

AUSTRALIAN WOOL INNOVATION LIMITED ABN 12 095 165 558

ANNUAL GENERAL MEETING

Date: Wednesday, 14 November 2007

Time: 2 pm

Location: The Kardinia Heights Centre
Corner Anakie & Ballarat Roads,
Bell Post Hill, Victoria

Chairman: Ian McLachlan

CHAIRMAN MCLACHLAN: Ladies and gentlemen, welcome to the 6th Annual General Meeting of shareholders of Australian Wool Innovation Limited. It is past the appointed time of 2 pm and, as Chairman, I declare a quorum is present and this Annual General Meeting open.

I request that everyone present register their attendance with the Link Market Services staff outside the entrance door. If you haven't registered, would you please do so now.

As is the usual practice at the Company's Annual General Meeting, these proceedings are being sound and video recorded. I ask for your co-operation and request that you turn off your mobile phones for the duration of this meeting.

I'd like to especially welcome the Federal Member for Corangamite, Stewart McArthur, for being here today, and welcome you all.

I was going to say, before I commence, I received a call from Roger Fletcher and I was going to tell you about the arrangements we came to, but I understand Roger's got out of his sick bed and is here; so all the candidates are here.

In line with past practice of the company, as the last Annual General Meeting was held in New South Wales, this Annual General Meeting is being held on rotation in Victoria.

My name is Ian McLachlan and I've been elected by your Board to be the Chairman of the company and I would like to introduce to you the elected directors of Australian Wool Innovation, who are seated on the stage with me. First of all, the Deputy Chairman, Mr Brian van Rooyen; Dr Chris Abell; Dr Kevin Bell; Mr Walter Merriman; Mr Hugh Nivison; and Mr Peter Sykes; and our CEO who you've seen this morning a number of times, Craig Welsh.

Seated at the table on my right and your left are the company secretaries, Les Targ and Sally Palmer. With them is Shane Allan, AWI's General Manager of Finance and the Company's external auditor John Gordon of PriceWaterhouse on the far end, and they will be available to answer any questions at the appropriate time. And also attending is the company's external legal advisor David Somervaille, a partner of Blake Dawson.

The Notice of Meeting was sent to all shareholders and will be taken as read. The minutes of the previous Annual General Meeting of shareholders of AWI, which was the Annual General Meeting held at the Armidale Ex-Services Club, Dumaresq Street, Armidale, New South Wales, on Tuesday, 14 November 2006 at 2pm, were approved by the Board and

signed by me as Chairman in accordance with the provisions of the *Corporations Act*. The original minutes are tabled by the Company's secretaries and there are copies of those minutes available for inspection should any shareholder wish to see them.

I'll now ask Mr Leigh Bull of Link Market Services to report to you on the proxies received. Mr Bull...

LEIGH BULL: Thank you, Chairman. Chairman, I can report that the number of proxy forms received at the registered office of the company, and/or the share registry of the company, including those received online and by fax by 2pm Australian Eastern Daylight Saving Time, Monday 12 November, is 4813. The number of proxies received after that time was 77. Of the proxies received by 2pm on 12 November, the number of valid proxy forms was 4757 and the number of invalid forms was, therefore, 56. The major reason for these invalid forms is that they were not signed or they voted for more than three candidates. Those proxy forms received after 2pm on 12 November were ruled invalid, as under the Constitution of the Company, they were received too late. Thank you, Chairman.

CHAIRMAN MCLACHLAN: Thank you Leigh. At this early stage of the meeting I'd like to clarify several matters. Craig Welsh and I will be happy to answer shareholder questions without notice if relevant to the meeting agenda in that part of the agenda. In accordance with past practice and normal procedure at public company AGMs please keep your questions regarding the financial reports of the Company until after the presentation from Craig Welsh.

I would ask that any other questions without notice that are relevant to any other item of the agenda be put in the discussion of the relevant item.

As this is the AGM of the shareholders of Australian Wool Innovation, and in accordance with past practice, only those shareholders holding yellow or light green cards can ask questions. So please assist me in the conduct of the meeting. When you wish to ask a question, proceed to the microphone, of which there are four, nearest to you and advise your name and show your coloured card to the AWI officer at the microphone and wait to be invited to ask your question.

Shareholders entitled to ask questions and make statements are asked to keep their contributions concise and relevant to the motion under discussion. And I would be extremely grateful if each speaker could limit themselves to a maximum of two minutes or thereabouts.

If a shareholder wishes to raise a point of order to any matter of procedure during the meeting please proceed to the microphone nearest to you, advise your name, show your coloured card to the AWI officer at the microphone and wait to be invited to raise your point.

After I acknowledge you, please clearly state your name and make the point of order.

If a point of order is made while another shareholder has the floor I'll ask that shareholder to resume his seat for the time being until that point of order has been dealt with.

Any question not under consideration will be suspended until I have made a determination on the point, and in accordance with the Rule 11.5 of the Company's Constitution, I, as Chairman, have the power to make a final ruling on any point of order raised by a shareholder. We have to go through these things.

Under Rule 11.1 of the Company's Constitution no person may move at any meeting any resolution or amendment to a resolution that is not on the Notice of Meeting except with the

approval of Board or if Chairman permits or as required under corporations law. So I just ask that shareholders note this rule.

Only those shareholders and proxy holders holding a yellow card can vote at the meeting and although there are six candidates standing for election for the office of Director, there are only three positions available, therefore in accordance with rule 7 of the Rules and Procedures for the Election of the Directors published in accordance with Rule 13(3)(e), of the AWI Constitution I'll be calling for a poll for each of these motions later.

As a poll will be called on each motion, I advise you that the voting instructions for proxy holders and shareholders are on the front of the yellow voting card. These instructions will be read out by the returning officer at the appropriate time, so there will be time to consider that. I will not direct you to hand in your completed voting card until all six motions have been considered and debated.

Before I move on, we asked shareholders for any questions relating to the Company's activities. We've received over 160 questions, so obviously we can't answer all those here today. But the main focus was on the 2010 phase out of mulesing, and also on the marketing and promotion of wool.

My presentation and Craig Welsh's will cover many of the issues raised and no doubt one or two of the questions from the floor will cover a few more, but obviously we can't cover them all, but those that are not covered at the meeting will be answered at a later date. So, that said, I will now deliver my Chairman's address.

CHAIRMAN'S ADDRESS, IAN MCLACHLAN: Ladies and gentlemen, this year has been very eventful; as eventful a year as any in recent times at your innovation and product marketing company, AWI.

Of particular note, was the final integration with The Woolmark Company, which contains, amongst other things, the acquisition of some intellectual property such as OPTIM, Sportwool, and over a hundred registrations for trademarks and symbols, including the all important Woolmark symbol.

It has taken three long years to accomplish this integration, and sadly, seven years since the initial mistake in 2000 to split the activities of the two companies. And so, in the process of persuading the Federal Government that they should provide AWI, after appropriate valuations, with \$15 million for this acquisition, we had to assure them, the government, that we would do everything in our power to enhance the positive effects of the Woolmark itself, and it's just the start of that this morning and our thought processes. And in the process (inaudible) the government, we had to give the government some indication of what we at AWI might spend to do so. Our estimate at the time was it might be as high as 10 million for our successful revamping of that incredibly well known but under-performing symbol.

We are currently employing a world class consultancy to take us down the early pathways of this world recognised symbol's resuscitation and we believe that we will be able to announce a way forward some months into next year. That will not occur until we are sure that the direction is right. We should remember, for one reason or another, and mostly lack of finance, that no new directions have been taken for some 15 years or so on this matter. As expected, we did not find The Woolmark Company in very good order but, nevertheless, I am extremely grateful to Mr Barry Walker who took on the responsibility of recent times to Chair AWS, which was the parent company of The Woolmark Company, and I'm very grateful to his senior management for their co-operation in the last 12 months. It has been not without difficulties but the co-operation has been seamless.

I think it's fair to say that the Government, in the end, understood that it and the industry made a disastrous mistake seven years ago and that is one of the reasons why the \$15 million contribution is forthcoming. Now, although this has taken a long time, we will now rid the downstream industry around the world of having two organisations with similar missions, confusing everybody along the way, and I believe this will be, apart from the other things I have outlined and that you've heard this morning, a great benefit over the next few years. Taking this amalgamated group forward to success is the biggest job facing AWI for the next year.

Ladies and gentlemen, as well, in recent months, your Board has negotiated an agreement with animal rights groups as a result of a very protracted and expensive court case against them. This agreement produced, in effect, an injunction. And that injunction, effective injunction, effectual injunction, prevents them from targeting individual retailers. Their general railing against mulesing was having and is having no effect on the market. It is worth remembering that it's only by these illegal activities against individual retailers that they were ever having any effect.

Now, animal rights organisations have as much right as anyone else to freedom of speech, but our purpose in bringing these people to court was to stop them destroying the wool businesses of individual retailers, some of them giant individual retailers, by illegal actions and illegal behaviour, and thereby affecting the wool price and the confidence in our product. This has been accomplished and the current Australian wool price, and the current extremely strong futures market in the face of an extremely strong Australian dollar, I think is testament to the fact that the market for Australian Merino wool is unimpeded and has been unimpeded in the last few years by these activities. I think this is unarguable.

Those who complain about the activities of animal rights organisations, I think, and I say with due respect, have not been concentrating on our objective, which was always to ensure that the wool market was and will not be affected by those activities. And, by the way, for those - I'm sure there wouldn't be any in this room - that have been darting at shadows, the information that will be provided to animal rights groups and organisations as a result of that negotiation has been or will be provided publicly to either the retailers or to you, the growers, in any case.

This course of action, this negotiation, was agreed unanimously both by the Board of AWI, and also by those co-applicants, a hundred or so of them, who helped the woolgrower cause by agreeing to be involved in the case and, on occasion, to reply to our questions for direction along the way. I've written to all of them to thank them for their help. There are others, also, I might say, who'd agreed to help us had the court case gone further, and whilst we had many offers from many of you to participate, we eventually decided on that number of 100 because it had a good geographical and climatic spread. And with their help, and many shareholders, the enemy at the moment has been kept at the gate and, of course, our customers protected.

Ladies and gentlemen, I believe very strongly that high quality Australian Merino wool is, of course, here to stay. And today of all times, the market is strong and despite diabolical seasons, it's worth remembering that we still shored 101 million sheep last financial year.

The brilliant Merino has such a variety of genes that it provides great flexibility and we are seeing, for example, some quite staggering figures on young Merino sheep. Young lambs weighing 100 kilos with their lambs' teeth on natural feed and 17/18 micron might be the exception, but nevertheless they're being produced. And these variety of genes are giving to breeders a genuine meat/wool two way option and, more importantly, giving to retailers the ability to sell some very comfortable products that are great to wear. Products abound around the world, which break - wool products, Merino wool products, abound around the

world which break the old conventional view of wool and thus enable those retailers to sell from the beginning of autumn through winter to the end of spring and even beyond. There is more product available, therefore for a longer time on the retailers' shelf. We are seeing that demand, as well, of course, as in the conventional wool strongholds.

These modern Merinos have allowed AWI to currently join with 90 or so business partners you heard about this morning, where our input can be anything from \$3000 to \$300,000 per partnership; our objective being to give those manufacturers or retailers the innovation, the connections or the information whereby they can sell more wool and product and increase demand.

We've been engaging directly with designers, manufacturers and retailers around the world over the past two or three years to determine the products or innovations or partnerships they need, and we asked those key industry companies - what we do is we ask them how we can help them and then our job is to come up with creative solutions, and you saw some of them this morning. The last one in the wet suit being more than creative, I thought.

This can entail offering a new product or fabric to a designer, linking a clothing company with a supplier to make a new fashion line or working with the retailers to help them tell a story of Merino wool in their marketing campaigns. We not only respond to demand, but we also directly help them to create demand. We are, if you like, brokers of innovation and product marketers to the decision makers.

And just in case anybody thinks this is a new idea, let me read recommendation 26 from the Wool Task Force Report in 1999, and it says: "Levy funded generic advertising at wool grower expense should cease forthwith." Now that, I think, is gone as an idea, thank goodness. "Product marketing is by far the most important marketing responsibility that a new collective organisation should have. Its task is to influence the decision-makers to use wool. In other words, to commercialise and implement the innovation brought about by their R and D."

I can't put it any better than that in 2007.

Our next Annual General Meeting will be at the beginning of the third year of these programs and measurements of the projects will be therefore meaningful after several years of baseline data.

Now, this brings me to the Test Marketing Project that so many of you have heard a lot about, in which AWI put up 50 per cent of the funds in a \$6 million US program. We joined together with the International Wool Textile Organisation targeting two major retailers in the USA, Saks Fifth Avenue, top of the market, and Dillards, a retailer which has over 350 stores in the south and in the west of the United States. The purpose was to find out if by serious investment - serious investment - we could "test the degree to which consumer marketing can have a measurable positive effect on wool volumes". And in the process, to see if we could influence incremental sales in extra fine Merino wool in those two companies. And, of course, equally important, create long-term relationships with those companies. You heard this morning that we have a long-term relationship created by that with Dillards. Now by incremental sales, I mean increased sales which were influenced by the expenditure on the program itself.

Two reports have been issued: a confidential report for the contributors and a report for public consumption.

And I have to say to you, whilst there was excellent co-operation and rapport with the two firms, the two companies, my own view was that the sales results were mixed to the point

where they were, to me, extremely disappointing. And this is especially so considering the amount money spent on the whole venture, half of which was funded by AWI.

With test marketing complete, I and the AWI Board agree with the consultant's view that no more than \$250,000 should be spent on any further individual programs of this type and that it goes without saying that we wouldn't embark on a program of consumer marketing of this magnitude in the future. And this conclusion, interestingly, fits exactly into our view of how things should be done at AWI, which I've outlined a little earlier and you've heard about this morning.

This brings me, ladies and gentlemen, to the mulesing debate which has been the subject of much to-ing and fro-ing in this election. On November 8, 2004, the Wool Industry Task Force, which included every national representative wool group in the country and some others, made a decision that to placate the besieged and extremely nervous retailers around the world, who we should remember do not need - absolutely do not need to sell wool - that mulesing would be phased out by the end of 2010. That decision was that the Australian industry, and again I quote, "commit to the phasing out of surgical mulesing by 31 December, 2010."

The organisations which made that decision were those group up there [Chairman points to slide presentation] and they included almost everybody in every organisation that has anything to do with wool in the country. And you might see that some of the organisations who have been critical of AWI are up there. Well, AWI didn't take part in the vote although we provided the wherewithal and advice to the group before they made that decision. But we then took as its riding instruction from that industry decision that we move as fast as we humanly could to try to find socially acceptable alternative or alternatives. So, we had to, at AWI, help in the quest for a bloodless, relatively painless alternative, in which growers could tick the boxes on those pre-requisites, relative painlessness, no blood, no weight loss or relatively little weight loss as proof of relatively small discomfort levels, and we are working on them - hard. We are working on clips, we are working on intradermals, we are working on breeding systems, well, in the main we are helping those other people who wish to work on breeding systems, where they want that help, and many growers around Australia are working on these breeding systems to breed bare backsides onto the animals. And I'm interested that some useful claims have already been made on the sheep breeding side by some who believe they are having success. More strength to their bow. And others, I can tell you from my knowledge are working on some blue sky research, which may well, and let's hope, produce some results.

On this subject of AWI's current alternatives that we are working on, we have some good results coming through and some mixed results coming through. But we are not going to give up and neither should you. There will be a commercial solution, if not more than one. I firmly believe it.

I must, therefore at this point, give you my view - I feel I should - as to what will happen and say that my view - our view is not confused either, as to what will happen post 1 January 2011. And some of you are saying that you may still be or will still be mulesing after that date. I think it's my responsibility to say to you quite clearly that the majority of the world's retailers will tell you, as they are telling us, that by 2011 mulesing will not be acceptable to them. "So what will happen?", you might say. Well, my guess is that two markets will develop: one for those of us who can sign a statutory declaration saying our sheep have not been surgically mulesed, and another market for those of us who cannot. And actually I don't have to guess that because that market is starting to happen.

We've adapted to different challenges in the past and this problem is not any different in principle to the problem of chlorines in processing and I this example because I think it is

important. They are difficult issues and there are others but solutions need to be found for exactly the same reasons and the reasons are quite clear that, again, alluded to this morning, the future buyer of all sorts of products, from food through to apparel, is telling us that he or she needs to feel comfortable or even enthusiastic that they are buying sustainably and humanely produced green product in every sense of that word. And therefore I must say to those of you who are spending time publicly thinking about the possible failure of alternatives to the mulesing programs, four lamb markings before the event - we've four lamb markings to go before we get to 2011, three plus 2011- you are doing the future wool price, I believe, no service whatsoever, nor your fellow woolgrower.

Our industry, your industry, promised the world's retailers that it would and I quote, again, "commit to phasing out mulesing by 2010". The retailers of the world, to put it in the vernacular will not "cop it" if we indicate in any other way that we have given up on this commitment made on November 8, 2004. And in the last few weeks we've had contact from a number of retailers urging their industry support for the 2010 deadline. The US National Retailers Federation did the same a few months ago and I noticed Eddie Yeung from Ferney Spinning in Mauritius supporting the deadline in the press this week. By the way, Mr Yeung not only manages factories in Mauritius but he's got 20,000 employees in Madagascar.

So we currently, ladies and gentlemen, have the trust of the retailers but with this election over - it will be in a couple of hours - this election over, I say to you I think if the industry wants to lose that trust, just keep talking about the fact that we might not get there. So I just say to you as clearly as I can that when this is over, if we can cool down and see if we can actually get to some solutions that are acceptable to those people who sell our wool, all our wool, that will be great.

So as always at AWI, there's a long way to go in on-farm research, in post-farm research, in processing research and we feel we are moving well and I hope you enjoyed what you've seen up till now today, with product marketing with our partners.

The rumours we hear from China about possible issues regarding tariff or quota are also concerning. Our team has been monitoring this issue very carefully and continues to fight on your behalf. The reality is though these issues are always on us, are always with us in one form or another and we have to keep our eyes steadily on them and be ready for changes and challenges as they come up. My Deputy Chairman, Brian van Rooyen, is heading up this trade area and although he didn't want me to say so, is doing an excellent job. As well as this, it's imperative at AWI that we satisfy the government and their 0.5 per cent contribution that they add to the 2 per cent that you and the other shareholders put in, in the form of levy and that we satisfy the government that they think that their portion is being well-spent as well as your portion.

A matter which looms larger than life during these lively elections such as this one is that two out of three directors of AWI have to stand every two years. Because unless you have six directors who retire on rotation every three years or nine, and that's the way the system works and I think it's not a brilliant way to encourage directors to stand for a Board like this, and I think, really, I believe that over the next few months the Board should examine and probably make a decision as to which of these numbers, six or nine, would be best in the next few years, realising that currently we have the maximum number, under our current Constitution, of 10 directors.

Let me just conclude ladies and gentlemen by comparing our wool situation and our situation in the wool industry today nearly at the end of 2007, with those in primary industry, other areas of primary industry, who are at the present time less fortunate. Firstly, most woolgrowers - most woolgrowers - have two strings to their bow to one degree or another: either wool and meat, or wool and the genetics for meat. Secondly, many in the grain

industry have had yet another shocking time because of lack of rain and I think most of you know those figures without me going into it any deeper. Thirdly, many irrigators have no water, thus no pasture for the dairy cows and others and for many for the lambs and many no grapes, or very few grapes. And fourthly, when you get to dry times, beef cattle are very expensive to feed, as we all know. Now this is not to say that everything is rosy in the Merino sheep business, it is not. But the Merino sheep has been brilliantly bred for Australia's perennial outbreaks of drought and the wool price is strong and the product, quality enhanced by the growers of recent years, is in good demand on the high streets of the world and it's very nice at the moment because there is no wool in the pipeline so what you share is available and the market knows that that's all it's got so supply and demand are in - whatever is happening is real supply and real demand.

We've seen a pleasing increase in wool prices in Australian dollar terms over the last two years. They've been monumentally held back - well, I suppose they've been monumentally held back by the strong Australian dollar. If we look at real prices in American dollar terms, we can see that prices are now higher than they've been for 17 years, which doesn't pacify many of us who are only getting paid in Australian dollars. Future prices are also very strong so the outlook is looking promising.

AWI has some excellent staff, a new and energetic CEO who is not afraid to make decisions and we are now taking on a much bigger job with The Woolmark Company in regard to this integration. In that regard I make particular mention of the diplomatic and successful efforts of Les Targ over there, who also didn't want to be mentioned, in bringing about the eventual integration with AWS, and he's been working with a one to one basis with Peter McKeown so it's been a successful final 12 months with some very great difficulties. It's the biggest job we have, to bring about that successful integration. So finally, I'd just like to thank our management and staff for an enormous input over this last 12 months of increased work burden. I wish you all well in the ensuing year and hope your new expanded company, AWI, can help to improve your profitability because that's the reason why we are here. Thank you.

I was going to invite questions before you walked up George. I now invite questions and comments on my report. Those people who are holding yellow or light green cards may ask some questions or make some comments, so if anybody wishes to do that, would you please proceed to the nearest microphone, show your card to the staff member and when I give you the signal, we'll proceed. If I can see you at the back of the room, I will. And if you'd just clearly say your name and state the question or comment to me, as Chairman, and make it clear so everybody in the room can hear. Questions?

GEORGE WARD, ARMIDALE: George Ward, Armidale. I'd say an old boy on the block. Mr Chairman, I would like to congratulate, first of all, you and the Board. Five years ago you had a hell of a job putting a big mess that it was in together. Now we've got the other company coming in which should never have been out, you've got another big job. I've been a bit impatient, as you know about this amalgamation but I would like to congratulate you and I feel that we've got a pretty good future ahead of us. I would mention, Mr Chairman, instead of saying Merino if you said Australian Merino. Thank you.

MR CHAIRMAN: That's the shortest question you've ever asked me. And I have one request before I forget it Jimmy Jackson would like his suit back. Well thank you for the accolade and, look, I just have to say I have to repeat it that the integration was extraordinarily difficult. The number of companies and the number of countries, really, in a funny way, it was a long build up of things that people have done to unwind - not unwind them but to hand those over and get to the bottom of all that was very difficult and as well, as all of you know, there was a pension scheme for those ex-employees of International Wool Secretariat which we had to deal with - well, at least, I'm sorry, which Barry Walker and his

people had to deal with and it wasn't easy. So that was fine but, look, I can't but agree with you, I think what's happening is that we are seeing products that merge and a world we've never seen before. We wouldn't have been able to see them 15 years ago because we didn't have enough of the good product to do it. But anyway, it's quite pleasing.

GEORGE WARD: But Australian Merinos.

MR CHAIRMAN: I know about Australian Merino, yes I apologise for that. I'll put it in my speech 20 to 30 times. Yes, Mr Tehan?

ROB TEHAN: Thank you, Mr Chairman, I don't know whether I really needed to ask this question, because having alerted you at lunch time that I was going to ask the question, you then took it upon yourself to answer the questions in your speech, but here goes. Now - - -

MR CHAIRMAN: Well, if it's difficult, I'm going to flick it.

ROB TEHAN: A few years ago in Melbourne at the AGM, Mr Senkoff and the CEO at the time, Len Stephens sort of had divergent views on what the main priority was in the trade policy area. Anyway it became obvious that Mr Senkoff was going – had won the day and they used to - it was in the strategic plan the abolition of Chinese domestic quota as the number one priority in the area of trade policy. Now during the intervening period I've noticed that there's been a complete lack of reporting of progress in this area. I wonder if you could indicate what progress has been made and if you consider that this is an area of policy failure, could you estimate the cost to Australian growers in recent times given the market instability that has occurred in the last 12 months? Thank you.

MR CHAIRMAN: Okay. Thank you very much. You actually gave me a heads up in the question at lunchtime, so I gave Brian van Rooyen a heads up and he's going to answer the question because he's of the trade committee and knows those sought of answers, at least I hope he does.

BRIAN VAN ROOYEN: Rob, until this year the Chinese quotas have not directly affected the sellers of Australian wool. We hit the quota for the first time this year and that had an impact on price, as you well know, in August - late July and August. We've been negotiating quite strongly with China now for two years to persuade them to meet their WTO obligations and either increase the quota or remove it entirely. I must report to you that our negotiations were conducted via the Australian government and they have been singularly unsuccessful in getting the Chinese to do either of those two things. Negotiations continue. It's extremely sensitive. We are now negotiating outside of the confines of the FTA negotiations and all I can say to you is that we're now focusing on trying to get some sort of clarity - more clarity in the allocation of quotas for 2008 and we will continue to pressure the Australian Government and we are now starting to talk directly to provincial governments to try and get them to pressure Beijing to influence Mofcom to improve the allocation of quotas so that more wool can get into China under the 2 per cent duty tariff instead of under a penalty tariff of 38 per cent, but until this year it has not had an impact. This is the first year that we are going to be just on the quota level by the end of the year.

MR CHAIRMAN: Okay, another question over here. Yes, please, Martin?

MARTIN OPPENHEIMER: Martin Oppenheimer, Chairman of the Australian Wool Growers Association. I'd just first like to say how pleased I was this morning to see the continued change in direction of our company and how our levies are being spent. Quite exciting with the work with retailers and brand names and key designers and that's exactly what many of us have been saying needs to happen with our levies and with our industry and as Brenda McGahan would have said in dealing with the people, I think it's influencing the influencers,

so that's very pleasing. One thing that does concern me, however, is the very public stance that the Board and you, Mr Chairman, took in this election. Basically it seems that you're trying to influence the shareholders to vote against some high profile businessmen that have put themselves up for election. Now with the background of some of them and Roger Fletcher is a prime example of one of Australia's most successful businessmen, agricultural businessmen, that we've seen, if the Board of the company and the Chairman so publicly ridicules or talks down the people of those calibre, how are we going to attract, in the future, people of high calibre with business and marketing backgrounds who are going to lead our company in the direction that we need to go in? So we've said, and the current strategic plan says that we're going to be spending a lot more in off-farm and marketing areas than in on-farm, and that's the way it needs to be. How are we going to have the skill set on the Board to actually make sure that that's achieved?

MR CHAIRMAN: Well, its interesting because I think you and certainly your organisation in previous times have said to me we'd like to know how you vote before you vote and so I thought, as I've said on the radio, that there were some things happening at this election, some personal criticisms of candidates that I haven't seen the like of before and, Martin, with due respect, you were part of that. And I just thought it was unreasonable and so I thought that I would say, I get some proxies, as you know, so I thought I would indicate the way that I was going to vote them. I didn't in any way play down the abilities of Mr Fletcher, in fact the only comment that I remember making was that he was a very good candidate so - but I felt that, as I said at the time, and issued a press release, that I felt that there were things happening that shouldn't happen and perhaps in the light of what you've said and in the light of what I said in my speech, we ought to be considering another way of looking at candidates with a broader spectrum of abilities so we don't get into a fanatic barney, which I described earlier as a lively election every time. And to do that we're going to have to have, if we can, the assurance of a three year term because I don't think we're going to get people to wander in for a couple of years and then be - because you have to be approved soon after your appointment, even if you're appointed in the case of a vacancy. So you have to be approved and they just won't want to come in from other business, male or female or anybody else, and get into a rural barney. So maybe from what you've said and what I feel we might be able to fix some of this up over the next 12 months. Are there any other questions? If not - there is, yes.

RON GILLIS: Ron Gillis.

MR CHAIRMAN: Yes, Ron?

RON GILLIS: In your address you said that basically the Merino ram, in particular under one year of age, it can be 100 kilos. Mr Chairman, I was wondering, do you actually talk to Board members? Actually, I went to the national merino sheep sale in Dubbo, actually, and there was a - Wally Merryman had sheep there and basically I think lot number 32, basically it was put up for offer and it didn't even get a bid and they were - the starting price was \$800 and basically when a person - people that have been in the industry for 100 years and basically they put up a ram and they can't get a bid for it at something like that, I think there's a real crisis in the industry. It's not as glowing as what has been portrayed this morning. Thank you.

MR CHAIRMAN: I don't want to comment on Wally's rams too, because we might have a disagreement. But all I said was that I know this for a fact because I've seen them, that there are rams being bred that still have their lambs teeth, on natural pasture are getting to 100 kilos, with nice wool on them maybe not as good at Wally's but lovely wool. So you've got this dual purpose animal with people able to go both ways. Now this morning - yesterday, the eastern market indicator is \$10. It's quite - it's good. It's not what some of the fine, super fine people would want, but it's good. I got into trouble a few months ago for

saying I felt that we were heading in the right direction. It still feels as though we are heading in the right direction and I thought from what we heard this morning that a lot of other people in Italy and other places feel we're heading in the right direction but far be it from me to comment on why Wally's ram didn't get a bid. Yes, please? Yes, thank you?

KEN CALDER: Ken Calder, Merryborough, Well, I admire your optimism about phasing out mulesing or having an alternative. I wasn't impressed with the clips over there today. It the dung was still hanging on that wool around the tail and we will still get flyblown sheep from that and the only alternative therefore will be chemical control and I think that the world is pushing for less and less chemical use on their sheep.

MR CHAIRMAN: Absolutely.

KEN CALDER: And we - while we have four lambing I think we have one generation before the due date because it - by the time you've join a sheep, have a lamb on the ground and then re-join that ewe to have another lamb, we've got one generation. What fallback position have we got?

MR CHAIRMAN: Well, firstly I'd just - to draw the conclusions that you've drawn that it's not going to work or clips aren't going to work, that's your conclusion, that's fine, but that's not how you run a research program. You run a research program by battling away with the problems as they come up and try and deal with them. So that's the first thing. And the problems come up and we try and deal with them. But there are other aspects. I mean, there are other opportunities. We've been battling with intradermals, there are some blue sky stuff that people have been trialling and, all around the country breeders, non-stud and stud breeders, are battling with the possibility of trying to breed the backsides of bare areas wide. In the end it will be a matter of whether those treatments managed to duplicate a good mules, for your sheep in your circumstance, whatever that happens to be. Now a real research company, we've got our riding instructions and we've just got to keep going until we get there. Is there one more? On number four, thank you.

ROGER FLETCHER: Yep, just one question. I was just very concerned about the Chinese situation with the quotas.

MR CHAIRMAN: Is that you, Roger?

ROGER FLETCHER: Yep.

MR CHAIRMAN: Welcome.

ROGER FLETCHER: I'm standing.

MR CHAIRMAN: Don't stand up too long.

ROGER FLETCHER: No. It's okay, I'm good standing. I'm very concerned about us relying too much on China. We've done it in the meat industry over many years and I've had quite a lot of goings in about quotas and, unfortunately, when you have a quota market like China, the only way we're going to get out of that is we're going to have to look at processing in other countries and I just wonder what AWI is doing to spread that into other countries. I mean, it's a very difficult one and I think it's one that's already showing if we've got a little bit of build up in production, we're in a weak position. And I'm one who believes in looking out four or five years. Oh, actually, clouds on the horizon if we don't do something about it now.

MR CHAIRMAN: Well, I agree with you and obviously we're not going to do too well looking in western Europe because the costs are too high and they've been moving them out of western Europe. Eastern Europe still some possibilities, as you know, going on there. We looked - yes, we were talking yesterday about India in a Board meeting. I mean, that seems to be a natural sort of place. And you might think the processing could take place at the right sort of price. Wages aren't off the map and so on, but I couldn't agree more. I couldn't agree more. We need to get rid of this problem too much dominance of the processing market from one place, and China in particular, because it's so monumentally high on percentage take of our wool. I couldn't agree more. But the market itself has moved those things to those places and, sadly, not you, but other people have moved their processing out of Australia, but I mean, there's not much AWI can do about that.

ROGER FLETCHER: Well, I understand that we had no option because of our wage situations in Australia. We do need 457 visa holders in here because we're under a lot of pressure but not at the wages, we can't compete but I do think we've got to look at countries maybe like Bangladesh, Vietnam - we've just got to look forward. There was a lot of AWI money went into China developing it and it possibly could strangle us in the end, if we're not careful, and you've only got to do the sums. It's a big worry and I see that as probably our biggest challenge, and don't say we're okay this year, we got through it, next year's another year and the year after is another year. We've seen it with American trade with beef, Europe with cheap meats, et cetera, it's a big challenge for government, yourselves in getting it spread.

MR CHAIRMAN: I couldn't agree more. But all those countries you mentioned came back in our discussions yesterday. Brian van Rooyen would like to add a word, I think.

BRIAN VAN ROOYEN: Now, Roger, you've already stated work now on India because clearly India would be the best competitor for China and we have started work on the greasy wool tariff into India at the moment and also the tops tariff into India which are both issues that we need to address and the sooner we can get India taking more of our wool it will be perhaps the best message we could send the Chinese.

IAN MCLACHLAN: Thank you very much indeed. Now, sorry, yes, there's another one to the left, sir.

BRIAN MORRIS: It's Brian Morris, anyway, Ian. My question is at the retail or manufacturing end - do you have enough information if we stop mulesing when we haven't got a reliable and good alternative to the stain which will be in the clip and also the crutching and shearing of sheep, the increased price and cost production that we're going to have at that point, because, to me, that is really what it's all about, not so much the flies, we can chemically treat that, we can do all sorts of things, but I did actually shear and crutch before mulesing came in and I'd have a headache before the end of the first run and I don't think we need to bring this up to our shearers, and I think the main concern from a lot of us is actually the stain in our clip and I think the manufacturers need to be aware of that before they start saying that we're doing the wrong thing in our industry, saying that we need an alternative before we stop.

MR CHAIRMAN: Brian, All I can say to you is you weren't - mulesing came in the 30's and you weren't alive you weren't operating your property in the 30's, and it was Frank Mules who introduced it so I know where it came from and it took along time to get going and it's turned out to be however palatable or unpalatable the best that we've got going at the moment. Our job is to try and find an alternative. For people to go around now and frighten the horses by saying it's going to fail, it's going to fail, I just can't understand why you'd do that and we just take our riding instructions from that group, that group had everybody in it.

Do you want me to read them out, Stud Merino Breeders, Super Fine Breeders, AWGA AWGA, WoolProducers, the state, every body was in it and the reason that that was made was simply because the pressure from these people, Abercrombie and Fitch and these others who were already saying they weren't going to buy and therefore sell any of our wool, that was six years we gave ourselves or you gave yourselves, whoever was in that decision six years. AWI's job is to try and produce, now I'm not going to agree that we won't come up or somebody won't come up with an alternative, and as I say there is some blue sky stuff out there that I don't even know the technology of. It's not even being done by AWI directly, so don't give up, it really doesn't do us any good to have the retailer's starting to think that we will fail that's just my view, I know some of you disagree, but it's just – I don't know why we would say that. When this election's finished let's just cool down for a while and see if we can produce some results and defy your conclusion.

GRAHAM WELLS: We hope your right, there is no doubt about that, everyone hopes that you're right. I think everyone is definitely concerned and right behind the research for developing something as an alternative to mulesing. I don't think there's anyone would ever say that that shouldn't be pursued full haste and get on with it and anyone that can do it before 2010 we will say congratulations to you absolutely, so we're right behind you there. It's just a concern that the other - that we must be aware that there's a problem if we can't. That was all. Not that it will stop then. Congratulations for the work for what's been done in the marketing, but you know, I think everyone thought today was terrific on that line. Thank you.

MR CHAIRMAN Thanks, Graham. I might just clean up - clear up one other thing that's been out there. AWI has no commercial interest in any of these solutions and we don't care where the solutions come from. Whoever gets the solutions that we're both hoping for, fantastic, if and when it turns up.

MR CHAIRMAN: All right, now, can we - Martin, you're back on number 4 again

MARTIN OPPENHEIMER: Thank you Mr Chairman. Just while we're on the issue I just wanted to raise the issue of the pain free alternative status. It seems to start the terminology of a pain free alternative being used in - used in years gone by. Now that's sort of been dropped and you said in your main address something about no pain provided. The wording was a bit different. I just wanted- - -

MR CHAIRMAN: Relatively painless

MARTIN OPPENHEIMER: Relatively, okay. One of the reasons that decision was taken in 2004 was, of course, the collagenase was being promised that the time. Now, we understand when we're talking about research and development you can't always guarantee things. I mean, I the normal up take rate, success rate is about 10 per cent, I believe. So when it becomes political that's the problem. Okay, but just remember that in 2004, just to quote from an AWI media release, it said:

Wool growers care for their animals and have made it clear to AWI they'd like a pain-free alternative to mulesing. Consequently we will invest to about \$1 million in this research and the earlier results are very promising. The new method appears to cause no pain and appears to result in no side effects.

Now, it's just, you know, amazing that the pain-free bit seems to have dropped out and recently it's not there, and already - I'm receiving U-Tube footage of lambs castrated with rings, so that's the next problem we've got to deal with. That's the next one that's coming,

tail docking and castration, yet we haven't at this stage solved the issue of a pain-free alternative to mulesing, so I'm putting it to you that needs to be firmly on the agenda again as it was, and it probably was in the 90's and probably in the 80's and we need to solve this issue, these issues animal welfare issues and work towards pain-free solutions.

MR CHAIRMAN: I can absolutely assure you that pain - relatively pain-free solutions is not off the agenda at all. That's why I mentioned it twice, so I have absolutely no problem with that and, you know, people say oh well, these clips are painful. Well, of course they're painful at the moment. We haven't got a pain - we haven't got an anesthetic in the clip yet, but it's surely not beyond the wit of man, once we get the system right, to do something about that. Now, look maybe clips will fail and maybe somebody else's solutions will come up, I hope so, but the reason that I, and we agree, I'm sure, that we all know that the consumer at the other end of the world who will buy most of our wool they would rather feel good about what they buy and whether it's - and therefore that word green which was used by Vince this morning in every sense of the word that's so important and it obviously includes the ingredient of relative painlessness. If it was absolutely pain-free that would be just fantastic, okay. All right, now, I think that's good or whatever, and those questions are over.

Now I'd like to introduce the CEO to give you his address and to review the financial statements of the company for the year ended 30 June 2007. It's Agenda item 1 of notified business and includes the consideration of the latest Director's Report, the Director's Declarations and the Auditors' Report, all of which are now before the meeting and I invite Craig Welsh, our CEO of AWI to address the meeting.