Ballance agri-nutrients

ANNUAL REPORT 2014

YOU CAN COUNT ON US

# TO BE ONE STEP AHEAD OF THE CHANGING NEEDS OF FARMERS

# THERE ARE THOSE WHO SELL FERTILISER AND FEED – AND THEN THERE'S BALLANCE. WE KNOW WHAT FARMERS WANT BECAUSE FARMERS OWN US. THEY COUNT ON US TO BE ONE STEP AHEAD OF THEIR CHANGING NEEDS.

We know that getting the best from the land requires a whole farm system approach to nutrient management. That's why we are working towards integrating fertiliser, feed, advice and technology into a package that together delivers results much greater than the sum of the individual parts.

We are taking steps to draw all our strengths into one cohesive package and it is proving to be a compelling combination.

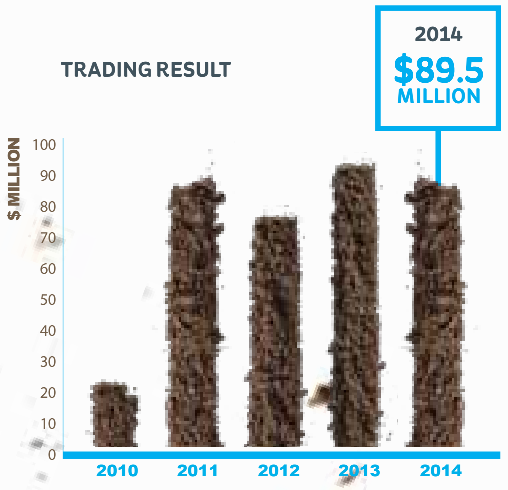
We're one step ahead of farmers' changing needs. They count on us to deliver innovative products and smart farm technology, all backed by sound science. We deliver on the farm with solutions to help farmers today, while continuing our research and product innovation to bring new and better products and technology to the farm tomorrow.

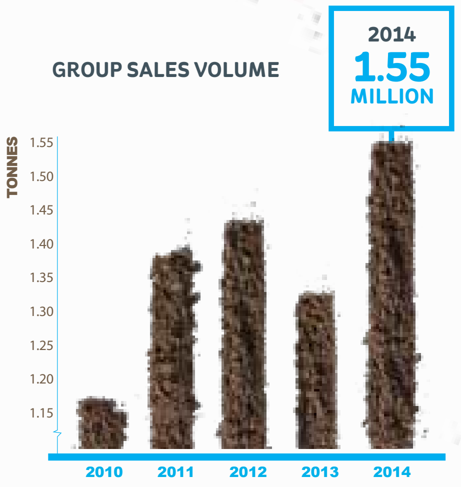
Farmers count on us to support the productivity of their livestock. We deliver, not only with our range of feeds and supplements, but also with expert advice on achieving the best production.

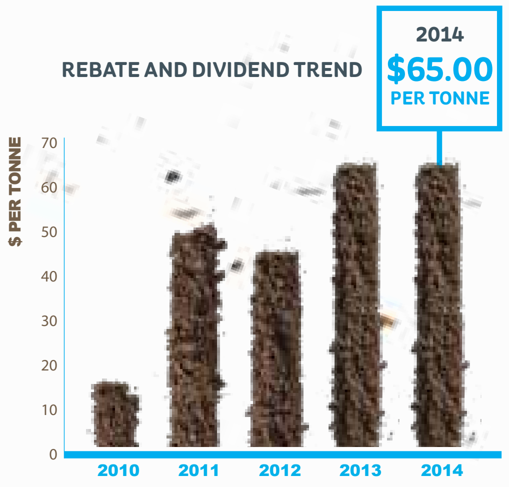
Our farmers and our shareholders also expect us to stay one step ahead by responding to changing community expectations. These range from the responsible use of resources and genuine care for our people's safety, through to fostering farming's sustainability. Our communities can count on us to do the right thing.

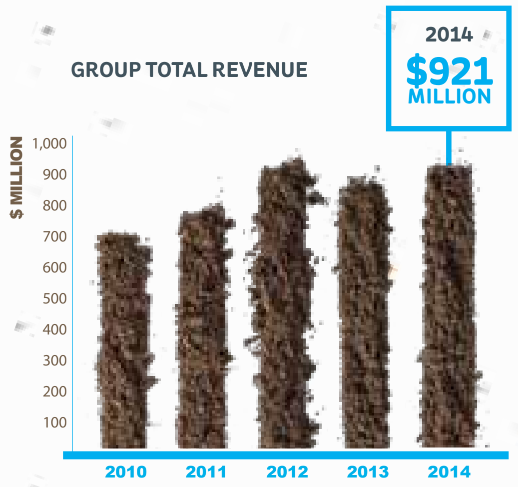
We're one step ahead and we're getting the right results, both in our performance and out on the farm.

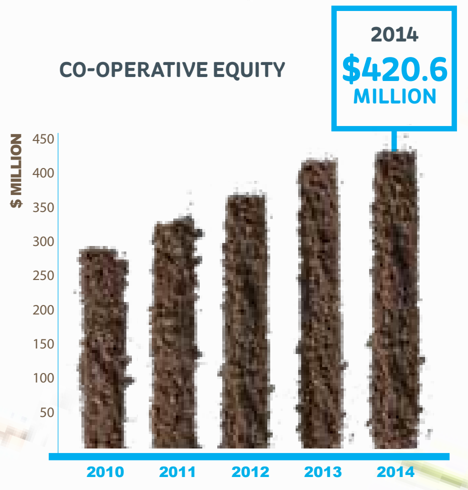
| | | 2014 | 2013 |
|---|---|---|---|
| **Trading** | | | |
| Group sales volume | tonnes | 1,554,000 | 1,331,000 |
| Group total revenue | $000 | 920,973 | 877,796 |
| Group trading result | $000 | 89,514 | 92,623 |
| Rebates pre-tax | $000 | 75,358 | 61,659 |
| Co-operative dividend proposed | $000 | 3,787 | 3,581 |
| **Capital** | | | |
| Number of shareholders | | 18,827 | 18,317 |
| Nominal share value | | $8.10 | $7.50 |
| Total Co-operative equity | $000 | 420,610 | 403,357 |
| **Assets** | | | |
| Total assets | $000 | 593,173 | 567,603 |
| Capital and investment expenditure – net | $000 | 49,709 | 21,903 |
| **Important Ratios** | | | |
| Group equity | | 70.9% | 71.2% |
| Current ratio | | 2.5 | 3.2 |

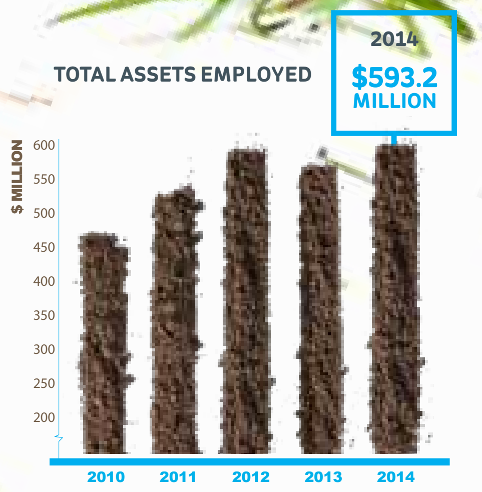



Ballance agri-nutrients

YOU CAN COUNT ON US

# TO DELIVER RESULTS BOTH ON AND OFF FARM ✓

## Chairman and Chief Executive's Report

Once again we have delivered for our shareholders with another solid financial performance in what has been a defining year for our co-operative.

The numbers speak for themselves, achieving a best-ever result and distributing a record $75.4 million to shareholders.

On a like-for-like basis, the group's result was a new record at $93.5 million, ahead of last year's record $92.6 million. One-off restructuring costs related to the decommissioning of the Whangarei plant reduced the result to $89.5 million.

Revenues were $921 million, compared with the prior year's $878 million.

The distribution combines a rebate averaging $60.83 per tonne on fertiliser purchases and a fully imputed dividend of 10 cents per share, which adds a further $4.17 per tonne. At $65 per tonne it matches last year's record. With the rebate covering higher fertiliser volumes, the total distribution is 21.4% higher than last year's $65 million.

What is pleasing is that we achieved this result in a year where we lost one month of urea production during the closure of our Kapuni plant for maintenance and capital improvements totalling $21 million.

Higher volumes meant our cost of goods sold also rose, and even with these financial hurdles, we crossed the finish line with our best result to date.

We operate in a highly contested market. While we are pleased with our performance, ultimately it is our customers who judge how well we are doing.

The verdict is positive, evidenced by the unprecedented demand this year from customers signing up to become shareholders.



**Larry Bilodeau**
CHIEF EXECUTIVE

**David Peacocke**
CHAIRMAN

**The result reflects the growing rural sector confidence experienced during the year and our ability to run a disciplined business, focused on delivering the best service and the best results for our shareholders.** ✓

**EFFICIENT OPERATIONS**

We've upheld our disciplined approach to cost management right across the business, keeping overall costs under control and continually improving our operations by finding new efficiencies wherever possible.

**This enables us to offer fair pricing and deliver strong returns to our shareholders, and affords us the flexibility to reinvest to grow the business when the right opportunities come our way.**

We have completed the year with a very strong balance sheet, having turned last year's $6 million net debt to a $28.3 million cash positive position. Ballance's equity ratio sits at 70.9%, similar to last year's record 71.2%.

As testament to the strength of our business, we repaid debt while keeping up investments in our operations and in research and development. In addition to improvements at Kapuni we invested $10 million to boost feed production and distribution capability at SealesWinslow, and completed several million dollars of improvements at our fertiliser distribution centres.

**SALES AND SUPPLY**

**With the highest sales volumes in the history of the co-operative, volumes of 1.55 million tonnes were 16.8% up on the prior year.**

Demand was driven by forecasts for a high dairy payout, improving red meat returns, more maize crops and farmers moving to improve pastures after drought conditions. We capped off the year with good autumn conditions which saw demand reach a peak, driving an upturn in year-end sales.

We work hard to forecast demand and regularly review and update our shipping programme to balance inventory levels as supply and demand fluctuates. Our long-term supply relationships afford us the flexibility to move quickly when the market changes.

Farmer support is secured in part by our ability to maintain competitive pricing while earning a fair margin on our products. Our strong supply relationships enabled us to source product very competitively throughout the year and maintain our focus on keeping fertiliser prices low in a volatile market. We passed on those savings to farmers as they were realised.

**ALIGNED TO OUR CUSTOMERS**

We want loyal customers and we recognise that loyalty has to be earned through service and advice that is right on the mark. Our field team has the backing of experts in soil and animal nutrition. As well as helping farmers achieve profitable production, we are there to help them navigate the complex requirements of farming within nutrient loss limits.

Last year we made significant progress towards implementing our complete nutrient management strategy by establishing new animal nutrition and farm technology divisions of the business, following the complete acquisitions of SealesWinslow and Ag Hub. This year has seen us drive the effectiveness of these divisions and start to align our capability across the business to provide an enhanced service that delivers our customers the on-farm results they desire.

**For shareholders, our farm technology is now offered to them free of charge, with exclusive access to a base package of the Ag Hub online farm management system.**

**EXPERT ADVICE**

Farmers have the right to expect expert advice from suitably qualified people.

The large majority of our sales team hold tertiary qualifications, with many holding degrees in agriculture. All of our Field Consultants are required to complete the Massey University Sustainable Nutrient Management course within 18 months of joining Ballance, and the advanced course within three years.

We are also certifying our staff through the Nutrient Management Adviser Certification Programme with 30 employees becoming certified this year. This is an independent process which defines the standards that need to be met when providing nutrient management advice. We have plans in place to ensure all eligible employees are certified over time.

Ballance's consultants can also call on our Agro-Science Team, a group of professionals with specialist expertise. Their qualifications include under-graduate, post-graduate and doctoral degrees in science, agricultural science, soil science, agronomy and environmental science.

We use Quality Consultants of New Zealand to audit our field team's fertiliser recommendations, their use of OVERSEER® and the nutrient budgets they create for each customer. That's our way of providing assurance to farmers that they are using the right amount of nutrients, getting value for money and minimising any risks arising from incorrect nutrient applications.

**Ballance continues to make a commitment to research to provide farmers with advice backed by proven results, and to ensure advice is provided by people whose primary purpose is not to sell fertiliser, but to give farmers expert advice on farm nutrients.**

**Nearly 1000 new shareholders joined us this year. They are telling us they like our whole-of-farm approach to nutrients and that we give them expert, science-based advice. We have also turned in some consistent performances and rebates and that has not gone unnoticed.**

**We remain committed to providing farmers with the opportunity to use innovative products and farm management technology to get the most out of their farms without compromising the environment.**

### FARMING WITHIN LIMITS

Nutrient losses from farming are a significant issue for New Zealand, particularly in terms of water quality. The new National Policy Statement for Freshwater Management requires regional councils to set limits and targets for all waterways within their regions.

The policy is now starting to translate into regulation around managing nutrient losses from farms in regions such as Canterbury, Manawatu-Wanganui, Waikato, Otago and Southland.

We are working hard to support farmers within this new regulatory framework by advocating for "output-based" policy and rule regimes.

This advocacy occurs through our co-operative and through the Fertiliser Association of New Zealand.

We believe an output-based, or farm system losses, policy regime enables flexibility and the opportunity for innovation by farmers to respond inside a "farming within limits" framework.

### PRODUCT INNOVATION

**Alongside our work to bring new products to market through our research and product innovation programme, we are already using proven products unique to Ballance to help farmers operate sustainably through science.**

Since its introduction to the Ballance range of products in 2010 our coated urea product SustaiN has been helping farmers reduce nitrogen losses while boosting production.

Popularity of this product continues to grow as farmers see the results for themselves, and up to 60% of all customers who purchase urea are now using SustaiN as their preferred form of nitrogen. SustaiN allows flexibility with timings of nitrogen applications with a minimal risk of losing it to the atmosphere. Reflecting increasing demand for this product $1 million has been invested at our Kapuni urea despatch facility, adding efficient SustaiN manufacturing capacity.

We have also seen a lift in adoption of our specialised seasonal products as farmers realise the production gains these can deliver. PhaSed N is primarily designed for use in sulphur deficient areas in autumn to set farms up for spring, while Cropzeal Boron Boost delivers better results with brassica crops.

Interest in Sulphurgain Pure is building, as awareness of the benefits of the product launched during the year spreads. Sulphurgain Pure supplies fine elemental sulphur as well as offering protection from leaching losses. Applied in autumn, it will stay in the soil over winter, becoming available for pasture growth in early spring and summer. Sulphurgain Pure has been formulated for use in combination with other fertilisers so precisely the right amount of nutrients can be spread in a single application. One annual application of Sulphurgain Pure has real potential to boost growth - leading to better margins and bigger returns in sulphur responsive soils.

### KAPUNI TURNAROUND

This year we completed the routine maintenance programme which is undertaken at our Kapuni urea plant every two years. It took more than a year of planning for the 21-day turnaround, which included $13 million of maintenance work and $8 million of capital improvements. Up to 500 people from 30 contracting companies were involved in the project, which was achieved on time and below budget, and with only one minor injury during 78,000 man-hours of work.

**To promote safety, the project team agreed to donate $500 for every day the site met all of its health and safety requirements, leading to four local charities gaining from $8,000 in donations.**

On top of this impressive turnaround, 320 improvement opportunities were identified for action during the intensive project. This is an outstanding example of our continuous improvement culture at work and it is not an isolated example.

With global urea prices anticipated to remain low in the foreseeable future we are currently looking at opportunities to optimise the effectiveness of this plant and maintain its valuable contribution to the business.

# Growing demand for our industrial products is leading to a growing financial contribution to our co-operative.


### DISTRIBUTION NETWORK

**Several million has been invested in our service centres, improving product availability and quality.**

In support of strong growth for our products in the South Island, $750,000 has been invested at Timaru to expand the hub model and separate storage from despatch for fast and efficient service. This builds on our hub investment at Mount Maunganui last year and the fit-for-purpose storage facilities have the combined capacity to hold 40,000 tonnes of product.

Our Timaru distribution hub also took delivery of a mobile screen this year which is ensuring fertiliser distributed from the site is free of any compacted lumps and screened for foreign matter. Arable farmers throughout the Canterbury and North Otago regions will benefit from a smoother drilling experience for products such as n-rich urea, Cropzeal, DAP and sulphate of ammonia.

Extra resources and improvements at our Rolleston store will help make the site more efficient, safe and tidy, and enable faster load out times during busy periods.

At the other end of the country, following the decision to stop manufacturing superphosphate at our Whangarei store last year, we've now commenced work totalling $1.5 million to improve the site as a distribution hub with upgraded intake systems and even faster despatch speed. We've also been focused on tailoring plant modifications to meet the ever increasing quantity and quality of special mix requirements.

Our Te Kuiti customers and spreading community is benefiting from a $1.1 million upgrade to increase storage and mixing capabilities.

### SUPER AIR

Super Air achieved a significant milestone this year, celebrating its 25th anniversary. It started as a topdressing company during the rural depression of the 1980s and has evolved into one of New Zealand's leading agricultural aviation companies. In addition to aerial fertiliser application, Super Air has developed a world-class reputation for aircraft engineering and innovation.

The first fixed-wing aviation company to achieve AIRCARE accreditation, Super Air maintains its inherent commitment to robust safety processes with respect to both flight and environmental safety.

**The company continues to invest in its capacity, adding new aircraft to its fleet to increase efficiency and flexibility. This strategy is getting results, with the division meeting budgeted tonnes and making a positive contribution to the business.**

### DIVERSIFIED REVENUE

We are always looking at smarter ways to manufacture fertiliser and create efficiencies.

**Part of this work has included finding ways to recycle or generate supplementary products from raw materials to utilise our assets more and generate profitable non-fertiliser products.**

Leading the way is GoClear, an exhaust system additive and scrubbing agent that reduces nitrogen oxide emissions from diesel engines. Total production reached 2.8 million litres during the financial year, up from 2 million in 2013.

Ballance is serious about supporting environmentally sustainable practices, and is pleased to manufacture and sell a top quality product that helps reduce emissions.

We manufacture GoClear at our Kapuni ammonia-urea plant, giving customers the option of replacing imported product with a sustainable 100% New Zealand made product. This option has proved increasingly popular, with trucks imported into New Zealand now required to meet the Euro 05 or Japan 09 air emissions standards. Their advanced engines rely on the use of an exhaust scrubbing agent.

Ballance is supporting New Zealand's trucking operators by making GoClear available at 17 truck-stops nationwide, with more to come. On-farm demand is also growing, with many of the leading tractor and farm machinery manufacturers using engines which now require the additive.

Demand is strong for our hydrofluosilicic acid (HFA), a co-product of the superphosphate manufacturing process. Our HFA is exported to Australia for use in fluoridated water supplies. With new long-term supply agreements established, additional storage capacity and improved operational efficiencies are being developed to secure this part of the business.

Recognising our success in this area Ballance was a finalist in the Bay of Plenty Export Awards Emerging Exporter of the Year category for our overseas exports of industrial products in 2013.

### PEOPLE

Great results are achieved by great people. We have continued progress with our 'Optimise' performance management system adopted last year, providing further support to our managers to lead our people in a way which increases their commitment and motivation. This drives improved performance at a personal and organisational level, and is no doubt a contributing factor to the ongoing success of our co-operative.

**Leadership development is also a key focus for the business, recognising the effect of leadership capability on the performance and culture of the organisation.**

We see the development of great leaders within Ballance as pivotal to our success, and have introduced a new framework to realise the full potential of our people and develop great leaders for agriculture in New Zealand.

# STAYING ONE STEP AHEAD

**OUTLOOK**

The Ministry for Primary Industries is signalling continued growth in export revenues from the primary sector, including meat and horticulture and, with the exception of dairy, has increased its 2014/15 forecasts.

While commodity prices have faced some downward pressure, they remain relatively high. Demand for dairy is forecast to grow, especially from emerging markets with growing middle classes. On the supply side producers globally are expected to ramp up production and prices reflect the demand/supply balance – hence the lower payout forecast for the 2014/15 season. Farmers will be trying to closely manage their budgets without compromising productivity. With only 10% of dairy farms now pasture-only, they will also be looking for supplementary feeding solutions that boost profitable milk production.

Demand for beef and lamb is increasing in China and recovering in traditional markets like the United Kingdom, while shortfalls in beef production globally should contribute to good pricing. Better genetics in the sheep industry mean higher birth rates, and optimal nutrition for breeding ewes is now increasingly important. With better market prices, farmers will be looking to support lamb live-weights with increased pasture production and animal nutrition solutions.

Growth in horticulture returns is forecast with export volumes for apples increasing and volumes for gold kiwifruit steadily recovering. In the wine sector, demand for premium quality wine is expected to grow in key markets, while in the vegetable category, demand forecasts are stable.

Ballance is here to help farmers maximise the opportunities that lie ahead with advice on the precise use of the right nutrients across the farm to get the best production response while limiting nutrient losses.

For fertiliser pricing, the short to medium term outlook is for urea prices to lift from a low base, with over-supply placing a lid on international pricing. New production facilities on-stream for manufactured phosphate products mean there are also plenty of stocks on hand, and the market is expected to take a year or so to catch up with volumes. On the flip-side, producers are struggling to meet market demands for potash and we anticipate upwards price movements for this nutrient.

Pricing trends will continue to be driven by the large users of nutrients - such as the North Americas, Brazil, China and India - and the purchasing behaviours of these countries at key times of the year. As usual, seasonal factors will continue to result in price fluctuations for our products, albeit from a more stable base.

**SET FOR THE FUTURE**

We have made significant headway in the past year. Shareholders and customers count on us and we have delivered through our financial performance and rebate and our complete nutrient management strategy. Our vision is to be New Zealand's farm nutrient experts and we are seeing that vision realised.

It is important that we do not stand still. New Zealand agriculture has tremendous opportunities, especially in export markets where demand is growing rapidly. Our challenge is to meet that demand with more high quality, safe food which is produced in a way that protects the environment, while still remaining competitive in the international marketplace.

Shareholders, New Zealand farmers and customers can count on us to be thinking about the future and how we ensure our co-operative and their businesses can keep thriving.

We have done a lot of that thinking this year to set Ballance up for a sustainable future.

Anyone can sell fertiliser or feed, so simply being in the market will not guarantee our future. That is why we place so much emphasis on the service we provide, the science behind our advice and products, our consistent financial performance and a constant push to be more efficient and effective so we remain competitively priced. We will continue to invest in research and product innovation to offer farmers novel farm nutrient solutions which support profitable, sustainable production.

We are future proofing our business by ensuring our people have a safe working environment and are supported by a culture which sets and rewards high standards. We encourage continuous learning, along with accountability and discipline and our people respond, doing the ordinary things extraordinarily well.

Our strategy recognises that if we support our customers to get results on the farm, then inevitably our own results will follow. We are very clear that our priority is to support our farmers, understand their goals and work hard for them to see those goals achieved.

Farmers have a wealth of opportunities as demand for high quality and safe food grows. They can count on Ballance to help them make the most of them.

**David Peacocke**
**CHAIRMAN**

**Larry Bilodeau**
**CHIEF EXECUTIVE**



## Handing over the business in excellent shape

On behalf of our shareholders, I want to thank our out-going Chief Executive, Larry Bilodeau, for his exceptional leadership of our co-operative over the past 14 years.

In his understated way, Larry has overseen our evolution from a simple fertiliser business to a co-operative covering the full spectrum of farm nutrient requirements. His foresight has underpinned our growth while his leadership has ensured our strategies for growth have been executed skilfully and successfully.

He has always kept Ballance one step ahead of the changing demands of farmers as they respond to growth opportunities and a more demanding operating environment. He has ensured we have maintained the trust of the rural community and the confidence of farmers.

As a result, Ballance is in excellent financial shape and in excellent heart. We are strongly positioned for continued growth and a sustainable future supporting our shareholders and customers with their own growth goals.

Larry joined Ballance 17 years ago to manage our Kapuni operations. His leadership qualities were quickly recognised and we have gained from them during his tenure. Our people and our shareholders are most certainly better off with Ballance, thanks to him.

Larry will be succeeded by Mark Wynne. I invite all of our shareholders, our customers and our people to support Mark in the same way they have supported Larry.

We wish Larry a fulfilling retirement and we welcome Mark to our co-operative.

**David Peacocke**
**CHAIRMAN**

YOU CAN COUNT ON US

# TO DELIVER INNOVATIVE PRODUCTS

**OUR NEW PRODUCT INNOVATION PROGRAMME IS FOCUSED ON PROVIDING SOLUTIONS TO THE NUMBER ONE ISSUE FACING FARMERS TODAY – HOW TO OPERATE MORE PROFITABLY WHILE AT THE SAME TIME MINIMISING THE ENVIRONMENTAL IMPACTS OF FARMING.**

Farmers can count on us to be straightforward when it comes to science, and to use our extensive research and development track record to benefit them today and in the future. Our $32 million Clearview Innovation research programme is a good example.

It reached a milestone this financial year, passing the half-way mark in our seven year programme which has $9.75 million in funding from the Ministry for Primary Industries' Primary Growth Partnership.

Nitrogen and phosphorus efficiency is a high priority, with the programme aiming to increase nitrogen uptake efficiency from the usual 10:1 return to 15:1 and to increase phosphate efficiency by 20% while minimising losses.

In December 2013 an audit of our financial management systems in relation to our Clearview Innovations programme was undertaken by the Ministry for Primary Industries. The audit report concluded that our systems for PGP funding and co-funding of the Clearview programme were suitably robust and effective, and an adequate process exists to value Ballance contributions to the programme.

## FIRST PRODUCT RELEASED

This year we released our first product resulting from our Clearview programme, in time for soil testing during the spring season.

A new model that can more accurately predict pasture responses to nitrogen is now available for farmers throughout the country.

Backed by sound science and extensive research, N-Guru™ is decision support software, designed in partnership with AgResearch, to improve the efficiency of nitrogen use on New Zealand pastoral farms.

A soil 'total N' test is carried out as part of routine soil testing. Where total nitrogen varies sufficiently across the farm, the model can be used to determine variable nitrogen use instead of applying the same amount of nitrogen across the whole farm.

The software is already available for farmers, with Ballance sales consultants now offering N-Guru as part of a fertiliser recommendation to help farmers make better decisions about nitrogen use.

Development of the N-Guru software is ongoing, based on feedback from farmers.

N-Guru is expected to make a significant contribution to the Clearview Innovations PGP programme target of a 50% improvement in nitrogen use efficiency on New Zealand farms.

## MORE ON THE WAY

Validation work continues on a second product which is due for release in 2015. MitAgator™ is designed to identify areas on farms that are at high risk of losing phosphorus, sediment, nitrogen, and microbial contaminants. It takes data files from OVERSEER® and links it with a geo-referenced farm map, a soil map and a digital elevation model. Once the base risk maps are developed, mitigation and management strategies can be targeted at an individual paddock, or even part of it.

Ballance is also investigating innovative technology including software and hardware for topdressing airplanes to ensure farmers get the best bang for their buck out of their aerially applied fertiliser. Through our science programme we have developed an in-depth understanding of which product is best applied where and how much should be applied to optimise nutrient use efficiency. This will maximise productivity and minimise nutrient loss. Current work is focusing on a prototype that takes this information and turns it into targeted application from the air.

Other research in the programme is focused on more effective forms of nitrogen and phosphate, with field testing underway for some of these exciting products.

## PICK THE WINNERS UPFRONT

Ballance's Clearview Innovations programme initially started with 24 work streams, and by the end of the year it is expected this will be narrowed down to 10 key projects.

Eliminating the projects which may be technically successful but not commercially viable means that we can now put our efforts into concepts that have the greatest potential to boost the profitability and sustainability of farming in New Zealand, and spend the rest of our time concentrating on taking these to market.

With our research now at the half way mark, we are picking up the pace of our extension activity so we can get the programme outcomes adopted by farmers quickly and effectively.

YOU CAN COUNT ON US

# TO DEVELOP SMART FARM TECHNOLOGY✓

**MEANINGFUL INFORMATION THAT SUPPORTS FARMERS TO MAKE THE BEST DECISIONS ON FARM IS KEY TO THE FUTURE OF FARMING. AG HUB PROVIDES REAL-TIME INFORMATION TO HELP FARMERS MAKE THE RIGHT CALLS.**

Shareholders have been the immediate beneficiaries of Ag Hub's place within Ballance, with every shareholder offered free access to the core package of the award-winning farm management software. They can subscribe to additional modules specific to their farming operations. To date several thousand have taken up the offer.

With farmers wanting to ensure efficient use of nutrients, putting the technology in shareholders' hands has been a priority. Ag Hub has evolved from a farm mapping system into a solution-based package available through any internet connected device including smart phones and tablets.

Included in the free offer is GIS interactive farm mapping, access to farm nutrient budgets, soil test results and fertiliser plan histories, as well as online ordering for Ballance products and an online help system.

## BIG PLANS FOR AG HUB

Ag Hub is the most advanced single-hub farm management system available in New Zealand and it's evolving quickly. It provides users with a complete view of their property over four aspects - production, environment, fertiliser and nutrition. Through GPS and automatic telemetry, the system can measure and control water, irrigation and effluent and measure things like soil moisture and weather conditions.

Nutrient mapping capability records the nutrient value of the effluent and where it has been placed, allowing fertiliser plans to be adapted accordingly.

Ag Hub's strategic goal is to be recognised as a market leader in precision agriculture technology.

The business has rapidly progressed strategic partnerships to increase the value of the technology to farmers. These include Tru-Test, regional councils, Farmax, TracMap, Fonterra, Miraka, Synlait and Open Country, Harvest and Watermetrics. These partnerships mean the full range of farming activities is covered including mapping, pasture and feed management, milk production, fertiliser placement and recommendations, soil testing, effluent and water management, and livestock weights and production.

Ag Hub has also partnered with New Zealand cloud accounting firm Xero, recently described by American business publication Forbes as the world's most innovative growth company. The Xero partnership will add accounting tools to Ag Hub's package, focusing on livestock management.

## EXCLUSIVE WEATHER DATA

Ag Hub recently teamed up with NIWA to provide a comprehensive 15-day weather forecasting service – Ag Hub FarmMet. Ag Hub has exclusive rights to use the NIWA forecasting data to bring Ag Hub users weather accuracy to a 1.5 km resolution of an individual property. This provides farmers with relevant property-specific weather data rather than regional averages, and provides the foundation on which to model other farm management factors such as grass growth forecasting, nitrogen applications and timing, and irrigation decision support. FarmMet will be available to Ag Hub subscribers by the end of 2014.

### AG HUB FOR SHAREHOLDERS

The free Ag Hub package being offered to Ballance shareholders includes:

**Mapping -** The foundation of any Ag Hub solution is an accurate map of farm boundaries, blocks and land features. Ag Hub Farm Mapping is based on the best source of aerial mapping data in New Zealand.

**Nutrient management -** The ability to accurately manage nutrients in Ag Hub saves time and makes it easy. Farmers can view soil test information, fertiliser plans, access nutrient management plans plus view and manage nutrient budgets – all in one place.

**Online ordering -** Ordering fertiliser is made easy through Ag Hub with the ability to seamlessly navigate through Ag Hub and Ballance Online to view the status of current orders and order history, and create orders for properties directly from historical fertiliser plans.

YOU CAN COUNT ON US

# TO SUPPORT THE PRODUCTIVITY OF YOUR LIVESTOCK ✓

**SEALESWINSLOW IS ON TRACK TO DELIVER A $10 MILLION UPGRADE TO OPTIMISE ITS MANUFACTURING AND DISTRIBUTION CAPABILITIES. THIS PROGRAMME FOLLOWS THE $5 MILLION UPGRADE OF THE WANGANUI MILL AND SHOWS WE ARE SERIOUS ABOUT BEING BEST IN CLASS FOR ANIMAL NUTRITION.**

The optimisation project will be completed in time for spring 2014 and will give farmers better access to feed at times of peak demand, particularly around calving and in summer when pasture growth slows. Demand for supplementary feed is growing particularly in dairy and our aim is to meet that demand with a quality product.

The upgrade will lift SealesWinslow's ability to manufacture and deliver a comprehensive range of stock feeds, with a strong focus on product quality and manufacturing capacity to ensure best product, best delivery. We are matching our expanded production capacity with integrated information systems to improve order tracking and production planning, process control and product quality assurance.

## BETTER ACCESS

A key part of this strategy is to leverage the company's place within Ballance and utilise select Ballance service centres as distribution hubs to provide greater access for customers to pick up bagged product. In addition farmers already have access to product through more than 200 rural merchant stores throughout the country including PGG Wrightson, Farmlands, RD1 and Ashburton Trading Society.

## BETTER ADVICE

While the company is focusing on getting the back end of the business in order, we are giving just as much attention to the front end to increase the availability of on farm services which are supported with specialist animal nutrition advice. Advice to farmers extends beyond nutrition to cover the economic benefits of using the right feed at the right time to increase productivity and on-farm returns.

## PROFITABLE MILK PRODUCTION

SealesWinslow's "Routes to Profitable Milk Production" roadshow ran during the year across the country, and was rated highly for content and relevance by farmers who attended. These workshops are part of the co-operative's commitment to ensure farmers have access to the latest nutritional and technical information to drive farm profitability. This has included SealesWinslow's milk production prediction and measurement software.

The software, developed in New Zealand, generates lactation curves for each animal in a herd and combines them to produce a production curve. The modelling system is used to support farmers in making better informed decisions about how to balance the herd's diet to improve feed conversion efficiency, extending lactation while maintaining good cow condition.

**BALLANCE TAKES PRIDE IN LOOKING AFTER OUR PEOPLE, THE COMMUNITIES WE WORK IN AND THE ENVIRONMENT.**

We strive to ensure that our leadership, products, services and operational responsibilities are recognised as being of the highest health, safety and environmental standard – at all times. We see this as critical to the long term success of our business.

Our three key safety, health and environment objectives recognise that our performance is embedded within the international "farm-to-plate" supply chain.

1. **Our operational objective** is to ensure that we operate our business at all times in a manner that results in zero harm to people or the environment.
2. **Our research and development objective** is to increase the productive capacity of the primary sector while reducing environmental impacts (refer to page 12 for more detail).
3. **Our community objective** is to be recognised by the farming community as leaders of the utmost integrity for health, safety and environmental stewardship.

## ZERO HARM

Operationally, our aim is to ensure everyone gets home safely and we do no harm to people or the environment - today, tomorrow and every day.

To help us meet this objective we are continuing to implement standardised Safety, Health and Environment (SHE) management systems across the entire business. We have already made great progress with our programme, which has further improvement plans in place through to 2016.

Our petrochemical and superphosphate manufacturing plants and six of our service centres operate an Environmental Management System (EMS) that is independently certified to the international ISO14001 standard. We intend to expand our independently certified EMS to include Occupational Health and Safety Management Systems. We also intend to have the same levels of certification at all of our service centres and our SealesWinslow operations over time.


## INITIATIVES FOR CHANGE

We are making good progress with a number of initiatives within our SHE system. These include a focus on hazard identification and control processes, incident investigation training, improved root cause analyses, and greater use of lead indicators such as, for example, safety observations. Safety observations provide an opportunity to involve company directors and management in the reinforcement of positive, safe working conditions and behaviours.

All SHE incidents and complaints are recorded, investigated and responded to in a way that enables controls to be applied that prevent, or reduce, the chance of recurrence.

Our recent SHE statistics are as follows:

| | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|
| Lost Time Injuries | 12 | 13 | 10 |
| Medical Treatment Injuries | 31 | 33 | 32 |
| Resource Consent Breaches | 23 | 14 | 6 |

Our safety statistics have remained relatively static for several years, and need to improve.

In August 2013 we were shocked and saddened by the loss of a contractor truck driver at our Mount Maunganui site. We have worked closely with the contracting company and regulatory bodies. Our thoughts continue to be with the family and friends of the driver.

Our environmental statistics are improving, but still need to get better. The resource consent breaches included one discharge to air beyond consent limits at the Mount Maunganui plant, and five technical breaches throughout the company where consent requirements, such as record-keeping or inspections, were not carried out in a timely manner.

In November 2013 our superphosphate manufacturing plant at Awarua was granted a new air discharge resource consent for a term of 25 years. The consent was granted following considerable communication with the community which enabled agreements to be reached without the need for any formal hearing process.

## WISE USE OF NATURAL RESOURCES

We pay careful attention to the use of natural resources in our operations and of discharges to air, land and water arising from these processes. Constituents such as sulphur dioxide, fluoride, phosphorus, nitrogen, ammonia and dust are all strictly controlled before being discharged to air, land and water.

We carefully account for the carbon dioxide equivalent (CO2-e) emissions associated with our activities, in part to meet our New Zealand Emissions Trading Scheme obligations under the Climate Change Response Act within the "energy sector" (at Ballance Kapuni) and in the agricultural sector (on behalf of our farmers). Tracking emissions also enables us to identify opportunities for improvement, especially in terms of energy use relative to production.

As part of our efforts to reuse, reduce or recycle we have participated in the development of a programme to recycle all of our polypropylene fertiliser bags that can no longer be reused due to wear and tear or contamination. We look forward to turning this project into a commercial reality.

## CADMIUM MANAGEMENT

Future proofing our business means staying one step ahead of potential challenges for New Zealand agriculture. A good example is ensuring our fertilisers continue to maintain the healthy soils which are so important for agriculture. That's especially important with superphosphate, given phosphate rock carries the heavy metal element cadmium.

Cadmium tends to build up in soil over long periods of time when phosphate-based fertilisers are used. Updates to New Zealand's national soil cadmium database show levels in agricultural soil are similar to or lower than those found internationally and pose minimal risk to health and the environment.

Ballance is party to the Government's Cadmium Management Strategy, launched in 2011. We serve on the working group which is implementing this strategy to keep cadmium levels within safe limits long-term, and we are also taking a responsible approach to superphosphate manufacturing. This includes sourcing a range of phosphate rock for our superphosphate manufacturing to enable us to continue to lower cadmium levels well ahead of industry guidelines.

## SUPPORTING OUR COMMUNITIES

Ballance is helping to build farming role models through the Ballance Farm Environment Awards. We've supported the awards for 19 years, 11 of these as principal sponsor. What's important about the awards is that they do more than acknowledge success. They are creating a growing pool of farmers who demonstrate great environmental leadership and are happy to share their advice and experience.

We are continuing our sponsorship of the Dairy Women's Network, the organisation which unites the hundreds of women who work in the dairy industry. With women key decision makers in the rural sector, our partnership is a natural fit, as we can bring our expertise to the table and help them manage the changes required as new regulations impact how New Zealanders can farm.

We continue to invest in the future of New Zealand farming, awarding five scholarships to students studying towards an agricultural or engineering degree, with more than 60 scholarships awarded in total.

# BOARD OF DIRECTORS

Elected directors represent one of three wards – A, B, or C, which are determined by local authority district boundaries as outlined in the map opposite. From left to right: Oliver Saxton, Dean Nikora, John Harvey, David Peacocke, Kim Ellis, Murray Taggart, David Pilkington, Andrew Morrison and Gray Baldwin.

### DAVID PEACOCKE

**CHAIRMAN AND WARD A DIRECTOR**
FIRST ELECTED 2005

David Peacocke is based in Raglan and has interests in several large farming operations, both in the Waikato and the South Island. His business interests are diverse and encompass the beef, sheep, dairy, forestry, poultry and property sectors.

Mr Peacocke is a director of a number of companies in the rural sector, including Taupiri Holdings and Melrose Limited.

He has a Bachelor of Commerce (Agriculture) from Lincoln College and in 2004 was the Supreme Award winner of the Ballance Farm Environment Awards for the Waikato region.

### OLIVER SAXTON

**WARD A DIRECTOR**
FIRST ELECTED 2001

Oliver Saxton farms Lakelands in North Waikato, and also has dairy farming interests in the South Island.

As well as practical farming knowledge, Mr Saxton brings significant commercial experience to the Ballance board, and was recently appointed director of Tuatahi Farming.

He has a Bachelor of Commerce (Agriculture) from Lincoln College and has worked in the banking sector, and in the field of commercial property management and development. He is also a fully accredited member of the Institute of Directors in New Zealand.

Mr Saxton was the Supreme Award winner of the Waikato Farm Environment Awards in 1997 and completed the Kellogg's Primary Industry Rural Leadership Programme in 2001.

### GRAY BALDWIN

**WARD B DIRECTOR**
FIRST ELECTED 2009

Gray Baldwin operates two dairy farms near Putaruru, milking a total of 1200 cows. In 2009 Mr Baldwin (along with his wife and sharemilkers), was the Supreme Award winner of the Ballance Farm Environment Awards for the Waikato region.

With a career background in rural banking, fertiliser and corporate dairy farm supervision, Mr Baldwin was employed by Ballance Agri-Nutrients from 2000 to 2007 in various senior management roles.

Mr Baldwin holds a Masters in Agricultural Science (Animal Science), a Diploma in Business Administration (Marketing), and a Certificate in Sustainable Nutrient Management, all from Massey University.

Mr Baldwin has directorships with Livestock Improvement Corporation and registered charities Trinity Lands and Longview Trust Board. He is currently chairman of ReGen, a Wellington based effluent technology company.

### DEAN NIKORA

**WARD B DIRECTOR**
FIRST ELECTED 2004

Dean Nikora owns and operates in partnership Césped Lands – a dairy operation in Central Hawke's Bay covering 1100 ha and milking over 1600 dairy cows.

He has extensive governance, representation, consultancy, and owner-operator experience in New Zealand's primary industries, with a particular focus on the pastoral sector, corporate farming and co-operative governance.

Mr Nikora has worked in many roles nationwide and most recently, alongside an elite group of 24 of New Zealand's primary industry leaders, attended a Stanford University boot camp to determine how the agri-business sector will play its role in meeting growth targets nominated in the New Zealand Government's Business Growth Agenda.

A former representative of the Fonterra Shareholders' Council and a former director of the Hawke's Bay Primary Health Organisation, he is currently chairman of the Agricultural and Marketing Research and Development Trust and a director of AsureQuality. He is also a trustee of Taipahi A1 Maori land administered by the Maori Trustee.

### ANDREW MORRISON

**WARD C DIRECTOR**
FIRST ELECTED 2011

Andrew Morrison is based on his 150 ha intensive sheep farm located in the Waikaka Valley in Gore, and also farms an 880 ha sheep and beef operation in South Otago.

Following retirement from his positions of Southland provincial junior vice president and Southland Meat and Fibre chairman with Federated Farmers, in 2014 Mr Morrison was appointed as director of Beef + Lamb New Zealand. He is a board member of the Pastoral Greenhouse Gas Research Consortium and a director of Ovis Management, a non-profit organisation promoting control of sheep measles.

Other memberships include the Lincoln University Farms Committee, established to advise on management of Lincoln University properties for education and industry training purposes. He is also a member of the Environment Southland Water and Land 2020 Steering Group, set up to provide recommendations to council on initiatives to manage water quality through the requirements of the National Policy Statement on Fresh Water Management.

With more than two decades of farming experience, Mr Morrison strongly recognises the need to be involved in the decision making processes around agriculture and education that will benefit the industry going forward. He holds a Bachelor of Commerce (Agriculture).

### MURRAY TAGGART

**WARD C DIRECTOR**
FIRST ELECTED 2009

Murray Taggart farms a 666 ha irrigated sheep, beef and cropping property near Oxford, North Canterbury. Mr Taggart brings considerable experience to the board, and is currently serving as chairman of Alliance Group. He is a past director of CRT Society, past chairman of the National Meat and Fibre Council of Federated Farmers, and past member of the National Board of Federated Farmers.

He was previously employed in the banking sector, holding roles in credit and corporate banking.

In 1996 Mr Taggart was the recipient of a Nuffield Farming Scholarship, and in 2006 he won the Tasman Region FMG Rural Excellence Award. He holds a Bachelor of Agricultural Science.

### KIM ELLIS

**APPOINTED DIRECTOR**
FIRST APPOINTED 2012

Mr Ellis was chief executive of Waste Management New Zealand for 13 years, culminating in the company's sale in 2006. His earlier chief executive appointments, dating back to 1978, covered a number of market sectors including health, manufacturing, logistics, property, agriculture and fashion.

Well practised at driving competitive positioning and outcomes within duopoly markets, Mr Ellis also has a substantial amount of experience relating to mergers and acquisitions.

A professional director, Mr Ellis currently has roles with EnviroWaste Services, Freightways, Port of Tauranga, FSF Management Company, New Zealand Social Infrastructure Fund, Tasman Tanning and Moa Group.

He holds a Bachelor of Engineering (Chemical) with first class honours from Canterbury University, and a Bachelor of Commerce and Administration (Economics) with first class honours from Victoria University.

### JOHN HARVEY

**APPOINTED DIRECTOR**
FIRST APPOINTED 2012

Mr Harvey is a professional director with a background in accounting and professional services. He has more than 35 years professional experience, including 23 years as a partner of PricewaterhouseCoopers, where he also held a number of leadership and governance roles.

Mr Harvey has extensive experience in financial reporting, governance, information systems and processes, business evaluation, acquisition and merger and takeover reviews.

He holds a Bachelor of Commerce degree from the University of Canterbury. A member of the New Zealand Institute of Chartered Accountants and the Institute of Directors in New Zealand, he is currently a director of DNZ Property Fund, Heartland Bank, Kathmandu Holdings, Port Otago and New Zealand Opera.

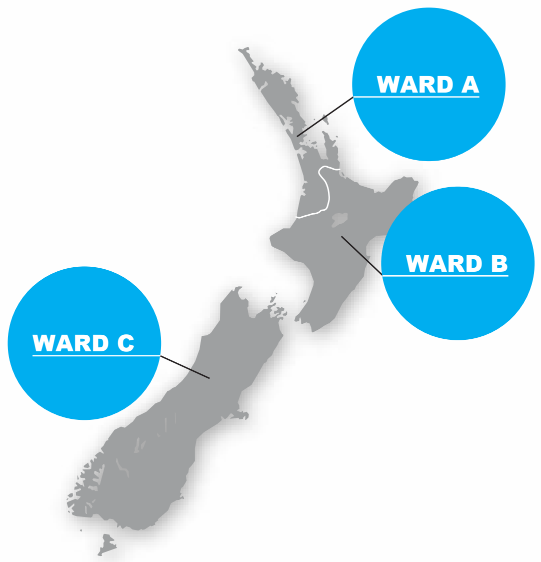
### DAVID PILKINGTON

**APPOINTED DIRECTOR**
FIRST APPOINTED 2004

David Pilkington is chairman of Hellers Limited, Rangatira Limited and Port of Tauranga. He is a director of a number of other companies, including Zespri International, Restaurant Brands, Douglas Pharmaceuticals and Tuatara Brewing. He is a trustee of New Zealand Community Trust.

Mr Pilkington has significant experience in the dairy industry, having held a number of senior positions at Fonterra, including group managing director of New Zealand Milk. His other roles included chief executive of the North American group of companies, and president of New Zealand Milk Products Japan.

Mr Pilkington has a Bachelor of Science and a Bachelor of Engineering (Chemical), plus a Diploma in Dairy Science and Technology.




# SENIOR LEADERSHIP

LARRY BILODEAU
CHIEF EXECUTIVE 1

WARWICK DE VERE
GENERAL MANAGER
CORPORATE SERVICES 2

ANDREW REID
GENERAL MANAGER SALES 3

JOHN MAXWELL
GENERAL MANAGER
PETROCHEMICALS AND SUPER AIR 4

JACK HERDER
GENERAL MANAGER SUPPLY 5

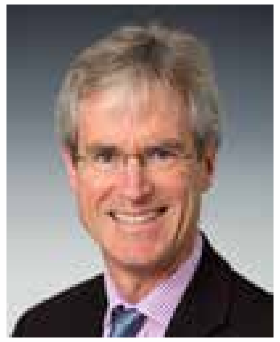
GREG DELANEY
GENERAL MANAGER FERTILISER
OPERATIONS AND DISTRIBUTION 6

RICHARD HOPKINS
CHIEF FINANCIAL OFFICER 7

GRAEME MARTIN
GENERAL MANAGER
AGINFORMATION 8

GRAEME SMITH
GENERAL MANAGER
ANIMAL NUTRITION 9

LIZ MULLER
GENERAL MANAGER
AGRO-SCIENCE AND MARKETING 10



MARK WYNNE
INCOMING CHIEF EXECUTIVE




# CORPORATE STRUCTURE

## ABOUT BALLANCE AGRI-NUTRIENTS

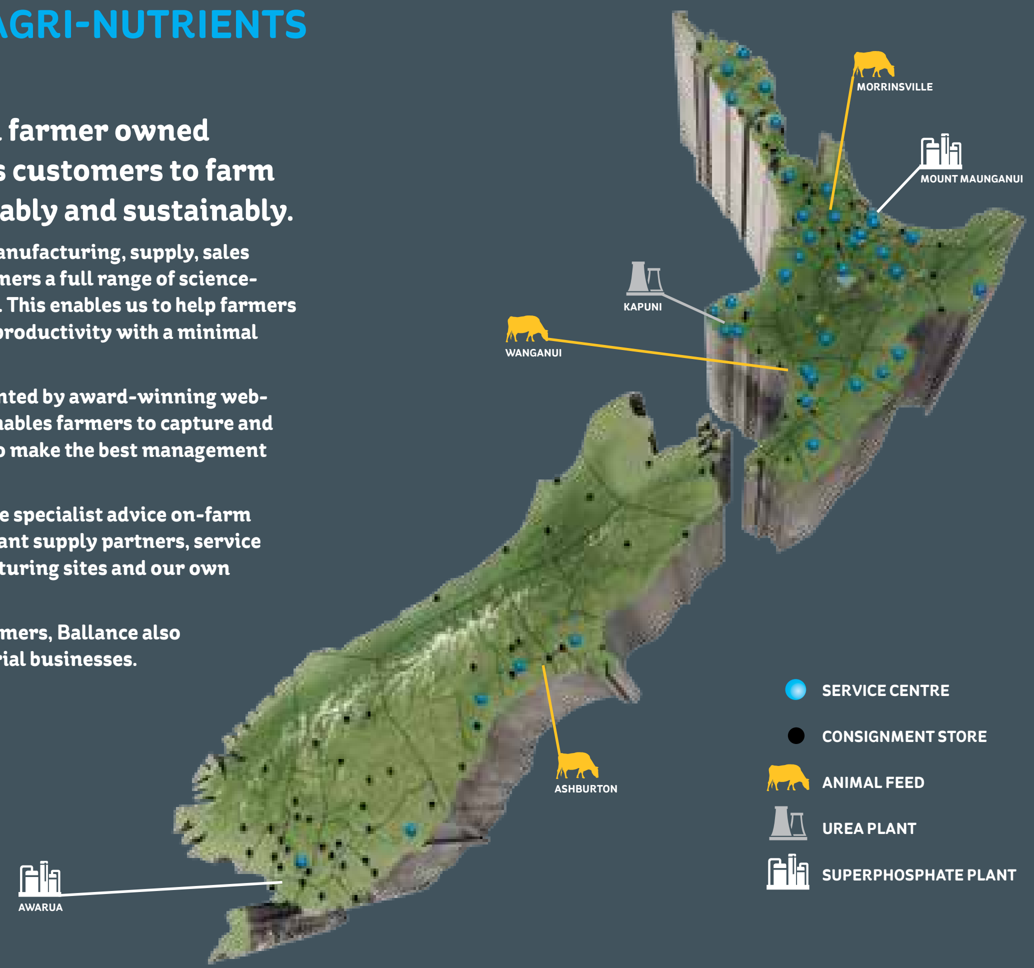
**Ballance is a New Zealand farmer owned co-operative that helps its customers to farm more productively, profitably and sustainably.**

From our core business of fertiliser manufacturing, supply, sales and advice, we have grown to offer farmers a full range of science-backed nutrient products and services. This enables us to help farmers achieve soil and animal nutrition and productivity with a minimal environmental footprint.

Our agri-nutrient advice is complemented by award-winning web-based farm systems software, which enables farmers to capture and analyse a wealth of information, and so make the best management decisions for their business.

We cover the country, with one-on-one specialist advice on-farm backed up by a network of rural merchant supply partners, service centres, consignment stores, manufacturing sites and our own agricultural aviation services.

As well as supporting New Zealand farmers, Ballance also supplies products to a range of industrial businesses.




Ballance agri-nutrients


### Super Air

SUPER AIR IS ONE OF NEW ZEALAND'S LEADING AGRICULTURAL AVIATION COMPANIES PROVIDING FARMERS IN THE NORTH ISLAND WITH AERIAL TOPDRESSING SERVICES .

### Ag Hub

AG HUB IS AN ONLINE FARM MANAGEMENT SYSTEM, SOLD BY BALLANCE, THAT ENABLES FARMERS TO CAPTURE, STORE AND ANALYSE INFORMATION ACROSS FARM MANAGEMENT SYSTEMS, BY LINKING DATA TO GPS MAPS OF FARM PROPERTIES.

### SealesWinslow

OPERATING NATIONALLY, SEALESWINSLOW IS A RECOGNISED LEADER IN THE PRODUCTION OF HIGH-PERFORMANCE COMPOUND ANIMAL FEEDS AND FEED ADDITIVES.

# FINANCIAL STATEMENTS 2014 CONTENTS

# INCOME STATEMENT

FOR THE YEAR ENDED 31 MAY 2014. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Sale of products | | 908,407 | 866,138 | 852,354 | 820,628 |
| Services provided | | 12,566 | 11,658 | 118 | 106 |
| **Total revenue** | | 920,973 | 877,796 | 852,472 | 820,734 |
| Cost of sales | | (638,546) | (612,740) | (602,198) | (615,787) |
| **Gross profit** | | 282,427 | 265,056 | 250,274 | 204,947 |
| | | | | | |
| Other operating income | 3 | 3,227 | 8,379 | 2,701 | 53,225 |
| Sales, marketing and distribution expenses | | (128,769) | (112,394) | (114,325) | (100,633) |
| Administrative expenses | | (52,214) | (50,626) | (39,922) | (37,156) |
| Other operating expenses | 4 | (6,644) | (8,229) | (8,997) | (8,208) |
| | | (184,400) | (162,870) | (160,543) | (92,772) |
| | | | | | |
| **Gross trading result** | | 98,027 | 102,186 | 89,731 | 112,175 |
| | | | | | |
| **Financing costs** | | | | | |
| Financing income | 5 | 836 | 6,890 | 2,548 | 8,440 |
| Financing expenses | 9 | (5,353) | (10,491) | (5,579) | (11,163) |
| **Net financing costs** | | (4,517) | (3,601) | (3,031) | (2,723) |
| | | | | | |
| Impairment write down | 7(a) | - | (5,962) | - | (7,587) |
| Result before re-structure cost | | 93,510 | 92,623 | 86,700 | 101,865 |
| | | | | | |
| Restructure cost | 7(b) | (3,996) | - | (3,996) | - |
| | | | | | |
| **Trading result** | | 89,514 | 92,623 | 82,704 | 101,865 |
| | | | | | |
| Rebates to shareholders | 6 | (75,358) | (61,659) | (75,358) | (61,659) |
| | | | | | |
| **Profit before tax and equity accounted income** | | 14,156 | 30,964 | 7,346 | 40,206 |
| Share of profit (loss) from equity accounted investments | 15(b) | 16 | 11 | - | - |
| **Profit before tax** | | 14,172 | 30,975 | 7,346 | 40,206 |
| Income tax (expense) benefit | 11 | (4,507) | (9,587) | (2,441) | 2,001 |
| **Profit for the year** | | 9,665 | 21,388 | 4,905 | 42,207 |
| | | | | | |
| **Attributable to:** | | | | | |
| Parent entity shareholders | | 9,450 | 22,202 | 4,905 | 42,207 |
| Non-controlling interest | | 215 | (814) | - | - |
| | | 9,665 | 21,388 | 4,905 | 42,207 |

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



# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MAY 2014. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **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 | | (15,903) | (17,285) | (15,903) | (17,285) |
| Amount removed from equity, in relation to cash flow hedges, and included in initial cost of inventory on hand during the period | | 7,776 | 12,410 | 7,776 | 12,410 |
| Income tax on items recognised directly in other comprehensive income | 11 | 2,276 | 1,365 | 2,276 | 1,365 |
| **Other comprehensive income, net of income tax** | | (5,851) | (3,510) | (5,851) | (3,510) |
| | | | | | |
| **Profit after tax for the year** | | 9,665 | 21,388 | 4,905 | 42,207 |
| | | | | | |
| **Total comprehensive income for the year** | | 3,814 | 17,878 | (946) | 38,697 |
| | | | | | |
| **Attributable to:** | | | | | |
| Parent entity shareholders | | 3,599 | 18,692 | (946) | 38,697 |
| Non-controlling interest | | 215 | (814) | - | - |
| **Total comprehensive income for the year** | | 3,814 | 17,878 | (946) | 38,697 |

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

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2014. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

| GROUP | Note | Fully paid ordinary shares $000 | Share allotment reserve $000 | Deferred consideration $000 | Hedging reserve $000 | Retained earnings $000 | Attributable to equity holders of the parent $000 | Non-controlling interest $000 | Total equity $000 |
|---|---|---|---|---|---|---|---|---|---|
| | **Note** | 27(a) | 27(b) | 27(b) | 27(b) | | | | |
| **Balance at 1 June 2012** | | 120,362 | 16,690 | (10,720) | 4,261 | 232,345 | 362,938 | 12,465 | 375,403 |
| Profit for the year | | - | - | - | - | 22,202 | 22,202 | (814) | 21,388 |
| Net change in the fair value of cash flow hedges | | - | - | - | (4,875) | - | (4,875) | - | (4,875) |
| Income tax relating to components of other comprehensive income | | - | - | - | 1,365 | - | 1,365 | - | 1,365 |
| **Other comprehensive income for the year, net of tax** | | - | - | - | (3,510) | - | (3,510) | - | (3,510) |
| Shares issued | | 172 | - | - | - | - | 172 | - | 172 |
| Shares provided / issued in lieu of rebate | | 16,708 | 4,610 | - | - | - | 21,318 | - | 21,318 |
| Shares repurchased | | (6,616) | - | - | - | - | (6,616) | - | (6,616) |
| Dividends paid | 6 | - | - | | - | (3,445) | (3,445) | - | (3,445) |
| Acquisition of non-controlling interest without a change in control | 15(c) | - | - | 10,720 | - | (422) | 10,298 | (10,685) | (387) |
| **Total transactions with owners** | | 10,264 | 4,610 | 10,720 | - | (3,867) | 21,727 | (10,685) | 11,042 |
| **Balance at 31 May 2013** | | 130,626 | 21,300 | - | 751 | 250,680 | 403,357 | 966 | 404,323 |
| **Balance at 1 June 2013** | | 130,626 | 21,300 | - | 751 | 250,680 | 403,357 | 966 | 404,323 |
| Profit for the year | | - | - | - | - | 9,450 | 9,450 | 215 | 9,665 |
| Net change in the fair value of cash flow hedges | | - | - | - | (8,127) | - | (8,127) | - | (8,127) |
| Income tax relating to components of other comprehensive income | | - | - | - | 2,276 | - | 2,276 | - | 2,276 |
| **Other comprehensive income for the year, net of tax** | | - | - | - | (5,851) | - | (5,851) | - | (5,851) |
| Shares issued | | 466 | - | - | - | - | 466 | - | 466 |
| Shares provided / issued in lieu of rebate | | 21,567 | 2,310 | - | - | - | 23,877 | - | 23,877 |
| Shares repurchased | | (6,652) | - | - | - | - | (6,652) | - | (6,652) |
| Dividends paid | 6 | - | - | - | - | (3,573) | (3,573) | - | (3,573) |
| Reversal of non-controlling interest on sale of investment | | - | - | - | - | (464) | (464) | (1,181) | (1,645) |
| **Total transactions with owners** | | 15,381 | 2,310 | - | - | (4,037) | 13,654 | (1,181) | 12,473 |
| **Balance at 31 May 2014** | | 146,007 | 23,610 | - | (5,100) | 256,093 | 420,610 | - | 420,610 |

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



STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2014. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

| PARENT | Note | Fully paid ordinary shares $000 | Share allotment reserve $000 | Deferred consideration $000 | Hedging reserve $000 | Retained earnings $000 | Total equity $000 |
|---|---|---|---|---|---|---|---|
| | **Note** | 27(a) | 27(b) | 27(b) | 27(b) | | |
| **Balance at 1 June 2012** | | 120,362 | 16,693 | (10,720) | 4,261 | 166,743 | 297,339 |
| Profit for the year | | - | - | - | - | 42,207 | 42,207 |
| Net change in the fair value of cash flow hedges | | - | - | - | (4,875) | - | (4,875) |
| Income tax relating to components of other comprehensive income | | - | - | - | 1,365 | - | 1,365 |
| **Other comprehensive income for the year, net of tax** | | - | - | - | (3,510) | - | (3,510) |
| Shares issued | | 172 | - | - | - | - | 172 |
| Shares provided / issued in lieu of rebate | | 16,708 | 4,610 | - | - | - | 21,318 |
| Shares repurchased | | (6,616) | - | - | - | - | (6,616) |
| Acquisition of non-controlling interest without a change in control | 15(c) | - | - | 10,720 | - | (2,223) | 8,497 |
| Dividends paid | 6 | - | - | - | - | (3,445) | (3,445) |
| **Total transactions with owners** | | 10,264 | 4,610 | 10,720 | - | (5,668) | 19,926 |
| **Balance at 31 May 2013** | | 130,626 | 21,303 | - | 751 | 203,282 | 355,962 |
| **Balance at 1 June 2013** | | 130,626 | 21,303 | - | 751 | 203,282 | 355,962 |
| Profit for the year | | - | - | - | - | 4,905 | 4,905 |
| Net change in the fair value of cash flow hedges | | - | - | - | (8,127) | - | (8,127) |
| Income tax relating to components of other comprehensive income | | - | - | - | 2,276 | - | 2,276 |
| **Other comprehensive income for the year, net of tax** | | - | - | - | (5,851) | - | (5,851) |
| Shares issued | | 466 | - | - | - | - | 466 |
| Shares provided / issued in lieu of rebate | | 21,567 | 2,310 | - | - | - | 23,877 |
| Shares repurchased | | (6,652) | - | - | - | - | (6,652) |
| Dividends paid | 6 | - | - | - | - | (3,573) | (3,573) |
| **Total transactions with owners** | | 15,381 | 2,310 | - | - | (3,573) | 14,118 |
| **Balance at 31 May 2014** | | 146,007 | 23,613 | - | (5,100) | 204,614 | 369,134 |

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

# BALANCE SHEET

AS AT 31 MAY 2014. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **Shareholders' equity** | | | | | |
| Paid-in capital | | 146,007 | 130,626 | 146,007 | 130,626 |
| Retained earnings and other reserves | | 274,603 | 272,731 | 223,127 | 225,336 |
| **Total equity attributable to parent entity shareholders** | | 420,610 | 403,357 | 369,134 | 355,962 |
| Non-controlling interest | | - | 966 | - | - |
| **Total equity** | | 420,610 | 404,323 | 369,134 | 355,962 |
| **Current liabilities** | | | | | |
| Trade and other payables | 19 | 61,260 | 51,681 | 52,641 | 47,979 |
| Derivative liabilities | | 8,002 | 2,505 | 8,002 | 2,505 |
| Inter-company funding | 26 | - | - | 16,392 | 15,612 |
| Rebate payable | 6 | 51,330 | 40,200 | 51,330 | 40,200 |
| Provisions | 21 | 8,487 | 1,500 | 8,487 | 1,500 |
| Income tax payable | | 261 | 2,765 | 110 | 2,551 |
| **Total current liabilities** | | 129,340 | 98,651 | 136,962 | 110,347 |
| **Non-current liabilities** | | | | | |
| Loans and borrowings | 20 | 40,000 | 50,000 | 40,000 | 50,000 |
| Provisions | 21 | 1,145 | 7,503 | 750 | 7,060 |
| Deferred tax liabilities | 16 | 2,078 | 7,126 | 2,601 | 7,762 |
| **Total non-current liabilities** | | 43,223 | 64,629 | 43,351 | 64,822 |
| **Total liabilities** | | 172,563 | 163,280 | 180,313 | 175,169 |
| **Total equity and liabilities** | | 593,173 | 567,603 | 549,447 | 531,131 |
| **Current assets** | | | | | |
| Cash and cash equivalents | | 68,337 | 43,951 | 67,970 | 43,467 |
| Trade and other receivables | 12 | 123,339 | 108,828 | 113,242 | 99,339 |
| Inter-company funding | 26 | - | - | 18,206 | 14,822 |
| Inventories | 13 | 135,721 | 154,500 | 128,783 | 148,069 |
| Derivative assets | | 836 | 3,537 | 836 | 3,537 |
| Assets held for sale | 14 | - | 2,010 | - | 971 |
| **Total current assets** | | 328,233 | 312,826 | 329,037 | 310,205 |
| **Non-current assets** | | | | | |
| Investments in subsidiaries | 15(a) | - | - | 48,084 | 48,084 |
| Investments in equity accounted investees | 15(b) | 131 | 157 | 35 | 35 |
| Debt securities | | 540 | 558 | 1 | 651 |
| Loans to subsidiaries | 26 | - | - | 21,133 | 19,192 |
| Property, plant and equipment | 17 | 249,723 | 241,842 | 140,490 | 144,162 |
| Intangible assets | 18 | 14,546 | 12,220 | 10,667 | 8,802 |
| **Total non-current assets** | | 264,940 | 254,777 | 220,410 | 220,926 |
| **Total assets** | | 593,173 | 567,603 | 549,447 | 531,131 |

For and on behalf of Board of Directors:

30 July 2014
DE PEACOCKE
Director

30 July 2014
EJ HARVEY
Director

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



# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MAY 2014. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash receipts from customers | | 903,986 | 873,482 | 836,033 | 814,808 |
| Cash paid to suppliers and employees | | (756,953) | (734,621) | (719,179) | (722,089) |
| Interest received | | 796 | 622 | 2,548 | 2,172 |
| Dividends received | | 142 | 21 | 143 | 21 |
| Insurance proceeds | | - | 22,774 | - | - |
| Government grants | | 1,865 | 2,505 | 1,865 | 2,505 |
| Rebate to shareholders | | (61,918) | (43,719) | (61,918) | (43,719) |
| Less shares issued in lieu of rebate | | 21,567 | 16,708 | 21,567 | 16,708 |
| Net rebate paid | | (40,351) | (27,011) | (40,351) | (27,011) |
| Interest paid | | (4,330) | (8,264) | (4,556) | (8,952) |
| Income tax refunded (paid) | | (9,783) | (6,109) | (9,300) | (6,277) |
| **Net cash flow from operating activities** | 25 | 95,372 | 123,399 | 67,203 | 55,177 |
| **Cash flows from investing activities** | | | | | |
| Proceeds from the sale of property, plant and equipment | | 520 | 1,821 | 285 | 1,322 |
| Proceeds from the sale of investments | | 650 | - | 650 | - |
| Acquisition of property, plant and equipment and intangibles | | (50,879) | (23,724) | (16,360) | (13,115) |
| **Net cash flow from investing activities** | | (49,709) | (21,903) | (15,425) | (11,793) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of co-operative shares | | 466 | 172 | 466 | 172 |
| Acquisition of non-controlling interest | | (1,500) | (1,155) | (1,500) | (1,155) |
| Repurchase of surrendered shares | | (6,712) | (6,676) | (6,712) | (6,676) |
| Repayment of borrowings | | (10,000) | (22,419) | (10,000) | (21,000) |
| Dividends paid | | (3,571) | (3,445) | (3,571) | (3,445) |
| Net advances (to) from subsidiaries | | - | - | (5,958) | 56,254 |
| **Net cash flow from financing activities** | | (21,317) | (33,523) | (27,275) | 24,150 |
| **Net movement in cash and cash equivalents** | | 24,346 | 67,973 | 24,503 | 67,534 |
| Cash and cash equivalents at 1 June | | 43,951 | (24,007) | 43,467 | (24,067) |
| Effect of exchange rate fluctuations on cash held | | 40 | (15) | - | - |
| **Cash and cash equivalents at 31 May** | | 68,337 | 43,951 | 67,970 | 43,467 |

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

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 and is an issuer in terms of the Financial Reporting Act 1993.

Financial statements for the Company and consolidated financial statements for the Group are presented. The consolidated financial statements of the Group as at and for the year ended 31 May 2014 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 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by Group entities.

**a) Statement of compliance and basis of preparation**

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

From 1 April 2014, the new Financial Reporting Act 2013 ("FRA 2013") has come into force replacing the Financial Reporting Act 1993, this is effective for all for-profit entities with reporting periods beginning on or after 1 April 2014. This will be effective for the Group's 31 May 2015 year end. As a result of the change from 1 June 2014 the Company will no longer be required to present financial information for the parent entity within its Group financial statements. It is expected that the change in legislation will have no other material impact on the Group's obligation to prepare general purpose financial statements.

In addition to the change in legislation the External Reporting Board of New Zealand ("XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. The Group is currently reporting under NZ IFRS. Under the new XRB framework Management expects that the Group to continue to apply NZ IFRS as applicable for Tier 1 for-profit entities. Management expects that this will have no material impact on the preparation and disclosures included in the financial statements.

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 30 July 2014.

**b) Use of estimates and judgements**

The preparation of consolidated financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 17 - The life of the Kapuni urea plant
- Note 7 - Impairment
- Note 1(f) - Capital and reserves (treatment of puttable instruments)
- Notes 2 and 28 - Financial instruments
- Note 16 - Deferred tax
- Note 18 - Intangible assets (goodwill)

**c) Basis of consolidation**

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to direct the activities that significantly affect investor returns. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements using the acquisition method from the date that control commences until the date that control ceases. Investments in subsidiaries are carried in the Company's financial statements at their cost of acquisition and are periodically assessed for any impairment of the carrying value.





(ii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised income or expenses arising from intragroup transactions are eliminated in preparing the Group consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment of the value of the investee.

(iv) Non-controlling interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and the consideration paid or received is recognised in a separate reserve within equity.

**d) Foreign currency**

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to NZD at the exchange rate at that date. Foreign exchange differences arising on retranslation are recognised in profit or loss.

**e) Financial instruments**

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Non-derivative financial instruments are recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of 3 months or less. Bank overdrafts and bank revolving cash advance facilities that are repayable on demand or drawn and repaid on a short-term basis form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in accounting policy q.

*Held to maturity investments*

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

*Instruments at fair value through profit or loss*

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in the profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

*Other*

Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

*Investments in equity securities of subsidiaries, associates and joint ventures*

Investments in equity securities of subsidiaries, associates and joint ventures are measured at cost less impairment in the financial statements of the Company.

*Investments in debt securities*

Investments in debt securities (e.g. government bonds) are classified as held-to-maturity investments.

*Trade and other receivables*

Trade and other receivables are stated at their cost less impairment losses and are classified as loans and receivables.

*Loans and borrowings*

Loans and borrowings are classified as other amortised cost.

*Trade and other payables*

Trade and other payables are classified as other amortised cost.

(ii) Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading or speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and presented in the hedging reserve in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

**f) Share capital**

*Share capital*

Ordinary 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.

*Bonus shares*

Bonus shares issued for no consideration are not recognised as transactions in the financial statements.

*Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a deduction from paid-in capital.

*Surrendered shares*

On surrender the consideration payable to the ex-shareholder for those shares is transferred from equity to liabilities.

*Treasury stock*

Shares repurchased by the Company, which have not been cancelled, are held as treasury stock within equity as a deduction from paid-in capital.

**g) Property, plant and equipment**

(i) Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use including borrowing costs on qualifying assets, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the consolidated Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

The assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent costs

The cost of replacing part of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

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

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



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2014. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

(v) Property, plant and equipment held for sale

Property, plant and equipment assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification, as held for sale the assets are remeasured in accordance with the Group's accounting polices. Thereafter the assets are measured at the lower of their carrying value amount and fair value less cost to sell.

Impairment losses on initial classification as held for sale are recognised in profit or loss.

For an asset to be classified as held for sale it must be immediately available for sale in its present condition and its sale must be highly probable. Once classified as held for sale the assets are no longer depreciated.

**h) Intangible assets**

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates, joint ventures and operations. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

(ii) Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment and not tested for impairment separately.

(iii) Software

Software is stated at cost, less accumulated amortisation and impairment losses.

Amortisation is charged to profit or loss on a straight-line basis over 2 to 7 years. The amortisation rates are reviewed annually.

(iv) Information technology systems and licences

Information technology systems are stated at cost, less accumulated amortisation and impairment losses.

Amortisation is charged to profit or loss on a straight-line basis over 3 to 7 years. The amortisation rates are reviewed annually.

(v) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the asset to which it relates. All other expenditure is expensed as incurred.

(vi) Emissions allowances

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.

**i) Inventories**

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

**j) Impairment**

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

(i) Impairment of debt instruments and receivables

The recoverable amount of the Group's investments in held-to-maturity debt instruments and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration of less than 12 months are not discounted.

Impairment losses are determined by an evaluation of the exposures on an instrument-by-instrument basis. All individual instruments that are considered significant are subject to this approach.

Debt instruments that are not individually significant and debt instruments for which, based on the individual assessment, it was determined that no objective evidence of impairment existed, are collectively assessed for impairment in groups with similar risk characteristics.

For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on numbers of days overdue, and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

(ii) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**k) Employee benefits**

(i) Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) Long-term employee benefits

The Group's net obligation in respect of long-service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value.

(iii) Defined contribution plan

Group contributions to the employee defined contribution superannuation scheme are expensed as incurred. Scheme investments are held in funds administered by trustees and are managed by investment managers independent of the Group. Scheme funds are not accessible by the Company and are not included in the consolidated financial statements.

**l) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**m) Revenue**

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Services

Revenue from services rendered is recognised in profit and loss in proportion to the stage of completion of the transaction at the reporting date.

(iii) Insurance claim recoveries

Insurance claim recoveries are recognised in other operating income when received or when receipt is highly probable.

**n) Dividends received**

Dividend income is recognised in other operating income on the date that the Group's right to receive payment is established.

**o) Government grants**

Government grants are recognised in the balance sheet as a liability when the grant is received.

When the grant relates to an expense item it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset the fair value is credited to deferred income and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.





**p) Lease payments**

(i) 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.

(ii) Finance lease payments

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**q) Finance income and expenses**

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.

**r) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**s) Rebates to shareholders**

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 27a) 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.

**t) New standards and interpretations**

A number of new standards are effective for the year ended 31 May 2014, and have been applied in preparing these financial statements. Those applicable to the Group are:

NZ IFRS 10 – Consolidated Financial Statements. Effective for periods beginning on or after 1 January 2013.
This standard gives a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. Control is reassessed as facts and circumstances change.

NZ IFRS 12 – Disclosure of Interests in Other Entities. Effective for periods beginning on or after 1 January 2013.
This standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements and associates. The aim is to provide information to enable users to evaluate the nature of risks associated with an entity's interests in another entity, and the effects of those interests on the entity's financial performance, position and cash flows.

NZ IFRS 13 – Fair Value Measurement. Effective for periods beginning on or after 1 January 2013.
This revised standard defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.

NZ IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other NZ IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other NZ IFRSs, including NZ IFRS 7.

In accordance with the transitional provisions of NZ IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurement of the Group's assets and liabilities.

NZ IAS 19 – Employee Benefits. Effective for periods beginning on or after 1 January 2013.
This amended standard revises the definition of short term and other long term benefits resulting in the provision for annual leave being classified as other long term benefits if the leave is not expected to be taken in two years.

NZ IAS 28 (2011) – Investments in Associates and Joint Ventures. Effective for periods beginning on or after 1 January 2013. This standard supersedes NZ IAS 28 (2008). The amendments are that IFRS 5 applies to an investment in an associate or a joint venture that meets the criteria to be classified as held for sale. It also amends that on cessation of significant influence or joint control, the entity does not remeasure the retained interest.

There has been no material impact on the financial statements from the adoption of the above standards.

A number of new or revised standards are not yet effective for the year ended 31 May 2014, and have not been applied in preparing these financial statements. Those relevant to the Group are:

NZ IFRS 9 - Financial Instruments: Classification and Measurement. Effective for periods beginning on or after 1 January 2015. This standard simplifies how an entity should classify and measure financial instruments. This will result in revised disclosure, but does not affect recognition or measurement of any balances within the financial statements.

Management has performed an assessment of these standards and do not believe there will be a material impact arising from their adoption.

There are a number of other standards and interpretations which are not yet effective and management consider they will have no material impact on the Group.

## 2 DETERMINATION OF FAIR VALUE

A number of the Group's accounting policies and disclosures require the determination of fair value, for financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**a) Investments in debt securities (held-to-maturity investments)**

The fair value of held-to-maturity investments is determined by reference to their quoted bid price, where available, at the reporting date. Where a quoted bid price is not available, the fair value is determined by reference to appropriate valuation techniques.

**b) Trade and other receivables**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Receivables of short duration (less than 1 year) are not discounted.

**c) Derivatives**

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.

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.

**d) Non-derivative financial liabilities**

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.

**e) Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after making proper marketing wherein the parties had each acted knowledgeably.

The fair value of items of property, plant and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

**f) Intangible assets**

The fair value of information technology systems acquired in a business combination is based on discounted cash flows derived from the use and sale of the assets.

**g) Inventories**

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

**h) Contingent consideration**

The fair value of contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). Since the contingent consideration is long-term in nature, it is discounted to present value.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2014. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

## 3 OTHER OPERATING INCOME

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Net gain on disposal of property, plant and equipment | | - | 297 | 19 | 379 |
| Dividend from subsidiary | | - | - | - | 50,000 |
| Other dividend income | | 142 | 21 | 143 | 21 |
| Government grants including NZ ETS credits | | 2,235 | 3,650 | 1,865 | 2,505 |
| Insurance claim | 29 | - | 3,934 | - | - |
| Other | | 850 | 477 | 674 | 320 |
| | | 3,227 | 8,379 | 2,701 | 53,225 |

Government grants relating to technology development and emissions trading credits have been received during the year. There are no unfulfilled conditions or contingencies attaching to these grants.

Insurance claim relates to the material damage and business interruption claim lodged for a fire at the ammonia urea plant in August 2011 (note 29).

## 4 OTHER OPERATING EXPENSES

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Net loss on disposal of property, plant and equipment | | 402 | - | - | - |
| Research and development expense | | 5,797 | 8,166 | 5,787 | 8,164 |
| Donations | | 12 | - | 12 | - |
| Other | | 433 | 63 | 252 | 44 |
| Subvention payment to subsidiaries | | - | - | 2,946 | - |
| | | 6,644 | 8,229 | 8,997 | 8,208 |

Donations were made to Leukemia and Blood Cancer NZ in lieu of scholarship.

## 5 FINANCING INCOME

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Interest from subsidiaries | | - | - | 1,796 | 1,645 |
| Interest from bank | | 796 | 622 | 752 | 527 |
| Reduction in fair value of deferred and contingent consideration | 15c(ii) | - | 6,268 | - | 6,268 |
| Net change in fair value of derivatives designated at fair value through profit or loss | | 40 | - | - | - |
| | | 836 | 6,890 | 2,548 | 8,440 |

## 6 REBATES AND DIVIDENDS

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Rebate provided for current year | | 74,940 | 61,500 | 74,940 | 61,500 |
| Rebate for prior year under (over) provided recognised in the current year | | 418 | 159 | 418 | 159 |
| | | 75,358 | 61,659 | 75,358 | 61,659 |
| Dividend paid in the current year | | 3,573 | 3,445 | 3,573 | 3,445 |
| Total distributions to Co-operative shareholders | | 78,931 | 65,104 | 78,931 | 65,104 |

Dividends paid in the current year at 10 cents per share (2013: 10 cents) with full tax imputation.

| | | | | | |
|---|---|---|---|---|---|
| Balance Sheet: | | | | | |
| Rebate provided for current year | | 74,940 | 61,500 | 74,940 | 61,500 |
| Less rebate allocated to share allotment | | 23,610 | 21,300 | 23,610 | 21,300 |
| | | 51,330 | 40,200 | 51,330 | 40,200 |

## 7 IMPAIRMENT WRITE (DOWN) AND RESTRUCTURE COSTS

| a) Impairment write (down) | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Impairment of investment in Farmworks Systems Limited (i) | | - | - | - | (3,125) |
| Impairment of investment in Seales Winslow Limited (ii) | | - | - | - | (4,462) |
| Write down of Seales Winslow Limited land (iii) | 17 | - | (1,431) | - | - |
| Impairment of Seales Winslow Limited goodwill (iv) | 18 | - | (3,031) | - | - |
| Write down of intellectual property relating to Farmworks Systems Limited (v) | 18 | - | (1,500) | - | - |
| | | - | (5,962) | - | (7,587) |

(i) The write down of investment in subsidiary at the Parent level relates to the Company's investment in Farmworks Systems Limited, writing the investment down to $2.7m carrying value. This write down had no impact in the Group result.

(ii) The write down of investment in subsidiary at the Parent level relates to the Company's investment in Seales Winslow Limited, writing the investment down to $16.5m carrying value. This write down had no impact in the Group result.

(iii) The write down of land owned by Seales Winslow Limited is based on independent valuation for surplus land available for sale.

(iv) The impairment of goodwill associated with Seales Winslow Limited is based on discounted cashflow calculations indicating impairment.

(v) The write down of the investment in intellectual property in Farmworks Systems Limited is based on discounted cashflow calculations indicating impairment.

| b) Restructure costs | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Whangarei manufacturing closure | | 3,996 | - | 3,996 | - |

During the year the Whangarei manufacturing operations were restructured resulting in the closure of the acid and superphosphate manufacturing facilities.

The restructuring plan was announced to employees in August 2013 and partially completed in the current financial year. A provision has been recognised for the dismantling of the acid plant due for completion in the next financial year (Note 21) and the affected asset has been written down to nil.

## 8 PERSONNEL EXPENSES

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Wages and salaries | | 68,698 | 63,930 | 44,445 | 41,167 |
| Contributions to defined contribution superannuation plans | | 3,686 | 3,277 | 2,487 | 2,233 |
| Increase (decrease) in liability for long-service leave | 21 | (175) | 100 | (127) | 90 |
| | | 72,209 | 67,307 | 46,805 | 43,490 |

## 9 FINANCING EXPENSES

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Interest paid to subsidiaries | | - | - | 366 | 969 |
| Interest paid to banks | | 4,330 | 8,264 | 4,190 | 7,983 |
| Unwind of discount rate on deferred and contingent consideration | 21 | 733 | 1,338 | 733 | 1,338 |
| Net change in fair value of derivatives designated at fair value through profit or loss | | - | 505 | - | 505 |
| Net foreign exchange loss | | - | 16 | - | - |
| Other financial expenses | | 290 | 368 | 290 | 368 |
| | | 5,353 | 10,491 | 5,579 | 11,163 |





## 10 AUDITORS' REMUNERATION

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **Audit services** | | | | | |
| Audit of financial statements | | 139 | 166 | 130 | 130 |
| **Other services** | | | | | |
| Accounting advice | | - | 12 | - | 12 |
| Taxation services - compliance | | 43 | 51 | 43 | 51 |
| Taxation services - advice | | 9 | - | 9 | - |
| | | 191 | 229 | 182 | 193 |

## 11 INCOME TAX EXPENSE

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **a) Recognised in the income statement** | | | | | |
| **Current tax (benefit) expense** | | | | | |
| Current year | | 7,256 | 15,700 | 5,243 | 277 |
| Adjustments for prior years | | 24 | 151 | 83 | (142) |
| | | 7,280 | 15,851 | 5,326 | 135 |
| **Deferred tax (benefit) expense** | | | | | |
| Origination and reversal of temporary differences | | (2,773) | (6,264) | (2,885) | (2,136) |
| | 16(b) | (2,773) | (6,264) | (2,885) | (2,136) |
| Total income tax (benefit) expense in income statement | | 4,507 | 9,587 | 2,441 | (2,001) |

| b) Reconciliation between tax expense and pre-tax net profit (loss) | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Profit before tax | | 14,172 | 30,975 | 7,346 | 40,206 |
| Income tax using the domestic company tax rate - 28% (2013: 28%) | | 3,968 | 8,673 | 2,057 | 11,258 |
| Increase (decrease) in income tax expense due to: | | | | | |
| Non-deductible expenses | | 263 | 2,117 | 255 | 2,555 |
| Tax exempt revenues | | (67) | (1,761) | (9) | (15,761) |
| Other | | 320 | 407 | 55 | 89 |
| | | 4,484 | 9,436 | 2,358 | (1,859) |
| Under (over) provided in prior years | | 23 | 151 | 83 | (142) |
| Income tax expense (benefit) in income statement | | 4,507 | 9,587 | 2,441 | (2,001) |
| **Income tax recognised directly in other comprehensive income** | | | | | |
| Derivatives | | (2,276) | (1,365) | (2,276) | (1,365) |
| | | (2,276) | (1,365) | (2,276) | (1,365) |

| Imputation credits | Note | GROUP 2014 $000 | GROUP 2013 $000 |
|---|---|---|---|
| The imputation credits are available to shareholders of the parent company: | | | |
| through the parent company | | 108,624 | 101,200 |
| through subsidiaries | | 4,782 | 3,774 |
| | | 113,406 | 104,974 |

## 12 TRADE AND OTHER RECEIVABLES

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Trade receivables | | 116,358 | 99,401 | 110,148 | 92,879 |
| Receivables from subsidiaries | | - | - | - | 1,034 |
| Prepayments | | 6,981 | 9,427 | 3,094 | 5,426 |
| | | 123,339 | 108,828 | 113,242 | 99,339 |

## 13 INVENTORIES

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Manufactured and finished products | | 79,862 | 95,585 | 80,356 | 95,987 |
| Raw materials | | 24,318 | 45,750 | 19,840 | 41,878 |
| | | 104,180 | 141,335 | 100,196 | 137,865 |
| Goods in transit | | 18,367 | - | 18,367 | - |
| Packaging | | 4,791 | 4,161 | 4,792 | 4,161 |
| Spares and stores | | 8,383 | 9,004 | 5,428 | 6,043 |
| | | 135,721 | 154,500 | 128,783 | 148,069 |

In 2014 the write-down of inventories to net realisable value amounted to $493k (2013: nil).

## 14 ASSETS HELD FOR SALE

Certain land and buildings had been determined surplus to requirements and therefore are presented as a disposal group held for sale following approval of the Directors to sell the facilities. Assets in the disposal group either have conditional contracts or are currently under sale negotiation.

An impairment loss had been recognised on the surplus Seales Winslow Limited land in 2013 (Note 17).

At 31 May 2014 the disposal group comprised the following assets:

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Opening balance | | 2,010 | 1,585 | 971 | 1,585 |
| Current year movement | 17 | (2,010) | 425 | (971) | (614) |
| Closing balance | | - | 2,010 | - | 971 |

## 15 INVESTMENTS

a) **The Company has the following investments:**

| | Principal activity | Note | 2014 Balance date | 2014 Interest | 2013 Balance date | 2013 Interest |
|---|---|---|---|---|---|---|
| **Subsidiaries** | | | | | | |
| Ballance Agri-Nutrients (Kapuni) Limited | Urea manufacture | | 31 May | 100% | 31 May | 100% |
| Ballance SPTwo Limited | Research | | 31 May | 100% | 31 May | 100% |
| Super Air Limited | Agricultural aviation | | 31 May | 100% | 31 May | 100% |
| Ballance Agri-Nutrients Insurance Limited | Insurance | | 31 May | 100% | 31 May | 100% |
| Farmworks Systems Limited | Farm technology | 15c(i) | 31 May | 100% | 31 May | 100% |
| Seales Winslow Limited | Animal feed and nutrition | 15c(ii) | 31 May | 100% | 31 May | 100% |
| **Equity accounted investees** | | | | | | |
| NZ Phosphate Company Limited | Research | | 30 June | 50% | 30 June | 50% |
| EnCoate Holdings Limited | Research and development | | 30 June | 50% | 30 June | 50% |

Note: Ballance SPTwo Limited is in the process of being wound-up.





b) **Equity accounted investees**

Summary financial information for equity accounted investees and proportionately consolidated entities, not adjusted for the percentage ownership held by the Group:

| | | Total assets $000 | Total liabilities $000 | Revenues $000 | Profit (loss) $000 | Total comprehensive income $000 |
|---|---|---|---|---|---|---|
| Equity accounted investees | 2014 | 301 | 39 | 83 | 33 | 33 |
| | 2013 | 267 | 37 | 80 | 23 | 23 |

c) **Investments in subsidiaries**

(i) In December 2012, the Group acquired the remaining 49% interest in Farmworks Systems Limited for $0.155m.

The carrying amount of Farmworks Systems Limited net assets in the Group's financial statements on the date of the acquisition was $0.801m. The Group recognised a decrease in non-controlling interests of $0.393m, and an increase in reserves of $0.238m. (When combined with the Seales Winslow Limited decrease of $0.656m in reserves as per Note 15(c)ii below, a net amount of $0.419m is recognised as a reduction in reserves for the Group).

The following summarises the effect of changes in the Company's ownership interest in Farmworks Systems Limited.

| | GROUP $000 |
|---|---|
| Company's ownership interest at 1 June 2012 | 607 |
| Share of comprehensive (loss) | (199) |
| Consideration | 155 |
| Retained earnings | 238 |
| | 801 |

(ii) On 1 June 2011 the Company acquired 51% of the business and assets now comprising Seales Winslow Limited.

In February 2013, the Group acquired the remaining 49% interest in Seales Winslow Limited for $9.600m. The carrying amount of Seales Winslow Limited net assets in the Group's financial statements on the date of the acquisition was $20.538m. The Group recognised a decrease in non-controlling interests of $10.064m, and a decrease in reserves of $0.656m. Note in the Parent financial statements a decrease in reserves of $2.223m was recognised.

The following summarises the effect of changes in the Company's ownership interest in Seales Winslow Limited.

| | GROUP $000 |
|---|---|
| Company's ownership interest at 1 June 2012 | 10,890 |
| Share of comprehensive (loss) | (416) |
| Consideration | 10,720 |
| Retained earnings | (656) |
| | 20,538 |

**Contingent consideration**

The Group had agreed to pay the vendors of Seales Winslow Limited an additional payment of between $nil and $1.900m contingent on the outcome of a formula that would pay a proportion of the change in equity value from the date of acquisition to valuation of the equity in 2014. The assessed contingent consideration payment had been discounted to net present value. Due to the early settlement of the agreement the contingent consideration of $1.655m was not payable and the accrued amount was credited to profit or loss within financing income (Note 5).

**Deferred consideration**

The Group had agreed to take up the minority interest in Seales Winslow Limited in 2014. The consideration payable was to be based on an earnings formula plus and minus adjustments and included a floor price minimum. The estimated amount payable was based off forecast earnings incorporating a realistic assessment of the company's growth prospects and was discounted to net present value. Due to the early settlement of the agreement the consideration paid was based on the floor price and the over accrual of the deferred consideration of $4.613m was credited to profit or loss within financing income (Note 5).

Total amount credited to profit or loss within financial income for reduction in fair value of deferred and contingent consideration is $6.268m.

## 16 DEFERRED TAX ASSETS AND (LIABILITIES)

**a) Recognised deferred tax assets and (liabilities)**

Deferred tax assets and (liabilities) are attributable to the following:

| GROUP | Assets 2014 $000 | 2013 $000 | Liabilities 2014 $000 | 2013 $000 | Net 2014 $000 | 2013 $000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | - | - | (10,234) | (10,382) | (10,234) | (10,382) |
| Intangibles | - | - | (1,179) | (1,725) | (1,179) | (1,725) |
| Inventories | 1,841 | 2,015 | (360) | (595) | 1,481 | 1,420 |
| Employee benefits | 2,582 | 2,529 | - | - | 2,582 | 2,529 |
| Derivatives at fair value | 1,983 | - | - | (292) | 1,983 | (292) |
| Other items | 992 | 168 | - | - | 992 | 168 |
| Tax value of loss carry-forwards recognised | 2,297 | 1,156 | - | - | 2,297 | 1,156 |
| Tax assets (liabilities) | 9,695 | 5,868 | (11,773) | (12,994) | (2,078) | (7,126) |
| Set off of tax | (9,695) | (5,868) | 9,695 | 5,868 | - | - |
| Net tax assets (liabilities) | - | - | (2,078) | (7,126) | (2,078) | (7,126) |

| PARENT | Assets 2014 $000 | 2013 $000 | Liabilities 2014 $000 | 2013 $000 | Net 2014 $000 | 2013 $000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | - | - | (6,097) | (7,207) | (6,097) | (7,207) |
| Intangibles | - | - | (812) | (1,463) | (812) | (1,463) |
| Inventories | - | - | (359) | (595) | (359) | (595) |
| Employee benefits | 1,754 | 1,669 | - | - | 1,754 | 1,669 |
| Derivatives at fair value | 1,983 | - | - | (292) | 1,983 | (292) |
| Other items | 930 | 126 | - | - | 930 | 126 |
| Tax assets (liabilities) | 4,667 | 1,795 | (7,268) | (9,557) | (2,601) | (7,762) |
| Set off of tax | (4,667) | (1,795) | 4,667 | 1,795 | - | - |
| Net tax assets (liabilities) | - | - | (2,601) | (7,762) | (2,601) | (7,762) |





**b) Movement in temporary differences during the year**

| GROUP 2013 | Note | Opening balance $000 | Recognised in business combination $000 | Recognised in income $000 | Recognised in other comprehensive income $000 | Closing balance $000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | | (15,068) | - | 4,686 | - | (10,382) |
| Intangibles | | (1,850) | - | 125 | - | (1,725) |
| Inventories | | 1,363 | - | 57 | - | 1,420 |
| Employee benefits | | 2,319 | - | 210 | - | 2,529 |
| Derivatives at fair value | | (1,711) | - | 54 | 1,365 | (292) |
| Other items | | 192 | - | (24) | - | 168 |
| Tax value of loss carry-forwards recognised | | - | - | 1,156 | - | 1,156 |
| | 11 | (14,755) | - | 6,264 | 1,365 | (7,126) |

| GROUP 2014 | Note | Opening balance $000 | Recognised in business combination $000 | Recognised in income $000 | Recognised in other comprehensive income $000 | Closing balance $000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | | (10,382) | - | 148 | - | (10,234) |
| Intangibles | | (1,725) | - | 546 | - | (1,179) |
| Inventories | | 1,420 | - | 61 | - | 1,481 |
| Employee benefits | | 2,529 | - | 53 | - | 2,582 |
| Derivatives at fair value | | (292) | - | - | 2,275 | 1,983 |
| Other items | | 168 | - | 824 | - | 992 |
| Tax value of loss carry-forwards recognised | | 1,156 | - | 1,141 | - | 2,297 |
| | 11 | (7,126) | - | 2,773 | 2,275 | (2,078) |

| PARENT 2013 | Note | Opening balance $000 | Recognised in business combination $000 | Recognised in income $000 | Recognised in other comprehensive income $000 | Closing balance $000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | | (8,315) | - | 1,108 | - | (7,207) |
| Intangibles | | (1,759) | - | 296 | - | (1,463) |
| Inventories | | (1,189) | - | 594 | - | (595) |
| Employee benefits | | 1,567 | - | 103 | - | 1,670 |
| Derivatives at fair value | | (1,711) | - | 53 | 1,365 | (293) |
| Other items | | 144 | - | (18) | - | 126 |
| | 11 | (11,263) | - | 2,136 | 1,365 | (7,762) |

| PARENT 2014 | Note | Opening balance $000 | Recognised in business combination $000 | Recognised in income $000 | Recognised in other comprehensive income $000 | Closing balance $000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | | (7,207) | - | 1,110 | - | (6,097) |
| Intangibles | | (1,463) | - | 651 | - | (812) |
| Inventories | | (595) | - | 236 | - | (359) |
| Employee benefits | | 1,670 | - | 84 | - | 1,754 |
| Derivatives at fair value | | (293) | - | - | 2,276 | 1,983 |
| Other items | | 126 | - | 804 | - | 930 |
| | 11 | (7,762) | - | 2,885 | 2,276 | (2,601) |

## 17 PROPERTY, PLANT AND EQUIPMENT

| GROUP<br>2013 | Note | Land and improvements<br>$000 | Buildings<br>$000 | Plant, equipment and aircraft<br>$000 | Under construction<br>$000 | Total<br>$000 |
|---|---|---|---|---|---|---|
| Cost | | 46,807 | 92,613 | 287,110 | 15,270 | 441,800 |
| Accumulated depreciation | | (3,767) | (34,939) | (161,252) | - | (199,958) |
| Carrying value | | 43,040 | 57,674 | 125,858 | 15,270 | 241,842 |
| **2014** | | | | | | |
| Cost | | 47,539 | 96,251 | 321,725 | 11,635 | 477,150 |
| Accumulated depreciation | | (2,679) | (39,721) | (185,027) | - | (227,427) |
| Carrying value | | 44,860 | 56,530 | 136,698 | 11,635 | 249,723 |

| PARENT<br>2013 | Note | Land and improvements<br>$000 | Buildings<br>$000 | Plant, equipment and aircraft<br>$000 | Under construction<br>$000 | Total<br>$000 |
|---|---|---|---|---|---|---|
| Cost | | 42,524 | 81,373 | 113,187 | 7,651 | 244,735 |
| Accumulated depreciation | | (2,334) | (32,457) | (65,782) | - | (100,573) |
| Carrying value | | 40,190 | 48,916 | 47,405 | 7,651 | 144,162 |
| **2014** | | | | | | |
| Cost | | 43,146 | 83,015 | 118,245 | 5,706 | 250,112 |
| Accumulated depreciation | | (2,672) | (36,701) | (70,249) | - | (109,622) |
| Carrying value | | 40,474 | 46,314 | 47,996 | 5,706 | 140,490 |

**Reconciliation of property, plant and equipment carrying value**

| GROUP<br>2013 | Note | Land and improvements<br>$000 | Buildings<br>$000 | Plant, equipment and aircraft<br>$000 | Under construction<br>$000 | Total<br>$000 |
|---|---|---|---|---|---|---|
| Opening balance | | 44,572 | 59,025 | 141,602 | 14,660 | 259,859 |
| Acquisitions (transfers) | | 1,409 | 3,408 | 16,654 | 610 | 22,081 |
| Depreciation expense | | (324) | (4,676) | (31,718) | - | (36,718) |
| Impairment | | (1,431) | - | - | - | (1,431) |
| Reclassification to assets held for sale | | (786) | 357 | 4 | - | (425) |
| Disposals | | (400) | (440) | (684) | - | (1,524) |
| Closing balance | | 43,040 | 57,674 | 125,858 | 15,270 | 241,842 |
| **2014** | | | | | | |
| Opening balance | | 43,040 | 57,674 | 125,858 | 15,270 | 241,842 |
| Acquisitions (transfers) | | 1,133 | 3,455 | 40,993 | (3,635) | 41,946 |
| Depreciation expense | | (343) | (4,597) | (28,217) | - | (33,157) |
| Reclassification to assets held for sale | 14 | 1,186 | 686 | 138 | - | 2,010 |
| Disposals | | (156) | (688) | (2,074) | - | (2,918) |
| Closing balance | | 44,860 | 56,530 | 136,698 | 11,635 | 249,723 |





| PARENT<br>2013 | Note | Land and improvements<br>$000 | Buildings<br>$000 | Plant, equipment and aircraft<br>$000 | Under construction<br>$000 | Total<br>$000 |
|---|---|---|---|---|---|---|
| Opening balance | | 39,362 | 50,475 | 46,484 | 9,113 | 145,434 |
| Acquisitions (transfers) | | 1,298 | 2,596 | 9,628 | (1,462) | 12,060 |
| Depreciation expense | | (323) | (4,072) | (8,607) | - | (13,002) |
| Reclassification to assets held for sale | | 253 | 357 | 4 | - | 614 |
| Disposals | | (400) | (440) | (104) | - | (944) |
| Closing balance | | 40,190 | 48,916 | 47,405 | 7,651 | 144,162 |
| **2014** | | | | | | |
| Opening balance | | 40,190 | 48,916 | 47,405 | 7,651 | 144,162 |
| Acquisitions (transfers) | | 631 | 1,020 | 10,289 | (1,945) | 9,995 |
| Depreciation expense | | (338) | (4,033) | (8,663) | - | (13,034) |
| Reclassification to assets held for sale | 14 | 147 | 686 | 138 | - | 971 |
| Disposals | | (156) | (275) | (1,173) | - | (1,604) |
| Closing balance | | 40,474 | 46,314 | 47,996 | 5,706 | 140,490 |

The carrying value of the Kapuni urea plant is regularly reviewed in relation to the availability of economic gas supply. Contracted gas supply to 2020 (2013: 2020) held by the Company provides increased confidence and certainty in the future economic performance of the plant.

## 18 INTANGIBLE ASSETS

Intangible assets comprise emissions trading scheme credits, goodwill on acquisitions, software costs for the Group's operating and agronomic systems and information technology systems based around farm management systems.

| GROUP<br>2013 | Note | Emissions trading scheme<br>$000 | Goodwill<br>$000 | Software<br>$000 | Technology systems and licences<br>$000 | Total<br>$000 |
|---|---|---|---|---|---|---|
| Cost | | 1,079 | 3,033 | 28,536 | 5,294 | 37,942 |
| Accumulated amortisation | | - | - | (19,602) | (1,587) | (21,189) |
| Accumulated impairment | | - | (3,033) | - | (1,500) | (4,533) |
| Carrying value | | 1,079 | - | 8,934 | 2,207 | 12,220 |
| **2014** | | | | | | |
| Cost | | 1,635 | - | 35,022 | 4,046 | 40,703 |
| Accumulated amortisation | | - | - | (24,179) | (1,978) | (26,157) |
| Carrying value | | 1,635 | - | 10,843 | 2,068 | 14,546 |

| Amortisation is charged to the following line item in the income statement: | 2014<br>$000 | 2013<br>$000 |
|---|---|---|
| Administration expenses | 4,966 | 5,112 |

| PARENT<br>2013 | Note | Emissions trading scheme<br>$000 | Goodwill<br>$000 | Software<br>$000 | Technology systems and licences<br>$000 | Total<br>$000 |
|---|---|---|---|---|---|---|
| Cost | | - | - | 27,315 | - | 27,315 |
| Accumulated amortisation | | - | - | (18,513) | - | (18,513) |
| Carrying value | | - | - | 8,802 | - | 8,802 |
| **2014** | | | | | | |
| Cost | | - | - | 33,680 | - | 33,680 |
| Accumulated amortisation | | - | - | (23,013) | - | (23,013) |
| Carrying value | | - | - | 10,667 | - | 10,667 |

| | 2014<br>$000 | 2013<br>$000 |
|---|---|---|
| Amortisation is charged to the following line item in the income statement: | | |
| Administration expenses | 4,500 | 4,377 |

**Reconciliation of intangible asset carrying value**

| GROUP<br>2013 | Note | Emissions trading scheme<br>$000 | Goodwill<br>$000 | Software<br>$000 | Technology systems and licences<br>$000 | Total<br>$000 |
|---|---|---|---|---|---|---|
| Opening balance | | 812 | 3,033 | 12,318 | 4,054 | 20,217 |
| Acquired separately | | - | - | 1,090 | 291 | 1,381 |
| Grant - net allocation of emissions trading scheme credits | | 267 | - | - | - | 267 |
| Impairment (losses) recognised in the income statement | | - | (3,033) | - | (1,500) | (4,533) |
| Amortisation | | - | - | (4,474) | (638) | (5,112) |
| Carrying value | | 1,079 | - | 8,934 | 2,207 | 12,220 |
| **2014** | | | | | | |
| Opening balance | | 1,079 | - | 8,934 | 2,207 | 12,220 |
| Acquired separately | | - | - | 6,485 | 252 | 6,737 |
| Grant - net allocation of emissions trading scheme credits | | 556 | - | (1) | - | 555 |
| Amortisation | | - | - | (4,575) | (391) | (4,966) |
| Carrying value | | 1,635 | - | 10,843 | 2,068 | 14,546 |



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**Reconciliation of intangible asset carrying value**

| PARENT<br>2013 | Note | Emissions trading scheme<br>$000 | Goodwill<br>$000 | Software<br>$000 | Technology systems and licences<br>$000 | Total<br>$000 |
|---|---|---|---|---|---|---|
| Opening balance | | - | - | 12,120 | - | 12,120 |
| Acquired separately | | - | - | 1,059 | - | 1,059 |
| Amortisation | | - | - | (4,377) | - | (4,377) |
| Carrying value | | - | - | 8,802 | - | 8,802 |
| **2014** | | | | | | |
| Opening balance | | - | - | 8,802 | - | 8,802 |
| Acquired separately | | - | - | 6,365 | - | 6,365 |
| Amortisation | | - | - | (4,500) | - | (4,500) |
| Carrying value | | - | - | 10,667 | - | 10,667 |

## 19 TRADE AND OTHER PAYABLES

| | Note | GROUP<br>2014<br>$000 | GROUP<br>2013<br>$000 | PARENT<br>2014<br>$000 | PARENT<br>2013<br>$000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Trade payables due to subsidiaries | | - | - | 10,256 | 12,301 |
| Trade payables and accrued expenses | | 48,223 | 39,680 | 32,740 | 26,754 |
| Share repurchase instalments | | 3,822 | 2,982 | 3,822 | 2,982 |
| Employee benefits | 22 | 5,688 | 5,700 | 3,140 | 3,240 |
| Emissions trading scheme - deferred income | | 299 | 113 | - | - |
| Emissions trading scheme - liability | | 17 | 16 | - | - |
| Non-trade payables and accrued expenses | | 3,211 | 3,190 | 2,683 | 2,702 |
| | | 61,260 | 51,681 | 52,641 | 47,979 |

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.

## 20 LOANS AND BORROWINGS

| | Year of maturity | GROUP<br>2014<br>$000 | GROUP<br>2013<br>$000 | PARENT<br>2014<br>$000 | PARENT<br>2013<br>$000 |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| Bank Revolving Cash Advance Facility - parent | 2016 / 2017 | 40,000 | 50,000 | 40,000 | 50,000 |
| Total | | 40,000 | 50,000 | 40,000 | 50,000 |

The Company has a Bank Revolving Cash Advance Facility. At 31 May 2014 the facility available was $265m, of which $40m was drawn in the Group ($40m Parent), (2013: facility $315m, actual drawn $50.0m Group, $50.0m Parent). The interest rate is currently 4.19% (2013: 3.39%). Deposits and the Bank Revolving Cash Advance Facility have different interest rates and the loan agreement provides for right of set off against deposits. The current portion of the facility is considered cash and cash equivalents.

The Bank Revolving Cash Advance Facility is unsecured. Various covenants such as minimum interest coverage, shareholder funds covenant, equity cover covenant and stock and debtor ratios apply to all bank lending facilities, including the Bank Revolving Cash Advance Facility. These are measured six monthly. The group complied with these covenants.

## 21 PROVISIONS

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **Employee benefits - long-service leave provision** | | | | | |
| Opening balance | | 1,320 | 1,220 | 877 | 787 |
| Movement in provision | 8 | (175) | 100 | (127) | 90 |
| Closing balance | 22 | 1,145 | 1,320 | 750 | 877 |
| **Contingent consideration** | | | | | |
| Opening balance | | - | 1,525 | - | 1,525 |
| Derecognition of Seales Winslow Limited - reversal of provision | 15(c)(ii) | - | (1,654) | - | (1,654) |
| Unwind of discount | 9 | - | 129 | - | 129 |
| Closing balance | | - | - | - | - |
| **Deferred consideration** | | | | | |
| Opening balance | | 7,683 | 12,087 | 7,683 | 12,087 |
| Cash payment | | (1,500) | (1,000) | (1,500) | (1,000) |
| Reduction in value of deferred consideration | 15(c)(ii) | - | (4,613) | - | (4,613) |
| Unwind of discount | 9 | 733 | 1,209 | 733 | 1,209 |
| Closing balance | | 6,916 | 7,683 | 6,916 | 7,683 |
| **Restructuring** | | | | | |
| Opening balance | | - | - | - | - |
| Recognised on Whangarei manufacturing process restructure | 7(b) | 1,571 | - | 1,571 | - |
| Closing balance | | 1,571 | - | 1,571 | - |
| Total provisions | | 9,632 | 9,003 | 9,237 | 8,560 |
| Deferred consideration is reported in the balance sheet as: | | | | | |
| - current liabilities | | 6,916 | 1,500 | 6,916 | 1,500 |
| - non-current liabilities | | - | 6,183 | - | 6,183 |
| | | 6,916 | 7,683 | 6,916 | 7,683 |
| Restructuring is reported in the balance sheet as: | | | | | |
| - current liabilities | | 1,571 | - | 1,571 | - |
| - non-current liabilities | | - | - | - | - |
| | | 1,571 | - | 1,571 | - |
| Total provisions are reported in the balance sheet as: | | | | | |
| - current liabilities | | 8,487 | 1,500 | 8,487 | 1,500 |
| - non-current liabilities | | 1,145 | 7,503 | 750 | 7,060 |
| | | 9,632 | 9,003 | 9,237 | 8,560 |



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## 22 EMPLOYEE BENEFITS

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Salaries and wages accrued | | 309 | 184 | - | - |
| Liability for annual leave | | 5,379 | 5,516 | 3,140 | 3,240 |
| | 19 | 5,688 | 5,700 | 3,140 | 3,240 |
| **Non-current** | | | | | |
| Liability for long-service leave | 21 | 1,145 | 1,320 | 750 | 877 |

## 23 OPERATING LEASES

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **Leases as lessee** | | | | | |
| Non-cancellable operating lease rentals are payable as follows: | | | | | |
| Less than one year | | 4,525 | 3,163 | 3,946 | 2,646 |
| Between one and five years | | 15,466 | 11,464 | 14,949 | 11,044 |
| After five years | | 11,821 | 8,613 | 11,794 | 8,520 |
| | | 31,812 | 23,240 | 30,689 | 22,210 |
| Operating lease expense recognised | | 5,412 | 5,352 | 4,614 | 4,565 |

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.

## 24 CAPITAL AND OTHER COMMITMENTS

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **Capital expenditure commitments** | | | | | |
| Contracted for | | 5,577 | 6,298 | 647 | 645 |
| Not yet contracted for | | 17,065 | 7,724 | 6,873 | 7,724 |

## 25 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

| | Note | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| Profit for the year | | 9,665 | 21,388 | 4,905 | 42,207 |
| | | | | | |
| **Add non-cash and non-operating items:** | | | | | |
| Inventory write-down to net present value | | 774 | - | 774 | - |
| Depreciation | | 33,156 | 36,718 | 13,033 | 13,001 |
| Amortisation | | 4,966 | 5,112 | 4,500 | 4,377 |
| Emissions trading scheme - net cost of carbon | | (839) | (839) | - | - |
| Impairment write down | | - | 5,962 | - | 7,587 |
| Subvention write back | | - | - | 2,946 | - |
| Derivative fair value | | 1,023 | 1,910 | 1,023 | (4,371) |
| Acquisition of non-controlling interest | 15c(ii) | - | (6,268) | - | - |
| Gain (loss) on sale of property, plant and equipment | | 402 | (297) | (19) | (379) |
| Provision for asset disposal | | 1,336 | - | 1,336 | - |
| Employee benefits | | (175) | 100 | (127) | 90 |
| Rebate transferred to Share Allotment Reserve | | 23,877 | 21,318 | 23,877 | 21,318 |
| Equity accounted earnings of associates | | (16) | (11) | - | - |
| Tax loss offset and intercompany dividend recorded against inter-company funding | | - | - | (1,533) | (65,621) |
| Decrease in deferred tax | | (2,773) | (6,263) | (2,885) | (2,136) |
| | | | | | |
| **Add (deduct) movements in working capital:** | | | | | |
| Movement in trade and other receivables | | (20,315) | 14,050 | (19,707) | (6,246) |
| Movement in inventories | | 22,963 | 6,446 | 23,471 | 7,533 |
| Movement in trade and other payables | | 12,704 | 1,001 | 6,921 | 15,008 |
| Movement in rebate payable | | 11,127 | 13,330 | 11,129 | 13,330 |
| Movement in tax receivable | | (2,503) | 9,742 | (2,441) | 9,479 |
| **Net cash from operating activities** | | 95,372 | 123,399 | 67,203 | 55,177 |



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2014. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

## 26 RELATED PARTIES

**Identity of related parties**

The Company has a related party relationship with each of its subsidiary and associate companies outlined in Note 15(a).

Directors have a related party relationship through common directorship and conduct business with the Parent Company and its subsidiaries in the normal course of their business as customers and on commercial terms and conditions. Sales to Directors and rebates paid to directors are less than 1% of the total operating revenue and rebates for the year respectively.

| | | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|
| **Transactions with external related parties through common directorship, control or significant influence** | | | |
| Revenue | | 4,537 | 3,417 |
| Expenses | | 3,654 | 3,082 |
| Rebate | | 209 | 131 |
| Dividend | | 16 | 12 |
| | | | |
| **Balances with external related parties through common directorship, control or significant influence** | | | |
| Amounts owing to the company | | 195 | 191 |
| Amounts owed to the company | | 54 | 59 |
| | | | |
| **Transactions with subsidiaries and associates** | | | |
| Purchases of inventory from subsidiaries | | 117,455 | 152,166 |
| Dividends received by the Company from subsidiaries | | - | 50,000 |
| Subvention (paid) received to/from subsidiaries | | (2,946) | - |
| Interest paid by the Company to subsidiaries | | 366 | 969 |
| Interest received by the Company from subsidiaries | | 1,796 | 1,645 |
| | | | |
| **Balances with subsidiaries and associates** | | | |
| Amounts owing to the Company by subsidiaries | | 18,206 | 14,822 |
| Amounts owed by the Company to subsidiaries | | 16,392 | 15,612 |
| | | (1,814) | 790 |
| | | | |
| Term loans owing to the Company by subsidiaries | | 21,133 | 19,192 |

Trade receivables and trade payables balances at reporting date between the Parent and its subsidiaries are disclosed in Note 12 and 19 respectively.

Transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions.

Intercompany loans are repayable on demand and attract interest at between 2.5% and 4.0% per annum.

Intercompany term loans attract interest at between 3.5% and 4.5% per annum.

The Company has a related party relationship with its key management personnel and directors. Key management personnel comprise the executive teams within the Parent and Group companies.

| | | GROUP 2014 $000 | GROUP 2013 $000 | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|---|---|---|
| **Key management personnel and directors compensation** | | | | | |
| Short term employee benefits, excluding directors | | 4,613 | 3,692 | 4,037 | 3,107 |
| Directors' fees | | 592 | 638 | 592 | 601 |
| Total | | 5,205 | 4,330 | 4,629 | 3,708 |

## 27 CAPITAL AND RESERVES

**a) Share capital**

(i) Reconciliation of movement in co-operative shares

| | PARENT AND GROUP 2014 $000 | PARENT AND GROUP 2013 $000 |
|---|---|---|
| Opening balance | 35,812 | 34,500 |
| Co-operative shares issued | 58 | 23 |
| Co-operative shares issued in lieu of rebate | 2,876 | 2,228 |
| Co-operative shares repurchased | (874) | (939) |
| Closing balance | 37,872 | 35,812 |

(ii) Ordinary shares
All issued shares are fully paid and have no par value. Each share has a nominal value of $8.10 (2013: $7.50). 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. All shares rank equally with regard to the Company's residual assets.

(iii) Share redemption features
Parent Company 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 873,844 shares (2013: 938,611) were repurchased at an average price of $7.61 per share (2013: $7.05). From these repurchases 873,844 shares were cancelled (2013: 938,611).

(v) Treasury stock

| | PARENT 2014 $000 | PARENT 2013 $000 |
|---|---|---|
| Number of shares repurchased, not reissued and held as treasury stock at reporting date. | - | - |

(vi) Capital management
The Group's capital includes share capital, reserves, retained earnings and minority interests.

The Board's policy is to maintain a strong capital base that will foster confidence in the Group's strength for shareholders and also for business partners both within New Zealand and internationally and permit the Group to take advantage of future development opportunities. The Board consider a strong capital base a buffer to protect the Group from volatility and changes in capital and operating market conditions.

Shareholding is based on the requirement to acquire the share quota (quota is the estimated annual tonnage usage of fertiliser) and is determined by the Board taking into account such criteria as the Board sees fit. The quota level is currently 30 shares per tonne.

The Board monitors forecast capital inflows and outflows and the level of shareholding relative to shareholders' quota to ensure that the Company retains a strong capital base.

The Parent Company repurchases shares and at its discretion may hold these as treasury stock for reissue to shareholders. The Group does not have a defined share buy-back plan.

As a co-operative the shares are not listed so the Company reviews the share nominal value each year and the Board recommends to shareholders any change in nominal value.

There were no changes in the Group's approach to capital management during the year.

As a condition of unsecured bank funding the Group is required to maintain shareholders' funds and defined ratio of equity to total tangible assets above minimum levels. The Group has complied with these externally imposed requirements.

**b) Other reserves**

The 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.

The deferred consideration reserve was an estimate of the amount payable for the non-controlling interest in Seales Winslow Limited in 2014 (Note 15(c)(ii)). This is now nil as the non-controlling interest was acquired in the last financial year.





## 28 FINANCIAL INSTRUMENTS

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.

**Foreign currency risk**

The Group is also exposed to foreign currency risk on purchases that are denominated in a currency other than the Company's functional currency, New Zealand dollars ($), which is also the presentation currency of the Group. The currency in which transactions are primarily denominated is United States dollars (USD). The Group hedges up to 100% of all 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. The Group uses forward exchange contracts and foreign exchange options to hedge its foreign currency risk. All of the forward exchange contracts and options have maturities of less than one year at the reporting date. Fair value is determined as described in Note 2(c).

**Interest rate risk**

The Group has a policy of ensuring that a proportion of its exposure to changes in interest rates on borrowings is fixed. Interest rate swaps and options have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy. Fair value is determined as described in Note 2(c).

**Credit risk**

In the normal course of its business the Group incurs credit risk from trade debtors and major banks as counterparties to financial instruments. Credit policies including individual policy limits on exposure are used to manage the credit risk.

Accounts receivable reflect an exposure to the agricultural industry through a limited number of merchants and direct customers, the majority of business being conducted with nationally significant companies. Fair value is determined as described in Note 2(b).

The Group does not require collateral or security to support financial instruments due to the quality of the customers and high credit ratings of the financial institutions dealt with. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

**Liquidity risk**

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, 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.

**Quantitative disclosures**

**a) Foreign currency risk**

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

| Foreign currency risk USD | GROUP 2014 $000 USD | GROUP 2013 $000 USD | PARENT 2014 $000 USD | PARENT 2013 $000 USD |
|---|---|---|---|---|
| Bank accounts | 4,802 | 128 | 4,802 | 128 |
| Trade payables | (761) | (308) | (761) | (308) |
| Net balance sheet exposure before hedging | 4,041 | (180) | 4,041 | (180) |
| Forward exchange contracts and options - notional amounts | 210,500 | 149,900 | 210,500 | 149,900 |
| Hedged forecast purchases | 214,541 | 149,720 | 214,541 | 149,720 |

(i) Sensitivity analysis

At 31 May 2014 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 both the Parent and Group by the amounts shown below.

| | | Equity 2014 $000 | Profit or loss 2013 $000 | Equity 2014 $000 | Profit or loss 2013 $000 |
|---|---|---|---|---|---|
| Forward exchange contracts | +10% | (22,773) | - | (16,950) | - |
| | -10% | 27,912 | - | 20,753 | - |

**b) Interest rate risk**

(i) Interest rate risk - repricing analysis

| GROUP 2014 | Effective interest rate | Total $000 | < 6 months $000 | 6 - 12 months $000 | 1 - 2 years $000 | 2 - 5 years $000 |
|---|---|---|---|---|---|---|
| **Variable rate instruments and related derivatives** | | | | | | |
| Cash and cash equivalents | 3.00% | 68,337 | 68,337 | - | - | - |
| Bank loans | 4.21% | (40,000) | (40,000) | - | - | - |
| Net variable rate instruments | | 28,337 | 28,337 | - | - | - |
| Effect of interest rate swaps | 5.16% | - | 40,000 | - | (10,000) | (30,000) |
| Repricing profile 2014 | | 28,337 | 68,337 | - | (10,000) | (30,000) |

| GROUP 2013 | Effective interest rate | Total $000 | < 6 months $000 | 6 - 12 months $000 | 1 - 2 years $000 | 2 - 5 years $000 |
|---|---|---|---|---|---|---|
| **Variable rate instruments and related derivatives** | | | | | | |
| Cash and cash equivalents | 2.50% | 43,951 | 43,951 | - | - | - |
| Bank loans | 3.39% | (50,000) | (50,000) | - | - | - |
| Net variable rate instruments | | (6,049) | (6,049) | - | - | - |
| Effect of interest rate swaps | 5.06% | - | 40,000 | - | (40,000) | - |
| Repricing profile 2013 | | (6,049) | 33,951 | - | (40,000) | - |

Parent interest rate risk is the same as the Group.

(ii) Sensitivity analysis

**Fair value sensitivity analysis**

At 31 May 2014 it is estimated that a change of 100 basis points in interest rates would increase (decrease) equity by the amounts shown below.

| | | Equity 2014 | Equity 2013 |
|---|---|---|---|
| Interest rate swaps | 100 bp increase | 917 | 874 |
| | 100 bp decrease | (957) | (906) |





**Cash flow sensitivity analysis**

At 31 May 2014 it is estimated that a change of 100 basis points in interest rates could increase (decrease) profit or loss over the next 12 months by the amounts shown below, based on the borrowings at 31 May 2014.

| | | Profit or loss 2014 $000 | Profit or loss 2013 $000 |
|---|---|---|---|
| Variable rate instruments | 100 bp increase | (350) | (500) |
| Interest rate swaps | 100 bp increase | 758 | 433 |
| | | 408 | (67) |
| Variable rate instruments | 100 bp decrease | 350 | 500 |
| Interest rate swaps | 100 bp decrease | (758) | (433) |
| | | (408) | 67 |

**c) Credit risk**

The carrying amount of financial assets represents the Group's maximum credit exposure.

The Group has not renegotiated the terms of any financial assets which would result in a carrying amount no longer being past due or avoid a possible past due status.

The status of trade receivables at the reporting date is as follows:

| Trade receivables - Group | Gross receivable 2014 $000 | Impairment 2014 $000 | Gross receivable 2013 $000 | Impairment 2013 $000 |
|---|---|---|---|---|
| Not past due | 109,378 | - | 94,462 | - |
| past due 0 - 30 days | 6,260 | - | 3,663 | - |
| past due 31 - 120 days | 448 | - | 1,054 | - |
| past due > 120 days | 272 | - | 222 | - |
| **Total** | 116,358 | - | 99,401 | - |

| Trade receivables - Parent | Gross receivable 2014 $000 | Impairment 2014 $000 | Gross receivable 2013 $000 | Impairment 2013 $000 |
|---|---|---|---|---|
| Not past due | 103,910 | - | 90,034 | - |
| past due 0 - 30 days | 5,841 | - | 3,134 | - |
| past due 31 - 120 days | 151 | - | 632 | - |
| past due > 120 days | 246 | - | 113 | - |
| **Total** | 110,148 | - | 93,913 | - |

**d) Liquidity risk**

The following table sets out the maturity profile for all financial liabilities and derivatives.

| GROUP - 2014 | Carrying value $000 | Contractual cash flows $000 | < 6 months $000 | 6 - 12 months $000 | 1 - 2 years $000 | 2 - 5 years $000 | > 5 years $000 |
|---|---|---|---|---|---|---|---|
| Unsecured bank loans | 40,000 | 44,497 | 1,051 | 1,032 | 32,058 | 10,356 | - |
| Trade and other payables | 61,260 | 61,260 | 61,260 | - | - | - | - |
| Net rebates payable | 51,330 | 51,330 | 51,330 | - | - | - | - |
| Total non-derivative liabilities | 152,590 | 157,087 | 113,641 | 1,032 | 32,058 | 10,356 | - |

Gross settled foreign exchange derivatives used for hedging:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash inflow | | 247,734 | 142,403 | 105,331 | - | - | - |
| Cash outflow | | (257,152) | (148,502) | (108,650) | - | - | - |
| | (5,962) | (9,418) | (6,099) | (3,319) | - | - | - |
| Net settled cash flow hedge derivatives | (1,204) | (1,274) | (178) | (431) | (363) | (302) | - |

| GROUP - 2013 | Carrying value $000 | Contractual cash flows $000 | < 6 months $000 | 6 - 12 months $000 | 1 - 2 years $000 | 2 - 5 years $000 | > 5 years $000 |
|---|---|---|---|---|---|---|---|
| Bank overdraft | - | - | - | - | - | - | - |
| Unsecured bank loans | 50,000 | 53,396 | 838 | 833 | 41,448 | 10,277 | - |
| Other | - | - | - | - | - | - | - |
| Trade and other payables | 51,681 | 51,681 | 51,681 | - | - | - | - |
| Net rebates payable | 40,200 | 40,200 | 40,200 | - | - | - | - |
| Total non-derivative liabilities | 141,881 | 145,277 | 92,719 | 833 | 41,448 | 10,277 | - |

Gross settled foreign exchange derivatives used for hedging:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash inflow | | 185,267 | 132,122 | 53,145 | - | - | - |
| Cash outflow | | (183,726) | (131,723) | (52,003) | - | - | - |
| | 3,126 | 1,541 | 399 | 1,142 | - | - | - |
| Net settled cash flow hedge derivatives | (2,094) | (2,226) | (354) | (726) | (808) | (338) | - |





**e) Classification and fair values**

| GROUP - 2014 | Held to maturity $000 | Loans and receivables $000 | Designated at fair value $000 | Other amortised cost $000 | Total carrying amount $000 | Fair value $000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Debt securities | 540 | - | - | - | 540 | 540 |
| Total non-current assets | 540 | - | - | - | 540 | 540 |
| | | | | | | |
| Derivatives | - | - | 836 | - | 836 | 836 |
| Trade and other receivables | - | 116,358 | - | - | 116,358 | 116,358 |
| Cash and cash equivalents | - | 68,337 | - | - | 68,337 | 68,337 |
| Total current assets | - | 184,695 | 836 | - | 185,531 | 185,531 |
| Total assets | 540 | 184,695 | 836 | - | 186,071 | 186,071 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Loans and borrowings | - | - | - | 40,000 | 40,000 | 40,000 |
| Total non-current liabilities | - | - | - | 40,000 | 40,000 | 40,000 |
| | | | | | | |
| Derivatives | - | - | 8,002 | - | 8,002 | 8,002 |
| Trade and other payables | - | - | - | 61,260 | 61,260 | 61,260 |
| Net rebates payable | - | - | - | 51,330 | 51,330 | 51,330 |
| Total current liabilities | - | - | 8,002 | 112,590 | 120,592 | 120,592 |
| Total liabilities | - | - | 8,002 | 152,590 | 160,592 | 160,592 |

| GROUP - 2013 | Held to maturity $000 | Loans and receivables $000 | Designated at fair value $000 | Other amortised cost $000 | Total carrying amount $000 | Fair value $000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Debt securities | 558 | - | - | - | 558 | 558 |
| Total non-current assets | 558 | - | - | - | 558 | 558 |
| | | | | | | |
| Derivatives | - | - | 3,537 | - | 3,537 | 3,537 |
| Trade and other receivables | - | 99,401 | - | - | 99,401 | 99,401 |
| Cash and cash equivalents | - | 43,951 | - | - | 43,951 | 43,951 |
| Total current assets | - | 143,352 | 3,537 | - | 146,889 | 146,889 |
| Total assets | 558 | 143,352 | 3,537 | - | 147,447 | 147,447 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Loans and borrowings | - | - | - | 50,000 | 50,000 | 50,000 |
| Total non-current liabilities | - | - | - | 50,000 | 50,000 | 50,000 |
| | | | | | | |
| Bank revolving cash advance facility, loans and borrowings | - | - | - | - | - | - |
| Derivatives | - | - | 2,505 | - | 2,505 | 2,505 |
| Trade and other payables | - | - | - | 51,682 | 51,682 | 51,682 |
| Net rebates payable | - | - | - | 40,200 | 40,200 | 40,200 |
| Total current liabilities | - | - | 2,505 | 91,882 | 94,387 | 94,387 |
| Total liabilities | - | - | 2,505 | 141,882 | 144,387 | 144,387 |

The methods used in determining the fair values of financial instruments are discussed in Note 2.

| PARENT - 2014 | Held to maturity $000 | Loans and receivables $000 | Designated at fair value $000 | Other amortised cost $000 | Total carrying amount $000 | Fair value $000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Debt securities | 1 | - | - | - | 1 | 1 |
| Term loan with subsidiary | - | 21,133 | - | - | 21,133 | 21,133 |
| Total non-current assets | 1 | 21,133 | - | - | 21,134 | 21,134 |
| | | | | | | |
| Derivatives | - | - | 836 | - | 836 | 836 |
| Trade and other receivables | - | 110,148 | - | - | 110,148 | 110,148 |
| Inter-company funding | - | 18,206 | - | - | 18,206 | 18,206 |
| Cash and cash equivalents | - | 67,970 | - | - | 67,970 | 67,970 |
| Total current assets | - | 196,324 | 836 | - | 197,160 | 197,160 |
| Total assets | 1 | 217,457 | 836 | - | 218,294 | 218,294 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Loans and borrowings | - | - | - | 40,000 | 40,000 | 40,000 |
| Total non-current liabilities | - | - | - | 40,000 | 40,000 | 40,000 |
| | | | | | | |
| Derivatives | - | - | 8,002 | - | 8,002 | 8,002 |
| Trade and other payables | - | - | - | 52,641 | 52,641 | 52,641 |
| Inter-company funding | - | - | - | 16,392 | 16,392 | 16,392 |
| Net rebates payable | - | - | - | 51,330 | 51,330 | 51,330 |
| Total current liabilities | - | - | 8,002 | 120,363 | 128,365 | 128,365 |
| Total liabilities | - | - | 8,002 | 160,363 | 168,365 | 168,365 |

| PARENT - 2013 | Held to maturity $000 | Loans and receivables $000 | Designated at fair value $000 | Other amortised cost $000 | Total carrying amount $000 | Fair value $000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Debt securities | 651 | - | - | - | 651 | 651 |
| Term loan with subsidiary | - | 19,192 | - | - | 19,192 | 19,192 |
| Total non-current assets | 651 | 19,192 | - | - | 19,843 | 19,843 |
| | | | | | | |
| Derivatives | - | - | 3,537 | - | 3,537 | 3,537 |
| Trade and other receivables | - | 93,913 | - | - | 93,913 | 93,913 |
| Inter-company funding | - | 14,823 | - | - | 14,823 | 14,823 |
| Cash and cash equivalents | - | 43,467 | - | - | 43,467 | 43,467 |
| Total current assets | - | 152,203 | 3,537 | - | 155,740 | 155,740 |
| Total assets | 651 | 171,395 | 3,537 | - | 175,583 | 175,583 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Loans and borrowings | - | - | - | 50,000 | 50,000 | 50,000 |
| Total non-current liabilities | - | - | - | 50,000 | 50,000 | 50,000 |
| Derivatives | - | - | 2,505 | - | 2,505 | 2,505 |
| Trade and other payables | - | - | - | 47,979 | 47,979 | 47,979 |
| Inter-company funding | - | - | - | 15,612 | 15,612 | 15,612 |
| Net rebates payable | - | - | - | 40,200 | 40,200 | 40,200 |
| Total current liabilities | - | - | 2,505 | 103,791 | 106,296 | 106,296 |
| Total liabilities | - | - | 2,505 | 153,791 | 156,296 | 156,296 |



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2014. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

The methods used in determining the fair values of financial instruments are discussed in Note 2.

f) **Fair value hierarchy**

The table below analyses assets and liabilities carried at fair value, by valuation method. The different levels have been defined as follows:

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)

| PARENT AND GROUP - 2014 | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|---|
| Derivative financial assets | - | 836 | - | 836 |
| Derivative financial liabilities | - | (8,002) | - | (8,002) |
| | - | (7,166) | - | (7,166) |

| PARENT AND GROUP - 2013 | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|---|
| Derivative financial assets | - | 3,537 | - | 3,537 |
| Derivative financial liabilities | - | (2,505) | - | (2,505) |
| | - | 1,032 | - | 1,032 |

## 29 INSURANCE CLAIM

After a fire in 2012 at the Kapuni ammonia urea plant the Group had recognised income of $33.0m received or receivable in the 2012 financial statements and reported as other income (Note 3).

In the 2013 year the final claim was assessed at $36.9m. The Group had recognised further income of $3.9m in the 2013 financial statements and reported as other operating income (Note 3). All claim monies have been received from the insurers.

## 30 CONTINGENCIES

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

## 31 SUBSEQUENT EVENTS

a) A final dividend of 10 cents per share (2013: 10 cents per share), ($3.8m), (2013: $3.6m) has been approved subsequent to the reporting date. The dividend will be fully imputed. The final dividend was not approved until after year end, therefore it has not been accrued in the current year financial statements.

**To the shareholders of Ballance Agri-Nutrients Limited**

### Report on the company and group financial statements

We have audited the accompanying financial statements of Ballance Agri-Nutrients Limited (''the company'') and the group, comprising the company and its subsidiaries, on pages 26 to 61. The financial statements comprise the balance sheet as at 31 May 2014, the income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

### Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the company and group in relation to taxation and general accounting services. Partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

### Opinion

In our opinion the financial statements on pages 26 to 61:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the company and the group as at 31 May 2014 and of the financial performance and cash flows of the company and the group for the year then ended.

### Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Ballance Agri-Nutrients Limited as far as appears from our examination of those records.

KPMG

30 July 2014
Tauranga





## GENERAL DISCLOSURES

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

| DIRECTOR | POSITION | COMPANY |
|---|---|---|
| GW Baldwin | Director | Livestock Improvement Corporation Limited |
| | | Regen Limited |
| | | Trinity Lands Limited |
| KR Ellis | Chairman | Macaulay Metals Limited (Resigned 2014) |
| | | New Zealand Social Infrastructure Fund Limited |
| | Director | EnviroWaste Services Limited |
| | | Freightways Limited |
| | | FSF Management Company Limited |
| | | Jucy Group Limited (Resigned 2013) |
| | | Moa Group Limited |
| | | Port of Tauranga Limited |
| | | The Tasman Tanning Company Limited |
| DS Graham (Retired 2013) | Director | New Zealand Phosphate Company Limited |
| EJ Harvey | Director | DNZ Property Fund Limited |
| | | Heartland Building Society |
| | | Kathmandu Holdings Limited |
| | | NZ Opera Limited |
| | | Port Otago Limited |
| AD Morrison | Director | Beef + Lamb New Zealand Limited (Appointed 2014) |
| | | Ovis Management Limited |
| DR Nikora | Director | AsureQuality Limited |
| | Panel member | Ministry of Business, Innovation & Employment – Biological Assessment Panel |
| | Trustee | Agricultural and Marketing Research and Development Trust |
| | | Taipahi A1 Maori Land Trust |
| DE Peacocke | Director | Melrose Limited |
| | | New Zealand Phosphate Company Limited (Appointed 2013) |
| | | Taupiri Holdings Limited |
| DA Pilkington | Director | Douglas Pharmaceuticals Limited (and subsidiaries) |
| | | Excelsa Associates Limited |
| | | Northport Limited (Appointed 2013) |
| | | PrimePort Timaru Limited (Appointed 2013) |
| | | Restaurant Brands Limited (and subsidiaries) |
| | | Zespri International Limited (and subsidiaries) |
| | Deputy Chair | Rangatira Limited (and subsidiaries) |
| | Chairman | Heller Limited |
| | | Port of Tauranga Limited |
| | | Ruapehu Alpine Lifts Limited (Resigned 2013) |
| | Trustee | New Zealand Community Trust |
| | Member | Wellington City Council Audit & Risk Management subcommittee (resigned 2013) |
| OC Saxton | Chairman | Sakura Pastoral Limited Partnership |
| | | Wairio Farm Limited Partnership |
| | Director | Mead Pastoral Limited Partnership |
| | | Tuatahi Farming Limited |
| MJ Taggart | Chairman | Alliance Group Limited |

### 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 2014.

### 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.

**Ballance Agri-Nutrients Insurance Limited**
LD Bilodeau (E), DF O'Reilly (E, R), DS Graham (R), RK Hopkins (E)

**Ballance Agri-Nutrients (Kapuni) Limited**
LD Bilodeau (E), RK Hopkins (E)

**Ballance SP Two Limited**
LD Bilodeau (E), RK Hopkins (E)

**Bay of Plenty Fertiliser Company Limited**
LD Bilodeau (E), RK Hopkins (E)

**BOP Fertiliser Limited**
LD Bilodeau (E), RK Hopkins (E)

**Ballance Limited**
LD Bilodeau (E), RK Hopkins (E)

**Ag Hub Limited**
LD Bilodeau (E), RK Hopkins (E)

**Seales Winslow Limited**
LD Bilodeau (E), RK Hopkins (E)

**Southfert Limited**
LD Bilodeau (E), RK Hopkins (E)

**Summit Quinphos Limited**
LD Bilodeau (E), RK Hopkins (E)

**Super Air Limited**
LD Bilodeau (E), RK Hopkins (E)

**Altum Nutrition Limited**
LD Bilodeau (E), RK Hopkins (E)

## DIRECTORS' REMUNERATION

Fees paid to Directors were:

| | Parent | Group |
|---|---|---|
| GW Baldwin | 56,074 | 56,074 |
| KR Ellis | 56,074 | 56,074 |
| DS Graham | 36,257 | 36,257 |
| EJ Harvey | 61,907 | 61,907 |
| AD Morrison | 56,074 | 56,074 |
| DR Nikora | 56,074 | 56,074 |
| DE Peacocke | 98,268 | 98,268 |
| DA Pilkington | 58,907 | 58,907 |
| OC Saxton | 56,074 | 56,074 |
| MJ Taggart | 56,074 | 56,074 |
| Total paid to Company Directors | 591,783 | 591,783 |





### Insurance

The Company has arranged a Directors' and Officers' liability insurance policy to insure the Directors and employees of the Company and its subsidiaries in respect of those matters permitted to be insured against by section 162 of the Companies Act 1993 and the constitution of the Company.

### Co-operative status

As required by section 10 of the Co-operative Companies Act 1996, the following resolution was passed by the Board on 30 July 2014. All Directors present voted in favour of the resolution:

That in the opinion of the Board of Directors, Ballance Agri-Nutrients Limited has through the year ended 31 May 2014 and since registration of the Company under the Co-operative Companies Act 1996 ("the Act"), been a Co-operative Company within the meaning of that Act.

The grounds for holding this opinion are that:

a) The principal activity of the Company is, and is stated in its constitution to be, "a co-operative activity" (as defined in the Act), that is supplying shareholders of the Company with fertiliser and related products and other goods and services;

b) Not less than 60% of the voting rights attaching to shares in the Company are held by "transacting shareholders" (as defined in the Act).

## EMPLOYEE REMUNERATION

In accordance with section 211(1)(g) of the Companies Act 1993 the remuneration and other benefits in excess of $100,000 paid to current and former employees is reported below.

Total remuneration includes salary plus any benefits (e.g. subsidised medical insurance and superannuation contributions) including related tax, received in the capacity as an employee and excludes any contractual termination settlements. Company vehicles are provided for business purposes to some employees and are not included in the remuneration calculation.

| REMUNERATION $NZ | # OF EMPLOYEES - GROUP | REMUNERATION $NZ | # OF EMPLOYEES - GROUP |
|---|---|---|---|
| 100,000 - 110,000 | 28 | 210,001 - 220,000 | 3 |
| 110,001 - 120,000 | 38 | 220,001 - 230,000 | 4 |
| 120,001 - 130,000 | 43 | 240,001 - 250,000 | 2 |
| 130,001 - 140,000 | 21 | 250,001 - 260,000 | 2 |
| 140,001 - 150,000 | 16 | 260,001 - 270,000 | 1 |
| 150,001 - 160,000 | 10 | 280,001 - 290,000 | 1 |
| 160,001 - 170,000 | 14 | 290,001 - 300,000 | 1 |
| 170,001 - 180,000 | 3 | 300,001 - 310,000 | 2 |
| 180,001 - 190,000 | 6 | 310,001 - 320,000 | 1 |
| 190,001 - 200,000 | 5 | 420,001 - 430,000 | 1 |
| 200,001 - 210,000 | 5 | 1,230,001 – 1,240,000 | 1 |

# TREND STATEMENT



| | | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| **Group sales volumes** | **tonnes** | 1,173,000 | 1,396,000 | 1,441,000 | 1,331,000 | 1,554,000 |
| | | | | | | |
| **Turnover** | **$000** | 692,879 | 760,148 | 915,213 | 877,796 | 920,973 |
| | **$/tonne** | $591 | $545 | $635 | $660 | $593 |
| | | | | | | |
| **Profits** | | | | | | |
| Trading result | **$000** | 20,776 | 85,949 | 77,257 | 92,623 | 89,514 |
| | **$/tonne** | $18 | $62 | $54 | $70 | $58 |
| Group profit retained | **$000** | 5,542 | 24,721 | 20,532 | 17,943 | 6,093 |
| - after distributions, impairment provision, inventory write down and including minority interest retentions in subsidiary companies | | | | | | |
| | | | | | | |
| **Cashflow** | | | | | | |
| From operations (prior to rebate payment) | **$000** | 155,757 | 83,880 | 38,745 | 123,399 | 95,372 |
| Capital and investment expenditure (net) | **$000** | 10,233 | 20,972 | 72,750 | 21,903 | 49,709 |
| | | | | | | |
| **Distributions to shareholders** | | | | | | |
| Rebates paid or proposed | **$000** | 12,305 | 45,743 | 43,878 | 61,659 | 75,358 |
| | | | | | | |
| Dividends paid or proposed | **$000** | 1,624 | 3,242 | 3,450 | 3,581 | 3,787 |
| Dividend per share | **cps** | 5.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| | | | | | | |
| Rebate per tonne | **$/tonne** | $15.00 | $46.00 | $40.00 | $60.83 | $60.83 |
| | | | | | | |
| Dividend - gross per quota tonne | **$/tonne** | $2.14 | $4.29 | $4.29 | $4.17 | $4.17 |
| | | | | | | |
| Combined distribution - gross equivalent* | **$/tonne** | $17.14 | $50.29 | $44.29 | $65.00 | $65.00 |
| * Rebate and gross dividend equivalent for a fully paid shareholder | | | | | | |
| | | | | | | |
| **Analysis of shareholders' equity** | | | | | | |
| Number of shareholders | | 18,182 | 17,981 | 18,239 | 18,317 | 18,827 |
| Shares on issue | **000** | 32,484 | 32,421 | 34,500 | 35,812 | 37,872 |
| Nominal share value | **$** | $7.00 | $7.00 | $7.50 | $7.50 | $8.10 |
| Share quota per tonne | | 30 | 30 | 30 | 30 | 30 |
| Investment per quota tonne | **$** | 210.00 | 210.00 | 225.00 | 225.00 | 243.00 |
| | | | | | | |
| Co-op shareholders' equity | **$000** | 298,794 | 328,542 | 362,938 | 403,357 | 420,610 |
| Group shareholders' equity | **$000** | 299,889 | 331,150 | 375,403 | 404,323 | 420,610 |
| Group equity ratio | | 65.3% | 62.8% | 64.2% | 71.2% | 70.9% |
| Net asset backing per share | **$** | $9.20 | $10.13 | $10.52 | $11.26 | $11.11 |
| | | | | | | |
| **Assets** | | | | | | |
| Total assets | **$000** | 459,234 | 527,424 | 584,666 | 567,603 | 593,173 |
| Working capital | **$000** | 146,647 | 190,446 | 196,636 | 214,175 | 198,893 |
| | | | | | | |
| Ratio of current assets to current liabilities | | 2.5 | 2.5 | 2.8 | 3.2 | 2.5 |
| Stock turn | | 2.7 | 3.0 | 3.8 | 3.9 | 4.4 |



# GOVERNANCE STATEMENT



## 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 18,800 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. As part of this commitment, the Board has adopted this Corporate Governance Code relating to the function and conduct of the Board.

The Board's primary objective is the creation of shareholder value through the 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 will 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. Separate charters are established for most major sub-committees.

## 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 Board is reflective of the co-operative status of the Company.

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

Two Elected Directors retire by rotation every 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 ten occasions in the financial year ended 31 May 2014. 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.

Direct engagement with shareholders is an important attribute of co-operative companies and at least two meetings incorporate shareholder functions.

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 four Directors and cannot be chaired by the Board Chairman. The current Chairman is Appointed Director John Harvey. 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 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 four Directors chaired by the Board Chairman.

The Remuneration Committee is responsible for:

- reviewing the Chief Executive's performance annually and recommending his remuneration to the full Board
- approving the remuneration of the Chief Executive's direct reports and any annual incentive payment targets
- setting the overall salary review level for the company
- ensuring succession plans are in place for the Chief Executive and the position's direct reports.

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 COMMITTEE

The Shareholder Committee has three members elected by Shareholders from each of the three electoral wards, and met once during the year.

The Shareholder committee is responsible for:

- obtaining independent advice on matters relevant to Director remuneration
- reviewing fees paid to Directors, and if any change is proposed, making an appropriate recommendation to shareholders at the annual meeting.

## SHAREHOLDER COMMUNICATION

As a co-operative, Ballance places considerable importance on communicating with our shareholders.

Regular publications covering company activities, co-operative affairs and scientific advice are distributed and made available on our website.

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 policy. 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 environmental policies in place which are 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.





### BALLANCE AGRI-NUTRIENTS LIMITED

**BOARD OF DIRECTORS**

**David Peacocke** - Chairman

**Kim Ellis** - Appointed Director

**John Harvey** - Appointed Director

**David Pilkington** - Appointed Director

**Oliver Saxton** - Ward A Director

**Gray Baldwin** - Ward B Director

**Dean Nikora** - Ward B Director

**Andrew Morrison** - Ward C Director

**Murray Taggart** - Ward C Director

### REGISTERED OFFICE

Hewletts Road, Mount Maunganui

### SOLICITORS

**Russell McVeagh**
PO Box 8, Auckland

**Sharp Tudhope**
Private Bag, Tauranga

### BANKERS

**ANZ Bank Limited**

**Commonwealth Bank of Australia**

**Hong Kong and Shanghai Banking Corporation Limited**

**Westpac Banking Corporation**

### AUDITORS

**KPMG**
PO Box 110, Tauranga

### LEADERSHIP TEAM

**Larry Bilodeau** - Chief Executive

**Greg Delaney** - GM Fertiliser Operations and Distribution

**Warwick de Vere** - GM Corporate Services

**Jack Herder** - GM Supply

**Richard Hopkins** - Chief Financial Officer

**Graeme Martin** - GM AgInformation

**John Maxwell** - GM Petrochemicals and Super Air

**Liz Muller** - GM Agro-Science and Marketing

**Andrew Reid** - GM Sales

**Graeme Smith** - GM Animal Nutrition

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**Freephone shareholding division** 0800 267 266
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**Website** www.aghub.co.nz

### SEALES WINSLOW LIMITED

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