

SHAREHOLDER UPDATE

DECEMBER 2013

OVER THE GATE

REBATE 'CHERRY ON TOP'

As the year draws to a close, most of the country has been experiencing ideal pasture growth conditions, and with good cash flow across the various farming sectors there has been an appetite for both fertiliser and feed to further boost productivity.



As to be expected, with a strong spring season, year to date fertiliser sales are tracking ahead of this time last year, however we expect this to taper off in the second half of the financial year as demand for product eases off.

For Ballance shareholders, a great spring has been capped off with an extra cash injection from a healthy rebate and the knowledge your co-operative is doing the best for you.

We have also received feedback from customers regarding the good physical quality of our locally manufactured product, which is a testament to the hard work that goes on behind the scenes by our manufacturing teams to integrate various phosphate rocks from around the world to meet the chemical and physical specifications you required to keep your farms running.

Our co-operative often uses the term "you're better off with Ballance", and when compared on nearly every measure – be it within our own market

here in New Zealand, or agricultural countries around the world, the sentiment rings true. Many of the big international players in the fertiliser market run corporate organisations and don't return profits to farmer shareholders, while closer to home Ballance continues to deliver superior rebate payments to New Zealand farmers in return for their loyalty.

These results are clearly indicative in the number of new shareholders we have signing up. Our growing shareholder base is not only a huge vote of confidence for Ballance, but it also underlines the strength of the agriculture sector in New Zealand and the benefits of belonging to a co-operative.

Your co-operative is in a strong position and it's pleasing to see that farmers have recognised Ballance's consistently stable financial performance and rebates and its breadth of agri-nutrient products.

Sticking to our core business of farm nutrients and expanding our

fertiliser business to include animal feed and effluent, has been key to our success. This approach has led to our investment in SealesWinslow to manufacture and sell animal feed, and in Ag Hub to provide farm technology that supports more efficient nutrient use on farm. The end result will be an enhanced service to shareholders, delivering all of your farm nutrient needs through one supplier.

Our aim is to create real value for our shareholders through this complete nutrient management approach, and we believe this is the way forward to help our customers to farm more sustainably, while at the same time increasing productivity and profitability.

I would like to take this opportunity to wish you Merry Christmas and good growing conditions over the summer and autumn months. Stay safe and enjoy time with family and friends.

DAVID PEACOCKE
Chairman

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CADMIUM TESTS KEEP LEVELS LOW

Growing numbers of Ballance customers are adding cadmium testing to their routine soil sampling regime, a move which is both encouraged and welcomed by your co-operative.

Research and Development Manager, Warwick Catto, says proactive management of cadmium, a naturally occurring heavy metal, needs to start with understanding levels on farm.

"You can't manage something if you are not aware of it. Adding a cadmium test to your soil sampling is like adding a cholesterol test to a blood test. It's a simple way to identify if you need to make some changes to keep healthy. Just like medical tests, the results of cadmium testing are confidential to the farmer."

Ballance offers cadmium testing as part of the proactive management strategy being run by the Ministry for Primary Industries, the fertiliser industry, primary sector groups and supporting councils.

The strategy, announced in 2011, makes it clear that cadmium levels in New Zealand soils pose no immediate concern, with MPI food safety experts estimating that the amount of cadmium in the diets of average New Zealanders is at levels far below those which could cause health risks. It also recognises the need to keep levels low for the long term through a combination of governance, research, monitoring and management activity for food, soils and fertiliser.

Warwick says trends from soil tests to date indicate that farms with long histories of over 20 years of higher

phosphate fertiliser use have higher soil cadmium levels.

“ When farmers know their levels, they can assess their risk and get sound advice from us about product choices. An accurate assessment is the first step to putting a plan in place, if needed, that is right for your farm and maintains cadmium at safe levels long term. ”



WHANGAREI MANUFACTURING CEASES

Ballance regularly reviews our operations to ensure they deliver the best possible value for our shareholders, and for the long-term success of the business in an increasingly competitive environment. We have undertaken a review at our Whangarei superphosphate manufacturing facility to determine the ongoing viability of production.

As a result we have decided to cease manufacturing superphosphate fertiliser and sulphuric acid at the site. The site will continue as our Northland distribution hub and Whangarei Service Centre. Sulphur prilling will also continue at the site.

"Financially this is the right decision for the business and our shareholders. A significant capital investment of millions of dollars would have been required in order for the acid plant to remain compliant, safe and operational if manufacturing was to continue at the site. We have also seen declining phosphate use locally," says General Manager Fertiliser Operations and Distribution Greg Delaney.

"Unfortunately, decommissioning the plant has affected

some of our employees who have either found alternative employment within the Ballance group, or have become redundant. Throughout this process we provided extensive support services to help them prepare for their futures and to find other suitable employment at this difficult time."

For our Northland shareholders, you can expect the same level of service and product standards you have come to expect from your co-operative and we look forward to your ongoing support.

Manufacturing ceased in October 2013 and decommissioning of the plant will take place over the coming months.

PRICE DROP

Shareholders stand to benefit from a global oversupply of plant nutrients and weak international demand, with Ballance leading the domestic market down in its latest round of price cuts.

Ballance reduced the price on many of its fertiliser nutrients on Friday 6 December, with a significant price reduction for potash to follow in the New Year.

The price reductions follow an earlier cut made in July to help farmers get a head start with spring nutrient applications.

Chief Executive Larry Bilodeau says Ballance's philosophy is to keep pricing as competitive as possible and to quickly pass on benefits from smart purchasing or market trends.

"We always have one eye on prices and one on what the markets are doing so our shareholders and customers get the best deals, especially at times of high demand."

Mr Bilodeau said that while the general expectation is that prices for phosphate rock, urea and sulphur will start to trend upwards in 2014 as supply and demand aligns, global pricing for potash is expected to remain sluggish.

"We have secured a new shipment of potash at a lower price, and when this arrives in late January significantly lower prices will be applied so farmers can receive the full benefits of our purchasing."

As farmers look to replace nutrients on the back of strong spring growth conditions Mr Bilodeau said there was good cause for maintenance fertiliser applications to keep pasture performing at its optimum and he expected demand for all products to continue well into the summer months.

PS: DON'T FORGET S

Easily overlooked in fertiliser programmes, sulphur is an important nutrient in any farm setting. If sulphur levels in the soil are too low, plant growth will suffer, and when that happens, production – meat, milk, wool – will also fall.

There are a number of ways to address sulphur deficiencies, and it's important to choose the right product for your situation.

Commonly deficient in New Zealand soils, sulphur can easily limit production. Traditionally, it has been applied in superphosphate, which kept most deficiencies at bay.

Changing fertiliser application patterns have meant that more attention needs to be paid to sulphur these days.

Today sulphur is common to Ballance's manufactured products such as Superten, Serpentine Super and Sulphurgain.

Depending on specific farm requirements there are a number of options when it comes to sulphur fertilisers – choosing the right one for your farm is important for both production and profitability.

Need more information? Although sulphur is a relatively cheap nutrient, it is still important to ensure that you apply the right amount, in the right form, at the right time. Talk to your Ballance consultant for specific advice for your farm.



60 CENT SHARE REVALUATION

Ballance shares are now valued at \$8.10 following shareholder approval of a 60 cent increase in valuation at the annual meeting in Hamilton on 25 September 2013.

The increase is the third revaluation in six years, supported by the co-operative's strong balance sheet and financial performance. Based on an average shareholding of 3,000 shares to cover 100 MT of fertiliser purchases, the increase represents a \$1,800 increase in a typical shareholders' equity in the company.

It caps off a year in which Ballance delivered a record rebate and dividend of \$65/tonne and a record trading result of \$92.6 million despite the drought drying up fertiliser demand and impacting sales volumes. The rebate averaging \$60.83 per tonne and a fully imputed dividend of 10 cents per share, saw the co-operative's 18,300 shareholders receive a \$65 million distribution in August.

Outgoing Chairman, David Graham, said the record

performance and rebate, coupled with the higher share value, meant he would go out on a high note.

“ In my 15 years as a Director, the last 10 as Chairman, I have seen our co-operative grow and thrive. We have expanded our core fertiliser business to provide the full range of nutrients and advice our shareholders and our customers expect from us. ”

In Director elections, Dean Nikora was returned unopposed in Ward B while Oliver Saxton was re-elected for Ward A.

ONLINE FARM MANAGEMENT COMING

Ballance Agri-Nutrients made a complete acquisition of the on-line farm management system, Ag Hub, in December 2012.

With the Ag Hub business now owned by Ballance, your co-operative is working to deliver the advantages of full ownership to its shareholders.

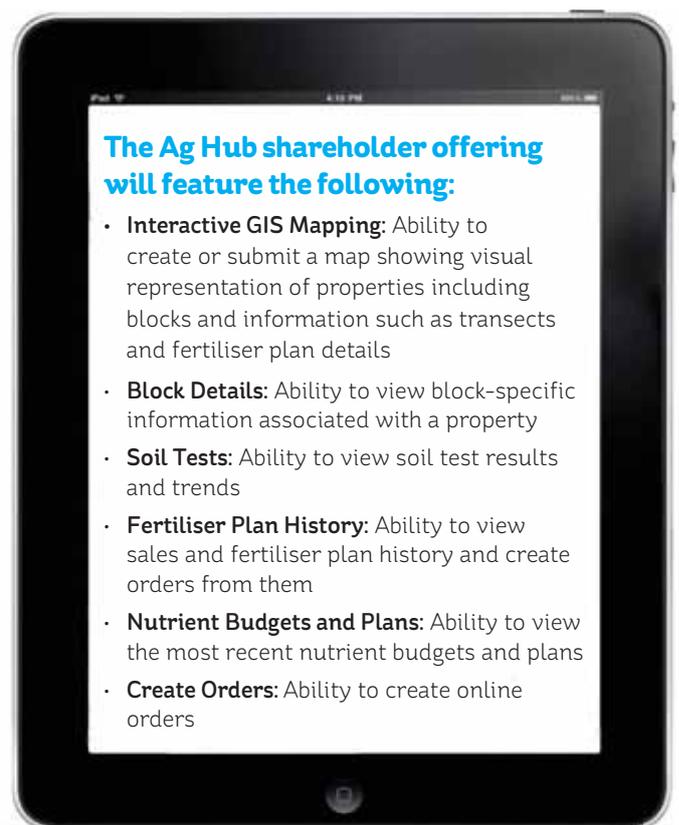
“ Work is now underway to deliver an online solution for your fertiliser inputs that will provide information to help you make the right decisions for the environment and your business, which will be available exclusively to Ballance shareholders in 2014. ”

Ballance Agri-Nutrients General Manager of AgInformation, Graeme Martin, says that Ag Hub doesn't replace management decisions, but gives farmers easy access to timely information to help them make smarter decisions.

The system is designed to help reduce costs and improve productivity and sustainable farm management. Specifically, the exclusive shareholder offering will make use of technology to assist farmers to manage their nutrients on farm more efficiently. It will also provide single-sign-on access to Ag Hub and Ballance Online services.

New farming within limits policies being set by regional councils throughout the country are changing the way

New Zealanders farm. Technology like Ag Hub is helping to make the transition a smooth one, as well as providing additional benefits and support for farmers.



SPEAKING UP ON FRESHWATER REFORMS

Ballance Agri-Nutrients will be advocating for shareholders' interests as the Government invites submissions on proposed amendments to the National Policy statement for Freshwater Management.

Environment Minister Amy Adams and Primary Industries Minister Nathan Guy recently released proposals for improving freshwater management, including national water standards. The Government is now seeking feedback on a discussion document which includes a proposal to provide a nationally-consistent and scientific basis for assessing water quality. Submissions on the document close on 14 February 2014.

Ballance Research and Development Manager, Warwick Catto, says the co-operative has been closely monitoring reforms and advocating on behalf of farmers, and will be making a submission both individually and in conjunction with the Fertiliser Association of New Zealand.

"There is a lot of common ground among everyone with a stake in freshwater policy management – whether they are farmers, recreational users, local authorities or iwi. We all acknowledge the importance of water, the need to use it wisely and well and the need to protect water quality so future generations' rights are protected.

"But it is also crucial that we use the best possible framework, especially when it comes to agriculture, given the fundamental role it plays in our economy and in feeding New Zealanders. That starts with a science and an evidence-backed framework for assessing the quality of waterways today and setting bottom lines about quality tomorrow.

“ The proposed framework comes with some clear bottom lines for ecosystem and human health. We support these bottom lines, but we also support the use of sound science so we are not setting bottom lines which are impractical when it comes to supporting agriculture. ”

FARMERS ARE WILLING

Farmers are more than willing to play a role in improving water quality, with major organisations like DairyNZ supporting the proposal to require councils to account for water quality and quantity by tracking all water takes and where contaminants are coming from in regions including urban, industrial and rural sources.

“ This is very much in line with the approach taken by Ballance and the fertiliser industry. We are very much in the front line when it comes to managing nutrient losses and enabling farmers to maintain or improve production without environmental impacts, ”
says Mr Catto.

RESEARCH WILL BOOST WATER QUALITY

A significant share of Ballance's Clearview Innovations research and development programme is focused on more efficient, targeted use of fertilisers and minimising their environmental impact. This includes a new three-year study, funded by Ballance, which will build an understanding of how pasture absorbs and metabolises nitrogen. This work is being conducted by a Postdoctoral Fellow Jonathan Love and two PhD students at the University of Canterbury.

Mr Catto says efficient use of nitrogen is essential to keep farm expenses down and to minimise the cost to the environment of overuse. To support use efficiency, Ballance-developed software, such as MitAgator, will give farmers access to information about how they can reduce nutrient losses while getting the best response from their fertiliser use.

“ This is all about good science supporting good on-farm practices to achieve the water quality improvements our communities and our farmers want. ”



WOMEN LEADERS ATTEND APEC

Two prominent leaders from the Ballance-sponsored Dairy Women's Network were selected to attend the invitation-only Asia -Pacific Economic Co-operation (APEC) Women Leadership Forum in Beijing in November.

Dairy Women's Network executive chair and Southland dairy farm owner Michelle Wilson and DairyNZ Director and Dairy Women's Network trustee, Taranaki dairy farm owner Barbara Kuriger were among a delegation of more than 20 New Zealand women invited to the forum. In total, 250 invitations were extended internationally.

Mrs Wilson said it was an honour to be invited to the forum and an exceptional opportunity to profile the New Zealand dairy industry and the achievements of the Dairy Women's Network in promoting the role of women in the business of dairy farming.

She said the rapid growth experienced by the Dairy Women's Network over the past few years signalled the changing face of the role of women in the industry and the significant contribution they make to its success.

“ In reality dairying women are directors, managers and, in many cases, owners of multi-million dollar businesses which need people with sound leadership skills as well as farming, financial and business acumen. ”

BUMPER CROP FOR TARANAKI AWARDS

Taranaki farmers have rallied to the challenge of the Ballance Farm Environment Awards, with 20 farms entering the awards which arrived in the region this year.

David Natzke, General Manager of the New Zealand Farm Environment Trust says the regional committee did an outstanding job to encourage entrants "and I don't envy the judges who will have a real job on their hands."

He says the strong interest will get the awards in the region off to a good start and the support of the Taranaki Regional Council as a partner has also been a bonus.

"Taranaki is a well-established farming area with many top operators, so we look forward to showcasing some magnificent examples of Taranaki farmers doing what they do best."

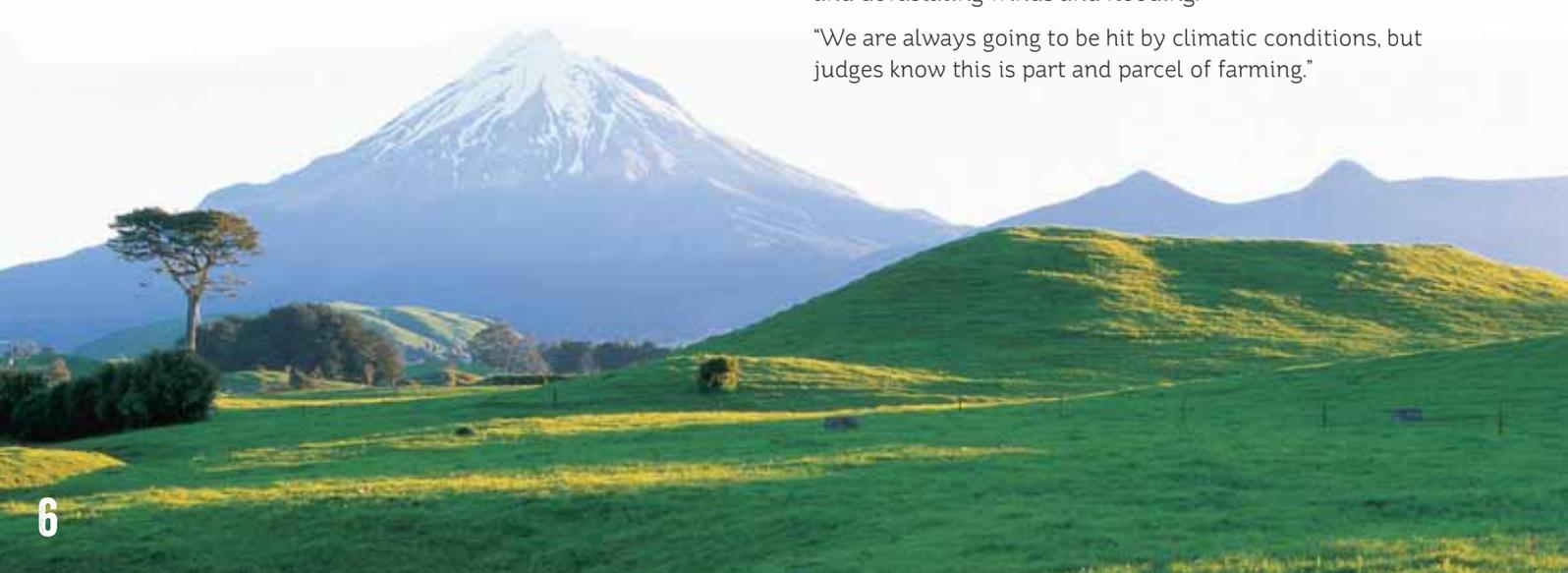
The addition of Taranaki brings the number of regions

involved in the Ballance Farm Environment Awards to ten.

“ Open to all farming and horticultural types, the awards promote sustainable land management by showcasing the work of people farming in a way that is environmentally, economically and socially sustainable. ”

David says overall entries for the 2014 have been good, despite many farms suffering the impacts of both drought and devastating winds and flooding.

"We are always going to be hit by climatic conditions, but judges know this is part and parcel of farming."



EQUITY RATIO EXPLAINED

Ballance's Equity Ratio, because of its name, might be confused with a Gearing Ratio or a Debt to Equity Ratio. Following a question at our annual meeting, we thought it was worth explaining the difference.

"The Equity Ratio is a co-operative specific ratio used by our banks to look at the financial health and stability of our business, it is the company's key banking ratio," says Chief Financial Officer Richard Hopkins.

Through the Equity Ratio banks measure a co-operative's ability to repay their liabilities. There is a concern, for example, that a co-operative could over distribute profits to shareholders and as a result could, theoretically, put at risk its ability to repay bank loans.

Richard explains that your co-operative's reported Equity Ratio is calculated by taking Ballance's assets and subtracting all current and long term liabilities (all debt, creditors and other liabilities) and dividing that by Ballance's total assets.

"An Equity Ratio can be improved by increasing your asset base and/or by reducing your liabilities. A higher Equity Ratio represents a stronger balance sheet and a stronger, more creditworthy, company," says Mr Hopkins.

An Equity Ratio at these levels, when combined with our other credit metrics indicate that we are in a very strong financial position.

"We would have a strong investment grade credit rating if our accounts were reviewed by a credit rating agency," says Richard.

The Equity Ratio is quite different from a traditional Gearing ratio, or Debt to Equity Ratio, where a higher ratio means a worse financial position. At 31 May 2013 Ballance had a total Debt to Equity Ratio of 12.4% down significantly from 79.1% in 2009, again demonstrating the co-operative's solid financial position.

BALLANCE'S EQUITY RATIO HAS BEEN STEADILY INCREASING OVER THE LAST 5 YEARS:

2009	50.1%
2010	65.3%
2011	62.8%
2012	64.2%
2013	71.2%

DONATION HONOURS SCHOLAR

Ballance Agri-Nutrients is donating \$12,000 to Leukemia and Blood Cancer New Zealand in memory of 2013 Ballance scholarship winner David Clay.



David was due to begin studying for a Bachelor of Engineering at Cambridge University in England this year. He had fought lymphoma since his diagnosis at the end of 2010 and had been undergoing chemotherapy during his last two years at school. David was unable to take advantage of his scholarship

as his cancer relapsed earlier this year, and a bone marrow transplant was planned. Unfortunately, he was unable to achieve remission and he passed away in August 2013.

Ballance Research and Development Manager Warwick Catto says Ballance wholeheartedly supported the family's wish to donate his scholarship funds and had great admiration for David, who grew up on an arable farm specialising in seed production in Leeston.

"He impressed us enormously with his drive and

determination. After his diagnosis and intensive chemotherapy, he still set his sights incredibly high and achieved a place at Cambridge University so he could study engineering at one of the world's top five universities for engineering and research. He was also planning a Masters or PhD.

"His intelligence, community involvement, musical ability and sheer drive to succeed shone through. He spoke with great enthusiasm about returning to New Zealand after his studies and applying his skills and knowledge to advance agriculture. It was clear David would make his mark and in some way we will ensure that still happens by funding research in his memory."

With the support of David's parents Jonathan Clay and Rosina Chubb, Ballance has asked Leukemia and Blood Cancer New Zealand to use the donation to fund research at the University of Auckland's new Leukemia and Blood Cancer Research Unit.

PROFIT WORKSHOPS A HIT

Ballance animal nutrition division SealesWinslow is running a series of seminars and workshops to help dairy farmers achieve higher production, margins and profits.

SealesWinslow's "Routes to Profitable Milk Production" roadshow, which kicked off in the Waikato in late October, has been rated highly for content and relevance by farmers attending.

Animal nutrition expert for SealesWinslow, James Hague, has been demonstrating how farmers can master the art of balancing the diet to fully feed the herd and benefit from better production from grass, higher production per cow and per hectare, higher margins and more profit.

In recognition of the value an integrated approach to farm nutrients can deliver for farming businesses, SealesWinslow has partnered with parent company Ballance Agri-Nutrients to bring the roadshow to farmers around the country.

Ballance General Manager of Animal Nutrition, Graeme Smith, says the series is part of the co-operative's commitment to ensure farmers have access to the latest nutritional and technical information to drive farm profitability.

"We've had tremendous feedback to date with farmers commenting on how useful the information is, how they can apply it on-farm and the value they place on seeing first-hand the technology tools available to them like our milk production "Tracker" software," says Mr Smith.

The series consists of two events - a free seminar to provide an overview of issues impacting on profitable milk

production, and a one day workshop designed to upskill and empower farmers to take the next step, at a cost of \$499 per individual or couple. Participants can choose to attend one or both of the events.

With more sessions to be held in 2014, farmers interested in participating in an upcoming event should register with their local Ballance or SealesWinslow consultant, or by email to sales@sealeswinslow.co.nz.

TRACKER IN ACTION

Animal nutrition expert for SealesWinslow James Hague explains that the Tracker programme, developed in New Zealand, generates lactation curves for each animal in a herd and combines them to produce a production curve. The model behind Tracker has been tested over the last three seasons, using a large dataset across a range of herds, breeds and regions.

"Milk production data tells us a huge amount about the nutrition of the herd and by understanding what changes in milk composition tell us, we can help farmers make better informed decisions about how to balance the herd's diet to improve feed conversion efficiency, extending lactation while maintaining good cow condition," says Mr Hague.

"With the high forecast payout this season and bank account still suffering from the impact of last season's drought, farmers have been keen to learn more about the impact of good diet and its contribution to higher production, margins and profit."

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www.ballance.co.nz

