

# ShareholderUpdate



BALLANCE AGRI-NUTRIENTS LIMITED

AUGUST 2011

## When we do well, you do well

Healthy performance has meant healthy returns to Ballance shareholders, with \$49 million to be paid out in rebates and dividends and a further \$16.2 million of equity value being attributed to shareholders this year if the share price increase from \$7.00 to \$7.50 is approved at the Annual Meeting next month.

The total average returns of \$50.29 a tonne includes a \$46 per tonne rebate and an imputed dividend of 10 cents a share, representing a distribution of nearly 40 percent of the co-operative's profit for the financial year ended May 2011. The result was achieved on the back of record autumn sales at a time

when Ballance was able to hold fertiliser prices. Prudent buying saw well-priced inventories available to meet the rising demand.

The rebate underlines the benefits of being a co-operative member.

"Shareholders can be confident that when we do well, they will see a fair proportion of any profits returned to them in rebates and dividends, with retained earnings going into growing the business," says Chief Executive Larry Bilodeau.

He says that some comments that the profit was too high for a co-operative overlooked the fact that those profits are returned to shareholders.

## Results at a glance

More details regarding Ballance's financial performance for the year ended 31 May is available in the Annual Review document posted to you this month.

### Trading Result

**\$85.9 million**

more than four times the \$20.7 million achieved last year

### Rebate and Dividend

**\$50.29 per tonne**

the highest rebate and dividend distribution to Ballance shareholders in the history of the co-operative

### Fertiliser Sales

**1.396 million tonnes**

up 19% compared to last year

### Shareholder Assets

**\$527.4 million**

up 15% from last year

## What's my rebate worth?

Rebate and dividend payments will be made to Ballance shareholders around September.

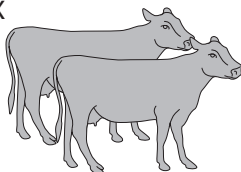
With a record average rebate and dividend of \$50.29 per tonne to be paid out this

year, check out the average rebate and gross dividend payment scenarios for fully subscribed shareholders to see what your payment might be.

### Average Waikato Dairy Farmer applying:

25 T n-rich urea  
40 T pasturemag 7K  
12 T DAP  
8 T MOP

**Total \$4,564, or  
\$53.69 per tonne**



### North Otago Sheep and Beef Farmer applying:

125 T sulphur gain 20S

**Total \$5,639, or  
\$45.11 per tonne**



### North Island Sheep and Beef Farmer applying:

155 T superten 7K  
10 T n-rich urea

**Total \$7,900, or  
\$47.88 per tonne**



### Mixed Arable Farmer applying:

4 T cropzeal 20N  
120 T n-rich urea  
16 T Lucerne Fertiliser  
17 T DAP  
15 T superten

**\$9,364, or  
\$54.44 per tonne**



## Annual Meeting

The Annual Meeting will be held on 21 September 2011 in Napier. A Notice of Meeting and the Annual Review has been posted to you this month. Please remember to RSVP if you plan to attend the meeting and the dinner.

# Supply trends

Firming global prices for food commodities are fuelling demand for fertiliser, with the rebound seen in 2010 likely to continue.

However Ballance Agri-Nutrients General Manager Supply, Jack Herder, says continued political and economic uncertainty is overhanging the market and its impact on fertiliser supplies and prices cannot be ruled out. He says the political unrest among major phosphate producers such as Tunisia, Morocco, Egypt and Syria has already created uncertainty around both supply and price.

"Production in each of these markets has been affected, while attempts to quell unrest by opening up thousands of jobs in the fertiliser industry will see higher labour costs inevitably flowing through to pricing. Controls on phosphate exports from China, applied via high tariffs, would keep product in that country during its main October to June



Jack Herder

growing season, further constraining supply at a time when demand is high from India, Russia and Brazil."

Sulphur is also in tight supply with changes in the natural gas industry, particularly the shift to low sulphur shale gas, having an influence. "In the short to near term the global demand and supply balance points to a deficit this year, tight conditions next year and an improving position the year after."

Jack says new urea capacity coming on stream will help smooth price pressures which have seen urea rise by 29% in the past two months. DAP has been similarly affected, rising 10% in price over the same period.

Across the board, major industry investments have the potential to add 183 million metric tonnes of new capacity over the next five years, but near-term market conditions would be tight for elemental sulphur, phosphoric acid, DAP and seaborne ammonia. Supply would be more balanced in urea, potash and phosphate rock.



## Fertiliser industry upbeat

Higher demand across all food commodities should translate into steady demand for fertiliser over the year.

Chief Executive Larry Bilodeau says the rising commodity market meant the mood among fertiliser producers at the recent International Fertiliser Association Conference in Canada was upbeat.

The IFA represents more than 500 members from 85 countries who collectively produce more than 170 million tonnes of fertiliser annually.

"Delegates at the conference were bullish about demand and prices. However, it's important to temper optimism with caution given some of the economic

uncertainties we are seeing, particularly across Europe. We'll be watching those trends closely."

He says he's not anticipating the dramatic highs and lows seen in fertiliser pricing in 2008/09 when the economic downturn saw commodities peak and slump, impacting fertiliser demand.

"Our expectations are for a narrower pricing band, rather than dramatic highs and lows."

Mr Bilodeau says improved farmer confidence, especially in the meat and wool sector, should translate into a steadier demand pattern, with farmers able to budget for fertiliser with more certainty.

## NZ ETS Update

The 2011 review of the New Zealand Emissions Trading Scheme (ETS) was initiated on 23 December 2010. The Government stated the review was not about whether New Zealand has an ETS or not, but about operational details and the pace of implementation. The review panel lodged its final report with the Minister on 30 June 2011.

Key points in the Ballance submission lodged on 6 April this year were:

- Provide commercial incentives to business for the development of mitigation/abatement technologies
- Don't impose costs on New Zealand that are not matched by trading partners
- Don't include sectors without available abatement options
- Retain cost controls post 2012, to reduce the price exposure for our company

Following the 10 July release of the Australian Government's carbon pricing policy it is likely that the National-led Government will defer agriculture sector inclusion. The Australian carbon pricing policy places agricultural emissions outside the new Australian scheme, with the focus remaining on incentive mechanisms under the separate Carbon Farming Initiative.

New Zealand's Minister for Climate Change issues, Nick Smith, is currently considering the final report, with decisions expected before this year's general election.

Labour has announced that if elected it would bring agriculture into the ETS in 2013 as originally legislated.



# Production capacity could double

New Zealand could produce enough food to feed around 40 million people if every farm performed at the same level as the most profitable, says Ballance Agri-Nutrients Chairman, David Graham.

He was speaking at the Ballance Farm Environment Awards annual showcase held in the Hawke's Bay on 25 June.

"New Zealand currently produces enough food to feed approximately 20 million people. We know our most profitable farms achieve an economic farming surplus of \$3,500 per hectare, yet the average farm achieves just over \$2,000 and about half of all farms are operating below this.

"To double the amount of people we can feed we must lift our production by working on assisting the bottom half of this bell curve to lift its game."

He said all New Zealanders can look to the inaugural winners of the Gordon Stephenson Trophy and national winners of the 2011 Ballance Farm Environment Awards Grant and Bernadette Weller, as an example of best practice being achieved on the land.

The Wellers, who farm an 850 ha effective sheep and beef farm in the Waimea Valley,

Southland, were chosen from nine regional winners.

Mr Graham said the agricultural sector needs role models like the Wellers.

"Farmers do best when they can see the results for themselves and what better way to learn than from someone who has been there and done that to perfection."

Mr Graham said helping lower performing farms maximise their nutrient uptake would lead to better environmental outcomes, better growing and better profits.



Inaugural winners of the Gordon Stephenson Trophy and national winners of the 2011 Ballance Farm Environment Awards Grant and Bernadette Weller

## Setting the record straight

We have recently sent out certificates advising the nutrient content of Ballance fertiliser applied in the year from 1 June 2010 to 31 May 2011. The nutrient analysis is calculated from the purchase record that details individual invoices and products sold to you during the year.

Please check these for accuracy and completeness and advise Customer Services on 0800 222 090 or the Shares team on 0800 267 266 if there is any missing information. The rebate to be paid is based on these records, so it is important that these are accurate.

## Directors election

Two Directors on the Board retire by rotation this year - David Peacocke (Ward A - Northland and Waikato) and Owen Buckingham (Ward D - South Island). Wards B and C have a bye this year. David has been nominated to re-stand, along with new candidate Ken Rintoul. Owen has not re-stood for Ward D, and David Holdaway, Andrew Morrison and Phil Reid have been nominated for election in his place this year.

Shareholders in Ward A and Ward D will receive ballot papers in late August, and have until 14 September to return these. This is your opportunity to have a say on who will represent your interests on your co-operative. Results will be announced at the Annual Meeting on 21 September.

## Scholarship pays off for Holly



Northland farm girl Holly Andrewes was six when she first announced she wanted to be a vet.

Growing up on her parents 165 ha beef fattening block in the Bay of Islands, Holly was surrounded

by animals and constantly exposed to the agriculture sector.

Holly's dad is a farm consultant and while she was still at school she was working with him on kikuyu grass research, seeding the science bug that was later to take her to vet school.

Holly earned her Veterinary Science degree at Massey University and was assisted with a Ballance Agri-Nutrients Scholarship, which provided her with \$4000 a year for three years.

"My parents were the ones to tell me about the scholarship which was mentioned in one of the Ballance newsletters and I was lucky enough to receive it during my second of five years of study," Holly said.

"I put the scholarship towards reducing

my student loan as the fees for this course are three to four times that of a standard university degree."

Holly said she now hopes to have her student loan repaid within four years of graduation.

Now working in a rural veterinary practice in Taranaki, Holly said it is not uncommon for her to see a cow, horse, cat and a dog all in one day.

### 2012 applications now open

Ballance is offering up to four more scholarships valued at \$4,000 a year to immediate family members of any Ballance shareholder or company employee.

Applications for 2012 open on 1 September 2011 and interested parties have until close of business on 28 October 2011 to apply for the scholarship, which is aimed at encouraging young people to enter the agricultural industry.

Each scholarship can be held for a maximum of three years. The awards are made to assist study at tertiary level in either the general primary industry field or in process engineering. For more details or to apply visit [www.ballance.co.nz](http://www.ballance.co.nz)

# Animal nutrition made easy with SealesWinslow

Less than three months after joining forces with Ballance Agri-Nutrients, animal feed company SealesWinslow is trading strongly and exceeding sales targets.

The lift in sales is attributed in part to steady returns and optimism in the dairy sector, along with a strategic move to make the animal nutrition products more accessible to farmers throughout the country.

Ballance Chief Executive Larry Bilodeau says the decision to invest in and merge the two feed companies to form SealesWinslow to offer a whole farm nutrient management approach is already paying off.

"We've had strong support from our shareholders, further building on the existing customer base of the original feed companies," Mr Bilodeau said.

"The new merged company is trading strongly and is exceeding sales targets in all product categories, which is testament to both the team behind it and our strategy to ensure that our shareholders have complete farm nutrient options."

Mr Bilodeau also commented that growth of the SealesWinslow business through further shareholder support for its products will only be of benefit to Ballance shareholders, adding to the wider Ballance Group's bottom line and boosting overall share price value.

"It's a win-win situation for all concerned."

Ballance bought large shares of both Seales

Ltd in Morrinsville and Winslow Feeds and Nutrition based in Ashburton to form the new company and now owns 51 percent of the merged company.

SealesWinslow Managing Director Ross Hyland said the new company has been able to take advantage of Ballance's strong relationships with rural supplies merchants nationwide.

"SealesWinslow animal feeds can now be sourced through major merchant stores that trade in Ballance fertilisers. Building on these networks was a logical step," Mr Hyland said.

SealesWinslow's team of sales representatives now work with Ballance's nationwide network of Technical Sales Representatives and are available to provide animal feed advice and facilitate orders on the spot. In addition Ballance subsidiary Altum, who already has a presence in the animal nutrition market, now offers a full range of SealesWinslow products.

There is growing recognition of the benefits of an animal nutrition programme to milk production, and as milking gets underway Ballance customers are now able to conveniently source a range of specialist blends and compound feeds for their herds from a 100 percent New Zealand owned company - making a positive financial contribution to shareholder value.



Ballance Technical Sales Representative Geoff Barclay (left) and SealesWinslow Area Sales Manager Kane Ongley (right) discuss nutrient requirements with Matamata dairy farmer Tony Hedley

## Panel proves performance

Animal nutrition company SealesWinslow has gathered some of the top scientific minds in the animal nutrition field to create a science advisory panel to be chaired by newly appointed Research Director at AgResearch, Professor Warren McNab.

Dr McNab's areas of specialisation are nutrition and metabolism. Joining him on the panel is Dr Andrew West, former Chief Executive of AgResearch, Dr Grant Edwards, Professor of Dairy Production at Lincoln University and Dr Eric Kolver, Synlait's former head of research, development and on-farm productivity.

Dr West holds a PhD in Microbial Ecology, and is a Fellow of the New Zealand Institute of Management and a Member of the New Zealand Institute of Directors. Former Rhodes scholar Dr Edwards is an expert in foraging behaviour, diet selection and environmental issues, while Dr Kolver's specialisation is dairy cow nutrition.

Ballance Head of Research and Environment Warwick Catto will be an active participant on the panel, along with support from in-house SealesWinslow scientists and members of the Ballance Group agro-sciences team.

Managing Director, Ross Hyland, says SealesWinslow is privileged to have the support of four of New Zealand's most eminent scientists and researchers to take productivity in the nations' primary sector to the next level. The panel work underpins SealesWinslow's science-based nutrition approach.

"Animal nutrition is the key to New Zealand farmers' ability to drive productivity, and sound science is the key to ensuring that animals are getting the maximum benefit from feed compounds and supplements. With the guidance of our new science advisory panel, we are very confident in our ability to provide farmers with products that have been proven by science to perform."

Mr Hyland said in addition the move will support the company's drive for robust financial modelling surrounding products, clearly demonstrating the returns they add to the bottom line for its farmer customers. Environmentally sustainable solutions to meet New Zealand's growing animal nutrition needs will be a high priority for the panel in conjunction with the continued focus on an animal welfare issues.

## Bank details up to date?

To ensure your rebate and dividend payment reaches you when we pay these later this year please advise us if your bank account details need updating. Simply give the Shares team a call on 0800 267 266 or visit [www.ballance.co.nz](http://www.ballance.co.nz) to download a PDF direct credit form. Remember, if you're still receiving a cheque for your payment you might like to consider the more streamlined approach of direct credit straight into your nominated bank account.

For shareholder information phone 0800 267 266

For customer services phone 0800 222 090

[www.ballance.co.nz](http://www.ballance.co.nz)