

# 2005

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 1200 family farm businesses covering 2400 irrigation holdings in southern NSW.*

*Food production is the focus of these family farm businesses. The region's diverse products include 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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*Inside front cover: Ashley Lance's photograph of grain silos near Deniliquin, with a recycling dam in the foreground, was a finalist in Murray Irrigation's Land, Life and Water photographic competition in 2004.*

*Above left: Baled Hay*

*Above right: Murray Irrigation Chairman Bill Hetherington and Minister for Infrastructure, Planning and Natural Resources Craig Knowles cutting the cake at Murray Irrigation's 10th anniversary celebrations in March 2005.*

# Highlights of 2004/2005



*Top: From left, consultant Ed Burnard with Cheetham Salt Limited Victorian Production Coordinator Noel Taylor and Murray Irrigation Limited engineer Peter Knill inspecting salt harvesting operations at Wakool.*



*Above: Engineering supervisor Ashley White oversees construction of the final subway on the Booroobanilly South Stormwater Escape Channel.*

## Water Supply

- Murray Irrigation's general security allocation was 49 per cent (608,886ML) which translated to 42 per cent for shareholders. With carryover and water traded in, the Company diverted a total of 834,784ML during 2004/05, delivering 651,240ML to irrigators, with a delivery efficiency of 78 per cent.
- A total of 95,128ML was carried over into the 2004/05 season. Carry over into the 2005/06 season more than doubled, to 209,944ML.
- In September 2004 irrigators in the region took up almost 86,000ML of water offered as part of a Snowy Advance negotiated by SunRice.
- A total of \$2.8 million was spent on 46 projects as part of the Company's annual asset renewal program during the winter off season. These included four pipe culverts, nine road culverts, 13 access culverts, 12 subways and eight regulators.
- A major roll out of new mechanised regulator gates on branch canals began, with 30 new gates installed during the off season at a cost of \$2.1 million.

## Drainage Services

- It has been an excellent year for drainage construction. A total of \$4.1 million has been spent on new stormwater escape channels, or

enhancing existing natural drainage. Stormwater escape channels completed in the past 12 months include Mundiwa, (7.37kms, 2,500ha); Woolamai North (4kms, 4,000ha) and; West Warragoon (6.5kms, 3000ha). The third and final stage of the 80km Booroobanilly Stormwater Escape channel was completed. In total Booroobanilly provides drainage for 26,000ha. The Yaloke (45kms 30,000ha) and Murphy's Timber (25km, 15,000ha) drainage lines have also been enhanced.

- Work has begun to improve the drainage capacity and quality of flows in the Box Creek Stormwater Escape to meet MDBC guidelines and 40km of the channel has already been de-silted.

## Environmental & On-Farm Services

- 2004/5 marked year 10 of the 15 year Murray LWMP funding, with a record level of incentives provided to landholders. Government funded incentives totalled \$8.45 million, matched with \$5 million of cash contributions from landholders for LWMP approved works. This follows the introduction of new guidelines in October 2004 to maximise the implementation of the LWMPs.
- The annual LWMP survey indicates landholders spent another \$57 million in the past year on other works to

# Outlook for 2005/2006



*Murray Irrigation research officer James Bentley and Rob Cook from the Murray Darling Freshwater Research Centre sample for water bugs as part of a Murray Irrigation survey which will contribute data to the Living Murray Initiative.*

## Season ahead

More water is available for irrigation this season than at the same time in the previous three years. Irrigators are more confident about their summer cropping programs following widespread rainfall, with a more optimistic outlook for rice in particular.

The livestock and dairy industries are enjoying solid returns and this is driving demand for irrigated pasture and stock feed. Many irrigators are also watering winter cereals following the announcement of supplementary water, although there is some caution in the light of falling cereal prices.

## Water resources

Managing drought and low water allocations remains one of the greatest challenges facing the Company. Our water

allocations over the past three years have been well below average, from the record low of 8 per cent in the 2002-03 drought, followed by 45 per cent in 2003-04 and 42 per cent in 2004-05.

Recent low allocations and the possibility of long term reductions in average allocations affect the income earning capacity of our farmer-shareholders and the viability of their farm businesses.

It also significantly reduces the Company's income.

The separation of land and water through the National Water Initiative (NWI) and the emergence of greater competition for water are ongoing issues. Environmental allocations for the Snowy and Murray Rivers, corporate water traders, environmental trusts and the possibility

improve their management practices. This brings the 10 year cumulative total of government funded LWMP incentives to \$67.5 million and landholder contributions to \$347 million.

- The LWMPs continued to fund research and development with 17 projects approved, and \$149,000 of funding provided in the past year; 12 of these were new projects.
- Murray Irrigation's new format environment report earned a bronze award in the Australasian Reporting Awards

#### **Business and Customer Services**

- A new 1300 central water ordering system was introduced. The new system was thoroughly tested when supplementary water became available in September, taking 1582 calls in 48 hours.
- The first harvest of commercial grade salt from Stage 1 of the Wakool Tullakool Sub Surface Drainage Scheme was undertaken in June 2005. Cheetham Salt Pty Ltd harvested more than 9,000 tonnes of salt for industrial use.
- MILCast has continued to trade well, with buoyant demand from farmers, despite the difficult season. The business has also developed some innovative pre-cast channel control structures which have been used in Murray Irrigation's upgrade works this year.

- There was strong local demand for the rainbow trout raised as part of trials into the viability of commercial aquaculture at the Wakool Tullakool Sub Surface Drainage Scheme.
- Murray Irrigation's Water Exchange traded 66,729ML of water with a value of \$4,968,153. Prices ranged from \$90/ML to \$200/ML. There were 1155 separate trades during its 10 month operating period.

#### **Finances**

- IPART determined in July 2005 that NSW State Water charges in the Murray Valley would rise only by CPI and that Murray Irrigation would retain its bulk water discount for at least the next 12 months.

#### **Corporate, Policy & Communication**

- Following the signing of the National Water Initiative (NWI) and the introduction of the NSW Murray Water Sharing Plan. Murray Irrigation has engaged in extensive discussion and consultation with local and industry stakeholders about the implications for the Company and for irrigators. Further consultation will be undertaken on a series of changes to the Company's Articles of Association to comply with the NWI and to make the most of the opportunities it presents to the region.

- In March 2005 the Company celebrated its 10th anniversary with a dinner in Deniliquin. NSW Minister for Infrastructure, Planning and Natural Resources Craig Knowles was among the guests who attended to congratulate the Company on the success of its first decade under the ownership of the region's irrigators.
- March also marked the 50th anniversary of the commissioning of the Lawson Syphons, near Deniliquin. A dinner was held at the syphons to celebrate and many former workers attended.
- In conjunction with these significant anniversaries in 2005, the Company initiated an oral history project, collecting stories about the early development of irrigation and its impact on the region. Personal recollections were used to develop an exhibition, "Where the Water Flows" which was officially opened by Murray Daring Basin Commission President Ian Sinclair in March. The exhibition has been touring the region throughout 2005.
- The Company has initiated a 10 year survey program for local waterways to gather baseline data about the variety life and water quality at up to 20 sites. The aim is to ensure better information is available as a basis for decision making related to the Living Murray Initiative and environmental flows.

of governments entering the market to buy water all have the potential to reduce the pool of water available for irrigation in the region.

#### **National Water Initiative**

As a result of the National Water Initiative the Company is required to change some of the water trading rules which are part of its Articles of Association. There has been considerable debate during the past 12 months about the extent of changes required to comply with the NWI, and any additional changes that could benefit our farmer-shareholders and the Company in expanding water markets. Any changes must be approved by a vote of 75 per cent of shareholders present at a general meeting.

The July 1, 2005 NWI deadline passed without the required changes to the Company's Articles. State Government legislation is currently being drafted with significant financial penalties for failing to comply with the NWI, to be implemented on February 1, 2006.

Developing a package of changes to strengthen the Company and shareholders' interests has been a challenging process. State commitment to the NWI has wavered at times during the past year. The issues and potential impacts on the Company, shareholders and local communities are complex and are difficult to judge without the completed legislation to consider. Given this, the time frame for change has been relatively tight.

#### **Taxation**

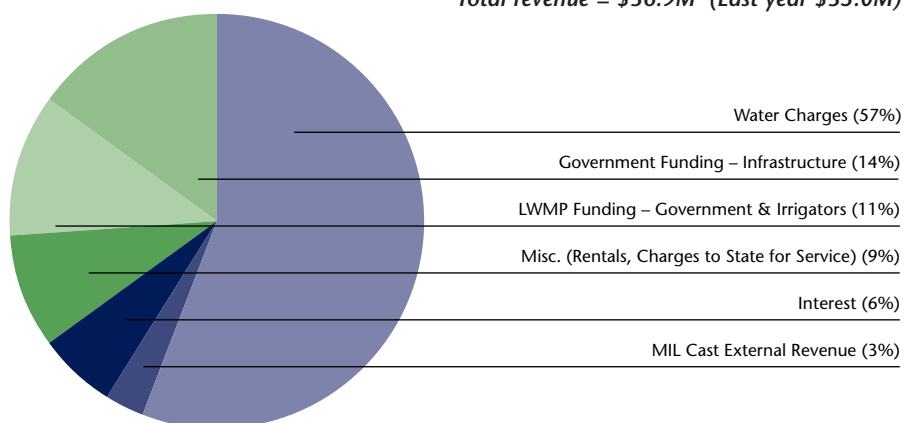
Unresolved taxation issues and outstanding tax liabilities have presented another challenge for the Company in the past year. Negotiations have continued with the Australian Taxation Office on the status of pre July 2004 funding for drainage works provided through to the regional Murray Land and Water Management Plans.

#### **LWMP Implementation**

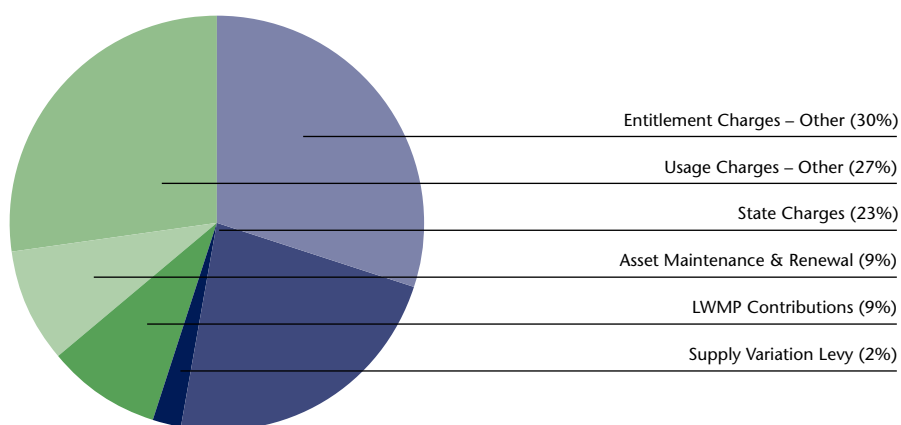
Only five years remain until government funding for the Murray Land and Water Management Plans ends. Staff continue their efforts to encourage greater adoption of improved farming practices, to reduce the impact of irrigation on the environment.

# Statistical Summary

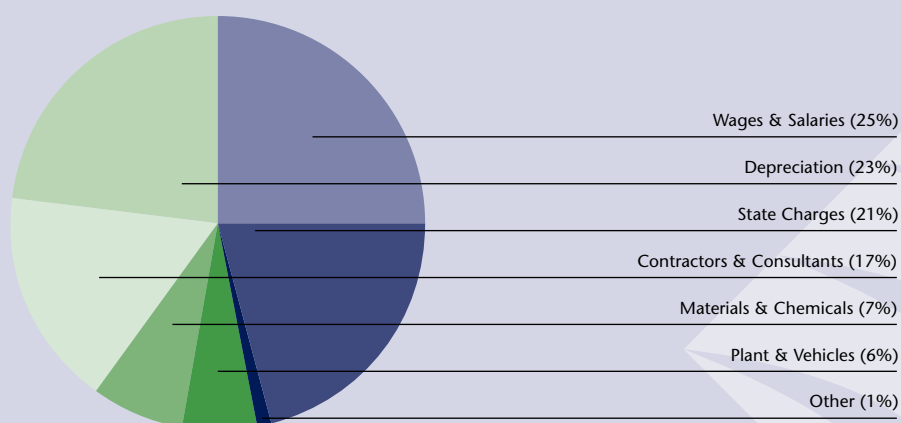
**Figure 1 – Murray Irrigation Limited Operating Revenue 1/8/2004 – 31/7/2005**  
*Total revenue = \$36.9M (Last year \$35.0M)*



**Figure 2 – Income from Irrigators (Supply & LWMP) 1/8/2004 – 31/7/2005**  
*Average price per megalitre delivered = \$34.26 (Last year \$31.99)*

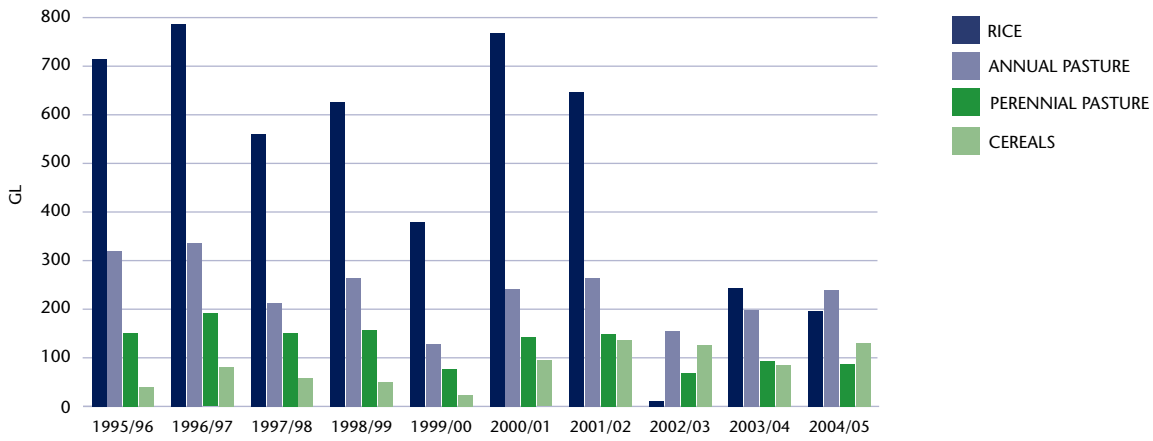


**Figure 3 – Murray Irrigation Limited Expenditure 1/8/2004 – 31/7/2005**  
*Total expenditure = \$28.1M (Last year \$28.3M)*

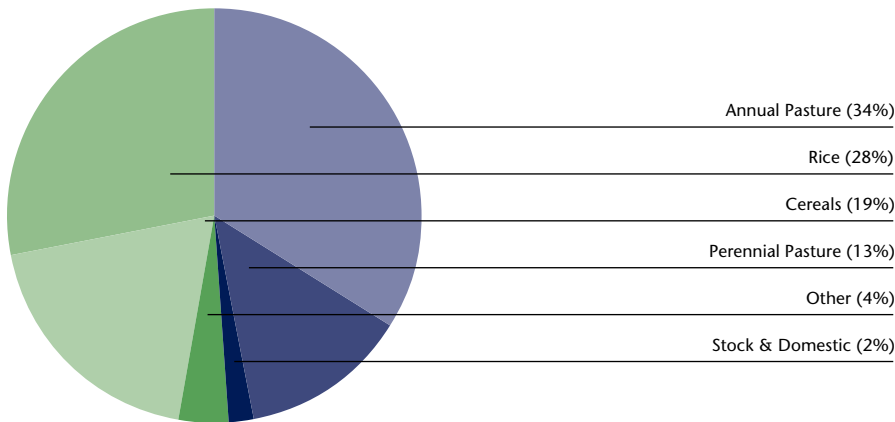


*The above charts exclude Government monies of \$6.0 million (2004, \$4.3 million) refunded to the Company as implementation authority for Land and Water Management Plan incentive rebates.*

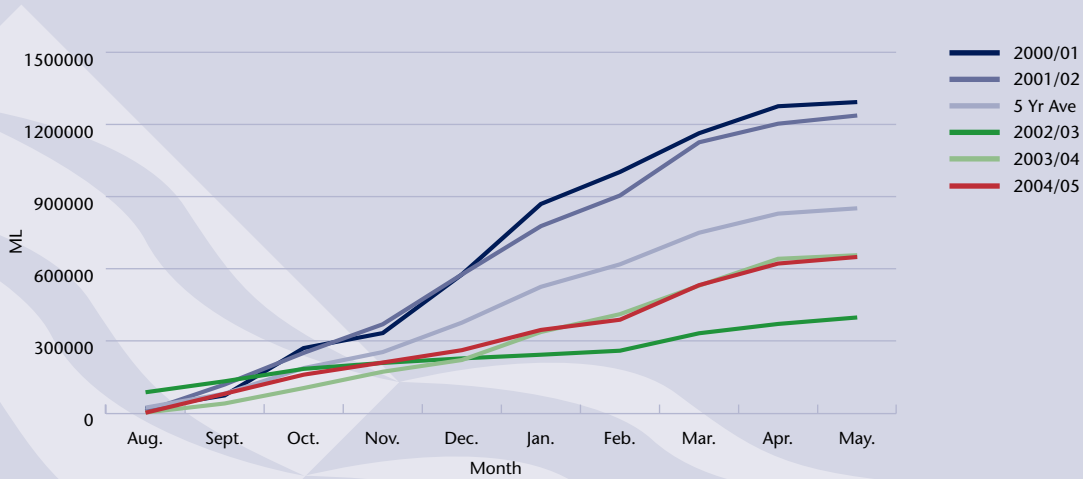
**Figure 4 – Change in Water Use between Major Land Uses 1995/96 – 2004/05**



**Figure 5 – Crop Water Use 2004/2005**



**Figure 6 – Murray Irrigation Water Deliveries 2000/01–2004/05**



# Chairman's & General Manager's Report



Bill Hetherington,  
Chairman.



George Warne,  
General Manager.

Murray Irrigation has celebrated a major milestone this year, reaching its 10th anniversary as a privately, irrigator-owned business. We have survived a decade of major political reform in the water industry, the region's worst drought on record, and environmental challenges on a number of fronts. Our operational and environmental performance continues to improve, and while our financial position has been challenging, we remain in a sound position going forward.

Water is the key link between the economy, environment and our communities. The Company has adopted a charter to foster sustainable and productive irrigated agriculture in the region. The fact that our irrigators are also our shareholders means that we have a mutual, vested interest in the long term viability of the Company, irrigation farming, sustainable land and water use and a vibrant local community.

As part of our commitment to sustainability we have been expanding our reporting to shareholders and stakeholders in line with the Global Reporting Initiative. Last year the Company's Environment Report won a Bronze Award in the Australasian Reporting Awards. This year we will publish our first sustainability report incorporating the environmental, social and economic implications across the whole of our business.

## National Water Initiative

In 2004/05 we committed considerable resources to evaluating the impact of the National Water Initiative (NWI) and responding to it. This milestone intergovernmental agreement, signed in June 2004, has provided NSW irrigators, for the first time, with clearly defined resource security going into the future. This security will provide a basis for increased investment confidence in the region. The separation of land from water and expansion of new water markets will present new opportunities, although there are also some potential risks.

The Company is providing business support and evaluation services to current irrigators and new investors to help them make the most of water trading changes.

The aims are to encourage new irrigated agricultural industries to complement the region's existing enterprises, maintain or increase the Company's water sales, increase the value of water used in the region and create new opportunities for local communities.

## Water supply

The 2004/05 annual allocation of 42 per cent for our shareholders remained well below the Company's anticipated long term average of 78 per cent. The low allocation and continuing dry conditions again resulted in low water sales of only 651,240ML, compared to budgeted sales of 1,150,000ML. The average allocation of the past three years has been only 31 per cent; the 10 year average is 61 per cent.

To make more water available to shareholders, particularly for rice growing, the Company assisted SunRice with arrangements which allowed shareholders to advance water from future allocations from Snowy Hydro Ltd. A total of 86,000ML was taken up for use on 373 landholdings.

## Finances

The Company recorded a financial loss from irrigation operations of \$0.5 million in 2004-05, its third consecutive loss. Despite this we remain in a sound financial position. We continue to build reserves to ensure sufficient funds will be available to maintain our channel and drainage infrastructure into the future.

We have worked hard to reduce costs and as a result the increase in the 2004/05 water price was held at 2.5 per cent, in line with inflation. We called on the full sum raised through the annual Supply Variation Reserve and we also re-allocated staff and plant to construction work which is normally undertaken by contractors.

ACCUMULATED SPECIAL PURPOSE FUNDS		
	2004/05	2003/04
Supply Variation Reserve Fund	Nil	Nil
Asset Management Renewal Fund	\$25,112,000	\$21,799,000



The continued good performance of our subsidiary company MILCast has produced a profit of more than \$0.5 million. This helped to offset losses. Our joint venture business of 15 months, AWMA has continued to expand, winning Gannawarra Shire's 2005 Business of the Year.

While agreement has been reached on most taxation related matters, we continue to negotiate with the ATO about its decision to tax large portions of our environmental works.

### Operational performance

The 651,240ML delivered on farm in the 2004-05 season was supplied with a delivery efficiency of 78 per cent, similar to the previous year's result. Allocations increased late in 2004, after the planting window for summer crops had closed. As a result many irrigators were left with unused water. More water was used on annual pasture than on rice, which had previously been the region's principle crop and largest water user. The late allocation rise also contributed to the significant increase in carry over from 95,128ML at the end of the 2003-04 season to 209,944ML at the end of the 2004-05 season. The amount of water carried over continues to increase from year to year with irrigators taking an increasingly conservative approach in response to the current series of dry years.

### Infrastructure

In year 10 of the 15 year Asset Renewal Program we spent \$2.8 million on the refurbishment and replacement of major structures during the winter off season.

We also continued the official roll out of our mechanised regulator gate program aimed at improving the safety and efficiency of our worksites with 30 new gates installed on main supply channels at a cost of \$2.1 million.

Improved operation of the system, in conjunction with increased monitoring and mechanisation resulted in a water efficiency gain last year of five per cent.

### Murray Land and Water Management Plans

The Murray Land and Water Management Plans continue as the focus of our efforts to improve the health and maintain the productivity of the regional environment. We have now completed the 10th year of the LWMP 15 year funding program. The plans continue to gather momentum, new implementation records have been set, with environmental improvements on a number of fronts. Watertable control over the past decade far exceeds expectations and even though the stormwater network is expanding the quality of discharges continues to improve.



*Above: Channel attendant Geoff Mulham checks his calculations for flows on the Mulwala Canal.*



*Right: AWMA staff install new regulator gates on a supply channel during the winter works period.*

# Chairman's & General Manager's Report *(continued)*

Construction of stormwater escape channels which are part of the LWMPs has accelerated during the last year. We spent \$4.1 million on the completion of five new drains and the enhancement of two natural drainage lines. The stormwater escapes are an important part of our strategy to address the threat of rising water tables across the region. The LWMPs provided \$8.45 million of incentives to landholders, a new record, up almost 30 per cent from \$6.6 million the previous year. Landholders themselves contributed \$5 million to approved LWMP works during the past year ~ an outstanding result given the impact of recent seasons.

## Staff

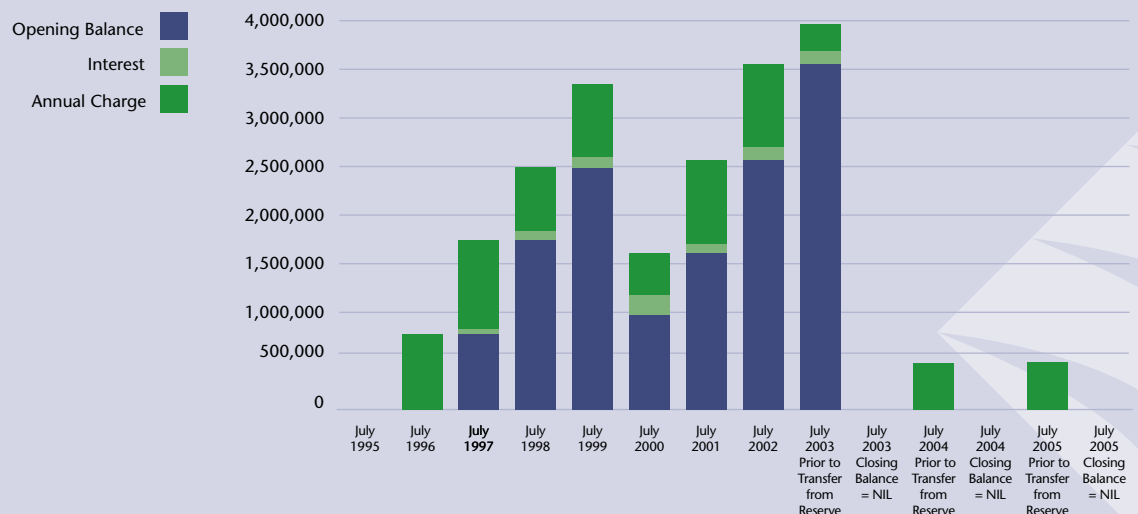
The excellent operational and environmental achievements this year are a tribute to the dedication and enthusiasm of our staff, and we thank them for their efforts throughout the year. An increase in the staff turn-over rate has resulted from government agencies establishing or expanding their presence in our region. The Company is developing a number of strategies to establish itself as an employer of choice.

We have also maintained our Quality Assurance and Occupational Health and Safety Assurance accreditations during the year. There is an increased awareness of and commitment to safety issues and training across the Company. Staff have been increasingly diligent in reporting actual and near miss accidents, and injuries, to provide a more accurate picture of the risks we need to address.

## The year ahead

Recovery from the extended dry conditions since 2002 will continue to be an issue for the Company and shareholders in the year ahead. The Company will be reviewing its business plan in the light of the National Water Initiative, the Living Murray Initiative, drought and the possibility of long term reductions in allocations. Maintaining access to water for both the Company and shareholders and making the region attractive for the use of water and investment are priorities. Environmental and social aspects of the business will be an integral part of the plan as well as efficient cost effective delivery of water.

**Figure 7 – Supply Variation Reserve Movements**



### Changes required

Changes to the Company's Articles of Association will be required to comply with the NWI and shareholders will vote on these changes at an extraordinary general meeting in January 2006. Unless changes are implemented by the end of January 2006, significant financial penalties will be imposed on the Company.

There has been considerable discussion with government, industry groups and shareholders during the last 12 months about the extent of the changes the Company should make. The details of proposed changes are being finalised and the aim is to provide legal compliance and a financially sustainable business. The Company and shareholders must be able to respond to and manage increasing competition from the environment and other players in the developing water markets. This competition has the potential to reduce the amount of water actually available for irrigation and used in our region. Water recovery plans for the Snowy and Murray Rivers and the auditing of these savings will continue to be an issue of concern for the Company, to ensure the resource available for irrigation remains as large as possible.

We are keen to contribute to the Living Murray Initiative consultation process, with several of the Initiative's key sites linked to our area of operations. As part of a pro-active contribution to analysis and betterment of river health we are establishing a 10 year data collection program for our local waterways. The results will be made available to appropriate agencies. A pilot sampling regime is being undertaken, with independent analysis of the techniques being used to ensure the results will be credible. We will be encouraging the application of a similar level of scrutiny to the scientific analysis of the Living Murray Initiative overall and to the water recovery plans for both the Murray and Snowy Rivers.

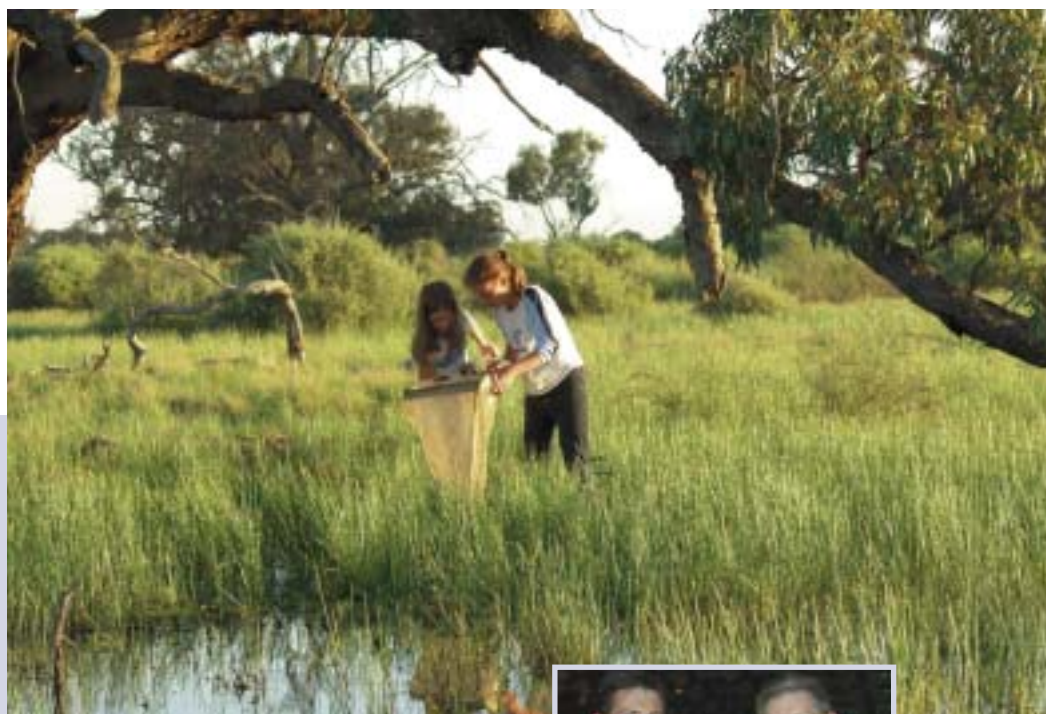
The seasonal outlook is more promising for the coming year. A return to more normal seasons and water sales will allow

the Company to further build its reserves and return to a trading surplus. However outstanding taxation issues have the potential to significantly impact on the Company's bottom line, particularly if agronomic conditions deteriorate during the season.

We take this opportunity to thank the Board of Directors and Company staff for their assistance, support and continued enthusiasm during the past year.

**Bill Hetherington**  
*Chairman*  
20th October 2005

**George Warne**  
*General Manager*



*Above: Bronwyn Sharpe (left) and Ella Driver were among those who attended a frog field day to discover more about local amphibians.*

*Right: Environment manager Alex Marshall (left) accepts a Bronze Australasian Reporting Award for Murray Irrigation's 2004 Environment Report.*



# 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 48. Landholder and farmer. Director representing Wakool region since December 2003. Wakool delegate to RGA central executive, member of RGA water committee, graduate of 2005 Murray Darling Basin Commission Leadership Program.



**G.G. BALL** - Age 58. 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 53. Landholder and farmer. Director representing East Berriquin region since February 1995. Member of Murray Darling Basin Environmental Flows Project, Hume to Yarrawonga Waterway Management Group, Murray Lower Darling Community Reference Committee. Chairman of the Murray Catchment Management Authority.



**S.G. ELLIS, Deputy Chairman** - Age 47. 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 50. 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 64. Landholder and Farmer. Director representing Deniboota region since February 1995. Past Chairman of Deniboota Landholders Association.



**W.L. HETHERINGTON, Chairman** - Age 67.



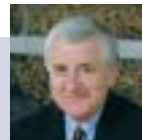
Landholder and farmer. Director representing West Berriquin region since February 1995. Executive Officer North Deniliquin - Mundiwa Drainage Scheme. Past Chairman and former Director of Australian Poll Dorset Association, Member of Murray Darling Basin Commission Community Reference Committee, and Department of Natural Resources State Social Economic Review Panel; Member of the Australian Government Community Water Grants National Advisory Panel; past Director of the Deniliquin Hospital. Member of the Institute of Company Directors; Director of ANCID; Director of AWMA. Chairman of Murray Irrigation Ltd Remuneration & Nominations Committee and Murray Irrigation Ltd Resources Committee.

**D.T. LIPHUYZEN** - Age 48. 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 69. 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. Board member of the Southern and Eastern Integrated Transport Authority. Chairman of Murray Irrigation Ltd Infrastructure Committee.



**M.J. O'CALLAGHAN, FICA** - Age 50. Chartered Accountant. Director since December 2003. Senior partner O'Callaghans Business Advisers. Director of Mercy Centre, Lavington. Director of Albury Club. Chairman Murray Irrigation Ltd Audit & Risk Management Committee.



# Directors' Report

Your Directors present their report together with the accounts of the Company for the financial year to 31 July 2005 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:-

A.M. Anthony	M.D.Goudie
G.G. Ball	W.L. Hetherington
K.S. Baxter	B. J. Ireland
S.G. Ellis	D.T. Liphuyzen
I.A. Gillett	M.J O'Callaghan

Further details are included on page 11 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>
<b>MEMBER DIRECTORS</b>		
A.M. Anthony	Nil	3,585
G.G. Ball	Nil	1,686
K.S. Baxter	Nil	5,796
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
<b>NON-MEMBER DIRECTORS</b>		
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 2005, and the numbers of meetings attended by each Director.

*Number of meetings held: 10*

Number of meetings attended by:

A.M. Anthony.....10	M.D. Goudie.....10
G.G. Ball .....10	W.L. Hetherington...10
K.S. Baxter .....10	D.T. Liphuyzen .....9
S.G. Ellis.....10	B.J. Ireland .....9
I.A. Gillett .....10	M.J. O'Callaghan .....10

## Principal Activity

The principal activity of Murray Irrigation Limited during the period consisted of the supply of water to landholders 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	
	2005	2004
Revenue from Irrigation	26,339	25,315
Employee Benefits	(7,644)	(7,651)
Materials and Contracts	(5,859)	(5,976)
Depreciation and		
Amortisation	(6,606)	(5,993)
Bulk Water Supply	(5,845)	(6,027)
Borrowing Costs	(28)	(50)
Other	(843)	(1,196)
Profit/(Loss) from		
Irrigation	(486)	(1,578)
Other Revenue	10,558	9,686
Profit/(Loss) before Tax	10,072	8,108
Income Tax Expense	(3,797)	(3,058)
Net Profit/(Loss)	<u>6,275</u>	<u>5,050</u>

## 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 both the Land and Water Management Plan drainage works and the

Infrastructure Program should not be recognised as revenue by way of contributed assets of MIL. The Company has obtained advice over many years in respect to the application of the Income Tax Law to the Land and Water Management Plans and Infrastructure Program in order to form this view. The Company will continue to pursue these matters to achieve an equitable outcome for the Company.

#### **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 651,240 megalitres of water was supplied for the year to 31 July 2005. This is 185,694 megalitres below the five year average. Further details are included on pages 2 – 9 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 2005.

#### **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.

#### **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.

# Directors' Report

## 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.

## Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out below and forms part of the Director's Report.

## Board Committees

As at 31st July 2005, Murray Irrigation Limited had five Board Committees. The following table sets out the number of committee meetings held during the year, and the number of meetings attended by Committee members.

### Audit and Risk Management Committee:

Number of Meetings Held:	4
<i>Number of meetings attended by:</i>	
M.J. O'Callaghan (Chairman)	4
A.M. Anthony	3
G.G. Ball	4
W.L. Hetherington	4

### Environment Committee:

Number of Meetings Held:	4
<i>Number of meetings attended by:</i>	
S.G. Ellis (Chairman)	4
K.S. Baxter	3
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
W.L. Hetherington	4
G.G. Ball	4
D.L. Liphuyzen	4

## Remuneration Committee:

Number of Meetings Held:	2
<i>Number of meetings attended by:</i>	
W.L. Hetherington (Chairman)	2
S.G. Ellis	2
M.J. O'Callaghan	2

## Resources and Nominations 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.

<b>W. L. Hetherington</b>	<b>S.G.Ellis</b>
<i>Chairman</i>	<i>Deputy Chairman</i>
<i>20th October 2005</i>	

## Auditors' Independence Declaration

As lead auditor for the audit of Murray Irrigation Limited for the year ended 31 July 2005, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

## Hugh McKenzie-McHarg

*Partner*  
*Johnsons MME*

*Albury*  
*20th October 2005*



Murray Irrigation Limited

**STATEMENT OF FINANCIAL PERFORMANCE**

for the year ended 31 JULY 2005

# Financial Statements

		2005	2004
	Notes	\$'000	\$'000
<b>Revenue from Irrigation Undertaking</b>	2	26,339	25,315
Employee Benefits		(7,644)	(7,651)
Materials and Contracts		(5,859)	(5,976)
Depreciation and Amortisation Expense		(6,606)	(5,993)
Bulk Water Supply Expense		(5,845)	(6,027)
Borrowing Costs		(28)	(50)
Other Expenses		(843)	(1,196)
<b>Profit/(Loss) from Irrigation Undertaking</b>			
<b>Before Income Tax</b>		(486)	(1,578)
Other Revenue from Ordinary Activities	2	10,558	9,686
<b>Profit/(Loss) from Ordinary Activities</b>			
<b>Before Income Tax</b>	3	10,072	8,108
Income Tax Expense Relating to Ordinary Activities	4	(3,797)	(3,058)
<b>Net Profit/(Loss)</b>		<u>6,275</u>	<u>5,050</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 2005

	<i>Notes</i>	<i>2005</i> <i>\$'000</i>	<i>2004</i> <i>\$'000</i>
<b>CURRENT ASSETS</b>			
Cash Assets	5	36,223	30,653
Receivables	6	12,816	13,654
Inventories	7	1,218	886
Other	8	214	206
<b>Total Current Assets</b>		<u><b>50,471</b></u>	<u><b>45,399</b></u>
<b>NON-CURRENT ASSETS</b>			
Other Financial Assets	9	7,400	7,400
Property, Plant and Equipment	10	243,759	238,310
Deferred Tax Asset	11	1,085	799
<b>Total Non-Current Assets</b>		<u><b>252,244</b></u>	<u><b>246,509</b></u>
<b>TOTAL ASSETS</b>		<u><b>302,715</b></u>	<u><b>291,908</b></u>
<b>CURRENT LIABILITIES</b>			
Payables	12	9,978	8,762
Current Tax Liabilities	13	0	133
Provisions	14	743	823
Other	15	2,395	2,075
<b>Total Current Liabilities</b>		<u><b>13,116</b></u>	<u><b>11,793</b></u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred Tax Liabilities	16	33,100	29,806
Provisions	17	1,503	1,588
<b>Total Non-Current Liabilities</b>		<u><b>34,603</b></u>	<u><b>31,394</b></u>
<b>TOTAL LIABILITIES</b>		<u><b>47,719</b></u>	<u><b>43,187</b></u>
<b>NET ASSETS</b>		<u><b>254,996</b></u>	<u><b>248,721</b></u>
<b>EQUITY</b>			
Contributed Equity	18	186,452	186,452
Reserves	19(a)	99,433	90,260
Retained Profits (Accumulated Losses)	19(b)	(30,889)	(27,991)
<b>TOTAL EQUITY</b>	<b>20</b>	<u><b>254,996</b></u>	<u><b>248,721</b></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 2005

**Financial  
Statements**

	<i>Notes</i>	<i>2005</i> \$'000	<i>2004</i> \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from Government		14,594	13,623
Water and Other Income		27,365	21,355
Payments to Suppliers and Employees		(36,047)	(32,858)
Payments (to)/Receipts from Australian Tax Office		(922)	8,733
Receipts from Government for GST		1,139	1,235
		<u>6,129</u>	<u>12,088</u>
Interest received on Investments		2,007	1,638
Loan Costs paid		(28)	(50)
<b>Net Cash Inflow/(Outflow) from Operating Activities</b>	<b>26</b>	<u><b>8,108</b></u>	<u><b>13,676</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for Investment		0	(1,250)
Payment for Property, Plant and Equipment		(4,053)	(3,920)
Proceeds from Sale of Property, Plant and Equipment		1,515	1,352
<b>Net Cash Inflow/(Outflow) from Investing Activities</b>		<u><b>(2,538)</b></u>	<u><b>(3,818)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of Borrowings		0	(4,000)
<b>Net Cash Inflow/(Outflow) from Financing Activities</b>		<u><b>0</b></u>	<u><b>(4,000)</b></u>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<b>5,570</b>	<b>5,858</b>
Add Cash at the beginning of the Financial Year		<u>30,653</u>	<u>24,795</u>
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	<b>5</b>	<u><u><b>36,223</b></u></u>	<u><u><b>30,653</b></u></u>

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

# Financial Statements 31 July 2005

## 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 \$35.6 million (2004, \$41.2 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 Accounting Standard AASB1004: Revenue, is to require the Company to recognise

# Financial Statements 31 July 2005

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 2005 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).

**(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.

# Financial Statements 31 July 2005

**(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.

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

# Financial Statements 31 July 2005

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 15.

**(q) Accounting policy in respect to Financial Instruments**

Murray Irrigation Limited's accounting policies for financial instruments are detailed in Note 29(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) Funds Received in Advance**

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

**(u) International Financial Reporting Standards**

Following the adoption of Australian equivalents to International Financial Reporting Standards (AIFRS), the Company will prepare and present its first financial report in compliance with the AIFRS framework for the financial year ended 31 July 2006.

The 2006 AIFRS compliant financial report will comprise a new Statement of Changes in Equity in addition to the three existing financial statements which will be renamed.

The Statement of Financial Performance will be renamed the Operating Statement, the Statement of Financial Position will be renamed the Balance Sheet and the Statement of Cash Flows will be renamed the Cash Flow Statement.

Under AIFRS there are requirements that apply specifically to not-for-profit entities that are not included in International Financial Reporting Standards. The Company has reviewed its purpose, objectives, and operating philosophy and determined that, while profit generation is one of its objectives, this objective is not its primary objective.

Accordingly, the Directors have determined that the Company is a not-for-profit entity for the purposes of AIFRS and will be applying the standards as they apply to not-for-profit entities. Therefore while the Company's financial report will be compliant with AIFRS, it will not be fully compliant with International Financial Reporting Standards. The financial report for the year ended 31 July 2006 will require comparative information as at 31 July 2005 and hence will require opening balances as at 31 July 2004 to be determined. The opening balances are to be adjusted to reflect the position that would have existed had AIFRS always applied and such retrospective adjustments will be made against opening retained earnings.

This financial report for the year ended 31 July 2005 has been prepared in accordance with current Australian accounting standards. No material differences between current accounting standards as applied by the Company and AIFRS have been identified as potentially having a material impact on the Company's statement of financial position, statement of financial performance or statement of cash flows on the adoption of AIFRS. However, it remains possible that the actual effects of the transition to AIFRS may be material due to:

- Changes in facts and circumstances;
- Ongoing work being undertaken by Company staff; and
- Potential amendments to AIFRS and interpretations by the Australian Accounting Standards Board.

# Financial Statements 31 July 2005

## 2 REVENUE

	\$'000	
	2005	2004
<b>Revenue from operating activities</b>		
Income from Water Sales	18,748	18,395
Supply Variation Levy	485	478
Asset Maintenance and Renewal Levy	2,241	2,183
Precast External Sales	1,268	952
Other Income	1,229	1,280
	<u>23,971</u>	<u>23,288</u>
<b>Revenue from outside the operating activities</b>		
Revenue on sale of property, plant and equipment	1,515	1,352
Interest on funds of Irrigation Undertaking	853	675
	<u>2,368</u>	<u>2,027</u>
<b>Revenue from Irrigation Undertaking</b>	<u>26,339</u>	<u>25,315</u>
<b>Other Revenue from Ordinary Activities outside the operating activities</b>		
Interest - Supply Variation, Asset Maintenance and Renewal Funds	1,181	961
Land and Water Management Plans Contributed Assets	4,067	4,607
Infrastructure - Contributed Assets	5,310	4,118
	<u>10,558</u>	<u>9,686</u>
<b>Total Revenue</b>	<u><u>36,897</u></u>	<u><u>35,001</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	
	2005	2004
<b>Expenses</b>		
Net (gain)/loss on disposal of property plant and equipment	(141)	(160)
Depreciation:		
Buildings	55	57
Plant and Equipment	1,862	1,756
Infrastructure	3,934	3,490
Total Depreciation	<u>5,851</u>	<u>5,303</u>
Amortisation Leased Assets	755	690
Provision for Doubtful Debts	34	20
Provision for Employee Entitlements	(165)	(184)

### (b) Individually Significant Items

Other Expenses includes the following items:

Taxation Advice	237	266
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# Financial Statements 31 July 2005

## 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	
	2005	2004
<b>Profit from ordinary activities before income tax expense</b>	<b>10,072</b>	<b>8,108</b>
Income tax calculated at 30% (2004 - 30%)	3,022	2,432
Tax effect of permanent differences		
Non-deductible depreciation and amortisation	560	487
<b>Income tax adjusted for permanent differences</b>	<b>3,582</b>	<b>2,919</b>
Under provision in previous years	215	139
<b>Income Tax Expense</b>	<b>3,797</b>	<b>3,058</b>

There continues to be significant uncertainty in respect to the Company's taxation position. The Company has obtained advice over many years in respect to the application of the Income Tax Law to the Infrastructure Program and Land & Water Management Plans referred to at note 1(c)(ii). However, to date the Australian Taxation Office has expressed a different view on the application of the taxation law to that of the Company and its advisors. While progress is being made, at the date of this report, these matters have yet to be resolved.

Should these matters ultimately be resolved in accordance with the current Australian Taxation Office view, approximately \$12.6 million of the deferred taxation liability referred to at note 16 may become due and payable immediately. This is comprised of \$9.1 million relating to the Land & Water Management Plans, and \$3.5 million in respect to the Infrastructure Program.

Additional interest and penalties may be applied to the above which have not been brought to account in this financial report.

The Company will continue to pursue these matters in an endeavour to achieve an equitable outcome for the Company.

## 5. CURRENT ASSETS - CASH ASSETS

	\$'000	
	2005	2004
<b>Cash at bank and on hand</b>	<b>36,223</b>	<b>30,653</b>
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	411	652
Asset Maintenance and Renewals		
Restricted (Note (ii) below)	18,962	15,649
Unrestricted Funds	16,850	14,352
	<b>36,223</b>	<b>30,653</b>

# Financial Statements 31 July 2005

- (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 2005 (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 \$25,112,000 (2004 \$21,799,000) comprising cash \$18,962,000 (2004 \$15,649,000) and bonds \$6,150,000 (2004 \$6,150,000), (Notes 5 and 9).

## 6 CURRENT ASSETS - RECEIVABLES

	\$'000	
	2005	2004
Water Debtors	9,375	8,379
Less Provision for Doubtful Debts	(199)	(165)
	<u>9,176</u>	<u>8,214</u>
Land and Water Management Plans (Note 28(ii))		
- Due from irrigators	1,076	981
Government Agencies		
- Asset Maintenance and Renewal	0	0
- Land and Water Management Plans (Note 28(ii))	1,546	3,290
- Other	477	603
	<u>2,023</u>	<u>3,893</u>
Other Debtors	541	566
	<u>12,816</u>	<u>13,654</u>

## 7 CURRENT ASSETS - INVENTORIES

	\$'000	
	2005	2004
Raw Materials and Stores	<u>1,218</u>	<u>886</u>

## 8 CURRENT ASSETS - OTHER

	\$'000	
	2005	2004
Prepayments	<u>214</u>	<u>206</u>

## 9 NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

	\$'000	
	2005	2004
<b>Investments - at cost</b>		
<b>Non-Current Asset</b>		
Commonwealth Indexed Bonds (i)	6,150	6,150
Shares in other corporations	1,250	1,250
	<u>7,400</u>	<u>7,400</u>

### (i) Listed Investments - Market Value

The aggregate market value of investments listed is:

	\$'000	
	2005	2004
Commonwealth Indexed Bonds	7,847	7,507
	<u>7,847</u>	<u>7,507</u>

Restrictions are imposed on access to these funds as part of the asset maintenance and renewals fund refer Note 5 (ii).

## 10 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	\$'000	
	2005	2004
Freehold Land - At. Cost (Note (i) below)	2,051	2,051
Water Infrastructure - At Cost	203,792	201,250
Less Accumulated Depreciation	28,436	24,561
	<u>175,356</u>	<u>176,689</u>
Construction-in-Progress - At Cost	15,925	14,124
Leased Assets - At Cost (Note 1(h))	46,985	41,294
Less Accumulated Amortisation	6,003	5,284
	<u>40,982</u>	<u>36,010</u>
Buildings and Cottages - At Cost (Note (ii) below)	2,194	2,161
Less Accumulated Depreciation	636	481
	<u>1,558</u>	<u>1,680</u>
Plant and Equipment - At Cost	7,435	6,712
Less Accumulated Depreciation	3,601	3,134
	<u>3,834</u>	<u>3,578</u>
Office Equipment - At Cost	1,454	1,463
Less Accumulated Depreciation	1,166	1,115
	<u>288</u>	<u>348</u>
Motor Vehicles - At Cost	5,422	5,449
Less Accumulated Depreciation	1,657	1,619
	<u>3,765</u>	<u>3,830</u>
<b>Total Non-Current Assets</b>	<u>243,759</u>	<u>238,310</u>

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- (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.

## 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 2004	Additions	Disposals	Transfers	Depreciation	Carrying amount 31 July 2005
Land	2,051					2,051
<b>Water</b>						
Infrastructure	176,689		111	2,712	3,934	175,356
<b>Construction</b>						
in Progress	14,124	10,339		(8,538)		15,925
Leased Assets	36,010		99	5,826	755	40,982
<b>Buildings</b>	1,680	33	100		55	1,558
<b>Plant &amp; Equipment</b>	3,578	1,146	137		753	3,834
<b>Office</b>						
Equipment	348	145	2		203	288
Motor Vehicles	3,830	1,900	1,059		906	3,765
	<b>238,310</b>	<b>13,563</b>	<b>1,508</b>	<b>0</b>	<b>6,606</b>	<b>243,759</b>

## 11 NON-CURRENT ASSETS – DEFERRED TAX ASSET

	\$'000	
	2005	2004
Future Income Tax Benefit	<u>1,085</u>	<u>799</u>

## 12 CURRENT LIABILITIES – PAYABLES

	\$'000	
	2005	2004
Trade Creditors	9,678	8,413
Other Creditors	300	349
	<u>9,978</u>	<u>8,762</u>

# Financial Statements 31 July 2005

13 CURRENT LIABILITIES – CURRENT TAX LIABILITIES	\$'000	
	2005	2004
Provision for Income Tax	<u>0</u>	<u>133</u>

14 CURRENT LIABILITIES – PROVISIONS	\$'000	
	2005	2004
Employee Entitlements (Note 1(k))	<u>743</u>	<u>823</u>

15 CURRENT LIABILITIES – OTHER	\$'000	
	2005	2004
Funds Received in Advance	411	652
Land & Water Management Plans		
– Funds held as Implementing Authority (Notes 1(p) and 28(ii))	<u>1,984</u>	<u>1,423</u>
	<u>2,395</u>	<u>2,075</u>

16 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITY	\$'000	
	2005	2004
Provision for Deferred Income Tax	<u>33,100</u>	<u>29,806</u>

17 NON-CURRENT LIABILITIES – PROVISIONS	\$'000	
	2005	2004
Employee Entitlements (Note 1(k))	<u>1,503</u>	<u>1,588</u>

18 CONTRIBUTED EQUITY	Shares 000's		\$'000	
	2005	2004	2005	2004
Share Capital				
Ordinary shares	1,447	1,447	<u>186,452</u>	<u>186,452</u>

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## 19 RESERVES AND RETAINED PROFITS

### (a) Reserves:

Contributed Assets  
Supply Variation

	\$'000	
	2005	2004
Contributed Assets	99,433	90,260
Supply Variation	0	0
	<u>99,433</u>	<u>90,260</u>

### Movements:

#### Contributed Assets - (Note 1(o)(i))

Balance - 1 August 2004  
Transfer from Retained Profits

Balance - 1 August 2004	90,260	81,754
Transfer from Retained Profits	9,173	8,506
<b>Balance - 31 July 2005</b>	<b><u>99,433</u></b>	<b><u>90,260</u></b>

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

Balance - 1 August 2004  
Transfer from Retained Profits  
Transfer to Retained Profits

Balance - 1 August 2004	0	0
Transfer from Retained Profits	485	478
Transfer to Retained Profits	(485)	(478)
<b>Balance - 31 July 2005</b>	<b><u>0</u></b>	<b><u>0</u></b>

### (b) Retained Profits (Accumulated Losses)

#### Balance 1 August 2004

Net Profit/(Loss)  
Transfer to Contributed Assets  
Transfer to Supply Variation Reserve  
Transfer from Supply Variation Reserve

	\$'000	
	2005	2004
<b>Balance 1 August 2004</b>	<b>(27,991)</b>	<b>(24,535)</b>
Net Profit/(Loss)	6,275	5,050
Transfer to Contributed Assets	(9,173)	(8,506)
Transfer to Supply Variation Reserve	(485)	(478)
Transfer from Supply Variation Reserve	485	478
<b>Balance 31 July 2005</b>	<b><u>(30,889)</u></b>	<b><u>(27,991)</u></b>

### (c) Nature and Purpose of Reserves

Refer Note 1(o).

## 20 EQUITY

Total equity at the beginning of the financial year  
Total changes in equity recognised in the statement  
of financial performance

	\$'000	
	2005	2004
Total equity at the beginning of the financial year	248,721	243,671
Total changes in equity recognised in the statement of financial performance	6,275	5,050
<b>Total equity at the end of the financial year</b>	<b><u>254,996</u></b>	<b><u>248,721</u></b>

# Financial Statements 31 July 2005

## 21 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.

A.M. Anthony, G.G. Ball; K.S. Baxter; S.G. Ellis; I.A. Gillett; M.D. Goudie; W.L. Hetherington; B.J. Ireland; D.T. Liphuyzen, M.J. O'Callaghan.

### Remuneration and Retirement Benefits

Information on remuneration of Directors is disclosed in Note 22.

### Loans to Directors

There are no loans to Directors.

### Transactions of Directors and Director-Related Entities Concerning Shares

Aggregate number of shares of Murray Irrigation Limited acquired or sold by Directors or their Director related entities from the Company during the year:

	2005	2004
Ordinary Shares Acquired	685	0

The shares were acquired on the same terms and conditions that applied to other shareholders.

The aggregate numbers of shares of Murray Irrigation Limited held directly, indirectly or beneficially by Directors or their Director related entities at balance date:

	2005	2004
Ordinary Shares Held	18,766	18,081

### 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 (except B.J. Ireland and M.J. O'Callaghan) 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 totalled \$342,000 (2004, \$297,000).

A Director, Mr M.J.O'Callaghan, is a partner in the firm O'Callaghans Chartered Accountants. O'Callaghans provided business services to the Company on normal commercial terms and conditions for which it was paid \$10,000.

Aggregate amounts payable or receivable from Directors or their Director related entities as at balance date:

	\$'000	
	2005	2004
Water Accounts Receivable	204	84
Accounts Payable	Nil	Nil

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## 22 REMUNERATION OF DIRECTORS

	\$'000	
	2005	2004
Income received, or due and receivable by Directors of the Company:	<u>321</u>	<u>318</u>

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

	\$'000	\$'000	2005	2004
0 - 10	0	-	0	1
10 - 20	10	-	0	3
20 - 30	20	-	7	6
30 - 40	30	-	2	1
40 - 70	40	-	1	0
70 - 80	70	-	1	0
80 - 90	80	-	0	1

## 23 REMUNERATION OF AUDITORS

During the year the auditor earned the following remuneration:

	\$'000	
	2005	2004
Audit of the financial report	36	38
Other assurance services	5	0
<b>Total audit and other assurance services</b>	<u>41</u>	<u>38</u>
Taxation services	10	13
<b>Total remuneration</b>	<u>51</u>	<u>51</u>

## 24 COMMITMENTS FOR CAPITAL EXPENDITURE

There were no commitments for expenditure at 31 July 2005, apart from the Deferred Maintenance program estimated at \$7.2 million (2004, \$7.0 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 (2004, \$5.0 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)).



## 25 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.

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## 26 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOWS FROM OPERATING ACTIVITIES

	\$'000	
	2005	2004
<b>Operating Profit/(Loss) After Income Tax</b>	<b>6,275</b>	<b>5,050</b>
Add: Land and Water Management Plan Funds Held	561	283
Non-Cash Operating Expenditure -		
Depreciation and Amortisation	6,606	5,993
Increase (Reduction) in Provision for Doubtful Debts	34	20
Net (Gain)/Loss on Disposal of Non-Current Assets	(141)	(160)
Less: Contributed Assets	(9,376)	(8,725)
<b>Changes in Assets and Liabilities:</b>		
Add: (Increase) Decrease in Current Assets	464	6,974
(Increase)/Decrease in Deferred Tax Asset	(286)	47
Increase/(Decrease) in Provision for Tax	(133)	98
Increase/(Decrease) in Provision for Deferred Tax	3,294	2,105
Add: Increase (Decrease) in Operating Liabilities	810	1,991
<b>Net Cash Provided by/Used in Operating Activities</b>	<b><u>8,108</u></b>	<b><u>13,676</u></b>

## 27 NON-CASH FINANCING AND INVESTING ACTIVITIES

	\$'000	
	2005	2004
Contributed assets from Government	9,376	8,725

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## 28 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	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Income</b>										
Government Agencies	4217	4842	2390	1028	898	637	879	534	8384	7041
Irrigator Contribution	1503	1416	210	214	132	132	428	418	2273	2180
	<b>5720</b>	<b>6258</b>	<b>2600</b>	<b>1242</b>	<b>1030</b>	<b>769</b>	<b>1307</b>	<b>952</b>	<b>10657</b>	<b>9221</b>
<b>Expenditure</b>										
Capital Works	3147	4466	750	80	166	56	4	5	4067	4607
Expenses Incurred*	2277	1928	1765	986	847	658	1140	759	6029	4331
	<b>5424</b>	<b>6394</b>	<b>2515</b>	<b>1066</b>	<b>1013</b>	<b>714</b>	<b>1144</b>	<b>764</b>	<b>10096</b>	<b>8938</b>
Net Funds Accumulated/ (Expended)	<b>296</b>	<b>(136)</b>	<b>85</b>	<b>176</b>	<b>17</b>	<b>55</b>	<b>163</b>	<b>188</b>	<b>561</b>	<b>283</b>

\* Includes Farm Rebates, Monitoring, Education & Administration

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

	\$'000									
	Berriquin		Cadell		Denimein		Wakool		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Opening Balance - 1 August 2004</b>										
(Note 15)	(120)	16	1205	1029	488	433	(150)	(338)	1423	1140
Add Net Funds Accumulated/(Expended)	296	(136)	85	176	17	55	163	188	561	283
<b>Closing Balance - 31 July 2005 (Note 15)</b>	<b>176</b>	<b>(120)</b>	<b>1290</b>	<b>1205</b>	<b>505</b>	<b>488</b>	<b>13</b>	<b>(150)</b>	<b>1984</b>	<b>1423</b>
Less:										
Outstanding Irrigator Debtors (Note 6)	756	666	74	68	51	47	195	200	1076	981
Outstanding Government Debtors (Note 6)	844	2288	415	540	142	288	145	174	1546	3290
<b>Total Debtors</b>	<b>1600</b>	<b>2954</b>	<b>489</b>	<b>608</b>	<b>193</b>	<b>335</b>	<b>340</b>	<b>374</b>	<b>2622</b>	<b>4271</b>
<b>Plan Surplus/(Funded by Murray Irrigation Limited)</b>	<b>(1424)</b>	<b>(3074)</b>	<b>801</b>	<b>597</b>	<b>312</b>	<b>153</b>	<b>(327)</b>	<b>(524)</b>	<b>(638)</b>	<b>(2848)</b>

## 29 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:

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Recognised Financial Instrument	Note	Accounting Policies	Terms and Conditions
<b>FINANCIAL ASSETS</b>			
<b>Receivables</b> - 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.
<b>Investments</b> - Government Bonds	9	Investments are stated at cost. Interest is recognised in the Financial Statements when earned.	Investments mature between August 2005 and 2010 with interest ranging from 4.54% to 5.02%, however when the indexation of the capital value is included the real interest rate ranges from 6.47% to 7.28% 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.
<b>FINANCIAL LIABILITIES</b>			
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.

# Financial Statements 31 July 2005

## (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:

2005	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	%
<b>FINANCIAL ASSETS</b>							
Cash	12,421	23,799			3	36,223	5.20%
<b>Receivables – Water Debtors</b>		10,451				10,451	9.00%
Government Agencies					2,023	2,023	N/A
Other					541	541	N/A
<b>Investments – Government Bonds</b>		857		5,293		6,150	4.70%*
Shares in other corporations					1,250	1,250	N/A
	<b>12,421</b>	<b>35,107</b>		<b>5,293</b>	<b>3,817</b>	<b>56,638</b>	
<b>FINANCIAL LIABILITIES</b>							
Trade Creditors and Accruals					9,978	9,978	N/A
					<b>9,978</b>	<b>9,978</b>	

\* Refer comments at Note 29(a)

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

\* Refer comments at Note 29(a)

# Financial Statements 31 July 2005

## (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>
<b>Financial Assets</b>		
Cash	36,223	36,223
Receivables - Water Debtors	10,451	10,451
Government Agencies	2,023	2,023
Other	541	541
Investments - Government Bonds	6,150	7,847
Shares in other corporations	1,250	1,250
	<u>56,638</u>	<u>58,335</u>
<b>Financial Liabilities</b>		
Trade Creditors and Accruals	9,978	9,978
	<u>9,978</u>	<u>9,978</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.

## 30 CREDIT STANDBY ARRANGEMENTS

Unrestricted access was available at balance date to the following lines of credit:

	<i>\$'000</i>	
	<i>2005</i>	<i>2004</i>
Bill acceptance facility	8,000	9,000
Used at balance date	0	0
Unused at balance date	<u>8,000</u>	<u>9,000</u>

## Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 15 to 35:

- (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 2005 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*

*20th October 2005*

**S.G. Ellis**

*Deputy Chairman*

*To The Members of  
Murray Irrigation Limited*

**Scope**

We have audited the financial report of Murray Irrigation Limited (the Company) for the year ended 31 July 2005 as set out on pages 15 to 36. 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 in Australia and the Corporations Act 2001 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 2005 and of its performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

**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. We understand that the Australian Taxation Office has a different view on the application of the taxation law to that of the Company and its advisors. Should this matter ultimately be resolved in accordance with the current Australian Taxation Office view, approximately \$12.6 million of the deferred taxation liability referred to at note 16 may become due and payable immediately. Further, the Company may be liable for additional interest and penalties which have not been brought to account in the financial report.

**Johnsons MME**

*Chartered Accountants*

**Hugh McKenzie-McHarg**

**PARTNER**

*Albury*

*20th October 2005*

# Independent Audit Report

# 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 via postal ballot, and are elected for a four year term, one-half retiring every second year. Non-member Directors are nominated by the Board and endorsed by shareholders at annual general meetings for a four year term.

The names of the Directors of the Company are set out in the Directors' Report on page 12.

To assist it in fulfilling its responsibilities the Board has established Audit & Risk Management, Environment, Infrastructure, Remuneration and Resources & Nominations 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.

## Audit & Risk Management 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, internal control structures, external audit function and the risk management systems of the Company. In addition the committee will:

- 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;
- identify the full range of actual or potential risk exposures which are material to the Company;
- determine the adequacy of the Company's risk management systems and strategies;
- 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 of Directors;
- 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 Committee during the year are set out in the Directors' Report on page 14.

### 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 14.

### 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 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 14.

### 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.
- 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 14.

### Resources & Nominations Committee

The primary objective of this committee is to assist the Board of Directors to ensure:

That appropriate resources are available to the Company to enable it to meet its obligations and plans; and

That the Board comprises the individuals best able to discharge the responsibilities of Directors, having regard to the law and the highest standards of governance.

In addition, the committee will:

- Prioritise all projects competing for resources and recommending to the Board the level of resources required. Resources include water, materials, plant and equipment, labour and contractor services.
- Assess the skill required to discharge competently the Board's duties

# Corporate Governance Statement

having regard to the Company's performance, financial position and strategic direction.

- When appropriate and when a Director retires, determine the skills required in an incumbent Director to meet the Board's requirements.
- As required, implement a process to identify suitable candidates for appointment as Directors.
- Make recommendations to the Board on candidates considered appropriate for appointment as Directors.

The names of the members of the Committee during the year are set out in the Directors' Report on page 14.

## 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

COMMONWEALTH BANK  
OF AUSTRALIA  
241 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

## Taxation Advisors

ERNST & YOUNG  
680 George Street  
Sydney NSW 2000

*Murray Irrigation Limited is an unlisted public company,  
formed under the Irrigation Corporations Act (1994),  
that provides irrigation supply and drainage services for its  
shareholder customers.*



**MURRAY IRRIGATION LIMITED**

A.B.N. 23 067 197 933



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