

# ShareholderUpdate



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BALLANCE AGRI-NUTRIENTS LIMITED

DECEMBER 2009

## Lifting our service levels

To make it easier for you to do business with Ballance, we have upgraded our customer management software.

In some instances we have experienced teething problems involving invoicing and credits, and we have worked through these with affected customers. We have also been working closely with our merchant partners in an effort to help keep any customer impact to a minimum.

I would like to sincerely thank those customers affected by this for their good grace in helping us work through these issues. If you still suspect something is not right with your account, please contact us on 0800 222 090 and we will give it our immediate attention.

Moving forward, we'd appreciate your help to achieve the full benefits from our new system. From now on when you place an order for fertiliser we'll ask you to tell us when you expect the product will be uplifted from your local service centre or consignment store.

If your order is for a full season we would like you to provide an indicative schedule of when you intend to pick up the various parts of your order.

Importantly, this information will help us ensure that we have the precise product you require; at the location you require it, when you need it.

We are always open to suggestions on ways to improve our service and relationship with you. Please feel free to tell your Ballance technical sales representative, service centre manager or myself of any ideas you think will add value.

For example, on the advice of employees and customers we have re-introduced the



swap-a-bag function because of strong feedback that it makes it easier to do business with us.

I thank you for your ongoing support during this business improvement process.

### Graeme Smith

General Manager Sales and Marketing



Graeme Smith

## New directors add depth

Gray Baldwin, a Putaruru dairy farmer, won the vacancy for the western North Island ward and Canterbury farmer Murray Taggart was successful for the South Island directorship.

Both men have a background in banking and have strong, ongoing farming roles.

Mr Baldwin has a long association with Ballance. He was chief executive of Summit-Quinphos when Ballance moved to 100 percent control last year and was part of the Ballance management team for the preceding six years.

Mr Baldwin said he strongly supports Ballance's strategy of sticking to its core business of fertiliser.

'We have a strong base to work from and I look forward to being part of the team that takes the co-operative to the next level,' he said.

Mr Taggart runs a mixed sheep and cropping enterprise near Oxford. He is a past chairman of the National Meat and Wool Council, Federated Farmers and past member of the Federated Farmers national board.

He is a serving director of CRT Society Ltd, the farmer co-operative operating in the South Island and chairman of the Board of Trustees at Christchurch Boys High School.

'I support the company's strategy and look forward to further growth as the Ballance footprint is expanded,' Mr Taggart said.



Gray Baldwin



Murray Taggart



From left: Chairman David Graham, Hon David Carter, GM Operations Warwick de Vere and Kapuni Apprentice Mechanical Technician Gavin Beale plant a tree to celebrate the 5 million tonne milestone

## South Island wants more n-rich liquid

The successful launch of our n-rich liquid urea product in the South Island has encouraged the Board to authorise the building of two new centres for processing and distribution.

From a structured start at our Rolleston Service Centre, the nitrogen-rich product has proved to be extremely popular, far outstripping our ability to supply the whole South Island.

As a consequence, approval was given to build similar handling and distribution facilities with another urea dissolver at Timaru Service Centre as Phase 2 of the rollout. But even this plan has had to be updated as demand for the product continues to rise.

At the October Board meeting, the decision was made to build a third dissolver to produce additional n-rich liquid at Gore Service Centre, giving Ballance the required resources to service the whole of the South Island.

About half of the future sales would come through the Rolleston Service Centre. The product has been available in the North Island for several years, coming out of our Morrinsville plant.

## Minister visits Kapuni

The Minister of Agriculture, Hon David Carter, visited our Kapuni plant in September to celebrate the achievement of producing 5 million tonnes of urea. He was given a tour of the site by Site Manager John Maxwell and learned about the recent \$21 million maintenance and upgrade programme.

John Maxwell and Warwick Catto, our Head of Agro-Sciences, were able to voice their concerns direct with the Minister about the

impacts of the proposed Emissions Trading Scheme on agriculture and our ammonia-urea manufacturing plant.

The tree planted to commemorate the visit was appropriate, as Kapuni staff have carried out extensive plantings around the site since Ballance took over. They are also involved in a Trust that provides trees for farmers to plant alongside their waterways if they fence them off as part of a local environmental programme.

## Payout lift timely as fertiliser prices ease

The recent lift in Fonterra's payout forecast for the 2009/10 season is well timed, as prices are likely to ease soon for fertiliser, particularly locally manufactured phosphate products.

Ballance Chairman David Graham says it appears that the worst is behind farmers as global fertiliser prices return to more traditional levels.

'International phosphate rock prices have moved back into line, and we have worked through our inventories of key phosphate-based products. We can see some potential soon to drop prices locally.

'We hope this may prove to be sustainable, but it has become a very difficult international market to predict.

'Looking further out, there are signs of a general upwards price movement for fertiliser products internationally, so it is too early to tell where the market will settle.

'Overall, I feel optimistic about where things are going for our farmers. The future for food production is still good and will hopefully push

up the prices farmers receive in the medium term,' he said.

'I believe the scales are now tipping towards the emphasis being on making the correct agronomic decision, as opposed to acting based on fertiliser price alone.'

He says the payout forecast together with the likely price reductions for some fertiliser products offer a lifeline to those dairy farmers struggling to maintain their production levels.

Many farmers who had to cut back on their fertiliser applications over the past 18 months were starting to see a decline in pasture cover going into the summer.

'While it was possible to reduce expenditure by eliminating the fertiliser spend, some farmers are now starting to see the consequences of this in terms of poorer pastures and lower production.

'Fonterra's forecast is a timely boost for dairy farmers as it is an incentive to produce more. At the same time, it gives them room to move again, enabling many to once again act

in the best interests of their farm.'

Larry Bilodeau, Ballance Chief Executive, says making longer-term pricing forecasts is still problematical.

'Pressure is starting to mount on international prices for high-analysis fertiliser products, such as DAP. DAP has been very cost effective lately, but there are growing signs of increased demand internationally, which will place pressure on prices if it continues.

'This could lead to our **superten** range of products becoming the better cost option for New Zealand farmers, which will also help maintain sulphur levels.'

He says the recent decline in nutrient use in most markets cannot continue indefinitely without potential consequences for the global food supply.

'This is why I believe the fundamentals are still strong for farming, and New Zealand's role is vital.

'I am optimistic about the long-term future of New Zealand farming and fertiliser use.'

# Clear vision for water

Nick Smith, the Minister responsible for the Environment and Climate Change, says freshwater management is his second greatest priority after climate change.

Changes are necessary because the unsustainable 'first come, first served' system of water allocation has all but reached its limits in some regions of New Zealand, coupled with a boom in intensification of irrigated land for agriculture since 1990.

At the same time, nitrogen fertiliser use has increased by more than five fold, and phosphate fertiliser use has more than doubled, affecting lowland water quality in some areas.

Nigel Sadlier, our Environmental Manager, says Ballance cannot ignore issues around future management of freshwater because any changes will impact directly on the businesses

that utilise our products - farmers.

'The "freedom to operate" as a farmer in New Zealand is coming under increasing pressure as regulators seek to implement tighter controls on farming activities, explains Mr Sadlier.

'As always, Ballance is working proactively on behalf of our farmer-shareholders, with Warwick Catto, our Head of Agro-Sciences, and myself frequently meeting with regulators to discuss the issues. We continue to advocate for the "freedom to operate" with regard to fertiliser application by maintaining the permitted activity status within regional plans, while we also work with councils on broader water quality issues.'

It is Ballance's strong belief that the industry will be placed through Codes of Practice and uptake of technology to self-regulate and meet sustainable environmental outcomes for all.



## Rescue chopper gets boost

Gisborne mayor Meng Foon has boosted the performance of the Eastland Rescue Helicopter Trust using urea.

A stalwart supporter of the work of the rescue helicopter, he donated a tonne of urea to be auctioned at the Ballance technical dinner in Gisborne last month, with the cash going straight to the trust.

Mr Foon won the n-rich urea as a spot prize at the Ballance Farm Environment Awards showcase event at the Beehive in June, and immediately saw the opportunity to turn it into gold for the helicopter trust.

The auction was a lively affair, given that the money was going to a worthy cause. The winning bid was \$1000.

The auction was part of a Ballance agricultural science evening, held up and

down the country each year. Dinner guests typically hear about the latest factors impacting on fertiliser supply and pricing from Larry Bilodeau, Ballance's Chief Executive.

Warwick Catto, Head of Agro-Sciences at Ballance, then provides a scientific update based on nutrient use efficiency.

There is always a top-level guest speaker as well. In Gisborne it was Professor Jacqueline Rowarth, Director of Agriculture at Massey University. Her research over the past 20 years has focused on efficient use of fertiliser with minimum environmental impact.

All shareholders are welcome to attend their local technical dinner, so please come along next time we are in your region.

## ETS back to Parliament

The Finance and Expenditure Committee considering submissions on the Emissions Trading Scheme (ETS) was unable to reach an agreement on whether to recommend that any amendments be passed.

Nigel Sadlier, our Environmental Manager, says the Government is aiming to have the Climate Change Response (Moderated Emissions Trading) Amendment Bill passed into legislation before the climate change negotiations in Copenhagen start on 7 December 2009.

Meanwhile, the Australian Government has agreed to the Opposition's demand to permanently exclude the farming sector from the requirements of its Carbon Pollution Reduction Scheme (their ETS).

Back in New Zealand our Climate Change Minister Nick Smith has said that New Zealand will not be following Australia's example and excluding agriculture from our ETS. He says the Government remains committed to an all-sectors, all-gases scheme that pushes back agriculture's entry from 2013 to 2015 under its proposed changes.

At Ballance we would like to see a level playing field that will not disadvantage New Zealand farmers in an increasingly competitive international marketplace. We have worked hard to present evidence within the very tight timeframes. We focused on Kapuni as the first component of the business to be impacted by the NZ ETS, by asking that the unique nature of ammonia-urea manufacture in New Zealand be recognised and addressed accordingly.

Our ammonia-urea manufacturing process is simply lumped in with other big stationary energy gas users within the Stationary Energy and Industrial Processes (SEIP) Sector.

We maintain that ammonia-urea manufacture needs to be listed as a unique industrial process participant in the NZ ETS, alongside aluminum, iron and gold production, for example. This would enable Ballance to account for the gas used to run the plant (fuel gas) separately to the gas consumed within the chemical process that creates urea (feedstock gas).

Under proposed legislation, Ballance will face increased natural gas costs passed on from gas mining 'participants' from 1 July 2010 within the SEIP Sector, and further increased costs relating to nitrogen as a direct 'participant' when the Agriculture Sector joins in 2015.



The new mixing plant has almost trebled the out-feed rate, offering quicker dispatch to Canterbury farmers

## Big footprint in Rolleston

Ballance Agri-Nutrients' Rolleston Service Centre held an open day for farmers last month to celebrate its \$2 million overhaul and expansion to meet market demand.

The upgraded co-share store, which stocks a wide range of both Ballance and subsidiary company Summit-Quinphos products, officially opened for business mid-October.

Ballance General Manager Distribution and Logistics, Greg Delaney, says that demand for Ballance products in the Canterbury region has almost tripled since the service centre was built in 2000, and the company had invested in local facilities to meet regional requirements.

In November last year the service centre became a co-share store with Summit-

Quinphos, adding complexity to the business and boosting usage because of the improved location for Summit-Quinphos outside of Christchurch City.

Mr Delaney says that while the store has doubled in size, the new layout has more than doubled storage capacity.

'New mixing plants have been installed, almost trebling the out-feed rate in terms of tonnes per hour, and the truck load-out and dispatch area has been separated out for easier access. A new high output n-rich urea dissolver is being installed this month with two 30,000 litre storage tanks for more efficient production and storage of n-rich liquid to cater for the increasing demand of this popular product.'

## Customer panels sense-check forecasts

More than 60 Ballance shareholders recently participated in discussion groups throughout the country to assist the co-operative to gather market intelligence and 'sense-check' our demand forecasts.

The key issues identified were financial volatility and environmental sustainability. A range of opinions were also captured with regards to forecasting, forward commitment and deferred payment.

A telephone survey of 500 farmers around the country has also been completed. Questions covered a range of topics such as overall satisfaction with the range and quality of our products, the technical information we provide, our customer service, the support and information our customers get from our technical sales representatives, regional pricing and forward commitment.

Once all the results from both the focus groups and the telephone surveys are collated, we will provide this feedback to all shareholders.

Thank you to those of you who participated in this research for your time and contribution to the future success of Ballance. As a token of our appreciation, phone survey participants have gone in a draw to win one of three prizes of a tonne of urea. Winners will be personally notified and will be named in the next edition of Shareholder Update.

We value all input we receive from shareholders as this provides us with additional market intelligence from people directly involved in our industry. Such input is useful in guiding our thinking as we develop our marketing strategies and product offerings.

## Ballance grows its safety record

Ballance has joined the elite group of employers on the top tier of the ACC Workplace Safety Management Practices programme following an ACC audit.

We have been awarded ACC Tertiary Accreditation across our superphosphate manufacturing sites at Mount Maunganui, Whangarei and Awarua, including distribution and sales as well as our Super Air topdressing division, covering about 600 staff.

The ACC scheme is designed to reward

employers who build safer workplaces. In exchange for putting in place systems and processes that promote injury prevention, the programme gives employers discounts on their standard ACC WorkPlace Cover levies.

Our Chief Executive Larry Bilodeau puts the achievement down to enthusiastic buy-in by staff. He says the whole organisation has made a positive shift in attitude towards health and safety over the past five years.

'We have provided the encouragement

and the mechanisms, but each member of staff had to make the personal commitment. We are thrilled to record such a significant milestone because we place a huge emphasis on health and safety in the workplace.

'It is to our employees' credit that they have made the effort to ensure our working environment remains a safe place for themselves and their work colleagues, as well as for all of our contractors and customers and the communities in which we work.'