

Together, growing our future

2020 Annual Report



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Governance & leadership



DAVID PEACOCKE
CHAIRMAN, DIRECTOR NORTH ISLAND



DACEY BALLE
DIRECTOR NORTH ISLAND



SIMON ROBERTSON
APPOINTED DIRECTOR



MARK WYNNE
CHIEF EXECUTIVE OFFICER



DUNCAN COULL
DIRECTOR NORTH ISLAND



SARAH VON DADELSZEN
DIRECTOR NORTH ISLAND



MATT SKILTON
CHIEF FINANCIAL OFFICER



SHEENA HENDERSON
GM CUSTOMER EXPERIENCE
& MARKETING



KIM ELLIS
APPOINTED DIRECTOR



ANDREW MORRISON
DIRECTOR SOUTH ISLAND



SHANE DUFAUR
GM OPERATIONS & SUPPLY CHAIN



JASON MINKHORST
GM SALES



MURRAY TAGGART
DIRECTOR SOUTH ISLAND



ALBERT BRANTLEY
APPOINTED DIRECTOR



JACQUELINE RICH
GM PEOPLE & CAPABILITY



TIM LLOYD
ACTING CHIEF DIGITAL OFFICER

Chairman's Report



A time to reflect & say thank you

Our co-operative has always been committed to challenging the status quo and bringing innovative thinking to the agriculture sector.

\$68.9M

Profit before rebate and tax

\$45

Per tonne, Farmer rebate

\$54M

Returned to New Zealand farmers in rebate

As we close the books on this financial year, I want to acknowledge all the individuals that come together to form the Ballance team. People are central to the success of any organisation, and we are very fortunate at Ballance to have an extremely talented and passionate group focused on delivering value for our shareholders.

Farmers continue to adapt and rise to the challenge of increasing expectations of consumers and communities, while at the same time making sure they are operating sustainably and optimising profitability.

My family are long-standing customers and shareholders of Ballance and its predecessors. My father Frank was a director on the Bay of Plenty Co-operative Fertiliser Company Limited then Ballance board from 1991 to 2005. This is my fifteenth and final year as a Ballance director.

FY20 has been like no other, with COVID-19 and extreme weather events from floods in the south to drought in the east and north. We're entering a new era, and one thing is for sure, we can look forward to a renewed understanding of the value of the sector to New Zealand's global economic future and reputation.

As a result of many years of investment in innovation, Ballance is perfectly positioned to work with shareholders to support the future competitiveness of New Zealand. We have the building blocks in place with a suite of sustainable, environmentally focused products and tools customers can rely on.

Our co-operative has always been committed to challenging the status quo and bringing innovative thinking to the agriculture sector. Through collaboration with customers, shareholders, government, and partners we have created and delivered MitAgator®, My Pasture Planner®, SpreadSmart®, SustaiN®, PhaSedN® and this year we launched SurePhos®, and an intent of \$19.9 million from government to progress our Hydrogen project, together with Hiringa Energy.

As my last financial report as Chairman I am pleased to inform you that our Profit Before Rebate and Tax is \$68.9 million and have confirmed a farmer rebate of \$45 per tonne for the financial year ended 31 May 2020 – returning a total of \$54 million to our farmer-shareholders.

Total sales for the 2020 year, including nutrient products, animal feeds and industrial ingredients, were 1.551 million tonnes.

I'm looking forward to following Ballance's progress as the co-operative innovates, grows and leads the fertiliser sector's response to the challenges ahead.

David Peacocke
CHAIRMAN



CEO Report: Our future depends

on the building blocks of our past

For decades, Ballance has been a forward-focused business working with shareholders on ways to farm more sustainably without losing productivity. We are fortunate at Ballance to have a group of directors committed to this vision.

I want to personally thank and acknowledge our outgoing Chair David Peacocke for his contribution to the co-operative since joining the Ballance Board of Directors 15 years ago. David is stepping down as a director and Chairman, and handing over the task of leading Ballance into our next phase to Duncan Coull.

It's been an interesting start to 2020 to say the least, and if the first six months is anything to go by, the future is going to provide some challenges for farmers and growers as they keep up with food production demand while protecting the environment.

One thing that won't change is that Ballance will continue to respond to the sector's need to evolve and grow with science-backed innovation.

The Hydrogen project in Taranaki is a good example of this, and represents a major step towards reducing our environmental footprint. Likewise, SpreadSmart® remains an industry leading technology for us, and from an infrastructure perspective, we're also really proud of the advanced environmental and engineering design used in the new Reporoa service centre.

Our response to COVID-19 showed that we could provide essential nutrients even under trying circumstances – and I think it was a good reminder to many that while much of

We are as passionate about health and safety as we are about innovating, adapting, and supporting our customers and shareholders.

New Zealand was forced to shut down, our primary industries were able to soldier on and do what they do best.

At Ballance, COVID-19 saw our office-based teams quickly adjust to working from home and our manufacturing and distribution teams adopt new strict social distancing, hygiene and audit protocols. Our self-service silos provided a contactless option during lockdown while MyBallance® provided customers with an online ordering option.

Many events were cancelled or postponed, however it was great to see two of our key partnership organisations undeterred and take their events online for the regional Ballance Farm Environment Awards and Dairy Women's Network Conference. We remain committed to these and all our community and industry partnerships.

In addition to commenting on proposed government policies on behalf of our shareholders, we have submitted another proposal to the Sustainable Food & Fibre

Futures (formally known as Primary Growth Partnership). Our proposal included 12 projects that will benefit multiple sectors, from forestry to livestock production.

One thing that won't change is that Ballance will continue to respond to the sector's need to evolve and grow with science-backed innovation.

It has also been a great year for our Care Ownership Wellbeing and Safety programme (C.O.W.S) which has received external recognition, winning two awards. We are as passionate about health and safety as we are about innovating, adapting, and supporting our customers and shareholders.

Of course, while it's important to reflect on the huge amount we have achieved over the previous year, it's even more imperative that we look forward together and focus on the challenges and successes for FY21 and beyond.

Mark Wynne
CHIEF EXECUTIVE OFFICER



Group
Sales

1,551
MILLION TONNES

Revenue
Before Rebate

\$891
MILLION

Profit
Before Rebate & Tax

\$68.9
MILLION

Shareholder
Rebate

\$45
PER TONNE

Leading Together



\$54M

Returned to New Zealand farmers in rebate

\$33K

To local community projects through our Safety Cross programme

Sustainable Together



45,000

Tonnes of fertiliser applied using SpreadSmart® technology

20,000

Hours of advice provided by Farm Sustainability Services

Up to
75%

Reduction in phosphate loss using SurePhos®

Growing Together



200-400%

Increase in usage of self-service silos

7,000

Hours developing our people through bespoke internal courses

1ST

In calf feed (SealesWinslow)

Innovating Together



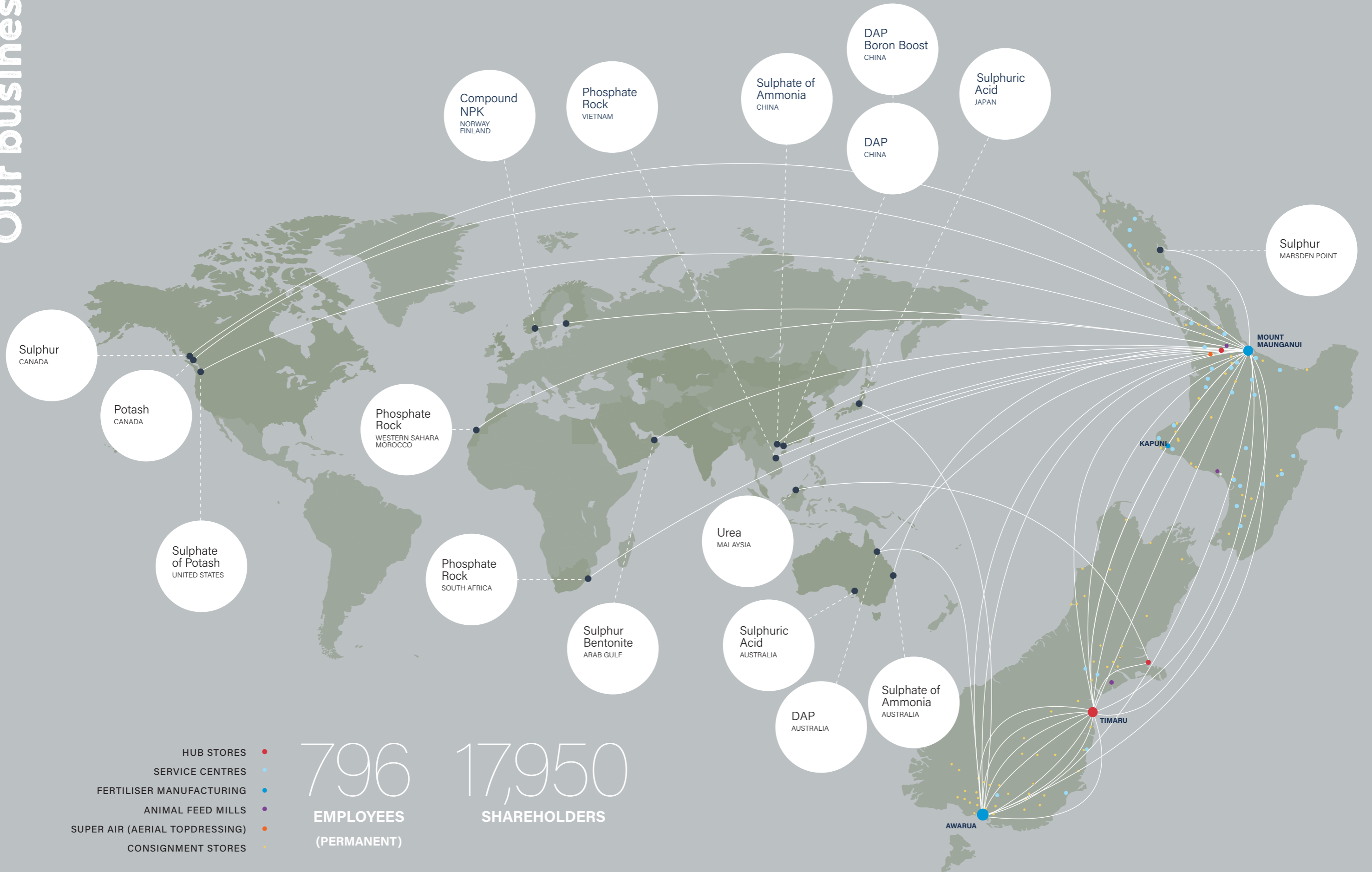
466,000t

Of product ordered by customers through MyBalance® in FY20

\$19.9M

Government's Provincial Growth Fund intent to support our Green Hydrogen project

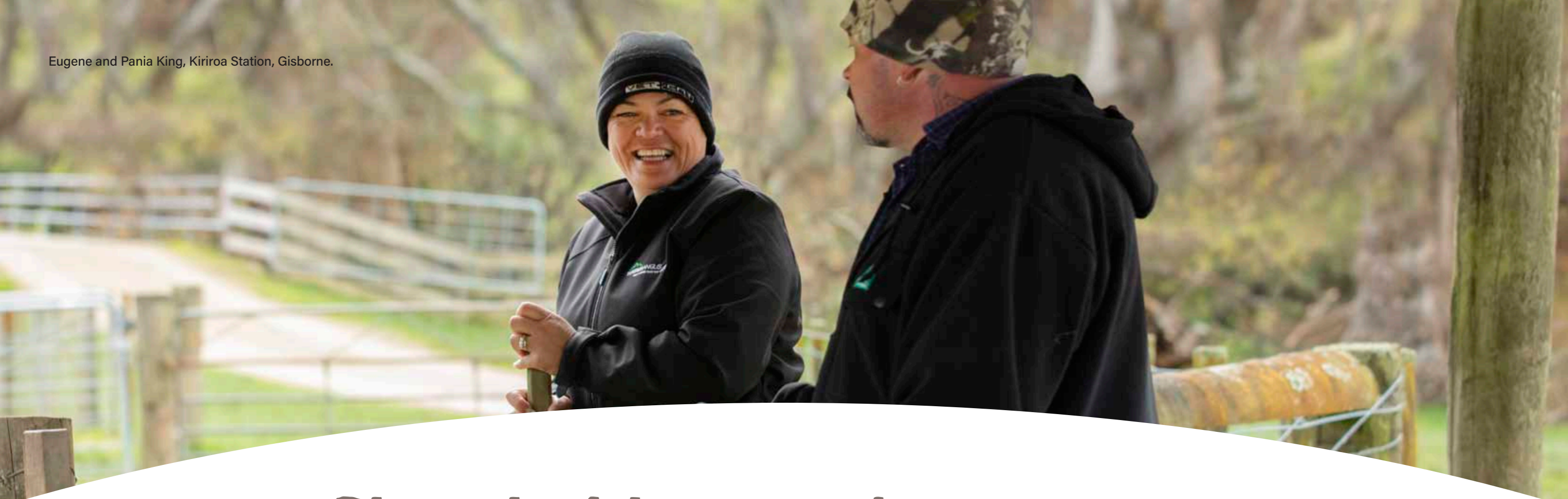
Our business



A woman with long brown hair, wearing a black Balance jacket, is smiling and talking to a man and a woman in a field. The man is wearing a brown jacket and the woman is wearing a black puffer vest and blue jeans. They are standing in front of a red vehicle. The background is a green field under a blue sky with clouds.

Leading

together



Shareholders at our core

As a co-operative, supporting our customers, shareholders and communities is at the centre of everything we do. We work with and for farmers and growers. We take our responsibility as a major player in the primary sector as seriously as we take our role as a good neighbour in our communities.

Providing a rebate to our shareholders is one of the most rewarding parts of being a co-operative. Being able to pay a return shows we are commercially strong and repays the trust that our shareholders have in our business. This year's rebate was at \$45 per tonne, a total of \$54M being returned to our 17,950 shareholders.

Keeping up to date with changing regulations, identifying new challenges, and being across new innovations in the industry is part of our role as your nutrient provider. Delivering for our customers means staying one step ahead. Our Ballance-Ex series allows us to keep connected with

our farmers and growers to provide them with information around current issues as well as those coming down the line, enabling them to be future-ready.

Alongside our sales team and farm sustainability specialists out in the field, our customers can call or email our customer services team for expert advice and help. For the second year in a row the customer services team have won the Best Retail Support Category at the 2019 CRM Contact Centre Awards. Team Leader, Shaun Fenwick, won one of five Best Customer Service Representative awards, a highly contested award and one that speaks to our strategic pillar of Leading with Farmers.

\$45

Per tonne, 2020 rebate

\$54M

Returned to New Zealand farmers in rebate

The right quality

Being a reliable, credible company in the eyes of our customers starts with the quality of our product. We're focused on improving the physical quality of our manufactured products to provide our customers with the best result. The chemical quality of our manufactured products out of our Mt Maunganui and Awarua manufacturing sites is a key focus, with a consistently high-level of compliance and accuracy against Fertmark declared nutrient values. This gives our customers confidence that they are getting the nutrients they are paying for.

We've also seen a significant improvement on previous years in our physical quality especially at the Mt Maunganui site. Rock blend and a focus on granulation have contributed to this success. Regular fine tuning of the plant and the process to optimise a stable production, and good supply of raw materials are critical to the manufacturing of quality product.

Last year, a conditioner was installed in the granulation loop at our Mt Maunganui site and while this has improved physical quality, it has come at a cost, as maintenance of the conditioner incurs downtime. Parts of the plant are automated, however the granulation process is still reliant on operators, who are doing a good job, to control the loop and optimise physical quality.

Our Kapuni site continues to manufacture a consistently high quality of urea, from both a chemical and physical perspective.



Regular fine tuning of the plant and the process to optimise stable production, and good supply of raw materials are critical to the manufacturing of quality product.



Growing sustainable communities

For eighteen years, the Ballance Farm Environment Awards (BFEA) have recognised farmers who are minimising their environmental footprint and working as guardians of the land for the next generation. Every year more farmers enter the awards, with 80 entrants in 2020. Due to the COVID-19 pandemic restrictions, most regional events were virtual and viewed over 5,000 times in the first six weeks.

With the competition working well, we have now turned our focus to the future of farming and growing in New Zealand; how do we appeal to an even wider group and attract more entries? We commissioned a piece of research earlier this year and gained valuable insights around what works well, barriers to entering and where we could grow the concept.

Ongoing changes to regional and national regulations, paired with pressure to reduce their environmental footprint while maximising on-farm productivity, has put farmers under pressure. Often farmers are reluctant to share

their success stories. We view the awards process as being more important than ever, offering an opportunity to unite farmers and bring a feeling of pride. BFEA promotes positive farming stories, brings communities together, enables entrants to give back to the rural community that they've learnt from and provides an opportunity for people to learn about leading practices in sustainable farming.

We want to grow participation numbers and encourage more people to enter. Potential new direction includes developing the competition into the standard for New Zealand farming excellence, focusing on connecting urban and rural communities, and looking at what appeals to all types of farms at all different stages and tailoring criteria to help them develop. We are passionate about the evolution of this partnership and where it could lead.

We are also very proud to support the Ahuwhenua trophy. Started in 1933, the trophy is steeped in history and mana, with Māori agribusiness now recognised as

an integral part of the New Zealand economy. The trophy is awarded for excellence in dairy, sheep and beef, and horticulture industries. People entering this prestigious award increases year-on-year.

We are investing time, money, and resources into Dairy Women's Network (DWN). DWN has a high calibre of members that share knowledge to enhance their business and the dairy industry. They are active members of their communities, heading up local initiatives such as catchment groups, School Boards of Trustees, and community boards. DWN has a network of around 10,000 dairy farming women who are key decision-makers in farm finances, early adopters of new technologies and the drivers behind sustainability in farming businesses. These are powerful Ag leaders today and future leaders for tomorrow.

As an example, Ngāi Tahu Farm Manager Ash-Leigh Campbell is the current Fonterra Dairy Woman of the Year. She has worked for the South Island Māori iwi farming operation for three years, assisting with the management

For eighteen years, the Ballance Farm Environment Awards (BFEA) have recognised farmers who are minimising their environmental footprint and working as guardians of the land for the next generation.

and performance of eight dairy and dairy support farms, and 8,000 cows. She is also chairwoman of New Zealand Young Farmers and helps with operational and environmental performance, analytical projects, and the sustainable farming practices. Alison Gibb, who recently stepped down as Trustee after seven years, says the women the network has connected her to "have helped to challenge my thinking and I enjoy seeing women grow in confidence."

Our desire to be a good neighbour and a socially responsible member of the community runs deep. We have recently signed a partnership with the Bay Conservation Alliance in Tauranga, to help them expand their environmental education and monitoring

programme for high school level students across the Western Bay of Plenty. We want to help develop the land management skills of young people in one of our key operating communities, so they can apply these skills to future careers in conservation, forest, and farm management.

We continue to work closely with our industry partners. We collaborate on several projects with Beef + Lamb New Zealand, as we work towards a common vision of profitable and sustainable farmers and thriving rural communities. This year we worked together on a 'Drought Drop In' webinar, hosted by our Sheep and Beef group, to help farmers struggling with dry conditions as well as the decrease in meat processing because

of COVID-19. This webinar was also used by Ministry for Primary Industries.

We work alongside Dairy NZ on a number of initiatives including Owl Farm, a dairy demonstration farm. Owl Farm aims to provide a workable blueprint for sustainable, profitable dairying. We also work closely with sector groups such as Horticulture New Zealand, helping to produce and manage their leadership development programme.



Sarah Becker, Health and Safety Manager,
and Deon Symes, Mechanical Fitter.



Learning for Life

At Ballance, we understand that investing in our people's development unlocks their potential and that this applies to every one of our employees. It reaps major benefits for both the individual and for the business. Learning for Life is a blended workplace communications programme that addresses the individual needs of those joining Ballance, to ensure they have the confidence and capabilities to be the best they can be.

The course comprises of a series of work-through modules targeted to the individual's level and requirements. It was piloted in Awarua in FY20 and both facilitators and participants were overwhelmed by the impact of the course, learning skills that could be applied not only in the workplace but also at home. Among other topics, participants learn how to give, accept and process feedback, give clear instructions, address others with confidence – whether in front of a group, one-on-one or in emails – and understand different communications styles.

**“I can't believe how lucky I am
that Ballance invests to make
me a better person”**

Learning for Life is not compulsory, so the bravery and drive shown by participants is something Ballance is very proud of. The feeling can be summed up in this quote from a participant in the Awarua pilot: “I can't believe how lucky I am that Ballance invests to make me a better person”.

Partly funded by the Tertiary Education Commission, Learning for Life is now being rolled out across the country and we look forward to seeing the positive implications on both the company and our people.

BallanceEx

As a major player in the primary sector, we see it as our responsibility to provide thought-leadership around environmental topics, both current and emerging. Our farmers and growers are grappling with sustainability challenges from changing regulations to water quality and the emission trading scheme. We strive to work alongside our shareholders as they navigate their way through these topics and encourage a growth mindset.

“I’m too busy farming so we need people like Ballance to say this is where we should be going... It’s good to have someone looking at the future of farming. We need to be proactive and out there!”

Our BallanceEx series has enabled us to provide customers with expertise, knowledge, research, and science to help them be future-ready. Working with our innovation team and industry experts, this year’s TEDex-style digital speaker series focused on current issues and thought-provoking topics such as phosphate loss, greenhouse gases and soil health.

The series helps connect forward-thinking farmers with our own experts, as well as external specialists. Ballance Nutrient Science Manager Dr Sheree Balvert says “We understand that there is a lot of

information being thrown at our customers in the current climate, and that can sometimes be confusing and overwhelming. We see this as an area where we can help by simply explaining these complex concepts and why they are relevant to our customers. BallanceEx is a great forum for this.”

In our first video, Ballance Science Strategy Manager Warwick Catto met with Dr Allan Gillingham to discuss and share their views about nutrients that most contribute to phosphate loss, managing critical source areas to minimise impact to waterways and the effect both fertiliser form and weather conditions have on phosphate loss.

In another video, Dr Balvert explored the topic of greenhouse gas emissions with Mark Aspin, Pastoral Greenhouse Gas Consortium General Manager. They delved into the three main emissions and looked at how we can reduce them now and in the future.

These videos can be found on ballance.co.nz/ballanceex.

Every alternate year we run a well-attended dinner series with engaging speakers. Planning for the FY21 dinner series is currently underway, the focus will be on current environmental pressures facing our farmers and growers.

Here’s what attendees at the dinner series had to say:

“Good personalised and informative event, one of the best we have been too.”

“They’ve got the time to look into the future. I’m too busy farming so we need people like Ballance to say this is where we should be going... It’s good to have someone looking at the future of farming. We need to be proactive and out there.”

“One of the highlight evenings of the year for my wife and I.”



Warwick Catto and Dr Allan Gillingham.



Dr Sheree Balvert and Mark Aspin.



Dr Jamie Blennerhassett and Ché Charteris.

Leading in digital



MyBallance® continues to accelerate our transition from a nutrient supplier to nutrient leader, providing an all in one easy-to-use application for farmers to plan and manage nutrients.

Since launching in 2018, a series of enhancements and new features have been added to the platform to further deliver customer and business value.

Features and enhancements over the last 12 months include improved mapping functionality for block creation options and activity heat maps, along with simplified report and search selections, plus the addition of daily regional weather videos, produced in partnership with NIWA. We are committed to further developing MyBallance® to include features that deliver simple, easy to use mobile solutions. Mapping has been a big focus for FY20, as it provides a visual personalised view which aids the application process and supports compliance needs.

MyBallance® has more than 9,000 registered users, an increase of nearly 1,500 this financial year; and over 40,000 orders for 808,000 tonnes of product have been made through the platform since it was launched.

A major project this year has been advancing the digitisation of our supply chain. The aptly named Programme Advance team have developed a series of process and technology improvements based on input from our nationwide supply and operations distribution teams, kicking-off with an upgrade of our current SAP (financial) system in

Since launching in 2018, a series of enhancements and new features have been added to the platform to further deliver customer and business value.

9,000

Registered users with MyBallance®

808,000^t

Of product ordered by customers through MyBallance® since launch

February 2020. This was a big undertaking that went well, a testament to the strength of our core internal processes, communications, and great external partners.

We have rolled out phases one and two of the programme to update our front-end supply chain apps so that we can transact near real-time on any device, ensuring our inventory is up to date and greater efficiency benefits for our team. For phase three, we've built a plan around inventory replenishment to ensure stores are fully stocked and a booking system for customers to pick-up product and ease traffic management on site.

Andrew McIntyre – *"Created an outbound delivery on my phone from home, so that the team on site could keep the trucks flowing. Found this very easy to do in the new updates that were done overnight!"*

Almost every business in the world today depends on some form of digital platform for core business functions and transactions. This has increased the likelihood of a cyber-attack and has been identified as one of our top ten company risks.

Internally we have good cyber controls with a high-level of understanding of cyber security. The human side of cyber risk is the most vulnerable, and our staff education programme is working. Our people have watched over 6,000 awareness videos in the last 12 months, and 94% of them understand how security threats can impact the organisation. Our response rate, signalling individual awareness of cyber security risks, is 25% higher than other manufacturing companies globally.

To further protect our systems and customer data, all external access to our systems require multi-factor authentication. Customer information is in safe hands, it is well protected and treated as one of our greatest assets.



Sustainable together

Reducing our environmental footprint



MitAgator[®], is a market leading tool that develops risk maps for individual farms. This enables Ballance's MitAgator[®] customers to be ahead of the curve and to manage their environmental risks more actively.

Creating the best soil and feed on earth – it's an ambitious and important sustainability goal. We thrive on the challenge of helping our farmers and growers maximise productivity while minimising impact.

Our co-operative community includes progressive thinking farmers and growers who've been working hard at this for years and are willing to investigate new ways to further reduce their environmental footprint. We have the expertise, people, science and resources to support farmers to be future-ready.

We have developed a suite of environmentally sustainable tools, products and services, with our Farm Sustainability Services team fronting this on the ground. We're really proud of what we've achieved so far creating and delivering PhaSedN[®], SustaiN[®] and the 2020 launch of SurePhos[®]. With funding from the Primary Growth Partnership (PGP), replaced by the Sustainable Food and Fibre Futures Fund (SFFF) we have developed MitAgator[®], SpreadSmart[®] and My Pasture Planner[®] over recent years.

MitAgator[®], is a market leading tool that develops risk maps for individual farms. This enables Ballance's MitAgator[®] customers to be ahead of the curve and to manage their environmental risks more actively. The maps identify areas where there's more likely to be a loss of phosphorus, nitrogen, sediment, and bacterial contaminants. Farmers appreciate how easy it is to capture the environment benefit of historic mitigations they have implemented, as well as looking forward at potential areas they would like to focus on. The ability to have a cost benefit analysis to support on-farm decisions is the real gold of MitAgator[®].

The Farm Sustainability Services team used MitAgator[®] to develop farm environment plans as well as providing nearly 20,000 hours of sustainability advice and support this year. Through completing several adjoining farms plans we have now seen communities collaborating on catchment initiatives. In May 2020 we licenced MitAgator[®] to a leading independent farm consultancy in the Bay of Plenty and Waikato and we have plans to expand licencing in FY21.

Our SpreadSmart[®] technology is an integrated system that controls the hopper doors in our top-dressing aircraft. SpreadSmart[®] uses GPS guidance with computerised farm mapping to automate a constant and variable rate application on all farmland. Delivering an environmentally sound solution by avoiding sensitive areas excluded from the spreading zone.

SpreadSmart[®] was used on an East Coast farm with a set of pre-determined exclusion zones, including swamps, waterways, scrub and bush. These exclusion zones, as well as segmented blocks, and variable application rates, meant 6.5% less tonnes of fertiliser was required and 16% less hectares were covered due to the ability to place product more accurately. Eleven percent more fertiliser was applied to the targeted areas while still reducing the overall tonnage required.

Six of our fleet are now fitted with SpreadSmart[®], with the remaining planes to be fitted out by Christmas 2020.

With the release of the updated freshwater reforms in May 2020, pastoral farmers will be capped at using a maximum of 190kg of nitrogen fertiliser per hectare, per year. This is the first cap of its kind in New Zealand that restricts the amount of nitrogen fertiliser farmers can apply. These new rules have highlighted the importance of farmers being able to maximise nitrogen use efficiency on their farms.

My Pasture Planner[®] is the third tool in the suite, and will help farmers navigate these new rules. My Pasture Planner[®] allows farmers to create strategic annual nitrogen plans that optimise the timing and rate of applications, while remaining within the new input limits.

We realise how important this tool will be over the next five years and beyond, and we're currently working with AgResearch to update the model with the latest research data, and further improve the tool's usability and consistency within the MyBallance[®] platform.

All three of these innovations are synchronised to MyBallance[®], ensuring that MyBallance[®] will be the leading nutrient management platform in the market.

We recently submitted another proposal to the SFFF, entitled Future Ready Farms: Together, Creating a Lower Emissions future, focused on enabling New Zealand farmers to meet future consumer expectations by reducing greenhouse gases, nutrient losses and agchemical use. Our proposal covers 12 projects that will benefit multiple sectors, from forestry to livestock production.



Protecting our waterways

SurePhos®, reducing phosphate loss by up to 75%*

This year we launched our most significant innovation in a decade and New Zealand farmers were at the heart of the development. SurePhos® is an environmentally sustainable phosphate fertiliser which can reduce phosphate loss by up to 75%*.

With farmers under increasing pressure to protect nearby waterways, including the Essential Freshwater Policy, SurePhos® was launched into the market at a time when farmers need it the most. Regional and national regulations are increasingly focused on addressing water quality. SurePhos® is a market leading response to help farmers address this, which is a slow release, low water-soluble superphosphate fertiliser. SurePhos® was developed with joint investment from the PGP and Ballance and is a result of ten years of research and development.

The journey began mid-2000s when AgResearch and Ballance collaborated on research into phosphate loss from fertiliser application. It was identified that there is a critical 20 to 30 day period after phosphate fertiliser is applied, when the risk of phosphate loss is the highest. Field work then evaluated the effects of changing to a non-water-

soluble phosphate on productivity and the degree of phosphate loss. Research trials then began in 2011 including on-farm tests to ensure the formulation could work at farm scale.

The engineering team came on board late 2017 to design, build and install specific additions to our infrastructure. Distribution and sales were managed efficiently and effectively by the respective Ballance teams, despite it being the spring peak season, and with our local teams working hard to meet specific customer needs regionally.

Everyone in the process was proud to be involved with something that could potentially change the market with unwavering confidence from Ballance's nutrient leadership.

"We had huge belief in SurePhos® from the start," says Ballance CEO Mark Wynne, "We invested \$6 million in our infrastructure to drive a sustainable point of difference, that's how committed we were to providing this environmental solution for our farmers."

Since SurePhos® entered the market in October 2019, demand has been strong - sales have exceeded our first-year growth figures. Customer feedback has been very good including endorsement from ground spreaders and top dressers.

*Relative to superphosphate products.

"It's not about the cost per kilo of phosphate that farmers lose, it's about the impact those lost kilos have on the environment and protecting the waterway on its journey out. Most farmers are already in that line of thinking - SurePhos® is a product to help them address this."

Andrew Sanders, Ballance National Sales Manager



Great weather flexibility



Better for the environment



Highly compatible



Less water soluble



Better spreading



AgResearch tested





Growing

together

Delivering for the future



As a co-operative, we strive to do our very best for our shareholders, we want to grow, learn, and thrive together. Ballance has a great team of people and an excellent company culture. We will continue to invest in our people, infrastructure, and resources to deliver a quality customer experience across our network.

Reporoa might be best known as home to New Zealand's latest All Black captain, but it's also home to our most recent development in the Ballance service centre network.

In late January, we proudly cut the ribbon on our new Reporoa service centre. With advanced environmental and engineering design, and an experience that delivers to the current and future needs of local farmers and growers, the Reporoa service centre has become a proven model for infrastructure development across our service centre network.

The integrated design has produced a customer-focused store that delivers on quality and safety, while setting the benchmark for environmental performance.

The purpose-built 3,700m² store sits on the corner of State Highway 5, directly opposite its former home. The integrated design has produced a customer-focused store that delivers on quality and safety, while setting the benchmark for environmental performance.

An extensive roof rainwater collection system was set up for both potable and non-potable water, and around the store there is a tiered network of settlement ponds, designed to cope with heavy rain.

A fully automated intake system has reduced unload times to just 20 minutes and significantly limited the number of physical touch points and wait time for delivery drivers. When the COVID-19 pandemic hit in late March, less than two months after the store had opened, the automation meant we were able to seamlessly transition to a contactless process.

In the few months that the store has been operating, the efficiency and capacity gains have enabled us to deliver a better service to our corporate and local farming customers and further strengthen our aerial top-dressing offering in the wider region.



Customer care - 24/7

The Kokatahi twin self-service silo was officially opened in July 2019. Inland from Hokitika, in a valley with one of the highest rainfall counts in New Zealand, it is one of our more remote self-service silos. To celebrate its opening, for the first three months of operation, Ballance donated \$2 to Kokatahi-Kowhitirangi School for each tonne of product despatched from the site.

Each silo holds up to 60 tonnes of product, servicing more than 50 dairy farms in the Kokatahi valley and providing a product mix especially suited to the requirements of local farmers.

Building and maintaining a self-service silo in a remote location is hard work, the wettest spring on record for the West Coast in 100 years, certainly didn't help. But with strong support and uptake from local farmers the silo has quickly proven to be a valuable service to this tight-knit rural community.

FY20 has been a stellar year for the other self-service silos around the country, with volume increases of 200 - 400%. A combination of local promotional work by our people, word of mouth amongst spreaders and farmers about the convenience and time/travel savings, and general user adoption have all contributed to the strong uptake. Additionally, new silos are currently being installed at Normanby and Orari and plans are afoot for another. The silos proved invaluable during COVID-19 lockdown for our customers, offering contactless access to product.

200-400%

Self-service silo volume increase





Refining our procurement process

Sourcing the best raw materials and ensuring our processes and management are 'best practice' is key to a successful and smooth-running procurement process.



Last year, we launched a new Procurement Framework to provide guidance and support for the whole business in the sourcing of goods and services and the management of suppliers. The framework is part of a long-term strategy to upskill the business in "good-practice" procurement.

Our procurement and logistics team were tested by COVID-19 restrictions, however we were able to respond to the autumn sales demand which has illustrated the importance of having solid global supplier relationships and the ability to source quality product from back-up suppliers when required.

Ballance is committed to ensuring its suppliers meet minimum ethical and social standards. We only buy products from suppliers that can demonstrate awareness and adherence to relevant and appropriate social and ethical standards. We will also seek to ensure that our suppliers are aware of their impact on the environment and encourage them to monitor and take measures to mitigate impacts. We will take all reasonable and practical steps to monitor supplier activity to ensure that standards, which could impact adversely upon the local or global environment, are not compromised. This includes but is not limited to regular visits by members of our board, executive, technical, and procurement team to sources of supply.



Top-dressing takes flight

Investing in a modern, high-capacity fleet has been the cornerstone of our strategy for FY20.

Along with our Reporoa service centre providing improved access to specialised product mixes for our aerial top-dressing customers, we've seen demand for our subsidiary Super Air's services grow across the North Island.

As farmers respond to increasing environmental concerns, from within and outside of the sector, our SpreadSmart® technology has come into its own by ensuring a consistent application of the right nutrients, in the right place, at the right time. As we move towards embedding the technology across our entire fleet, we're also investing in custom-built trucks for efficient loading of the higher capacity aircraft system.

Investing in a modern, high-capacity fleet has been the cornerstone of our strategy for FY20, enabling us to extend the number of bases the team work from and grow our North Island service into Whanganui, Taihape, Gisborne and, more recently, Feilding with the acquisition of Rural Air in March, a 30 plus year business with aligned values to Ballance.

The very best in feed

SealesWinslow is a feed company that our shareholders can be proud of and one that stands out as the No.1 in calf feed in the country.

SealesWinslow's capacity and capability has grown over the last 12 months. The Ashburton distribution centre is now fully restored and operating well after the factory fire in 2017. The future focus of the business is to provide customers with feed options that support a balanced diet improving animal health and minimising environmental impacts.

SealesWinslow provides high quality compound feed that is strategically designed to support production and animal health. Raw materials and finished products are tested to ensure it meets the right specifications, with all three mills passing FeedSafe Audits.

Mills are regularly checked for consistency of mixing and all have been achieving international standards of consistency and accuracy. For the customer, this means that each mouthful of finished product is the same as the one before. Calf meal is formulated off international standards for optimal growth and development and is science backed. The mineral range - Micromax, poured and dehydrated molasses blocks - are formulated off years of herbage samples throughout New Zealand, so each product is specifically designed to complement New Zealand pasture based dairy systems to promote animal health and production.

Natalie Hughes, Nutrition and Quality Manager, SealesWinslow.



Customer value in all sectors

At Ballance, we pride ourselves in supporting customers to achieve the outcomes specific to them, whichever sector they are in. For us, it's about supporting farmers and growers and providing value in a way that is specific to them and the way they farm.

The group's purpose is to increase the knowledge of our Nutrient Specialists, to gain a better understanding of our customers'.

Our North and South Island sheep and beef groups have continued to address the needs of the sector and identify opportunities for both our farmers and for Ballance. The group's purpose is to increase the knowledge of our Nutrient Specialists, to gain a better understanding of our customers' farm systems and enable them to have more in-depth conversations on farm. In February, we rolled out an 18-month training programme. Planning for the next cohort of 24 interns is underway.

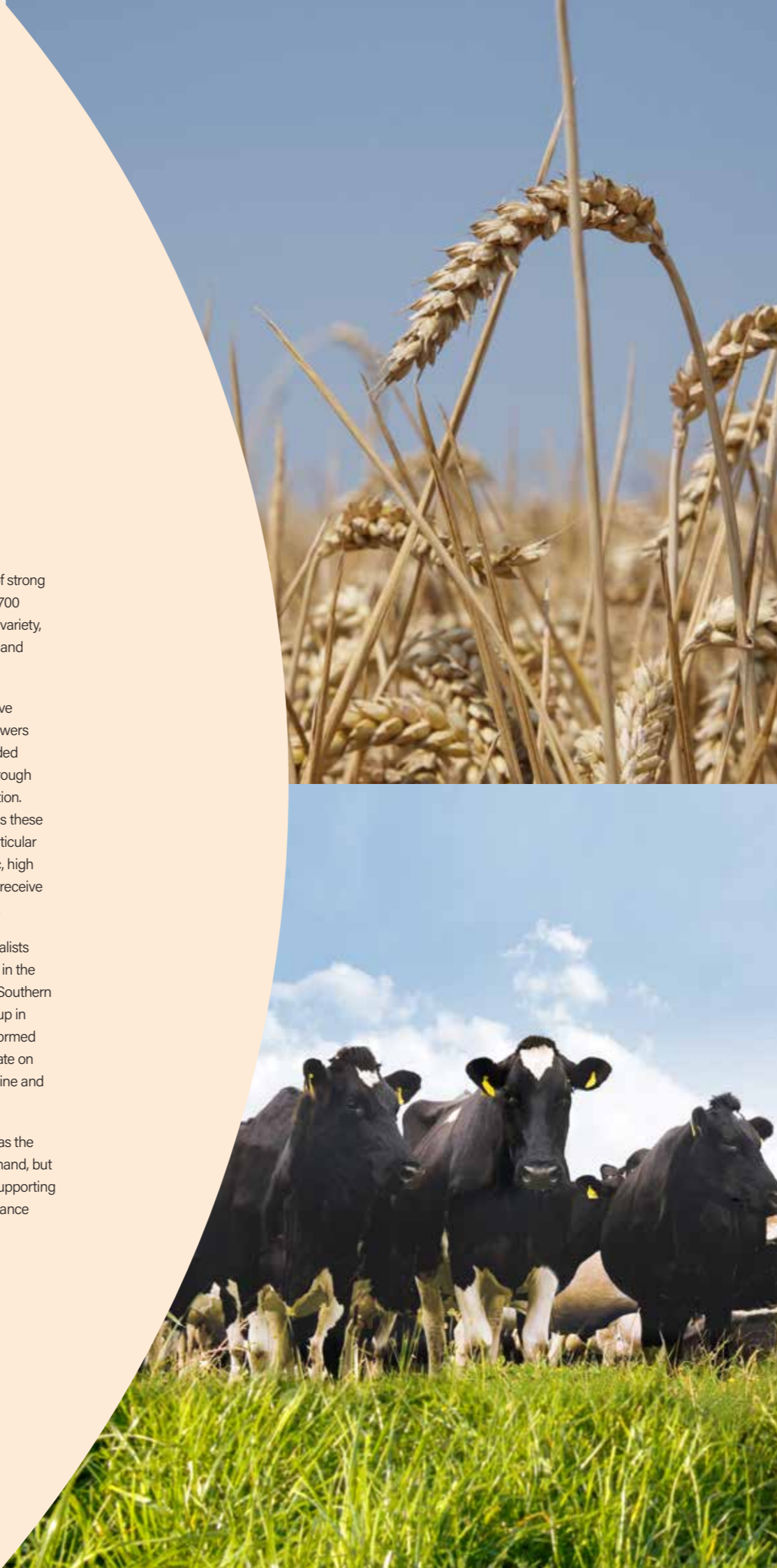
We are passionate about the sector and about increasing our contribution to the wider sheep and beef industry, which we believe has a key role in the future of global food and fibre exports.

Likewise, horticulture has had a year of strong growth, with Zespri releasing another 700 hectares of G3 license for its SunGold variety, in response to high demand forecasts and strong sales to date.

As well as strong market demand, we've noticed a shift in the demand from growers for high quality nutrients that are blended and well-granulated, ensuring ease through the machinery and optimising application. Our products are developed to address these needs, including our Yara range, in particular YaraMila Activa S product, a high spec, high quality product, which we continue to receive positive feedback about from growers.

We have two groups of Nutrient Specialists who are focused on horticulture – one in the Northern North Island and one in the Southern North Island, along with an arable group in the South Island. These groups were formed to upskill our team, keep them up to date on issues affecting the sector and determine and deliver potential solutions.

We continue to support dairy farmers as the sector recovers from falling global demand, but recovery continues to be strong and supporting this sector remains a key focus for Ballance over the next 12 months.



Innovating

together



Powered by the environment

Our focus is on supporting farmers in their day-to-day business by helping them to be future-ready. As a market leader in nutrients, this means we need to keep up with industry developments and changes, and drive innovations using clever science underpinned by experience, knowledge and leveraging our infrastructure.

A major innovation is the Green Hydrogen project, which is expected to provide a foundation for a hydrogen market in New Zealand (see case study page 55).

The development of SurePhos[®] enhanced our environmentally sustainable product range for a new generation of farmers (see case study page 31).

A complete digital solution

We invest in an extensive program of regional and national insights research to make sure we understand and address the current and future needs of our customers. This work also helps us to deliver a leading customer experience. Understanding how we are performing in the eyes of our customers and shareholders is key to driving our performance and our focus, and is also a great source of new ideas, innovation, and areas we can improve on.

Our suite of digital tools has been developed to assist customers with long-term planning and to provide practical solutions to help them farm, not only sustainably and productively, but as efficiently as possible.

Our MitAgator[®] tool aims to help farmers address potential contaminant losses and My Pasture Planner[®] helps to reduce nitrogen loss, both working to achieve the best environmental outcomes. My Farm Forecaster[®], developed in partnership with NIWA, works to ensure that this advice takes climatic forecasts and potential weather events into consideration.

My Farm Forecaster[®] also uses data from NIWA's Virtual Climate Station Network to produce forecasts for 1.5 km² grid cells across New Zealand, to provide a six-day forecast for temperature, rain and snow, wind speed and direction, humidity and cloud cover as well as monthly and seasonal outlooks.

It is considered the most high-resolution forecast available in New Zealand, and aims to provide forecasts for specific farms, allowing customers to plan key weather-dependent activities.

Our Super Air[®] top-dressing team uses SpreadSmart[®] to help customers ensure precise amount of nutrients are applied in the right areas, avoiding sensitive areas and waterways.

These tools are unique to Ballance and we have invested significantly to ensure they all integrate into our MyBallance[®] digital platform, to provide simple solutions that can be managed at your fingertips, taking the hard work out of running a business.



Helping farmers to be future-ready

Over the last 12 months, the government has proposed a trio of new, significant, environmental policies. As a co-operative, we are in the privileged position of being able to share the collective views of our farmer shareholders. This year, we provided submissions to the government on each of these policies, on behalf of our business, and our farmers.

Proposed policies will affect people across the industry, and we have a responsibility to make sure these policies are based on evidence, ensuring all points covered are rigorous and justified.

The government's proposed Climate Change Response (Zero-Carbon) Bill was developed to help New Zealand meet its commitments to the Paris Agreement of 2015, limiting global temperature increases to <1.5°C above pre-industrial levels. The Bill suggests doing this by setting new targets for reducing greenhouse gases by 2050 and establishing an independent Climate Change Commission.

While Ballance supports the country playing its part in international climate change mitigation action, we recognise the unique emissions footprint of New Zealand and the key role our agriculture sector plays in our economy and communities. In a submission on the Bill in July 2019, we highlighted the importance that any policy fully consider and support New Zealand businesses involved in the agriculture sector to provide a stable and practical foundation for action and investment in climate change mitigation and adaptation.

Following the Zero Carbon Bill, the government proposed and launched the Essential Freshwater policy, focused on improving water quality and management in New Zealand. While Ballance supports the policy's intent, our submission in October 2019, pointed out that the proposed

timings and targets were not realistic. Our submission pushed for science-based policy, acknowledgement of existing riparian fencing work, and identified areas where more work and reviews were needed to ensure resulting policies are efficient, practical and effective.

Finally, the government proposed the Indigenous Biodiversity policy. Again, we support the intent behind this policy, which is focused on protecting our native flora and fauna. However, our recent submission did raise concerns over its financial impact on some landowners, and the new rules creating a potential distraction from more immediate threats to biodiversity, such as invasive pests and weeds. We proposed a refreshed framework that addressed this issue and stated that a clear national prioritisation of species was vital.

It is important that our nutrient specialists are able to have policy rich conversations with customers, so we have taken a number of measures to equip them with the knowledge and the latest information to do this. Our Science Extension team delivered a series of internal training webinars to explain the new policies, along with detailed fact sheets and a summary of each of our submissions. Senior Ballance representatives presented our submission for the proposed Climate Change Response Bill to the Environment Select Committee in Wellington earlier this year. It is important that government officials hear from farmer representative groups.

Our Farm Sustainability Services, Science Extension and sales teams are involved in several catchment groups around the country. Formed to create a common vision for the positive environmental outcomes for local waterways, catchment groups represent both a collective effort to engage on water quality and a connection to your land.

It is important that we walk the talk in terms of protecting the environment.

Catchment groups visions are often aligned with our own, as is their attitude towards innovation, often being early adopters. We anticipate many more catchment groups with government support will be set up in subsequent years. Our suite of digital tools, (particularly MitAgator®) have a lot to offer in this space.



Care to make a difference

The health and safety of our people is critical to our business. We employ nearly 800 people, and during major shutdowns of our three manufacturing plants we can have up to 1,000 contractors onsite. Two years ago, we started to see a sharp and concerning spike in our injury rates and we knew we needed to act quickly.

The result was a massive rethink of our health and safety culture – the overly policy driven approach wasn't connecting in a meaningful way with our people, so we completely turned it on its head. What followed was development of the Care Ownership Wellbeing and Safety programme (C.O.W.S), an in-house initiative created and led by our people, that established a cultural framework which delved into the mindsets, beliefs and attitudes which drive behaviour.

Initially rolled out to our 160 people leaders, the success of the programme was such that we soon rolled it out to our entire workforce. As well as the tangible measures of success, including an increase in reporting of lead indicators and a downward trend in incident frequency rate, we saw a massive lift in positive behaviours, a breakdown in team silos, and an increase in collaboration across the organisation.

The programme's success has been recognised across the industry, winning the Employee Experience Initiative of the Year Award at the 2019 Humankind Employee Experience Awards and saw the C.O.W.S team named in the Human Resource Director's Top 20 Innovative HR Teams in 2020.

C.O.W.S takes people out of their comfort zone and helps them to connect with the humanness we all share. It challenges traditional workplace relationships, allowing us to move away from a "she'll be right" attitude to a more considered approach where we all look out for our team mates every day.

.....
As well as the tangible measures of success, including an increase in reporting of lead indicators and a downward trend in incident frequency rate, we saw a massive lift in positive behaviours, a breakdown in team silos, and an increase in collaboration across the organisation.
.....



Grahame Fitzgerald, Key Accounts Manager, North Island, Sarah Becker, Health and Safety Manager, Rochelle Spillane, Organisational Capability Leader, Bruce Taplin, Safety Health Environmental Quality Manager.

A shared vision to create a green economy

With the help of farmers, the Taranaki community, iwi and government, Hiringa Energy and Ballance are establishing a world-first green hydrogen project in Kapuni, Taranaki. Green hydrogen will be a significant decarbonisation project for our vital agricultural sector.

We can limit New Zealand's agricultural inputs by substituting the current natural gas (CH4) feedstock with green hydrogen into the Kapuni ammonia-urea plant. The manufacture of green ammonia-urea will offset up to 12,500 tonnes of carbon emissions and eliminate the equivalent amount of CO₂.

In addition to green ammonia-urea the project will supply the Kapuni ammonia-urea plant directly with renewable electricity from wind energy.

This is a catalyst project to transition New Zealand to a sustainable, hydrogen-based transport network, and prove that this new energy technology is a commercial scalable solution for other industrial operations. The joint venture with Hiringa Energy for the green hydrogen production alone is expected to generate sufficient 'green' hydrogen to supply up to 6,000 cars, or 300 buses and trucks per year.

By leveraging the amazing skills and existing energy sector infrastructure in Taranaki the project will support significant regional economic growth. Around 220 people are expected to be involved in the planning and execution of the project. In March 2020, the Deputy Prime Minister announced a \$19.9 million investment into the project from the Provincial Growth Fund (PGF). The PGF investment will accelerate the construction of industrial scale hydrogen from an

electrolyser. Four large wind turbines with capacity of at least 16MW will supply renewable electricity to the plant.

Ballance Agri-Nutrients' ammonia-urea plant in Kapuni is New Zealand's largest producer of nitrogen-rich fertiliser – which is critical to all aspects of agricultural food production, including vegetables, fruit, meat, and dairy.

This project is a meaningful example of Kaitiakitanga – the concept of guardianship and protecting the natural environment, as it represents a major step towards reducing our environmental footprint across the board, for the benefit of future generations.

Over the next two years the wind turbines will be built, the electrolysers commissioned, and production of green hydrogen is expected to commence in FY23.

\$19.9M

Government support for our Green Hydrogen project

12,500t

Carbon emissions offset

Green Hydrogen will be a first for New Zealand and an enabler as we transition to a hydrogen economy.





Crunching the numbers

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Consolidated Income Statement

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTE	GROUP 2020 \$000	GROUP 2019 \$000
Revenue before rebate	2	891,274	910,472
Rebates to shareholders	8	(54,107)	(57,045)
Revenue after rebate		837,167	853,427
Cost of sales		(655,961)	(679,114)
Gross profit		181,206	174,313
Other operating income	2	12,113	8,861
Sales, marketing and distribution expenses		(99,400)	(105,534)
Administrative expenses		(61,003)	(55,231)
Other operating expenses	3	(2,516)	(2,735)
		(150,806)	(154,639)
Net financing costs	6	(5,951)	(4,256)
Impairment write down	7	(9,708)	-
Share of profit / (loss) from equity accounted investments		2	(6)
Profit before tax		14,743	15,412
Income tax expense	9	(5,802)	(3,469)
Profit for the year		8,941	11,943

Non GAAP supplementary note:

Profit before tax		14,743	15,412
Add back:			
Rebates to shareholders	8	54,107	57,045
Profit before rebate and tax		68,850	72,457

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

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

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTE	2020 \$000	2019 \$000
Profit for the year		8,941	11,943
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		14,212	20,423
Amount removed from equity, in relation to cash flow hedges, and included in initial cost of inventory on hand during the period		(19,392)	(15,098)
Income tax on items recognised directly in other comprehensive income	9	1,450	(1,491)
Other comprehensive income, net of income tax		(3,730)	3,834
Total comprehensive income for the year		5,211	15,777

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 2020. 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
	23(a)	23(b)	23(b)		
Balance at 1 June 2018	186,844	17,225	3,478	229,556	437,103
Profit for the year	-	-	-	11,943	11,943
Net change in the fair value of cash flow hedges	-	-	5,325	-	5,325
Income tax relating to components of other comprehensive income	-	-	(1,491)	-	(1,491)
Other comprehensive income for the year, net of tax	-	-	3,834	-	3,834
Shares issued	117	-	-	-	117
Shares provided / issued in lieu of rebate	17,309	(595)	-	-	16,714
Shares repurchased	(10,168)	-	-	-	(10,168)
Total transactions with owners	7,259	(595)	-	-	6,664
Balance at 31 May 2019	194,103	16,630	7,312	241,499	459,544
Balance at 1 June 2019	194,103	16,630	7,312	241,449	459,544
Profit for the year	-	-	-	8,941	8,941
Net change in the fair value of cash flow hedges	-	-	(5,180)	-	(5,180)
Income tax relating to components of other comprehensive income	-	-	1,450	-	1,450
Other comprehensive income for the year, net of tax	-	-	(3,730)	-	(3,730)
Shares issued	115	-	-	-	115
Shares provided / issued in lieu of rebate	16,592	(630)	-	-	15,962
Shares repurchased	(10,877)	-	-	-	(10,877)
Total transactions with owners	5,830	(630)	-	-	5,200
Balance at 31 May 2020	199,933	16,000	3,582	250,440	469,955

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

Consolidated Balance Sheet

AS AT 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTE	2020 \$000	2019 \$000
Shareholders' equity			
Paid-in capital		199,933	194,103
Retained earnings and other reserves		270,022	265,441
Total equity		469,955	459,544
Current liabilities			
Bank revolving cash advance facility	19	29,500	23,000
Trade and other payables	18	101,802	87,123
Derivative liabilities	24	2,291	28
Rebate payable	8	38,180	40,405
Provisions	20	2,676	5,068
Lease liabilities	16	8,875	-
Income tax payable		5,585	-
Total current liabilities		188,909	155,624
Non-current liabilities			
Provisions	20	7,015	7,400
Lease liabilities	16	30,174	-
Deferred tax liabilities	10	-	1,061
Total non-current liabilities		37,189	8,461
Total liabilities		226,098	164,085
Total equity and liabilities		696,053	623,629
Current assets			
Cash and cash equivalents		16,024	8,456
Trade and other receivables	11	105,195	103,765
Inventories	12	159,780	161,651
Derivative assets	24	9,258	11,085
Intangible assets	17	9,900	6,998
Assets held for sale	13	1,039	-
Income tax receivable		-	2,241
Total current assets		301,196	294,196
Non-current assets			
Investments in equity accounted investees		124	122
Loan to equity accounted investees		575	575
Deferred tax assets	10	2,587	-
Property, plant and equipment	15	310,624	291,227
Lease assets	16	38,461	-
Intangible assets	17	42,486	37,509
Total non-current assets		394,857	329,433
Total assets		696,053	623,629

For and on behalf of Board of Directors:



DE Peacocke
Director
29 July 2020



SD Robertson
Director
29 July 2020

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 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTE	2020 \$000	2019 \$000
Cash flows from operating activities			
Cash receipts from customers		890,146	892,852
Cash paid to suppliers and employees		(744,993)	(786,880)
Interest received		185	445
Dividends received		24	11
Insurance proceeds		-	6,960
Government grants		14	156
Rebate to shareholders		(56,962)	(56,660)
Less shares issued in lieu of rebate		16,592	17,309
Net rebate paid		(40,370)	(39,351)
Interest paid		(4,362)	(3,476)
Income tax (paid) / received		(175)	(7,005)
Net cash flow from operating activities	21	100,469	63,712
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		1,083	3,411
Acquisition of property, plant and equipment and intangibles		(81,307)	(87,085)
Net cash flow from investing activities		(80,224)	(83,674)
Cash flows from financing activities			
Proceeds from issue of co-operative shares		115	117
Repurchase of surrendered shares		(10,109)	(9,633)
Net drawdown of borrowings		6,500	23,000
Payment of lease liabilities		(9,183)	-
Loan to equity accounted investees		-	(300)
Net cash flow from financing activities		(12,677)	13,184
Net movement in cash and cash equivalents		7,568	(6,778)
Cash and cash equivalents at 1 June		8,456	15,234
Cash and cash equivalents at 31 May		16,024	8,456

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 2020. 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 Company is a Financial Markets Conduct Act 2013 reporting entity in terms of the 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 2020 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 Generally Accepted Accounting Practice in New Zealand, which is the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate to profit-oriented entities. They also comply with International Financial Reporting Statements.

The consolidated financial statements are presented in New Zealand dollars (NZD)(\$), which is the Company's functional currency.

All financial information presented in NZD (\$) has been rounded to the nearest thousand unless otherwise stated. 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 29 July 2020.

b) Use of estimates and judgements

The preparation of the financial statements requires the use of judgements, estimates and applying assumptions that affect the amounts reported in the financial statements.

These have been based on historical experience and other factors believed 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 7 and 15 - Impairment - (impairment test of Seales Winslow CGU)
- Note 15 - Useful life of property, plant and equipment
- Note 16 - Leases - (lease terms: whether the Group is reasonably certain to exercise options to extend)
- Note 17 - Intangible assets - (useful lives of software)
- Note 20 - Provisions - (site restoration)

c) New standards and interpretations

The following new standard became applicable for the year ending 31 May 2020 and the Group has had to change its accounting policies as a result of adopting the following standard:

NZ IFRS 16 Leases

The Group has initially adopted NZ IFRS 16 Leases from 1 June 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed in Note 16. The Group has elected to adopt the modified retrospective approach. Comparative information and opening equity are therefore not restated.

d) Change in prior year comparatives

Certain comparatives have been adjusted as a result of a change in the way the allocation of intangible assets are reported. Emissions trading scheme credits are now split between current and non-current assets and has resulted in reclassification in 2019 figures.

2. REVENUE AND OTHER OPERATING INCOME

	2020 \$000	2019 \$000
Sale of goods	876,671	897,283
Services provided	14,603	13,189
Total revenue	891,274	910,472
Other operating income		
Net gain on disposal of property, plant and equipment	-	311
Other dividend income	24	11
Government grants including NZ ETS credits	9,490	7,038
Insurance claims	1,748	1,000
Other	851	501
	12,113	8,861

Insurance claims included recoveries relating to the claim for damage to a catalyst vessel at the Kapuni ammonia urea plant in 2016. In the current year an additional \$1.748m insurance recovery has been recorded in relation to the claim (2019: \$1.0m). Of these claims, \$2.748m is outstanding at balance date. This is recorded within Trade and other receivables (note 11).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

2. REVENUE AND OTHER OPERATING INCOME (CONTINUED)

Policy

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

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

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

3. OTHER OPERATING EXPENSES

	2020 \$000	2019 \$000
Net loss on disposal of property, plant and equipment	119	-
Research and development expense	2,338	2,671
Donations	50	29
Other	9	35
	2,516	2,735

4. PERSONNEL EXPENSES

	Note	2020 \$000	2019 \$000
Wages and salaries		82,712	79,394
Contributions to defined contribution superannuation plans		4,821	4,816
Increase / (decrease) in liability for long-service leave	20	35	246
		87,568	84,456

5. AUDITORS' REMUNERATION

	2020 \$000	2019 \$000
Audit services		
Audit of financial statements	180	160
Other audit related fees - share register fee	2	2
Other services		
Taxation services - compliance	35	35
Taxation services - advice	23	39
	240	236

6. FINANCING INCOME AND EXPENSE

	Note	2020 \$000	2019 \$000
Financing income			
Interest from bank		185	445
Financing expense			
Interest paid to banks		2,919	3,476
Unwind of discount rate on deferred and contingent consideration	20	3	-
Interest on lease liabilities	16	1,439	-
Other financial expenses		1,775	1,225
		6,136	4,701
Financing costs (net)		5,951	4,256

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

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, interest on lease liabilities, 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. IMPAIRMENT

	Note	2020 \$000	2019 \$000
Impairment of Seales Winslow	15	9,708	-

During the year, the Group has recognised a \$9.7m impairment charge relating to Seales Winslow where the carrying amount exceeded the recoverable amount (refer Note 15). This principally related to the carrying values of the plant and equipment of the business.

Policy

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

8. REBATE

	2020 \$000	2019 \$000
Rebate provided for current year	54,180	57,035
Rebate for the prior year (over) / under provided and recognised in the current year	(73)	10
	54,107	57,045
Balance Sheet:		
Rebate provided for the current year	54,180	57,035
Less rebate allocated to the share allotment reserve	(16,000)	(16,630)
	38,180	40,405

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 shareholding to meet 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.

9. INCOME TAX EXPENSE / (BENEFIT)

	2020 \$000	2019 \$000
Reconciliation of income tax expense / (benefit)		
Profit before tax	14,743	15,412
Income tax using the domestic company tax rate - 28%	4,128	4,315
Increase / (decrease) in income tax expense due to:		
Non-deductible expenses	3,075	152
Tax exempt revenues	(701)	(811)
Tax losses de-recognised	698	-
Adjustments for prior years	(800)	59
Buildings re-classified as deductible	(1,399)	-
Other	801	(246)
Income tax expense / (benefit) in income statement	5,802	3,469
Comprising:		
Current tax	8,000	(1,088)
Deferred tax	(2,198)	4,557
	5,802	3,469
Income tax recognised directly in other comprehensive income		
Derivatives	(1,450)	1,491

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

9. INCOME TAX EXPENSE / (BENEFIT) (CONTINUED)

	2020 \$000	2019 \$000
Imputation credits		
The imputation credits are available to shareholders of the parent company:		
through the parent company	122,186	119,503
through subsidiaries	1,743	1,743
	123,929	121,246

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 / (LIABILITY)

	PPE AND INTANGIBLES \$000	PROVISIONS AND ACCRUALS \$000	HEDGE RESERVE \$000	OTHER \$000	TOTAL \$000
Balance at 1 June 2018	(1,096)	4,280	(1,353)	3,156	4,987
Recognised in profit or loss	(5,905)	574	-	774	(4,557)
Recognised in other comprehensive income	-	-	(1,491)	-	(1,491)
Balance at 31 May 2019	(7,001)	4,854	(2,844)	3,930	(1,061)
Recognised in profit or loss	2,798	702	-	(1,302)	2,198
Recognised in other comprehensive income	-	-	1,450	-	1,450
Balance at 31 May 2020	(4,203)	5,556	(1,394)	2,628	2,587

Included within Other is the tax value of losses carried forward of \$nil (2019: \$0.698m). There are unused tax losses of \$0.698m not recognised in deferred tax.

Policy

Deferred tax is:

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

11. TRADE AND OTHER RECEIVABLES

	2020 \$000	2019 \$000
Current		
Trade and other receivables	96,179	98,942
Prepayments	9,016	4,823
	105,195	103,765
Trade and other receivables status		
Not past due	90,666	96,800
past due 0 – 30 days	4,099	1,785
past due 31 – 120 days	1,233	347
past due > 120 days	181	10
Total	96,179	98,942

Policy

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

Impairment

The Group assesses on a forward-looking basis, the expected credit losses associated with trade receivables. Included in trade receivables are debtors which are past due at balance date and for which no allowance for impairment has been made (2019: nil). The Group monitors the credit quality of its receivables and does not anticipate non-performance.

12. INVENTORIES

	2020 \$000	2019 \$000
Manufactured and finished products	108,937	120,521
Raw materials	15,577	17,082
	124,514	137,603
Goods in transit	26,959	11,088
Packaging	4,146	3,696
Consumables and spares	4,161	9,264
	159,780	161,651

The write-down of inventories to net realisable value amounted to \$0.4m (2019: nil).

An impairment provision of \$1.4m has been provided for consumables and spares.

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. Items held for sales are highly probable to be sold within the next 12 months.

At 31 May 2020 the disposal group comprised the following assets:

	NOTE	2020 \$000	2019 \$000
Land	15	1,039	-

14. INVESTMENTS

The Company has the following material investments:

a) Subsidiaries

	PRINCIPAL ACTIVITY	2020 BALANCE DATE	INTEREST	2019 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%
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 investee

	PRINCIPAL ACTIVITY	2020 BALANCE DATE	INTEREST	2019 BALANCE DATE	INTEREST
NZ Phosphate Company Limited	Research	30 June	50%	30 June	50%

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

14. INVESTMENTS (CONTINUED)

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 IMPROVEMENTS \$000	BUILDINGS \$000	PLANT, EQUIPMENT AND AIRCRAFT \$000	UNDER CONSTRUCTION \$000	TOTAL \$000
Carrying value 1 June 2018		47,814	52,562	124,490	17,989	242,855
Cost		54,016	113,195	353,605	17,989	538,805
Accumulated depreciation		(6,202)	(60,633)	(229,115)	-	(295,950)
Acquisitions / (transfers)		1,469	3,930	54,212	22,431	82,042
Depreciation expense		(486)	(4,336)	(26,072)	-	(30,894)
Disposals - cost		(1,499)	(2,990)	(26,580)	-	(31,069)
Disposals - accumulated depreciation		56	2,096	25,818	-	27,970
Reclassification from (to) assets held for sale		-	-	323	-	323
Carrying value 31 May 2019		47,354	51,262	152,191	40,420	291,227
Cost		53,985	114,135	384,530	40,420	593,070
Accumulated depreciation		(6,631)	(62,873)	(232,338)	-	(301,842)
Acquisitions / (transfers)		7,601	19,833	36,536	2,303	66,273
Depreciation expense		(548)	(4,694)	(29,685)	-	(34,927)
Impairment	7	-	-	(9,708)	-	(9,708)
Disposals - cost		-	(8)	(7,912)	-	(7,920)
Disposals - accumulated depreciation		-	8	6,710	-	6,718
Reclassification from (to) assets held for sale	13	(1,039)	-	-	-	(1,039)
Carrying value 31 May 2020		53,368	66,401	148,132	42,723	310,624
Cost		60,548	133,959	413,154	42,723	650,384
Accumulated depreciation		(7,180)	(67,558)	(265,022)	-	(339,760)

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 - 20 years

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

The economic life has been based on a number of factors including judgements on gas availability, international urea price forecasts and the capital expenditure required on the current plant. Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Impairment testing for cash-generating units (CGU)

Impairment of property, plant and equipment was tested for Seales Winslow Limited as at May 2020 and as a result an impairment loss of \$9.7m has been recognised in the current year due to indications of impairment, in particular the fair value less costs of disposal shortfall when compared with the carrying value of its net assets (refer Note 7). Over recent years Seales Winslow has underperformed and the business has not met Management's expectations of targeted levels of profitability. A combination of internal and independent external validation were utilised for the estimated recoverable value of property, plant and equipment used by Management in the assessment. Based on a fair value less costs of disposal approach the recoverable value is \$26.9m. The land, building and improvements have been assessed against an external valuation report based on comparable values in the same locations and an assessment of alternative uses within the Group. For plant items the recoverable amount has been principally assessed based on an external valuation assessment. Following the impairment loss recognised in the Group's Seales Winslow CGU (refer Note 7), the recoverable amount was equal to the carrying amount. Therefore, any adverse movement in values will likely lead to further impairment.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

Property, plant and equipment held for sale

Property, plant and equipment assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification, as held for sale the assets are remeasured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying value amount and fair value less cost to sell. Impairment losses on initial classification as held for sale are recognised in profit or loss. For an asset to be classified as held for sale it must be immediately available for sale in its present condition and its sale must be highly probable. Once classified as held for sale the assets are no longer depreciated.

Capital expenditure commitments

The estimated capital expenditure for PPE contracted for at balance date but not provided is \$6.1m for the Group (2019: \$15.4m).

16. LEASES

Leases as lessee

Right of use asset	PROPERTY \$000	VEHICLES \$000	OTHER \$000	TOTAL \$000
Movement on transition	34,685	4,348	266	39,299
Additions	7,382	931	620	8,933
Completed leases - cost	(13)	(318)	(15)	(346)
Completed leases - accumulated depreciation	13	318	15	346
Depreciation expense	(7,651)	(1,796)	(324)	(9,771)
Carrying value 31 May 2020	34,416	3,483	562	38,461
Cost	42,054	4,961	870	47,885
Accumulated depreciation	(7,638)	(1,478)	(308)	(9,424)

Lease liability	MINIMUM LEASE PAYMENT \$000	INTEREST \$000	PRESENT VALUE \$000
Within one year	10,264	1,389	8,875
Two to three years	8,030	1,018	7,012
Four to five years	14,940	1,731	13,209
Greater than five years	11,010	1,057	9,953
	44,244	5,195	39,049

Leases reported in the Balance Sheet as:

- current liabilities	8,875
- non-current liabilities	30,174
	39,049

Transition to NZ IFRS 16 Leases

Opening lease commitment at 31 May 2019 as disclosed in the Groups financial statements:	48,328
Adjusted for:	
Low value assets	(177)
Short-term leases and adjustment to leases	(1,659)
	46,492
Discounted using incremental borrowing rates:	
Lease liabilities recognised at 1 June 2019	39,299

The following table details the impact of the adoption of NZ IFRS 16 on the Income Statement for 2020:

Operating lease expense	(10,622)
Profit before interest, depreciation and tax	10,622
Depreciation	9,771
Interest cost	1,439
Net profit/(loss) before taxation	(588)

The majority of leases are for distribution and storage facilities, and motor vehicles.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

16. LEASES (CONTINUED)

Policy

Lease liabilities are measured at the present value of future lease payments, discounted at the rate implicit in the lease or at the Group's incremental borrowing rate which ranges between 2% and 9%. Right of use assets are initially accounted for at cost, comprising the initial amount of the lease liability. Right of use assets are subsequently depreciated using the straight-line method over the term of the lease. When considering the lease term, the Group applies judgement in determining whether it is reasonably certain that an extension or termination option will be exercised.

Transition

The Group applied NZ IFRS 16 from 1 June 2019 using the modified retrospective approach with the right-of-use (ROU) asset being equal to the lease liability. The ROU assets are subsequently depreciated using the straight line method over the shorter of the estimated lives of the ROU assets or the remaining estimated lease term. The estimated useful lives of ROU assets are determined on the same basis as similar owned assets within property, plant and equipment. The lease liabilities are initially measured at the present value of the unpaid lease payments at commencement date, discounted using a discount rate.

In the process of adopting NZ IFRS a number of judgements and estimates have been made. These include:

- incremental borrowing rate at time of adoption.
 - lease terms, including any rights of renewals expected to be exercised. Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.
 - application of practical expedients and recognition exemptions allowed by the new standard.
- An increase / decrease of 1% in the IBR would not materially change the opening value of ROU asset or lease liability.

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

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

17. INTANGIBLE ASSETS

	GOODWILL \$000	EMISSIONS TRADING SCHEME \$000	PATENTS & TRADEMARKS \$000	SOFTWARE \$000	TECHNOLOGY SYSTEMS & LICENCES \$000	TOTAL \$000
Carrying value 1 June 2018	-	13,133	40	25,522	-	38,695
Cost	-	13,133	40	67,448	3,425	84,046
Accumulated amortisation	-	-	-	(41,926)	(3,425)	(45,351)
Acquisitions	-	-	-	8,515	-	8,515
Movement in development costs	-	-	-	(3,431)	-	(3,431)
Grant - net allocation of emissions trading scheme credits	-	5,877	-	-	-	5,877
Amortisation	-	-	-	(5,109)	-	(5,109)
Disposals - cost	-	-	(40)	(3,127)	(3,425)	(6,592)
Disposals - accumulated amortisation	-	-	-	3,127	3,425	6,552
Carrying value 31 May 2019	-	19,010	-	25,497	-	44,507
Cost	-	19,010	-	69,405	-	88,415
Accumulated amortisation	-	-	-	(43,908)	-	(43,908)
Acquisitions	737	-	-	12,092	-	12,829
Movement in development costs	-	-	-	2,205	-	2,205
Grant - net allocation of emissions trading scheme credits	-	(257)	-	-	-	(257)
Amortisation	-	-	-	(6,898)	-	(6,898)
Disposals - cost	-	-	-	(114)	-	(114)
Disposals - accumulated amortisation	-	-	-	114	-	114
Carrying value 31 May 2020	737	18,753	-	32,896	-	52,386
Cost	737	18,753	-	83,588	-	103,078
Accumulated amortisation	-	-	-	(50,692)	-	(50,692)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

Intangible assets are reported in the Balance Sheet as:

	GOODWILL \$000	EMISSIONS TRADING SCHEME \$000	PATENTS AND TRADEMARKS \$000	SOFTWARE \$000	TECHNOLOGY SYSTEMS AND LICENCES \$000	TOTAL \$000
May-19						
Current assets	-	6,998	-	-	-	6,998
Non-current assets	-	12,012	-	25,497	-	37,509
	-	19,010	-	25,497	-	44,507
May-20						
Current assets	-	9,900	-	-	-	9,900
Non-current assets	737	8,853	-	32,896	-	42,486
	737	18,753	-	32,896	-	52,386

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 and are not amortised 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.

Goodwill is associated with Super Air Limited purchasing the assets of an aerial topdressing company during the year which included contingent consideration (note 20).

18. TRADE AND OTHER PAYABLES

	2020 \$000	2019 \$000
Current		
Trade payables and accrued expenses	73,299	61,619
Share repurchase installments	5,844	5,076
Employee benefits	8,857	7,064
Emissions trading scheme - deferred income	4,491	7,047
Emissions trading scheme - liability	3,518	2,317
Non-trade payables and accrued expenses	5,793	4,000
	101,802	87,123

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

19. LOANS AND BORROWINGS

At 31 May 2020 the committed and uncommitted bank facilities available were \$332m, of which \$29.5m was drawn in the Group (2019: facility \$230m, actual drawn \$23m).

The average interest rate in 2020 was 1.73%. 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 2020 and 2019.

20. PROVISIONS

	NOTE	2020 \$000	2019 \$000
Employee benefits - long-service leave provision			
Opening balance		1,419	1,173
Movement in provision	4	35	246
Closing balance		1,454	1,419
Contingent consideration			
Opening balance		-	-
Movement in provision		737	-
Unwind of discount	6	3	-
Closing balance		740	-
Holidays Act remediation			
Opening balance		2,600	2,600
Movement in provision		52	-
Cash payment		(755)	-
Closing balance		1,897	2,600
Site Restoration			
Opening balance		8,449	9,081
Movement in provision		456	2,500
Utilised		(3,305)	(3,132)
Closing balance		5,600	8,449
Total provisions		9,691	12,468

Total provisions are reported in the Balance Sheet as:

Current liabilities	2,676	5,068
Non-current liabilities	7,015	7,400
	9,691	12,468

The Holidays Act remediation provision relates to the correction of annual, bereavement, alternate, parental and sick leave owed to current and former employees from November 2011. Calculation and payment is expected to be completed in the 2021 financial year.

The site restoration provision has been updated based on external and internal assessments of the work completed to date on the Northland Hub leased site. Costs are expected to be incurred over the next one to two years. \$5.2m remains as a provision for the Northland Hub leased site. Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred. The remaining provision is for the remediation of other facilities with asbestos related issues.

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

Policy

A provision is recognised where the likelihood of a resultant liability from a past event 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 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

21. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2020 \$000	2019 \$000
Profit for the year	8,941	11,943
Add non-cash and non-operating items:		
Inventory write-down to net present value	416	-
Depreciation	44,698	30,894
Amortisation	6,898	5,109
Emissions trading scheme - net cost of carbon	(1,098)	(1,526)
Impairment write down	9,708	-
Derivative fair value	1,772	124
Loss (gain) on sale of property, plant and equipment	119	(311)
Employee benefits	35	246
Rebate transferred to Share Allotment Reserve	15,962	16,714
Equity accounted earnings of associates	(2)	6
Increase / (Decrease) in deferred tax	(2,198)	4,557
Add (deduct) movements in working capital:		
Movement in trade and other receivables	(3,216)	(3,900)
Movement in inventories	978	4,819
Movement in trade and other payables	11,855	2,150
Movement in rebate payable	(2,225)	980
Movement in tax receivable	7,826	(8,093)
Net cash from operating activities	100,469	63,712

22. RELATED PARTIES

Identity of related parties

Related parties of the Group include the subsidiaries and associates disclosed in note 14, and key management personnel (directors and the executive team). The Group may transact on an arms' length basis with companies in which directors have a disclosed interest. Sales and rebates paid to directors and their disclosed interests are less than 2% of the total operating revenue and rebates for the year respectively.

	2020 \$000	2019 \$000
Transactions with external related parties through common directorship, control or significant influence		
Revenue	11,566	9,869
Expenses	7,852	7,334
Rebate	476	452
Balances with external related parties through common directorship, control or significant influence		
Amounts owing to the company	1,702	1,948
Amounts owed by the company	164	219
Key management personnel and directors compensation		
Short term employee benefits, excluding directors	5,419	4,915
Directors' fees	775	758
Total	6,194	5,673

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

23. CAPITAL AND RESERVES

a) Share capital

(i) Reconciliation of movement in co-operative shares

	2020 000s	2019 000s
Opening balance	43,473	42,653
Co-operative shares issued	14	14
Co-operative shares issued in lieu of rebate	2,048	2,137
Co-operative shares repurchased	(1,419)	(1,332)
Closing balance	44,116	43,473

(ii) Co-operative shares

All shares are fully paid and have no par value. Each share has a nominal value of \$8.10 (2019: \$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 1,418,582 shares (2019: 1,331,885) were repurchased at an average price of \$7.67 per share (2019: \$7.63) 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 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

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:

	2020 \$000 USD	2019 \$000 USD
Foreign currency risk USD		
Bank accounts	324	1,108
Trade payables	(15,334)	(12,270)
Net balance sheet exposure before hedging	(15,010)	(11,162)
Forward exchange contracts relating to exposures	15,010	11,162
Net unhedged exposure	-	-

Sensitivity analysis

At 31 May 2020 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 2020 \$000	PROFIT OR LOSS 2020 \$000	EQUITY 2019 \$000	PROFIT OR LOSS 2019 \$000
Forward exchange contracts	+10%	(23,798)	-	(25,985)	-
	-10%	29,087	-	31,759	-

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 2020. 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
- Regular reviews to determine any potential expected credit losses that require recognition

d) Liquidity risk

	CARRYING VALUE \$000	CONTRACTUAL CASH FLOWS \$000	0 - 12 MONTHS \$000
2020			
Unsecured bank loans	29,500	29,500	29,500
Trade and other payables	101,802	101,802	101,802
Net rebates payable	38,180	38,180	38,180
Total non-derivative liabilities	169,482	169,482	169,482
Net settled foreign exchange derivatives used for hedging:	6,967	6,783	6,783
	CARRYING VALUE \$000	CONTRACTUAL CASH FLOWS \$000	0 - 12 MONTHS \$000
2019			
Unsecured bank loans	23,000	23,000	23,000
Trade and other payables	87,123	87,123	87,123
Net rebates payable	40,405	40,405	40,405
Total non-derivative liabilities	150,528	150,528	150,528
Net settled foreign exchange derivatives used for hedging:	11,057	11,808	11,808

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.

e) Classification and fair values

	FAIR VALUE - HEDGING INSTRUMENTS \$000	AMORTISED COST \$000	TOTAL CARRYING AMOUNT \$000
2020			
Assets			
Derivatives	9,258	-	9,258
Trade and other receivables	-	96,179	96,179
Cash and cash equivalents	-	16,024	16,024
Total assets	9,258	112,203	121,461

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

e) Classification and fair values (continued)

	FAIR VALUE - HEDGING INSTRUMENTS \$000	AMORTISED COST \$000	TOTAL CARRYING AMOUNT \$000
2020			
Liabilities			
Derivatives	2,291	-	2,291
Trade and other payables	-	101,802	101,802
Net rebates payable	-	38,180	38,180
Bank Loans	-	29,500	29,500
Total liabilities	2,291	169,482	171,773

	FAIR VALUE - HEDGING INSTRUMENTS \$000	AMORTISED COST \$000	TOTAL CARRYING AMOUNT \$000
2019			
Assets			
Derivatives	11,085	-	11,085
Trade and other receivables	-	98,942	98,942
Cash and cash equivalents	-	8,456	8,456
Total assets	11,085	107,398	118,483
Liabilities			
Derivatives	28	-	28
Trade and other payables	-	87,123	87,123
Net rebates payable	-	40,405	40,405
Bank loan	-	23,000	23,000
Total liabilities	28	150,528	150,556

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 - There were no material contingent liabilities at balance date.

26. SUBSEQUENT EVENTS

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

27. COVID-19

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

As a designated essential industry servicing the rural sector the Group continued to operate through level 3 and level 4 lockdown and up until balance date and the date of signing these financial statements there was no material impact from COVID-19 on the financial position or performance.

The duration and impact of the COVID-19 pandemic remains unclear at this time. It is not possible to reliably estimate the duration and severity of the consequences, as well as the impact on the financial position and results of the Group for future periods. Management will continue to assess the Group's ability to continue as a going concern and consider all available information about the future. Key financial and non-financial areas identified as requiring on-going assessment and review are debtors and the level of estimated credit losses, supply chain disruptions and the economic outlook of the agriculture and horticulture sectors.

Independent Auditor's Report

To the Shareholders of Ballance Agri-Nutrients Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Ballance Agri-Nutrients Limited (the 'Company') and its subsidiaries (the 'Group') on pages 59 to 78:

- i. Present fairly in all material respects the Group's financial position as at 31 May 2020 and its financial performance and cash flows for the year ended on that date; and
- ii. Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- The consolidated balance sheet as at 31 May 2020;
- The consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$4.3 million determined with reference to a benchmark of Group total expenses. We chose the benchmark because, in our view, this is a key measure of the Group's performance.

Key audit matters

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

The key audit matter

How the matter was addressed in our audit

Impairment of Assets (\$9.7m)

As disclosed in Notes 7 and 15 of the financial statements, the Group has recorded an impairment of \$9.7 million (2019: \$nil) in relation to Seales Winslow's plant and equipment. The Group has a policy that the carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. In light of Seales Winslow performance in FY20 and historically, impairment of assets is considered to be a key audit matter due to the judgement involved in the assessment of net realisable value of the carrying amount of the cash generating units assets, primarily Property, Plant & Equipment.

Our audit procedures focused on the appropriateness of the Group's assessment as to whether the carrying values of Property, Plant & Equipment materially represent their net realisable values, and if an impairment is required, that the impaired assets have been accurately reflected in the financial statements. These procedures included the following, amongst others:

- For land, plant and certain buildings:
 - Where valuation expert(s) are utilised, considering the competence, objectivity and independence of the valuers, including the assessment of their professional qualifications and experience;
 - Assessing whether the valuation methodologies used to value the assets were appropriate;
 - Assessing whether the evidence used by the valuer is based on appropriate comparable properties and or benchmarks; and
 - Where impairment was recognised, we assessed whether the impairment was appropriately reflected in the reported carrying values of respective assets.
- For certain other buildings:
 - Assessing the appropriateness of key assumptions used by management with respect to applicable internal, industry or market data; and
 - Challenging management's assessment of the estimated net realisable values.
- Assessed whether the disclosure of the impairment in the financial statements was adequate.

The procedures performed did not identify any material adjustments to the impairment expense or the related disclosure.



Valuation and accuracy of inventory (\$159.8m)

As disclosed in Note 12 of the financial statements, the Group has inventory of \$159.8 million (2019: \$161.7 million).

Key components of inventory include manufactured and finished goods (\$108.9 million) and raw materials (\$15.6 million).

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

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

Our audit procedures included:

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

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

Lease site exit provision (\$5.6m)

As disclosed in Note 20 of the financial statements, the Group has recorded provisions of \$9.7 million (2019: \$12.5 million).

Included in the total provisions balance of \$9.7 million is \$5.2 million for returning the Northland Hub site to the agreed condition on the termination of the lease as at 30 June 2025 (2019: \$6.0 million).

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

Our audit procedures included:

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

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

Other information

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

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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' Interests section and have nothing to report in regard to it. The full Annual Report is expected to be made available to us after the date of this Independent Auditor's Report and we will report the matters identified, if any, to the Directors.



Use of this independent auditor's report

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



Responsibilities of the Directors for the consolidated financial statements

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

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



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

Our objective is:

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

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

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

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

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

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

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

For and on behalf of

KPMG
Tauranga

29 July 2020

Directors' Interests

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

GENERAL DISCLOSURES

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

DIRECTOR	POSITION	COMPANY
DV Balle	Director	Balle Bros Group
		Foodfirst Limited (resigned February 2020)
		Onions New Zealand Incorporated
		Open Country Dairy Limited
AG Brantley	Director	Potatoes New Zealand Limited
		Independent Assessment Board, Local Government of New Zealand Excellence Programme
		Independent Schools of New Zealand (ISNZ) (resigned February 2020)
	Chairman	POU Limited (appointed September 2019)
		Waimakariri Irrigation Limited (resigned June 2020)
		FarmRight Limited
DJ Coull	Chairman	H.W. Richardson Group Limited
	Director	Westland Holdings Limited (resigned September 2019)
	Panel Member Shareholder	Fonterra Shareholders Council (resigned November 2019)
		Coull Farms Limited
KR Ellis	Chairman	RBS 2015 Limited
		OSPRI director assessment panel (appointed May 2020)
		Harakeke Dairies Limited (March 2020)
	Consultant Director	Waipa Pastoral Limited
		NZ Social Infrastructure Fund Limited
		Green Cross Health Limited (December 2019)
AD Morrison	Chairman	Metlifecare Limited
		Sleepyhead Group Limited (resigned March 2020)
		Envirowaste Services Limited
	Director	Freightways Limited
		FSF Management Company Limited
		Port of Tauranga Limited
DE Peacocke	Member Partner	Beef + Lamb New Zealand Limited
		NZ Meat Board
		Glenroy Morrison Limited
	Director	Ovis Management Limited
		Pastoral Greenhouse Gas Research Consortium
		Wool Research Organisation of New Zealand
SD Robertson	Member Partner	Agricultural Leaders Health and Safety Action Group incorporated
		AD Morrison Farms Partnership
		Melrose Limited
	Director	New Zealand Phosphate Company Limited
		Taupiri Holdings Limited
		The Adare Company Limited
MJ Taggart	Chairman	Pulham & Begbie Limited
		Raglan Cattle Company Limited
		Apata Group Limited (appointed January 2020)
	Director	Apata Suppliers Limited (appointed January 2020)
		Independent Timber Merchants Co-Operative Limited (appointed June 2020)
		Alliance Group Limited
SJ von Dadelszen	Partner Trustee	Taumata Plantations Limited
		FMG Insurance Limited
		Oxford Health Charity Limited
	Shareholder	MJ, RM & GE Taggart t/a Taggart Farms
		North Canterbury Farmers' Charitable Trust (resigned June 2020)
		Oxford Health Charitable Trust
Treasurer Trustee	Hinerangi Station Limited	
	Totara Dairy Farm Limited	
	Dannevirke Hunt	
	AGMARDT (resigned February 2020)	

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.

Directors' Interests

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY 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 2020.

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

NB Jackson (R), MD Wynne (E), MW Skilton (E).

Ballance Agri-Nutrients (Kapuni) Limited

NB Jackson (R), MD Wynne (E), MW Skilton (E).

Bay of Plenty Fertiliser Company Limited

NB Jackson (R), MD Wynne (E), MW Skilton (E).

BOP Fertiliser Limited

NB Jackson (R), MD Wynne (E), MW Skilton (E).

Ballance Limited

NB Jackson (R), MD Wynne (E), MW Skilton (E).

Altum Nutrition Limited

NB Jackson (R), MD Wynne (E), MW Skilton (E).

Seales Winslow Limited

NB Jackson (R), MD Wynne (E), MW Skilton (E).

Southfert Limited

NB Jackson (R), MD Wynne (E), MW Skilton (E).

Summit Quinphos Limited

NB Jackson (R), MD Wynne (E), MW Skilton (E).

Super Air Limited

NB Jackson (R), MD Wynne (E), MW Skilton (E).

Directors' Remuneration

Fees paid to Directors were:

	PARENT AND GROUP
DVG Balle	75,000
AG Brantley	75,000
DJB Coull	75,000
KR Ellis	80,000
AD Morrison	75,000
DE Peacocke	160,000
SD Robertson	85,000
MJ Taggart	75,000
SJ von Dadelszen	75,000
Total paid to Company Directors	775,000

Directors' Interests

FOR THE YEAR ENDED 31 MAY 2020. 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 29 July 2020. 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 2020 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	53	220,001 - 230,000	5
110,001 - 120,000	36	230,001 - 240,000	1
120,001 - 130,000	32	240,001 - 250,000	2
130,001 - 140,000	38	250,001 - 260,000	1
140,001 - 150,000	17	270,001 - 280,000	1
150,001 - 160,000	17	280,001 - 290,000	3
160,001 - 170,000	25	310,001 - 320,000	2
170,001 - 180,000	6	520,001 - 530,000	1
180,001 - 190,000	7	1,340,001 - 1,350,000	1
190,001 - 200,000	6		
200,001 - 210,000	5		
210,001 - 220,000	8		

Trend Statement

FOR THE YEAR ENDED AND AS AT 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

		2016	2017	2018	2019	2020
Group Sales Volumes	tonnes	1,620,000	1,616,000	1,639,000	1,647,000	1,551,000
Turnover before Rebate	\$000	837,462	804,560	825,809	910,472	891,274
	\$/tonne	\$517	\$498	\$504	\$553	\$575
Profits						
Profit before rebate and tax	\$000	16,663	50,907	69,463	72,457	68,850
	\$/tonne	\$10.29	\$31.50	\$42.38	\$43.99	\$44.39
Group profit retained	\$000	(14,144)	(2,792)	9,189	11,943	8,941
After rebate, impairment provision, inventory write down and including minority interest retentions in subsidiary companies						
Cash Flow						
From operations (prior to rebate payment)	\$000	85,515	102,840	73,668	103,063	140,839
Capital and investment expenditure (net)	\$000	56,752	35,375	38,436	83,674	80,224
Distributions to Shareholders						
Rebate accrued	\$000	30,433	54,161	56,819	57,045	54,107
Rebate per tonne	\$/tonne	\$25.00	\$45.00	\$45.00	\$45.00	\$45.00
Analysis of Shareholders' Equity						
Number of shareholders		19,280	18,978	18,957	18,637	17,950
Shares on issue	000's	41,239	41,450	42,653	43,473	44,116
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	406,552	414,610	437,103	459,544	469,955
Group shareholders' equity		406,552	414,610	437,103	459,544	469,955
Group equity ratio		80.6%	77.9%	76.1%	73.7%	67.5%
Net asset backing per share	\$	\$9.86	\$10.00	\$10.25	\$10.57	\$10.65
Assets						
Total Assets	\$000	504,359	532,258	574,670	623,629	696,053
Working Capital	\$000	134,053	140,440	155,636	138,572	112,287
Ratio of Current Assets to Current Liabilities		2.4	2.2	2.2	1.9	1.6
Stock Turn		3.9	4.1	4.0	4.1	4.1

Corporate Governance

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES.

INTRODUCTION

The Board of Ballance Agri-Nutrients Limited considers strong corporate governance to be a critical element of the overall performance of the Company, and an enabler to strong performance and outcomes for Ballance's shareholders, customers, employees and the wider community in which Ballance participates. In line with this perspective, Ballance has established policies and processes to establish, develop and maintain appropriate governance throughout the Company.

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 for taking appropriate action to protect and enhance the value of Ballance in the best interests of the Company and its shareholders, which includes guiding the vision, and Company strategies. The Board achieves this planning and oversight role through governance and oversight of the development of strategies, setting key objectives and policies.

Execution of the strategy and 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 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. The Board has an approved Risk Management Framework for identifying the material risks to the business and considers the mitigation plans to reduce the impact of the risk. The Audit Committee considers the mitigation plans on a periodic basis, including independent evidence of effectiveness of key controls. Key risks are identified and prioritised against a matrix of likelihood and consequence and ownership for the management of these are formally assigned to senior managers.

BOARD MEMBERSHIP

The composition of the Ballance Board is reflective of the co-operative structure 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 are 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 MEETING

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 2020. 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 and Risk 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 and Risk Committee is responsible for:

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

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

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

Corporate Governance

FOR THE YEAR ENDED 31 MAY 2020. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

REMUNERATION COMMITTEE

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

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

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

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

SHAREHOLDER COMMUNICATION

Ballance places considerable importance on communicating with our shareholders.

Regular 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. Ballance is a continuous issuer under a registered Product Disclosure Statement ("PDS"). The PDS is held on the Disclose Register, available at <https://disclose-register.companiesoffice.govt.nz>. Any material matters that would impact on a decision to subscribe for shares in the Company would be updated in that register.

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 random audits. The audits ensure recommendations and nutrient advice is of the highest standard and that employees receive appropriate training and support. Audit outcomes are reported to the Board.

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

Directory

BALLANCE AGRI-NUTRIENTS LIMITED

Board of Directors

David Peacocke – Chairman and Director (North Island)
 Duncan Coull – Chairman Elect and Director (North Island)
 Dacey Balle – Director (North Island)
 Albert Brantley – Appointed Director
 Kim Ellis – Appointed Director
 Andrew Morrison – Director (South Island)
 Simon Robertson – Appointed Director
 Murray Taggart – Director (South Island)
 Sarah von Dodelszen – Director (North Island)

REGISTERED OFFICE

161 Hewletts Road, Mount Maunganui

SOLICITORS

Russell McVeagh
 PO Box 8, Auckland
 Sharp Tudhope
 Private Bag TG12020, Tauranga

BANKERS

ANZ Bank New Zealand Limited
 Commonwealth Bank of Australia
 Hong Kong and Shanghai Banking Corporation Limited
 Rabobank New Zealand
 Westpac Banking Corporation

AUDITOR

KPMG
 PO Box 110, Tauranga

LEADERSHIP TEAM

Mark Wynne – Chief Executive Officer
 Shane Dufaur – GM Operations & Supply Chain
 Sheena Henderson – GM Customer Experience & Marketing
 Tim Lloyd – Acting Chief Digital Officer
 Jason Minkhorst – GM Sales
 Jacqueline Rich – GM People & Capability
 Matt Skilton – Chief Financial Officer

BALLANCE AGRI-NUTRIENTS LIMITED – HEAD OFFICE

Private Bag 12503, Tauranga
 Phone 07 572 7900
 Fax 07 575 6233
 Email receptionm@ballance.co.nz
 Freephone customer line 0800 222 090
 Website www.ballance.co.nz

BALLANCE AGRI-NUTRIENTS LIMITED – SOUTH

PO Box 849, Invercargill
 Phone 03 211 3220
 Email rec.invercargill@ballance.co.nz

BALLANCE AGRI-NUTRIENTS (KAPUNI) LIMITED

PO Box 439, Hawera
 Phone 06 272 6449
 Email rec.kapuni@ballance.co.nz

SEALES WINSLOW LIMITED

PO Box 11, Morrinsville, 3340
 Phone 0800 287 325
 Email sales@sealeswinslow.co.nz
 Website www.sealeswinslow.co.nz

SUPER AIR LIMITED

Rukuhia, RD2, Hamilton
 Phone 07 843 6066
 Email reception@superair.co.nz

Jack Savage, Key Account Nutrient Specialist,
 Central South Island, 2015 intern programme.

