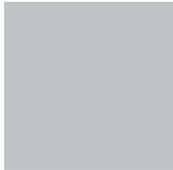


ShareholderUpdate



**SUPER AIR
LIVES UP
TO ITS NAME
P2**



**NEW
HASTINGS
SERVICE
CENTRE P3**



**MEETING
NUTRIENT
BUDGET
TARGETS P4**

BALLANCE AGRI-NUTRIENTS CO-OPERATIVE LIMITED

DECEMBER 2006

Solid start, but challenges remain

At Ballance it has been a busy and demanding year, but one that has seen the company rewarded for its forward-thinking initiatives and hard work.

Sales for the first half of the 2007 financial year are slightly behind budget. This, however, is a sound result, given that a number of regions have been struggling with the effects of a harsh winter and spring and other factors impacting on fertiliser demand.

The agricultural industry is being increasingly reminded that we operate in a global economy. Issues such as global warming, a continually high New Zealand dollar and now debate around topics such as 'food miles' are at the forefront of the public's and politicians' minds. As an industry it is important we fully understand the complexities and depth of the challenges we face, and are proactive in our stance towards them.

International pricing trends indicate the cost of raw materials is still on the increase, with demand outstripping supply world wide. A recent trip by senior management to Morocco, the US and Europe to meet with our international partners has highlighted that this trend shows no sign of easing. Never before has the industry seen such bullish fertiliser prices and an unprecedented demand on raw product. With continuing demand from countries such as China and India and the strong New Zealand dollar reducing farm incomes, we need to look to even smarter strategies to add value to our operations.

The environmental spotlight remains firmly fixed on farming. In a recent address to the Federated Farmers National Council meeting, Prime Minister Helen Clark gave recognition to the industry's contribution to the national economy. Her address, made following the release of the Stern report, emphasised the



Larry Bilodeau

importance of taking environmental issues seriously and the view that sustainability in our agricultural industry will be a priceless future asset for this country. We support that stance.

Other messages within the Prime Minister's address in relation to fertiliser use and practice, however, were a reminder of the need for strong advocacy around nutrient management. In particular, there is a suggestion in some quarters that farmers are applying substantially more nutrients than needed. In our experience, farmers are astute and commercial business people, and with the assistance of nutrient budgets, will only apply the level of fertiliser required to meet immediate and future production needs.

Ballance's commitment to helping our shareholders farm in a way that is both productive and environmentally sustainable remains a key

continued on page 4



As a reflection of our strong relationship with phosphate rock suppliers OCP, senior Ballance staff were invited to meet with Moroccan government officials and local farmers to advise them on ways to improve farming practices and productivity

Kapuni secures gas for next three years

Kapuni's signing of a three-year gas-supply agreement with Contact Energy at the end of November is great news for farmers, company shareholders and the wider Taranaki community. The agreement means that our ammonia-urea manufacturing facility has guaranteed gas supply until June 2010, providing the company with the security to plan for the future, as well as certainty for Kapuni's 120 employees and their families.

General Manager of the Kapuni plant, Len Houwers, says under the agreement Contact Energy will supply up to 7 petajoules of gas per annum at a commercially competitive rate.

'With the rise in gas prices significantly

increasing the plant's operating costs for the past twelve months, securing a long-term gas contract on workable terms is a key move to Kapuni's medium to long-term sustainability. We produce up to 260,000 tonnes of urea a year, which is a major portion of the urea sold by the company annually.

'The agreement with Contact Energy means we can continue to manufacture locally, ensuring a quality product as well as managing inventory costs. It also means that security of supply to our customers is safeguarded with, in most instances, product being available on demand.

'Security of gas supply to Kapuni reduces the country's reliance on imported urea, and

potentially saves up to \$100 million in foreign exchange.'

Significant investment has been made in the ongoing maintenance of the Kapuni plant over the last twelve months, including a five-week medium-term overhaul costing \$6 million. Len says that the signing of the Contact Energy gas contract, combined with the company's investment in the plant this year, secures the plant's future through to 2010.

'The Kapuni plant is a major asset for the company, and a significant contributor to the country's economic wellbeing.'

The new contract comes into effect in September 2007.

Super Air lives up to its name

Super Air has established itself as the country's largest aerial top-dressing company and is earning a growing reputation for its leadership in airstrip safety.

Graeme Martin, appointed Commercial Manager of Super Air in January 2006, says the year has been a demanding one for the team but has resulted in some real successes.

'The implementation of our all-weather airstrip development strategy has been well received, with the first strips opening at Te Kuiti and Te Anga in 2005,' says Graeme. 'Another strip is being developed near Taupo.'

'The strips have been recognised by the Agricultural Aviation Authority as a model for the industry, and at this year's NZAAA conference, we were invited to lead a discussion about airstrip safety and the importance of having guidelines in place for all pilots using any farm airstrip.

'The very wet winter conditions this year resulted in delays to top-dressing for many

farmers, and so we have been really motivated to look at initiatives that will reduce the impact of poor weather on the airstrips in the future.

'The airstrips are there for the safe use by all and it's important that all users are fully aware of health and safety requirements. One of the best ways to ensure we uphold these standards is by forward planning, and farmers can assist by letting us know their aerial top-dressing needs in advance.'

Super Air's high-quality strips are designed to service a large number of customers, with upgraded access tracks and fertiliser storage facilities of up to 260 tonnes of product. Graeme says that the strips 'enable us to safely service customers when conditions would otherwise be unfavourable'.

The announcement of Super Air's acquisition of Wairarapa-based aircraft operation Air Services (1979) Ltd is another exciting step forward for the company.

Established in 1979, by the late John Roseingrave, Air Services has been an integral part of servicing farmers in the Wairarapa and the Southern Hawke's Bay region for more than 30 years. The acquisition offers a great opportunity for Super Air to build on Air Services' existing strong relationships with the farming community.

Graeme says that the addition of Air Services to the Super Air business strengthens the company's ties with farmers using aerial top-dressing in the region. 'A key part of Ballance's strategy is to identify opportunities throughout the country where we can strengthen our relationships with customers. The Wairarapa and Southern Hawke's Bay region is a significant area for us and we are looking forward to working with these farmers in coming months.'

The addition of Air Services' fleet will make Super Air the largest aerial top dressing company in the country.



Cresco sitting on the loading area, ready for take off



Graeme Martin talking to Ian and Jenni Templeton about their top-dressing needs



Cresco sowing lime



East Coast Sales Manager Matt Hood (L) and Technical Sales Representative Kim Harris (R) take a tour of the near-completed Hastings Service Centre
Photo supplied by Country-Wide Publications

New Hastings Service Centre a major milestone for distribution network

The official opening of the new Hastings Service Centre on 1 December marks a major milestone in the company's distribution network programme. Over seven years Ballance has developed more than 15 new service centres, bringing fertiliser access closer to the farm gates of our shareholders throughout the country.

Attending the opening, Deputy Chairman David Hurst says the Hastings Service Centre is the last of the major centres to be built under the initial distribution network project, which focused on expansion in the lower North Island. 'The centre is the jewel in the crown for the East Coast, completing the network in that region, including stores at Waipukurau, Dannevirke, Pahiatua and Masterton and Featherston.

'We have invested more than \$20 million in the distribution network as it is our priority to provide customers with the best service and so meet their needs. In the case of the Hastings Service Centre, there has been growing farmer interest in our products in that region and the development of a store on this site ideally positions us to meet that demand.'

'Because of the success of the distribution network project and continuing local demands

for products and services, we will be continuing to invest and build more stores around the country as needs are identified.'

Situated on the Maraekakaho Road only 4 km out of Hastings, the store is accessible from the major roads into and around Napier and Hastings. Its blending plant is state of the art and very similar to the advanced plant introduced to the Te Puke store earlier this year.

North Island Distribution Manager Greg Delaney says the sophisticated blending plant was a key requirement for the Hastings store as increasing numbers of farmers are requesting special mixes to ensure they get maximum performance from their fertiliser investments.

The new store will be in good hands, with Errol Gore taking up the position of Service Centre Manager. Errol will be bringing with him substantial experience, with more than six years servicing the horticultural market in the Otaki and Levin regions. He will be joined by Technical Sales Representative Kim Harris, who has been looking after the Hastings district for five years and is very familiar with the farming systems in the area.

Record numbers apply for Ballance scholarships

A record 60 applications have been received for the four Ballance Scholarships that will be awarded for 2007. Each scholarship is worth \$4000 and successful applicants will be announced in late January 2007.

'The tertiary scholarships are aimed at encouraging study in agricultural-related disciplines at a New Zealand university of the student's choice,' says Head of Agro-Science Warwick Catto. 'Through the scholarships Ballance is investing in the future of the industry and encouraging talented students who have an interest in this area.'

The scholarships are available to the immediate family members of Ballance shareholders and employees who are undertaking tertiary study in primary industries. Students can choose from a wide range of topics including agriculture, engineering, horticulture, veterinary science and agribusiness.

Warwick says this year's applicants are again of a high calibre and come from all over the country.

'We are committed to encouraging excellence in the primary and related sectors, and supporting talented young individuals. They are, in fact, the future of our industry.'

We are delighted that James Barbour, a scholarship recipient from 2004 - 2006, will be joining Ballance as a Technical Sales Representative in the Cambridge region at the beginning of next year. James has completed a Bachelor of Applied Science, with a double major in agriculture and agribusiness at Massey University this year.

Summer price discount

We will be offering shareholders a discount of \$10 per tonne on manufactured products, including superten, serpentine super, and sulphur gain, to encourage application in December and January. These products will also qualify for three months' deferred payment over this timeframe. Research we have undertaken demonstrates that applying phosphate over the summer months has no impact on the efficiency of the product and sets farmers up for the cooler months ahead.

Share value rises to \$6.30

Following shareholder agreement at the annual meeting, the value of Ballance's shares has been increased by 30 cents to \$6.30. The new share price was struck on the recommendation of directors, who made the case for an increase following an analysis of the co-operative's financial strength.

Directors feel the higher valuation more accurately reflects the value shareholders have invested in Ballance.

The Chairman, David Graham, told shareholders at the annual meeting in September that the 2006 financial year was 'probably the most challenging experienced for many a year'.

At the meeting shareholders were advised:

- Group sales by volume were exceptional given market conditions, and market share was gained
- Overall, sales by volume decreased by 8%, while the market was down by 13%
- Revenue increased by 3% to \$471 million in spite of the co-operative holding fertiliser prices and lower sales volumes
- Tight management of operating costs meant they were held to \$433 million - an increase of 5% largely attributed to raw material costs
- Operating surplus was down 27% to \$30 million
- Combined distribution to shareholders was up \$2 to \$22 per tonne
- Shareholders' equity was up \$7.6 million to \$238 million

In his address to the meeting, David emphasised that in addition to producing sound profits and dividend payouts, Ballance is committed to assisting shareholders operate successful and economically sustainable farms.

He said 'this means investing in the businesses' manufacturing, distribution and R&D strategies to ensure our long-term success. It means developing new products and tools, and committing to and investing in scientific research into the relationships between soil, plant growth and environment; and ensuring that the benefits of these investments are transferred to farmers'.

'One of our key roles is to be conscious of the external challenges shaping the economic environment in which we operate.'

Looking to 2007, David said the challenges would continue to be significant, but that the co-operative was well-positioned to deliver superior results and continue growth through strategic future investments.



Stock management practices impact on nutrient budget outcomes

Meeting nutrient budget targets

Nutrient planning and budgeting is well-recognised throughout the agriculture industry as an effective tool to help farmers get the best out of their fertiliser use. Ballance is committed to assisting our dairy shareholders complete nutrient budgets by the mid-June target next year, and we are working actively with dairy farmers to meet these requirements.

While good progress has been made, a number of dairy farmers still need to complete their budgets in order to meet obligations under the Clean Streams Accord and the Sustainable Environmental Management Strategy.

With the pressure on from regional and central government for the industry to demonstrate farmers are successfully able to self-regulate

nutrient management, we are committed to helping the industry meet its commitments and meet the June deadline.

If necessary, we will provide extra people to help dairy farmers meet the targets.

If you still need to complete your nutrient budget, we urge you to contact your local Ballance representative now. Ballance provides its nutrient budgeting service free of charge and we strongly recommend you act now to avoid any potential bottleneck that might develop as the deadline approaches.

Your Ballance representative can advise you of the information that will be needed to complete a nutrient budget.

continued from page 1

priority. For some time now we have promoted the value of nutrient budgeting, and invested significantly in products such as nitrification inhibitors, and agronomic tools such as nutrient calculators. We are long-time sponsors of the Ballance Farm Environment Awards.

Looking ahead to next year, the deadline for dairy farmers to have nutrient budgets in place by June 2007 in line with the Clean Streams Accord and Sustainable Environmental Management Strategy is looming. Ballance is committed

to helping our dairy shareholders meet this target, so if you haven't already completed a nutrient budget, contact your local representative.

On behalf of all at Ballance, I would like to thank you for your support this year. We hope that you take the opportunity to take a break over the Christmas season, we look forward to working with you in the New Year, and wish you and your family the compliments of the season.

Larry Bilodeau, CEO