

17 September 2004

Dear Shareholder,

Continuous improvement through innovation is a must for anyone in today's competitive environment – no business or industry can afford to stand still.

This applies equally to individual farm enterprises as it does to Australian Wool Innovation Limited (AWI).

Competition from other fibres in the global textile market and competition for land use demands that we meet this challenge.

To this end, AWI is totally committed to two things – increasing the demand for wool and products made from wool, and secondly finding ways of helping woolgrowers produce wool for less.

There is no doubt that both on-farm and off-farm innovation is vitally important if we are to improve long-term profitability.

Merino sheep producers have every reason to be positive about the future - the outlook for wool prices is positive, sale sheep and lamb prices are excellent, and the Merino sheep is the basis for the Australian lamb industry.

Wool has a great future but to get there we must meet the challenge and find new ways to improve productivity, and deliver and market new products that build demand for our wool.

Strategic investment plan – boost to marketing innovation

You will have received a copy of AWI's 2004-2009 Strategic Plan with this letter.

This five year investment plan was finalised in late July and includes a sharper focus on and a greater investment in marketing new wool products to retailers while maintaining our efforts in helping woolgrowers improve on-farm productivity.

An extra \$20 million over the next four years will be spent on getting more Merino wool products onto retail shelves – that is, marketing wool innovations to global retailers.

This includes activities such as funding for technical sales teams, garment samples for retail demonstrations and wearer trials, assistance with retail marketing plans, and preparation of point of sale material that highlights the innovation.

It is clear that greater effort in driving new wool products onto retail shelves is needed and the extra investment seeks to address this.

The additional funding will expand the work AWI is already doing with designers, garment makers and retailers to inject wool into each fashion cycle using the best new technologies and innovations.

In total the \$75 million 2004/2005 budget includes \$35.5 million in off-farm research, development and innovation (RDI) investment and \$29.5 million in on-farm RDI, plus \$10 million in information and education activities across both areas.

Greater collaboration with The Woolmark Company

AWI's renewed push in marketing wool innovations will also see greater collaboration with The Woolmark Company – also owned solely by Australian woolgrowers. This will further leverage woolgrower funds and the relevant international and commercial expertise of both organisations.

An example of AWI's new approach to marketing wool innovations is the 'Transeasonal blends' retail project that aims to extend the season for wool women's wear into spring by blending fine Merino wool with other fibres for improved colour, drape and handle.

AWI and The Woolmark Company will work closely with selected internationally renown designers and fabric manufacturers to create fabrics, and then work with key retailers to get garments onto shelves for next year's northern hemisphere spring.

US and China markets targeted

Two new joint AWI-Woolmark initiatives were launched in June, targeting the United States (US) and Chinese retail markets.

In the US, we are working with The Woolmark Company and six major retailers to develop accredited supply chains to deliver and market total easy care Australian Merino wool products into this massive, untapped market.

The challenge in China is more complex. This is a dynamic and evolving market with a rapidly expanding middle class of 40 million-plus and the largest wool apparel retail market in the world.

Despite this, wool's market share has declined and we are undertaking a detailed consumer survey and market assessment that we will use to take fast action with regards to new product and market development tailored to this key market.

Industry consultation

The revised five-year strategic investment plan was developed with wide consultation with woolgrowers and all sectors of the Australian Merino wool supply chain. This involved both discussions with individual grower and industry groups, as well as a full day workshop involving more than 40 representatives from all sectors.

AWI is committed to ongoing industry consultation, through woolgrower and industry representative groups as well as AWI information forums.

Your feedback is welcomed at any time and you can phone the AWI helpline on tollfree 1800 070 099.

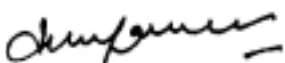
Annual General Meeting (AGM)

AWI's 2004 AGM is being held in Ballarat, Victoria on Friday 19 November. Like last year, an information forum will be held in the morning, prior to the formal proceedings at 2pm.

The Notice of Meeting, voting papers and annual report will be mailed to shareholders in late October.

The AGM and the election of Directors is another opportunity for you to have your say on the running of the company and I urge you to participate.

Yours faithfully,



Ian McLachlan AO
Chairman
Australian Wool Innovation Limited