

## Who's pulling the wool over whose eyes?

The performance and corporate governance of Australian Wool Innovation has been heavily criticised by a group of candidates who are standing together for election to the AWI Board at the first AGM to be held on 31 October 2002. This group has called itself the Shareholder's Candidates. This is misleading. They are in fact the candidates of the Wool Producer grower's group.

The recent release of this group's policy statement reveals that its criticism of AWI lacks credibility. Following is a response to the Wool Producers policy statement. It sets the record straight. It has been paid for by the Directors and staff of AWI Ltd.

Wool Producer's Candidates Policy Statement	What AWI is doing
1. The candidates will progress the evolution of the approach commenced by the Future Directions Task Force report chaired by Ian McLachlan (now leader of the Woolproducer's Candidates)	AWI has implemented the recommendations of the Future Directions Task Force report. Mr McLachlan has been repeatedly invited by AWI to respond to its analysis of the report but has not done so, preferring to incorrectly claim in the media that AWI has not adhered to it. AWI released the Strategic Plan 2002-2007 in June 2002 which incorporates AWI's strategy for implementing the recommendations for the Future Directions Task Force.
2. The new Board will only be responsible to AWI shareholders. It will not have an obligation to any other group in the wool industry.	The AWI Board works hard to represent all shareholders of AWI and involves a number of representatives of shareholders in its decision making. The same cannot be said for the "Shareholder's Candidates", who are in reality the candidates of the Wool Producers grower's group.
3. The new Board will encourage Shareholders to change the Constitution at the new AGM so that:	The composition of a board for any large public company is an extremely important issue. The Board did not ignore potential candidates for elections to the Board. It implemented its nomination procedure and is confident that the current Directors have the requisite skills and experience.
a. People with appropriate skills and experience are encouraged to stand for election as Directors.	The rule requiring 5% of shareholder signatures for nominees to stand for election was included in the AWI constitution as part of the demerger of AWI and was not imposed by the current Board. It was implemented to ensure stability for the Board and to avoid continual coups by a small percentage of shareholders.
b. Only 100 nominating signatures of levy payers will be required for a candidate to stand for election.	The quorum for directors meetings in the AWI constitution is 2 - consistent with Australian corporate practice. To suggest that decisions are made by two Directors shows ignorance of the decisions making process of Australian companies.
c. The quorum for Board meetings will be a majority of the Board members and not the current number of 2, including the CEO.	The current Board complies with the AWI Constitution. The Wool Producer candidates are inconsistent in their view of the AWI Constitution. On the one hand they were critical when the Board implemented the constitutional requirements for the nomination of directors and on the other hand they suggest that the Board is not implementing the constitutional requirements for the rotation of directors. The constitution requires a minimum one third of non-executive directors to face election annually. The fact is 6 of the 7 current directors are up for re-election at AWI's first AGM.
4. The new Board will respect the Constitution in spirit and practice, with particular regard to the rotation of one third of the sitting members to face an election annually.	The current Directors have the characteristics and qualities required by the Task Force recommendations. (See recommendation 33.) The recommendations do not require all Directors to be wool producers. AWI maintains close contact with the Wool Advisory Group, which is made up of 17 wool producer representatives from wool growing areas across Australia.
5. The new Board will have Directors with the characteristics and qualities required by the Future Directions Task Force report.	This policy should send major shock waves through the industry. It would require all existing AWI activities to be frozen. This will lead to serious relationship and contractual issues for third parties who have entered into contracts with AWI in good faith. All work to date will be jeopardised. The \$250,000 spent on the development of the current strategic plan, which has shareholder support, will be wasted.
6. The new board will review the 5-year strategic plan immediately and report to shareholders within 6 months.	The use of the term "arm's length" is insidious and suggests improper dealings. As a public company, AWI will have no credibility if it cannot negotiate in strictly confidential terms on initiatives like the formation of subsidiary companies. The fact is that forming a company is often the most cost-effective way to control and exploit intellectual property and generate income.
7. Projects will be managed at arm's length by AWI as an R&D investor or on a royalty basis. Further subsidiary companies will not be founded without publishing reasons and timeframes.	The responsibilities of AWI are already clear, public and transparent and AWI's activities are designed to benefit its shareholders. However, as the WoolMark
8. The new Board will ensure the responsibilities of AWI and of the WoolMark	

**Wool Producer's Candidates Policy  
Statement**

Company are clear, public and transparent.  
Their activities must benefit the shareholders  
of both companies.

9. The new Board will ensure that governance  
and transparency to its shareholders is  
paramount.

**What AWI is doing**

Company is not part of the AWI group, it is misleading to suggest that the Board  
should conduct itself with regard to that company or its shareholders.

The current Board has consistently and publicly ensured that governance and  
transparency to its shareholders is paramount.