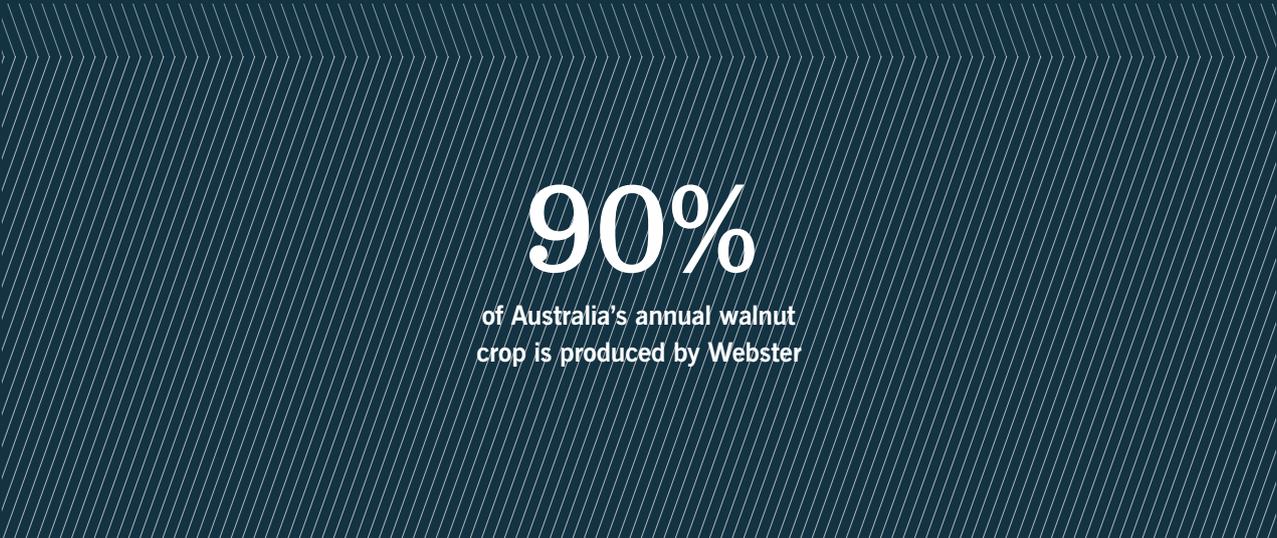


**WEBSTER**

**Annual Review**  
2016





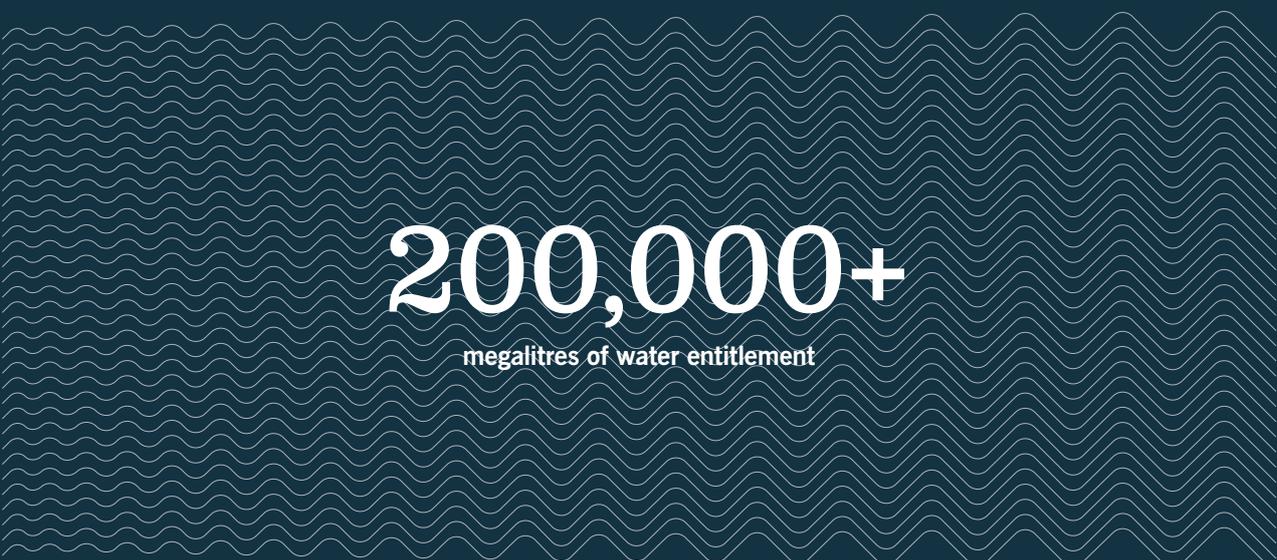
**90%**

of Australia's annual walnut  
crop is produced by Webster



**35,000+**

irrigable hectares of prime fertile land holdings



**200,000+**

megalitres of water entitlement

# About Webster

— Webster is a leading Australian agribusiness company with a rich, diverse history spanning over 180 years.

In that time, Webster has been involved in a diverse range of activities but we have always maintained a strong connection to the land and Australia's agricultural industry which is now the platform for our Company.

Today, Webster is focused on three main activities:



## Walnuts

We are the southern hemisphere's largest producer of premium in-shell and kernel walnuts and account for around 90 per cent of Australia's annual walnut crop.



## Agriculture

We are one of the largest irrigated farming producers in Australia with more than 35,000 irrigable hectares of prime fertile land holdings. Our holdings are diversified across several water catchments primarily in New South Wales focusing on cotton, corn and other cereals and livestock.



## Water

We own a diverse portfolio of over 200,000 megalitres of water entitlements which underpins all of our businesses. It provides greater economic surety in crop diversity and yield maximisation and will provide further growth opportunities across our business.

We're passionate about our business, our products and most importantly, the natural resources which are fundamental to what we do and how we do it, every day.

That passion is reflected in the dedication and expertise of our people at Webster and also our reputation for the quality and integrity of our products.

With our diverse operations, our success is built around our strong and sustainable asset base and our ability to leverage this scale through our technical expertise for the ultimate benefit of our shareholders.

# Chairman's Review

— In 2014, Webster identified water entitlements to be a core strategic focus for our business. In 2015, Webster embarked on a number of acquisitions including Bengering Limited, the assets of AgReserves Australia Limited (the Kooba aggregation) and Tandou Limited. We also sold our Tasmanian based onion business, Field Fresh Tasmania.

The net effect was to re-focus our core operations and effectively quadruple the overall size of the business. These changes also reflected a significant change in the asset composition and in the operational direction of the Company.

With the effective combination of four separate businesses and the fourfold increase in the scale of operations, our immediate focus has been on the internal communication and implementation of our strategic direction, the integration of common and integrated systems and the optimisation of resources.

**Webster's revised approach is very simple. Webster now has a significant core of water entitlements of over 200,000 megalitres. We own a wide range of water entitlements, the value of which at June 2016 is estimated by the Directors, based on market intelligence, to be around \$320 million.**

Webster's strategy is to maximise the available water from those water entitlements by astute management of the opportunities presented by the climate and a thorough understanding of the water distribution rules and protocols.

Rather than selling the annual water allocations derived from these entitlements, which is always an option, we aim to convert our water assets into more valuable horticultural and agricultural products. This, we believe, is likely to provide shareholders with a higher return on their funds in the medium to long term.

Webster aims to quantify the volume of reliable or "permanent" water likely to be consistently available on an annual basis through a wide variety of climatic possibilities. This quantity of water then determines the extent of our permanent crop commitments (primarily walnuts), which we feel comfortable to support. The fundamental assumption is that on average the returns on permanent crops will be higher than on annual crops.

The balance of the estimated water allocations, being the "variable" or "less reliable" water which is available in any specific year, will be utilised on the highest margin-producing annual crops. In recent years this has tended to be cotton. Rotational crops are also deployed for additional profit and soil health. To fully utilise our land holdings the Company is also engaged in livestock production.

*We aim to convert our water assets into more valuable horticultural and agricultural products. This, we believe, is likely to provide shareholders with a higher return on their funds in the medium to long term.*

Webster has also sought to establish diversity in our water sources and hence farming outcomes, by locating our farming activities in areas with differing climatic patterns.

In addition to some 3,000 hectares of owned or managed walnut orchards, of which more than 2,000 hectares are in production, Webster has additional total land assets of more than 200,000 hectares of which some 50,000 hectares are suitable for irrigated cropping. Currently 40,000 hectares are developed or currently under development for irrigated cropping. There is scope to increase our irrigated cropping areas significantly in the coming years.

Additionally, the Company currently has more than 88,000 megalitres of water storage with plans to increase this to in excess of 100,000 megalitres.

For the full year to 30 June 2016 Webster has booked a Statutory Loss of \$80.7 million, which was significantly impacted by the impairment of goodwill of \$96.5 million arising from the acquisition of Tandou and Bengarang. The acquisition of each was approved at an Extraordinary General Meeting on 25 May 2015. The share price of Webster Limited increased during the period from the announcement of the bids to the date of acquiring control being 29 May 2015.

The implied accounting consideration paid for the acquisitions was calculated by reference to the quoted share price of Webster Limited at the date of control, multiplied by the number of shares issued. The implied accounting value of the consideration was greater than the fair value of the assets and liabilities acquired and as a result goodwill on acquisition was generated. The Directors considered it prudent to recognise this non-cash adjustment to goodwill as required by the accounting standards.

While Webster's 2016 financial results included an underlying 158 per cent increase in operating profit before tax to \$14.9 million, our crops have been adversely affected by two main issues.

Walnut yields have been significantly impacted, we believe, by abnormally hot climatic conditions in the Riverina and other parts of south-east Australia at the time of pollination, particularly in the late flowering varieties. These conditions have brought about a lack of synchronisation between the male catkins and the female flowers causing several varieties to abort high percentages of non-fertile nuts. The result was that crop yields for the year were approximately 20 per cent lower than the prior year.





#### Chairman's Review continued

Whilst this is expected to have been an unusual event, management has taken a number of steps to attempt to mitigate this particular problem should the circumstances arise in future years. Most of these potential remedies will take a number of years to be effective.

The second issue affecting this year's result is the considerably dryer than usual seasonal conditions in southern Queensland and south-eastern Australia, our primary areas of interest.

No crop was planted at Lake Tandou in 2015 and conditions in the Gwydir valley have also been exceptionally dry resulting in very small cultivated areas.

The general security allocation in the Murrumbidgee was 37 per cent against an average allocation expected to be in the 60 per cent plus region. Overall water availability and hence annual crop size was well below expected annual averages.

The Company has put the availability of resources to good use in a number of projects to enhance our availability of both water assets and developed irrigated cropping land.

Further significant development potential exists in our portfolio of water and land assets to increase the availability of irrigated cropping land particularly in the Riverina area.

On current estimates, the 2016-17 season is looking more favourable in terms of cropping area, particularly at Bourke and in the Riverina as the current negative Indian Ocean Dipole pattern is expected to persist through to the end of spring, which historically has meant above average rainfall and cooler days for southern parts of Australia.

Whilst we are unlikely to plant in Lake Tandou again this year, both the Riverina and Bourke should have higher cropping areas than last season. It is still too early to judge the cropping potential of our Garah aggregation.

**Chris Corrigan**  
Executive Chairman

# Our Strategy

Webster has a clearly defined strategy to harness value from our significant land and water holdings across Australia.



— Our land assets comprise a diverse portfolio located throughout the premier agricultural area across the Murray Darling Basin. Our water assets comprise one of Australia's largest and diverse water holdings, including a complementary mix of high and general security with supplementary and groundwater entitlements.

**Our strategy is to leverage the value of these water entitlements by maximising the value of our horticultural and agricultural operations through a range of climatic conditions.**

Specifically, that means ensuring we can adequately supply sufficient water to our permanent crops (primarily walnuts) to maximise yield and generate return on investment. Additional water entitlement can then be deployed to highest margin-producing annual crops such as cotton and also other rotational crops, including winter cereals.

Webster's strategy provides consistency in terms of cash flows from permanent crops, augmented by the profits from annual crops, other agricultural activities (including our livestock operations) and potential sale of water entitlements where appropriate.

Our strategy is focused on generating sustainable financial returns over the long term. As a result, we carefully monitor our portfolio of assets to ensure we can maximise return on individual assets whilst also harvesting collective value across the portfolio.

# Walnuts

— Webster is Australia's largest producer of premium walnuts and accounts for around 90 per cent of Australia's annual walnut crop.

Our walnut operation has complete vertical integration, beginning with nursery production aimed at developing our own trees for planting, management of the orchards, harvesting and drying, processing and marketing of in-shell and walnut kernels which are exported direct from our facility on-farm.

We have a geographically diverse orchard portfolio, spanning over 2,000 hectares located in Tasmania and New South Wales.

In response to the nut set issue impacting on yields, we have devoted significant resources and sourced international experts who have independently inspected and reviewed the Leeton, Tabbita and Avondale West orchards to identify the cause of the issue and potential future remedies.

Following these reviews, we are confident that orchard management remains competitive with global benchmarks under appropriate climatic conditions and trees are expected to deliver mature yields.



Our customers value Webster's walnuts for their high quality, food safety credentials and reliability of supply. That strong reputation has enabled Webster to further enhance our customer distribution over the past year where we have exported walnut kernel to the Japanese market for the first time.

We pride ourselves on being able to supply directly to end users and major retailers. This ensures the freshness and traceability they demand. We continued our capital investment in our state-of-the-art cracking and processing facility at Leeton, with an upgrade to the in-shell line which has assisted in improved cost recovery through the plant.

In addition, Webster is investing in our on-site cool-room which will increase the longevity, quality and freshness of our produce.

During the year, we continued to develop the walnut orchard at Avondale West in New South Wales with 125,000 trees planted in August-September 2015. Stage three has completed preparation of land works and irrigation and will be ready for planting in August-September 2016.

Further new plantings of approximately 200 hectares at Avondale, comprising primarily of new varieties, will be planted this 2017 financial year. Early stages of the orchard remain on schedule to produce its first commercial harvest in 2018.

# 125,000

new trees planted in the Avondale West orchard

# Agriculture

— **Webster is one of the largest irrigated farming producers in Australia with more than 35,000 irrigable hectares of prime fertile land holdings across southern Queensland and New South Wales.**

Our focus is on long-term, sustainable farming, while maximising profitability from crop mix and yield and harnessing our water portfolio.

Our primary crop focus is on cotton, using technology and our expertise to maximise yield and water efficiency, with capability to produce over 200,000 bales of cotton annually.

However, we also produce other crops such as corn, cereals and legumes to provide further diversity across our agricultural portfolio. In addition, we own extensive grazing farmland to produce 3,500 head of cattle and 10,000 lambs annually.

Our financial results for FY16 include the first full year of contribution from the Tandou and Bengarang businesses which were acquired in 2015.

Planting levels were higher in the Riverina district (Kooba and Hay) but were slightly lower at Moree and Bourke compared to the prior year, primarily due to water availability.

We are continuing to expand our areas in the southern region (where we are not water constrained) with more developed areas expected to come on line over the coming year.

Yields from these areas continue to be among industry-leading standard due to our quality assets and strong agronomy expertise.

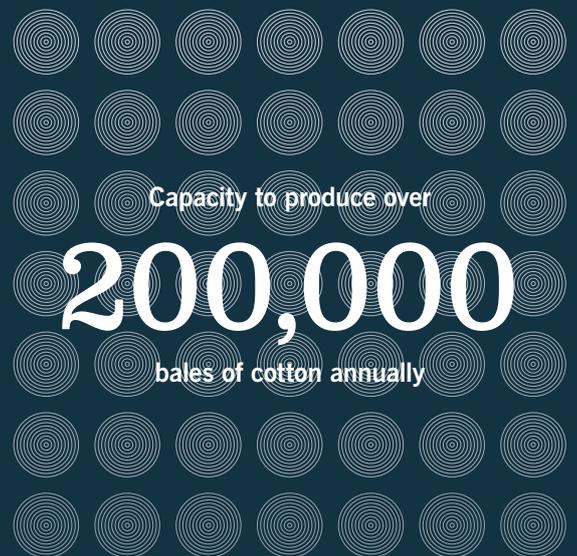
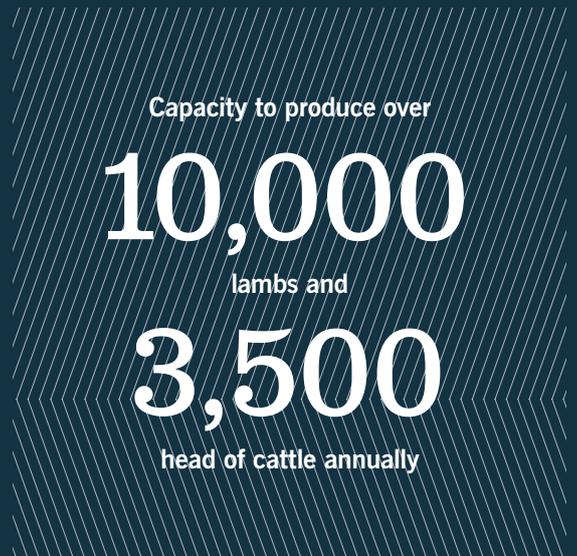


Our strategy remains on maximising yields by rotating crops, subject to water availability across our irrigated farm area.

We also continue to add properties which complement the Group's agricultural activities.

We purchased the Carbuu property at Bourke to provide further synergy and efficiency to the nearby Darling Farms operation. Meanwhile, the Pevensey property in Hay, which was previously leased by the Group, was acquired; which is a strong complement and strategic fit with our adjacent properties.

For the coming year, we expect more favourable cropping areas in the Riverina and Bourke compared to the prior year.





# Water

— Webster owns a diverse portfolio of over 200,000 megalitres of water entitlements, stretching from southern Queensland through New South Wales to northern Victoria.

A significant component of this entitlement holding resulted from the initial Kooba acquisition along the Murrumbidgee River and the subsequent acquisitions of Tandou and Bengarang with significant water entitlements in the Murray Darling Basin.

Our portfolio is a complementary mix of high and general security with supplementary and groundwater entitlements.

While the book value of our water intangibles as at 30 June 2016 was approximately \$240.5 million, Webster's Directors estimate the market value of the water portfolio to be around \$320 million.

The scale, diversity and surety of our water holdings underpins our competitive advantage, in providing crop diversity, maximising crop yield and developing further growth opportunities across our business.

It's also fundamental to our strategy of streaming water to areas where we can generate the greatest return for each megalitre of water applied.

As a result, our water assets continue to provide ongoing security for our walnut operations whilst enabling flexibility for our annual crops, including cotton at Kooba and Hay.

We continually refine our portfolio mix of water to ensure it meets our farming and cropping activities.

The scale of our business means we can continue to generate further efficiencies through the combination of our water assets and our crop and farming assets while also seeking further opportunities to expand our operations into specific areas.

Our strategy is to continue to achieve the appropriate balance between our water requirements for our permanent and annual farming activities with the optionality to realise value through other accretive opportunities.

*While the book value of our water intangibles as at 30 June 2016 was approximately \$240.5 million, Webster's Directors estimate the market value of the water portfolio to be around \$320 million.*

# Where We Operate

Webster has an extensive portfolio of land assets located in Australia's premier agriculture precinct of the Murray Darling Basin. This portfolio, comprising some 200,000 hectares, provides diversity and scale for the Group.

Our cropping portfolio encompasses holdings across the northern Gwydir valley, west of the Basin at Bourke and Menindee and south in the Riverina district and the Hay Plains. Our walnut operations are located in the Riverina at Leeton and Griffith, and also in Tasmania. Webster's water holdings stretch across the northern and southern areas of the Murray Darling Basin from southern Queensland through New South Wales to northern Victoria.



Walnut Holdings



Agriculture Holdings



Water Holdings



Lakeland Downs,  
Condamine

Bengarang, Garah

Darling Farms,  
Bourke

Tandou, Menindee

Bringagee and  
Benermbah  
Station, Tabbita  
Carrathool

Pevensey,  
Glenmea  
and South  
Farm, Hay

Avondale West

Leeton

Kooba Station,  
Darling Point

Swansea

# Financial Overview

— This year was Webster's first full year of reporting with the inclusion of the Company's acquisitions of Kooba, Bengelang and Tandou.

On a statutory basis, Webster reported a loss after income tax of \$80.7 million compared to a net profit after tax of \$5.8 million for the prior year.

The reported loss was mainly attributable to the impairment of goodwill of \$96.5 million, recorded in the half-year accounts, related to the acquisitions of Bengelang and Tandou which were finalised on 29 May 2015, with the remaining equity in Tandou compulsorily acquired on 4 August 2015.

For the year, Webster delivered an underlying profit before tax of \$14.9 million. The Group's full-year result included profit on the sale of water entitlements and sale of water allocations into favourable water market conditions.

The underlying result was assisted by improved cotton prices, yields and volume, partially offset by a decline in walnut yields, resulting primarily from a previously disclosed nut set issue which affected the walnut crop in New South Wales in November 2015.

Group revenue and other income of \$187.8 million more than doubled on the prior year, reflecting the full-year contribution from acquisitions.

Revenue in the Horticulture division was \$39.8 million, down 20 per cent on the prior year, impacted by lower crop yields at the Group's New South Wales orchards.

Revenue in the Agriculture division was \$147.9 million, compared to \$26.4 million in the prior year as a result of the first full year of contribution from the businesses acquired in 2015.

The strong underlying profit uplift in the Agriculture division (pre-impairment) to \$24.8 million was due to full-year reporting of acquisitions also supported by improved cotton yields, pricing and increased planting.

**Webster remains in a strong financial position and established a \$250 million banking facility with NAB in February 2016, providing additional financial flexibility for the Group.**

The Board continues its focus on prudent capital management to balance the Group's ongoing financial strength and flexibility with maximising returns to shareholders.

The Directors declared a fully-franked final ordinary dividend of 1 cent per share, unchanged from the prior year.

A fully-franked dividend of 4.5 cents per share was declared for the preference shares on issue.

	30 June 2014	30 June 2015	30 June 2016
GROUP REVENUE AND OTHER INCOME	\$65,650,000	\$77,503,000	\$187,887,000
AGRICULTURE REVENUE	N/A	\$26,442,000	\$147,935,000
HORTICULTURE REVENUE	\$65,650,000	\$50,961,000	\$39,856,000
NET ASSETS	\$108,443,000	\$501,091,000	\$416,856,000 After impairment

# Growing Opportunity

— **During the past year, Webster has focused on consolidating the acquisitions of Kooba, Bengerang and Tandou to create a strong and diversified asset base for the Group.**

The successful integration of these assets has provided a strong platform for Webster to leverage growth opportunities in particular crops (walnuts and cotton) and livestock (cattle and sheep).

This platform is underpinned by our significant and diverse water entitlement which provides secure water allocation to our permanent and annual crops, with further value-enhancing opportunities.

Our focus remains on maximising the potential of our walnut orchards and our planted cotton area. We will also progress opportunities to increase our irrigated land footprint for additional complementary row crops and to support further agricultural activities.

Meanwhile, the team at Webster brings significant management and agronomy expertise to capitalise on our extensive land and water holdings to maximise returns across our portfolio holdings.

As a result, Webster now has a strong and sustainable asset base and remains focused on leveraging this scale and diversity through its technical expertise to deliver shareholder value over the medium to long term.



### **Board of Directors**

Chris Corrigan, Executive Chairman  
Rod Roberts, Non-Executive Director  
David Cushing, Non-Executive Director  
Chris Langdon, Non-Executive Director  
John Joseph Robinson, Non-Executive Director  
Joseph Corrigan, Alternate for Chris Corrigan

### **Company Secretary**

Maurice Felizzi  
[corporate@websterltd.com.au](mailto:corporate@websterltd.com.au)

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### **Share Registry**

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Webster Limited shares are listed on  
the Australian Securities Exchange (ASX)

