

Australian Wool Innovation Limited
ABN 12 095 165 558

CORPORATE GOVERNANCE POLICY (Long Form)

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1. Commitment to Good Corporate Governance

Australian Wool Innovation Limited (**AWI**) is an unlisted not-for-profit public company incorporated under the *Corporations Act* 2001. Its primary mission is to increase the long-term profitability of its shareholders, Australian woolgrowers, through the funding of research, development and innovation activities in relation to the Australian wool growing industry (**RDI**).

The Board of AWI wishes to instil a strong corporate governance culture throughout AWI. The Board believes that a strong corporate governance culture throughout AWI will in turn enhance and improve the performance of AWI as an organisation, and maximise AWI's ability to achieve its primary mission of increasing the profitability of its Australian wool growing shareholders.

AWI seeks to adopt the highest principles of corporate governance. To achieve this, AWI seeks to adapt the ASX Corporate Governance Council *Principles of Good Corporate Governance and Best Practice Recommendations August 2007* (**Corporate Governance Principles**) for use by AWI. While the Corporate Governance Principles are not binding on AWI as an unlisted public company, the Board of AWI wishes to adopt the Corporate Governance Principles, where applicable to AWI, to the greatest extent and highest standards practicable.

2. What is Corporate Governance for AWI?

Corporate governance is the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. It encompasses the mechanisms by which companies, and those in control, are held to account. Corporate governance influences how the performance of a company is optimised, how the objectives of a company are set and achieved and how risk is assessed and managed.

Good corporate governance structures encourage companies to create value for its shareholders through entrepreneurial behaviour and, in AWI's case, pursuit of its core business of research, development and innovation for and on behalf of its shareholders, Australian woolgrowers. In addition, good corporate governance provides to AWI accountability and control systems commensurate with the risks involved.

The Board of AWI recognises that a company's system of corporate governance must first of all be tailored to ensure it suits that company and must also be a dynamic system that evolves with the changing circumstances of the company itself.

Accordingly, the Board has endeavoured to ensure the Corporate Governance Principles are suitable for AWI's current circumstances, and the Board will periodically review the Corporate Governance Principles to ensure that they remain applicable, appropriate and practically useful.

3. Board of Directors of AWI

The Board is responsible for the overall corporate governance of AWI, including AWI's strategic direction, establishing goals for management and monitoring the achievement of those goals. The Board has adopted a formal Board Charter that outlines these responsibilities and functions in detail.

The Board shall comprise between 5 and 10 directors with the majority being independent, non-executive directors. The directors of the Board are currently Mr Walter Merriman, Chairman, Mr Roger Fletcher, Deputy Chairman, Dr Kevin Bell, Mr George Falkiner, Mr Laurence Modiano, Mr Charles Olsson, Dr Meredith Sheil, Mr Brian van Rooyen and Mr David Webster. The Board is of the view that all directors of AWI are correctly described as independent directors.

4. Corporate Governance Committees

As authorised by AWI's Constitution, the Board may delegate any of its powers to Committees consisting of any one or more Directors or any other person or persons as the Board thinks fit. Pursuant to this power, the Board has established the Finance & Audit Committee, the Remuneration & Appointments Committee, the Marketing and Intellectual Property Committee and the On Farm RDI Scientific and Welfare Committee to assist the Board to effectively promote, monitor and enforce the Corporate Governance Principles. The Board has adopted a formal Charter of the Committees of the Board which outlines the responsibilities and functions of each committee. This Charter provides that these committees must only consist of non-executive independent directors and each must have a minimum of 3 members. The members of these committees are set out in the table below.

Finance & Audit Committee	Remuneration & Appointments Committee	Marketing & Intellectual Property Committee	On Farm RDI Scientific & Welfare Committee
Mr Charles Olsson, Chairman	Mr Roger Fletcher, Chairman	Mr Charles Olsson, Chairman	Mr George Falkiner, Chairman
Mr George Falkiner	Mr Walter Merriman	Mr George Falkiner	Dr Kevin Bell
Mr Roger Fletcher	Mr Charles Olsson	Mr Walter Merriman	Mr Walter Merriman
Mr David Webster	Mr Brian van Rooyen	Mr Laurence Modiano	Dr Meredith Sheil
	Mr David Webster	Dr Meredith Sheil	

5. Corporate Governance Framework

The Board acknowledges that it is responsible for the internal control framework of AWI. It recognises that no cost-effective internal control system will preclude all errors and irregularities or necessarily prevent fraud but an effective corporate governance system will reduce these risks to a minimum while also optimising the services that AWI provides to its shareholders, Australian woolgrowers. The system is based upon written procedures, policies and guidelines and organisational structures that provide an appropriate division of responsibility, and the careful selection and training of qualified personnel.

These systems in AWI are based on the Corporate Governance Principles, the key aspects of which are to:

1. lay solid foundations for management and oversight by recognising and publishing the respective roles and responsibilities of the Board and management;
2. structure the Board to add value by ensuring the Board is of effective composition, size and commitment to adequately discharge its responsibilities and duties;
3. promote ethical and responsible decision-making by the implementation of and compliance with the Codes of Conduct adopted by the Board;
4. safeguard the integrity of financial reporting;
5. make timely and balanced disclosure of all material matters concerning AWI;
6. respect the rights of shareholders and facilitate the effective exercise of those rights;
7. establish a sound system of risk oversight, management and internal control; and
8. remunerate fairly and responsibly by ensuring that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

6. Implementation of Corporate Governance Principles

The Board of AWI wishes to adopt the Corporate Governance Principles, where applicable to AWI, to the greatest extent practicable. This section outlines the steps that AWI has taken in relation to each Corporate Governance Principle, and the systems it has implemented to achieve this goal.

1. **Lay solid foundations for management and oversight by recognising and publishing the respective roles and responsibilities of the Board and management**

The Corporate Governance Principles recommend that AWI establish functions reserved to the Board and those delegated to senior executives and disclose these functions and the process for evaluating the performance of senior executives.

AWI has implemented a number of measures to enhance its accountability to its stakeholders, the Australian woolgrowers and the Commonwealth Government, the Australian wool industry and the wider community. As part of this process, the Board has approved formal charters setting out the functions reserved to the Board and those delegated to Committees of the Board and to management. These charters are available from AWI's website and include:

1.1 **Board Charter** which:

- 1.1.1 governs the operations of the Board and sets out the individual responsibilities of the Chairman and individual directors; and
- 1.1.2 outlines the method of appointment and the responsibilities of the CEO as well as the method that the Board will communicate and delegate authority to the CEO;

1.2 **Charter of the Committees** of the Board which governs and contains separate statements of the goals and responsibilities for each of the Finance & Audit Committee, the Remuneration and Appointments Committee, the Marketing and Intellectual Property Committee and the On Farm RDI Scientific and Welfare Committee.

The Board has established the **Remuneration and Appointments Committee**, the objectives, composition and responsibilities of which are set out separately in the Charter of the Committees of the Board. Mr Fletcher is Chairman and Mr Merriman, Mr Olsson, Mr van Rooyen and Mr Webster are members of the Remuneration and

Appointments Committee. The Remuneration & Appointments Committee sets out the process that AWI employs to evaluate the performance of senior executives.

The **Remuneration and Appointments Committee** is responsible for setting in place remuneration policies which are designed to attract, retain and motivate senior managers and directors with the expertise to enhance the performance and growth of AWI and the promotion of AWI's corporate governance practices. The Remuneration and Appointment Committee is also responsible for ensuring that appropriate procedures exist to assess and review the performance of senior executives.

These Charters will enable stakeholders in AWI to assess AWI's performance against AWI's stated goals.

The Charter of the Committees (including the **Remuneration and Appointments Committee**) of the Board and the Rules and Procedures governing the election of Directors are available from AWI's website.

2. **Structure the Board to add value by ensuring the Board is of effective composition, size and commitment to adequately discharges its responsibilities and duties.**

The Corporate Governance Principles recommend that:

- 2.1 a majority of the Board be independent directors;
- 2.2 the Chairman be an independent director;
- 2.3 the role of the Chairman and CEO should not be exercised by the same individual;
- 2.4 the Board should establish a nomination committee;
- 2.5 the process for evaluating the performance of the Board, its committees and individual directors should be disclosed.

AWI has adopted each of these requirements which are reflected in the Board Charter and the Charter of the Committees of the Board.

The Board comprises nine (9) members. Directors come from a variety of business and professional backgrounds and bring to the AWI Board diverse skills and expertise relevant to enabling AWI to achieve its goals. The Board is of the view that all nine (9) directors are independent non-executive directors.

The Chairman of the Board, Mr Walter Merriman, is an independent director as is the Deputy Chairman, Mr Roger Fletcher. The Chairman exercises a separate role to the CEO.

The Board has established the **Remuneration and Appointments Committee**, the objectives, composition and responsibilities of which are set out separately in the Charter of the Committees of the Board. Mr Roger Fletcher is Chairman and Mr Merriman, Mr Olsson, Mr van Rooyen and Mr Webster are members of the Remuneration & Appointments Committee. The Remuneration and Appointments Committee is responsible for ensuring that appropriate procedures exist to assess and review the performance of the Board its committees and individual directors.

In addition to these systems the Board has also adopted a formal statement of the "Rules and Procedures governing the election of Directors".

The Charter of the Committees of the Board and the Rules and Procedures governing the election of Directors are available from AWI's website.

3. **Promote ethical and responsible decision-making by the implementation of and compliance with the Codes of Conduct adopted by the Board**

The Corporate Governance Principles recommend that AWI establish a code of conduct to guide the Directors, the CEO and any other senior executives. These codes of conduct should guide the Directors and senior executives as to:

- the practices necessary to maintain the confidence in AWI
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

AWI has established two codes of conduct that meets the recommendations contained within the Corporate Governance Principles. These are the Code of Conduct for Directors and Officers and the Code of Conduct to Stakeholders.

The **Code of Conduct for Directors and Officers** deals with the following main areas:

3.1 conflicts of interest;

- 3.2 confidentiality;
- 3.3 fair dealing;
- 3.4 compliance with laws and regulations;
- 3.5 corporate opportunities;
- 3.6 protection and proper use of AWI's assets;
- 3.7 encouraging the reporting of unlawful and unethical behaviour; and
- 3.8 method for monitoring and ensuring compliance with the Code.

The **Code of Conduct to Stakeholders** outlines AWI's:

- 3.1 responsibilities to stakeholders, particularly Australian woolgrowers, Australia's wool industry generally and the Australian Government;
- 3.2 responsibilities to clients, customers and consumers;
- 3.3 employment practices;
- 3.4 obligations relating to fair trading and dealing;
- 3.5 responsibilities to individual stakeholders;
- 3.6 responsibilities to the community;
- 3.7 method for compliance with legislation affecting its operations; and
- 3.8 method for monitoring and ensuring compliance with the Code.

A copy of these Codes of Conduct are available from AWI's website.

4. **Safeguard the integrity of financial reporting**

The Corporate Governance Principles recommend that:

- 4.1 the Board should establish an audit committee.
- 4.2 The audit committee consists only of non-executive directors, a majority of independent directors, an independent chairman who is not the Chairman of the Board and comprise at least 3 members; and
- 4.3 the audit committee should have a formal charter.

The Board has established the Finance and Audit Committee, the objectives, composition and responsibilities of which are set out separately in the **Charter of the Committees of the Board**. Mr Charles Olsson is Chairman and Mr Falkiner, Mr Fletcher and Mr Webster are members of the Finance & Audit Committee. All four (4) are regarded by the Board as independent, non-executive directors.

The **Charter of the Committees of the Board** is available from AWI's website.

AWI is also committed to ensuring that its financial reporting conforms to the reporting requirements in Schedule 3 of the Statutory Funding Agreement between AWI and the Commonwealth Government, as well as Australian Accounting Standards for best practice reporting.

5. **Make timely and balanced disclosure of all material matters concerning AWI**

The Corporate Governance Principles recommend that ASX listed companies establish written policies and procedures designed to comply with ASX's disclosure requirements and to ensure accountability at a senior management level for that compliance. While AWI is not a listed company, the Board recognises that its stakeholders, including both Australian woolgrowers and the Australian government, have an interest in receiving timely disclosure of AWI's progress, developments, future plans and governance.

AWI has implemented a formal **Communications Strategy** designed to promote effective communication with shareholders and encourage participation at general meetings.

The Communications Strategy includes the continuing publication of timely information through:

- 5.1 quarterly letters from the Chairman to Australian woolgrowers;
- 5.2 AWI's bi-monthly newspaper, "Beyond the Bale"; and
- 5.3 AWI's website, www.wool.com

The Communications Strategy is available from AWI's website.

6. Respect the rights of shareholders and facilitate the effective exercise of those rights

The Corporate Governance Principles recommend that AWI design a communications policy for promoting effective communication with shareholders that encourages their participation at general meetings. AWI recognises that its stakeholders have a similar need for information concerning AWI and also an interest in how AWI achieves its goals.

The Company has implemented the Communications Strategy as outlined above in relation to Corporate Governance Principle number 5.

7. Establish a sound system of risk oversight and management internal control

The Corporate Governance Principles recommend that:

- 7.1 the Board shall establish policies for the oversight and management of material business risks and disclose a summary of these policies;
- 7.2 the Board should require management to design and implement the risk management and internal control system to manage AWI's material business risks and report to it on whether those risks are being managed effectively;
- 7.3 the Board should disclose whether management has reported to it as to the effectiveness of AWI's management of its material business risks; and

The Finance and Audit Committee has the responsibility of:

- providing the Board with advice and recommendations regarding the ongoing development of risk oversight and management policies;
- advising the Board on material risks including financial, non-financial and legal risks which AWI faces;
- managing and reviewing the performance of AWI's external auditors; and
- ensuring that appropriate senior managers have established and implemented a system for identifying, assessing, monitoring and managing throughout AWI.

The **Charter of the Committees of the Board**, which outlines the objectives, composition and responsibilities of the Finance and Audit Committee in greater detail, is available from AWI's website.

8. **Remunerate fairly and responsibly by ensuring that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear**

The Corporate Governance Principles recommend that AWI establish a remuneration committee and should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

The Board has established the **Remuneration and Appointments Committee**, the objectives, composition and responsibilities of which are set out separately in the **Charter of the Committees of the Board**.

The **Remuneration and Appointments Committee** has the responsibility of ensuring that the level and composition of remuneration packages are fair, reasonable and adequate and, in the case of executive directors and senior executives, display a clear relationship between the performance of the individual and the performance of AWI. The **Charter of the Remuneration and Appointments Committee** distinguishes between executive and non-executive directors remuneration structure.

All Board directors currently receive payment for their services details of which are disclosed in the Company's Annual Report.

The **Charter of the Committees of the Board** is available from AWI's website.

7. **Other Corporate Governance Documents**

For copies of the various Corporate Governance charters, policies and codes referred to above that AWI has established, please follow to the link below:

<http://www.wool.com/corporate>