

4 April 2003

SPEECH TO NSW FARM WRITERS' ASSOCIATION - MENZIES HOTEL, SYDNEY

Good afternoon, President, members, ladies and gentlemen. It is a pleasure to have the opportunity to address this esteemed group of rural journalists and writers today.

As we continue to face the ramifications of this interminable drought, it is my goal today to provide you a perspective on what one industry body, Australian Wool Innovation – AWI – is doing to maintain a strategically commercial focus.

It is a very exciting time in the wool industry – we at the cusp of a leaner, more efficient industry that has been achieved with substantial heartbreak – but it is time to look to the future, drought or no drought.

And, as with all great droughts, it will break.

We now have, of course, no market interference from stockpile or reserve price schemes, and great R & D opportunities ahead. We do have some help from Government in regard to levies, but not as much power exercised by them over the industry now, as was in the past. That suits us, and it also suits the Government.

I don't remember a time when individual producers have been as innovative in the wool industry as they have in the last six or seven years or so – a few years after they had recovered from the ravages of the collapse of the Reserve Price Scheme.

Obviously, those who have become so innovative have reacted to the facts – as we say, they are “cooking for themselves” - as there is no scheme or statutory corporation any more to hold our hand.

We do have a levy collecting scheme for the conduct of research, development, innovation and the commercialisation of all of those, in the wool industry, in the form of AWI.

Firstly, however, it was with great pleasure and anticipation that we announced this week that AWI has appointed a new Chief Executive Officer, Dr Len Stephens, a man of experience, vision, and practical R & D experience to lead the company into the future. Dr Stephens has been General Manager, Livestock Production Innovation with Meat and Livestock Australia – MLA – for the past five years, where a high strike rate of commercial adoption has been his measure of success.

As well as practical experience, Len holds impeccable academic qualifications in both Agricultural and Veterinary Sciences. We at AWI are delighted to appoint such a clear strategic thinker and champion of technology transfer to take us forward into the future.

He has all the right qualifications and we are looking forward to his arrival on 28th April. Soon after this we are introducing him to the fascinating world of international wool politics, at the International Wool Textiles Organisation in Buenos Aires in May.

We have also this week appointed a new Director, Dr Chris Abell, who lives near Adelaide, growing wool in the pastoral country just south of Broken Hill. He will be known to some of you, as he was on the Wool Stock Board, and has a mixture of technical and business experience as the founder of Vision Systems.

Chris founded CJ Abell & Co and, as Managing Director and then Executive Chairman, grew the Company from one person in 1981 to 250 engineers and scientists in 2000. The main activities of the Company were research and development contracts for the Australian and United States Departments of Defence and national and international corporations.

The Company became part of the Vision Systems Group in 1987 and was sold to Tenix Defence Systems in 2001.

Chris will be an excellent addition to our Board, with very high quality qualifications in technical matters and business success.

Woolpoll.

I would now like to talk about the Woolpoll. AWI is committed to facilitating a process whereby the outcomes from the Levy Poll – which we are required to conduct every three years, this being one of those years - reasonably represent the views of Australian woolgrowers in relation to their payment of the compulsory levy for investment in research, development, innovation and services.

In this regard, there are a number of organisations representing woolgrower levy payers at national, state, regional and breed levels. These groups may well have different views as to the appropriate levy rate for forthcoming years. These views may also differ from AWI's own recommendation to the Panel.

Given this situation, we have already begun the process of reaching agreement on the convening and operation of a Levy Poll 2003 Panel. A number of arrangements have been proposed, including the structure and formation of the Levy Poll 2003 Panel.

In mid-March I sent a letter concerning Woolpoll 2003 to the two national grower bodies – Wool Producers and AWGA - and all State organisations plus the Australian Superfine Wool Growers' Association and Australian Stud Merino Breeders – which sets out the process. Basically, this process is:

- That, by today, the above organisations accept Dr John Keniry to chair that Panel; no objections have been received so far nor are any expected. Dr Keniry chaired the panel that successfully advised on Woolpoll 2000.
- The same organisations to advise the name or names of their preferred Panel Member or Members to Dr Keniry, who selects 5-7 of those, plus up to two independent people, and seeks agreement of the organisations and AWI;
- AWI appoints one member in its own right;
- The Poll Panel consults with the organisations and any other interested levy payers, and receives AWI's own separate submission, as the basis for then proposing 3-5 (including zero) levy rate alternative RDI packages to levy payers. Those proposals are NOT subject to AWI approval;
- The Poll is run by external Registrars and Returning Officer for the Panel;
- The Returning Officer advises the Poll results to the Panel, which issues a Public Release, with recommendations based on the Poll data;
- This Public Release document must accompany AWI's final recommendation to the Minister before 31 December.

- The Minister determines and announces the Government's decision for the 3 years commencing 1 July 2004.

Working back from a practical poll vote return date of 7 November 2003, the required cut-off date for eligibility to vote in the poll is 12 September.

With respect to AWI's recommendations regarding a levy rate, it really is too early to make such a judgement. I have to say that I am rather surprised by some of the recent discussions surrounding the woolpoll levy recommendations. Clearly this process is only just starting. It is difficult to see how any organisation, be it AWI or be it a woolgrower lobby group, is actually in the position to make anything other than a philosophical judgement about such an important decision without all the facts and the ramifications any suggested rate will have for the future of wool research and development in this country.

Board direction

In regard to whether or not this Board has changed direction from the old, I would say that it has in these respects:

- As you would be aware, the new Directors were elected on a platform of improving corporate governance at AWI. The period since our appointment has been extremely busy from this respect.

The Finance and Audit Committee of the Board has been very active and commissioned our auditors, PricewaterhouseCoopers, to conduct a mid-year review. As a result of this commissioned work, AWI has implemented initiatives to ensure that, amongst other things:

- . No payments are now made to research providers before a formal contract is signed. For example, in December 2002 there were in the order of 50 projects worth in excess of \$20 million at AWI without formal completed contracts in place. The Board considered that this was leaving AWI exposed to too many downstream disputes.
- . For example, we have had to deal with a number of unresolved issues, principally to do with who will own the Intellectual Property resulting from projects paid for by AWI. Guarantees and warranties and indemnities had not been completed. In the current Board's view, these issues needed to be resolved before one dollar of woolgrowers' money is spent.
- As well, advance payments are no longer made as a matter of course, and, when they are made, not without first safeguarding AWI's position. Many of the 50 contracts I have just referred to involved some level of initial payment or advance.

In one particular case examined by the Finance and Audit Committee, an unsecured advance payment of half a million dollars was made to a sole trader, which, we established, was not requested.

- Where possible, AWI has cancelled certain arrangements. For example, the \$500,000 donation to the Farmhand Drought Appeal would, in the current Board's view, have breached the provisions of the Statutory Funding Agreement. We have also terminated contracts that the Board has judged to be inappropriate or where it was not clear what the objects of the contracts were. Several lucrative consultancies have been terminated on this basis.
- Financial reports to the Board disclose the financial position of the Company more transparently, so that costs are more capable of being controlled. Actual expenditure on projects is now reported monthly.
- We are now implementing a cost-reduction programme.

- All projects exceeding \$500,000 value now required Board approval. The Board considered that the \$2 million authority level previously in place did not involve the Board sufficiently in the shaping of the investment programme.
- In future, staff will only be appointed where a formal position description exists and where a clear case for the appointment is made.
- The same firm no longer carries out the internal and external audit functions. PricewaterhouseCoopers is still our external auditor and Deloitte Touche Tohmatsu is now our outsourced internal auditor.
- AWI has commenced the development of a risk management plan, which will help the Board manage AWI's exposure to the risks it faces.

Shareholders

As we said at, and before, the election last October, we believe that all shareholders should know from year to year what their voting entitlements are.

In AWI, even though everyone has one share in the company, the number of votes a shareholder has is based on the previous three-year's levy.

There has been a difficulty between AFFA and AWI and ASX in deciding what those figures are, and keeping them up-to-date.

At the last election, the figures were up-to-date at best only for the three years prior to 2001, as everyone knew at the time.

We feel strongly that shareholders should know what votes they have and that those calculations should always represent as recent a year as possible.

As a result of the new arrangements:

- AFFA provides the above information to AWI on a monthly basis (This was previously provided quarterly)
- AWI provides this data to ASX Perpetual who match the ABNs with the shareholders' ABN and record the levy payments for each shareholder.
- The voting entitlements for the next AGM and Woolpoll will be calculated on the total levy paid for the June years ended 2001, 2002 and 2003 with one vote for each \$100 of levy paid.

After three months of seriously hard work, we now believe we can provide the voting entitlements for 33,000 (plus) shareholders and will be able to do so for nearly all the shareholders for the year ending June 2003 for the next election – and those voting entitlements will be in the hands of the shareholders when they vote.

Further, we are contacting potential shareholders all the time to make sure those figures are completely up-to-date.

To help shareholders with the process, we already have an 1800 number established, which is 1800 070 099, for shareholders to ring in with queries.

I now wish to take up an issue that some are putting about that the "big end of town" now has control of AWI, and that one spokesman saying that 5,000 people voted for the old Board and only 1,400 for the new Board. This figure is totally erroneous and I have pinned some figures to the back of this speech that shows everybody who can't add up. These figures were sent to me by ASX.

Now, let me talk about whether or not the current Board is going to be as commercial as the old Board.

- The direction of the strategic plan is the same, but being refined around the edges. As you would expect, it will come out once a year but continual evolutionary changes will take place.
- The current Board does not believe that the present level of activity can be kept up by AWI in the foreseeable future, on earnings from the commercialisation of the projects alone. That is, from royalties, dividends, license fees and the like.

Let me give you several examples:

- \$20 million is set aside for the Land Water and Wool project. There can be no cash return on such a project.
- The annual overheads in the organisation we are presently paying are nearly \$20 million, and unless they are apportioned out to the projects, that money will return no dividends. These overheads are far higher than what we had previously been led to believe. As I said earlier, we have commenced a cost reduction program to reduce these.
- AWI is responsible for trade policy. This is quite an expensive program. How can that activity return a cash dividend to AWI?
- How can scholarships and the like return a cash return to AWI?

We have just approved in principle a new \$25 million genetics programme covering conventional and molecular genetics. The results of these investments will be available to growers mostly at no further cost.

The details of this exciting project will be announced next week, and while the program will have enormous advantages for growers, much of that project will have no potential for a commercial return to AWI.

All in all this board have invested over \$60 million in new projects, ranging from those that will return a cash benefit to AWI to those which never possibly could, but will deliver enormous benefits to growers and others in the industry.

So, there will be projects that return a profit on farms and our focus will be to commercialise those, just as strenuously as AWS is setting out to commercialise the 20 or so projects that they were handed at the inception of AWS/AWI two years ago and before the two were demerged.

We will be focussing not only on those projects which naturally deliver on-farm benefits to the growers; not only projects which deliver general benefit to the processors – which lowers their costs – but as well, to commercialise those projects through royalties, ownership, part-ownership or other methods “to commission wool innovation and to commercialise the results for the maximum benefit of shareholders”.

As part of our open business approach, AWI have commenced a rigorous performance and strategic planning review process that will lead into the AGM on 21 November in Perth, as well as WoolPoll 2003. This is designed to ensure that accurate and transparent reporting is provided to all shareholders and stakeholders, including government.

Shareholders have been requested to provide their views on two specific areas. Firstly, how they think AWI has been performing so far. What’s been good, and what hasn’t. Secondly, where they would like to see RDI investments focussed in the future.

To ensure that consultation is effective as possible, growers will also have an opportunity to provide verbal feedback at Open Strategy Forums that will be held in regional centres later in the year.

We have also been reviewing the efficacy of the consultative arrangements that were previously in place. We have engaged with, and received feedback from, selected woolgrowers and other stakeholders on the future of these arrangements.

It became clear that no single committee could provide management with the full range of specialist scientific and practical experience inputs required to guide and control AWI's portfolio of RDI investments. It is worthy to note that a number of WAG members themselves confirmed that these limitations were recognised when the size of the committee was debated last year.

In this regard, the WAG as they were known have now been disbanded and the basic frameworks and modus operandi for AWI's new advisory structures established. These new structures will be far more inclusive and accessible and provide many more woolgrower shareholders and specialists with the opportunity to have their input into the decision making process.

I hope I have given you a clear outline of the directional changes made by this board and of the optimism that we have for many of the projects, old and new.

Ends

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