Program	Progress
Quality assurance	<p>Woolmark specifications and test methods</p> <ul style="list-style-type: none"> The ongoing review has continued. Several new (eg Mothers & Babies) or modified (Cool Wool) specifications were published for implementation in 2013/14. The review of Woolmark test methods for scheduled release in 2013 was completed. Changes to the Super S specification have been made to reflect approved changes to the IWTO Code of Practice for Super S. <p>AWI-authorized laboratories</p> <ul style="list-style-type: none"> The level of authorisation of a small number of AWI-authorized laboratories has been widened to allow tests of a wider range of products in their regions. Further round trials have been conducted with the AWI-authorized laboratories to ensure harmonisation of test outcomes. To reduce variation in the measurement of dimensional stability, new Woolmark-specific wash programs have been introduced to replace the former 7A and 5A cycles. <p>Standard materials</p> <ul style="list-style-type: none"> New standard knitted fabrics have been developed for Woolmark testing programs, and procedures developed for their distribution to authorised laboratories by AWI. New photographic standards for the afterwash appearance of knitwear and sliver knit fabrics have been developed to replace the 'physical standards' and distributed to suitably-authorized laboratories. <p>Post-production testing</p> <ul style="list-style-type: none"> A program to test Woolmark-certified products purchased at retail in the northern-hemisphere autumn/winter was conducted by Intertek Testing Services Ltd. The outcomes mirrored those observed in 2012-13.
Sustainable and ecological processing – chemicals, dyes, water and energy	<ul style="list-style-type: none"> A project investigating ionic fluids for the shrink-resistance treatment of wool is proceeding well with significant levels of shrink-resistance achieved on top without the use of chlorine. Follow-up studies on fabric are continuing. A third industrial trial to evaluate an "Ecolana" chlorine-free easy care process was carried out with an Italian partner. Trials to reduce water and energy consumption in Merino knitwear finishing have been carried out using new Xeros Bead technology; initial results suggest 70 per cent reductions might be feasible. Trials to develop a cold-dyed Merino yarn with a major Chinese spinner have started and initial results suggest dyeing temperatures can be reduced from 100 degrees Celsius to 50 degrees Celsius.
Off-farm carbon footprint, garment care, decomposition and recycling	<ul style="list-style-type: none"> A report commissioned on the biodegradability of wool confirms that, while the rate of degradation is changed by the presence of special finishes, the rate of degradation of wool is still far superior to the rates for non-wool products. A report commissioned on odour prevention shows that wool absorbs and locks away three key smells associated with sweat, thus reducing the need for washing after each use. A report on encapsulation technologies for wool confirms the feasibility of using encapsulation matrices to control the release of more-environmentally friendly antimicrobial and insect resist agents for apparel wools. Results from a project to develop a non-insecticidal moth repellent finish for apparel indicate that a simple surfactant applied at the same time as dyeing can render wool fabrics moth resistant, and it is durable to dry-cleaning. A process that increases drying rates of wool by up to 30 per cent after washing has been identified and deemed worthy of commercial evaluation. The evaluation of an eco-friendly detergent shows that traditional non-ionic detergents can be replaced by ones based on 'bio-materials'. A "wash free" suit has been developed in partnership with Kozuka Keori and Shandong Ruyi. Wearer trials have been completed.

OPERATIONAL REPORT 2012/13 – OFF-FARM R&D

Strategy 1: Quality assurance, eco and carbon management (continued)

Program	Progress
Increasing global processing capacity	<p><i>“Out of Vietnam” project</i></p> <ul style="list-style-type: none"> • AWI has been working to develop a sustainable supply chain for Australian wool in Vietnam. After visits and meeting with potential partners, the key message to emerge is that “the time is right for wool” in Vietnam. Vietnam offers an alternative to Australia relying so heavily upon China as the major buyer of its greasy wool. Vietnam meets a host of essential criteria, including: its low sovereign risk; it has a large, well-established textile manufacturing industry and infrastructure; a large, skilled workforce; it is already a large and growing exporter of textile products; it has large trade access including a Free Trade Agreement with the USA; and an abundant supply of water. • AWI staff have undertaken several visits to Vietnam during the year to identify potential partners for the project. The AWI Chairman together with AWI board member David Webster visited Vietnam in June to meet industry partners, Government and trade organisations and to assess the project’s progress over the past year. • There has been agreement with 14 companies comprising sweaters and accessories makers, and circular knit garment and suit manufacturers, to collaborate on training and product development trials. • One of AWI’s manufacturing partners has already received its first ever commercial order, for 100 per cent wool underwear, from a Japanese buyer. <p><i>“To Russia with wool” project</i></p> <ul style="list-style-type: none"> • AWI is liaising with manufacturers in growth processing markets, such as the countries of the former USSR including Russia, the Ukraine, and especially Belarus. Belarus has a low cost textile manufacturing industry with qualified and disciplined personnel, close to the lucrative European (including Russian) retail markets. Many contacts are already established between manufacturers from former USSR countries and Australian wool exporters, and suppliers of part-manufactured products from China, Turkey and Italy. • Three Russian manufacturers have agreed to become Woolmark licensees. One company is a leading producer of men’s suiting fabrics, another is a manufacturer and retailer of bedding products i.e. blankets, quilts and mattress overlays, and the third is the manufacturer of plaid blankets. This is the first time that Russian companies will have become paid-up licensees. • Planning was undertaken for a visit to Australia in the second half of 2013 by a delegation from Belarus to meet with wool exporting companies. • Russia’s leading manufacturer and brand of hand knitting yarns will embark on the development of a new range of yarns in 13 colours made from 100 per cent Australian wool. The yarns will also be machine washable.

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Strategy 2: Health and environmental attributes and benefits of wool fibre and products

Program	Progress
Consolidate, enhance and transfer knowledge regarding the health attributes of wool	<p>AWI is collating scientific data to support marketing statements regarding the health attributes of wool. Two major projects, sleep research and skin health, are under way:</p> <p>Sleep research</p> <ul style="list-style-type: none"> The second phase of an AWI-funded adult sleep quality study at the University of Sydney was successfully completed. This study, through which the doctoral research of Mirim Shin has been conducted, has found that under all ambient conditions, Merino sleepwear was beneficial to sleep outcomes. Results from the first phase of research were presented to the Australasian Sleep Association Conference in October 2012, and a number of additional scientific papers are in preparation. The pilot phase of an AWI-funded child sleep study at Latrobe University was successfully completed. Through a parent survey, this project explored the association between sleep environment and sleep outcomes for children from across the autism spectrum enrolled at the Olga Tennyson Autism Research Centre. The study suggests that the sleep environment affects child sleep outcomes, especially for those with autism, and generated some evidence that use of wool was associated with good sleep outcomes in the population surveyed. The pilot phase results are being used to support an ethics application for a larger follow-on study. <p>Skin health</p> <ul style="list-style-type: none"> Pilot phase clinical trials and analysis were completed in the AWI-funded study of the potential role of superfine Merino fabrics in the treatment of chronic atopic dermatitis conditions. The research results, conducted through the Queensland Institute of Dermatology, suggests that superfine Merino knitwear substantially reduces symptoms for sufferers of chronic skin conditions – a result which appears to relate to the unique moisture management properties of wool. The ethics application is being finalised for the Phase 2 research, wherein the lower limit for patient age will be reduced to 13 years old. <p>Communication activities</p> <ul style="list-style-type: none"> Presentations communicating wool's wellness credentials were delivered at a number of international scientific conferences, including the 6th International Textile, Clothing and Design Conference (Dubrovnic, Croatia, 7-10th October 2012), 2012 Australasian Sleep Association Conference (Darwin, 10-13th October 2012), 1st China National Textile and Apparel Council Congress (Nanjing, China, 4th June 2013), 1st International Natural Fibres Congress (Guimares, Portugal, 10th June 2013), and the 82nd IWTO Congress (Biella, Italy, 13th June 2013).
Consolidate, enhance and transfer knowledge regarding the ecological and environmental advantages of wool	<p>Wool's environmental footprint</p> <ul style="list-style-type: none"> An AWI-funded review of the metabolic partitioning of nutrients in wool sheep was completed, as an additional approach to resolving allocation of environmental costs between meat and wool. The findings of the study (wool bears ~20% of the 'cost') support those of an earlier AWI-funded study (~25%) – both of these values being substantially lower than those applied in prior wool Life Cycle Analysis (LCA). Establishment of a global reference group for wool LCA methodology and interpretation has been completed, and the inaugural meeting of the AWI Wool Life Cycle Analysis Technical Advisory Group was held on 16-17th April 2013 at the AWI offices in Sydney. The expert membership of this group includes representatives from UK, China, New Zealand and Australia. The group identified key R&D priorities for the 2014-16 strategic planning period, and commenced work to produce a scientific paper recommending changes to the way on-farm allocation is addressed in sheep and wool LCA, for submission in October 2013. AWI-funded wool LCA researchers attended the Sustainable Apparel Coalition meeting held in San Francisco in June 2013 – establishing technical linkages. Also, the Chair of the AWI Wool LCA Technical Advisory Group, Dr Beverley Henry, has been asked to represent wool in the British Standards and FAO small ruminant LCA processes, and will do so with AWI support. <p>Sustainable practices</p> <ul style="list-style-type: none"> AWI drove the establishment of the IWTO Sustainable Practices Working Group and the subsequent development and production of the IWTO Guidelines for Wool Sheep Welfare. These Guidelines were released at the 82nd IWTO Congress in Biella, Italy, on 13th June 2013. <p>Communication activities</p> <ul style="list-style-type: none"> Presentations relating to wool's environmental and sustainable practice credentials were delivered at several conferences, including ABARES Outlook 2013 (February 2013), the 1st International Natural Fibres Congress (Guimares, Portugal, 10th June), and 82nd IWTO Congress (Biella, Italy, 13th June 2013).

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Strategy 3: Performance apparel and safety attributes

Program	Progress
Consolidate, enhance and transfer knowledge regarding the performance, thermal regulatory, odour and moisture management and fire safety attributes of wool	<ul style="list-style-type: none"> • AWI continues to cement its, and Merino fibres', presence in the sports and outdoor market, collaborating with leading manufacturers and brands – such as Ortovox, Mover, Rip Curl and Rebel – to promote the natural benefits of wool as a performance fibre. • Marketing of Merino wool was undertaken during 2012/13, including at major international sports/outdoor trade shows such as ISPO in Munich, the world's biggest outdoor and sports apparel trade fair, and Outdoor Retailer in Salt Lake City. • Building on the already comprehensive MerinoPerform™ range, AWI presented at trade shows the latest commercial developments and highlighted fabrics and products which offer maximum innovation, comfort and performance. Four standout products AWI exhibited were: <ul style="list-style-type: none"> ○ MerinoPerform™ wool hiking trousers and jackets in woven fabrics ○ MerinoPerform™ wool fill ○ MerinoPerform™ soft and hard shell linings ○ NEULANA Sport • An AWI-funded project on wool's odour prevention has confirmed wool's superiority over cotton, polyamide, polyester and acrylic in terms of managing perspiration odour associated with active-sports activities. • The many natural attributes of wool and the benefits of these attributes to the sports and outdoor market were promoted on AWI's websites for consumers (Merino.com) and the textile trade (Woolmark.com).

Strategy 4: Fibre quality, innovation and textile development

Program	Progress
Wool whiteness and colour absorbency	<ul style="list-style-type: none"> • There has been a preliminary evaluation of a new technique to dye yarns and other substrates with the assistance of hydrotalcites to increase resistance to light fastness and other properties for apparel and interior application.
Next to skin comfort	<ul style="list-style-type: none"> • AWI investment in the CRC for Sheep Industry Innovation's ComfortMeter and HandleMeter projects was terminated effective from the 2013/14 year.
Casualisation	<ul style="list-style-type: none"> • Apparel is now commercially available in store from brands that have used innovations developed by AWI's 'Merino Casual' product development program. This product development program was initiated to help wool take advantage of the global trend towards casual-style dressing. • As well as developing the technology, AWI has worked with supply chain partners to help transfer the technology to apparel brands. Meetings with retail HQs and their buying houses have taken place. Sampling for retailers has been undertaken, resulting in orders being made and apparel produced for sale at retail. • AWI's casual knitwear and wovenwear innovation collections for the autumn/winter 2013/14 season was presented at trade shows including SpinExpo Shanghai. Highlight product developments include: <ul style="list-style-type: none"> ○ <i>Merino Vintage</i>: The latest garments show the versatility of the Merino Vintage technology for producing washed-out effects in Merino wool garments. ○ <i>Spectrum Merino</i>: A vintage look is created in the yarn by blending wool fibres possessing different affinities for dyes. When the yarn or fabric is dyed a vintage look results. ○ <i>Sculptured Merino</i>: This is a naturally creased unique garment in Merino wool. A new yarn coupled with specially controlled knitting and finishing yields a 3-dimensional fabric which is lightweight yet warm and incredibly stretchy. ○ <i>Fancy Yarns</i>: Yarn is specially treated so that it felts randomly along its length. When knitted into a garment and finished, the randomness of the felting creates a unique boiled wool effect that is soft and resilient. ○ <i>Merino Fur</i>: Sometimes known as ecological fur this innovation permits a natural fur to be created without using the pelt of an animal. A combination of sliver-knitting technology with mercerised Merino fibres gives the lustrous look of fur fibre from pure new wool. Special dyeing and finishing techniques create the natural fur colouring. ○ <i>Crinkle Merino</i>: The creased look is often the hallmark of casual, and Merino wool is versatile enough to deliver.

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Strategy 4: Fibre quality, innovation and textile development (continued)

Program	Progress
Improved aesthetics	<ul style="list-style-type: none"> AWI's Mercerised Merino knitwear collection was presented at trade shows. The collection comprises commercial apparel made from super-soft yarns and fabrics that provide a touch of luxury in an affordable knitted garment. Follow-up meetings with retail HQs and their buying houses have taken place. AWI continues to transfer and commercialise the technology.
Wool for all seasons	<ul style="list-style-type: none"> Following the successful launch of the Cool Wool program to the textile trade last year, AWI has this year launched a high profile retail campaign which focuses on educating consumers about the natural performance benefits of lightweight Merino fabrics. See page 29. Cool Wool garments are manufactured from Merino wool fabrics with a maximum weight of 190 g/m² and a maximum mean wool fibre diameter of 22.5 micron. The fabric/garment surface is clean and smooth. Cool Wool fabrics and garments carrying the Woolmark logo are normally 100% Pure New Wool but can include blends of wool with fine animal fibres. For fabrics and garments where wool is blended with other natural fibres (cellulosic or silk), the Cool Wool label is used in conjunction with the Woolmark Blend logo. The inclusion of elastane-type filaments to impart stretch characteristics to the fabric is permitted.

Strategy 5: Interior textiles and floor coverings

Program	Progress
Increase consumer awareness and preference for wool in interior textiles and floor coverings.	<ul style="list-style-type: none"> Woolmark licensees that attended the 2013 Heimtextil international trade show for interior textiles in January have reported buoyant interest in wool products for the interiors sector. More than 66,000 trade visitors from 128 countries attended the four-day trade show in Frankfurt, Germany. AWI and seven licensees exhibited in the Woolmark Wool Arena – a hub where AWI and the licensees showcased to visitors the natural benefits of interior textile products made from wool. The interior textiles sector – including bedding, carpets and furnishing – supports woolgrowers whose clip is broader micron and crossbred wool. AWI launched at Milan Design Week the inaugural edition of The Wool Lab Interiors – a guide to the best wool textiles and to the most interesting and innovative applications of wool in the furnishing and interior textile sectors. A range of new brochures, fact sheets and PowerPoint presentations were prepared this year to help AWI market the benefits of wool interiors to trade and consumer audiences.

Strategy 6: Marketplace extension of fibre knowledge and textile innovation

Program	Progress
Trade fairs	<ul style="list-style-type: none"> AWI attended more than 20 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. Trade shows attended during 2012/2013 included: <ul style="list-style-type: none"> SpinExpo (New York) for knitting yarns and knitwear SpinExpo (Shanghai) for knitting yarns and knitwear Première Vision (Paris) for woven fabrics and wovenwear ISPO (Munich) for sports and outdoor wear Outdoor Retailer (Salt Lake City) for outdoor wear Milano Unica (Milan) for high end fashion Pitti Uomo (Florence) for high end menswear apparel. <p>The target audience at each of these trade shows is retail buying teams, designers and manufacturers.</p>

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Strategy 6: Marketplace extension of fibre knowledge and textile innovation (continued)

Program	Progress
Retail workshops	<ul style="list-style-type: none"> Following trade shows, workshops about AWI's innovation collections were held individually with retailers and brands. These took place in the US, Western Europe, India, China, Korea, Japan, Turkey and Australia. In addition, workshops were held with retail buying offices which are mainly located in Asia, ie Hong Kong. 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.
Market extension (product marketing) materials	<ul style="list-style-type: none"> Programs aimed at market extension where wool today has little or no presence have been very active. These include AWI's "Mothers & Babies" and "Urban" programs. A "Looking For Wool" sourcing guide was developed and launched. Hosted on Woolmark.com at www.woolmark.com/lookingforwool, Looking For Wool is an online directory for sourcing wool and wool-rich containing products (part made and fully finished), both for apparel and interior textiles. Looking For Wool is a tool to bring suppliers and buyers of wool products together in an easy and central location. Marketing materials were produced to support the launch of AWI's collections, including flyers, PowerPoint presentations and supplier listings.
Seasonal trends	<ul style="list-style-type: none"> Originally launched in June 2011, AWI's "The Wool Lab" – the seasonal guide to the best wool fabrics and yarns in the world – has become 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 available on the market from the best spinners and weavers in the world. AWI is presenting The Wool Lab at the most important textile and fashion trade shows in the world, both inside the company's exhibiting areas and also through special workshops. The Wool Lab guide for the spring/summer 2014 retail season was launched at the Pitti Immagine Uomo trade show in Florence, Italy in January 2013. The Wool Lab guide for autumn/winter 2014/15 was launched in June 2013. For the first time, AWI launched an edition of The Wool Lab specifically for the interiors sector. Introduced in April, The Wool Lab Interiors aims to increase the demand for wool in this sector that supports the proportion of the Australian clip that is broader micron and crossbred wool. Intended for specialised professionals such as architects, designers and manufacturers, The Wool Lab Interiors is a guide to the best wool textiles and to the most interesting and innovative applications of wool in the furnishing and interior textile sectors.
Consumer and trade education	<ul style="list-style-type: none"> The four Australian Merino wool "Level 1" introductory trade education courses, developed and published in 2011/12, continued to be roll-out this year: "Introduction to Knitwear", "Introduction to Wovenwear", "Men's Suits", and "Caring for your Merino Wool Sweater". A new education manual was also produced this year: "The Meaning Behind the Woolmark logo". These are all aimed at training the buying teams at retailers and brands. By giving them more knowledge about wool, this will lead to an increase in confidence to develop and merchandise new lines made from wool. The development of "Level 3" technical training and education packages aimed at the manufacturing industry is in an advanced stage and will be rolled-out progressively during the 2013/14 financial year. Topics include wool scouring, wool topmaking, knitwear finishing, and easy care knitwear. Work also begun this year on the development of "Level 2" intermediary training and education packages aimed at the manufacturing industry.

Strategy 7: Collection, dissemination and training on production, supply chain and market data

See *Strategy 3: Market intelligence* in the Marketing section on page 34.

MARKETING

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

CAMPAIGN FOR WOOL - AUSTRALIA

For the third consecutive year, Australia has celebrated Wool Week in style, as part of the global Campaign for Wool which urges consumers to 'Live Naturally and Choose Wool'.

Scheduled to coincide with the start of the mid-winter retail season, Wool Week – held from 29 April to 5 May – played host to a series of events, which involved the campaign's retail partners across the country helping to educate consumers about the natural benefits of wool and increase sales of wool product.

Wool Week was launched at Sydney's historic fashion destination: The Strand Arcade. Giant trees lovingly wrapped in Australian Merino wool by American textile artist Magda Sayeg were installed in the arcade to showcase this season's colours and highlight the natural attributes of wool to shoppers. To complement this, the arcades retailer's highlighted wool in some beautiful window displays.

Twenty five unique wool fashion pieces designed by young design and textile students were also on display at the arcade as part of a student showcase. The pieces were designed by students from some of Australia's most respected fashion design and textile tertiary institutions.

As in previous years, Australia's top apparel retailers and designers supported the Campaign by taking its messages to consumers with in-store promotions delivering increased awareness about the natural benefits of wool.

But this year for the first time, Wool Week also highlighted the interiors sector, teaming up with eight leading brands.

The Campaign for Wool is a global campaign that aims to encourage manufacturers, retailers and designers to choose wool and, in turn, educate consumers about the fibre's environmental benefits. The initiative is funded by Commonwealth wool bodies including AWI.

More information: www.campaignforwool.com.au



Key apparel and interiors labels and retailers supported the Campaign for Wool during Wool Week in Australia.

CAMPAIGN FOR WOOL - INTERNATIONAL

The Campaign for Wool was celebrated this year on an unprecedented global scale across international consumer markets, with more countries than ever before creating their own program of activity for 'International Wool Week' during the northern hemisphere autumn.

Events were held across the world helping to raise the profile of wool and increase the presence of the fibre on a global scale. Highlight events that captured the media and the public's imagination included:

UK: London's Harvey Nichols store was wrapped in wool.
USA: NY's Bryant Park became a woollen wonderland.
Germany: Wool School partnerships with retailers.
Spain: Public fashion parades by designers and brands.
France: Fashion parades in Parisian shopping centres.
Netherlands: Street based guerrilla stunts.
Norway: A "white gold" exhibition in Oslo.
China: The "Wool Modern" exhibition in Shanghai.
Korea: Fashion shows supported by department stores.
Japan: Wool featured in department store windows.

The campaign has been instrumental in driving a new demand for wool on an international scale, from luxurious next to skin Merino apparel to the comfort of natural carpet.

The activities generated AU\$23 million of global editorial coverage throughout mainland Europe, the USA, Australia and in Asia where the campaign was launched in Korea and China. Coverage reached more than 100 million people.

Support from business partners is growing. Back in October 2010 when the Campaign for Wool was officially launched, it had 117 global brand, retail and design partners offering their support. Fast forward to the present and the campaign has 873 partners.

His Royal Highness The Prince of Wales is Patron of the Campaign for Wool. He has affirmed his patronage for the global campaign for the next five years.

More information: www.campaignforwool.org



In Japan, the Campaign for Wool joined forces with Ginza Fashion Week and leading department stores.

INTERNATIONAL WOOLMARK PRIZE 2012/13

AWI held the 2012/13 International Woolmark Prize which is a global fashion design award to identify the world's foremost emerging designers and highlight the diverse interpretations of Merino wool within their collections.

The initiative crossed borders and cultures by recognising outstanding new design talent from emerging and established fashion hotspots around the globe. The competition was held in the five key fashion and retail regions of Europe, Australia, India, China and the USA.

The International Woolmark Prize is in keeping with AWI's long tradition of supporting individual excellence in design, and aims to highlight the beauty of the Merino wool fibre at the hands of the world's fashion artisans.

The award increases the Woolmark brand's credibility within the international fashion community. This is an award for the new generation of designers, shifting the focus from glamour to true talent, which perfectly complements Merino wool's credentials as a quality, natural fibre with integrity.

Vogue was the global media partner of the International Woolmark Prize, which also involves the world's most important buyers, retailers and fashion councils.

An important element of this prize is the commercialisation of Australian Merino wool products within leading retailers in each of the key regions.

Christian Wijnants from Belgium, the winner of the international final held in London in February 2013, receives financial support to assist his next fashion show. In addition, he has had his collection commercialised through a series of international retailers associated with the project including David Jones in Sydney, Harvey Nichols in the UK, Joyce in China, Eickoff in Germany and Bergdorf Goodman in the USA.

The judging panel for the 2012/13 competition was made up of eight of the most important and influential people in fashion, each one a pillar of the global fashion industry: Diane von Furstenberg, Donatella Versace, Franca Sozzani, Tim Blanks, Victoria Beckham, Andrew Keith, Carla Sozzani and Paula Reed.

The International Woolmark Prize is being held again in 2013/14, with regional finals having been held in June and July 2013.

For more information visit www.woolmarkprize.com



The designers' Merino wool collections were showcased in front of influential media of the fashion world.

MERINO WOOL. NO FINER FEELING™ CAMPAIGN

AWI continued its five-year global "Merino Wool. No Finer Feeling™" fibre advocacy campaign that is informing a new generation of consumers – and the fashion community – across the world about the natural attributes and benefits of Merino wool.

The campaign establishes Merino wool as the fabric of choice for fine, contemporary fashion.

This year, the campaign involved AWI strengthening its partnerships with well-known designers and fashion houses. Brand endorsements of the campaign provide real penetration in fashion markets. There has been a raft of endorsements in leading fashion magazines (including Vogue, Marie Claire, GQ and Esquire) and online by international designers and brands from Ermenegildo Zegna to Vivienne Westwood.

AWI promoted the fibre across the world in numerous high-profile publications – traditional and digital.

For example, AWI worked with the Italian men's version of Vogue, L'Uomo Vogue, on a fashion photo shoot of Merino wool-rich pieces from the autumn/winter 2012/13 collections of 10 well-known international menswear and womenswear fashion brands: Thom Browne, Dolce & Gabbana, Salvatore Ferragamo, Givenchy, Marc Jacobs, Donna Karan, Lanvin, Missoni, Diane von Furstenberg and Alexander Wang. Each of the brands provided quotes, endorsing Merino wool, that accompany the photos.

AWI also had a major collaboration with Vogue Paris and French fashion industry body 'Chambre Syndicale de la Haute Couture' resulting in a special 16-page feature highlighting unique and inspiring interpretations of Merino wool by ten of France's most prominent Haute Couture designers including Jean Paul Gaultier, Maison Martin Margiela, Atelier Gustavo Lins, Christophe Josse, Anne Valérie Hash and Alexandre Vauthier.

The calibre of designers that are endorsing the campaign supports the intrinsic connection between Merino wool and the global fashion industry.

The campaign is being undertaken in partnership with manufacturers, retailers and the media over five years across all AWI's marketing initiatives.

The Merino.com website enhances the campaign by containing relevant educational information about campaign initiatives and partnerships, and information about the provenance and benefits of the fibre.

For more information visit www.merino.com



Pages from the 'Wool in the spotlight' 16-page designer feature in Vogue Paris.

WOOLMARK GOLD: PROMOTING MERINO WOOL IN CHINA

The Woolmark Gold campaign this year continued to position Merino wool as the prestigious fibre of choice in the growing Chinese domestic market for luxury goods.

The campaign was established in 2010 to meet the increasing demand for premium products and fibres, and allows luxury consumers to know more about the story behind Merino wool fibre, and its performance properties in relation to other luxury fibres eg cashmere.

Chinese consumers of premium products are increasingly astute and are demanding the greatest integrity and provenance. This is to Australian wool's advantage given it is an enduring natural fibre grown by woolgrowers with a proud heritage.

The main achievements of the Woolmark Gold campaign this year were:

- built awareness of the campaign with high-end apparel consumers
- educated high-end Chinese consumers about the benefits of Australian Merino wool
- distinguished Woolmark Gold products through their European heritage as even more luxurious than the already prestigious Woolmark-branded products
- launched the first branded Woolmark Gold product in China; and
- built a database of high-end apparel consumers.

A series of films were created to engage consumers on the luxury of Woolmark Gold. A cross-media campaign was implemented via print and digital mediums with Vogue, GQ and Elle. There were also competitions to engage and educate consumers.

AWI has the global networks to be able to create sourcing opportunities for its Woolmark Gold partners, for example from Italy and the UK into China. The company partnered with Savile Row Bespoke and 11 premium brands: Dormeuil, Hield Brothers, Holland & Sherry, Johnstons of Elgin, Reda, Scabal, Taylor & Lodge, Vitale Barberis Canonico, John Foster, William Halstead and Charles Clayton.

The Woolmark Gold brand represents recognition of outstanding achievement in weaving and knitting of Australia's finest micron wools. All partners are signatories to the IWTO Code of Practice that guarantees declarations of micron values under the Super S system.

For more information visit www.woolmarkgold.com



The Woolmark Gold website which is helping to promote Australian Merino wool in China.

ZEGNA CELEBRATES AUSTRALIAN SUPERFINE STYLE

Australian wool was placed under the global spotlight in April, when Ermenegildo Zegna – one of the single largest buyers of Australian Merino wool – celebrated the fibre of our nation along with international media and guests that travelled to Australia for the occasion.

To honour the 50th Edition of the Ermenegildo Zegna Wool Awards, Ermenegildo Zegna in partnership with AWI, hosted a two-day celebration with guided visits to some of the Australia's top superfine properties, followed by a gala event held at the historic Royal Hall of Industries in Sydney.

Journalists and media representatives from 31 countries travelled to Australia to see first-hand where Australian Merino wool originates and gain an understanding and appreciation for the fibre.

The farm tour was a day trip for 150 media to the New England district of NSW where seven wool-growing families hosted guests and introduced them to the intricacies of growing the world's finest wool.

Each group was shown through the wool-growing process starting from the history of wool and of the family, through to shearing and wool classing, helping to tell the story behind producing superfine Merino fleeces that qualify to enter the Zegna Wool Awards.

The trip culminated in the gala event hosted by Zegna at the historic Royal Hall of Industries attended by more than 1000 guests, including international and national media, celebrities including Megan Gale and Chris Hemsworth, and industry friends of Zegna and AWI.

The unveiling of an installation with multimedia projections opened the event and highlighted the values shared between the fine wool-growing areas of Australia and weaving district of Italy. This was followed by a stunning men's fashion show, on the longest catwalk ever created in Australia, featuring more than 60 male models outfitted in the Fall/Winter 2013 capsule collection specially created by Zegna as a homage to Australian wool.

AWI supported Zegna's initiative with the aim to increase awareness and appreciation of Australian Merino wool across the world, underlining the role of Australian woolgrowers within the fashion and textile industries and enhancing values like quality, innovation, education, provenance and traceability.

For more information visit www.woolmark.com/zegna-wool-trophy2013



Zegna designs showcased during the 50th Anniversary of the Ermenegildo Zegna Wool Awards in Sydney.

SOCIAL MEDIA EXTENDS WOOL’S REACH TO 150 MILLION

AWI has this year boosted its use of “social media” on the internet to help reconnect a new generation of consumers with the natural wonders of wool.

The company is helping drive the agenda for wool on Facebook and other social platforms such as Twitter and YouTube to generate positive online conversation about wool.

Of note, the “We Love Wool” page on Facebook more than doubled its fan base over the past year; at 30 June 2013, it had more than 386,000 fans. The Woolmark pages had similar results, increasing the number of fans on Facebook to 205,000 fans.

In total, our “social community” on Facebook increased by 80 per cent from the start of the 2012/13 financial year to 591,000 by the end of the year. The content we released through our communities reached over 150 million people online. This reach is created when our audience interacts with our content and it is seen by their friends.

We have also uploaded our videos – on subjects across the whole of the wool pipeline – onto the YouTube video sharing channel. The Woolmark channel on YouTube has received more than one million views.

Our social media presence this year also included Twitter (a microblogging service), and extended to Instagram (an online photo-sharing service) and Pinterest (pinboard-style photo-sharing website).

To connect with AWI’s social media initiatives, visit:

- The **Woolmark Company** page on **Facebook** www.facebook.com/TheWoolmarkCompany
- The **Woolmark Company** on **Twitter** www.twitter.com/woolmark
- The **Woolmark Company** channel on **YouTube** www.youtube.com/woolmarkonline
- The **Woolmark Company** on **Instagram** <http://instagram.com/thewoolmarkcompany>
- **We Love Wool** page on **Facebook** www.facebook.com/welovewool
- **We Love Wool** on **Twitter** www.twitter.com/welovewool
- **We Love Wool** on **Pinterest** www.pinterest.com/welovewool
- **AWI woolgrower** channel on **YouTube** www.youtube.com/AWIWoolProduction
- **AWI** on **Twitter** www.twitter.com/woolinnovation



AWI used “social media” to help a new generation of consumers reconnect with wool.

COOL WOOL CAMPAIGN HOTS UP IN CONSUMER MARKETS

After AWI’s successful trade launch of the Cool Wool program in February 2012 at the Première Vision trade show in Paris, the consumer campaign was launched in December in Dubai.

The Gulf was a fitting location to launch the campaign, given that the campaign focuses on educating consumers about the natural benefits of lightweight Merino fabrics for warmer climates and seasons.

The launch involved a media and retail event at Dubai Mall – the world’s largest shopping mall. Cool Wool fabrics offer a superb alternative to the less eco-friendly fibres often chosen for the warmer months in the Gulf.

Following the launch, AWI expanded the campaign into other northern hemisphere markets as the warmer spring and summer seasons arrived.

Global consumer media programs for international markets including UK, France, Germany, Iberia, Japan, Korea, Turkey and India started in March with leading publishers, and includes print, online and social media activities, reaching over 150 million consumers in total across the media mix. Retail events have also taken place in support of domestic retail programs with leading suppliers.

The response from consumers, trade and designers to the campaign has been encouraging. One of the major contributing factors of Cool Wool’s comeback is the global trend and increasing desire for quality and natural fibres, combined with emerging markets of the Asia Pacific and the Middle East – where warmer climates require light and breathable fabrics.

The original International Wool Secretariat’s (IWS) Cool Wool program, launched nearly 30 years ago, sought to change the perception of wool from being only a heavy, warm thermal product. In many ways the campaign used up until the late-90s was very successful. However, the new Cool Wool campaign takes the concept even further for the 21st century with even lighter weight Merino fabrics and yarns, ensuring that Merino is an ideal fibre to wear all year-round.

The Cool Wool Weavers Guild will this year be extended from the European weavers who supply the international brands and bespoke tailors, to include some of the leading weavers outside of Europe. This will widen the global availability of Cool Wool fabrics and garments for consumers in 2014.

For more information visit www.coolwool.com



Advert showing a mob of Merino sheep wearing sunglasses – helping make wool cool again!

OPERATIONAL REPORT 2012/13 – MARKETING

Strategy 1: Fibre advocacy and partnership marketing

Program	Progress
Consumer education	<ul style="list-style-type: none"> • AWI continued its global fibre advocacy campaign “Merino Wool. No Finer Feeling™” to inform a new generation of international consumers, and the fashion community, about the attributes and benefits of Merino wool. The campaign positions Merino wool as the premium, luxury fibre of choice for fine, contemporary fashion. This year, the campaign involved AWI strengthening its partnerships with well-known designers and fashion houses and promoting wool across the world through numerous high-profile publications (print and online). See page 27. • The Campaign for Wool continued its success this year, educating consumers across international consumer markets about wool’s unique natural benefits and building a lasting profile for the fibre. The Campaign extended its International Wool Week this year to countries in Asia and the Americas and was celebrated on an unprecedented scale, generating more than AU\$23 million of global editorial coverage. During November, the Campaign Patron, The Prince of Wales, toured Australia and visited a Merino property in Tasmania and a ‘Farm to Fashion’ event in Sydney. Australia held a successful Wool Week in April 2013 to coincide with the start of the autumn/winter retail season. See page 26. • The latest Woolmark Gold campaign this year continued to position Merino wool as the prestigious fibre of choice in the rapidly growing Chinese domestic market for luxury goods. The campaign allows luxury consumers to know more about the story behind Merino wool fibre, and its performance properties in relation to other luxury fibres eg cashmere. A series of films were created to engage consumers regarding the luxury of Woolmark Gold. A cross-media campaign was implemented via print and digital mediums with Vogue, GQ and Elle. There were also competitions to engage and educate consumers. See page 28. • The modernity and quality of Merino wool apparel was showcased during the 2012/2013 International Woolmark Prize. The competition gained extraordinary momentum during the year, generating significant interest across the globe. AWI partnered with a large number of international fashion associations, retailers and media, including Vogue, to generate integrity and publicity for the award. AWI is continuing with, and expanding, the award in 2013/14. See page 27. • Following the successful launch of the Cool Wool program to the textile trade last year, AWI has this year launched the retail campaign, which focuses on educating consumers about the natural performance benefits of lightweight Merino fabrics. The campaign was launched in the Middle East in December and has been extended into other northern hemisphere markets in the lead-up to the warmer spring and summer seasons. The aim is to extend the traditional wool buying season. See page 29.
Public relations – fibre publicity	<ul style="list-style-type: none"> • The International Woolmark Prize was this year incredibly successful at showcasing the versatility and quality of Merino wool to the fashion and textile industries and consumers. Through this competition, AWI now has a network of the world’s leading influencers of fashion – at the jury, designer and media level – endorsing wool, and broader recognition of the fibre’s qualities amongst consumers across the world. • Reports on international fashion weeks and wool on the catwalks was leveraged outside their local market to provide a global reach. • AWI supported leading textile graduate design prizes, such as the UK’s Texprint award and Hong Kong PolyU Institute of Textiles and Clothing’s graduation award. This is part of AWI’s strategy to educate early career textile designers about the benefits of working with Merino wool. • PR agencies delivered educational content on the Merino fibre on a per project basis. • The AWI Marketing team supported the AWI presence at trade shows and the publicity of wool’s benefits by providing marketing collateral, from trade show booth design (with a globally consistent look and feel) to brochures and posters. • AWI consolidated international media partnerships with media owners globally, such as Condé Nast, which owns magazines/brands such as Vogue, GQ and WWD. • AWI supported the L’Oréal Melbourne Fashion Festival’s “The Wool Renaissance” fashion industry seminar. • AWI engaged a professional media monitoring service so that the company could review whether it was achieving the optimal level and targeting for its PR activities. • Following on from the success of the past two years’ Wool4Skool competition, AWI launched a new Wool4Skool competition this year to continue to build knowledge about wool among Australian school students. The fashion design project has been planned carefully to fit within the Design and Technology curriculum in every state.

OPERATIONAL REPORT 2012/13 – MARKETING

Strategy 1: Fibre advocacy and partnership marketing (continued)

Program	Progress
Online presence, search engine management and optimisation	<ul style="list-style-type: none"> • AWI continued to enhance its web communications to its three key stakeholder groups: woolgrowers (Wool.com), the textile trade (Woolmark.com) and consumers (Merino.com). • Wool.com was redeveloped to make the content more woolgrower-centric. It contains on-farm related information for woolgrowers seeking information on lifting on-farm profitability, information about where AWI invests woolgrower levies, and AWI shareholder/corporate information. The navigation and page layout has been made much simpler than the previous site, and returns to a more traditional website structure. The site content has been completely refreshed - the content will have a constant maintenance cycle to ensure information currency and accuracy. • Following the launch last year of Woolmark.com, AWI continued this year to upload regular, engaging content to inspire companies along the textile production chain to choose wool, in preference to other fibres, in the manufacture of their products. The website provides an authoritative source of wool-related information for Woolmark licensees and other textile businesses including spinners, weavers, knitters, designers, brands and retailers. • Engaging content continued to be uploaded onto the Merino.com website to share information about the benefits of this premium natural fibre, so that consumers and fashion designers are inspired to discover and enjoy its unique properties. Information was focused on fashion, activewear and babywear, as well the benefits and provenance of the fibre itself. Redevelopment of the site for launch in the second half of 2013 was also undertaken to ensure ongoing optimum engagement. • Our websites had a total audience for the financial year of 502,041, growing by eight per cent from 461,302. Our content was viewed 1,331,274 times in the financial year, growing by four per cent from 1,276,341. • Various e-newsletter and email campaigns (including a monthly update e-newsletter for woolgrowers, a weekly wool market review e-newsletter, and media release updates) were undertaken throughout the year, pointing to information on the AWI websites. • An online presence for specific marketing projects, such as the International Woolmark Prize (www.woolmarkprize.com), Cool Wool (www.coolwool.com) and Wool4Skool (www.wool4skool.com) continued with enhancements. • AWI continued to increase its use of “social media” to generate online conversation about wool and help reconnect a new generation of tech-savvy consumers with the natural wonders of wool. We continued to use Facebook, Twitter and YouTube, and our social media presence also extended to Instagram and Pinterest this year. • The “We Love Wool” page on Facebook more than doubled its fan base over the past year; at 30 June 2013, it had more than 386,000 fans. The Woolmark pages had similar results, increasing the number of fans on Facebook to 205,000 fans. In total, our “social community” on Facebook increased by 80 per cent from the start of the 2012/13 financial year to 591,000 by the end of the year. The content we released through our communities reached over 150 million people online. This reach is created when our audience interacts with our content and it is seen by their friends. • We have also uploaded our videos – on subjects across the whole of the wool pipeline – onto the YouTube video sharing channel. The Woolmark channel on YouTube has received more than one million views. • Development of a number of Apps for use on smartphones and tablets was instigated. Several have been deployed, most notably Apps containing information about The Wool Lab. • A Search Engine Optimisation campaign continued, primarily for Merino.com.
AWI publications	<ul style="list-style-type: none"> • The <i>Beyond the Bale</i> magazine was produced four times during the year, and posted to 25,000+ AWI shareholders 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. • An interactive online edition of the <i>Beyond the Bale</i> magazine was launched during the year, which complements the hard copy edition of the magazine. 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).

OPERATIONAL REPORT 2012/13 – MARKETING

Strategy 1: Fibre advocacy and partnership marketing (continued)

Program	Progress
Trade education tools	<ul style="list-style-type: none"> Marketing, sales, training and market intelligence materials were added to AWI's internal Dashboard iPad App to assist AWI Key Account Managers communicate with trade customers in the most timely and cost-effective manner irrespective of location. A range of brochures, manuals and other tools have been produced to educate the textile trade about AWI innovations, knit and woven manufacturing techniques, caring for wool apparel, the benefits of wool, and the meaning behind the Woolmark logo. The Woolmark.com website that was launched last year continues to be updated to educate companies along the textile production chain about wool. The website provides information on markets, trends and innovations; and information about how to work with wool along each stage of the production pipeline, broken down into topmaking, dyeing and finishing, spinning, knitting, weaving and making up. There are also pages dedicated to how the fibre can be used in various market sectors including fashion apparel, interior textiles, babywear and sportswear, plus apparel care. A monthly Woolmark.com e-newsletter highlights recent key news and information added to the Woolmark.com website. The e-newsletter is distributed to Woolmark licensees and others in the wool supply chain that have chosen to subscribe. A "Looking For Wool" sourcing guide was developed and launched. Hosted at www.woolmark.com/lookingforwool, Looking For Wool is an online directory for sourcing wool and wool-rich containing products, (part made and fully finished), both for apparel and interior textiles. Looking For Wool is a tool to bring suppliers and buyers of wool products together in an easy to access and central location. The Woolmark Company partnered with textile company Scotcloth Ltd to provide a unique online module of woven textile images exclusively available to all Woolmark, Woolmark Blend and Wool Blend licensees. 750 new rights owned images, and video and fibre promotional items were generated for distribution and use in marketing communications activities. They were made available to AWI Key Account Managers for use by trade and supply chain partners, brands, retailers and the media. The <i>InTouch</i> magazine was produced during the year and distributed to Woolmark licensees. The <i>Beyond the Bale</i> magazine, produced four times during the year, was also sent to stakeholders in the wool supply chain (as well as AWI shareholders). For more trade education initiatives undertaken in 2012/13, refer to <i>Off-farm R&D Strategy 6: Marketplace extension of fibre knowledge and textile innovation</i> starting on page 24.

Strategy 2: Product partnership marketing

Program	Progress
Trade and consumer product promotion	<ul style="list-style-type: none"> Australian Merino wool was showcased to the international media in April when Ermenegildo Zegna – one of the single largest buyers of Australian Merino wool – invited 150 high profile media representatives to Australia to gain an understanding and appreciation for the fibre. AWI proudly supported Zegna's initiative to increase awareness and appreciation of Australian Merino wool across the world. The media contingent visited superfine wool-growing properties, where they saw first-hand where wool originates, and then attended a highly successful and talked about gala event in Sydney where Zegna showcased its latest collection. See page 28. AWI worked with the Italian men's version of Vogue, L'Uomo Vogue, on a fashion photo shoot of Merino wool-rich pieces from the autumn/winter 2012/13 collections of 10 well-known international menswear and womenswear fashion brands: Thom Browne, Dolce & Gabbana, Salvatore Ferragamo, Givenchy, Marc Jacobs, Donna Karan, Lanvin, Missoni, Diane von Furstenberg and Alexander Wang. Each of the brands provided quotes, endorsing wool, that accompanied the photos. AWI also had a major collaboration with Vogue Paris (and Vogue UK) and French fashion industry body 'Chambre Syndicale de la Haute Couture' resulting in a special 16-page feature highlighting unique and inspiring interpretations of Merino wool by ten of France's most prominent Haute Couture designers: Jean Paul Gaultier, Maison Martin Margiela, Atelier Gustavo Lins, Christophe Josse, Anne Valérie Hash, Alexandre Vauthier, Alexis Mabille, Bouchra Jarrar, Maison Rabih Kayrouz and Maxime Simoens.

OPERATIONAL REPORT 2012/13 – MARKETING

Strategy 2: Product partnership marketing (continued)

Program	Progress
Trade and consumer product promotion (continued)	<ul style="list-style-type: none"> • AWI and the Woolmark brand teamed up with Marie Claire magazine in the USA to promote the unique and natural benefits of Merino wool. The cross-media campaign featured well-known designers who each used wool in their latest collections. The campaign educated consumers about wool as well as raise brand awareness within the USA. • AWI and Merino wool were well represented at this year’s trendsetting Milano Unica textile trade fair due to its engagement in the fair’s signature event ‘On Stage’ and also by doubling its presence inside the fair, attending Moda In as well as Ideabiella. The event underpins the strong relationship between the Australian wool industry and the European textile community. • Numerous local market initiatives supported AWI’s global programs. There were a large number of smaller scale projects conducted in key markets to generate incremental sales of wool, or increase the price points at which wool products are sold. • AWI’s “Mothers and Babies” program continued to drive demand for Merino wool in the market for baby and infant wear. The program works in three main areas: funding scientific research into Merino’s health benefits, innovative product development and creating awareness of the fibre’s benefits. • Working with leading sports designers, professional users and innovative brands, AWI’s “Sports and Outdoor” program worked in B2B and consumer-facing marketing activities with the aim to increase the awareness of, and add value to, the Merino fibre in sports and performance garments. • The Woolmark Apparel Care program helped provide quality laundering technology to consumers, enabling the very best care options for wool garments. The program allows for the Woolmark brand to be licensed for use on washing machines, tumble driers, irons, detergents, fabric softeners and wool-friendly bleaches for domestic use. • AWI’s “Urban” program worked to drive demand in the young fashion-conscious street wear and casual wear markets – where very little wool is currently used – and to take advantage of the global trend towards a more informal style of dressing,
Woven volume defence	<ul style="list-style-type: none"> • A Cool Wool consumer campaign was launched and rolled out this year. The campaign promotes lightweight Merino wool fabrics and yarns for the warmer seasons and environments – see page 29 for further details.
Public relations – product publicity	<ul style="list-style-type: none"> • AWI promoted the use of wool to the global fashion industry, working closely with local and international designers to source and develop fabrics and knitwear made from quality Merino wool.
Brand standards and quality control	<ul style="list-style-type: none"> • Enforcement of Woolmark brand standards across all activities is increasing. This outcome is also a function of the other AWI programs. See <i>Strategy 1: Quality Assurance</i> of the Off-farm R&D section on page 20.

OPERATIONAL REPORT 2012/13 – MARKETING

Strategy 3: Market intelligence

Program	Progress
Production forecasting	<ul style="list-style-type: none"> The Australian Wool Production Forecasting Committee (AWPFC) process continued in 2012/13, under the streamlined arrangements implemented in 2010/11, with AWI providing funding, analytical and secretarial support for the AWPFC, and providing the vehicle for grower and trade communication. Three AWPFC reports were released in 2012/13 (August and December 2012, and April 2013), following the State and National Committee processes. The reports have been made available on AWI's new website for woolgrowers via www.wool.com/en/market-intelligence and AWI's wool trade website via www.woolmark.com/market-intelligence. AWI and Meat & Livestock Australia continued to collaborate in conducting the joint "Sheepmeat and Wool" surveys of producers – surveys were conducted in June and October 2012, and February 2013. AWI and Meat & Livestock Australia co-invested in conduct of an expert review of the respective wool and lamb production forecasting processes, seeking to identify areas for improvement in forecasting accuracy. While current wool production forecasting accuracy is comparatively very good, at around +/- 2 per cent, some opportunities for ongoing improvement have been identified, and will be considered by the AWPFC.
Retail and trade market reports	<ul style="list-style-type: none"> AWI has continued its investment in the maintenance of the Harvest database, which acts as a single global repository of production, price and trade data. A major upgrade of Harvest database software was completed in 2012/13, and procedures refined for data uploading. Senior management across AWI has been provided with individual access to the Euromonitor Passport online trade database, for reports customised to AWI's needs. Production of AWI's monthly Market Intelligence report continued through 2012/13, and this report was provided as part of AWI's monthly e-newsletter for Australian woolgrowers. These reports are made available on AWI's websites for woolgrowers (Wool.com) and the wool trade (Woolmark.com), and have been quoted in Australian rural and international wool media. From 15th January 2012, AWI commenced production of its own Weekly Price Reports. The reviews are available on AWI's websites for woolgrowers (Wool.com) and the wool trade (Woolmark.com), and are available each Friday via email from AWI. Visit www.wool.com/subscribe to subscribe to AWI's free e-newsletters.
Consumer insight and trend monitoring	<ul style="list-style-type: none"> In 2012/13, AWI continued to collect consumer insight and trend monitor information from a range of sources, including UK-based LS:N Global – these have been provided to key staff in the AWI Marketing and Global Business Development areas.
Global consumer apparel and fibre market research	<ul style="list-style-type: none"> The second phase of consumer tracking surveys was completed in China, USA, Italy, UK and Japan during 2012/13, with surveys in-field in October 2012 (the northern autumn) and April 2013 (the northern spring). These surveys assess consumer attitudes and awareness to wool and Merino products, barriers to increased consumption, target consumer segments, and consumer information-sourcing behaviours. A Woolmark-specific brand equity tracker was developed and has been trialed.

BUSINESS DEVELOPMENT

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

WOOLMARK NURTURE BRAND

A critical part of AWI strategy is to develop new markets for Merino wool – especially those markets that highly value Merino wool's natural attributes, and in which consumers are prepared to pay premium prices.

The market for baby and infant wear is an important example of such a lucrative market, and AWI's "Mothers & Babies" program is helping to drive demand for Merino wool in this market. The AWI program funds product development, marketing and scientific research into Merino wool's attributes.

The program recently launched a new brand – 'Woolmark Nurture' – backed up by Woolmark product specifications for babywear that provide an endorsement for quality and performance for this market in which health and safety are paramount.

The Woolmark Nurture brand uses the widely recognised Woolmark symbol but has its own branded labels and tickets available for licensees. The Woolmark Nurture specifications are part of the value proposition that AWI's network of global account managers put to potential brand partners.

OPERATIONAL REPORT 2012/13 – INTERNATIONAL BUSINESS DEVELOPMENT

Strategy 1: Build Woolmark brand presence through partnership marketing programs

Program	Progress
Fibre partnership marketing programs – Woolmark presence	<ul style="list-style-type: none"> AWI continues to leverage off the Woolmark brand and logo in almost all activities undertaken by the company – from being a certification mark for product, to where it is used as the corporate logo for The Woolmark Company. AWI has been building the awareness of the Woolmark brand through major marketing initiatives such as the "Merino. No Finer Feeling™" and the "Cool Wool" campaigns (which include the Woolmark logo in all their marketing collateral). See the Marketing section beginning on page 26.
Product partnership marketing programs – Woolmark presence	<ul style="list-style-type: none"> The Woolmark brand has presence on various partnering companies' advertisements, collateral and in-store presence in relation to the above "Merino Wool. No Finer Feeling™", "Campaign for Wool" and other campaigns around the world.

Strategy 2: Leverage the market presence and value of the Woolmark through identifying and maximising Woolmark revenue streams, license income and royalties

Program	Progress
Brand licensing	<ul style="list-style-type: none"> Category managers for the Sports & Outdoor, Mothers & Babies, Urban, Apparel Care, and Interior Textiles categories have been leveraging the market presence and value of the Woolmark brand in these sectors by identifying and maximising Woolmark revenue streams. AWI has launched a 'Woolmark Nurture' brand to help increase the use of Merino wool in the lucrative market for baby and infant apparel and bedding products. Products certified under the Woolmark Nurture program meet stringent standards.
Additional endorsements	<ul style="list-style-type: none"> The Apparel Care area has continued to provide endorsement income opportunities through 2012/13. New logos have been introduced to support this work.

Strategy 3: Retail and e-commerce feasibility

Program	Progress
Feasibility study – Woolmark branded retail outlets	<ul style="list-style-type: none"> Following the completion of a feasibility study into Woolmark branded retail outlets, and consumer awareness testing and acceptance of the Woolmark retail concept, the project has been terminated.
Feasibility study and development strategy – Woolmark e-commerce business	<ul style="list-style-type: none"> An e-commerce facility now provides Woolmark licensees with a way of paying their license fees online. It was trialed during the billing period for the 2012/13 licence year, with licensees in select countries able to pay their annual licence fee via the Woolmark.com website. The e-commerce facility will continue.

MARKET ACCESS

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

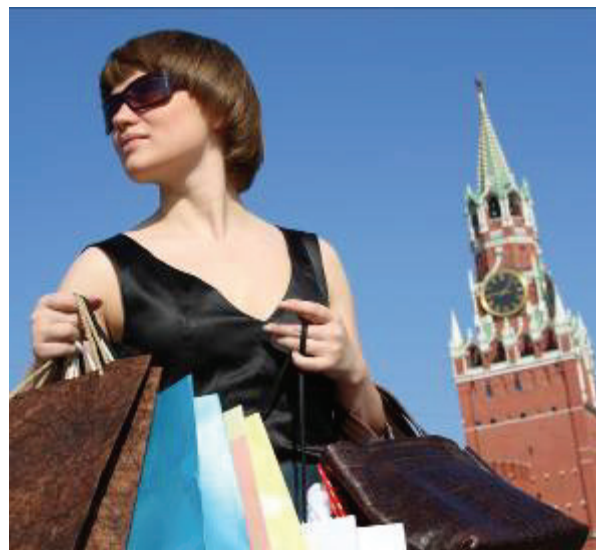
NEW GROWTH MARKETS FOR AUSTRALIAN WOOL

AWI continues to investigate and pursue new processor and retail markets for Australian wool.

Apart from the obvious benefit of potentially increasing demand for wool products, there is also a risk management element to this strategy, due to Australia's current reliance on China as the major buyer of Australian wool, plus our traditional (western) markets continuing to be affected by challenging economic conditions.

AWI has been pursuing growth markets such as:

- Vietnam processing market – putting in place an “Out of Vietnam” project, similar to AWI’s “Out of Bangladesh” project.
- Russia – as a potentially large retail market, due to its increased wealth, large population, and extreme weather: the “To Russia with wool” project.
- Belarus and the Ukraine manufacturing markets – setting up a supply chain for Australian wool close to European (including Russian) retail markets.



AWI has been working to build consumer demand for wool in new and profitable markets such as Russia.

OPERATIONAL REPORT 2012/13 – MARKET ACCESS & INTERNATIONAL TRADE

Strategy 1: Market access

Program	Progress
Develop and implement market access strategies and programs to ensure ongoing access to key processor markets for Australian wool	<ul style="list-style-type: none"> • AWI continues to explore new processor markets for Australian wool in new regions. This is necessary due to potential risks, such as (1) too much reliance on a single buyer (China) of Australian wool, and (2) increased manufacturing costs in China that could result in a downturn in China's manufacturing base. • AWI is liaising with manufacturers in growth processing markets, such as Vietnam (see page 18) and Belarus, to help increase their production of wool products.
Develop and implement market access strategies and programs to ensure ongoing access to retail markets for Australian wool	<ul style="list-style-type: none"> • AWI continues to explore new retail markets for Australian wool in new regions. This is especially important due to our traditional (western) markets continuing to be at risk during ongoing challenging economic conditions. • AWI is liaising with retailers in growth retail markets, such as Russia, to help increase their selling of wool products.
Enhance trade advocacy activities at all levels of our industry and across the supply chain to achieve optimal trade outcomes	<ul style="list-style-type: none"> • AWI has been actively contributing to the Trans Pacific Partnership (TPP) Free Trade Agreement (FTA). The TPP is a multilateral FTA involving 11 countries in the Asia Pacific region. AWI has developed a case, strongly supported by the Department of Foreign Affairs and Trade, which would deliver beneficial outcomes to the Australian wool industry if it is included in the final agreement.

Strategy 2: New market development

Program	Progress
Additional demand for broad micron wools	<ul style="list-style-type: none"> • See Strategy 5 (Interior Textiles and floor covering) of the Off-farm R&D section on page 24.
Evaluation of “new” markets for Australian wool	<ul style="list-style-type: none"> • See the above Strategy 1: Market access.

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 or Company Secretaries
- 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 may be found on the AWI website at www.wool.com, and includes:

- AWI Constitution
- Statutory Funding Agreement 2013 – 2016
- Board Charter
- Charter of the Committees of the Board
- Board Nomination Committee Charter
- Code of Conduct and Business Ethics
- Corporate Governance Policy
- Conflicts of Interest 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 Board and management are committed to achieving.

Conflict of interest policy

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) 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.

AWI'S STAKEHOLDER LINKS

Stakeholder engagement

The nature of the Australian wool industry is such that there is no one single organisation that represents all woolgrowers, nor one group that represents all domestic industry organisations (see Figure 1 below). Consequently, AWI's Statutory Funding Agreement (SFA) requires it to meet with key industry

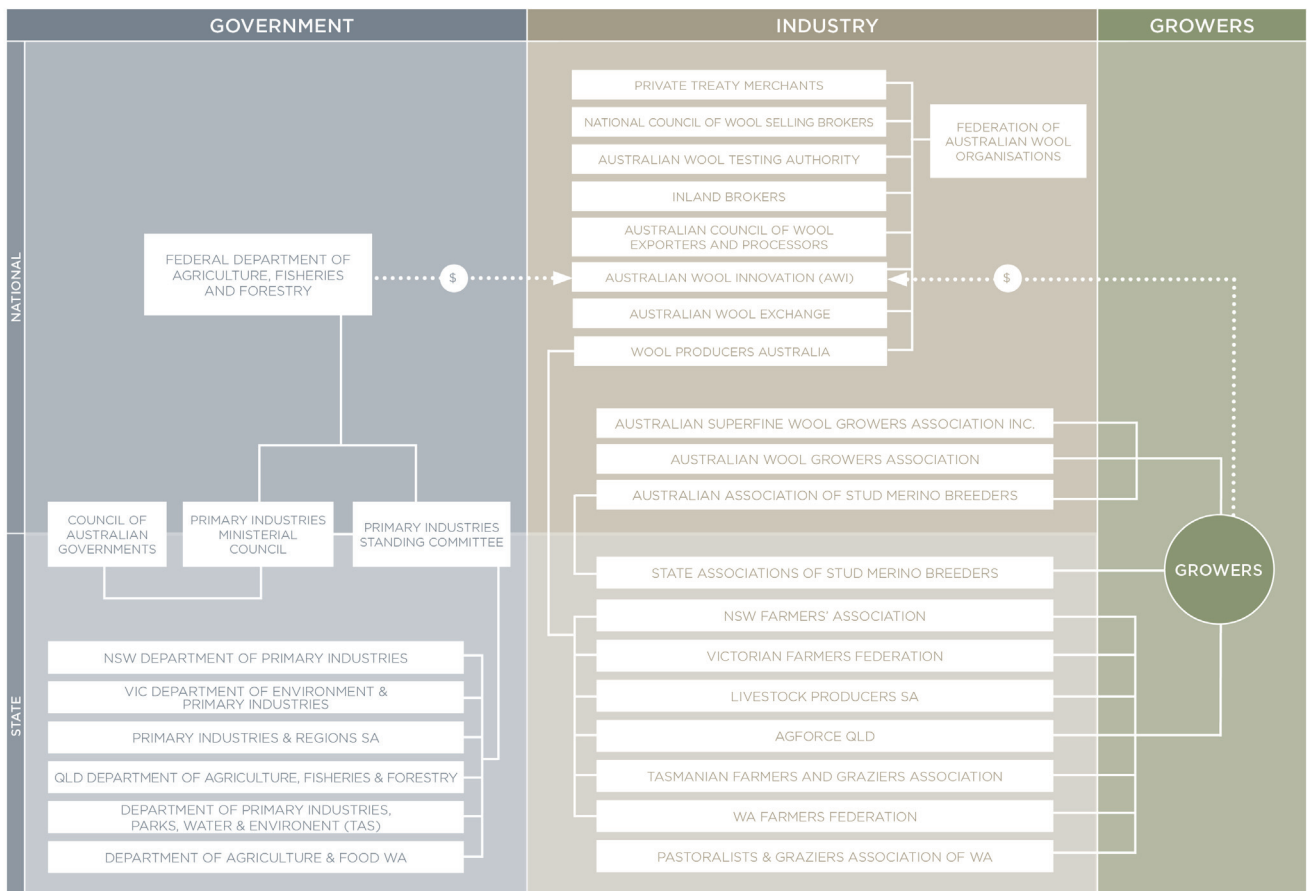
representative bodies at not more than six-monthly intervals to review industry priorities for research, development and marketing (RD&M) investments and report to stakeholders on AWI's performance against the Strategic Plan and the Annual Operating Plan.

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, AWI has developed a comprehensive stakeholder engagement strategy. This strategy encompasses individual woolgrowers, woolgrower representative groups, domestic non-woolgrower industry organisations, and others right along the wool supply chain to retailers and consumers.

To ensure AWI effectively engages this wide range of stakeholders, AWI implemented significant changes across the business in 2012/13 to improve engagement with woolgrowers, supply chain partners, industry and government.

This included strengthening and formalising existing consultative processes such as the bi-annual Woolgrower Forum, AWI's Woolgrower Industry Consultative Committee (ICC) and Animal Welfare Forum. During 2012/13 AWI continued to develop its Annual Planning and Consultation Cycle, which is now also included in the 2013/14 - 2015/16 Strategic Plan.

Figure 1: Wool industry organisational chart



The Annual Planning and Consultation Cycle formalises key points during AWI's annual planning, as well as key consultation events. It is through the consultation outlined in the Annual Planning and Consultation Cycle that AWI ensures all stakeholder groups have a greater understanding of AWI's role as the RD&M organisation for the Australian wool industry and the ways in which their priorities are reflected by AWI's activities.

In 2012/13 AWI continued to improve its engagement with State Farm Organisations and other grower representative groups.

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 2012/13 AWI continued to enhance and implement an industry engagement strategy to establish and nurture relationships 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.

The strategy also includes engaging supply chain partners who value and support AWI by partnering in business strategies 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 2012/13 include:

- Biannual woolgrower forums
- Woolgrower Industry Consultative Committee (ICC) meetings
- State Farm Organisations (SFOs)
- Regular meetings with woolgrower representative bodies and key processors
- Numerous forums with woolgrowers in wool producing areas
- Regional 'Wool Clip' events
- Trade and retail partner consultation forums
- Retailer and brand workshops and roadshows
- Woolmark licensee workshops and meetings
- Meetings with manufacturers and media partners in key markets
- Outreach publications – primarily the quarterly *Beyond the Bale* magazine, AWI's online newsletter and the AWI website (www.wool.com).

Further detail on AWI's consultation processes is shown in Figure 2 overleaf on page 40.

Government partnership

In 2012/13 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 SFA, a contract which governs AWI's expenditure of levy and matching government funding for eligible R&D activities. In 2012/13, AWI's relationship with the Australian Government was shown by successful negotiation of AWI's 2013-2016 SFA.

Examples by which AWI engaged government during 2012/13 are:

- regular interaction with the Australian Government through quarterly meetings, participation in government processes, and day-to-day discussions
- development of an SFA compliance report (in conjunction with the Department of Agriculture, Fisheries & Forestry (DAFF)) to further demonstrate, on a six-monthly basis, the company's ongoing compliance with SFA requirements
- development of a quarterly briefing package for DAFF, including similar materials provided to the ICC and SFOs each quarter
- provision of six-monthly reports to a wide range of government stakeholders on key operational issues
- offering briefings on R&D and marketing activities and key issues to interested government stakeholders
- AWI's participation in Council of Rural Research and Development Corporations activities
- AWI's participation in the development strategies under the National RD&E Framework.

In 2012/13 AWI also engaged state government agencies at a corporate level, ensuring this important stakeholder group is aware of key operational issues and is updated on AWI's RD&M activities.

Partnership outcomes

As a result of its strong links with its stakeholders in 2012/13, 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.

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

Figure 2: AWI's Annual Planning and Consultation Cycle



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 plan for RD&E delivery is an element of the National RD&E Framework, an Australian Government initiative to ensure the efficiency and effectiveness of RD&E. The initiative is delivering strategies for all agricultural sectors including wool and sheepmeat, and cross sector strategies including animal welfare, biosecurity and climate change. The RDCs, State Government agencies, CSIRO and universities are all signatories to the initiative.

AWI participates in the National RD&E Framework through its support of the implementation of several strategies sitting under the framework in partnership with other RDCs: National Animal Welfare RD&E Strategy, Climate Change Research Strategy for Primary Industries (CCRSPI), National Animal Biosecurity RD&E Strategy, Australian Wool Industry Animal Biosecurity RD&E Strategy, National Sheepmeat Production RD&E Strategy, and its own sector strategy, the National Wool RD&E Strategy.

AWI participates in an annual forum of researchers and industry stakeholders to identify R&D or extension projects. AWI has committed to fund one project of the two presented to date.

AWI participates in CCRSPI and its affiliate research programs such as "Filling the Gaps" in relation to efficient livestock production. AWI links to the National Sheepmeat Production RD&E Strategy through the National Wool RD&E Strategy in cofunding sheep research.

Beyond project investment, AWI is collaborating on improving the efficiency of the management of research through harmonisation of research contracts.

National Wool RD&E Framework

AWI, the Department of Agriculture and Food Western Australia and NSW Department of Primary Industries continue to lead the implementation of the National Wool RD&E Strategy. The Researcher Forum was held in September 2012 to address the priorities from growers and others listed under the program framework in the National Wool RDE Strategy. Six proposals being developed from that forum (either new concepts or supported concepts) are: developing mobile apps for parasite control; nationally coordinating and supporting the FlyBoss, WormBoss and LiceBoss entities; remote monitoring for production and animal welfare; mobile biosecurity/disease/feral animal alerts; selecting for lifetime productivity; and reviewing adoption of parasite control tools.

Projects commissioned this year from last year's forum are the impact of mob size during lambing on twin lamb survival, fail safe guides to grazing pregnant and

lambing ewes on cereals, and collecting and reviewing past unpublished and published research on fibre quality to identify research gaps to fill market opportunities. These projects collaborate with MLA, the Victorian Department of Environment and Primary Industries, Murdoch University, CSIRO, Deakin University, AWTA, the University of New England and the University of Sydney.

Under this strategy's links to the National Animal Welfare RD&E Strategy, AWI is funding a community attitudes survey with the Australian Meat Processor Corporation and Australian Pork Limited. AWI appreciates the access it has to the outcomes of the Unified Filed Index project under the welfare strategy to enhance its own grower self-assessment tool development, despite not funding this project.

R&D collaboration during 2012/13

R&D collaboration with other organisations during 2012/13 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 following section overleaf on page 42.

Given that the primary ruminant at the heart of AWI's R&D and marketing efforts (ie sheep) is also of interest to a number of other RDCs, AWI has a demonstrated history of collaborating on R&D projects with other members of the RDC family.

During 2012/13, AWI was involved in a significant number of collaborations with research bodies such as RDCs, government departments of agriculture, industry organisations, CSIRO, universities and commercial partners. Major collaborations during 2012/13 include:

- WormBoss, which is helping producers with worm management practices (with the CRC for Sheep Industry Innovation and leading Australian parasitologists, researchers and consultants)
- LiceBoss, which is helping producers with lice management practices (with the CRC for Sheep Industry Innovation)
- helping to overcome predation by wild dogs and foxes, and helping to develop new control options for rabbits (with the Invasive Animals CRC and NSW Department of Primary Industries)
- Sheep Genetics, which is enabling breeders to achieve higher rates of genetic gain (with MLA);
- EverGraze, which is helping high rainfall producers increase the profitability of grazing systems (with MLA and the Future Farm Industries CRC)
- shearer and wool handler training with Registered Training Organisation providers around Australia
- a number of projects with the CRC for Sheep Industry Innovation
- 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), Bestprac (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, the national framework requires AWI to also take into account the Australian Government's National Research Priorities (NRPs) and Rural Research and Development Priorities (RRDPs) in setting its R&D investments.

National Research Priorities

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

The priorities are:

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

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

Rural Research and Development Priorities

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

The RRDPs and related objectives are:

- 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.

The supporting RRDPs and related objectives are:

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

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

Alignment of AWI investment to Government research priorities

The table below summarises how investment undertaken by AWI during 2012/13 aligns with the NRPs and RRDPs.

ALIGNMENT OF AWI INVESTMENT TO GOVERNMENT RESEARCH PRIORITIES			
National Research Priorities (NRP)	Rural Research & Development Priorities (RRDP)		TOTAL
Promoting and Maintaining Good Health (including strengthening Australia's social & economic fabric)	Productivity and Adding Value	\$'000 %	7,335 11%
	Supply Chain and Markets	\$'000 %	46,518 71%
An Environmentally Sustainable Australia	Natural Resource Management	\$'000 %	958 1%
	Climate Variability and Climate Change	\$'000 %	992 2%
Safeguarding Australia	Biosecurity	\$'000 %	3,143 5%
Frontier Technologies for Building and Transforming Australian Industries	Innovation Skills and Technology (supporting RRDPs)	\$'000 %	6,154 9%
TOTAL (external)		\$'000	65,100

INTELLECTUAL PROPERTY

AWI has a portfolio of intellectual property (IP) assets comprising patents, plant breeders' rights, trademarks, registered design, business names, copyright, domain names, 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 over 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 \$84,992.54 in 2011/2012 representing income earned in the 2010/2011 year. Income earned in the 2012/2013 year will not be realised until midway through the 2013/2014 financial year.

During 2012/2013 AWI signed four commercial contracts with industry and commercial entities for use of its IP.

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 2013:

PATENTS (registered in Australia and overseas)

* Treatment of sheep to reduce flystrike

PATENTS (registered in Australia - not overseas)

* Semi Synthetic Material

PATENTS (registered overseas - not in Australia)

* Leg restraint for use in treating or shearing animals * Head restraint for use in treating or shearing animals * Twisting Device * Heated Garment System * Docking mechanism for use in treating and sheeting animals * semi automated manipulator for manual shearing * shearing platform

REGISTERED DESIGNS (registered in Australia and overseas)

* Breech Clip * Dog Bone Clip * Hockey Stick Clip

TRADEMARKS (registered in Australia and overseas)

*Arcana * Australian Wool Innovation * Cool Wool * Flyboss * Liceboss * Merino Active * Merino Perform * MerinO2 * merinotouch * merinotravel * OPTIM * Red Island * Sam The Lamb * Superior Merino * Superior Merino Blend * Pure Merino Wool * awi & Swirl Device * Australian Wool Innovation & Swirl Device * Wooldscience * Wormboss

TRADEMARKS (registered in Australia - not overseas)

* Bestprac * FutureFleece * Licesense * Making More from Sheep * Merino Innovation * SGP * Timerite * Woolcheque * Woolpoll

TRADEMARKS (registered overseas - not in Australia)

* Arnhem Land * Born To Be Worn * Gold Woolmark * Heartmark * IWS * Laine Superlavable * Merino Extrafine Wool * merinofresh * Merino Rich * merinocool * merinoeasyclean * Merion Exelana * Merinomini * Neva-Shrink * No Finer Feeling * Posh Merino * Pure New Wool * Siroset * Solospun * Sportwool * Sleep in Merino * Super Crimp * Super S * Superlavabile * Superlavabile superwash * Superwash * Take Comfort In Wool * Total Easy Care * Vivalana * Wollsiegel * Wool in heart * Wool Plus * Wool Rich Blend * Wool the Heart of a Good Carpet * Wool Plus * wooldscientific * 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

NEW IP LODGED OR ACQUIRED IN 2012/2013

TRADEMARKS (registered in Australia and overseas)

* Tested by nature, Tested by Us * Woolmark Nurture logo * WeloveWool * Apparel Care circle logo

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 2013.

Directors

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

Mr W B Merriman (Chairman)
 Mr R J Fletcher (Deputy Chairman)
 Mr G B S Falkiner
 Ms C Garnsey
 Dr M L Sheil
 Mr B P van Rooyen
 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

	2013 \$'000	2012 \$'000
Revenue	69,257	73,970
Profit / (loss) from continuing operations	(6,264)	7,979

Significant changes in the state of affairs

There were 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 2013 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 2012 and following AWI's extensive planning and consultation cycle, AWI has developed a new three-year Strategic Plan in which there is a 60%:40% split in expenditure between marketing and R&D programs. AWI will pursue stronger and more strategically driven programs. Specifically, in its on-farm R&D, AWI will target fewer programs with greater impact. Secondly, in the off-farm area, AWI will assess markets for investment more strictly on their potential yield for Australian woolgrowers. Thirdly, AWI will simplify and align its marketing activities to address three core, pervasive trends:

1. "Natural" issues becoming important in consumers' purchasing decisions.
2. The rapid emergence of developing countries as the consumers of luxury goods.
3. The continuing 'disconnect' between the consumer of luxury fashion and the fibre it is made from.

AWI will continue to operate in a cost effective manner.

Directors' report (continued)

Company secretary

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

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 2013, and the numbers of meetings attended by each director were:

Director	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*	7	7	6	6	8	8
Mr R J Fletcher	9	8	7	1	4	2	-	-
Mr G B S Falkiner	9	9	7	7	-	-	8	7*
Ms C Garnsey	9	9	-	-	3	3*	-	-
Dr M L Sheil	9	9	-	-	-	-	8	8
Mr B P van Rooyen	9	9	7	6	6	6	8	7
Mr D A A Webster	9	9	7	7*	6	6	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 2013

Chairmanship

Mr W B Merriman was reappointed Chairman of the Board on 23 November 2012.

Mr R J Fletcher was reappointed Deputy Chairman of the Board on 23 November 2012.

Ms C Garnsey was appointed Chairman of the Remuneration & Appointments Committee on 21 November 2012.

Mr R J Fletcher resigned as Chairman of the Remuneration & Appointments Committee on 21 November 2012.

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 appoint the auditor on assignments additional to their statutory audit duties where the auditor's experience 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 48.

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*.



Mr W B Merriman (Chairman)
Director

Sydney
15 August 2013

Auditor's Independence Declaration

As lead auditor for the audit of Australian Wool Innovation Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

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

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



Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
15 August 2013

Financial Report – 30 June 2013

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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 30, 580 George Street
Sydney NSW 2000

A description of the nature of the consolidated entity's operations and principal activities is included in the directors' report on page 45, which is not part of this financial report.

The financial statements were authorised for issue by the directors on 15 August 2013. 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 2013

		Consolidated	
	Notes	2013 \$'000	2012 \$'000
Revenue from continuing operations			
Operating revenue	3	64,620	68,349
Other revenue	3	4,637	5,621
		69,257	73,970
Other income / (loss)	4	(180)	(668)
Expenses			
Project expenditure	6	(47,070)	(40,529)
Global business development	6	(8,441)	(8,204)
On-farm research & development	6	(1,584)	(1,333)
Global marketing	6	(5,403)	(3,972)
Off-farm research & development	6	(2,602)	(2,732)
Corporate services	6	(10,089)	(8,514)
Profit / (loss) before income tax		(6,112)	8,018
Income tax expense	7	(152)	(39)
Profit / (loss) from continuing operations		(6,264)	7,979
Profit / (loss) for the year		(6,264)	7,979
Other comprehensive income			
Exchange differences on translation of foreign operations	21	259	(171)
Total comprehensive income for the year		(6,005)	7,808
Total comprehensive income for the year is attributable to:			
Members of Australian Wool Innovation Limited		(6,005)	7,808

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

Consolidated balance sheet

As at 30 June 2013

		Consolidated	
	Notes	2013 \$'000	2012 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	19,320	14,521
Trade and other receivables	10	13,225	11,022
Inventories	11	17	17
Held-to-maturity investments	9	74,000	82,692
Total current assets		106,562	108,252
Non-current assets			
Property, plant and equipment	12	1,718	1,838
Intangible assets	13	10,000	10,000
Other non-current assets	14	363	630
Total non-current assets		12,081	12,468
Total assets		118,643	120,720
LIABILITIES			
Current liabilities			
Trade and other payables	15	12,066	9,462
Provisions	16	-	787
Deferred income	17	8,287	6,170
Total current liabilities		20,353	16,419
Non-current liabilities			
Provisions	18	556	415
Other non-current liabilities	19	333	480
Total non-current liabilities		889	895
Total liabilities		21,242	17,314
Net assets		97,401	103,406
EQUITY			
Contributed equity*	20	-	-
Reserves	21	366	107
Retained earnings	21	97,035	103,299
<i>Capital and reserves attributable to owners of Australian Wool Innovation Limited</i>		97,401	103,406
Total equity		97,401	103,406

*As at 30 June 2012 and 2013 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 2013

	Notes	Attributable to owners of Australian Wool Innovation Limited			Total equity \$'000
		Contributed equity* \$'000	Reserves \$'000	Retained earnings \$'000	
Balance at 1 July 2011		-	278	95,320	95,598
Profit for the year	21	-	-	7,979	7,979
Other comprehensive income	21	-	(171)	-	(171)
Total comprehensive income for the year		-	(171)	7,979	7,808
Balance at 30 June 2012		-	107	103,299	103,406
Balance at 1 July 2012		-	107	103,299	103,406
Profit for the year	21	-	-	(6,264)	(6,264)
Other comprehensive income	21	-	259	-	259
Total comprehensive income for the year		-	259	(6,264)	(6,005)
Balance at 30 June 2013		-	366	97,035	97,401

*As at 30 June 2012 and 2013 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 2013

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
Cash flows from operating activities			
Levy, license, government grant and other receipts (inclusive of goods and services tax)		70,439	75,399
Payments to suppliers and employees (inclusive of goods and services tax)		(77,752)	(72,816)
		(7,313)	2,583
Interest received		4,699	5,348
Income taxes paid		(152)	(40)
Net cash (outflow) inflow from operating activities		(2,766)	7,891
Cash flows from investing activities			
Payments for property, plant and equipment	12	(511)	(616)
Proceeds from sale of property, plant and equipment		1	34
Redemption of held-to-maturity investments		8,692	1,392
Net cash inflow from investing activities		8,182	810
Net increase in cash and cash equivalents		5,416	8,701
Cash and cash equivalents at the beginning of the financial year		14,521	5,255
Effects of exchange rate changes on cash and cash equivalents		(617)	565
Cash and cash equivalents at end of year	8	19,320	14,521

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

Notes to the financial statements

30 June 2013

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.

(2) Provisions

The Group has provided for make good costs per note 18 of the Financial Report. These estimates have been made in accordance with the accounting policy note 1(q).

(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 2013 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:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each 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 2013

(continued)

NOTE 1: Summary of significant accounting policies (continued)

(e) Income tax (continued)

Australian Wool Innovation 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 2013

(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 30 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. 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.

(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+ 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 2013

(continued)

NOTE 3: Revenue

	Consolidated	
	2013	2012
	\$'000	\$'000
From continuing operations		
<i>Operating revenue</i>		
License fees	6,093	5,901
Government contribution	13,293	12,454
Sale of goods and services	381	304
Royalties	1,068	1,504
Wool levy	43,745	48,089
Other	40	97
	64,620	68,349
<i>Other revenue</i>		
Rents and sub-lease rentals	192	111
Interest	4,445	5,510
	4,637	5,621
	69,257	73,970

NOTE 4: Other income / (loss)

	Consolidated	
	2013	2012
	\$'000	\$'000
Net foreign exchange gains / (loss)	(180)	(668)

NOTE 5: Expenses

	Consolidated	
	2013	2012
	\$'000	\$'000
<i>Depreciation and amortisation</i>		
Buildings	70	70
Property, plant and equipment	285	408
Leasehold improvements	189	209
Intangible assets	-	159
Total depreciation and amortisation	544	846
Net loss on disposal of property, plant and equipment	-	7
Net loss on disposal / impairment of website development costs	-	376
Rental expense relating to operating leases	1,803	1,726
Defined contribution superannuation expense	1,098	964
<i>Impairment losses - financial assets</i>		
Trade receivables	-	(351)

NOTE 6: Research, development and marketing expenditure

	2013			2012		
	External costs \$'000	Internal costs \$'000	Total \$'000	External costs \$'000	Internal costs \$'000	Total \$'000
Global business development	-	8,441	8,441	-	8,204	8,204
Global marketing	24,457	5,403	29,860	21,616	3,972	25,588
On-farm research & development	14,727	1,584	16,311	12,689	1,333	14,022
Off-farm research & development	7,886	2,602	10,488	6,224	2,732	8,956
	47,070	18,030	65,100	40,529	16,241	56,770
Corporate services	-	10,089	10,089	-	8,514	8,514
Total RDI expenditure	47,070	28,119	75,189	40,529	24,755	65,284

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

Internal costs

	Consolidated	
	2013 \$'000	2012 \$'000
Contractor, legal and professional fees expenses	3,274	2,698
Employee expenses	16,542	13,871
Infrastructure expenses	3,506	3,714
Travel expenses	1,547	1,418
Other expenses from ordinary activities	3,250	3,054
	28,119	24,755

NOTE 7: Income tax expense

	Consolidated	
	2013 \$'000	2012 \$'000
(a) Income tax expense		
Current tax	147	78
Adjustments for current tax of prior periods	5	(39)
	152	39
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit / (loss) from continuing operations before income tax expense	(6,112)	8,018
Tax at the Australian tax rate of 30% (2012 - 30%)	(1,834)	2,405
Tax exempt under section 50-40 of the <i>Income Tax Assessment Act 1997</i>	(2,869)	(4,966)
Tax losses and temporary differences not brought to account	4,866	2,656
Differences in overseas tax rates	(16)	(17)
Adjustments for current tax of prior periods	5	(39)
Income tax expense	152	39

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

Notes to the financial statements

30 June 2013

(continued)

NOTE 8: Current assets – Cash and cash equivalents

	Consolidated	
	2013	2012
	\$'000	\$'000
Cash at bank and in hand	19,320	14,521

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

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

	Consolidated	
	2013	2012
	\$'000	\$'000
Term deposits	74,000	82,692

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

Unrestricted	53,720	57,313
Restricted as security against guarantees issued by the company's bankers ^(a)	2,500	2,500
Forward contract commitments ^(b)	10,300	13,700
Emergency funds ^(c)	5,000	5,000
Operating funds ^(c)	21,800	18,700
	93,320	97,213

- (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 \$10.3 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	
	2013	2012
	\$'000	\$'000
Net trade receivables		
Trade receivables	4,411	2,157
Provision for doubtful receivables	(85)	(209)
	4,326	1,948
Net other receivables		
Commonwealth matching funds and wool levy accruals	6,017	6,372
Other receivables	2,403	2,356
	8,420	8,728
Prepayments		
Insurance	75	144
Other	404	202
	479	346
	13,225	11,022

NOTE 11: Current assets – Inventories

	Consolidated	
	2013	2012
	\$'000	\$'000
Raw materials - at cost	17	17

Notes to the financial statements

30 June 2013

(continued)

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

	Leasehold buildings \$'000	Freehold land \$'000	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
At 1 July 2011					
Cost or fair value	551	425	6,184	1,420	8,580
Accumulated depreciation	(303)	-	(5,677)	(675)	(6,655)
Net book amount	248	425	507	745	1,925
Year ended 30 June 2012					
Opening net book amount	248	425	507	745	1,925
Exchange differences	-	-	23	3	26
Additions	-	-	441	175	616
Disposals	-	-	(42)	-	(42)
Depreciation charge	(70)	-	(408)	(209)	(687)
Closing net book amount	178	425	521	714	1,838
At 30 June 2012					
Cost or fair value	551	425	5,043	1,586	7,605
Accumulated depreciation	(373)	-	(4,522)	(872)	(5,767)
Net book amount	178	425	521	714	1,838
Year ended 30 June 2013					
Opening net book amount	178	425	521	714	1,838
Exchange differences	-	-	10	(7)	3
Transfers	(178)	178	-	-	-
Additions	-	-	510	1	511
Disposals	-	-	(90)	-	(90)
Depreciation charge	-	(70)	(285)	(189)	(544)
Closing net book amount	-	533	666	519	1,718
At 30 June 2013					
Cost or fair value	-	976	5,386	1,586	7,948
Accumulated depreciation	-	(443)	(4,720)	(1,067)	(6,230)
Net book amount	-	533	666	519	1,718

NOTE 13: Non-current assets – Intangible assets

	Certification trademarks \$'000	Website development costs \$'000	Total \$'000
At 1 July 2011			
Cost	10,000	867	10,867
Accumulated amortisation and impairment	-	(332)	(332)
Net book amount	10,000	535	10,535
Year ended 30 June 2012			
Opening net book amount	10,000	535	10,535
Amortisation charge	-	(159)	(159)
Disposal	-	(376)	(376)
Closing net book amount	10,000	-	10,000
At 30 June 2012			
Cost	10,000	-	10,000
Accumulated amortisation and impairment	-	-	-
Net book amount	10,000	-	10,000
Year ended 30 June 2013			
Opening net book amount	10,000	-	10,000
Amortisation charge	-	-	-
Closing net book amount	10,000	-	10,000
At 30 June 2013			
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.

NOTE 14: Non-current assets – Other assets

	Consolidated	
	2013	2012
	\$'000	\$'000
Lease deposits	363	630

Notes to the financial statements

30 June 2013

(continued)

NOTE 15: Current liabilities - Trade and other payables

	Consolidated	
	2013	2012
	\$'000	\$'000
Trade payables	3,019	910
Other payables	3,529	3,108
Project payables and accruals	5,518	5,444
	<u>12,066</u>	<u>9,462</u>

NOTE 16: Current liabilities - Provisions

	Consolidated	
	2013	2012
	\$'000	\$'000
Restructuring - carrying amount at end of year	-	787

NOTE 17: Current liabilities - Deferred income

	Consolidated	
	2013	2012
	\$'000	\$'000
Unearned license income	8,267	6,150
Unearned sub-lease income	20	20
	<u>8,287</u>	<u>6,170</u>

NOTE 18: Non-current liabilities - Provisions

	Consolidated	
	2013	2012
	\$'000	\$'000
Long service leave	383	242
Make good - 580 George St	173	173
	<u>556</u>	<u>415</u>

NOTE 19: Non-current liabilities - Other

	Consolidated	
	2013	2012
	\$'000	\$'000
Lease incentive - 580 George St fitout	333	480

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

NOTE 20: Contributed equity

	2013	2012	2013	2012
(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

Date	Details	Number of shares	\$
1 July 2011	Opening balance	37,462	100
1 July 2012	Opening balance	37,462	100
30 June 2013	Balance	37,462	100

(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 2013	30 June 2012
Australian Capital Territory	78	93
New South Wales	9,350	10,266
Northern Territory	1	3
Queensland	766	903
South Australia	4,290	4,580
Tasmania	662	735
Victoria	5,803	6,296
Western Australia	4,141	4,575
	25,091	27,451

NOTE 21: Reserves and retained earnings

	Consolidated	
	2013	2012
	\$'000	\$'000
(a) Other reserves		
Foreign currency translation	366	107
Movements:		
Foreign currency translation		
Balance 1 July	107	278
Currency translation differences arising during the year	259	(171)
Balance 30 June	366	107

Notes to the financial statements

30 June 2013

(continued)

NOTE 21: Reserves and retained earnings (continued)

	Consolidated	
	2013	2012
	\$'000	\$'000
(b) Retained earnings		
Retained surplus at the beginning of the financial year	103,299	95,320
Net surplus attributable to the shareholders of Australian Wool Innovation Limited	(6,264)	7,979
Retained surplus at the end of the financial year	97,035	103,299

NOTE 22: Key management personnel disclosures

	Consolidated	
	2013	2012
	\$	\$
(a) Key management personnel compensation		
Non-executive directors		
Short-term employee benefits	601,542	567,246
Post-employment benefits	55,163	52,963
	656,705	620,209
Other key management personnel		
Short-term employee benefits	1,895,819	1,760,957
Post-employment benefits	170,554	160,087
Termination benefits	3,041	66,431
	2,069,414	1,987,475

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 9 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 benefits retirement plan.

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

(iv) Executive Service Agreements

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

(c) Details of remuneration

(i) Non executive Directors of Australian Wool Innovation Limited

	Short-term employee benefits		Post-employment benefits	Total
	Directors' base fees paid	Committee fees paid	Superannuation	
2013 Name	\$	\$	\$	\$
Mr W B Merriman	116,281	20,349	13,321	149,951
Mr R J Fletcher	87,211	9,436	8,698	105,345
Mr G B S Falkiner	58,140	18,895	6,933	83,968
Ms C Garnsey	58,140	5,887	5,762	69,789
Dr M L Sheil	58,140	7,268	5,887	71,295
Mr B P van Rooyen	58,140	20,349	7,064	85,553
Mr D A A Webster	58,140	25,166	7,498	90,804
Total	494,192	107,350	55,163	656,705

	Short-term employee benefits		Post-employment benefits	Total
	Directors' base fees paid	Committee fees paid	Superannuation	
2012 Name	\$	\$	\$	\$
Mr W B Merriman	114,315	17,672	11,879	143,866
Mr R J Fletcher	85,736	14,811	9,049	109,596
Mr G B S Falkiner	57,157	18,576	6,816	82,549
Ms C Garnsey (elected 18 November 2011)	35,648	-	5,118	40,766
Dr M L Sheil	57,157	7,728	5,840	70,725
Mr B P van Rooyen	57,157	21,872	7,113	86,142
Mr D A A Webster	57,157	22,260	7,148	86,565
Total	464,327	102,919	52,963	620,209

Notes to the financial statements

30 June 2013

(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	
	2013	2012
	\$	\$
(a) Audit services		
Audit fees – domestic	154,800	172,000
Audit fees – international	88,632	78,219
Other assurance services	8,220	27,082
Total remuneration for audit and other assurance services	251,652	277,301
(b) Non-audit services		
Tax compliance services	36,991	17,519
Advisory services	153,824	37,104
Total remuneration of network firms of PwC Australia	190,815	54,623
Total auditors' remuneration	442,467	331,924

NOTE 24: Commitments

(i) *Research, development and marketing*

	Consolidated	
	2013	2012
	\$'000	\$'000
Commitments payable in relation to research, development and marketing	15,902	5,444

(ii) *Non-cancellable operating leases*

	Consolidated	
	2013	2012
	\$'000	\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	1,854	1,543
Later than one year but not later than five years	2,213	3,342
	4,067	4,885

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, R J Fletcher, G B S Falkiner, C Garnsey, 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 2013.

(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 2013.

(f) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2013	2012
	\$	\$
<i>Sales of goods and services</i>		
Sales of services relating to marketing and wool testing activities to key management personnel of the entity*	12,041	16,187
<i>Purchases of goods and services</i>		
Purchases of goods and services relating to marketing and wool testing activities from key management personnel of the entity*	238,932	186,193

*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	
	2013	2012
	\$	\$
Current receivables (sales of goods and services)		
Key management personnel of the entity	7,224	4,568
Current payables (purchases of goods)		
Key management personnel of the entity	6,626	1,409

Notes to the financial statements

30 June 2013

(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	
			2013 %	2012 %
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
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
Osterreichischer Wollsiegel Verband des Internationalen Vollsekretariates	Austria	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 Schedule 1 of 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:

	2013 \$'000	2012 \$'000
Balance sheet		
Current assets	98,373	101,529
Non-current assets	49,350	36,546
Total assets	147,723	138,075
Current liabilities	7,709	7,638
Non-current liabilities	888	875
Total liabilities	8,597	8,513
Net assets	139,126	129,562
<i>Shareholders' equity</i>		
Retained earnings	129,562	115,825
	129,562	115,825
Profit or loss for the year	9,564	13,737
Total comprehensive income	-	-

The prior period has been restated to include the representative offices of the parent.

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2013 or 30 June 2012.

Directors' declaration

30 June 2013

In the directors' opinion:

- (a) the financial statements and notes set out on pages 49 to 73 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 2013 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.

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

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



Mr W B Merriman (Chairman)
Director

Sydney
15 August 2013

Independent auditor's report

30 June 2013

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

Report on the financial report

We have audited the accompanying financial report of Australian Wool Innovation Limited (the company), which comprises the balance sheet as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and 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 the Australian Wool Innovation Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation 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 Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

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 Limited 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 2013 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
15 August 2013

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 2012/13 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 29 June 2010 (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 paragraphs 6.1, 6.4, 7.1, 7.2 and 7.3 of the Agreement. Our responsibility is to express a conclusion on compliance with the Agreement as measured by the paragraphs 6.1, 6.4, 7.1, 7.2, and 7.3 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 paragraphs 6.1, 6.4, 7.1, 7.2, and 7.3 of the Agreement for the year ended 30 June 2013.

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 paragraphs 6.1, 6.4, 7.1, 7.2 and 7.3 of the Agreement for the period from 1 July 2012 to 30 June 2013.

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 paragraphs 6.1, 6.4, 7.1, 7.2 and 7.3 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 paragraphs 6.1, 6.4, 7.1, 7.2 and 7.3 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 as measured by paragraphs 6.1, 6.4, 7.1, 7.2 and 7.3 of the Agreement for the period from 1 July 2012 to 30 June 2013.

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 2012 to 30 June 2013.

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 2012 to 30 June 2013.



PricewaterhouseCoopers



Peter Buchholz
Partner

Sydney
15 August 2013

PROJECT LIST 2012/13

This list contains details of AWI projects in which costs incurred during 2012/13 totalled more than \$75,000 for each project.

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

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

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

ON-FARM R&D PROJECTS

Project title	Key providers*	\$ Paid in 2012/13
Aerial Baiting for Wild Dogs	NSW Department of Primary Industries	180,600
Analgesia for Sheep	CSIRO Manufacturing & Infrastructure; Meat & Livestock Australia Limited; Troy Laboratories Pty Ltd; University of Sydney	294,983
AWI Wool Clip	Various	337,122
BESTWOOL/BESTLAMB 2011-2014	Department Of Primary Industries	230,451
Bredwell Fedwell Workshops Phase 1	Meat & Livestock Australia Limited; Murdoch University	170,222
Breec Flystrike Genomics Project	CSIRO Manufacturing & Infrastructure	106,704
Breeding Breec Flystrike Resistance - 3	CSIRO Manufacturing & Infrastructure, Department Of Agriculture WA; University of Western Australia	776,000
Commercialisation of Shearing Shed Safety Signage Kit	Clarity Print Image	113,232
Community Wild Dog Control Initiative	Barcaldine Wild Dog Syndicate; Central North Livestock Health and Pest Authority - Mudgee; Far South Coast Region National Parks; Granite Borders Landcare Committee Inc; Hargraves Hill End Wild Dog Group; Ledknapper Wild Dog Action Group Inc; Longreach Division 3 South Dog Action Working Group; Northern Mallee Declared Species Group	182,815
CSIRO Carbon Credentials	CSIRO Food & Nutritional Sciences	100,163
Dicyclanil Resistance Survey	Department of Trade and Investment	200,000
Enhanced Breeding for Breec Flystrike Resistance - DAFWA and CSIRO	CSIRO Manufacturing & Infrastructure; Department of Agriculture WA; Department of Finance Shared Service	84,870
EverGraze IV 2012-2014	Future Farm Industries CRC	200,000
Eyre Peninsula Agricultural Research Foundation	Primary Industries and Regions SA	83,980
FSA Life Cycle Assessment	Feedlot Services Australia Pty Ltd	127,238
Improving Producer Confidence in the Wheat and Sheep Zone	CSIRO Manufacturing & Infrastructure	163,871
Invasive Animals CRC Contribution 2012/13 to 2016/17	Invasive Animals Ltd	1,227,036
Laser Depilation Alternative	CSIRO Manufacturing & Infrastructure; Zeta Corp Llc	94,907
Leading Sheep 2011-2014	Department of Agriculture, Fisheries and Forestry	153,363
Lifetime Ewe Management (LTEM III)	Rural Industries Skill Training Ctr Inc	182,120
Lifetime Productivity Program	Airlie Solutions Pty Ltd; Australian Merino Sire Evaluation; NSW Department of Primary Industries; SARDI	167,551
National Bestprac Program 2011-2013	Rural Directions Pty Ltd	152,410
National Wool Residue Survey	Australian Wool Testing Authority	79,509
NSW DPI Grazing Management	NSW Department of Primary Industries	180,000
NSW DPI Whole Farm Training Development	NSW Department of Primary Industries	93,000

ON-FARM R&D PROJECTS (continued)

Project title	Key providers*	\$ Paid in 2012/13
On Farm Image Creation - Still and Video	Sodus Pty Ltd	102,221
On Farm Printing and Promotions Budget	Various	121,902
Online Feed on Offer (FOO)	Rural Industries Skill Training Ctr Inc	115,540
Phosphorus Efficient Pasture Systems	Meat & Livestock Australia Limited	531,577
Phosphorus Reactions and Fluxes	Meat & Livestock Australia Limited	83,132
Phosphorus Work - Victoria DPI	Department of Primary Industries	152,000
Production Forecasting 2012/13-2013/14	Meat & Livestock Australia Limited; Miracle Dog P/L	115,664
Queensland Wild Dog Trapping Schools	Agforce Queensland	78,191
Reproduction Management Training Package IV	Rural Industries Skill Training Ctr Inc	430,544
Shearer & Wool Handler Training - AACC Qld 2012/13	Australian Agricultural College Corporation	77,936
Shearer & Wool Handler Training - CY O'Connor WA 2012/13	C.Y. O'Connor Institute	259,581
Shearer & Wool Handler Training - PET Tasmania 2012/13	Primary Employers Tasmania	97,545
Shearer & Wool Handler Training - Regional Competitions 2011-2013	Various	113,981
Shearer & Wool Handler Training - SCAA Victoria 2012/13	SCAA Shearer Woolhandler Training Inc.	217,520
Shearer & Wool Handler Training - TAFE NSW Western Institute	TAFE NSW Western Institute	249,370
Shearer & Wool Handler Training - TAFE SA Regional 2012/13	TAFE SA	146,641
Shearer & Wool Handler Training - TAFE Riverina 2012/13	TAFE NSW - Riverina Institute	103,120
Sheep Connect NSW 2012-2015	NSW Department of Primary Industries	168,110
Sheep Connect South Australia 2011-2014	Primary Industries and Regions SA	166,741
Sheep Connect Tasmania 2012-2015	University Of Tasmania	156,037
Sheep CRC2 Improved Parasite Management	CRC for Sheep Industry Innovation	100,042
Sheep CRC2 Information Nucleus - Design and Analysis	CRC for Sheep Industry Innovation	150,000
Sheep CRC2 Information Nucleus - Operations	CRC for Sheep Industry Innovation	155,635
Sheep CRC2 Postgraduate Training	CRC for Sheep Industry Innovation	100,000
Sheep CRC2 Reproduction Efficiency	CRC for Sheep Industry Innovation	100,000
Sheep Genetics/MerinoSelect 2010-2015	Meat & Livestock Australia Limited	163,486
Sheep Scouring	Meat & Livestock Australia Limited	164,000
Sydney Royal Easter Show 2013 Wool Promotion	Royal Agricultural Society of NSW; Various	172,347
The Sheep's Back 2011-2014	Icon Agriculture; The Trustee for the Ritchie Family Trust	167,176
Wild Dog Co-ordinator	Agforce Queensland; Victoria Department Of Primary Industries; Primary Industries and Regions SA	603,924
Wild Dog Management in Australia	ABARES	141,013
Wild Dog On-ground Activities	Various	125,635
Wild Dogs Skills Western Division NSW	NSW Department of Trade and Investment	79,500
Wool.com Development	Havas Worldwide Australia Pty Ltd	186,606

OFF-FARM R&D PROJECTS

Project title	Key providers*	\$ Paid in 2012/13
Brookscool R&D Project	Brooks Brothers	115,721
Dermatology Research	Queensland Institute of Dermatology	78,080
Desirable Wool Handle	CRC for Sheep Industry Innovation	138,000
Development & Production of T&E Packages	Artvue Printing Pty Ltd; Christoe Consulting; Prax Matrix Pty Ltd; Sodus Pty Ltd	103,996
Development in Russia for the CIS-Phase1	Lempriere (Australia) Pty Ltd; Russia-Europe Textile Alliance; Tvs Textilverband Schweiz; Watswool Pty Ltd; Zhejiang Xin Ao Textile Group	170,834
Enhancing Use of Wool in Sports/Outdoor	Green and Gold Printing Pty Ltd; Jiangsu New Hongji Textile Technology Co Ltd; Richard Goodstein Inc	87,002
Environmental Credentials - Life Cycle Analysis & International Wool Textile Organisation	Agresearch Ltd; Agri Escondo Pty Ltd; Feedlot Services Australia Pty; International Wool Textile Organisation; PE Australia Pty Ltd	160,504
Global Apparel Research	ACNielsen Research Pty Ltd; John Powell t/a Optimal ICM	87,020
Global Premium Partnership Develop Program	Fabrizio Servente	289,432
Market Intelligence - 2012/13 Investment Evaluation	BDA Economics & Environment Pty Ltd	249,025
Market Intelligence - Online Tools	Australian Wool Exchange Ltd	76,600
Market Intelligence - Trade Data Aggregation	Euromonitor International Ltd; Jeff Qingui Zhu; Mark Gabrys; Softco Solutions Pty Ltd	244,615
MerinoPerform	Creative Promotions Pty Ltd; Outdoor Clothing Concepts Pty Ltd; Sodus Pty Ltd; Zhangjiagang Yangtse Spinning Co	85,099
Out of Vietnam	Dr Tran Van Quyen; Novetex Textiles Limited; Suedwolle GmbH & Co KG	207,180
SCRC2 - Project 2.9 Co-ordination of Project 2	CRC for Sheep Industry Innovation	76,979
Skin Comfortmeter - Knitted Wool Fabric	CRC for Sheep Industry Innovation	250,000
Technical & Scientific Testing - Mothers and Babies	Harnel Pty Ltd; Lily Dala Enterprises; Queensland Institute of Dermatology; University Of Sydney;	159,685
The Wool Lab 2014	Riccardo Rami Studio S.R.L	249,371
The Wool Lab - Off-farm	Riccardo Rami Studio S.R.L	413,137
The Wool Lab - Spring 2013 and A/W 2013/14	Various	82,599
Thermophysiological Comfort - Sportswear	Royal Melbourne Institute of Technology	82,044
Trade Advertising to Support The Wool Lab	Classpublicita; Deutscher Fachverlag GmbH; Metropole Media; Regies; Swan Group Srl	242,329
Trade Education Collateral and Promotion	Bee Dee Bags Australia; G. Freiberg Pty Ltd; Green and Gold Printing Pty Ltd; Hey-Sign Outdoor Clothing Concepts Pty	140,255
Trade Education Content Production	Shannon Stuart Pawsey; Sodus Pty Ltd	198,588
Trade Fair - Intertextile Shanghai	Various	82,154
Trade Fair - Milano Unica	Various	183,160
Trade Fair - Pitti	Various	172,915
Trade Fair - Premiere Vision (Expofil)	Various	232,558
Trade Fair - SpinExpo New York and Shanghai	Various	109,082
Trade Fairs 2012-2013	Various	131,739
Trade Imagery	Sodus Pty Ltd	149,605
Wool4Skool Education Campaign 2014	Pacific Magazines Pty Ltd; Sodus Pty Ltd	178,056
Wool Specific Ionic Liquids	Deakin University	145,022
Wool's Odour Prevention	Agresearch Ltd	97,000

MARKETING PROJECTS

Project title	Key providers*	\$ Paid in 2012/13
Ad Campaign to Support Mother & Baby	Conde Nast Publications; Mediacom Holdings Ltd	239,384
Additional AWI Media Leverage and Relationship Building	Various	121,315
Apparel Care Collateral and Support 2012-2013	Host Consult Pty Ltd	147,341
Australian and South Australian Merino the Finest Wool in the World	The Conde Nast Publication Ltd	105,375
Automotive Roadshow 2012	AUNDE Achter & Ebels GmbH	95,854
Berkeley Apparel/No Finer Feeling Winter 2012	Berkeley Apparel International	85,980
Campaign Creative and Art Direction	SEC Creative Ltd	93,761
Campaign for Wool 2012/13	Various	1,826,798
Campaign for Wool 2013-2015	Various	122,657
China Market research	Data Driven Marketing Asia; Mike Da Silva & Associates;	138,399
China Marketing Consultation and Support	Data Driven Marketing Asia	162,000
China Marketing Digital Hub	Data Driven Marketing Asia	185,939
Conde Nast Italy Autumn/Winter 2012/13	Conde Nast	376,677
Consultancy Support - Europe	Ascension Bustamante De Prado; Carruthers Associates	136,164
Consumer and Trade Advertising WWD	Conde Nast Publications; News Life Media Pty Ltd	167,620
Consumer Marketing - Contemporary Urban Brands	AdQUA Interactive Inc; Lotte Department Store	138,355
Cool Wool 2012/13	Creative Concepts Advertising; Itochu Fashion System Co Ltd; Mediacom Holdings Ltd; Profero; The Conde Nast Publications Ltd; The Men's Fashion Unity;	1,825,033
Country Style Magazine	News Life Media Pty Ltd	136,490
Country Style Magazine Partnership	News Life Media Pty Ltd	228,940
Creative and Art Direction - Trade and Consumer	SEC Creative Ltd	117,289
Creative Service Providers	Interbrand Australia Pty Limited; Sodus Pty Ltd	190,231
Cutty Sark Partnership	Cutty Sark Enterprises Ltd	75,889
Designer Collaborations A/W 2013/14	Jonathan Saunders Ltd; Norton & Sons; Richard James Commerce Ltd; Richard Nicoll Ltd	89,258
Global Media Monitoring	Cision UK Ltd; iSentia Pty Limited	76,881
Global PR Agencies	Annelinde Juliette Rossman; Mission Media Ltd; Nac Group Pty Ltd; Smith - Petersen srl	229,920
Gold Woolmark 2012/13	Chief Productions Ltd; Conde Nast Advertising (Shanghai); Data Driven Marketing Asia; Hearst Magazines China	2,406,674
Gold Woolmark Tailors Guild Reception	Chief Productions Ltd; NSF(Beijing)Public Relations	116,815
International Woolmark Prize	Various	2,425,306
International Woolmark Prize - Northern Europe	Various	119,204
L'Oréal Melbourne Fashion Festival	Melbourne Fashion Festival Ltd	99,538
Local Industry Partnerships 2012/13	Artisans of Fashion Pty Ltd; DRESSEDUNDRESSED; Jac & Jack Pty Ltd; Michael Lo Sordo; News Life Media Pty Ltd	145,982
Loro Piana Record Bale Award 2013	Loro Piana S.p.A.	176,649
Market Intelligence - 2012/13 Longitudinal Survey	ACNielsen Research Pty Ltd	145,000
Merino Wool Tracing Marketing Program	E-Land; GS Home Shopping Inc; Parkland Co Ltd	79,694

MARKETING PROJECTS (continued)

Project title	Key providers*	\$ Paid in 2012/13
Merino.com Enhancements	Havas Worldwide; Open Text Pty Ltd; Profero	197,183
Mobile Application Development	Mari Narma; The Search Academy Pty Ltd	99,480
Narciso Rodriguez Ambassadorial Partnership	Narciso Rodriguez	280,058
Nurture by Nature Marketing Partnerships Globally	Bebidesign srl; Il Gufo S.p.A.; Joha; Talisman Licensing Pty Ltd; Target Australia Pty Ltd; Toddler Kindy Gymparoo	168,062
No Finer Feeling A/W 2011/12 - Year 2: Global Media Spend	The Conde Nast Publication Ltd	312,536
No Finer Feeling Consumer Ads Global	Anderson & Sheppard Ltd; Jamie Colonna; News Life Media Pty Ltd; Richard James Commerce Ltd; Visual Talent Ltd	232,063
No Finer Feeling Consumer Ads VW ASIA	Artisan Holdings Ltd	111,322
No Finer Feeling Consumer Ads VW USA	The Conde Nast Publication Ltd	104,641
No Finer Feeling Designer Campaign UK Consumer ads	The Conde Nast Publications Ltd	343,540
No Finer Feeling Designer Campaign USA Consumer Ads	Chief Productions Ltd; Les Publications Conde Nast Sa; Messenger Group Pty Limited	167,671
No Finer Feeling Media Investment Asia	Conde Nast Advertising (Shanghai); Orange Advertisement Beijing	186,464
P. Ackroyd Consulting Services	R. Peter Ackroyd Ltd	278,849
Paul Smith Ambassador Partnership	Paul Smith Ltd	228,699
Retailer Conference USA - May 2012	Womens Wear Daily	121,447
Social Media Channel Community Management	Circul8 Communicate Pty Ltd; Itochu Fashion System Co Ltd	133,074
Social Media Operations	Circul8 Communicate Pty Ltd; Salesforce.Com Singapore Pte Ltd;	163,290
Social Media Strategy & Campaigns	@www Pty Limited; Facebook Ireland Limited; Matthew Paroz; Profero	120,664
Sports/Outdoor Asia Pacific 2012/13	Descente Ltd; Goldwin Inc; Rebel Sport; Rip Curl Pty Ltd; Wacoal Corp	193,523
Sports/Outdoor Europe 2012/13	Devold of Norway AS; Ortovox Sportartikel GmbH; Mover Sportswear; Sweaty Betty	199,933
Strategic Cooperation with Anne Geddes	Geddes Group Holdings Pty Ltd	504,857
TAWFA 2013	The Australian Wool Fashion Awards	107,722
Trend Reports on International Fashion Weeks	Tim Blanks	85,566
UK Public Relations Agency	Mission Media Ltd	114,118
USA Marketing Consultancy	Malcolm Cafrae	86,586
USA Winter 2012/13 Advertorial Partnerships	Conde Nast Publications; Hearst Communications Inc USA	1,117,074
Vogue Paris - Womens wear	Les Publ. Conde Nast Vogue	193,778
Wallpaper - Wool Lab Interiors at Milan D	IPC Media Limited (Wallpaper Magazine)	152,970
Website Hosting	Anchor Systems Pty Ltd; EPiServer AB; Open Text Pty Ltd	209,116
Wool Celebration II	I broad 7 Communication Pvt. Ltd; Platinum Communications Pvt Ltd	193,281
Woolmark Apparel Care Trade Marketing	Data Driven Marketing Asia; Host Consult Pty Ltd	95,878
Woolmark Joint Promotion	Beijing MC Hearst Advertising; Conde Nast Advertising (Shanghai); In Communications	157,110
Woolmark Licensee Incentive Program	Scotcloth Ltd	77,305
Woolmark Partner Support 2012/13	Australian Country Spinners Pty Ltd; Newbale Clothing Pty Ltd; Sportscraft; Target Australia Pty Ltd	245,025
Zegna Partnership 2012/13	Ermenegildo Zegna	1,029,295

CORPORATE SERVICES PROJECTS

Project title	Key providers*	\$ Paid in 2012/13
AWI Consultation and Information Forums	Various	164,638
Beyond the Bale 2012/13	D&D Mailing Services; Newstyle Printing Co Pty Ltd	146,151
HRH Australia Visit - November 2012	Cox Marketing Services; Various	126,469
Market Access & Trade Policy	Sorini Samet & Associates Llc	99,962
New AWI Business System	NTT Data Business Solutions Australia Pty Ltd	1,120,157
Regional Engagement Events 2012/13	Various	168,318
Wool Trade and Supply Chain Support	Various	118,652
Woolgrower Representative Engagement 2012-2015	Various	85,248
WoolPoll 2012	Various	602,857

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

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