



2004

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.

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 have 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: The winning entry in Murray Irrigation's "Land, Life and Water" photographic competition at the Finley Show. Photographer: Val Tongs.

Above left: A renovation mattress under construction in the Mulwala Canal, east of Finley, as part of the winter maintenance program.

Above right: The dairy industry is an important part of agricultural production in the region.

Highlights of 2003/2004

Policy

- The Council of Australian Governments (COAG) signed the National Water Initiative in June 2004, providing perpetual, compensable water rights for irrigators.
- The 10 year Murray Lower Darling Water Sharing Plan came into effect from July 1, 2004 giving some certainty to our share of the resource for the next decade. State legislation enacted supports the aims of the National Water Initiative.

Water supply

- With an allocation of 45% for Murray Irrigation shareholders, a total of 658,608ML was delivered on farm.
- Murray Irrigation diverted another 187,113ML through its system to help the Murray Darling Basin Commission manage supply for downstream water users.
- The Water Exchange operated by Murray Irrigation traded 79,181ML, with a total value of \$5,712,469. The price per megalitre ranged from \$50 to \$150.

Business

- Internationally recognised Occupational Health & Safety Accreditation was awarded in February 2004 and Quality Assurance Accreditation was renewed.
- Murray Irrigation formed a joint venture with Automated Water Management Australia Pty Ltd to form AWMA Pty Ltd, which manufactures and installs a wide variety of irrigation control and delivery systems for rural and urban water users.
- A new agreement has been made with Cheetham Salt Pty Ltd for the harvesting of salt and other products from the Wakool Evaporation Basins.

Environment

- Murray LWMP incentive uptake totalled \$6.5 million of government funding matched by \$3.9 million from landholders for endorsed works. Landholders also invested an additional \$57 million on associated works.
- A comprehensive mid term review of the Murray Land and Water Management Plans was completed, allowing for the readjustment of LWMP implementation targets, rationalisation of eligible initiatives and increases in incentives available.
- *The Science Behind the Living Murray Initiative* was completed and launched as part of the Living Murray Initiative debate, countering calls for increased environmental flows with the possibility of improved flow management and other options.

Engineering, construction and maintenance

- A total of \$4.4 million was spent on improving regional stormwater escape systems. The Booroobanilly North and Middle stormwater escape channels have been completed and work is underway on Booroobanilly South. Extensions were added to the Logie Brae system and work began on the Mundiwa stormwater escape channel.
- The roll out of the company's program to mechanise all regulators on the supply system began with an initial contract for 30 gates awarded in July 2004.
- More than \$3 million was spent on the company's asset renewal program to maintain and upgrade infrastructure on the irrigation supply system.

Outlook

Following the signing of the National Water Initiative in June 2004 discussion with shareholders and irrigation leaders in the region will continue about proposed changes to water trading markets, and removing restrictions on trade.

Murray Irrigation is being asked to review regulations relating to permanent trade, in particular. Meetings with shareholders at local venues will be held in early 2005 to discuss any proposed changes to the company's Memorandum and Articles of Association as a result of the National Water Initiative.

A major review of business operations and the company structure is underway as part of business planning for the next decade, and in response to the changes in the water market which will follow from the National Water Initiative.

The company will continue to closely monitor and pursue opportunities for involvement in the Murray Darling Basin Ministerial Council's Living Murray Initiative, promoting improved management options to maintain the health of the Murray River and icon sites.

Murray Irrigation's 10th anniversary in March 2005 will provide an opportunity to promote the benefits of irrigated agriculture in the region.

Buoyant stock prices are a highlight for many shareholders in the face of another low water resource year. At the time of writing many winter cereal crops remained stressed despite reasonable spring rainfall and may be a priority for irrigation, with the little water available.

Outlook for 2004/2005



*Above: Aerial view of crops,
September 2004.*

*Right: Lucerne is becoming an
increasingly important part of
cropping in the district as a source
of fodder for stock and for
watertable control.*



Statistical Summary

Figure 1 – Murray Irrigation Limited Operating Revenue 1/8/2003 – 31/7/2004
Total revenue = \$35.0M (Last year \$27.7M)

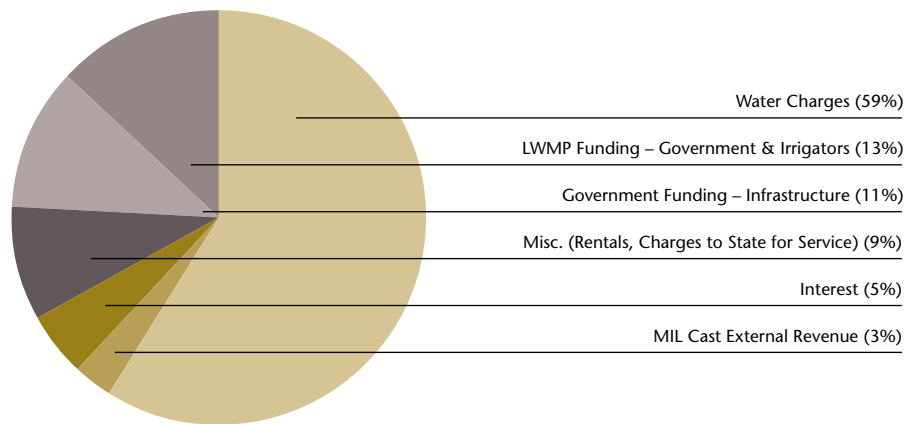


Figure 2 – Income from Irrigators (Supply & LWMP) 1/8/2003 – 31/7/2004
Average price per megalitre delivered = \$31.99 (Last year \$35.96)

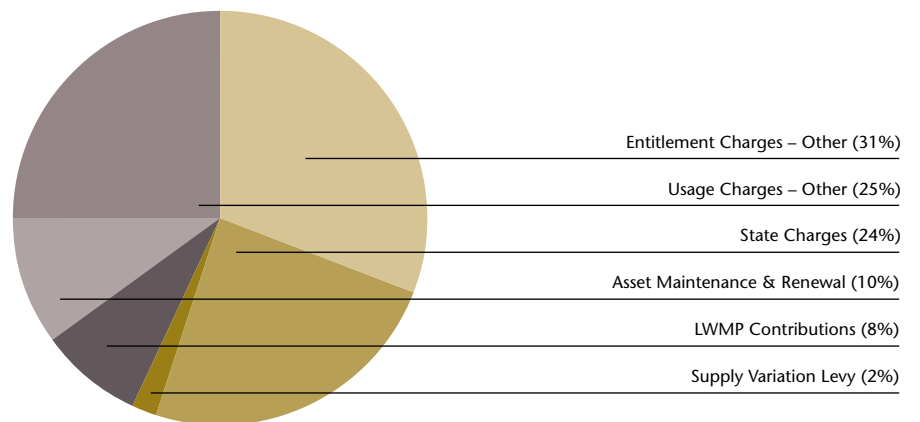
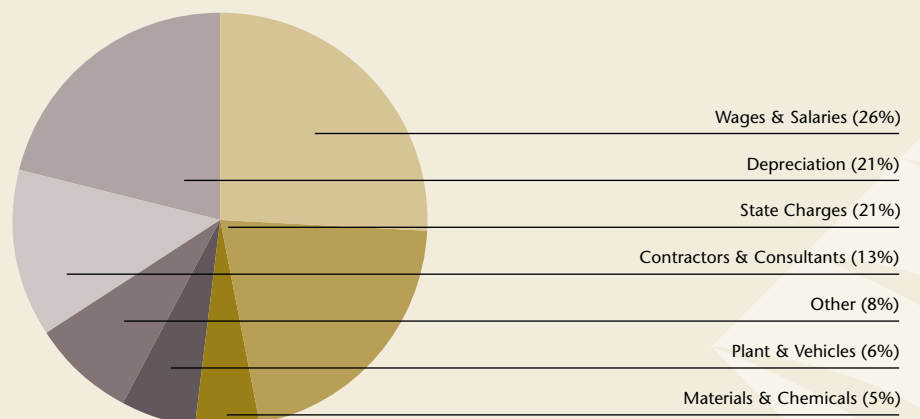


Figure 3 – Murray Irrigation Limited Expenditure 1/8/2003 – 31/7/2004
Total expenditure = \$28.3M (Last year \$24.2M)



The above charts exclude Government monies of \$4.3 million (2003, \$5.0 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 – 2003/04

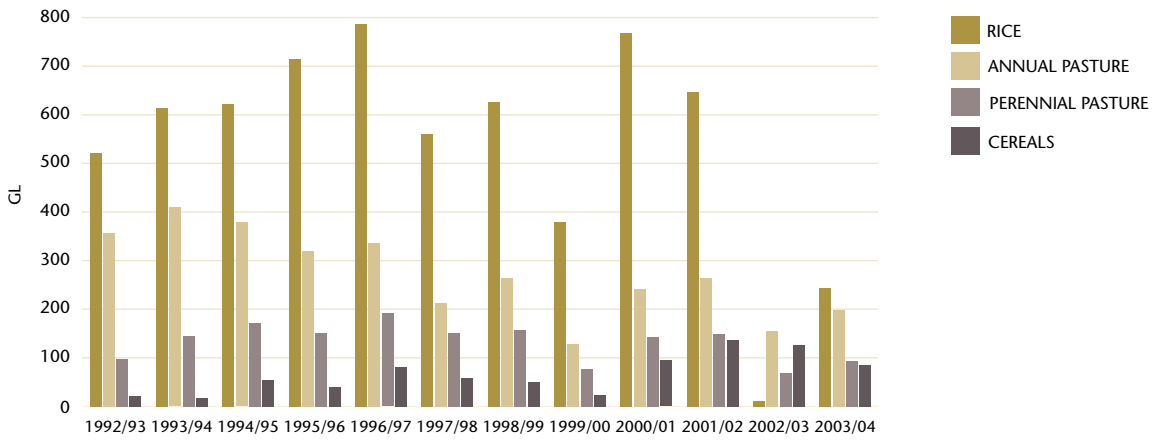


Figure 5 – Crop Water Use 2003/2004

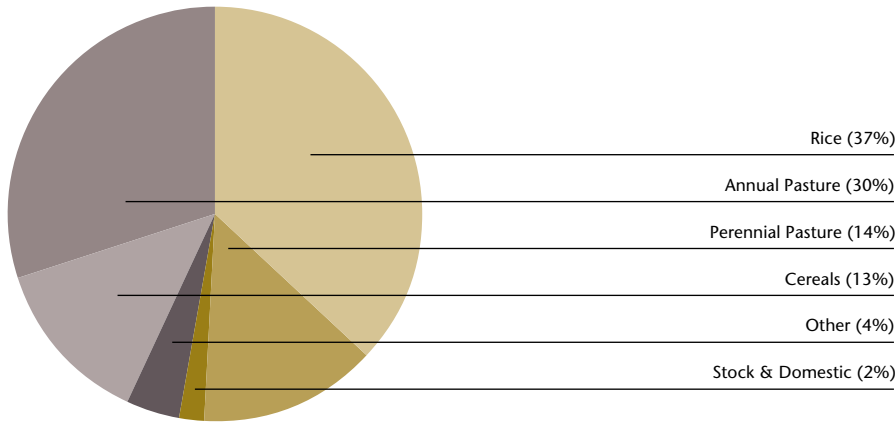
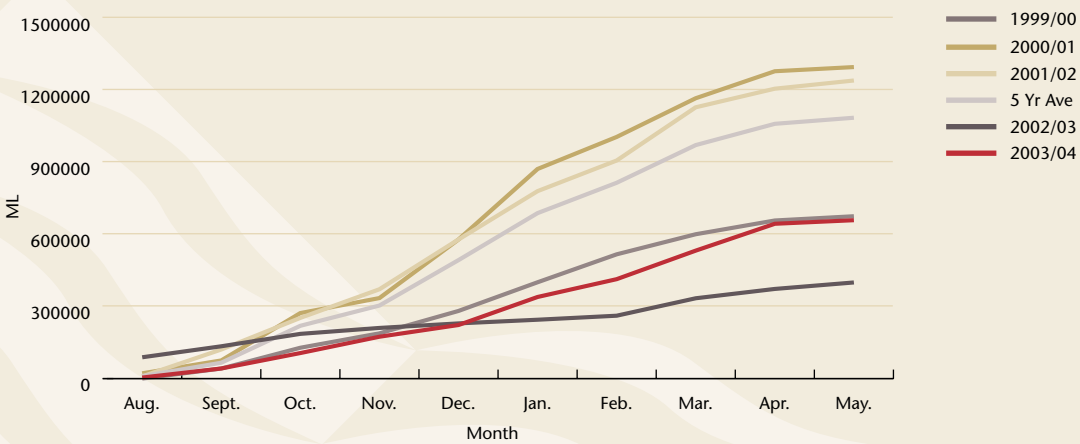
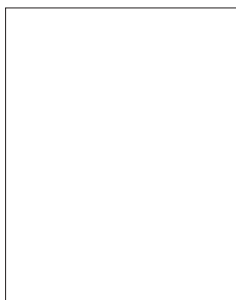


Figure 6 – Murray Irrigation Water Deliveries 1999/00–2003/04



Chairman's Report



*Bill Hetherington,
Chairman.*

Local seasonal conditions were a dramatic improvement on the previous year, with good late winter and early spring rain reducing irrigation demand in August and September. Whilst the initial allocation was zero, good winter and spring rainfall in the catchment resulted in early increases in the annual allocation.

Some shareholders benefited from a small flood event in the Murray River in late September which allowed 55,000 megalitres (8% of deliveries) of supplementary water to be delivered.

Unfortunately, late spring rainfall was disappointing and the allocation was only 31% at the end of October. At this stage the environmental allocation for the Barmah-Millewa Forest had been paid back to the forest. Because the forest allocation was not required to water the forest in 2003/04 the Department of Infrastructure, Planning and Natural Resources returned 175,000 megalitres of forest water to the allocation in November, increasing the annual allocation to 41%. Unfortunately this increase was too late to increase rice areas. The maximum annual allocation of only 45% was reached in early December, causing another difficult year for the company and its shareholders.

The cereal harvest was one of the largest on record; unfortunately late spring/early summer rain impacted on the quality of some crops and disrupted harvest. With the exception of milk prices, commodity prices were relatively buoyant, particularly livestock prices. It was a difficult rice growing season with the yield of some crops reduced by low temperatures in January.

Directors and management reviewed and revised our business plan in the light of these unforeseen years of low allocations. Murray Irrigation has also increased its media and promotion of the importance of irrigated agriculture, particularly in our rural communities.

We continue to build reserves to ensure sufficient funds to maintain our channel and drainage infrastructure into the future.

Low water sales saw the \$478,000 collected for the supply variation reserve in 2003/04 fully utilised.

| ACCUMULATED SPECIAL PURPOSE FUNDS | | |
|-----------------------------------|--------------|--------------|
| | 2003/04 | 2002/03 |
| Supply Variation Reserve Fund | Nil | Nil |
| Asset Management Renewal Fund | \$21,799,000 | \$18,693,000 |

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.

In February the organisation achieved Quality Assurance accreditation for Occupation Health and Safety (AS 4801) and had its accreditation for Quality Management System ISO9001 renewed. These accreditations which aim to provide a safer, more productive company, require a major commitment from staff, who have impressed our auditors with their understanding and focus on continual improvement.

The formation of a 12 member focus group during the past year has provided an opportunity for more structured feedback from shareholders. It has proved valuable in providing a range of views, engaging farmers we do not normally hear from. Applications for a turnover of half of the positions on the focus group will open early in 2005.

After several years of evaluation and careful consideration of the advantages of alternative water measurement devices the board made the important decision to move away from the dethridge wheel. In the future, where new outlets are required, either a magflow or Doppler meter will be installed. The main benefits of the new meters are increased supply capacity, improved occupational health and safety and more accurate measurement over a range of flow rates. Murray Irrigation is also continuing to invest in mechanisation

of regulators to improve the efficiency and safety of our distribution system.

AWMA Pty Ltd

In April, Murray Irrigation became a 50% shareholder in a new water technology and infrastructure company, AWMA Pty Ltd. There is a significant growth in demand at a local, regional and national level for AWMA Pty Ltd products, all aimed at improving water efficiency. Governments, water authorities and farmers are all investing heavily in improved water management.

I expect business growth by AWMA Pty Ltd. will provide a return on investment which will be used to help with Murray Irrigation's operating costs, and to keep the price of water as low as possible.

This purchase is the first major initiative of Murray Irrigation's business development unit, which was established in 2003 to explore opportunities for the company and its shareholders to diversify and increase the value of Murray Irrigation.

National Water Initiative

The 2003/04 year was a landmark year for agreements between Commonwealth and State Governments concerning the nature of irrigators' water rights and the provision of increased environmental flows to the Murray River. In August 2003 the Commonwealth and State Governments agreed there was an imperative to establish a National Water Initiative and to end the uncertainty associated with the nature of irrigators' water rights. Over the ensuing 10 months there was substantive debate between governments and diverse interests about what is required to establish property rights in water. I am proud of the efforts of Murray Irrigation to be at the forefront of this debate with government and to articulate clearly the principle that compensation should apply if irrigators' right to water is reduced by government's policy or changes or new information. Enormous effort was dedicated to Commonwealth and State political arenas

with this issue being discussed directly with the Prime Minister.

In June 2004 the National Water Initiative was signed by the Commonwealth and State Governments. In return for perpetual water licences and a compensable water property right, markets are to be developed with the separation of land and water titles. Our 10 year Water Sharing Plan has now been enacted and irrigators can have confidence governments will not reduce access to water within the life of the plan without compensation. There is also a commitment by government, on renewal of the plan, to limit any reduction without compensation to only a small percentage.

Through the National Water Initiative, Governments have demonstrated their determination to remove barriers to the permanent trade of water entitlements. This is an important issue for Murray Irrigation and its shareholders. The company is starting the process of evaluating options for changing the company's trading rules. Once the options for change are narrowed down intensive communication with shareholders will commence, to explain the changes proposed and their rationale. Murray Irrigation has also initiated meetings with the other NSW irrigation corporations to discuss common issues such as water trade.



Above: Murray Irrigation Chairman Bill Hetherington, MDBC Chief Executive Wendy Craik and MDBC President Ian Sinclair discuss the implementation of the Living Murray Initiative.

Right: Prime Minister John Howard discusses water issues with Murray Irrigation Chairman Bill Hetherington.



Chairman's Report

(continued)

Annual trade into Murray Irrigation usually exceeds 80,000 megalitres a year, while permanent water trade within Murray Irrigation since 1995 has totalled less than 1% of entitlements. This gives us some confidence that Murray Irrigation can embrace change in a way which does not disadvantage existing shareholders and the organisation.

Living Murray

In November 2003 the Murray Darling Basin Ministerial Council made the historic first step decision to increase environmental water allocations for the Murray River and to also focus on achieving environmental outcomes at six key icon sites. This decision was ratified as part of the National Water Initiative with governments agreeing to fund an increase in environmental flows in the Murray River by 500,000 megalitres.

The two reviews, *The Science behind the Living Murray Initiative* and *The Science behind the Living Murray Initiative – Part 2* completed by Ecology Management for Murray Irrigation were instrumental in

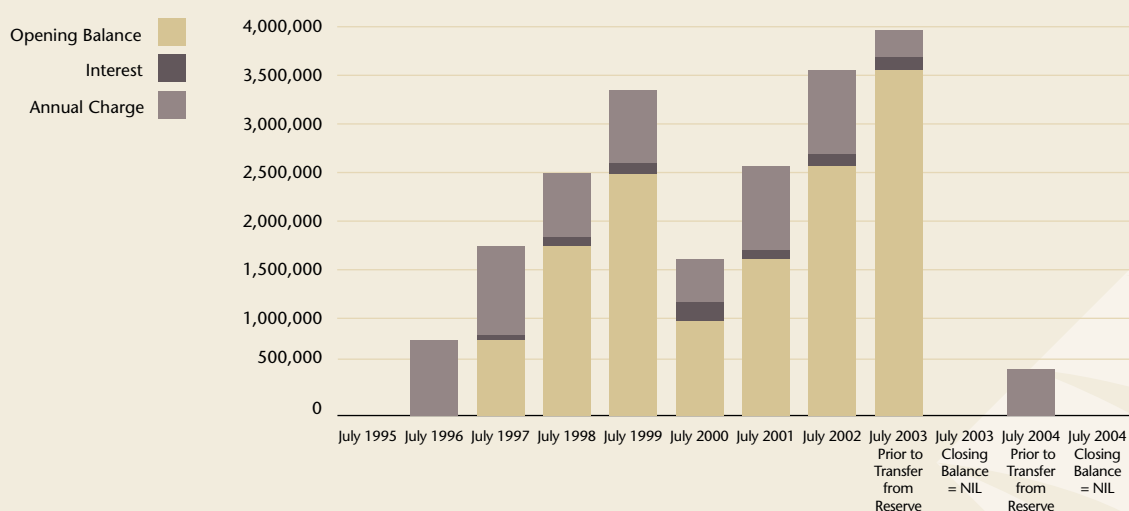
shifting government's focus from flow volume to achieving improved outcomes at icon sites. These reports were also used extensively by the House of Representatives Standing Committee on Agriculture, Fisheries and Forestry in their inquiry into future water supplies for Australia's rural industries and communities.

As the Living Murray Initiative moves into implementation, Murray Irrigation continues to advocate involvement of independent scientists and establishment of community based icon committees. In addition Murray Irrigation has promoted infrastructure projects such as the Torrumbary Cutting proposal which will provide forest flooding in the Koondrook Perricoota Forest. With flows as low as 7,500 megalitres per day, the cutting will allow inundations of the forest normally only achieved with flows exceeding 30,000 megalitres per day.

Staff and directors

I thank George Warne, the general manager, and staff for their important contribution to the operation and

Figure 7 – Supply Variation Reserve Movements



continuous improvement of our organisation. Quality Assurance accreditation would not have been possible without the support of staff across the organisation.

I must also acknowledge the contribution of staff to the organisation's capacity to be at the forefront of the National Water Initiative and Living Murray debate and their continued capacity to adapt and modify expenditure in response to low water sales.

I welcome new directors Alexandra Anthony and Michael O'Callaghan and thank retiring directors Ian Morton and Alan Batley for their contributions. I thank the directors for their assistance and support in the past year, in particular their role in the decision to establish AWMA Pty Ltd and for their support during the National Water Initiative debate.

During the year directors completed the Innoven Effective Company Directors Course and the board has since expanded the role of the audit committee to include risk assessment. Directors and staff have taken on roles in government advisory groups and director Kelvin Baxter is

chairman of the Murray Catchment Management Authority.

The board continues to focus on improving the efficiency of the organisation whilst also striving to protect shareholders' water assets.

Bill Hetherington

Chairman

28th October 2004



Above: From left, Murray Irrigation chairman Bill Hetherington, landholders Pam and Adam Wettenhall, chair of the Murray Darling Basin Ministerial Council Community Advisory Committee Leith Bouilly, Deniliquin Mayor Lindsay Renwick and Member for Murrumbidgee Adrian Piccoli during a visit to the Wettenhall's property by members of the community advisory committee to learn more about irrigation in our region.

Right: Barley and other winter cereals produced some record yields for shareholders last year.



General Manager's Report



*George Warne,
General Manager.*

Water Resource

The allocation of 55% on our bulk licence translated to 45% for shareholders, a significant improvement on the water resource available the previous year. Maintaining our access to water for shareholders remains a critical issue.

At the start of the 2003/04 season 85,196ML had been carried over on our licence which represented 5% of our general security entitlement. However, shareholders also owed a total of 112,000ML to Snowy Hydro Ltd following the 'borrow' of the previous season.

In October 2003 more than 70% of shareholders with a borrow debt provided information about their plans to either pay back the water or roll over the debt into the 2004/05 year. This allowed the company to make an early repayment to Snowy Hydro. When the NSW share of the Barmah-Millewa Forest water was added to the available allocation in November more shareholders repaid their debt rather than carry it over and at the end of the season only a minimal amount of Snowy Borrow debt remained.

The use of carry-over to secure a start of season supply is becoming an increasingly important aspect of water allocation policy for shareholders wishing to manage seasonal risks. A total of 173,358ML was carried over to the 2004/05 season, or 11.7% of our general security entitlements – more than our entire general security allocation the previous year.

Transfers of water into Murray Irrigation totalled 114,726ML in 2003/04, compared to 97,017ML the year before (excluding Snowy Borrow). Of this, 16,374ML was traded in through the water exchange. The exchange traded 10,000ML more megalitres than the year before, with total sales of 79,181ML. However the value of water traded decreased to \$5,712,496 (from \$12,626,209) reflecting the increased availability of water through a higher allocation and farm business choices. The price range this season was \$50-\$150 compared with \$100-\$360 for the previous season.

The exchange is important in providing

shareholders with a transparent and reliable platform for water trade. It attracted significant water for sale from areas outside Murray Irrigation which shareholders might not otherwise know about or have had access to.

Efforts continue to provide access to more water for shareholders. At the end of the 2003/04 season this included the purchase of almost 2000ML of water from the Central Irrigation Trust in South Australia which was offered in 40ML parcels to shareholders on a first come first served basis. The company will pursue other opportunities for sale transactions that are not in strict competition with our shareholders.

Supply system

A program to mechanise all regulators along our supply system has begun this year. All drop bar structures will be progressively refitted with new aluminium gates, providing greater control over flows and more efficient water delivery. Major regulators on the Mulwala Canal and other major channels have already been mechanised. There remain 1368 drop bar regulators to be refitted, which may take up to seven years. Regulator designs will allow for future automation and remote control of regulators, although at this time the cost involved does not justify the upgrade of smaller regulators.

After suspending our weed control program as a cost saving measure during the drought we have made a major effort during the past 12 months to address this issue. We secured changes to chemical labelling which has given us a new treatment for sagittaria, and we are contributing to a Goulburn-Murray Water research program to develop new control strategies for this invasive weed.

Transfer of water

Murray Irrigation has continued to assist River Murray Water with management of flows for downstream users.

Our channel system was used to transfer 187,113ML around the Barmah Choke on the Murray River. We have also participated in an evaluation of options to

prevent unseasonal flooding of the Barmah-Millewa Forest as a result of rainfall rejection flows. One of four options proposed was the construction of an on-route storage adjacent the Mulwala Canal at The Drop, between Berrigan and Finley. An evaluation of this option is being undertaken.

Communication initiatives

In October 2003 we released *The Science Behind the Living Murray Initiative*, commissioned from Dr Lee Benson with a second report released in February 2004. The aim of these reports was to review the scientific evidence being used to support calls for increased environmental flows for the Murray River. There was good attendance at public meetings for shareholders and members of our local communities which were organised in January 2004 to discuss these and other reports reviewing the evidence. Shareholders also took the opportunity in January to view first hand the Barmah Choke on the Murray River and discuss its impact on river flows. Four Murray River trips on the Kingfisher were filled to capacity.

Our Talking Water faxstream and email lists continue as our primary method of communicating with landholders and are increasing in importance. We are constantly working with the Murray Darling Basin Commission, State Water and the Department of Infrastructure, Planning and Natural Resources to improve the resource information we can provide.

Changes to the programming behind our water ordering system and website in the past year offer more information to shareholders about their water use, water available and the status of their current water orders. The new central water ordering system and changes to the IVR program have also been designed to make the system simpler to use, and to improve our ordering and water delivery efficiency.

Staff

Our work force remains relatively stable, although there has been some increase in turnover during the past year. New

technology requires changing skills among our staff, particularly in distribution. This is a result of regulator gate mechanisation and automation, and new water metering devices which will replace dethridge wheels in years to come. Electronic file management and reporting systems are also changing work patterns and skills while helping to improve the maintenance of important information.

Although our water resource improved last year the allocation remained low compared to historical averages. The commitment and co-operation of staff and directors have helped the company

to successfully negotiate a continuing sequence of difficult years, with the outlook for another below average season before us.

The commitment and efforts of staff during the past 12 months have been greatly appreciated. I also thank the Board of Directors and particularly Chairman Bill Hetherington for their continuing support throughout the year.

George Warne
General Manager
28th October 2004



Above: Murray Irrigation's entry won the "people and irrigation" category of the Irrigation Association of Australia's photo competition. The photo, taken by Catherine Norwood, is of Kate Trigg in a spray irrigated wheat crop west of Deniliquin.



Right: SCADA systems operator Glenn Hayes checks the readout panel from one of the new Doppler flow meters installed to measure farm water deliveries.

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 our business and the businesses of our shareholders. We are committed to improving our operation of water delivery and drainage systems. We are also committed to the sustainable use of irrigation water and helping landholders improve on-farm management practices.

There were positive results from key environmental performance indicators this year, including regional watertables, the quality of water leaving our system, and the impact of this water on receiving waterways.

Resource use

The climatic conditions in 2003/04 were more favourable than those of the previous drought year. Rainfall during the 2003/04 season was slightly above the long term average - 108% at Finley and 106% at Tullakool. However evaporation was also above average, at 109% and 103% for Finley and Tullakool respectively.

The increase in allocation from 8% to 45% resulted in a considerable increase in the area sown to rice, 22,729ha, up from 1,545ha during the drought. However this is still less than half of the area sown during the 2001/02 season when we last had a full allocation. Average rice water consumption for the 2003/04 season was 12.3ML/ha, a reduction on the average of 13.2ML used the previous year. There were 26 growers who exceeded the seasonally adjusted rice crop water use target of 15.3ML/ha set in line with the Rice Environment Policy Advisory Group (REPAG) agreed method of calculation.

For 2003/04 regional average irrigation intensity was 0.843ML/ha, which does not take into account water bores or river pumps. There was no climatic adjustment of the Total Farm Water Balance limit, which was exceeded by six landholdings.

Water quality

Supply water quality was generally unchanged compared to previous years. High alert levels for blue-green algae in the Murray River and at Lake Mulwala did not transfer into our supply system this year, as it did the year before.

The volume of discharges from the stormwater escape system increased from last year but remained below the five year average. Winter flows were the highest for at least six years, co-occurring with winter rainfall. There was a reduction in total salt loads compared to the previous year. Nutrient loads increased, reflecting increased runoff during winter rain events.

For the second consecutive year none of the agricultural chemicals tested for under the chemical contingency plan were detected. Receiving waterways were monitored for any potential impacts with no evidence of impact on river water quality detected.

Policy changes

During the past year Murray Irrigation has introduced a new criteria for the approval of ground for rice growing.

Previously rice soils have been assessed based on drilling, EM31 surveys and hand soil texturing to determine the amount of clay in the soil and subsoil of the paddock.

A high clay content was thought to indicate that the soil would not allow water to leak from a rice crop down to the watertable.

However recent research indicates that clay content is not the best indicator. Soils with a high sodium content, when wet, tend to swell and disperse ultimately sealing the soil surface and preventing water infiltration.

As a result, after trials throughout the region, we have revised our rice soil criteria to assess soils based on their Exchangeable Sodium Percentage (ESP) rather than clay content, in combination drilling and EM31 surveys.

The new criteria will be applied to all new ground brought into rice production. Growers who exceed the target rice water use will be required to have ground re-assessed under the new criteria. Rice growers who have had land classified as unsuitable for rice under the old criteria can also have that land re-assessed.

Murray LWMP Implementation

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

Shareholder uptake of incentives

fell slightly on the record levels of the previous year. A total of \$6.5 million of federal, state and local government funding was provided for plan initiatives, including \$3.1 million for landholder incentives to improve farm management. Landholders contributed \$3.9 million to on-farm incentives and approved works.

Our annual survey indicated landholders also invested another \$57.2 million worth of LWMP associated works to improve the efficiency and sustainability of their operations during the past year. This brings total government investment in the LWMPs to \$59 million since implementation began in 1995 and landholder investment to \$285 million.

The plans had been falling behind their implementation targets in recent years and in 2003/2004 we undertook a comprehensive review of targets and incentives. Targets have been reduced to more realistic levels and incentives adjusted to focus on those initiatives which will have the most positive environmental impact, particularly farm planning and irrigation recycling. Incentives for the active management and re-establishment of vegetation have also been increased.

Of the 3,068 landholdings within the Murray LWMP more than 30% have accessed funding for a LWMP approved farm plan, while more than 19% have accessed funding for an approved drainage recycle system. More than 25,000ha of perennial vegetation has been established under the incentive scheme since 1996.

Shallow watertables

Less than 1% of the region has shallow watertables within two metres of the surface. The August 2004 area affected by high (0-2m from soil surface) watertables was 7,740ha, reducing from 10,056ha in March 2004. The area with watertables within four metres of the surface has also continued to decline, with a drop from 330,264ha to 311,480ha between August 2003 and August 2004.

Beyond compliance

Our commitment to improved environmental outcomes for the region has included participation in a number of "beyond compliance" initiatives during 2003/04.

- In partnership with landholders and the NSW Murray Wetlands Working Group 42 farm wetland sites were watered, with positive ecological responses. These sites included stream runners and Black Box depressions which may have been stranded, and not seen any significant water for up to 40 years as a result of changing land use practices.
- Murray Irrigation was commissioned to help with the development of the Torrumbarry Cutting project – a proposal to create managed floods from the Murray River to water the Koondrook-Perricoota Forest using existing environmental flows.
- The hydro power plant at The Drop between Berrigan and Finley continued our 'green power' partnership with Pacific Hydro. Power generated by the

plant offsets the company's greenhouse gas emissions by almost 2:1. (These emission come largely from fuel use.)

- Market trials of black tiger prawns produced at the Inland Saline Aquaculture Research Centre near Wakool were successful. Commercial trials of rainbow trout will be conducted in late 2004. The research is a joint venture between NSW Fisheries and Murray Irrigation to maximise the commercial potential of the Wakool Tullakool Sub-surface Evaporation Basins.

Alex Marshall

Environment Manager

28th October 2004



Above: Landholder Neil Gorey, at "Moorookyle" near Thule is among a growing number of farmers involved in the preservation of native vegetation including the tea-tree like moonah trees (pictured), which were once more common in the region.



Right: Maintaining the region's biodiversity, including habitat for native wildlife like the eastern bearded dragon, is part of Murray Irrigation's environmental objectives.

Management Structure

GEORGE WARNE
General Manager



DEAN STUBLEY
Manager Finance

- Financial Services
- Accounts Receivable, Credit Control
- Accounts Payable



ALEX MARSHALL
Manager Environment

- Environmental Initiatives and Reporting
- Licence Compliance
- Research, Development & Education



JENNY McLEOD
Manager Policy & Communications

- Policy Development
- Government & Community Relations
- Shareholder & Stakeholder Communications



PETER KEYTE
Manager Precast Products

- Product Design
- Customer Sales
- Market Research
- Quality Control



EVANGEL ASEERVATHAM
Manager Engineering Services

- Infrastructure Refurbishment
- Deferred Maintenance
- Capital Works
- Research and Development



DAVID WATTS
Manager Water Distribution

- Licence Control and Monitoring
- Water Distribution
- Customer Service
- SCADA Systems



RUSSELL WEBB
Manager Works

- Supply and Drainage Channel Maintenance
- Winter Works Programming
- Plant Operation
- Weed Control
- Access



ANDREW LELLIOTT
Manager Services

- Purchasing and Stores
- Contract Administration
- Plant and Vehicles
- Share Registry
- Computers and Information Technology



WARREN ELSBURY
*Company Secretary
and Deputy General
Manager*

Information on Directors

MEMBER DIRECTORS

A.M. Anthony - Age 47. Landholder and farmer. Director representing Wakool region since December 2003. Secretary of Wakool Landholders Association, Wakool delegate to RGA central executive, member of RGA water committee.



G.G. BALL - Age 57. 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 52. 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 the Murray Catchment Management Authority.



S.G. ELLIS, Deputy Chairman - Age 46. Landholder and Farmer. Director representing Wakool region since February 1995. Member of the Murray Ground Water Management Committee. Chairman of Murray Irrigation Ltd Environment Committee.



I.A. GILLET - Age 49. Landholder and Farmer. Director representing East Berriquin since December 2001. Member of Berriquin Land and Water Management Plan Implementation Committee. Chairman of LWMP R & D Committee.



M.D. GOUDIE - Age 63. Landholder and Farmer. Director representing Deniboota region since February 1995. Past Chairman of Deniboota Landholders Association.



W.L. HETHERINGTON, Chairman - Age 66.



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. Member of Minister John Anderson's National Water Initiative Advisory Group. Member of Minister Warren Truss's National Water Initiative and Living Murray Advisory Panel. Past director of Deniliquin Hospital.

D.T. LIPHUYZEN - Age 47. Landholder and Farmer. Director representing Denimein region since February 1995. Chairman of Denimein Land & Water Management Plan Implementation Committee.



NON-MEMBER DIRECTORS

B.J. IRELAND, FIE (Aust), FASCE - Age 68. 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.



M.J. O'Callaghan, FICA - Age 49. Chartered Accountant. Director since December 2003. Senior partner O'Callaghans Business Advisers. Director of Mercy Centre, Lavington. Director of Albury Club. Chairman Murray Irrigation Limited Audit Committee.



Directors' Report

Your Directors present their report together with the accounts of the Company for the financial year to 31 July 2004 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 |
| K.S. Baxter | W.L. Hetherington |
| S.G. Ellis | B. J. Ireland |
| I.A. Gillett | D.T. Liphuyzen |

A.F. Batley and I.H. Morton were directors from the beginning of the financial year up to 18th December 2003.

A.M. Anthony and M.J. O'Callaghan were directors from 18th December 2003 up to the date of this report.

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 | | |
| A.M. Anthony | Nil | 3,585 |
| 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 |
| NON-MEMBER DIRECTORS | | |
| B.J. Ireland | Nil | Nil |
| M.J. O'Callaghan | 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 2004, and the numbers of meetings attended by each Director.

Number of meetings held: 10

Number of meetings attended by:

| | | | |
|----------------------|----|--------------------|----|
| A.M. Anthony | 6 | D.T. Liphuyzen | 10 |
| G.G. Ball | 10 | I.H. Morton | 4 |
| K.S. Baxter | 9 | I.A. Gillett | 10 |
| S.G. Ellis | 10 | A.F. Batley | 4 |
| M.D. Goudie..... | 10 | B.J. Ireland..... | 10 |
| W.L. Hetherington... | 10 | M.J. O'Callaghan. | 5 |

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 | |
|-------------------------------|---------|----------|
| | 2004 | 2003 |
| Revenue from Irrigation | 25,315 | 19,392 |
| Employee Benefits | (7,651) | (6,706) |
| Materials and Contracts | (5,976) | (5,567) |
| Depreciation and Amortisation | (5,993) | (5,523) |
| Bulk Water Supply | (6,027) | (4,802) |
| Borrowing Costs | (50) | (217) |
| Other | (1,196) | (811) |
| Profit/(Loss) from Irrigation | (1,578) | (4,234) |
| Other Revenue | 9,686 | 8,325 |
| Profit/(Loss) before Tax | 8,108 | 4,091 |
| Income Tax Expense | (3,058) | (18,534) |
| Net Profit/(Loss) | 5,050 | (14,443) |

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 658,608 megalitres of water was supplied for the year to 31 July 2004. This is 195,087 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 2004.

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.

Directors' Report

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.

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 2004, Murray Irrigation Limited had five Board Committees. A number of committee membership changes took place during the year and are denoted by an *. 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> | |
| S.G. Ellis (Chairman) | 4 |
| K.S. Baxter | 2 |
| M.D. Goudie | 4 |
| W.L. Hetherington | 4 |

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 | 2 |
| W.L. Hetherington | 4 |
| *G.G. Ball | 2 |
| *D.L. Liphuyzen | 2 |

Audit Committee:

| | |
|--|---|
| Number of Meetings Held: | 4 |
| <i>Number of meetings attended by:</i> | |
| *M.J. O'Callaghan (Chairman) | 2 |
| *A.M. Anthony | 2 |
| *A.F. Batley | 2 |
| G.G. Ball | 4 |
| *D.L. Liphuyzen | 2 |
| W.L. Hetherington | 3 |

Remuneration Committee:

| | |
|--|---|
| Number of Meetings Held: | 1 |
| <i>Number of meetings attended by:</i> | |
| W.L. Hetherington (Chairman) | 1 |
| S.G. Ellis | 1 |
| *M.J. O'Callaghan | 1 |

Resources Committee:

| | |
|--|---|
| Number of Meetings Held: | 1 |
| <i>Number of meetings attended by:</i> | |
| W.L. Hetherington (Chairman) | 1 |
| S.G. Ellis | 1 |
| K.S. Baxter | 1 |

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 Chairman 28th October 2004 | S.G.Ellis Deputy Chairman |
|--|-------------------------------------|

Murray Irrigation Limited

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 JULY 2004

Financial Statements

| | | 2004 | 2003 |
|--|-------|--------------|-----------------|
| | Notes | \$'000 | \$'000 |
| Revenue from Irrigation Undertaking | 2 | 25,315 | 19,392 |
| Employee Benefits | | (7,651) | (6,706) |
| Materials and Contracts | | (5,976) | (5,567) |
| Depreciation and Amortisation Expense | | (5,993) | (5,523) |
| Bulk Water Supply Expense | | (6,027) | (4,802) |
| Borrowing Costs | | (50) | (217) |
| Other Expenses | | (1,196) | (811) |
| Profit/(Loss) from Irrigation Undertaking | | | |
| Before Income Tax | | (1,578) | (4,234) |
| Other Revenue from Ordinary Activities | 2 | 9,686 | 8,325 |
| Profit/(Loss) from Ordinary Activities | | | |
| Before Income Tax | 3 | 8,108 | 4,091 |
| Income Tax Expense Relating to Ordinary Activities | 4 | (3,058) | (18,534) |
| Net Profit/(Loss) | | <u>5,050</u> | <u>(14,443)</u> |

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

Financial Statements

Murray Irrigation Limited

STATEMENT OF FINANCIAL POSITION

as at 31 JULY 2004

| | <i>Notes</i> | <i>2004</i> \$'000 | <i>2003</i> \$'000 |
|---------------------------------------|--------------|-----------------------|-----------------------|
| CURRENT ASSETS | | | |
| Cash Assets | 5 | 30,653 | 24,795 |
| Receivables | 6 | 13,654 | 20,472 |
| Inventories | 7 | 886 | 1,094 |
| Other | 8 | 206 | 174 |
| Total Current Assets | | <u>45,399</u> | <u>46,535</u> |
| NON-CURRENT ASSETS | | | |
| Other Financial Assets | 9 | 7,400 | 6,150 |
| Property, Plant and Equipment | 10 | 238,310 | 232,850 |
| Deferred Tax Asset | 11 | 799 | 846 |
| Total Non-Current Assets | | <u>246,509</u> | <u>239,846</u> |
| TOTAL ASSETS | | <u>291,908</u> | <u>286,381</u> |
| CURRENT LIABILITIES | | | |
| Payables | 12 | 8,762 | 7,239 |
| Current Tax Liabilities | 13 | 133 | 35 |
| Provisions | 14 | 823 | 745 |
| Interest Bearing Liabilities | 15 | 0 | 4,000 |
| Other | 16 | 2,075 | 1,140 |
| Total Current Liabilities | | <u>11,793</u> | <u>13,159</u> |
| NON-CURRENT LIABILITIES | | | |
| Deferred Tax Liabilities | 17 | 29,806 | 27,701 |
| Provisions | 18 | 1,588 | 1,850 |
| Total Non-Current Liabilities | | <u>31,394</u> | <u>29,551</u> |
| TOTAL LIABILITIES | | <u>43,187</u> | <u>42,710</u> |
| NET ASSETS | | <u>248,721</u> | <u>243,671</u> |
| EQUITY | | | |
| Contributed Equity | 19 | 186,452 | 186,452 |
| Reserves | 20(a) | 90,260 | 81,754 |
| Retained Profits (Accumulated Losses) | 20(b) | (27,991) | (24,535) |
| TOTAL EQUITY | 21 | <u>248,721</u> | <u>243,671</u> |

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 2004

**Financial
Statements**

| | <i>Notes</i> | 2004 | 2003 |
|--|--------------|-----------------------------|-----------------------------|
| | | \$'000 | \$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from Government | | 13,623 | 13,189 |
| Water and Other Income | | 21,355 | 20,233 |
| Payments to Suppliers and Employees | | (32,858) | (33,060) |
| Payments (to) / Receipts from Australian Tax Office | | 8,733 | (12,470) |
| Receipts from Government for GST | | 1,235 | 1,143 |
| | | <u>12,088</u> | <u>(10,965)</u> |
| Interest received on Investments | | 1,638 | 1,872 |
| Loan Costs paid | | (50) | (217) |
| Net Cash Inflow/(Outflow) from Operating Activities | 27 | <u>13,676</u> | <u>(9,310)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from Maturity of Investment Bond | | 0 | 1,062 |
| Payment for Investment | | (1,250) | 0 |
| Payment for Property, Plant and Equipment | | (3,920) | (3,269) |
| Proceeds from Sale of Property, Plant and Equipment | | 1,352 | 1,071 |
| Net Cash Inflow/(Outflow) from Investing Activities | | <u>(3,818)</u> | <u>(1,136)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from Borrowings | | 0 | 10,000 |
| Repayment of Borrowings | | (4,000) | (6,000) |
| Net Cash Inflow/(Outflow) from Financing Activities | | <u>(4,000)</u> | <u>4,000</u> |
| NET INCREASE/(DECREASE) IN CASH HELD | | 5,858 | (6,446) |
| Add Cash at the beginning of the Financial Year | | 24,795 | 31,241 |
| CASH AT THE END OF THE FINANCIAL YEAR | 5 | <u><u>30,653</u></u> | <u><u>24,795</u></u> |

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

Financial Statements 31 July 2004

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 \$41.2 million (2003, \$43.7 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 statements that comply with the relevant accounting standards. The effect of

Financial Statements 31 July 2004

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 of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal. The carrying amount of all non-current assets was reviewed as at 31 July 2004 to determine whether they were in excess of their recoverable amount. If the carrying value of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. In assessing the recoverable amount, the relevant cash flows have not been discounted to their present value.

(f) Investments

Investments are brought to account at cost and dividend income is recognised in the statement of financial performance when receivable.

(g) 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 |

(h) 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).

Financial Statements 31 July 2004

(i) 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.

(j) Maintenance and Repairs

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

(k) 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. 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.

(l) Interest on Water Debtors Accounts

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

(m) Doubtful Debts

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

(n) 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.

(o) 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 Landowner 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.

Financial Statements 31 July 2004

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

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.

(p) 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.

(q) Accounting policy in respect to Financial Instruments

Murray Irrigation Limited's accounting policies for financial instruments are detailed in Note 30(a).

(r) 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.

(s) Comparatives

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

(t) Revenue Received in Advance

Any monies received in advance of supply of goods or services rendered is brought to account as a liability called revenue received in advance.

(u) Adoption of Australian Equivalents to International Financial Reporting Standards

(i) Background

For the reporting period ending 31 July 2006, the Company is required to adopt the financial reporting requirements of the Australian equivalents to International Financial Reporting Standards (IFRS). This financial report will require comparatives at 31 July 2005 and hence will require opening balances for the financial year commencing 1 August 2004.

(ii) Managing transition

The Company has taken the following steps in managing the transition to Australian equivalents to IFRS:

- commenced activities to identify key issues and the likely impacts resulting from the adoption of Australian equivalents to IFRS;
- established an internal education process to raise awareness of the changes in reporting requirements.

(iii) Potential impacts

During the 2004-2005 year a full review will be made to identify the standards that may require the Company to alter its policies, systems or disclosures.

NOTES TO AND
FORMING PART OF THE

Financial Statements 31 July 2004

2 REVENUE

| | \$'000 | |
|--|----------------------|----------------------|
| | 2004 | 2003 |
| Revenue from operating activities | | |
| Income from Water Sales | 18,395 | 12,027 |
| Supply Variation Levy | 478 | 282 |
| Asset Maintenance and Renewal Levy | 2,183 | 2,125 |
| Precast External Sales | 952 | 1,297 |
| Other Income | 1,280 | 1,671 |
| | <u>23,288</u> | <u>17,402</u> |
| Revenue from outside the operating activities | | |
| Revenue on sale of property, plant and equipment | 1,352 | 1,071 |
| Interest on funds of Irrigation Undertaking | 675 | 919 |
| | <u>2,027</u> | <u>1,990</u> |
| Revenue from Irrigation Undertaking | <u>25,315</u> | <u>19,392</u> |
| Other Revenue from Ordinary Activities outside the operating activities | | |
| Taxation Settlement Interest Income | 0 | 875 |
| Interest - Supply Variation, Asset Maintenance and Renewal Funds Land and Water Management Plans Contributed Assets | 961 | 981 |
| Infrastructure - Contributed Assets | 4,607 | 2,139 |
| | <u>4,118</u> | <u>4,330</u> |
| | <u>9,686</u> | <u>8,325</u> |
| Total Revenue | <u><u>35,001</u></u> | <u><u>27,717</u></u> |

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 | |
|---|--------------|--------------|
| | 2004 | 2003 |
| Expenses | | |
| Net (gain)/loss on disposal of property plant and equipment | (160) | (161) |
| Depreciation: | | |
| Buildings | 57 | 55 |
| Plant and Equipment | 1,756 | 1,695 |
| Infrastructure | 3,490 | 3,127 |
| Total Depreciation | <u>5,303</u> | <u>4,877</u> |
| Amortisation Leased Assets | 690 | 646 |
| Provision for Doubtful Debts | 20 | 24 |
| Provision for Employee Entitlements | (184) | (175) |

(b) Individually Significant Items

Other Expenses includes the following items:

| | | |
|-----------------|-----|-----|
| Taxation Advice | 266 | 359 |
|-----------------|-----|-----|

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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 | |
|--|--------------|---------------|
| | 2004 | 2003 |
| Profit from ordinary activities before income tax expense | 8,108 | 4,091 |
| Income tax calculated at 30% (2003 - 30%) | 2,432 | 1,227 |
| Tax effect of permanent differences | | |
| Non-deductible depreciation and amortisation | 487 | 461 |
| Income tax adjusted for permanent differences | 2,919 | 1,688 |
| Under provision in previous years | 139 | 16,846 |
| Income Tax Expense | 3,058 | 18,534 |

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. 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.

The ATO rejected the application, however MIL does not agree with the ATO's finding, and the company is continuing to pursue a satisfactory outcome of this matter.

The taxation returns submitted to date 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 2004 and its tax liabilities have been calculated on this basis.

If a final determination on this issue is adverse, approximately \$10.3 million of the deferred taxation liability referred to in Note 17 may become immediately payable plus interest and penalties.

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 years ended 31 July 2003 and 31 July 2004 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. Further information was provided from the Company in August 2004. The tax liabilities brought to account in these financial statements have been determined on this basis. To date no ruling has been made. Should an unfavourable ruling be received the Company may be liable for additional tax of up to \$3.1 million plus any interest or penalties, which has not been brought to account in these financial statements.

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.

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| 5. CURRENT ASSETS - CASH ASSETS | \$'000 | |
|--|---------------|---------------|
| | 2004 | 2003 |
| Cash at bank and on hand | <u>30,653</u> | <u>24,795</u> |
| Restrictions are imposed on access to certain of the above funds as follows: | | |
| Supply Variation Reserve Fund - | | |
| Restricted (Note (i) below) | 0 | 0 |
| Government Funds received in advance | 652 | 0 |
| Asset Maintenance and Renewals | | |
| Restricted (Note (ii) below) | 15,649 | 12,543 |
| Unrestricted Funds | <u>14,352</u> | <u>12,252</u> |
| | <u>30,653</u> | <u>24,795</u> |

- (i) 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 2004 (Note 1(o)(ii)).
- (ii) 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 \$21,799,000 (2003 \$18,693,000) comprising cash \$15,649,000 (2003 \$12,543,000) and bonds \$6,150,000 (2003 \$6,150,000), (Notes 5 and 9).

6 CURRENT ASSETS - RECEIVABLES

| | \$'000 | |
|---|---------------|---------------|
| | 2004 | 2003 |
| Water Debtors | 8,379 | 4,536 |
| Less Provision for Doubtful Debts | <u>(165)</u> | <u>(145)</u> |
| | 8,214 | 4,391 |
| Land and Water Management Plans (Note 29(ii)) | | |
| - Due from irrigators | 981 | 597 |
| Government Agencies | | |
| - Asset Maintenance and Renewal | 0 | 2,335 |
| - Land and Water Management Plans (Note 29(ii)) | 3,290 | 1,827 |
| - The Commissioner of Taxation | 0 | 9,924 |
| - Other | <u>603</u> | <u>885</u> |
| | 3,893 | 14,971 |
| Other Debtors | <u>566</u> | <u>513</u> |
| | <u>13,654</u> | <u>20,472</u> |

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7 CURRENT ASSETS - INVENTORIES

| | \$'000 | |
|--------------------------|------------|--------------|
| | 2004 | 2003 |
| Raw Materials and Stores | <u>886</u> | <u>1,094</u> |

8 CURRENT ASSETS - OTHER

| | \$'000 | |
|-------------|------------|------------|
| | 2004 | 2003 |
| Prepayments | <u>206</u> | <u>174</u> |

9 NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

| | \$'000 | |
|--------------------------------|---------------------|---------------------|
| | 2004 | 2003 |
| Investments - at cost | | |
| Non-Current Asset | | |
| Commonwealth Indexed Bonds (i) | 6,150 | 6,150 |
| Shares in other corporations | <u>1,250</u> | <u>0</u> |
| | <u><u>7,400</u></u> | <u><u>6,150</u></u> |

(i) Listed Investments - Market Value

The aggregate market value of investments listed is:

| | \$'000 | |
|----------------------------|---------------------|---------------------|
| | 2004 | 2003 |
| Commonwealth Indexed Bonds | <u>7,507</u> | <u>7,417</u> |
| | <u><u>7,507</u></u> | <u><u>7,417</u></u> |

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

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10 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

| | | \$'000 | |
|---------------------------------|-----------------------------|------------------------------|------------------------------|
| | | 2004 | 2003 |
| Freehold Land | - At Cost (Note (i) below) | <u>2,051</u> | <u>2,059</u> |
| Water Infrastructure | - At Cost | 201,250 | 193,256 |
| Less Accumulated Depreciation | | <u>24,561</u> | <u>21,128</u> |
| | | <u>176,689</u> | <u>172,128</u> |
| Construction-in-Progress | - At Cost | <u>14,124</u> | <u>15,309</u> |
| Leased Assets | - At Cost (Note 1(h)) | 41,294 | 39,125 |
| Less Accumulated Amortisation | | <u>5,284</u> | <u>4,614</u> |
| | | <u>36,010</u> | <u>34,511</u> |
| Buildings and Cottages | - At Cost (Note (ii) below) | 2,161 | 2,161 |
| Less Accumulated Depreciation | | <u>481</u> | <u>436</u> |
| | | <u>1,680</u> | <u>1,725</u> |
| Plant and Equipment | - At Cost | 6,712 | 6,174 |
| Less Accumulated Depreciation | | <u>3,134</u> | <u>2,735</u> |
| | | <u>3,578</u> | <u>3,439</u> |
| Office Equipment | - At Cost | 1,463 | 1,359 |
| Less Accumulated Depreciation | | <u>1,115</u> | <u>1,029</u> |
| | | <u>348</u> | <u>330</u> |
| Motor Vehicles | - At Cost | 5,449 | 5,011 |
| Less Accumulated Depreciation | | <u>1,619</u> | <u>1,662</u> |
| | | <u>3,830</u> | <u>3,349</u> |
| Total Non-Current Assets | | <u><u>238,310</u></u> | <u><u>232,850</u></u> |

(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.

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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 2003 | Additions | Disposals | Transfers | Depreciation | Carrying amount 31 July 2004 |
|-------------------------------------|--|---------------|--------------|-----------|--------------|---------------------------------------|
| Land | 2,059 | | 8 | | | 2,051 |
| Water Infrastructure | 172,128 | | 155 | 8,206 | 3,490 | 176,689 |
| Construction in Progress | 15,309 | 9,275 | | (10,460) | | 14,124 |
| Leased Assets | 34,511 | | 65 | 2,254 | 690 | 36,010 |
| Buildings | 1,725 | 55 | 43 | | 57 | 1,680 |
| Plant & Equipment | 3,439 | 934 | 92 | | 703 | 3,578 |
| Office Equipment | 330 | 215 | 1 | | 196 | 348 |
| Motor Vehicles | 3,349 | 2,166 | 828 | | 857 | 3,830 |
| | 232,850 | 12,645 | 1,192 | 0 | 5,993 | 238,310 |

11 NON-CURRENT ASSETS – DEFERRED TAX ASSET

| | \$'000 | |
|---------------------------|--------|------|
| | 2004 | 2003 |
| Future Income Tax Benefit | 799 | 846 |

12 CURRENT LIABILITIES – PAYABLES

| | \$'000 | |
|-----------------|--------------|--------------|
| | 2004 | 2003 |
| Trade Creditors | 8,413 | 6,954 |
| Other Creditors | 349 | 285 |
| | 8,762 | 7,239 |

13 CURRENT LIABILITIES – CURRENT TAX LIABILITIES

| | \$'000 | |
|--------------------------|------------|-----------|
| | 2004 | 2003 |
| Provision for Income Tax | 133 | 35 |
| | 133 | 35 |

14 CURRENT LIABILITIES – PROVISIONS

| | \$'000 | |
|-----------------------------------|--------|------|
| | 2004 | 2003 |
| Employee Entitlements (Note 1(k)) | 823 | 745 |

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| | \$'000 | |
|--|----------|--------------|
| | 2004 | 2003 |
| 15 CURRENT LIABILITIES – INTEREST BEARING LIABILITIES | | |
| Bank Borrowings (i) | <u>0</u> | <u>4,000</u> |

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

| | \$'000 | |
|---|---------------------|---------------------|
| | 2004 | 2003 |
| 16 CURRENT LIABILITIES – OTHER | | |
| Funds Received in Advance | 652 | 0 |
| Land & Water Management Plans | | |
| – Funds held as Implementing Authority (Notes 1(p) and 29(ii)) | <u>1,423</u> | <u>1,140</u> |
| | <u>2,075</u> | <u>1,140</u> |

| | \$'000 | |
|--|---------------|---------------|
| | 2004 | 2003 |
| 17 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITY | | |
| Provision for Deferred Income Tax | <u>29,806</u> | <u>27,701</u> |

| | \$'000 | |
|--|--------------|--------------|
| | 2004 | 2003 |
| 18 NON-CURRENT LIABILITIES – PROVISIONS | | |
| Employee Entitlements (Note 1(k)) | <u>1,588</u> | <u>1,850</u> |

| | <i>Shares 000's</i> | | \$'000 | |
|------------------------------|---------------------|-------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| 19 CONTRIBUTED EQUITY | | | | |
| Share Capital | | | | |
| Ordinary shares | 1,447 | 1,447 | <u>186,452</u> | <u>186,452</u> |

| | \$'000 | |
|--|----------------------|----------------------|
| | 2004 | 2003 |
| 20 RESERVES AND RETAINED PROFITS | | |
| (a) Reserves: | | |
| Contributed Assets | 90,260 | 81,754 |
| Supply Variation | 0 | 0 |
| General | <u>0</u> | <u>0</u> |
| | <u>90,260</u> | <u>81,754</u> |
| Movements: | | |
| Contributed Assets - (Note 1(o)(i)) | | |
| Balance - 1 August 2003 | 81,754 | 75,450 |
| Transfer from Retained Profits | <u>8,506</u> | <u>6,304</u> |
| Balance - 31 July 2004 | <u>90,260</u> | <u>81,754</u> |

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Supply Variation - (Note 1(o)(ii))

| | | |
|--------------------------------|----------|----------|
| Balance - 1 August 2003 | 0 | 3,553 |
| Transfer from Retained Profits | 478 | 411 |
| Transfer to Retained Profits | (478) | (3,964) |
| Balance - 31 July 2004 | 0 | 0 |

(b) Retained Profits (Accumulated Losses)

| | \$'000 | |
|--|-----------------|-----------------|
| | 2004 | 2003 |
| Balance 1 August 2003 | (24,535) | (7,341) |
| Net Profit/(Loss) | 5,050 | (14,443) |
| Transfer to Contributed Assets | (8,506) | (6,304) |
| Transfer to Supply Variation Reserve | (478) | (411) |
| Transfer from Supply Variation Reserve | 478 | 3,964 |
| Balance 31 July 2004 | (27,991) | (24,535) |

(c) Nature and Purpose of Reserves

Refer Note 1(o).

21 EQUITY

| | \$'000 | |
|--|----------------|----------------|
| | 2004 | 2003 |
| Total equity at the beginning of the financial year | 243,671 | 258,114 |
| Total changes in equity recognised in the statement of financial performance | 5,050 | (14,443) |
| Total equity at the end of the financial year | 248,721 | 243,671 |

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

A.M. Anthony commenced 18th December 2003.

M.J. O'Callaghan commenced 18th December 2003.

I.H. Morton from 1 August 2003 to 18th December 2003.

A.F. Batley from 1 August 2003 to 18th December 2003.

Remuneration and Retirement Benefits

Information on remuneration of Directors is disclosed in Note 23.

Loans to Directors

There are no loans to Directors.

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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 \$297,000 (2003, \$217,000).

23 REMUNERATION OF DIRECTORS

| | \$'000 | |
|---|------------|------------|
| | 2004 | 2003 |
| Income received, or due and receivable by Directors of the Company: | <u>318</u> | <u>295</u> |

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

| | \$'000 | \$'000 | 2004 | 2003 |
|---------|--------|--------|------|------|
| 0 - 10 | 0 | 10 | 1 | 0 |
| 10 - 20 | 10 | 20 | 3 | 0 |
| 20 - 30 | 20 | 30 | 6 | 7 |
| 30 - 40 | 30 | 40 | 1 | 2 |
| 40 - 60 | 40 | 60 | 0 | 1 |
| 60 - 80 | 60 | 80 | 1 | 0 |

24 REMUNERATION OF AUDITORS

During the year the auditor earned the following remuneration:

| | \$'000 | |
|---|------------------|------------------|
| | 2004 | 2003 |
| Audit of the financial report | 38 | 36 |
| Other assurance services | <u>0</u> | <u>8</u> |
| Total audit and other assurance services | <u>38</u> | <u>44</u> |
| Taxation services | <u>13</u> | <u>23</u> |
| Total remuneration | <u>51</u> | <u>67</u> |

25 COMMITMENTS FOR CAPITAL EXPENDITURE

There were no commitments for expenditure at 31 July 2004, apart from the Deferred Maintenance program estimated at \$7.0 million (2003, \$6.9 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 \$5.0 million (2003, \$6.0 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)).

26 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.

27 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOWS FROM OPERATING ACTIVITIES

| | \$'000 | |
|--|----------------------|-----------------------|
| | 2004 | 2003 |
| Operating Profit/(Loss) After Income Tax | 5,050 | (14,443) |
| Add: Irrigators Land and Water Management Plan Levies | 283 | 826 |
| Non-Cash Operating Expenditure - | | |
| Depreciation and Amortisation | 5,993 | 5,523 |
| Increase (Reduction) in Provision for Doubtful Debts | 20 | 24 |
| Net (Gain)/Loss on Disposal of Non-Current Assets | (160) | (161) |
| Less: Contributed Assets | (8,725) | (6,469) |
| Changes in Assets and Liabilities: | | |
| Add: (Increase) Decrease in Current Assets | 6,974 | (6,875) |
| (Increase)/Decrease in future income tax benefit | 47 | (846) |
| Increase/(Decrease) in provision for tax | 98 | (12,072) |
| Increase/(Decrease) in provision for deferred tax | 2,105 | 27,701 |
| Add: Increase (Decrease) in Operating Liabilities | 1,991 | (2,518) |
| Net Cash Provided by/Used in Operating Activities | <u>13,676</u> | <u>(9,310)</u> |

28 NON-CASH FINANCING AND INVESTING ACTIVITIES

| | \$'000 | |
|------------------------------------|--------|-------|
| | 2004 | 2003 |
| Contributed assets from Government | 8,725 | 6,469 |

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29 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 | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Income | | | | | | | | | | |
| Government Agencies | 4842 | 3044 | 1028 | 1360 | 637 | 695 | 534 | 953 | 7041 | 6052 |
| Irrigator Contribution | 1416 | 1248 | 214 | 206 | 132 | 130 | 418 | 364 | 2180 | 1948 |
| | 6258 | 4292 | 1242 | 1566 | 769 | 825 | 952 | 1317 | 9221 | 8000 |
| Expenditure | | | | | | | | | | |
| Capital Works | 4466 | 1687 | 80 | 149 | 56 | 0 | 5 | 303 | 4607 | 2139 |
| Expenses Incurred (Farm Rebates, Monitoring, Education & Administration) | 1928 | 2069 | 986 | 1249 | 658 | 757 | 759 | 960 | 4331 | 5035 |
| | 6394 | 3756 | 1066 | 1398 | 714 | 757 | 764 | 1263 | 8938 | 7174 |
| Net Funds Accumulated/ (Expended) | (136) | 536 | 176 | 168 | 55 | 68 | 188 | 54 | 283 | 826 |

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

| | \$'000 | | | | | | | | | |
|---|---------------|---------------|-------------|-------------|------------|------------|--------------|--------------|---------------|---------------|
| | Berriquin | | Cadell | | Denimein | | Wakool | | Total | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Opening Balance - 1 August 2003 (Note 16) | 16 | (520) | 1029 | 861 | 433 | 365 | (338) | (392) | 1140 | 314 |
| Add Net Funds Accumulated/(Expended) | (136) | 536 | 176 | 168 | 55 | 68 | 188 | 54 | 283 | 826 |
| Closing Balance - 31 July 2004 (Note 16) | (120) | 16 | 1205 | 1029 | 488 | 433 | (150) | (338) | 1423 | 1140 |
| Less: | | | | | | | | | | |
| Outstanding Irrigator Debtors (Note 6) | 666 | 392 | 68 | 53 | 47 | 37 | 200 | 115 | 981 | 597 |
| Outstanding Government Debtors (Note 6) | 2288 | 1068 | 540 | 341 | 288 | 263 | 174 | 155 | 3290 | 1827 |
| Total Debtors | 2954 | 1460 | 608 | 394 | 335 | 300 | 374 | 270 | 4271 | 2424 |
| Plan Surplus/(Funded by Murray Irrigation Limited) | (3074) | (1444) | 597 | 635 | 153 | 133 | (524) | (608) | (2848) | (1284) |

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30. 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 30th November. Interest is calculated at the rate stipulated in the New South Wales 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 - Government 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 4.44% to 4.91%, however when the indexation of the capital value is included the real interest rate ranges from 6.48% to 7.35% and will vary according to future Consumer Price Index movements. |
| - Shares in other corporations | 9 | Investments are stated at cost. Dividends are recognised when received or receivable. | Dividend payments from equity investments in other corporations are determined by the performance of the other corporations. The performance of other corporations is not consolidated in these accounts. |
| 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:

| 2004 | 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 | 8,761 | 21,889 | | | 3 | 30,653 | 5.20% |
| Receivables – Water Debtors | | 9,360 | | | | 9,360 | 9.00% |
| Government Agencies | | | | | 3,893 | 3,893 | N/A |
| Other | | | | | 566 | 566 | N/A |
| Investments – Government Bonds | | | 857 | 5,293 | | 6,150 | 4.59%* |
| Shares in other corporations | | | | | 1,250 | 1,250 | N/A |
| | 8,761 | 31,249 | 857 | 5,293 | 5,712 | 51,872 | |
| FINANCIAL LIABILITIES | | | | | | | |
| Trade Creditors and Accruals | | | | | 9,414 | 9,414 | N/A |
| | | | | | 9,414 | 9,414 | |

* Refer comments at Note 30(a)

| 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 30(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 Balance Sheet</i> | <i>Aggregate Net Fair Value</i> |
|------------------------------|---|---|
| Financial Assets | | |
| Cash | 30,653 | 30,653 |
| Receivables - | | |
| Water Debtors | 9,360 | 9,360 |
| Government Agencies | 3,893 | 3,893 |
| Other | 566 | 566 |
| Investments – | | |
| Government Bonds | 6,150 | 7,507 |
| Shares in other corporations | 1,250 | 1,250 |
| | <u>51,872</u> | <u>53,229</u> |
| Financial Liabilities | | |
| Trade Creditors and Accruals | <u>9,414</u> | <u>9,414</u> |
| | <u>9,414</u> | <u>9,414</u> |

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

Recognised Financial Instruments

Cash, cash equivalents and short term investments

The carrying amount approximates fair value because of their short term to maturity

Trade Receivables

The carrying amount approximates fair Value, due to the security provided under the water management act 2000

Trade Payables

The carrying amount approximates fair value

Government Bonds

The fair value is the market value of the bonds at the balance date

Shares in other corporations

Fair value of equity investments is assessed by the directors based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

(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 2004 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

28th October 2004

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 2004 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 2004 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 an application for a private binding ruling to confirm the deductibility of landcare outgoings was rejected by the Australian Taxation Office and negotiations are continuing. An application for a private binding ruling in respect to the assessability of government contributions of infrastructure assets has also been lodged but to date no ruling has been made. Should the final determination of these issues be adverse, the company may incur additional taxation liabilities of up to \$3.1 million plus any interest or penalties, which has not been brought to account in these financial statements. Further, approximately \$10.3 million of the deferred taxation liability which is currently accounted for as a non-current liability (refer note 17 - Provision for Deferred Income Tax) may become immediately payable.

Johnsons MME

Chartered Accountants

Hugh McKenzie-McHarg

PARTNER

Albury

29th October 2004

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

Corporate Governance Statement

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.

Corporate Governance Statement

- 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
Alexandra Anthony
Kelvin Baxter
Gordon Ball
Ian Gillett
Max Goudie
Daniel Liphuyzen
Barry Ireland, External Director
Michael O'Callaghan,
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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