

ShareholderUpdate



BALLANCE AGRI-NUTRIENTS LIMITED

DECEMBER 2008

Fert pricing a growing decision

When fertiliser commodity prices took off suddenly at the start of this year, it became impossible not to reconsider fertiliser costs within your overall farming budget.

After all, our rock phosphate price at source went up 10-fold during the year, before starting to come back.

Fortunately we were able to shield New Zealand farmers for nearly six months before passing on some of the price rises in June because we buy overseas at least four months ahead of despatch to the farm gate.

highest return available, rather than hold back to wait for cheaper fertiliser prices.

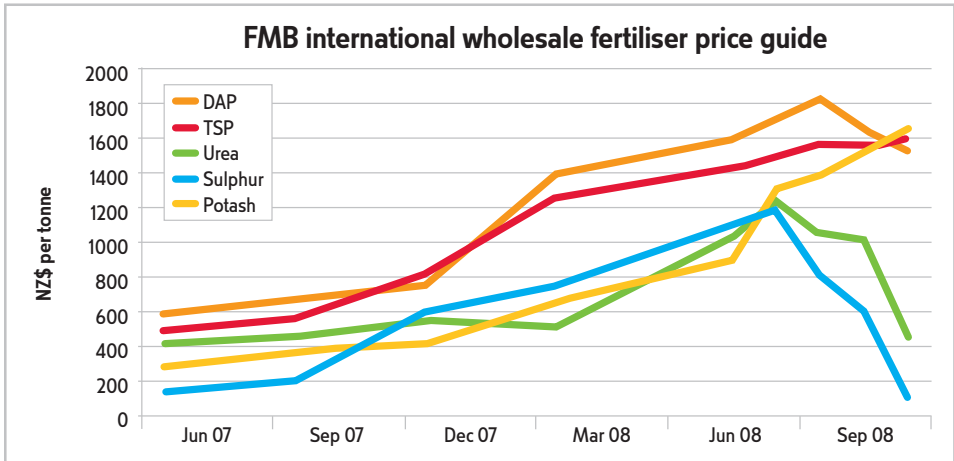
I am concerned that the continuing uncertainty in the global fertiliser commodity markets is putting all the emphasis on pricing, rather than on good farming practices.

It is clear that some farmers are basing their fertiliser purchases purely on price, at the expense of sound agronomic decision-making.

As farmers, we appreciate that there is an optimum time to apply fertilisers for the best results, and we try to time these purchases to



David Graham



That's how long it takes to place an order, ship the materials, and manufacture the finished product. We need certainty of supply and pricing, so we agree contract prices for timeframes we think are appropriate, given the market conditions.

Despite these major price rises, at no time did our customers pay anywhere near the international spot prices. On top of that, we have to take into account shipping, manufacturing and distribution costs and other overheads.

That such movements do happen is even more reason to make the best agronomic decisions when running your farm. Better to get the maximum yield from your farm, and earn the

gain the maximum performance from our pastures and crops.

That's why Ballance has an agro-science division and Technical Sales Representatives; so farmers can act on the best possible advice to apply fertilisers precisely where and when they will provide the most benefit.

Use our advisors and their decision-making support tools to identify where you can make savings – use the science to maximise output, minimise cost.

We have little power to influence the global prices, but we are trying hard to reduce those costs we can control, including tightening our margins.

The FMB graph on the left sets out the international spot prices for DAP, triple superphosphate, urea, sulphur and potash at source in Kiwi dollar terms, using the relevant US/NZ exchange rate. Three have fallen off their highs since July, but triple super is still dearer in Kiwi dollar terms and potash continues to rise.

Looking ahead, allowing us sufficient time to buy at these new prices and ship materials to New Zealand for processing, you can expect to see lower prices for all but potash.

We remain convinced that world farming fundamentals are strong – the world still needs to eat.

EXAMPLE 1: Rock phosphate
 We source rock phosphate from Morocco as the principal ingredient in our **super ten** product. This jumped from the mid US\$50s in March to almost US\$500/t in Morocco. That's \$885 in Kiwi dollar terms, at source.
 It has started to come back, but we won't know where this trend will go until early next year. We're selling **super ten** at NZ\$555 now, even though we have to make allowance for shipping and related costs.

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Food demand will remain robust, with rising expectations in the newly rich countries, and a growing population, but this has to come from a reducing amount of agricultural land. Wise fertiliser use is becoming more vital by the day.

New Zealand is in a great position to take advantage of this demand, as long as we farmers do the right things to ensure optimal production.

We must be ready to deliver when the upturn comes. We see the long-term future for New Zealand agriculture looking good across all sectors.

The outlook for the beef sector is still positive, with periods of short-term volatility, and lamb should hold its own.

The Kiwi exchange rate will help offset any decline in prices, and the in-season average returns should increase.

There is still nervousness in the dairy sector, but a lower Kiwi dollar will help here as well.

All sectors, particularly horticulture, could notice consumers moving away from the premium varieties in favour of cheaper options.

Pricing a fine art

We moved to quarterly pricing so we could reflect the turbulent international market, and to ensure that our customers would always be paying the lowest possible price we could afford.

We are seeing prices come back, with the exception of potash.

We could now be in for a less volatile period, but the pace of the decline is impossible to predict – there is no manual for global financial meltdown.

Imagine the implications if we had locked in at the higher prices for six months. As it is, we are sitting on inventory that was purchased at the high prices that prevailed four to five months ago.

We will be in a better position to drop prices further as current inventories are reduced.

For certain, the world is in perilous financial straits. Our new Prime Minister says it will take 18 months to sort out, even with all the international efforts.

While we can't predict the full impact of this global financial crisis on New Zealand, we can say that we expect our agricultural sector will weather the storm.

But regardless of what the world throws at us, we want best pricing from Ballance to be a given. When you need fertiliser products, you can buy them at Ballance in the certainty that our prices are an accurate reflection of global reality.

EXAMPLE 2: Urea

Global urea prices raced away this year, jumping from US\$320/t 12 months ago to hit US\$870/t in August. In Kiwi dollar terms, that's a jump from \$580/t to over NZ\$1,400/t, including shipping.

Despite that, our price for urea never went above NZ\$1,100/t, and we were first to bring prices down in November to \$910/t, and this month to \$855/t. The international urea price has fallen quickly as demand from Northern Hemisphere buyers dropped dramatically, and we have already started to reflect this in our prices. In part, the drop in crude oil prices has also allowed prices to come back, as the gas used in making urea is a by-product of the oil industry.

There has to be a correlation between food/fertiliser demand and fertiliser prices, but there will be a lag going down, just as there was going up, while old stock gets through the system.

Keep being scientific and, within reason, keep doing the right thing for your farm – maximise output and minimise cost.

Throughout, you can trust Ballance – your co-operative – to provide the keenest prices possible, and to continue to do so.

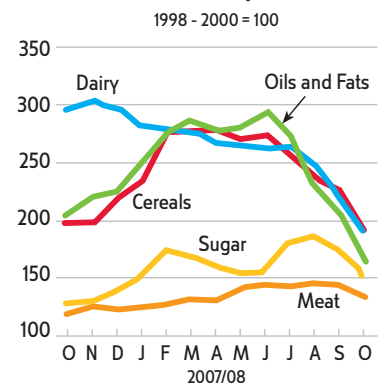
David Graham
Chairman

EXAMPLE 3: DAP

When you saw international spot prices for DAP hit US\$1,220/t in Morocco in September, you could have expected to pay at least NZ\$2,000/t for our product on farm, given that we had to ship it here.

The fact that our DAP prices never broke NZ\$1,800/t is testament to our commitment to contract prices and long-term planning. And we move prices down as soon as we can. Already DAP prices in New Zealand have dropped \$200/t and will continue to drop in the short term.

FAO Food Commodity Price Indices



Food index eases back

This graph from the United Nations Food & Agriculture Organization demonstrates the volatility of global commodity markets to the end of October (the last full month available).

To an extent, it mirrors the FMB graph, which suggests there are common elements at play, such as market speculators and derivative traders.

As a dairy farmer, I am well aware that dairying has certainly come off its highs, having peaked in November last year at 302, to be at 193 at the end of October.

The FAO Meat Index ended October at 123, still holding on to the steady gains it made during this year, having started 2008 at 123.

A year ago, the Cereals Index was at 199. Like the Dairy Index, it was subjected to a rollercoaster ride through 2008, peaking in April at 278 before closing in October at 190.

The falling crude oil price has stalled the rush to switch land production to biofuel crops.

Ballance fertiliser prices (2006-08)

