

SHAREHOLDER UPDATE

DECEMBER 2017

A CHANGING LANDSCAPE FOR FARMING

Our new Agriculture Minister has warned of “a shake-up in the rural sector”, and signalled action to improve environmental management and achieve more sustainable land use.

We are in for change, but what will not change is the substantial role that we, as farmers and growers, play in New Zealand's exports or in keeping our national accounts in the black. Farmers, like us, enable the country to buy all those handy things we don't make here – the mobile phone in your pocket, the cars we drive, the tractors and machinery that power our businesses. We're not about to change that and nor will any Government want to see that changed. It is all a question of priorities and pace.

Nutrient management and enforcement is clearly on the agenda. An independent Climate Commission will look into the merits of including agriculture within the Emissions Trading Scheme. It could be argued that the case for continued exclusion is even stronger today.

Our agricultural sector is very efficient at turning grass into protein so it makes sense to keep us very competitive. That's not just farmers talking out of self-interest. When the World Economic Forum ran the numbers on carbon efficient producers, it found that there is a sound logic in having agricultural production in efficient locations like New Zealand.

The remaining policies are a very mixed policy bag with support for forestry, a promise to honour existing irrigation investment commitments, more funding for R&D and biosecurity, and a \$1 billion regional development kitty all offering something to the rural sector.

Ballance has a vital role in supporting our farmers to evolve in this changing landscape. Our aim is always to be at the table, inside the tent, on key issues such as water quality and nutrient management – representing our farmers' interests.

Change is not something that farmers should fear if you have good management practices in place. As we see in the

Ballance Farm Environment Awards finalists and winners each year, a lot are well ahead of the game with 'future-ready' farming operations.

We are actively promoting sustainable farming, and advocating and submitting on farmers' behalf on regulatory change. We are here to provide future-ready plans, farm-by-farm, supporting you with practical products, technology and services. These include developments from our R&D co-funded with Government such as N-GURU[®] and MITAGATOR[®] which are now extensively road-tested and getting ready to roll into full commercialisation.

Our collaborative focus and investment in OVERSEER[®] over the past two decades has created a vital measurement tool, opening our eyes to what's happening to nutrients on our farms. In addition to working with Regional Councils and industry to make sure OVERSEER[®] is used in the right ways, we will be applying our science and knowledge to drive ongoing improvements to functionality and make sure it's as user-friendly as possible. We will also be looking at strategic investment to cater to the broadest spectrum of farm types and also pressing needs such as Greenhouse Gas reporting.

MyBallance is another big step forward in online reporting, putting the risk maps from MITAGATOR[®], along with scenarios and farm environment plans and nutrient budgets at your fingertips. You can read about these developments in this issue of Ballance Shareholder Update.

All the best for the coming months. As we embrace the new season and a change of Government, know that your Co-op has your back.

DAVID PEACOCKE
Chairman



INNOVATION THROUGH FARMERS' EYES

Talking to farmers about your Co-op and what you expect from us is how we've been getting to the heart of our brand.

For Sheena Henderson, GM Customer Experience and Marketing, years of experience in developing brands and what they mean for customers told her that getting out among farmers was important to transforming the Co-op's connections with them.

"Farmers are the centre of everything we do, so it's vital that we not only talk to them about what they need from us but also increase their input into our operations, research and innovation," says Sheena.

"We've recently completed multiple nationwide studies and interviews, involving thousands of farmers - both shareholders and non-shareholders - to accurately gauge how we're doing, where we need to go and how we can get there together.

"Now we're putting that research into action by including farmers on the ground floor of our new innovation programme," Sheena says.

The innovation programme kicked off with workshops involving groups of 20+ farmers, representatives from leading industry bodies and other industry thought leaders - all working side by side to identify problem areas and develop solutions.

Sheena says Ballance needs to constantly improve the way it connects with farmers in order to maintain its industry leading position in an increasingly aggressive marketplace. She has been one of the driving forces behind the Ballance 'digital first' approach with MyBallance which opens up an online, 24/7 experience of Ballance for customers and shareholders.

"The Co-operative has always maintained a strong emphasis on customer service and we're looking to build on that through digital tools that will keep us connected to what farmers want, so we can deliver the best results."

Sheena has more than 20 years experience to draw upon in shaping and delivering Ballance's brand transition. She occupied senior roles at Fonterra for several years and has held a number of business advisory roles, both nationally and internationally, in fast moving consumer goods, retail, agri-business and primary industries - including serving on a number of boards.

"Everyone at Ballance is passionate about putting farmers at the centre of our decision making and it's great to be working alongside our farmer stakeholders in shaping our strategy and direction for the future."



*Sheena Henderson,
GM Customer
Experience and
Marketing*

MIXING IT UP AT AWARUA

After a \$2.2 million investment and two years of effort our new mixing plant at Awarua is ready to deliver new levels of service in fertiliser blends.

The new plant is designed to formulate and despatch special mixes that can't be prepared through existing despatch lines.

In addition to the standard Ballance designed bucket elevator and reciprocating screen, the mixing plant includes the first 8-metre long blender in the Ballance Group and two 900 millimetre-wide conveyor belts. Its capacity for urea-based mixes is expected to be

around 160 tonnes per hour, and 240 tonne per hour for superphosphate.

"We created a next step up from our standard plants so we can minimise customer waiting times. The installation of the new plant means we can now be 100% confident in the special mixes we are providing our customers with," says Project Manager, Michael Bell.

CAPACITY + CONVENIENCE = CONFIDENCE

Our Whakamaru Service Centre's new self-service silo is proving to be a winning solution for local farmers and spreaders.

The silo, operational from early October, is part of a \$20 million upgrade Ballance has undertaken this year across our key service centres so we have the products you want, when you want them. This combination of capacity and convenience is important to farmers and your confidence our Co-op will always meet your nutrient needs.

With its 60 tonne capacity, the self-service silo stands 15 metres high and can despatch half a tonne of product per minute. It is designed to support product quality with an intake at the foot of the silo ensuring product is less exposed to moisture and a circulating system maintaining product consistency.

The silo has an automatic refresh to ensure product is always available. It stocks SUSTAIN®, reflecting local demand for the smart nutrient, but product availability in future could include PHASEDN® to meet seasonal demand.

Farmers and spreaders wanting to access product simply register at the service centre for a fob card which is swiped at the silo and connects the purchase to the customer's

account. The service is currently available during normal business hours as customers become familiar with the silo, its use and safety measures. After-hours access is planned over time.

Foundations have been created at Whakamaru for two silos to run simultaneously in the future. The Whakamaru development follows a very successful pilot in Anama in the South Island. A self-service silo at our SealesWinslow manufacturing site in Ashburton is also in the early planning stages.



MYBALLANCE SET TO CHANGE THE WAY WE DO BUSINESS

Farming is more complex than ever before so we are making it as easy as possible for customers to do business with us.



The launch of our new “MyBallance” digital platform early next year will be the most significant change in the way we interact with customers in our company’s history.

GM Customer Experience and Marketing, Sheena Henderson, says MyBallance will provide farmers with a consistent, contextualized customer experience and a “360-degree view” of their Ballance relationship including online ordering, access to fertiliser plans and recommendations, farm maps, spreader integration, proof of application, shareholding and financial data.

“It’s about making it easier to do business with Ballance on any device via any channel that you might interact with us as a customer, whether that be via a merchant like PGG Wrightson or Farmlands, via one of our nutrient specialists, by ringing our customer services team, or by dealing with us directly online yourself,” Sheena explains.

MyBallance has been under development since June 2016 and will combine e-commerce features with rich multi-farm information to support analysis and decision-making.

“Every customer will have the opportunity to create an online Ballance account and interactive digital farm map which will be accessible from any device. They will be able to order directly from the map, see the status of their orders, and access their fertiliser plan for the year. They’ll be able to see on which paddocks they’ve applied nutrients and get proof of application from the trucks that spread the fertiliser.”

Benefits include providing farmers with better information about fertiliser application and volume, online access to fertiliser recommendations and plans, greater collaboration and delegation, and a better all-round customer experience.

“While not all farmers will want to engage with us online, MyBallance has been designed to work across all retail and customer channels,” Sheena says.

“Rural supply companies will have a user interface into the MyBallance solution so our customers can buy farm supplies and order fertiliser directly from their plan – all

in one trip to the store, over the phone, or online. It will provide one version of the truth for you however you choose to engage with us.”

Chief Information Officer Dave Scullin says the company has worked closely with a group of farmers to develop MyBallance so it’s easy to use and meets the demands of today’s modern farming environment.

Some key features and benefits include:

Online Ordering

MyBallance will provide a flexible, transparent and easy way to order products online 24/7.

Farmers can order straight off their fertiliser recommendation or farm map, place repeat orders, create a custom mix, and choose delivery dates or pick up locations.

“One really attractive piece of functionality is called ‘shared cost orders’. If you’re share milking, you can split the cost 50/50 when you purchase fertiliser. But the data reporting at the other end is then consolidated against the property as a whole to give an accurate picture of what fertiliser’s gone where.”

For large corporate customers, multi-farm views are available along with the ability to delegate authority for fertiliser orders. “This will give people the confidence to delegate because they can see the orders in real time against an annual plan – normally they’d only see it turn up on a bill but now they can see it all happening in real time online as well.”

Digital Farm Map

One key advantage of MyBallance is the ability to plan visually by using an accurate 3D map to literally “bring your farm to life”.

MyBallance leverages the ArcGIS mapping platform from ESRI (a global leader in geo-spatial software) to calculate each farm’s surface area and topography so farmers can make more accurate fertiliser purchases by taking into account the contour and any exclusion zones.

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"It's all about planning visually. You can draw boundaries to define your paddocks, management blocks and farm features," Dave explains. "You can then use your map to record proof of application, view different soil types, and place fertiliser orders for blocks."
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This advanced map is free, however if customers would like a high resolution map that already shows their boundaries and farm features to save time on the initial set-up, they can purchase this service via their Nutrient Specialist.

"Ballance plans to release further digital solutions within the MyBallance platform particularly to help its customers with the future environmental compliance challenges they will face. These solutions will have a geo-spatial context and make having a farm map advantageous."



Reporting Tools

Farmers can provide others, such as agronomic advisors, accountants, farm managers and family members, with access to their MyBallance records, allowing them to see the full picture and provide sound advice on annual fertiliser plans.



Collaboration

MyBallance is partnering with other key players to avoid duplication of solutions and data entry.

In the future, soil test data from Hill Laboratories will be integrated into our platform, and we are also working with NIWA to incorporate soil moisture, irrigation and weather forecasting data.

Customers who enlist the services of Precision Farming will also be able to jump seamlessly between those company websites and their MyBallance account to make life easier.

A BRAND NEW ERA FOR BALLANCE

The upcoming launch of MyBallance is a significant investment for our company and a big step forward in meeting our customers' evolving needs.

Farmers want digital solutions that are simple and easy to use, that will help them operate sustainably while maximising production profitability.

"MyBallance will change the whole way we capture orders and allow us to deliver more value to our customers, so it's a really exciting time," says Chief Information Officer Dave Scullin.

Historically, the Ballance sales team have been focused on order transactions. Now they will have more time to devote to building customer relationships – understanding the farming system of the farmer, what their goals are, and creating nutrient plans tailored to their needs and budget.

MyBallance will also provide high quality customer data so our company can give enriched information back to farmers. "Capturing better data about their farm type, size, and system enables us to give them proper nutrient recommendations. That drives efficient use of fertiliser, improves productivity and profitability, and allows our farmers to benchmark themselves against their peers.

"We are now facing a new era with new challenges. MyBallance will make us more efficient, user-friendly and able to focus on our core goal – together creating the best soil and feed on earth.

"It's only the start of our journey. We will continue to improve the experience and progressively release over the coming years more and more functionality and we're investing heavily to do that."



THANKS A MILLION — IT'S A SMART SWITCH

Farmers have spent a bit more, lost a lot less and have saved the country \$1 million in greenhouse gas liabilities, all by switching to smart nutrient products like SUSTAIN®.

With sales passing the million tonne mark Science Strategy Manager, Warwick Catto, says SUSTAIN®'s rapid growth – in preference to urea – has come from the tangible benefits that farmers see in this “hard working nitrogen product”.

“It may cost a little more, but the benefits more than make up for it. Along with PHASEDN® it accounts for half of all our nitrogen fertiliser sales and in some regions where farmers are working within tight constraints, 70% of farmers have converted to these smart products.”

SUSTAIN® granules incorporate the world's leading urease inhibitor AGROTAIN® which reduces nitrogen losses from ammonia volatilisation by 50% on average compared to urea.

Warwick says the biggest benefit is in efficacy on farm.

“For every 500,000 tonnes of urea sold in New Zealand, around 10-20% of the available nitrogen will be lost through volatilisation. That's the equivalent of 23,000 tonnes of nitrogen that's not doing its job in the soil and generating a return for farmers through better pasture and crops.”

Replacing an estimated 50,000 tonnes of urea being applied to land has also reduced the emission of greenhouse gases such as nitrous oxide (N₂O) to the environment. These reductions alone are valuable

environmentally and financially with an estimated saving of \$1 million in New Zealand's greenhouse gas liabilities.

Warwick says more and more farmers are switching to smart nutrient products to achieve better outcomes more conveniently.

“For example, farmers using urea try to avoid nitrogen loss through volatilisation by applying the fertiliser when wet weather is forecast. We know from Landcare Research and our own trials that a good 5-10mm of rain is needed within eight hours of application to reduce ammonia loss.

“Even if losses can be reduced by timing the applications with rain, farmers have no ability to control where any volatilised nitrogen is re-deposited. It could end up in rivers, lakes or forests, which is less than ideal environmentally. SUSTAIN® is known to reduce those volatilisation losses.”

Sustaining the Fertmark tick

We stand by our science – that's the promise Ballance has always made to farmers and we have consistently kept it.

So when Fertiliser Quality Council's changes to their testing criteria for the Fertmark scheme affected our smart nitrogen product SUSTAIN® we opted to withdraw it from the scheme. Since then, SUSTAIN® has regained the Fertmark tick, so we want to be sure farmers understand what happened.

The Fertmark tick has always been about integrity, giving farmers certainty that a product performs according to the claims made about it. We were concerned that that testing regimes for more sophisticated fertilisers like SUSTAIN® had not been established or reflected in FQC's criteria.

Internationally and nationally the urease inhibitor in SUSTAIN, has been validated in more than 1,000 trials over 20 years. Farmers can have continued confidence in it. And we will keep working with the FQC to ensure regimes keep pace with our product innovation.



Matamata dairy farmer and Sustain customer, Shane Campbell

BOARD ROUND UP

New Independent Director

The Ballance Board has a new Independent Director in Simon Robertson who replaced John Harvey who stepped down at our annual meeting after more than five years of service.

Mr Robertson is a professional director and was CFO of Auckland International Airport (NZX: AIA) through a period of significant investment and strategic growth for the business.

Chairman, David Peacocke says Mr Robertson's extensive experience and track-record in finance, strategy and capital-intensive operations such as airports will be "invaluable in Ballance, a business that is vital to sustaining the success of New Zealand's primary sector as an economic engine for this country".

At the annual meeting Mr Peacocke paid tribute to Mr Harvey, who was appointed to the Board in 2012, chairing the Audit Committee and was a strong advocate for health and safety.



New Ballance independent board director, Simon Robertson

Election results

Our director elections returned David Peacocke unopposed as a North Island Ward Director while Andrew Morrison was also re-elected, unopposed as a South Island Ward Director.

Fee increase approved

Shareholders at the annual meeting approved an initial increase the pool of directors' fees by \$52,000 (or 7.75%) to a total pool for nine directors to \$723,000.

The recommendation for an increase in directors' fees was based on independent advice from PwC. They reviewed director fees for comparable listed companies and businesses that have a similar scale and level of complexity to Ballance Agri-Nutrients.

Chairman David Peacocke says an appropriate fee structure will assist the Company in ensuring that, "into the future, we continue to have the right directorial skills and experience to govern the business".

NEW KIT DELIVERS BIG ENVIRONMENTAL BENEFITS

The two-year project to upgrade the SO₂ convertor at our Mount Maunganui Plant was completed in August and has already produced significant improvements in emissions reduction and plant productivity.

The \$8.3 million convertor was fabricated in Hamilton, using technology imported from Canada, and installed on-site by local Mount Maunganui technicians.

Ballance Operations Manager, Robert Larman, says the previous convertor was a part of the original plant and had expended its lifespan.

"The new convertor has a 30-year lifespan and its installation has reduced plant emissions by 10% and improved the production rate almost 20% due to better conversion efficiency of gas stream."

The improvements have also extended to the wider community. The team meet regularly with neighbouring residents at Whareroa Marae, and feedback since has been positive the new convertor was installed.

Robert says it's great to have people telling us that the air quality is better.



The Mount site's new SO₂ convertor, ready to be lifted into place.

RECYCLING LETS BULK BAGS MAKE A COMEBACK

Put your bulk fertiliser bag back to work! Return used bags to your local store and they'll be recycled into irrigation tubing or a handy spool of baling twine.

EnviroNZ is in the final stages of commissioning its plastic extrusion plant in Christchurch, converting bags into polypropylene pellets for use by manufacturers.

The plant is the outcome of a working group including EnviroNZ, Ballance and Ravensdown which was formed in 2014 to establish a process for the collection and recycling of bulk fertiliser bags.

The plant has the capacity to recycle over 1,000 tonnes of polypropylene bulk bags, around one million of which are used by the fertiliser industry each year.

To begin the cycle, Ballance has provided recycling drop points across our network, making it convenient for farmers to get involved. Ballance customers are already sending around 50 tonnes of bags a month for recycling.

EnviroNZ Waste Minimisation Manager Neil Mackenzie-Hall says the Christchurch plant, mothballed by its previous owners, will be fully operational in January. Commissioning began in September and in the final stages his team will be working with technical experts from the plant's European manufacturers to get it back up to peak performance.

"We've had some challenges to overcome through the commissioning as you would expect with a mothballed plant, but we're very happy with progress. Having facilities in New Zealand means bags no longer need to be shipped offshore for recycling. The recovered material also has a new life in a variety of products, some of which will go back to the farm."

Neil says the pellets have been well received by manufacturers taking part in trials and EnviroNZ has also teamed up with Agrecovery to recycle plastic drums and containers from farms.

"Enabling farmers to recycle plastics is important to farming sustainability. Agrecovery is a safe and sustainable alternative to burning or dumping these items and it's available to all farmers and growers."

PHOTO: National MP Scott Simpson, EnviroNZ managing director Gary Saunders, Ballance GM Supply Greg Delaney, and Ravensdown Works Manager Peter Hay at the plant commissioning in July.



For shareholder information
phone 0800 267 266
For customer information
phone 0800 222 090
www.ballance.co.nz

 **Ballance**
agri-nutrients