

*owned by  
and working for  
australian wool  
producers*

## **The AWI Board election - Fact Versus Fiction**

The AWI annual general meeting will be held in Hay on 31 October starting at 2.30pm.

AWI Shareholders have the opportunity to vote on the election of six directors. A total of 11 candidates are standing for election – the six current AWI Board members – Chairman Maree McCaskill, Patricia Murphy, Don Nelson, Peter Sykes, Professor Alan Trounson and Associate Professor Michael Staley – and a further five nominees supported by WoolProducers.

In the lead up to the annual general meeting a number of untrue claims relating to the operations of Australian Wool Innovation have been made. In the interests of fair and open debate it is important that these claims are clarified. The following document lists those claims and the facts surrounding those claims.

### **Are they really the Shareholder's candidates?**

The five candidates nominated by WoolProducers for the board elections of AWI have disingenuously styled themselves the "Shareholder's Candidates".

AWI is concerned that this implies that the five candidates are endorsed by all the shareholders of AWI, which is not the case. The mere fact that the candidates' nominations were supported in each case by the requisite 5% of shareholders does not amount to endorsement by the body of shareholders as a whole and it would be misleading to suggest otherwise. Regrettably, the 5 nominees have failed to clarify the position for the benefit of all shareholders.

A number of shareholders have expressed outrage at any suggestion that these candidates have been endorsed by shareholders of AWI.

### **Fact or Fiction?**

**1 Fiction** - That AWI has not followed or implemented the approach taken by the Future Directions Task Force.

**Fact** - AWI has implemented the recommendations of the Future Directions task Force report. Mr McLachlan has been repeatedly invited by AWI to respond to it's analysis of the report but has failed to do so, preferring to claim incorrectly in the media that AWI has not adhered to it. The analysis shows that AWI has complied with each of the nine recommendations in Chapter six of the report, covering the conduct of Research and Promotion. AWI released a detailed Strategic Plan 2002-2007 in June 2002, which addressed AWI's strategy for implementing the recommendations of the Future Directions Task Force.

**Page 2.**

**2 Fiction** - That the current Board considers itself responsible to groups other than the shareholders of AWI.

**Fact** - Consistent with its legal obligations, including the constitutional requirement to manage AWI "for the benefit of Australian Woolgrowers", the Board of AWI has at all times worked hard to represent all shareholders of AWI and has involved a number of representatives of shareholders in its decision making.

**3 Fiction** - That the current Board is denied potential candidates because of the requirement that those candidates obtain signatures from shareholders and that the current Board of AWI does not have the appropriate skills and experience to carry out its duties.

**Fact** - The composition of a board for any large public company is an extremely important issue. As part of the demerger process of AWI, the skills and experience of the directors were reviewed at length. The Board did not ignore potential candidates for the Board as has been suggested by the WoolProducer candidates. It implemented its nomination procedure and is confident that the current directors have the requisite skills and experience. The fact of the matter is that there are no vacancies on the Board. The provisions of the AWI constitution about which the WoolProducer candidates complain were included in the AWI constitution by the original architects of privatisation (not the AWI Board) after considerable review and consultation.

**4 Fiction** - That there have been decisions of the current Board which have been made by only two directors.

**Fact** - The AWI constitution provides that a quorum for directors meetings is two directors "until otherwise determined by the Board". This is the standard quorum provision in Australian public companies. To suggest that decisions are made by only two directors shows complete ignorance of the decision making processes of the boards of Australian companies. The quorum requirement operates in conjunction with a number of other legal requirements. No decision has been made by only two directors. No member of the current Board of AWI has missed a meeting of Directors.

**5 Fiction** - That the current Board of AWI does not 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.

**Fact** - The WoolProducer candidates have adopted a selective view of the operation of the AWI constitution. On the one hand they are critical of the Board when the Board implements 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 fact is the directors are going beyond the legal requirements, with the non-executive directors of AWI up for re-election at AWI's first AGM. This includes two directors who are not required to face an election but who, in the interests of maximising shareholder participation, have voluntarily retired to allow shareholders to vote on all non-executive director positions.

**Page 3.**

6 **Fiction** - That the Board members of AWI do not have the characteristics and qualities required by the Future Directions Task Force and who are not connected with the wool industry.

**Fact** - The current directors of AWI have the characteristics and qualities required by the Future Directions Task Force (see Recommendation 33) and have outstanding experience and qualifications, including connections with the wool industry. The recommendations do not require directors of AWI to be wool producers.

7 **Fiction** - That projects are not being managed at arm's length.

**Fact** - The use of the term "arm's length" is insidious and suggests improper dealings by AWI. This is a term that has been bandied about by the WoolProducer candidates without any attempts at substantiation. All projects initiated by AWI are carried out on an arm's length basis.

8 **Fiction** - That the Board does not conduct itself in a clear, public and transparent manner and that the activities of AWI and of the WoolMark Company must be to the benefit of shareholders of both companies.

**Fact** - The Board of AWI conducts itself in a clear, public and transparent manner. This is evident from the activities undertaken to date. However, as the WoolMark Company is not related to the AWI Group and is a separate corporate entity, it is incorrect and misleading to suggest that the Board of AWI should conduct itself with regard to that company or its shareholders. This is a further example of the WoolProducers' candidates fundamental lack of understanding of AWI's operations and charter.

9 **Fiction** - That the current Board does not ensure that governance and transparency to its shareholders is paramount.

**Fact** - The Board of AWI has consistently and publicly committed to maintaining the highest standards of corporate governance and transparency. This commitment is demonstrated by initiatives such as the publication of AWI policies and the Strategic Plan 2002-2007 on the AWI web-site, publication of the AWI newspaper "Beyond the Bale" and regular radio reports by Col Dorber, Managing Director. These and other shareholder information initiatives and the Board's strict adherence to sound corporate governance practice have not been attacked by WoolProducers or its candidates in any credible way for a very simple reason - there is no basis in fact for doing so.

**Strategic Plan 2002-2007**

The WoolProducer candidates have indicated that if elected, they "will review the 5-year strategic plan immediately and report to Shareholders, within 6 months." The Strategic Plan 2002-2007 was released and implemented by AWI in June 2002 after extensive consultation with the wider industry, wool producers and other interested parties.

**Page 4.**

A review of the Strategic Plan 2002-2007 and a report as envisaged by the WoolProducer candidates would require all existing AWI activities to be frozen. This would lead to serious relationship and contractual issues for third parties who have entered into contracts with AWI in good faith. This policy will completely undermine the progress made to date by AWI. AWI have been diligent in keeping shareholders informed about the implementation of the Strategic Plan 2002-2007.

**Structure of Projects**

The WoolProducer candidates have included as a policy that "Projects will be managed at arm's length as an R&D investor or on a royalty basis."

**Fact**

It is uncommercial to dictate upfront how projects will be structured. Every project is reviewed independently to ascertain how the best results can be obtained for AWI. In some cases, a royalty arrangement may be the only viable method of investment and in other cases, other structures will be relevant. The management of AWI should be allowed to make an assessment based on all relevant information in relation to the structure of its projects. AWI has been proactive in identifying and implementing projects to exploit and manage AWI's intellectual property to the advantage of its shareholders.

The Wool Producer candidates also claim that "Further subsidiary companies will not be founded without publishing reasons and timeframes". 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.

**Col Dorber  
Managing Director**

**on behalf of the**

**Australian Wool Innovation Board**