

more in the making

2018 WAS A VERY GOOD YEAR
FOR FARMING IN NEW ZEALAND, AND FOR
YOUR CO-OPERATIVE. THIS WAS ANOTHER YEAR
OF PROGRESS AND IMPORTANT MILESTONES
THAT WILL BUILD A STRONGER,
AND EVEN MORE CONFIDENT FUTURE.

We are always looking to the horizon

**TOGETHER, CREATING THE BEST
SOIL AND FEED ON EARTH.**

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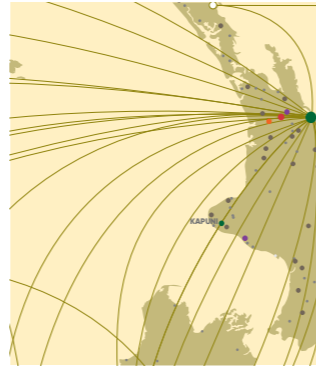
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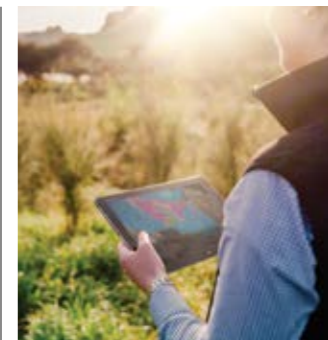
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1.639

MILLION TONNES

↑
23,000
TONNES

GROUP SALES

\$71

MILLION

↑
\$14.5M

GROSS TRADING RESULT

THE POSITIVE FINANCIAL PERFORMANCE
ALLOWED FOR A FARMER REBATE OF
\$45 PER TONNE, ALONG WITH
BOLSTERING OUR BALANCE SHEET

\$826

MILLION

↑
2.6%

REVENUE

\$45 /tonne

SHAREHOLDER REBATE

70%

OF OUR SHAREHOLDERS PURCHASED FROM US IN 2018 AND ENJOYED A REBATE

16

LOCAL FARM SUSTAINABILITY SPECIALISTS TO SUPPORT CUSTOMERS WITH COMPLIANCE AND PRODUCTION GOALS

52K

TONNES OF PRODUCT ORDERED DIRECTLY BY CUSTOMERS ON MYBALLANCE

\$56.8M

RETURNED TO NEW ZEALAND FARMERS IN 2018 REBATE FROM THEIR CO-OPERATIVE

\$50K

ANNUAL VALUE OF BALLANCE TERTIARY SCHOLARSHIPS

\$3M

INVESTED IN REBUILD OF SEALESWINSLOW ASHBURTON

Customer

38%

FEMALE EMPLOYEES RECRUITED IN THE PAST TWO YEARS, FURTHER IMPROVING OUR GENDER DIVERSITY

82%

EMPLOYEE ENGAGEMENT INCREASED 3% ON 2017

18

OUR KEY SAFETY MEASURE, TRIFR, INCREASED AND DID NOT MEET OUR 2018 TARGET OF 8

People

Community

3

BALLANCE OPERATING SITES AT KAPUNI, AWARUA AND MOUNT MAUNGANUI CERTIFIED TO ISO9001 AND ISO14001

\$8.3M

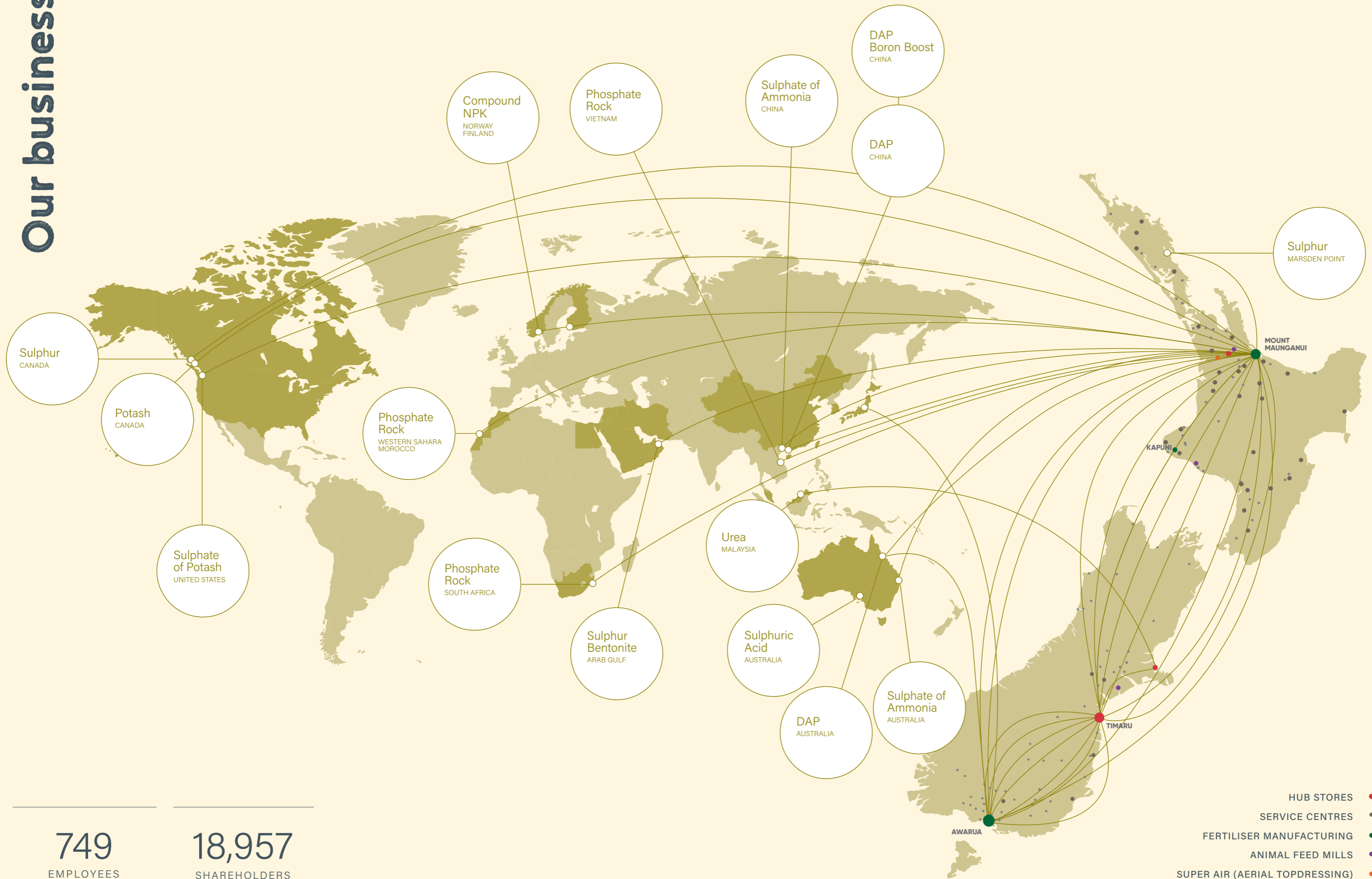
UPGRADE OF SO₂ CONVERTOR ON MOUNT MAUNGANUI SITE, REDUCING EMISSIONS INTENSITY BY 66%

30

YEARS OF NEW ZEALAND'S BEST INDEPENDENT SCIENCE HARNESSSED TO POWER NEW MITAGATOR® TOOL

Environment

Our business



749

EMPLOYEES
(PERMANENT)

18,957

SHAREHOLDERS

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



*Ballance CEO
Mark Wynne
and Chairman
David Peacocke*

Shaping the future

CHAIRMAN &
CEO'S REPORT

DAVID PEACOCKE
MARK WYNNE

**WE ARE PLEASED TO BE REPORTING
A 25% LIFT IN OUR CO-OPERATIVE'S GROSS
TRADING RESULT TO \$71.3 MILLION FOR
THE FINANCIAL YEAR ENDED 31 MAY 2018,
REFLECTING STRENGTH ACROSS MUCH
OF THE PRIMARY SECTOR.**

This positive financial performance allowed for a farmer rebate of \$45 per tonne – along with bolstering our balance sheet for future re-investment for the benefit of farmers. Our rebate, paid on 27 July, averaged about \$4,500 for our shareholders, with individual payments of more than \$100,000 to the largest farming interests.

The return to shareholders of more than \$56 million, represents 81% of pre-tax profit, and is well spread across rural New Zealand.

Alongside several key strategic milestones during the year, the fundamentals of our business were positive with total sales up nearly 1.5% to 1.64 million tonnes, including nutrient products, animal feeds and industrial ingredients. The significant cost savings that we achieved last financial year are now embedded in our procurement approach, and are a key element of the financial discipline that we are applying to further strengthen the Co-operative's balance sheet.

2.6%

**GROUP REVENUE INCREASED
TO \$826 MILLION**

25%

**LIFT IN OUR CO-OPERATIVE'S
GROSS TRADING RESULT**

Group revenue increased 2.6% to \$826 million, reflecting both the higher sales volume and a continuation of the growing demand for premium nutrient products that offer improved environmental performance.

SUSTAINABILITY FOCUS

Sustainability is very much front-of-mind with our customers, and this means – like farmers – we are already thinking about what's next. We are building on what has been another very strong year for Ballance Agri-Nutrients – putting our minds to how we can help farmers 10 years from now, and starting working on those solutions today.

While there is encouragingly positive sentiment among farmers and growers right now, we are very aware of the changing regulatory landscape and also the potential for increasing competition in the New Zealand fertiliser market. Both require forward-thinking and increased agility.

Ballance is already gearing-up for the future with investment in our supply chain and manufacturing efficiencies for the benefit of our shareholders. Beyond our customers, this also flows through the local communities supplying the goods, labour and services for the projects throughout the country.

Projects completed during FY2018 – including a new Consignment Store in Waimate, and new expanded Ashburton Service Centre – were focused on improving service levels, load-out times and product availability through Ballance's national distribution network. In another industry-first, Ballance has successfully piloted new self-service silos that offer greater convenience for customers.

Our infrastructure investment is all linked to our focus on a smarter supply chain that will deliver higher service levels and greater choice and ease for our farmers.

Another priority is accelerating digital services for our customers to support the future competitiveness of New Zealand farming. Our MyBallance platform, launched as a free offering to Ballance shareholders in the second half of the financial year, already has more than a quarter of all active shareholders registered. They can now see and manage their nutrient planning, ordering and records online.

This is about being a forward-focused business – giving our farmers flexibility and using our digital capability to knit everything together seamlessly from specialist advice to sustainable and accurate placement of nutrients on-farm.

The success of MyBallance with farmers is in turning raw data into useful information that means Ballance customers can really have their "farms at their fingertips". MyBallance also received global recognition during the year winning the *Best Run Award* at the prestigious international SAP Innovation Awards 2018.

Specialist new tools like MITAGATOR® – developed in partnership with Government through the Primary Growth Partnership (PGP) – harness the



Our digital capability seamlessly knits everything together, from nutrient advice to placement on farm



Sustainability is very much front-of-mind with our customers

best New Zealand science so that farmers know where to invest for the biggest environmental gains.

The sustainability focus among farmers, along with regulatory constraints, will further drive demand for smarter products and services, such as our premium nitrogen products – SUSTAIN® and PHASEDN® – and our SPREADSMART® technology, which supports precise aerial applications of fertiliser and pilot safety. Applications using this technology were up three-fold compared with FY2017. This growing demand is being met with more capacity delivered through new Air Tractor topdressing planes that offer improved productivity and are part of the Co-operative's aircraft refurbishment programme.

At the 2018 Ballance Farm Environment Awards national showcase, we celebrated with another outstanding cohort of farmers and growers, who are leading the way in evolving farming practice in New Zealand.

WORKING TOGETHER

We have continued to work closely with the Dairy Women's Network, and through other partnerships, to create a strong fabric of collaboration in helping farmers be 'future ready'.

This includes regional investment, which was welcomed by the Mid-Canterbury community when we confirmed a \$3 million rebuild of the SealesWinslow plant in Ashburton after a major fire in December. This will deliver efficiencies – with robotic packing and bagging – and safety improvements, along with greater capacity to produce premium



New Zealand-made animal feed to meet demand for locally-made high-performing compound feeds.

Our higher sales volumes for the year also reflect SealesWinslow's improved competitive position. Profitability continues to improve, and we are generating and meeting higher demand for quality, locally blended animal nutrients – particularly as dairy farmers make the switch from palm kernel expeller (PKE).

Our strategy to be actively shaping our future, and responsive to changing pressures on farmers, means we are well-placed to meet farmers' growing preferences for smarter nutrients for the soil and higher quality feed for stock.

One of the beauties of being a Co-operative is that you can play the long game. 'Future ready' is about having the foresight to understand what it will take to keep our shareholders productive, profitable and sustainable.

Our people are a key part of that strength. The year ahead will see us rolling out our five-year workplace strategy. This is to provide a working environment that nurtures collaboration, innovation, productivity and – above all – taps the full potential of our team. We have also made a significant investment in mapping the capabilities of all our roles, so our people can align their energy and passion to their career aspirations, along with our strategic goals and market opportunities.

Within the Leadership Team, we have added further capability, with Dave Scullin joining as Chief Digital Officer and Jason Minkhorst appointed as General Manager Sales. Both of these roles are pivotal to our success in meeting the needs of our farmers in a digital and fast-changing competitive environment.

On our Board this year we have a first for our Co-operative, with two director vacancies arising in the North Island ward. Donna Smit has decided to stand down and Gray Baldwin is not seeking re-election. We owe a debt of gratitude to Gray Baldwin for his role in governance over the past nine years on the Board, and his contribution on the Leadership Team, as GM Sales & Marketing and GM Distribution & Logistics through a key period in the evolution of the business following the rebrand from BOP Fertiliser. He has had a very significant and positive influence, and always a big vision for our Co-operative. Thanks also to Donna who took the tough decision due to additional governance workload since being elected to the Fonterra Board in 2016, and to focus on growing industry and business commitments.

Ballance has always attracted strong candidates, and we are confident – with the deep pool of talent in rural New Zealand – this will offer an opportunity to reinforce the diversity of thought that is key to our Board composition and robust governance.

From our directors, to the team and our shareholders – it is our people who keep our Co-operative moving forward. At Ballance we always aim to do more, and by working together, we can make more of tomorrow than anyone would expect.

Thank you for a job well-done in 2018.

Investing in the future

\$39M

CAPITAL REINVESTMENT IN OUR OPERATIONS, INFORMATION TECHNOLOGY, AND ENVIRONMENTAL SYSTEMS

\$15M

INVESTMENT IN TECHNOLOGY AND DIGITISATION, INCLUDING MYBALLANCE

3,000

USERS REGISTERED FOR MYBALLANCE DIGITAL PLATFORM

Governance & leadership



DAVID PEACOCKE
CHAIRMAN, DIRECTOR NORTH ISLAND



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



ALBERT BRANTLEY
APPOINTED DIRECTOR



KIM ELLIS
APPOINTED DIRECTOR



SIMON ROBERTSON
APPOINTED DIRECTOR



MARK WYNNE
CHIEF EXECUTIVE



SHEENA HENDERSON
GM CUSTOMER EXPERIENCE & MARKETING



RICHARD HOPKINS
CHIEF FINANCIAL OFFICER



JOHN MAXWELL
GM OPERATIONS



JASON MINKHORST
GM SALES



DAVE SCULLIN
CHIEF DIGITAL OFFICER



EDITH SYKES
GM PEOPLE & CAPABILITY

Keeping

you

OUR FARMERS TELL US THEY WANT THEIR CO-OPERATIVE TO HELP THEM GET READY FOR THE FUTURE OF FARMING

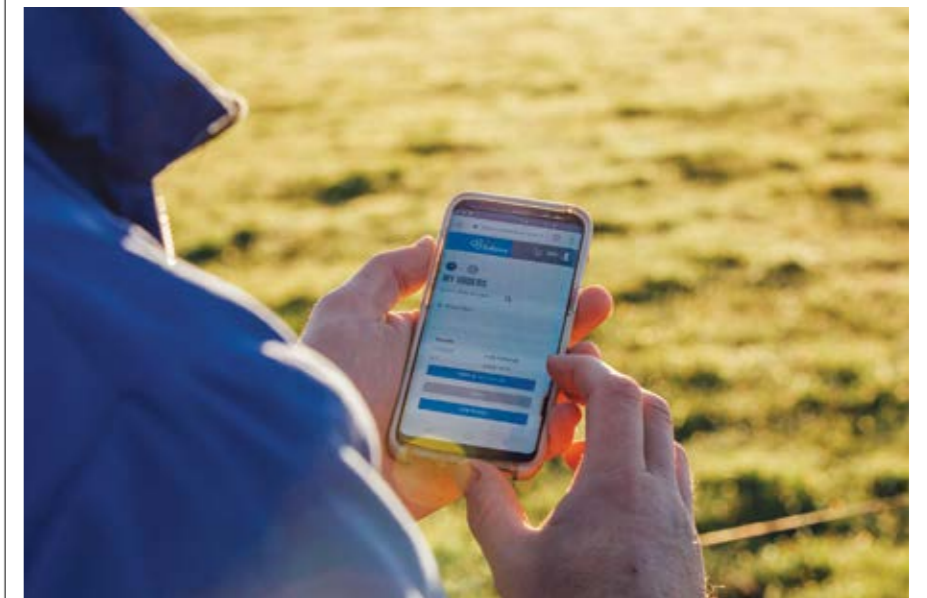
smiling

52,000

tonnes of product transacted through MyBallance, directly by farmers

*Sam Spencer-Bower,
Claxby Farms, Canterbury*

WE NOW HAVE MORE THAN 3,000 USERS REGISTERED FOR MYBALLANCE – WELL AHEAD OF EXPECTATIONS



We are always asking what customers want from us. Of course they want products they can trust and access when they need them – but, most of all, our farmers tell us they want their Co-operative to help them get ready for the future of farming.

We pay a lot of attention to what we are doing today, while also keeping an eye on the horizon so that if the landscape changes, we're there with the answers about how to keep farming sustainably and profitably.

ONLINE WITH MYBALLANCE

Our MyBallance online platform, launched this year, had orders in the system before its official launch. We saw that as a good sign that farmers were keen to adopt it and we were right. We now have more than 3,000 users registered – well ahead of expectations. Although MyBallance is used across all our sales channels, since launch 3,800 orders and 52,000 tonnes of product have been transacted directly on MyBallance by customers themselves. But taking orders 24/7 is only a fraction of its capabilities.

By leveraging world-class digital mapping capability and the collaboration with Precision Farming and TracMap, farmers can now notify a spreader, give them spreading instructions and see the proof of application, which shows where nutrients have been applied, to support environmental reporting.

MyBallance was inspired by farmer insights, and post-launch feedback has led to enhancements including soil test dashboards and an interactive fertiliser planning tool. This enables farmers to leverage the plan received from their Nutrient Specialist and add inputs from other suppliers, such as lime, dolomite or chicken manure. A new Paddock Diary app will allow farmers to enter other activities such as memory joggers, to “fix fence” or “service water trough”.

Another new tool, My Pasture Planner, is under development for rollout in the new financial year. This is based on our decision support software developed in conjunction with AgResearch to improve the efficiency of nitrogen use on pastoral farms. Farm Forecaster, developed with NIWA, will give farmers accurate and localised high-resolution



MyBallance won the 'Best Run Award' at the SAP Innovation Awards

forecasts via an app, allowing planning of work schedules and nutrient application decisions. Future collaborations like those with NIWA and Precision Farming will add more environmental, soil, land and sustainability data to the platform.

The MyBallance enhancements are all part of our commitment to making it easy for farmers, and will soon be matched by the rollout of SAP's latest Enterprise Resource Planning technology across our supply chain. This will enable improved inventory management, which is great for us, but even better for farmers who will be able to see product availability through MyBallance when they place orders.

ASSURED QUALITY

Fertiliser is a significant part of farm budgets, so our customers expect results. Our Quality Assurance Programme is about making sure we always live up to our promise.

OUR FOCUS IS ON HAVING SAFEGUARDS FOR QUALITY ALONG THE ENTIRE VALUE CHAIN

Our focus is on having safeguards for quality along the entire value chain. Some of the milestones we completed this year included vendors' pre-requirements and management, purchasing specifications and a pilot testing programme – all part of our product journey through the network.

Strengthened storage practices protect product integrity and are informed by a documented network handling practice. These ensure that our people know exactly what a product should look like in terms of colour or granule-size distribution, and can objectively identify any potential problems.

By making quality a point of pride for everyone, we will live by "right from me" ownership at every step. This includes tracking any non-conforming product, so we can build a picture of the cost of quality and the value of continuous improvement.

PRIDE IN PROCUREMENT

Customers want quality, along with a competitive price – and increasingly, more information about the inputs to their farm.

In sourcing raw materials, we take many considerations into account including the levels of naturally occurring heavy metals – such as cadmium in rocks – the sustainability of the supply and logistics to enable us to get reliable shipments to New Zealand ports and to our manufacturing sites. As part of our supply chain due diligence, we carried out visits this year to sources in Africa and Morocco looking at mining operations, along with environmental and community programmes.

Advice and support:
*Nutrient Specialist,
Selina Copland, with her
brother Thomas Copland
on the family property,
Highside Farms
Canterbury*



WE VISITED SOURCES IN AFRICA AND MOROCCO LOOKING AT MINING OPERATIONS, ALONG WITH ENVIRONMENTAL AND COMMUNITY PROGRAMMES.





Quality control:
 Bagging Team Leader,
 Matt Cranstoun, Awarua
 manufacturing site, Southland



Product distribution:
 Service Centre Manager,
 Robin Thomson, Ashburton
 Service Centre, Mid-Canterbury

Global supply and demand conditions were generally stable across the year and that has largely been reflected in prices for raw materials and imported finished products. Our plant at Kapuni continues to be a competitive advantage as the only source of locally-made urea – with a significantly lower transport footprint – while our primary superphosphate manufacturing sites at Mount Maunganui and Awarua ensure we can offer bespoke nutrients formulated for local conditions and farm system requirements.

RIGHT ADVICE

We strengthened our Farm Sustainability Services team again this year – with 16 specialist advisors around the country – to

FUTURE READY

16

Specialist farm sustainability specialists around the country

MITAGATOR® is designed to help farmers address the four major water contaminants

meet the burgeoning demand from our customers as they focus on 'farming within limits'

Farmers want to get ahead of the curve when it comes to better environmental practices. That's evident in demand for Farm Environment Plans and Nutrient Budgets. While some are prepared to support compliance on a reactive basis, demand for proactive plans is growing with farmers wanting to be 'future ready' so they can farm into the future with confidence.

During the year we launched our breakthrough decision support tool in MITAGATOR®, designed to help farmers address the four major water

contaminants – nitrogen, phosphorus, sediment and E. coli. The highly-visual software, linked to a quality farm map and OVERSEER® data is invaluable in demonstrating to farmers the impact of decisions around sustainability.

ADVOCATING FOR FARMERS

The value of Farm Environment Plans developed by our Farm Sustainability Services team has been reinforced by *The Good Farming Practice: Action Plan for Water Quality* announced during the year by primary sector groups, Regional Councils and the Ministry for the Environment and Ministry for Primary Industries (MPI).

FARM ENVIRONMENT PLANS PLAY A SIGNIFICANT ROLE IN HELPING FARMERS TO DELIVER ON THEIR SUSTAINABILITY GOALS

This initiative sets out practical measures farmers and growers can take, and also commits them to monitoring and reporting on progress. Our Co-operative supports the plan which is based on the good practice models available to farmers, encouraging the application of proven systems.

Farm Environment Plans play a significant role in helping farmers to deliver on their sustainability goals, using information based on each farm's local climate and soils, the type of farming operation, along with commercial objectives. Mapping *Critical Source Areas* highlights risks of sediment loss or nutrient run-off, and identifies the potential benefits from stock exclusion or tree planting.

Operating with conscience

A MAJOR INVESTMENT DURING THE FINANCIAL YEAR WAS AN \$8.3 MILLION UPGRADE AT OUR MOUNT MAUNGANUI SITE, ACHIEVING A LIFT IN PLANT PRODUCTIVITY ALONG WITH A 66% REDUCTION IN EMISSIONS INTENSITY

*Environmental improvement:
New SO₂ convertor, Mount
Maunganui manufacturing site,
Bay of Plenty*



the Marsden Point refinery, which is used in manufacturing superphosphate – and within our own operations, the harnessing of heat at our Mount Maunganui site to generate electricity, supplying the equivalent of 2,000 homes back into the National Grid.

A major investment during the financial year was an \$8.3 million upgrade of the SO₂ convertor at our Mount Maunganui site, achieving a lift in plant productivity along with a 66% reduction in emissions intensity – with the level now among the lowest of similar plants globally. This important contribution to improving air quality was welcomed by the Bay of Plenty Regional Council, and other local stakeholders who we work closely with, including representatives from the Whareroa Marae.

We have a zero-harm approach in all our operations, which extends beyond safety to our approach to the environment. So it was extremely disappointing to have a serious unauthorised discharge from our Mount Maunganui manufacturing plant in 2017 that affected several people – resulting in a court prosecution and fine of \$82,500 during the 2018 calendar year. We accept this incident should never have occurred and have taken action to prevent it happening again. This has included implementing improved communications practices across shifts and other additional safeguards, such as an automated shutdown. We continue to work on improving air quality around the plant and strengthening our safety and environmental culture.



As we work with farmers to help them be 'future ready', we are also conscious that we are providing a foundation for the production of foods and natural fibres that are valued around the world for their New Zealand provenance. Across our own operations, as part of our commitment to sustainable growth, we continue to invest in our manufacturing plants to improve our environmental performance to meet our own targets and the expectations of our operating communities.

BEST-PRACTICE OPERATIONS

Our major manufacturing sites are certified to both ISO9001 and ISO14001 – the world's most recognised framework – to help us better manage our impacts on the environment and to demonstrate sound practice. We use this international yardstick as an important measure of our operating sites at Kapuni, Awarua and Mount Maunganui.

We are proud of our use of waste streams from other industries – such as sulphur from

ENVIRONMENTAL INNOVATION

The formal launch of MITAGATOR® was a major milestone, reflecting more than a decade of development work and joint investment with the Ministry for Primary Industries through the Primary Growth Partnership (PGP). This will enable farmers to significantly reduce contaminant losses that impact water quality. Based on 30 years of the very best independent science, and tailored to every farm, this tool encourages innovation and gives farmers options – mapping hot-spots for

OUTPUTS FROM THE PRIMARY GROWTH PARTNERSHIP WILL DELIVER TANGIBLE ENVIRONMENTAL GAINS AND ONGOING MONETARY VALUE TO THE NEW ZEALAND PRIMARY SECTOR

*Environmental stewardship:
Farm Sustainability Services Manager,
Claire Bekhuis with Rick Burke,
Pukekauri Farms, Bay of Plenty*

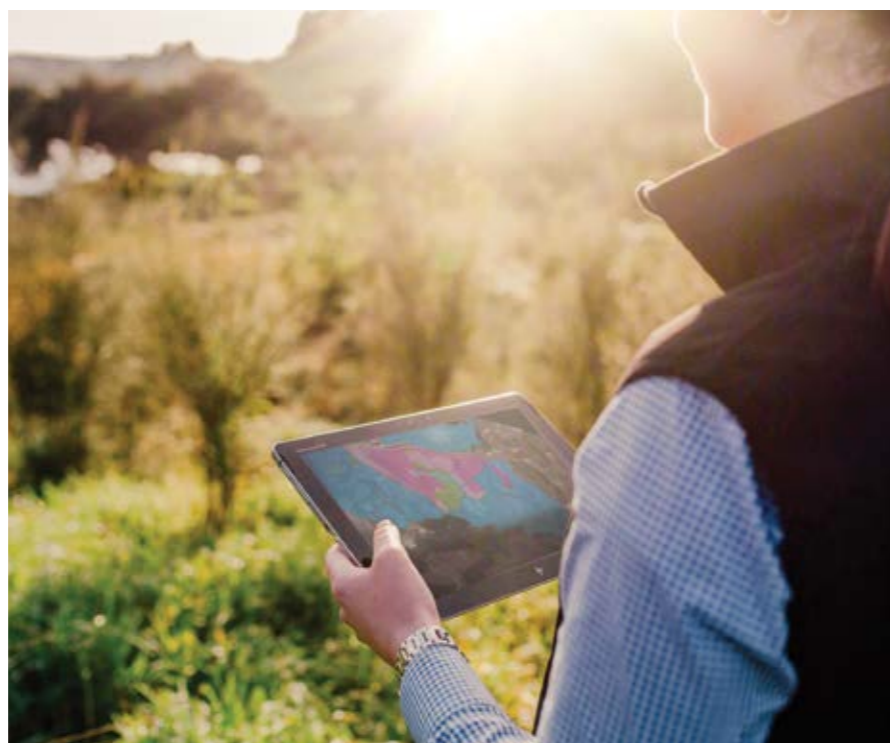
the four key water contaminants – nitrogen, phosphorus, sediment and *E. coli*.

MITAGATOR® takes the guesswork out of 'farming within limits' – showing where the real risks are and where farmers can make the biggest environmental impact for every dollar they invest. Available to farmers through our Farm Sustainability Services team, with the risk map functionality and scenario analysis, it will help deliver a new standard in Farm Environment Plans.

This is one example of the suite of environmentally-focused innovations developed through our \$19.5 million Clearview research programme supported by the Primary Growth Partnership.

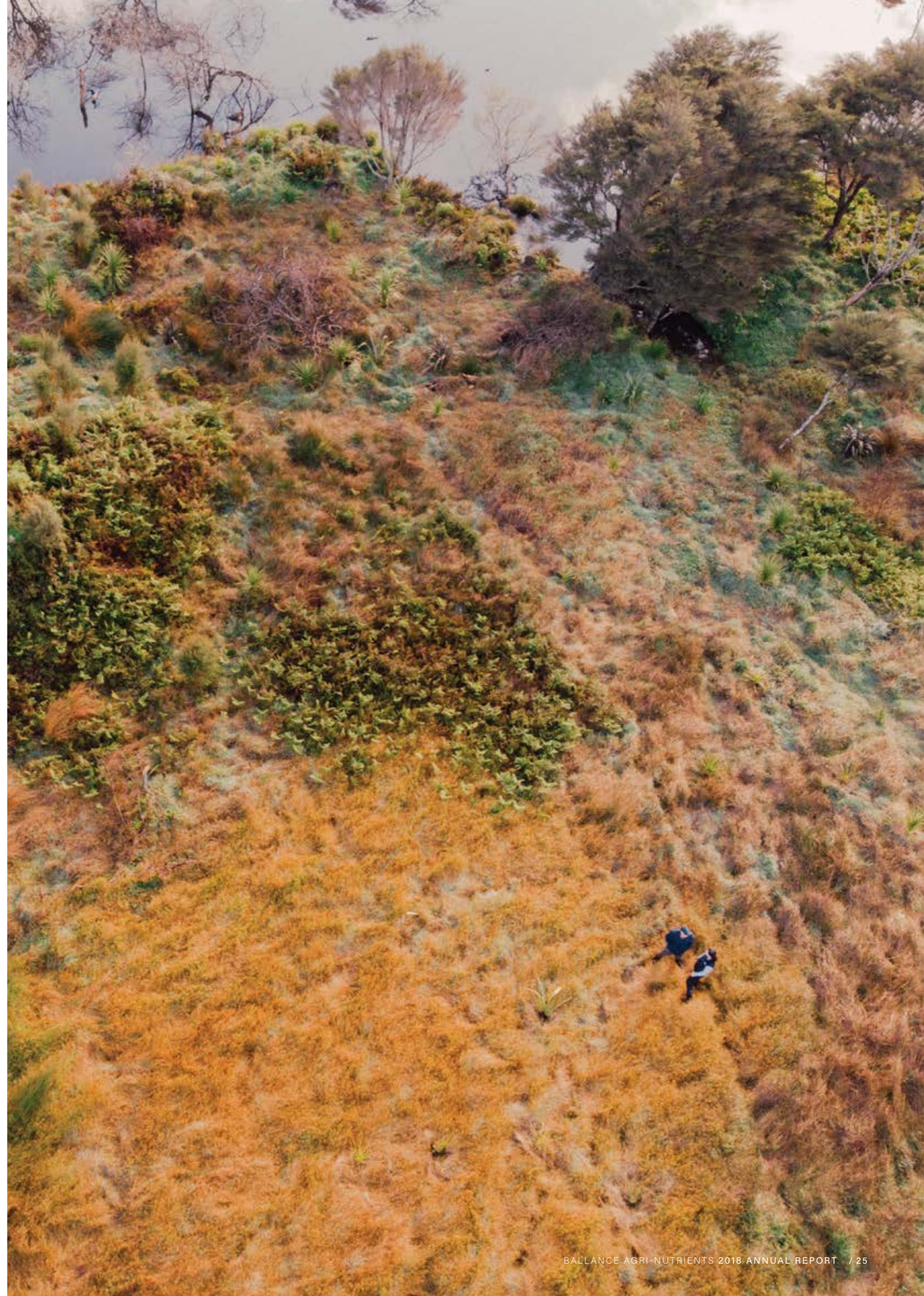
The original goals of the programme were to increase the efficiency of nitrogen and phosphorus fertiliser use in pastoral systems, delivering better environmental outcomes, while continuing to support farm productivity and profitability. An extension component was included to ensure rapid transfer of environmental and economic gains to farm management practices.

The research has so far delivered three of our commercialised products, MITAGATOR®, N-GURU® and SPREADSMART®. N-GURU® is a decision support model software which accurately predicts pasture responses to nitrogen. SPREADSMART® uses GPS and a digital farm map to precisely place fertiliser on farms, avoiding sensitive areas.



MITAGATOR® TAKES THE GUESSWORK OUT OF 'FARMING WITHIN LIMITS'

These technologies support optimal land-use choices, New Zealand farmers' licence to operate and the international competitiveness of our producers on the global stage. Collectively these outputs from PGP will deliver tangible environmental gains and ongoing monetary value to the New Zealand primary sector. With a review of this Government funding currently underway, we are pleased to be able to demonstrate the fruits of this research and development partnership for the benefit of farmers and the country.



WE TAKE TREMENDOUS PRIDE IN OUR INVOLVEMENT IN COLLABORATIVE RESEARCH PROGRAMMES THAT BRING NEW SCIENCE AND TOOLS TO OUR FARMERS

We have an ongoing focus on nitrogen and phosphorus, to enable productive and sustainable farming, reducing the risk of nutrient losses to waterways, as well as minimising greenhouse gas emissions. This includes better formulations of products, more accurate placement, and new-generation nitrification inhibitors targeting ruminant-excreted nitrogen in pasture.

Through our *Best Partner* programme, we are constantly looking beyond New Zealand for innovations globally that can be rapidly proven under New Zealand conditions for adoption on our customers' farms.

An example is the stabiliser AGROTAIN® used in our market-leading 'smart' nitrogen product, SUSTAIN® that reduces losses from volatilisation. This uses the world's most research-proven urease inhibitor technology to leave more nitrogen in the soil for plant uptake and growth. Developed globally by the US company Koch, it has been very rigorously tested in New Zealand, giving us a trusted product increasingly being used by farmers wanting to produce more with a smaller environmental footprint.

SUSTAINABLE SOURCING

Our approach to sourcing is led by the needs of our farmers. Alongside our work with a range of leading global nutrient suppliers to accelerate our own science innovation and manufacturing, we actively engage with suppliers of raw materials and finished product to satisfy ourselves that these are the very best ingredients for farming in New Zealand, sourced from trusted suppliers around the world.

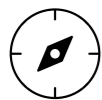
A legal claim over the past year relating to a phosphate shipment, destined to Ballance from Western Sahara, was a reminder of some of the larger geo-political risks and the vital importance

of the due diligence that we apply – including visiting suppliers regularly and reviewing their operations.

In addition to visits to sourcing markets during the year we hosted our key phosphate supplier, OCP Group, in New Zealand for meetings with local stakeholders. We have been working with them for around 30 years and remain satisfied with the integrity of this source, their operations and the broader contribution the Phosphocraa Foundation makes to economic and community development, education and local environmental initiatives.

The vast natural reserves of sedimentary phosphate rock in Western Sahara offer a raw material ideally-suited to manufacturing fertiliser for New Zealand farming. Importantly, this rock has low levels of cadmium compared with other sources. This is a key consideration for food production given the Ministry for Primary Industries' proactive cadmium management strategy. Ballance has one of the foremost experts in this area, and is part of a working group formed by MPI to ensure that the risk of cadmium in rural soils remains well-managed with regard to health, trade, land-use flexibility and the environment. The strategy includes a combination of governance, research, monitoring and management activity.

We take tremendous pride in our involvement in this collaborative work and research programmes such as the Primary Growth Partnership that bring new science and tools to our farmers, and every year in showcasing the very best farming practice through the Ballance Farm Environmental Awards. This year's national winners organic kiwifruit growers, Catriona and Mark White from Opotiki, are a fantastic example of kaitiakitanga and how sustainability and profitability go hand-in-hand.



SPREADSMART® USES GPS AND A DIGITAL FARM MAP TO PRECISELY PLACE FERTILISER ON FARMS, AVOIDING SENSITIVE AREAS SUCH AS BUSH AND WATERWAYS.



THE BALLANCE FARM ENVIRONMENT AWARDS SHOWCASE THE VERY BEST IN FARMING PRACTICE.

Leadership:
Ballance Farm Environment Awards judge, Warwick Catto with 2018 BFEA national winners Catriona and Mark White, Coastal Kiwis, Bay of Plenty





Our heritage and strength as a Co-operative has come from working together for a common good. That continues today as we partner with our farmers and others who share our commitment to a sustainable future – creating a taonga for our country and generations to come.

OUR RELATIONSHIPS PROVIDE OPPORTUNITIES TO WORK TOGETHER TO BALANCE OUR ECONOMIC USE, WITH CULTURAL INTEGRITY, AND OTHER POSITIVE LONG-TERM OUTCOMES

REGIONAL PROSPERITY

Across our 18,957 shareholders we share a goal of sustainable growth, while contributing directly to local communities, environmental enhancement projects and helping achieve positive outcomes well beyond our business.

As a farmer-owned company, our shareholders collectively have equity of nearly \$440 million in their Co-operative. This year the rebate payment of 81% of our pre-tax profit – represents a boost of more than \$56 million in total, and between \$4 million and \$9 million to individual rural regions.

Direct employment is another significant positive impact of our New Zealand-based manufacturing operations in Mount Maunganui, Awarua and Kapuni, stock-feed mills at Morrinsville, Whanganui and Ashburton and our network of 48 Hub Stores and Service Centres. Each year we pay more than \$70 million in wages and superannuation contributions.

We work closely with our rural merchant partners and through other commercial relationships such as with Hill Laboratories, universities, AgResearch and NIWA. And we have an extensive network of suppliers and local contractors for our maintenance programmes, as well as our site upgrades and investment in our network. Much of what we spend on developing our network goes into local communities, and this investment will rise in the next financial year with a substantially larger re-investment programme planned. That includes maintenance and refurbishment at Kapuni, which requires around 500 people on site, and about 100,000 work hours.

In our operating communities, we also work closely with our neighbours – such as Whareroa Marae near our Mount Maunganui site. We maintain a close interest in the health of the harbour together with the Tauranga Moana Iwi – Ngāti Ranginui, Ngāi Te Rangi and Ngāti Pūkenga. These relationships provide opportunities to work together to balance our economic use, with cultural integrity, and other positive long-term outcomes.

GREAT PEOPLE

We also invest in providing a great working environment and career opportunities for our people. Our efforts were recognised this year with a *Most Improved Enterprise Workplace* win in the annual

Stronger together





Community relationships:
 Mount Maunganui Service
 Centre Manager,
 Daryl Richardson with
 Whareroa Marae Chairman,
 Manea Ngatai, Whareroa
 Marae, Bay of Plenty



Career pathways:
 ETCO Electrical Apprentice,
 Hayden McClymont,
 Awarua manufacturing site,
 Southland

IBM Kenexa Best Workplace Awards. We build on this with our own Great People Awards – with the winners embodying the most important ingredients in our success in FY2018 – leadership, caring, community conscience, customer-focus, innovation, excellence and working together.

‘Working together’ is also key to our sponsorships, which are hugely important in helping to grow and foster our relationships in key sectors. Our sponsorship programme is focused on supporting local and regional initiatives, together with national programmes with the Dairy Women’s Network and as the principal sponsor of the premier farm sustainability awards through the New Zealand Farm Environment Trust. The Ballance Farm Environment Awards are run across

WORKING TOGETHER

\$440M

*Equity held by our shareholders
 in their Co-operative*

\$70M

*Annual payments of wages
 and superannuation*

11 regions, with the national event showcasing the exemplars of productive and sustainable farming practice.

This community support is also a source of pride that shows through in our employee engagement surveys, which this year had a record participation rate of 94%, and an improved overall engagement score of 82%. Employees also rate us as a successful company, for caring about wellbeing and for the enjoyment our people get from their roles at Ballance.

Our people are our best advocates in our communities. Production Manager at Awarua, Chris Kennett, is a great example – promoting careers with Ballance through his involvement with Venture Southland’s programme *Youth Futures*.

This has helped attract several apprentices and cadets to the Ballance family in Southland, including Hayden McClymont, who joined the Awarua team as an ETCO electrical apprentice.

We are proactive in encouraging young people to consider the diverse range of career opportunities available in the primary sector. Each year we award about \$50,000 in scholarships to students undertaking courses in relevant disciplines, including science, engineering, law and international business. Our tertiary scholarships help ensure New Zealand’s agricultural future is in good hands.

FEEDING FARMING GROWTH

Our animal feed business, SealesWinslow, is also investing to support the sustainable

growth of the primary sector as New Zealand’s economic engine. Our customers not only demand higher quantities of our premium New Zealand products, they also expect them to be sustainable, traceable-to-source through our supply chain, and increasingly non-GMO.

Our feed mills in Ashburton, Morrinsville and Whanganui are FeedSafeNZ quality accredited and we work closely with the dairy companies who collect our customers’ milk – with our fully New Zealand-made feed range helping them respond to growing consumer scrutiny about how food is produced.

SealesWinslow maximises New Zealand farmers’ pasture-first advantage, with supplements to achieve maximum feed conversion efficiency

and production without displacing any grass or forage in feeding regimes.

Demand for quality grain-based feeds is increasing with the focus on production, while beginning to reduce stocking rates and limiting the use of environmentally unsustainable feeds, or supplements that change milk composition.

To meet increasing customer demand, SealesWinslow has invested to increase our manufacturing capacity in all three plants, including our \$3 million rebuild of our fire damaged Ashburton plant. Being a Co-operative, community is at the heart of what we do with our stock-feed mills based in the regions, creating about 100 jobs and being a major buyer of local grains and other materials.



**OUR FULLY NEW ZEALAND-MADE
FEED RANGE IS HELPING FARMERS RESPOND
TO GROWING CONSUMER SCRUTINY
ABOUT HOW FOOD IS PRODUCED**



Local sourcing and employment

Caring

about

each other

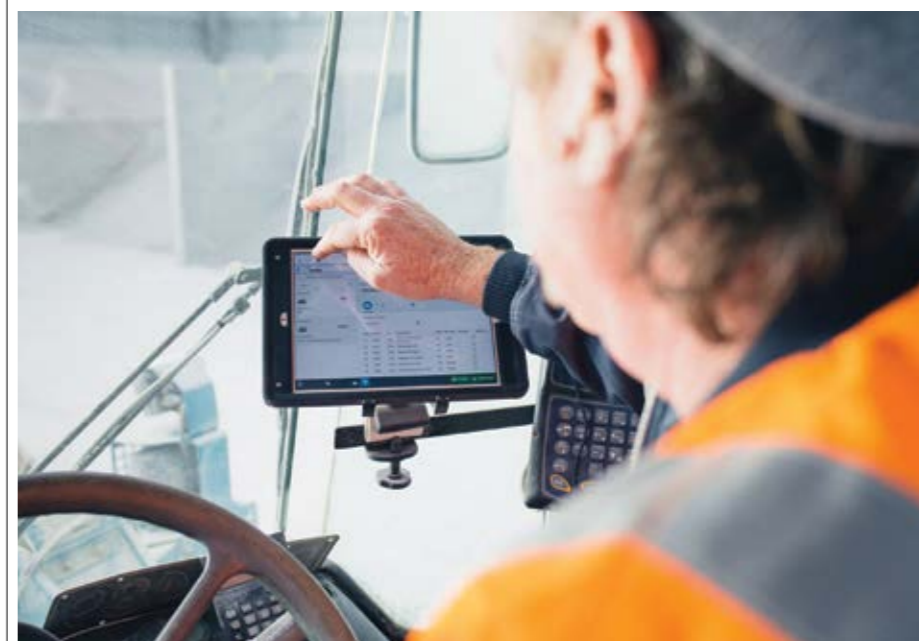


Super Air Pilot,
Lindsay Cameron,
Waikato

WE ARE PUTTING EVEN MORE FOCUS AND RESOURCES INTO BUILDING A STRONG CULTURE OF CARE AND OWNERSHIP, WITH SYSTEMS AND TOOLS THAT ENSURE BALLANCE IS A SAFE AND HEALTHY PLACE TO WORK



OUR NEW MOBILE APP GIVES LOADER DRIVERS A DIGITAL 'SHOPPING CART' AT THEIR FINGERTIPS, STREAMLINING FERTILISER COLLECTION WHILE IMPROVING SAFETY



Our key safety measure presented us with a confronting picture for the year, and a challenge for the future. The Total Recordable Injury Frequency Rate (TRIFR) was 18 per million hours worked, a very disappointing setback compared with last year when we achieved a reduction from 23 to 12. Our goal was to build on this and achieve a further reduction to eight, but we missed this significantly, injuring 30 people, including several contractors.

This is unacceptable, and we are putting even more focus and resources into building a strong culture of care and ownership, with systems and tools that ensure Ballance is a safe and healthy place to work.

Changing how we think about safety and wellbeing is hard. Truly owning, and instilling safety in our culture is even tougher – in everything we do, every day, from one end of New Zealand to the other.

STEPPING-UP ON SAFETY

Hard does not mean can't, and by developing our own tailored safety and wellbeing programme, we are engaging our people in a new way.

The early results of our C.O.W.S (Care, Ownership Wellbeing and Safety) workshops show we are capturing hearts and minds – creating a culture of genuine care at Ballance, based on the simple premise that people naturally want to look out for one another.



In practice that starts with putting all of our people through a two-day programme in which they tap into what genuine care looks like and how to put it into practice. This can range from pointing out a risk or showing how a task should be done safely, to checking in on someone's welfare. The strength of C.O.W.S is that it makes caring personal and brings it right into the workplace. This programme is challenging all our people to personally care about the safety and the wellbeing of others.

We have developed a standards-based approach to policies and process to ensure ownership and consistency in the way we operate, regardless of location. We have also strengthened the tools we have in our database

THE HANDLING OF RAW MATERIALS AND FINISHED PRODUCTS IS AN AREA OF CONSTANT VIGILANCE WITH REGARD TO PROTECTING OUR PEOPLE

designed to capture incidents. While recording was taking place previously, our database was not fully-visible across the business, making information difficult to access. We now have a new risk-based system, MySafety, providing real-time data to our frontline people, so that they can use the information to manage incidents and actions, identify trends and apply targeted interventions.

This is helping us to better identify and manage risk, report incidents and strengthen our safety approach across the business. We see it as critical to bringing safety to the forefront of our behaviours every day.

Together with our focus on high-consequence events, our TRIFR results this year show it has

been a bad year for trips, slips and falls – some causing fractures. This was a reminder that while we are preventing some, we are missing others that can be serious. We are focusing on reminding people about all risk areas, and ensuring we have good reporting so that we can address potential causes of harm.

The handling of raw materials and finished products is another area of constant vigilance with regard to protecting our people.

SPREADING GOOD YARNS

Knowing the pressure on rural families, and with growing concern about depression and suicide rates among farmers, we have been extending our thinking of wellbeing beyond our own people to include our farmers.

\$140K

GREEN CROSS BUDGET AVAILABLE FOR COMMUNITY CAUSES

Many of our frontline sales and science advisory teams are out on farms every day. Through DairyNZ's *GoodYarn* workshops they are now better equipped to recognise in farmers any signs of stress or mental health concerns. These workshops equip our people to talk openly and effectively and to identify support options.

GREEN CROSSES

On the positive side, our *Safety Cross* system is effectively ensuring both our people, contractors and visitors can see at-a-glance the performance of each business site. This is a great example of a programme that was initiated at our Kapuni site and has now been adopted across the business.

**SPREADSMART® AUTOMATES THE MOST COMPLEX,
AND POTENTIALLY DANGEROUS, PART OF TOPDRESSING**



**WE ARE CREATING
A CULTURE OF
GENUINE CARE
AT BALLANCE,
BASED ON THE
SIMPLE PREMISE
THAT PEOPLE
NATURALLY WANT
TO LOOK OUT FOR
ONE ANOTHER**



Safety culture:
Nutrient Specialist,
Amy Tomsett, speaks at
one of our safety culture
workshops, Bay of Plenty

Each site has a series of site-specific Key Performance Indicators (KPI), primarily focused on lead indicators. The *Safety Cross* results are reported to the Ballance Board each month. The idea is an all-green “objectives achieved” *Safety Cross* showing every month.

Performance is incentivised by enabling sites to donate to local charities in celebration of safety wins. Our Kapuni site has already donated \$25,000 to 11 charities, and throughout the business a potential \$140,000 is available to donate to community causes if site safety targets are met.

FLYING SMARTER

Progressive upgrading of Super Air’s fleet from the older Fletcher aircraft to new Air Tractors is delivering both safety and productivity advantages. While the upgrade is reducing the fleet by five, to 12, the Air Tractors are more

efficient, have greater capacity and will be fitted with SPREADSMART® technology.

SPREADSMART® combines GPS guidance and tracking systems with computerised farm mapping to automate the most complex, and potentially dangerous, part of aerial topdressing – opening and closing the fertiliser hopper at the right time, in the right place. Being fully-automated, it allows our pilots to focus on handling the aircraft, while the technology ensures the exact amount of fertiliser is precisely placed. Aerial spreading also offers advantages over ground spreading, especially in spring when pastures can still be soft underfoot. With computerised farm mapping becoming more common, demand for Super Air’s services is increasing, along with precise placement using SPREADSMART®.





Making the numbers

FINANCIAL STATEMENTS AND NOTES

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Consolidated Income Statement

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

	NOTE	GROUP 2018 \$000	GROUP 2017 \$000
Revenue	2	825,809	804,560
Cost of sales		(614,149)	(607,919)
Gross profit		211,660	196,641
Other operating income	2	19,799	4,654
Sales, marketing and distribution expenses		(104,335)	(93,171)
Administrative expenses		(51,159)	(49,298)
Other operating expenses	3	(4,626)	(1,971)
		(140,321)	(139,786)
Gross trading result		71,339	56,855
Net financing costs	6	(1,872)	(2,118)
Revamp urea plant project costs	7	-	(3,834)
Profit before rebate, tax and equity accounted income		69,467	50,903
Rebates to shareholders	8	(56,819)	(54,161)
Profit / (loss) before tax and equity accounted income		12,648	(3,258)
Share of (loss) / profit from equity accounted investments	14(b)	(4)	4
Profit / (loss) before tax		12,644	(3,254)
Income tax (expense) / benefit	9	(3,455)	462
Profit / (loss) for the year		9,189	(2,792)

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 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

	NOTE	2018 \$000	2017 \$000
Profit / (loss) for the year		9,189	(2,792)
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		3,743	(17,042)
Amount removed from equity, in relation to cash flow hedges, and included in initial cost of inventory on hand during the period		2,572	17,725
Income tax on items recognised directly in other comprehensive income	9	(1,768)	(191)
Other comprehensive income, net of income tax		4,547	492
Total comprehensive income for the year		13,736	(2,300)

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 2018, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

	FULLY PAID ORDINARY SHARES \$000	SHARE ALLOTMENT RESERVE \$000	HEDGING RESERVE \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000	
	NOTE	23(a)	23(b)	23(b)		
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
Balance at 1 June 2017		176,535	18,774	(1,069)	220,370	414,610
Profit for the year		-	-	-	9,189	9,189
Net change in the fair value of cash flow hedges		-	-	6,315	-	6,315
Income tax relating to components of other comprehensive income		-	-	(1,768)	-	(1,768)
Other comprehensive income for the year, net of tax		-	-	4,547	-	4,547
Shares issued		155	-	-	-	155
Shares provided / issued in lieu of rebate		18,878	(1,552)	-	-	17,326
Shares repurchased		(8,724)	-	-	-	(8,724)
Total transactions with owners		10,309	(1,552)	-	-	8,757
Balance at 31 May 2018		186,844	17,222	3,478	229,559	437,103

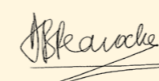
The accompanying Notes form part of and should be read in conjunction with these Financial Statements

Consolidated Balance Sheet

AS AT 31 MAY 2018, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

	NOTES	2018 \$000	2017 \$000
Shareholders' equity			
Paid-in capital		186,844	176,535
Retained earnings and other reserves		250,259	238,075
Total equity		437,103	414,610
Current liabilities			
Trade and other payables	18	81,681	78,161
Derivative liabilities		355	2,397
Rebate payable	8	39,425	35,373
Provisions	20	4,781	500
Income tax payable		5,852	-
Total current liabilities		132,094	116,431
Non-current liabilities			
Provisions	20	5,473	1,217
Total non-current liabilities		5,473	1,217
Total liabilities		137,567	117,648
Total equity and liabilities		574,670	532,258
Current assets			
Cash and cash equivalents		15,234	24,477
Trade and other receivables	11	99,978	87,892
Inventories	12	166,073	139,761
Derivative assets		6,122	1,053
Assets held for sale	13	323	-
Income tax receivable		-	3,689
Total current assets		287,730	256,872
Non-current assets			
Investments in equity accounted investees	14	128	132
Loan to equity accounted investees		275	-
Deferred tax assets	10	4,987	3,706
Property, plant and equipment	15	242,855	245,415
Intangible assets	17	38,695	26,133
Total non-current assets		286,940	275,386
Total assets		574,670	532,258

For and on behalf of Board of Directors:



DE Peacocke
Director
25 July 2018



SD Robertson
Director
25 July 2018

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 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

	NOTE	2018 \$000	2017 \$000
Cash flows from operating activities			
Cash receipts from customers		817,174	784,281
Cash paid to suppliers and employees		(751,227)	(677,763)
Interest received		396	365
Dividends received		10	21
Insurance proceeds		5,000	-
Government grants		1,429	827
Rebate to shareholders		(54,319)	(30,231)
Less shares issued in lieu of rebate		18,879	10,531
Net rebate paid		(35,440)	(19,700)
Interest paid		(2,154)	(2,396)
Income tax received / (paid)		3,040	(2,495)
Net cash flow from operating activities	21	38,228	83,140
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		510	349
Acquisition of property, plant and equipment and intangibles		(38,946)	(35,724)
Net cash flow from investing activities		(38,436)	(35,375)
Cash flows from financing activities			
Proceeds from issue of co-operative shares		155	81
Repurchase of surrendered shares		(8,915)	(8,304)
Net drawdown / (repayment) of borrowings		-	(24,000)
Loan to equity accounted investees		(275)	-
Net cash flow from financing activities		(9,035)	(32,223)
Net movement in cash and cash equivalents		(9,243)	15,542
Cash and cash equivalents at 1 June		24,477	8,935
Cash and cash equivalents at 31 May		15,234	24,477

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 2018. 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 2018 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 25 July 2018.

b) Use of estimates and judgements

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

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

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

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

- **Note 2** – Revenue and Other Operating Income
- **Note 15** – Useful life of property, plant and equipment
- **Note 17** – Intangible assets
- **Note 20** – Provisions
- **Note 23** – Capital and reserves (treatment of puttable instruments)
- **Note 24** – Financial instruments

c) New standards and interpretations

A number of new or revised standards are not yet effective for the year ended 31 May 2018, 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 is yet to fully complete its assessment of the impact of these standards on future financial statements and other than NZ IFRS 16 – Leases, they are not expected to have a significant impact.

2. REVENUE AND OTHER OPERATING INCOME

	2018 \$000	2017 \$000
Sale of goods	814,549	794,976
Services provided	11,260	9,584
Total revenue	825,809	804,560
Other operating income		
Net gain on disposal of property, plant and equipment	730	-
Other dividend income	10	21
Government grants including NZ ETS credits	6,665	4,193
Insurance claims	11,960	-
Other	434	440
	19,799	4,654

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

2. REVENUE AND OTHER OPERATING INCOME (CONTINUED)

Insurance claims includes recoveries relating to the claim at the ammonia urea plant and the claim for the fire at the animal feed plant in Ashburton. The total amount outstanding for insurance recoveries is \$9m. This is recorded within Trade and other receivables (note 11).

In the 2016 year the ammonia urea plant experienced reduced production due to damage to a catalyst vessel. An insurance claim for \$12.1m has been submitted to insurers. There are elements of the claim that are not yet agreed and a recovery of \$9m has been provided in the financial statements, \$5m of which was received during the year and \$4m is included within trade and other receivables. Further recovery is possible but not certain.

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.

Insurance claim recoveries are recognised when received or when receipt is highly probable. Recovery is considered to be highly probable when there is a loss event which can be claimed under an insurance contract held and the amount which will be recovered can be estimated reliably and is not disputed.

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

3. OTHER OPERATING EXPENSES

	2018 \$000	2017 \$000
Net loss on disposal of property, plant and equipment	-	76
Research and development expense	4,574	1,880
Donations	13	2
Other	39	13
	4,626	1,971

4. PERSONNEL EXPENSES

	NOTE	2018 \$000	2017 \$000
Wages and salaries		75,877	68,813
Contributions to defined contribution superannuation plans		4,408	3,966
Increase / (decrease) in liability for long-service leave	20	(44)	(62)
		80,241	72,717

5. AUDITORS' REMUNERATION

	2018 \$000	2017 \$000
Audit services		
Audit of financial statements	135	138
Other audit related fees	5	18
Other services		
Taxation services - compliance	31	23
Taxation services - advice	49	134
	220	313

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

6. FINANCING INCOME AND EXPENSE

	2018 \$000	2017 \$000
Financing income		
Interest from bank	396	365
Financing expense		
Interest paid to banks	2,154	2,396
Other financial expenses	114	87
	2,268	2,483
Financing costs (net)	1,872	2,118

Policy

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

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

7. REVAMP COSTS

	2018 \$000	2017 \$000
Revamp Urea Plant project costs	-	3,834

In August 2016 a joint development agreement (JDA) commenced with a potential partner for the plant revamp. Following a robust process in the prior year the Board concluded that the likelihood of the revamp occurring was low, therefore the JDA project costs amounting to \$3.834m had been expensed to profit and loss.

8. REBATE AND DIVIDENDS

	2018 \$000	2017 \$000
Rebate provided for current year	56,650	54,150
Rebate for the prior year under provided and recognised in the current year	169	11
	56,819	54,161
Balance Sheet:		
Rebate provided for the current year	56,650	54,150
Less rebate allocated to the share allotment reserve	(17,225)	(18,777)
	39,425	35,373

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 23a) 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 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

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

	2018 \$000	2017 \$000
Profit / (Loss) before tax	12,644	(3,254)
Income tax using the domestic company tax rate – 28% (2017: 28%)	3,540	(911)
Increase / (decrease) in income tax expense due to:		
Non-deductible expenses	344	1,161
Tax exempt revenues	(1,102)	(848)
Tax losses not previously recognised	(186)	-
Adjustments for prior years	(89)	-
Other	948	136
Income tax expense / (benefit) in income statement	3,455	(462)
Comprising:		
Current tax	6,504	1,286
Deferred tax	(3,049)	(1,748)
Income tax recognised directly in other comprehensive income		
Derivatives	1,768	191
	2018 \$000	2017 \$000
Imputation credits		
The imputation credits are available to shareholders of the parent company:		
through the parent company	113,409	117,777
through subsidiaries	1,743	1,743
	115,152	119,520

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.

10. DEFERRED TAX ASSET

	PPE AND INTANGIBLES \$000	PROVISIONS AND ACCRUALS \$000	HEDGE RESERVE \$000	OTHER \$000	TOTAL \$000
Balance at 1 June 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
Recognised in profit or loss	1,410	125	-	1,514	3,049
Recognised in other comprehensive income	-	-	(1,768)	-	(1,768)
Balance at 31 May 2018	(1,096)	4,280	(1,353)	3,156	4,987

Included within Other is the tax value of losses carried forward of \$0.698m (2017: \$0.698m).

Policy

Deferred tax is:

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

11. TRADE AND OTHER RECEIVABLES

	2018 \$000	2017 \$000
Current		
Trade and other receivables	95,905	83,671
Prepayments	4,073	4,221
	99,978	87,892
Trade and other receivables status		
Not past due	94,868	82,644
past due 0 – 30 days	632	406
past due 31 – 120 days	128	309
past due > 120 days	277	312
Total	95,905	83,671

Policy

Trade and other receivables are stated at their cost less impairment losses and are classified as loans and receivables in note 24e).

Impairment

Trade receivables allowance for impairment is nil (2017: nil). A provision for impairment is recognised when there is objective evidence that the Group will be unable to collect amounts due.

12. INVENTORIES

	2018 \$000	2017 \$000
Manufactured and finished products	98,982	97,905
Raw materials	20,786	16,710
	119,768	114,615
Goods in transit	33,381	13,308
Packaging	4,376	4,523
Spares and stores	8,548	7,315
	166,073	139,761

In 2018 the write-down of inventories to net realisable value amounted to nil (2017: \$1.2m).

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.

13 ASSETS HELD FOR SALE

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

At 31 May 2018 the disposal group comprised the following assets:

	NOTE	2018 \$000	2017 \$000
Property, plant and equipment	15	323	-

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2018, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

14. INVESTMENTS

The Company has the following investments:

a) Subsidiaries

	PRINCIPAL ACTIVITY	2018 BALANCE DATE	INTEREST	2017 BALANCE DATE	INTEREST
Ballance Agri-Nutrients (Kapuni) Limited	Urea manufacture	31 May	100%	31 May	100%
Super Air Limited	Agricultural aviation	31 May	100%	31 May	100%
Ag Hub Limited	Farm technology	31 May	100%	31 May	100%
Seales Winslow Limited	Animal feed and nutrition	31 May	100%	31 May	100%

Policy

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

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

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

All subsidiaries are incorporated in New Zealand.

b) Equity accounted investees

	PRINCIPAL ACTIVITY	2018 BALANCE DATE	INTEREST	2017 BALANCE DATE	INTEREST
NZ Phosphate Company Limited	Research	30 June	50%	30 June	50%
EnCoate Holdings Limited	Research and development	30 June	50%	30 June	50%

Policy

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

Investments in associates are reported in the financial statements using the equity method. All associates are incorporated in New Zealand.

15. PROPERTY, PLANT AND EQUIPMENT (PPE)

	NOTE	LAND AND IMPROVE- MENTS	BUILDINGS	PLANT, EQUIPMENT AND AIRCRAFT	UNDER CONSTRUC- TION	TOTAL
Carrying value 1 June 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)
Acquisitions / (transfers)		827	6,133	16,075	4,704	27,739
Depreciation expense		(479)	(4,236)	(23,130)	-	(27,845)
Disposals – cost		(151)	(2,190)	(3,030)	-	(5,371)
Disposals – accumulated depreciation		61	722	2,457	-	3,240
Reclassification to assets held for sale	13	-	-	(323)	-	(323)
Carrying value 31 May 2018		47,814	52,562	124,490	17,989	242,855
Cost		54,016	113,195	353,605	17,989	538,805
Accumulated depreciation		(6,202)	(60,633)	(229,115)	-	(295,950)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2018, BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

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

Due to a decision not to proceed with the revamp project the Directors have re-assessed the economic life of the ammonia urea plant and have extended the expected life of the plant to February 2030 in the current financial year. The effect of this change in the current year has been to decrease depreciation expense by \$8.0m.

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

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

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 \$5.998 million for the group (2017: \$9.117 million).

16. OPERATING LEASES

	2018 \$000	2017 \$000
Leases as lessee		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	8,176	6,208
Between one and five years	20,901	25,071
After five years	14,674	7,783
	43,751	39,062
Operating lease expense recognised	9,198	8,243

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 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

17. INTANGIBLE ASSETS

	EMISSIONS TRADING SCHEME \$000	PATENTS AND TRADEMARKS \$000	SOFTWARE \$000	TECHNOLOGY SYSTEMS AND LICENCES \$000	TOTAL \$000
Carrying value 1 June 2016	4,152	38	12,728	98	17,016
Cost	4,152	38	45,953	7,242	57,385
Accumulated amortisation	-	-	(33,225)	(7,144)	(40,369)
Acquisitions	-	2	9,221	19	9,242
Movement in development costs	-	-	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	26,133
Cost	7,146	40	56,424	3,425	67,035
Accumulated amortisation	-	-	(37,498)	(3,404)	(40,902)
Acquisitions	-	-	15,430	-	15,430
Movement in development costs	-	-	(4,223)	-	(4,223)
Grant – net allocation of emissions trading scheme credits	5,987	-	-	-	5,987
Amortisation	-	-	(4,611)	(21)	(4,632)
Carrying value 31 May 2018	13,133	40	25,522	-	38,695
Cost	13,133	40	67,448	3,425	84,046
Accumulated amortisation	-	-	(41,926)	(3,425)	(45,351)

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 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

18. TRADE AND OTHER PAYABLES

	2018 \$000	2017 \$000
Current		
Trade payables and accrued expenses	62,406	62,731
Share repurchase instalments	4,541	4,732
Employee benefits	6,598	6,115
Emissions trading scheme - deferred income	3,803	1,741
Emissions trading scheme - liability	1,210	354
Non-trade payables and accrued expenses	3,123	2,488
	81,681	78,161

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.

19. LOANS AND BORROWINGS

At 31 May 2018 the committed bank facilities available were \$200m, of which nil was drawn in the Group (2017: facility \$200m, actual drawn nil).

The average interest rate in 2018 was 2.26%. 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 2018 and 2017.

20. PROVISIONS

	NOTE	2018 \$000	2017 \$000
Employee benefits – long-service leave provision			
Opening balance		1,217	1,279
Movement in provision	4	(44)	(62)
Closing balance		1,173	1,217
Site Restoration			
Opening balance		500	-
Increase		8,700	500
Decrease		(119)	-
Closing balance		9,081	500
Total provisions		10,254	1,717
Total provisions are reported in the balance sheet as:			
– current liabilities		4,781	500
– non-current liabilities		5,473	1,217
		10,254	1,717

A review of our supply chain was completed during the financial year. As part of this review it was determined that it was possible that we would not renew the lease for our Northland hub. While options are still being evaluated in the region, including remaining on the site, we have determined that remediation work is required at the hub whether we continue to operate from it or not. Because of the nature of the liability, there is uncertainty in accurately estimating the cost that will be incurred. A range of \$3.5m to \$5.0m for demolition has been provided by consulting engineers, while an additional \$3.0m has been assessed as the likely cost of remediation work. The cost is expected to be incurred over the next one to three years.

Policy

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

Site restoration provisions are recognised when there is a present legal or constructive obligation to remediate a site.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

21. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2018 \$000	2017 \$000
Profit / (Loss) for the year	9,189	(2,792)
Add non-cash and non-operating items:		
Inventory write-down to net present value	-	958
Depreciation	27,845	33,653
Amortisation	4,632	4,342
Emissions trading scheme - net cost of carbon	(3,070)	(2,695)
Derivative fair value	121	104
Loss (gain) on sale of property, plant and equipment	(730)	76
Employee benefits	(44)	(62)
Rebate transferred to Share Allotment Reserve	17,327	18,768
Equity accounted earnings of associates	4	(4)
Decrease in deferred tax	(3,046)	(1,748)
Add (deduct) movements in working capital:		
Movement in trade and other receivables	(9,845)	(21,319)
Movement in inventories	(26,566)	10,892
Movement in trade and other payables	8,818	28,483
Movement in rebate payable	4,052	15,693
Movement in tax receivable	9,541	(1,209)
Net cash from operating activities	38,228	83,140

22. 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.

	2018 \$000	2017 \$000
Transactions with external related parties through common directorship, control or significant influence		
Revenue	3,467	3,574
Expenses	2,516	2,077
Rebate	156	132
Balances with external related parties through common directorship, control or significant influence		
Amounts owing to the company	119	50
Amounts owed by the company	48	251
Key management personnel and directors compensation		
Short term employee benefits, excluding directors	3,588	3,717
Directors' fees	705	671
Total	4,293	4,388

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

23. CAPITAL AND RESERVES

a) Share capital

(i) Reconciliation of movement in co-operative shares

	2018 000s	2017 000s
Opening balance	41,450	41,239
Co-operative shares issued	19	10
Co-operative shares issued in lieu of rebate	2,331	1,300
Co-operative shares repurchased	(1,147)	(1,099)
Closing balance	42,653	41,450

(ii) Co-operative shares

All shares are fully paid and have no par value. Each share has a nominal value of \$8.10 (2017: \$8.10). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company subject to any restricted holding determined for shares exceeding 100,000 and any other restrictions in the constitution. All shares rank equally with regard to the Company's residual assets.

Policy

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

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

(iii) Share redemption features

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

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

(iv) Repurchase of shares

During the year 1,146,872 shares (2017: 1,098,619) were repurchased at an average price of \$7.61 per share (2017: \$7.73) and subsequently cancelled.

b) Other reserves

Other reserves comprise:

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

24. 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 24f)

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

At inception each transaction is documented, detailing:

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

24. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

Cash flow hedges

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

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

The following are recognised in profit or loss:

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

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

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

a) Foreign currency risk

Quantitative disclosures

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

	2018 \$000 USD	2017 \$000 USD
Foreign currency risk USD		
Bank accounts	847	679
Trade payables	(16,674)	(15,159)
Net balance sheet exposure before hedging	(15,827)	(14,480)
Forward exchange contracts relating to exposures	15,827	14,480
Net unhedged exposure	-	-

Sensitivity analysis

At 31 May 2018 it is estimated that a 10% movement either way in the value of the NZD against the USD would have increased (decreased) equity and profit or loss in the Group by the amounts shown below.

		EQUITY 2018 \$000	PROFIT OR LOSS 2018 \$000	EQUITY 2017 \$000	PROFIT OR LOSS 2017 \$000
Forward exchange contracts	+10%	(19,706)	-	(19,678)	-
	-10%	24,084	-	24,065	-

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 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

24. FINANCIAL INSTRUMENTS (CONTINUED)

b) Interest rate risk

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

Policy

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

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

Determination of fair value

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

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

d) Liquidity risk

	CARRYING VALUE \$000	CONTRACTUAL CASH FLOWS \$000	0 - 12 MONTHS \$000
2018			
Trade and other payables	81,681	81,681	81,681
Net rebates payable	39,425	39,425	39,425
Total non-derivative liabilities	121,106	121,106	121,106
Net settled foreign exchange derivatives used for hedging:	5,767	5,892	5,892
	CARRYING VALUE \$000	CONTRACTUAL CASH FLOWS \$000	0 - 12 MONTHS \$000
2017			
Trade and other payables	78,161	78,161	78,161
Net rebates payable	35,373	35,373	35,373
Total non-derivative liabilities	113,534	113,534	113,534
Net settled foreign exchange derivatives used for hedging:	(1,344)	(2,006)	(2,006)

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 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

24. FINANCIAL INSTRUMENTS (CONTINUED)

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
2018					
Assets					
Derivatives	-	6,122	-	6,122	6,122
Trade and other receivables	95,905	-	-	95,905	95,905
Cash and cash equivalents	15,234	-	-	15,234	15,234
Total assets	111,139	6,122	-	117,261	117,261
Liabilities					
Derivatives	-	355	-	355	355
Trade and other payables	-	-	81,681	81,681	81,681
Net rebates payable	-	-	39,425	39,425	39,425
Total liabilities	-	355	121,106	121,461	121,461
	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	-	-	78,161	78,161	78,161
Net rebates payable	-	-	35,373	35,373	35,373
Total liabilities	-	2,397	113,534	115,931	115,931

Determination of fair value

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

f) Fair value hierarchy

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

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

25. CONTINGENCIES

Contingent liabilities

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



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 42 to 60:

- present fairly in all material respects the Group's financial position as at 31 May 2018 and its financial performance and cash flows for the year ended on that date; and
- 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 2018;
- 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, tax advisory and other assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Other information

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

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have received the Directors' Interest section and have nothing to report in regards to it. The



full Annual Report is expected to be made available to us after the date of this Independent Auditor's Report and we will report the matters identified, if any, to the Directors.



Use of this independent auditor's report

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



Responsibilities of the Directors for the consolidated financial statements

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

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



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

Our objective is:

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

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

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

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

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/>

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

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

For and on behalf of

Hamilton

25 July 2018

Directors' Interests

FOR THE YEAR ENDED 31 MAY 2018. 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	
	Director	Awarua Dairies Ltd (appointed 2017)	
		Livestock Improvement Corporation Ltd	
		Spitfire Dairies Ltd	
		Trinity Lands Ltd	
		Wuppertal Farming Ltd	
AG Brantley	CEO	Otakaro Limited	
	Director	Independent Assessment Board, Local Government of New Zealand Excellence Programme	
		Independent Schools of New Zealand (ISNZ) (appointed 2018)	
		Waimakariri Irrigation Limited (appointed 2018)	
KR Ellis	Chairman	NZ Social Infrastructure Fund Ltd	
		Metlifecare Limited	
			Sleepyhead Group Ltd (appointed 2017)
	Consultant	Envirowaste Services Ltd	
	Director	Freightways Ltd	
		FSF Management Company Ltd	
EJ Harvey (resigned 2017)	Chairman	Port of Tauranga Ltd	
	Director	NZ Opera Ltd	
		Heartland Bank Ltd	
		Investore Property Ltd	
AD Morrison	Chairman	Kathmandu Holdings Ltd	
		Port Otago Ltd	
	Director	Stride Property Ltd	
		Beef + Lamb New Zealand Ltd	
		NZ Meat Board	
		Glenroy Morrison Ltd	
		Ovis Management Ltd	
Member	Pastoral Greenhouse Gas Research Consortium		
	Wool Research Organisation of New Zealand		
	Agricultural Leaders Health and Safety Action Group incorporated		
Partner	AD Morrison Farms Partnership		
DE Peacocke	Director	Melrose Ltd	
			New Zealand Phosphate Company Ltd
			Taupiri Holdings Ltd
			The Adare Company Ltd
SD Robertson (appointed 2017)	Director	Flick Energy Ltd	
DM Smit	Director	Corona Farms Ltd	
		Fonterra Co-operative Group Ltd	
		KEL Paengaroa Orchard Ltd	
		KEL Rangiuru Orchard Ltd	
		KEL Woodlands Orchard Ltd	
		Kiwifruit Equities Ltd	
		Seven Mile Farms Ltd	
		Dairy Women's Network	
		Alliance Group Ltd	
		FMG Insurance Ltd (elected 2017)	
	Oxford Health Charity Ltd		
Partner	MJ and RM Taggart		
Trustee	North Canterbury Farmers' Charitable Trust		
	Oxford Health Charitable Trust		
SJ von Dadelszen	Shareholder	Hinerangi Station Ltd	
			Totara Dairy Farm Ltd
	Treasurer	Dannevirke Hunt	
	Trustee	AGMARDT	

Directors' Interests

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

SPECIFIC DISCLOSURES

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

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

COMPANY INFORMATION

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

SHARE DEALINGS

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

SUBSIDIARY COMPANY DIRECTORS

Section 211(2) of the Companies Act 1993 requires the company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by directors and former directors and particulars of entries in the interests registers made during the year ended 31 May 2018.

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

Directors' Remuneration

Fees paid to Directors were:

	PARENT	GROUP
GW Baldwin	68,375	68,375
AG Brantley	68,375	68,375
KR Ellis	73,375	73,375
EJ Harvey	24,375	24,375
AD Morrison	68,375	68,375
DE Peacocke	144,100	144,100
SD Robertson	53,245	53,245
DM Smit	68,375	68,375
MJ Taggart	68,375	68,375
SJ von Dadelszen	68,375	68,375
Total paid to Company Directors	705,345	705,345

Directors' Interests

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

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 25 July 2018. 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 2018 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	No. of Employees - Group	Remuneration \$NZ	No. of Employees - Group
100,000 – 110,000	45	220,001 – 230,000	1
110,001 – 120,000	31	230,001 – 240,000	1
120,001 – 130,000	38	240,001 – 250,000	2
130,001 – 140,000	29	270,001 – 280,000	1
140,001 – 150,000	22	280,001 – 290,000	1
150,001 – 160,000	12	290,001 – 300,000	1
160,001 – 170,000	13	300,001 – 310,000	4
170,001 – 180,000	12	370,001 – 380,000	1
180,001 – 190,000	6	430,001 – 440,000	1
190,001 – 200,000	7	570,001 – 580,000	1
200,001 – 210,000	2	1,360,001 – 1,370,000	1
210,001 – 220,000	5		

Trend Statement

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

		2014	2015	2016	2017	2018
Group Sales Volumes	tonnes	1,724,000	1,754,000	1,620,000	1,616,000	1,639,000
Turnover	\$000	920,973	892,795	837,462	804,560	825,809
	\$/tonne	\$534	\$509	\$517	\$498	\$504
Profits						
Gross Trading result	\$000	98,027	80,966	35,086	56,855	71,339
	\$/tonne	\$57	\$46	\$21.66	\$35.18	\$43.53
Group profit retained	\$000	6,093	(14,840)	(18,091)	(2,792)	9,189
– after distributions, impairment provision, inventory write down and including minority interest retentions in subsidiary companies						
Cashflow						
From operations (prior to rebate payment)	\$000	135,723	106,091	85,515	102,840	73,668
Capital and investment expenditure (net)	\$000	49,709	44,519	56,752	35,375	38,436
Distributions to Shareholders						
Rebates paid or proposed	\$000	75,358	72,407	30,433	54,161	56,819
Dividends paid or proposed	\$000	3,787	3,963	0	0	0
Dividend per share	cps	10.0	10.0	0.0	0.0	0.0
Rebate per tonne	\$/tonne	\$60.83	\$55.83	\$25.00	\$45.00	\$45.00
Dividend – gross per quota tonne	\$/tonne	\$4.17	\$4.17	–	–	–
Combined distribution – gross equivalent*	\$/tonne	\$65.00	\$60.00	\$25.00	\$45.00	\$45.00
*Rebate and gross dividend equivalent for a fully paid shareholder						
Analysis of Shareholders' Equity						
Number of shareholders		18,827	19,253	19,280	18,978	18,957
Shares on issue	\$000	37,871	39,626	41,239	41,450	42,653
Nominal share value	\$	\$8.10	\$8.10	\$8.10	\$8.10	\$8.10
Share quota per tonne		30	30	30	30	30
Investment per quota tonne	\$	243.00	243.00	243.00	243.00	243.00
Co-op shareholders' equity	\$000	420,610	435,429	406,552	414,610	437,103
Group shareholders' equity	\$000	420,610	435,429	406,552	414,610	437,103
Group equity ratio		70.9%	80.4%	80.6%	77.9%	76.1%
Net asset backing per share	\$	\$11.11	\$10.99	\$9.86	\$10.00	\$10.25
Assets						
Total Assets	\$000	593,173	541,874	504,359	532,259	574,670
Working Capital	\$000	198,893	185,293	134,053	140,440	155,636
Ratio of Current Assets to Current Liabilities		2.5	2.8	2.4	2.2	2.2
Stock Turn		4.4	4.1	3.9	4.1	4.0

Corporate Governance

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

INTRODUCTION

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

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

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

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

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

ROLE OF THE BOARD

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

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

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

RISK MANAGEMENT

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

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

BOARD MEMBERSHIP

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

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

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

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

There are no executive directors.

APPOINTED DIRECTORS

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

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

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

BOARD MEETINGS

The Chief Executive and the Chairman prepare a meeting agenda. Any member of the Board may request the addition of an item to the agenda. The Board met on nine occasions in the financial year ended 31 May 2018. 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 Simon Robertson. The Committee convene meetings as required to ensure coverage of their terms of reference.

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

The Audit Committee is responsible for:

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

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

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

Remuneration Committee

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

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

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

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.

Corporate Governance

FOR THE YEAR ENDED 31 MAY 2018. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

SHAREHOLDER COMMUNICATION

Ballance places considerable importance on communicating with our shareholders.

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

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

CONTINUOUS DISCLOSURE

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

HEALTH AND SAFETY

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

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

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

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

ENVIRONMENT

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

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

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

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

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

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

Directory

FOR THE YEAR ENDED 31 MAY 2018. 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

Simon Robertson – 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

Sheena Henderson – GM Customer Experience & Marketing

Richard Hopkins – Chief Financial Officer

John Maxwell – GM Operations

Jason Minkhorst – GM Sales

Dave Scullin – Chief Digital Officer

Edith Sykes – GM People & Capability

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