

AT A GLANCE

CORPORATE STRUCTURE

Established 1995
Unlisted public Company

HEAD OFFICE

Deniliquin

REGIONAL OFFICES

Finley and Wakool

WATER ACCESS LICENCES

NSW Murray Regulated River as at 30 June 2018:

- 819,590 units general security – non-government
- 193,826 units general security – other
- 279,786 units conveyance
- 121,704 units supplementary water
- 117 units high security – irrigation
- 3,170 units high security – town

LANDHOLDINGS SUPPLIED

2,153

STAFF (FTE)

	Permanent	Max-term contracts
Murray Irrigation	102.5	18
PIIOP	1	13.3
On farm efficiency program	2.8	2
MILCast	16	1

AREA OF OPERATIONS

724,000ha

REGIONAL POPULATION

30,000 approximately

GROSS VALUE AGRICULTURE PRODUCTION (MURRAY)

\$1.6b GVAP (Murray region, 2016-17 ABS)

SUPPLY SYSTEM

2,778km gravity-fed earthen channels

SUPPLY POINTS

938 extra-large outlets
1,821 large outlets
252 small outlets
1,243 stock and domestic outlets

FIVE-YEAR AVERAGE WATER USE ON FARM

724GL

DRAINAGE SYSTEM

1,419km gravity-fed earthen channels

SUB-SURFACE DRAINAGE CATCHMENT

25,000ha

SUB-SURFACE DRAINAGE SYSTEM

115km pipes, 54 pumps, 2,100ha evaporation basins

ACCREDITED ESCAPES

Capacity 3,350ml/day (four escapes)

CUSTOMER PROFILE

(as at June 2018)



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ANNUAL REPORT SUMMARY 2018



CHAIRMAN'S REPORT

In the 12 months covered by this report, recurring themes - modernisation, performance, opportunity and recognition - continue to rise above the static of the day to day operations of the Company.

The Company has upgraded its infrastructure and has improved the efficiency of water delivery operations that are now capable of merging with the new and emerging technologies of the digital age. It seems that almost every advancement in technology has an immediate application in agriculture. Murray Irrigation's modernisation accommodates start of season and network filling practices previously unavailable. In future years this new facility will generate efficiencies in the system and provide enhanced services to customers. The MIL network is now many years ahead of those operating elsewhere in the state and CEO Michael Renehan, the management team and staff and contractors are to be congratulated for delivering and commissioning this work with a minimum of disruption.

Whilst on farm efficiencies and improvements are the sole responsibility of farmers, environmental water managers must be required to apply the highest levels of efficiency rigour to their operations. It is essential that this same rigour is applied to the management of environmental water where success should be measured by the achievement of specific environmental outcomes.

GOVERNANCE

Just as there has been a modernisation of the Company's assets, so too has there been a modernisation of the Company's governance and a renewal and streamlining of our relationship with landholder associations and Southern Riverina Irrigators (SRI).

At the beginning of the period under review, the Company's board comprised six-member directors and an independent. That board resigned in November last year and an interim board was appointed in its place. The members of that interim board comprised former members of the board as well as successful local business leaders who had the singular aim of providing members with the opportunity to create a board that would concentrate on the oversight and strategic direction of the Company and help to contribute to the prosperity of the region.

With the support and participation of the five landholder associations and SRI, the interim board conducted a series of meetings across the footprint. The board engaged with a cross section of customers and went to extraordinary lengths to gather the views of emerging leaders and younger farmers whose refreshing feedback and insights demonstrated that the future of the region is in good hands.

A NEW ERA

Armed with feedback from those meetings and associated surveys, the interim board felt confident in putting several constitutional changes to an extra ordinary general meeting of members. The most significant of the changes was the ability to appoint up to three Independent Directors immediately who could bring expertise in governance, finance and business practice.

INDUSTRY REPUTATION

Despite the board's resolve to concentrate on the Company, there are external issues that successive boards have been forced to consider: climate, drought, technology, the price of water, water reform, the Basin Plan and the politicisation of it. The bottom line is that about one-third of the water entitlements have left the Company's service area.

Irrigation suffered a major hit to its reputation with the airing of an ABC Four Corners program that cast a long and damaging shadow over the industry. That single program spawned a far-reaching program of reform within the NSW Government that has led to the greatest threat to Murray Irrigation and its customers: the loss of organic knowledge within the lead department dealing with water and the industry's social licence to operate. No one has put it better than the current Chairman of the Natural Resources Access Regulator who told the NSW Irrigators' Council: "There are elements in government and the irrigation sector who have created a rod for your back...people have blackened your name and your industry".

A best practice, highly compliant entity like Murray Irrigation is therefore saddled with the same handicap as other areas of the state where they will take many years to catch up to our standard of operations. As a direct consequence of this new social and political environment, dealing with government is more difficult, more structured and subjected to more scrutiny than ever before. In response, the Company has developed consistent reach into government departments and ministerial offices by creating a reputation as the authoritative voice in the sector and a contributor in the development of policy.

THE BASIN PLAN

The Company earlier partnered with several local entities in funding the preparation of independent research that indicated, in an average season, a \$120M loss in regional production, a loss of rice production of about 30 percent and a reduction in dairy of one fifth.

About eight months later, the MDBA claimed that since 2001 in our region, only seven percent of the 37 percent decline in agricultural employment was due to the Basin Plan. Regardless of the accuracy or not of those figures, that is a massive hit to regional prosperity.

APPRECIATION

Those who have followed the board's evolution in the last year will know that this is my first year on the board, my first year as Chairman and my first report to members. The legacy of previous boards is that they oversaw the modernisation of one of the most advanced irrigation systems in the world and the most modern in Australia. Every member of the Company should be thankful for their contribution and that of their families. I'd also like to thank my fellow director Waander Van Beek with whom I made the transition from the interim board to the current board and I'd like to thank members of the interim board who gave so generously their time in helping to restore stability to the Company's governance and oversight. Their guidance and experience throughout this process was truly appreciated. Finally, it is a pleasure to welcome the new members of the board. I look forward to working with each of them in developing a positive future for Murray Irrigation.



PHIL SNOWDEN
CHAIRMAN

FINANCIAL PERFORMANCE

Segment information for the reporting period:

	MIL	MILCast	PIIOP Round 2	PIIOP Round 3	Total
	2018	2018	2018	2018	2018
	'000s	'000s	'000s	'000s	'000s
On farm Delivery (GL)	786	-	-	-	786
Revenue					
Irrigation activities	34,096	-	-	-	34,096
MILCast external sales	-	4,827	-	-	4,827
Total revenue	34,096	4,827	-	-	38,923
Cost of goods sold					
Bulk water supply expenses	(11,643)	-	-	-	(11,643)
MILCast cost of sales	-	(3,504)	-	-	(3,504)
Total cost of goods sold	(11,643)	(3,504)	-	-	(15,147)
Gross profit	22,453	1,323	-	-	23,776
Expenditure					
Wages	(12,456)	(509)	(4)	-	(12,969)
Operations	(5,416)	(43)	(6,106)	321	(11,244)
Corporate and administrative	(2,475)	(170)	(210)	(4,380)	(7,235)
Total expenditure	(20,347)	(722)	(6,320)	(4,059)	(31,448)
EBITDA	2,106	601	(6,320)	(4,059)	(7,672)
Depreciation	(9,931)	(84)	-	-	(10,015)
Operating EBIT	(7,825)	517	(6,320)	(4,059)	(17,687)
Other income	1,492	-	317	-	1,809
EBIT	(6,333)	517	(6,003)	(4,059)	(15,878)
Interest received					
Asset Management and Renewal Reserve (AMRR)	1,202	-	-	-	1,202
Other	1,244	1	-	-	1,245
Total interest received	2,446	1	-	-	2,447
Abnormal items	(2,087)	(5)	-	-	(2,092)
Provisions/adjustments	790	-	-	-	790
Net profit/(loss) before tax and PIIOP revenue	(5,184)	513	(6,003)	(4,059)	(14,733)
PIIOP revenue – Grant funding	-	-	5,779	31,587	37,366
Net profit/(loss) before tax, inc PIIOP revenue	(5,184)	513	(224)	27,528	22,633

No segment assets or liabilities are disclosed because there is no measure of segment liabilities regularly reported to the chief operating decision makers.

CHIEF EXECUTIVE OFFICER'S REPORT

Just over one year ago, in the midst of the final phase of the PIIOP rollout, we prepared for rainfall of 63mm at Deniliquin, 58.6mm at Finley and 78.2mm at Tullakool. Today I prepare this report in the distressing environment of a state-wide drought and a dry start to the 2018 season

Those extremes clearly demonstrate the dynamics of the environment in which the Company and its customers operate which, when added to policy uncertainty and political expediency, sap the confidence of our industry in general and this region specifically.

Yet in the midst of such uncertainty and disquiet, the Company delivered 786GL on farm, with an 89 percent efficiency level. We also made resource distributions totalling 88GL in the first half of the reporting period.

The Company finalised one of the most significant infrastructure investments in the region with the commissioning of 90 regulator sites and the automation of 2,279 outlets under the auspices of PIIOP2. The upgraded network enabled the Company to fulfil more than 20,000 orders, 91 percent of which were delivered on the day requested.

Last year we signalled that the Company would be restructured into three operating units: Delivery, Asset Management and Business Development. As that structure began to take shape, it became apparent that a better approach would be the creation of Water Delivery, Asset Management and Major Projects, supported by Business Services and Corporate Affairs functions. This approach is already paying dividends with a clear mandate for water delivery as a priority, a complete redevelopment of our approach to asset management which saved \$1.8m in planned capital expenditure, and an innovative approach to the pursuit of opportunities in irrigation where our considerable experience in delivering major projects has real value.

FINANCIAL PERFORMANCE

Despite the positive water delivery result, the Company continued to exercise caution with expenditure and kept costs as low as possible. Operating costs were down by \$2.5m on the previous year, primarily due to reductions in overheads in a lighter, leaner organisation.

However, these cost reductions were offset by extra expenses in abnormal items such as the costs associated with board and governance reform.

Total irrigation revenue for 2017/18 was \$34.09m, including 6GL of water deliveries for the environment. The EBITDA position of the Company improved by 12 percent with a result of \$2.106m. The EBIT was a loss of \$6.3m, which was higher than last year's \$2.4m loss, primarily due to increased depreciation of \$2.9m and abnormal expenses of \$1.5m.

The total delivery last year of 792GL (which included environmental water) confirmed a previous decision to provide for an impairment of the Company's water assets. The prediction of a low allocation and a significant under-utilisation of our assets in 2018/19 will continue to justify impairment. The financial performance of MILCast has been significantly improved and reversed from last year's loss with a 57 percent increase in sales and a turnover of \$5.74m which generated a gross profit of \$2.1m and an EBIT of \$0.8m.

SAFETY, VALUES AND PEOPLE

The Company's lost time injury frequency rate (LTIFR) has reduced from 20 in 2015 to 2.44 in 2018. This outstanding performance was achieved because of a cultural shift in our workforce that clearly reflected the values being rolled out throughout the year: wellbeing, accountability, teamwork, embrace change and respect.

CUSTOMER ENGAGEMENT

The Company continues to believe the best way to improve its performance is by feedback, measurement, reporting and review. While 84 percent of water orders were placed online for example, this year we introduced a customer interaction, records and action system to benchmark, measure and improve our levels of service, engagement and follow-up. More than 21,000 interactions were recorded by the new system during the year.

POLICY AND GOVERNMENT

The Company made both confidential and public submissions in response to various requests from government bodies throughout the year. These included but are not limited to three separate submissions to the Water Reform Action Plan, the Matthews Enquiry findings, the management of environmental water (Senate), the Snowy Licence Review, MDBA economic analyses, CEWH investment framework, the five-year review of the Basin Plan by the Productivity Commission, IPART cost sharing and Prerequisite Policy Measures.

The Chairman and I, along with senior managers, have met with both the administrative and political arms of government up to ministerial level to pursue the interests of the Company and the wider region.

SUMMARY

The Company has completed one of the most significant asset, organisational, cultural and governance evolutions in its history. External factors that have had no bearing on Company performance have nevertheless detracted from operational achievements that the executive and their employees have worked to deliver. Now that we have delivered our equivalent of 'broadband to the gate', we want further collaboration with specialist groups to identify and rollout any and all developments that can take advantage of the network's modernisation. We operate in an age where there is a rapid stream of technology and innovation occurring on farm and in agricultural ancillary services such as weather prediction and production management. We are confident that the projects we've delivered will place the region in a strong position and the business transformation we've undergone has prepared us to meet future challenges head-on.



MICHAEL RENEHAN
CHIEF EXECUTIVE OFFICER