

IMPORTANT MESSAGE FROM AWI CHAIRMAN IAN McLACHLAN



A united future for all Australian woolgrowers

I am pleased to let you know that the integration between Australian Wool Innovation (AWI) and Australian Wool Services (AWS) should be completed by the time you receive this *Beyond the Bale*.

Your Board members, elected by you, have been diligent in making sure that this process is managed carefully and that your investment is not put at risk to any future liability of the UK pension fund.

I would like to update you on the progress made by your Board and the management of your company on this integration, and also on how we have been working hard to build Australian Merino's presence by advancements made in new on-farm innovations right through to our strong relationships with business partners to sell your product to global consumers.

AWI/AWS integration

On 28 August, shareholders of AWS approved by a 98 per cent majority vote to integrate with AWI. This paves the way for AWI to purchase specific assets from AWS including a 100 per cent interest in The Woolmark Company. This integration will deliver an innovative company, with a clear focus for Australian wool in our major markets around the world. We will no longer confuse our customers as we will now go to them with one united voice.

The Woolmark certification trade mark and associated brands will come under the management of AWI in coming months. We will be working alongside AWS to ensure an orderly transfer of assets.

This integration will see AWI evolve from a domestic research and development company, to emerge as a leading marketing and innovation company for Australian Merino wool. It is an exciting development, but one that will require major company and industry change. A significant investment is necessary in the assets, management and staff of the company to deliver that change required for future success.

To this end, the AWI Board has made a commitment to the Federal Government and our promise to them is to invest the required millions of dollars in the reinvigoration of the Woolmark brand. At AWI, we believe that the Woolmark needs to be identified much more strongly with Australian Merino wool. We hope to be able to produce quality assurance along with the famous old brand in a reinvigorated branding strategy.

AWI has already established more than 50 direct business relationships with major manufacturers, retailers and designers across the world. We are dealing with companies that influence the wider market and drive demand for Australian Merino wool.

Australian Merino wool – global activity

This month,AWI launched an innovative Merino wool knitwear collection at Spin Expo in Shanghai, China. Spin Expo is a renowned global trade fair that embraces a complete expression of textile ranges and fashion information for all those visitors interested in the knitwear sector. With more than 15 product developments, the AWI product showcase highlighted the true versatility and durability of the Australian Merino wool fibre. By working with a number of renowned spinners, knitters and textile manufacturers, supported by strong research and development, Australian Merino wool has been adapted for multiple applications. The collection ranges from ultra-lightweight textiles, through to aromatherapy-treated fabrics to ensure the wearer feels revived or relaxed. New knitting and spinning techniques play a large part in creating total easy-care fabrics, vibrant new colours, and astounding visual textures.

This year AWI announced a partnership with Sugoi, one of the largest manufacturers of running and cycling apparel in North America. Since it was launched, retailers across North America have been ordering the new line of Merino wool active wear. Merino Fresco is a project AWI has been working on with Shandong Ruyi, one of the largest weavers and garment manufacturers in the world, selling to China, the US, Japan and Western Europe. In the first month of its release, 300,000 metres of Merino Fresco fabric has been sold. AWI has been working hard to drive demand for Australian Merino wool in key markets across the globe. These are just some of the 80 projects that we have underway with our business partners.

Meeting our international retailers' and consumers' demands

The wool and sheep industry has committed to retailers to phase out the practice of mulesing by 2010 in response to international retailer concerns. AWI is carrying out the industry instruction to find alternatives to conventional mulesing and do everything possible to deliver a natural and humanely produced fibre. The research currently covers three key alternatives: clips, intradermal injection and breeding. More than 1100 woolgrowers put up their hands to be part of the national program of product development and testing for clips as an alternative to mulesing. The clips will be used on tens of thousands of July–October drop lambs in spring 2007 for product-proofing. AWI is also working on an intradermal (an injection within the skin) and stud breeders are working fast on breeding sheep with bare breeches.

It is absolutely vital that we carry out the industry promise to retailers made in late 2004, and equally important that we respond positively to the retailer and consumer demand of a natural and humanely produced fibre.

There is no doubt that Australian woolgrowers expect AWI to drive demand and lower the costs of production. I strongly believe that your company is heading in the right direction.

I do understand that the seasons play a great part in all our fortunes; I can only say that I hope the season goes in your favour in the next few months.