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BALLANCE AGRI-NUTRIENTS LIMITED

MARCH 2009

Stability holds autumn fertiliser prices

The wild ride that took international fertiliser commodity prices to dizzy heights last year has reversed significantly, with analysts now suggesting we can expect a measure of price stability to return to the market.

In light of this emerging normalcy in international commodity prices, we expect our latest phosphate prices in New Zealand to hold through the autumn, with superten at \$398/tonne and Serp Super at \$377/t.

We feel our latest prices (as detailed on our website) are extremely competitive. In setting them, we valued our current inventory at the prevailing global commodity prices and used those figures to calculate our latest pricing schedule, regardless of our cost of inventory.

We will conduct another general pricing review in June, but the dominant expectation is that there will be little movement. If the New Zealand dollar continues to stay around the US50c mark over time, this will eventually have

to be reflected in our fertiliser prices to meet our increased costs.

Whatever happens, you have our pledge that our prices will always reflect the true international cost of fertiliser.

By moving to quarterly pricing last year, we have been able to react speedily to international price changes that took some fertiliser commodities to record highs – and back down again.

While we were criticised in some quarters for moving away from six-monthly pricing, it is abundantly clear that we used that initiative to bring our prices down in steady increments. It would have been indefensible to try to hold our prices for six months while the global fertiliser commodity prices fell so dramatically around us.

Each time we moved our prices down the market followed, so we are delighted to be the catalyst for savings for hard-pressed farmers.

If by June our international markets have continued to return to 'normal', we may be able to look at moving towards fixed, six-monthly pricing again.

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Nationwide launch of pasturezeal G2

We are going nationwide with our breakthrough coated urea product **pasturezeal G2** after seeing off a patent challenge from our main rival.

The Intellectual Property Office has ruled that we were correct in all our scientific and logical processes pertaining to the patent for our **pasturezeal G2** production process, dismissing arguments from Ravensdown and one of its supplier companies.

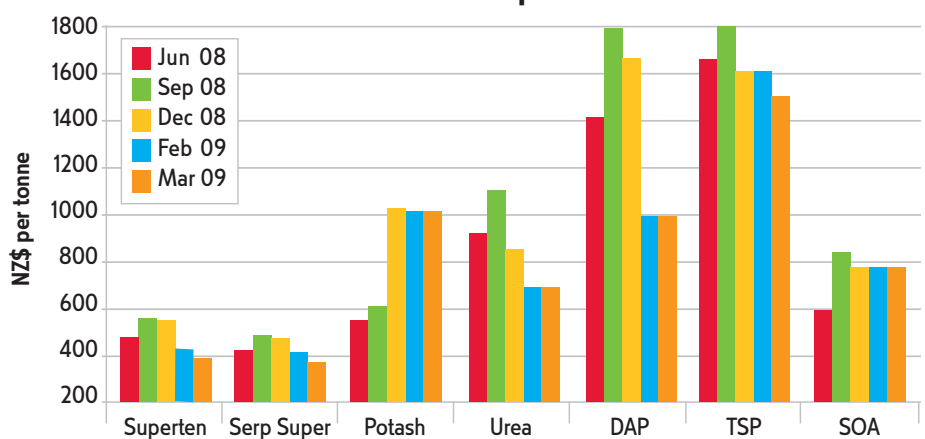
At the heart of the issue is our innovative use of science that enables all of the major plant nutrients to be applied together.

The product has been under refinement at our plant in Morrinsville since 2005, and has been trialled in the North Island. The Morrinsville plant has recently completed a \$2m upgrade to boost production of **pasturezeal G2**.

The key to **pasturezeal G2** is our now-patented, coated urea process, which makes it possible to blend urea with super-phosphate-based products as well as sulphur and potash.

It is extremely pleasing to see many years of research and investment resulting in an exceptional new product that will benefit farmers.

Ballance fertiliser prices (2008-09)



Stability holds autumn fertiliser prices

Clearly, farmers in all sectors have struggled with fluctuating fertiliser prices, and in many cases have deferred buying fertiliser in the hope that prices would soften further. Whilst agronomic decisions are of prime importance, we understand that economic constraints have become a key driver in fertiliser decision-making and may have taken precedence in these times of uncertainty.

No one wants to pay more than they need to for anything, yet we all appreciate that we can't wait forever. We know farmers need to get fertiliser on soon to maximise their autumn production, so we have moved decisively on pricing.

Certainly, we have had to work hard to strip costs out of our operations to allow us to offer you such attractive prices. You can uplift your autumn fertiliser now in the knowledge that our prices are truly competitive internationally.

As chief executive of your co-operative, I was one of the 200 or so invited guests at the Prime Minister's recent Economic Summit.

This was an extremely worthwhile event, and it was invigorating to feel the positive attitude that pervaded the gathering.

The people who lead the companies responsible for 80 percent of New Zealand's Gross Domestic Product were there in the same room at the same time - a truly remarkable opportunity.

The focus was firmly on saving jobs and keeping New Zealand competitive internationally. The Government got the clear message that it should work to ensure that it does not allow this country to suffer any fresh economic or trade disadvantage.

New Zealand industry really does have to pull together to get us through the current economic crisis. We must not ignore the international contacts we already enjoy, and must make sure we are all ready to push forward as soon as the economy turns.

That applies to our farmers as well. I urge you to keep your production levels high and to do all you can to position your business to contribute to the eventual upswing.

Larry Bilodeau
Chief Executive

PS: Don't forget S

Some dairy farmers are looking to cut their phosphate inputs to save money, overlooking the fact that other nutrients, particularly sulphur, will be limiting clover/ryegrass growth in many soil types.

I encourage these farmers to use products in our **sulphur gain** range because these products have a much higher S to P ratio and will provide adequate S to ensure there is no deficiency.



More than 1000 people turned up to see what goes on behind the gates



Bouncy castles and free ice creams entertained the younger attendees

Open Day impresses in the Bay of Plenty

We recently opened the gates of our Mount Maunganui manufacturing plant to show the local community what goes on behind the big fences.

More than 1000 people turned up to the free open day on Sunday 15 February to find out how fertiliser is manufactured and join in a range of fun activities including a bouncy castle, rock shovelling competition and lolly hunt.

Ballance has been part of the Bay of Plenty community since our superphosphate manufacturing plant, originally BOP Fertiliser,

started operating at the Hewletts Road site in 1958. Fifty years on, and now a national co-operative with more than 18,000 farmer shareholders, we also have our head office based on the site.

Chief Executive Larry Bilodeau says that the company recognises the important part that the Bay of Plenty community has played in helping Ballance realise its goals of increasing the productivity, profitability and sustainability of the horticultural and agricultural sector throughout New Zealand.

'There are many public misconceptions

about what we do here, so what better way to demonstrate that we are a responsible corporate citizen.'

Sid Wells, who attended the open day because his daughter works at the plant, says 'It makes you realise what you take out of the earth, that you have to put it in again.'

Ballance imported more than 470,000 tonnes of fertiliser in 2008, making us one of the Port of Tauranga's biggest users. We also generate electricity during sulphuric acid production, distributing enough electricity to power up to 2000 homes in the local area.

Kapuni in great shape

The Kapuni ammonia urea manufacturing plant is in excellent shape after a seven-week spruce up, during which the plant was shut down for inspection, maintenance and improvements, for most of November and December last year.

The \$23 million 'turnaround', which incorporated 60 individual capital projects, is the largest scope of work the plant has had outside the Aura revamp of the mid-1990s.

Inspection and maintenance to inaccessible parts of the plant is required once every three years under the Health & Safety in Employment Act, and other pressure equipment regulations require us to gain statutory permission to extend the interval between turnarounds.

However, for Ballance this is a prime opportunity to make improvements to the plant while manufacturing is put on hold. The vast majority of project work was fundamentally required for asset sustainability, however the catalyst replacements resulted in an immediate improvement on plant rate, thus production.

With up to 500 individuals on site at any one time (a mixture of Ballance staff and contractors, some of whom travel the world servicing and upgrading plants like ours year in and year out), safety is paramount.

During the shutdown, safety briefs were given to everyone onsite each morning to keep them up to speed with both site and specific task hazards.

Much of the welding, machinery and component refits, plus the catalyst replacements, were carried out in confined spaces. Due to the nature of these conditions, special precautions needed to be put in place (e.g. safety watch, breathing apparatus and rescue plans).

The next turnaround is scheduled for 2012, and we are currently working to secure gas supplies beyond that. Kapuni makes about 260,000 tonnes of urea annually, which is two-thirds of our sales and about 40 percent of New Zealand's needs.



Ballance Maintenance Technician Barry Jordan had to work in confined spaces



Projects engineer, John Carley (left) and General Manager Operations, Warwick de Vere, inspect the welding project

NZ ETS still poses issues for Ballance

The new National-led government has moved quickly to set up a Special Select Committee to review the New Zealand emissions trading scheme (NZ ETS) passed into law by the Labour government last September.

Some shareholders are worried that this legislation could make traditional farming difficult, and at Ballance we have additional concerns over the costs it will add to our operations and the impact it could have on our business.

We continue to meet with government officials and put forward submissions at every opportunity. Given the present global economic climate, we hope the current Government review will give due consideration to the untimely economic impacts of such a scheme.

At the recent Economic Summit the emphasis was on preserving jobs and ensuring there were no legislative obstacles that would stop this country from thriving, yet here we have a scheme that has the potential to damage New Zealand's global competitiveness.

Now more than ever all of our industries need to be able to operate internationally on a level playing field. The NZ ETS in its current form will disadvantage various sectors by making them carry the extra cost of ETS compliance while their rivals overseas are unencumbered by any local version of a comparable ETS.

Ballance position on ETS

- We recognise that greenhouse gases produced by human activities are very likely to be responsible for climate change
- We are prepared to support a price for carbon into the domestic economy, but only in the form of a well-designed and implemented emissions trading scheme
- We advocate that the agriculture sector should be included only when the ETS:
 - matches our trading partners
 - places the point of obligation with farmers
 - acknowledges increased investment in mitigation technologies
 - recognises on-farm mitigation practices

Nigel Sadlier, Ballance's Environmental Manager, says the new government has not yet signalled any intention to repeal the NZ ETS, therefore all implementation timelines still apply.

This means we must continue to prepare for our business to be impacted by the NZ ETS from 1 January next year, with cost increases resulting from natural gas purchase (urea manufacture) and electricity purchase (all aspects of the business).

We have recommended a delay to the NZ ETS implementation.

Agriculture is scheduled to join from 1 January 2013, with relevant 'farm-gate' emissions data being collected (on a voluntary basis) from 2011.

Agriculture accounts for nearly half of New Zealand's emissions, and the NZ ETS focuses on methane emissions from animals and on nitrous oxide release from soils.

However, before farmers can calculate their exposure, it is vitally important to determine where the 'point of obligation' for nitrogen use will lie: with the farmer, or with Ballance as a producer and importer of urea.

Ballance has consistently supported the primary industry manufacturing/processing position that the point of obligation rests with the farmer, because this would enable individual farmers to mitigate their impact through uptake of technologies and innovative farm practices.

If Ballance remains as the point of obligation, then NZ ETS-related costs would inevitably be passed on to all farmers in the cost of fertiliser. This means there is no incentive for the end users to maximise efficiencies (or minimise losses). All farmers will be charged equally, with less efficient farming facing exactly the same costs as more efficient farming.

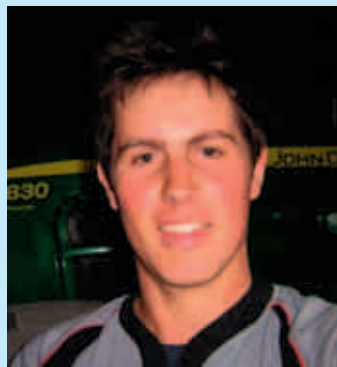
Ultimately, New Zealand still has to meet its international climate change obligations for the period 2008 to 2012, a liability last calculated at \$531 million (Treasury, December 2008).



Anna Hughes



Andrew Lewis



Cameron May



Kelsey Schultz

Ballance assists four more young scholars

The 2009 Ballance Agri-Nutrients Scholarships have been awarded to four young scholars to help them complete their agricultural studies.

The recipients, all in fulltime study at universities, have won through because of their proven commitment to the rural sector, and their potential to put something back into rural communities after graduation.

Ballance is fully aware that the continued success of New Zealand's agricultural industry is dependent upon the quality of the people attracted to it,' says Warwick Catto, Head of Agro-Sciences at Ballance.

The 2009 scholarships are worth \$4000 a year, for up to three years. Ballance has awarded 39 similar scholarships to students since 2002. Eligibility is restricted to immediate family of Ballance shareholders or Ballance employees.

The 2009 recipients come from South Otago, Taranaki, Horowhenua and Bay of Plenty.

Anna Hughes is studying for a Bachelor of Agriscience at Massey University. She has enjoyed learning from a wide range of practical farm experiences, working on her parents' sheep and beef farm near Rotorua and as a relief milker. She intends to pursue a career in agribusiness consultancy with the aim of owning her own farm, and would like to work on farms overseas for a few years after graduating to gain wider experience.

Andrew Lewis is the winner of the engineering scholarship offered by Ballance. He is studying for a Bachelor of Engineering-Mechatronics at Canterbury University, and is keen to pursue postgraduate work that advances the integration of computers and electronics into mechanical systems. He was raised on his parents' asparagus farm near Levin, where he developed his interest in automated machinery. After working on dairy farms, one of his key postgraduate aims is to fully automate cowsheds.

Cameron May is studying for a Bachelor of Commerce in Agriculture at Lincoln University. He grew up on his family's sheep farm at Clydevale in South Otago and has laboured on beef, sheep and dairy farms in South Otago and Mid Canterbury. After graduating, Cameron would like to work for a large agricultural company that has a direct input into farm systems, such as fertiliser or irrigation, before going farming on his own account.

Kelsey Schultz comes from Inglewood, Taranaki, where she has gained expertise in showing stock and stockmanship to international representative level. She is studying for a Bachelor of Science in Agriculture at Massey University. Kelsey intends to apply her postgraduate skills to improving pastures in New Zealand so farming can become more sustainable. She also has an interest in animal genetics with a view to helping farmers achieve their goals.

Summit-Quinphos settles in

Summit-Quinphos management have completed their move into the Ballance head office at Mount Maunganui and are now focused on growing their business nationwide.

Since Ballance became the sole shareholder in SQ last July, much has been done to improve the supply, distribution and information technology (IT) operations of SQ, making full use of the buying power of the enlarged group.

Willie Thomson, SQ's general manager, says SQ is finally getting access to those things that were holding it back - such as finance, IT, and cost-effective supply and distribution.

'We have made a contribution to the group's profits since acquisition, and we are now ready to maximise the potential of our new structures.

'We have agreed exclusive products lines with Ballance, have new sales and distribution management systems in place, and a clearly focused sales force that has retained its autonomy.'

SQ now has 13 Ballance stores holding SQ product and is co-sharing service centres with Ballance in Feilding, Rolleston, Timaru and Dargaville.

In removing duplication of service centres, the group is reducing costs and these savings are being passed on to farmers.

'What's more, we have several new products on the horizon that will further differentiate our product lines from the traditional fertiliser market.'

Keeping us up to date

The recent shareholder promotion encouraging farmers to update their contact details has not only resulted in 30 lucky winners of one-year Sky packages, it has also provided Ballance with better customer data, meaning we can provide an improved service to you.

But just because the competition is over, don't let this stop you from keeping us informed of any changes to your contact or banking details. Phone the shares team on 0800 267 266 to keep us up to date.