

Chairman's Address



18 November 2016

Address to Annual General Meeting, 2016

As your Chairman, I'm delighted to give this address at the Murray Irrigation AGM. I'm very pleased to share the far-reaching changes that your Board and the Murray Irrigation Executive team have underway to transform your company with a focus on the future.

My guiding principles in leading this organisation are that:

- we have a united board and team who respect one another's views,
- we will be a highly commercial business...and that is important for us all, and
- we will work together to jointly address the challenges ahead of us.

I firmly believe that the next generation are our future and that we must build on the past by investing in innovation and technology, so that we can hand them a future.

I will talk about our progress in 2016 on repositioning the company, to underpin for the prosperity of this region. Later Michael will fill in the operational detail.

Firstly, I will speak about how we see both the world and our customers changing and then I'll speak about how we're changing too. We see six key drivers that are shaping the future of Murray Irrigation and all of us: six key drivers to which we must respond to our challenges and prosper.

Climate Volatility

The first driver is the physical cycle of climate volatility. This volatility has been on display in recent years.

- In the 2014/15 season, on-farm water delivered was 739 GL.
- In the 2016 season, 339 GL was delivered on-farm which was 40 percent of our licenced entitlements.
- This reflects the general security nature of our licences.

Water markets

The second driver is that the property right for water and the evolving water market has increased complexity and competition. With a market for water, the commercial decisions that you make in and out of Murray Irrigation's footprint, affect our business. We must make commercial decisions also.

While we do not have control over the market value of water nor where water is used, we are working on ways to incentivise customers to use water within our footprint. Michael will talk more about how we are doing that.

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Environmental demand



The third driver shaping our business is the rise of environmental demand for water. This environmental water was sourced from our consumptive pool.

- A third of our water is now held by the environment and not available for consumptive use.
- This means we must maximise the volume into the region - both productive and environmental - and efficiently use the water we have, in a commercially sustainable way.

Global commodities

The fourth driver is the changing global Agricultural markets that are altering farm economics. The recent Goulbourn Murray Irrigation District economic analysis illustrates a changing face of agricultural demand creating greater competition for water based on water availability, water markets, and commodity markets.

The findings of this analysis showed that different commodity groups are active at different levels in the water market:

- broad acre cropping at the lower end <\$100/ML
- the dairy industry is active at around \$225/ML.
- Commodities highly reliant on a secure supply of water such as nuts and horticulture will still be in the market at prices over \$500/ML.¹

This shows there is increasing competition for a smaller available pool of water and commodity types are a determining factor in water market participation.

Digital revolution

The fifth driver is the digital revolution that has changed farming and irrigation practice. We are all adapting to technology as change races ahead. For Murray Irrigation it changes the nature of our relationships with customers by reducing the interface in some ways, such with our channel attendants, yet it creates new opportunities for flexibility - water is now routinely ordered online from mobile devices.

Government regulations

The sixth and final driver is the increase in government regulation that has impacted all aspects of the water services industry. Impacts range from environmental water recovery, from rules relating to how we determine and recover our costs, as well as our obligations for reporting and transparency. It is unfortunate that Government is not yet listening to or understanding of the significant social and economic impacts of regulation.

¹ Toulmin, 2016, *Basin Plan – GMID socio-economic impact assessment Final Report for the GMID Water Leadership Forum*, p. 25, <http://www.c4gs.com.au/resources/ID1476750279.pdf?v=1476750285&l=basin-plan-impact-gmid-final-14-october>

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We understand that as you are feeling the impacts of these six external drivers of change in the region, so are we. Viability is now much tougher as the complex and interacting factors converge

- of increased climate volatility,
- new water markets,
- environmental water requirements,
- changing agricultural markets,
- the digital revolution, and
- increased government regulation.

Future focus

Your board and the team at Murray Irrigation have risen to the challenge. We are fundamentally reshaping our business to more than match those challenges. I will now outline your Board's strategic response, which I have categorised into five groups:

- Creating a commercially-sustainable enterprise,
- Focused on customer service,
- Upgrading physical infrastructure,
- Maximising water volumes in the system,
- With strong governance practices.

Commercial enterprise

The first strategic response from your Board has been to shift the company to a modern, commercially oriented-enterprise. In the next 18 months we aim to achieve break even.

- Michael spoke publicly on joining the business about initial budget projections indicating a need to increase water charges by 30 per cent. He also talked about the three levers available to the company being price, volume, and cost.
- Your Board and management team articulated our preference to focus on volume and cost ahead of raising prices where feasible.
- Through a relentless focus on costs, Michael and the team have yielded a \$3.5 million saving against the 2015 year and are making further headway on cost reductions this year.

In response to the environmental water needs, your Board and the operations team have been working hard to achieve the fairest possible outcomes for your company with regard to our negotiations on environmental water.

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- Management has renegotiated commercial arrangements with managers of environmental water (OEH). OEH and Commonwealth Environmental Water Holder are currently delivering water at commercial rates through our system.
- Management are continuing to engage with Water NSW with a view to achieving a commercially sound outcome for the Company to deliver operational water through our system.

Customer service

Our second strategic response, is that we have instituted a new approach to customer service and relationships. The Board recognised the need to build a culture focused on our customers and shareholders, which would make it easier to deal with Murray Irrigation. We have appointed six new customer relationship specialists reporting to Scott Barlow and Michael Pissasale;

- a. Emily Small,
- b. Josh Bode,
- c. Janet Manzin,
- d. Danielle Ewington,
- e. Keith Thompson, and
- f. Megan Marshall.

Our customer needs vary according to the different dynamics of low and high water years. For example, as customers, I'd particularly like to recognise both the dairy industry - which represented half our water usage last year - and the growing presence of horticulture. When our infrastructure is used by more customers, it's great for everyone. We are treating the environment and river operations as customers now also.

During the last year, we worked to create the Murray Group, together with Southern Riverina Irrigators and Murray Valley Private Diverters. This strong initiative to build a united voice for our region and represent our community is now seen as the peak group in and outside our region, setting new standards for engagement. Ultimately we'd like to get industry groups involved. We've developed the Murray messages which have been taken up as the key messages from this region. I'd very much like to acknowledge the work of each of the members of the Murray Group.

Infrastructure upgrades

Our third strategic response, is regarding physical infrastructure: I cannot emphasise enough how vital it is to the success of your company to have an irrigation network that is modern and cost-effective.

- Your company has been diligently working to deliver PIOP 2 by October 2017 and it's now 60% complete.
- PIOP 3 is in design phase and we have a signed Letter of Intent with Government to deliver and we are looking to achieve a commercial outcome.
- The modern irrigation network is designed to be flexible and better able to deliver water where and when irrigators need it.

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- As we draw nearer to switching on these new systems, we want to make it clear how important it is that we stay the course and do not waver in our determination to complete these infrastructure programs.

Maximise volume

Our fourth response is to maximise volumes of water in the system to realise value from Company assets. Recent examples are:

- The Snowy Advance we negotiated, to provide insurance water to customers in the event of a dry follow-on to winter.
- We negotiated with OEH and CEWH to deliver 40 GL of environmental water to reduce the impact of the recent hypoxic blackwater event in the Edward Wakool River System.
- We are also working with NSW Water and MDBA to secure an agreement for additional volumes into our system.
- These are examples of innovative ways we are taking to maximise volumes in our system.

Governance

The fifth strategic response is the focus on Board and operational governance. The drivers in reshaping Murray Irrigation are backed by strong governance policies and practices.

- While there is a diversity of opinion on the Board and while we respect one another's views, we ensure our decisions are made in the best interests of the company's members and acknowledging the company's fiduciary duties.
- We have four new Directors - two of whom are independent - and our Board now has very strong business and agricultural acumen. We see this as critical.
- As we go forward, we are looking to enhance the diversity of your Board.
- In our operations, safety is our highest priority. The safety focus has directly resulted in our lost time injury rate being halved over one year. I cannot overemphasise how important it is for us to see that people go home safely.... from both our Murray Irrigation business and our customers businesses.....at the end of each day.

To sum up, your Board recognised the need to fundamentally reshape our business with a future focus. We are contributing through an efficient, modern, and affordable irrigation infrastructure scheme.

I want to thank my fellow Directors here, who have risen to the task in bringing about change. I would particularly like to thank Bruce Simpson ...Bruce initiated the transformation that is underway, in his previous role as Chair. I include thanks also to Chris Badger who resigned as a Director in March. I want to thank Murray Irrigation staff for accepting change and working hard to cut costs while refocusing the business on improved safety and customer service and commercial outcomes. Our people are critical to the success of this company.

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Conclusion

Our future lies in the next generation. Our vision as a Board is to hand the next generation a fit-for-purpose, commercially sustainable business as we work on innovative ways to bring water into the footprint so the next generation does have a future that they can count on. I want to thank you, our customers and shareholders. We have common objectives and from time to time we have different views on how to achieve those objectives. We're counting on you as we work together to deliver a bright future for the next generation.

Mark Robertson

Chairman