

Stronger Together

2019 ANNUAL REPORT





There's no better place to be

than proudly
by your side

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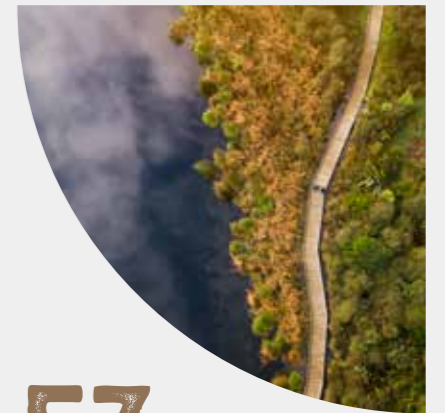
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Group
Sales

1,647

MILLION TONNES

Revenue
Before Rebate

\$910

MILLION

Profit
Before Rebate & Tax

\$72.5

MILLION

Shareholder
Rebate

\$45

PER TONNE

\$3.3M

Invested in six self-service silos

18,000

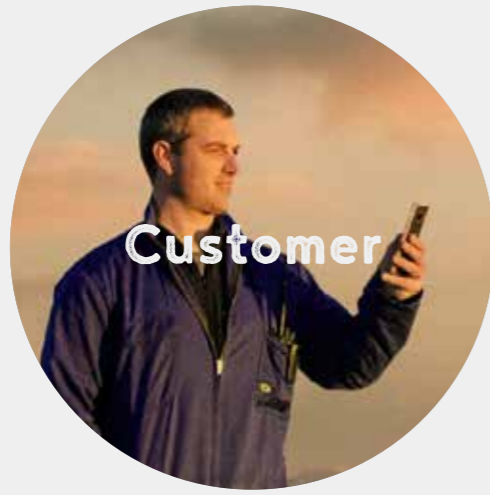
Hours of farm sustainability advice

\$87M

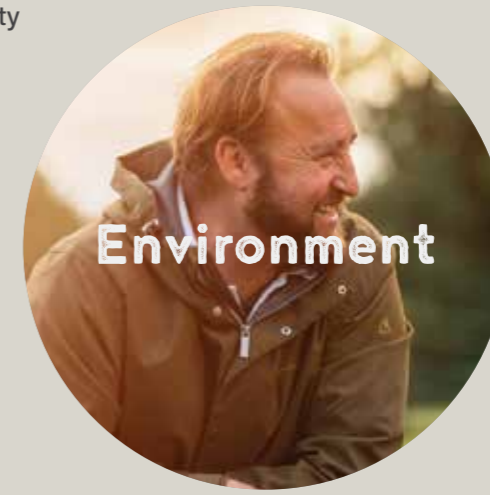
Re-investment capex to improve service to customers and sustainability

28,500

Tonnes of fertiliser applied using SpreadSmart technology



Customer



Environment

150%

Growth in customers using MyBallance to 7,500

7,500

Hours of research and development into My Pasture Planner



\$57M

Returned to New Zealand farmers in Rebate

12

Our key safety measure, TRIFR, improved but did not meet our 2019 target of 10



Community



People

500+

Farmers hosted at Ballance-Ex workshops

\$4M

Rebuild of Ashburton SealesWinslow, with wonderful support from the local community

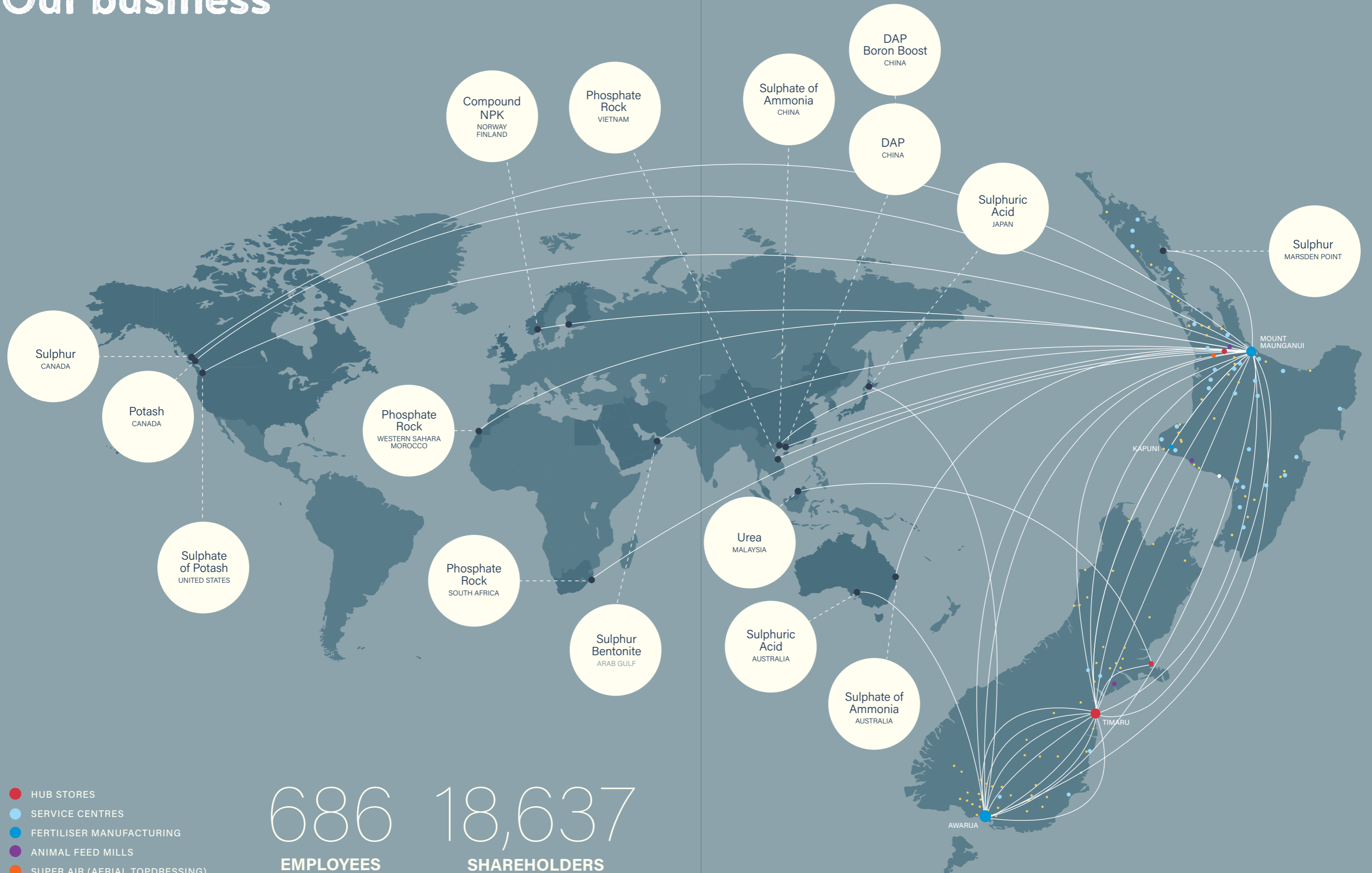
1ST

Our Customer Services team, winners at the 2018 CRM Contact Centre Awards

76%

Employee engagement

Our business



- HUB STORES
- SERVICE CENTRES
- FERTILISER MANUFACTURING
- ANIMAL FEED MILLS
- SUPER AIR (AERIAL TOPDRESSING)
- CONSIGNMENT STORES

686
EMPLOYEES
(PERMANENT)

18,637
SHAREHOLDERS

Chairman and CEO's Report

Shared growth



As a Co-operative, everything we do is geared to ensuring Kiwi farmers have access to the very best nutrients and advice to achieve outstanding agronomic results, stay competitive globally and drive sustainability in their businesses.

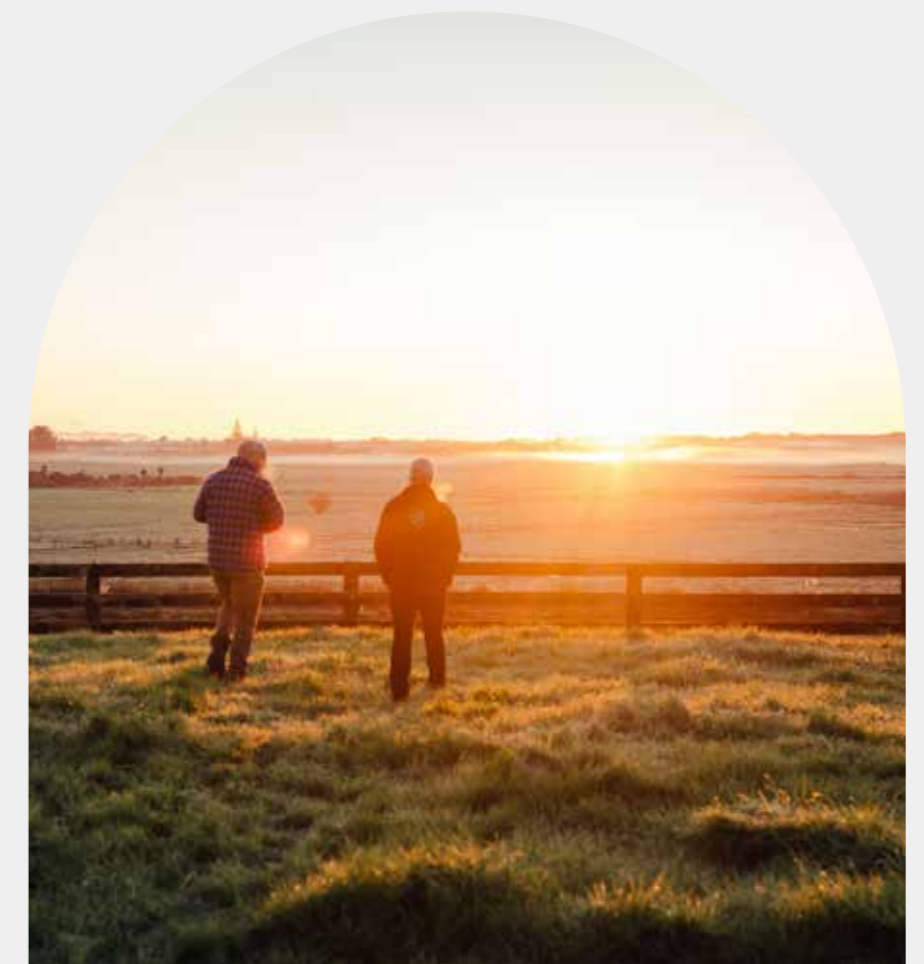
This is a hallmark of Ballance and what we are all about – helping our farmers adapt and evolve so that they're 'future-ready'.

Our strong FY2019 financial results are the product of an unwavering focus on supporting farmers, and the evolution of farming, as a strength for New Zealand as a whole.

We are pleased to be reporting a 4% improvement in Profit Before Rebate and Tax to \$72.5 million, and have confirmed a farmer rebate of \$45 per tonne for the financial year ended 31 May 2019 – returning a total of \$57 million to our more than 18,500 farmer-shareholders.

There is a lot to be proud of in the year-on-year lift in performance since FY2016 because it has been built on a collaborative approach, working with selected partners in New Zealand and suppliers around the world.

Total sales for the 2019 year – including nutrient products, animal feeds and industrial ingredients – were flat on FY2018 at 1.64 million tonnes, with the manufacturing margin achieved against rising international urea prices being a key contributor to Ballance's financial performance this year. →



Our Board has taken the prudent decision to increase retentions, with \$12 million earmarked for accelerating the development of high-value digital platforms and services and ongoing investment in the Co-operative's distribution network to deliver improved service capability.

Ballance's re-investment capex of \$87 million in FY2019 is more than double the typical spend for the Co-operative – reflecting a sustained programme of investment to evolve both our bricks and mortar shopfront, and also our e-commerce capability and tools for our customers.

While some of this spend is to replace or refurbish end-of-life infrastructure, it is all absolutely future-focused and farmer-focused – with the development of our new Reporoa Service Centre a showcase example of integrated design to enhance workplace safety, environmental performance and quality practices, along with providing new levels of customer service from the ground up.

Customer feedback and increasing use of our ground-breaking self-service silos that offer customers unprecedented convenience and flexibility has proven this model as a 24/7 solution for supplying products, with the launch of the latest on the West Coast in July bringing the total nationwide to six – with a further five planned for FY2020.

Our digital journey, and transformation of services for customers, is clearly evident in the rapid adoption over the past year of the MyBallance online platform for customers, with the number of users at 31 May exceeding 7,500, up from 3,000 at the end of the 2018 financial year. The strong uptake is also reflected in the more than 4,500 farm maps uploaded and in excess of 18,000 customer orders placed directly on MyBallance – enabling better planning of annual nutrient requirements, accurate recommendations and placement, along with ease-of-use for reporting. Alongside this investment in our core business, we are also expanding our Super Air services particularly to meet demand for precision aerial topdressing enabled by SPREADSMART®

technology – with accurate proof-of-placement allowing our customers to know where their nutrients have been applied. This planned 10-year capital upgrade programme will give us additional capacity for targeting growth opportunities such as the Gisborne market, which we entered in February this year.

SealesWinslow has maintained a leading position in the New Zealand animal feed market – gaining market share during the year in both bagged calf products and bulk dairy. Farmers trust our quality grain-based feeds as a complementary source of nutrition to lift per-cow production in pasture-first



dairying operations. A major milestone for our feed business was the rebuild of our Ashburton distribution centre, following a fire in late 2017. The refurbishment was completed in October incorporating a more efficient and flexible load-out facility that means we can offer new tailored product lines to our customers. Through the rebuild,

we have very much appreciated the encouragement from the local community and the Ashburton Mayor, Donna Favel.

Our capital investment and our science-driven product innovation is helping us gain further momentum in a highly competitive market. Through a laser focus we are addressing customers' needs, supported by disciplined management of operational expenditure and costs of supply of both raw materials and finished products.

Along with the underlying strength of New Zealand's primary sector, our results in 2019 evidence the strategic value of our Kapuni site – New Zealand's only ammonia-urea plant with a lower carbon footprint than imported product, and where Ballance is now exploring a 'green' hydrogen and urea project.

This renewable hydrogen hub will be a

There is a lot to be proud of... because it has been built on a collaborative approach.

world-class example of the marriage of industrial scale renewable energy and hydrogen production. It also provides an example for other industrial operations and a future model for taking carbon out of New Zealand's agricultural inputs by substituting green hydrogen for the natural gas (CH₄) we currently use as a feedstock.

Production of green urea alone would reduce the equivalent amount of CO₂ as taking 2,600 cars off the road, and the 'green' hydrogen fuel could supply about 6,000 cars (or 300 buses and trucks) per year.

We continue to pursue long-term strategic relationships such as the hydrogen project with Hiringa Energy, and the Ballance Farm Environment Awards with the



New Zealand Farm Environment Trust recognising leadership in environment and sustainability practices.

The financial year also highlighted the enduring value of the joint research and development programme under the Primary Growth Partnership (PGP) with Government, which ended in FY2019. Ballance has continued with the roll-out of specialist new environmental performance and productivity tools, including My Pasture Planner and MITAGATOR® – both developed with joint funding from the Co-operative and PGP. In the coming year we expect to bring to market a significant fertiliser product innovation that promises a new level of nutrient performance with genuine sustainability benefits.

The words "Stronger Together" have real meaning for us at Ballance. They are about

partnering with the best to be the best – not just for our own success, but for our farmers, our communities and our country.

Thanks to our team for your passion for making a difference every day. Thanks to our customers for your support and commitment to what we do. And, thanks to everyone who has been part of our story in 2019.

These results are as much yours as ours. ●

David Peacocke
CHAIRMAN

Mark Wynne
CHIEF EXECUTIVE



Ballance's re-investment capex of \$87m is more than double the typical spend for the Co-operative.

Governance & leadership



DAVID PEACOCKE
CHAIRMAN, DIRECTOR NORTH ISLAND



DACEY BALLE
DIRECTOR NORTH ISLAND



SIMON ROBERTSON
APPOINTED DIRECTOR



MARK WYNNE
CHIEF EXECUTIVE



DUNCAN COULL
DIRECTOR NORTH ISLAND



SARAH VON DADELSZEN
DIRECTOR NORTH ISLAND



MATT SKILTON
CHIEF FINANCIAL OFFICER



SHEENA HENDERSON
GM CUSTOMER EXPERIENCE
& MARKETING



KIM ELLIS
APPOINTED DIRECTOR



ANDREW MORRISON
DIRECTOR SOUTH ISLAND



SHANE DUFAUR
GM OPERATIONS & SUPPLY CHAIN



JASON MINKHORST
GM SALES



MURRAY TAGGART
DIRECTOR SOUTH ISLAND



ALBERT BRANTLEY
APPOINTED DIRECTOR



EDITH SYKES
GM PEOPLE & CAPABILITY



DAVE SCULLIN
CHIEF DIGITAL OFFICER



Working for our customers

As a Co-operative we put the needs of farmers and customers at the centre of everything we do.

Our team of Farm Sustainability Specialists provided over 18,000 hours of advice this year on Farm Environment Plans helping farmers to evolve their businesses productivity, profitability and sustainability.

As a Co-operative we put the needs of farmers and customers at the centre of everything we do. Ballance is proud of our role working with New Zealand farmers and growers – enabling all of us to make the most from our land with the smallest possible impact.

Keeping an eye to the future and listening to our farming community Ballance provides responsive innovations that are both leading edge and customer friendly. Supporting farmers to be “future ready”, has seen the development of a range of flagship products and services – each of which provides more accessible ways to farm more sustainably and meet our customer promise.

MyBallance, our online platform launched last year, now has over 7,500 users. This 2018 SAP Innovation Award winner makes good management practice easy – enabling farmers to understand more about the use of nutrients based on their individual farm requirements and providing an up-to-date online ordering system in real time, along with making reporting simple.

In addition to specific nutrient information, MyBallance is a one-stop-shop platform that connects any interaction across the entire customer journey. Farmers say they use it because: “everything I need to know is right at my fingertips”.

We are committed to listening to our customers and adding new features and refinements to make MyBallance even better – to ensure it remains New Zealand’s leading nutrient management and farm sustainability product. The next phase of MyBallance development includes digitising our supply chain and connecting this to the MyBallance platform, positioning farmers and customers for the world of connected agriculture.

As farmers face new and different challenges both on the farm and off, Ballance’s Farm Sustainability Services support farmers to solve these challenges together. By working with farmers proactively and understanding their goals and objectives we are supporting them to enhance their business outcomes in an environmentally sustainable way.

Our team of Farm Sustainability Specialists provided over 18,000 hours of advice this year on Farm Environment Plans helping farmers to evolve their businesses productivity, profitability and sustainability. In addition to advice on nutrient management, these specialist advisors also provide a single point of contact for farmers to get advice on regulatory compliance, resource consent applications or industry certification schemes. →

10.2%

Revenue Before Rebate increased to \$910 MILLION

4.3%

Lift in our Co-operative's Profit Before Rebate and Tax

The demand for Farm Sustainability Services is such that we will be increasing the number and spread of this specialist team in the coming year – responding to the need for local, skilled, informed advisors who can support farmers to optimise the best solution for their farms.

Ten of our 17 Farm Sustainability Specialists have also this year qualified as Certified Nutrient Management Advisors through the Fertiliser Association of New Zealand. And as a measure of the quality of our team's skills and knowledge, Ballance's nutrient specialists are also now accredited to become Farm Environment Plan writers through the Regional Councils.

Supporting good management practice and on-farm solutions is Ballance's Science Extension team – building the bridge between research, science and farming to build the capability of farmers and to grow confidence in the sector. A recent sign of the changing emphasis for our farmers and customers has been a shift that ranks "sustainability" second only to "best nutrient management" in our most recent survey on the most important issue for farm practice.

In the last three years the team have held 33 nutrient management workshops providing robust science covering a farm-systems approach for the 580 attendees. These workshops are an investment in building the capability of farmers to develop practical knowledge that supports their endeavours to minimise environmental impacts.

A pleasing challenge for the science team has been finding enough time to attend the many invites from rural groups and customers who are keen to hear more about clever science to both improve their understanding and implement on their farms. Some of the groups that the science team presented to this year included: SMASH (Smaller Milk and Supply Herds), Tiller Talk – Dairy NZ specialist group, Red Meat Profit Partnership (RMPP) action groups and the Dairy Women's Network.

Quality at every step

Our products, and the nutrients in them, are ultimately what farmers and growers rely on so they need to live up to the promises we make. That's why Ballance staff practice a "right from me" philosophy showing ownership and care at every step

in the supply chain ensuring we build quality assurance into every link of supply.

A specification database provides one source of truth for suppliers, purchasers and customers. This enables certification of Ballance products and provides customers with confidence that all steps in the process have integrity. Robust checks against all promised specifications, and laboratory testing of granule size, weight and composition are undertaken before any product is released for sale. Quality issues are not something we want to discover after a product has left the manufacturing plant, it should be right from the start and before it's placed on a farmers' paddock or crop.

Category managers with a focus on quality and efficiency have now been established across the business in three areas – raw materials, shipping and the transport fleet.

Investing in our network

Moving toward a personalised digital service for customers based on real-time data and more simplified processes is transforming the way Ballance does its business. At the heart of any great customer service mantra is the notion of "what I want, when I want it"

New developments offering 'my-time' benefits to our spreaders, carriers and customers include the establishment of new self-service silos in Ashburton, Winton, Mangakino and Wakanui. Just like an ATM, the self-service silo responds with the swipe of a card – dispensing an automatic release in a single transaction.

The latest on the West Coast, launched after balance date, at Kokatahi offer new products tailored for the local market. We have two more self-service silos under construction, and another three will be completed in FY2020.

Every dollar we're investing locally is linked to our focus on a smarter supply chain, offering more choice, and making it easy for our farmers.

We're proud to have hosted local farmers and customers at the opening of our new Service Centres this year at Te Kuiti, Otorohanga, Rolleston and Edgecumbe. A new expanded store is also being built in Reporoa. The installation of four raingardens, the design of which has been informed by the model at our Edgecumbe service centre, will make a real difference in further improving the quality of stormwater from the site.

New sites will also be opening later this year including a re-developed distribution hub in Whangarei for product bagging and distribution. In addition, a new site at Marsden Point will become the central distribution hub for Northland which will make getting product even easier for customers as well as providing improved access to Northport.

The value of investing in our supply and site network to ensure downstream benefits for farmers and customers is obvious. However, there are additional flow-on benefits that are also evidenced through our people, improvements to processes, our workplace safety learnings, and the connections made within the local contracting networks and wider community whether in Awarua, Mount Maunganui or Kapuni.

All three sites benefitted from ongoing investment in refurbishment and maintenance this year which included \$25 million of capital expenditure at the Kapuni site. This reinvestment is fundamental to ensure our assets are in good shape so that we can deliver on quality and surety of supply for customers, and help

maximise Ballance's manufacturing margin for our Co-operative's shareholders.

The Kapuni project alone involved 50 capital projects, 134,000 work hours, 1,950 work orders, with 214 tonnes of scaffolding, 3km of reformer anchors, 262 safety valves tested, and replacement of 8,000 reformer bricks giving a sense of the level of activity by our own team and contractors – with economic benefits rippling out through the region and nationally. For the first time our acidulation plant on the Mount Maunganui site has run for two years between maintenance turnarounds, and we completed a record 138 days non-stop prior to the planned shutdown this year.

Winning with customers

It's one thing to think that you do a great job with customers but it's quite another to be recognised as the best in New Zealand. Ballance's Customer Services team were winners at the 2018 CRM Contact Centre Awards,

acknowledged as the best in the Retail Support Category providing external endorsement and validation for the great work they do for us and our customers. We appreciate that our customers place a high value on the service they get from our people and this Award was well deserved. •

Moving toward a personalised digital service for customers is transforming the way Ballance does its business



18,000

Customer orders placed online, directly through MyBallance

1-in-4

Pick-ups from Self-Service Silos outside business hours

\$30M

Planned upgrade programme over 10 years for Super Air fleet

Customer convenience 24/7



Each dollar we invest is aimed at helping our customers farm smarter and make life easier than it was the year before. That's why this year we invested in six self-service silos throughout the country that have enabled complete control for our customers.

Farmers can place an order through MyBallance 24 hours a day and collect it at a time convenient to them. The fully SAP integrated control system allows our people to spend less time on admin and more time working to determine how we can help customers get the most out of their land.

Four new silos were installed this year, while our existing silos in Anama and Whakamaru have been updated and retrofitted with the new digital technology.

Ballance has invested \$3.3m to date on the six silos. Engagement has been positive, with customers and spreaders signed up with access cards. Five more silos have been pre-approved from this year's budget.

Ballance Self-Serve Silo National Manager Craig Fitzpatrick says feedback from both customers and spreaders has been positive and supportive. "The highlight for me personally has been delivering convenience for our customers. Farmers are no longer reliant on store hours. They need to apply product dependent on weather forecasts and they can now access it when they need to, even if that's on a weekend. One of our spreaders told me he was up to date with his 'job book' for the first time that season, making him more productive and able to pass on savings to customers."

The success of our silos is reflected in usage patterns, with one-in-four customers collecting product after hours. The silos are an industry-first innovation and an investment that feeds into our focus on a smarter supply chain and offering more choice for our farmers. The installations haven't been without their challenges, but the result is a reliable, repeatable product that has facilitated convenience and a better environmental outcome.

Farmers can collect product at a time that's convenient to them - putting the right nutrients on at the right rate, at the right time, can significantly reduce potential environmental impacts.



Quality from the start

The consistent quality of our manufactured product is essential to our customers and shareholders, making it key to our business and a constant focus for our operations team. And it all starts at the manufacturing plant.

There are three contributing factors to this success: our rock strategy (ensuring we have the right raw materials available to us) the installation of a conditioner at the plant to homogenise granulator feed material, and a strong focus on operator training.

Together, these improvements deliver significant nutrient, environmental and spreader benefits and we have received positive feedback from service centres, customers and our distribution team. This is testament to our ongoing commitment to continually improve the quality of manufactured products we supply to our customers.

Ballance Process Improvement Chemist Mike Corbett says improvements made this year are significant. "Raw materials are critical to the quality of superphosphate. A huge amount of work has gone into rock strategy over the last few years so to have access to preferred raw materials and be able to convert this through our manufacturing process is a real sense of achievement."

Ballance Mount Laboratory Team Leader Svetlana Tretyakova says her team are proud participants of the journey to great quality homemade products for our farmers. "By implementing science and experience-based solutions as well as engaging new practices and new people, we are showing our determination for continuous improvement. Being part of a wider team, I see a lot of behind the scene work, where a lot of passion and labour is put into making a positive difference for our customers."

**The chemical quality
of our product continues to be
at a consistently high standard.**

Focused on the future

We're moving forward with bold ideas and innovative solutions.



Sustainability is at the heart of our promise to farmers and customers – working together for the love of the land.

We know that the bulk of the export footprint of primary produce is behind the farm gate. Having fertiliser data that enables wise decisions based on efficiency rather than quantity is a value proposition that we focus on for our shareholders and the wider community.

Innovation through partnership

No one in the world focuses on modelling what happens with pasture as much as we do in New Zealand. Ballance's commitment to delivering more efficient nutrient use, and accurate digitally supported systems, is evidenced by the suite of environmentally-focused services that have come from investment under the Primary Growth Partnership Programme (PGP).

Three ground-breaking innovations that emerged from the PGP programme are exclusively owned by Ballance – MITAGATOR®, MY PASTURE PLANNER® and SPREADSMART® – each synchronised to the MyBallance platform to support farmers in achieving productive and sustainable farming systems.

No one in the world focuses on modelling what happens with pasture as much as we do in New Zealand.

MITAGATOR®, developed jointly with AgResearch, was launched in 2018 and fully operational by January 2019. MITAGATOR®, a genuine breakthrough in putting science to work for the benefit of farmers took out the Smart Farming Innovation Award at the South Island Agricultural Field Days this year.

MITAGATOR® is recognised as providing a new 'gold standard' in helping farmers address potential contaminant losses and achieve the very best environmental outcomes.

MY PASTURE PLANNER® was another partnership with AgResearch and finally came to the market this year after ten years of intensive research and development – the past eight months alone requiring an investment of 7,500 person hours.

This tool has been shown to reduce nitrogen loss on average by 4% per farm – with some reductions as high as 12%.

Using the same GPS as My Pasture Planner, SPREADSMART® is another go-to decision support tool ensuring the right product is put in the right places, in the right amounts – avoiding unproductive ground and waterways. This is a proprietary innovation used by our Super Air topdressing service – enabling specific locations for nutrient application. Using this technology has been shown in trials to deliver 16% less wastage and an 11% gain in area on farm. →



On-board technology-assisted hydraulics allow for a constant or variable rate of application which means the fertiliser only goes where nutrients are needed – reducing the overall amount applied. The technology also enables the pilot to concentrate on flying rather than having to manually operate the hopper release.

Despite some initial resistance from pilots who may originally have thought their skills were being outsourced to technology, these reservations were quickly overcome once they experienced the greater efficiency and safety aspects of SPREADSMART®.

We are investing in our fleet for precision aerial application capability that is not constrained by terrain or ground conditions. Along with new planes in our fleet, we are also upgrading our loader trucks to increase capacity and improve service to customers.

Responding to farmer demand has seen Super Air establish an extended service in Gisborne with a dedicated plane, pilot, loaders and drivers all based locally.

As times change and technology develops, ideas that may have seemed unwieldy 10 years ago, are now possible and doable. Helicropping is now one of those ideas. With the support of the Ministry for Primary Industries' Sustainable Farming Fund, Ballance's work with farmers on helicropping is set to revolutionise thinking around hill country farming – offering a sustainable and

practical option for establishing new pasture and catch crops, while also preventing the loss of precious topsoil, which is a major concern identified in the Ministry for the Environment & Stats NZ report: *Our Land 2018*.

Two helicropping field days in Otorohanga and the South Waikato saw over 200 farmers get to see the helicropping in operation demonstrating the on-farm benefits of this new approach, supported through the Government's Sustainable Farming Fund programme.

Using the same GPS as My Pasture Planner, SpreadSmart is another go-to decision support tool ensuring the right product is put in the right places, in the right amounts, and at exactly the right time.



To maintain New Zealand's position globally as a trusted source of food that has both quality and integrity, we are continuing to develop new improved ways of supporting farmers to continue to be world leaders in on-farm sustainability. A key part of this is focusing on nutrient use efficiency by developing fit-for-purpose products and services.

Both SPREADSMART® and helicropping potentially open up thousands of hectares of low production land with flow-on environmental benefits.

A further enhancement that Ballance has developed with NIWA, MY FARM FORECASTER®, ensures advice on nutrients through MyBallance and MY PASTURE PLANNER®, factors in climatic and weather events to both these services.

A real strength for Ballance comes from partnering with leaders in technology and services – such as NIWA, Hill Laboratories and AgResearch – who have aligned values and a clear focus on supporting the long-term success of New Zealand's primary sector.

Operational excellence

Ballance has achieved greater level of consistency this year setting high standards for both our products and our performance. This includes measurable improvements to granulation across all of our production plants, which means the product is not only more robust in transport through our network but also more consistent in ballistic properties for even spreading.

Uptake of our new-generation smart nitrogen product, SUSTAIN®, has been significant with over 50% of farmers now choosing this option over traditional urea.

Ballance has also continued our commitment to reducing our own environmental footprint by generating our own power (as well as contributing to the national grid) and operating at less than 25% of our consent limit for sulphur dioxide over the last three years at the Mt Maunganui site.

Ballance Kapuni is the second largest user of hydrogen in New Zealand. Sourced from natural gas (methane) which – while it is a domestic energy source, leaves a carbon footprint, so we are looking to the future with a new joint project looking at renewable energy inputs that will reduce our environmental footprint and produce both 'green' fertiliser and sustainable heavy transport fuel.

The \$50m project is a flagship for the *Just Transition* initiative in Taranaki, using wind generation and the deep hydrogen capability of Hiringa Energy along with our existing infrastructure and skilled people we have in the Kapuni plant.

We take our responsibilities for being a good corporate citizen seriously including taking steps to reduce our waste stream – this includes cutting down on the use of single-use plastics (see Case Study). →



Sourcing the very best

Raw materials make up 67% of Ballance's annual operational expenditure and we actively seek the highest quality, best and most sustainable sources to underpin New Zealand's reputation around the world for the quality and sustainable food and fibre production.

We actively engage with suppliers to satisfy ourselves that these are the very best ingredients for farming in New Zealand, from the most appropriate, reliable and sustainable sources. We consider a full range of factors, which are assessed through a comprehensive due diligence process with governance oversight from the

Board. That goes well beyond international trading requirements and compliance with relevant domestic and international laws.

Our vendor pre-qualification process includes more than 40 criteria – from a supplier's labour and health & safety practices, environmental performance, and societal and community benefits, along with meeting our expectations on data-sharing and transparency.

Audits may be conducted as part of our due diligence, or agreed improvement plans, with market visits by senior management from Ballance being an important aspect of our verification process.

With regard to our primary source of phosphate rock from Phosboucraa in Western Sahara, we take particular care to respect the requirements of compliance with international, national and local laws and regulations (including free-trade and provisions set out by the United Nations for Non-Self-Governing Territories).

This is about satisfying ourselves first-hand that these operations promote economic advancement providing direct and indirect benefits to local people and communities. In addition to our own visits to the region we have hosted our supplier's representatives here in New Zealand for meetings with a range of key stakeholders in the primary sector. •

.....
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.....

A farming visionary

At Ballance we have a strong focus on Kaitiakitanga, the concept of guardianship and protecting the natural environment. We aim to work in partnership with our farmers to help them get the most from their land while ensuring enough is done to protect it for future generations.

In 1991, Waikato farmer and conservationist Gordon Stephenson developed a farm sustainability competition and, through the New Zealand Farm Environment Trust, the concept was brought to life in the early 1990s. Ballance has been a Sponsor of the Ballance Farm Environment Awards for 17 years and through this partnership, New Zealand's most environmentally responsible and productive farmers have been showcased and entrants have been

provided with information on best-practice management of their natural resources.

As a major player in the Primary industry, we recognise the need to lead the development and implementation of sustainable farming practices, so this was a natural partnership. The awards criteria consider the environment that nominated farmers operate within, with consideration to sustainable profitability, environmental awareness, good business practices and social and community responsibility.

This year saw the most diverse group of farmers and growers ever nominated, including kiwifruit and berry growers, dairy and sheep & beef farmers.

Gordon Stephenson encouraged farmers to think about the long-term effects of their farming practices and how to ensure they were sustainable for the generations to come. In 1978, a 4ha block of native bush on the Stephenson's farm became the first block to be covenanted by the Queen Elizabeth National Trust, ensuring it was protected and provided safe refuge for native plants and animals. Today, all farmers can apply to have sections of their land covenanted under the QEII Trust.

This year, as the awards returned to Gordon Stephenson's home region, a monument was unveiled on his family farm in Waotu to recognise his commitment to promoting sustainability. The farm is currently run by Gordon's grandson Owen Saunders and his wife Michelle.

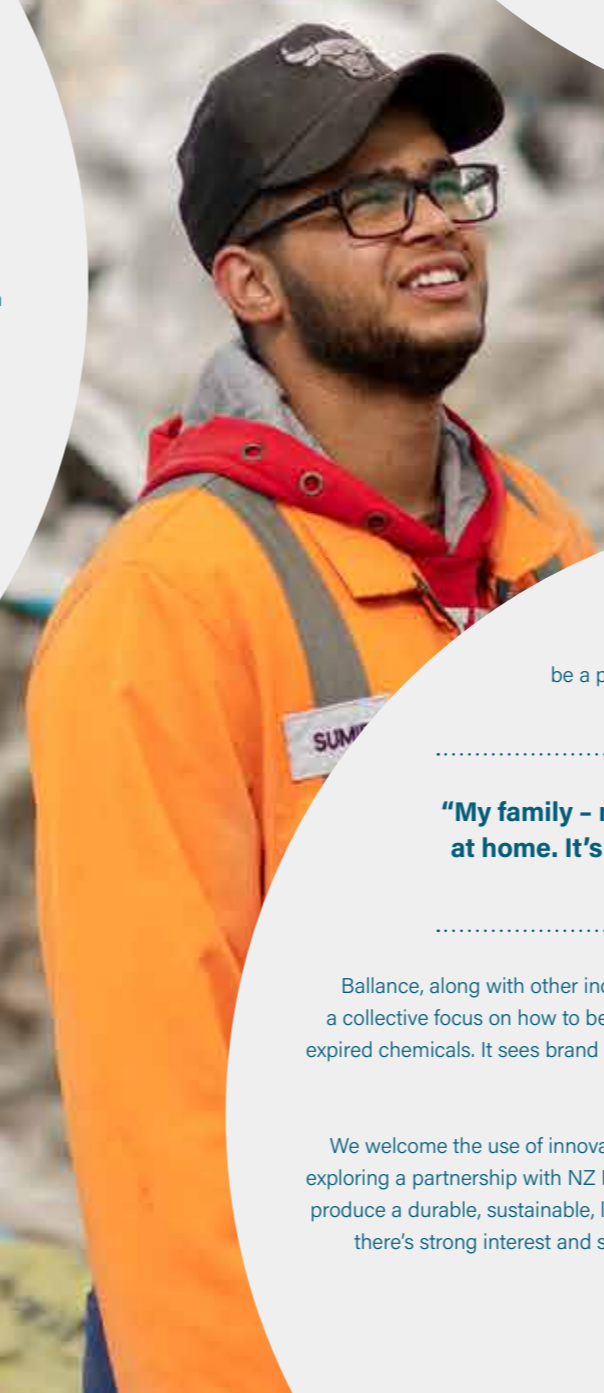
"My grandfather had the attitude that nothing was ever finished, there was always room for improvement. You can see that on his farm, the land we look after today – bush that he had covenanted is still standing and enabling plants and animals to thrive. It's a privilege to look after the land that he and Celia were on and we want to honour him by improving it for the next generation."

.....
**As a major player in
 New Zealand's primary sector,
 we recognise the need to
 lead the development and
 implementation of sustainable
 farming practices.**

Sustainability in the bag

The national ban on single-use plastic shopping bags came into effect in July this year with many businesses following suit, seeking out the most sustainable and environmentally-friendly packaging options. Our single-use fertiliser bags were introduced for safety purposes and we are focused on giving that plastic another life, rather than having it dumped, burned or buried on-farm. We've made good progress in the past five years, including being part on an initiative with Government and industry that saw the commissioning of the EnviroNZ plastics extrusion plant in Christchurch in 2017. Designed with the capacity to chew through 450kg/hr, the plant is starting to eat into the 1,000 tonnes of fertiliser bags that had already been recycled by Kiwi farmers and continue to be returned through our network.

The plant was designed to recycle bags for re-manufacture into new farming products – twine for hay bales, irrigation piping and re-usable pallets – and we're proud to be part of this sustainability solution. The recycling journey begins when our customers return their used fertiliser bags to their local Ballance service centre, where they are loaded onto trucks and taken to either Mt Maunganui, Awarua or Rolleston. There, the bags are compacted and transported to recycling plants such as the one operated by EnviroNZ.



Ballance Compacter Operator
 Tipi Walker (pictured above) says he is proud to be a part of a company and a sustainability initiative recycling and reusing waste.

“My family – my kids and my mokopuna – are doing what we can at home. It’s great I can also do recycling at work – my whanau are proud of the work I do.”

Ballance, along with other industry partners, is also part of AgRecovery, a product stewardship scheme with a collective focus on how to best recycle fertiliser bags and containers, recover drums, and collect unwanted or expired chemicals. It sees brand owners taking responsibility for the disposal of these products and their packaging at the end of their useful life.

We welcome the use of innovation to create value out of recycled waste, which is why we're also pleased to be exploring a partnership with NZ Plastics to create New Zealand's first-ever wood plastic composite that will be used to produce a durable, sustainable, low maintenance decking product. While this partnership is still in the early stages, there's strong interest and support from businesses like ours and we recently sent our first bags for trials.

Growing through teamwork

We believe the best work comes from a shared vision and strong connections.

Growing the Ballance business for the benefit of our shareholders includes enhancing and developing partnerships and communities that we work with or within. We back our commitment to sustainability and good farming practice with values of respecting, nurturing and treasuring people and our land. This is in our DNA.

Showcase 'Future Ready' farming

The Ballance Farm Environment Awards (BFEA), our largest and most enduring sponsorship, is a partnership with the New Zealand Farm Environment Trust that we see as one of this country's most important showcases of progressive farming practice.

The Ballance Farm Environment Awards bring to the fore people with vision and passion who are leading the way in sustainable practice in New Zealand, who other farmers can learn from. Participants in the Awards, regionally and nationally, talk about how valuable the experience is to their farming operation and how much benefit they gain from the judging scrutiny and pride in being a part of the BFEA family. This year's recipients of the Gordon Stephenson Trophy were Adrian and Pauline Ball of Dennley Farms in Tirau in the Waikato. Their business motto: "creating value inside the farm gate" was evidenced by great farming practice – low input, low footprint, high animal welfare – and something to focus on for farmers meeting new and demanding consumer expectations.

Our Otago regional Ballance Farm Environment Award regional winner, Logan Wallace, also won the Young Farmer of the Year competition being a great example of a future-ready farmer and ambassador for the agricultural sector. We are focused on every opportunity that helps our farmers to reach into the future and adapt to a dramatically changing world with fresh eyes, different ways of thinking and using sound science to explore developing consumer trends and expectations.

Leading new thinking

Ballance-Ex provided the opportunity for almost 500 farmers and rural leaders to participate in conversations focusing on positive and impactful disruptions and provide thought-leadership looking at the future of farming in New Zealand.

With nine events across nine regions, Ballance-Ex married the concepts of clever science and an exchange of ideas – considering the pace of change, adapting to challenges like changing consumer demands, competition for water and new businesses opportunities. These events also benefitted from the insights shared from regional Ballance Farm Environment Award winners as guest panelists providing evidence endorsing new ways of thinking that show us the way of the future.

We continue to celebrate our long-standing relationship with the Dairy Women's Network sponsoring their conference as a Prime Network Partner, and co-ordinating the hugely popular 'book-swap' which acts as a connector between rural women.

Ballance's 10-year involvement in the Primary Growth Partnership, with joint investment from Government, has seen a range of innovations that are providing

enormous benefits to our Co-operative members. These include MITAGATOR® and SPREADSMART® that have involved years of development and effort from our people. With the PGP programme now ended Ballance is investigating new partnerships for co-investment in research and development via the new Sustainable Food and Fibre Futures Fund. We will be exploring opportunities for our business with a focus on transformative and innovative change projects that add value and sustainability to New Zealand's primary sector. →



We are focused on every opportunity that helps our farmers to reach into the future and adapt to a dramatically changing world.

Ballance continues to build on the strong, productive relationships we have with a wide range of institutions and organisations such as Hill Laboratories. Our partnership with Hill Laboratories has seen the development of an app for accurate data on soil samples that can be registered in real-time using GPS. As our clever science people say – the quality of data equals the quality of decision-making and leads to quality outcomes, and this is a partnership that brings technology to life.

After balance date we also signed a three-year agreement with NIWA helping us enable integrated digital solutions for farmers, using 1.5km radius forecasting and soil moisture data. The data is already being used by Ballance customers in MY FARM FORECASTER®. As with other partners, NIWA's focus is very much aligned with our own business strategy and organisational goals, so there is a natural fit in working together to deliver long-term value for farmers and for our country.

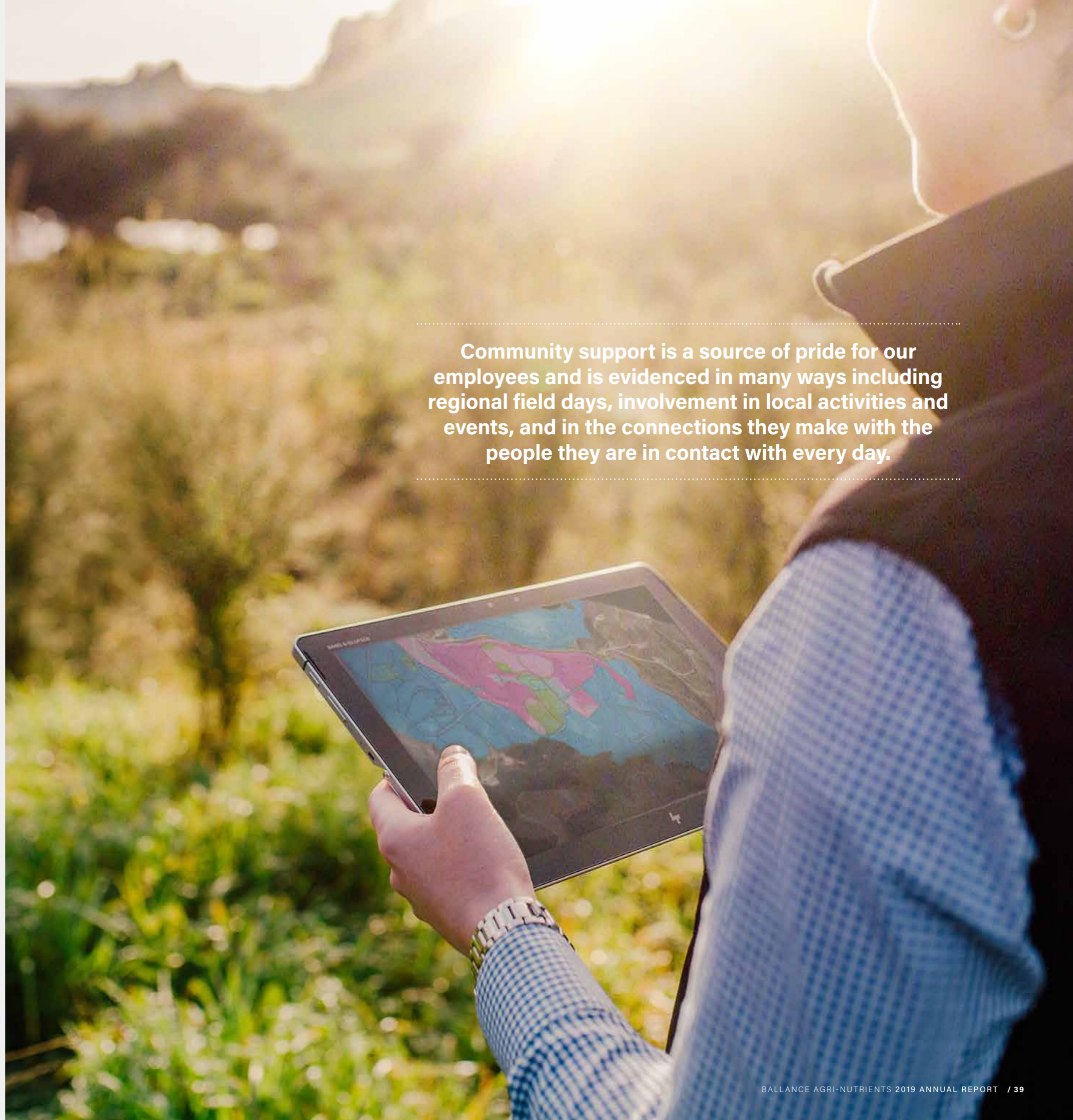
As a Co-operative, Ballance thrives within our operating communities, seeking to be a part of each to provide local good. Our ongoing partnerships with farmers, suppliers and contractors is supported by our joint commitment to a truly sustainable future focused on good environmental outcomes and strong communities. Community support is a source of pride for our employees and is evidenced in many ways including regional field days, involvement in local activities and events, and in the connections they make with the people they are in contact with every day.

Sometimes the actions of the Ballance team may seem small but the impact can have significant benefits. An example of this was the community days at Taranaki Retreat and Kaponga School during the Kapuni upgrade.

A very recent highlight of our year was winning the Best Agribusiness Outdoor Site at the Mystery Creek National Fieldays. Showcasing clever science and new developments, and with the familiar faces of the Ballance team on hand to respond to any questions, it is no wonder that the feedback was summed up in this review: "going to the Ballance tent feels like coming home".

While there are enormous pressures on farming in New Zealand Ballance people are staying ahead of the curve, continuing to investigate and explore innovative and unique solutions with our partners and within our local communities. •

Community support is a source of pride for our employees and is evidenced in many ways including regional field days, involvement in local activities and events, and in the connections they make with the people they are in contact with every day.





Celebrating our people

The core of Ballance is its people and we know how important it is to retain and attract the best. One of the ways we recognise our people is through the Great People Awards. These awards, developed three years ago, are an internal competition where Ballance employees are nominated by their peers in a range of categories and the finalists and winners are celebrated at a black-tie event.

Each year the number of nominations has increased and this year we received over 400 nominations, up from 250 the previous year, making it the biggest year yet.

The award categories represent the key attributes that make up Ballance and recognise the different types of people and talents throughout our network that make

The award categories represent the key attributes that make up Ballance and recognise the different types of people and talents throughout our network that make us great.

us great. This includes individuals or teams who achieved great results or growth, those who consistently deliver a great experience for their customers, or those who find an opportunity to innovate and deliver smart solutions.

Ballance People and Capability Business Leader Kristen Brown said there is a deep sense of comradery that comes from the competition. "While the awards are competitive, the overwhelming feeling of those who nominate, get nominated, and attend the event is one of pride in each other. It's amazing to see - we are proud to work at Ballance and proud of each other." "We love hearing people say they are going to be here next year."



New-age stewardship

Expectations on farmers to manage their environmental footprint is currently bigger than ever and we want to ensure we support them with the right tools and advice.

After ten years of development and joint investment from the Ministry of Primary Industries' Primary Growth Partnership, we launched MitAgator in June last year with the specific aim of helping farmers reduce the losses of the four key contaminants that most impact water quality.

The focus of the first 12 months was to develop the proof of concept, refine the tool and ensure its functionality. We've had a lot of positive feedback from farmers who say it has helped them map their risk areas accurately, show them where to invest for the biggest environmental gains, and help them produce an effective Farm Environment Plan.

In March this year, we hosted a field day in partnership with the Pourakino Catchment Group in Southland. Our Southland Farm Sustainability Services team demonstrated how to locate critical source areas identified in MitAgator risk maps and discuss practical on-farm mitigation options.

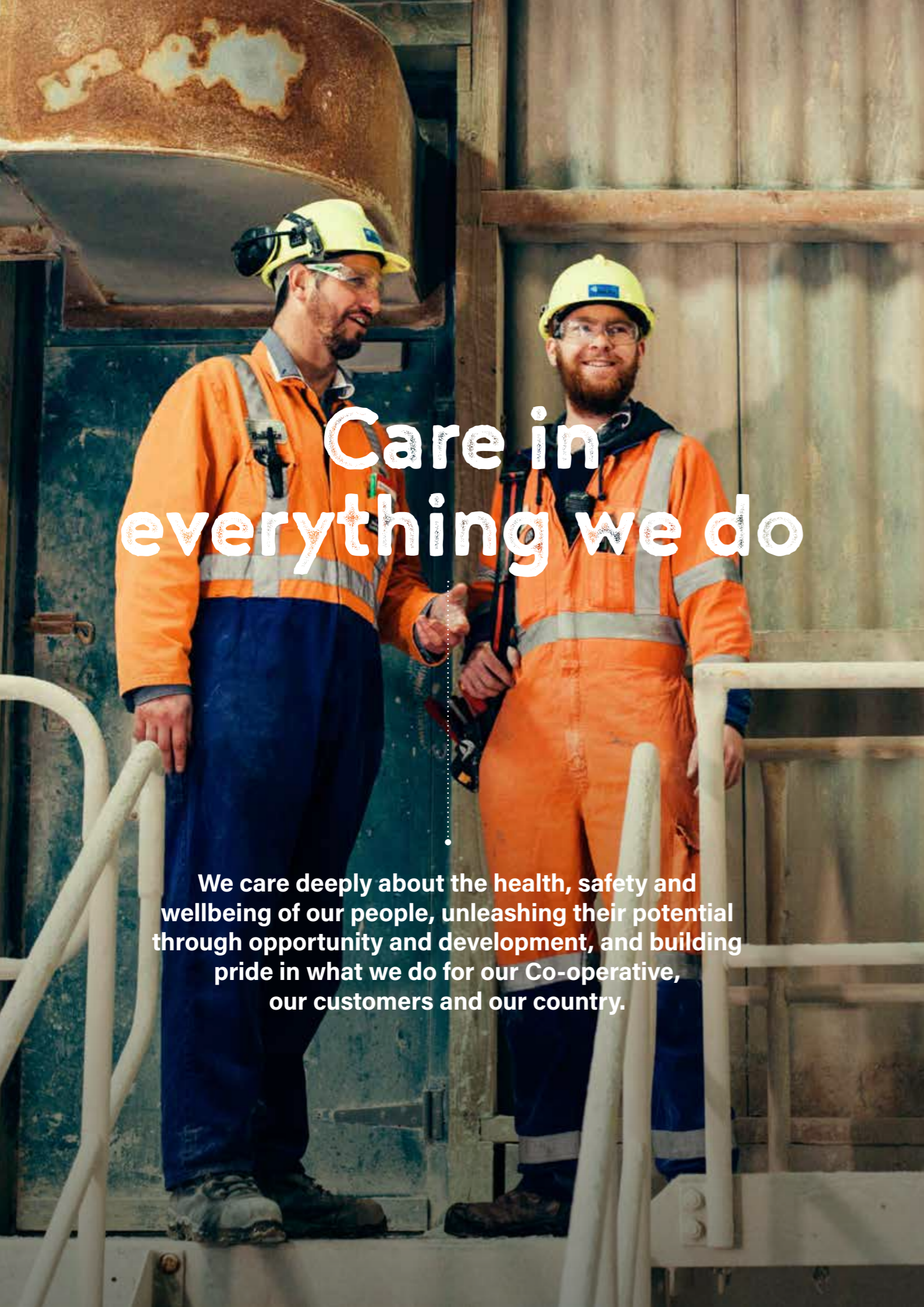
"The field day brought together farmers, industry, and the Regional Council – giving us the opportunity to showcase the practical value and decision-making support that MitAgator can deliver to our farmers," says Ballance Farm Sustainability Regional Manager Erica Leadley. "The group was able to see the value behind the science that makes up our risk maps. In Southland, with the spotlight on



best winter grazing management practices, the group were able to use the risk maps to support the discussion on paddock selection and grazing management to minimise the environmental impact."

In March, MitAgator was awarded the Smart Farming Innovation Award at the South Island Agricultural Field Days. Judges commented that the tool was a "standout" recognising the innovative technology that farmers can use to gather data, make better decisions, operate their businesses more efficiently and communicate with their advisors and suppliers.

Our Southland Farm Sustainability Services team demonstrated how to locate critical source areas identified in MitAgator risk maps and discuss practical on-farm mitigation options.



Care in everything we do

We care deeply about the health, safety and wellbeing of our people, unleashing their potential through opportunity and development, and building pride in what we do for our Co-operative, our customers and our country.



One of our big ambitions for the year was to make Ballance a healthier, and safer place for people to work in. One of our focus areas was to gain significant and sustainable improvements to our health and safety record and instil safety as core business practice. This means not just delivery of safe workplaces, but identifying potential risks, pre-empting the steps needed to mitigate those risks, and developing more intuitive and immediate tools for responding to the possibilities of harm.

The human lens of safety

Caring for people underpins the Ballance culture and looking after each other comes naturally to us. Building on this belief we developed C.O.W.S (Care Ownership Wellbeing & Safety programme) in 2017 and have seen both tangible and intangible benefits from helping people to care for themselves and each other as we do our families. We look after ourselves and each other and know this makes a difference to our lives, our workplaces and our health, safety and wellbeing measures.

C.O.W.S enables staff to take ownership, and to have confidence, in putting the health and wellbeing needs of themselves and their team mates as a top priority in the workplace. This year we had nearly 800 people participate in workshops including every new staff member who now experience the two-day workshop as part of their on-boarding.

A digital enhancement this year to our MySafety digital platform, is the Lone Worker app. This offers real time visibility of remote or lone workers by monitoring phone movement. The app has an integrated check-in and emergency function that can be used to raise help and sends an alert if you are motionless for a set period of time.

A meaningful addition to the Ballance suite of safety products, is the Safety Cross programme which was initiated at our Kapuni site and is now rolled out across the entire Ballance family of 13 sites. As a reward for our people achieving safety milestones, for example having a set number of safety conversations and audits, attendance at Health and Safety meetings, zero harm incidents across our regional sites, a donation is offered to a local charity nominated by the team.

For the successful Kapuni upgrade this year, Taranaki communities including the Central Taranaki Safe Community Trust, Taranaki Kiwi Trust, Taranaki Health Foundation and Rural Support Trust benefited from this initiative. →

One of our focus areas was to gain significant and sustainable improvements to our health and safety record and instil safety as core business practice.

While our statistics demonstrate that the number of people hurt at work has reduced from 30 to 23 this year, regrettably we did have a serious incident in Timaru. This incident further elevated our efforts in our commitment to ensure that our people get home safely every day.

Increasing our understanding of our farmer customers, frontline staff were encouraged to attend DairyNZ's Good Yarns workshops – established to support farmers who may be experiencing stress or depression – recognising that caring for people extends beyond the Ballance family.

As a reflection of the passion our people feel for the work they do, and the environment they work in, our staff survey shows an upwards trend in engagement over the past ten years. Our 95% response rate and 76% engagement score, places us within the top 25% of Australian and New Zealand companies.

Being the best we can

This year we placed priority on really understanding and identifying what we value about being part of the Ballance team, and what it is that makes this place unique and successful. The nine-month research programme, involving in-depth interviews and workshops for all our staff, will establish an enhanced Employee Value Proposition (EVP) that we have all been a part of developing.

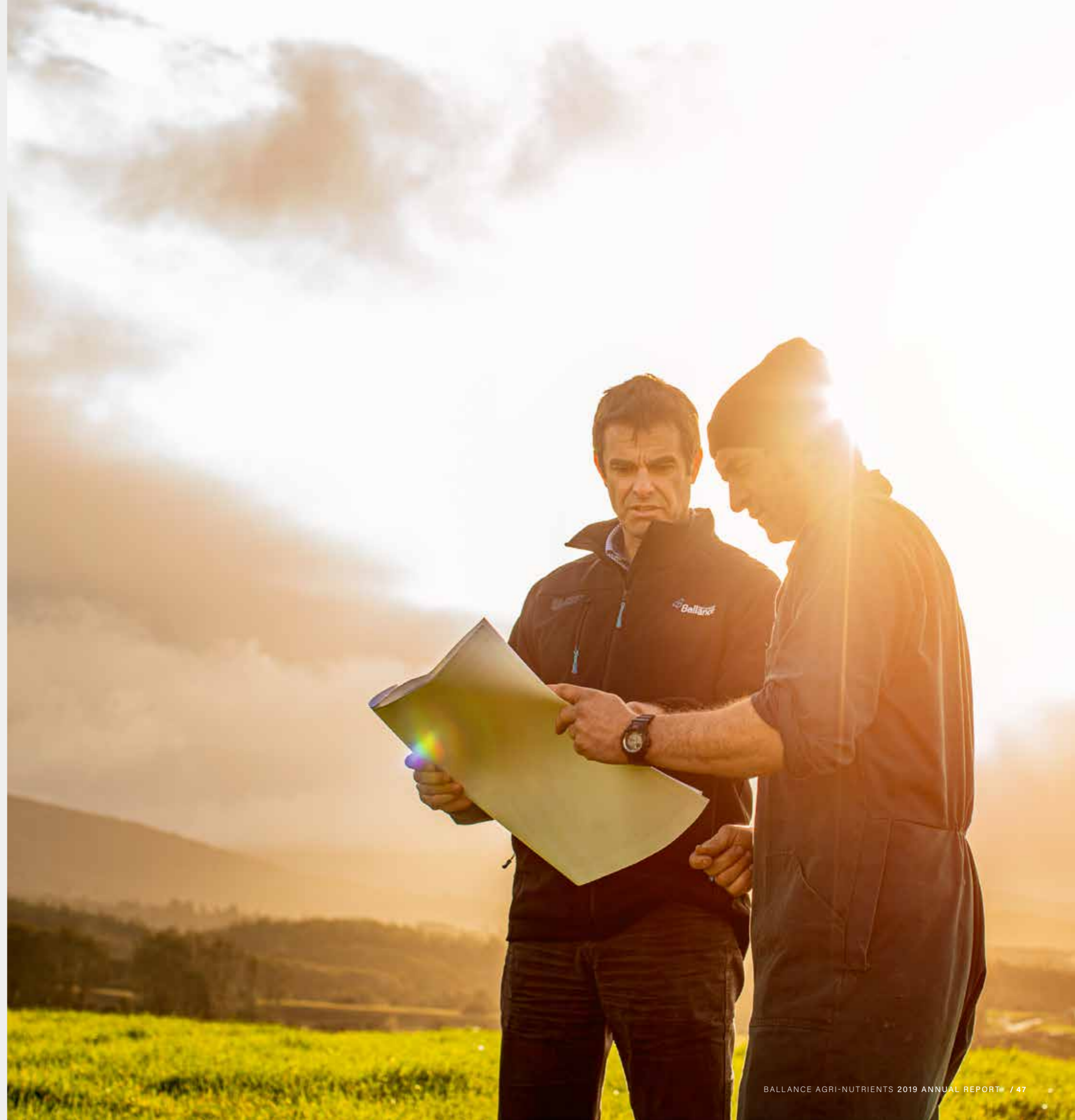
This year we placed priority on really understanding and identifying what we value about being part of the Ballance team, and what it is that makes this place unique and successful.

Our commitment to learning extends beyond the C.O.W.S programme with nearly 300 staff having had the opportunity to grow through leadership and development programmes across the organisation – an increase in 4% from last year.

A standout example is Ballance's bespoke leadership development programme aiming to: "create the best leaders for Ballance and New Zealand". There are three development levels that staff progress through: new and emerging leaders, change leadership and conscious leadership. The commitment to these programmes is making a significant difference with leadership effectiveness increasing by 6% this year.

Ballance has recently begun its journey to establish and define a more agile and effective future way of working in line with the values and vision of our organisation by developing a clear workplace strategy. We believe this strategy will be vital in helping to unlock the full potential of Ballance's most valuable asset – our people.

The workplace strategy will address the interaction between people, technology and place to identify how to best to support collaboration and creativity between teams and people and will be applicable and scalable to our service centre and operations sites across New Zealand. This approach will be applied to our workplaces as we begin to roll out our infrastructure investment programme over the next five years. •





Mucking in with locals

The safety and well-being of our people is at the core of our business. As part of our C.O.W.S (Care, Ownership, Wellbeing & Safety) Programme, our Safety Cross system runs to ensure that each of our site teams are rewarded for achieving a set of site-specific KPIs each month. If achieved, a 'green cross' is declared and the site donates to a different local charity, creating partnerships that have long-lasting effects in the community. Our charity partners range from family, environmental and health organisations and present opportunities for staff to engage and volunteer, instilling a sense of pride and inspiration within our team.

Our Safety Cross system physically demonstrates the impact our health & safety focus has on the community. One of our most successful Safety Cross sites is Kapuni in Taranaki. While being large, industrial and

with nearly 130 employees, our Kapuni site has a consistent 'green cross' showing the team's commitment to C.O.W.S and to each other, as well as strong leadership.

As part of this initiative, Ballance Kapuni has donated \$2,500 to the Rotokare Scenic Reserve Trust, a pest-free sanctuary for native birds, animals and plants enclosed by an 8.2km biosecurity fence.

In November, our Kapuni team spent nearly four days providing labour for two key projects at the reserve. While the community-led charity is heavily reliant on volunteers to help monitor and maintain the reserve, Ballance helped them carry out a specific long-awaited project - extending the access track across challenging swampland. They helped establish the foundations for a new boardwalk, which required heavy labour



and the team also built a retaining wall alongside part of the lake edge.

"Over many years Ballance Kapuni has been proactive in supporting our charity, alongside the support they provide many other charities across the region," says Simon Collins, Rotokare Scenic Reserve Trust Sanctuary Manager. "This support has been hugely valuable to the Trust - both in terms of the donations from their Safety Cross programme and the significant support provided through staff attending working bees at the Rotokare Sanctuary. We see that Ballance staff have a real sense of purpose with these projects and feel that their contributions have made a really important difference."

Ballance Kapuni has donated \$2,500 to the Rotokare Scenic Reserve Trust, a pest-free sanctuary for native birds, animals and plants enclosed by an 8.2km biosecurity fence.



Smiles and waves

Through our C.O.W.S programme, we understand the importance of looking out for each other and the positive impact this can make. Mental health advocate and New Zealander of the Year, Mike King spoke to our staff in Kapuni during the turnaround in January and shared some important lessons on the importance of showing care and kindness to each other and never being afraid to ask "are you ok?". Connecting with our work mates and building deeper relationships are integral to creating a strong safety culture that covers people's mental as well as physical well-being.

At Ballance this extends to our farmers as well as our workmates, so we are proud of our partnership with AgFirst to support

Surfing for Farmers, an initiative aimed at encouraging farmers to take time away from the farm to look after their mental health.

Surfing for Farmers was developed by AgFirst and launched in December 2018 to address the worrying statistics of high stress levels in the rural community. It presents an opportunity for farmers to step away from what can be a consuming business, get some fresh air and exercise and interact with other farmers, rural families and industry professionals.

The initiative ran weekly for 13 weeks with an average of 35 people attending each event, with higher numbers and new faces appearing each week, many in the older demographic.

Surfing for Farmers organiser Stephen Thompson believes the high level of support was due to farmers, industry representatives and the community recognising the need and putting their support behind it. "Numbers have been strong from the start – people didn't need convincing. The highlight for me has been the smiles and grins of the farmers as they came out of the surf and seeing them switch off from farming, knowing that we had achieved what we set out to do."

Some participants drove for over an hour and many have purchased new surfboards so they can continue surfing. Organisers have had numerous requests for the initiative to be replicated in other regions around the country.

Ballance Gisborne Nutrient Specialist Lucy Holden said "I think it's important for Ballance to support farmers outside of the farming environment. There are so many external pressures impacting our industry now, so to be able to be part of an opportunity that enhances their well-being and shows that we have a vested interest in their lives is really great".

Surfing for Farmers was developed by AgFirst and launched in December 2018 to address the worrying statistics of high stress levels in the rural community.



Crunching the numbers

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Consolidated Income Statement

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTE	GROUP 2019 \$000	GROUP 2018 \$000
Revenue before rebate	2	910,472	825,809
Rebates to shareholders	7	(57,045)	(56,819)
Revenue after rebate		853,427	768,990
Cost of sales		(679,114)	(614,149)
Gross profit		174,313	154,841
Other operating income	2	8,861	19,799
Sales, marketing and distribution expenses		(105,534)	(104,335)
Administrative expenses		(56,336)	(51,159)
Other operating expenses	3	(2,735)	(4,626)
		(155,744)	(140,321)
Net financing costs	6	(3,151)	(1,872)
Profit before tax and equity accounted income		15,418	12,648
Share of loss from equity accounted investments	13(b)	(6)	(4)
Profit before tax		15,412	12,644
Income tax expense	8	(3,469)	(3,455)
Profit for the year		11,943	9,189

Non GAAP supplementary note:

Profit before tax		15,412	12,644
Add back:			
Rebates to shareholders	7	57,045	56,819
Profit before rebate and tax		72,457	69,463

Profit before rebate and tax is an important profit measure of the Group that Directors use to monitor financial performance. The profit before rebate and tax is also one of the factors Directors consider when determining the amount of the discretionary rebate payable to shareholder customers.

The accompanying Notes form part of and should be read in conjunction with these Financial Statements

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTE	2019 \$000	2018 \$000
Profit for the year		11,943	9,189
Other comprehensive income to be reclassified to profit and loss in subsequent periods:			
Effective portion of changes in the fair value of cash flow hedges		20,423	3,743
Amount removed from equity, in relation to cash flow hedges, and included in initial cost of inventory on hand during the period		(15,098)	2,572
Income tax on items recognised directly in other comprehensive income	8	(1,491)	(1,768)
Other comprehensive income, net of income tax		3,834	4,547
Total comprehensive income for the year		15,777	13,736

The accompanying Notes form part of and should be read in conjunction with these Financial Statements

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MAY 2019, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	FULLY PAID ORDINARY SHARES \$000	SHARE ALLOTMENT RESERVE \$000	HEDGING RESERVE \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000	
	NOTE	22(a)	22(b)	22(b)		
Balance at 1 June 2017		176,535	18,777	(1,069)	220,367	414,610
Profit for the year		-	-	-	9,189	9,189
Net change in the fair value of cash flow hedges		-	-	6,315	-	6,315
Income tax relating to components of other comprehensive income		-	-	(1,768)	-	(1,768)
Other comprehensive income for the year, net of tax		-	-	4,547	-	4,547
Shares issued		155	-	-	-	155
Shares provided / issued in lieu of rebate		18,878	(1,552)	-	-	17,327
Shares repurchased		(8,724)	-	-	-	(8,724)
Total transactions with owners		10,309	(1,552)	-	-	8,757
Balance at 31 May 2018		186,844	17,225	3,478	229,556	437,103
Balance at 1 June 2018		186,844	17,225	3,478	229,556	437,103
Profit for the year		-	-	-	11,943	11,943
Net change in the fair value of cash flow hedges		-	-	5,325	-	5,325
Income tax relating to components of other comprehensive income		-	-	(1,491)	-	(1,491)
Other comprehensive income for the year, net of tax		-	-	3,834	-	3,834
Shares issued		117	-	-	-	117
Shares provided / issued in lieu of rebate		17,309	(595)	-	-	16,714
Shares repurchased		(10,168)	-	-	-	(10,168)
Total transactions with owners		7,259	(595)	-	-	6,664
Balance at 31 May 2019		194,103	16,630	7,312	241,499	459,544

The accompanying Notes form part of and should be read in conjunction with these Financial Statements

Consolidated Balance Sheet

AS AT 31 MAY 2019, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTE	2019 \$000	2018 \$000
Shareholders' equity			
Paid-in capital		194,103	186,844
Retained earnings and other reserves		265,441	250,259
Total equity		459,544	437,103
Current liabilities			
Bank revolving cash advance facility	18	23,000	-
Trade and other payables	17	89,723	81,681
Derivative liabilities		28	355
Rebate payable	7	40,405	39,425
Provisions	19	5,068	4,781
Income tax payable		-	5,852
Total current liabilities		158,224	132,094
Non-current liabilities			
Provisions	19	4,800	5,473
Deferred tax liabilities	9	1,061	-
Total non-current liabilities		5,861	5,473
Total liabilities		164,085	137,567
Total equity and liabilities		623,629	574,670
Current assets			
Cash and cash equivalents		8,456	15,234
Trade and other receivables	10	103,765	99,978
Inventories	11	161,651	166,073
Derivative assets		11,085	6,122
Assets held for sale	12	-	323
Income tax receivable		2,241	-
Total current assets		287,198	287,730
Non-current assets			
Investments in equity accounted investees	13	122	128
Loan to equity accounted investees		575	275
Deferred tax assets	9	-	4,987
Property, plant and equipment	14	291,227	242,855
Intangible assets	16	44,507	38,695
Total non-current assets		336,431	286,940
Total assets		623,629	574,670

For and on behalf of Board of Directors:



DE Peacocke
Director
24 July 2019



SD Robertson
Director
24 July 2019

The accompanying Notes form part of and should be read in conjunction with these Financial Statements

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTE	2019 \$000	2018 \$000
Cash flows from operating activities			
Cash receipts from customers		892,852	817,174
Cash paid to suppliers and employees		(786,880)	(751,227)
Interest received		445	396
Dividends received		11	10
Insurance proceeds		6,960	5,000
Government grants		156	1,429
Rebate to shareholders		(56,660)	(54,319)
Less shares issued in lieu of rebate		17,309	18,879
Net rebate paid		(39,351)	(35,440)
Interest paid		(3,476)	(2,154)
Income tax (paid) / received		(7,005)	3,040
Net cash flow from operating activities	20	63,712	38,228
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		3,411	510
Acquisition of property, plant and equipment and intangibles		(87,085)	(38,946)
Net cash flow from investing activities		(83,674)	(38,436)
Cash flows from financing activities			
Proceeds from issue of co-operative shares		117	155
Repurchase of surrendered shares		(9,633)	(8,915)
Net drawdown of borrowings		23,000	-
Loan to equity accounted investees		(300)	(275)
Net cash flow from financing activities		13,184	(9,035)
Net movement in cash and cash equivalents		(6,778)	(9,243)
Cash and cash equivalents at 1 June		15,234	24,477
Cash and cash equivalents at 31 May		8,456	15,234

The accompanying Notes form part of and should be read in conjunction with these Financial Statements

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

Ballance Agri-Nutrients Limited (the "Company") is a profit-oriented farmer owned co-operative company domiciled in New Zealand. The Company is registered under the Companies Act 1993 and the Co-operative Companies Act 1996.

The financial statements have been prepared in accordance with the Financial Markets Conduct Act 2013 and Financial Reporting Act 2013.

Consolidated financial statements for the Group are presented. The consolidated financial statements of the Group as at and for the year ended 31 May 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The Group's principal activities are the manufacture, marketing and distribution of fertiliser, compound animal feed supplements and related products in New Zealand.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance and basis of preparation

The consolidated financial statements have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate to profit-oriented entities. The Company also complies with the Companies Act 1993 and the Co-operative Companies Act 1996.

The consolidated financial statements are presented in New Zealand dollars (NZD) (\$), which is the Company's functional currency. All financial information presented in NZD (\$) has been rounded to the nearest thousand.

The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

The financial statements were approved by the Board of Directors on 24 July 2019.

b) Use of estimates and judgements

The Directors are required to make judgements, estimates and apply assumptions that affect the amounts reported in the financial statements.

These have been based on historical experience and other factors Directors believe to be reasonable. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about judgements, estimations and assumptions that have had a significant effect on the amounts recognised in the financial statements are disclosed in the relevant notes are as follows:

- Note 2 – Revenue and Other Operating Income
- Note 14 – Useful life of property, plant and equipment
- Note 16 – Intangible assets
- Note 19 – Provisions
- Note 22 – Capital and reserves (treatment of puttable instruments)
- Note 23 – Financial instruments

c) New standards and interpretations

A number of new or amended standards became applicable for the year ending 31 May 2019 and the Group has had to change its accounting policies as a result of adopting the following standards:

- NZ IFRS 15 Revenue from Contracts with Customers
- NZ IFRS 9 Financial Instruments: Classification and Measurement

The impact of the adoption of these new standards is disclosed below.

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new standard replaces NZ IAS 18 Revenue, which covers revenue from contracts for goods and services. The Group has adopted NZ IFRS 15 using the modified retrospective method, with the effect of initially applying this standard at the date of initial application of 1 June 2018. Accordingly, the information presented for 2018 has not been restated in terms of the basis of the calculations, although it is reported as if the presentation disclosure of NZ IFRS 15 applied to 2018 comparative.

NZ IFRS 15 is based on the core principle that revenue is recognised when control of goods or services transfer to a customer, and that the amount of revenue recognised reflects the consideration to which an entity expects to be entitled to in exchange for those goods or services which are delivered or performed under contracts with customers. The adoption of NZ IFRS 15 does not have a significant impact on the group revenue recognition, however has resulted in increased disclosures.

The Group recognises revenue from the following major sources:

- Fertiliser sales
- Animal feed sales
- Aerial fertiliser spreading

Based on terms and conditions with our customers, all performance obligations are satisfied on delivery of goods and services. Revenue is recognised at this time.

NZ IFRS 15 will require the rebate to shareholders to be recognised as variable consideration and therefore treated as a deduction from revenue. To ensure users of the financial statements are provided with meaningful information, a non GAAP supplementary note by way of a table at the bottom of the income statement has been included to calculate profit before rebate and tax to show the performance of the Group. The 2018 year has been aligned for the reporting change, while the substance of the calculations remain in accordance with NZ IAS 18.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

NZ IFRS 9 Financial Instruments

NZ IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces NZ IAS 39 Financial Instruments: Recognition and Measurement (NZ IAS 39).

The Group has applied the transition requirements of NZ IFRS 9. No comparative information was restated. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policies.

The Group has assessed that the new classification and measurement requirements will not have a material impact on its balance sheet or equity. The impact of the change relates primarily to revised disclosure in the notes.

Classification of financial assets and liabilities

There are new measurement categories under NZ IFRS 9 for each class of the Group's financial assets as at 1 June 2018.

The Group's cash and cash equivalents, and trade and other receivables are held to collect contractual cash flows that are expected to represent solely payments of principal and interest. On transition to NZ IFRS 9, these financial assets will continue to be measured at amortised cost and classified as "Amortised Cost".

The change in categories does not affect the carrying values of the financial assets with all balances remaining the same as at 1 June 2018.

There is no significant impact on the Group's accounting for financial liabilities and these continue to be recognised at amortised cost.

Impairment of financial assets

NZ IFRS 9 introduces a new impairment model that requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as was the case under NZ IAS 39.

The new impairment model applies to the Group's financial assets measured at amortised cost and consequently the Group will be required to record expected credit losses, either on a 12 month or lifetime basis, on all trade and other receivables. Regular reviews of market conditions will be performed to assess any expected credit loss that may need to be recorded.

Hedging

The Group has determined that all existing hedge relationships that are currently designated in effective hedging relationship will continue to qualify for hedge accounting under NZ IFRS 9.

For its forward exchange contracts, the Group continues to designate both the spot element and the forward element of the forward contract as the hedging instrument. Changes in fair value of the forward contract continue to be recorded in the 'cash flow hedge reserve' within equity.

New standards, amendments and interpretations not yet adopted

New standards, amendments and interpretations have been published that will be mandatory for the Group's accounting periods beginning on or after 1 January 2019. The standards that will have an impact on the Group are discussed below.

NZ IFRS 16 Leases

NZ IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard deals with the recognition, measurement, presentation and disclosure of leases and replaces NZ IAS 17 Leases (NZ IAS 17).

The new standard introduces a single model for lessees which recognises all leases on the balance sheet through an asset representing the rights to use the leased item during the lease term and a liability for the obligation to make lease payments. This removes the distinction between operating and finance leases and aims to provide users of the financial statements relevant information to assess the effect that leases have on the balance sheet, income statement and cash flows of the reporting entity. One of the key judgement areas in applying the new requirements relates to the assessment of whether an option to extend or terminate the lease contract will be exercised. Lessor accounting remains largely unchanged from NZ IAS 17 for the Group.

The Group reviewed leases where the Group is the lessee and these leases primarily relate to land and building and motor vehicle leases.

The Group intends to use the modified retrospective approach with the right-of-use (ROU) asset being equal to the lease liability as at commencement date for all existing leases at 1 June 2019.

The ROU assets are subsequently depreciated using the straight line method over the shorter of the estimated lives of the ROU assets or the remaining estimated lease term. The estimated useful lives of ROU assets are determined on the same basis as similar owned assets within property, plant and equipment. The lease liabilities are initially measured at the present value of the unpaid lease payments at commencement date, discounted using a discount rate.

The discount rates used are the Group's incremental borrowing rate (IBR). The Group's IBR will be the average of the IBR rates obtained from financial institutions for each asset type based on terms similar to the lease term and for similar assets.

The Group will be applying the following practical expedients when applying the new lease standard NZ IFRS 16 to leases previously classified as operating leases under NZ IAS 17:

- The use of a single discount rate to a portfolio of leases with similar characteristics.
- Not recognising ROU assets and liabilities for leases with less than 12 months of lease term.
- Not recognising ROU assets and liabilities if the leased asset is considered a low value asset.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

The estimated impact of adopting NZ IFRS 16 from the period 1 June 2019 is shown below:

	1-Jun-19 \$000
Balance Sheet	
Right-of-use assets	37,864
Lease obligations	(37,864)
	-

We do not anticipate the net impact on the consolidated income statement to be material. The estimated impact of the changes under NZ IFRS 16 would be to increase net cashflow from operating activities and increase cash used by financing activities.

2. REVENUE AND OTHER OPERATING INCOME

	2019 \$000	2018 \$000
Sale of goods	897,283	814,549
Services provided	13,189	11,260
Total revenue	910,472	825,809
Other operating income		
Net gain on disposal of property, plant and equipment	311	730
Other dividend income	11	10
Government grants including NZ ETS credits	7,038	6,665
Insurance claims	1,000	11,960
Other	501	434
	8,861	19,799

Government grants relating to technology development and emissions trading credits have been received during the year.

Last year insurance claims included recoveries relating to the claim at the ammonia urea plant and the claim for the fire at the animal feed plant in Ashburton. In the current year an additional \$1m insurance recovery has been recorded in relation to the ammonia urea plant claim. Of these claims, \$2.2m is outstanding at balance date. This is recorded within Trade and other receivables (note 10).

Policy

Revenues from goods and services are recognised on either despatch of goods or as the service is performed. This is in accordance with terms and conditions with our customers and as performance obligations are satisfied. Standard credit terms are month following invoice with the rebate variable component calculated at financial year end.

Insurance claim recoveries are recognised when received or when receipt is highly probable. Recovery is considered to be highly probable when there is a loss event which can be claimed under an insurance contract held and the amount which will be recovered can be estimated reliably and is not disputed. Government grants are recognised over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

3. OTHER OPERATING EXPENSES

	2019 \$000	2018 \$000
Research and development expense	2,671	4,574
Donations	29	13
Other	35	39
	2,735	4,626

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

4. PERSONNEL EXPENSES

	NOTE	2019 \$000	2018 \$000
Wages and salaries		79,394	75,877
Contributions to defined contribution superannuation plans		4,816	4,408
Increase / (decrease) in liability for long-service leave	19	246	(44)
		84,456	80,241

5. AUDITORS' REMUNERATION

	2019 \$000	2018 \$000
Audit services		
Audit of financial statements	160	135
Other audit related fees	2	5
Other services		
Taxation services - compliance	35	31
Taxation services - advice	39	49
	236	220

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

6. FINANCING INCOME AND EXPENSE

	2019 \$000	2018 \$000
Financing income		
Interest from bank	445	396
Financing expense		
Interest paid to banks	3,476	2,154
Other financial expenses	120	114
	3,596	2,268
Financing costs (net)	3,151	1,872

Policy

Finance income comprises interest income on funds invested, foreign currency gains, gains on hedging instruments that are recognised in profit or loss and reductions in fair value of deferred and contingent consideration. Interest income is recognised as it accrues, using the effective interest method. Finance expenses comprise interest expense on borrowings to the extent that they have not been capitalised to qualifying assets, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables), and losses on hedging instruments that are recognised in profit or loss. Borrowing costs are recognised in profit or loss using the effective interest method.

7. REBATE

	2019 \$000	2018 \$000
Rebate provided for current year	57,035	56,650
Rebate for the prior year under provided and recognised in the current year	10	169
	57,045	56,819
Balance Sheet:		
Rebate provided for the current year	57,035	56,650
Less rebate allocated to the share allotment reserve	(16,630)	(17,225)
	40,405	39,425

Policy

Rebateable sales are eligible for sales volume and value rebates as declared by the Directors from the trading result. When the rebate is accrued it is either allocated to the share allotment reserve for those shareholders who are required to increase their share quota (note 22a) or accrued as a current liability (rebate payable) and will be paid out in cash. For financial reporting purposes rebates are treated as a deduction in profit or loss. The cash rebate payment is shown as a cash outflow from operating activities in the statement of cash flows.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

8. INCOME TAX EXPENSE / (BENEFIT) RECONCILIATION OF INCOME TAX EXPENSE / (BENEFIT)

	2019 \$000	2018 \$000
Profit before tax	15,412	12,644
Income tax using the domestic company tax rate – 28% (2018: 28%)	4,315	3,540
Increase / (decrease) in income tax expense due to:		
Non-deductible expenses	152	344
Tax exempt revenues	(811)	(1,102)
Tax losses not previously recognised	-	(186)
Adjustments for prior years	59	(89)
Other	(246)	948
Income tax expense / (benefit) in income statement	3,469	3,455
Comprising:		
Current tax	(1,087)	6,504
Deferred tax	4,557	(3,049)
Income tax recognised directly in other comprehensive income		
Derivatives	1,491	1,768
	2019 \$000	2018 \$000
Imputation credits		
The imputation credits are available to shareholders of the parent company:		
Through the parent company	119,503	113,409
Through subsidiaries	1,743	1,743
	121,246	115,152

Policy

Income tax expense / (benefit) comprises current and deferred tax. The Group calculates income tax expense / (benefit) using tax rates enacted or substantively enacted at balance date. Current and deferred tax is recognised in profit or loss unless the tax relates to items in other comprehensive income, in which case the tax is recognised as an adjustment in other comprehensive income against the item to which it relates.

9. DEFERRED TAX ASSET / (LIABILITY)

	PPE AND INTANGIBLES \$000	PROVISIONS AND ACCRUALS \$000	HEDGE RESERVE \$000	OTHER \$000	TOTAL \$000
Balance at 1 June 2017	(2,506)	4,155	415	1,642	3,706
Recognised in profit or loss	1,410	125	-	1,514	3,049
Recognised in other comprehensive income	-	-	(1,768)	-	(1,768)
Balance at 31 May 2018	(1,096)	4,280	(1,353)	3,156	4,987
Recognised in profit or loss	(5,905)	574	-	774	(4,557)
Recognised in other comprehensive income	-	-	(1,491)	-	(1,491)
Balance at 31 May 2019	(7,001)	4,854	(2,844)	3,930	(1,061)

Included within Other is the tax value of losses carried forward of \$0.698m (2018: \$0.698m).

Policy

Deferred tax is:

- Recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
- Not recognised for the initial recognition of goodwill and differences relating to investments in subsidiaries and jointly controlled entities to the extent they are unlikely to reverse in the foreseeable future.
- Measured at the tax rates that are expected to be applied to the temporary differences when they reverse.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

10. TRADE AND OTHER RECEIVABLES

	2019 \$000	2018 \$000
Current		
Trade and other receivables	98,942	95,905
Prepayments	4,823	4,073
	103,765	99,978
Trade and other receivables status		
Not past due	96,800	94,868
past due 0 – 30 days	1,785	632
past due 31 – 120 days	347	128
past due > 120 days	10	277
Total	98,942	95,905

Policy

Trade and other receivables are stated at their cost less impairment losses and are classified as loans and receivables in note 23e).

Impairment

The Group assesses on a forward-looking basis, the expected credit losses associated with trade receivables. Included in trade receivables are debtors which are past due at balance date and for which no allowance for impairment has been made (2018: nil). The Group monitors the credit quality of its major receivables and does not anticipate non-performance of those customers.

11. INVENTORIES

	2019 \$000	2018 \$000
Manufactured and finished products	120,521	98,982
Raw materials	17,082	20,786
	137,603	119,768
Goods in transit	11,088	33,381
Packaging	3,696	4,376
Spares and stores	9,264	8,548
	161,651	166,073

Policy

Inventories are measured at the lower of cost and net realisable value (NRV). NRV is the estimated selling price, less estimated costs of completion and selling costs. The cost of inventory is based on weighted average and includes expenditure incurred in bringing them to their existing location.

12. ASSETS HELD FOR SALE

Items of property, plant and equipment have been determined surplus to requirements and therefore are presented as a disposal group held for sale following approval of the Directors to sell the assets.

At 31 May 2019 the disposal group comprised the following assets:

	NOTE	2019 \$000	2018 \$000
Property, plant and equipment	14	-	323

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

13. INVESTMENTS

The Company has the following investments:

a) Subsidiaries

	PRINCIPAL ACTIVITY	2019		2018	
		BALANCE DATE	INTEREST	BALANCE DATE	INTEREST
Ballance Agri-Nutrients (Kapuni) Limited	Urea manufacture	31 May	100%	31 May	100%
Super Air Limited	Agricultural aviation	31 May	100%	31 May	100%
Ag Hub Limited	Farm technology	31 May	100%	31 May	100%
Seales Winslow Limited	Animal feed and nutrition	31 May	100%	31 May	100%

Policy

Subsidiaries are entities controlled directly or indirectly by the parent. The parent holds and controls 100% of the voting rights in all entities reported as subsidiaries. The financial statements of subsidiaries are reported in the financial statements using the acquisition method of consolidation. Intra-group balances and transactions between group companies are eliminated on consolidation. All subsidiaries are incorporated in New Zealand.

b) Equity accounted investees

	PRINCIPAL ACTIVITY	2019		2018	
		BALANCE DATE	INTEREST	BALANCE DATE	INTEREST
NZ Phosphate Company Limited	Research	30 June	50%	30 June	50%
EnCoate Holdings Limited	Research and development	30 June	50%	30 June	50%

Policy

Associates are entities in which the parent has significant influence, but not control or joint control, over the operating and financial policies. Investments in associates are reported in the financial statements using the equity method. All associates are incorporated in New Zealand.

14. PROPERTY, PLANT AND EQUIPMENT (PPE)

	NOTE	LAND AND IMPROVEMENTS	BUILDINGS	PLANT, EQUIPMENT AND AIRCRAFT	UNDER CONSTRUCTION	TOTAL
		\$000	\$000	\$000	\$000	\$000
Carrying value 1 June 2017		47,556	52,133	132,441	13,285	245,415
Cost		53,339	109,253	343,852	13,285	519,729
Accumulated depreciation		(5,783)	(57,120)	(211,411)	-	(274,314)
Acquisitions / (transfers)		827	6,133	16,075	4,704	27,739
Depreciation expense		(479)	(4,236)	(23,130)	-	(27,845)
Disposals - cost		(151)	(2,190)	(3,030)	-	(5,371)
Disposals - accumulated depreciation		61	722	2,457	-	3,240
Reclassification to assets held for sale		-	-	(323)	-	(323)
Carrying value 31 May 2018		47,814	52,562	124,490	17,989	242,855
Cost		54,016	113,195	353,605	17,989	538,805
Accumulated depreciation		(6,202)	(60,633)	(229,115)	-	(295,950)
Acquisitions / (transfers)		1,469	3,930	54,212	22,431	82,042
Depreciation expense		(486)	(4,336)	(26,072)	-	(30,894)
Disposals - cost		(1,499)	(2,990)	(26,580)	-	(31,069)
Disposals - accumulated depreciation		56	2,096	25,818	-	27,970
Reclassification from assets held for sale	12	-	-	323	-	323
Carrying value 31 May 2019		47,354	51,262	152,191	40,420	291,227
Cost		53,985	114,135	384,530	40,420	593,070
Accumulated depreciation		(6,631)	(62,873)	(232,339)	-	(301,842)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

14. PROPERTY, PLANT AND EQUIPMENT (PPE) (CONTINUED)

Policy

Items of PPE are measured at cost less accumulated depreciation and impairment losses. Capitalisation of costs stops when the asset is ready for use. Subsequent expenditure that increases the economic benefits derived from the asset is capitalised. The costs of day-to-day servicing of PPE are recognised in profit or loss as incurred. Where parts of an item of PPE have different useful lives, they are accounted for as separate items of PPE. Depreciation commences when an asset becomes available for use. Depreciation of PPE, other than land, is calculated on a straight line basis and expensed over the useful life of the asset.

Estimated useful lives are as follows:

Land improvements	2 - 20 years
Buildings	12 - 50 years
Plant and equipment	2 - 20 years
Aircraft included in plant and equipment	3 - 10 years

Kapuni ammonia urea plant is depreciated in line with economic life which is currently February 2030.

The economic life has been based on a number of factors including judgements on gas availability, international urea price forecasts and the capital expenditure required on the current plant.

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Capital expenditure commitments

The estimated capital expenditure for PPE contracted for at balance date but not provided is \$15.4m for the group (2018: \$6.0m).

15. OPERATING LEASES

	2019 \$000	2018 \$000
Leases as lessee		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	10,186	8,176
Between one and five years	25,417	20,901
After five years	12,725	14,674
	48,328	43,751
Operating lease expense recognised	11,027	9,198

The Group leases a number of distribution and storage facilities, and motor vehicles under operating leases. These leases are reviewed periodically to reflect market rentals.

Policy

Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Lease incentives received are recognised in profit or loss as an integral part of the total lease expense over the term of the lease.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

16. INTANGIBLE ASSETS

	EMISSIONS TRADING SCHEME \$000	PATENTS AND TRADEMARKS \$000	SOFTWARE \$000	TECHNOLOGY SYSTEMS AND LICENCES \$000	TOTAL \$000
Carrying value 1 June 2017	7,146	40	18,926	21	26,133
Cost	7,146	40	56,424	3,425	67,035
Accumulated amortisation	-	-	(37,498)	(3,404)	(40,902)
Acquisitions	-	-	15,430	-	15,430
Movement in development costs	-	-	(4,223)	-	(4,223)
Grant - net allocation of emissions trading scheme credits	5,987	-	-	-	5,987
Amortisation	-	-	(4,611)	(21)	(4,632)
Carrying value 31 May 2018	13,133	40	25,522	-	38,695
Cost	13,133	40	67,448	3,425	84,046
Accumulated amortisation	-	-	(41,926)	(3,425)	(45,351)
Acquisitions	-	-	8,515	-	8,515
Movement in development costs	-	-	(3,431)	-	(3,431)
Grant - net allocation of emissions trading scheme credits	5,877	-	-	-	5,877
Amortisation	-	-	(5,109)	-	(5,109)
Disposals - cost	-	(40)	(3,127)	(3,425)	(6,592)
Disposals - accumulated amortisation	-	-	3,127	3,425	6,552
Carrying value 31 May 2019	19,010	-	25,497	-	44,507
Cost	19,010	-	69,405	-	88,415
Accumulated amortisation	-	-	(43,909)	-	(43,909)

Policy

Intangible assets are initially measured at cost, and subsequently stated at cost less any accumulated amortisation and impairment losses. Subsequent expenditure that increases the economic benefits derived from the asset is capitalised. All other expenditure is expensed as incurred. Software, technology systems and licences have been assessed as having a finite life greater than 12 months, and are amortised from the date the asset is ready for use on a straight line basis over its estimated useful life.

Estimated useful lives are as follows:

Software	2 - 7 years
Technology systems and licences	3 - 7 years

Amortisation is recognised within administration expense

Amortisation methods, useful lives and residual values are reassessed at each reporting date

The Group has an allocation of New Zealand Emissions Trading Scheme (NZ ETS) units due to the Kapuni urea plant qualifying as an Emissions Intensive Trade Exposed (EITE) entity.

This entitles urea manufacturing entities to receive an allocation of emission units, calculated by reference to production levels, which is intended to offset the majority of the cost increases associated with the NZ ETS. The Group has recognised these units at fair value upon initial recognition.

Units held will not be revalued but may be subject to an impairment if a review of the active market indicates a lower value.

The allocation is recognised as deferred income and recognised in profit or loss on a systematic basis over the period to which the grant relates.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

17. TRADE AND OTHER PAYABLES

	2019 \$000	2018 \$000
Current		
Trade payables and accrued expenses	64,219	62,406
Share repurchase installments	5,076	4,541
Employee benefits	7,064	6,598
Emissions trading scheme - deferred income	7,047	3,803
Emissions trading scheme - liability	2,317	1,210
Non-trade payables and accrued expenses	4,000	3,123
	89,723	81,681

The emissions trading scheme deferred income refers to the amount of New Zealand Units (NZU) held but not yet earned. NZUs have been allocated in advance based on an estimated annual urea production to compensate for the cost of carbon associated with urea manufacture. The NZUs allocated are only earned as urea is produced and the income progressively released.

18. LOANS AND BORROWINGS

At 31 May 2019 the committed bank facilities available were \$230m, of which \$23m was drawn in the Group (2018: facility \$200m, actual drawn nil).

The average interest rate in 2019 was 2.6%. Deposits and the Bank Revolving Cash Advance Facility have different interest rates and the loan agreement provides for right of set off against deposits.

Borrowings are unsecured and subject to various lending covenants. These have all been met for the years ended 31 May 2019 and 2018.

19. PROVISIONS

	NOTE	2019 \$000	2018 \$000
Employee benefits - long-service leave provision			
Opening balance		1,173	1,217
Movement in provision	4	246	(44)
Closing balance		1,419	1,173
Site restoration			
Opening balance		9,081	500
Increase		2,500	8,700
Decrease		(3,132)	(119)
Closing balance		8,449	9,081
Total provisions		9,868	10,254
Total provisions are reported in the balance sheet as:			
- Current liabilities		5,068	4,781
- Non-current liabilities		4,800	5,473
		9,868	10,254

Last year a review of our supply chain was completed and it was determined that it was probable that we would not renew the lease for our Northland hub. We now have more certainty that we will not renew and remediation work has started at the hub. In the prior year a provision of \$8m was raised in respect of the Northland Hub leased site. Based on the initial assessment and work completed to date there has been no change to the reported provision other than the costs incurred to date. Costs are expected to be incurred over the next one to three years. \$6m remains as a provision for the Northland Hub leased site.

Judgement was applied to estimate the site restoration provision based on an assessment of all relevant factors, including leasehold obligations, the timing of the restoration and independent estimates of costs.

In the current financial year a further \$2.5m has been provided for the remediation of other facilities with asbestos related issues.

Policy

A provision is recognised where the likelihood of a resultant liability is more probable than not, and the amount required to settle the liability can be reliably estimated. Site restoration provisions are recognised when there is a present legal or constructive obligation to remediate a site.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

20. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2019 \$000	2018 \$000
Profit for the year	11,943	9,189
Add non-cash and non-operating items:		
Depreciation	30,894	27,845
Amortisation	5,109	4,632
Emissions trading scheme - net cost of carbon	(1,526)	(3,070)
Derivative fair value	124	121
Gain on sale of property, plant and equipment	(311)	(730)
Employee benefits	246	(44)
Rebate transferred to Share Allotment Reserve	16,714	17,327
Equity accounted earnings of associates	6	4
Increase / (Decrease) in deferred tax	4,557	(3,046)
Add (deduct) movements in working capital:		
Movement in trade and other receivables	(3,900)	(9,845)
Movement in inventories	4,819	(26,566)
Movement in trade and other payables	2,150	8,818
Movement in rebate payable	980	4,052
Movement in tax receivable	(8,093)	9,541
Net cash from operating activities	63,712	38,228

21. RELATED PARTIES

Related parties of the group include the subsidiaries and associates disclosed in note 13, and key management personnel (directors and the executive team).

The group may transact on an arms' length basis with companies in which directors have a disclosed interest. Sales and rebates paid to directors and their disclosed interests are less than 2% of the total operating revenue and rebates for the year respectively.

	2019 \$000	2018 \$000
Transactions with external related parties through common directorship, control or significant influence		
Revenue	9,869	3,467
Expenses	7,334	2,516
Rebate	452	156
Balances with external related parties through common directorship, control or significant influence		
Amounts owing to the company	1,948	119
Amounts owed by the company	219	48
Key management personnel and directors compensation		
Short term employee benefits, excluding directors	4,915	3,588
Directors' fees	758	705
Total	5,673	4,293

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

22. CAPITAL AND RESERVES

a) Share capital

(i) Reconciliation of movement in co-operative shares

	2019 000s	2018 000s
Opening balance	42,653	41,450
Co-operative shares issued	14	19
Co-operative shares issued in lieu of rebate	2,137	2,331
Co-operative shares repurchased	(1,332)	(1,147)
Closing balance	43,473	42,653

(ii) Co-operative shares

All shares are fully paid and have no par value. Each share has a nominal value of \$8.10 (2018: \$8.10). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company subject to any restricted holding determined for shares exceeding 100,000 and any other restrictions in the constitution. All shares rank equally with regard to the Company's residual assets.

Policy

Shares are issued as fully paid shares. The Company's shares are puttable instruments that meet the criteria required under the amendment to NZ IAS 32 Financial Instruments and are classified as equity.

It is not the Company's normal policy to issue shares with unpaid capital which is subject to specified calls in the future.

(iii) Share redemption features

Shares are nominal value shares issued under the Co-operative Companies Act 1996. The share qualification quota is 30 shares per tonne of annual fertiliser purchases. Shares may be redeemed by the Parent Company at either a shareholder's request or at the Parent Company instigation as provided for in the Co-operative Companies Act 1996, the Companies Act 1993 or the Parent Company Constitution. This is normally when a shareholder ceases to have the capacity to transact business with the Group.

Share repurchase terms under the Company's constitution are for payment by three equal instalments over a two-year period or shareholders may elect an accelerated payment option at a discounted surrender price per share.

(iv) Repurchase of shares

During the year 1,331,885 shares (2018: 1,146,872) were repurchased at an average price of \$7.63 per share (2018: \$7.61) and subsequently cancelled.

b) Other reserves

Other reserves comprise:

- A shares allotment reserve is an estimate of the portion of accrued rebate for the current year that will be applied to the issuance of shares in the Company where shareholders hold less than their quota shareholding requirement.
- The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

23. FINANCIAL INSTRUMENTS

Financial risk management policy

The Group has a comprehensive treasury policy, approved by the board of directors, to manage financial risks arising from business activity. The policy outlines the objectives and approach that the group applies to manage:

- Foreign currency risk
- Interest rate risk
- Credit risk
- Liquidity risk

For each risk type, any position outside the policy limits requires the prior approval of the board of directors.

Each risk is monitored on a regular basis and reported to the board.

Exposure to foreign currency, interest rate, credit and liquidity risks arises in the normal course of the Group's business.

The Group manages commodity price risks through negotiated supply contracts and forward physical contracts. However, these contracts are for expected product usage requirements only and are not accounted for as financial instruments.

Derivative and hedge accounting policy

The Group recognises derivatives at fair value on the date the derivative contract is entered into, and subsequently they are re-measured to their fair value at each balance date. All derivatives are classified as level 2 on the fair value hierarchy explained below. Note 23f.

The Group designates certain derivatives as cash flow hedges (of highly probable forecast transactions).

At inception each transaction is documented, detailing:

- The economic relationship and the hedge ratio between hedging instruments and hedged items;
- The risk management objectives and strategy for undertaking the hedge transaction; and
- The assessment (initially and on an ongoing basis) of whether the derivatives that are used in the hedging transaction are highly effective in offsetting changes in fair values or cash flows of hedged items.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

23. FINANCIAL INSTRUMENTS (CONTINUED)

The underlying risk of the derivative contracts is identical to the hedged risk component (i.e. the interest rate risk and the foreign exchange risk) therefore the group has established a one-to-one hedge ratio. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Cash flow hedges

The Group has entered into foreign exchange forward contracts (the hedging instruments) to hedge the variability in cash flows arising from foreign currency exchange rate movements. The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income.

The following are recognised in profit or loss:

- Any gain or loss relating to the ineffective portion of the hedging instrument; and
- Fair value changes in the hedging instrument previously accumulated in other comprehensive income, in the periods when the hedged item is recognised in profit or loss.

Once hedging is discontinued, any cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss either:

- At the same time as the forecast transaction; or
- Immediately if the transaction is no longer expected to occur

a) Foreign currency risk

Quantitative disclosures

The Group's exposure to foreign currency risk can be summarised as follows:

	2019 \$000 USD	2018 \$000 USD
Foreign currency risk USD		
Bank accounts	1,108	847
Trade payables	(12,270)	(16,674)
Net balance sheet exposure before hedging	(11,162)	(15,827)
Forward exchange contracts relating to exposures	11,162	15,827
Net unhedged exposure	-	-

Sensitivity analysis

At 31 May 2019 it is estimated that a 10% movement either way in the value of the NZD against the USD would have increased (decreased) equity and profit or loss in the Group by the amounts shown below.

		EQUITY 2019 \$000	PROFIT OR LOSS 2019 \$000	EQUITY 2018 \$000	PROFIT OR LOSS 2018 \$000
Forward exchange contracts	+10%	(25,985)	-	(19,706)	-
	-10%	31,759	-	24,084	-

Policy

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the Company's functional currency. The currency risk is primarily denominated in United States dollars (USD). Policy is to hedge up to 100% of trade payables and bank balances denominated in a foreign currency. At any point in time the Group also hedges between 20% and 100% of its estimated foreign currency exposure in respect of forecasted purchases over the following 12 months. Derivative contract and options have maturities of less than one year at the reporting date.

Determination of fair value

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds) plus an estimated credit margin that are available for similar financial instruments.

The fair value of foreign exchange options is based on market interest rates, foreign exchange rates and market volatility to calculate a market premium value for the given option.

b) Interest rate risk

The Group has no interest rate swaps in place at balance date.

Policy

The group is exposed to interest rate risk through its borrowing activities. Interest rate exposures are managed primarily by entering into derivative contracts to achieve an appropriate mix of fixed and floating rate exposure within the group's policy.

Determination of fair value

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

23. FINANCIAL INSTRUMENTS (CONTINUED)

c) Credit risk

The group is exposed to credit risk, in the normal course of business, from financial institutions and customers. The main objective is to minimise financial loss as a result of counterparty default.

Our credit policies to manage this exposure include:

- Individual policy limits
- Exposure to the agricultural industry through a limited number of merchants and direct customers
- Dealings with financial institutions with high credit ratings
- Regular reviews to determine any potential expected credit losses that require recognition

d) Liquidity risk

	CARRYING VALUE \$000	CONTRACTUAL CASH FLOWS \$000	0 - 12 MONTHS \$000
2019			
Unsecured bank loans	23,000	23,000	23,000
Trade and other payables	89,723	89,723	89,723
Net rebates payable	40,405	40,405	40,405
Total non-derivative liabilities	153,128	153,128	153,128
Net settled foreign exchange derivatives used for hedging:	11,057	11,808	11,808

	CARRYING VALUE \$000	CONTRACTUAL CASH FLOWS \$000	0 - 12 MONTHS \$000
2018			
Trade and other payables	81,681	81,681	81,681
Net rebates payable	39,425	39,425	39,425
Total non-derivative liabilities	121,106	121,106	121,106
Net settled foreign exchange derivatives used for hedging:	5,767	5,892	5,892

The above table shows the timing of non-discounted cash flows for all financial instrument liabilities and derivatives.

Policy

The group is exposed to liquidity risk where there is a risk that the group may encounter difficulty in meeting its day to day obligations due to the timing of cash receipts and payments. The objective is to ensure the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2019, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

23. FINANCIAL INSTRUMENTS (CONTINUED)

e) Classification and fair values

2019	FAIR VALUE - HEDGING INSTRUMENTS \$000	AMORTISED COST \$000	TOTAL CARRYING AMOUNT \$000
Assets			
Derivatives	11,085	-	11,085
Trade and other receivables	-	98,942	98,942
Cash and cash equivalents	-	8,456	8,456
Total assets	11,085	107,398	118,483
Liabilities			
Derivatives	28	-	28
Trade and other payables	-	89,723	89,723
Net rebates payable	-	40,405	40,405
Bank Loans	-	23,000	23,000
Total liabilities	28	153,128	153,156

2018	FAIR VALUE - HEDGING INSTRUMENTS \$000	AMORTISED COST \$000	TOTAL CARRYING AMOUNT \$000
Assets			
Derivatives	6,122	-	6,122
Trade and other receivables	-	95,905	95,905
Cash and cash equivalents	-	15,234	15,234
Total assets	6,122	111,139	117,261
Liabilities			
Derivatives	355	-	355
Trade and other payables	-	81,681	81,681
Net rebates payable	-	39,425	39,425
Total liabilities	355	121,106	121,461

Determination of fair value

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

f) Fair value hierarchy

Financial instruments measured at fair value are classified according to the following levels:

- Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities
 - Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
 - Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs)
- Derivative financial assets and liabilities are level 2 on the fair value hierarchy.

24. Contingencies

Contingent liabilities

The Directors are not aware of any material contingent liabilities at balance date.

25. Subsequent events

There have been no events subsequent to balance date which would have a material effect on the financial statements.



Independent Auditor's Report

To the Shareholders of Ballance Agri-Nutrients Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Ballance Agri-Nutrients Limited (the 'Company') and its subsidiaries (the 'Group') on pages 54 to 74:

- i. Present fairly in all material respects the Group's financial position as at 31 May 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- The consolidated balance sheet as at 31 May 2019;
- The consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Group in relation to tax compliance, tax advisory and other assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$4.2 million with reference to the benchmarks of total expenses and profit before rebate and tax. We chose these benchmarks because, in our view, they are key measures of the Group's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the Shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.



The key audit matter

How the matter was addressed in our audit

Valuation and accuracy of inventory (\$161.7 million)

As disclosed in note 11 of the financial statements, the Group has inventory of \$161.7 million (2018: \$166.1 million).

Key components of inventory include manufactured and finished goods (\$120.5 million) and raw materials (\$17.1 million).

Inventory is a significant component of the balance sheet and it is held at a number of locations. Given the nature of the Group's products, complex measurements and conversion calculations are required to determine the volume of inventory on hand.

Judgement is also required in determining the value of inventory in cases where it may be difficult to use or sell inventory profitably.

Our audit procedures included:

- Assessing controls over the valuation and accuracy of inventory;
- Attending physical stock counts at key sites and comparing our own calculation of inventory volumes and conversions to those recorded for a sample of stock holdings;
- Comparing inventory volumes on hand at year end with sales volumes for the period to identify potential obsolescence issues;
- Comparing the per unit carrying value for inventory on hand at year end with a range of selling prices to identify stock that may be overvalued; and
- Examining management's inventory provision assessments, challenging key assumptions including alternative uses for products and considering alternatives.

We did not identify material exceptions from procedures performed, and found the judgements and assumptions to be balanced and consistent with our understanding of the nature and intended use of the inventory.

Lease site exit provision (\$6.0 million)

As disclosed in note 19 of the financial statements, the Group has recorded provisions of \$9.9 million (2018: \$10.3 million).

Included in the total provisions balance of \$9.9 million is \$6.0 million for returning the Northland Hub site to the agreed condition on the termination of the lease (2018: \$8.0 million).

Determining the value of the site exit provision requires significant judgement including assessing the obligations within the lease agreement, the current condition of the site and the cost and timing of remediation work.

Our audit procedures included:

- Determining whether an obligation exists based on the lease agreement;
- Challenging management's assessment of the work to be completed and expected costs by reviewing lease agreements, engineers reports and quotes to complete remedial work;
- Assessing and challenging the method used in calculating the provision to be recognised; and
- Comparing actual costs incurred in the initial phase of the site exit work with amounts provided for in previous years to determine whether or not the remaining costs may be over or under provided for.

We did not identify material exceptions from procedures performed, and found the judgements and assumptions to be balanced and consistent with our understanding of the nature and obligations of the lease agreement to remediate the site.

Other information

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information includes the Directors' Interests section and the other information included in the Annual report. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have received the Directors' Interest section and have nothing to report in regards to it. The full Annual Report is expected to be made available to us after the date of this Independent Auditor's Report and we will report the matters identified, if any, to the Directors.



Use of this independent auditor's report

This independent auditor's report is made solely to the Shareholders as a body. Our audit work has been undertaken so that we might state to the Shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the Company, are responsible for:

- The preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- Implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- To obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- To issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Murray Dunn.

For and on behalf of:

KPMG
Hamilton
24 July 2019

Directors' Interests

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

GENERAL DISCLOSURES

Particulars of other company appointments (excluding some family and farming companies) are:

DIRECTOR	POSITION	COMPANY
GW Baldwin (retired 09/2018)	Councillor	South Waikato District Council
	Director	Awarua Dairies Ltd Livestock Improvement Corporation Ltd Spitfire Dairies Ltd Trinity Lands Ltd Wuppertal Farming Ltd
DV Balle (elected 09/2018)	Director	Balle Bros Group Foodfirst Ltd Onions New Zealand Incorporated Open Country Dairy Limited Potatoes New Zealand Limited
		Otakaro Limited (retired 2018)
AG Brantley	CEO	Independent Assessment Board, Local Government of New Zealand Excellence Programme
	Director	Independent Schools of New Zealand (ISNZ) Waimakariri Irrigation Limited (appointed 2018) H.W. Richardson Group Ltd FarmRight Ltd (appointed Dec 2018) Westland Holdings Limited (appointed July 2018)
DJ Coull (elected 09/2018)	Chairman	Fonterra Shareholders Council
	Director	Coull Farms Limited RBS 2015 Ltd Waipa Pastoral Ltd
KR Ellis	Chairman	NZ Social Infrastructure Fund Ltd Metlifecare Limited Sleepyhead Group Ltd
	Consultant Director	Envirowaste Services Ltd Freightways Ltd FSF Management Company Ltd Port of Tauranga Ltd
AD Morrison	Chairman	Beef + Lamb New Zealand Ltd NZ Meat Board
	Director	Glenroy Morrison Ltd Ovis Management Ltd Pastoral Greenhouse Gas Research Consortium Wool Research Organisation of New Zealand Agricultural Leaders Health and Safety Action Group incorporated
	Member Partner	AD Morrison Farms Partnership
DE Peacocke	Director	Melrose Ltd New Zealand Phosphate Company Ltd Taupiri Holdings Ltd The Adare Company Ltd Pulham & Begbie Ltd (appointed March 2019) Raglan Cattle Company Ltd (appointed March 2019)
		Flick Energy Ltd (ceased March 2019)
SD Robertson	Director	
DM Smit (Resigned 09/2018)	Director	Corona Farms Ltd Fonterra Co-operative Group Ltd KEL Paengaroa Orchard Ltd KEL Rangiuru Orchard Ltd KEL Woodlands Orchard Ltd Kiwifruit Equities Ltd Seven Mile Farms Ltd
		Alliance Group Ltd Taumata Plantations Ltd (appointed January 2019)
MJ Taggart	Chairman	
	Director	FMG Insurance Ltd Oxford Health Charity Ltd MJ and RM Taggart North Canterbury Farmers' Charitable Trust Oxford Health Charitable Trust
SJ von Dadelszen	Shareholder	Hinerangi Station Ltd Totara Dairy Farm Ltd
	Treasurer Trustee	Dannevirke Hunt AGMARDT

Directors' Interests

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

SPECIFIC DISCLOSURES

Interests were declared during the year as appropriate pursuant to section 140(1) of the Companies Act 1993 for the following commercial relationships:

All company directors and those of relevant subsidiary companies disclosed their appropriate interests in connection with securities for banking and loan facilities to Group companies.

COMPANY INFORMATION

No requests have been received from directors under section 145 of the Companies Act 1993 to use Company information received in their capacity as directors which would not otherwise have been available to them.

SHARE DEALINGS

Directors hold, purchase and resell shares consistent with the share quota system related to fertiliser purchases adopted by the Co-operative. There have been no share transactions requiring disclosure to the Board under section 148(2) of the Companies Act 1993 other than when shares are held under the quota system, beneficially in either a director's own name, or by an associated person and are in the ordinary course of business of the Company.

SUBSIDIARY COMPANY DIRECTORS

Section 211(2) of the Companies Act 1993 requires the company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by directors and former directors and particulars of entries in the interests registers made during the year ended 31 May 2019.

Subsidiary company directors' disclosures:

No employee of Ballance Agri-Nutrients Limited appointed as a director of a subsidiary receives any remuneration or benefits as a director. The remuneration and other benefits of such employees are included in the relevant bandings for remuneration under employee remuneration. Employees of Ballance Agri-Nutrients Limited are indicated by an (E) after their name. Except where shown in the directors' remuneration table, no other director of any subsidiary company within the group receives directors' fees or other benefits as a director.

The following persons respectively held office as directors of subsidiary companies at the end of the year, or in the case of those persons with an (R) after their name ceased to hold office during the year.

Ag Hub Limited RK Hopkins (R), MD Wynne (E), NB Jackson (E).	Altum Nutrition Limited RK Hopkins (R), MD Wynne (E), NB Jackson (E).
Ballance Agri-Nutrients (Kapuni) Limited RK Hopkins (R), MD Wynne (E), NB Jackson (E).	Seales Winslow Limited RK Hopkins (R), MD Wynne (E), NB Jackson (E).
Bay of Plenty Fertiliser Company Limited RK Hopkins (R), MD Wynne (E), NB Jackson (E).	Southfert Limited RK Hopkins (R), MD Wynne (E), NB Jackson (E).
BOP Fertiliser Limited RK Hopkins (R), MD Wynne (E), NB Jackson (E).	Summit Quinphos Limited RK Hopkins (R), MD Wynne (E), NB Jackson (E).
Ballance Limited RK Hopkins (R), MD Wynne (E), NB Jackson (E).	Super Air Limited RK Hopkins (R), MD Wynne (E), NB Jackson (E).

Directors' Remuneration

Fees paid to Directors were:

	PARENT AND GROUP
GW Baldwin	22,556
DV Balle	50,833
AG Brantley	73,389
DJ Coull	50,833
KR Ellis	78,389
AD Morrison	73,389
DE Peacocke	156,133
SD Robertson	83,389
DM Smit	22,556
MJ Taggart	73,389
SJ von Dadelszen	73,389
Total paid to Company Directors	758,244

Corporate Governance

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

INTRODUCTION

Ballance Agri-Nutrients Limited is a significant company in the New Zealand agricultural industry, supplying about half of the national solid fertiliser demand as well as other farm nutrient products, advice and services.

The Company is a farmer owned co-operative with approximately 19,000 shareholders who are also customers. The Board and management follow best practice corporate governance principles and processes suited to the requirements of a co-operative company and its shareholders.

The Board is committed to acting with integrity and expects high standards of behaviour and accountability from all of its directors and employees.

The Board's primary objectives are the creation of shareholder value through execution of appropriate strategies and ensuring effective use of Company resources in providing customer satisfaction and helping New Zealand farmers to farm more profitably and sustainably.

The Company aims to be a good employer and a responsible corporate citizen.

ROLE OF THE BOARD

The Board is responsible to shareholders for directing the management of their co-operative through participation in the development of strategies, objectives and key policies.

Day-to-day running of the Company is delegated to the Chief Executive, and this is monitored by the Board to ensure business is carried out within the agreed framework.

The Board and its Code of Conduct is governed by the Company's Constitution and Board Charter which outline the Board's functions and operating procedures.

RISK MANAGEMENT

The Board is committed to the principle that it should regularly verify that the Company has appropriate processes in place to identify and manage potential and relevant risks.

A formal risk management process operates with the Board routinely monitoring those risks identified as potentially having a material impact on the Company.

BOARD MEMBERSHIP

The composition of the Ballance Board is reflective of the co-operative status of the Company.

The constitution provides for six elected directors from two wards, plus a maximum of three additional directors appointed by the Board.

Two elected directors retire by rotation each three years and if more than one valid nomination is received for a vacancy an election is conducted with results confirmed at the shareholder Annual Meeting. Eligible retiring directors can seek re-election.

Elected directors must be shareholders of the Company through the quota shareholding of their farming enterprises with this interest declared and insider protocols applied at all times.

There are no executive directors.

APPOINTED DIRECTORS

The Ballance constitution provides for the Board to appoint a maximum of three additional directors but does not distinguish between independent and non-independent directors.

Appointed directors are selected based on a determined skill-set that will complement the existing board. Currently each of the appointed positions is filled. Appointment is for an agreed term and is reconfirmed annually.

The Company considers the appointed directors do not have a direct or indirect interest or relationship that could reasonably influence, in a material way, the directors' decisions in relation to the Company.

BOARD MEETINGS

The Chief Executive and the Chairman prepare a meeting agenda. Any member of the Board may request the addition of an item to the agenda. The Board met on nine occasions in the financial year ended 31 May 2019. The length of meetings is usually one day, extending to two days for meetings with special business, including, the annual strategic plan development and the annual shareholder meeting. Teleconference meetings are conducted in addition as required.

Directors also represent the Company at numerous shareholder information meetings, major sponsored events including the Ballance Farm Environment Awards regional and national final events, at regional and national field days, at important industry and supporting industry events, and in making submissions to Government and other regulatory authorities.

BOARD REVIEW

Under a defined process regular reviews are conducted of the performance of individual directors and the Board as a whole. This includes a confidential performance appraisal of each director during each three-year term by all Board members with the Chairman responsible for discussing results with the directors being assessed.

BOARD COMMITTEES

Two Board committees assist with governance and help guide effective decision making. They have terms of reference, reviewed annually, and report to the Board.

AUDIT COMMITTEE

The Audit Committee comprises five directors and cannot be chaired by the Board Chairman. The current Chairman is appointed director Simon Robertson. The Committee convene meetings as required to ensure coverage of their terms of reference.

It is Group policy to ensure that audit independence is maintained so that external financial reporting is reliable and credible. The policy covers non-audit services provided by the external auditors and their fees and billings.

The Audit Committee is responsible for:

- Ensuring the quality and integrity of Group accountancy practices, policies and controls
- Advising on the appointment of the external auditor
- Reviewing audits of the Group's financial statements by external auditors
- Overseeing the Group's internal audit and risk management programmes to ensure all key risks to the organisation are identified, assessed and mitigated
- Reviewing any non-audit work carried out by the Company's auditors and assesses auditor independence.

At least once a year, the Chairman and directors on this Committee meet with the external auditors privately without the presence of Company executives.

If required, the Committee has the power to seek any information to from employees to do its work and to obtain independent legal or other professional advice. In circumstances where a director was to obtain separate advice from that obtained on behalf of the group that advice would normally be provided to all directors.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three directors, and is currently chaired by appointed director Kim Ellis.

The Remuneration Committee is responsible for reviewing and recommending to the full board:

- The Chief Executive's performance annually and his remuneration
- The remuneration of the Chief Executive's direct reports and any annual incentive payment targets
- The overall salary review level for the company
- Ensuring succession plans are in place for the Chief Executive and the position's direct reports
- The fees payable to directors, subject to shareholder approval.

Corporate Governance

FOR THE YEAR ENDED 31 MAY 2019. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

Any proposal for significant change in company-wide remuneration policies and programmes is dealt with by the full Board. The Committee convene meetings as required to ensure coverage of their terms of reference.

SHAREHOLDER COMMUNICATION

Ballance places considerable importance on communicating with our shareholders.

Regular communications covering company activities, co-operative affairs and scientific advice are distributed and made available to our shareholders.

An annual review with highlights of the financial performance is distributed to shareholders, and the full annual report is posted on the company website, with hard copies available on request. Shareholders may raise matters for discussion at Annual Meetings and have the ultimate control in corporate governance by voting directors on or off the Board.

CONTINUOUS DISCLOSURE

Ballance is not a listed company and is not governed by the NZX continuous disclosure rules.

HEALTH AND SAFETY

Ballance is committed to protecting all people – including employees, contractors, visitors, customers and the general community – from injury or illness as a result of our operations.

We take health and safety seriously and demonstrate this through our Zero Harm approach. We believe that no business activity should take priority over health and safety and that all incidents are preventable. While directors and management have ultimate accountability, every employee of the Company has a responsibility for health and safety and we reinforce this in our induction programmes and employee briefings.

We maintain and continually improve our health and safety management system, accurately reporting and recording all incidents and accidents, and ensuring actions are taken to prevent similar incidents or accidents occurring.

The Board routinely monitors performance and developments in the area of health and safety. Management reports monthly to the Board on safety performance, key performance measures benchmarked to international best practice, trends and any continuous improvement initiatives introduced.

ENVIRONMENT

Ballance strives to ensure that our leadership, products, services, advice and operational responsibilities meet the highest environmental standards.

To achieve this, the Company has developed and implements environmental policies supported by a comprehensive environmental management system. It identifies environmental issues, and ensures they are well and consistently managed and support the continual improvement of operations to minimise use of resources and reduce waste.

The Company's research and development objectives are in alignment with its environmental objectives, with a programme of work underway aimed at increasing the productive capacity of the primary sector while reducing environmental impacts.

Environmental advocacy is a core function of the Company with Ballance working to advocate strongly on behalf of farmers in relation to government regulations on use of natural resources, with particular emphasis on nutrient management.

The fertiliser recommendations given by employees for the use of products sold by the Company are subject to a random audit. The audits ensure recommendations and nutrient advice is of the highest standard and that employees receive appropriate training and support. Audit outcomes are reported to the Board.

Management provides a monthly report to the Board on resource consent compliance and key environmental performance measures. The Board is routinely updated on environmental legislation, regulation and regional plans as these affect the Company's operations and the use of its products by shareholders and customers.

Directory

BALLANCE AGRI-NUTRIENTS LIMITED

Board of Directors

David Peacocke – Chairman and Director (North Island)

Albert Brantley – Appointed Director

Kim Ellis – Appointed Director

Simon Robertson – Appointed Director

Dacey Balle – Director (North Island)

Duncan Coull – Director (North Island)

Sarah von Dadelszen – Director (North Island)

Andrew Morrison – Director (South Island)

Murray Taggart – Director (South Island)

REGISTERED OFFICE

161 Hewletts Road, Mount Maunganui

SOLICITORS

Russell McVeagh

PO Box 8, Auckland

Sharp Tudhope

Private Bag, Tauranga

BANKERS

ANZ Bank New Zealand Limited

Commonwealth Bank of Australia

Hong Kong and Shanghai Banking Corporation Limited

Westpac Banking Corporation

AUDITOR

KPMG

PO Box 110, Tauranga

LEADERSHIP TEAM

Mark Wynne – Chief Executive

Shane Dufaur – GM Operations & Supply Chain

Sheena Henderson – GM Customer Experience & Marketing

Jason Minkhorst – GM Sales

Dave Scullin – Chief Digital Officer

Matt Skilton – Chief Financial Officer

Edith Sykes – GM People & Capability

BALLANCE AGRI-NUTRIENTS LIMITED – HEAD OFFICE

Private Bag 12503, Tauranga

Phone 07 572 7900

Fax 07 575 6233

Email receptionm@ballance.co.nz

Freephone customer line 0800 222 090

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Phone 06 272 6449

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SEALES WINSLOW LIMITED

PO Box 11, Morrinsville, 3340

Phone 0800 287 325

Fax 07 889 4025

Email sales@sealeswinslow.co.nz

Website www.sealeswinslow.co.nz

SUPER AIR LIMITED

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