



2003

annual report



MURRAY IRRIGATION LIMITED

A.B.N. 23 067 197 933



MURRAY IRRIGATION LIMITED

Murray Irrigation Limited is Australia's largest private irrigation company, supplying irrigation water to 1600 family farm businesses covering 2400 irrigation holdings in southern NSW.

Food production is the focus of these family farm businesses. A diverse range of products are grown including rice, milk, canola, wheat, tomatoes, potatoes, onions, meat and wool.

The average annual farm gate production from the region is over \$300 million, however this was greatly reduced in 2002/03 as a result of the severe drought.

Irrigated agriculture is the foundation of the social and economic well being of our towns and regional businesses.

Consecutive years of low water availability and clear evidence that our business will continue to face competing claims for water has focussed the Company's attention on improving the efficiency of our water supply system. Water savings are now being achieved from

investments in radio telemetry and remote operation of the supply system and channel sealing programs.

Murray Irrigation Limited is committed to its stewardship of this important and special part of the Murray Darling Basin. The four Murray Land and Water Management Plans - Berriquin, Cadell, Denimein and Wakool - are a major investment by our shareholders and Government in on-ground works to better manage our natural resources and to protect the Murray River. Complementing these plans is extensive monitoring of watertables and water quality in our channel and stormwater escapes.

The future will continue to bring challenges for our Company, shareholders and the rural community we live, work and farm in. Murray Irrigation Limited is committed to working constructively with all levels of Government, industry and community organisations to negotiate balanced and fair solutions to the water resource sharing and environmental issues being faced.



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Top: A new hydro power station built on the Mulwala Canal at The Drop (front, centre) near Berrigan was commissioned last year.

Above left: Finley landholder John Bickerton examines his promising wheat crop.

Above right: Construction of a new bridge on the Moonee Swamp Rd across the Moulamein Main Channel, near Deniliquin was part of the 2002/03 winter works program.

Highlights of 2002/2003

Water supply

Shareholders survived the worst drought in living memory, with an allocation of only 11% for the season - the lowest allocation ever announced for Murray Irrigation Ltd.

The season opened in August with an allocation of 4% for Murray Irrigation's shareholders, increasing to 8% in mid-August and remaining at that point until May. Careful operation of the system allowed water savings to be distributed, providing an additional 3% of allocation.

A total of 399,740 megalitres was delivered on farm to shareholders - only a third of our average annual water use. A high proportion of this was used on winter cereals.

Deliveries were tightly controlled, resulting in the lowest volume of operational water losses in the company's history.

Murray Irrigation's channel system was used to help circumvent the Barmah Choke on the Murray River, transferring more than 500,000 megalitres to downstream users including South Australia during the season.

Water trading

Given the low allocation, there was a record amount of water traded into Murray Irrigation through temporary transfers - a total of 238,797 megalitres, sourced from NSW, Victoria and South Australia.

A new record was set for the price of temporary water traded on the water exchange operated by Murray Irrigation. The water price opened at \$150 a megalitre, rising to a high of \$350 a megalitre.

A total of 60,418 megalitres was traded through the exchange in 1490 transactions, with a total value of \$12.63 million. The average price for the season was \$228.09 a megalitre.

Business

An autumn Snowy water borrow was negotiated with Snowy Hydro Ltd. This was taken up on more than 900 of the company's 2400 holdings, with 160,000 megalitres subscribed.

Significant savings were made in response to the severe drought and minimal water allocation through the co-operative efforts of staff who agreed to reduced working hours for a limited period. Directors also reduced their remuneration by a comparable amount.

Environment

The Murray Land and Water Management Plans claimed the Australian Water Association's national award for Environmental Merit, recognising the efforts of the community in successfully addressing environmental, social and economic issues in the region.

Despite the drought the momentum of Murray Land and Water Management Plan implementation has continued with another year of record investment. Incentives distributed during the year totalled \$7.68 million. Landholders invested an additional \$54.9 million in a range of on farm works.

The company has been actively involved in debate about the Murray Darling Basin Commission's Living Murray Initiative which emerged as a key issue likely to affect future access to water for irrigation.

Engineering, construction & maintenance

A total of \$4.5 million was spent on the annual asset renewal and maintenance program, upgrading our operational infrastructure. This included the mechanisation of 17 regulators, and replacement of 10 road and access culverts.

Work has begun on \$4.3 million worth of stormwater escape channels, funded through the National Heritage Trust. These include the 7.6km Logie Brae Extension, (\$0.2 million), 25km Booroobanilly North Drain (\$1.8m) and 25km Booroobanilly Middle Drain (\$2.3m).

Pacific Hydro Ltd commissioned its hydro power plant on the Mulwala Canal at "The Drop" near Berrigan. The plant can generate 2.5 megawatts, enough to power around 1500 homes.

Outlook

Murray Irrigation is pleased that the framework for perpetual, compensable water access entitlements and a national water trading system is being developed, as part of the National Water Initiative. As the largest private trader of water in Australia, Murray Irrigation will continue to make representations to government about the water rights and water trading framework and will be represented in related debate.

The Murray Lower Darling Water Sharing Plan is expected to be gazetted in early 2004. A perpetual access right, developed as part of the national initiative, is expected to replace the 10 year entitlement in the state water sharing plan.

Debate over the Living Murray Initiative is escalating. There is a continuing emphasis on greater flows to solve river health issues, with non-flow issues given scant attention. An independent review of the science supporting the Living Murray commissioned by Murray Irrigation will be released shortly. Further scientific research will be commissioned as part of our involvement in the debate.

Strong shareholder interest in the management of the company is reflected in a broad field of candidates standing for election as directors on the board this year.

Negotiations with Snowy Hydro Ltd are continuing to secure the best possible terms for the rollover of any unpaid Snowy borrow debt, on behalf of shareholders. Other opportunities are also being discussed to affordably improve the long term security of our water supply, particularly during drought.

The company plans to establish a business development unit to expand opportunities for irrigated agriculture in the region. The unit will identify potential investments which may generate new business opportunities, supporting and improving the future of your water supply company and our local communities.

Work continues to build on the company's Quality Assurance accreditation, to include QA status for our occupational

health and safety procedures and practices.

The resource outlook for the coming year is considerably better than last year. At the time of writing many winter crops appeared to have high potential yields. Rainfall at opportune times has reduced demand for irrigation early in the season, with many shareholders looking forward to a much better summer cropping program than last year.

Outlook for 2003/2004



Above: Wheat grown under spray irrigation at Talkook, west of Deniliquin.

Right: Replacing detridge wheels is part of the water supply maintenance program for Wakool based staff member Terry Smith.



Statistical Summary

Figure 1 – Murray Irrigation Limited Operating Revenue 1/8/2002 – 31/7/2003
Total revenue = \$27.7M (Last year \$35.2M)

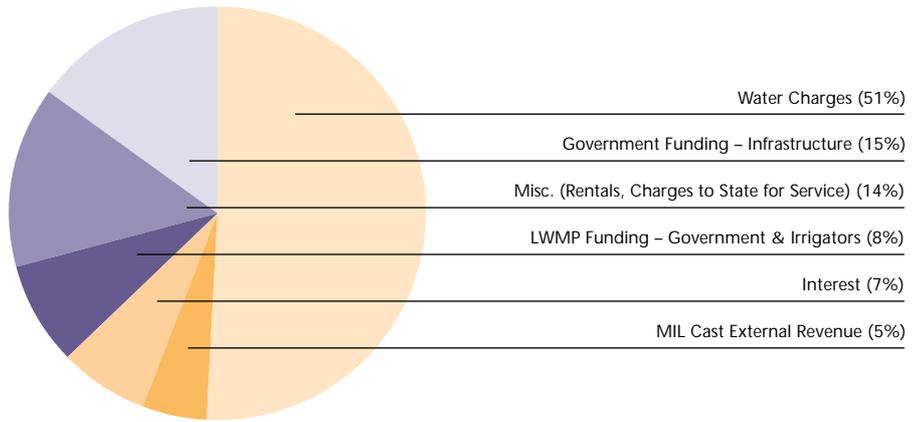


Figure 2 – Income from Irrigators (Supply & LWMP) 1/8/2002 – 31/7/2003
Average price per Megalitre delivered = \$35.96 (Last year \$15.49)

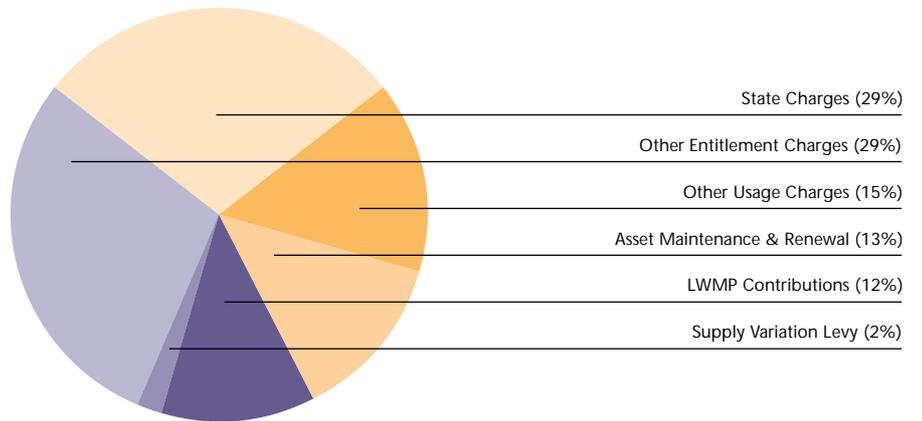


Figure 3 – Murray Irrigation Limited Expenditure 1/8/2002 – 31/7/2003
Total Expenditure = \$24.2M (Last year \$25.6M)



The above charts exclude Government monies of \$5.0 million (2002, \$5.6 million) refunded to the Company as implementation authority for Land and Water Management Plan incentive rebates.

Figure 4 – Change in Water Use between Major Land Uses 1992/93 – 2002/03

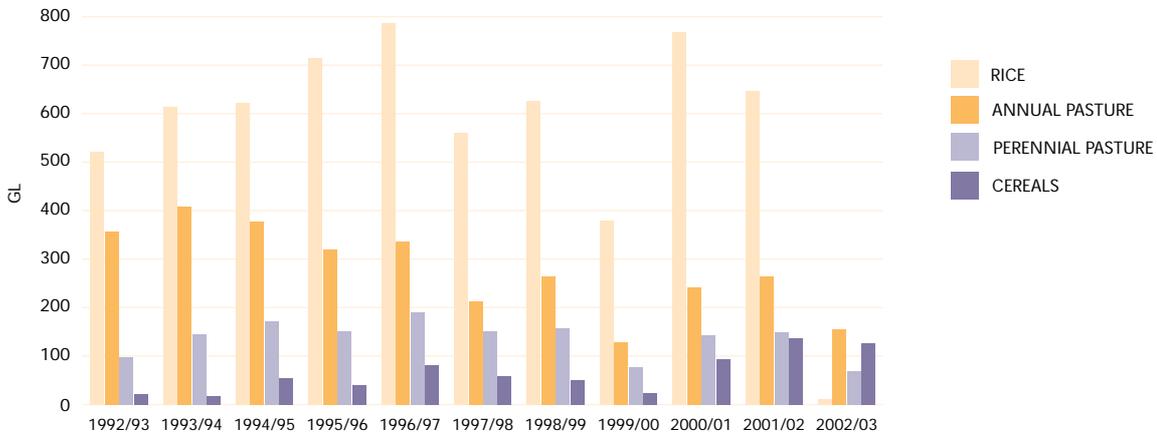


Figure 5 – Crop Water Use 2002/2003

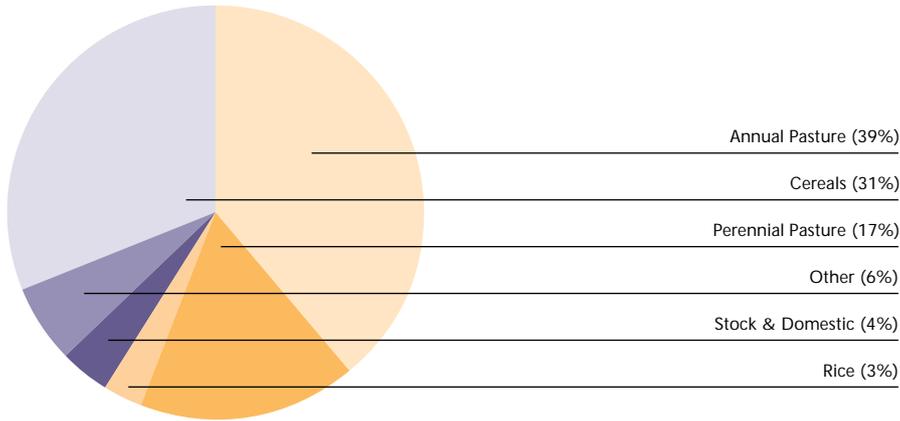
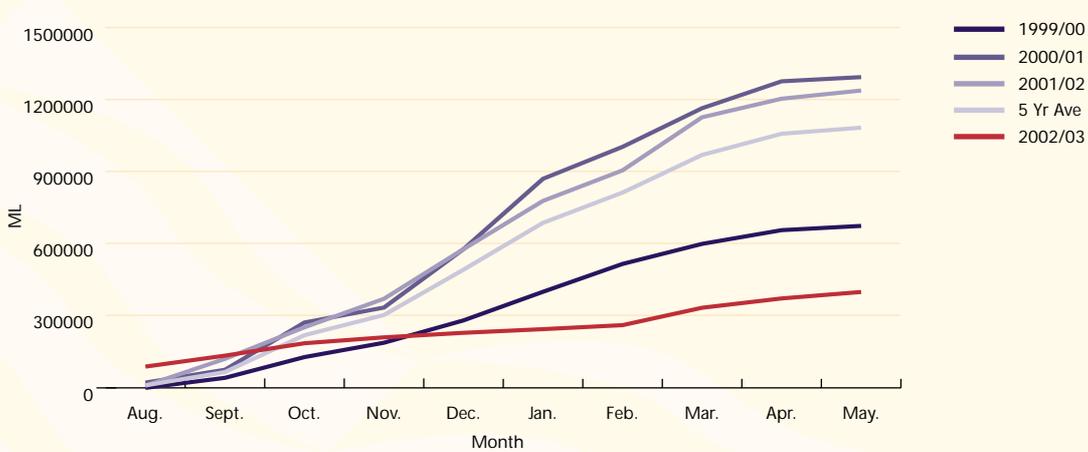


Figure 6 – Murray Irrigation Water Deliveries



Chairman's Report



*Bill Hetherington,
Chairman.*

The past season has been the worst drought in living memory, and hopefully the worst we will ever experience. Inflows into storages and rainfall across the region were at record low levels. The early allocation of 4% rose to only 8%, and stayed there until the end of the season.

With careful management of the channels we were able to provide an additional 3% of allocation to shareholders which helped to erase the 3% overdraw many shareholders had relied on for their stock and domestic water during the long dry summer.

Most of the minimal allocation was used on winter cereals, rather than rice. Several attempts were made to negotiate an affordable borrow with Snowy Hydro to provide water for summer crops, including rice. The final deal offered provided an additional 160,000 megalitres of water, which was taken up on more than 900 holdings, for either autumn watering or carried over to the current season. The deal was a complex one, involving a roll over option and exercise fee.

Since privatisation Murray Irrigation has experienced the two lowest water allocation years on record. Last year Murray Irrigation's board worked hard to lead the organisation through this difficult time. As a result, the company remains in a sound financial position.

The taxation position has been clarified to some extent during the year. The details of this are referred to in Note 4 to the accounts.

We continue to build reserves to ensure sufficient funds to maintain our channel and drainage infrastructure into the future. Investment in mechanisation and remote operation is occurring with relative caution to avoid costly errors.

ACCUMULATED SPECIAL PURPOSE FUNDS	2003	2002
Supply Variation Reserve Fund	Nil	\$3,553,000
Asset Management Renewal Fund	\$18,693,000	\$15,772,000

Call was made on the total balance of the Supply Variation Reserve Fund (\$3,553,000 balance plus 02/03 contributions) to ease the burden on shareholders.

Living Murray Initiative

At the same time as we confronted the most difficult seasonal conditions in living memory, the issue of increased environmental flows emerged through the Murray Darling Basin Commission's (MDBC) Living Murray debate.

Irrigators remain the easiest target in the campaign to claw back water for the environment. The three reference points being considered for increased environmental flows are 350 gegalitres, 750 gegalitres and 1500 gegalitres. This largest option represents all of Murray Irrigation's water entitlements.

The MDBC's Ecological Assessment of Environmental Flow Reference Points for the River Murray System (Interim Report October 2003) identified the need for 1,500 gegalitres for the Murray River now and another 1,500 gegalitres in the future. Since the commissioning of the report the criteria appears to have changed from flows to icons and their needs. This change has not been reflected in the latest report. The icons are:

- Murray Mouth and Coorong
- Chowilla
- Gunbower / Perricoota
- Barmah / Millewa

Murray Irrigation Initiatives

Lacking confidence that the MDBC process would deliver all the facts required for the most momentous decision to be made by Government on water quality and salinity, Murray Irrigation commissioned a wide range of expertise in the areas of science, engineering, economics, environment, social science, media and public relations. As well, Murray Irrigation has set up a working group of area stakeholders to guide the debate.

The research we have commissioned from agribusiness consultants Rendell McGuckian shows that the impact of the 1500 gegalitre Living Murray proposal, if spread equally, would represent a cut of almost 20% in our access to water and could halve the number of farm businesses in our area of operation.

We are continuing to commission our own research and independent analysis, challenging the almost single minded focus

on increased flows to improve the health of the Murray River. Ecology Management Pty Ltd, led by freshwater ecologist Dr Lee Benson has been commissioned to conduct a review of key documents underpinning the Living Murray debate.

The most controversial part of the Living Murray debate is the lack of agreement as to the true state of the health of the Murray River at present. MDBC figures on salinity, turbidity, phosphorus and nitrate content show the health of the river has improved over the last 20 years.

Identified problem areas however, can be addressed and Murray Irrigation agrees with the icon concept.

Last year Murray Irrigation presented a Living Murray process proposal to Government. Many of these ideas were adopted:-

1. We have successfully lobbied for the formation of a panel to review the community engagement in the Living Murray process.
2. Established a vehicle for private enterprise and general public to submit water savings projects (500 projects nominated).
3. Set up an independent panel to review and select these projects.
4. I have been successful in having a productivity and investment panel established as part of the Living Murray initiative, to consider possible improvements to the irrigation industry practices and infrastructure and contributions to river health. Improvements to productivity have been largely neglected in the debate about river health and environmental flows. The focus of this committee will be on greater efficiencies and improvements in production from the available water and industry forecasts of their future development. I have been asked to join the panel, with other members in the process of being finalised.
5. Social/economic studies are in process. Our active role in the Living Murray debate and other aspects of water reform includes regular meetings with state and federal ministers, and an

increased profile in the media. Our focus has been on the decision makers and securing opportunities to be part of the decision making process.

Further aspects of Murray Irrigation's proposals being pursued are:-

1. Setting up a Joint Government enterprise to control funding, designing and constructing works and activities required to bring about improved environmental flows where their need can be identified following research.
2. Prioritise projects.
3. Set timeframe for construction.
4. Monitor benefits.
5. A cost/benefit analysis be presented for public debate on all aspects of selected projects.

Our profile as a major stakeholder and industry leader has greatly increased in the past 12 months. We are regularly contacted by a broad range of media which have included The Australian newspaper, 60 Minutes and Four Corners, rural press, and local media. It is our policy to make comment whenever possible, and to respond to media articles where we can.

National Water Initiative

The announcement of the National Water Initiative by the Council of Australian Governments on 28th August 2003 was an important turning point in the water reform debate. We will continue to make representations to government to ensure our views are heard as the framework for the water rights and national trading regime is developed in the coming months.



Above: The beginning of Murray Irrigation's supply system, the Mulwala Canal offtake at Lake Mulwala.



Right: James Fowler at Mathoura Station with canola.

Chairman's Report

(continued)

Some important elements for which Murray Irrigation has successfully lobbied include:

1. Perpetual access entitlements for a share of the water.
2. Governments to compensate users for changes in their entitlements resulting from changes in government policy.
3. Agreement from the Commonwealth, NSW and Victorian Governments to spend \$500 million over five years on initiatives in the Murray Darling Basin.

However, we cannot be complacent. There is an enormous amount of work to be done both politically and with bureaucrats to deliver the spirit of the National Water Initiative, so that irrigators and irrigation dependent communities can have a more certain future.

Murray Irrigation is always prepared to work with government when problems are identified in the land and water debate and to be part of the rectification process.

The issues we face are complex and challenging and the road ahead is still an uncertain one. However, I am confident that our experienced and skilled team

of directors and managers are capable of ensuring a positive result for our shareholders and this region from the National Water Initiative.

Business development unit

Murray Irrigation plans to establish a business development unit, a significant project that is exploring opportunities for the company and its shareholders in areas of

- Diversification for water use
- Horticulture
- New industries and investment
- Financing

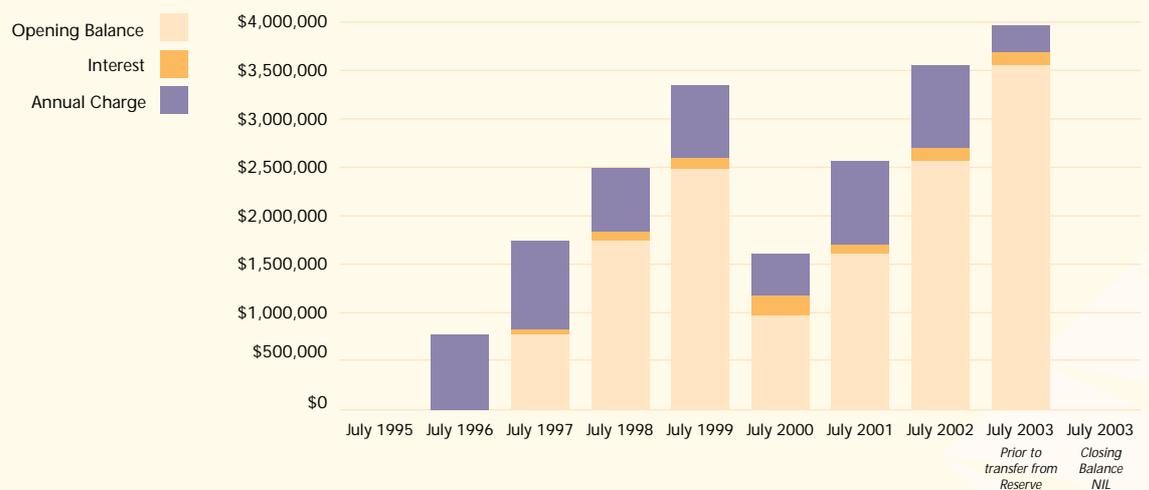
Our area has much to offer:

- Water of highest quality
- Excellent soils
- Climate suitable for most produce.

Water trade

As Murray Irrigation is the biggest water trader in Australia, the company is vitally interested in the forthcoming debate on this issue. Approaches are being made for Murray Irrigation representation at the appropriate forums.

Figure 7 – Supply Variation Reserve Movements



Staff and directors

I thank and acknowledge the important role of staff in our organisation, who accepted reduced working hours for six months to help achieve savings needed to ensure the company would survive through the drought without recourse to more serious measures.

I thank the directors for their assistance during the past year, and their support of drought measures, including a reduction in their fees comparable with that accepted by staff. In fulfilling their duties at a committee and board level, they have enabled Murray Irrigation to be at the forefront of the water debate.

Directors attended a Corporate Governance Course this year conducted by the Australian Institute of Company Directors and the board has since established a Corporate Governance Policy Manual.

The board continues to strive for security of shareholders' water assets and equitable resource management in decision making.

Bill Hetherington

Chairman

24th October 2003



Above: From left, Member for Farrer Sussan Ley, Deputy Prime Minister John Anderson and Murray Irrigation Chairman Bill Hetherington at Murray Irrigation's Deniliquin office, where Mr Anderson outlined details of the National Water Initiative launched in August.

Right: Many landholders have included field peas in their winter cropping program this year.



General Manager's Report



*George Warne,
General Manager.*

Water Resource

We began the irrigation season with the Murray system storages at near record lows, following the worst ever 18 month sequence of inflows. The result was the lowest allocation on record for the Murray Irrigation region last year, at 8% for most of the season. The total carryover from the previous season was 8% of our entitlement, held on 1,552 landholdings. The use of carry-over to secure a start of season supply is an important aspect of water allocation policy for an increasing number of our shareholders wishing to manage seasonal risks.

Irrigated cereals proved important for many irrigators, faced with the prospect of no summer cropping program. Widespread drought and feed shortages and skyrocketing prices for cereals meant even poor crops baled for feed could provide a return. Even baled rice stubble and other straw found ready markets. There was a record water use in August, with many landholders choosing to use all of their small allocation on cereals, rather than save it for summer crops.

Our region's dairy farmers were particularly hard hit during the summer with dwindling water and very high feed prices. Record high water prices further strained budgets as they attempted to provide feed and care for their herds.

The value of trade on the water exchange operated by Murray Irrigation was \$12.63 million. The total volume of water traded was less than the previous year although there were actually more transactions. In addition, there was an estimated \$11.5 million worth of water purchased by shareholders from irrigators in other areas, particularly the NSW Sunraysia and South Australia.

To help secure more water Murray Irrigation approached Snowy Hydro Ltd early in the season to negotiate access to additional water from the Snowy Scheme. At least eight different proposals were put forward during discussions, some of which were unaffordable, and others undeliverable due to major maintenance on crucial Snowy infrastructure being undertaken during the summer.

An early offer put to shareholders was not fully subscribed and did not go ahead. A further deal offered in November to borrow either 10 or 20 per cent of

entitlements for an autumn watering program was taken up on more than 900 holdings, with a total of 160,000 megalitres subscribed.

The water was made available in early March, almost a month earlier than originally anticipated. Many shareholders opted to water pasture or pre-water winter crops. Only 30,000 megalitres of the Snowy Borrow water was carried over by shareholders to the current season.

Supply system

Staff worked extremely hard during the season to minimise losses in the supply system. Escape flows and end of system losses were almost eliminated. An increase in the final allocation at the end of the season to 11% allowed most shareholders to erase any overdraw they had used during the season.

There was a high level of co-operation between the company and shareholders to minimise water losses and maximise the on farm delivery of water. At various times staff undertook night patrols during the season to monitor water deliveries. Despite the difficult season there were only isolated cases of non-compliance.

Transfer of water

During the drought the Mulwala Canal also played a key role in circumventing the Barmah Choke on the Murray River. Our system transferred more than 500,000 megalitres to downstream users including South Australia. The main channels and the Edward River Escape were operated at capacity for much of the season to supply this water, which allowed us to maintain supply levels throughout our system during the summer.

Drought measures

With so little water to deliver last year, it was important the company reduce its expenditure to offset the anticipated shortfall in income from water deliveries. Several maintenance, research and business development projects were put on hold until conditions improved.

The introduction of reduced working hours was a major initiative introduced in response to the drought. It would not have been possible without the co-operation of staff and it applied to staff at all levels. The shorter working week was generally well accepted because all staff were involved, and the initiative was also

supported by the board of directors who agreed to reduce their remuneration proportionately during this period. The agreement for a one day stand down in cases of severe drought has now been included in the new enterprise agreement, finalised during the year.

The initiative allowed us to maintain our full complement of staff, despite the difficult circumstances. The co-operation of staff and directors in supporting the drought leave initiative was greatly appreciated and helped to save almost \$1 million from budgeted expenditure.

Communication initiatives

We realise that timely and easily understood information is important in helping shareholders make business decisions and efforts are continuing to improve our communication.

The faxstream and email distribution lists used for the weekly information sheet Talking Water are now our primary method of communicating with shareholders. They allow us to communicate directly with an increasing number of shareholders, and to quickly provide information about changing water resource conditions. In the last season the fax and email lists also provided important information about blue-green algal blooms in the supply system, as well as details of the water deals negotiated with Snowy Hydro Ltd.

Information and resources are also being added to our website on a regular basis to provide more comprehensive information to shareholders about the company's activities. The website is being used by a growing number of people, both shareholders and others in the local community.

Staff changes

The growing amount and value of business through the water exchange has led to the appointment of a full time water exchange officer. We have also appointed a dedicated share register officer which recognises the importance of the register records to the company and the increase in property and share transactions - sales, amalgamations and subdivisions - across the region.

Information management

Considerable improvements have been made to our reporting databases to ensure staff act as quickly as possible on any maintenance and operational issues and

can closely monitor performance trends.

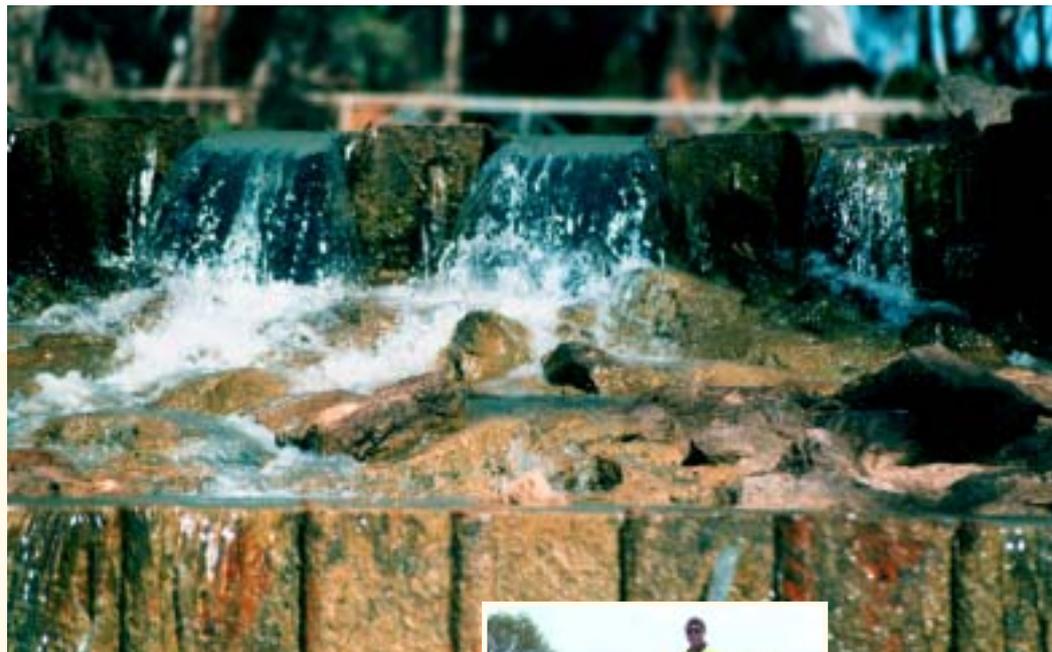
The maintenance and management of corporate information is becoming increasingly important to the company in the light of changing staff roles, staff turnover, contract management and even litigation. We have embarked on a new company wide record system for all documentation, everything from letters and emails to landholding information, contracts and reports.

The commitment and co-operation of staff and directors have helped the company to successfully negotiate one of the most difficult seasons we have ever faced, and ever hope to face. Their efforts and support during the past 12 months have been greatly appreciated.

George Warne

General Manager

24th October 2003



Above: After providing water to South Australia and other downstream users via the Edward River Escape, the low allocation mean escape flows were reduced to just a trickle.

Right: Channel attendant, Alan Maher, with a new regulator which is being trialed in the supply system.

Environment Report



Alex Marshall,
Environment Manager.

Murray Irrigation is committed to protecting our land and water resources. We see sustainable practices as the key to the medium and long-term viability of the business.

Publicity associated with increasing environmental flows for the Murray River over the past year has put the environmental spotlight on water harvesting for irrigation and its impact on river health. However, we have not allowed this to take our focus off the important issue of irrigation sustainability in the landscape.

Despite exceptionally difficult circumstances for the company and its shareholders caused by the worst drought since irrigation commenced in our area, our environmental performance has continued to improve across all key environmental indicators.

Resource use

The climatic conditions in 2002/03 culminated in the worst drought for more than 100 years, and the lowest ever announced allocation experienced by Murray Valley irrigators. Compared to long-term averages, rainfall during the 2002/03 season was 40% at Deniliquin, 52% at Tullakool and 57% at Finley. All weather stations in the Murray Valley experienced above average evaporation during the 2002/03 season.

The bulk water allocation for Murray Irrigation in 2002/03 was 284,901ML resulting in an 8% allocation at the wheel. Losses were 129,589ML the lowest on record in terms of volume. A total of 238,797ML was temporarily transferred into Murray Irrigation in 2002/03 which is a record high in terms of water traded.

In 2002/03, only 43 landholders grew rice compared to 1,017 in 2001/02. The average rice water consumption for the 2002/03 season was 13.2ML/ha, higher than the average of 12.6ML/ha in 2001/02. The increase was a result of high evaporation (120% of annual average) combined with below average rainfall (50% of annual average). No growers exceeded the seasonally adjusted rice crop water use target of 19.0ML/ha set in line with the Rice Environment Policy Advisory Group (REPAG) agreed method of calculation.

For 2002/03 regional average irrigation intensity was 0.53ML/ha or 35% of the average over the previous four years.

The Total Farm Water Balance limit for each landholding was climatically adjusted by a figure of 40% in 2002/03 as the evapotranspiration recorded at Finley and Tullakool was extremely high. Four landholdings exceeded the adjusted Total Farm Water Balance limit and 22 landholdings returned water use between their normal limit and the adjusted figure.

Water quality

Supply water quality was generally unchanged compared to previous years, except for a blue green algae bloom reaching high alert levels in March and April in the Berriquin, Denimein and Deniboota districts. This was a first for the supply system and followed algal outbreaks in the Murray River.

Discharge water quality leaving the area via stormwater escapes into receiving waterways improved significantly in 2002/03. Salt and nutrient loads declined. None of the agricultural chemicals tested for under the chemical contingency plan were detected, which was the best performance the company has recorded. Receiving waterways were monitored for any potential impacts with no evidence of impact on river water quality detected.

Murray LWMP Implementation

The Murray Land and Water Management Plans (LWMPs) this year won the Australian Water Association's National Environmental Merit Award, recognising the efforts of the community in successfully addressing environmental, social and economic issues in the region.

The Murray LWMPs are an extremely important aspect of Murray Irrigation's business. They provide a holistic approach to managing natural resource management issues.

Shareholder commitment to the plans via incentive uptake continued to grow. In 2002/03 record implementation of the LWMPs occurred. Federal, state and local government expenditure on plan works totalled \$8.045 million. Of this \$3.7 million was provided to landholders through a range of incentives for improved on farm management. Our annual survey indicated landholders had contributed a further \$54.9 million to land and water management plan works, to improve the efficiency and sustainability of their operations.

Of the 3,057 landholdings within the Murray LWMP area more than 27% have

accessed funding for a LWMP approved farm plan, while more than 20% have accessed funding for an approved drainage recycle system. More than 17,000ha of perennial vegetation has been established under the incentive scheme since 1996, with landholders actively managing a further 6,336ha of native vegetation under the plans.

Watertable impact

In 2002/03 there was a general decline in the area affected by high (0-2m from soil surface) watertables as has been the case over the previous several years. The recorded area of 5,100ha in March 2003 was the lowest since privatisation. The area affected by watertables within the 0-4m zone also fell by approximately 13%. There has been a cumulative reduction of almost 25% in this 0-4m area between 1997 and 2003.

Beyond compliance

Murray Irrigation's pledge to environmental outcomes in conducting business was exemplified this year through our involvement in a number of external initiatives.

- A 'green power' partnership with Pacific Hydro culminated in the opening of a hydro power generation plant at 'The Drop' in Murray Irrigation's Mulwala Canal. The multi-million dollar power generation plant utilises 6,000 megalitres a day flowing through the turbines to generate 2.5 megawatts of power - enough to service around 1,500 homes.
- Trial implementation of innovative new tools in the form of a digital elevation model which maps terrain and SWAGMAN Farm water balance model began. These tools are expected to improve management of salinity and biodiversity.
- The Inland Saline Aquaculture research continued. This joint venture between Murray Irrigation and NSW Fisheries began in June 2001, with trials using marine species Snapper, Mulloway, and Black Tiger Prawns, as well as Silver Perch, a salt tolerant freshwater fish.
- Wetland watering trials that began in the 2001/02 irrigation season grew further. This year 27 sites were watered compared to 11 sites last year. The area watered increased from 191.1 hectares in 2001/02 to 540 hectares.

The project is a joint initiative of the NSW Murray Wetlands Working Group, Murray Irrigation and the participating landholders. It focuses on providing water to wetlands, depressions and flood runners which may have been isolated for many years as a result of changing land and water use practices.

In the year ahead Murray Irrigation will continue to meet the challenge of balancing cost-effective, quality services while reinforcing our commitment to a sustainable irrigation environment.

Alex Marshall
General Manager
24th October 2003

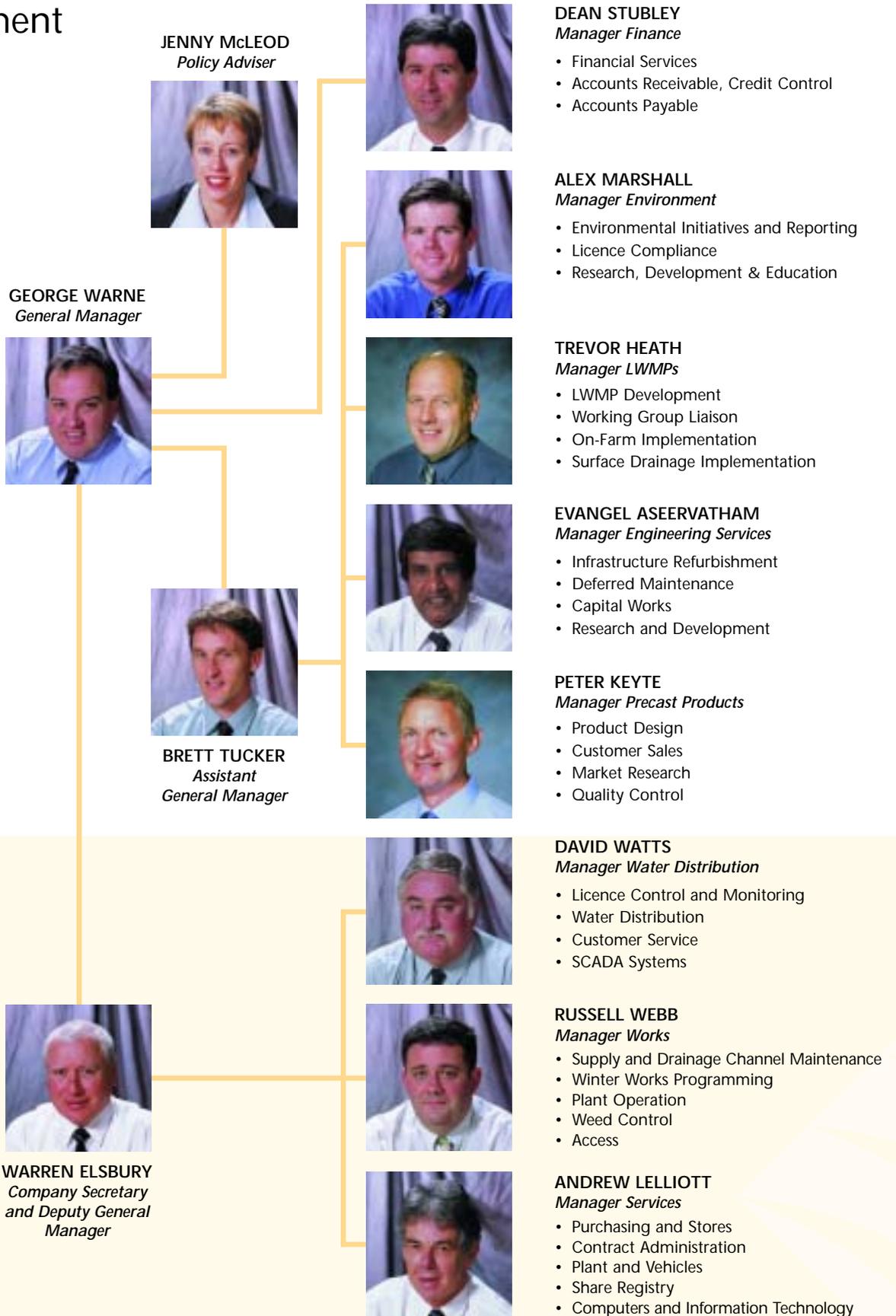


Above: Murray Land and Water Management Plan staff with the Australian Water Association environmental merit award, from left, Michael Pisasale, Rob Wettenhall, Karen Axton, Nick Cullen, Robyn Walker and Fiona McVicker.



Right: Mulloway is one of the fish species being raised in groundwater as part of research at the Inland Saline Aquaculture Research Centre near Wakool.

Management Structure



Information on Directors

MEMBER DIRECTORS

G.G. BALL - Age 56. Landholder and Farmer. Director representing East Berriquin region since November 1995. Member of Murray Lower Darling Customer Service Committee & Deputy Chair of the Barmah/Millewa Forum. Member of Riverina Institute of TAFE Advisory Council.



K.S. BAXTER - Age 51. Landholder and Farmer. Director representing East Berriquin region since February 1995. Member of Murray Darling Basin Environmental Flows Project, Hume to Yarrowonga Waterway Management Group, Murray Lower Darling Community Reference Committee. Chairman of Murray Irrigation Ltd Environment Committee.



S.G. ELLIS, Deputy Chairman - Age 45. Landholder and Farmer. Director representing Wakool region since February 1995. Member of the Murray Ground Water Management Committee.



M.D. GOUDIE - Age 62. Landholder and Farmer. Director representing Deniboota region since February 1995. Past Chairman of Deniboota Landholders Association.



W.L. HETHERINGTON, Chairman - Age 65. Landholder and Farmer. Director representing West Berriquin region since February 1995. Executive Officer North Deniliquin - Mundiwa Drainage Scheme. Member of the Murray Darling Basin Commission Water Savings Committee and Productivity and Investment Panel. Past Chairman of Australian Poll Dorset Association. Chairman of Murray Irrigation Ltd Remuneration Committee and Murray Irrigation Ltd Resources Committee.



D.T. LIPHUYZEN - Age 46. Landholder and Farmer. Director representing Denimein region since February 1995. Chairman of Denimein Landholders Association. Chairman of Denimein Land & Water Management Plan Implementation Committee.



I.H. MORTON - Age 66. Landholder and Farmer. Director representing Wakool region since November 1995. Member of the Murray Catchment Management Board.

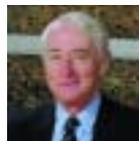


I.A. GILLETT - Age 48. Landholder and Farmer. Director representing East Berriquin since December 2001. Member of Berriquin Land and Water Management Plan Implementation Committee.



NON-MEMBER DIRECTORS

A.F. BATLEY, AM; FCA - Age 72. Chartered Accountant. Director since February 1995. Formerly Senior Partner of large national firm of chartered accountants. Former National Councillor of the Institute of Chartered Accountants. Chairman of Bass Strait Oil Trust, Cairn Energy Asia Limited and Darrell Lea Chocolate Group. Chairman of Murray Irrigation Ltd Audit Committee.



B.J. IRELAND, FIE (Aust), FASCE - Age 67. Civil Engineer. Director since February 1995. Former Managing Director of Snowy Mountains Engineering Corporation Limited. Forty years in engineering and construction in Australia and overseas. Chairman of Murray Irrigation Ltd Infrastructure Committee. Board member of the Southern and Eastern Integrated Transport Authority.



Directors' Report

Your Directors present their report together with the accounts of the Company for the financial year to 31 July 2003 and the Auditor's report thereon.

Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report:-

G.G. Ball	M.D.Goudie
A.F. Batley	W.L. Hetherington
K.S. Baxter	B. J. Ireland
S.G. Ellis	D.T. Liphuyzen
I.A. Gillett	I. H. Morton

Further details are included on page 15 of this annual report.

Directors' Interests

The relevant interests of the Directors in the share capital of the Company are as follows:

	<i>Direct</i>	<i>Indirect</i>
	<i>Shareholding</i>	<i>Shareholding</i>
MEMBER DIRECTORS		
G.G. Ball	Nil	1,686
K.S. Baxter	Nil	5,111
S.G. Ellis	1,000	Nil
I.A. Gillett	Nil	2,408
M.D. Goudie	809	1,577
W.L. Hetherington	358	737
D.T. Liphuyzen	Nil	810
I.H. Morton	Nil	4,885
NON-MEMBER DIRECTORS		
A.F. Batley	Nil	Nil
B.J. Ireland	Nil	Nil

Meetings of Directors

The following table sets out the number of meetings of the Directors held during the financial year to 31 July 2003, and the numbers of meetings attended by each Director.

Number of meetings held: 11

Number of meetings attended by:

G.G. Ball	11	I.H. Morton	9
K.S. Baxter	11	I.A. Gillett	10
S.G. Ellis	10	A.F. Batley.....	10
M.D. Goudie.....	11	B.J. Ireland	11
W.L. Hetherington...	11		
D.T. Liphuyzen.....	11		

Principal Activity

The principal activity of Murray Irrigation Limited during the period consisted of the supply of water to land-holders within an area from the Murray River to Billabong Creek, extending 150 kilometres to the west and 100 kilometres to the east of Deniliquin.

Results:

The results of the Company for the year were as follows:

	\$'000	
	2003	2002
Revenue from Irrigation	19,392	24,908
Employee Benefits	(6,706)	(6,809)
Materials and Contracts	(5,567)	(5,535)
Depreciation and Amortisation	(5,523)	(5,218)
Bulk Water Supply	(4,802)	(5,525)
Borrowing Costs	(217)	0
Other	(811)	(1,160)
Profit/(Loss) from Irrigation	(4,234)	661
Other Revenue	8,325	10,331
Profit/(Loss) before Tax	4,091	10,992
Income Tax Expense	(18,534)	(10,830)
Net Profit/(Loss)	<u>(14,443)</u>	<u>162</u>

Revenue from contributed assets

Under the Corporations Act, compliance with the accounting standards is mandatory. Accounting standard AASB 1004 requires that infrastructure works, when constructed, to the extent to which their cost has been met from Government funding, be treated as revenue of the Company even though the receipt of the funding is not revenue of the Company. Your directors are concerned that this accounting treatment may be misleading and are of the view that neither the receipt of the Government funding nor the value of the works constructed should be recognised as revenue. Accordingly the Directors feel obliged to explain that in

their view the receipt of the dowry should not be recognised as revenue by way of contributed assets of MIL for the following reasons:

1. The Directors are of the view that the Funding Deed (which does not truly reflect agency) does not set out the common intention of MIL and the State.
2. The Company and the State have now agreed in principle on a revised deed for dowry funding providing for the Company to act as agent of the State. A ruling has been sought from the Commissioner of Taxation as to the effect of this deed for tax purposes. Upon receipt of a favourable ruling the State and the Company will sign the amended deed.

Dividends

The Company is a non-profit organisation and no operating surplus may be paid or transferred by way of a distribution of profit to the Members.

Review of Operations

A total of 399,740 megalitres of water was supplied for the year to 31 July 2003. This is 555,789 megalitres below the five year average. Further details are included on pages 2-13 of this annual report.

Environmental regulations

Murray Irrigation Limited is subject to New South Wales environmental legislation in relation to water and land use. The Company holds an Environmental Protection Licence issued by the NSW Environment Protection Authority. This Licence requires discharges to waterways to be below specified levels of contaminants. There have been no breaches of the Licence during the financial year to 31st July 2003.

Changes in the State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the year, not otherwise disclosed in this report and the accounts.

Matters Subsequent to the End of the Financial Period

Other than for the effects of the current low water allocation, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

Likely Developments and Expected Results of Operations

The Company's results are influenced by the level of its operating costs and the amounts which are required to be set aside to reserves, and the amounts which are derived by way of income from the sale of water, and other sources. Due to the unpredictability of available resource, Government demands and river management it is not possible to predict results.

However, Directors will endeavour to protect the viability of the business in all circumstances. Further information on likely developments in the Company's operations and the expected results of operations have not been included in this report as, in the opinion of the Directors, this may prejudice the interests of the Company.

Indemnification and Insurance of Officers

During the financial year the Company paid a premium indemnifying officers of the Company. A condition of the contract is that the nature of the liability indemnified and the premium payable not be disclosed.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Directors' Report

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under Section 237 of the Corporations Act 2001.

Rounding of Amounts to Nearest Thousand Dollars

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars.

Board Committees

As at 31st July 2003, Murray Irrigation Limited had five Board Committees. The following table sets out the number of committee meetings held during the year, and the number of meetings attended by Committee members.

Environment Committee:	
Number of Meetings Held:	4
<i>Number of meetings attended by:</i>	
K.S. Baxter (Chairman)	4
S.G. Ellis	3
M.D. Goudie	3
W.L. Hetherington	3

Infrastructure Committee:	
Number of Meetings Held:	4
<i>Number of meetings attended by:</i>	
B.J. Ireland (Chairman)	4
I.A. Gillett	4
I.H. Morton	3
W.L. Hetherington	4

Audit Committee:	
Number of Meetings Held:	4
<i>Number of meetings attended by:</i>	
A.F. Batley (Chairman)	4
G.G. Ball	4
D.L. Liphuyzen	4
W.L. Hetherington	3

Remuneration Committee:	
Number of Meetings Held:	1
<i>Number of meetings attended by:</i>	
W.L. Hetherington (Chairman)	1
A.F. Batley	1
S.G. Ellis	1

Resources Committee:	
Number of Meetings Held:	3
<i>Number of meetings attended by:</i>	
W.L. Hetherington (Chairman)	3
S.G. Ellis	2
K.S. Baxter	3

Auditor

Johnsons MME continue in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the Directors.

W. L. Hetherington	S.G.Ellis
<i>Chairman</i>	<i>Deputy Chairman</i>
<i>24th October 2003</i>	

Murray Irrigation Limited

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 JULY 2003

Financial Statements

		<i>2003</i>	<i>2002</i>
	<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>
Revenue from Irrigation Undertaking	2	19,392	24,908
Employee Benefits		(6,706)	(6,809)
Materials and Contracts		(5,567)	(5,535)
Depreciation and Amortisation Expense		(5,523)	(5,218)
Bulk Water Supply Expense		(4,802)	(5,525)
Borrowing Costs		(217)	0
Other Expenses	3(b)	(811)	(1,160)
Profit/(Loss) from Irrigation Undertaking			
Before Income Tax		(4,234)	661
Other Revenue from Ordinary Activities	2	8,325	10,331
Profit/(Loss) from Ordinary Activities			
Before Income Tax	3	4,091	10,992
Income Tax Expense Relating to Ordinary Activities	4	(18,534)	(10,830)
Net Profit/(Loss)		(14,443)	162

The above statement of financial performance should be read in conjunction with the accompanying notes.

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Murray Irrigation Limited
STATEMENT OF FINANCIAL POSITION
 as at 31 JULY 2003

	<i>Notes</i>	<i>2003</i> <i>\$'000</i>	<i>2002</i> <i>\$'000</i>
CURRENT ASSETS			
Cash Assets	5	24,795	31,241
Receivables	6	20,472	13,979
Inventories	7	1,094	734
Other	8	174	176
Other Financial Assets	9	0	1,062
Total Current Assets		46,535	47,192
NON-CURRENT ASSETS			
Other Financial Assets	9	6,150	6,150
Property, Plant and Equipment	10	232,850	229,545
Deferred Tax Asset	11	846	0
Total Non-Current Assets		239,846	235,695
TOTAL ASSETS		286,381	282,887
CURRENT LIABILITIES			
Payables	12	7,239	9,582
Current Tax Liabilities	13	35	12,107
Provisions	14	745	938
Interest Bearing Liabilities	15	4,000	0
Other	16	1,140	314
Total Current Liabilities		13,159	22,941
NON-CURRENT LIABILITIES			
Deferred Tax Liabilities	17	27,701	0
Provisions	18	1,850	1,832
Total Non-Current Liabilities		29,551	1,832
TOTAL LIABILITIES		42,710	24,773
NET ASSETS		243,671	258,114
EQUITY			
Contributed Equity	19	186,452	186,452
Reserves	20(a)	81,754	79,003
Retained Profits (Accumulated Losses)	20(b)	(24,535)	(7,341)
TOTAL EQUITY	21	243,671	258,114

The above statement of financial position should be read in conjunction with the accompanying notes.

Murray Irrigation Limited

STATEMENT OF CASH FLOWS

for the year ended 31 JULY 2003

**Financial
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	<i>Notes</i>	<i>2003</i> \$'000	<i>2002</i> \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from Government		13,189	15,190
Water and Other Income		20,233	25,940
Payments to Suppliers and Employees		(33,494)	(36,961)
Payments to Australian Tax Office		(12,470)	0
Receipts from Government for GST		1,143	1,615
		<u>(11,399)</u>	<u>5,784</u>
Interest on Investments		1,872	1,478
Loan Costs paid		217	0
Net Cash Inflow/(Outflow) from Operating Activities	28	<u><u>(9,310)</u></u>	<u><u>7,262</u></u>
 CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity of Investment Bond		1,062	0
Payment for Property, Plant and Equipment		(3,269)	(4,845)
Proceeds from Sale of Property, Plant and Equipment		1,071	1,274
Net Cash Used in Investing Activities		<u><u>(1,136)</u></u>	<u><u>(3,571)</u></u>
 CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings		10,000	0
Repayment of Borrowings		(6,000)	0
Net Cash from Financing Activities		<u><u>4,000</u></u>	<u><u>0</u></u>
NET INCREASE/(DECREASE) IN CASH HELD		(6,446)	3,691
Add Cash at the beginning of the Financial Year		31,241	27,550
CASH AT THE END OF THE FINANCIAL YEAR	5	<u><u>24,795</u></u>	<u><u>31,241</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) *Income Tax*

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit (after allowing for permanent differences). The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(b) *Acquisition of Assets*

The cost method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus costs incidental to the acquisition.

(c) *Revenue Recognition*

Revenue is recognised for the major business activities as follows:

(i) *Water Sales*

Revenue from the sale of water is recognised when the water is delivered to customers. Fixed water charges, asset levy charges and other fixed charges are recognised on a pro-rata basis throughout the year.

(ii) *Recognition of Revenue Arising from Contributed Assets*

The Company was incorporated on 23 February 1995 by the NSW State Government (the State) as a vehicle to privatise the irrigation undertaking known as Murray Irrigation Area and Districts, an arm of the NSW Department of Infrastructure Planning and Natural Resources (DIPNR) previously the NSW Department of Land and Water Conservation (DLWC). The irrigation infrastructure was transferred from the DIPNR to the Company on 23 February 1995. The ownership of the Company was transferred from the State to individual irrigators on 3 March 1995.

The State agreed that as part of the privatisation process it would bear the cost of refurbishing the irrigation infrastructure assets to a value of \$82.5 million (indexed for inflation, balance remaining \$43.7 million (2002, \$49.9 million)) in order to make good past deterioration of the infrastructure. The mechanism by which this was effected was a Funding Deed under which the State is to provide the funds to the Company over 15 years as reimbursement for the cost of works carried out in accordance with works programs approved by the State. Assets constructed are contributed to the Company to control and manage.

The Company is also the implementing authority in respect of a number of Land and Water Management Plans. Expenditure on these plans is reimbursed to the Company by the State (including monies sourced from the Natural Heritage Trust), irrigators and Shires. Some of these funds are expended on the construction of drainage assets which are contributed to the Company to control and manage. The accounts have been prepared so as to recognise the value of contributed assets as income as the cost of the approved works programs is incurred by the Company. This is because the Corporations Act 2001 requires the directors to prepare financial

Financial Statements 31 July 2003

statements that comply with the relevant accounting standards. The effect of Accounting Standard AASB1004: Revenue, is to require the Company to recognise the contributed assets when and only when it is probable that future economic benefits embodied in the asset will eventuate and the asset possesses a cost or other value that can be measured reliably. Under AASB1004, an asset must have the essential ingredient of being under the control of the Company and this happens when the particular work has been completed. The nature of the assets and the fact that the assets cannot be physically detached from the infrastructure already owned by the Company means that the economic substance of the transaction is that the Company gains control of these assets at the time of construction. Therefore they are brought to account as revenue at this time in accordance with the requirements of Australian Accounting Standard AASB1004.

As the terms of the Funding Deed did not truly reflect the agency nature of the arrangements as envisaged by the State and the Company, discussions were held with the State at a senior level which has resulted in agreement on the terms of a new Funding Deed. This is referred to in further detail at Note 4.

(d) Inventories

Raw materials and stores are stated at the lower of weighted average cost and net realisable value.

(e) Recoverable Amount of Non-Current Assets

The recoverable amount test does not apply to Murray Irrigation Limited as the service potential of its non-current assets are primarily related to the provision of goods and services rather than the generation of net cash flows.

(f) Depreciation of property, plant and equipment

Depreciation has been calculated on a straight line basis to write off the cost of assets over their expected useful lives. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

Water Infrastructure	10 to 100 years
Leased Assets	40 to 100 years
Buildings and Cottages	40 years
Plant & Equipment	8 to 10 years
Office Equipment	3 to 14 years
Motor Vehicles	4 to 5 years

(g) Leased Non-Current Assets

Certain assets comprising shire road bridges and culverts, have been leased by the Company from public and local authorities for a period of 99 years. The Company is obliged to maintain these assets during the period of the leases. These assets, in view of the long term nature of the leasing arrangements and the future economic benefits that are likely to eventuate, are included in non-current assets, on the basis of control. (Note 10).

(h) Non-Current Assets Constructed by the Company

The cost of non-current assets constructed by the Company includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of variable and fixed overhead.

(i) Maintenance and Repairs

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

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(j) Employee Entitlements

Wages and Salaries and Annual Leave

Liabilities for wages and salaries and annual leave are recognised and are measured as the amount unpaid at the reporting date at expected pay rates in respect of employees' services up to that date including oncosts.

Long Service Leave

A liability for long service leave is recognised, and is measured as the present value of the expected future payments including oncosts to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Superannuation

The Company contributes in accordance with the Government Superannuation Levy as a minimum, together with an additional contribution for some employees in line with contractual arrangements. There are no liabilities for superannuation.

Sick Leave

Employees are entitled to ten days sick leave per annum on a cumulative basis. No liability is brought to account as the expected future payments are unlikely to exceed the sick leave entitlements accruing in future periods.

(k) Interest on Water Debtors Accounts

Interest is charged on water debtors accounts which are overdue and outside of the normal credit arrangements.

(l) Doubtful Debts

A provision for doubtful debts is raised against water debtors accounts where the collection of the debt appears to be doubtful and may not be received within the following 12 months.

(m) Cash

For the purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(n) Transfers to (from) Reserves

(i) Contributed Assets

Revenue arising from Government Agencies and Landowners in the form of contributed assets, less the amount of any loss on disposal of Water Infrastructure Assets, is transferred to the Contributed Assets Reserve. The purpose of this reserve is to report the Company's equity resulting from Government and landholder asset contributions separately from profits of the Company's irrigation undertaking.

(ii) Supply Variation

The purpose of this reserve is to report the amounts set aside to provide the Company with adequate funds to financially withstand periods of extended low volume water supply to Members.

Income arising from the Supply Variation Levy is transferred to the Supply Variation Reserve Fund. Refer Note 5 (ii).

The 1995 Business Plan provides that if in any year, less than 1.0 million megalitres are sold, the difference between actual sales and 1.0 million megalitres at the water usage price is to be withdrawn from the Supply Variation Reserve and together with the levy for that year be made available for general usage.

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31 July 2003**

(iii) General Reserve

The purpose of this reserve is to report any surplus income arising from the operations of the business. This reserve has been established in order to assist the Company in the event of any unforeseen contingency. The Company is a not for profit entity and in accordance with the articles of the Company is unable to distribute profits to the shareholders.

(o) *Land and Water Management Plans*

As stated in Note 1(c)(ii) the Company is the implementing authority in respect of a number of Land and Water Management Plans. Amounts outstanding from both Government and Irrigators are brought to account as receivables. The net unexpended amount of cash and receivables are held on behalf of the Plans and are therefore brought to account as a liability, Funds Held as Implementing Authority. Refer Note 16.

(p) *Accounting policy in respect to Financial Instruments*

Murray Irrigation Limited's accounting policies for financial instruments are detailed in Note 31(a).

(q) *Rounding of Amounts*

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars.

(r) *Comparatives*

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

2. REVENUE

	\$'000	
	2003	2002
Revenue from operating activities		
Income from Water Sales	12,027	17,186
Supply Variation Levy	282	856
Asset Maintenance and Renewal Levy	2,125	2,053
Precast External Sales	1,297	1,471
Other Income	1,671	1,283
	<u>17,402</u>	<u>22,849</u>
Revenue from outside the operating activities		
Revenue on sale of property, plant and equipment	1,071	1,274
Interest on funds of Irrigation Undertaking	919	785
	<u>1,990</u>	<u>2,059</u>
Revenue from Irrigation Undertaking	<u>19,392</u>	<u>24,908</u>
Other Revenue from Ordinary Activities outside the operating activities		
Taxation Settlement Interest Income/(Expense)	875	(1,277)
Interest - Supply Variation, Asset Maintenance and Renewal Funds	981	688
Land and Water Management Plans – Contributed Assets	2,139	3,729
Infrastructure - Contributed Assets	4,330	7,191
	<u>8,325</u>	<u>10,331</u>
Total Revenue	<u>27,717</u>	<u>35,239</u>

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3. PROFIT FROM ORDINARY ACTIVITIES

(a) Net Gains and Expenses

Profit from ordinary activities before income tax includes the following specific net gains and expenses:

	\$'000	
	2003	2002
Expenses		
Net (gain)/loss on disposal of property plant and equipment	(161)	(170)
Depreciation:		
Buildings	55	53
Plant and Equipment	1,695	1,596
Infrastructure	3,127	2,914
Total Depreciation	<u>4,877</u>	<u>4,563</u>
Amortisation Leased Assets	646	655
Provision for Doubtful Debts	24	6
Provision for Employee Entitlements	(175)	86

(b) Individually Significant Items

Other Expenses includes the following items:

Taxation Advice	359	456
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4. INCOME TAX

Income Tax Expense

The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:

	\$'000	
	2003	2002
Profit from ordinary activities before income tax expense	<u>4,091</u>	<u>10,992</u>
Income tax calculated @ 30% (2002 - 30%)	1,227	3,298
Tax effect of permanent differences		
Non-deductible depreciation and amortisation	<u>461</u>	<u>456</u>
Income tax adjusted for permanent differences	<u>1,688</u>	<u>3,754</u>
Under provision in previous years	<u>16,846</u>	<u>7,076</u>
Income Tax Expense	<u><u>18,534</u></u>	<u><u>10,830</u></u>

There continues to be significant uncertainty in respect to the Company's taxation position, however the position has been clarified to some extent during the year and accordingly the Company has now brought to account an additional taxation expense in respect of prior years of \$17 million. The remaining uncertainties are described below.

Government contributions for Land and Water Management Plans

It is the Company's view that the Land and Water Management Plans (LWMP) do not create any net tax liability and accordingly no provision has been made in the financial statements. However, in the course of the negotiations with the Australian Tax Office, the Company lodged an application for a Private Binding Ruling on the deductibility of LWMP outlays. To date no ruling has been made.

The taxation returns for the period from the date of privatisation to 31 July 2002 submitted in June 2003 included all expenditure relating to the LWMP drainage works as fully deductible in the year of expenditure. The Company proposes to make the same claim in respect of the year ended 31 July 2003 and its tax liabilities have been calculated on this basis.

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If a final determination on this issue is adverse, approximately \$9.2 million of the deferred taxation liability referred to in Note 17 may become immediately payable.

Any adverse ruling would be contested.

Government contributions for Infrastructure Assets

In October 2002 the Company and the Commissioner of Taxation of the Commonwealth of Australia ("the Commissioner") signed a Deed of Settlement in relation to the principles to be applied for tax purposes to the Government contributions under the funding deed for infrastructure assets from privatisation to 31 July 2002. The tax treatment of income and expenditure for the year ended 31 July 2003 remains uncertain.

During July 2003 the Company and the State agreed in principle on a revised deed ("the Amended Deed") providing for the Company to act as agent of the State with respect to the receipt and outlay of funding for infrastructure works ("the dowry arrangements").

The Company and the State intend to only sign this deed after receipt of a favourable ruling from the Commissioner of Taxation as to its effect for tax purposes. Accordingly in September 2003 the Company sought a ruling from the Commissioner that if the Amended Deed was executed, the dowry arrangements post 31 July 2002 would not give rise to assessable income. To date no ruling has been made. The tax liabilities brought to account in these financial statements assume a favourable ruling will be obtained from the Australian Taxation Office. Should an unfavourable ruling be received the Company may be liable for additional tax of up to \$1.3 million plus any interest or penalties, which has not been brought to account in these financial statements.

The Deed of Settlement referred to above required the Company to pay the Commissioner \$12.3 million (including \$1.5 million for interest to October 2003). This was based on an estimated tax liability for the period to 31 July 2002 which was calculated using the then available but incomplete information. The Company in July 2002 provided \$12.1 million in the Accounts in respect of the liability for the period to 31 July 2002, being \$10.8 million for income tax and \$1.3 million for interest to that date. The taxation returns submitted in June 2003 resulted in the Company calculating its tax liability as \$2.5 million plus \$0.4 million interest. A refund of the \$9.9 million overpayment was received by the Company in September 2003, and has been brought to account in these financial statements in Note 6. The tax position continues to be addressed by the Company, its advisors, the State and the Australian Taxation Office. The circumstances are such that the ultimate tax position of the Company remains uncertain.

5. CURRENT ASSETS - CASH ASSETS

	\$'000	
	2003	2002
Cash at bank and on hand	<u>24,795</u>	<u>31,241</u>
Restrictions are imposed on access to certain of the above funds as follows:		
Retained Balance - Restricted (Note (i) below)	0	3,348
Supply Variation Reserve Fund - Restricted (Note (ii) below)	0	3,553
Asset Maintenance and Renewals Restricted (Note (iii) below)	12,543	8,560
Unrestricted Funds	<u>12,252</u>	<u>15,780</u>
	<u>24,795</u>	<u>31,241</u>

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- (i) The Retained Balance funds have now been accessed by MIL as general funds due to 2003 being the second year since privatisation MIL has recorded a loss from the Irrigation Undertaking.
- (ii) Under Article 16.1(c)(iv) B of the Articles of Association, a fund is to be established to be known as the Supply Variation Reserve Fund to provide the Company with adequate funds to financially withstand periods of extended low volume water supply to Members. The Supply Variation Reserve funds have been fully drawn down in 2003 (Note 1n(ii)).
- (iii) Under Article 16.1(c)(iv) A of the Articles of Association, a fund is to be established to be known as the Asset Maintenance and Renewal Fund, to cover capital expenditure for refurbishment, replacement and long term maintenance of the Company's water infrastructure assets. The amount set aside is calculated after considering the advice of independent external consulting engineers. The amount so set aside totals \$18,693,000 (2002 \$15,772,000) comprising cash \$12,543,000 (2002 \$8,560,000) and bonds \$6,150,000 (2002 \$7,212,000), (Notes 5 and 9).

6. CURRENT ASSETS - RECEIVABLES

	<i>\$'000</i>	
	<i>2003</i>	<i>2002</i>
Water Debtors	4,536	5,090
Less Provision for Doubtful Debts	(145)	(121)
	<u>4,391</u>	<u>4,969</u>
Land and Water Management Plans (Note 30(ii))		
- Due from irrigators	597	507
Government Agencies		
- Asset Maintenance and Renewal	2,335	4,846
- Land and Water Management Plans (Note 30(ii))	1,827	2,553
- The Commissioner of Taxation	9,924	0
- Other	885	298
	<u>14,971</u>	<u>7,697</u>
Other Debtors	513	806
	<u>20,472</u>	<u>13,979</u>

7. CURRENT ASSETS - INVENTORIES

	<i>\$'000</i>	
	<i>2003</i>	<i>2002</i>
Raw Materials and Stores	1,094	734
	<u>1,094</u>	<u>734</u>

8. CURRENT ASSETS - OTHER

	<i>\$'000</i>	
	<i>2003</i>	<i>2002</i>
Prepayments	174	176
	<u>174</u>	<u>176</u>

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9. OTHER FINANCIAL ASSETS

Asset Maintenance and Renewal Fund	\$'000	
	2003	2002
Investments - at cost (Note (i) below)		
Current Asset		
Semi-Government Bonds	0	1,062
Non-Current Asset		
Commonwealth Indexed Bonds	6,150	6,150
	<u>6,150</u>	<u>7,212</u>

Listed Investments - Market Value

The aggregate market value of investments listed is:	\$'000	
	2003	2002
Semi-Government Bonds	0	1,213
Commonwealth Indexed Bonds	7,417	7,121
	<u>7,417</u>	<u>8,334</u>

(i) Restrictions are imposed on access to these funds refer Note 5 (iii)

10. NON-CURRENT ASSETS - PROPERTY PLANT AND EQUIPMENT

	\$'000	
	2003	2002
Freehold Land - At Cost (Note (i) below)	2,059	2,059
Water Infrastructure - At Cost	193,256	181,605
Less Accumulated Depreciation	21,128	18,023
	<u>172,128</u>	<u>163,582</u>
Construction-in-Progress - At Cost	15,309	22,398
Leased Assets - At Cost (Note 1(g))	39,125	36,701
Less Accumulated Amortisation	4,614	3,976
	<u>34,511</u>	<u>32,725</u>
Buildings and Cottages - At Cost (Note (ii) below)	2,161	2,130
Less Accumulated Depreciation	436	381
	<u>1,725</u>	<u>1,749</u>
Plant and Equipment - At Cost	6,174	6,008
Less Accumulated Depreciation	2,735	2,405
	<u>3,439</u>	<u>3,603</u>
Office Equipment - At Cost	1,359	1,315
Less Accumulated Depreciation	1,029	972
	<u>330</u>	<u>343</u>
Motor Vehicles - At Cost	5,011	4,648
Less Accumulated Depreciation	1,662	1,562
	<u>3,349</u>	<u>3,086</u>
Total Non-Current Assets	<u>232,850</u>	<u>229,545</u>

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- (i) The most recent valuation of freehold land was carried out by the State Valuation Office using value in use method. The valuations as at 1 March 2003 valued the Company land at \$ 2.8 million.
- (ii) The most recent valuation of buildings and cottages was carried out by the State Valuation Office based on written down replacement cost. The valuations as at 1 March 2003 valued the Company buildings at \$ 2.5 million.

Reconciliations

Reconciliations of the carrying amount of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

\$'000	Carrying amount 1 August 2002	Additions	Disposals	Transfers	Depreciation	Carrying amount at 31 July 2003
Land	2,059					2,059
Water Infrastructure	163,582		133	11,806	3,127	172,128
Construction in Progress	22,398	7,182		(14,271)		15,309
Leased Assets	32,725		33	2,465	646	34,511
Buildings	1,749	31			55	1,725
Plant & Equipment	3,603	692	143		713	3,439
Office Equipment	343	169			182	330
Motor Vehicles	3,086	1,664	601		800	3,349
	229,545	9,738	910	0	5,523	232,850

11. NON-CURRENT ASSETS – DEFERRED TAX ASSET

	\$'000	
	2003	2002
Future Income Tax Benefit	<u>846</u>	<u>0</u>

12. CURRENT LIABILITIES – PAYABLES

	\$'000	
	2003	2002
Trade Creditors	6,954	8,909
Other Creditors	285	673
	<u>7,239</u>	<u>9,582</u>

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13. CURRENT LIABILITIES – CURRENT TAX LIABILITIES	\$'000	
	2003	2002
Provision for Interest on Income Tax	0	1,277
Provision for Income Tax	35	10,830
	<u>35</u>	<u>12,107</u>

14. CURRENT LIABILITIES – PROVISIONS	\$'000	
	2003	2002
Employee Entitlements (Note 1(j))	<u>745</u>	<u>938</u>

15. CURRENT LIABILITIES – INTEREST BEARING LIABILITIES	\$'000	
	2003	2002
Bank Borrowings (i)	<u>4,000</u>	<u>0</u>

(i) Borrowings secured by mortgage on properties and floating charge over assets.

16. CURRENT LIABILITIES – OTHER	\$'000	
	2003	2002
Land & Water Management Plans		
– Funds held as Implementing Authority (Notes 1(o) and 30(ii))	<u>1,140</u>	<u>314</u>

17. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITY	\$'000	
	2003	2002
Provision for Deferred Income Tax	<u>27,701</u>	<u>0</u>

18. NON-CURRENT LIABILITIES – PROVISIONS	\$'000	
	2003	2002
Employee Entitlements (Note 1(j))	<u>1,850</u>	<u>1,832</u>

19. CONTRIBUTED EQUITY	Shares 000's		\$'000	
	2003	2002	2003	2002
(a) Share Capital				
Ordinary shares	1,447	1,447	<u>186,452</u>	<u>186,452</u>

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20. RESERVES AND RETAINED PROFITS

	<i>\$'000</i>	
	2003	2002
(a) Reserves:		
Contributed Assets	81,754	75,450
Supply Variation	0	3,553
General	0	0
	<u>81,754</u>	<u>79,003</u>
Movements:		
Contributed Assets - (Note 1(n)(i))		
Balance - 1 August 2002	75,450	64,658
Transfer from Retained Profits	6,304	10,792
Balance - 31 July 2003	<u>81,754</u>	<u>75,450</u>
Supply Variation - (Note 1(n)(ii))		
Balance - 1 August 2002	3,553	2,574
Transfer from Retained Profits	411	979
Transfer to Retained Profits	(3,964)	0
Balance - 31 July 2003	<u>0</u>	<u>3,553</u>
General - (Note 1(n)(iii))		
Balance - 1 August 2002	0	4,268
Transfer (to) Retained Profits (Accumulated Losses)	0	(4,268)
Balance - 31 July 2003	<u>0</u>	<u>0</u>

(b) Retained Profits (Accumulated Losses)

	<i>\$'000</i>	
	2003	2002
Balance 1 August 2002	(7,341)	0
Net Profit/(Loss)	(14,443)	162
Transfer to Contributed Assets	(6,304)	(10,792)
Transfer to Supply Variation Reserve	(411)	(979)
Transfer from Supply Variation Reserve	3,964	0
Transfer from General Reserve	0	4,268
Balance 31 July 2003	<u>(24,535)</u>	<u>(7,341)</u>

(c) Nature and Purpose of Reserves

Refer Note 1(n).

21. EQUITY

	<i>\$'000</i>	
	2003	2002
Total equity at the beginning of the financial year	258,114	257,952
Total changes in equity recognised in the statement of financial performance	(14,443)	162
Total equity at the end of the financial year	<u>243,671</u>	<u>258,114</u>

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22. RELATED PARTIES

Directors

The names of persons who were Directors of Murray Irrigation Limited at any time during the financial year are as follows:

Directors were in office for this entire period unless otherwise stated.

G.G. Ball; A.F. Batley; K.S. Baxter; S.G. Ellis; I.A. Gillett; M.D. Goudie; W.L. Hetherington; B.J. Ireland; D.T. Liphuyzen; I.H. Morton.

Remuneration and Retirement Benefits

Information on remuneration of Directors is disclosed in Note 23.

Loans to Directors

There are no loans to Directors.

Other Transactions of Directors and Director-Related Entities

During the period the Company sold water for cropping and other activities to Directors or their Director-related entities within a normal relationship on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with the Directors or their Director-related entities at arm's length in the same circumstances. The value of these transactions with Directors or their Director-related entities totaled \$217,000 (2002, \$286,000).

23. REMUNERATION OF DIRECTORS

	\$'000	
	2003	2002
Income received, or due and receivable by Directors of the Company:	<u>295</u>	<u>299</u>

The numbers of Company Directors whose total income was within the specified bands were as follows:

	\$'000	\$'000	2003	2002
0 - 10	-	10	0	1
10 - 20	-	20	0	1
20 - 30	-	30	7	6
30 - 40	-	40	2	2
40 - 60	-	70	1	1

24. REMUNERATION OF AUDITORS

During the year the auditor earned the following remuneration:

	\$'000	
	2003	2002
Audit of the financial report	36	36
Other assurance services	8	16
Total audit and other assurance services	<u>44</u>	<u>52</u>
Taxation services	23	0
Total remuneration	<u>67</u>	<u>52</u>

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25. CONTINGENT LIABILITIES

A native title claim lodged by the Yorta Yorta Clan for unspecified rights to water and lands in the Murray Valley was heard by the Federal Court, ruling against the claimants.

The finding of an appeal by the claimants, heard by the full bench of the Federal Court, also ruled against the claimants.

A further appeal to the High Court heard in May 2002 was dismissed in December 2002.

26. COMMITMENTS FOR CAPITAL EXPENDITURE

There were no commitments for expenditure at 31 July 2003, apart from the Deferred Maintenance program estimated at \$6.9 million (2002, \$6.7 million), for which full reimbursement will be received through the Water Administration Ministerial Corporation. (Note 1(c)(ii)).

Proposed expenditure under the Land and Water Management Plans is estimated at \$6.0 million (2002, \$5.0 million) and will only be committed on the basis that full reimbursement will be received from the Water Administration Ministerial Corporation and MIL Irrigator levies. (Note 1(c)(ii)).

27. SEGMENT INFORMATION

The Company is involved primarily in the supply and drainage of irrigation water to shareholder customers within the Southern Riverina area of New South Wales.

28. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	\$'000	
	2003	2002
Operating Profit/(Loss) After Income Tax	(14,443)	162
Add: Irrigators Land and Water Management Plan Levies	826	354
Non-Cash Operating Expenditure -		
Depreciation and Amortisation	5,523	5,218
Increase (Reduction) in Provision for Doubtful Debts	24	6
Net (Gain)/Loss on Disposal of Non-Current Assets	(161)	(170)
Less: Contributed Assets	(6,469)	(10,920)
Changes in Assets and Liabilities:		
Add: (Increase) Decrease in Current Assets	(6,875)	603
(Increase)/Decrease in future income tax benefit	(846)	0
Increase/(Decrease) in provision for tax	(12,072)	12,107
Increase/(Decrease) in provision for deferred tax	27,701	0
Add: Increase (Decrease) in Operating Liabilities	(2,518)	(98)
Net Cash Provided by/Used in Operating Activities	(9,310)	7,262

29. NON-CASH FINANCING AND INVESTING ACTIVITIES

	\$'000	
	2003	2002
Contributed assets from Government	6,469	10,920

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30. LAND & WATER MANAGEMENT PLANS

i) Details of income and expenditure on the Land & Water Management Plans are as follows:

	\$'000									
	Berriquin		Cadell		Denimein		Wakool		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Income										
Government Agencies	3044	4237	1360	1466	695	800	953	1188	6052	7691
Irrigator Contribution	1248	1283	206	161	130	112	364	468	1948	2024
	4292	5520	1566	1627	825	912	1317	1656	8000	9715
Expenditure										
Capital Works	1687	3290	149	8	0	3	303	428	2139	3729
Expenses Incurred (Farm Rebates, Monitoring, Education & Administration)	2069	2156	1249	1461	757	862	960	1153	5035	5632
Net Funds Accumulated/ (Expended)	536	74	168	158	68	47	54	75	826	354

ii) Details of the Land and Water Management Plans Funds Held as Implementing Authority are as follows:

	\$'000									
	Berriquin		Cadell		Denimein		Wakool		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Opening Balance - 1 August 2002 (Note 16)	(520)	(594)	861	703	365	318	(392)	(467)	314	(40)
Add Net Funds Accumulated/(Expended)	536	74	168	158	68	47	54	75	826	354
Closing Balance - 31 July 2003 (Note 16)	16	(520)	1029	861	433	365	(338)	(392)	1140	314
Less:										
Outstanding Irrigator Debtors (Note 6)	392	322	53	40	37	28	115	117	597	507
Outstanding Government Debtors (Note 6)	1068	1036	341	698	263	336	155	483	1827	2553
Total Debtors	1460	1358	394	738	300	364	270	600	2424	3060
Plan Surplus/(Funded by Murray Irrigation Limited)	(1444)	(1878)	635	123	133	1	(608)	(992)	(1284)	(2746)

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31. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

Murray Irrigation Limited's accounting policies for financial instruments, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:

Recognised Financial Instrument	Note	Accounting Policies	Terms and Conditions
FINANCIAL ASSETS			
Receivables - Water Debtors	6	Water debtors are carried at nominal amounts due less any provision for doubtful debts.	Water debtors are invoiced by 30th June of each year with payment in full due by 31st July or half due by 31st July and the other half plus interest due 29th February. Interest is calculated at the rate stipulated in the NSW Water Management Act 2000.
- Government Debtors	6	Government debtors are carried at nominal amounts.	Government debtors reimburse Murray Irrigation for expenditure on asset maintenance and renewal, or Land and Water Management Plan contracts. Amounts are due on 30 day terms and are interest free.
Investments - Bonds	9	Investments are stated at cost. Interest is recognised in the Financial Statements when earned.	Investments mature between 2005 and 2010 with interest ranging from 4.31% to 4.77%, however when the indexation of the capital value is included the real interest rate ranges from 6.34% to 7.22% and will vary according to future Consumer Price Index movements.
FINANCIAL LIABILITIES			
Accounts Payable	12	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to Murray Irrigation.	Liabilities are normally settled on 28 day terms.
Interest Bearing Liabilities	15	Liabilities are recognised for the amount to be paid on maturity of the Bill.	Liabilities are Bills taken out for a specified period with interest paid in advance.

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(b) Interest Rate Risk

Murray Irrigation Limited's exposure to interest rate risk and the effective interest rates of financial assets and liabilities both recognised and unrecognised at the balance date are as follows:

2003	Fixed interest maturing in:					Total Carrying Amount Balance Sheet	Weighted Average Effective Interest Rate
	Floating Interest Rate	1 Year or Less	Over 1 to 5 Years	More than 5 Years	Non Interest Bearing		
	\$000	\$000	\$000	\$000	\$000	\$000	%
FINANCIAL ASSETS							
Cash	6,804	17,988			3	24,795	4.43%
Receivables - Water Debtors		5,133				5,133	9.00%
Government Agencies					14,971	14,971	N/A
Other					513	513	N/A
Investment Bonds - Government			857	5,293		6,150	4.46%*
	6,804	23,121	857	5,293	15,487	51,562	
FINANCIAL LIABILITIES							
Trade Creditors and Accruals					7,239	7,239	N/A
Interest Bearing Liabilities		4,000				4,000	6.19%
		4,000			7,239	11,239	

* Refer comments at Note 31(a)

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2002	Fixed interest maturing in:					Total Carrying Amount Balance Sheet	Weighted Average Effective Interest Rate
	Floating Interest Rate	1 Year or Less	Over 1 to 5 Years	More than 5 Years	Non Interest Bearing		
	\$000	\$000	\$000	\$000	\$000	\$000	%
FINANCIAL ASSETS							
Cash	13,169	18,069			3	31,241	4.42%
Receivables - Water Debtors		5,597				5,597	9.00%
Government Agencies					7,697	7,697	N/A
Other					806	806	N/A
Investment Bonds - Government			857	5,293		6,150	4.14%*
Semi-Government		1,062				1,062	4.25%*
	13,169	24,728	857	5,293	8,506	52,553	
FINANCIAL LIABILITIES							
Trade Creditors and Accruals					9,582	9,582	N/A
					9,582	9,582	

* Refer comments at Note 31(a)

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(c) Net Fair Values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, at the balance date are as follows:

	<i>Total Carrying Amount as per the Statement of Financial Position</i>	<i>Aggregate Net Fair Value</i>
Financial Assets		
Cash	24,795	24,795
Receivables -		
Water Debtors	5,133	5,133
Government Agencies	14,971	14,971
Other	513	513
Government Investment Bonds	6,150	7,417
	<u>51,562</u>	<u>52,829</u>
Financial Liabilities		
Trade Creditors and Accruals	7,239	7,239
Interest Bearing Liabilities	4,000	4,000
	<u>11,239</u>	<u>11,239</u>

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Recognised Financial Instruments

<i>Cash, cash equivalents and short term investments</i>	<i>The carrying amount approximates fair value because of their short term to maturity</i>
<i>Trade Receivables & Payables</i>	<i>The carrying amount approximates fair value</i>
<i>Investment Bonds</i>	<i>The fair value is the market value of the bonds at the balance date</i>
<i>Interest Bearing Liabilities</i>	<i>The carrying amount approximates fair value because of the short term to maturity</i>

(d) Credit Risk Exposure

Murray Irrigation Limited's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount or market value of those assets, whichever is the greater.

Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 19 to 39:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
- (b) give a true and fair view of the Company's financial position as at 31 July 2003 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.

In the Directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001, and

- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

W.L. Hetherington

Chairman

Deniliquin

24th October 2003

S.G. Ellis

Deputy Chairman

*To The Members of
Murray Irrigation Limited*

Independent Audit Report

Scope

We have audited the financial report of Murray Irrigation Limited (the Company) for the year ended 31 July 2003 as set out on pages 19 to 40. The Company's Directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Act 2001 in Australia so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of the Company is in accordance with:

- (a) the Corporations Act 2001, including:
- (i) giving a true and fair view of the Company's financial position as at 31 July 2003 and of its performance for the financial year ended on that date; and

- (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements.

Inherent Uncertainty

Regarding Taxation

Without qualification to the opinion expressed above, attention is drawn to the following matter. As disclosed in note 4 there are significant uncertainties in respect to the company's taxation liabilities. The financial report has been prepared on the basis of the company's interpretation of the taxation law. However it has lodged requests for private binding rulings with the Australian Taxation Office in respect to the deductibility of landcare outgoings and the assessability of government contributions of infrastructure assets to confirm its interpretation. To date no rulings have been made. Should adverse rulings be received, the company may incur additional taxation liabilities of up to \$1.3 million plus any interest and penalties, for which a provision has not been made in the financial statements. Further, there is a potential for an amount of up to \$9.2 million which is currently provided for as a non-current liability (refer note 17 - Provision for Deferred Tax), to become immediately payable.

Johnsons MME

Chartered Accountants

Hugh McKenzie-McHarg

PARTNER

Albury

27th October 2003

Corporate Governance Statement

The Directors of Murray Irrigation Limited aspire to the highest standards of corporate governance.

A description of the Company's main corporate governance practices is set out below.

The Board of Directors

The Board of Directors takes ultimate responsibility for corporate governance and operates in accordance with the following broad principles:

- the Board shall consist of 10 Directors of whom eight, to be known as "Member Directors", must be Members of the Company, and two Directors who may not be Members of the Company ("Non-member Directors");
- Member Directors must be drawn from the following geographic regions:

East Berriquin	3 Members
West Berriquin	1 Member
Denimein	1 Member
Deniboota	1 Member
Wakool	2 Members

The Member Directors are subject to election by shareholders at annual general meetings, and are elected for a four year term, one-half retiring every second year. Non-member Directors are elected every four years.

The names of the Directors of the Company are set out in the Directors' Report on page 16.

To assist it in fulfilling its responsibilities the Board has established Environment, Infrastructure, Audit, Remuneration and Resources committees. Each of these committees has its own terms of reference, detailing the manner in which the committee is to operate.

Chairman

The Chairman of the Board is elected by the full Board.

Independent Professional Advice

Directors have the right in connection with their duties and

responsibilities as Directors, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, which will not be unreasonably withheld.

Environment Committee

The primary objective of the committee is to assist the Board in fulfilling its environmental management responsibilities relating to environmental compliance and the implementation of the Land and Water Management Plans (LWMP) for the Company's area of operation. In addition the committee will:

- oversee and appraise the environmental audits conducted by the Company and external agencies;
- maintain, by scheduling regular meetings, open lines of communication among the Board, external agencies and LWMP committees to exchange views and information;
- serve as an independent and objective party to review the environmental and LWMP information presented by management and regulatory authorities;
- determine the adequacy of the Company's environmental management;
- carry out other tasks of an environmental or LWMP nature referred to it by the Board;
- formally review the administration of environmental and LWMP agreements with Government.

The names of the members of the Environment Committee during the year are set out in the Directors' Report on page 18.

Infrastructure Committee

The objectives of the committee are to assist the Board in fulfilling its responsibility for the maintenance, refurbishment and renewal of the water supply and drainage infrastructure of the

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Company. In particular it will -

- evaluate the adequacy of infrastructure management controls;
- consider and monitor management, refurbishment and renewal strategies;
- ensure the priorities determined by management are consistent with Board policy;
- monitor the relevance of the Company infrastructure policy;
- review all works programs before submission to the Board and Government and assess the performance and cost of their implementation;
- review compliance with the deed for the funding of works with the Government and the Wakool Tullakool Sub Surface Drainage Scheme;
- ensure the adequacy of infrastructure risk management controls;
- investigate and evaluate new technology, particularly automation and mechanisation, remote systems communications, water level and flow control, and sealing technology.

The names of the members of the Infrastructure Committee during the year are set out in the Directors' Report on page 18.

Audit Committee

The primary objective of the Committee is to assist the Board in fulfilling its responsibilities relating to accounting and reporting practices of the Company and other relevant issues.

These objectives also include:

- oversee and appraise the quality of audits conducted by the Company's external auditor;
- maintain by scheduling regular meetings, open lines of communication among the Board and the external auditors to exchange views and information;
- serve as an independent and objective party to review the financial information presented by

management to shareholders and regulatory authorities;

- determine the adequacy of the Company's accounting controls;
- consider investment and cash management strategies proposed by management and monitor performance of those strategies on a regular basis;
- carry out any other tasks of a financial nature referred to it by the Board;
- formally review the administration agreements with the Government.

The committee is also charged with the responsibility of recommending to the Board the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit.

The names of the members of the Audit Committee during the year are set out in the Directors' Report on page 18.

Remuneration Committee

The primary objective of the committee is to assist the Board in fulfilling its responsibilities in relation to the conditions of employment and remuneration of senior management.

These objectives also include:

- recommend to the Board of Directors the annual remuneration, bonuses and other incentives for senior management;
- consider and recommend to the Board any changes in the terms and conditions of employment of senior management;
- review the recommendations of the General Manager as to the annual remuneration, bonuses and other incentives for his immediate subordinates;
- consider any recommendations from the General Manager concerning his immediate subordinates relative to any change in their terms and conditions of employment.

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- review the principles proposed to be applied by the General Manager in conjunction with his immediate subordinates, in setting the annual remuneration levels, bonuses and incentives for other staff;
- consider recommendations from the General Manager as to the form of any proposed incentive scheme.

The names of the members of the Remuneration Committee during the year are set out in the Directors' Report on page 18.

Resources committee

The primary objective of this committee is to assist the Board of Directors in ensuring that appropriate resources are available to the Company to enable it to meet its obligations and plans. Resources include water, materials, plant and equipment, labour and contractor services. The committee is responsible for prioritising all projects competing for resources and recommending to the Board the level of resources required. Whilst other committees are responsible for formulation of policy in their respective areas all policy projects requiring additional resources are prioritised by the Resources Committee.

The names of the members of the Resources Committee during the year are set out in the Directors' Report on page 18.

All committees report to the full Board after each committee meeting and relevant papers and minutes are provided to all Directors.

Ethical Standards

The Board has adopted a code of conduct which sets out the ethical standards expected of all Directors. The Code of Conduct provides as follows:

1. A Director must act honestly, in good faith and in the best interests of the Company as a whole.
2. A Director has a duty to use due care and diligence in fulfilling the

functions of office and exercising the powers attached to that office.

3. A Director must use the powers of office for a proper purpose, in the best interests of the Company as a whole.
4. A Director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interests of all stakeholders of the Company.
5. A Director must not make improper use of information acquired as a Director.
6. A Director must not take improper advantage of the position of Director.
7. A Director must not allow personal interests, or the interest of any associated person, to conflict with the interests of the Company.
8. A Director has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board of Directors.
9. Confidential information received by a Director in the course of the exercise of the Director's duties remains the property of the Company and it is improper to disclose it, or to allow it to be disclosed, unless that disclosure has been authorised by the Company, or is required by law.
10. A Director should not engage in conduct likely to bring discredit upon the Company.
11. A Director has an obligation, at all times, to comply with the spirit, as well as the letter of the law and with the principles of this code.

The code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of integrity and professionalism.

The remuneration of Directors is determined from time to time by the Company in General Meeting.

Company Directory

Board of Directors

Bill Hetherington, Chairman
Stewart Ellis, Deputy Chairman
Kelvin Baxter
Ian Morton
Gordon Ball
Max Goudie
Daniel Liphuyzen
Ian Gillett
Alan Batley, External Director
Barry Ireland, External Director

General Manager

George Warne

Company Secretary

Warren Elsbury

Head Office

MURRAY IRRIGATION LIMITED
443 Charlotte Street
Deniliquin NSW 2710
Telephone: (03) 5881 9300
Facsimile: (03) 5881 9334

Auditors

JOHNSONS MME
520 Swift Street
Albury NSW 2640

Bankers

NATIONAL AUSTRALIA BANK
269 Cressy Street
Deniliquin NSW 2710

Engineering Consultants

HALLIBURTON KBR
186 Greenhill Road
Parkside Adelaide SA 5063

Solicitors

COWLEY HEARNE
Level 10, 60 Miller Street
North Sydney NSW 2060
FRANCIS KELLY & GRANT
144 End Street
Deniliquin NSW 2710

Murray Irrigation Limited is a private irrigation company, formed under the Irrigation Corporations Act (1994), that provides irrigation supply and drainage services for its shareholder irrigators.



MURRAY IRRIGATION LIMITED

A.B.N. 23 067 197 933



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