

AWI STRATEGIC PLAN DEVELOPMENT 2016/17 TO 2018/19

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1. CEO'S OVERVIEW



The 2016/17 to 2018/19 Strategic Plan is the result of our consultation with woolgrowers, the guidance of the Board of Directors of Australian Wool Innovation Limited (AWI), and the priorities of both. This document reflects not only the aims and goals of the company in this next Strategic period, but also demonstrates our emphasis on transforming AWI into a digital and service orientated company.

Our performance in the previous three year period leads this document, showing the results of the Review of Performance by Deloitte and our economist's view of our programs.

Through the period covered by this new strategic intent document we are determined to ensure that all parts of the wool supply chain are innovation rich and that Australian woolgrowers are the significant beneficiary.

Stuart McCullough

2. DEVELOPMENT OF 2016/17 TO 2018/19 STRATEGIC PLAN

Following Woolpoll 2015 the AWI Board commenced the development of the 2016/17 to 2018/19 Strategic Plan. We considered the independent Review of Performance by Deloitte Private and internal assessment of progress against our 2013/14 to 2015/16 Strategic Plan and the desires of Woolgrowers as expressed at Woolpoll 2015 to develop a range of investment strategies for the future.

2.1. WoolPoll 2105

At the 2015 WoolPoll, woolgrowers voted to continue paying a two per cent levy to AWI, with 40 per cent to be spent on research and development and 60 per cent on marketing. Following Woolpoll AWI developed a draft project budget for 2016/17 investment by key areas and, with senior AWI staff commenced a process of identifying key issues across the wool supply chain and opportunities to enhance the profitability, international competitiveness and sustainability of the Australian wool industry. These issues and opportunities were considered by the AWI Board in late January.

The AWI Board has now asked senior managers to provide recommended programs to deliver against the strategic intent developed to date.

2.2. Review of Performance

In compliance with the SFA, in 2015 AWI conducted an independent review of performance prior to the 2015 WoolPoll.

The authors (Deloitte Private) of the 2012-2015 independent review concluded that organisational improvements, including engagement and collaboration, governance and operations, strategy and structure had created value for woolgrowers in several ways:

- Increased market demand through AWI's marketing and promotion activities.
- Higher wool prices, in part attributed to AWI's marketing and promotion activities.
- Improved on-farm and off-farm productivity through AWI's R&D activities.

- Cost savings as a result of AWI's on-farm and off-farm R&D activities.

AWI had focussed efforts towards implementing the adopted recommendations from the 2012 Review, enhancing their Monitoring and Evaluation framework, strengthening their governance mechanisms and structures, and improving the extent to which they engage and collaborate with stakeholders. Achievements of AWI over the preceding three years have focussed on three main areas, being engagement and collaboration with woolgrowers and stakeholders, governance, and the creation and delivery of strategic benefits.

2.2. Review of Performance (continuation)

Delivering Strategic Benefits	Financial Management	Governance
<ul style="list-style-type: none"> Delivered cost savings and productivity gains for woolgrowers. Increased demand for Australian wool. Support wool processors to increase profits and shift to emerging producing countries. Delivered a return to Australian woolgrowers of \$2.90 on every dollar invested over 2012-2015. 	<ul style="list-style-type: none"> AWI has met its obligations under the Statutory Funding Agreement 2013-16 (SFA) with the Commonwealth. AWI has demonstrated an increased effectiveness of their intellectual property, risk management and fraud control plans, which are monitored by the Finance and Audit Committee (FAC). AWI has performed to required financial management standards. 	<ul style="list-style-type: none"> AWI continues to evolve the governance, structure and operations of the organisation to ensure good practice and appropriate mechanisms of corporate governance. AWI soundly developed and implemented its Strategic and Annual Operational plans, and been effective as an organisation in meeting the priorities, targets and budgets as set out in these plans.

2.3. Performance against AWI 2013-16 Strategic Plan

Progress against Strategic Plan targets are reviewed quarterly by the AWI Board and reported to woolgrowers every year in the Annual Report. An Evaluation Group comprising of key AWI staff was convened in September 2015 to report on benefits generated to Australian Woolgrowers from AWI investment over 2013/14 to 2015/16. In their April draft report it was estimated that Australian woolgrowers will realise a benefit of \$2.70 on every dollar invested by AWI. A summary of consolidated progress over 2013-16 Strategic Plan targets is reported below by portfolio.

On-Farm	Off-Farm	Marketing	Global Business Services
<p>HIGHLIGHTS</p> <ul style="list-style-type: none"> Dogs – significantly exceeded cost saving LTEM – substantial benefits Husbandry practices – technology delivered below cost target 	<p>HIGHLIGHTS</p> <ul style="list-style-type: none"> Supply chain – significantly exceeded target of businesses supported and wool volumes processed Neulana – successful new product development 	<p>HIGHLIGHTS</p> <ul style="list-style-type: none"> Sports & Outdoor – well exceed program partners IWP – media value targets greatly exceeded Cool wool – substantial uptake over 2014/15 	<p>HIGHLIGHTS</p> <ul style="list-style-type: none"> ROP – significantly exceeded requirements under SFA Woolmark – licence revenue increased Finance – exceeded availability of systems with full implementation of SAP
<p>CHALLENGING</p> <ul style="list-style-type: none"> Genetics – potential increase in rate of genetic gain not determined Grower skills – Best Wool Best Lamb not supported 	<p>CHALLENGING</p> <ul style="list-style-type: none"> Technical Transfer – average wool volumes not reached 	<p>CHALLENGING</p> <ul style="list-style-type: none"> Category Management – combined with Strategy 9 to increase focus with retail and brand partners 	<p>CHALLENGING</p> <ul style="list-style-type: none"> The Wool Lab – revenues under target and subsequently revitalised. Presentations targeted exceeded

ON-FARM RESEARCH AND DEVELOPMENT

TOP GROWER ISSUES

1. Reproduction
2. Pests & diseases
3. Nutrition
4. Accessing better technology

PRODUCTIVITY

1. Competing enterprises
2. Harvesting
3. Wool prices

PROFITABILITY

BENEFITS DELIVERED

- Lifetime Ewe Management delivered an estimated \$6m to \$21m to growers, or \$13 to \$44 on every dollar invested by AWI.
- Wild Dogs delivered an estimated \$24m to growers, or \$8.60 on every dollar invested by AWI.
- Evergraze delivered an estimated \$2m to \$5m to growers, or \$3.80 on every dollar invested by AWI.
- Shearer and wool handler training delivered an estimated \$5.7m to growers, or \$2.60 on every dollar invested by AWI.

OFF-FARM RESEARCH AND DEVELOPMENT

TOP SUPPLY CHAIN ISSUES

1. Environmental issues
2. Improved quality, efficiency, and cost reductions in processing

IMPROVED TEXTILE PROCESSING

1. Create innovative design features
2. Enhancement of wool's functionality

IMPROVED MANUFACTURING TECHNIQUES

BENEFITS DELIVERED

- Merino Touch delivered an estimated \$11m to growers, or \$7 on every dollar invested by AWI.
- Supply Chain Diversification delivered \$3.1m to growers, or \$4.1 on every dollar invested by AWI.

MARKETING

TOP CONSUMPTION ISSUES

1. Introduce new designers, markets and customers to merits of wool fibre
2. Skin health and sleep quality
3. Communicating eco-credentials

UNDERSTANDING MERITS OF WOOL

1. Competing enterprises
2. Harvesting
3. Wool prices

INCREASING USE OF WOOL IN PRODUCT RANGES

BENEFITS DELIVERED

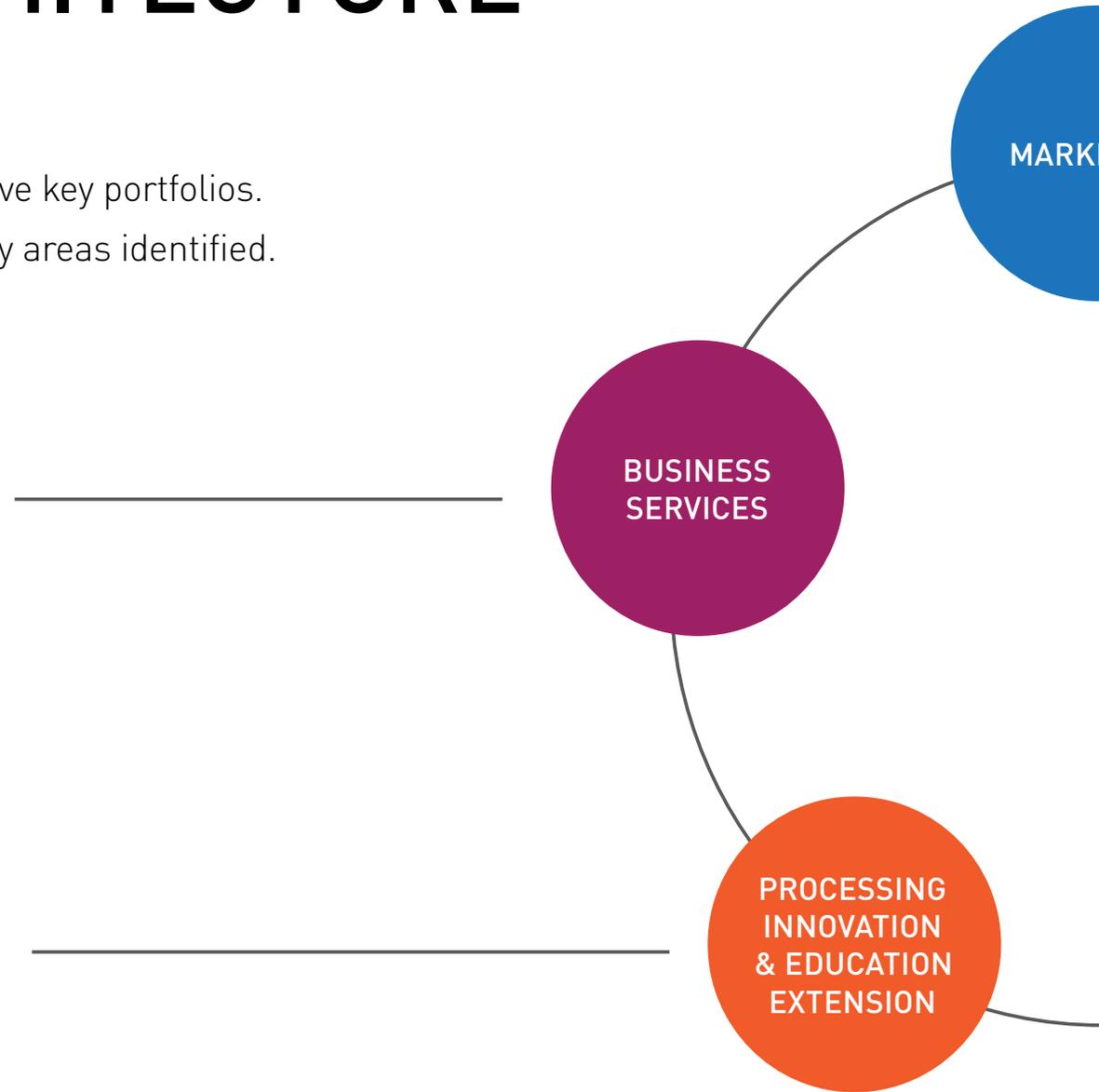
- Campaign for Wool delivered an estimated \$3m to \$22.4m to growers depending on wool sales, or \$0.60 to \$4.80 on every dollar invested by AWI.
- China Luxury Program delivered an estimated \$0.8m to \$11.3m to growers, or up to \$3.80 on every dollar invested, depending on sales generated.
- Fit for a Prince delivered an estimated \$750,000 in media value for industry, increasing awareness of Australian growers and Merino Wool.
- Cool Wool Campaign delivered an estimated \$47m to growers, or \$3.10 on every dollar invested.
- Sports and Outdoor delivered an estimated \$24m to growers through increased wool demand, or \$6.30 on every dollar invested.

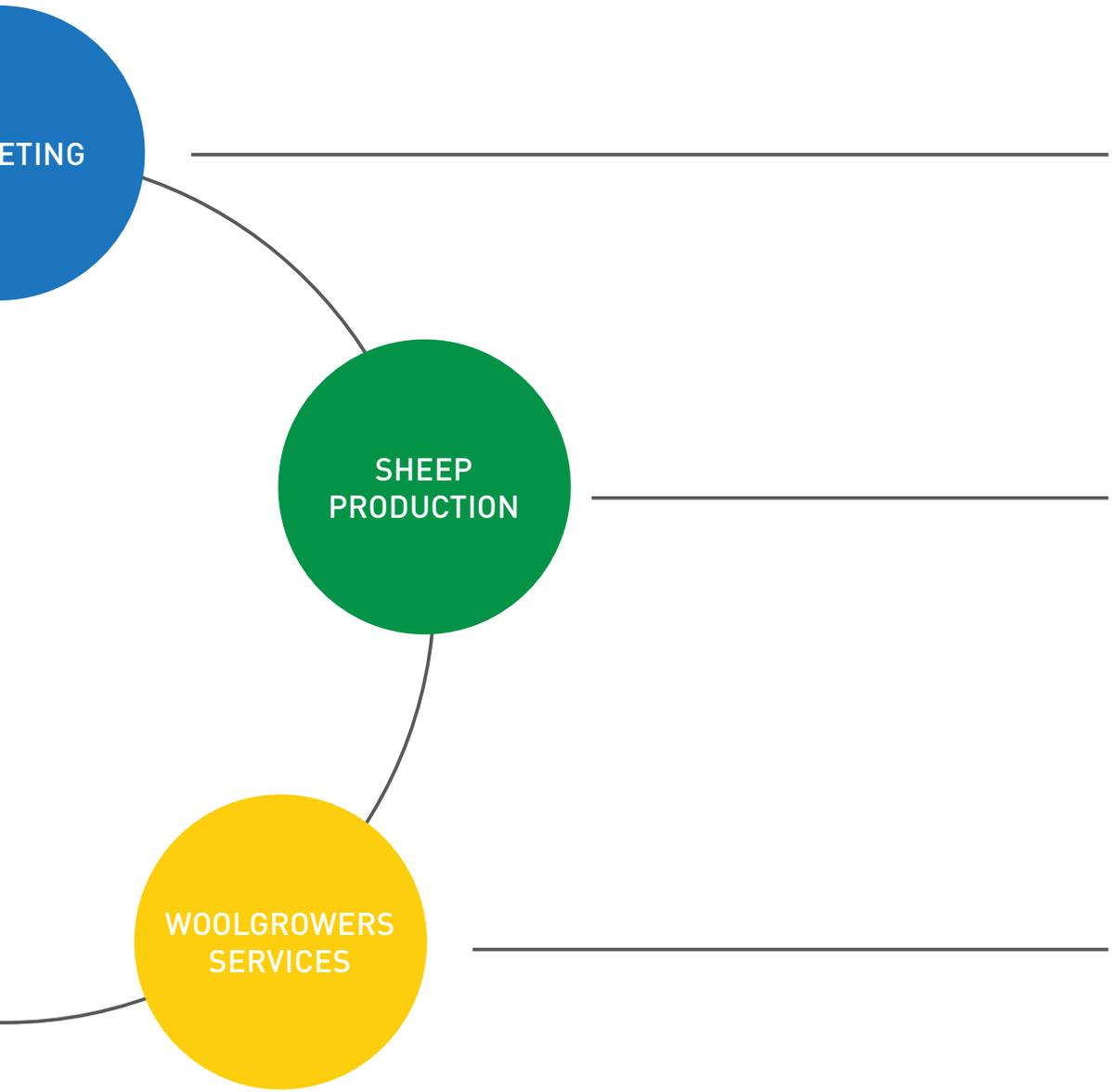
3. STRATEGIC ARCHITECTURE

AWI's strategic architecture has been centered around five key portfolios. These portfolios will focus AWI investment across the key areas identified.

Business Services – We will seek to implement structures that enable the most cost effective provision of cross-company support services, including the maintenance and development of our primary asset, The Woolmark.

Processing Innovation & Education and Extension – Increasing the profitability and sustainability of wool processing will continue to be a priority for AWI, with emphasis on innovation and the cost effective delivery of education and extension services to a wide range of people involved in the wool supply chain.



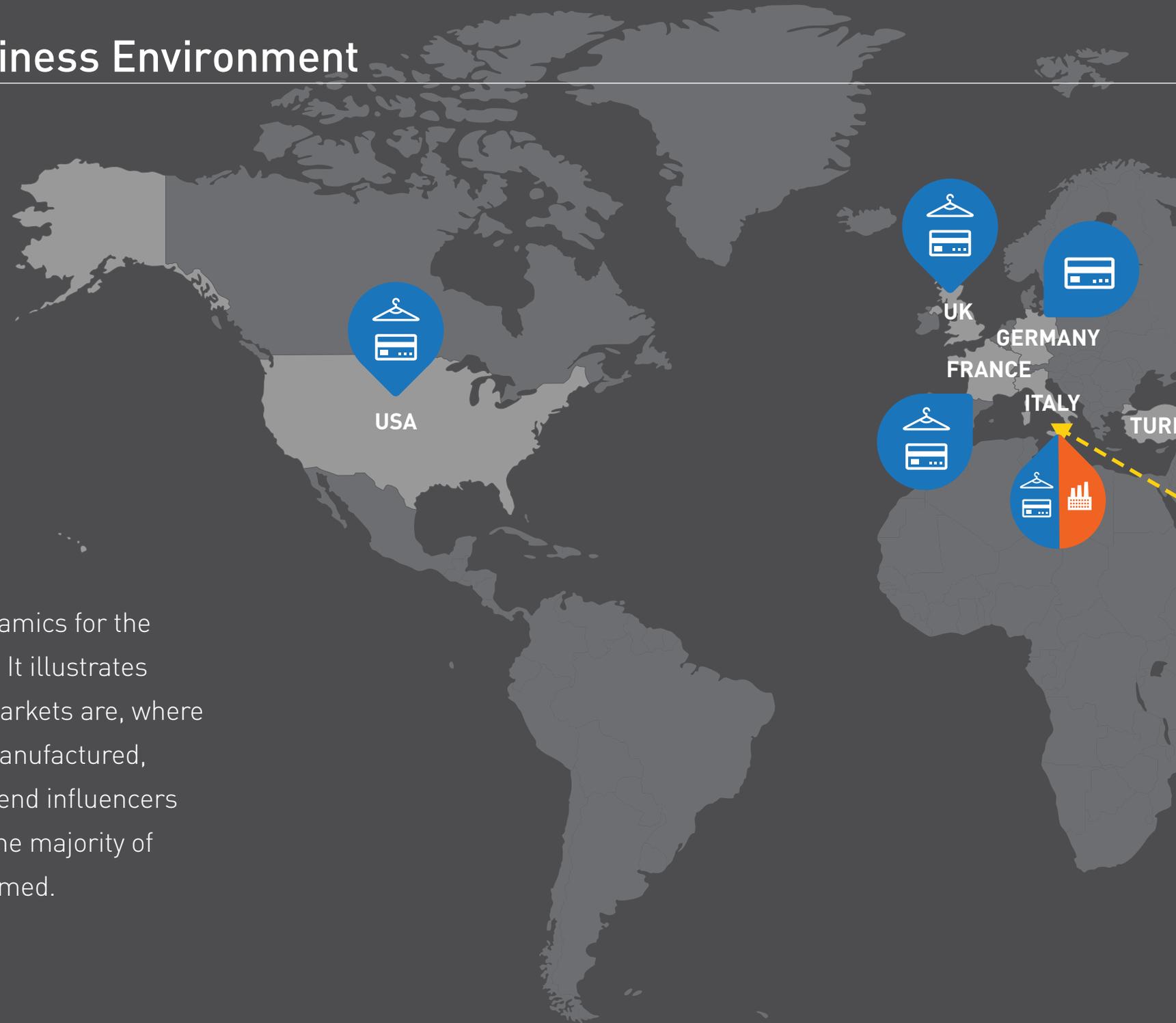


Marketing – We are conscious of the need to continually build the demand for Australian wool and will seek to do this by building on the consumer awareness we have achieved in the past and the collaborations we have developed with key retail and brand partners globally.

Sheep Production – Increasing the profitability and sustainability of growing wool will remain a primary focus of our Research and Development activities.

Woolgrowers Services – We recognise the need to have a more structured process of consulting with woolgrowers and stakeholders and for the delivery of effective training and technology adoption across the industry.

3.1. Global Business Environment



A snapshot of global dynamics for the Australian wool industry. It illustrates where our key exports markets are, where the majority of wool is manufactured, where the fashion and trend influencers are located, and where the majority of Australian wool is consumed.



KEY



PRODUCED



EXPORTED



MANUFACTURED



TREND
INFLUENCERS



CONSUMED



CHINA



JAPAN



INDIA



VIETNAM



MALAYSIA



AUSTRALIA

3.2. AWI 2016-17 to 2018-19 Investment Focus

SHEEP PRODUCTION

TOP ISSUES

1. Reproduction
2. Pests & diseases
3. Nutrition
4. Accessing better technology

PRODUCTIVITY

- #### INVESTMENT FOCUS
- Increase number of lambs weaned per ewe joined
 - Reduce impact of wild dogs and other vertebrate pests
 - Promote adoption of best practice management
 - Contribute to genetic and phenotypic improvement in lifetime economic performance of ewes

1. Competing enterprises
2. Harvesting
3. Wool prices

PROFITABILITY

- Develop labour saving technologies
- Provide appropriate market intelligence
- Continue to support enhanced procedures for sheep welfare
- Mitigate impact of climate change on wool production

1. Market trends

EXTERNAL FORCES

- Ensure industry is recognised as leaders in sustainable farming

WOOLGROWERS SERVICES

TOP ISSUES

1. Skilled labour force
2. Access independent information to support technology adoption

WOOLGROWER SKILLS

- #### INVESTMENT FOCUS
- Develop and deliver effective shearer and woolhandler training
 - Support and strengthen wool production extension infrastructure
 - Provide appropriate market intelligence

1. Support of regional events
2. Support of representative bodies
3. Continued market access for Australian wool
4. Facilitate interaction with the government and other stakeholder groups

CONSULTATION

- Facilitate effective interaction with woolgrowers
- Maintain effective interaction with key stakeholders, including the Commonwealth Government

3.2. AWI 2016-17 to 2018-19 Investment Focus

PROCESSING INNOVATION & EDUCATION AND EXTENSION

TOP ISSUES

1. Environmental issues
2. Improved quality, efficiency, and cost reductions in processing

IMPROVED
TEXTILE
PROCESSING

INVESTMENT FOCUS

- Develop "fit for purpose" products
 - Transfer wool processing skills and knowledge to emerging and existing wool processors
 - Facilitate the effective transfer of knowledge on wool benefits across all supply chain participants
-

1. Create innovative design features
2. Enhancement of wool's functionality

IMPROVED
MANUFACTURING
TECHNIQUES

- Develop and make commercially available new manufacturing processes

BUSINESS SERVICES

TOP ISSUES

1. Cost effective business support
2. Adherence to required operational standards

OPERATIONAL
INTEGRITY

INVESTMENT FOCUS

- Identify key corporate services and their effective provision
 - Comply with all statutory, corporate and business requirements
-

1. Maintain the value of the Woolmark brand
2. Streamline licensing and business development functions
3. Ensure AWI keeps up to date with digital technologies

BUSINESS
DEVELOPMENT

- Ensure Woolmark licensees are effectively serviced
- Facilitate the effective integration of Woolmark licensees across other AWI investment programs
- Generate cost savings through the provision of up to date digital services

MARKETING

TOP ISSUES

1. Introduce new designers, markets and customers to merits of wool fibre

UNDERSTANDING
MERITS OF WOOL

INVESTMENT FOCUS

- Enhance the aspirational use of wool as a fibre of choice for apparel wear
 - Build consumer awareness of the benefits of wool as a fibre
-

1. Increase use or purchase of wool amongst leading or influential designers, companies, markets and consumers

INCREASING USE
OF WOOL IN
PRODUCT RANGES

- Establish and maintain effective collaborations with brand and retail partners
- Identify key consumer segments and regions that offer the greatest potential to build consumer demand



3.3. Strategic Framework

Across the five AWI portfolios we plan to execute 13 Strategies.

These Strategies seek to address key industry issues and opportunities.

In developing the Strategic Architecture for AWI's investment over 2016/17 to 2018/19 we were conscious of the need to better align our operations, at all levels, against the strategic intent that underpins the Strategic Plan. The Strategic Architecture is based on a circular representation of AWI investment, from a high level strategic perspective to operations and tactics executed by staff, globally, on a day to day basis. Ensuring that there is a clear link between strategy and operations is a fundamental consideration in the design of our Strategic Architecture.

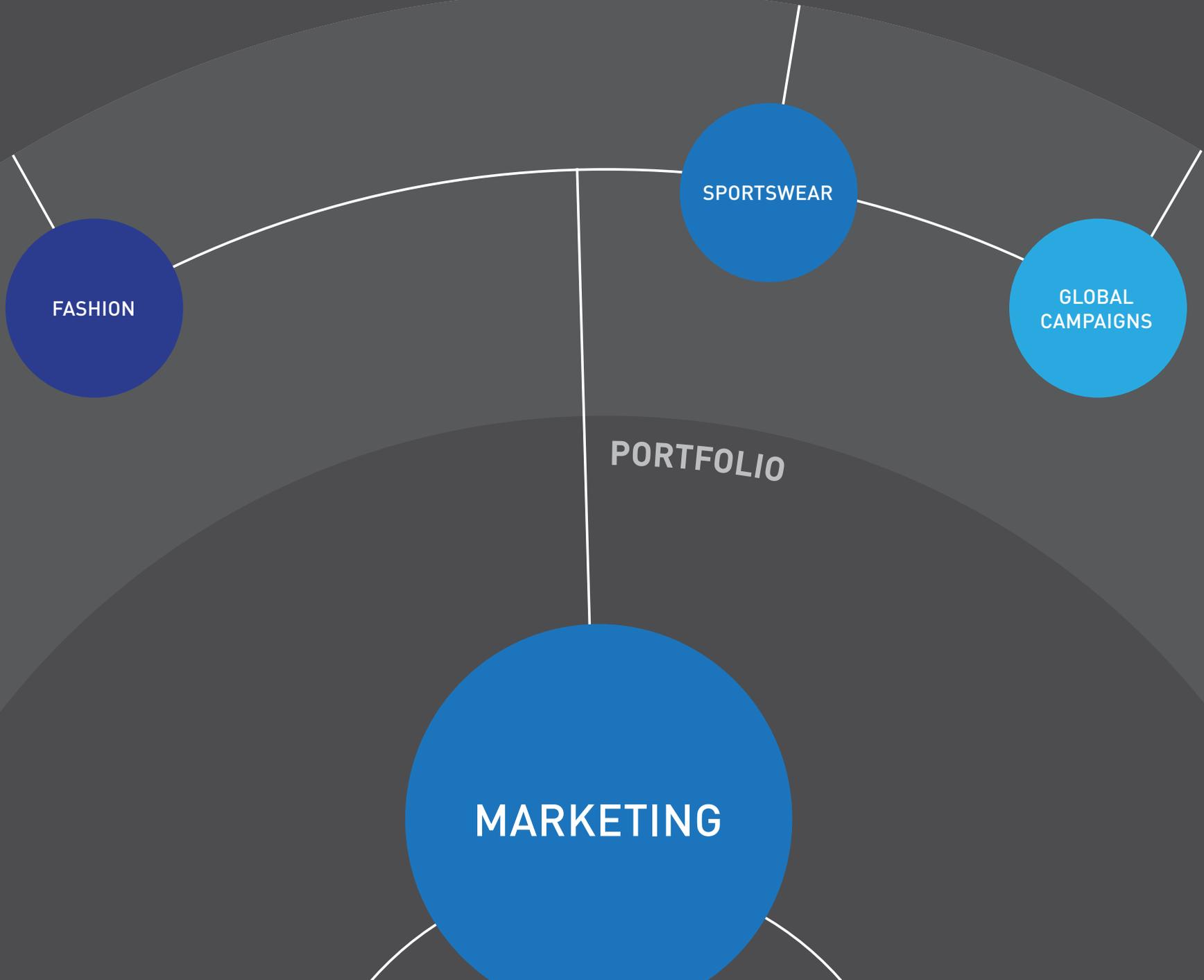
The first ring of the AWI investment architecture reflects

the five portfolios that have been developed to describe the key areas of AWI business operations. The second ring describes the thirteen strategies AWI intends to pursue to ensure the top issues identified across the wool supply chain can be effectively addressed. These strategies are explained in more detail in the following sections.

Currently, AWI senior managers are developing appropriate programs under these thirteen strategies, which will describe how investments will be made to achieve the broad intent of the organisation's future investment. These programs will reflect another ring to our strategic

architecture described in this document and will also detail specific investment targets.

Once we have finalised our investment Strategies and Programs AWI will then determine how best to allocate resources, both project dollars and staff, to ensure that these targets are achieved. While this level of detail will not be made publically available in our final 2016/17 to 2018/19 Strategic Plan, we intend to develop and make available to all woolgrowers an electronic version that will enable them to drill down to the key operational and tactical activities under each program.



FASHION

SPORTSWEAR

GLOBAL
CAMPAIGNS

PORTFOLIO

MARKETING

3.4. Marketing Strategies



FASHION

Develop and implement co-marketing campaigns in Fashion, targeting Menswear and Womenswear that builds demand in key consumer markets for fashion apparel where the ingredient is Australian Merino wool. Support this program with AWI marketing services that help deliver value to partner brands, maximise AWI cost-efficiency and maintain a cutting edge digital infrastructure.



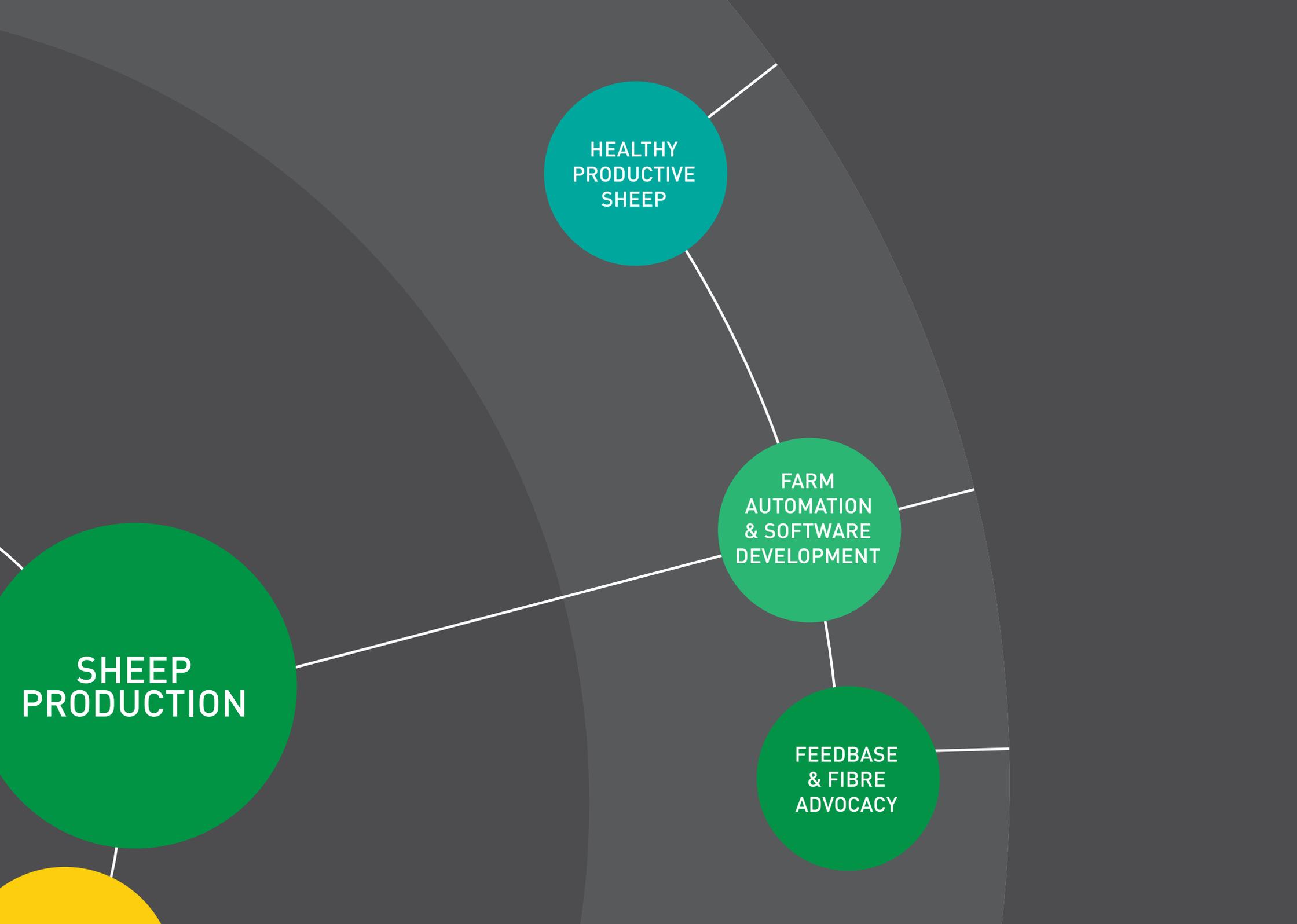
SPORTSWEAR

Taking advantage of the explosive growth in demand for sportswear and active, and in particular the opportunity for wool as a technical fibre to meet increasingly demanding consumer needs for comfort and performance, we will target running, outdoor activities and the emerging 'athleisure' markets and work with major brands to introduce wool to new categories of demand.



GLOBAL CAMPAIGNS

Implement global campaigns, utilising all consumer-relevant communications channels and tools, in the apparel market. These will consist of the International Woolmark Prize, the Campaign for Wool, concerted and strategically-driven global PR campaigns, and digital engagement via social media and consumer-focused content marketing.



HEALTHY
PRODUCTIVE
SHEEP

FARM
AUTOMATION
& SOFTWARE
DEVELOPMENT

FEEDBASE
& FIBRE
ADVOCACY

SHEEP
PRODUCTION

3.5. Sheep Production Strategies



HEALTHY PRODUCTIVE SHEEP

Improving wool sheep health, welfare and productivity represents the greatest overall opportunity for on-farm R&D for the benefit of the Australian wool industry – both in terms of delivering productivity gains and improved profitability, but also in terms of protecting and enhancing the international reputation of Australia’s wool growers as custodians of the world’s largest population of Merino sheep.



FARM AUTOMATION & SOFTWARE DEVELOPMENT

Labour use efficiency is an important contributor to farm profitability, and seasonal labour availability constraints have been shown to limit important profit drivers as stocking rate, but can also impact on sheep health and welfare. More significantly and specifically, the wool industry suffers by comparison to other livestock enterprises due to the frequency of hands-on sheep management and harvesting activities.



FEEDBASE & FIBRE ADVOCACY

Improving wool’s reputation as a sustainable textile, healthy for both consumers and the planet is an increasing priority for the Australian wool industry. Critical review of raw material supply chains is an ongoing process by Brands and retailers with those supply chains considered to be environmentally harmful at risk of being overlooked.

WOOLGROWERS
SERVICES

TRAINING &
TECHNOLOGY
UPDATE

CONSULTATION

PRODUCT &

3.6. Woolgrowers Services Strategies



TRAINING & TECHNOLOGY UPTAKE

To be seen as a valuable contributor to the profitability and sustainability of Australian woolgrowers, through a broad range of grower-facing communication, engagement and training initiatives



CONSULTATION

To provide the Australian wool industry with a high level of communication and engagement that informs, educates and builds rapport with growers and other key stakeholder groups

**PROCESSING
INNOVATION
& EDUCATION
EXTENSION**

**EDUCATION
& EXTENSION**

**PRODUCT &
PROCESSING
INNOVATION**

3.7. Processing Innovation & Education Extension Strategies



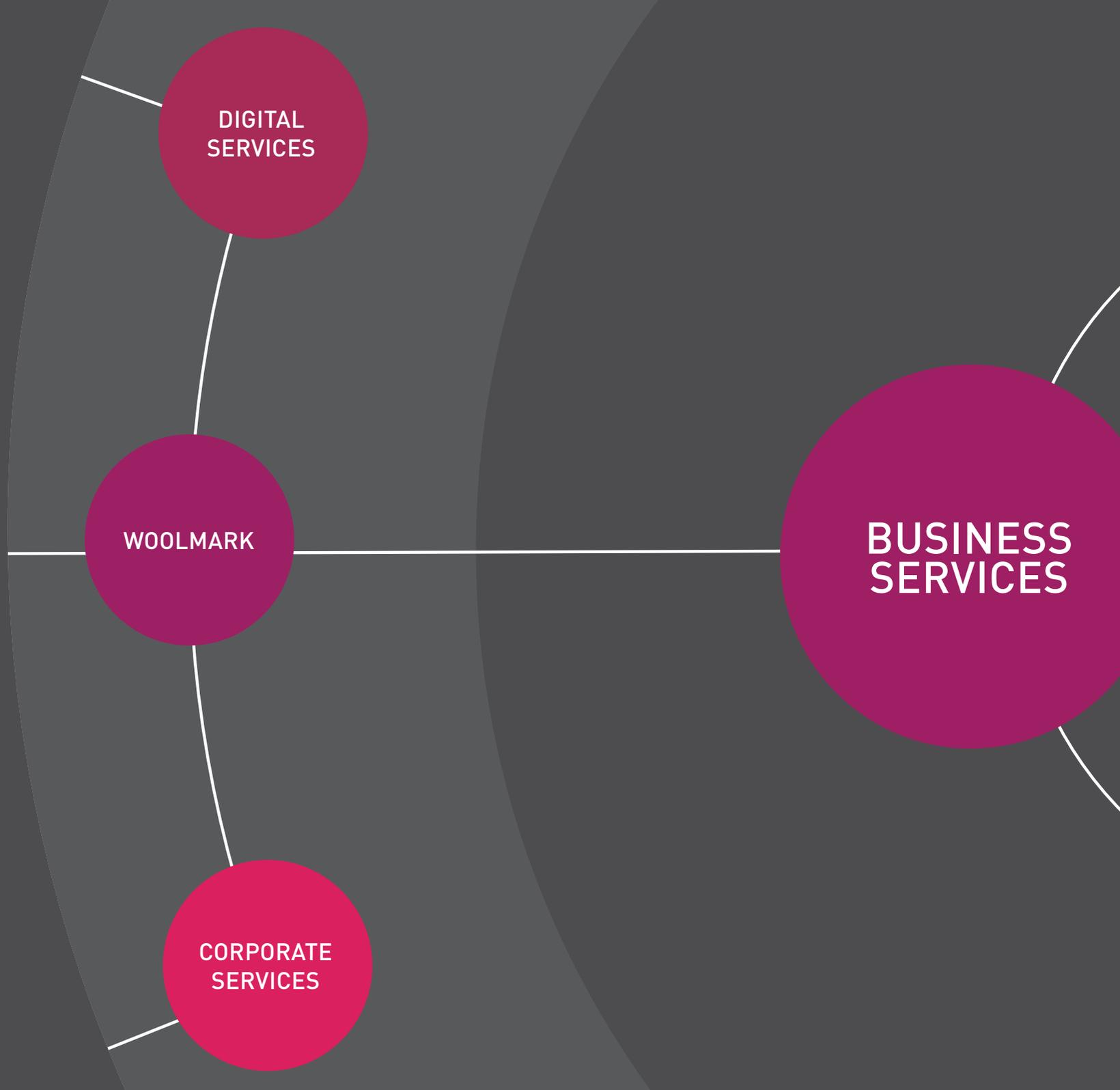
PROCESSING INNOVATION

By assisting (through transfer of innovations) manufacturers to adopt innovative technologies which add significant value, either functionally (e.g. moisture management properties) or aesthetically (new textures) their products will attract higher premiums. This in turn will lead them to become more profitable, and thus more likely to stay in wool and willing to pay a higher price for it.



EDUCATION & EXTENSION

Education and training of supply chain participants ensures wool remains a competitive processing sector against other fibres and inspires designers, brands and retailers to use wool in their product ranges, and ideally, to leverage the intrinsic properties of wool to grow profitable demand for their products.



DIGITAL
SERVICES

WOOLMARK

CORPORATE
SERVICES

BUSINESS
SERVICES

3.8. Business Services Strategies



CORPORATE SERVICES

Provision of high quality support services globally including people services, financial management, legal advice, strategic commercial advice, IP portfolio management, company secretary and compliance oversight, for all of the business divisions of AWI.



WOOLMARK

The Woolmark brand underpins many of AWI's other programs by providing a central point of focus to link initiatives across the entire wool supply chain. The Woolmark product specifications and quality control and testing policy support The Woolmark Company's (TWC) consumer marketing efforts to change perceptions about wool.



DIGITAL SERVICES

The ongoing evolution of the business requires the continual balancing of the need for stability and security in information technology with a flexible and accessible 'ecosystem' that accounts for increased workforce mobility and cloud based solutions.



The Strategic Plan is available at

WOOL.COM