

**Australian Wool Innovation Limited**  
**ABN 12 095 165 558**

# **CORPORATE GOVERNANCE POLICY (Long Form)**

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## 1. Commitment to Good Corporate Governance

Australian Wool Innovation Limited (**AWI**) is an unlisted not-for-profit public company incorporated under the *Corporations Act 2001*. Its primary mission is to increase the long-term profitability of its shareholders, Australian woolgrowers, through the funding of research, development and innovation activities in relation to the Australian wool growing industry (**RDI**).

The Board of AWI wishes to instil a strong corporate governance culture throughout AWI. The Board believes that a strong corporate governance culture throughout AWI will in turn enhance and improve the performance of AWI as an organisation, and maximise AWI's ability to achieve its primary mission of increasing the profitability of its Australian wool growing shareholders.

AWI seeks to adopt the highest principles of corporate governance. To achieve this, AWI seeks to adapt the ASX Corporate Governance Council *Principles of Good Corporate Governance and Best Practice Recommendations March 2003* (**Corporate Governance Principles**) for use by AWI. While the Corporate Governance Principles are not binding on AWI as a unlisted public company, the Board of AWI wishes to adopt the Corporate Governance Principles, where applicable to AWI, to the greatest extent and highest standards practicable.

## 2. What is Corporate Governance for AWI?

The Corporate Governance Principles provide that corporate governance is the system by which a company is directed and managed. Corporate governance influences how the performance of a company is optimised, how the objectives of a company are set and achieved and how risk is assessed and managed.

Good corporate governance structures encourage companies to create value for its shareholders through entrepreneurial behaviour and, in AWI's case, pursuit of its core business of research, development and innovation for and on behalf of its shareholders, Australian woolgrowers. In addition, good corporate governance provides to AWI accountability and control systems commensurate with the risks involved.

The Board of AWI recognises that a company's system of corporate governance must first of all be tailored to ensure it suits that company and must also be a dynamic system that evolves with the changing circumstances of the company itself.

Accordingly, the Board has endeavoured to ensure the Corporate Governance Principles are suitable for AWI's current circumstances, and the Board will periodically review the Corporate Governance Principles to ensure that they remain applicable, appropriate and practically useful.

### 3. Board of Directors of AWI

The Board is responsible for the overall corporate governance of AWI, including AWI's strategic direction, establishing goals for management and monitoring the achievement of those goals. The Board has adopted a formal Board Charter that outlines these responsibilities and functions in detail.

The Board shall comprise between 5 and 10 directors with the majority being independent, non-executive directors. The directors of the Board are currently The Honourable Ian McLachlan AO, Chairman, Mr Brian van Rooyen, Deputy Chairman, Dr Chris Abell, Dr Kevin Bell, Mr Hugh Nivison, Mr Walter Merriman and Mr Peter Sykes. The Board is of the view that all directors of AWI are correctly described as independent directors.

### 4. Corporate Governance Committees

As authorised by AWI's Constitution, the Board may delegate any of its powers to Committees consisting of any one or more Directors or any other person or persons as the Board thinks fit. Pursuant to this power, the Board has established the Finance & Audit Committee, the Remuneration & Appointments Committee, Intellectual Property & Commercialisation Committee and the Falkiner Memorial Field Station Committee to assist the Board to effectively promote, monitor and enforce the Corporate Governance Principles. The Board has adopted a formal Charter of the Committees of the Board which outlines the responsibilities and functions of each committee. This Charter provides that these committees must only consist of non-executive independent directors and each must have a minimum of 3 members. The members of these committees are set out in the table below.

<b>Finance &amp; Audit Committee</b>	<b>Remuneration &amp; Appointments Committee</b>	<b>Intellectual Property &amp; Commercialisation Committee</b>	<b>Falkiner Memorial Field Station Committee</b>
Mr Brian van Rooyen, Chairman	Mr Brian van Rooyen, Chairman	Mr Hugh Nivison, Chairman	Dr Chris Abell, Chairman
Dr Chris Abell	Hon Mr Ian McLachlan AO,	Dr Chris Abell	Mr Hugh Nivison
Mr Hugh Nivison	Mr Walter Merriman	Hon Mr Ian McLachlan AO,	Mr Kevin Bell
		Mr Peter Sykes	

## 5. Corporate Governance Framework

The Board acknowledges that it is responsible for the internal control framework of AWI. It recognises that no cost-effective internal control system will preclude all errors and irregularities or necessarily prevent fraud but an effective corporate governance system will reduce these risks to a minimum while also optimising the services that AWI provides to its shareholders, Australian woolgrowers. The system is based upon written procedures, policies and guidelines and organisational structures that provide an appropriate division of responsibility, and the careful selection and training of qualified personnel.

These systems in AWI are based on the Corporate Governance Principles, the key aspects of which are to:

1. lay solid foundations for management and oversight by recognising and publishing the respective roles and responsibilities of the Board and management;
2. structure the Board to add value by ensuring the Board is of effective composition, size and commitment to adequately discharge its responsibilities and duties;
3. promote ethical and responsible decision-making by the implementation of and compliance with the Codes of Conduct adopted by the Board;
4. safeguard the integrity of financial reporting;
5. make timely and balanced disclosure of all material matters concerning AWI;
6. respect the rights of shareholders and facilitate the effective exercise of those rights;
7. establish a sound system of risk oversight, management and internal control;
8. encourage enhanced performance by fairly reviewing and actively encouraging enhanced Board and management effectiveness;
9. remunerate fairly and responsibly by ensuring that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined; and
10. recognise legal and other obligations to all legitimate stakeholders.

## 6. Implementation of Corporate Governance Principles

The Board of AWI wishes to adopt the Corporate Governance Principles, where applicable to AWI, to the greatest extent practicable. This section outlines the steps that AWI has taken in relation to each Corporate Governance Principle, and the systems it has implemented to achieve this goal.

### 1. **Lay solid foundations for management and oversight by recognising and publishing the respective roles and responsibilities of the Board and management**

The Corporate Governance Principles recommend that AWI formalise and disclose the functions reserved to the Board and those delegated to management.

AWI has implemented a number of measures to enhance its accountability to its stakeholders, the Australian woolgrowers and the Commonwealth Government, the Australian wool industry and the wider community. As part of this process, the Board has approved formal charters setting out the functions reserved to the Board and those delegated to Committees of the Board and to management. These charters are available from AWI's website and include:

#### 1.1 **Board Charter** which:

- 1.1.1 governs the operations of the Board and sets out the individual responsibilities of the Chairman and individual directors; and
- 1.1.2 outlines the method of appointment and the responsibilities of the CEO as well as the method that the Board will communicate and delegate authority to the CEO;

#### 1.2 **Charter of the Committees** of the Board which governs and contains separate statements of the goals and responsibilities for each of the Finance & Audit Committee, the Remuneration and Appointments Committee, Intellectual Property & Commercialisation Committee and the Falkiner Memorial Field Station Committee.

These Charters will enable stakeholders in AWI to assess AWI's performance against AWI's stated goals.

2. **Structure the Board to add value by ensuring the Board is of effective composition, size and commitment to adequately discharges its responsibilities and duties.**

The Corporate Governance Principles recommend that:

- 2.1 a majority of the Board be independent directors;
- 2.2 the Chairman be an independent director;
- 2.3 the role of the Chairman and CEO should not be exercised by the same individual; and
- 2.4 the Board should establish a nomination committee.

AWI has adopted each of these requirements which are reflected in the Board Charter and the Charter of the Committees of the Board.

**The Board** comprises seven (7) members. Directors come from a variety of business and professional backgrounds and bring to the AWI Board diverse skills and expertise relevant to enabling AWI to achieve its goals. The Board is of the view that all seven (7) directors are independent non-executive directors.

The Chairman of the Board, the Honourable Ian McLachlan AO, is an independent director as is the Deputy Chairman, Mr Brian van Rooyen. The Chairman exercises a separate role to the CEO, Dr Len Stephens.

The Board has established the **Remuneration and Appointments Committee**, the objectives, composition and responsibilities of which are set out separately in the Charter of the Committees of the Board. Mr van Rooyen is Chairman and Mr McLachlan and Mr Merriman are members of the Remuneration & Appointments Committee.

In addition to these systems the Board has also adopted a formal statement of the "Rules and Procedures governing the election of Directors".

The Charter of the Committees of the Board and the Rules and Procedures governing the election of Directors are available from AWI's website.

**3. Promote ethical and responsible decision-making by the implementation of and compliance with the Codes of Conduct adopted by the Board**

The Corporate Governance Principles recommend that AWI establish a code of conduct to guide the Directors, the CEO and any other key executives as to the practices necessary to maintain confidence in AWI's integrity and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

AWI has established the **Code of Conduct** for Directors and Officers that meets these requirements and deals with the following main areas:

- 3.1 conflicts of interest;
- 3.2 confidentiality;
- 3.3 fair dealing;
- 3.4 compliance with laws and regulations;
- 3.5 corporate opportunities;
- 3.6 protection and proper use of AWI's assets; and
- 3.7 encouraging the reporting of unlawful and unethical behaviour.

A copy of this Code of Conduct for Directors and Officers is available from AWI's website.

**4. Safeguard the integrity of financial reporting**

The Corporate Governance Principles recommend that:

- 4.1 the CEO and the Chief Financial Officer state in writing to the Board that AWI's financial reports present a true and fair view, in all material respects, of AWI's financial condition and operational results and are in accordance with relevant accounting standards;
- 4.2 the above statement by the CEO and the Chief Financial Officer should also state that the statement is founded on a sound system of risk management and internal compliance and control which implements the policies of the Board; and

- 4.3 the Board should establish an audit committee that consists only of non-executive directors, a majority of independent directors, an independent chairman who is not the Chairman of the Board and comprise at least 3 members.

In addition to the Board providing a Directors' Declaration as to the quality of the financial statements of AWI in AWI's annual report, from the 2002 – 2003 financial statements and annual report onwards, the CEO, General Manager Commercial and Finance Manager – General Manager Finance of AWI will provide a statement as recommended in the Corporate Governance Principles.

The Board has also established the Finance and Audit Committee, the objectives, composition and responsibilities of which are set out separately in the Charter of the Committees of the Board. Mr Brian van Rooyen is Chairman and Mr David Boyd and Dr Chris Abell are members of the Finance & Audit Committee. All three (3) are regarded by the Board as independent, non-executive directors.

The **Charter of the Committees** of the Board is available from AWI's website.

In addition to these systems, AWI is also committed to ensuring that its financial reporting conforms to the reporting requirements in Schedule 3 of the Statutory Funding Agreement between AWI and the Commonwealth Government, as well as Australian Accounting Standards for best practice reporting.

5. **Make timely and balanced disclosure of all material matters concerning AWI**

The Corporate Governance Principles recommend that ASX listed companies establish written policies and procedures designed to comply with ASX's disclosure requirements and to ensure accountability at a senior management level for that compliance. While AWI is not a listed company, the Board recognises that its stakeholders, including both Australian woolgrowers and the Australian government, have an interest in receiving timely disclosure of AWI's progress, developments, future plans and governance.

AWI has implemented a formal **Communications Strategy** designed to promote effective communication with shareholders and encourage participation at general meetings.

The Communications Strategy includes the continuing publication of timely information through:

- 5.1 quarterly letters from the Chairman to Australian woolgrowers;
- 5.2 AWI's bi-monthly newspaper, "Beyond the Bale"; and
- 5.3 AWI's website, [www.wool.com.au](http://www.wool.com.au).

The Communications Strategy is available from AWI's website.

**6. Respect the rights of shareholders and facilitate the effective exercise of those rights**

The Corporate Governance Principles recommend that companies design and disclose a communications strategy to promote effective participation at general meetings of AWI and that AWI request its external auditor to attend general meetings and be available to answer shareholder questions about the conduct of the audit and the content and preparation of the audit report. AWI recognises that its stakeholders have a similar need for information concerning AWI and also an interest in how AWI achieves its goals.

The Company has implemented the Communications Strategy as outlined above in relation to Corporate Governance Principle number 5.

**7. Establish a sound system of risk oversight and management internal control**

The Corporate Governance Principles recommend that the Board should establish policies on risk oversight and management.

The Finance and Audit Committee has the responsibility of:

- 7.1 providing the Board with advice and recommendations regarding the ongoing development of risk oversight and management policies including the areas of oversight, risk profile, risk management, compliance and control and assessment of effectiveness;
- 7.2 advising the Board on material risks including financial, non-financial and legal risks which AWI faces; and
- 7.3 managing and reviewing the performance of AWI's external auditors.

The Charter of the Committees of the Board, which outlines the objectives, composition and responsibilities of the Finance and Audit Committee in greater detail, is available from AWI's website.

8. **Encourage enhanced performance by fairly reviewing and actively encouraging enhanced board and management effectiveness**

The Corporate Governance Principles recommend that companies develop processes for performance evaluation of the Board and key executives. The AWI Board is developing such processes. There is a system of objective performance appraisal in place for all AWI staff.

The **Remuneration and Appointments Committee** is responsible for setting in place remuneration policies which are designed to attract and retain senior managers and directors with the expertise to enhance the performance and growth of AWI and the promotion of AWI's corporate governance practices.

9. **Remunerate fairly and responsibly by ensuring that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined**

The Corporate Governance Principles recommend that AWI establish a remuneration committee and provide disclosure in relation to its remuneration policies to enable stakeholders to understand:

9.1 the costs and benefits of those policies; and

9.2 the link between remuneration paid to directors and key executives and corporate performance.

The **Remuneration and Appointments Committee** has the responsibility of ensuring that the level and composition of remuneration packages are fair, reasonable and adequate and, in the case of executive directors and senior managers, display a clear relationship between the performance of the individual and the performance of AWI.

All Board directors currently receive payment for their services details of which are disclosed in the Company's Annual Report.

## 10. Recognise legal and other obligations to all legitimate stakeholders

The Corporate Governance Principles recommend that AWI establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

AWI has adopted a **Code of Conduct to Stakeholders**. The Code of Conduct to Stakeholders outlines AWI's:

- 10.1 responsibilities to stakeholders, particularly Australian woolgrowers, Australia's wool industry generally and the Australian Government;
- 10.2 responsibilities to clients, customers and consumers;
- 10.3 employment practices;
- 10.4 obligations relating to fair trading and dealing;
- 10.5 responsibilities to individual stakeholders;
- 10.6 responsibilities to the community;
- 10.7 method for compliance with legislation affecting its operations; and
- 10.8 method for monitoring and ensuring compliance with the Code.

A copy of AWI's Code of Conduct to Stakeholders is available from AWI's website.

## 7. Other Corporate Governance Documents

For copies of the various Corporate Governance charters, policies and codes referred to above that AWI has established, please follow the links below:

<http://www.wool.com.au/attachments/Publications/Corporate/AWIBoardCharter.pdf>

<http://www.wool.com.au/attachments/Publications/Corporate/AWICharterOfBoardCommittees.pdf>

<http://www.wool.com.au/attachments/Publications/Corporate/AWICodeOfConductDirectorsOfficers.pdf>

[http://www.wool.com.au/attachments/Publications/Corporate/AWICodeOfConduct\\_200406.pdf](http://www.wool.com.au/attachments/Publications/Corporate/AWICodeOfConduct_200406.pdf)

[insert link to Communications Strategy]

<http://www.wool.com.au/attachments/Publications/Corporate/Rules for Election of Directors.pdf>