

Chairman's address

November 2018



I will now present my Chairman's address. I will focus my address on where we are up to since the new board has taken up their positions in June this year. The previous 12 months are covered off in the annual report, which I encourage you all to read.

When I first nominated as a director of Murray Irrigation, I saw it as a challenge and an opportunity to influence the future direction of the company. I have certainly had that challenge over the last 12 months. The board and I are continuing to work on the endless list of issues and opportunities that present themselves for the benefit of Murray Irrigation, our shareholders and customers, the broader community and the environment.

This current board was constituted only five months ago and among our first priorities has been to identify and agree to some clear commitments. They are:

Customer water – YOUR water - it is our highest priority

This company exists to deliver that water long-term and cost effectively. We want to ensure MIL's financial sustainability and we are targeting ways to address an annual EBIT shortfall which this year was \$6.3 million.

Our operations will provide a benefit and complement the activities of our shareholders. We want to increase the utilisation of MIL assets to an optimum point where usage is balanced against the capacity of the canal

In addition to these commitments, we will work with river operators and environmental water holders to maximise the efficiency of the entire Murray system.

The board also wants to contribute to the economic prosperity of the region by establishing the MIL footprint as a premier agricultural investment location

Murray Irrigation is a water delivery company. This infrastructure that we are custodians of was set up in conjunction with the Snowy Mountains Scheme. This was visionary at the time and the importance and value to the region and nation of critical assets like the Mulwala Canal should not be underestimated.

I believe our staff and former directors have done a great job in modernizing this asset and operating it to new levels of efficiency. Testament to this was the 5% efficiency allocation we were able to deliver to you early in September this year.

The CEO will go into greater detail, but it is worth acknowledging that we have enjoyed a relatively trouble-free transition from manual to remote control operations under PIOP2 and PIOP 3.

Tonight I want to focus on 4 areas:

1. Allocation

This is traditionally not an area Murray irrigation would consider its core business or an area over which it has any control. Our allocations are made up of what's left when everything else is accounted for. But it has been overlooked how big an impact the efficiency of the river system has on our allocation.

I wish to express my concerns for those who are suffering from the drought and from the zero-allocation operating environment. The company is determined to identify specific rules and arrangements that need to be amended so that our shareholders do not find themselves in such a predicament in years to come.

You will be aware that this board has agreed to an interim canal and escapes agreement 'til 30th June next year.

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The agreement is temporary because neither MIL nor WaterNSW is happy with where we've landed yet both organisations recognise the need to acknowledge the greater good of an imperfect, temporary agreement. There is no point hanging out for a better deal when the opportunities to derive income for the company and benefits for our shareholders are being foregone. I did make a positive observation from the signing of the agreement when both the State and Federal Ministers were quick to publicise the agreement and in doing so expressed their belief in the importance of the company's infrastructure in general and the Mulwala canal specifically.

However, long term this agreement must benefit Murray Irrigation, its shareholders & customers, the broader community and the environment.

I believe there is considerable waste in the delivery of water in the river system. The changed characteristics of water entitlements owned by the government in how they are being used and delivered is having a material impact on our allocations.

Testament to this is the lack of an allocation this season, only two years after major flooding in the system. Our probability for allocation for February this season has dropped from 14% in August to 1% last week, whilst we are still under the 90th percentile for inflows this season. This is an operating loss in excess of 200,000 megs in the last 3 months. About \$80m on today's water market, never mind the regional value and hardship this waste is causing. We want to lead by example in offering solutions. We cannot expect efficiencies in the system if we don't help to identify them where we can.

2. The Basin Plan

If we are to protect the company and its shareholders from further negative impacts from the Basin Plan, then we're prepared to extend our representations and take the fight beyond this valley to wherever we believe water savings can be made.

Whilst we respect the property rights of individuals in regards to their water entitlements, we're also determined in our resolve to dissuade government from enticing further water recovery like the 450GL upwater from the consumptive pool.

It is our firm belief that if the rigours, innovation and disciplines that drive the management of productive water were applied to environmental water managers, then the government needs look no further than efficiencies in the system to find the water they need to deliver the environmental objectives of the basin plan.

3. A coordinated approach

We are taking a coordinating role and providing support and expertise to the recently established Murray Regional Strategy Group to better understand and create solutions to address the issues that I've raised. This group includes representatives from:

Murray irrigation

Landholder Associations & Southern Riverina Irrigators

West Corrigan & Moira Irrigation

River pumpers

Speak Up

Local Councils

Indigenous groups

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Local industries in particular rice & dairy

There is an opportunity for local businesses and Chambers of Commerce to also get involved.

This collective is also working with other irrigation areas such as Northern Victoria.

I would encourage all shareholders and the community to get behind these organisations and support their endeavours over the coming months. We need to be a strong and united voice.

Done professionally, it may cost a significant sum but as I have just outlined if these issues are not successfully resolved then the cost may be a great deal more.

Murray Irrigation also has its own long-term strategic agenda to be an authoritative voice in the sector. We want a default reputation that when we speak, we have the resources and critical mass to investigate problems and pursue realistic solutions. We want to work collaboratively with governments for the benefit of all.

4. Shareholder confidence

We don't have control over what our shareholders and customers do in their businesses in particular with their water entitlements. We do however have a major role to influence their use of water within MIL's area of operations. To build confidence in this area the board has to identify a range of areas to reward and encourage water use.

In the year ahead:

We will continually seek realistic ways to maximise deliveries in the system.

We want to develop incentives that encourage and retain water entitlements in our system.

We want to drive company policies that socialise the benefits of our achievements and we will be looking closely at the most equitable basis to distribute water savings and dividends.

We want to reward water use within our footprint and look at options to deliver stock & domestic water if landholders don't want to irrigate.

We also want existing customers to be able to use more water where required and to encourage new investment within the region.

We need to maintain the system to be able to deliver high volumes of water when available and get a break even EBIT.

I want to stress however, that these are not decisions that we will make in isolation. The board will host a series of consultative meetings with shareholders in February when we'll be seeking feedback on several options to achieve these objectives and to ensure the company's long-term sustainability.

In the last 12 months, the company has experienced three boards, significant Constitutional change and an Extraordinary General Meeting

I want to thank all previous boards for the contribution they have made to the company. Waander Van Beek & I want to sincerely and publicly thank once again the members of the interim board, many of whom are here tonight, for their support, experience and guidance throughout the last 12 months. They worked so hard to provide stability and direction during their time on the board.

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Murray Irrigation

Today I lead a board that is committed to continuing reform throughout the entire company. We have much to achieve and in doing so, we will seek to strike the right balance between intensive stakeholder consultation and getting on with the job. The board is already benefiting from the expertise and professionalism of our three independent directors: Deputy Chair Claire Filson, Patrick Largier and Don Marples.

We thank you, the shareholders of this company, for your participation and input through the board reform process and for the subsequent election of Noel Baxter, Steve Fawns and Ryan Gleeson.

I also thank you for attending tonight's meeting. I encourage you to take the time to talk to our current directors after it is over.

Thank you