

# ShareholderUpdate



PADDOCKS UNDER PRESSURE P2



FERT FASTER AT TIMARU P3



AG IN ACTION P4

BALLANCE AGRI-NUTRIENTS LIMITED

APRIL 2011

## Commodity cycles put pressure on fert prices

*Ballance made a commitment to its shareholders in February this year to hold prices until at least April to enable you to plan autumn applications without worrying about rising costs. We are endeavouring to hold these prices as long as possible throughout the autumn season, and at present the economies of higher volume sales are cushioning some of the cost impact being experienced.*

### International price trends

The global fertiliser market is very bullish at present, with all phosphate commodity prices rising on the back of strong international corn and wheat pricing.

Supply pressures, including a lack of volume, have pushed sulphur prices up. Potash prices also lifted in late February.

In the past month DAP has seen sharp rises caused in part by plant shut downs in Tunisia and constrained rock supply in North Africa. Political unrest across the Middle East and North Africa, and prohibitive export taxes in China will keep prices up over the next three months. Favourable crop economics and no relief on the supply-side makes this a sellers' market. Current market estimates put DAP trade volume growth at 4 to 7 percent for 2011.

Urea has dropped back a little in price since January and is expected to hold around this level until June in line with lower seasonal demand. Strong demand from the United States and India, rising production costs, and potentially constrained Chinese supplies are expected to again press prices higher in the second half of 2011.

### What drives pricing?

*The same commodity cycles currently driving farm incomes up - such as meat, grain and dairy prices - are the same external factors that drive input costs. As demand for food increases, so too does the demand for fertiliser to produce that food.*

As you can see from the Food and Agriculture Organization of the United Nations food commodity price trends in the graph below, fertiliser prices have followed very similar patterns to food trends over the years. When food prices peaked in 2008, so did fertiliser prices, this was quickly followed by a drop in prices for all commodities in 2009, and has been steadily increasing again to date.

We do not see the fertiliser price movements being as dramatic as occurred in 2008 and

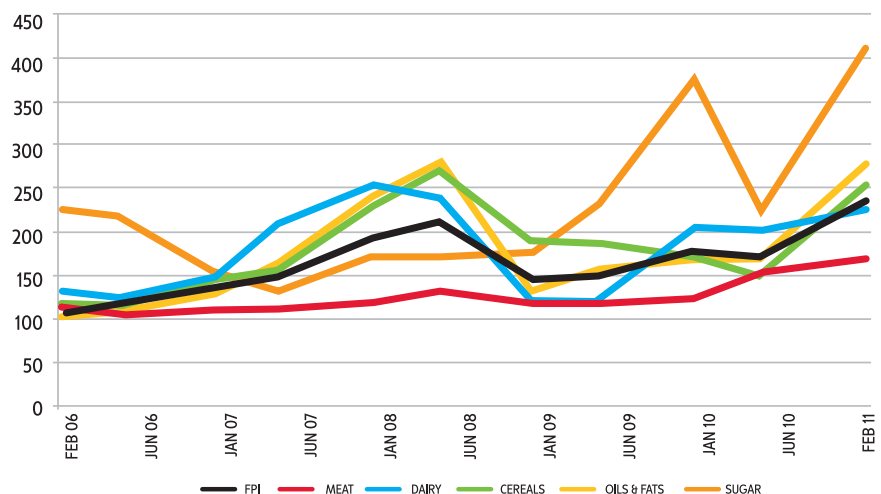
2009, however all trends are indicating further upwards movement to come.

### What does this mean for farmers?

International commodity prices are changing on a daily basis. We are operating in a volatile market, with some commodities like phosphates increasing in price, and others, like nitrogen, holding. Other factors like freight, which is being directly impacted by rising fuel prices, are also influencing pricing.

*Your co-operative is trying to take the risk out of this for you and manage pricing the best we possibly can. We have a genuine commitment to holding these prices through autumn if the market allows, but at some point in time will have to adjust prices to reflect market value.*

FAO FOOD COMMODITY PRICE INDICES



# Proposed Governance changes

The Board of Directors has reviewed our governance structure and is now consulting on proposed changes designed to ensure it meets the needs of our increasingly substantial and complex business.

## Proposed changes

Proposed changes include increasing the number of appointed directors from two to three, and reducing the number of farmer-elected directors from eight to six. This would reduce the total number of directors to nine, and increase the ability to appoint directors with specific attributes and experience to ensure a balanced mix of skills around the table. Appointed directors could also be shareholders of Ballance, but they will first and foremost be considered on attributes and experience.

## Director elections to continue

Shareholder-elected directors will continue to comprise the majority of the Board to ensure that shareholders maintain the ability to influence co-operative decisions and direction of the company. While the Board is maintaining the election of directors by geographic wards, changes to the ward system are proposed.

## Ward structure

With the reduction in directors voted by shareholders, a three-ward structure, each with two directors, is being suggested. Under the proposed structure the South Island would continue as one ward and the North Island would be divided into two wards using district council boundaries. The draft division includes Waitomo, Otorohanga, Waipa, Waikato, Hauraki and all district councils north, in a Northern North Island Ward, and all district councils south and east of these in a Southern North Island Ward. This would provide reasonable equality in terms of shareholder numbers and business with the co-operative.

## Consultation

Shareholders wanting to comment on the changes should contact their ward director. Once consultation is complete, shareholders will be asked to vote on the proposal at the Annual Meeting in September.

# Smart farming investment

Ballance is taking a majority shareholding in Farmworks Systems Ltd and will be adding the company's on-line farm information and management tools, known as Ag-Hub, to the products and services Ballance sells to farmers.

Ag-Hub (<http://www.aghub.co.nz>) is an online tool which enables farmers to capture, store and analyse information across farm management systems and is linked to GPS maps of farm properties.

Ballance Chief Executive, Larry Bilodeau, says the investment in a 51 percent shareholding is an exciting expansion into the technology supporting New Zealand's leading agriculture industry, and a further step forward on the co-operative's path to help customers farm more productively, more sustainably, more simply and more profitably.

'The most productive farms are those where the farmers are making good decisions across a whole range of areas. These decisions need to be based on reliable information specific to the farm, and that information needs to be

gathered from a variety of sources.

'Ag-Hub provides a very efficient way to capture all this information and to analyse and apply it. That's especially important when you are managing larger scale operations involving several farms, sometimes in different locations. We're seeing increasing demand for tools which make it easier to make the best choice for each property so the business as a whole achieves the best production. Ag-Hub does that.'

Ag-Hub works by capturing information from on-farm recording devices such as feed readers, effluent irrigators, moisture tapes and weather stations. This information is transmitted to Ag-Hub through wireless farm network, FarmNet.

Farmers can use the tool to generate reports on things such as pasture cover, yield mapping, fertiliser requirements, water usage, soil moisture and temperature, effluent nutrients, application rates, weather and animal weights. Future applications include measuring fertiliser performance against soil test information and fertiliser recommendations.

# Low soil fertility puts paddocks under pressure

Some of New Zealand's farm paddocks are at risk of reaching nutrient tipping point with farmers putting costs ahead of soil fertility. The need to keep farms solvent through tough times has seen farmers reduce or skip maintenance fertiliser applications and in some regions, no capital fertiliser has been spread for several years.

Warwick Catto, Head of Research and Environment at Ballance, says many paddocks are now close to slipping below the levels required to sustain quality pasture and production, and if quality pasture composition deteriorates further the way back will likely be longer and more costly.

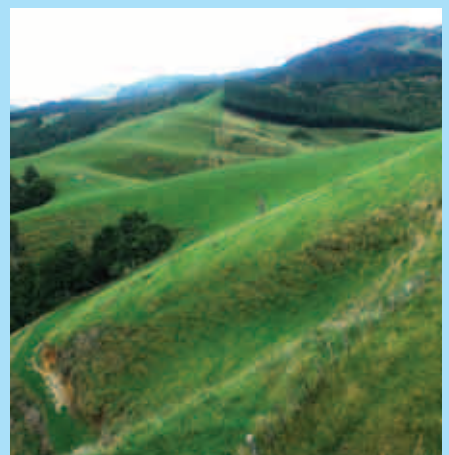
He says the dairy sector has generally been more judicious about the use of fertiliser, but Olsen P levels in particular were now tracking down, with the average just above 40 on dairy farms.

The situation is worse on many sheep and beef farms, Warwick says, where farmers have struggled to factor in lower relative returns with the need to apply fertiliser. As a result, productivity and pasture quality have been impacted directly.

'We are seeing typical Olsen P levels on sheep and beef farms in the low 20s, with some dropping into the low teens.'

While dairy farmers have been able to use the surplus nutrients in their soils, sheep and beef farmers typically had no comparable buffer.

'The key is to protect your valuable production. Give fertiliser priority to new pasture, cropping land and your finishing areas. For dairy, there's an opportunity to manage the variability on a paddock-by-paddock basis.'



Many paddocks are now close to slipping below nutrient levels required to sustain quality pasture and production

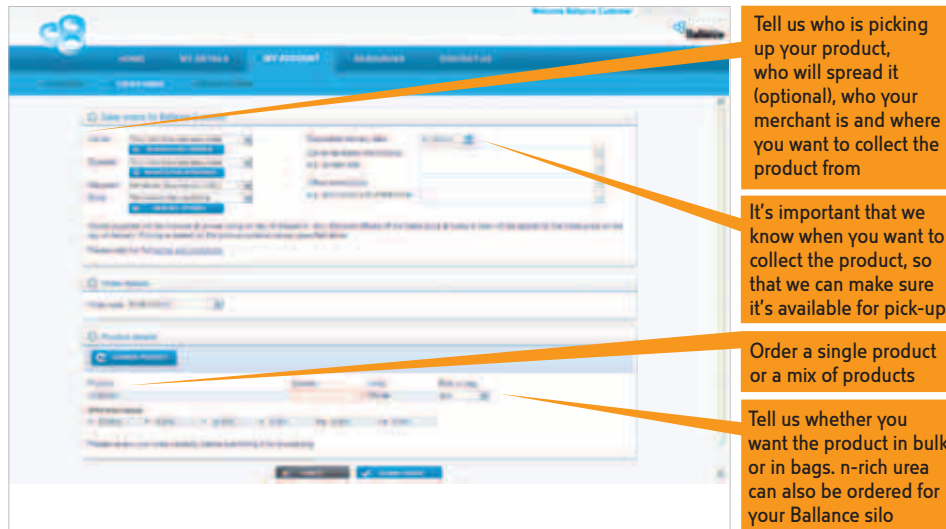
# 24/7 ordering online

We've just made it easier to do business with Ballance and Summit Quinphos with the launch of our online ordering and information service.

The year-round, 24-hour service means that customers can order at a time which suits them, especially given that farmers and growers tend

to make the most of daylight hours.

Once registered customers can place orders, view order history, price up products and access specialist technical information. To register simply call the Ballance Customer Services team on 0800 222 090 and have your customer number ready.



Tell us who is picking up your product, who will spread it (optional), who your merchant is and where you want to collect the product from

It's important that we know when you want to collect the product, so that we can make sure it's available for pick-up

Order a single product or a mix of products

Tell us whether you want the product in bulk or in bags. n-rich urea can also be ordered for your Ballance silo

Place an order - order your Ballance fertiliser from the comfort of your own home 24/7



Choose your product, then choose the store you want to collect it from

We'll tell you how much the product costs and what the through-store charge is

Check product pricing - find the price of products, plus the through-store charge

# Fert faster at Timaru

The \$800,000 upgrade of our Timaru Service Centre has provided two separate mixer and load-out lanes, improving service times and more than doubling the load-out speed for local spreaders.

A new mixing/despatch plant, which includes a double mixing hopper, elevator and feed conveyor/dust cone with full 4.25m clearance was built and installed during summer. The site is now fully operational again in time for autumn work and now has an overall site despatch capability of more than 300 tonnes an hour.

During the winter the final stage of the upgrade will see the oldest despatch line replaced with another identical to the new one recently installed, further increasing the site's capacity.

The project follows the revamp of the Edgecumbe and Hastings stores last year. Coming up this year is some refurbishment and replacement work at the Manaia Road Service Centre in Taranaki, and an intake rebuild for Whakamaru. Also on the drawing board is a new store at Gisborne.



Trucks loading at Timaru on the first day of despatching from the upgraded plant

# New science not involved

Ballance will not appeal the recent High Court decision in favour of granting Ravensdown a patent for the use of nitrification inhibitors on grazed pastures.

We challenged the patent on the grounds new science was not involved and continue to hold that view. In this circumstance we felt obliged to present this position on behalf of the Ballance co-operative and our farmer shareholders.

The patent process requires that applicants

must demonstrate invention and we strongly believe this was not demonstrated. The global science behind nitrification inhibitors is not exclusive to any company.

Challenges to patents are part of a robust process companies can expect to go through if they are looking to exert a monopoly over a product, process or technology.

Nitrification inhibitors show promise in reducing greenhouse gas emissions and

nitrate losses from pastures. Research is currently underway to quantify those benefits and better predict pasture responses.

A three year programme, jointly funded by MAF, the fertiliser and dairy industries and the Pastoral Greenhouse Gas Research Consortium will help farmers judge for themselves the relative merits of different technologies and application systems. Results are due next year.

# Scholarships acknowledge potential

Five university students who have the potential to advance the effectiveness of farming in New Zealand have been awarded scholarships.

The announcement continues our long-standing tradition to encourage talented people into the rural sector, taking the total of Ballance scholarships to date to over 50.

**Aleisha Broomfield** from Morrinsville, who is in her fourth year of study for a Bachelor of Agricultural Science (Hons) at Lincoln University, has already mapped out her future path. 'I am very passionate about the dairy industry and my career will definitely be based in this area,' says Aleisha.

**Tom Woutersen** left Cambridge High School as head boy and headed off to Massey University in Palmerston North to study for a

Bachelor of Science, majoring in Agricultural Science. 'After I complete my undergraduate degree my aim is to continue studying towards a PhD. I intend to apply a scientific approach in order to improve the pasture persistence problems faced by farmers,' says Tom.

**Jeremy Clayton**, also from Cambridge High School, is at Lincoln University studying for a Master of Applied Science. 'Following completion of my Master's degree, I hope to enter into a graduate role in assisting farmers and associated groups by offering my knowledge and advice on sustainable and profitable farming in New Zealand,' says Jeremy.

**Sarah Poole** from Hawera, is studying at the University of Canterbury to learn how to bring

advanced engineering onto the farm. A former Sacred Heart Girls' College student, Sarah is working towards a Bachelor of Engineering (Hons) degree, specialising in Mechatronics Engineering. 'With my background as a dairy farmer, I believe I will be able to help develop new and innovative systems for the agricultural industry,' says Sarah.

**Fraser Alderton**, former Blue Mountain College head boy in Tapanui, is at Lincoln University studying for a Bachelor of Commerce (Agriculture) majoring in Business Management. He has worked extensively on the family sheep and beef farm as well as neighbouring properties and hopes to create a successful family owned agricultural business.



Aleisha Broomfield



Tom Woutersen



Jeremy Clayton



Sarah Poole



Fraser Alderton

## Cadmium strategy welcomed

Ballance has welcomed the Ministry of Agriculture and Forestry's proactive strategy to manage cadmium build-up in New Zealand's agricultural soils.

While concentrations of this naturally occurring element are low in New Zealand's productive soils and present no current risk, monitoring has shown levels have slowly increased.

The Cadmium Management Strategy is a best practice approach to ensure that cadmium in rural soils remains a minimal risk to health, trade, land use flexibility and the environment over the next 100 years, while supporting the ongoing economic contribution of the primary sector.

Warwick Catto, Head of Research and Environment, says cadmium occurs in phosphate rock from which phosphate fertiliser is made.

'MAF's food safety experts have estimated cadmium levels in the diet of the average New Zealand are at levels well below those which would cause adverse health effects. By taking a proactive approach, the strategy aims to ensure the situation stays that way.'

The strategy recommends that farmers and growers work closely with their fertiliser representatives to determine the most cost effective, efficient and appropriate fertiliser application and land management options.

## Keeping up-to-date

If you have recently moved house or changed banking arrangements please remember to provide Ballance with your updated details.

With rebate and dividend payments coming up later this year you might want to consider joining the large number of shareholders who already receive these payments via direct credit to their bank account rather than a cheque. If you are currently receiving payment by cheque and would like to change to direct credit please contact Maria or Julie on 0800 267 266.

With the increased usage of electronic communication such as email and text, Ballance is encouraging the use of these to provide faster information to our shareholders. We can provide you with timely information in the event of price movements, promotions in your region and special events if we have your mobile phone number and email address. Please contact our Customer Services Team on 0800 222 090 to provide your details, or check that we already have the right information.

## Earthquake support

Companies, groups and individuals through-out the nation are pitching in to help out after the Christchurch earthquake, and Ballance is no exception.

All Ballance staff in Canterbury are safe, although some have suffered damage to their homes.

Our stores in Rolleston, Ashburton and Timaru were not affected, and it is understood the majority of the damage lies in the urban districts, with most of the rural population left relatively unscathed by the latest quake.

Ballance has joined many other businesses in supporting Christchurch through donations to the Red Cross Earthquake Appeal, including:

- A company donation of \$50,000.
- Fourteen tonnes of urea provided for auctioning, raising a further \$15,000.
- The extension of an existing promotion with PGG Wrightson, where farmers can donate \$2 per tonne of product purchased to a school or charity, to include the earthquake appeal. Last year this promotion raised in excess of \$50,000.

Our thoughts continue to be with everyone who has been impacted by this disaster.