

ShareholderUpdate



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BALLANCE AGRI-NUTRIENTS LIMITED

AUGUST 2009

Growing confidence for 2010 performance

It will come as no surprise to shareholders that it has been a particularly difficult financial year for your co-operative, with international fertiliser prices rising beyond the reach of many farmers.

The global fertiliser environment, and in fact the whole world, has changed dramatically since I last reported annual results to you, and you can see from the accompanying panel that we have borne the cost of consistently shielding our shareholders from the worst of it.

While this has come at a significant cost, we believe it was the right option for the co-operative as shareholders were already facing economic constraints in their own farming businesses.

The trading result of \$30.7 million, before year-end stock write-downs, was down 61 percent on the \$78.6 million recorded last year as prices and profit margins were reduced progressively to reflect the rapidly declining international costs.

After opting to revalue our product inventory to reflect market value and current replacement cost, requiring a \$36.7 million adjustment, the Group reported a loss of \$3.2 million after tax. The write-down was considered a prudent step as it enabled us to set ourselves up in a strong position for the new financial year.

Revenue grew 27 percent to \$828 million (\$651 million in 2008) as a direct reflection of the higher fertiliser costs and prices applicable throughout the year, on sales volume down 28 percent at 1.115 million tonnes (1.54 million tonnes in 2008).

Farmers made it obvious to us this year that they needed lower plant nutrient prices on the day to help alleviate some of the financial stresses they were facing, rather than a rebate at the end of the year. We acted on this feedback, selling fertiliser at times below cost to meet our co-operative's primary objective of delivering fertiliser to our shareholders at an affordable price – well below the prices paid by other farmers around the world.



David Graham

Key statistics 2009

Revenue: \$828 million

Sales: 1.115m tonnes

Trading result: \$30.7 million

Write-downs: \$36.7 million

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Driving distribution costs down

The merging of the Ballance and Summit-Quinphos distribution networks, where practical, is already returning significant savings to the Group.

While both companies continue to operate independently, it made sense to rationalise the Group network by removing overlapping operations. In some rural towns both companies had stand-alone stores, and we have worked swiftly to address this waste of resources.

Stripping out these costs makes better use of shareholder funds and places both

companies' products closer to you, our customers.

In less than a year, we have identified savings well in excess of \$3 million from this approach, known internally as DiNO – Distribution Network Optimisation.

Before Ballance acquired 100 percent of Summit-Quinphos the two companies were operating 58 company-owned service centres and 104 third-party consignment stores.

By the end of the DiNO initiative, if it is implemented in full, there will be a total of 127 stores.

As at 31 May we had achieved 15 closures, and at that date 22 stores were operating as co-share outlets, stocking a range of Ballance and Summit-Quinphos products. While the total number of stores will reduce, sharing the distribution network will result in Ballance products being available from at least 8 more stores throughout the country.

It is expected that the rate of DiNO progress will slow somewhat as the remaining improvements require alterations and extensions to various sites to accommodate both companies' products.

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In the first part of the financial year we experienced record demand ahead of heavy international price increases. This rampant surge reversed suddenly in the second half of the year, affected by the collapse of the commodity cycle and the onset of the global credit crunch, quickly killing off global demand for fertiliser.

From November our emphasis moved to reducing prices as quickly as possible, managing the implications of holding large volumes of high-cost inventory and continuing our efforts to strip costs from our business.

In light of our financial results and balance sheet impact, we will not be paying a rebate or dividend in respect to the 2009 year. Earnings do not support either form of distribution. Our budgeted outlook for 2010 is more positive and provided this is achieved it is expected that our shareholder distributions will revert

to the normal range.

However, taking into consideration the below-cost prices applicable through the last half of the year, we have benefited shareholders to the tune of \$76 million.

For Ballance, 2010 will be a year of rebuilding equity within the co-operative and improving our balance sheet.

We don't expect much change in sales volumes in 2010 compared with 2009, but we can expect an improvement in profitability and cash flow. Because of the product inventory write-downs, we have started the current financial year with a clean slate and anticipate reporting a strong bottom line this time next year.

Your co-operative is doing a lot of things extremely well, and has taken the necessary steps to reflect the true market situation. You can guarantee that we will continue to work alongside you to give you the best

possible plant nutrient advice and make every fertiliser dollar you spend count - adding true value to your business.

David Graham
Chairman

Special report

Ballance has commissioned a special report on the financial crisis and its implications for New Zealand agriculture from Victoria University Professor of Economics and former Department of Agriculture farm advisor Lew Evans.

It is now available online at www.ballance.co.nz, or please phone the Shares Department on 0800 267 266 to request a hard copy.

Farm Environment Awards fit with Ballance

The Ballance Farm Environment Awards have taken place in eight regions throughout the country, culminating in a showcase dinner hosted at Parliament by the Minister of Agriculture David Carter.

Once more, the awards have uncovered a remarkable group of farming couples whose sheer passion for the land has driven them to innovative solutions.

The standard of entries seems to be higher each year - our farmers keep raising the bar.

This year five of the winners are dairy farmers, a clear demonstration that the environmental sustainability of all farms is down to the individual owners.

Congratulations to the entrants and deserving regional Supreme Winners this year and thank you for the commitment, leadership and enthusiasm you demonstrated.

Ballance was challenged recently over our

sponsorship of the Ballance Farm Environment Awards, the implication being that fertiliser use and the environment can't go hand in hand.

Ballance sponsors these awards because we believe in what they are trying to achieve.

For us, the key to the awards is the impact they have had in promoting sustainable farming.

We get to see New Zealand ingenuity at its best, where many solutions are found through innovation and commitment.

We're not trying to sweep any environmental issues surrounding fertiliser use under the carpet. By putting our name to the Farm Environment Awards, we are fronting up and demonstrating our commitment to making a change.

Through the BFEA and other Ballance initiatives, we are actively working with the farming community to ensure our products are used appropriately.

Our company and our Technical Sales Representatives are zealously working with the farming community to ensure our products are used most effectively, and with the least amount of waste.

This effort will help to ensure that our farmer shareholders continue to have freedom to operate sustainable farming businesses.

BFEA Supreme Winners

Northland: Peter and Pam Kelly

Waikato: Gray and Marilyn Baldwin

Bay of Plenty: Paul and Joanna McCarthy

Horizons: Andy and Claire Law

Greater Wellington/Wairarapa:

Tim and Jo Loe

Canterbury: Nick and Michelle Ward

Otago: Stephen and Rhonda Korteweg

Southland: Vaughan and Megan Templeton



Pukeokahu farmers Andy and Claire Law, pictured with their children



Omamari beef farmers Peter and Pam Kelly



Stirling dairy farmers Stephen and Rhonda Korteweg

Don't delay fert application

Farmers who don't apply any fertiliser stand to lose significantly more from pasture production loss than it would cost to maintain soil fertility.

It is preferable to step up their scientific analysis to maximise the benefits from whatever fertiliser they can afford.

I know I cannot be seen to be an impartial adviser, but we are concerned about the future productivity of farms where fertiliser applications have been halted completely for financial reasons. There is still great uncertainty in the farming industry, and no suggestion that farm finances are suddenly going to improve, but farmers should not hold off on all fertiliser.

With many farmers applying no fertiliser, or

amounts well short of maintenance levels, it is our duty to point out that even reduced amounts of fertiliser will still pay dividends when backed by smart science and precise analysis from our Technical Sales Representatives.

While we can't totally rule out unforeseen events impacting on prices, our expectation is that there will be no significant price changes before the summer, so farmers should not delay application of spring fertiliser in expectation of further price decreases.

We will still review our prices on a three-monthly basis, but the co-operative is not intending to change prices on its traditional 1 September review date.

The UN Food and Agriculture Organizations



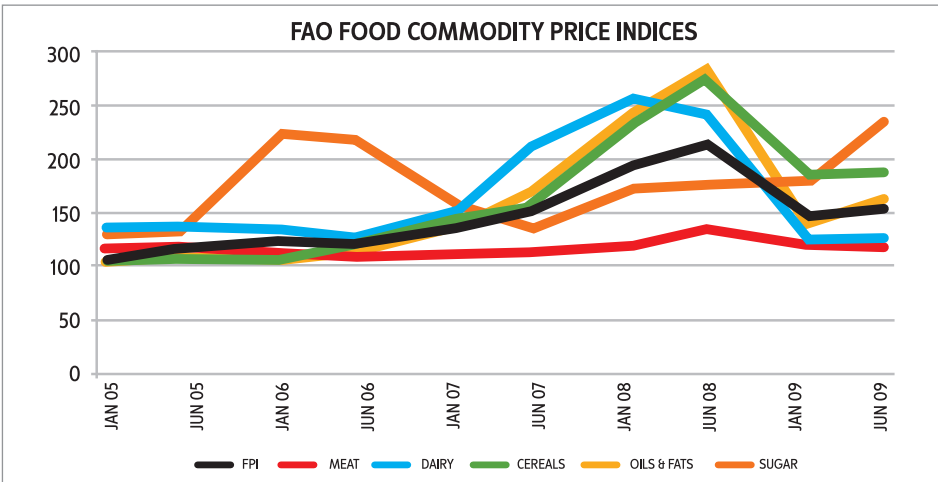
Larry Bilodeau

latest Food Price Index (the black line in the graph below) demonstrates that key world commodities are now showing a modest increase, and if this continues it will place pressure on the cost of plant nutrient raw materials.

It is particularly important for those farmers who skipped their usual autumn fertiliser application to know how best to minimise the potential pasture production loss.

Our technical sales representatives are skilled at adding value to farmers' operations. They are trained to help farmers maximise farm outputs while minimising inputs, regardless of whether this means a customer buys less fertiliser. I invite farmers to use them to ensure the right product is applied in the right place at the right time for the best economic return.

Larry Bilodeau
Chief Executive



Plants growing greener by the day

Employees at our main fertiliser manufacturing plants across New Zealand once again celebrated World Environment Day in June by acting local.

Volunteers at our industrial sites in Northland, Bay of Plenty, Taranaki and Southland planned environmental efforts to enhance their sites, including tree and shrub plantings to soften the visual impact of these sites.

Each year we also conduct a search for the best environmental initiatives within our organisation for the individual/team environmental award and the site award category.

Whangarei won both these categories this year for its team initiative to reduce electricity use and for its wider site clean up. Trees planted several years ago have now reached a significant size and have changed the whole appearance of the site from both sides of the fence.

As part of a government scheme designed to reduce electricity demand, and subsequent necessity for construction of more power generation and power reticulation infrastructure, Ballance Whangarei replaced 14 ageing



Trees planted at the Whangarei site several years ago have changed the appearance of the site from both sides of the fence

electrical motors used on site.

This created an electrical efficiency gain, further reducing plant operating costs, improving the site's carbon footprint, as well as diminishing greenhouse gas emissions.

Based on the current plant operating time per annum, the electrical energy saving of this

project is estimated at 110,000 Kwh units, with no subsequent reduction or restriction in plant capacity, and is simply increased efficiency to the benefit of our environment.

For the Ballance Site Health & Safety Awards, the judges found it too difficult to separate Awarua and Kapuni.

It was decided they should both share the honour because of their dedicated focus of continual improvement that sets a good example for the Ballance group. Their work clearly demonstrated that improved health and safety is a team effort, and that improvements do not come about just by doing the same things year after year, no matter if results are adequate - a continuous review of style and technique is essential.

As a company, we have carried out a series of audits to examine various aspects of our environmental performance. Waste audits were conducted at each of our main sites to identify the main waste materials and how they are managed. Similarly, energy auditors have assessed the sites to identify practices that could reduce the company's energy use.



Ballance Chairman David Graham, left, with Putaruru farmer Alex Baldwin at the Fielddays

Fielddays a welcome treat

The recent Fielddays at Mystery Creek near Hamilton proved to be a great way of saying thank you to loyal shareholders at the Ballance display marquee.

Shareholders visiting the four-day event had a warm welcome waiting for them and the opportunity to discuss the current farming scene.

They were greeted by our Technical Sales Representatives, and invited to chat for a while over light refreshments.

Graeme Smith, General Manager Sales & Marketing, and Warwick Catto and Aaron

Stafford from our agro-sciences team delivered top-level presentations twice a day.

'We know our shareholders are facing a tough year,' says Graeme, 'so we just wanted to say thanks for their loyalty. It was a pleasant surprise to see we also took 429 orders for more than 5,000 tonnes of fertiliser products.'

About 25 TSRs shared the responsibilities over the four days, and senior Ballance executives, including several Directors and the Chairman David Graham, put in time providing hospitality.

Director nominations sought

In accordance with the Company Constitution, three Directors retire from the Ballance Board by rotation this year.

They are Richard Jolly (Ward B), David Hurst (Ward C) and Peter Macdougall (Ward D). There is no change in Ward A this year.

Richard Jolly and David Hurst have indicated that they intend to re-stand in their respective Wards, but Peter Macdougall is retiring this year and is not seeking nomination.

Nominations are sought, therefore, for people wanting to become Directors representing Wards B, C or D.

To be eligible to stand, nominees must be registered to vote in the Ward they seek to represent, hold or be proxy for more than 100 Ballance shares, and be aged under 68 years on election day - 30 September.

Nomination forms are available via our Shares registrar by phoning 0800 267 266. The completed forms must be returned to Ballance by 5pm on Wednesday 19 August.

If there is more than one candidate nominated for a Ward, ballot papers will be

sent out to relevant shareholders, along with a short biography of each candidate.

Those shareholders involved in such an election must return their voting papers to Ballance by 25 September, with the result to be announced at the AGM in Invercargill on 30 September.

Please check your annual tally

Please check the tally we sent you recently that shows your total purchases from us for the 2008/09 financial year.

It is important to us that you agree with our tally as we use these figures in our forward planning processes. In other years, the information would also be used to calculate your rebate payment.

You can also use this information about your nutrient purchases to complete the Statistics New Zealand Agricultural Production Survey.

If you don't agree with the tally sent to you, or did not receive the letter, please contact our shares team on 0800 267 266.

Invest in fertiliser to grow your business

Many shareholders are facing a tough year and have had to look for cost savings in all areas, including investment in fertiliser.

In such an environment, it is even more crucial to ensure fertiliser is used as efficiently as possible to get the best financial return.

Now is not the time to skimp on agronomic (soil and pasture) testing on your property. In leaner times, more money should be invested in testing to determine what areas you can cut back on with little impact on your business, and what areas should receive prioritisation.

It's time to change from the mentality of uniform fertiliser inputs across the entire property to a differential, targeted approach. Where possible, cluster paddocks into different 'management units' according to their fertiliser requirements, and treat them accordingly.

Know the three Ws - what you are applying, when, and why. Challenge the person making your fertiliser recommendation! Assuming that most farms are operating at relatively good soil Olsen-P levels these days (20-30 ppm or more), on many soil types, sulphur will become a 'limiting nutrient' much more rapidly than phosphorus, since it is more mobile and is lost more rapidly from the system. So, while cutting back phosphorus inputs in the short term may have little influence on pasture yield, cutting out sulphur (or potassium) could have a much bigger effect.

And remember, N-fertiliser is still one of the cheapest forms of supplementary feed. Used tactically, it is one of the most useful tools available to farmers to boost growth. N-responses are generally always strongest and most consistent in spring, but ensure you are using the right product for the most economic return.

Urea is generally going to produce the cheapest feed at 10-15 c/kg DM. However, as mentioned above, on some soil types spring S levels can limit N responses, so a product like n-rich ammo, which contains a moderate amount of sulphate sulphur, can give better responses than standard urea.