

# ShareholderUpdate



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THE YEAR**  
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**SHARE VALUE  
LIFTED TO  
\$7.00**  
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BALLANCE AGRI-NUTRIENTS LIMITED

DECEMBER 2007

## International demand pushes prices further

Over the past 12 to 18 months the growing international demand for plant nutrients has continued, and even accelerated, in some parts of the world. Interest in crops for biofuels and economic growth in India and China continue to be the driving forces behind this significant increase in demand for fertilisers.

This global demand is driving up the cost of all fertiliser products, and is also starting to drive up the price of other agricultural products such as grain, wheat and dairy, as we are seeing here in New Zealand with increased dairy commodity prices.

In the past six months alone international prices for products such as phosphate rock and sulphur have increased by as much as 250%. Shipping costs have also increased at alarming rates, with vessel charter costs nearly doubling since the beginning of the year.

Product is becoming very difficult to obtain, and even when we can secure supply, finding a ship to put it on presents a further challenge. Our supply relationships are vital, and we are working on strengthening these even further, as well as improving our own internal product forecasting systems to ensure continuity of supply given the extremely tight situation we are now facing.

Our long-term relationships mean that we are still in a good position to secure products; however, there is little extra capacity in the system to meet extra demand on short notice, due to the volatile market. Our partnerships with raw material suppliers mean that we can continue to source product at internationally competitive prices.

For the past year we have largely been able to insulate our shareholders against the significant cost increases of raw materials and shipping costs that the co-operative has incurred. Unfortunately, we are no longer in a position whereby we can absorb these costs and we have been forced to review our pricing and pass some of these costs on to our shareholders. While we acknowledge many of these price increases are significant, the reality is that these adjustments are relatively low compared to the international increases experienced, and further price movements can be expected in the first half of the New Year.

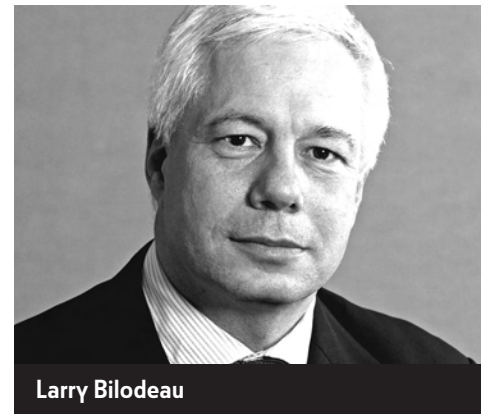
Prices effective from 10 December for key products are:

Product	New Price	Increase
Superten	\$266	22%
Serp super	\$226	11%
Sulphur gain	\$276	24%
Potash	\$495	9%
Urea	\$615	3%

For a full price list please visit our website [www.ballance.co.nz](http://www.ballance.co.nz)

On a positive note, although prices have increased, our products are still very competitive compared to the international cost of fertiliser. The average price of urea in Australia is NZ\$641 per tonne, potash is NZ\$600, and single superphosphate NZ\$336 a tonne.

You may be wondering why our urea prices have increased when we produce a portion of our urea requirements here in New Zealand at our Kapuni ammonia-urea manufacturing plant.



Larry Bilodeau

By pricing our urea at a level that reflects international urea costs, we ensure that all our customers are treated the same whether they receive imported or local product. Any additional benefits gained from the Kapuni plant will be returned to shareholders in the form of rebates.

We acknowledge that these price increases will have an impact on local demand for fertiliser, particularly in the sheep and beef sector, which has not yet seen the benefits of global commodity prices as experienced in the dairy sector. We expect prices for all agricultural products to lift to the levels currently being seen in the fertiliser and dairy industry, and we have kept price increases comparatively low to allow time for all farm products to adjust. We encourage all customers to contact their local technical sales representative to ensure their plant nutrient requirements maintain or enhance productivity and profitability as cost-effectively as possible.

Larry Bilodeau  
Chief Executive

# Good start to the year

The first half of the 2008 financial year has drawn to a close, and despite the many challenges the co-operative has faced this year, the balance sheet is looking healthy.

Sales volumes are up versus the same time last year, and given the vigilant approach farmers are now taking when considering fertiliser applications and potential impacts on the environment, this is likely due to a growing market share.

This year we have seen a dramatic change in the international marketplace, with world demand for fertilisers reaching an all-time high. This tight demand situation means that we have had to adjust our product planning processes to ensure we can continue supply in times of peak demand. Gone are the days where we can re-order products at short notice when an unexpected increase in demand occurs. With companies all over the world lining up to receive fertiliser products, we now have to rely entirely on our strong supply relationships and robust

planning to meet customer demands. We acknowledge that this adjustment has had an impact on our business and our shareholders over the past few months, and we apologise for putting customers in a difficult spot on occasion. We are trying our best to continue to meet demand, but this is proving to be a challenge in the current marketplace. Your assistance with early notification of your plant nutrient needs would be appreciated during this time.

Climate change has also been a strong focus within the agriculture sector this year, and Ballance is taking the issue very seriously. To find out what we are doing to help our farmers to meet Government policy, read the article on page three.

Finally, I would like to thank our shareholders for the tremendous support we have received throughout New Zealand this year. We hope that our quality products, sound advice, and superior rebates continue to meet your



Rising raw material and shipping costs will continue to present challenges for Ballance in the coming year

expectations in the coming year. We are dedicated to meeting your fertiliser needs, and we look forward to continuing to add value to your business in the New Year. With the festive season near, I would like to take this opportunity to wish you a safe and enjoyable time with your family and friends.

**David Graham**  
Chairman

## Directors election results

Ward A Director, Oliver Saxton, Ward B Director, Chairman David Graham, and Ward C Director, Dean Nikora will serve another term on the Ballance Board of Directors after being re-elected at the annual meeting held during September this year.

Huntly-based Oliver and Putaruru-based David were re-elected unopposed in their wards, while two nominations were received in Dean's ward, resulting in a ballot. Dean, who lives in the Hawke's Bay, won the election.

Ward D had a bye this year, and an election will take place for this ward in the second half of 2008.

Right: Oliver Saxton

Bottom Right:  
David Graham

Below: Dean Nikora



## Growing our co-operative

In order to grow our company within our core fertiliser business and improve our competitive advantage we recently looked at an opportunity to expand into the Australian market, with a potential acquisition of Western Australian fertiliser co-operative, United Farmers.

We undertook a limited due diligence process to investigate the opportunity and merits of a merger. Following due diligence we elected not

to proceed, as there were insufficient synergies between the companies and no major competitive advantage to be had for our shareholders.

United Farmers has suffered a substantial loss over the last two financial years, and although Ballance would have been able to offer significant value to the company, we saw limited returns for our shareholders.

## ASB Agribusiness Conference

20-23 May 2008

TSB Arena, Wellington

Ballance has been a key sponsor of the ASB Agribusiness Conference for the past five years and has seen the conference become one of the key meetings for the industry.

One of Ballance's core values is 'growing know-how', so it is fitting for us to be part of a conference that provides the farming industry with an opportunity to share knowledge and experiences with other farmers throughout the nation.

We hope you take the opportunity to attend this excellent event, which features an interesting line-up of speakers, including international and national leaders in the agricultural industry.

For more information contact Hazel Hore on 0800 272 002 or visit [www.agribusinessconference.co.nz](http://www.agribusinessconference.co.nz)

Looking for the most up-to-date Ballance price list? Visit [www.ballance.co.nz](http://www.ballance.co.nz)

## The Government announcement

*Excerpts taken from 'Watching Brief', a Public Law and Policy Newsletter published by Russell McVeagh, 21 September 2007*

In September's long-awaited announcement on climate change, the Prime Minister confirmed the Government's plans to move New Zealand to a world-first carbon neutral energy position by 2040, with the introduction of a domestic emissions trading scheme (the NZ ETS), beginning on 1 January 2008. Legislation is to be introduced by the end of the year.

The primary sector, and specifically New Zealand's 40,000 farmers, will be breathing a sigh of relief given that the Government has listened to their concerns and has agreed to give them (and their cows) some breathing space until, for the most part, 2013. The rationale for excluding the sector in the short-term is to protect against the possible loss of

international competitiveness whilst science catches up in terms of reducing methane emissions.

The Government has acknowledged that this sector has significant adaptation issues in respect of emissions pricing. It has agreed to stand by its promise in 2003 to meet the costs of non-CO<sub>2</sub> emissions until the end of 2012 (in return for the industry agreeing to invest in research and development in this area).

The baseline for agricultural emissions will be set as at 2005, rather than 1990. When the ETS applies in 2013, the Government will be prepared to 'gift' up to 90% of the 2005 emissions to the sector. There are three options in respect of who will receive the free New Zealand Units (NZUs): individual farmers; companies and processors dealing with farm produce; or farming industry organisations (who would manage NZUs on behalf of farmers).



The Government has given farmers and their cows some breathing space until 2013

The sector will need to meet monitoring and reporting obligations from 2011, and will also be expected to take up new technologies as they are introduced for emissions reductions - such as the nitrogen inhibitors currently being encouraged.

## Ballance's actions

Agricultural climate change emissions are a complex issue, and Ballance believes the Government has got it right in giving agriculture a five-year window in which to develop pragmatic and workable answers.

For our part, we are committed to using that breathing space to continue to develop products, services and systems that further reduce greenhouse gas emissions and fertiliser run-off.

We are confident of matching our efforts of the past five years, which have included introducing nitrification inhibitors, nutrient budgets, coated urea and biological control agents.

Ballance accepts its responsibility to work with the users of fertiliser to minimise any environmental downsides associated with its use. It is also to everyone's advantage that agricultural output and the sustainability of the land to produce that output, are seen as one issue.

We are positive about the work we see going on in many quarters, and the supportive feedback we get from farmers. You only have to look at the growing interest in the Ballance Farm Environment Awards to see and know that

farmers are focused on sustainable practices.

While we do not see nitrification inhibitors as a silver bullet, they are an important part of a holistic approach to sustainable farming. Our concern would be that if nitrification inhibitors were subsidised, they would take on an importance out of proportion to the contribution they can make to reducing nitrous oxide gas emissions.

We have a number of innovative developments in the pipeline, which, for commercial reasons, have to remain confidential. In broad terms, the next big step forward will be whole-of-farm nutrient management plans. We are

already rolling these out, and are committed to putting extensive financial and personnel resources into getting farmers on board.

We are also working hard with the rest of the fertiliser industry to include measurement of carbon emissions in Overseer, and to determine the precise role nitrification inhibitors will play in assisting farmers to meet their new obligations.

Much work goes on behind the scenes to ensure New Zealand farmers will continue to be able to farm well into the future. We are continuing to lobby solutions and sensible workable options to Government.



More than 70 groundspreaders are now qualified to spread our nitrification inhibitor, DCn

# Share value lifted to \$7.00

Following shareholder approval at the annual meeting, Ballance's nominal share value has been increased by 70 cents to \$7.00, giving shareholders an additional \$21.00 of value per 30 shares. This is in addition to this year's combined dividend and rebate, which averaged \$24.20 per tonne.

The share price increase, combined with the dividend and rebate, brings the total value per tonne for fully paid-up shareholders to \$45.20.

Chairman David Graham told shareholders at the meeting that a key factor in the revaluation was the sound financial result Ballance achieved for the 2007 financial year.

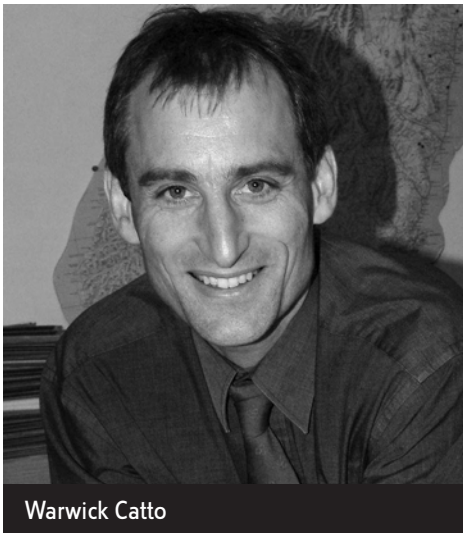
In July, Ballance announced a record turnover of \$505 million, resulting in an operating surplus of \$41.8 million. This result was based on sales volumes of 1.38 million tonnes, up 45,000 tonnes on last year.

'All in all, despite the challenges facing our sector, we've had a good year. The really pleasing thing underlying the 2007 result is seeing the rewards brought to the company out of decisions and initiatives taken three or four years ago and by continually improving what we do best - supplying specialist plant nutrient products and services to New Zealand farmers,' said David.



Ballance has consistently returned a solid rebate and dividend to shareholders for the past five years

## Ballance sides with science and field trials



Warwick Catto

When it comes to the interaction between nutrients and soil to promote plant growth, Ballance is in the orthodox, scientific camp.

Our position is that the science must be right, and we want properly conducted trials and demonstrable results before we are prepared to promote a product, service or application method

to farmers. We believe our shareholders and customers expect nothing less from us.

Recently, there have been two instances where 'fertiliser' related issues have come under media examination.

- One was Probitas, where the Courts found the 'fertiliser did not offer the benefits claimed' and ruled the public had been misled. The Court action followed an investigation undertaken by the Commerce Commission, and the company and its promoter were fined a total of \$272,000. Dr Doug Edmeades gave evidence in the trial as a Commerce Commission expert.

- The second was AgriSea, a company which makes soil additives from seaweed, and which won a Waikato Sustainability Business Award. The *Waikato Times* said prominent soil scientist Dr Edmeades dubbed the additive 'snake oil'.

Over the years these are but two of a long line of non-mainstream 'alternative approaches' that have been offered to farmers. These alternatives are in stark contrast to the mineral-based fertiliser programmes advocated by Ballance.

Ballance takes no position as to the claims made by the alternative fraternity, and we certainly never seek to discredit or challenge the claims made by those who promote alternative products. In fact, we support farmers having choice.

Rather, our approach is to focus on our products, services and applications, all of which are supported by science, and undergo field trials and tests before reaching the market.

One of the scientists we engage on an occasional consulting basis is Dr Edmeades. In all our dealings with Dr Edmeades we have found him to be fiercely independent, scientifically solid and a person of great integrity. It is for those qualities we seek his opinion on our science, products and services.

Ballance also totally supports the independently administered Fertmark scheme, which audits the nutrient content of fertilisers, and monitors the scientific and advertising claims made by manufacturers and marketers.

**Warwick Catto**  
Head of Agro-Sciences

## Sign up for direct credit

About one third of all Ballance shareholders now receive their dividend and rebate payments via direct credit, and if you don't already, you can too.

Dividend and rebate cheques were posted out on 21 September, and a direct credit form

was enclosed with each cheque.

If you would prefer to receive your future payments via direct credit, simply complete the form and send it back in the enclosed envelope. The form asks for your shareholder number, which is the six digit number located

just above your name and address on the dividend and rebate advice. If you have misplaced the form, please contact Nita or Bridgette on 0800 267 266 for a replacement.

