

good business



# managing our R&D strategically

## Commercialising R&D project outcomes

AWI has updated some of its R&D programs to focus on delivering the outcomes of R&D projects to market. This has been needed because:

- R&D projects started over the past two years are reaching completion and there is a need to facilitate the commercialisation of the project outcomes; and
- a greater emphasis is now being placed on bringing research organisations and commercial companies together to deliver faster outcomes.

The revision most significantly affects AWI's Textile Technology and Trade Development portfolios. Additional funds and resources are being provided to the two portfolios' investment plans, to help bring together research organisations and commercial companies on projects to get wool products into the northern hemisphere consumer markets.

The aim is primarily to increase the global demand for Australian Merino fibre.

AWI is developing new markets for wool by forming business to business relationships with key market leaders in the textile and clothing sectors. It is through collaborating with businesses whose profitability relies on their ability to understand and cater to the demands of the consumer market, that AWI can both target its R&D and successfully commercialise its innovations into key market sectors.

More than \$10 million in product marketing initiatives for Australian

Merino wool was approved by the AWI Board during the 2004/05 financial year. This is aimed at getting innovative products and improvements in the performance of Merino wool to retailers and designers, and includes everything from the development of new fabrics to point-of-sale marketing materials.

AWI's Wool Production portfolio is the most mature of the portfolios and the focus of its programs remains largely unchanged. The portfolio continues to bring together commercial companies and research organisations to create new on-farm solutions that can be adopted by woolgrowers. It remains important for woolgrowers to embrace innovation and become involved in AWI projects where they can.

## Collaboration with other R&D organisations

Forming relationships and collaborating (financially and intellectually) with other R&D organisations on projects continued this year, to ensure we deliver the best return for Australian woolgrowers and the global wool industry.

During 2004/05, AWI was involved in collaborations with research bodies including rural research and development corporations (RDCs), government departments of agriculture, CSIRO, universities and commercial partners.

*Grain & Graze*, a research and extension program for mixed farms in southern Australia, was a major new collaboration established in 2004/05 with Meat & Livestock Australia (MLA), Grains Research and

## The revised set of AWI programs

The following programs will guide AWI investment into the future:

### Textiles

- Fundamental Wool Science
- The Processing of Merino Fibre
- Merino Fibre in Fashion Markets
- Merino as a Performance Fibre

### Trade Development

- Market Information
- Market Development
- Trade Access

### Wool Production

- Profitable Grazing for Wool Sheep
- Natural Resource Management
- Animal Health and Welfare
- Molecular Genetics
- Applied Genetics and Wool Quality
- Wool Harvesting
- Education and Adoption

### Corporate Affairs

- Communications – Corporate
- Communications – Fashion/Retail/Trade
- Industry Affairs – Producers/Processors/Government

Further details are contained in the 2005 Update to the AWI Strategic Plan 2004-2009, which is available on the AWI website, or by phoning the AWI helpline on 1800 070 099.

Development Corporation (GRDC) and Land and Water Australia (LWA). The program is unique in that it is the only program that directly addresses the many relationships between crops, pastures, animals and natural resources. For more information visit the *Grain & Graze* website at [www.grainandgraze.com.au](http://www.grainandgraze.com.au).

In December last year, Meat and Wool New Zealand joined Australia's push to make shearing and wool handling easier, safer and more efficient by announcing a contribution of \$1.5 million to AWI's Wool Harvesting program.

During the year, AWI contributed to the establishment of the Invasive Animal CRC which replaced the Pest Animal Control CRC on 1 July 2005. AWI will contribute funds to the CRC to continue R&D on a new toxin for the control of feral dogs and foxes.

AWI is collaborating with numerous organisations on projects to combat flystrike, such as the major project with the University of Adelaide to find a non-surgical alternative to mulesing. Projects include the blowfly genome project with the University of Melbourne and Massey University (NZ), biocontrol methods for blowfly control with the Department of Primary Industries Queensland, and integrated pest management with the University of New England, Department of Agriculture Western Australia, the University of Melbourne and the Department of Primary Industries Queensland. For further details, see AWI's *Battling the blowfly* Insight factsheet.

AWI partnered with MLA during the year to conduct two 'Making more from Merinos' forums in WA – attended by over 485 sheep producers and woolgrowers.

Existing collaborations in which AWI made a significant co-investment during the year also included:

- the *Sheep Genomics* program, with MLA and nine other partners aiming to increase productivity in the sheep industry;
- *Sheep Genetics Australia* (formerly known as the Australian Sheep Genetics Database) with MLA which will allow breeders to achieve higher rates of genetic gain in their flocks;
- the *Land, Water & Wool* natural resource management program with LWA;
- The development of new pasture legumes through *National Annual Pasture Legume Improvement Program* (NAPLIP), with the GRDC, CSIRO, five state departments of agriculture (Qld, NSW, Vic, SA and WA), and the Universities of Adelaide and WA; and
- the development and launch of *WormBoss* with the Australian Sheep CRC, and its distribution by Elders, Landmark and CRT, to help producers control sheep worms and drench resistant worms.

In the textiles area, AWI has been working with many companies around the world to increase the demand for wool. The Woolmark Company (TWC) is often a key participant in AWI projects and received \$4.5 million in funding from AWI during 2004/05 on

a range of projects to help get wool to the world.

TWC also provided market intelligence services to AWI such as the *Review and Outlook for Fine Wool* and *Mid-Micron and Broader Wool*, which are available free to AWI shareholders.

AWI also collaborated in 2004/05 with scientists, researchers and companies in fundamental wool science and new wool processing technologies to improve efficiency and the quality of the end product. These organisations included CSIRO, Canesis in New Zealand and the German wool research institute Deutsches Wollforschungsinstitut (DWI). Research in fundamental wool science underpins a whole range of technical developments in wool processing and textile design.

The China Australian Wool Innovation Network (CAWIN) initiative established by AWI and Deakin University to build wool textile technical expertise in China continued in 2004/05 with activities including visits to Australia by delegates from China.

### Intellectual property

Intellectual property (IP) generated through AWI-funded research and development is an important company asset, but revenue from IP is not the primary objective for AWI. AWI's primary objective is to apply its IP for the maximum benefit of Australian woolgrowers, which requires its rapid and widespread adoption or commercialisation.

When projects do generate revenue, AWI expects to receive royalties in

proportion to its investment. Royalty income contributed \$569,000 to AWI during 2004/05.

During 2004/05, AWI acting solely or jointly with various research partners, lodged or acquired nine patents, two trademarks and four Plant Breeders' Rights; abandoned four patents and three trademarks; and had one patent expire. A table of registered IP which is owned by AWI or in which AWI has an interest is included as Appendix B on page 100.

AWI also signed during the year the following 14 commercial contracts relating to industry partnership/licensing of research outcomes:

- Dog Baits
- Dag Wool
- Ovine Atadenovirus Vector
- Canid Lures
- Deadman Switch
- Woollen Shirts
- Machine Washable Wool Suits
- Novel Knit Fabric
- Geospatial Information
- Easy Care Trousers
- Spunlace
- Heated Fabric
- Project Eagle
- ColorClear

### Responding to Australian Government priorities

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

Australian Government has put the following six challenges to all R&D Corporations (RDCs) including AWI:

#### Is the RDC maximising R&D benefits to the industry?

Despite AWI being a relatively young RDC, we have delivered during the past year real R&D results to the wool industry throughout the areas of Wool Production, Textile Technology, Trade Development, and Corporate Affairs (see the *Report of Program Operations* beginning on page 23).

#### Is the RDC maximising adoption of R&D by the industry?

A major feature of the past year was the increased emphasis we placed on working directly with textile manufacturers and retailers to get the outcomes of textile research to market (see the *Commercialising R&D project outcomes* section on page 48). We continued to facilitate the adoption of R&D outcomes by woolgrowers through initiatives such as the state grower extension programs (see the *Education and Adoption* section on page 30).

#### Is the RDC working closely with other RDCs?

We continued our relationships and collaboration, financially and intellectually, with other R&D organisations during the year, including other RDCs such as Meat and Livestock Australia, Land and Water Australia and the Grains Research & Development Corporation (see the *Collaboration with other R&D organisations* section on page 48).

#### Is the RDC improving its current practices?

We have refocused our programs to help ensure that the products and

outputs from our textile related R&D projects get to market and increase the demand for wool. In the wool production area, the purpose of the new emphasis on commercialisation is to create new on-farm solutions for woolgrowers to use on their enterprises. (see *Commercialising R&D project outcomes* section on page 48). We also put in place a range of measures to improve our internal practices during the year (see the *Corporate Review* on page 51).

#### Is the RDC communicating effectively with Government and industry?

We continued our positive relationships with those in Government and industry who influence wool industry policy. We also kept woolgrowers, the industry and Government informed about the company's activities and R&D outcomes (see the report on the *Corporate Affairs* program on page 44).

#### Is the RDC the best model for Government and industry investment?

AWI is delivering real outcomes for the wool industry. This is recognised by Australian woolgrowers who delivered a clear mandate for the continuance of wool R&D at WoolPoll 2003 in November 2003. Woolgrowers voted by a strong majority for continuation of the two per cent wool levy. This result has provided for a solid investment in the future of the Australian wool industry and we are confident that woolgrowers will continue to provide a firm endorsement of wool R&D at the next WoolPoll vote in 2006.

# corporate review

## Corporate Governance Statement

The AWI Board believes that a strong corporate governance culture throughout AWI enhances performance and maximises the Company's ability to achieve its primary mission of increasing the long-term profitability of Australian woolgrowers.

Where appropriate, the Board has adopted the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. While these ASX Corporate Governance Principles are not binding on AWI as an un-listed public company, the AWI Board is committed to adopting them in broad terms as befitting a not-for-profit company.

The Board has approved a Corporate Governance Statement which details the position of AWI, as at 30 June 2005, in relation to the following 10 core principles contained within the ASX Corporate Governance Principles:

- Principle 1: Lay solid foundations for management of oversight
- Principle 2: Structure – The Board to add value
- Principle 3: Promote ethical and responsible decision making
- Principle 4: Safeguard integrity in financial reporting
- Principle 5: Make timely and balanced disclosure
- Principle 6: Respect the rights of shareholders
- Principle 7: Recognise and manage risk

- Principle 8: Encourage enhanced performance
- Principle 9: Remunerate fairly and responsibly
- Principle 10: Recognise the legitimate interests of stakeholders

The Corporate Governance Statement is available on the AWI website.

## New corporate governance policies

Corporate governance policies approved by the Board during 2004/05 include:

- *Board Charter* – sets out the functions and responsibilities of the Board of Directors and of management of AWI.
- *Code of Conduct – Directors and Officers* – sets out the requirements that each Director and officer of AWI must comply with.
- *Charter of the Committees of the Board* – governs the roles, responsibilities, composition and membership of the committees of the Board of Directors of AWI.
- *Rules and Procedures governing election of Directors* – govern the conduct at any general meeting of AWI of the election of Directors.

All the policies are available on the AWI website.

## The Board

The Board continued to meet regularly during 2004/05, concentrating on core functions including:

- enhancing corporate governance systems and providing transparent, balanced reporting of Company operations to shareholders; and

- building a portfolio of programs and projects aimed at enhancing the long-term profitability of woolgrowers.

A number of AWI Board committees continue to monitor and guide specific activities. These committees assist the Board to effectively implement, monitor and enforce the Corporate Governance Principles throughout the Company. At 30 June 2005, there were five committees in place:

### Finance and Audit Committee

The Committee's main role is to:

- assist the Board in managing its responsibilities relating to all financial matters;
- ensure the company's financial controls are working effectively; and
- monitor and guide the company's approach to risk management.

### Intellectual Property and Commercialisation Committee

The Committee's major role is to provide policy direction for the management of AWI's Intellectual Property (IP) portfolio.

### Remuneration and Appointments Committee

The Committee sets remuneration, terms of employment and conditions, staffing policies and staffing levels as well as reviewing Board and management performance.

### Falkiner Memorial Field Station Committee

The Committee's role is to provide oversight and guidance of the major capital redevelopment at the Falkiner Memorial Field Station.

### Integration Committee

During 2004/05, the Board appointed an informal committee of Directors known as the Integration Committee. This Committee, chaired by the Chairman of the Board, has been appointed for a limited purpose and time to advise the Board on possible options to form an alliance between AWI and Australian Wool Services Limited.

### New Statutory Funding Agreement (SFA)

The Statutory Funding Agreement 2004 to 2007 between The Commonwealth of Australia and AWI was signed on 31 August 2004 and came into effect on 1 September 2004. Wide consultation with state farmer organisations, industry bodies and woolgrowers was sought to ensure industry consensus on the new SFA. The SFA requires AWI to allocate funds to nominated research, development and innovation activities to ensure that any project is to the benefit of Australian woolgrowers, and that projects are efficient, effective and ethical.

The new SFA is available on the AWI website.

### Audit and risk

AWI has continued to strengthen its internal controls and level of accountability, and engages the services of three of Australia's leading professional services firms. PricewaterhouseCoopers is engaged to conduct the external audit and report to our members, Deloitte Touche Tohmatsu conducts internal audits on a regular basis, reporting on internal controls and processes to

the Finance and Audit Committee, and Ernst & Young provides advice on taxation and other related matters to AWI management.

AWI has also conducted a number of risk assessments in conjunction with the internal auditors and its insurance broker, Jardine Lloyd Thompson. Appropriate insurances have been effected and AWI has developed a risk management plan.

### AWI staff

During 2004/05, the company commenced the development and implementation of an integrated human resources strategy. The purpose of the strategy is to ensure that the company has the right people with the skill sets required for AWI to meet its Strategic Plan. With the pool of skilled people contracting into the future, two of the major goals of AWI's workforce planning are staff retention and succession planning. As a result, several new policies were implemented, including:

- *Recruitment and Selection Policy* – to ensure that AWI attracts and appoints high calibre staff with the necessary skills and attributes to fulfil its strategic aims.
- *Staff Training and Development Policy* – providing the framework for all staff training, to prepare an employee to perform competently in their role, and development, to build up an individual employee for a future role.
- *Equal Employment Opportunity, Anti-Discrimination and Harassment Policy* – to ensure that AWI's structure, practices, policies and guidelines are free from direct

or indirect discrimination and that members of staff, AWI contractors and any visitor are not subjected to any type of harassment.

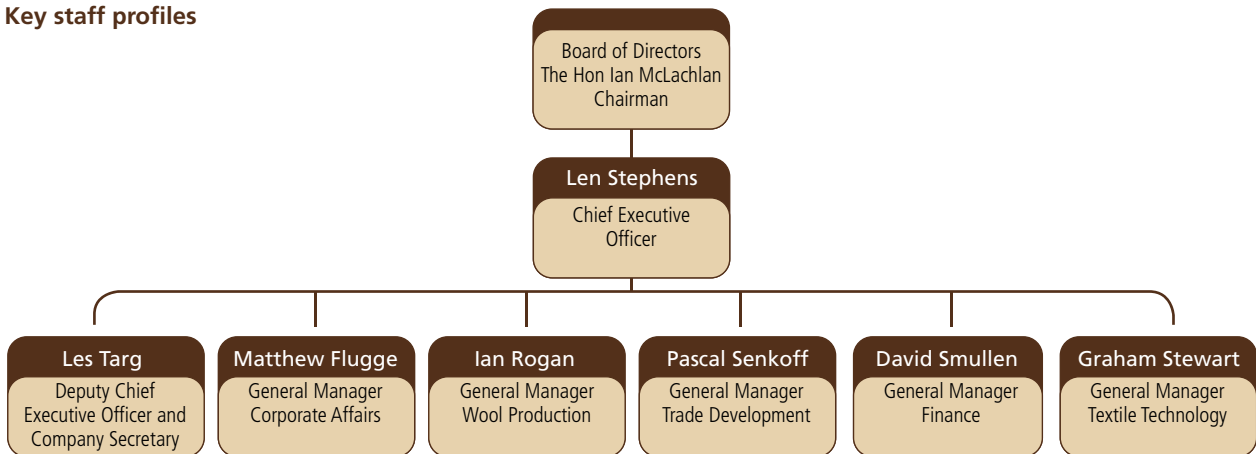
During 2004/2005, AWI also continued with various established human resource initiatives including:

- Hazard assessments and monitoring of appropriate measures to ensure the health and safety of all employees in AWI designated workplaces, which is particularly relevant for AWI's Falkiner Memorial Field Station;
- regular employee performance reviews; and
- assistance with the recruitment, orientation, training, and development of employees.

### AWI staff statistics

- At 30 June 2005 AWI had a total of 74 staff members.
- Eighty five per cent have tertiary qualifications of various disciplines.
- Forty seven per cent of AWI staff are female.
- AWI employees are located in AWI offices in Sydney, Melbourne, Geelong, Deniliquin, Gosford and overseas in Shanghai, Beijing and New York.

## Key staff profiles



### Chief Executive Officer:

Dr Len Stephens *Dip Agr Sci, BVSc, MSc, PhD*

Len Stephens was appointed as CEO in April 2003, with the responsibility to lead the company in the delivery and commercialisation of its research, development and innovation on behalf of woolgrowers. Len has an extensive background in rural research and development and came to AWI after five years as General Manager for Livestock Production Innovation at Meat and Livestock Australia. Previously he held senior positions with the then Meat Research Corporation and Agriculture Victoria, including as foundation Director of the Victorian Institute of Animal Science. Len holds Australian tertiary qualifications in both Agricultural and Veterinary Sciences and was awarded Master of Science and Doctorate of Philosophy degrees from the University of Guelph, Canada.

### Deputy Chief Executive Officer and Company Secretary:

Les Targ

Les Targ is responsible for developing and implementing the AWI corporate services of legal, contracting, IP management, company secretarial and human resources. Les is also responsible for the wool harvesting program and crisis management. Les has 25 years of senior management experience as a company director, CEO and senior executive. Prior to joining AWI, Les held senior executive positions in the Australian defence and aerospace industries, including ten years with ADI Limited, a high technology defence systems and engineering company.

### General Manager Corporate Affairs:

Matthew Flugge

Matthew Flugge manages the Corporate Affairs portfolio, responsible for communications and industry and government relations. Prior to his appointment in February 2005, Matthew was with AWI for two years undertaking the role of Industry

and Government Relations Manager. Before joining AWI, Matthew was Executive Director of the Victorian Farmers Federation (VFF) Pastoral Group, with responsibility for industry and government matters relating to the wool, cattle, sheepmeat and goat industries across Victoria and Australia. Matthew has also had extensive experience in agricultural policy and industry initiatives and has held senior positions with the WA Minister for Agriculture and the WA Department of Agriculture.

### General Manager Wool Production:

Ian Rogan *B Rural Science (Hons)*

Ian Rogan oversees the Wool Production portfolio, managing AWI's investments in the key on-farm areas of genetic improvement technologies, pasture development, fibre specification, animal health and natural resource management. Ian has significant experience in both agricultural research and commercial agriculture. He was previously a director and senior consultant of agricultural consultancy Hassall and

Associates for 12 years. Prior to this, Ian was a regional director of research with NSW Agriculture and also principal research scientist with the South Australian Department of Agriculture where he headed the state's centre of excellence for sheep and wool research.

**General Manager  
Trade Development:**

Pascal Senkoff

Pascal Senkoff is responsible for AWI's Trade Development portfolio, which aims to commercialise wool innovations and work with Government and industry to help reduce trade barriers. Pascal has 16 years experience in the wool textile trade and prior to joining AWI was Greater China General Manager for Chargeurs wool. He was responsible for industrial and trading activities for a region that included Greater China, Japan, Korea, Indonesia, India and Australia. Prior to working in China, Pascal was based at Chargeurs in Japan, where he was responsible for starting up the Chargeurs Interlining business.

**General Manager Finance:**

David Smullen *BA, CA, ACA*

David Smullen manages the company's Finance division and is also responsible for developing and implementing the AWI corporate services of audit, risk management, IT systems and office services. David has extensive experience in financial management, having worked in senior financial roles over the past 15 years in a number of industries including publishing, property, telecommunications and medical

research. Prior to joining AWI, David was Chief Financial Officer of Ventracor Limited, a listed company developing a medical device.

**General Manager  
Textile Technology**

*(from June 2005):*

Graham Stewart

Graham Stewart has responsibility for managing the operations of the Textiles team, including the development of new wool products and processes, fundamental wool science and the marketing of wool innovations to designers, manufacturers and retailers. Prior to joining AWI in June 2005, Graham had his own consultancy company working with a number of leading international textile businesses. He previously worked for Michell Australia, managing operations in Europe before heading up the company's marketing from Adelaide. Graham began his career in the UK with the Brook Group, Europe's largest dyer, and as a divisional director for the textile consumer brand house Dawson International PLC in the UK, Europe and United States.

**General Manager  
Textile Technology**

*(until May 2005):*

Eric Finnie

Eric Finnie had responsibility for managing the operations of the Textiles team until May 2005 when he resigned from AWI to return to the UK with his family. Eric continues to provide consultancy services to AWI. Eric has nearly 30 years' experience in the northern hemisphere textile and

apparel business and was previously the Managing Director and CEO of UK based textile manufacturer Drummond Group. Prior to that, he held a number of executive positions with Coats Viyella, a major UK based knitwear and apparel manufacturing business.