

ShareholderUpdate



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BALLANCE AGRI-NUTRIENTS LIMITED

NOVEMBER 2008

Positive annual meeting caps excellent year

Your co-operative's Annual Meeting for 2008 was a success, with more than 100 shareholders filling the venue in Rotorua on 24 September.

It was heartening to see so many shareholders taking a personal interest in the proceedings, and exercising their rights as shareholders, especially because we were able to report so much good news.

As I told shareholders at our Annual Meeting, there are now hints that New Zealand farmers might eventually be in for some respite from rising fertiliser prices.

While international fertiliser prices were still incredibly high in historical terms in September, they were not rocketing up like a year ago, and some had started to come down.

Would they continue to ease back, or was this just a breather before they made a fresh run? With the world's economy exhibiting extraordinary volatility, that was anyone's guess.

I made the point at the AGM that I felt fertiliser prices might soon settle back to an equilibrium position - not back to where they were a year or so ago, but certainly not as high as we have experienced in recent months.

I was encouraged to make such a suggestion because there had been little increase in our superphosphate costs since the big jump in June; our shipping costs had started to come down; and raw materials such as sulphur and urea had also come off their price highs.

Since then, several of the raw materials we use in fertiliser production have continued to ease in price, strengthening my prognosis.

We appreciate that you are looking for certainty around pricing, and we are doing our best to keep you informed. While it will take some time for any wholesale price reductions to filter through, you can be assured that we will reflect this in our retail prices as soon as possible.

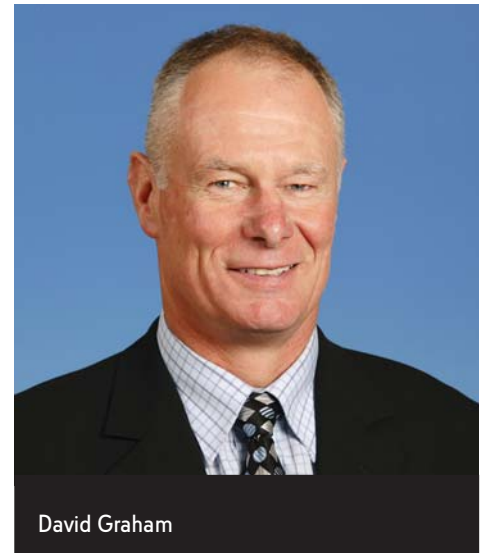
One of the intangibles influencing the market right now is the level of demand from Northern Hemisphere farmers, who are mid-way through their busy autumn season. Their overall demand during this period will influence global prices in the short term.

I also told shareholders at the AGM that as a company, our 2007/08 revenue performance of \$651 million lifted Ballance into the Top 50 of New Zealand companies, based on the latest published figures.

While this record effort was achieved before the big international fertiliser price rises in June, we accept that higher prices have the potential to reduce sales overtime. This makes forecasting very difficult. Our suppliers require firm orders from us several months ahead of delivery.

To this end, it would help greatly if all our shareholders gave us an indication of their intended fertiliser purchasing patterns for the current year. Please talk with your Ballance Technical Sales Representative to put us in the picture.

Your Directors appreciate that this year will be particularly challenging for your co-operative, given the extremely difficult market conditions, but we are determined to put our shareholders' needs first in all our deliberations.



David Graham

The fundamentals of agriculture haven't changed. The world still needs food, and once the volatile global financial and commodity markets settle down, the higher farm commodity prices should bring benefits to New Zealand farmers.

As this is the final 'Shareholder Update' for this year, the Board joins me in wishing you all a fulfilling festive season and a prosperous New Year.

David Graham
Chairman

Lock and load

Demand for fertiliser products has outstripped supply several times over the last year, typically just ahead of a price increase.

At such times, we endeavour to allocate products fairly, relocating product up and down the country and resorting to rationing in some cases to ensure everyone gets at least part of their order.

It is important to remember that having

an order in the system does not guarantee product will be available or indeed delivered by a set date or at a set price.

The best way to ensure you get what you need is to lock it into our system and then load it up, uplifting it as far ahead as possible.

Summit-Quinphos integration going well

Willie Thomson has been appointed General Manager of Summit-Quinphos following its acquisition by Ballance, taking over from his role as National Sales and Marketing Manager at Summit-Quinphos.

He heads a revamped organisational structure that positions Summit-Quinphos as a separate entity within the Ballance group, responsible for its own sales and marketing, research and development, and customer services. He reports direct to the Ballance CEO.

Gray Baldwin, the Summit-Quinphos CEO at the time of the acquisition, left the company to pursue other interests. Gray was instrumental in returning the company to a profitable level and left the company in excellent shape.

Dr Jamie Blennerhassett, Summit-Quinphos Technical Service Manager, continues to lead the Summit-Quinphos research and development programme, building on the company's current product range.

Since buying the 60 percent of Summit-Quinphos we did not already own in July, we have developed a detailed structure and integration proposal, which was put to Summit-Quinphos employees in early August.

Following this consultation, it was agreed that the Summit-Quinphos Head Office would relocate to Tauranga, where Ballance is based, early next year.

Work on optimising the distribution networks will take more than a year, but cost savings have already been identified in several areas.

When we acquired Summit-Quinphos we calculated we would achieve synergy benefits in excess of \$2 million each year. However, we have already identified savings well in excess of \$3 million, and confidently expect to be able to achieve greater savings long term.

With Summit-Quinphos fully integrated, we will be looking to have even more service centres where our shareholders need them.



Willie Thomson

Delivering nutrient management plans

Nutrient management is a hot topic, with fertiliser price increases, the Fonterra Clean Streams Accord, nutrient loading in the Rotorua lakes, and nutrient discharge from tile drains in Southland all making recent news headlines.

Risk of environmental degradation as a consequence of nutrient loss from farming systems can be reduced in part by farmers adopting and implementing a Nutrient Management Plan (NMP).

An NMP is the natural progression from a nutrient budget, and Ballance is ready to deliver these plans to farmers throughout the nation.

Based on the extensive NMP template developed by the Fertiliser Manufacturers

Research Association as part of the recently released Code of Practice for Nutrient Management, we have developed NMP software and integrated it into our customer relationship management system, along with the Overseer Nutrient Budgeting software.

The objective of the project, which commenced a year ago, was to provide NMPs to customers in a more efficient way, because it was quickly realised that to produce NMPs manually would add huge cost to Ballance, and therefore onto its shareholders.

Ballance Technical Advisor Aaron Stafford explains that it would be hard to effectively meet demand without this new tool.

'By collecting data from different programs such as Landlogic and Overseer, as well as data from soil tests and the farmer, and pulling it together into one program, the time it takes to produce an NMP is reduced from about 20 hours to about four - saving our Technical Sales Representatives and farmers time and ultimately money.'

The \$400,000 project is expected to significantly reduce operating costs associated with creating NMPs as we roll out this new service to New Zealand farmers.

'Some regional councils already require an NMP to be in place as a permitted activity condition for fertiliser application, and we anticipate that all regional councils will build this sort of requirement into their regional plans in the near future.'

However, putting regulation aside, farmers are looking for means of being more efficient with fertiliser, especially given the recent price rises.

'An NMP helps to improve return on fertiliser investment, so we expect the majority of our shareholders will be looking to us to supply one over the next few years. Eventually, everyone will,' says Aaron.

'As a prerequisite to using this new technology, our TSRs are required to successfully complete two Sustainable Nutrient Management courses run by Massey University to ensure they understand nutrient cycling, and are familiar with Overseer's capabilities and limitations.'

What's the difference?

A Nutrient Management Plan defines the nutrient needs of agricultural systems as well as amounts, sources, placement and timing of nutrient applications to maximise nutrient uptake and minimise losses. If implemented correctly, NMPs can result in an increase in production and profitability while at the same time protecting the environment.

A nutrient budget compares overall nutrient

inputs to outputs in a farm system. It can help identify production or environmental issues arising from nutrient excesses or deficits. It can then be used to evaluate a nutrient recommendation and make adjustments before the recommendation is implemented.

This can allow different nutrient management scenarios to be evaluated before finalising a nutrient recommendation.

Note: Definitions sourced from the New Zealand Fertiliser Manufacturers Research Association

Investing in our future at Kapuni

Our urea manufacturing operation at Kapuni in south Taranaki is shutting down for much of November for its three-yearly maintenance and upgrade cycle.

The plant has run at near full capacity for those three years, and we are now investing more than \$20 million in new equipment and maintenance to keep it at optimum manufacturing levels.

There are three basic principles followed in this workscope. The first is inspection of all pressure equipment to ensure that it is suitable for operation over the next three-year period and can thus provide us with our legal operating licence.

The second is to overhaul and refurbish all existing items that cannot be routinely accessed during a continuous operation. These are predominantly compressors, conveyors, process control and safety valves.

Thirdly, there is improvement to the process to both continue with the current efficient production and maintain the asset into the future.

These activities are primarily around catalyst replacement to keep production at optimum levels and significant plant replacement, particularly at the front end of the ammonia process to ensure that continuous operation is achieved.

Some 25-year-old equipment that has caused us outages in the past is being replaced.

Given this significant investment, our Kapuni

operation looks like it will once again provide good profitability this financial year.

We will continue to price our Kapuni urea at international levels, with the profits from this contributing to your rebates. This way, we can restrict the benefit of Kapuni to our shareholders only, rather than the whole market.

As you know, we have all struggled this year with unprecedented fertiliser price increases that have made it tough for everyone, especially farmers.

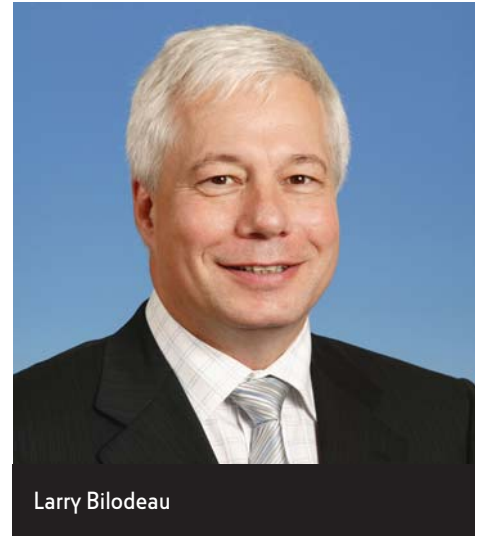
It is hard to determine whether the downward price movements we are starting to see for some of our source materials will be maintained in the long term, which makes it difficult to make predictions for the next quarter.

It certainly looks like prices are likely to start to move down, but how soon and by how much is still unclear.

Looking ahead, it's great to be able to report that our first quarter results are encouraging and very positive.

In the three months from 1 June, we sold 24 percent more product than at the same time last year.

While we don't think these sales volumes will hold up for the full year, please be assured that despite the turbulent global situation at present, the company is economically sound, and will post another excellent result this year.



Larry Bilodeau

Let's hope that the weather over the coming summer will be kinder than that experienced by many last year, and that you get to enjoy the season's pleasures.

Larry Bilodeau
Chief Executive

Two directors returned

Two board Directors retired by rotation in accordance with the co-operative's constitution, and both were re-elected.

Owen Buckingham was re-elected in Ward D after a ballot was conducted.

He was first elected in 1999. Owen has a 400-hectare sheep and deer property near Te Anau.

David Peacocke, who is based in Raglan, was re-elected in Ward A unopposed. He has been a Ballance Director since 2005. David has interests in several large farming operations in the Waikato and in the South Island, covering the beef, dairy, sheep, forestry and poultry sectors.

The confirmation of their re-election was given at the Annual Meeting in Rotorua on 24 September.

That meeting also ratified a combined \$5500

increase in Directors' fees as recommended by the Shareholder Remuneration Committee. This committee of shareholders meets once a year to recommend the level of aggregate fees at the Annual Meeting.

Representing that committee, John Fisher told the meeting that there was an increasing need to reward Directors appropriately and to keep fees in line with the current market.

The total Directors' remuneration was increased by \$5500 to \$560,500 a year, to be allocated amongst the Directors as they saw fit.

Shareholders also confirmed the re-appointment of Charlie Smail to the Shareholder Remuneration Committee. The committee has an appointment term of four years and Mr Smail, a Ward D shareholder, had retired by rotation.

A plug for the bright sparks

Can you see a way of doing something better, or differently, in your dealings with Ballance?

Are you satisfied with our product offering, looking forward?

We'd love to hear from you if you think you can see a new way of doing something that will improve our products or services for all our shareholders.

Craig Trembath, formerly our Commercial Manager, has recently taken on a new role to help reinvigorate the ideas process throughout Ballance.

Craig has set up an email site at innovation@ballance.co.nz to make it simple for anyone to log any new ideas.

'I'm sure we have plenty of bright sparks out there,' says Craig. 'We'll take your ideas forward, and keep you informed of our progress.'

Show that you can do it



We invite you to 'get in behind' the 2009 Ballance Farm Environment Awards and show urban New Zealand that the ongoing stewardship of land and other natural resources is in excellent hands.

Our national economy largely relies on an ongoing profitable sustainable agriculture sector, so the importance of these awards and what we all stand to learn from them must not be overlooked.

One of the key roles of the awards is to identify this country's leaders in sustainable farming, and

then to work with these farmers as role models, and each year we find incredible people - often husband and wife partnerships - who have taken the sustainability quest to new heights.

With the increasing pressure on farmers to operate in a sustainable manner, participation in the Ballance Farm Environment Awards is an ideal opportunity to learn about balancing profitability and sustainability to ensure that business success can be achieved without compromising environmental sustainability.

Record levels of farmers participating in the awards are the best way to demonstrate to both regional councils and urban New Zealanders that farmers take sustainability seriously.

Although the entry period has closed in some regions, we have enclosed an entry form in this nationwide mail so you can see what's involved.

Should you require additional forms these can be obtained from www.bfea.org.nz or via your Ballance Technical Sales Representative.



Maria Cowdrey (left) and Kelly Dixon

Your new shares team

Need to update your contact or bank details? Have a query regarding your annual nutrient statements?

Shares Registrar, Maria Cowdrey, and Shares Administrator, Kelly Dixon, are your shares team, and are here to help shareholders with their day-to-day shares queries.

Responsible for generating payments to shareholders, processing applications, surrenders and transfers, as well as assisting to organise the

annual meeting and Director's election, it is the shares team's job to ensure that shareholder records are up-to-date, and that shareholders have the appropriate documentation from Ballance to focus on their business at hand.

With the departure of Nita McNeil, Maria joined Ballance in August 2008 after working in sales for several years. Maria comes from an agricultural background, with her parents farming dry stock at Kaharoa, near Rotorua.

Interesting questions asked at AGM

Several shareholders exercised their right to ask questions at the company's recent Annual Meeting.

These questions are paraphrased here in case other shareholders have similar concerns.

Q: What is Ballance doing about the threat to farming posed by the emissions trading scheme?

A: The decisions are being driven at a political level, but we are doing all we can to represent our shareholders' interests. The Fertiliser Manufacturers Research Association represents us at government level regarding the science and trial work around key areas, such as nitrification inhibitors. We also have an appointee [David Graham] on the Ministry of Agriculture and Forestry Peak Group that looks at recommendations coming through before they go to Government. We have made submissions and presentations to the parliamentary select

committee on the ETS bill, with some success, but it was very much a political decision.

Q: How come I was given only 25 percent of my latest order? We need even distribution in times of shortages.

A: There has definitely been an increase in stockpiling by farmers out to beat impending price rises. This made it very difficult for us to estimate demand accurately.

We did our best to allocate product, based on the forecast sales for each region, but we did disappoint the market. In the first week of September we sold more than three times the budgeted sales volume as many of you looked to get product prior to the price increase.

Q: What impact is biofuel production having on fertiliser demand?

A: There are many different reports. About 5 percent of grain crops in the world are used

for biofuel production. The more you read, it becomes evident that the rising middle classes are having the greatest impact on demand. Several things came together last year to create the surge in prices, but the biggest demand is for food production.

Q: We sold 1.54 million tonnes in the year. If this falls to one million [because of the increased prices], what effect would this have on our profitability?

A: We could well see a period where we sell less tonnage. If we are able to shut off a shipment, we will do so, but if we end up with high inventories and low sales this will cause some difficulties. It would hurt - 80 percent of our costs are for raw materials.

However, we are targeting \$14 million in operational cost savings this year throughout the organisation which would assist us to weather tough times.