

Media release



Murray Irrigation

Friday 14 October 2016

Break even at EBITDA achieved

Murray Irrigation achieved a small operational profit in the 2015/16 season while delivering less than half the volume of water than the previous year due to low water allocations and delivery volumes.

Murray Irrigation Chairman, Mark Robertson said the results were delivering on the Board's objectives to make Murray Irrigation financially sustainable.

"We gave that objective to Chief Executive Officer, Michael Renehan, when he joined the business last year and it is testament to his efforts that we are already seeing the results from his efforts to commercialise the business by restructuring and identifying the three drivers of price, volume and cost" Mr Robertson said.

Mr Renehan said the business is in a transition phase with ongoing network modernisation, but a clear priority is the need to address costs to manage the business across boom and bust water availability scenarios.

"In 2014/15 the Company delivered 739GL and made a \$1.5 million loss at EBITDA (earnings before interest, tax, depreciation and amortisation). That loss only got worse once you added depreciation," he explained.

"In 2015/16, despite only delivering 340GL the Company managed to reduce operating costs by \$3.5 million and return a positive EBITDA, however, accounting for asset depreciation means we still returned a negative operational EBIT."

"What this showed us, however, is that as a business we can operate at break even, even in years of low water availability, if we can address underlying business costs and revenue streams.

"The ongoing modernisation presented us with an opportunity to conduct a wholesale business review, including considering the value of assets against current business, not against what the business used to be."

Mr Renehan explained the book asset value was consistent with a system designed to deliver an average of 1,000GL per year, but is now expected to deliver an average of 600GL per year due to ongoing government water recovery.

"We now hold over 27 percent less water entitlements than we did on privatisation through various environmental water recovery programs," he said.

"This means some of our older assets are underutilised against their book value yet the cost of carrying those assets, and the depreciation each year, significantly reduces our capacity to return a neutral or positive EBIT which ultimately needs to be considered when we calculate fees and charges.

"An independent assessment of our business assets returned a significantly lower value than that on our books, which means an impairment, or write-down, was needed to revalue the assets in the accounts."

"This one-off write-down of assets in will result in us reporting a loss of \$49.8 million across the business in this year's financial reports, but the impairment will improve our returns in the future, complementing the cost cutting measures we have already implemented to help us control the fees and prices we charge for our service.

"Impairment is a standard accounting practice and is effectively an adjustment on our books. It has no impact on our service or the use of those assets," Mr Renehan said.

Murray Irrigation will provide a complete report on its financial results at the Company's Annual General Meeting to be held at the Deniliquin Golf Club from 7pm on Thursday 17 November 2016.

Ends.

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