

Creating —



the best soil and feed on earth

Soil is the basis for life.

Millions of years in the making, today it is at the heart of our lives and livelihoods – touching every corner of New Zealand. Sustainable soil is essential to the future of an economic engine that has powered this country for more than a century.

At Ballance, we are passionate about our role in working with local producers to nourish the earth, and grow long-term sustainable value. Our people, our products and our focus is about helping manage the delicate equilibrium between what we take from the soil and what we put back to maintain its productivity.

We are driven by a clear purpose to create the best soil and feed on Earth. Delivering on it means putting sustainable soil first, and partnering with our customers and others who share our commitment to a sustainable future. Every day we are building on our depth of knowledge and expertise, with clever science and technology.

We are creating a taonga for generations to come.

This is a big ambition, but it's hard to think of a more important one.



Clever

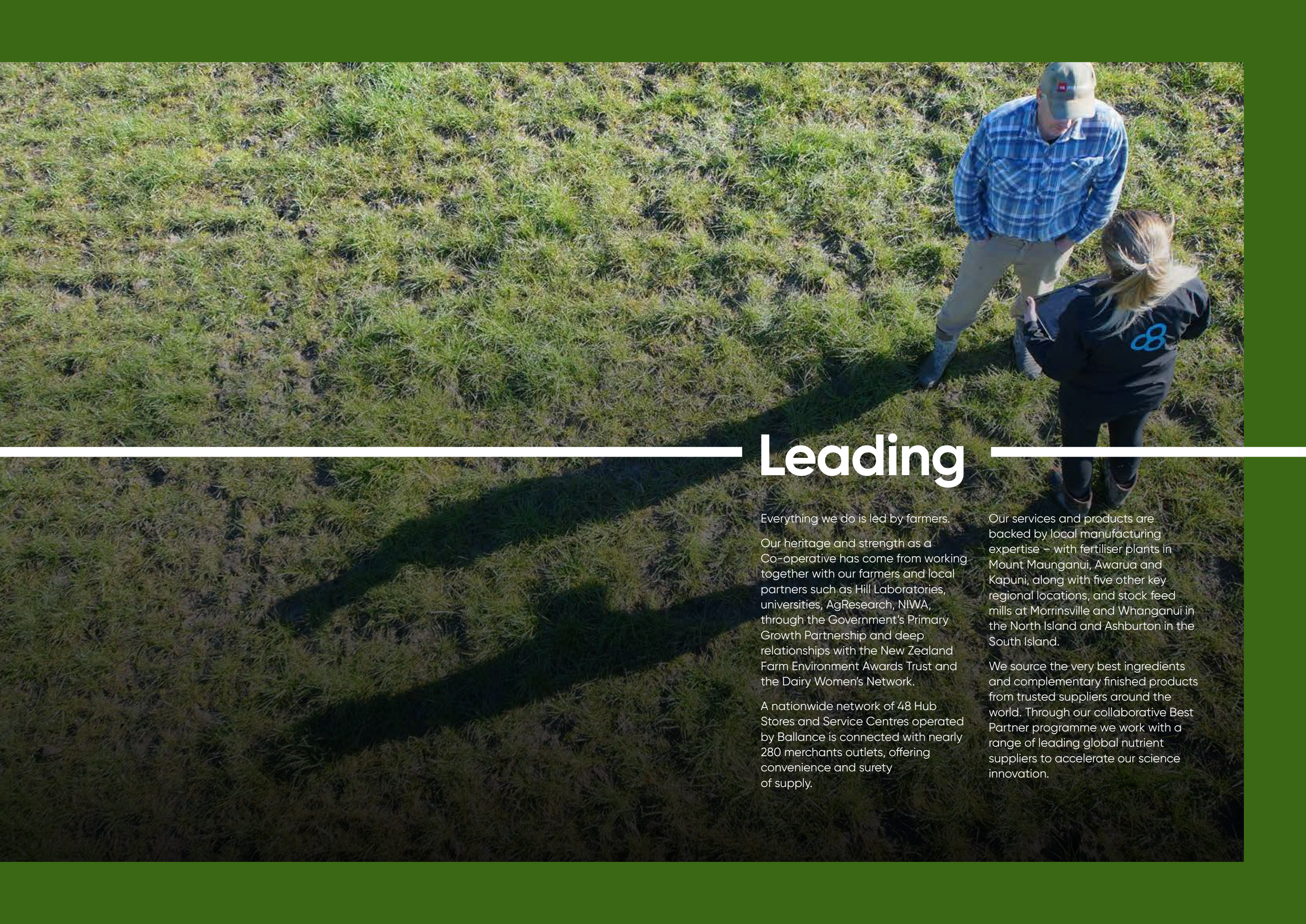
Innovation is a hallmark of New Zealand farming. Through the years, this evolution has established a competitive edge internationally and reinforced our country as a source of the very best.

Today, we are continuing that tradition with the application of proven science and world-leading technology to keep our farmers and growers at the forefront.

Our success on the ground, with new products and services, is driven by what farmers are thinking. Our breakthrough product, PHASEDN[®], delivers a strategic growth recipe that is more effective, efficient and sets a new standard in environmental performance.

Sales of this new-generation formulation have grown by 60% in the past year.

In the air, our patented SPREADSMART[®] technology represents the future of aerial topdressing and is being expanded through our Super Air fleet. Offering safety benefits, along with unprecedented precision – ensuring a tailored, variable application of nutrients to maximise production from New Zealand soils. Designed with sustainability at the core, SPREADSMART[®] features automated hopper closure, within a fraction of a second, to safeguard sensitive areas and waterways.



Leading

Everything we do is led by farmers.

Our heritage and strength as a Co-operative has come from working together with our farmers and local partners such as Hill Laboratories, universities, AgResearch, NIWA, through the Government's Primary Growth Partnership and deep relationships with the New Zealand Farm Environment Awards Trust and the Dairy Women's Network.

A nationwide network of 48 Hub Stores and Service Centres operated by Ballance is connected with nearly 280 merchant outlets, offering convenience and surety of supply.

Our services and products are backed by local manufacturing expertise – with fertiliser plants in Mount Maunganui, Awarua and Kapuni, along with five other key regional locations, and stock feed mills at Morrinsville and Whanganui in the North Island and Ashburton in the South Island.

We source the very best ingredients and complementary finished products from trusted suppliers around the world. Through our collaborative Best Partner programme we work with a range of leading global nutrient suppliers to accelerate our science innovation.



Sustainable

We know that farming's continued success is essential to New Zealand's growth story.

We have a vital role in helping evolve New Zealand's farming systems so that our producers can keep ahead of changing expectations and customer preferences locally and around the world.

Every day our Nutrient Specialists and Farm Sustainability team are out on farms, in orchards, vineyards and market gardens, sharing our knowledge, expertise and passion for sustainable soil.

This is the foundation for creating future confidence for our producers of premium natural products.

We take tremendous pride every year in showcasing the very best farming practice through the Ballance Farm Environmental Awards, and our involvement in research programmes such as the Primary Growth Partnership that will bring new science and tools to our farmers.

Across our operations, we continue to invest in sustainable growth, while contributing directly to local communities, environmental enhancement projects and helping achieve positive outcomes well beyond our business.

Contents

12

REPORT
CARD

14

CHAIR
& CEO'S
REPORT

20

OUR
BUSINESS

22

OUR
LEADERSHIP
TEAM &
BOARD

26

FINANCIAL
STATEMENTS
& NOTES

57

GOVERNANCE



Report Card

Financial

1.616m tonnes

Group Sales

▼ 4,000t

\$805m

Revenue

▼ 4%

\$57m

Gross Trading Result

▲ \$22m

\$45/tonne

Shareholder Rebate

▲ 80%

Customer

70%

More than 13,000 of our shareholders purchased from us in 2017 and enjoyed a rebate payment.

\$35m

Investment in improving service through our distribution network and MyBallance digital platform.

People

76%

Employee engagement improved by 3% on 2016.

403

Development opportunities created across 11 bespoke programmes.

Environment

180%

Increase in time spent meeting demand for farm environmental compliance needs.

20m litres

Milestone in the growth of our GOCLEAR® exhaust additive, reducing a total of 8,140 tonnes of NO_x (Oxides of Nitrogen).

Value

\$54m

Returned to New Zealand farmers in 2017 rebate from their Co-operative.

1.1m tonnes

Raw materials and manufactured product shipped on 42 vessels through New Zealand ports.



Delivering solutions and long-term value

We are pleased to be reporting a strong lift in profitability from your Co-op this year, with a \$20 increase in rebate to \$45 per tonne and a total distribution of \$54 million to our shareholders.

The gross trading result for the year ended 31 May 2017 was up \$22 million to \$57 million.

These financial results reflect a rebound from the tough prior year, underpinned by very good operating performance along with a healthy balance sheet and strong cash flows.

We have achieved significant efficiency gains in the business and recorded increased demand for premium high-analysis products, in a period when total sales across fertiliser, feed and the industrials portfolio were largely flat on last financial year at 1.616 million tonnes.

Investment has continued in better serving our customers – with \$35 million in our New Zealand distribution network, along with a digital platform that will put farmers at the centre of our business and in control of their nutrient information.

OUR PEOPLE AND SAFETY

Our people, and the strength of our partnerships, are the foundation for what we have achieved in the 2017 financial year. We have seen a positive lift in engagement across the business, up 3% on 2016 to 76%, which is flowing through into our operational results and customer experience.

Our first-ever Great People Awards this year celebrated the outstanding contribution we see across different areas of the business, in individuals and teams who are giving their very best to deliver on our strategy. We have also created more than 400 development opportunities for employees through 11 bespoke programmes, with a clear objective of growing our talent base within the Ballance.

Safety is a non-negotiable. We have a relentless focus across our business to ensure the well-being of our people and instill a collaborative safety culture, which extends to our business partners, contractors and visitors.

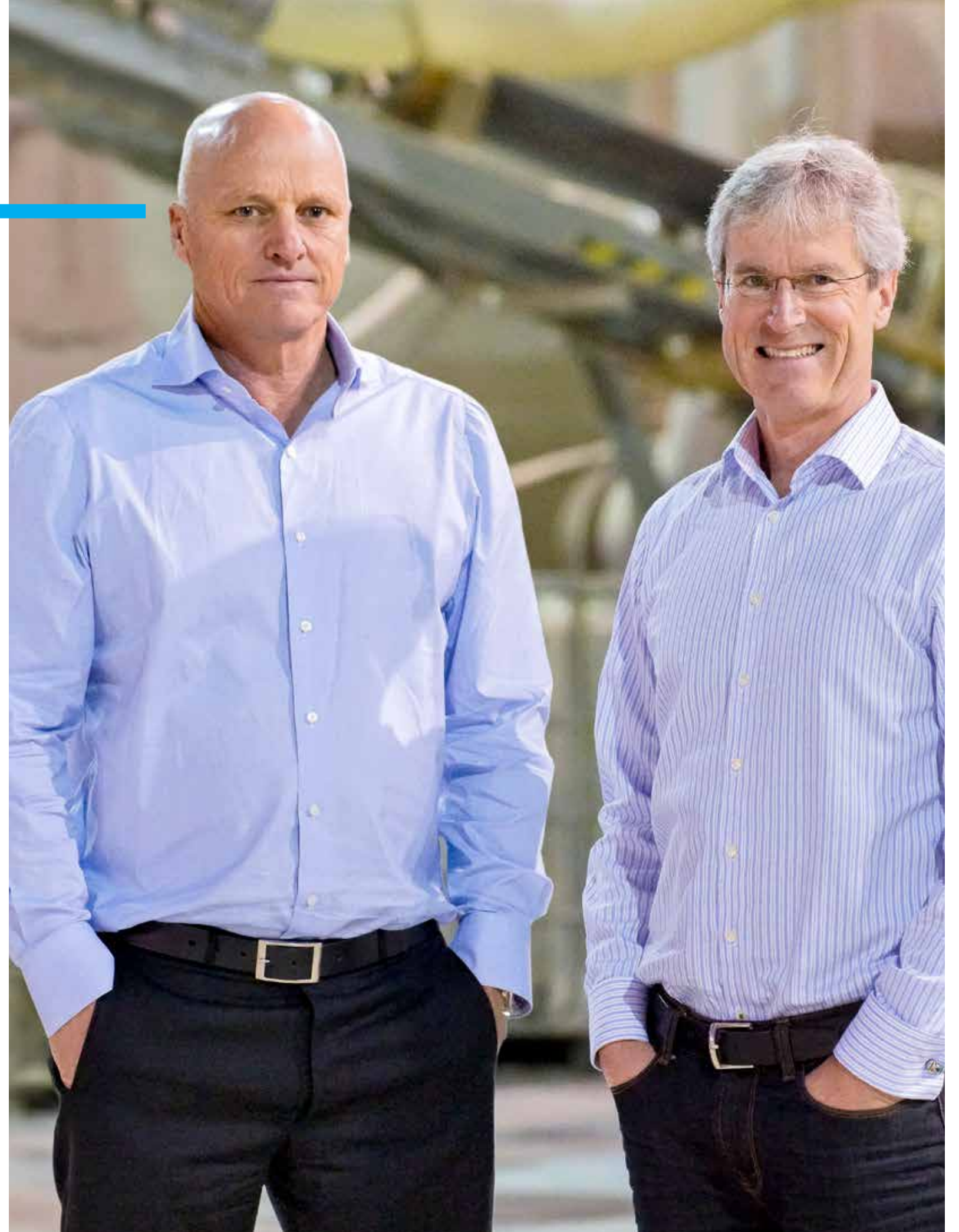
As measured by cost, the severity of our injuries has improved dramatically over the past two years. However, people are still being hurt. It was disappointing to finish the year with our key measure TRIFR (Total Recordable Injury Frequency Rate) at 13, and well above our goal. With three lost-time injuries involving contractors in May, we are targeting better reporting so that we can act on influencing culture to eliminate future incidents from occurring.

Initiatives in strengthening our health and safety culture during the year include moving to a new Safety, Health, Environmental and Quality (SHEQ) governance model, and we now have a single national training provider to ensure consistency across the business.

SUSTAINABILITY FOCUS

We have strengthened our focus on the long-term with a vital effort in helping ready our customers for the future. There is clear evidence of this in the 180% increase in time spent meeting demand for environmental compliance support, which is being driven by a rapidly changing regulatory landscape.

Through our work on-farm this year, we have seen a growing recognition that sustainability and profitability go hand-in-hand. There is no better example of this than the performance of Ballance Farm Environment Award recipients, including this year's national winners Peter and Nicola Carver from Ohangai. We celebrated their win at the end of May and, once again, see the opportunity for your Co-operative to play an increasingly important role in supporting the change that is needed to evolve farming systems in New Zealand.



Chairman David Peacocke and CEO Mark Wynne



Superior service is about understanding our customers and delivering more than they expect from us. Bay of Plenty farmers, Alan and Brandon Law, were badly affected by the April floods – with 40% of their two dairy farms under water when they picked up the phone to call for help. By the end of the day they had product, trucking and aerial topdressing organised and a special discount from their Co-op.

"It was Easter Monday and every single person from Ballance answered their phone. They pulled strings to make it happen for us – this is customer service at its best," Alan says.

We have continued to see growth in the appetite from New Zealand farmers for high quality targeted nutrient solutions, including locally-made nitrogen inputs – such as SUSTAIN® and PHASEDN® – which are more effective, efficient and have much better environmental performance. These two products now account for more than half of all the Co-op's nitrogen fertiliser sales.

While our total fertiliser sales volumes were down about 1% and the average price to farmers was lower during the financial year, there is a growing preference for these 'smart' products that typically deliver higher margins.

Along with the support we offer farmers, these new-generation products are fundamental to our focus on long-term sustainable production from New Zealand soils. The addition of South Island manufacturing capability for PHASEDN® contributed to 60% growth in this product over the past year.

FUTURE READY

Ballance has prioritised investment in research and a pipeline of science-based products, coupled with new high-tech nutrient management tools and tailored advice. This is meeting a growing need for farmers to future-proof their businesses.

We are looking forward to the full-scale launch of our MITAGATOR® tool in the second half of FY2018 – offering risk mapping and modelling tailored to your farm. MITAGATOR® takes data from OVERSEER® files and links this with a geo-referenced farm map, a soil map and a digital elevation model. It can model

potential nutrient loss areas on farms and the most effective mitigation techniques.

Along with new regulations, expectations of farming are changing. Consumers too are becoming more connected with how food is produced and the farmers who produce it want to showcase their credentials.

Farming within limits is here to stay and farmers are now embracing the tools, technology and guidance we offer to ensure limits do not have to mean limitations on productivity or profitability.

We can provide this support today because we saw the limits coming when we began our Clearview research programme in 2011. We heard farmers saying that they were finding it increasingly difficult to get good results from their nutrient investment while minimising environmental risks.

The scope of the research was ahead of its time given most of the emphasis was on managing nitrogen losses. Ballance believed minimising nitrogen losses needed to be matched with the importance of managing sediment, bacteria and phosphate to achieve sustainable farming.

That recognition has enabled us to develop the tools farmers need now such as, N-GURU® and SPREADSMART®.

Used in conjunction with soil testing, N-GURU® is a tactical and strategic decision-making tool that can identify which areas of a farm will produce a greater response to nitrogen than others. Before its development there was no reliable and robust test to

identify which areas of a farm would produce a greater response to nitrogen than others.

The value of our SPREADSMART® precision technology has been proven, with more than 6,600 tonnes now spread by the Super Air fleet, and we are now extending the use of this system – winner of the Innovation and Commercialisation category at last year's New Zealand Spatial Excellence Awards.

In addition to technology deployment, we recognise the importance of building awareness of the benefits with farmers, with our growing Farm Sustainability Services team and our Certified Nutrient Management Advisors.

Our focus is on working together, through partnership with farmers and other industry organisations, to optimise results. This will ensure long-term sustainability of both production and the vital contribution that our primary sector makes to New Zealand.

ROBUST PERFORMANCE

Continued financial discipline, and the strength of the Co-operative's balance sheet, is reflected in an equity ratio of 78%. Cash flow from operating activities was \$83 million, compared with \$35 million in the prior year. This allowed for the repayment of debt and resulted in a positive cash balance at year end.

While revenue was 4% lower at \$805 million, procurement savings in key fertiliser inputs, coupled with a record year of production at our Kapuni urea plant enabled the Co-operative to deliver value to farmers across the year together with an improved profit and distribution.

The Kapuni manufacturing plant's return to full production saw it achieve record production of more than 277,000 tonnes compared with a historical average of 260,000 tonnes. Kapuni's New Zealand manufactured urea supported the Co-operative to maintain a competitive offering in the first half of the year when international urea pricing was subdued, and to benefit from recovering demand and improved pricing in the second half of the financial year.

STAGED INVESTMENT IN KAPUNI

The 2017 financial result includes a final write-off of \$3.8 million for project costs associated with a Kapuni plant rebuild, following last year's \$13 million project cost write-off.

Your Board and Management reviewed all potential current options – including a greenfield development – before confirming a staged reinvestment in the existing plant. This will have reduced risks for the Co-operative and maintain domestic production capacity, while enabling the adoption of new technology to benefit New Zealand farmers and industrial customers.

Our decision follows a thorough two-year study, which analysed three options; a greenfield (or new-build) plant alongside the current plant, upgrades to the existing plant and a combination of new capacity complementing the current operation.

This included consulting international experts in the high-efficiency, low carbon footprint technology used now in ammonia-urea production. Our call for tenders, which attracted multinationals specialising in

INTERNATIONAL UREA PRICE (GRANULAR)



SOURCE: International Raw Materials

significant chemical, oil and gas projects, enabled the investment required in a rebuild and an upgrade to be accurately modelled. This opened the door to a number of large and potentially-attractive joint investment partners.

A greenfield plant was our preferred option – with a range of financial, environmental and operational advantages – employing the more advanced technology and sufficient scale to double our annual urea production.

These benefits had to be weighed up against the substantial capital spend, the likely funding costs from international lenders with a reduced appetite for large-scale projects involving commodities, and the risks of extended volatility in global urea prices.

Your Board has not ruled out future redevelopment at some point, but in the current environment we have exhausted all options for Ballance to lead this project. We have determined that staged investment from our strong cash flow is the more prudent option than raising significant debt to fund a new development.

Kapuni is less efficient than modern plants, but it will remain an important part of our production capability. Regular maintenance and refurbishment has been modelled to ensure the plant is efficient and reliable. We have a skilled team with a strong safety culture at Kapuni and this year's record production shows what they are capable of.

Ballance has operating resource consents through to 2035 and a very well-informed view, from our analysis, of the future capital requirements for the existing Kapuni plant.

PROCUREMENT EFFICIENCIES, NETWORK DEVELOPMENT

Our focus on surety of supply and efficiency gains has further improved service and value to our customers.

Global sourcing has always been a relative strength for our Co-operative, despite our relatively small scale in the total market, and we are determined to always capture value for our farmers in New Zealand. A review of our procurement approach, completed during the financial year, has added several million dollars of annualised gains to our bottom line.

Ballance also continues to strengthen its New Zealand distribution network to further improve service and simplicity for customers. Convenience has to match competitiveness when it comes to putting farmers at the centre of everything we do. During the year more than \$20 million was invested in upgrades and expansion of key service centres and logistics hubs, along with completing a successful pilot of a self-service fertiliser silo in Canterbury.

At our new Huntly Service Centre, close attention to safety and sustainability also played a big part in site design with stormwater managed through 'rain gardens'

and dust control at the truck load-out point. Our Service Centre at Whakamaru, the dispatch facility at Te Awamatu and the Te Kuiti sites have all seen upgrades. In Waipukurau, our customers will see a four-fold lift in load-out rates, with the investment a direct result of feedback from local farmers and spreaders.

This is all part of our work across our supply chain to match our digital technology, innovative products with what customers will really measure us on at the end of the day – the quality of their experience.

GOING DIGITAL

The Co-operative has also made significant investment in digital technology and is in the final stages of preparing for the roll-out of the MyBallance online portal to our farmers. This will allow you to easily access your account and place orders directly, online 24/7.

In addition to online orders, farmers will know the status of their orders and have recommendations on the MyBallance system sent to spreaders once confirmed, allowing for optimised planning both in stores and with contractors.

With Proof of Application capability and unprecedented convenience, MyBallance is a genuine step into the future, supporting improved management of nutrients for environmental reporting and financial reconciliation.

ANIMAL NUTRITION

Ballance's ability to build a strong portfolio of products best-suited to local farming systems has delivered higher sales in animal nutrition with SealesWinslow. SealesWinslow achieved a significant lift in profitability in the financial year, on the back of an increase in sales volumes of nearly 50% – further strengthening its position as the number one branded calf feed.

Despite improved financial performance and further growth potential, there is still more to be done to get our feed business to an appropriate level of return that would see it making a good rebate contribution for the Co-op.

The true potential of our feed business is in complementing New Zealand's pasture-based farming operations, by balancing animal diet with increased production and better herd condition.

Improved prospects in dairy have certainly helped with both nutrients and feed, but our product innovation and commitment to quality has been fundamentally important in both areas.

INDUSTRIALS

Ballance is also continuing to grow sales of industrial co-products and by-products including sulphuric acid, hydrofluosilicic acid, industrial urea and the GOCLEAR® exhaust system additive that reduces NO_x (Oxides of Nitrogen) emissions from diesel engines.

End users for the products include resin makers, food processing, pulp and paper makers, the geothermal and oil industries and water treatment plants.

A highlight of the year, was a 20% lift in volumes of GOCLEAR® exhaust additive, to reach a milestone 20 million litres. As the sole producer of this additive in New Zealand, we are proud to be working with partners Ixom in contributing to improved air quality across this country's biggest heavy transport fleets with a by-product from our urea manufacturing. GOCLEAR® has cut more than 8,100 tonnes of NO_x emissions out of New Zealand's environment over the past seven years – with major customers including Z Energy and Fonterra.

LEADING TOGETHER

Along with the outstanding effort and commitment from our employees, we appreciate the support of our customers and shareholders.

We are inspired by the changes and innovation happening on New Zealand farms. We see examples every day of how local growers and farmers are leading the world, and leading a sustainable and profitable future for premium food and natural fibres.

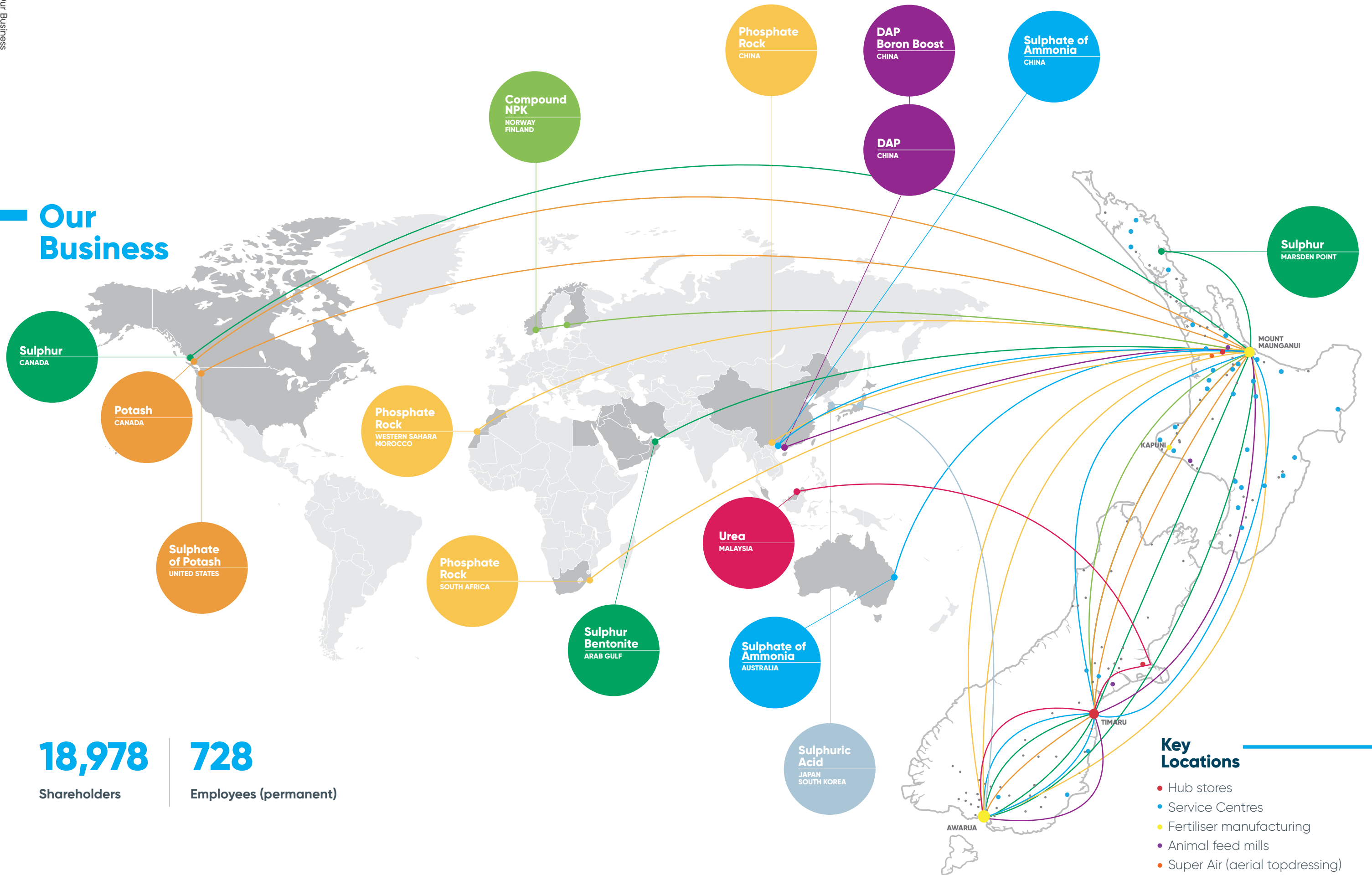
Ballance is proud to be at your side.

David Peacocke
Chairman

Mark Wynne
Chief Executive



Our Business



18,978

Shareholders

728

Employees (permanent)

Key Locations

- Hub stores
- Service Centres
- Fertiliser manufacturing
- Animal feed mills
- Super Air (aerial topdressing)
- Consignment stores



Our Leadership & Board Team



Mark Wynne
CEO



Edith Sykes
GM People & Capability



John Maxwell
GM Operations



Greg Delaney
GM Supply Chain



Sheena Henderson
GM Customer Experience & Marketing



Richard Hopkins
CFO,
GM Sales (Acting)



David Peacocke
Chairman & Director North Island



Albert Brantley
Appointed Director



Donna Smit
Director North Island



Andrew Morrison
Director South Island



Murray Taggart
Director South Island



Sarah von Dadelzen
Director North Island



John Harvey
Appointed Director



Kim Ellis
Appointed Director



Gray Baldwin
Director North Island

Financial Statements & Notes

26

INCOME STATEMENT

27

STATEMENT OF COMPREHENSIVE INCOME

28

STATEMENT OF CHANGES IN EQUITY

29

BALANCE SHEET

30

STATEMENT OF CASH FLOWS

31

NOTES TO THE FINANCIAL STATEMENTS

51

AUDITOR'S REPORT

53

DIRECTORS' INTERESTS

56

TREND STATEMENT

57

GOVERNANCE STATEMENT

Consolidated Income Statement

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

	Note	2017 \$000	2016 \$000
Revenue	2	804,560	837,462
Cost of sales		(607,919)	(659,202)
Gross profit		196,641	178,260
Other operating income	2	4,654	1,964
Sales, marketing and distribution expenses		(93,171)	(91,882)
Administrative expenses		(49,298)	(50,109)
Other operating expenses	3	(1,971)	(3,147)
		(139,786)	(143,174)
Gross trading result		56,855	35,086
Net financing costs	6	(2,118)	(2,402)
Impairment write down	7(a)	-	(2,700)
Revamp urea plant project costs	7(b)	(3,834)	(13,321)
Profit before rebate, tax and equity accounted income		50,903	16,663
Rebates to shareholders	8	(54,161)	(30,433)
Loss before tax and equity accounted income		(3,258)	(13,770)
Share of profit/(loss) from equity accounted investments	13(b)	4	(25)
Loss before tax		(3,254)	(13,795)
Income tax benefit/(expense)	9	462	(349)
Loss for the year		(2,792)	(14,144)

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

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

	Note	2017 \$000	2016 \$000
Loss for the year		(2,792)	(14,144)
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		(17,042)	8,545
Amount removed from equity, in relation to cash flow hedges, and included in initial cost of inventory on hand during the period		17,725	(26,099)
Income tax on items recognised directly in other comprehensive income	9	(191)	4,915
Other comprehensive income, net of income tax		492	(12,639)
Total comprehensive income for the year		(2,300)	(26,783)

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

	Note	Fully paid ordinary shares \$000	Share allotment reserve \$000	Hedging reserve \$000	Retained earnings \$000	Total equity \$000
Balance at 1 June 2015		160,803	22,295	11,078	241,253	435,429
Loss for the year		–	–	–	(14,144)	(14,144)
Net change in the fair value of cash flow hedges		–	–	(17,554)	–	(17,554)
Income tax relating to components of other comprehensive income		–	–	4,915	–	4,915
Other comprehensive income for the year, net of tax		–	–	(12,639)	–	(12,639)
Shares issued		290	–	–	–	290
Shares provided/issued in lieu of rebate		22,294	(11,758)	–	–	10,536
Shares repurchased		(8,973)	–	–	–	(8,973)
Dividends paid	8	–	–	–	(3,947)	(3,947)
Total transactions with owners		13,611	(11,758)	–	(3,947)	(2,094)
Balance at 31 May 2016		174,414	10,537	(1,561)	223,162	406,552
Balance at 1 June 2016		174,414	10,537	(1,561)	223,162	406,552
Loss for the year		–	–	–	(2,792)	(2,792)
Net change in the fair value of cash flow hedges		–	–	683	–	683
Income tax relating to components of other comprehensive income		–	–	(191)	–	(191)
Other comprehensive income for the year, net of tax		–	–	492	–	492
Shares issued		80	–	–	–	80
Shares provided/issued in lieu of rebate		10,531	8,237	–	–	18,768
Shares repurchased		(8,490)	–	–	–	(8,490)
Total transactions with owners		2,121	8,237	–	–	10,358
Balance at 31 May 2017		176,535	18,774	(1,069)	220,370	414,610

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

Consolidated Balance Sheet

AS AT 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

	Note	2017 \$000	2016 \$000
Shareholders' equity			
Paid-in capital		176,535	174,414
Retained earnings and other reserves		238,075	232,138
Total equity		414,610	406,552
Current liabilities			
Bank revolving cash advance facility	18	–	24,000
Trade and other payables	17	78,662	49,762
Derivative liabilities		2,397	3,086
Rebate payable	8	35,373	19,680
Total current liabilities		116,432	96,528
Non-current liabilities			
Provisions	19	1,217	1,279
Total non-current liabilities		1,217	1,279
Total liabilities		117,649	97,807
Total equity and liabilities		532,259	504,359
Current assets			
Cash and cash equivalents		24,477	8,935
Trade and other receivables	11	87,892	66,475
Inventories	12	139,761	151,777
Derivative assets		1,053	913
Income tax receivable		3,689	2,481
Total current assets		256,872	230,581
Non-current assets			
Investments in equity accounted investees	13	132	127
Deferred tax assets	10	3,706	2,149
Property, plant and equipment	14	245,415	254,485
Intangible assets	16	26,134	17,017
Total non-current assets		275,387	273,778
Total assets		532,259	504,359

For and on behalf of Board of Directors:



DE Peacocke
Director
26 July 2017



EJ Harvey
Director
26 July 2017

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

	Note	2017 \$000	2016 \$000
Cash flows from operating activities			
Cash receipts from customers		784,281	861,123
Cash paid to suppliers and employees		(677,763)	(773,805)
Interest received		365	643
Dividends received		21	17
Insurance proceeds		–	85
Government grants		827	568
Rebate to shareholders		(30,231)	(72,463)
Less shares issued in lieu of rebate		10,531	22,294
Net rebate paid		(19,700)	(50,169)
Interest paid		(2,396)	(2,914)
Income tax paid		(2,495)	(202)
Net cash flow from operating activities	20	83,140	35,346
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		349	344
Acquisition of property, plant and equipment and intangibles		(35,724)	(57,096)
Net cash flow from investing activities		(35,375)	(56,752)
Cash flows from financing activities			
Proceeds from issue of co-operative shares		81	290
Repurchase of surrendered shares		(8,304)	(8,681)
Net drawdown/(repayment) of borrowings		(24,000)	24,000
Dividends paid		–	(3,947)
Net cash flow from financing activities		(32,223)	11,662
Net movement in cash and cash equivalents		15,542	(9,744)
Cash and cash equivalents at 1 June		8,935	18,679
Cash and cash equivalents at 31 May		24,477	8,935

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

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

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

Consolidated financial statements for the Group are presented. The consolidated financial statements of the Group as at and for the year ended 31 May 2017 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and jointly controlled entities.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance and basis of preparation

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

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

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

The financial statements were approved by the Board of Directors on 26 July 2017.

b) Use of estimates and judgements

The Group’s management is required to make judgements, estimates and apply assumptions that affect the amounts reported in the financial statements.

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

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

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

- Note 7 – Impairment
- Note 10 – Deferred tax
- Note 14 – The life of the Kapuni urea plant
- Note 16 – Intangible assets
- Note 22 – Capital and reserves (treatment of puttable instruments)
- Note 23 – Financial instruments

c) New standards and interpretations

A number of new or revised standards are not yet effective for the year ended 31 May 2017, and have not been applied in preparing these financial statements.

Those relevant to the Group are:

- | | Effective for year ending: |
|--|----------------------------|
| • NZ IFRS 9 – Financial Instruments: Classification and Measurement. | 31 May 2019 |
| • NZ IFRS 15 – Revenue from Contracts with Customers. | 31 May 2019 |
| • NZ IFRS 16 – Leases. | 31 May 2020 |

Management has not yet assessed the impact of these standards on future financial statements but, other than NZ IFRS 16 – Leases, they are not expected to have a significant impact.

d) Change in prior year comparatives

Certain comparatives have been adjusted as a result of a change in the way transport costs relating to inventory are classified in the income statement. This has resulted in reclassification in 2016 figures between cost of sales and sales, marketing and distribution expenses with no impact on the reported net loss.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

2. REVENUE AND OTHER OPERATING INCOME

	2017 \$000	2016 \$000
Sale of goods	794,481	827,240
Services provided	10,079	10,222
Total revenue	804,560	837,462
Other operating income		
Other dividend income	21	17
Government grants including NZ ETS credits	4,193	1,575
Other	440	372
	4,654	1,964

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

Policy

Revenue is measured at the fair value of the consideration received or receivable, net of returns, allowances, trade discounts and volume rebates.

Revenue is recognised when:

- The amount of revenue and the costs in respect of the transaction can be measured reliably; and
- It is probable that the economic benefits of the transaction will flow to the company.

Sales of goods are recognised when the risks and rewards of the goods have been transferred to the buyer.

Sales of services are recognised on a percentage of completion basis.

Government grants are recognised over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

3. OTHER OPERATING EXPENSES

	2017 \$000	2016 \$000
Net loss on disposal of property, plant and equipment	76	451
Research and development expense	1,880	2,588
Donations	2	2
Other	13	106
	1,971	3,147

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

4. PERSONNEL EXPENSES

	2017 \$000	2016 \$000
Wages and salaries	68,813	71,116
Contributions to defined contribution superannuation plans	3,966	3,987
Increase/(decrease) in liability for long-service leave	(62)	46
	72,717	75,149

5. AUDITORS' REMUNERATION

	2017 \$000	2016 \$000
Audit services		
Audit of financial statements	156	140
Other services		
Taxation services – compliance	23	27
Taxation services – advice	134	40
	313	207

Taxation advice relates to assistance with matters relating to the treatment of revamp Urea Plant project costs (note 7b) and an IRD compliance audit.

6. FINANCING INCOME AND EXPENSE

	2017 \$000	2016 \$000
Financing income		
Interest from bank	365	764
Financing expense		
Interest paid to banks	2,396	3,035
Other financial expenses	87	131
	2,483	3,166
Financing costs (net)	2,118	2,402

Policy

Finance income comprises interest income on funds invested, foreign currency gains, gains on hedging instruments that are recognised in profit or loss and reductions in fair value of deferred and contingent consideration. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings to the extent that they have not been capitalised to qualifying assets, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables), and losses on hedging instruments that are recognised in profit or loss. Borrowing costs are recognised in profit or loss using the effective interest method.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

7. IMPAIRMENT WRITE DOWN AND REVAMP COSTS

a) Impairment write down

	Note	2017 \$000	2016 \$000
Impairment of Ag Hub Limited	16	–	2,700

Policy

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.

b) Revamp urea plant

	2017 \$000	2016 \$000
Revamp Urea Plant project costs	3,834	13,321

In 2016 the Board made the decision to write-off plant revamp project costs. Expenditure in the current year relating to this decision has been \$0.289m.

In August 2016 a joint development agreement (JDA) commenced with a potential partner for the plant revamp. Following a robust process the Board concluded that the likelihood of the revamp occurring was low, therefore the JDA project costs amounting to \$3.545m have been expensed to profit and loss.

8. REBATES AND DIVIDENDS

	2017 \$000	2016 \$000
Rebate provided for current year	54,150	30,220
Rebate for prior year under provided recognised in the current year	11	213
	54,161	30,433
Dividend paid in the current year	–	3,947
Total distributions to Co-operative shareholders	54,161	34,380
Dividends paid at 10 cents per share in the 2016 year with full tax imputation.		
Balance sheet:		
Rebate provided for current year	54,150	30,220
Less rebate allocated to the share allotment reserve	(18,777)	(10,540)
	35,373	19,680

Policy

Rebateable sales are eligible for sales volume and value rebates as declared by the Directors from the trading result. When the rebate is accrued it is either allocated to the share allotment reserve for those shareholders who are required to increase their share quota (note 22a) or accrued as a current liability (rebate payable) and will be paid out in cash.

For financial reporting purposes rebates are treated as a deduction in profit or loss. The cash rebate payment is shown as a cash outflow from operating activities in the statement of cash flows.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

9. INCOME TAX EXPENSE/(BENEFIT)

Reconciliation of income tax expense/(benefit)

	2017 \$000	2016 \$000
Loss before tax	(3,254)	(13,795)
Income tax using the domestic company tax rate – 28% (2016: 28%)	81	(3,862)
Increase/(decrease) in income tax expense due to:		
Non-deductible expenses	1,161	4,755
Tax exempt revenues	(848)	(5)
Tax losses not previously recognised	–	(67)
Adjustments for prior years	–	(55)
Other	136	(417)
Income tax expense (benefit) in income statement	(462)	349
Comprising:		
Current tax	1,286	(11)
Deferred tax	(1,748)	360
Income tax recognised directly in other comprehensive income		
Derivatives	191	(4,915)
	191	(4,915)

	2017 \$000	2016 \$000
Imputation credits		
The imputation credits are available to shareholders of the parent company:		
through the parent company	117,777	115,277
through subsidiaries	1,743	1,743
	119,520	117,020

Policy

Income tax expense/(benefit) comprises current and deferred tax. The Group calculates income tax expense/(benefit) using tax rates enacted or substantively enacted at balance date.

Current and deferred tax is recognised in profit or loss unless the tax relates to items in other comprehensive income, in which case the tax is recognised as an adjustment in other comprehensive income against the item to which it relates.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

10. DEFERRED TAX ASSET

	PPE and intangibles \$000	Provisions and accruals \$000	Hedge reserve \$000	Other \$000	Total \$000
Balance at 1 June 2015	(3,929)	4,184	(4,309)	1,648	(2,406)
Recognised in profit or loss	(1,590)	84	–	1,146	(360)
Recognised in other comprehensive income	–	–	4,915	–	4,915
Balance at 31 May 2016	(5,519)	4,268	606	2,794	2,149
Recognised in profit or loss	3,013	(113)	–	(1,152)	1,748
Recognised in other comprehensive income	–	–	(191)	–	(191)
Balance at 31 May 2017	(2,506)	4,155	415	1,642	3,706

Included within other is the tax value of losses carried forward of \$0.698m (2016: \$2.054m).

Policy

Deferred tax is:

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

11. TRADE AND OTHER RECEIVABLES

	2017 \$000	2016 \$000
Current		
Trade receivables	83,671	62,618
Prepayments	4,221	3,857
	87,892	66,475
Trade Receivables status		
Not past due	82,644	61,852
past due 0 - 30 days	406	488
past due 31 - 120 days	309	66
past due > 120 days	312	212
Total	83,671	62,618

Policy

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

Impairment

Trade receivables allowance for impairment is nil (2016: nil). A provision for impairment is recognised when there is objective evidence that the Group will be unable to collect amounts due.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

12. INVENTORIES

	2017 \$000	2016 \$000
Manufactured and finished products	97,905	107,801
Raw materials	16,710	27,300
	114,615	135,101
Goods in transit	13,308	3,308
Packaging	4,523	4,716
Spares and stores	7,315	8,652
	139,761	151,777

In 2017 the write-down of inventories to net realisable value amounted to \$1.230m (2016: \$3.6m).

Policy

Inventories are measured at the lower of cost and net realisable value (NRV). NRV is the estimated selling price, less estimated costs of completion and selling costs.

The cost of inventory is based on weighted average and includes expenditure incurred in bringing them to their existing location.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

13. INVESTMENTS

a) The Company has the following investments:

Principal activity	2017 Balance date	Interest	2016 Balance date	Interest
Subsidiaries				
Ballance Agri-Nutrients (Kapuni) Limited	31 May	100%	31 May	100%
Super Air Limited	31 May	100%	31 May	100%
Ag Hub Limited	31 May	100%	31 May	100%
Seales Winslow Limited	31 May	100%	31 May	100%

Policy

Subsidiaries are entities controlled directly or indirectly by the parent. The parent holds and controls 100% of the voting rights in all entities reported as subsidiaries.

The financial statements of subsidiaries are reported in the financial statements using the acquisition method of consolidation.

Intra-group balances and transactions between group companies are eliminated on consolidation.

All subsidiaries are incorporated in New Zealand.

b) Equity accounted investees

Principal activity	2017 Balance date	Interest	2016 Balance date	Interest
NZ Phosphate Company Limited	30 June	50%	30 June	50%
EnCoate Holdings Limited	30 June	50%	30 June	50%

Summary financial information for equity accounted investees not adjusted for the percentage ownership held by the Group:

	2017	Total assets \$000	Total liabilities \$000	Revenues \$000	Profit (loss) \$000	Total comprehensive income \$000
Equity accounted investees	2016	292	28	57	9	9
	2016	281	26	82	(50)	(50)

Policy

Associates are entities in which the parent has significant influence, but not control or joint control, over the operating and financial policies.

The parent holds over 20%, but not more than half, of the voting rights in all entities reported as associates, and has assessed that there are currently no indicators that the parent does not have significant influence consistent with these voting rights.

Where the parent has 50% voting rights in an entity reported as an associate we have determined that this does not constitute joint control as there is more than one combination of parties that can achieve majority voting rights.

Investments in associates are reported in the financial statements using the equity method.

All associates are incorporated in New Zealand.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

14. PROPERTY, PLANT AND EQUIPMENT (PPE)

	Land and improvements \$000	Buildings \$000	Plant, equipment and aircraft \$000	Under construction \$000	Total \$000
Carrying value 1 June 2015	46,628	52,891	117,446	24,152	241,117
Cost	51,524	101,501	296,058	24,152	473,235
Accumulated depreciation	(4,896)	(48,610)	(178,612)	–	(232,118)
Acquisitions/(transfers)	475	2,384	43,398	(2,164)	44,093
Depreciation expense	(411)	(4,046)	(24,475)	–	(28,932)
Disposals – cost	–	834	(18,713)	–	(17,879)
Disposals – accumulated depreciation	–	(628)	16,714	–	16,086
Carrying value 31 May 2016	46,692	51,435	134,370	21,988	254,485
Cost	51,999	104,720	320,764	21,988	499,471
Accumulated depreciation	(5,307)	(53,285)	(186,394)	–	(244,986)
Acquisitions/(transfers)	1,424	4,906	27,540	(8,703)	25,167
Depreciation expense	(477)	(4,092)	(29,085)	–	(33,654)
Disposals – cost	(83)	(373)	(4,452)	–	(4,908)
Disposals – accumulated depreciation	–	257	4,068	–	4,325
Carrying value 31 May 2017	47,556	52,133	132,441	13,285	245,415
Cost	53,339	109,253	343,852	13,285	519,729
Accumulated depreciation	(5,783)	(57,120)	(211,411)	–	(274,314)

Policy

Items of PPE are measured at cost less accumulated depreciation and impairment losses.

Capitalisation of costs stops when the asset is ready for use.

Subsequent expenditure that increases the economic benefits derived from the asset is capitalised.

The costs of day-to-day servicing of PPE are recognised in profit or loss as incurred.

Where parts of an item of PPE have different useful lives, they are accounted for as separate items of PPE.

Depreciation commences when an asset becomes available for use.

Depreciation of PPE, other than land, is calculated on a straight line basis and expensed over the useful life of the asset.

Estimated useful lives are as follows:

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

Kapuni urea plant is depreciated in line with the gas supply contract duration.

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

Capital expenditure commitments

The estimated capital expenditure for PPE contracted for at balance date but not provided is \$9.117 million for the group (2016: \$1.693 million).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

15. OPERATING LEASES

	2017 \$000	2016 \$000
Leases as lessee		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	6,208	5,563
Between one and five years	25,071	19,555
After five years	7,783	13,311
	39,062	38,429
Operating lease expense recognised	6,993	5,779

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

Policy

Operating lease payments:

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

16. INTANGIBLE ASSETS

	Emissions trading scheme \$000	Patents and trademarks \$000	Software \$000	Technology systems and licences \$000	Total \$000
Carrying value 1 June 2015	3,146	36	6,904	2,417	12,503
Cost	3,146	36	36,722	6,322	46,226
Accumulated amortisation	–	–	(29,818)	(3,905)	(33,723)
Acquisitions	–	2	3,793	920	4,715
Under development	–	–	8,528	–	8,528
Grant – net allocation of emissions trading scheme credits	1,006	–	–	–	1,006
Amortisation	–	–	(6,497)	(538)	(7,035)
Impairment	–	–	–	(2,700)	(2,700)
Carrying value 31 May 2016	4,152	38	12,728	98	17,017
Cost	4,152	38	45,953	7,242	57,386
Accumulated amortisation	–	–	(33,225)	(7,144)	(40,369)
Acquisitions	–	2	9,221	19	9,242
Under development	–	–	1,314	–	1,314
Grant – net allocation of emissions trading scheme credits	2,994	–	–	–	2,994
Amortisation	–	–	(4,337)	(5)	(4,342)
Disposals – cost	–	–	–	(3,835)	(3,835)
Disposals – accumulated amortisation	–	–	–	3,744	3,744
Carrying value 31 May 2017	7,146	40	18,926	21	26,134
Cost	7,146	40	56,424	3,425	67,036
Accumulated amortisation	–	–	(37,498)	(3,404)	(40,902)

Policy

Intangible assets are initially measured at cost, and subsequently stated at cost less any accumulated amortisation and impairment losses. Subsequent expenditure that increases the economic benefits derived from the asset is capitalised. All other expenditure is expensed as incurred.

Software, technology systems and licences have been assessed as having a finite life greater than 12 months, and are amortised from the date the asset is ready for use on a straight line basis over its estimated useful life.

Estimated useful lives are as follows:

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

Amortisation is recognised within administration expense.

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

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

17. TRADE AND OTHER PAYABLES

	Note	2017 \$000	2016 \$000
Current			
Trade payables and accrued expenses		63,232	34,154
Share repurchase instalments		4,732	4,545
Employee benefits		6,115	6,479
Emissions trading scheme – deferred income		1,741	1,729
Emissions trading scheme – liability		354	69
Non-trade payables and accrued expenses		2,488	2,785
		78,662	49,761
Non-current			
Liability for long-service leave	19	1,217	1,279

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

18. LOANS AND BORROWINGS

	2017 \$000	2016 \$000
Current liabilities	–	24,000

At 31 May 2017 the committed bank facilities available were \$200m, of which nil was drawn in the Group (2016: facility \$220m, actual drawn \$24m).

The interest rate in 2017 was 2.66%. Deposits and the Bank Revolving Cash Advance Facility have different interest rates and the loan agreement provides for right of set off against deposits.

Borrowings are unsecured and subject to various lending covenants. These have all been met for the years ended 31 May 2017 and 2016.

19. PROVISIONS

	Note	2017 \$000	2016 \$000
Employee benefits – long-service leave provision			
Opening balance		1,279	1,233
Movement in provision	4	(62)	46
Closing balance	17	1,217	1,279

Policy

A provision is recognised where the likelihood of a resultant liability is more probable than not, and the amount required to settle the liability can be reliably estimated.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

20. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2017 \$000	2016 \$000
Loss for the year	(2,792)	(14,144)
Add non-cash and non-operating items:		
Inventory write-down to net present value	958	3,591
Depreciation	33,653	28,933
Amortisation	4,342	7,035
Emissions trading scheme – net cost of carbon	(2,695)	404
Impairment write down	–	2,700
Derivative fair value	104	134
Gain (loss) on sale of property, plant and equipment	76	203
Employee benefits	(62)	46
Rebate transferred to Share Allotment Reserve	18,768	10,540
Equity accounted earnings of associates	(4)	25
Decrease in deferred tax	(1,748)	360
Add (deduct) movements in working capital:		
Movement in trade and other receivables	(21,319)	19,518
Movement in inventories	10,893	10,033
Movement in trade and other payables	28,483	(3,542)
Movement in rebate payable	15,692	(30,277)
Movement in tax receivable	(1,209)	(213)
Net cash from operating activities	83,140	35,346

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

21. RELATED PARTIES

Identity of related parties

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

The group may transact on an arms' length basis with companies in which directors have a disclosed interest. Sales and rebates paid to directors and their disclosed interests are less than 1% of the total operating revenue and rebates for the year respectively.

	2017 \$000	2016 \$000
Transactions with external related parties through common directorship, control or significant influence		
Revenue	3,574	3,811
Expenses	2,077	2,419
Rebate	132	233
Dividend	–	18
Balances with external related parties through common directorship, control or significant influence		
Amounts owing to the company	50	58
Amounts owed by the company	251	4
	2017 \$000	2016 \$000
Key management personnel and directors compensation		
Short term employee benefits, excluding directors	3,717	3,470
Directors' fees	671	649
Total	4,388	4,119

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

22. CAPITAL AND RESERVES

a) Share capital

(i) Reconciliation of movement in co-operative shares

	2017 000	2016 000
Opening balance	41,239	39,627
Co-operative shares issued	10	36
Co-operative shares issued in lieu of rebate	1,300	2,752
Co-operative shares repurchased	(1,099)	(1,176)
Closing balance	41,450	41,239

(ii) Co-operative shares

All shares are fully paid and have no par value. Each share has a nominal value of \$8.10 (2016: \$8.10). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company subject to any restricted holding determined for shares exceeding 100,000 and any other restrictions in the constitution. All shares rank equally with regard to the Company's residual assets.

Policy

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

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

(iii) Share redemption features

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

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

(iv) Repurchase of shares

During the year 1,098,619 shares (2016: 1,176,075) were repurchased at an average price of \$7.73 per share (2016: \$7.63) and subsequently cancelled.

(v) Capital management

The Group's capital includes share capital, reserves and retained earnings.

The Group's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business.

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.

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

b) Other reserves

Other reserves comprise:

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

23. FINANCIAL INSTRUMENTS

Financial risk management policy

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

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

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

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

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

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

Derivative and hedge accounting policy

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

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

At inception each transaction is documented, detailing:

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

The underlying risk of the derivative contracts is identical to the hedged risk component (i.e. the interest rate risk and the foreign exchange risk) therefore the group has established a one-to-one hedge ratio.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Cash flow hedges

The Group has entered into foreign exchange forward contracts (the hedging instruments) to hedge the variability in cash flows arising from foreign currency exchange rate movements.

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income.

The following are recognised in profit or loss:

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

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

- at the same time as the forecast transaction; or
- immediately if the transaction is no longer expected to occur.



Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

a) Foreign currency risk

Quantitative disclosures

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

	2017 \$000 USD	2016 \$000 USD
Foreign currency risk USD		
Bank accounts	679	1,202
Trade payables	(15,159)	(248)
Net balance sheet exposure before hedging	(14,480)	954
Forward exchange contracts relating to exposures	14,480	-
Net unhedged exposure	-	-

Sensitivity analysis

At 31 May 2017 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 2017 \$000	Profit or loss 2017 \$000	Equity 2016 \$000	Profit or loss 2016 \$000
Forward exchange contracts	+10%	(19,678)	-	(21,972)	-
	-10%	24,065	-	26,883	-

Policy

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the Company's functional currency. The currency risk is primarily denominated in United States dollars (USD).

Policy is to hedge up to 100% of trade payables and bank balances denominated in a foreign currency. At any point in time the Group also hedges between 20% and 100% of its estimated foreign currency exposure in respect of forecasted purchases over the following 12 months.

Derivative contract and options have maturities of less than one year at the reporting date.

Determination of fair value

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

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



Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

b) Interest rate risk

Interest rate risk – repricing analysis

	Total \$000	0-12 months \$000
2017		
Variable rate instruments and related derivatives		
Cash and cash equivalents	24,477	24,477
	Total	0 - 12
	\$000	months
	\$000	\$000
2016		
Variable rate instruments and related derivatives		
Cash and cash equivalents	8,935	8,935
Bank loans	(24,000)	(24,000)
Net variable rate instruments	(15,065)	(15,065)

Policy

The group is exposed to interest rate risk through its borrowing activities

Interest rate exposures are managed primarily by entering into derivative contracts to achieve an appropriate mix of fixed and floating rate exposure within the group's policy.

Determination of fair value

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

c) Credit risk

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

Our credit policies to manage this exposure include:

- Individual policy limits
- Exposure to the agricultural industry through a limited number of merchants and direct customers
- Dealings with financial institutions with high credit ratings.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

d) Liquidity risk

	Carrying value \$000	Contractual cash flows \$000	0-12 months \$000
2017			
Trade and other payables	78,662	78,662	78,662
Net rebates payable	35,373	35,373	35,373
Total non-derivative liabilities	114,035	114,035	114,035
Gross settled foreign exchange derivatives used for hedging:			
Cash inflow		214,417	214,417
Cash outflow		(216,423)	(216,423)
	(1,344)	(2,006)	(2,006)
	Carrying	Contractual	0-12
	value	cash flows	months
	\$000	\$000	\$000
2016			
Unsecured bank loans	24,000	24,000	24,000
Trade and other payables	49,762	49,762	49,762
Net rebates payable	19,680	19,680	19,680
Total non-derivative liabilities	93,442	93,442	93,442
Gross settled foreign exchange derivatives used for hedging:			
Cash inflow		238,273	238,273
Cash outflow		(241,680)	(241,680)
	(2,173)	(3,407)	(3,407)

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

Policy

The group is exposed to liquidity risk where there is a risk that the group may encounter difficulty in meeting its day to day obligations due to the timing of cash receipts and payments.

The objective is to ensure the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

e) Classification and fair values

	Loans and receivables \$000	Designated at fair value \$000	Other amortised cost \$000	Total carrying amount \$000	Fair value \$000
2017					
Assets					
Derivatives	–	1,053	–	1,053	1,053
Trade and other receivables	83,671	–	–	83,671	83,671
Cash and cash equivalents	24,477	–	–	24,477	24,477
Total assets	108,148	1,053	–	109,201	109,201
Liabilities					
Derivatives	–	2,397	–	2,397	2,397
Trade and other payables	–	–	78,662	78,662	78,662
Net rebates payable	–	–	35,373	35,373	35,373
Total liabilities	–	2,397	114,035	116,432	116,432
2016					
Assets					
Derivatives	–	913	–	913	913
Trade and other receivables	62,618	–	–	62,618	62,618
Cash and cash equivalents	8,935	–	–	8,935	8,935
Total assets	71,553	913	–	72,466	72,466
Liabilities					
Derivatives	–	3,086	–	3,086	3,086
Trade and other payables	–	–	49,762	49,762	49,762
Net rebates payable	–	–	19,680	19,680	19,680
Bank Loan	24,000	–	–	24,000	24,000
Total liabilities	24,000	3,086	69,442	96,528	96,528

Determination of fair value

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

e) Fair value hierarchy

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

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

Derivative financial assets and liabilities are level 2 on the fair value hierarchy.

24. CONTINGENCIES

a) Contingent liabilities

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

b) Contingent assets

In May 2017, our insurance underwriters confirmed coverage under our insurance policy for lost urea production arising in the 2016 financial year.

Although a recovery is probable, the amount which will be recovered in respect of the claim is not yet able to be determined with sufficient accuracy. An insurance receivable will be recorded in the financial statements when the recoverable amounts can be determined.



Independent Auditor's Report

To the shareholders of Ballance Agri-Nutrients Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Ballance Agri-Nutrients Limited (the Company) and its subsidiaries (the Group) on pages 26 to 50:

- i. present fairly in all material respects the Group's financial position as at 31 May 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 May 2017;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

Other Information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information may include the Chairman and Chief Executive's Report, disclosures relating to corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the



other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.



Use of this Independent Auditor's Report

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



Responsibilities of the Directors for the consolidated financial statements

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

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



Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objective is:

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

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

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

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

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page5.aspx

This description forms part of our Independent Auditor's Report.



Murray Dunn
For and on behalf of
KPMG
Hamilton
26 July 2017

Directors' Interests

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

GENERAL DISCLOSURES

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

Director	Position	Company
GW Baldwin	Councillor	South Waikato District Council (elected 2016)
	Director	Livestock Improvement Corporation Limited
		Spitfire Dairies Limited
AG Brantley		Trinity Lands Limited
		Wuppertal Farming Limited
	Trustee	South Waikato Development (Drive) Trust (resigned 2016)
	CEO	Otakaro Limited
KR Ellis	Director	Independent Assessment Board, Local Government of New Zealand Excellence Programme (appointed 2016)
		Electricity Authority of New Zealand (resigned 2016)
	Member, Security and Reliability Council	Genesis Oncology Trust (resigned 2016)
	Trustee/Chairman	
EJ Harvey	Chairman	NZ Social Infrastructure Fund Limited
		Metlifecare Limited
	Consultant	Envirowaste Services Limited
	Director	Freightways Limited
		FSF Management Company Limited
		Port of Tauranga Limited
AD Morrison	Director	NZ Opera Limited
		Heartland Bank Limited
		Investore Property Limited
		Kathmandu Holdings Limited
		Port Otago Limited
		Stride Property Limited
		Beef + Lamb New Zealand Limited
DE Peacocke	Director	Glenroy Morrison Limited
		NZ Meat Board
		Ovis Management Limited
		Pastoral Greenhouse Gas Research Consortium
	Member	Wool Research Organisation of New Zealand (appointed 2016)
OC Saxton	Partner	Agricultural Leaders Health and Safety Action Group Incorporated (appointed 2017)
	Director	AD Morrison Farms Partnership
	Chairman	Melrose Limited
		New Zealand Phosphate Company Limited
DM Smit	Director	Taupiri Holdings Limited
		The Adare Company Limited (appointed 2017)
		Sakura Pastoral Limited Partnership
		Wairio Farm Limited Partnership
		Mead Pastoral Limited Partnership
(elected September 2016)	Director	Tuatahi Farming Limited
		Waihi Livestock Limited
		Corona Farms Limited
		Fonterra Co-operative Group Limited
(elected September 2016)	Director	KEL Paengaroa Orchard Limited
		KEL Rangiuru Orchard Limited

Directors' Interests

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

		KEL Woodlands Orchard Limited
		Kiwifruit Equities Limited
		Primary ITO (resigned 2017)
		Seven Mile Farms Limited
	Trustee	Dairy Women's Network
		Eastern Bay Energy Trust (resigned 2017)
		Taratahi Agricultural Training Centre
MJ Taggart	Chairman	Alliance Group Limited
	Director	Oxford Health Charity Limited (appointed 2016)
	Partner	MJ and RM Taggart
	Trustee	North Canterbury Farmers' Charitable Trust (appointed 2016)
		Oxford Health Charitable Trust (appointed 2016)
SJ von Dadelszen	Shareholder	Hinerangi Station Limited
		Totara Dairy Farm Limited
	Trustee	AGMARDT

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 2017.

Subsidiary company directors' disclosures:

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

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

Ag Hub Limited

RK Hopkins (E), MD Wynne (E)

Ballance Agri-Nutrients (Kapuni) Limited

RK Hopkins (E), MD Wynne (E)

Bay of Plenty Fertiliser Company Limited

RK Hopkins (E), MD Wynne (E)

BOP Fertiliser Limited

RK Hopkins (E), MD Wynne (E)

Ballance Limited

RK Hopkins (E), MD Wynne (E)

Altum Nutrition Limited

RK Hopkins (E), MD Wynne (E)

Seales Winslow Limited

RK Hopkins (E), MD Wynne (E)

Southfert Limited

RK Hopkins (E), MD Wynne (E)

Summit Quinphos Limited

RK Hopkins (E), MD Wynne (E)

Super Air Limited

RK Hopkins (E), MD Wynne (E)

Directors' Interests

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

DIRECTORS' REMUNERATION

Fees paid to Directors were:

	Parent	Group
GW Baldwin	65,000	65,000
AG Brantley	65,000	65,000
KR Ellis	70,000	70,000
EJ Harvey	75,000	75,000
AD Morrison	65,000	65,000
DE Peacocke	136,000	136,000
OC Saxton	21,306	21,306
DM Smit	43,694	43,694
MJ Taggart	65,000	65,000
SJ von Dadelszen	65,000	65,000
Total paid to Company Directors	671,000	671,000

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 S162 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 26 July 2017. 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 2017 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:

- 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;
- 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	44	230,001 - 240,000	2
110,001 - 120,000	33	240,001 - 250,000	1
120,001 - 130,000	32	260,001 - 270,000	1
130,001 - 140,000	28	270,001 - 280,000	2
140,001 - 150,000	18	280,001 - 290,000	1
150,001 - 160,000	16	300,001 - 310,000	1
160,001 - 170,000	13	310,001 - 320,000	1
170,001 - 180,000	7	330,001 - 340,000	1
180,001 - 190,000	5	340,001 - 350,000	1
190,001 - 200,000	4	380,001 - 390,000	1
200,001 - 210,000	4	450,001 - 460,000	1
210,001 - 220,000	6	500,001 - 510,000	1
220,001 - 230,000	1	1,240,001 - 1,250,000	1

Trend Statement

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

		2013	2014	2015	2016	2017
Group sales volumes	tonnes	1,490,000	1,724,000	1,754,000	1,620,000	1,616,000
Turnover	\$000	877,796	920,973	892,795	837,462	804,560
	\$/tonne	\$589	\$534	\$509	\$517	\$498
Profits						
Gross trading result	\$000	102,186	98,027	80,966	35,086	56,855
	\$/tonne	\$69	\$57	\$46	\$22	\$35
Group profit retained	\$000	17,943	6,093	(14,840)	(18,091)	(2,792)
– after distributions, impairment provision, inventory write down and including minority interest retentions in subsidiary companies						
Cashflow						
From operations (prior to rebate payment)	\$000	150,410	135,723	106,091	85,515	102,840
Capital and investment expenditure (net)	\$000	21,903	49,709	44,519	56,752	35,375
Distributions to shareholders						
Rebates paid or proposed	\$000	61,659	75,358	72,407	30,433	54,161
Dividends paid or proposed	\$000	3,581	3,787	3,963	0	0
Dividend per share	cps	10.0	10.0	10.0	0.0	0.0
Rebate per tonne	\$/tonne	\$60.83	\$60.83	\$55.83	\$25.00	\$45.00
Dividend – gross per quota tonne	\$/tonne	\$4.17	\$4.17	\$4.17	–	–
Combined distribution – gross equivalent*	\$/tonne	\$65.00	\$65.00	\$60.00	\$25.00	\$45.00
* Rebate and gross dividend equivalent for a fully paid shareholder						
Analysis of shareholders' equity						
Number of shareholders		18,317	18,827	19,253	19,280	18,978
Shares on issue	000	35,812	37,871	39,626	41,239	41,450
Nominal share value	\$	\$7.50	\$8.10	\$8.10	\$8.10	\$8.10
Share quota per tonne		30	30	30	30	30
Investment per quota tonne	\$	225.00	243.00	243.00	243.00	243.00
Co-op shareholders' equity	\$000	403,357	420,610	435,429	406,552	414,610
Group shareholders' equity	\$000	404,323	420,610	435,429	406,552	414,610
Group equity ratio		71.2%	70.9%	80.4%	80.6%	77.9%
Net asset backing per share	\$	\$11.26	\$11.11	\$10.99	\$9.86	\$10.00
Assets						
Total assets	\$000	567,603	593,173	541,874	504,359	532,259
Working capital	\$000	214,175	198,893	185,293	134,053	140,440
Ratio of current assets to current liabilities		3.2	2.5	2.8	2.4	2.2
Stock turn		3.9	4.4	4.1	3.9	4.1

Governance Statement

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

INTRODUCTION

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

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

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

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

The Company 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.

RISK MANAGEMENT

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

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

BOARD MEMBERSHIP

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

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

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

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

There are no Executive Directors.

APPOINTED DIRECTORS

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

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

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

BOARD MEETINGS

The Chief Executive and the Chairman prepare a meeting agenda. Any member of the Board may request the addition of an item to the agenda. The Board met on ten occasions in the financial year ended 31 May 2017. The length of meetings is usually one day, extending to two days for meetings with special business, including, the annual strategic plan development and the annual shareholder meeting. Teleconference meetings are conducted in addition as required.

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

BOARD REVIEW

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

BOARD COMMITTEES

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

Audit Committee

The Audit Committee comprises 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.

Governance Statement

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

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

Remuneration Committee

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

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

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

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

SHAREHOLDER COMMUNICATION

Ballance places considerable importance on communicating with our shareholders.

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

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

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

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

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

Company Directory

FOR THE YEAR ENDED 31 MAY 2017. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

BALLANCE AGRI-NUTRIENTS LIMITED

Board of Directors

David Peacocke – Chairman and Director (North Island)

Albert Brantley – Appointed Director

Kim Ellis – Appointed Director

John Harvey – Appointed Director

Gray Baldwin – Director (North Island)

Donna Smit – Director (North Island)

Sarah von Dadelszen – Director (North Island)

Andrew Morrison – Director (South Island)

Murray Taggart – Director (South Island)

REGISTERED OFFICE

161 Hewletts Road, Mount Maunganui

SOLICITORS

Russell McVeagh
PO Box 8, Auckland

Sharp Tudhope
Private Bag, Tauranga

BANKERS

ANZ Bank New Zealand Limited

Commonwealth Bank of Australia

Hong Kong and Shanghai Banking Corporation Limited

Westpac Banking Corporation

AUDITORS

KPMG
PO Box 110, Tauranga

LEADERSHIP TEAM

Mark Wynne – Chief Executive

Greg Delaney – GM Supply Chain

Sheena Henderson – GM Customer Experience and Marketing

Richard Hopkins – Chief Financial Officer, GM Sales (Acting)

John Maxwell – GM Operations

Edith Sykes – GM People and Capability

BALLANCE AGRI-NUTRIENTS LIMITED HEAD OFFICE

Private Bag 12503, Tauranga

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Fax 07 575 6233

Email reception@ballance.co.nz

Freephone customer line 0800 222 090

Website www.ballance.co.nz

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Phone 03 218 2924

Fax 03 218 9380

Email rec.invercargill@ballance.co.nz

BALLANCE AGRI-NUTRIENTS (KAPUNI) LIMITED

PO Box 439, Hawera

Phone 06 272 6449

Fax 06 272 6931

Email rec.kapuni@ballance.co.nz

SEALES WINSLOW LIMITED

Corner McRae and Anderson Streets, Morrinsville

Phone 07 889 6566

Fax 07 889 4025

Email sales@sealeswinslow.co.nz

Website www.sealeswinslow.co.nz

SUPER AIR LIMITED

Rukuhia, RD2, Hamilton

Phone 07 843 6066

Fax 07 848 9051

Email reception@superair.co.nz

