

ShareholderUpdate



BALLANCE AGRI-NUTRIENTS LIMITED

DECEMBER 2011

Performance reflecting strength of sector

First half performance has been strong for our co-operative. The mood in the agriculture sector is optimistic, and farmers are continuing to invest in nutrients to make the most of growing conditions and good pricing for agricultural commodities.

Good demand for farm nutrients seen last financial year has flowed through to the current year, despite some softening in forecast dairy payouts. We are pleased with our performance to date and look set to return a good year-end result if current trends continue.

Our investment in Seales Winslow is performing well as we see an increasing number of farmers recognise the contribution that supplementary animal nutrition can make to a farm's bottom line.

Our Annual Meeting held in Napier at the end of September was well attended, and several important decisions were made by shareholders during the meeting.

The most exciting of those decisions was the approval to increase the share price by 50 cents to \$7.50.

This is the first increase in four years, boosting the equity allocated to shareholders by \$16.2 million, and is a clear reflection of our stable financial position, low debt and strong projected earnings.

At the annual meeting Ballance shareholders also agreed to reduce the number of elected directors from eight to six and increase the number of appointed directors from two to three. In addition the decision was made to reduce the number of Ballance wards from four to three, with the South Island remaining as one ward and the North Island divided into two.

Eighty six percent of shareholders voted in favour of the changes, well over the 75 percent required to pass the resolution.

Farmers will continue to have a majority voice when making decisions about our co-operative and this move strengthens the benefit of external directors, who bring different commercial skills and experiences to the Board table. We are pleased to have shareholders' support for this change.

Each ward will have two elected directors, and the ward boundaries have been altered to reflect a balance in shareholder numbers and farm types. This will also assist with the rotation and sourcing of Directors across the country.

The constitution provides for a transition

period through to 2013 to put the changes into place.

Finally, with Christmas just around the corner, the Board and Management wish all our shareholders and customers a Happy Christmas and good growing conditions and prices for the New Year.

We appreciate your continued support and look forward to working with you next year.

David Graham
CHAIRMAN



Stable pricing for current growing season

Fertiliser prices for most nutrients are expected to remain stable through to autumn as Ballance holds off summer price increases to enable late spring and summer fertiliser applications to continue.

Chief Executive Larry Bilodeau said the co-operative reviews prices each quarter, taking into account international price trends, exchange rates and inventory.

"International pricing for phosphate and potash products appears to have

stabilised for now, but there is still an element of volatility around urea prices, which we expect to continue as we enter 2012.

"We have weighed up the cost of products against the opportunity to support farmers to continue maintenance fertiliser applications, especially with the late spring in some parts of the country, and we are now committed to holding off any further price increases for most products until autumn, when we will review the situation again."

The exception to this commitment is urea pricing, which will be monitored closely throughout the season due to volatile international market conditions.

Mr Bilodeau said autumn price rises for all products can't be ruled out, particularly given currency fluctuations and the continued political uncertainty globally which influences supply.

"Meanwhile, farmers can plan current applications with confidence around costs."

New Director appointed



Andrew Morrison

Andrew Morrison has joined the Ballance Agri-Nutrients Board of Directors, replacing Te Anau based Owen Buckingham, who retired from his role as South

Island Director after 12 years of service.

In partnership with other family members, Mr Morrison farms 620 ha in Eastern Southland and 600 ha in South Otago, running sheep, beef and deer.

Mr Morrison is the current Federated Farmers Southland Provincial Vice President (joint) and Federated Farmers Southland Meat and Fibre Chairman. He is a member of the Pukerau/ Waikaka Valley Parish Property Committee and Morrison Family Partnership Board. He holds a Commerce Degree majoring in Agriculture, and brings 20 years of farming experience to the Board.

There were no further changes to the Board, with Raglan-based David Peacocke being re-elected in his Ward for a third term, having first being elected in 2005.

Growing a more profitable future

We have a broad vision at Ballance, which by decade's end, aims to have shareholders' operations more profitable and sustainable than they are today.

Our goal is to be the expert in complete agri-nutrient advice, supply and sustainable farm management, providing whole-of-farm solutions to make our shareholders more successful. We call this strategy 'Complete Nutrient Management' and it involves being able to optimise all areas of the nutrient cycle (soil, plant, animal, effluent).

It's this vision that led to two very strategic acquisitions beginning with Farmworks Systems Ltd providing Ag-Hub, an online farm management tool, and Seales Winslow, a new animal nutrition company formed by merging Morrinsville's Seales Ltd and Ashburton-based Winslow Feeds.

Our investment in animal nutrition is a natural progression in our work towards helping farmers manage all of their nutrients on farm. It complements our existing focus on plant nutrition and is a natural expansion for Ballance.

Better animal nutrition is the greatest single opportunity to boost the productivity of pastoral farming and we know on-farm feed

efficiency is a priority for our shareholders and customers. While grass remains the cheapest form of feed we recognise that many farmers are taking the next step in boosting productivity utilising supplementary feed. Our ambition is to meet the nutrient needs of all farm systems.

Increasingly, farmers are looking to improve their farm management systems, especially through using technology which takes some of the hard work out of decision-making. Adding the award-winning Ag-Hub online farm management system developed by Farmworks to our product portfolio is helping to meet this need.

It's clear that farming will become more challenging over time through regulation, increasing input costs and global economic uncertainty. To combat that, our role is to ensure farming remains sustainable in all facets of the word – economically and environmentally.



Research programme supports sustainable farming

Support from the Primary Growth Partnership has enabled Ballance to launch our \$32 million programme to increase the productive capacity of New Zealand's primary sector while minimising environmental impacts.

The Primary Growth Partnership, operated by the Ministry of Agriculture and Forestry, has provided \$9.75 million in funding which Ballance is matching dollar for dollar over the next seven years. We will also invest a further \$12.5 million to resource the programme.

Chief Executive Larry Bilodeau said the scale of the co-operative's investment is a measure of its confidence in the programme's potential in lifting profitable production while reducing the effects on the environment.

"Up to 60% of New Zealand's primary production depends on the continued use of fertiliser, but environmental pressure is building and putting future growth at risk. Our research programme aims to reduce reliance

on traditional fertilisers and is targeting the nutrient losses which have environmental impacts. This work is safeguarding the pastoral sector's productive future. This is one of the most significant investments in sustainable farming research in recent years and will deliver long-term returns."

The programme is led by Ballance Head of Research and Environment Warwick Catto. It is focusing on two key areas; product development and education programmes for farmers to encourage rapid adoption.

"Our core business is providing plant nutrient products and services and we are working on making these more sustainable by improving their nitrogen and phosphorus efficiency. We are also working on new biologically-based products to improve nutrient and pest management with fewer environmental effects. To encourage up-take we need to be out there talking with farmers so our extension programme will see us

working very closely with them, showing them the science, the results and the cost benefits."

He said the impacts of the programme will extend well beyond the farm gate, protecting New Zealand's environmental reputation while helping to grow the economy by better on-farm productivity.



From left: Ballance Head of Research and Environment Warwick Catto, and General Manager Agro-Sciences Willie Thomson

Greener environmental credentials

Ballance has deepened our green credentials, with three more sites gaining ISO14001 certification from independent auditors Verification New Zealand.

Ballance's manufacturing plants at Awarua and Whangarei, along with its head office in Mount Maunganui, have joined the company's Kapuni manufacturing site in securing the internationally recognised and independently audited certification.

"We are serious about our environmental responsibilities and the ISO14001 certification underlines that," Chief Executive Larry Bilodeau said.

"Having achieved this milestone we will continue our programme to achieve certification for other parts of our operations.

"Certification is a natural fit with our promise to farmers that we will help them grow production with a lighter environmental footprint."

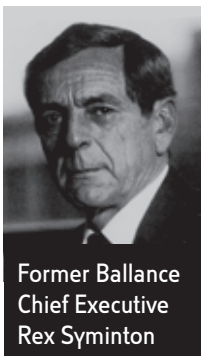
Ballance Environmental Manager Nigel Sadlier said achieving certification had taken a great deal of effort by key operational staff.

"Certification sets the standard of all our activities over the long-term and shows our commitment to achieving the best environmental performance."



From left: Director and Senior Auditor of Verification NZ Andrew Shaw with Ballance Chief Executive Larry Bilodeau and Environmental Manager Nigel Sadlier

Fertiliser industry leader passes on



Former Ballance Chief Executive Rex Syminton

A respected leader who was instrumental to some of the most significant changes to the New Zealand fertiliser industry, former Ballance Agri-Nutrients Chief Executive Rex Syminton, passed away on 25 September 2011, in Tauranga.

Mr Syminton was with the co-operative through its most formative years during his 14 years as General Manager of BOP Fertiliser Limited.

When Mr Syminton joined the company it was a small local business, supplying fertiliser to neighbouring farmers in the Bay of Plenty and Waikato.

"By the time he left it had become Ballance as we know it today - a farmer-owned co-operative with four manufacturing sites spread across the North and South Island and more than 18,000 shareholders nationwide," said current Chief Executive Larry Bilodeau.

"He led the industry moves away from localised manufacturing and distribution centres in the 1980s and 1990s to essentially become national operations by the start of the millennium."

Mr Syminton arrived at Bay of Plenty Co-operative Fertiliser Company in 1987 and quickly faced challenges including the removal of fertiliser subsidies and the dramatically reduced demand for fertiliser products. He led negotiations that led to the formation of the BOP Fertiliser Limited, designed to preserve a viable fertiliser business. His contribution to the industry included involvement with the merger of BOP Fertiliser with Fernz Corporation's Morrinsville-based subsidiary Kiwi Fertiliser; the formation of agricultural aviation company Super Air; and later, the purchase of the 'Think Big' ammonia-urea manufacturing plant at Kapuni, Taranaki.

BOP Fertiliser then made a move into the South Island market, merging with Southland Co-operative Phosphate Company, and then further expanded its footprint by purchasing Whangarei-based Farmers Fertiliser from Fernz Corporation.

Ag-Hub creates online portal to manage your farm

Ballance's commitment to helping boost farm productivity and minimising environmental impacts led to the acquisition of Feilding-based Farmworks Systems Ltd earlier this year.

Ag-Hub, developed by Farmworks, is a farm information management website and is now part of the range of products and services that Ballance provides to farmers.

The Ag-Hub website gives farmers a single easy-to-use system for capturing, storing, analysing and reporting on key farm performance and compliance information. A particular strength of AgHub is the reporting and comparison of information across multiple farms.

Ballance Chief Executive Larry Bilodeau sees Ag-Hub as another tool in the toolkit to help assist farmers with decision making and nutrient management practices.

"Ag-Hub brings together information about a wide range of farm management practices and combines that information to provide a clear picture of the farm's performance," Mr Bilodeau said.

With increasing pressure to demonstrate compliance with regional council regulations, Ag-Hub helps farmers to demonstrate that they are meeting regulatory requirements in areas such as effluent management, water use and fertiliser application.

In addition to helping to manage and record compliance, Ag-Hub provides farmers with information that can help optimise their investment in fertiliser and ensure that they are getting the best productivity possible.

Ballance customers who are early adopters of this emerging technology are excited about the potential that Ag-Hub has to provide them with information to improve their farm profitability.

For more information on Ag-Hub, visit www.aghub.co.nz

Kapuni urea plant back in business

Our Kapuni urea plant is back in business after a 14-week shutdown to repair fire damage.

Staff and contractors pulled out the stops to get the plant back in production, often working around the clock to effect repairs.

"They worked long hours to get urea back on stream as quickly as possible," said Chief Executive Larry Bilodeau.

Site Manager, John Maxwell said securing replacement parts at short notice was one of the trickiest things about the repair, which has cost more than \$3 million for materials and labour.

"We faced a number of challenges and

setbacks along the way – such as having to reorder replacement valves after the original valves were rejected due to manufacturing faults, unexpected exchanger leaks at the front end of the ammonia plant despite pressure testing, and then broken brickwork around the primary reformer.

The team at Kapuni adapted quickly to the changing situation, making the most of the shutdown by carrying out as much maintenance work and planning as possible to assist with the turnaround when the plant is shut again for routine maintenance in February next year.



From left: Production Coordinator George Patterson, Project Design Engineer John Carley, Project Engineer Grant Duncan and Principal I&E Engineer Steven Parry in front of a urea pile at Kapuni following a 14 week shutdown to repair fire damage

Specialist science team expands

Our shareholders can now access more targeted, farm-specific nutrient management advice with the growth of our technical extension specialists team to five.

"Farmers want to know how to boost their farm productivity and profitability while managing environmental challenges and pressures that perhaps did not exist five or 10 years ago," said Science Extension Manager Aaron Stafford.

"We are developing a team with the skills to ensure that farmers get the level of information, advice and direction when and where they need it – farmers are demanding more than just expertise in fertiliser management these days."

Technical Extension Officers provide on farm support for both the Ballance and Altum sales teams and have expertise in general agronomy, soil science, fertiliser and nutrient management, along with environmental management and best-practice systems.

"Our farmer customers can use the skills our extension team provides to dig into the issues they need answers to, for example whether they're looking at determining the economically optimum fertiliser management programme for the farm, or the best seasonal forage crop sequence to increase production, or the appropriate riparian management to reduce farm system sediment and phosphorus loss."

Ballance strengthens nutrient management plans

Nutrient management plans (NMP) are a vital tool for farmers and have been a key development for the fertiliser industry.

Now Ballance has taken them a step ahead, upgrading our NMP Generator to put customised information into the hands of farmers, so they can achieve higher production while minimising waste and environmental impact.

Science Extension Manager Aaron Stafford says the NMP Generator has been very effective in producing customised plans for farmers.

"Now we've gone further with it to include more information as part of the development of an effective nutrient management plan which takes into account factors such as

farmers' goals, management practices and soil types to provide more comprehensive and customised advice.

"It's important for us to have a clear understanding of the goals of the farmer and the specific challenges faced on the farm. The whole point of a nutrient management plan is that it is designed to drive profitability on that specific farm.

"By understanding unique elements of each farm, we can achieve better outcomes for farmers and the environment. We look at the fundamentals and consider all the variables before we even begin work on developing a plan."

Mr Stafford says the information could be gathered during a single visit, but often

multiple visits are needed.

"A good nutrient management plan remains valid for up to three years, but should be updated if farm management practices change during that time."

The NMP Generator is based around utilising data from the Overseer Nutrient Budget decision support tool and is used to assist Technical Sales Representatives to deliver nutrient management plans. These highlight opportunities to improve return on fertiliser investment, improve nutrient use efficiency, and reduce risk of nutrient loss. Farmers are provided with a paper or electronic document and will be provided with a two page shed planner for easy reference.