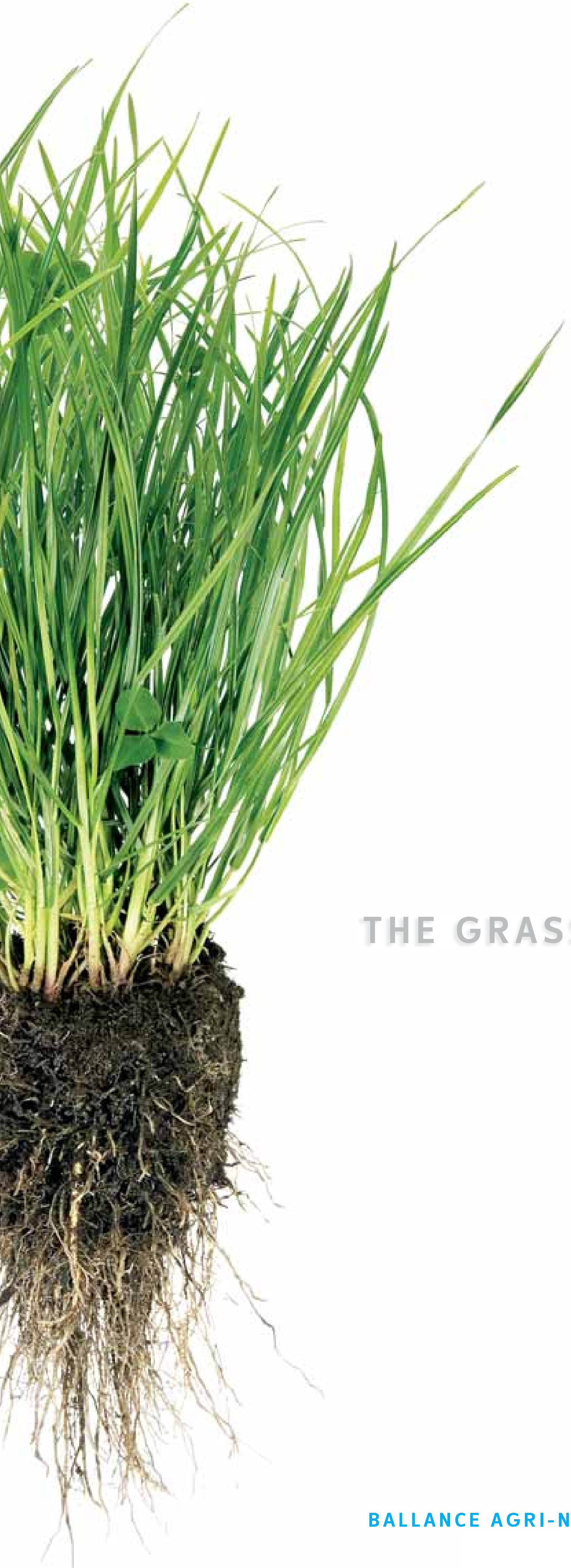
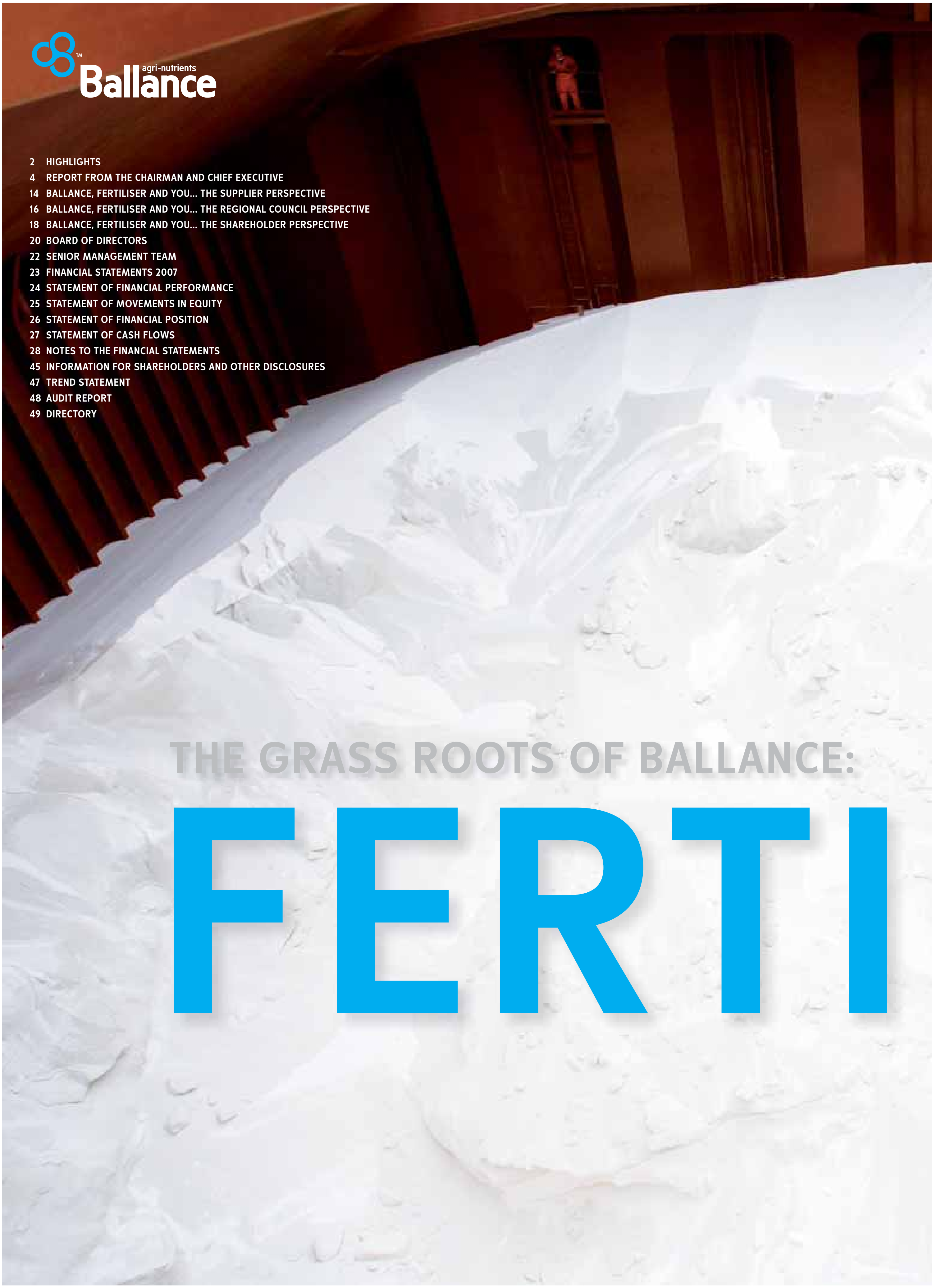


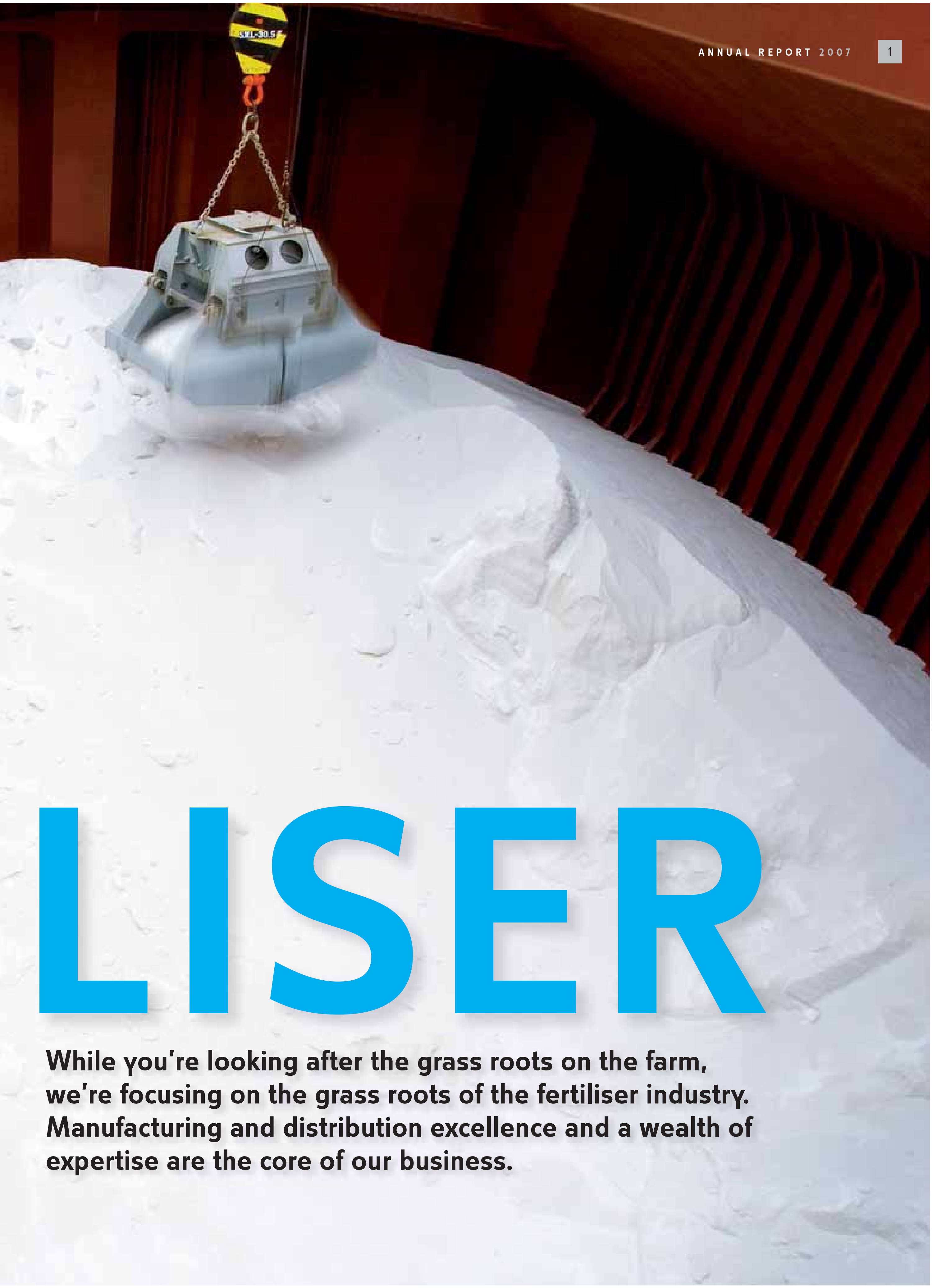
THE GRASS ROOTS OF BALLANCE

BALLANCE AGRI-NUTRIENTS LIMITED ANNUAL REPORT 2007



THE GRASS ROOTS OF BALLANCE:

FERTI



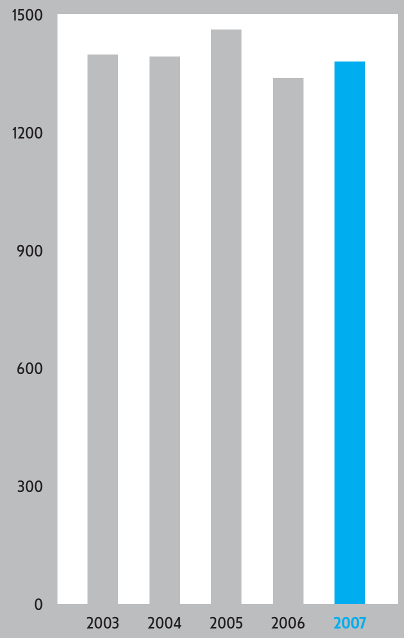
LISER

While you're looking after the grass roots on the farm, we're focusing on the grass roots of the fertiliser industry. Manufacturing and distribution excellence and a wealth of expertise are the core of our business.

Highlights

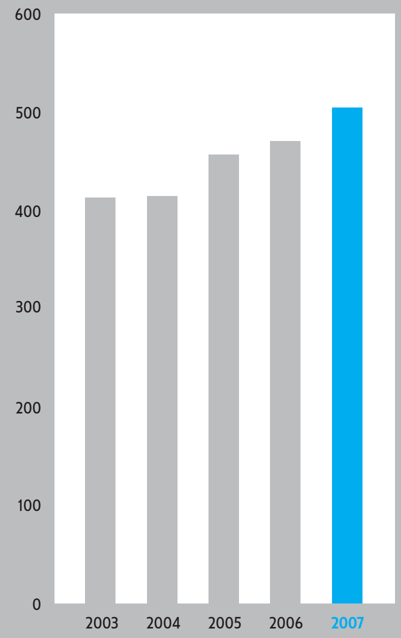
- The average rebate and dividend payout is increased to $24.20 per tonne
- Revenue increases by $34 million, a rise of 7 percent on the previous year
- The co-operative achieves a solid operating surplus of $41.8 million, up 39 percent on the previous year
- Shareholder equity ratio remains steady at 65.8 percent
- Recommended share value increase of 70 cents to $7.00 per share
- Value of Kapuni plant written up $30 million, gas supply secured until 2010
- Ninety-eight percent of dairy farmer shareholders complete nutrient budgets
- Awarua plant at Invercargill obtains a 25-year water resource consent

TRADING		2007	2006
Group sales volume	tonnes	**1,378,700**	1,336,900
Group total revenue	$000	**505,313**	471,238
Group operating surplus	$000	**41,769**	30,036
Rebates pre tax	$000	**22,213**	19,157
Co-operative dividend proposed	$000	**2,522**	2,457
CAPITAL		**2007**	**2006**
Number of shareholders		**18,211**	18,124
Nominal share value		**$6.30**	$6.00
Total Co-operative equity	$000	**277,763**	241,564
ASSETS		**2007**	**2006**
Total assets	$000	**423,397**	366,146
Capital expenditure – net	$000	**18,503**	22,564
IMPORTANT RATIOS		**2007**	**2006**
Group equity		**65.8%**	66.2%
Current ratio		**3.1**	3.3
REBATES AND DIVIDENDS		**2007**	**2006**
Rebate per tonne		**$20.62**	$18.42
Dividend – gross per quota tonne		**$3.58**	$3.58
Combined distribution – gross equivalent per tonne		**$24.20**	$22.00



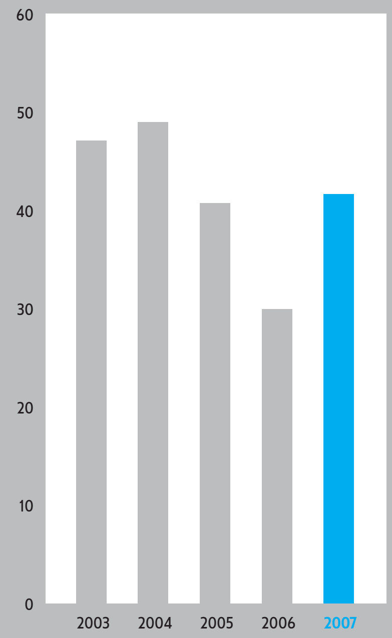
TONNES 000s

GROUP SALES VOLUME



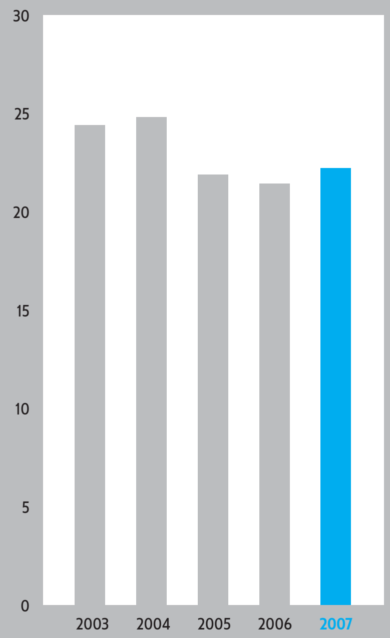
$MILLION

GROUP SALES REVENUE



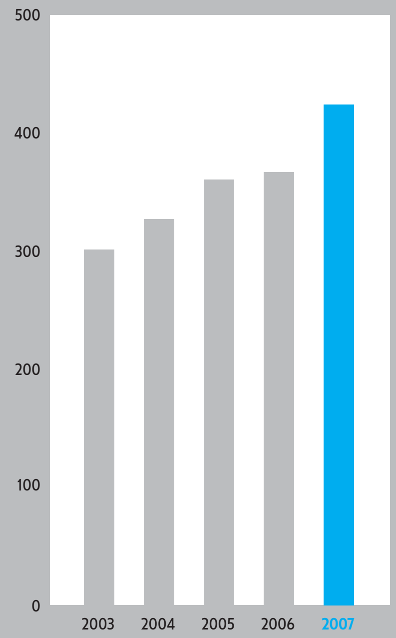
$MILLION

GROUP OPERATING SURPLUS



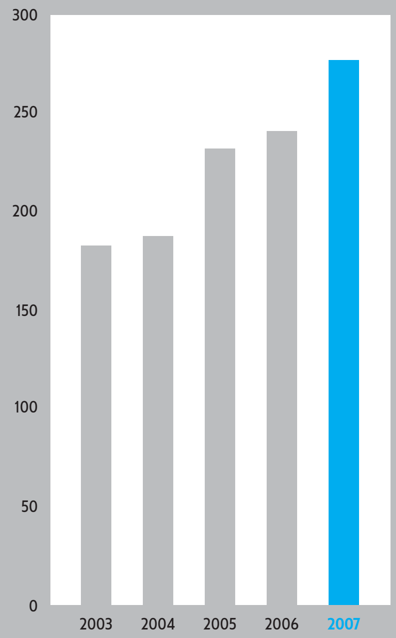
$MILLION

TOTAL REBATES & DIVIDENDS - PRE TAX



$MILLION

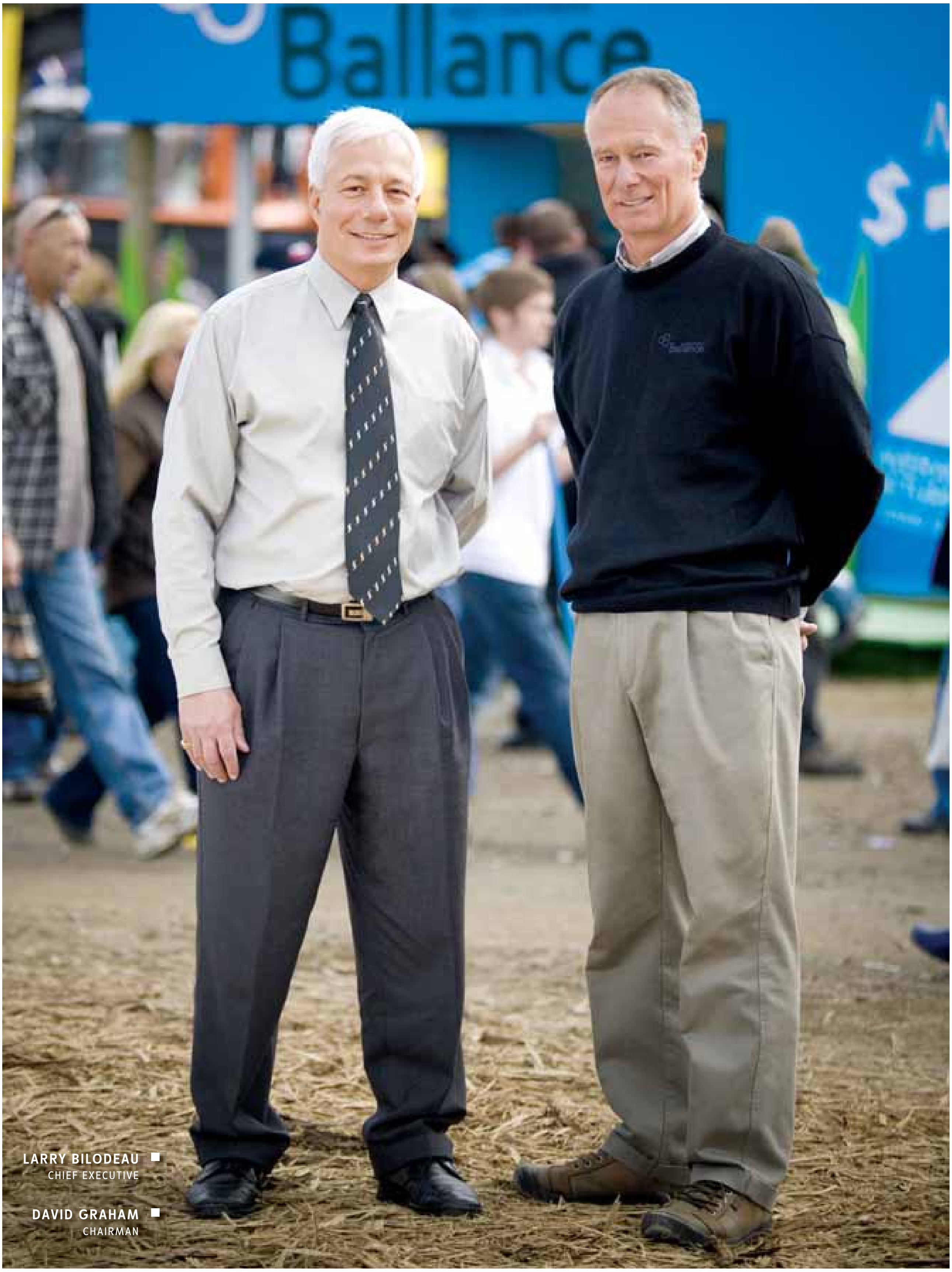
TOTAL ASSETS EMPLOYED



$MILLION

CO-OPERATIVE EQUITY

Report from the Chairman and Chief Executive



LARRY BILODEAU
CHIEF EXECUTIVE

DAVID GRAHAM
CHAIRMAN

LEFT: LOWER SOUTH ISLAND TECHNICAL SALES REPRESENTATIVE KEVIN GEE (RIGHT) VISITS SHAREHOLDER JAMES COCHRANE AT HIS WEST WANAKA STATION

"Our focus and our drive for continuous improvement means that today we are in a strong financial and operational position and well placed to meet future challenges."

OVERVIEW

Ballance is constantly improving to ensure that we continue to meet the needs of our farmer shareholders.

Over the years we have seen ourselves develop from a group of regional manufacturing companies with shared ownership, to a national co-operative that is now clearly customer and market focused.

Since our genesis as a national company we have been standardising our operating practices and progressively building on our core business of being a specialist plant nutrient manufacturing and marketing co-operative. This focus and our drive for continuous improvement means that today we are in a strong financial and operational position and well placed to meet future challenges.

Our founding goal - to ensure consistent supply of the highest quality fertiliser at the lowest possible cost - is still the core focus of our company. In addition to this commitment, we place a strong emphasis on assisting farmers to take advantage of science, knowledge and technology to maximise their production potential and minimise the impact farming has on the environment.

Our financial result, in yet another challenging year, was excellent, and is a solid improvement on last year.

Climate change has been a strong topic of influence in the rural sector, with farmers looking to their co-operatives now more than ever to assist them in developing sustainable farming practices. Ballance is taking this issue seriously, and is utilising technology and expertise to deliver practical solutions to its shareholders.

International fertiliser demand, and its subsequent impact on costs, continues to present some key challenges to Ballance, and the agriculture sector. The cost of products such as potash, DAP and phosphate rock continues to increase at a staggering rate, and shows no sign of steadying in the near future.

In spite of this difficult environment, our strong supplier relationships, internal manufacturing efficiencies and skilled workforce have allowed us to maintain supply to shareholders at prices that are internationally competitive. We are confident of being able to continue to do so in the years to come.

Our internal focus on continual improvement and customer service is also clearly showing through in our results. Projects focused on advancing the supply chain, the delivery of services to meet the needs of customers, and our ongoing investment in research and development will continue to position us well for the future.

PRICING

Due to the protection afforded by the strength of the New Zealand dollar and our own internal operating efficiencies, we were able to hold prices for the first half of the year. However, as continued international demand for fertiliser pushed up prices globally, in the second half of the year we eventually reached the point where price increases became unavoidable.

International costs for our basic raw materials are at an all-time high, and the situation is unlikely to ease in the foreseeable future. These soaring prices are being fuelled by global economic growth and subsequent demand for agricultural products, compounded by the increased focus in the United States and South America on growing crops to convert into biofuels.

Prices are further impacted by the ongoing increase in global shipping costs, as demand for bulk shipping capacity continues to exceed the ship-building industry's ability to deliver new vessels.

We appreciate that price increases are never popular. However, we believe it is important that the price farmers pay for plant nutrients reflects the actual cost of importation and manufacturing, and that there is no cross-subsidisation between products.

Our commitment to shareholders is that we will always work hard to ensure New Zealand farmers have access to competitively priced, quality fertiliser, and your continued support will assist us to achieve this goal.

Many farmers, particularly in the sheep and beef sector, are

"According to New Zealand External Trade Statistics, New Zealand's exports of agriculture products totalled around $18 billion in 2006, accounting for over half of the country's total merchandise exports, with $7 billion in dairy products alone, and $5 billion in meat and related products."

experiencing cash-flow constraints as a result of reduced returns, higher interest rates and across-the-board farm cost increases, and the rising price of fertiliser products is exacerbating the situation. We will continue to look for opportunities to reduce costs, and in the event that costs ease, we will lower prices at the earliest opportunity.

However, on the positive side, this demand means that world agriculture is strong. In the long term this can only be of benefit to all New Zealand farmers as our commodities increase in value, as highlighted by the improved forecast for dairy returns.

Our strong supplier relationships will continue to prove valuable by ensuring a stable supply of high-quality product at a time when this is becoming increasingly difficult to achieve. These alliances also help us to manage prices, as we are not subject to the extreme variability of the spot market.

VOLUME, REBATE AND DIVIDENDS

Sales volumes at 1.38 million tonnes were up 3 percent on last year.

This is particularly pleasing, given our strong focus on developing nutrient budgets for the vast majority of our dairy farmers. In the course of assisting them to achieve improved efficiencies, nutrient budgeting often led to reduced fertiliser inputs per hectare.

As a result of education and knowledge sharing, a greater number of dairy farmers are now aware of the nutrient value of shed effluent, leading to far less fertiliser being applied to effluent blocks.

Pressures in the sheep and beef sector meant that the amount of autumn fertiliser applied on these farms was reduced and more carefully targeted to achieve maximum gains within a restricted budget.

The combination of increased volumes and the growing use of specialist blends and mixes contributed to revenue improving by 7 percent to $505 million.

Group operating surplus, at $41.8 million, was up 39 percent on last year, our highest surplus for the past three years.

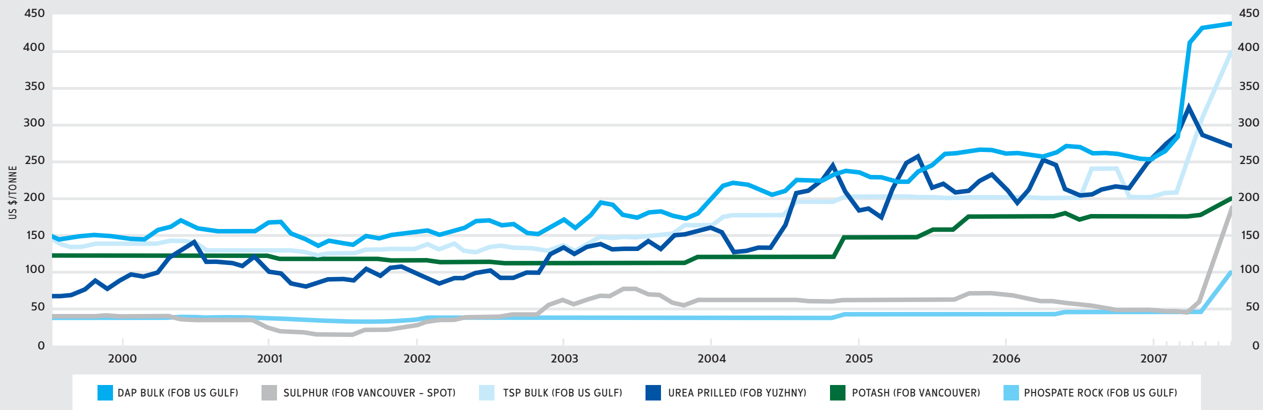
Total distribution to shareholders this year will be $24.20 per tonne of qualifying fertiliser purchased, 10 percent more than last year's payout of $22.00 and the indicative level announced by directors in April 2007. This will be made up of a rebate of 20.62 per tonne ($18.42 last year) and a fully imputed dividend of 8 cents per share ($3.58 gross per 30 shares).

While measures such as sales volumes, revenue generated and operating surplus are important, for a co-operative they are not the only success indicators.

Offering shareholders advice to enable them to maximise the benefits from fertiliser and reinvesting in our facilities to ensure their long-term environmental sustainability are equally as important.

We would like to congratulate shareholders for taking up the offer of services such as nutrient budgets. In addition to maximising the return shareholders achieve from their investment in fertiliser, they further enable the sustainable use of our products, a goal that is important to Ballance.

HISTORICAL PRICE TRENDS



*Graph adapted from Fertilizer International, Issue 418 May/June 2007, page 95

RIGHT: WAIKATO DAIRY FARMER MARK HICKMOTT, INTERVIEWED IN 'THE SHAREHOLDER PERSPECTIVE' ON PAGE 18

BELOW: LABORATORY ASSISTANT, PAULA HERMOND, UNDERTAKES TESTING AT THE KAPUNI PLANT

ABOVE LEFT: FARM MANAGER OF TUAROPAKI TRUST SHEEP AND BEEF UNIT, RUSTY MORICE, WAS THE NORTHERN CENTRAL REGIONAL FINALIST OF THE BNZ MAORI EXCELLENCE IN FARMING AWARD, PICTURED HERE WITH KEY ACCOUNTS REP EASTERN NORTH ISLAND, ANDREW REID

FAR LEFT: RESEARCH AND DEVELOPMENT THIS YEAR HAS LED TO THE LAUNCH OF A COATED UREA PRODUCT, PASTUREZEAL G2, IN THE NORTH ISLAND

"There is no silver bullet to reduce agricultural greenhouse gas emissions, it is the small and continuous steps that lead to improvements. It is critical that the government and the agriculture sector support a wide range of initiatives to continue this ongoing incremental improvement."

EQUITY

During the year, the number of total shares on issue increased to 31.5 million, a rise of 600,000. During the same period, paid-in capital net of share repurchases from retiring shareholders recorded a very satisfactory $3.8 million increase. There was a net increase in the number of Ballance shareholders, which further underpins the strength of the co-operative.

The combined effect of our trading activities, shareholder profit distribution and capital reinvestment strategies, has been to increase shareholders' equity in the co-operative by 15 percent, to $277.8 million, and to increase the total assets of the company by 16 percent, to $423.4 million. The shareholder equity ratio remains strong at 65.8 percent, providing the co-operative a secure base from which to continue to develop the business.

DISTRIBUTION, CAPITAL EXPENDITURE AND MANUFACTURING

As part of our endeavours to ensure all New Zealand farmers have easy access to our fertiliser products we have continued our ongoing investment in the distribution network, including opening a service centre in Hastings. In addition to the capital invested to develop the Hastings Service Centre, a further $4 million was invested in the network during the year, planning, building or upgrading facilities in Timaru and Irirangi.

Rural merchants, spreaders and farm consultants are an important part of the fertiliser distribution infrastructure, and we continue to value the link they provide between us and our farmer shareholders.

This year, manufacturing has focused on the key areas of fertiliser composition, improved physical quality and plant efficiency, all designed to meet customer expectations.

In terms of delivering to composition specification, we have continued to register key products under the Fertmark regime as well as undertaking our own daily quality assurance programmes. Audits show that we meet all criteria for registered nutrient requirements, and that our stated values are delivered to farmers.

By producing domestically we can ensure operating efficiencies and control quality, resulting in shareholders receiving increased value. Manufacturing success is determined by robust planning, preventative maintenance and minimisation of waste. Ballance uses many measures to monitor this and as our employees have refined their efforts and systems it is pleasing to note efficiency gains at all plants in a season where peak demands were out of alignment with traditional trading patterns.

Improvement of our systems in the 2007 financial year included the review of inventory control and stock turns. The use of new modelling software has improved product management and as a result we have experienced better physical quality, as well as financial gains in working capital requirements. Inventory management proved particularly challenging at the end of the year, when spreading conditions saw demand extend right to the end of May; however, our improved systems enabled us to continue to supply customers throughout the country.

As part of our customer focus, all sites liaised with carriers and spreaders to optimise opening hours, as efficient freighting ultimately passes cost benefits to shareholders.

Ongoing environmental future-proofing has seen us complete a project to bund the acid tank at Awarua, meaning that in the unlikely event of a spill acid will be safely contained and the situation managed. Over the past three years a significant upgrade of the scrubbing system and storm water disposal has also occurred at this, our southern-most site, demonstrating the company's commitment to the region, the environment, and the operation of the plant.

Of the $20 million invested in capital expenditure during the 2007 financial year, $9 million was allocated to routine plant renewal and upgrades, and a further $11 million was used for development work. Reinvestment in our facilities allows us to ensure continuity of business into the future, as well as assisting us to reduce our environmental footprint as new technologies and practices allow us to become more efficient and environmentally sustainable in our operations.

We have continued with our information systems investment programme to enable us to provide farmers with the information they need to meet production targets. Investment in technology also enables internal operating efficiencies, which in turn has a positive impact on our bottom line.

NUTRIENT SALES, PRODUCTS AND SERVICES

Never before has it been more important that we demonstrate to urban New Zealand, central and local government, and the rest of the world, that New Zealand farming is committed to sustainability and that we take care of the environment while running successful farming businesses.

Central government challenges us to be self-regulating, and we must continue to demonstrate our ability to undertake this if we are to maintain independence in our farming practices.

A large part of self-regulation involves nutrient management, and the adoption of nutrient budgets by the vast majority of our dairy farming shareholders was an important first step.

To assist our dairy farming shareholders to complete nutrient budgets and meet their obligations under the Clean Streams Accord we provided specialist training for our technical sales team on the latest environmental requirements and temporarily employed eight additional representatives.

The importance of our people and the services we offer is highlighted by the increasing level of service that Ballance must provide our customers in order to ensure environmentally sustainable use of our products.

We will continue to invest in our people as we move towards comprehensive nutrient management plans in 2008. This is very much in line with the fertiliser industry's revised Code of Practice for Nutrient Management (2007), which concentrates on assisting farmers to complete nutrient management plans for their farms.

The growth in sales volumes over the past year has been achieved through increasing sales by selling less to more customers, which is a reflection of our commitment to sustainability. We have had particular success in increasing sales in the Northland and Lower South Island regions, and improvements within the distribution network of the Lower South Island have directly contributed to our achievements in this area.

While most of our customers choose traditional products, as specialist plant nutrient suppliers we feel it is important to offer a wide range of products to meet the individual requirements of users. This year we have expanded our product range to include a biologically released phosphorus, traded under the product name BioPhos, and a dicalcium phosphate fertiliser. With its high proportion of citric-soluble phosphorus, promoting slow, steady release, this product has proved very popular with our horticultural customers.

It is rewarding to see products such as our nitrification inhibitor, **DCn**, being used in conjunction with other sustainable farming initiatives, such as feed pads, to achieve a better outcome for the environment.

RESEARCH AND DEVELOPMENT

During the year we devoted significant funding and efforts to research into **DCn** to ensure that we can provide the best possible advice to farmers on the application of this product in various New Zealand soils and climates. Research has focused on looking at product efficacy in a variety of conditions and soil types, as well as timing of application, to ensure that we can help farmers get the best out of **DCn**.

We have also continued to invest in research into various aspects of phosphorus. As farmers begin to see the success they are achieving from utilising the tools now available to reduce nitrate leaching, they will be looking to their co-operative to offer additional advice and tools to manage phosphorus as efficiently as possible.

Research and development has led to the release of a coated urea product, **pasturezeal G2**, in the North Island. Built on the success of our original pasturezeal products, **pasturezeal G2** makes use of our patented coated urea technology, and allows us to offer a wider range of stable blends of nitrogen and phosphorus.

This new pasturezeal technology has been welcomed at a time when we have seen significant international price increases in products such as DAP, as it allows the combination of relatively high rates of nitrogen and phosphorus, with no impact on product quality.

A novel, patented urea dissolver, developed in-house by Ballance, has enabled farmers in the Canterbury district to be supplied with liquid urea. The dissolver has been set up at the Rolleston Service Centre, and a local spreader has a specially adapted truck that can deliver and spread the liquid urea directly on to pasture or crops. The formula can also be delivered to plants through existing irrigation systems.

Liquid urea offers benefits over its solid counterpart, such as the opportunity for plants to take up urea directly through their leaves.

KAPUNI

Our Kapuni ammonia-urea manufacturing plant produced more than 257,000 tonnes this year. This positive result was achieved through a systematic approach to applying continuous improvement across all areas of the operation. Despite this the plant did experience a 10-day outage at the end of the year to undertake primary reformer repairs.

In October 2006 we secured a three-year contract for gas supply for the plant. The contract was signed with Contact Energy and comes into effect when the current supply contract expires at the end of September 2007. Under the agreement, Contact Energy will supply up to 7 petajoules of gas annually until June 2010.

"Ballance has clearly demonstrated its commitment to industry self-regulation over recent years, significantly investing in research and development to provide tools and technology to minimise the environmental impacts of plant nutrients."

"The Ballance Farm Environment Awards have an important role to play in showcasing best practice, and those who become involved are always impressed with the variety, inventiveness and commitment of farmers throughout the country."

The Kapuni plant produces a large portion of the urea sold by the co-operative, and the new agreement ensures security of gas supply to the plant, enabling us to positively plan for the future.

Local production also reduces the country's reliance on imported urea, and leads to savings of approximately $100 million a year in foreign exchange.

With gas supplies now secured for the next three years and a renewed interest in exploration to find new resources, Ballance is intending to sell its gas investigation permit purchased in 2005, as we feel confident that gas will be available to meet our needs for some time to come.

Ballance has continued to invest in the ongoing maintenance of the Kapuni plant and it is currently in an excellent condition. The security of gas supply until 2010, on top of international urea price increases, led us to write up the value of this asset by $30 million, the third consecutive year we have increased the asset valuation. The write down in 2003 and 2004 is now fully reversed.

SUPER AIR

In November 2006 Ballance completed the acquisition of Wairarapa-based Air Services (1979) Limited, to expand the company's top-dressing operations, enabling us to offer an enhanced service to customers in the lower North Island.

Major improvements have been made in safety performance, and this is reflected in Super Air's much better health and safety statistics, with no aircraft incidents and fewer lost time injuries recorded in the past year.

Super Air has taken an industry leadership position with regards to hazards registers for airstrips, developing a register for all airstrips we work from, so that hazards are clearly identified and steps are made to reduce or mitigate them as necessary.

During the year we opened our second all-weather hub-and-spoke airstrip at Taupo, after our first all-weather airstrip was opened near Te Kuiti in 2005. These high-quality strips are now servicing multiple farms within their catchments, with each strip covering a land area in excess of 30,000 hectares.

All aircraft have been fitted with updated GPS systems to assist with precision placement of fertiliser. This enables more accurate spreading, and allows pilots to download the flight path and provide the farmer client with a printout of the work for their records.

COMMUNITY INVOLVEMENT

Assisting shareholders to farm sustainably fits with Ballance's core values, and we are extremely proud to continue sponsorship of the Ballance Farm Environment Awards.

These awards are our most visible commitment to sustainability, and as the principal sponsor we are pleased with the increasing profile of these awards, and the support they are receiving from farmers nationwide. It is clearly a demonstration of the importance that the farming community places on sustainability and environmental protection.

The Ballance Farm Environment Awards have an important role to play in showcasing best practice, and those who become involved are always impressed with the variety, inventiveness and commitment of farmers throughout the country.

Award winners consistently demonstrate that business success can be achieved without compromising environmental sustainability, and we congratulate all who make the effort to participate.

Five young New Zealand students who are studying towards a future in the agriculture industry were awarded Ballance Agri-Nutrients scholarships during the year. Each was provided with a $4,000-a-year scholarship to support them for up to three years whilst they pursue tertiary studies in agriculture-related disciplines.

By supporting young talent in the agricultural sector and encouraging their academic study we are fostering the future development of the rural industry, benefiting local communities and the country as a whole.

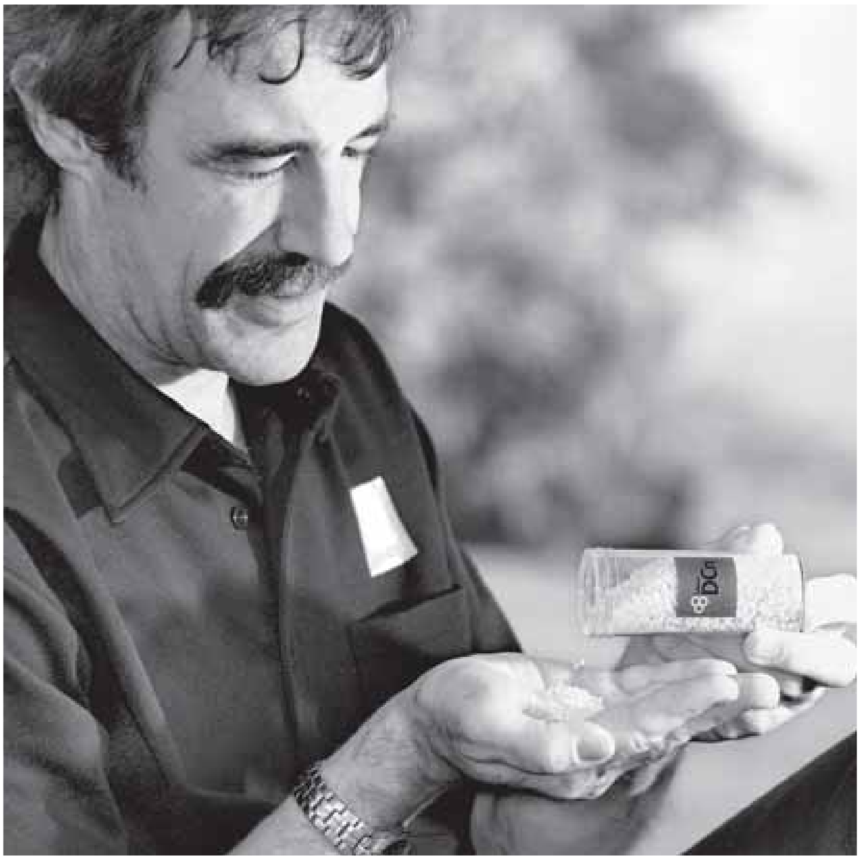
Since the scholarship programme began in 2002, 33 scholarships worth up to $12,000 each have been awarded, and we have employed two previous scholarship winners full-time, as well as several others on a temporary contract basis. The scholarship is open to all immediate family members of Ballance shareholders and company employees.

Ballance has been a silver sponsor of the BNZ Maori Excellence in Farming Award since 2004. As a second-tier sponsor of this distinguished competition, we provide both financial and practical support to assist in the smooth running of the event, with a senior company representative taking on the role of judging co-ordinator. The goal of the BNZ Maori Excellence in Farming Award is to recognise and celebrate Maori excellence in sheep, beef, goat and dairy farming.

In addition to our major sponsorships we also contribute to a range of community initiatives in the areas in which we operate.

RIGHT: DIRECTOR DAVID PILKINGTON (MIDDLE) WITH WELLINGTON REGION BALLANCE FARM ENVIRONMENT AWARDS SUPREME WINNERS ANDREW AND ANNA RENTON

RIGHT: AGRESEARCH SCIENTIST DR STEWART LEDGARD HAS UNDERTAKEN RESEARCH ON BALLANCE'S NITRIFICATION INHIBITOR, DCn



FAR LEFT: A SECOND ALL-WEATHER HUB-AND-SPOKE AIRSTRIP WAS OPENED IN TAUPO THIS YEAR

BOTTOM CENTRE: LOWER SOUTH ISLAND SALES MANAGER GARTH DAWSON (RIGHT) IS A REGULAR ON THE POPULAR HOKONUI GOLD FARMING SHOW WITH JAMIE MACKAY

ENVIRONMENT, HEALTH AND SAFETY

Ballance has always had a strong focus on environment, health and safety issues in its manufacturing area, and with the appointment of a specialist manager in 2005 awareness of these issues has been raised among other parts of the business. This has led to the decision to standardise applicable operating procedures across all sites to ensure that environment, health and safety initiatives are utilising best practice for maximum benefits to our people and the environment.

Although the number of lost time injuries recorded was the same as last year, it is positive to note that the severity of these injuries has significantly decreased. This can be directly attributed to an increased awareness of hazards and their minimisation.

Another health and safety achievement has been receiving tertiary accreditation rating under the ACC Workplace Safety Management Practices programme across all operational sites, enabling us to qualify for reduced ACC levies. We will continue to work hard to maintain this rating, which is the highest category a workplace can be granted under this scheme.

The benefits of our company-wide commitment to environmental performance are reflected in achievements such as the Awarua plant at Invercargill obtaining a 25-year water resource consent from Environment Southland to enable us to continue operating. The significant investments made to maintain and upgrade this plant have paid off, with the regional council clearly confident that we are committed to sustainability.

In keeping with Ballance's overall stewardship of the land, we made submissions to the Waste Minimisation (Solids) Bill and the Sustainable Land Management and Climate Change Plan this year. We believe that where such legislation could have impacts on our business, or on our shareholders' ability to do business, then it is our obligation to become involved in the decision-making process and make our voice heard on behalf of the wider farming community.

OUR PEOPLE

Our employees are without doubt the backbone of our company, and we acknowledge the contribution of each and every one of them to the continued growth and success of Ballance.

Ballance employees need the right skills to stay ahead in a competitive work environment, and to deliver superior service and products to customers. Each year employee training needs are analysed, and individual and group programmes are delivered accordingly.

This year we spent more than $1 million on such training, a sum we are certain pays for itself, as employees are able to utilise more specialist skills to deliver results to internal and external customers alike.

As part of this ongoing training and development, Ballance has implemented a customer-driven philosophy, aimed at putting ourselves in the customer's shoes – whether these customers be our shareholders, our colleagues, or anyone else to whom we provide a service.

The philosophy is based on exceeding expectations, as we believe this makes the difference in whether our customers will make the decision to use our services or products again.

Workshops with our customers to gain their direct feedback and input have occurred throughout the company, and improvements and customer-driven activities are reported back to executive management through the company's objectives-based programme, Foundations for Growth.

The benefits of this philosophy have been felt throughout the company, and our shareholders are seeing this reflected in service improvements such as reduced load-out wait times and progressively better quality product.

BOARD AND MANAGEMENT

Ballance has maintained a consistent approach to the development of our strategy since 2000, with a strong focus on growing the core company through business excellence and continuous improvement.

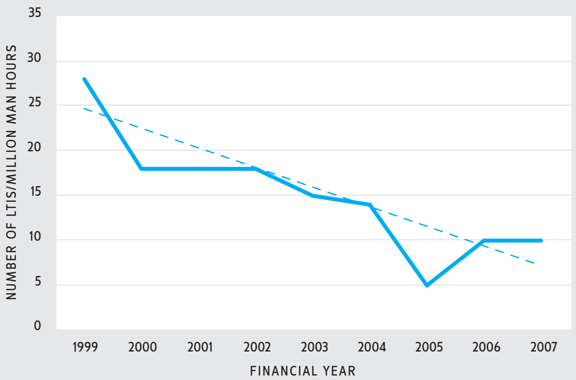


FIGURE 1: THE ANNUAL AVERAGE LOST TIME INJURY FREQUENCY RATE AT BALLANCE HAS DECLINED STEADILY, REFLECTING A SIGNIFICANT IMPROVEMENT IN OUR HEALTH AND SAFETY PERFORMANCE

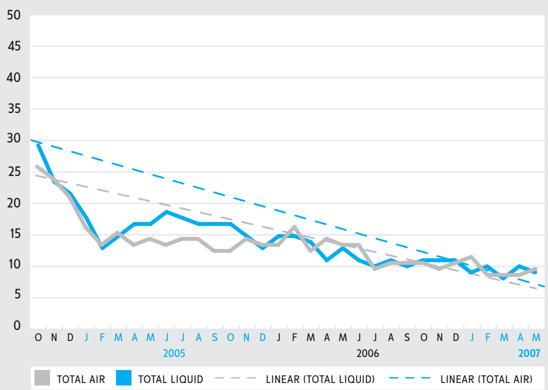


FIGURE 2: COMBINED RESOURCE CONSENT BREACHES FROM ALL OF BALLANCE'S PLANTS FROM OCTOBER 2004 TO MAY 2007 HAVE SHOWN A SIGNIFICANT DECLINE AND ARE NOW AT A CONTINUOUSLY LOW LEVEL

"In the long term the flourishing position of world agriculture can only be positive for New Zealand as returns to farmers improve, recently highlighted by the Fonterra announcement regarding the dairy payout."

This is a strategy that we are confident will hold us in good stead for years to come.

We realise that shareholders don't just invest in us for financial rewards. They invest in their co-operative for access to low-cost plant nutrients and quality advice on the use of these products, and that is what we are committed to achieving.

Through strong alliances and partnerships, innovation and science, and the ongoing development of our systems and processes, we will continue to advance our core business to deliver the best possible products to our shareholders at competitive market prices.

The Board has been further refining the company strategy this year, in conjunction with the management team. Internally, the company is operating well and during the year we sought the expert advice of external consultants in order to push the company forward and to continue to improve.

In 2005, as part of a review of governance practices, the Board introduced a process that examines at the collective and individual performance of Board members. These reviews are proving beneficial to the growth of the Board, and will continue to be undertaken throughout the coming year.

At the last annual general meeting, Ward B director Richard Jolly, Ward C director, deputy chairman David Hurst, and Ward D director Peter Macdougall were re-elected unopposed. Each of these directors has made a significant contribution to the co-operative, and we would like to record our appreciation for their ongoing commitment to Ballance and our shareholders.

OUTLOOK

International confidence in the future of farming is strong, while New Zealand's domestic economy is forecast to make modest progress.

Given the sound base from which we start the new year, we can have every reason to believe that the 2008 financial year will be one in which Ballance makes steady progress in all aspects of our business.

The global demand for food and for crops for the production of biofuels is likely to continue to put pressure on raw material supply, and therefore costs. This will be compounded if the long-anticipated drop in the New Zealand/United States dollar exchange rate occurs.

Ballance, through its long-term relationships and the local manufacture of urea, is well placed in such circumstances to be able to ensure continuity of supply to shareholders.

Yet again we will invest in our people, plant, distribution systems and research, seeking those incremental gains that deliver value and improved services to shareholders.

On the environmental front, the government is committed to making significant change in relation to greenhouse gas emissions, and agriculture has been identified as just one of the many sectors that will need to assist in this challenge. Undoubtedly, farmers will be called on to make adjustments to the way they operate in order to achieve reduced emissions.

Ballance is well positioned and prepared to assist farmers to meet any new obligations, and we are heartened that in spite of the rhetoric often heard, farmers have demonstrated through actions such as the high uptake of nutrient budgets that they are prepared to play their part.

DAVID GRAHAM
CHAIRMAN

LARRY BILODEAU
CHIEF EXECUTIVE

Ballance, Fertiliser and You...

The Supplier Perspective

RIGHT: PETROSUL VICE PRESIDENT MARKETING AND BUSINESS DEVELOPMENT, ANDREW BUTT VISITS GENERAL MANAGER SUPPLY JACK HERDER (LEFT) AT THE BALLANCE CORPORATE OFFICE AT MOUNT MAUNGANUI

World agriculture is in a very good position at present, and as global demand for agricultural products increases, so does the requirement for fertiliser.

It is during times like these, when demand for some fertiliser products exceeds global supply, that Ballance's strong supplier relationships prove most valuable, ensuring a stable source of high-quality product despite market shortfalls.

Petrosul, one of the three largest sulphur suppliers in Canada, commenced trading with Ballance, then Bay of Plenty Co-operative Fertiliser, on 9 September 1976, with a delivery of 20,504 tonnes of sulphur on the *Star Capella*. Petrosul Vice President Marketing and Business Development, Andrew Butt, says that the relationship forged between the two companies quickly became a mutually beneficial partnership. "Business was conducted in a straightforward and uncomplicated manner based on Bay of Plenty Fertiliser's approach of sound business ethics and outstanding performance - principles also subscribed to by Petrosul," says Mr Butt.

"Notwithstanding various management changes these tenets remained the same over the years and would appear still to be the lynchpin of Ballance's approach to its suppliers in 2007."

In 2001 Petrosul became the sole Canadian sulphur supplier to Ballance and "counts itself fortunate to be a supply partner to a truly outstanding fertiliser company and a leader in its field in New Zealand," says Mr Butt. He says that sulphuric acid consumption has historically been used as a thermometer of economic growth around the world.

"As the need for various metals increases with global expansion and modernisation, so does the requirement for sulphur to make sulphuric acid, which is used in the processing of various ore types."

He says that given the world's ever-growing population, increasing volumes of the primary fertilisers will be needed to keep pace with the required food production and as a result, sulphur consumption globally will increase. "Also, as environmental restrictions on sulphurous emissions increase, the amount of sulphur available to the soil decreases and now there are many large agricultural zones requiring more of this element, which is key to plant nutrition and growth."

Mr Butt adds that the increasing environmental consciousness around the world will impact and influence the fertiliser industry in many ways. "Increasing environmental concern about emissions and the significant consumption of fuels to distribute fertiliser products to where they are required will challenge which fertilisers are deemed acceptable and if not acceptable, what will replace them. The industry will have to adjust and make changes."

Canpotex, the world's leading exporter of potash, is also feeling the impacts of a globally strong agriculture industry at present, and believes that demand for potash is currently exceeding supply on a worldwide basis.

The company has been working with Ballance for more than two decades, and today is the co-operative's exclusive supplier of potash, which is "a reflection of the value of the long-term relationship forged between both companies," says Canpotex Vice President Marketing, Matt Albrecht.

Mr Albrecht says that the growing economies of China and India are leading to a greater number of people consuming more protein-rich food.

"This development is creating strong demand for grain and animal commodities, which is driving up demand for fertiliser products," he says. "Another major factor is the world-wide explosion of biofuels over the past eighteen months, creating a whole new market for products such as corn, sugar and palm oil, that can be converted to ethanol and biodiesel.

"Potash supply in the foreseeable future is going to be tight," says Mr Albrecht. "Capital investment in the industry to continue to meet growing demand will require significant funding, as well as time, and we are planning now so we are in a position to meet future opportunities.

"Aside from core supply and demand issues the environment is a top priority for the industry as both suppliers and importers look to minimise the impacts of our operations and ensure the responsible use of our products," says Mr Albrecht.

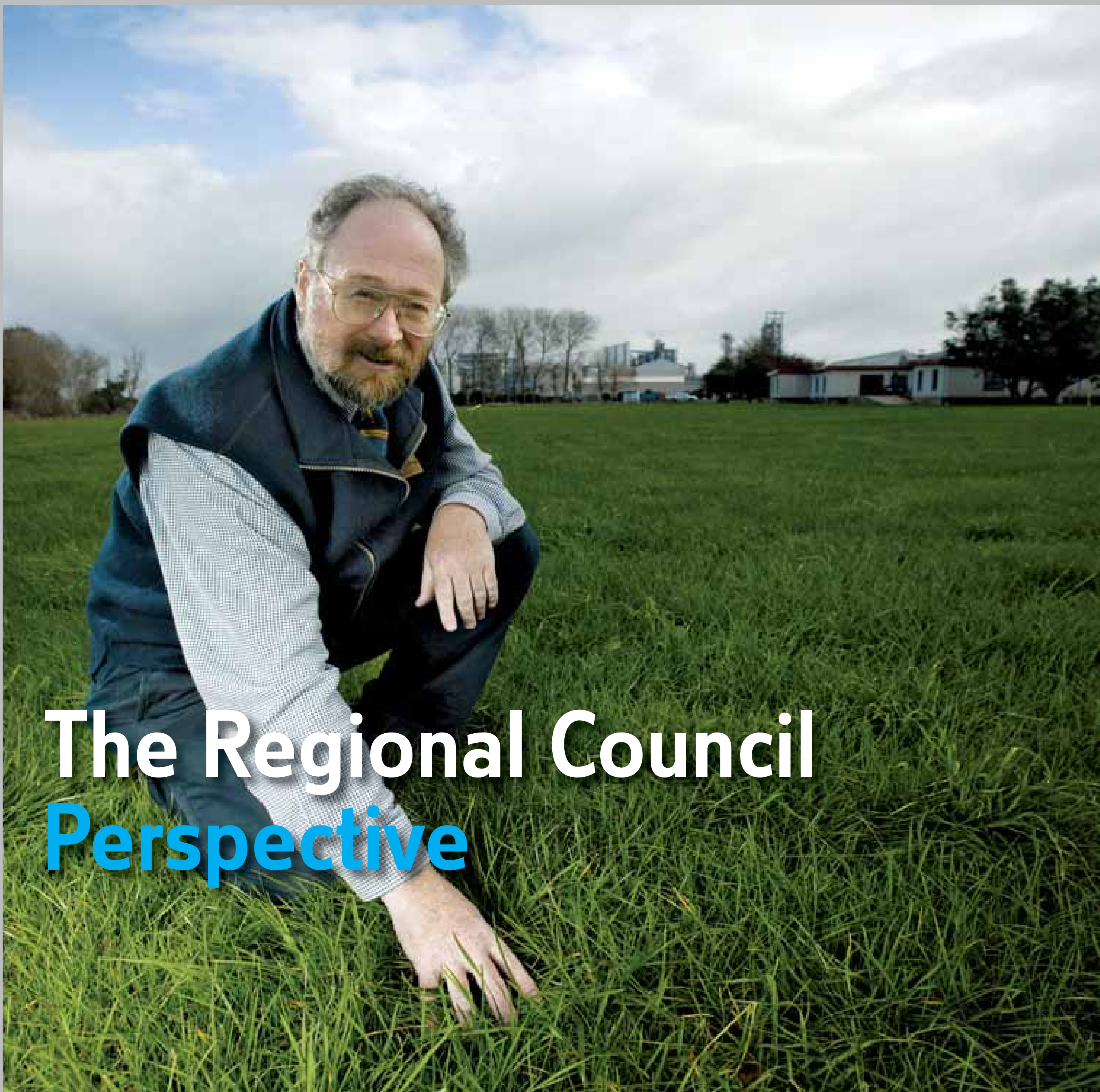
Mr Albrecht believes that the fertiliser industry over the next several years will remain quite strong, and close co-ordination and planning between suppliers and customers will be essential to deliver products on a timely basis.

It is a similar story in the phosphate market, which is facing strong demand for its products, according to OCP, the state-owned company responsible for producing and marketing all of Morocco's phosphorite resources. OCP Sales Director Oceania/Southeast Asia, Najib Moutia, says that increased requirements for fertilisers around the world will contribute to a sustained growth in demand for phosphate products. "Furthermore, there are no significant new capacity projects planned within the next two to three years, until the commissioning of major mining projects in Saudia Arabia and Peru in several years' time," explains Mr Moutia.

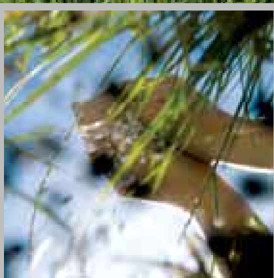
Mr Moutia says that since the mid-1980s when the two companies started trading, each year the relationship has grown stronger, resulting in a long-term contract being signed by both parties in 1999 for OCP to supply phosphate rock to Ballance. "This security of phosphate products enables Ballance to ensure the ongoing local production of superten for New Zealand farmers," says Mr Moutia.

"We are extremely proud of this relationship, which has made two geographically distant countries so close."

Ballance, Fertiliser and You...



The Regional Council Perspective



TOP: TARANAKI REGIONAL COUNCIL SCIENTIFIC OFFICER JAMES KITTO HAS BEEN MONITORING THE KAPUNI AMMONIA-UREA MANUFACTURING PLANT SINCE IT WAS COMMISSIONED IN 1982

Regional councils are caretakers of the natural and physical resources of their region, ensuring these are sustainably managed for the benefit of communities now and in the future.

Ballance Agri-Nutrients (Kapuni) Ltd operates an ammonia-urea manufacturing plant located near Kapuni, Taranaki. The company holds eight resource consents, granted by Taranaki Regional Council, to allow it to use water from local natural resources, discharge water to land and the Kapuni Stream, and discharge emissions into the air. Taranaki Regional Council Scientific Officer, James Kitto, has been responsible for monitoring the plant since it was first commissioned in 1982, and was involved in creating the original air and water resource consents for the plant.

Mr Kitto says that when the plant was first commissioned it took some time and effort from everyone involved to develop systems for the safe disposal of waste product from the manufacturing process. "Once the best methods for the safe disposal of waste were determined, sound discharge systems and processes were put in place, and these have been running pretty smoothly ever since."

Today the stronger wastewater is reused in the manufacturing process, and weaker wastewater is irrigated to a large area, benefiting surrounding pastures without harming soil or waterways. Ballance continually invests in research to improve its manufacturing efficiency and waste reduction. Most of the compliance and environmental monitoring is undertaken by Ballance, with additional checks by the Council throughout the year typically including four site inspections, collection of nine water samples, and four air quality surveys. "Particular attention is paid to management of the irrigation disposal system, and its effects on groundwater quality," says Mr Kitto. "Biological monitoring of the Kapuni Stream is also carried out, and no adverse effects on the stream from activities at the ammonia-urea plant have been found since commissioning."

Mr Kitto says that in their joint efforts to maintain and enhance the environment, Ballance and the Council take a collaborative approach, typically meeting or talking once a week. "On the occasions that Ballance has breached resource consent conditions, the company has proactively notified us, and has taken immediate action to stop any potential side-effects, followed by an investigation into the cause of the breach, and instigation of preventative measures," says Mr Kitto.

"Ballance demonstrates a good level of environmental performance and compliance with its resource consents, although there is still room for improvement with regards to ammonia emissions to air." Mr Kitto says that he commends Ballance for their "aggressive attitude towards doing the right thing", and he hopes that the company will continue to think beyond compliance to best practice for the best environmental outcomes.

Further north, Environment Bay of Plenty monitors resource consents for Ballance's Mount Maunganui manufacturing plant. However, it has also recently developed a working relationship with Ballance to mitigate the effects of pastoral farming on the environment, with a particular focus on improving the water quality of the Rotorua lakes. Environment Bay of Plenty Manager Environmental Investigations, John McIntosh, explains that Environment Bay of Plenty has set quality standards for water bodies within the region. Nutrient levels discharged from urban and rural sources in the Rotorua lakes area cause the lakes to exceed that standard, and he says that the regional council commends the way Ballance has acted in partnership with Environment Bay of Plenty to help improve water quality through the promotion of sustainable agriculture in the Lakes District.

"Ballance actively promotes sustainable use of its products to farmers in our region. Their products and services are an integral part of New Zealand agriculture, and it is promising to see the ongoing investment of the company into ways to mitigate nutrient loss, including the use of nitrification inhibitors to reduce nitrate leaching. We've also noticed the increased service Ballance staff provide to farmers in terms of advice and education around maximising plant nutrients for best production and environmental outcomes," says Mr McIntosh. "Tools such as nitrification inhibitors and nutrient budgeting, including recognition of effluent disposal areas, are of real benefit to farmers' pockets and the land. The company is honest in its approach to selling its products. Reps will advise farmers against fertiliser use if that is what the nutrient budget demonstrates."

Mr McIntosh believes that the trend towards intensification of farming will continue in years to come, and that this will present new issues and opportunities for the fertiliser industry. "The challenge for farmers will be to intensify while reducing nutrient loss. Further development of fertiliser industry services such as advice on nutrient management will be critical in helping farmers achieve this." Mr McIntosh says that Ballance can continue to assist Environment Bay of Plenty to look after the environment through open dialogue. "We are both here to achieve the four well-beings [cultural, social, environmental and economic] along with New Zealand farmers. I am positive about the future of farming in New Zealand under a quadruple bottom line."

Ballance, Fertiliser and You...

The Shareholder Perspective

ABOVE: SHAREHOLDER ALAN HORE (LEFT) WITH GENERAL MANAGER SALES AND MARKETING GRAEME SMITH

LEFT: SHAREHOLDER MARK HICKMOTT (LEFT) WITH HIS TECHNICAL SALES REPRESENTATIVE GRANT GILLARD

The history of Ballance Agri-Nutrients is one of foresight, partnership and perseverance, always with the needs of the New Zealand farmer at the forefront of any decision or activity.

The co-operative was originally formed with the goal of securing supply for New Zealand farmers, and that principle still rings true today, echoed in Ballance's mission statement "to create value for shareholders by the efficient supply of innovative products and services that meet customers' plant nutrient needs".

So, what do shareholders value about Ballance today?

Alan Hore has been a customer of the co-operative since the SouthFert days, his history with the company dating back to 1972.

Alan and his wife Jean farm more than 28,000 hectares of Central Otago hill country that includes native tussock, top-dressed, oversown and cultivated rolling hills, and flat land.

His farming operation is significant, sustaining more than 35,000 sheep and 5,800 cattle. Approximately 400 hectares of winter-feed such as brassica and rape is grown each year to supplement pasture production.

Alan's farming philosophy is very hands on – and despite the size of the farm he still manages to see most of the land on a weekly basis.

An operation as large as Alan and Jean's requires support, and to this end their son Richard and his wife Abby have taken over the day-to-day running of the farm with the support of three shepherds, a tractor driver and a married couple, with other casual staff brought in at busier times of the year. "There are multiple challenges when managing plant nutrients on hill country, including maintaining optimum pH levels, lifting phosphate levels, strategic use of nitrogen on high country and controlling brush weed," says Alan.

While Alan's relationship with Ballance was borne out of convenience and service provision more than thirty-five years ago, over the years his technical sales representatives, including his current rep, Richard Preston, have become integral members of his strategic management team. Richard, a key accounts representative, has been servicing Alan's property for the past thirteen years. "Ballance represents to me service when I need it, an accessible strategic partner, high-level technical advice, and demonstrable results," says Alan.

At the opposite end of the country, Waikato dairy farmer Mark Hickmott has been farming the family's 157-hectare block for the past thirteen years. He runs approximately 3.1 cows per hectare, grows 12 hectares of maize silage on farm for supplementary feed, and targets 1,100 kilograms of milk solids per hectare as his production goal. Overall, Mark describes his philosophy as "easy on labour, and good on production and the environment".

Mark's fertiliser application schedule is spring/summer/autumn, with a potash application mixed in with summer nitrogen. "Regular soil sampling and the Overseer program allow us to match inputs with outputs and maintain good fertility levels," says Mark.

The farm's history with Ballance dates back to the days of Bay of Plenty Fertiliser, although Mark himself has only been dealing with the company for the past six years. Convenience and expert advice are the two key reasons he chooses Ballance products and services.

"Because it is a co-operative you know they are not out to sell you something you don't need," says Mark. "And they consistently provide quality and timely advice."

Mark also views his technical sales representative as another resource to minimise labour. "It's easy to ring Grant, and within a few days we sit down and have the fertiliser needs planned for the year, then we develop a nutrient budget and away we go. Having a database of the history of plant nutrient application, and the depth of information associated with that, is key to our planning."

In terms of products, one of the greatest benefits to Mark is that special mixes are readily available. "So I can tailor them to meet my specific plant nutrient needs," says Mark, "and the compatibility of the mixes I've been recommended is good."

Back in the South Island, Alan values the fact that Ballance isn't trying to sell farmers something they don't need, adding that product quality, solid working relationships and advice are the greatest benefits of being with Ballance.

With regards to future requirements from Ballance, advice regarding the application of fertilisers to achieve maximum production benefits while minimising nutrient loss on hill country is key to Alan.

Mark agrees that advice from his local representative will be even more important in coming years.

"As land becomes more expensive we have to find a way to produce more per hectare to make it pay. Everyone is less tolerant of the impact of farming on the environment, including us farmers, and we need to find solutions to keep New Zealand green, while at the same time running productive farming operations.

"People have to eat, so we have to find a way to produce that food without harming the environment."

Board of Directors

OLIVER SAXTON
FIRST ELECTED 2001

Ward A director with six years of service. Huntly-based Oliver has predominantly bull beef farms in the north Waikato. He is also involved with forestry and winter lamb production, and had previous experience in the market gardening and dairy support sectors.

DAVID PILKINGTON
FIRST APPOINTED 2004

Board-appointed independent director with three years of service. David has significant experience in the agricultural industry, notably with the New Zealand Dairy Board, Fonterra and New Zealand Milk Limited.

DAVID HURST
DEPUTY CHAIRMAN

Ward C director with thirteen years of service. First elected in 1994, Papamoa-based David was appointed deputy chairman in 2003. He has three dairy units and a beef farm.

DAVID GRAHAM
CHAIRMAN

Ward B director with nine years of service. First elected in 1998, David was appointed chairman in 2003. He has a 350-hectare dairy farm in Putaruru and an interest in a second farm at Tokoroa.

DEAN NIKORA
FIRST ELECTED 2004

Ward C director with three years of service. East Coast-based Dean owns a large dairy operation in Central Hawke's Bay, on which he milks 1900 cows.

GRAEME HAWKINS
FIRST APPOINTED 1997

Board-appointed independent director with ten years of service. Graeme has extensive management experience from executive roles with the Fletcher Group and Dominion Breweries. He has been a professional director for the last 16 years, including involvement in dairy industry governance during most of that period.

LEFT: THE BOARD OF DIRECTORS VISITED THE NEW HASTINGS SERVICE CENTRE DURING FEBRUARY 2007

RICHARD JOLLY

FIRST ELECTED 2003

Ward B director with four years of service. Te Awamutu-based Richard has two properties on which he breeds sheep and cattle, and also finishes lamb and cattle.

OWEN BUCKINGHAM

FIRST ELECTED 1999

Ward D director with eight years of service. Te Anau-based Owen has a 330-hectare property on which he farms sheep and deer.

PETER MACDOUGALL

FIRST ELECTED 1996

Ward D director with ten years of service. Miller's Flat-based Peter farms hill country properties in Central Otago totalling 4,950 hectares, primarily running sheep, beef and deer.

DAVID PEACOCKE

FIRST ELECTED 2005

Ward A director in his second year of service. Raglan-based David has interests in several large farming operations, both in the Waikato and South Island. His businesses cover the beef, dairy, forestry and poultry sectors.

Senior Management Team

LARRY BILODEAU
CHIEF EXECUTIVE

DAVID O'REILLY
CHIEF FINANCIAL OFFICER

WARWICK DE VERE
GM MANUFACTURING AND R&D

LEN HOUWERS
GM KAPUNI

GRAEME SMITH
GM SALES AND MARKETING

MARK HAYES
MANAGER HUMAN RESOURCES

JACK HERDER
GM SUPPLY

PETER MOURITS
HEAD OF BUSINESS DEVELOPMENT

Financial Statements 2007

BALLANCE AGRI-NUTRIENTS LIMITED

CONTENTS

Statement of Financial Performance

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
From continuing operations:					
OPERATING REVENUE	2	**530,929**	355,033	**505,313**	471,238
TOTAL OPERATING EXPENSES	3	**454,151**	318,211	**456,131**	432,698
TRADING SURPLUS		**76,778**	36,822	**49,182**	38,540
Interest expense	4	**(8,468)**	(641)	**(7,413)**	(8,504)
OPERATING SURPLUS		**68,310**	36,181	**41,769**	30,036
Rebate to shareholders	5	**(22,213)**	(19,157)	**(22,213)**	(19,157)
Impairment write up	6			**29,395**	5,000
SURPLUS BEFORE TAX		**46,097**	17,024	**48,951**	15,879
Tax expense	7a	**(8,676)**	(60)	**(15,886)**	(6,699)
Tax expense - effect of change in rate	7a	**1,014**		**638**	
SURPLUS AFTER TAX		**38,435**	16,964	**33,703**	9,180
Minority shareholders' interests				**(188)**	67
NET SURPLUS FOR YEAR		**38,435**	16,964	**33,515**	9,247

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

Statement of Movements in Equity

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Net surplus for the year:					
Parent interest		**38,435**	16,964	**33,515**	9,247
Minority interest				**188**	(67)
Total recognised revenue and expenses		**38,435**	16,964	**33,703**	9,180
Contributions from shareholders					
Amalgamation of subsidiary	13b		(9,038)		
Ordinary shares issued	8	**116**	127	**116**	127
Ordinary shares issued in lieu of rebate - prior year	8	**8,741**	9,548	**8,741**	9,548
Increase (decrease) in share allotment reserve - current year	9b	**1,314**	(723)	**1,314**	(723)
Repurchase of shares from shareholders	8	**(5,019)**	(7,022)	**(5,019)**	(7,022)
Net contribution from shareholders		**5,152**	(7,108)	**5,152**	1,930
Distributions to owners					
Dividend paid	5	**(2,468)**	(2,275)	**(2,468)**	(2,275)
Movements in equity for the year		**41,119**	7,581	**36,387**	8,835
EQUITY AT BEGINNING OF THE YEAR		**238,263**	230,682	**242,331**	233,496
EQUITY AT END OF THE YEAR		**279,382**	238,263	**278,718**	242,331

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

Statement of Financial Position

AS AT 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
SHAREHOLDERS' EQUITY					
Paid in capital	8	**98,519**	94,681	**98,519**	94,681
Other reserves	9	**180,863**	143,582	**179,244**	146,883
Attributable to parent entity shareholders		**279,382**	238,263	**277,763**	241,564
Minority shareholders' interest				**955**	767
TOTAL EQUITY		**279,382**	238,263	**278,718**	242,331
NON-CURRENT LIABILITIES					
Term loans	10	**64,000**	71,000	**64,081**	71,141
Deferred tax liability	7b	**15,498**	7,826	**13,068**	
Total non-current liabilities		**79,498**	78,826	**77,149**	71,141
CURRENT LIABILITIES					
Accounts payable and accruals	11	**43,391**	30,991	**48,380**	35,410
Current portion of non-current liabilities	10	**7,000**	7,000	**7,000**	7,000
Rebate payable		**12,150**	10,264	**12,150**	10,264
Tax payable		**129**	184		
Total current liabilities		**62,670**	48,439	**67,530**	52,674
TOTAL LIABILITIES AND EQUITY		**421,550**	365,528	**423,397**	366,146
NON-CURRENT ASSETS					
Property, plant and equipment	12	**154,916**	155,615	**205,206**	184,834
Intangible assets	15	**200**		**594**	1,019
Investments	13a	**35,789**	35,789	**5,804**	6,201
Deferred tax asset	7b				1,752
Total non-current assets		**190,905**	191,404	**211,604**	193,806
CURRENT ASSETS					
Accounts receivable and prepayments	16	**87,367**	54,272	**71,325**	58,823
Bank deposits	17	**39,380**	29,477	**41,922**	30,569
Advance to subsidiary	22	**12,919**	8,279		
Inventories	18	**90,979**	82,096	**92,937**	82,117
Tax refund due				**5,609**	831
Total current assets		**230,645**	174,124	**211,793**	172,340
TOTAL ASSETS		**421,550**	365,528	**423,397**	366,146

For and on behalf of the Board of Directors:

DS Graham
Director
25 July 2007

DP Hurst
Director
25 July 2007

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

Statement of Cash Flows

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from					
Receipts from customers		475,043	320,514	491,803	476,449
Rebates received			35,000		
Insurance proceeds				16	26
Interest received		1,790	20	1,396	949
Dividends received		21,000	16,500	9	14
		497,833	372,034	493,224	477,438
Cash was disbursed to					
Payments to suppliers and employees		435,674	318,155	425,733	400,408
Taxes paid		46	110	5,206	11,207
Interest paid		8,467	641	7,413	8,504
		444,187	318,906	438,352	420,119
NET CASH FROM OPERATING ACTIVITIES	19c	53,646	53,128	54,872	57,319
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from					
Sale of investments			109		109
Sale of property, plant and equipment		324		1,466	288
		324	109	1,466	397
Cash was applied to					
Purchase of property, plant and equipment, and intangibles		14,470		19,969	22,852
Increased investment in subsidiaries, associates, and investment			1,000		89
		14,470	1,000	19,969	22,941
NET CASH USED IN INVESTING ACTIVITIES		(14,146)	(891)	(18,503)	(22,544)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from					
Issue of shares		116	127	116	127
Term loans					15,000
		116	127	116	15,127
Cash was applied to					
Rebates to shareholders		19,013	17,933	19,013	17,933
Less shares issued in lieu of rebate		8,741	9,548	8,741	9,548
Net rebate paid - prior year earnings		10,272	8,385	10,272	8,385
Dividends paid		2,468	2,275	2,468	2,275
Shares repurchased		5,334	6,556	5,332	6,557
Term loan repayments		7,000		7,060	7,080
Repayment of advance from subsidiaries		4,639	40,172		
		29,713	57,388	25,132	24,297
NET CASH USED IN FINANCING ACTIVITIES		(29,597)	(57,261)	(25,016)	(9,170)
NET INCREASE (DECREASE) IN CASH HELD		9,903	(5,024)	11,353	25,605
OPENING CASH		29,477	5,294	30,569	4,938
CASH ACQUIRED ON AMALGAMATION			29,207		
EFFECT OF EXCHANGE RATE CHANGES ON CASH					26
ENDING CASH	17	39,380	29,477	41,922	30,569

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY AND BASIS OF PREPARATION

Ballance Agri-Nutrients Limited is registered under the Companies Act 1993 and the Co-operative Companies Act 1996.
Ballance Agri-Nutrients Limited is an issuer for the purposes of the Financial Reporting Act 1993 and these financial statements have been prepared in accordance with that Act.

Financial statements for Ballance Agri-Nutrients Limited (the "Company") and consolidated financial statements for the Group are presented. The Group consists of the Company, its subsidiaries (the "Group") and the Group's interest in associates, joint ventures and partnerships.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. Where no financial reporting standard exists in New Zealand in relation to a particular issue, the accounting policies and disclosures adopted have been determined with regard to other forms of authoritative support.

Except as noted below, the financial statements are prepared on the basis of historical cost.

SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are adopted.

1a) Basis of consolidation

The Group consolidated financial statements are prepared from the financial statements of Ballance Agri-Nutrients Limited and its subsidiary companies.

Subsidiaries are those entities controlled directly or indirectly by the Company. The financial statements of subsidiaries are included in the consolidated financial statements using the purchase method of consolidation.

Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. The Group's share of the net surplus of associates is recognised as a component of operating revenue in the statement of financial performance, after adjusting for the amortisation of goodwill arising on acquisition and differences between the accounting policies of the Group and associates. The Group's share of other gains and losses of associates is recognised as a component of total recognised revenues and expenses in the statement of movements in equity. Dividends received from associates are credited to the carrying amount of the investment in associates in the Group. The unamortised balance of goodwill arising on acquisition is included in the carrying amount of the associate in the Group.

Joint ventures are joint arrangements with other parties in which the Group has several liability in respect of costs and liabilities and shares in any resulting output. The Group's proportionate share of revenues and expenses and assets and liabilities of the joint ventures are incorporated into the Group's financial statements on a line-by-line basis.

Where an entity becomes or ceases to be a part of the Group during the year, the results of the entity are included in the consolidated results from the date that control or significant influence commenced or until the date that control or significant influence ceased. When an entity is acquired all identifiable assets and liabilities are recognised at their fair value at acquisition date. The fair value does not take into consideration any future intentions by the Group.

Where ownership interest in an entity that is already a subsidiary is increased, the identifiable assets and liabilities of that subsidiary are revalued to fair value, and goodwill, if any, arising on the increase in interest is to be calculated by reference to those fair values.

Where an entity that is part of the Group is disposed of, the gain or loss recognised in the statement of financial performance is calculated as the difference between the sale price and the carrying amount of the entity in the Group financial statements.

Intra-Group balances, transactions and profits are eliminated in preparing the Group financial statements.

1b) Investments

Investment in subsidiary

Investments in subsidiaries are stated at cost.

Non-current investments

Non-current investments are stated at cost.

Intra-group amalgamation

Where an intra-Group reconstruction occurs through a subsidiary amalgamating into the Company or another subsidiary the assets and liabilities of the amalgamating subsidiary are recognised in the financial statements of the Company at their previously recorded carrying amounts. The Company's investment in the subsidiary is reduced to zero. Any excess of the carrying amount of the net assets, over the Company's investment in the subsidiary, is recognised in the statement of movements in equity. The results of the amalgamated subsidiary are recognised in the net surplus of the amalgamator from the date of the amalgamation.

1c) Goodwill

Goodwill arising on the acquisition of a subsidiary or associate or a business and its assets represents the excess of the purchase consideration over the fair value of the identifiable assets and liabilities acquired. Goodwill is capitalised and amortised on a straight-line basis over periods considered appropriate by the Directors of up to 20 years, consistent with the period during which benefits are expected to be derived.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

1d) Property, plant and equipment

All property, plant and equipment is recorded at their fair value as at 31 December 2004 or at cost for all subsequent additions. This is a consequence of the Company acquiring the residual minority interest in Ballance Agri-Nutrients Limited. All other property, plant and equipment was recorded at cost.

Subsequent expenditure which enhances the assets' life or output or is necessarily incurred to enable future economic benefit to be obtained, is capitalised as incurred and depreciated over the time period of future economic benefit. Expenditure on maintenance and repairs which does not result in an increase to the value of the Group's assets or which does not increase the capacity beyond the assets' original design is expensed as incurred.

Where an item of property, plant or equipment is disposed of, the gain or loss recognised in the statement of financial performance is calculated as the difference between the net sale price and the carrying amount of the item of property, plant or equipment. If an item of property, plant or equipment has been measured at fair value, then on disposal any revaluation surplus is reduced or increased by the amount applicable to that asset and transferred to retained earnings.

1e) Depreciation

Depreciation is calculated on a straight-line basis which will write off the cost or revalued amount of an asset (other than land) less any residual value over its useful life.

1f) Leased assets, lease liabilities and operating leases

Finance leases under which the Group assumes substantially all the risks and rewards of ownership of the leased item are stated initially at an amount equal to the present value of the minimum lease payments. Assets are depreciated as described in Note 1e above. Operating lease payments where the lessor effectively retains all the risks and rewards of ownership of the leased item are charged against revenue in regular instalments over the accounting periods covered by the lease term.

1g) Identifiable intangible assets

Patents and trademarks

Patents and trademarks are stated at cost and amortised to the statement of financial performance on a straight-line basis over their estimated useful lives of up to 15 years.

Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure is accumulated in respect of each separate licence or permit area (area of interest). This expenditure is capitalised if the right of tenure of the area of interest is current and either it is expected to be recouped through sale or successful development of the area of interest, or where activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves and where active and significant operations in, or in relation to the area of interest is continuing.

When an area of interest is abandoned or the Directors decide it is not commercial any capitalised expenditure in respect of that area is recognised in the statement of financial performance.

When production commences, capitalised exploration, evaluation and development expenditure is amortised on a units of production basis over the life of the economically recoverable reserves.

1h) Impairment

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of financial performance.

Estimated recoverable amount is the greater of the estimated amount from the asset's future use and ultimate disposal, and its net market value. The estimated future use recoverable amount is determined by estimating the net present value of the future cash flows generated by the asset's use. The net market value of the asset is the fair value less disposal costs from the sale that could be reasonably anticipated at that date.

The recoverable amount of an individual asset is estimated for the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets.

1i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. Manufactured inventory cost includes an appropriate share of overheads allocated on the basis of normal operating capacity. Plant spares and stores are valued on the basis of average cost. All valuations include due allowance for obsolete and slow-moving inventories.

1j) Accounts receivable

Accounts receivable are valued at their estimated realisable value which is considered to be fair value.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

1k) Financial instruments

The Group uses derivative financial instruments within predetermined management policies and limits to manage exposure to fluctuations in foreign currency exchange rates, interest rates and electricity prices.

For an instrument to qualify as a hedge it must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the start of the contract. Financial instruments are used to hedge underlying positions only and are accounted for on the same basis as the related exposure. The resulting gains or losses are recognised in the statement of financial performance. Where an item does not qualify or no longer qualifies as a hedge it is stated at market value and any resultant gain or loss is recognised in the statement of financial performance.

The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

1l) Foreign currency balances

Transactions in foreign currencies are recorded at the New Zealand rate of exchange ruling at the date of the transaction. Short-term foreign currency transactions covered by forward foreign exchange contracts are measured at the exchange rate specified by those contracts. Short-term transactions covered by foreign exchange options are translated at the more favourable of the options strike price and exchange rates ruling at the dates of the transactions.

Foreign currency assets or liabilities at balance date not covered by a forward exchange contract or hedge are converted to New Zealand currency at the exchange rate ruling at balance date. Unrealised gains or losses resulting from the conversion are recognised in the statement of financial performance.

Exchange differences on hedging transactions undertaken to establish the price of particular sales or purchases plus any costs associated with the hedge transactions are deferred and included in the measurement of the sale or purchase transactions.

1m) Revenue recognition

Operating revenue reported in the statement of financial performance is the amounts received and receivable by the Group for goods supplied to customers in the ordinary course of business. Interest and dividends received are recorded as income when received or accrued in respect of the period for which they were earned.

1n) Research and development

Research expenditure is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge. All research expenditure is recognised in the statement of financial performance in the year in which it is incurred. Development expenditure is expenditure on the application of research to a plan for the production of new or substantially improved products. Development expenditure may be capitalised as an asset when it can be demonstrated the commercial production of the product will commence. Development expenditure recognised as an asset is stated at cost and amortised on a straight-line basis over a period considered appropriate by Directors of up to 20 years, consistent with the period during which benefits are expected to be derived.

1o) Employee entitlements

Provision is made for entitlements accruing to employees for annual leave and long-service leave awarded.

Group contributions to the employee defined contribution superannuation scheme are expensed in the statement of financial performance as incurred.

Scheme investments are held in funds administered by trustees and are managed by investment managers independent of the Group. Scheme funds are not accessible by the Company and are not included in these financial statements.

1p) Rebates and dividends

Rebates on fertiliser purchases during the year are recognised in the statement of financial performance as a deduction from the operating surplus in the year in which the obligation arises. Any other dividends are recognised in the period in which they are authorised and declared.

Shares to be allotted from rebates in accordance with the Company's share quota policies are credited to the share allotment reserve until the rebate is paid (refer Note 9b).

1q) Tax

Income tax expense is recognised on the operating surplus before taxation adjusted for permanent differences between taxable and accounting income. Any difference between revaluations of property, plant and equipment recognised prior to December 2004 and historical cost is deemed to be a permanent difference. The tax effect of all timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is recognised in the statement of financial position as a deferred tax asset or deferred tax liability. The future asset or liability is stated at the income tax rates prevailing at balance date.

Future tax benefits are not recognised as an asset unless realisation of the benefit is virtually certain.

1r) Unpaid share capital

Ordinary shares are issued as fully paid shares. It is not the Company's normal policy to issue shares with unpaid capital which is subject to specified calls in the future.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

1s) Bonus shares

Bonus shares issued for no consideration are not recognised as transactions in the financial statements.

1t) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a distribution in the statement of movements in equity.

1u) Treasury stock

Shares repurchased by the Company, which have not been cancelled, are held as treasury stock within equity as a deduction from paid-in capital.

1v) Changes in accounting policies

Uniform accounting policies have been applied by the Group on a consistent basis throughout the year.

1w) Comparatives

Certain comparatives have been amended to conform with current year presentation.

2. TOTAL OPERATING REVENUE

	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Sales revenue	22	486,630	317,021	504,297	470,076
Rebate from subsidiary			18,000		
Dividends from subsidiaries		21,000	16,500		
Other dividend income		9	5	9	14
Equity accounted earnings of associates	14c			(389)	173
Commission income	22		3,487		
Insurance and other recoveries					26
Interest received - bank		1,259	20	1,396	949
Interest received - subsidiaries		531			
Subvention payment from subsidiary		21,500			
		530,929	355,033	505,313	471,238

3. TOTAL OPERATING EXPENSES

	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Total operating expenses includes the following expenditure items:					
Audit fees		102	40	141	160
Auditors - tax compliance, advisory, and accounting advice		126	10	126	70
Bad debts - movements in provision		1		(7)	(284)
Depreciation	12	13,707		27,273	24,954
Directors' fees		482	342	482	464
Donations		2		2	3
Intangible amortisation	15b			25	25
Intellectual property impairment	15a			600	
(Gain) loss on disposal of property, plant and equipment, and investments		(2)	(19)	(295)	571
Operating leases and rentals		3,233		3,470	3,996
Research, development and exploration		1,204		1,626	2,017

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

4. INTEREST

	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Interest expense				
- Banks	7,336	29	7,413	8,504
- Subsidiaries	1,132	612		
	8,468	641	7,413	8,504

5. REBATES AND DIVIDENDS

	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Parent company shareholders				
Rebate provided for current year	22,200	19,000	22,200	19,000
Rebate for prior year under provided recognised in the current year	13	157	13	157
Rebate per statement of financial performance	22,213	19,157	22,213	19,157
Dividend paid per statement of movements in equity	2,468	2,275	2,468	2,275

6. IMPAIRMENT

	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Kapuni urea plant impairment write up	12			29,995	5,000
Other assets impairment write down	15a			(600)	
				29,395	5,000

7. TAX

	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
a) Tax expense					
Tax expense is reconciled in the financial statements as follows:					
Surplus before tax		46,097	17,024	48,951	15,879
Adjusted for permanent differences					
Non-assessable income			(19)	(157)	(155)
Non-assessable portion of impairment write up				(3,669)	
Non-deductible expenditure		111	12	725	31
Depreciation on revalued assets		446		446	473
Imputation credits received		10,354	8,130	11	7
Permanent differences on leases				950	4,197
Equity accounted earnings from associates	2			389	(173)
Other		646		514	
Total assessable income		57,654	25,147	48,160	20,259
Tax charge thereon at 0.33		19,026	8,298	15,893	6,686
Imputation credits		(10,354)	(8,130)	(11)	(7)
Effect of change in tax rate		(1,014)		(638)	
Tax (over)/under provided in prior year		4	(108)	4	20
Total tax expense		7,662	60	15,248	6,699
Total tax expense comprises:					
Current tax		(10)	60	428	9,269
Deferred tax	7b	7,672		14,820	(2,570)
		7,662	60	15,248	6,699

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

b) Deferred tax liability/(asset)	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Balance at start of year		7,826		(1,752)	818
Increase (decrease) during the year	7a	7,672		14,820	(2,570)
Deferred tax transferred on amalgamation			7,826		
Balance at end of year		15,498	7,826	13,068	(1,752)
c) Imputation credit account					
Credit balance at start of year		47,017	9,758		
Prior period adjustments		(483)	(40)		
Income tax paid		46	110		
Imputation credits received		10,354	8,130		
Imputation credits received from bonus issue from subsidiaries			28,705		
Distributed to shareholders		(1,216)	(6,985)		
Acquired on amalgamation			7,339		
Credit balance at end of year		55,718	47,017		
Credit balances indirectly available in subsidiaries		3,239	13,520		

8. PAID-IN CAPITAL

	NO OF SHARES 2007 000s	NO OF SHARES 2006 000s	PARENT & GROUP 2007 $000	PARENT & GROUP 2006 $000
Ordinary shares fully paid:				
Balance at start of year	30,908	28,535	94,681	92,028
Ordinary shares issued during the year	18	21	116	127
Ordinary shares issued in lieu of rebate	1,457	1,591	8,741	9,548
Ordinary shares issued by bonus issue		1,984		
Ordinary shares repurchased	(853)	(1,223)	(5,019)	(7,022)
	31,530	30,908	98,519	94,681
Total issued and paid in capital at end of year			98,519	94,681
Total number of shares on issue at end of year	31,530	30,908		

a) Ordinary shares

The Company has one class of ordinary share on issue.

b) Nominal value of shares

The nominal value of each ordinary share is currently $6.30 (2006 $6.00).

c) Share redemption features

Parent Company 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.

d) Repurchase of shares

All treasury stock held at the beginning of the year (458,840 shares) was re-issued in the September 2006 rebate payment. During the year 853,137 shares (2006: 1,223,417) were repurchased at an average price of $5.88 per share (2006 $5.74). From these repurchases 73,389 shares (2006: 764,577) were subsequently re-issued at an average price of $6.30 per share (2006 $6.00) and 779,748 shares (2006: 458,840) are held as treasury stock at the end of the year.

e) Treasury stock	PARENT 2007 000s	PARENT 2006 000s	GROUP 2007 000s	GROUP 2006 000s
Number of shares repurchased, not reissued and held as treasury stock at balance date.	780	459		

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

9. OTHER RESERVES

	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
a) Asset revaluation reserve				
Balance at start of year	**43,697**	118,240	**43,862**	43,862
Effect of amalgamation on reserve		(74,543)		
Balance at end of year	**43,697**	43,697	**43,862**	43,862
b) Share allotment reserve				
Balance at start of year	**8,736**	9,460	**8,736**	9,460
Shares allotted during the year	**(8,736)**	(9,460)	**(8,736)**	(9,460)
Shares provided from current rebate	**10,050**	8,736	**10,050**	8,736
Balance at end of year	**10,050**	8,736	**10,050**	8,736
c) Retained earnings				
Group companies			**125,516**	94,080
Associate companies			**(184)**	205
	127,116	91,149	**125,332**	94,285
TOTAL OTHER RESERVES	**180,863**	143,582	**179,244**	146,883

10. NON-CURRENT LIABILITIES

	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Bank term loans: Average interest rate 8.5% (2006 7.8%)	**71,000**	78,000	**71,000**	78,000
Other term loans: Average interest rate: 9.9% (2006 10.1%)			**81**	141
	71,000	78,000	**71,081**	78,141
Classified as current liabilities	**7,000**	7,000	**7,000**	7,000
	64,000	71,000	**64,081**	71,141
Repayment of borrowings				
Non-current liabilities are repayable as follows:				
Due within 1 year	**7,000**	7,000	**7,000**	7,000
Due between 1 and 2 years	**7,000**	7,000	**7,081**	7,141
Due between 2 and 5 years	**57,000**	64,000	**57,000**	64,000
	71,000	78,000	**71,081**	78,141

Bank term loan security

Bank loan facilities are unsecured. Various covenants including minimum net worth and working capital ratios apply to bank lending facilities. The Parent Company and subsidiaries have complied with all covenants for the 2007 and 2006 financial years.

11. ACCOUNTS PAYABLE

	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Trade payables and accruals	**36,922**	24,369	**37,951**	21,294
Employee entitlements	**2,418**	2,309	**3,405**	3,224
Other payables	**1,622**	1,572	**4,595**	8,151
Share repurchase instalments	**2,429**	2,741	**2,429**	2,741
	43,391	30,991	**48,380**	35,410

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

12. PROPERTY, PLANT AND EQUIPMENT

	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Freehold land at cost	1,905	872	2,023	967
Freehold land at fair value	34,832	34,437	34,848	34,454
	36,737	35,309	36,871	35,421
Buildings at cost	10,470	4,656	10,693	4,733
Buildings at fair value	56,424	56,483	58,447	57,556
	66,894	61,139	69,140	62,289
Less accumulated depreciation	9,389	5,359	9,948	5,608
	57,505	55,780	59,192	56,681
Plant, machinery and equipment at cost	16,755	9,359	33,935	24,485
Plant, machinery and equipment at fair value	60,869	59,526	106,884	77,584
Aircraft at cost			5,140	1,976
Aircraft at fair value			3,589	3,941
	77,624	68,885	149,548	107,986
Less accumulated depreciation	22,698	11,817	47,877	23,941
	54,926	57,068	101,671	84,045
Capital work in progress at cost	5,748	7,458	7,472	8,687
Net carrying value	154,916	155,615	205,206	184,834

Property, plant and equipment was fair valued at 1 January 2005 following the increase in the ownership of Ballance Agri-Nutrients Limited. At 31 May 2007 the Directors consider the carrying value of land and buildings to approximate fair value.

Economic lives established for the principal categories of property, plant and equipment and depreciation expense are:	LIFE (Years)	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Freehold improvements	1 to 50	242		242	214
Buildings	12 to 50	3,818		4,128	3,841
Plant and equipment					
Plant and machinery	5 to 20	6,256		17,907	16,088
Mobile equipment	7	893		1,505	1,355
Vehicles	5	7		60	63
Office equipment and furniture	5 to 10	204		266	280
Computer hardware and software	2 to 5	2,287		2,348	2,434
Aircraft	10 to 15			817	679
		13,707		27,273	24,954

The carrying value of the Kapuni urea plant has been regularly reviewed following reassessment of the life expectancy of the Maui gas field in 2002. The Directors considered it prudent to recognise the uncertainty of future gas prices and supply and in prior years have made impairment write downs and write ups of the carrying value of the Kapuni ammonia-urea facility, buildings and plant. In the current year the remaining impairment provision has been reversed. Contracted gas supply to 2010 now held by the company provides increased confidence and certainty in the future economic performance of the plant.

13. INVESTMENTS

	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
a) Investment summary					
Investment in subsidiary companies:					
Ballance Agri-Nutrients (Kapuni) Limited		25,501	25,501		
Super Air Limited		3,172	3,172		
Ballance Agri-Nutrients Insurance Limited		1,000	1,000		
Investment in associated companies	14	5,435	5,435	5,265	5,654
Other investments		681	681	539	547
		35,789	35,789	5,804	6,201

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

Significant subsidiary companies of Ballance Agri-Nutrients Limited:	BUSINESS ACTIVITY	BALANCE DATE	EQUITY 2007	EQUITY 2006
Ballance Agri-Nutrients (Kapuni) Limited	Urea manufacture	31 May	**100%**	100%
Petrochem Limited	Gas exploration	31 May	**100%**	100%
Ballance SPOne Limited	Research	30 June	**100%**	100%
Ballance SPTwo Limited	Research	30 June	**100%**	100%
Super Air Limited	Agricultural aviation	31 May	**100%**	100%
Ballance Agri-Nutrients Insurance Limited	Insurance	31 May	**100%**	100%
SpectraNet Limited	Research and development	30 June	**100%**	50%
Associated companies:				
NZ Phosphate Company Limited	Research	30 June	**50%**	50%
Summit-Quinphos (NZ) Limited	Fertiliser distributor	31 December	**40%**	40%
Joint ventures:				
(Equity proportion held within the Group)				
EnCoate Limited	Research and development	30 June	**50%**	50%

Joint venture accounts are audited to 30 June 2006. Group financial statements include 1 month from the audited accounts and 11 months from unaudited management accounts.

b) Short-form amalgamation

On 31 May 2006 Ballance Agri-Nutrients Limited, and Ballance Agri-Nutrients Investments Limited were amalgamated with the Parent Company, Ballance Agri-Nutrients Co-operative Limited, by short-form amalgamation. Ballance Agri-Nutrients Co-operative Limited was subsequently renamed Ballance Agri-Nutrients Limited. The transactions had the following effect on the Parent Company's assets and liabilities:

	PARENT 2006 $000
Current assets	
Accounts receivable	54,272
Bank deposits	29,206
Inventories	82,098
	165,576
Non-current assets	
Fixed assets	155,615
INVESTMENTS	34,771
	190,386
Liabilities	
Accounts payable	27,768
Tax payable	583
Intergroup advances	9,297
Bank term loans	78,000
Deferred tax liability	7,826
	123,474
Net assets acquired on amalgamation	232,488
Cost of investment	241,526
Deficit recognised in statement of movements in equity	(9,038)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

14. INVESTMENT IN ASSOCIATES

	NOTES	GROUP 2007 $000	GROUP 2006 $000
a) Carrying amount of associates			
Carrying amount at beginning of year		5,654	5,908
Equity accounted earnings of associates	14c	(389)	172
Dividends from associates			(426)
Carrying value at end of year		5,265	5,654
b) Goodwill relating to investment in associates			
Carrying amount at beginning of year		2,587	2,874
Amortisation of goodwill during the year		(287)	(287)
Carrying value at end of year		2,300	2,587
Comprising:			
Goodwill arising on acquisition of associates		3,824	3,824
Accumulated amortisation		(1,524)	(1,237)
		2,300	2,587
c) Equity accounted earnings of associates			
Equity accounted earnings comprise:			
Surplus before income tax (adjusted for goodwill amortisation)		(439)	399
Income tax		50	(227)
Total recognised revenues and expenses		(389)	172

15. INTANGIBLE ASSETS

	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Joint ventures - intellectual property, patents and trademarks	15a				600
Exploration and development	15b			103	128
Turbine engine conversion				291	291
BioPhos licence		200		200	
		200		594	1,019
a) Joint ventures - intellectual property, patents and trademarks					
Balance at beginning of year				600	600
Impairment write down	3			(600)	
Balance at end of year					600

Intangible assets relate to intellectual property, patents and trademarks through Group participation in research and development joint ventures trading as EnCoate Limited and SpectraNet Limited.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

b) Exploration and development	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Balance at beginning of year				**128**	153
Amortisation	3			**(25)**	(25)
Balance at end of year				**103**	128

16. ACCOUNTS RECEIVABLE

	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Trade receivables	**62,861**	51,169	**66,254**	53,431
Other receivables and prepayments	**24,506**	3,103	**5,071**	5,392
	87,367	54,272	**71,325**	58,823

17. BANK DEPOSITS AND NET BANK BORROWINGS

Bank overdraft and committed short-term loan facilities are unsecured. Deposits and loans have different interest rates and loan security provides for right of set off against deposits (refer Note 20b).

Funds on deposit:	NOTES	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Bank current accounts and short-term deposits		**38,727**	28,052	**41,269**	29,144
Bank foreign currency deposits		**653**	1,425	**653**	1,425
		39,380	29,477	**41,922**	30,569
Less bank loans	10	**(71,000)**	(78,000)	**(71,000)**	(78,000)
Net bank deposits (borrowings)		**(31,620)**	(48,523)	**(29,078)**	(47,431)

18. INVENTORIES

	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Manufactured and finished products	**37,794**	57,215	**37,142**	55,582
Raw materials	**25,442**	18,116	**25,442**	18,116
Packaging	**3,266**	3,192	**3,266**	3,192
Goods in transit	**21,098**	417	**21,098**	417
Spares and stores	**3,379**	3,156	**5,989**	4,810
	90,979	82,096	**92,937**	82,117

19. NOTES TO THE STATEMENT OF CASH FLOWS

a) Investing activities

Investing activities comprise the purchase and disposal of non-current assets.

b) Financing activities

Financing activities comprise the change in the equity and debt capital structure of the Group and the cost of servicing the equity capital including rebates and dividends to shareholders.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

c) Reconciliation of net surplus for the year to cash flow from operating activities	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Net surplus for year	38,435	16,964	33,515	9,247
Item reclassified as financing activity:				
Rebate payable - current year	22,213	19,157	22,213	19,157
Add non-cash and non-operating items:				
Depreciation	13,707		27,273	24,954
Decrease in deferred tax	7,672		14,820	(2,570)
Impairment valuation write (up) down			(29,395)	(5,000)
Intangibles amortisation			25	25
Minority interests			188	(67)
(Gain)/loss on disposal of property, plant and equipment			(295)	571
Equity earnings of associates	(2)		389	(173)
Other items		(19)		(25)
Add (deduct) movements in working capital items:				
Movement in receivables	(33,095)	15,810	(12,486)	6,089
Movement in payables	13,653	1,266	14,223	(11,965)
Movement in inventories	(8,882)		(10,820)	19,014
Movement in tax payable	(55)	(50)	(4,778)	(1,938)
Net cash from operating activities	53,646	53,128	54,872	57,319

20. FINANCIAL INSTRUMENTS

Nature of activities and management policies

Exposure to currency, interest rate, commodity and other market risks arise in the normal course of the Group's business. Derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. The Group maintains a portfolio of forward foreign exchange contracts and currency options to hedge the currency risks associated with the purchase of overseas-sourced raw materials and finished fertiliser product inventories. Interest rate swaps are used to reduce exposure to fluctuations in interest rates on floating rate borrowings.

a) Currency risk

The Group incurs currency risk primarily denominated in US dollars from product purchase transactions. The Group's policy is to hedge up to 100% of all existing foreign currency exposures and 20% to 100% of estimated foreign currency exposures in respect of purchases that fall due within the next twelve months. For a period during the financial year this policy was extended to include a proportion of exposures out to 18 months.

The principal or contract amounts of derivative financial instruments outstanding at balance date were:	GROUP 2006 $000	GROUP $000
Forward foreign exchange contracts maturing within 13 months	125,260	170,300
Foreign exchange options maturing within 13 months - bought	35,884	74,034
- sold	71,768	148,068

b) Interest rate risk

The Group has short- and long-term borrowing facilities used to fund ongoing activities. Group policy provides for hedging a proportion of the interest rate exposure. Interest rate options and forward rate agreements are used to hedge repricing risk on floating rate borrowings.

The following tables identify the period until loans reprice. The interest rate applicable to financial instruments is incorporated into the effective interest rate of the underlying hedged item.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

GROUP 2007	EFFECTIVE INTEREST RATE	TOTAL $000	<6 MONTHS	6 - 12 MONTHS	1 - 2 YEARS	2 - 5 YEARS
Financial assets and liabilities						
Bank deposits - net	7.75%	41,922	41,922			
Bank loans - long-term	8.45%	(71,000)	(71,000)			
Other	9.86%	(81)	(81)			
Net financial position		(29,159)	(29,159)			
Interest rate swaps	6.48%		25,000	(10,000)	(15,000)	
Interest rate swaps	6.51%		10,000		(10,000)	
Interest rate swaps	6.49%		15,000			(15,000)
Repricing profile 2007		(29,159)	20,841	(10,000)	(25,000)	(15,000)

GROUP 2006	EFFECTIVE INTEREST RATE	TOTAL $000	<6 MONTHS	6 - 12 MONTHS	1 - 2 YEARS	2 - 5 YEARS
Financial assets and liabilities						
Bank deposits - net	7.25%	30,569	30,569			
Bank loans - long-term	7.80%	(78,000)	(78,000)			
Other	10.10%	(141)	(141)			
Net financial position		(47,572)	(47,572)			
Interest rate swaps	6.48%			35,000	(35,000)	
Interest rate swaps	6.49%				15,000	(15,000)
Repricing profile 2006		(47,572)	(47,572)	35,000	(20,000)	(15,000)

c) Credit risk

In the normal course of its business the Group incurs credit risk from trade debtors and major banks as counterparties to financial instruments. Credit policies including individual policy limits on exposure are used to manage the credit risk.

Accounts receivable reflect an exposure to the agricultural industry through a limited number of merchants, the majority of business being conducted with nationally significant companies.

The Group does not require collateral or security to support financial instruments due to the quality of the customers and high credit ratings of the financial institutions dealt with. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position.

d) Fair values

Carrying value is considered to approximate fair value for all financial instruments on the statement of financial position except where specifically disclosed.

Fair value representing the benefit or (deficit) comparing forward foreign exchange and option contract rates to market rates at balance date is a deficit of ($16,946,462) (2006 benefit of $14,033,974). The corresponding amount of benefit or (deficit) attributable to overseas payables in the financial statements is nil (2006 ($56,280)).

e) Commodity price risk

Commodity price risk is the risk that the Group's sales revenue and costs will be impacted by fluctuations in world fertiliser raw material and manufactured product prices. The Group is exposed to price risk through its raw material and product imports and domestic urea manufacture. The Group has supply contracts for the medium term but does not normally hedge its exposure to raw material and imported manufactured product price risk. The company hedges for currency risk associated with commodity prices as per Note 20a.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

21. COMMITMENTS

a) Capital expenditure

Estimated cost of capital work covering buildings and plant authorised by the Board of Directors not yet provided for in the financial statements.

	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Contracted for	**4,577**	4,494	**5,088**	5,124
Not yet contracted for	**3,188**	1,100	**3,478**	1,100

b) Operating lease obligations

	PARENT 2007 $000	PARENT 2006 $000	GROUP 2007 $000	GROUP 2006 $000
Group obligations under operating leases:				
Due up to 1 year	**2,682**	2,860	**2,753**	3,009
Due between 1 and 2 years	**1,327**	1,620	**1,379**	1,686
Due between 2 and 5 years	**2,455**	3,428	**2,503**	3,514
After 5 years	**3,995**	5,980	**4,018**	6,019
	10,459	13,888	**10,653**	14,228

22. RELATED PARTY TRANSACTIONS

Note 13 identifies all entities within the Group. All of these entities are related companies of the Parent Company. During the year there have been transactions between the Ballance Agri-Nutrients Limited and related parties, which have been conducted on a normal commercial basis.

The Ballance Agri-Nutrients Limited subsidiary, which ceased to be related as at 31 May 2006 with the amalgamation (Note 13b), previously sold fertiliser products to the Parent Company shareholders as agent for the Parent Company. Revenue on sales to shareholders was reflected as part of operating revenue in the Parent Company's statement of financial performance (refer Note 2). Total purchases in respect of these sales was nil (2006 $317,021,409). The Parent Company earned commission income on these sales (refer Note 2).

The Parent Company has accrued a $21.5m subvention payment from Ballance Agri-Nutrients (Kapuni) Limited (refer Note 2). The corresponding receivable is included in other receivables and prepayments (refer Note 16).

Sales of product to related parties amount to 6.4% of the Group's turnover (2006 7.5%). Included in accounts receivable at balance date were amounts due from associates of $4,897,614 (2006 $3,735,613).

Parent company advances to/(from) subsidiaries of $12,918,571, (2006 $8,279,227) are unsecured, at call and attract commercial interest rates of 7.7% at balance date (2006 7.3%).

Directors conduct business with the Parent Company and its subsidiaries in the normal course of their business as customers and on commercial terms and conditions. Sales to Directors and rebates paid to Directors are less than 1% of the total operating revenue and rebates for the year respectively.

23. CONTINGENT LIABILITIES

Last year the Company was engaged in arbitration proceedings relating to a property lease. This was settled during the current year.
The Directors are not aware of any other contingent liabilities at balance date.

24. ACCOUNTING FOR SEGMENTS

The Group's income is derived principally from the importation, manufacture, distribution and sale of fertiliser and related products throughout New Zealand.

25. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The New Zealand Accounting Standards Review Board requires that the New Zealand equivalents to International Financial Reporting Standards (NZIFRS) will apply to New Zealand reporting entities for periods commencing on or after 1 January 2007. For the Group this is the 2008 financial year commencing on 1 June 2007.

In preparation for adoption of NZIFRS the Group established a project team and sought professional advice to identify the potential impacts of implementation on Group financial reporting and related activities and to manage any consequential business impacts. Some decisions have not yet been made where choices of accounting policies are available or where the bodies responsible for NZIFRS have projects in progress that could affect the position adopted by the Group. Therefore the following should not be regarded as a complete list of changes in accounting policies as a result of NZIFRS.

Material areas of difference between the current significant accounting policies of the Group and NZIFRS identified to date are summarised below.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

RECONCILIATION OF EQUITY

In preparing its opening NZIFRS balance sheet the company has adjusted amounts reported previously in accordance with GAAP. An explanation of how the transition from previous GAAP to NZIFRS has affected the balance sheet is set out in the following tables and the notes that accompany the tables.

TRANSITIONAL BALANCE SHEET 1 JUNE 2006

	NOTES	PARENT			GROUP		
		PREVIOUS GAAP $000	EFFECT OF TRANSITION TO NZIFRS $000	NZIFRS $000	PREVIOUS GAAP $000	EFFECT OF TRANSITION TO NZIFRS $000	NZIFRS $000
Shareholders' equity							
Paid in capital	a	94,681	(94,681)		94,681	(94,681)	
Other capital reserves	a, b, c	52,433	(41,325)	**11,108**	52,598	(41,490)	**11,108**
Retained earnings	a, i	91,149	(34,645)	**56,504**	94,285	(34,900)	**59,385**
Minority shareholders' interest					767		**767**
Total equity		238,263	(170,651)	**67,612**	242,331	(171,071)	**71,260**
Co-operative shares payable on demand	a		169,994	**169,994**		169,994	**169,994**
Share allotment from rebate provision	e		8,008	**8,008**		8,008	**8,008**
Total attributable to co-operative shareholders and minorities		238,263	7,351	**245,614**	242,331	6,931	**249,262**
Other liabilities							
Term loans		71,000		**71,000**	71,141		**71,141**
Deferred tax liability	d	7,826	6,420	**14,246**		4,958	**4,958**
Provisions	f		362	**362**		502	**502**
Total other non-current liabilities		78,826	6,782	**85,608**	71,141	5,460	**76,601**
Current liabilities							
Accounts payable and accruals	e	30,991	(99)	**30,892**	35,410	(99)	**35,311**
Current portion of non-current liabilities		7,000		**7,000**	7,000		**7,000**
Rebate payable		10,264		**10,264**	10,264		**10,264**
Tax payable		185		**185**			
Total current liabilities		48,440	(99)	**48,341**	52,674	(99)	**52,575**
TOTAL LIABILITIES AND EQUITY		365,529	14,034	**379,563**	366,146	12,292	**378,438**
Non-current assets							
Property, plant and equipment		155,615		**155,615**	184,833		**184,833**
Intangible assets					1,020		**1,020**
Investments in associates	g		5,435	**5,435**		5,654	**5,654**
Investments other	g	35,788	(5,435)	**30,353**	6,201	(5,654)	**547**
Deferred tax asset	d				1,752	(1,752)	
Total non-current assets		191,403		**191,403**	193,806	(1,752)	**192,054**
Current assets							
Accounts receivable and prepayments	h	54,272		**54,272**	58,823	10	**58,833**
Derivatives at fair value	c		14,034	**14,034**		14,034	**14,034**
Bank deposits		29,476		**29,476**	30,569		**30,569**
Advance to subsidiary		8,279		**8,279**			
Inventories		82,099		**82,099**	82,117		**82,117**
Tax receivable					831		**831**
Total current assets		174,126	14,034	**188,160**	172,340	14,044	**186,384**
TOTAL ASSETS		365,529	14,034	**379,563**	366,146	12,292	**378,438**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

a) Co-operative shares payable on demand

NZIFRS contains particular rules for the classification of various financial instruments when reporting these in the balance sheet. This impacts nominal value shares issued under the Co-operative Companies Act 1996 as under certain conditions specified in that Act shareholders have the right to surrender shares to the Company. The existing NZIFRS interpretation requires the nominal value of these shares on issue to be classified as a liability in the balance sheet rather than as equity as is applicable under current NZ GAAP.

On transition to NZIFRS the impact on the opening balance sheet would be $170m of nominal value shares reclassified as liabilities. In addition under NZIFRS the Company's practice of periodically revaluing the nominal share value will result in the impact of the revaluation being reported through the income statement creating fluctuations in the Group's reported surplus for the year. This produces an unsatisfactory result for the Company and we have joined with other co-operative companies in an effort to have this position addressed by either the international and domestic standard setting bodies or through legislation.

The International Accounting Standards Board has developed an amendment to IAS 32: *Financial Instruments: Presentation* which allows fair value puttable shares to be reported as equity. When this is formally adopted the Company will review its position to assess whether its co-operative nominal value shares will qualify as fair value shares with the ability to report these as equity.

b) Revaluation reserves

As permitted by NZIFRS 1: *First Time Adoption*, the Group intends to deem the carrying value of previously revalued items of property, plant and equipment as at 31 December 2004 as their cost on transition to NZIFRS. Accordingly, the balance of $43.9m in the revaluation reserve has been transferred to retained earnings. The Kapuni plant reverts to original cost on transition to NZIFRS.

c) Derivatives at fair value

Foreign currency hedge accounting The Group maintains a portfolio of forward foreign exchange contracts and currency options to hedge the currency risks associated with the purchase of overseas sourced raw materials and finished fertiliser product inventories. Under current NZ GAAP these contracts are accounted for as hedges with any gains or losses recognised when the hedged transaction occurs. NZIAS 39: *Financial Instruments Recognition and Measurement* requires all derivative and hedging instruments to be recorded at fair value in the balance sheet with the related changes in fair value being recorded either in equity or income depending on whether the instruments meet the stricter NZIAS 39 hedge criteria.

The Group has determined that it can forecast foreign currency payments with sufficient accuracy for the timing and amount of the hedged transaction to be considered highly probable. Subject to specific effectiveness testing on transition to NZIFRS, the related forward exchange contracts will meet the criteria of effective cash flow hedges and will be recognised in the balance sheet at their fair value with any gain or loss being taken up as a movement within equity.

The foreign currency options include options that the Group has sold as part of its strategy to hedge actual and anticipated foreign currency purchases in the most cost-effective manner. The net sold option strategies do not qualify as effective cash flow hedges under NZIAS 39. On transition to NZIFRS they will have to be recognised in the balance sheet at their fair value and the gain or loss recognised through retained earnings. Subsequent changes in their fair value will be recognised immediately in the income statement.

On transition to NZIFRS, any derivatives that do not meet the hedging criteria set out in NZIAS 39 will be recognised at fair value in the balance sheet, with a corresponding adjustment to retained earnings. Subsequent movements in fair value will be recognised in the income statement.

The impact of foreign currency hedge accounting of forward foreign exchange contracts on the opening balance sheet at 1 June 2006 is the recognition of derivative assets of $10.8m with a corresponding increase in reserves.

The impact of forward currency options on the opening balance sheet at 1 June 2006 is the recognition of derivative assets of $3m with a corresponding increase in retained earnings.

Interest rate hedge accounting The Group maintains a portfolio of forward rate agreements and interest rate swaps to hedge a proportion of its interest rate exposure. Existing interest rate hedge instruments meet the NZIFRS criteria for effective cash flow hedges of the Group's variable rate debt.

Group hedging policy allows for instruments with a maturity date beyond the underlying debt. This would normally occur when it was anticipated that the instruments would cover replacement debt when the original debt expired. If circumstances changed and it was no longer highly probable that replacement debt of the same type would be drawn down the instruments would not meet the hedge effectiveness test set out in NZIFRS. Initially on transition these instruments would be recognised in the balance sheet at their fair value and the corresponding gain or loss taken up in reserves. If they no longer qualified for hedge accounting then any gain or loss would be recognised immediately in the income statement. Subsequent changes in their fair value will be recognised in the income statement.

The impact of interest rate hedge accounting on the opening balance sheet at 1 June 2006 is the recognition of derivative assets of $0.2m with a corresponding increase in reserves.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

d) Deferred tax

Deferred tax adjustments arise due to the adoption of a "balance-sheet" approach in place of the "income statement approach" required under current NZ GAAP.

Adjustments to deferred tax also arise as a result of recognising new assets and liabilities as a result of the transition to NZIFRS, for example derivatives and additional employee benefits.

Under NZ GAAP, items of property, plant and equipment were revalued creating a revaluation reserve balance. Partly, this reflected the revaluation of items over and above their original cost. Accordingly, and on the basis that those assets were held for use (rather than sale), no deferred tax liability was recorded on the revaluation above cost under NZ GAAP. NZIFRS requires a deferred tax liability to be recognised to reflect the future taxable income embodied in the asset's carrying value.

The deferred tax impact on transition to NZIFRS is set out below:	PARENT	GROUP
	$000	$000
Revaluation of property, plant and equipment	(1,908)	(2,342)
Recognition of foreign currency derivatives under NZIFRS	(4,621)	(4,506)
Employee benefits	119	244
Intellectual property asset	(10)	(106)
	(6,420)	(6,710)

e) Share allotment and accruals

The allotment of nominal value shares increases the liability to co-operative shareholders under NZIFRS (see (a) above). Under current NZ GAAP this allotment has been recognised in equity.

Share repurchase instalments are separated into capital repayment deferred and interest accrued on the instalments based on the immediate surrender value of $5.50 per share and the deferred payment option value of $6.00 per share.

f) Employee benefits

Employees receive a long-service leave benefit. The Group currently accrues for long-service leave on employees who have already become entitled to the leave. NZIAS 19: *Employee Benefits* also requires an accrual for the extent that it is probable that long-service leave and any other benefits will vest with employees from commencement of employment. On transition to NZIFRS a liability of $0.4m will be recognised by the Company and $0.5m by the Group in the opening balance sheet with a corresponding adjustment to retained earnings. Subsequent changes will be recognised in the income statement.

g) Investments in associates

NZIAS 1: *Presentation of Financial Statements* requires the separate disclosure of investments accounted for using the equity method on the balance sheet.

h) Accounts receivable and prepayments

General provisions for bad debts is not permitted under NZIFRS. Accounts receivable and prepayments are stated at their cost (net of impairment).

i) Retained earnings

The impact of adjustments a to h on retained earnings is set out below:	NOTES	PARENT	GROUP
		$000	$000
Reclassification of nominal value shares	a	(74,585)	(74,585)
Revaluation reserve	b	43,697	43,862
Foreign currency options	c	2,926	2,926
Deferred tax	d	(6,420)	(6,710)
Share repurchase instalments	e	99	99
Employee benefits	f	(362)	(502)
Reversal of doubtful debts	h		10
		(34,645)	(34,900)

OTHER POTENTIAL ISSUES

Impairment Testing The Group has previously impairment-tested the Kapuni ammonia-urea plant and written down the relevant asset carrying value. Our methodology and accounting treatment is consistent with the standards established by NZIAS 36 *Impairment of Assets* which provides guidance on determining the basis of value in use of property, plant and equipment. The reversal of impairment losses will continue to be recognised in the income statement.

Changes before adoption It is possible that the actual impact of the transition to NZIFRS may vary from the information provided and the variation may be material. We will keep shareholders informed on the likely impact of NZIFRS implementation until we issue our first financial statements under NZIFRS for the year ended 31 May 2008.

Information for Shareholders and other Disclosures

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS' INTERESTS

GENERAL DISCLOSURES

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

DIRECTOR	POSITION	COMPANY
OD Buckingham	Director	Alliance Group Ltd
DS Graham	Director	Summit-Quinphos (NZ) Ltd NZ Phosphate Company Ltd
GS Hawkins	Chairman Director	Watercare Services Ltd Cavalier Corporation Ltd Biomed Ltd Fonterra Co-operative Group Ltd Hawkins Consulting Services Ltd Horizon Energy Distribution Ltd Link International Group Ltd (resigned March 2007) Stableburn Farms Ltd
	Trustee	Hawkins Family Trust McDowell Family Trust
DP Hurst	Director	Summit-Quinphos (NZ) Ltd
DR Nikora	Director	Horizon Lands Limited Horizon Farms Limited
	Representative	Fonterra Shareholders Council
DE Peacocke	Director	Taupiri Holdings Ltd
DA Pilkington	Director	Zespri International Ltd Aragorn Ltd (Zespri subsidiary) Douglas Pharmaceuticals Ltd Restaurant Brands Ltd NZ Biotechnologies Ltd Excelsa Associates Ltd Port of Tauranga Ltd Rangatira Ltd
	Chairman	Ruapehu Alpine Lifts Ltd Prevar Ltd Old Fashioned Foods Ltd
	Trustee	New Zealand Community Trust
	Member	Wellington City Council Audit & Risk Management sub-committee

Specific disclosures

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

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

Company information

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

Share dealings

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

Information for Shareholders and other Disclosures

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

Directors' remuneration

Fees paid to Directors were:

	PARENT	GROUP
OD Buckingham	40,000	40,000
DS Graham	95,000	95,000
GS Hawkins	46,000	46,000
DP Hurst	60,000	60,000
RKA Jolly	40,000	40,000
DP Macdougall	40,000	40,000
DR Nikora	40,000	40,000
DE Peacocke	40,000	40,000
DA Pilkington	40,000	40,000
OC Saxton	41,125	41,125
Total paid to Company Directors	482,125	482,125

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 section 162 of the Companies Act 1993 and the constitution of the Company. Directors pay a proportion of the insurance premium.

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, including related tax, received in the capacity as an employee e.g. company vehicle, subsidised medical insurance and superannuation contributions and retirement allowances or similar payments.

REMUNERATION $NZ	NUMBER OF EMPLOYEES GROUP
100,000 - 110,000	13
110,001 - 120,000	9
120,001 - 130,000	7
130,001 - 140,000	11
140,001 - 150,000	5
150,001 - 160,000	6
160,001 - 170,000	1
170,001 - 180,000	1
200,001 - 210,000	1
210,001 - 220,000	1
240,001 - 250,000	1
250,001 - 260,000	1
280,001 - 290,000	1
620,001 - 630,000	1

Trend Statement

FOR THE YEAR ENDED 31 MAY 2007. BALLANCE AGRI-NUTRIENTS LIMITED AND SUBSIDIARY COMPANIES

		2003	2004	2005	2006	2007
GROUP SALES VOLUMES	tonnes	1,396,900	1,391,400	1,460,200	1,336,900	**1,378,700**
TURNOVER	$000	412,948	414,213	456,342	470,076	**504,297**
	$/tonne	$296	$298	$312	$352	**$366**
PROFITS						
Operating surplus	$000	47,225	49,105	40,851	30,036	**41,769**
	$/tonne	$34	$35	$28	$22	**$30**
Group profit retained -after distributions, impairment provision and including minority interest retentions in subsidiary companies	$000	1,329	1,721	187	6,723	**31,181**
CASHFLOW						
From operations	$000	81,783	58,269	20,886	57,319	**54,872**
Capital and investment expenditure (net)	$000	16,169	21,028	69,867	22,544	**18,503**
DISTRIBUTIONS TO SHAREHOLDERS						
Rebates paid or proposed	$000	16,440	16,200	18,500	19,000	**22,200**
Dividends paid or proposed	$000	2,216	2,240	2,283	2,457	**2,522**
Dividend per share	cps	8	8	8	8	**8**
Rebate per tonne	$/tonne	$15.05	$15.00	$16.42	$18.42	**$20.62**
Dividend - gross per quota tonne	$/tonne	$3.58	$3.58	$3.58	$3.58	**$3.58**
Combined distribution - gross equivalent*	$/tonne	$18.63	$18.58	$20.00	$22.00	**$24.20**
ANALYSIS OF SHAREHOLDERS' EQUITY						
Number of shareholders		17,677	17,792	17,913	18,124	**18,211**
Shares on issue	000	27,705	27,996	28,535	30,908	**31,530**
Nominal share value	$	$6.00	$6.00	$6.00	$6.00	**$6.30**
Share quota per tonne		30	30	30	30	**30**
Investment per quota tonne	$	$180	$180	$180	$180	**$189**
Co-op shareholders' equity	$000	183,195	187,989	232,662	241,564	**277,763**
Group shareholders' equity	$000	222,526	227,091	233,496	242,331	**278,718**
Group equity ratio		72.2%	69.6%	64.9%	66.2%	**65.8%**
Net asset backing per share	$	$6.61	$6.71	$8.15	$7.82	**$8.81**
ASSETS						
Total assets	$000	308,393	326,344	359,830	366,146	**423,397**
Working capital	$000	86,194	101,275	108,685	119,666	**144,263**
Ratio of current assets to current liabilities		2.7	2.4	2.7	3.3	**3.1**
Stock turn		5.6	6.2	5.1	5.5	**5.8**

*Rebate and gross dividend equivalent for a fully paid shareholder

Audit Report

TO THE SHAREHOLDERS OF BALLANCE AGRI-NUTRIENTS LIMITED

KPMG

We have audited the financial statements on pages 24 to 44. The financial statements provide information about the past financial performance and financial position of the Company and Group as at 31 May 2007. This information is stated in accordance with the accounting policies set out on pages 28 to 31.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Company and Group as at 31 May 2007 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgments made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the company and certain of its subsidiaries in relation to taxation and general accounting services. These matters have not impaired our independence as auditors of the Company and Group. The firm has not other relationship with, or interest in, the company or any of its subsidiaries.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records;
- the financial statements on pages 24 to 44:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Company and Group as at 31 May 2007 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 25 July 2007 and our unqualified opinion is expressed as at that date.

KPMG

Tauranga

Directory 2007

BALLANCE AGRI-NUTRIENTS LIMITED

David Graham – Chairman
David Hurst – Deputy Chairman
Owen Buckingham
Graeme Hawkins
Richard Jolly
Peter Macdougall
Dean Nikora
David Peacocke
David Pilkington
Oliver Saxton

REGISTERED OFFICE

Hewletts Road
Mount Maunganui

SOLICITORS

Sharp Tudhope
Private Bag, Tauranga

Russell McVeagh
PO Box 8, Auckland

BANKERS

Westpac Banking Corporation
The ANZ National Bank Limited
Bank of New Zealand

AUDITORS

KPMG
PO Box 110, Tauranga

HEAD OFFICE

Larry Bilodeau – Chief Executive
David O'Reilly – Chief Financial Officer
Warwick de Vere – GM Manufacturing & R&D
Graeme Smith – GM Sales and Marketing
Jack Herder – GM Supply
Peter Mourits – Head of Business Development

MANUFACTURING PLANTS

Mount Maunganui
Arthur Tsitsiras – Operations Manager

Whangarei
To be appointed - Operations Manager

Invercargill
Neil Miller – Operations Manager

Kapuni
John Maxwell – Site Manager

BALLANCE AGRI-NUTRIENTS LIMITED – HEAD OFFICE

Private Bag 12503, Tauranga

Telephone	07 572 7900
Facsimile	07 575 6233
Email	reception@ballance.co.nz
Freephone	0800 267 266 or 0800 222 090
Website	www.ballance.co.nz

BALLANCE AGRI-NUTRIENTS LIMITED – NORTH

PO Box 244, Whangarei

Telephone	09 470 0900
Facsimile	09 470 0909
Email	rec.whangarei@ballance.co.nz

BALLANCE AGRI-NUTRIENTS LIMITED – SOUTH

PO Box 849, Invercargill

Telephone	03 211 3220
Facsimile	03 218 9380
Email	rec.invercargill@ballance.co.nz

BALLANCE AGRI-NUTRIENTS (KAPUNI) LIMITED

Len Houwers – General Manager
PO Box 439, Hawera

Telephone	06 272 6449
Facsimile	06 272 6931
Email	rec.kapuni@ballance.co.nz

SUPER AIR LIMITED

Rukuhia, RD2, Hamilton

Telephone	07 843 6066
Facsimile	07 843 6044
Email	superair@ballance.co.nz

SERVICE CENTRES

Northland

Dargaville	09 439 3078
Kaikohe	09 405 2119
Waipapa	09 407 9847
Wellsford	09 423 8669

Central North Island

Edgecumbe	07 304 9006
Huntly	07 828 7656
Irirangi	06 388 1763
Maru St	07 575 3253
Morrinsville	07 889 7199
Mount Despatch	07 574 0500
Netherton	07 862 3900
Otorohanga	07 873 8369
Pukekohe	09 237 1090
Reporoa	07 333 8289
Rotorua	07 348 0063

Directory 2007

Te Awamutu	07 871 6272
Te Kuiti	07 878 1016
Te Poi	07 888 2837
Te Puke	07 573 4251
Tirau	07 883 1581
Whakamaru	07 882 8623

Lower North Island

Bell Block	06 755 9030
Feilding	06 323 4367
Gisborne	06 867 1480
Greatford	06 327 5193
Hastings	06 870 3693
Manaia Road	06 274 9071
Pungarehu	06 763 8220
Stratford	06 765 4416
Waingawa	06 370 1720
Waipukurau	06 858 7973

South Island

Ashburton	03 307 8130
Awarua	03 214 3625
Gore	03 203 9065
Owhiro	03 489 6304
Rolleston	03 347 4360
Timaru	03 684 3015

SALES MANAGERS

Murray Wells	Key Accounts Manager	027 493 7276
Graeme Dickeson	Northland	027 255 5507
Glen Pedersen	Eastern Waikato/Bay of Plenty	027 292 3682
Mike Powell	Western Waikato/King Country	027 492 4928
Andrew Rigby	Taranaki/Manawatu	027 497 6807
Kim Harris	Hawke's Bay/Wairarapa	027 499 5634
Ewen Groves	Upper South Island	027 294 3668
Garth Dawson	Lower South Island	027 495 6347

KEY ACCOUNTS AND HORTICULTURE

Key accounts

Kathryne Easton	Northland	027 285 0663
Andrew Reid	Bay of Plenty/Taupo	027 276 9798
Sarah Wood	Waikato/King Country	027 276 9795
Shane Miles	Taranaki/Manawatu	027 285 0659
Richard Preston	Lower South Island	027 493 7277

Horticulture

Jo Honey	Bay of Plenty	027 444 4083
Peter Buckingham	Pukekohe	027 479 5861
Mark Redshaw	Hawke's Bay	027 464 2970

TECHNICAL SALES REPRESENTATIVES

Northland

Louise Shepherd	Mid Kaikohe	027 497 9646
Neil Crowson	Far North	027 499 5476
Nigel Parton	North Whangarei	027 497 6629
Ross Mullan	West Coast/Dargaville	027 439 0996
Natalie Mapp	Southern Wellsford	027 497 9645
Nick Chapman	South Whangarei	027 464 2971

Eastern

Andrew Rutherford	Whakamaru/Taupo	027 448 9713
Carolien Udema	Hauraki Plains/Coromandel	027 295 9624
Michael Hicks	Te Aroha	027 492 2484
Geoff Barclay	Matamata/Te Poi	027 432 6113
Shaun Pulham	Te Puke/Pikowai/Katikati	027 492 4273
Andrew Sanders	Rotorua/Central Plateau	027 448 9712
Jenny Tombleson	Whakatane/Edgecumbe/Opotiki	027 285 0664
Hadleigh Putt	Tirau/South Waikato	027 294 3712
Murray McEwan	BioPhos/Organics	027 464 2973

Western

Ruth Burr	Cambridge	027 294 3708
Ben Rutherford	Te Awamutu South/East	027 285 4505
Martyn Ebbett	Te Awamutu West	027 293 1157
Stuart Luxton	Huntly	027 492 4622
Matthew Holwill	Otorohanga/Te Kuiti	027 493 7279
Adrian Brocksopp	Pukekohe/South Auckland	027 493 7275
Grant Gillard	Morrinsville	027 448 9714
Aaron Pemberton	Te Kuiti/Taumarunui	027 240 2725
To be appointed	Te Kauwhata	027 432 7160

Taranaki

Renee Thurston	South Taranaki	027 489 8033
Phil Fleming	Coastal Taranaki	027 294 3702
Andrew Jolly	North/Central Taranaki	027 290 7634
Don Pescini	Manawatu/Horowhenua	027 223 6123
Rodger McCormack	Feilding/Rangitikei	027 497 6241
Duncan Phyn	Upper Rangitikei	027 220 8582

East Coast

James Parsons	Central Hawke's Bay	027 433 8419
Shaun Bicknell	Wairarapa	027 289 0620
Michael Spence	Southern Wairarapa	027 432 7767
Will Meads	Southern Hawke's Bay	027 285 0747
Caroline Jefferd	Dannevirke	027 248 8191
Tracy Kirkpatrick	Gisborne	027 475 3190
Shane Tilson	Hawke's Bay	027 298 9780

Upper South Island

Paul Johnston	South Canterbury	027 229 7159
Harvey Smith	Mid Canterbury	027 499 7617
Colin Sutcliffe	North Canterbury	027 443 9989
Raymond Williams	Central Canterbury	027 443 8303
Peter Ayers	Hinds/Rangitata	027 464 2972
Anna Bedford	North Otago	027 285 0670
Paula Brustad	Rakaia/Ellesmere	027 432 9288
Paul Turner	West Coast	027 432 8723

Lower South Island

Tim Gray	Taieri/South Otago	027 433 4667
Neville Knight	Southern Southland	027 434 5972
Jessica Ruddenklau	Southern Southland/South Otago	027 433 2533
Grant Heatherington	Central Southland/East	027 494 8895
Gary Kirkman	Te Anau/Western Southland	027 433 8416
Kent Anderson	Central Southland/West	027 280 3818
Kevin Gee	Central Otago	027 439 5086
Phillip Reid	West Otago/Eastern Southland	027 434 4423
Bruce Allan	Northern Southland	027 433 8420
Grant Bickley	Balclutha/Clydevale	027 464 2976