The Cotton Research & Promotion Program

Vision and Ownership
Investment in Research & Promotion

(millions of dollars)
Those 3 Cotton Organizations

Voluntary Trade Association

Non-profit corp. implements R&P

Quasi-governmental

THE COTTON BOARD

Strengthening the Fiber of Our Industry
Cotton R&P Timeline

1950
- Voluntary Contributions
- NCC Promotion

1960
- Cotton Research & Promotion Act of 1966
- Referendum and Order
- Refundable Assessments

‘70-’80
- USDA

1990
- Amendments to 1966 Act
- Imports
- Mandatory Assessments

Cotton Producer Institute

Cotton Board

Cotton Incorporated
Research & Promotion Program

- USDA
  - Order and Regulations

- Cotton Board
  - Collection, Oversight, Communication

- Cotton Incorporated
  - Implementation

Cotton Research & Promotion Act of 1966
Program Leadership

- Cotton Board Members
  - 23 producers; 14 importers (brands, retailers, importers); 2 consumer advisors
  - Alternates
- Certified Organizations / Annual Caucuses
- USDA Secretarial Appointment
- Cotton Incorporated’s membership
  - Consists of cotton producers
The Cotton Board Mission

“To serve U.S. producers and importers of cotton and cotton products by effectively and efficiently governing the Research & Promotion Program so that it leads to increased demand and consumption of cotton.”

- **Fiduciary (Collections)**
- **Oversight & Accountability**
- **Communication (Education)**
Collection of Funds

Cotton Producers

$1 + 5/10 of 1% of bale value

+ 

Importers

Assessment on cotton content comparable to cotton producer contribution

2014 Cotton Incorporated Program Budget = $80 million

2013 Cotton Board Budget = $83 million
# Program Committee Organization

- Agricultural Research
- Consumer Marketing
- Global Supply Chain Marketing
- Research & Development
Annual Oversight Process

March – Strategy & Planning

December – Report & Evaluate

June – Recommendations & Status

August – Budget, Goals, Deliverables
Cotton Incorporated
Proposed CY 2014 Budget
Executive Summary
($ 000's)

<table>
<thead>
<tr>
<th>COMMITTEE</th>
<th>BUDGET 2013</th>
<th>PROPOSED 2014</th>
<th>CHANGE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural and Environmental Research</td>
<td>12,981</td>
<td>12,689</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Research and Development</td>
<td>12,216</td>
<td>12,179</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Global Supply Chain Marketing</td>
<td>19,200</td>
<td>18,802</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Consumer Marketing</td>
<td>31,449</td>
<td>29,403</td>
<td>-6.5%</td>
</tr>
<tr>
<td>Strategy and Metrics</td>
<td>1,984</td>
<td>1,885</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Administration</td>
<td>5,170</td>
<td>5,043</td>
<td>-2.5%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>83,000</strong></td>
<td><strong>80,000</strong></td>
<td><strong>-3.6%</strong></td>
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<tr>
<td>KEY EXTERNAL ISSUES</td>
<td>PROGRAM RESPONSE</td>
<td></td>
<td></td>
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<tr>
<td>---------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------</td>
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<tr>
<td><strong>1. Water</strong> – Water scarcity, costs and public concerns will affect both fiber production as well as textile processing. Water management for cotton will be critical for maintaining competitiveness.</td>
<td>More emphasis will be placed on evaluation/comparison of energy efficient water management tools, from irrigation systems, to irrigation decision strategies. Water reduction/recycling techniques remain high priorities in our Product Development &amp; Implementation.</td>
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<td><strong>2. Restrictive Substances in Textile Processing</strong> – Led by European brands/retailers, perceived harmful chemistries are rapidly being identified and potentially restricted or eliminated in the supply chain. This could put major cotton technologies and key cotton markets at risk.</td>
<td>Cotton Incorporated is actively monitoring international efforts and has developed strategies and alternative chemistry solutions for cotton products/technologies that are at risk. This will remain a challenge.</td>
<td></td>
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<td><strong>3. U.S. Washing Machine Restrictions</strong> – The Department of Energy will be imposing severe energy and water restrictions on new washing machines within the next 5 years. This will be a challenge for all textile products. Greater knowledge is required on how this might affect cotton.</td>
<td>Cotton Incorporated is working with a leading washer/dryer manufacturer and a major detergent manufacturer on a project to understand impacts, threats and opportunities that this will impose on cotton production.</td>
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<td><strong>4. Rising Farm Production Costs</strong> – The cost of producing cotton has escalated rapidly in the last decade, threatening the viability of U.S. cotton.</td>
<td>This is the main priority of the Agricultural &amp; Environmental Fund. Some key areas include herbicide-resistant weeds, input use, selection, water management and heat/drought tolerance.</td>
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<tr>
<td><strong>5. Innovative Products Required</strong> – The retail market remains over supplied, leading to fierce price competition. Increasingly, brands and retailers are looking for innovations in their products (moisture management, U.V. protection, thermal regulation, etc.) in order to combat eroding prices.</td>
<td>Cotton Incorporated will continue to identify potential opportunities in both in-house efforts and through our hybrid-marketing programs.</td>
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</table>
Returns per Dollar Invested

- Producers
  - Life of Program
  - Last 5 Yrs.

- Importers
  - Life of Program
  - Last 5 Yrs.
Percent Saying Natural Fibers Are Better Quality
Percent saying cotton & cotton blends are best suited for today’s fashions

- Cotton & Cotton Blends
- Polyester
- Lycra/Spandex
- Silk
- Wool
- Rayon
Percent saying cotton & cotton blends are favorite fibers to wear

- Cotton & Cotton Blends
- Silk
- Polyester
- Lycra/Spandex
100% Cotton Claims More Influential than Sustainability Claims

PERCENT SAYING THE FOLLOWING TERMS WOULD INFLUENCE THEIR CLOTHING PURCHASE DECISION

- 100% Cotton: 78%
- Made in the USA: 67%
- Natural: 60%
- Sustainable: 57%
- Environmentally-Friendly: 53%
- Fair Trade: 49%
- Organic: 48%
- Green: 48%
- Biodegradable: 47%
- Recycled: 46%
- Ethically-Sourced: 45%
- Compostable: 40%

COTTON INCORPORATED'S 2013 ENVIRONMENT SURVEY
90% of consumers say cotton is safe for environment

<table>
<thead>
<tr>
<th>Material</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Cotton</td>
<td>91%</td>
</tr>
<tr>
<td>Wool</td>
<td>85%</td>
</tr>
<tr>
<td>Silk</td>
<td>83%</td>
</tr>
<tr>
<td>Recycled Polyester</td>
<td>69%</td>
</tr>
<tr>
<td>Nylon</td>
<td>52%</td>
</tr>
<tr>
<td>Modal</td>
<td>51%</td>
</tr>
<tr>
<td>Polyester</td>
<td>51%</td>
</tr>
<tr>
<td>Rayon</td>
<td>49%</td>
</tr>
<tr>
<td>Tencel</td>
<td>46%</td>
</tr>
<tr>
<td>Lycra/Spandex</td>
<td>46%</td>
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</tbody>
</table>
Seal of Cotton Recognition Over Time
Industry Communications

- RCMs – constant reports
- Producer tours / retailer tours
- Speaking engagements
- Industry Magazines
- Champions of Cotton
- Equity
Kim Knobling and her team are responsible for cotton’s competitive position in the global supply chain, monitoring changes in cotton’s presence at retail and providing cotton economic forecasts.

You can tell a great deal about a company by the people who work for it. At Cotton Incorporated, we maintain a team of dedicated experts who work hard every day to increase the demand for and profitability of your cotton. These Champions of Cotton are the common thread that continues to strengthen the fiber of our industry.

You can tell a great deal about a company by the caliber of professionals who choose to work for it. At Cotton Incorporated, we maintain a team of dedicated experts who work hard every day to increase the profitability of your cotton. These Champions of Cotton are the common thread that continues to strengthen the fiber of our industry.

Mike Watson and his team work efficiently to create cotton yarn and software programs designed for installations, and support for cotton at Cotton Incorporated’s World Centre along the supply chain and support services.

Dr. Kater Hoke and the Agricultural & Environmental Research team at Cotton Incorporated provide applicable research and technical support to cotton producers, ginner and related agricultural businesses. Their objective is to improve the profitability of cotton through basic and applied sciences. Their team have world-class expertise in areas ranging from agronomy, entomology, and weed management, economics, engineering, genetics, and environmental improvement.

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Dr. Kater Hoke is the Vice President of Agricultural & Environmental Research at Cotton Incorporated.
Tomorrow’s Challenges

Cotton as % of imports by category

- **Sustainability**
- **Water Use**
- **Resistance**
- **Technical fabrics**

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td>Hosiery</td>
<td>55.0</td>
<td>55.0</td>
<td>55.0</td>
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<tr>
<td>Dresses</td>
<td>55.0</td>
<td>55.0</td>
<td>55.0</td>
</tr>
<tr>
<td>m/b Knit Shirts</td>
<td>55.0</td>
<td>55.0</td>
<td>55.0</td>
</tr>
<tr>
<td>w/g Knit Shirts</td>
<td>60.0</td>
<td>60.0</td>
<td>60.0</td>
</tr>
<tr>
<td>Underwear</td>
<td>55.0</td>
<td>55.0</td>
<td>55.0</td>
</tr>
</tbody>
</table>
The Cotton Research & Promotion Program

Vision and Ownership