

ShareholderUpdate



NEW HEAD OFFICE

P2



FIELD DAYS WINNER

P3



NATIONAL AWARD

P4

BALLANCE AGRI-NUTRIENTS LIMITED

AUGUST 2008

Loyalty pays dividends both ways

I was delighted to be able to announce such an excellent result for Ballance's financial year ending 31 May 2008, because it was achieved while maintaining very competitive prices throughout New Zealand.

Even as our international input costs continued to soar, your co-operative was able to set the lowest prices in the country for fertiliser products - prices that have always been among the cheapest in the world.

This is testament to the increased efficiencies we have instigated, and the smarter use of our resources. It is clear that our strategy of focusing only on fertiliser products and services has paid dividends.

While the dedication and efforts of our employees undoubtedly contributed to our overall result, your loyalty and support was clearly an invaluable factor. Our steadfast customers bought more of our fertiliser products than ever before.

We improved our trading result by 135 percent to a record \$78.6 million, pre rebate, compared with the \$33.4 million recorded in the previous year, quoting NZ IFRS accounting standards for both years.

We have never before manufactured so much fertiliser product, and never sold so much. This outstanding performance is reflected in our turnover for the financial year, a record \$651 million (up 31.3 percent). Nationwide, we sold

1.54 million tonnes of fertiliser products, up 11.5 percent in a year.

The company's urea manufacturing plant at Kapuni in south Taranaki was a significant contributor to the overall financial result. The plant will shut down for several weeks in November for its major scheduled three-yearly upgrade, with more than \$10 million being invested to keep it at optimum manufacturing levels.

This performance puts Ballance in a strong position going forward. It is clearly preferable to enter a challenging period for the global fertiliser industry with a healthy balance sheet.

It is also great that a New Zealand manufacturing company can be globally competitive and produce strong results, without deviating from its founding goal - to ensure a consistent supply of high-quality fertiliser at the lowest possible cost.

We always put our farmer shareholders first. In response to an industry shortfall of product in April, we put a short-term freeze on sales to non-shareholders, giving you time to place your order first.

When we had to put up our prices, we were able to offer you a credit of \$30 per tonne of urea purchased to offset against any subsequent purchase of manufactured phosphate product.

Our technical sales representatives and agronomy specialists work closely with you and rural industry groups, offering sound advice, and we



David Graham

continue to invest heavily in R&D, with a strong emphasis on farming sustainability.

Such initiatives provide clear evidence of the co-operative's commitment to its shareholders, above and beyond the pursuit of profit.

David Graham
Chairman

Rebate and dividend

The average rebate and dividend return to paid up shareholders this year will be \$36.08 per tonne of fertiliser purchased (up 49 percent compared with the \$24.20 per tonne paid last year), made up of a rebate of \$32.50 and a fully imputed dividend of 8 cents a share (\$3.58 gross per 30 shares).

Our combined return to shareholders for the 2007/08 year equates to \$41.33 million, up 67 percent from the \$24.72 million paid out last year.

Claim your credit

A reminder to redeem your credit of \$30 per tonne we gave shareholders on any urea purchased before 31 May 2008.

This can be used against any subsequent purchase of manufactured phosphate product before the end of November 2008.

Getting the message across nationwide

Our fertiliser price rises were way ahead of market expectations, so we took our message to many of our shareholders and customers in person.

In the last week in June and first of July, we held 26 meetings up and down the country to provide as much information and assistance as possible.

At these meetings we explained why fertiliser prices have increased so dramatically.

Ballance is working to keep costs down as low as possible to lessen the impact at the farm gate, but this is an industry-wide phenomenon. All importers and manufacturers of fertiliser products in New Zealand, and around the world, are facing the same cost surges.

World commodity prices are all reacting to unprecedented strong demand. Much of the world is in the grip of a food shortage, and affected countries are doing what they can to protect their food sources through policy measures such as export tariffs or complete export bans.

And it's not just food items. Coking coal, iron ore, coal and steel are all in great demand, as is crude oil. Recent price increases for these commodities are at magnitudes we have never seen before.

Apart from the increasing demand for food in emerging nations, there have been wheat crop failures, currency fluctuations, increased speculation in the commodities market, hastily conceived government policies, and a growing demand for biofuels.

We have decided to adopt a policy of quarterly pricing for a lot of our products because it is too difficult in the current environment to predict costs and demand six months ahead. This ensures our prices remain accurate, and enables us to react quickly to pass on any price decreases as soon as they are available.

In a related nationwide response to the fertiliser price surge, we upskilled our technical sales representatives so they can apply our

science to leverage your fertiliser spend.

All of our TSRs attended a two-day educational conference in Rotorua to learn why our market has changed, and what they can do to help you continue to provide plant nutrients on your farms and orchards.

Our TSRs will soon start using a Nutrient Management Plan Generator developed in-house that will knock several hours off each plan they do for shareholders.

The new software collects data from a variety of sources, including Overseer, to create a detailed nutrient management plan.

It will be incorporated into our internal customer database and all our TSRs should have it and start training from early August.

It runs on a laptop, so it can easily be presented to you on site.

Nominations sought

Two directors of Ballance Agri-Nutrients will retire by rotation at the AGM this September.

We have sent out a separate letter to shareholders asking for nominations for the seats allocated to Ward A and Ward D that are currently held by David Peacocke and Owen Buckingham respectively. Both have offered themselves for re-election.

The actual election involves shareholders in Ward A and Ward D only. Nominations must be received by 13 August. If there is more than one candidate nominated in a Ward then ballot papers will be prepared and sent out to the relevant shareholders.

A short biography will be included about each candidate.

Those shareholders involved in the election will have until 17 September to return their ballot papers, with the successful candidates being announced at the AGM on 24 September.

More price rises soon

All of the input materials we source globally to make our fertiliser products continue to rise.

As mentioned, we intend to review our prices quarterly from now on, with the next review as at 1 September, at which time further price rises will occur.



New Head Office opens

Ballance Head Office employees have made the move into the new corporate office building at Mount Maunganui.

The three-storey building adjoins the former head office block, which was built in the 1950s. This block has been revamped and will be used by the marketing sales and customer services team, who have relinquished a lease on rented premises several blocks away.

It will be much easier to conduct the business of the co-operative with all head office employees on the same site.

In line with the Ballance objective of being friendly to the environment, the new building has been designed to include 'green' features that make it more energy efficient.

Welcoming Summit-Quinphos

We have successfully completed the due diligence process for the acquisition of Summit-Quinphos, and Ballance Agri-Nutrients became its sole owner on 23 July.

The Ballance management team is now working with Summit-Quinphos to plan a programme of work to achieve the envisaged inter-business synergies. During this planning process, which will take at least a month, both companies are continuing to operate in a business-as-usual manner.

It is intended that Summit-Quinphos will operate as a separate division of Ballance, with its management reporting direct to the Ballance Chief Executive.

Summit-Quinphos' sales team and sales structure will remain unchanged, as will its R&D team. There will eventually be a rationalisation of products sold by the two companies, with Summit-Quinphos retaining its established fertiliser options.

Summit-Quinphos offers farmers real choice in terms of products and purchase arrangements,

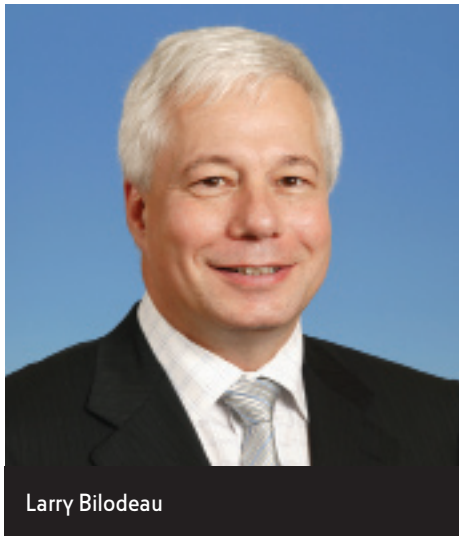
and we are committed to ensuring that this choice remains. Summit-Quinphos customers will continue to buy direct from the company. Ballance shareholders are reminded that any

purchases they make from Summit-Quinphos will not qualify for any Ballance rebate.

We are also looking at the two companies' distribution networks. It is logical that where each has a service centre in the same vicinity then these centres should merge at the one site. The established local product offerings will not be reduced.

This is an exciting and positive development for both companies that will lead to significant benefits and market share growth. We expect to make savings of at least \$2 million a year from this new relationship.

I will keep you updated of the progress we make in welcoming Summit-Quinphos into the Ballance family.



Larry Bilodeau

Larry Bilodeau
Chief Executive

Field Days a winner for Pikowai family



Pikowai farmers Vanessa and Martin Beeler, with their daughters Laura, 9, and Melissa, 13, accept the 10-tonne of urea prize voucher from Ballance technical sales representative Kerran Clements, right. (Their son Daniel, 15, took the photo.)

Pikowai farmers Vanessa and Martin Beeler are glad they made their annual pilgrimage to the Field Days at Mystery Creek last month - they came away winners.

We ran a promotion to give away 10 tonnes of n-rich urea to one lucky farmer who visited the Ballance stand at the Field Days.

It was a popular destination, and we were delighted so many shareholders were able to come to see us and share our hospitality.

'It's the first time we have ever won anything,' says Vanessa.

'We went on the first day of the Field Days and took along our certificate that Ballance had mailed to us.

'We had to work our way through the crowd to put it in the entry box.'

The Beelers operate a 67ha dairy farm at Otakiri, and a homestead on a 35ha run off with a small kiwifruit orchard at nearby Pikowai, near Whakatane.

'We will use the urea on the dairy farm, and maybe a bit on the home block and orchard. It's a really generous gesture by Ballance.'

Annual meeting venue

Our Ballance Annual General Meeting will be held at the Distinction Hotel in Rotorua on 24 September.

The Notice of Meeting will accompany the Annual Report 2008, which is being mailed to shareholders over the next few weeks.

The AGM starts at 5pm, with the Chairman presenting his report, followed by the Chief Executive with his analysis of the co-operative's position, and the international fertiliser market.

At the conclusion of the AGM, shareholders are invited to attend a dinner.

National farming award for director

Ballance director Dean Nikora has received nationwide acknowledgement of his achievements in farming and business, but he feels he has not done anything that others could not also do if they made the most of the opportunities available.

Dean and his wife Kristen are this year's winners of the Ahuwhenua Trophy – BNZ Maori Excellence in Farming Award.

The couple started out as sharemilkers, after Dean had worked for wages on a dairy farm, and in 18 years built up their own dairy business worth an estimated \$35 million.

They milk 1900 cows on 1000 ha on the Takapau Plains in central Hawkes Bay, and will increase that soon to 2600 after another land acquisition.

Dean, who represents Ward C on the Ballance board, says he left school with no qualifications, and owes his start in dairying to his former boss, Te Awamutu farmer Malcolm MacPherson.

'He encouraged me to progress,' says Dean. 'He made sure I was well trained and I started to believe him when he said I didn't have to stay on wages and could be my own boss one day.'

The couple eventually saved up enough to go sharemilking, and six years later went into a minority partnership on Peter and Andrea Barry's farm in central Hawkes Bay.

When they sold their stake three years later, they had enough capital to buy their own 342 ha farm, Mangatawai, which is still the base of their operation, and over time added four other farms and some leased blocks.

To Dean, the path they followed to create Cesped Lands Ltd was not special – it was available to everyone, and still is.

Now aged 38, he gives full credit to the dairy industry, and all the opportunities it offers.

'The courses in leadership and management have been there to do right from the start, when we were in Young Farmers clubs.



Kristen and Dean Nikora

'I have also soaked up knowledge and skills just by being around good farmers and businesspeople.'

Along the way, Dean served terms on the Fonterra Shareholders' Council and as chairman of the Large Herds Conference.

Their corporate vision is to make 'every day a growing day'.

Dean feels the dairy industry could do with more thinkers; people working on the business as opposed to people working in the industry.

'The dairy industry needs a bunch of thinkers, people who constantly look at how they, the animals, the pastures, and even the industry can do better.'

He says funding is not an issue at present in

the dairy industry, and his company clearly has a proven business strategy. That just leaves the human element.

'You have to get the right people. We target good leaders and operators and apply our templates to leverage their skills.'

The couple are always keen to reward the right people with an equity share in one of their businesses, partly to lock them in.

'You need funding, strategy and people. Put all three together and you've got a good business.'

'We entered these awards to get feedback from the judges about how we could improve our farming operation,' says Dean. 'We also wanted to show others in Maoridom what can be achieved by applying good planning and sound strategy.'

A heads up

All our technical sales representatives are issued with helmets to wear when being transported around farms on trail bikes or quad bikes.

This is a compulsory health and safety requirement that protects our employees, and demonstrates that your co-operative is a thoughtful employer.

Please encourage your TSR to wear a helmet when appropriate on your farm.

Do you agree with us?

Shareholders should have received a letter from Ballance in June setting out their total purchases from us in the financial year to 31 May.

Please check that you agree with our totals, as this information is fed into the rebate calculations in September.

If there is any discrepancy, or you did not receive the letter, please let us know as soon as possible by phoning 0800 267 266.

This information about your nutrient record can also be used to complete the Statistics New Zealand Agricultural Production Survey questionnaire.