

ShareholderUpdate



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BALLANCE AGRI-NUTRIENTS CO-OPERATIVE LIMITED

MARCH 2006

Sustainability challenges grow for farmers

Two key topics of debate around the board table currently are the growing environmental and sustainability issues facing farmers. The demands and list of challenges being put in front of farmers by central and regional government continues to grow.

To ensure we had a thorough understanding of latest developments, at our last meeting directors allocated a significant amount of time to working through all the issues currently on the table.

It was an extensive and intimidating list. In a future edition of Shareholder Update we will devote an article to some of the more contentious subjects on that agenda.

Ballance is extremely active in representing farmers' interests on these issues. In the main we work through the Fertiliser Manufacturers' Research Association, the fertiliser industry body which I chair. Shareholders may be interested to know that over the past few years the Association has represented the interests of farmers on more

than 20 government-chaired committees.

There is an understandable groundswell of disquiet among farmers that their concerns and the issues they face are not being given adequate consideration by the urban majority. It is a sentiment for which I have some sympathy.

As a board, we are of the view that the best way forward is for us to work with central and regional government to develop pragmatic solutions, and we endorse the adoption by shareholders of nutrient budgeting and nutrient management planning. There is a strong move by farmers across the country to sign up to this fertiliser industry initiative.

Adopting these measures may well save you money, as they will show you exactly the level of fertiliser you need to achieve your production requirements. An added benefit of using nutrient budgeting to help determine fertiliser use is that nutrient loss to the environment is minimised, so supporting environmental sustainability.

The next time your Ballance technical sales



David Graham

representative mentions nutrient budgeting to you, give them a challenge. Ask them to demonstrate how it can save you money. You might be pleasantly surprised at the outcome!

David Graham

Meeting the challenge

For farmers and associated agricultural businesses, 2006 is shaping up to be a challenging year. The effects of the high New Zealand dollar, unstable oil prices and high interest rates appear to be impacting on farm profitability, not least through increased costs and lower returns from stock sales.

The natural reaction to this increased pressure is for organisations and individuals to review

their planned outgoings for the immediate future.

For farmers, this often means assessing the need for fertiliser in the coming season. For Ballance, it means ensuring our costs are managed effectively, so that we can continue to meet the needs of our customers and our shareholders.

A question occasionally put to me is: could nutrient costs be reduced if Ballance sold fertiliser direct to the farmer, rather than through the rural

merchant networks?

My response to that is always 'no'. Given the current relationship we have with rural merchants, there is no commercial advantage to farmers in Ballance selling direct.

The most telling proof of that is a quick comparison between the trade selling price of Ballance's nutrient range (the trade price being

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the price paid by farmers) with the prices being offered by those that sell direct. Ballance is competitive across the range of products.

To sell direct to our 18,000 farmer-shareholders, Ballance would need to develop an extensive back office administrative set-up to take orders and collect payments. The cost to replicate the efficient nationwide processing services rural merchants already provide would erode any benefits.

Our focus has always been on managing our costs on a long-term basis, which we do through working with international and local partners to secure favourable terms of trade, whether that is for the price of our raw materials, the cost to ship in products, or the arrangements we have with our merchant partners.

So while the short-term outlook is not buoyant, our long-term strategy has us well positioned. It is true that fertiliser sales are down, but we anticipate that the falling New Zealand

dollar might help reverse some of this in the future.

In the meantime, our focus is very much on making sure our customers are well serviced. We do this by keeping price increases to a minimum, supplying quality products that work, and ensuring that our customers receive the best advice. These are all important facets of the fertiliser industry. The first two are easily quantified, the last not so. Good advice is priceless, and hard to come by, but we invest significant time and money in training our reps to ensure they do give our shareholders the best advice, be it for minimising environmental impacts from fertiliser use, maximising stock production or developing new land.

Taken together, our policies of cost management and customer focus help keep the company in a strong position. This was shown last year when we not only issued an excellent rebate, but followed it with a bonus share issue. For the upcoming year, we anticipate that we



Larry Bilodeau

will be able to deliver a reasonable result, though much will depend on the way events unfold over the coming months.

Larry Bilodeau

Investing in the future

Ballance is committed to a policy of constant reinvestment in the co-operative's manufacturing facilities, distribution network and infrastructure to provide the very best levels of service to shareholders.

In the current financial year we have allocated more than \$20 million for capital expenditure. Much of this is being spent in the ongoing upgrading of our distribution network and on the further development of our manufacturing facilities.

We are rapidly coming to the end of a three-year programme to improve our national distribution network. To date, we have upgraded or constructed 34 stores. Latest developments include:

Pukekohe - Work has commenced on a new storm water management system for the service centre that will lead to the creation of a wetland area adjacent to the store. This will act as a sink for any nutrients that are present in rainwater passing through the site.

Te Puke - The new Te Puke service centre was officially opened on 17 March, and is now providing farmers in the locality with a bulk facility. As shown opposite (bottom picture), the store is clearly visible from the main road.

Irirangi - A decision has been made to double the capacity of this popular transit store near Waiouru. The existing store (shown in the top photograph, opposite) will be converted to a fully enclosed facility.

Hastings - Land has been secured for a new

service centre, and planning is well advanced to have this operation open by the third quarter of this year.

Anama - A commitment has been made to redevelop the consignment store at Anama (near Ashburton) to meet the district's growing demand for Ballance products. Carrying capacity will be tripled.

Timaru - Our service centre in Timaru is an important South Island hub, and its carrying capacity will nearly double to 20,000 tonnes when expansion work is completed at the end of April.

Morrinsville - A significant upgrade has been approved for our Morrinsville facility, including the development of a dedicated production facility for manufacturing test products and concepts on a small scale. Once proven, manufacturing would be moved to one of our three main manufacturing facilities for full-scale production.

This test plant facility will ensure that we will be capable of developing the products of the future while not tying up valuable production time during periods of heavy demand.

Whangarei - The Whangarei facility is undergoing several upgrades that will help its environmental performance. Improvements include an upgrade to the plant's den flume in order to further reduce aerial emissions, and the construction of a new concrete bund around a sulphuric acid storage tank, to safely contain material in the unlikely event of a spill.



Irirangi store



Te Puke service centre

From the trivia file

The world's first farmer fertiliser co-operative was formed in Switzerland in 1865.

Transferring knowledge through troubleshooting

Every year through our investment in science and research we achieve greater knowledge, and a better understanding, of the relationship that exists between soil nutrients and plant growth.

The key to making even better use of this wealth of knowledge is transferring it from the minds of the scientific community and the pages of their academic reports, and putting it into the hands of farmers in a form that they can use in a practical, pragmatic way.

It is a challenge Ballance is tackling by expanding its agro-science team.

We have committed to appointing South and North Island technical consultants under the management of our head of Agro-science, Warwick Catto.

The main role of these regional consultants is to ensure that our technical sales representatives receive regular, ongoing training to keep them up to date with the latest developments in fertiliser use. Training is tailored both to the region that the reps work in, and to their level of experience within the fertiliser industry.

In addition, the technical consultants are available to work with reps to help resolve any unusual issues faced by individual farmers. In these cases, the consultants may go on-farm with the rep to discuss the problem with the farmer firsthand.

While our technical sales representatives are the best trained in the industry, as generalists, occasions will arise when a specific challenge is beyond their skill set. Through the technical consultants they have a dedicated, scientific resource on which they can call to find solutions.



Jeff Morton

Highly regarded agricultural scientist Jeff Morton was appointed to the South Island role in December 2005.

Jeff has more than 30 years' experience in research and investigation, working as a scientist for AgResearch at their Lincoln and Invermay centres. His work has been carried out in locations as diverse as the West Coast, Taranaki, Hawke's Bay, Canterbury and Otago.

Jeff is relishing the opportunity to apply his years of experience in a more hands-on way.

'Nutrient management is often a site-specific issue,' says Jeff.

'The challenges being faced by one farmer can be totally different to those of neighbouring properties, and I think Ballance is to be commended for providing shareholders with such a service.

'It is the way of the future.'

Ballance is currently seeking to fill the North Island position.

Facilitating knowledge pooling

The Ballance Farm Environment Awards have attracted a record number of nearly 200 entries across eight regions this year, with the calibre of contestants being particularly high.

The judges, and Ballance as naming rights sponsor, are delighted that there have been so many entries. It is particularly pleasing that the latest region to become involved, Northland, has 26 participants.

Rather than name a national winner, the Ballance Farm Environment Awards identify supreme award winners within each region.

Each region will hold a finalists award evening, beginning with Waikato and Canterbury in early April. In late April and May field days will be held on the properties of the winners. Farmers living near winning entrants are encouraged to come along to these field days and hear about the strategies that the winning farmers have used to build environmental sustainability along with farm profitability.

The high level of interest in this year's event reflects a clear understanding by farmers that paying attention to sound sustainable farming practices is also good for business.

The strength of the Ballance Farm Environment Awards is that it brings together farmers, local and regional councils and others interested in environmental issues, so that practical experiences, expertise, new developments and points of view can be shared.

These interested parties create a pool of knowledge, which can then be shared with the rest of the rural community.

This is the fifth year that Ballance has been the naming sponsor for the Awards, and we are committed to an ongoing involvement, as we see it as an important way of facilitating knowledge exchange.

The initial Awards have grown to cover eight regions, including Northland, Waikato, Bay of Plenty, Wellington, Manawatu/Wanganui, Canterbury, Otago and Southland.

In addition to being the major sponsor, Ballance also supports the Awards through its people acting as regional judges and organisers.

Ballance views prominent at industry conference

Ballance representatives made significant contributions to the two-day conference on sustainable nutrient management held in Rotorua last month, which was jointly hosted by the Fertiliser Manufacturers' Research Association and Massey University's Fertiliser and Lime Research Centre.

Ballance Chairman, David Graham, as Chairman of the industry association, opened the conference.

In his remarks he said he saw New Zealand as a country that was 'light years' ahead of the rest of the world in getting the balance right between commercial farming and environmental protection. He noted that New Zealand had recently been rated by an independent, international study as being the world's 'best performing' for national pollution control and natural resource management, and was also

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rated by an OECD study as the most efficient user of nitrogen in the OECD.

He also strongly defended the farmer co-operatives, observing that they gave leadership to farmers by providing them with the tools and knowledge to farm in a more environmentally sustainable way. Among the tools he listed were:

- the Code of Practice for Fertiliser Use
- nutrient budgets and management plans
- highly skilled technical sales representatives.

David reminded the conference that New Zealand farmers produced enough food yearly to feed 100 million people, and in the process generate 65% of the country's export earnings.

In a session dedicated to showing the practical use of nutrient budgets to farmers, two Ballance key account technical sales representatives - Andrew Reid from the Rotorua region and Richard Preston from the Gore region - presented separate case studies. These demonstrated the economic and environmental benefits Ballance shareholders had achieved through implementing nutrient budgeting. Both case studies showed the impact of farm dairy effluent on soil nutrient levels. Recommendations included using differential fertiliser application strategies, assessing stock policies and utilising supplementary feed to manage soil nutrient levels.

The conference was attended by representatives from central and regional government, and from individuals involved with all aspects of the fertiliser industry.

Great mind gives thumbs up to Ballance approach

The nutrient management programmes for horticultural crops recommended by Ballance have received the endorsement of one of the world's leading experts in the use of nutrients by trees, Professor Massimo Tagliavini.

In New Zealand to participate in the International Kiwi Fruit Symposium in mid-February, the Italian professor accepted an invitation to address a Ballance-sponsored meeting of kiwi fruit growers, consultants and Ballance science and technical staff. The gathering was given insights into horticultural crop management by this leading researcher in tree ecosystems.

Although he was brought to New Zealand to speak specifically about kiwi fruit, the professor emphasised that his comments were relevant to all tree- and vine-based crops.

It was heartening that his scientific explanation of the physiological processes taking place aligned with Ballance's more pragmatic approach to delivering best production outcomes for the least fertiliser investment possible.

In particular he made the points that:

- horticultural crops draw their nutrients from different sources during the year



Massimo Tagliavini

- understanding this cycle for a particular crop can lead to more efficient application of nutrients, so achieving a more cost-effective return for the money invested
- precision application of nutrients leads to maximum outputs for minimum inputs.

Professor Tagliavini is renowned for his work on the internal cycling of nitrogen in fruit and woody trees, as well as nitrogen uptake. He has also contributed to developing a guide for fertilising fruit trees based on estimates of the availability of nitrogen in the soil.

Developing tomorrow's agricultural leaders

Ballance has continued to invest in developing the country's future agricultural leaders by awarding four scholarships under the Ballance Agri-Nutrients Co-Operative Scholarship scheme. This year's scholarships have gone to:

- Rebekah Sargent from Balclutha
- Laura Kidd from Tihoi, near Mangakino
- Rhys Hamilton from Oamaru and
- Natalie McEwan from Wyndham.

Each will receive \$4,000 a year to support them during their tertiary studies in agricultural-related disciplines.

Laura and Rhys will use the scholarships to help fund their Bachelor of Agricultural Studies at Lincoln University, and Rebekah is funding a Bachelor of Commerce (Agriculture), also at Lincoln.

Each year at least one scholarship is awarded to an engineering student, as we see engineering expertise as being important to the continual improvement of manufacturing and environmental outcomes. Natalie McEwan is about to start a Bachelor of Engineering at

Canterbury University with a view to applying her skills in the primary industries when she graduates.

Our awards help ensure there is a steady flow of quality graduates available to embark on a career in agriculture.

Each year since the scholarship was initiated in 2002 there has been an increasing number of entries, all of an extremely high calibre. This year's recipients competed against forty applicants to win scholarships.

It is encouraging to know that there is a solid group of young people who see career opportunities for themselves in agriculture and are interested in representing New Zealand's rapidly growing primary sector.

Since the scheme began we have awarded 28 scholarships, and our investment in the project is now close to \$400,000.

Some of the previous winners have worked for Ballance during their vacation, and one, Tracy Dohnt, has worked as a Ballance technical sales representative since November 2003.



Natalie McEwan



Laura Kidd



Rhys Hamilton



Rebekah Sargent