

# SCALES CORPORATION LIMITED

## YOUR DIVERSIFIED AGRIBUSINESS PORTFOLIO

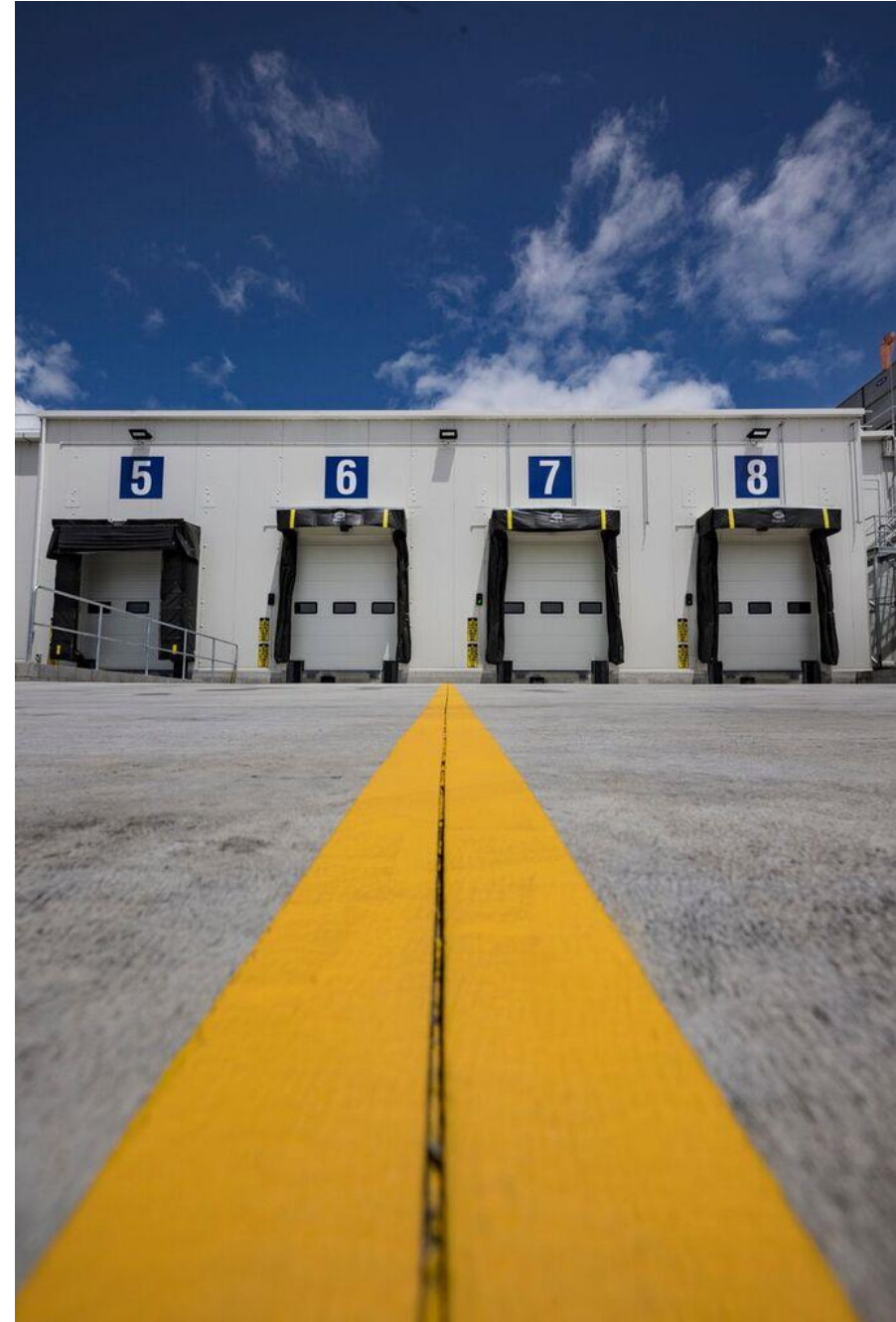
Annual Results Presentation  
For the twelve months ended 31 Dec 2015

25 February 2016



# AGENDA

- Summary Highlights
- Financial Performance
- Divisional Overview
- Capital Management
- Strategy
- Outlook
- Appendices





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# 2015 HIGHLIGHTS

# HIGHLIGHTS

## Financial Highlights for 2015

1

**Record Underlying EBITDA of \$61.4m**, 49% ahead of IPO Forecast and 54% ahead of 2014.

2

**Record Underlying NPAT of \$35.7m**, 71% ahead of IPO Forecast and 80% ahead of 2014 (Statutory NPAT of \$38.9m).

3

**More than \$300m Revenue for the first time in Scales history.** 68% of revenue earned from export sales.

4

**17.5 cps (fully imputed) dividends declared in 2015.** Gross Dividend yield of 10.9% on IPO price and 9.6% on average daily close price during 2015.

5

**All divisions ahead of IPO forecast and 2014 results.**

# HIGHLIGHTS

We're Growing: Operational Highlights for 2015

1

**Coldstorage Capacity Increased by 19% to 721,600m<sup>3</sup>:** Due to Auckland Coldstore + 2 coldstore leases in Christchurch.

2

**Mr Apple own-grown apple volumes up 15% to 3.15m TCEs:** Meeting our 2018 production target 3 years early.

3

**Own-grown premium apple volumes up 40% to 1.45m TCEs:** Reflects investment in orchard redevelopment and growing techniques.

4

**Securing future performance:** 20-year edible oil storage contract at Timaru commenced in August.

5

**Expanding through acquisition:** Acquired inland bulk liquid processing terminal at Napier – driving complementary growth in Liqueo.

# SCALES BY THE NUMBERS

**UNDERLYING  
EBITDA  
\$61.4m  
49%** above PFI

**Half a  
billion**

apples picked from Mr  
Apple's orchards

**>6.1M**

litres of juice concentrate  
made by Profruit

**1.17M  
cubic  
metres**

meat, fish, vegetables, dairy and FMCG  
product loaded into our coldstores

**20,220MT**

sold by petfood  
ingredients manufacturer  
Meateor

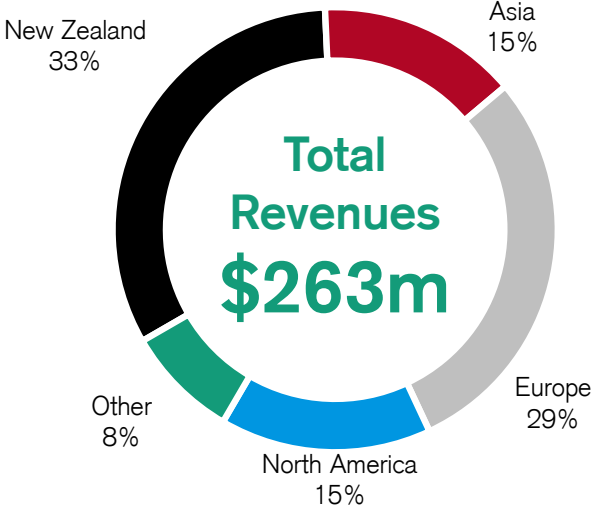
**21,125**

twenty foot container  
equivalents organised for  
international transit by  
Scales Logistics

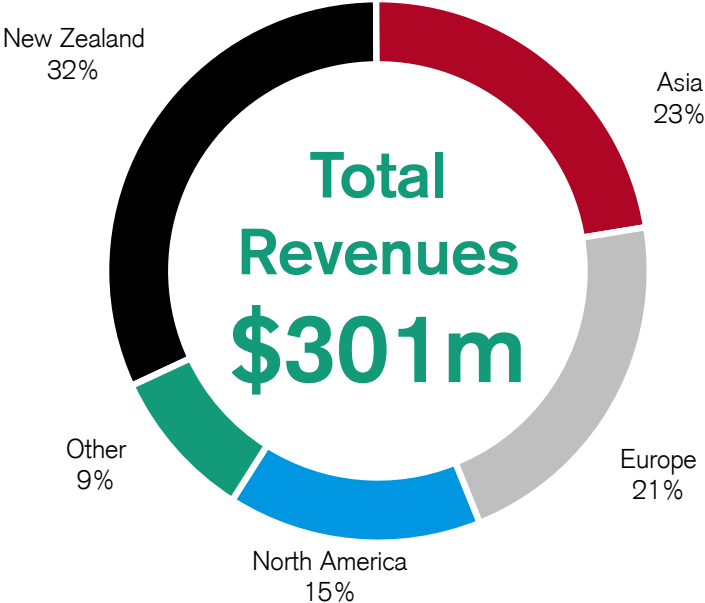
# SELLING TO THE WORLD

Scales is an export-led company with complementary domestic service-based operations

### 2014 Revenues by Region



### 2015 Revenues by Region



A photograph of two men standing in an orchard. The man on the left is older, with white hair, wearing a black zip-up jacket over a blue and white checkered shirt and blue jeans. He is pointing towards a tablet held by the man on the right. The man on the right is younger, wearing a blue and white polo shirt and dark trousers, looking at the tablet. The orchard has rows of trees with green leaves and some yellow fruit. The background shows a path and more trees under a cloudy sky.

# 2 FINANCIALS

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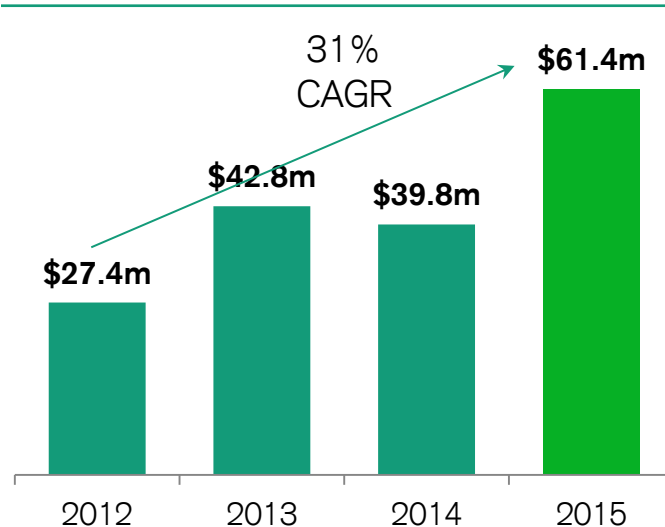


# 4-YEAR PERFORMANCE TREND\*

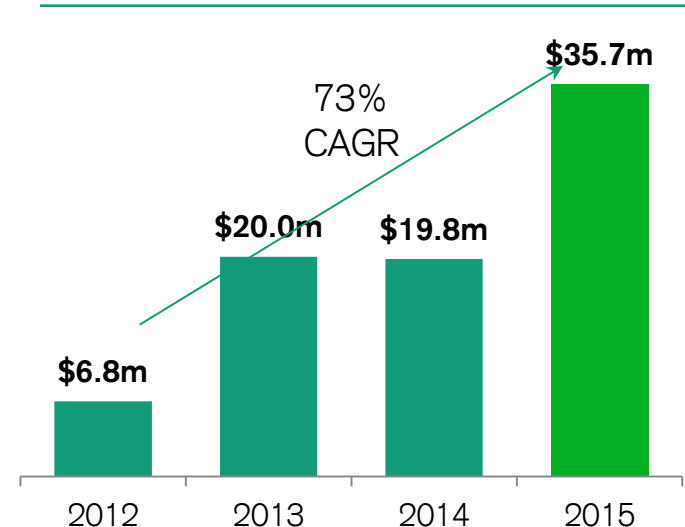
Our 2015 Result was made possible by careful investments made over the past 5 years

- We've been investing in our assets, people, and culture.
- The financial impact is continuing to be demonstrated in our results.
- We are continuing to invest in our growth that we will realise in years to come.

## Underlying EBITDA\*\*



## Underlying NPAT\*\*



\* Scales changed its financial year end from 30 June to 31 December during 2011, as such there is no audited 12 month performance figure to 31 December 2011 to include in comparisons.

\*\* Underlying Results exclude all IFRS non-cash adjustments (most notably orchard revaluations and mark-to-market gains or losses on FX contracts not exercised during the period).

Management and the Board believe that Underlying results more accurately demonstrate the change in operational performance of the Group.

# SUMMARY FINANCIAL PERFORMANCE

Significantly ahead of IPO forecast and 2014 results

- Revenue \$301.4m, up 14% on 2014.
- Underlying EBITDA \$61.4m up 54% on 2014.
- Underlying NPAT \$35.6m up 80% on 2014.
- Net Profit from Continuing Operations \$38.9m up 115% on 2014.

## Income Statement

\$ Millions	2015			2014	
	Actual	PFI	Var %	Actual	Growth %
Revenue	301.4	260.4	16%	263.3	14%
<b>Gross Margin</b>	<b>107.3</b>	<b>80.8</b>	<b>33%</b>	<b>81.3</b>	<b>32%</b>
Gross Margin %	36%	31%		31%	
<b>Underlying EBITDA</b>	<b>61.4</b>	<b>41.2</b>	<b>49%</b>	<b>39.8</b>	<b>54%</b>
<b>Underlying EBIT</b>	<b>51.3</b>	<b>31.6</b>	<b>62%</b>	<b>30.3</b>	<b>69%</b>
<b>Underlying Net Profit</b>	<b>35.7</b>	<b>20.8</b>	<b>71%</b>	<b>19.8</b>	<b>80%</b>
After tax impact of:					
Offer costs	-	-		(3.0)	
Non-cash IFRS adjustments	3.3	-		1.3	
<b>Net Profit from Continuing Operations</b>	<b>38.9</b>	<b>20.8</b>	<b>87%</b>	<b>18.1</b>	<b>115%</b>

*In 2014, Scales had profit from discontinued operations of \$0.3m. Profit for the Year was \$18.4m.*

# DIVISIONAL EBITDA

All operating divisions exceeded 2014 actual, and 2015 IPO forecast, results

- Horticulture and Food Ingredients divisions substantially exceeded prior year and forecast results.
- Storage & Logistics continues to be highly consistent and predictable. Earnings 10% ahead of IPO forecast.

## Underlying Divisional EBITDA

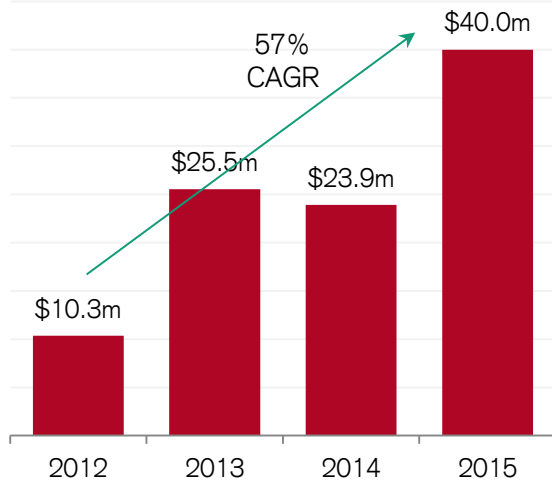
\$ Millions	2015			2014	
	Actual	PFI	Var %	Actual	Growth %
Horticulture	40.0	24.0	66%	23.9	67%
Storage & Logistics	16.3	14.8	10%	12.3	32%
Food Ingredients	7.6	4.1	83%	5.7	33%
Other	(2.4)	(1.7)	40%	(2.1)	17%
	<b>61.4</b>	<b>41.2</b>	<b>49%</b>	<b>39.8</b>	<b>54%</b>

# DIVISIONAL EBITDA TREND

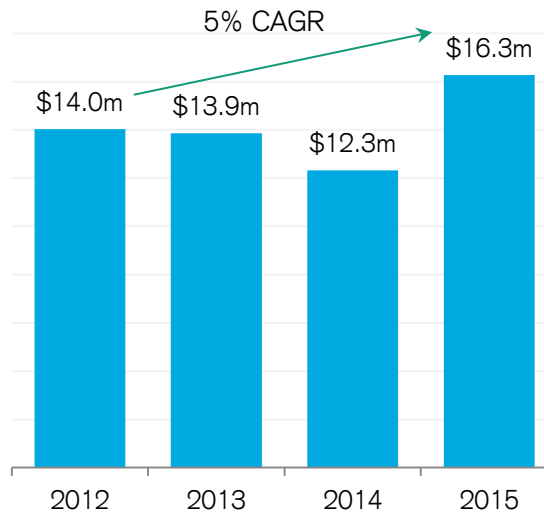
Strong growth in Horticulture and Food Ingredients supported by consistent and predictable contributions from Storage & Logistics

## Trends in Underlying Divisional EBITDA (\$m)

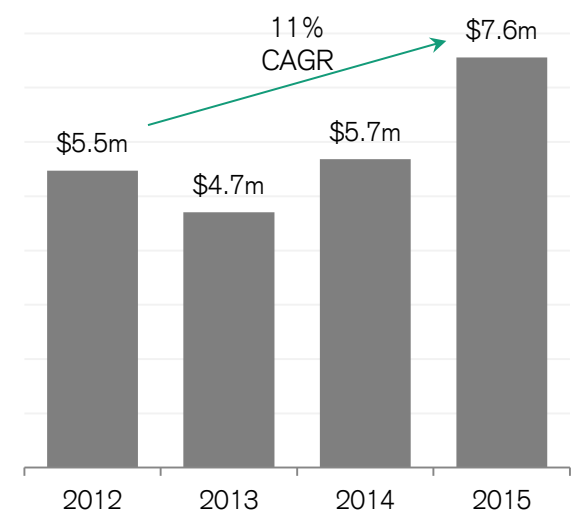
### Horticulture



### Storage & Logistics



### Food Ingredients



# BALANCE SHEET

An investment in Scales is an investment in productive land, buildings and supporting assets

- Scales' balance sheet is heavily weighted towards an investment in land, buildings and plant & equipment (collectively \$188m in 2015). Key elements include:
  - ~710 ha. orchards owned by the Group (further ~330 ha. leased).
  - 320,000m<sup>3</sup> (or about 44%) of total coldstorage space is owned.
- During 2015 we experienced a \$9m increase in Capital Employed, due to:
  - Orchard value improvement \$5.6m.
  - Capex + acquisitions > depreciation of \$4.9m.
  - Investments, intangibles and other assets \$4.1m.
  - Offset by tight control of working capital (reduction of \$5.5m).

*Land, buildings and plant & equipment*

## Balance Sheet

\$ Millions	2015			2014	
	Actual	PFI	Var %	Actual	Growth %
<b>Current Assets (excluding Cash)</b>					
Trade Debtors	14.7	13.3		13.3	
Inventory	14.3	11.0		14.0	
Other	8.4	3.9		7.5	
	37.4	28.3	32%	34.8	8%
<b>Current Liabilities (excluding Overdraft and Dividends Declared)</b>					
Trade Creditors & Other Payables	(22.3)	(15.1)		(17.9)	
Other	(6.7)	(3.1)		(2.8)	
	(28.9)	(18.2)	59%	(20.7)	40%
<b>Net Working Capital</b>	<b>8.5</b>	<b>10.0</b>	-15%	<b>14.0</b>	-39%
<b>Non-Current Assets</b>					
Biological Assets (Orchards)	37.0	29.8		31.4	
Land & Buildings	100.2	not disclosed		101.6	
Other PP&E	50.6	145.6		44.3	
Investments & Intangibles	11.2	11.3		10.3	
Other	6.2	3.1		3.0	
	205.2	189.7	8%	190.6	8%
<b>Capital Employed</b>	<b>213.7</b>	<b>199.7</b>	7%	<b>204.7</b>	4%

# BALANCE SHEET (CONTINUED)

Excellent financial position with material headroom in covenants

- At 31 December 2015, Net Debt was \$16.2m. This brings our average net debt for the year down to \$32.5m.
- Considerable headroom on all covenants.

Balance Sheet (continued)					
\$ Millions	2015			2014	
	Actual	PFI	Var %	Actual	Growth %
Non-Current or Other Liabilities					
Deferred tax liabilities	(19.1)	(16.7)		(17.9)	
Other financial liabilities	(2.9)	(1.7)		(0.5)	
Dividends declared	(14.5)	-		-	
	(36.5)	(18.4)	-99%	(18.3)	-99%
Net Debt					
Cash less Overdraft	13.8	2.1		1.0	
Borrowings	(30.0)	(30.0)		(41.0)	
Net Debt	(16.2)	(27.9)	42%	(40.0)	60%
<b>Total Equity</b>	<b>161.0</b>	<b>153.5</b>	<b>5%</b>	<b>146.3</b>	<b>10%</b>

## Covenants

### Interest Cover

Ratio	22.6x	12.1x	11.8x
Covenant	3.0x	3.0x	3.0x
Headroom	653%	303%	293%

### Senior Debt Coverage

Ratio	0.5x	0.8x	0.8x
Covenant	2.5x	2.5x	2.5x
Headroom	400%	213%	213%

A photograph of an industrial facility, likely a refinery or chemical plant, featuring several large cylindrical storage tanks and complex piping. The scene is captured at sunset or sunrise, with a warm, golden light illuminating the sky and the tops of the tanks. The overall atmosphere is industrial and dramatic.

# DIVISIONAL PERFORMANCE & OUTLOOK

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# HORTICULTURE – FINANCIAL PERFORMANCE

## Outstanding result made possible through historical investment

- Record revenue of \$178m (12% above both 2014 results and IPO forecast).
- Record Underlying Divisional EBITDA of \$40m (67% above 2014 results and 66% above IPO forecast).
- Large investment in orchard composition and orchard efficiencies driving consistent improvement in profit and margins.
- Excellent result from associate company Fern Ridge Produce, delivering a profit result that was 77% ahead of 2014 results and 138% higher than our IPO forecast.

Financial Performance - Horticulture					
\$ Millions	2015			2014	
	Actual	PFI	Var %	Actual	Growth %
<b>Revenue</b>	<b>178.1</b>	<b>158.9</b>	<b>12%</b>	<b>158.8</b>	<b>12%</b>
Sea freight & transport costs	(20.2)	(25.8)	-22%	(23.2)	-13%
Post-harvest processing	(27.3)	(21.8)	25%	(22.6)	21%
Payments to external growers	(28.3)	(31.1)	-9%	(31.1)	-9%
Orchard costs	(28.8)	(24.5)	18%	(24.6)	17%
Other direct costs	(9.0)	(10.5)	-15%	(11.2)	-20%
Cost of Sales	(113.5)	(113.7)	0%	(112.7)	1%
<b>Gross Profit</b>	<b>64.6</b>	<b>45.2</b>	<b>43%</b>	<b>46.1</b>	<b>40%</b>
<i>Gross Profit Margin</i>	<i>36%</i>	<i>28%</i>		<i>29%</i>	
Other income, administration and operating expenses	(25.4)	(21.5)	18%	(22.6)	12%
<b>Mr Apple Underlying EBITDA</b>	<b>39.2</b>	<b>23.7</b>	<b>65%</b>	<b>23.5</b>	<b>67%</b>
<i>Mr Apple EBITDA Margin</i>	<i>22%</i>	<i>15%</i>		<i>15%</i>	
Share of Fern Ridge Produce net profit after tax	0.8	0.3	138%	0.5	77%
<b>Underlying Horticulture EBITDA</b>	<b>40.0</b>	<b>24.0</b>	<b>66%</b>	<b>23.9</b>	<b>67%</b>
Depreciation and amortisation	(4.6)	(4.0)		(4.4)	5%
<b>Underlying Horticulture EBIT</b>	<b>35.4</b>	<b>20.1</b>	<b>76%</b>	<b>19.6</b>	<b>81%</b>

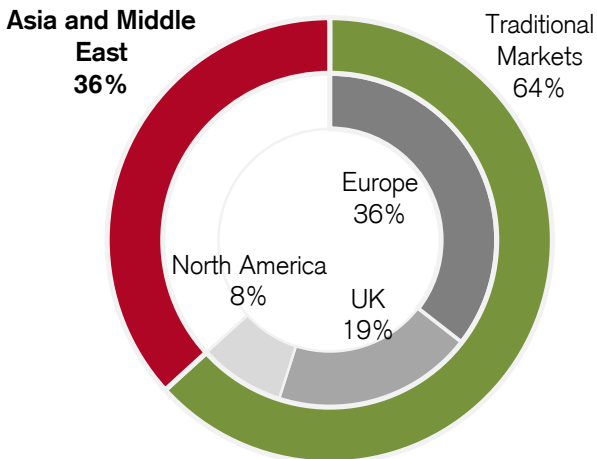


# HORTICULTURE – STRATEGY

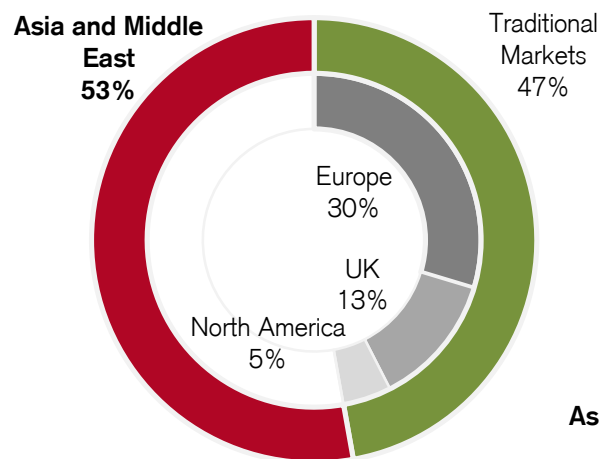
Our horticulture strategy focuses on optimising varieties and market mix

- We are redeveloping lower returning orchards into high quality premium varieties for today and tomorrow, tailoring varieties to each region and balancing supply and demand to optimise returns:
  - During 2015 we sold apples to 159 customers in 40 countries.
  - We've made a material investment in varieties that are sought after by customers in Asia and the Middle East. This investment is beginning to mature, with further volume uplift to come.
  - We are actively investing in the Mr Apple, Diva, Fern Ridge Fresh and other brands that we control to consolidate our position as the leading southern hemisphere premium fresh apple exporter.
  - We maintain a portfolio of customers and markets and will continue to redirect volumes away from the lowest-yielding markets, or redevelop the lowest yielding varieties.

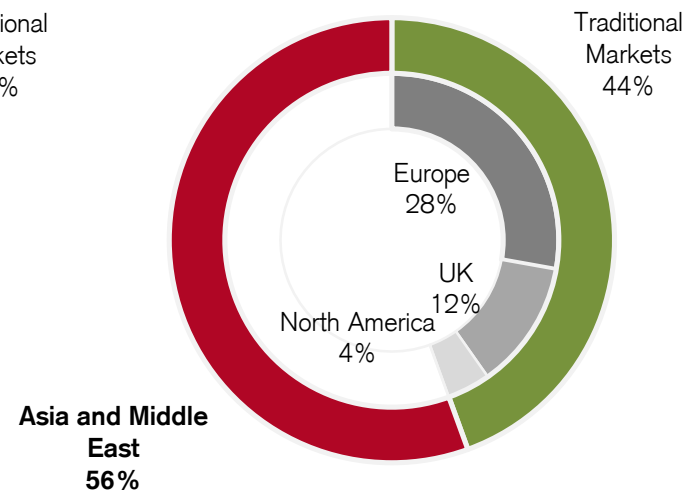
**Sales by Region (TCEs) FY14A**



**Sales by Region (TCEs) FY15A**



**Sales by Region (TCEs) FY18F**

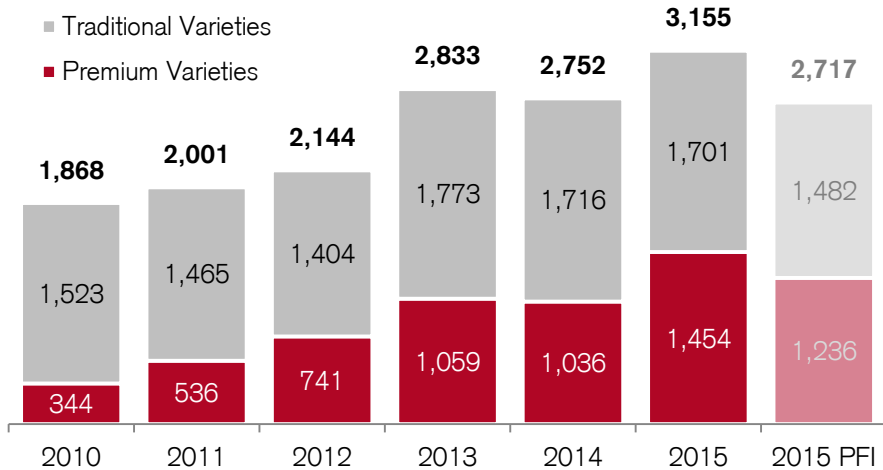


# HORTICULTURE – OWN-GROWN VOLUMES

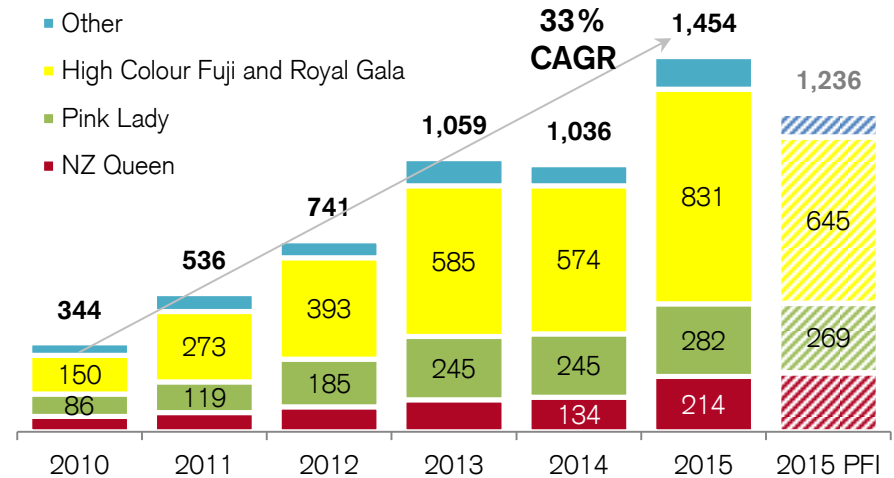
We achieved a material increase in premium volumes during 2015...

- Total volumes (3.155m TCEs) up 15% on 2014 and 16% ahead of IPO forecasts.
- Growth concentrated in premium varieties where volumes were up by 418,000 TCEs (40%):
  - Volumes of NZ Queens, highly sought after in Asian markets, were up 60% to 214,000 TCEs.
  - Volumes of Diva (a high-value, branded, high colour Fuji) up by 187% to 101,000 TCEs.

## Mr Apple Grown Export Volumes (TCE 000s)



## Growth in Premium Volumes (TCE 000s)



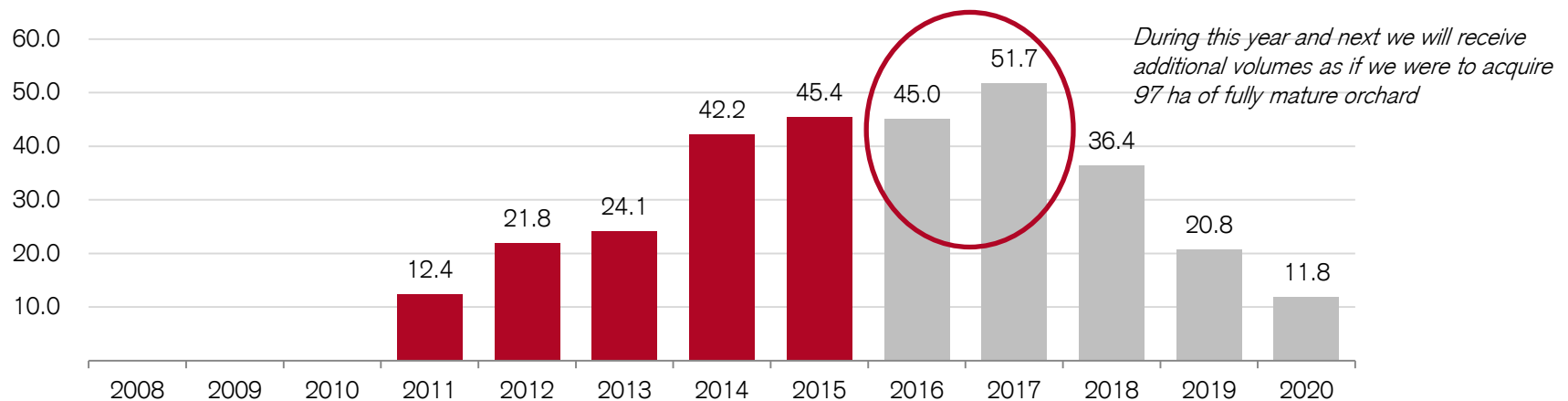
Volumes may have changed slightly from half year as final sales data on unsold fruit was received.

# HORTICULTURE – VOLUME GROWTH

...and expect to achieve further growth in premium volumes as orchard redevelopment matures...

- 314 ha of orchard was redeveloped into premium apple varieties between 2008 and 2015. This equates to 30% of our planted orchard (1,042 ha).
- After 3 years we start to get fruit from redeveloped orchards, increasing to full productivity after about 6 years:
  - Of the 314 ha redeveloped, during 2015 we achieved the same level of production as if 146 ha (46%) were at full production.
  - Over the next two years we will see large increases in premium volumes as orchard redeveloped in 2011 and 2012 (the peak of the redevelopment where 135 ha were redeveloped) comes into full production.
  - This will mean that our effective mature orchard increases by 97 ha, lifting export volumes by ~250,000 TCEs+.
- We continually review the performance of our orchard on a hectare by hectare basis. Any underperforming bays will be considered for future redevelopment into more profitable varieties.

## Annual Increase in Effective Productive Orchard (ha)



# HORTICULTURE – PRICES

...and this matters because premium varieties achieve a price that is, on average, 55% higher than traditional varieties

- Premium apple variety pricing (\$37.8 / TCE) achieved a 15% uplift over 2014 (\$32.8 / TCE), whilst traditional apple prices (\$24.4 / TCE in 2015) were consistent with 2014 results and the IPO forecast.
- Mr Apple premium varieties enjoy a number of distinct advantages:
  - **Branding.** We continue to invest in the Mr Apple and other brands (including Diva, Little Darlings, Fern Ridge Fresh and NZ Queen) which are attracting premiums in the markets in which we sell these brands.
  - **Taste and colour characteristics.** Our premium apples are sweeter and redder, appealing to the palate of consumers in these markets.
  - **Fruit specifications.** “Scrupulous attention to detail means New Zealand apples can find their way into the most difficult of countries and onto the shelves of the most discerning supermarket.”\* To meet exceptionally high customer and quarantine standards we employ highly sophisticated, proprietary, orchard management software.
  - **Market access.** Bilateral trade agreements provide us with competitive market access.
  - **Shipping access.** Premium varieties are targeted to closer markets enabling us to land apples faster and for a lower cost than traditional markets.

Apple Prices by Variety					
NZD / TCE, Free on Board	2015			2014	
	Actual	PFI	Var %	Actual	Growth %
Premium Varieties	37.8	30.4	24%	32.8	15%
Traditional Varieties	24.4	24.6	-1%	24.8	-1%
<b>Total Mr Apple Orchards</b>	<b>30.6</b>	<b>27.2</b>	<b>12%</b>	<b>27.8</b>	<b>10%</b>
Price uplift - Premium vs Traditional	55%	24%		33%	

\* NZ Herald “Golden apple industry on its way to \$1 billion target” 19 February 2016

# HORTICULTURE – OTHER KPI'S

Sea freight and USD rates achieved are stand-out KPIs against generally solid performance

- KPIs were, in the main, better than or in line with the IPO forecast and 2014 results. Favourable and unfavourable variances were:
  - NZD:USD rates improved early in the season.
  - Shipping rates reflect increased proportion of fruit to the nearer markets of Asia and Middle East as well as some reduction in shipping costs.
  - External grower volumes from Hawke's Bay region performed strongly, supply volumes from Nelson partners lower.
  - Post-harvest processing costs / TCE impacted by running post-harvest operations more intensively to accommodate the larger than expected volume.

Key Performance Measures					
	2015			2014	
	Actual	PFI	Var %	Actual	Growth %
<b>Volumes</b>					
Mr Apple own-grown volumes	3,155	2,717	16%	2,752	15%
External grower volumes	1,019	1,287	-21%	1,218	-16%
<b>Total volume sold</b>	<b>4,174</b>	<b>4,004</b>	<b>4%</b>	<b>3,970</b>	<b>5%</b>
<b>FX Rates</b>					
NZD:USD	0.73	0.83	12%	0.82	11%
NZD:EUR	0.60	0.60	0%	0.60	0%
NZD:GBP	0.48	0.50	3%	0.49	2%
NZD:CAD	0.86	0.88	2%	0.90	5%
<b>Costs per Unit</b>					
Sea freight & transport costs*	4.8	6.5	25%	5.8	17%
Post-harvest processing**	8.6	8.0	-8%	8.2	-5%
Orchard costs***	6.5	6.6	1%	6.7	3%
Other direct costs*	2.1	2.6	19%	2.8	24%

\* calculated on total export volumes (including outside growers)

\*\* calculated on Mr Apple export volumes

\*\*\* calculated on Mr Apple gross production volumes

# S&L – FINANCIAL PERFORMANCE

Another strong result from a consistent and predictable division

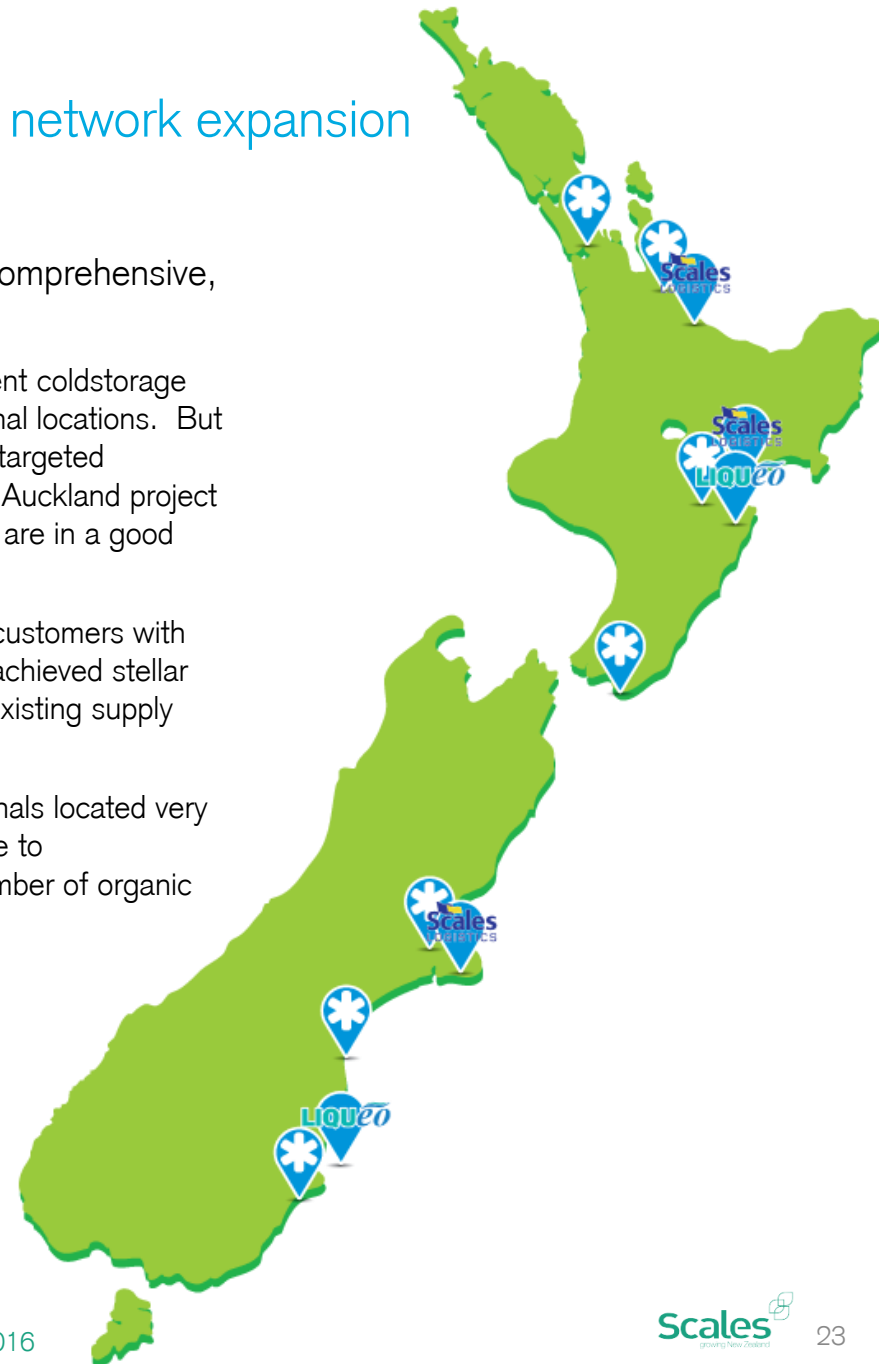
- Revenues of \$95.6m, 6% ahead of 2014 and 2% above IPO forecast.
- EBITDA of \$16.3m, 32% ahead of 2014 and 10% above IPO forecast.
- Coldstores EBITDA ahead of the IPO forecast and 2014 results:
  - EBITDA (excl Auckland) \$13.7m, 33% above 2014 results.
  - Improvement over 2014 reflects seasonal 'timing' (a late start to the food production season in 2014 shifted volumes into 2015).
- Outstanding performance from Scales Logistics, 78% higher than IPO forecast and 146% above 2014 results. Increase due to improved margins and increased contribution from air-freight division Balance Cargo.
- Liqueo 38% above 2014 results, but marginally below IPO forecast due to delay in commencement of long-term oil storage contract.

Financial Performance - Storage & Logistics					
\$ Millions	2015			2014	
	Actual	PFI	Var %	Actual	Growth %
<b>Revenue</b>	<b>95.6</b>	<b>93.4</b>	<b>2%</b>	<b>90.6</b>	<b>6%</b>
Cost of Sales	(61.5)	(62.9)	-2%	(62.3)	-1%
<b>Gross Profit</b>	<b>34.1</b>	<b>30.5</b>	<b>12%</b>	<b>28.3</b>	<b>20%</b>
<i>Gross Profit Margin</i>	<i>36%</i>	<i>33%</i>		<i>31%</i>	
Other income, administration and operating expenses	(17.8)	(15.7)	13%	(16.0)	11%
<b>EBITDA</b>					
All Coldstores	12.6	11.7	7%	10.3	23%
Liqueo	1.8	2.0	-11%	1.3	38%
Scales Logistics	1.9	1.1	78%	0.8	146%
<b>Total Storage &amp; Logistics EBITDA</b>	<b>16.3</b>	<b>14.8</b>	<b>10%</b>	<b>12.3</b>	<b>32%</b>
<i>EBITDA Margin</i>	<i>17%</i>	<i>16%</i>		<i>14%</i>	
<b>Total Storage &amp; Logistics EBIT</b>	<b>11.3</b>	<b>9.8</b>	<b>15%</b>	<b>7.8</b>	<b>46%</b>

# S&L – STRATEGY

Our Storage & Logistics strategy focuses on network expansion and organic opportunities

- To remain relevant for our customers we need to provide a comprehensive, nationwide service, touching all key production regions.
  - **Coldstorage.** We provide New Zealand's broadest independent coldstorage network, with facilities in all four major centres and many regional locations. But this doesn't mean that there isn't demand for more facilities in targeted locations. Building on our knowledge and experience from the Auckland project coupled with strong relationships with key export producers we are in a good position to achieve further expansion.
  - **Freight Logistics.** We provide an excellent service to freight customers with unique requirements from our base in Christchurch. We have achieved stellar organic growth and will consider opportunities to leverage our existing supply and customer relationships to achieve further growth.
  - **Bulk Liquids.** We have unique and highly strategic bulk terminals located very close to key regional ports. Our Napier Port terminal has space to accommodate further tanks, whilst our Timaru facility has a number of organic growth opportunities.

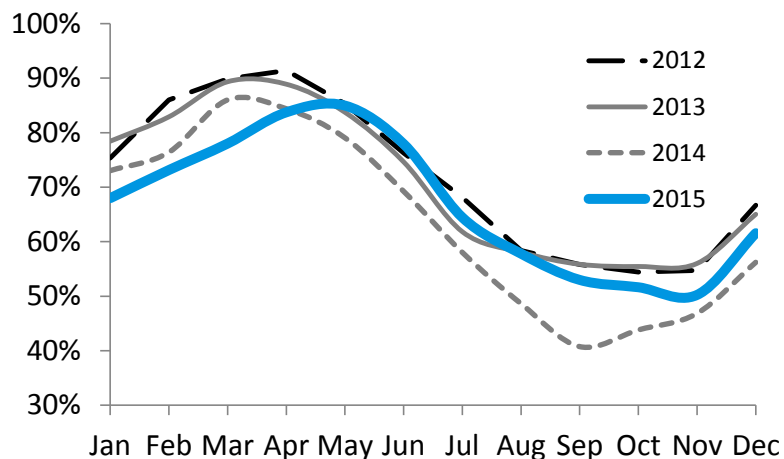


# S&L – KPI'S

## Performance measures generally as predicted

- Key Performance Indicators in line with expectations:
  - Total coldstore space was 3% higher than the IPO forecast due to two coldstore leases signed in Christchurch. These leases are for a short initial period but with multiple rights of renewal securing its availability.
  - 2015 coldstorage utilisation profile returned to historically consistent pattern.
  - Liqueo's total tank capacity was marginally higher than the IPO forecast and 2014 results due to the acquisition of the processing terminal in Napier which has a small bulk liquid storage capacity. We intend to consolidate our Whakatou processing operations into this site, moving more tank capacity to this location.
  - Average capacity under fixed lease lower than the IPO forecast due to the delay in commencement of the 20 year edible oil storage contract. However strong casual storage demand throughout the year mostly made up for this loss.
  - Scales Logistics (and its airfreight division Balance Cargo) has achieved strong growth in externally acquired market share (particularly in export apples, stonefruit and dairy produce).

### Coldstore Utilisation % (excl. Akl)



### Key Performance Measures

\$ Millions	2015			2014	
	Actual	PFI	Var %	Actual	Growth %
<b>Coldstores</b>					
Total available refrigerated coldstore space	721.6	702.3	3%	606.6	19%
<b>Liqueo</b>					
Installed capacity of all tanks	22,500	22,200	1%	22,200	1%
Average capacity under fixed lease	10,655	12,530	-15%	9,780	9%
<b>Logistics</b>					
TEUs shipped	21,125	not disclosed		17,282	22%
Airfreight tonnes	2,832	not disclosed		1,580	79%



# FOOD INGREDIENTS – FINANCIAL PERFORMANCE

Another exceptional performance from two highly effective teams

- Food Ingredients followed on from a solid 2014 result to deliver a strong performance in 2015:
  - Meateor sold 20,220 MT of petfood ingredients, 34% higher than our IPO forecast and 23% ahead of 2014 to deliver \$48.6m in Revenue (31% ahead of 2014 results and 40% above IPO forecast) and \$6.1m in EBITDA (31% ahead of 2014 results and 100% above IPO forecast).
  - Profruit sold more than 6.1mL of juice concentrate – a result only possible by the Profruit team running the factory 24x7 from mid-March to mid-September – to deliver a profit result that was 40% above 2014 results and 36% higher than the IPO forecast.
- These results are due to the dedication and hard work, excellent relationships, and commitment to quality of both teams.

Financial Performance - Food Ingredients					
\$ Millions	2015			2014	
	Actual	PFI	Var %	Actual	Growth %
<b>Meateor Revenue</b>	<b>48.6</b>	<b>34.8</b>	<b>40%</b>	<b>37.2</b>	<b>31%</b>
Meateor Cost of Sales	(40.0)	(29.6)	35%	(30.3)	32%
<b>Gross Profit</b>	<b>8.6</b>	<b>5.2</b>	<b>64%</b>	<b>6.9</b>	<b>24%</b>
<i>Gross Profit Margin</i>	<i>18%</i>	<i>15%</i>	<i>17%</i>	<i>19%</i>	<i>-5%</i>
Other income, administration and operating expenses	(2.5)	(2.2)	14%	(2.3)	10%
<b>Meateor Underlying EBITDA</b>	<b>6.1</b>	<b>3.1</b>	<b>100%</b>	<b>4.6</b>	<b>31%</b>
<i>Meateor EBITDA Margin</i>	<i>13%</i>	<i>9%</i>		<i>12%</i>	
Share of Profruit Net Profit	1.5	1.1	36%	1.0	40%
<b>Underlying Food Ingredients EBITDA</b>	<b>7.6</b>	<b>4.1</b>	<b>83%</b>	<b>5.7</b>	<b>33%</b>
Depreciation & Amortisation	(0.5)	(0.6)	-17%	(0.6)	-11%
<b>Underlying Food Ingredients EBIT</b>	<b>7.1</b>	<b>3.5</b>	<b>100%</b>	<b>5.1</b>	<b>38%</b>
KPIs					
Meateor Volume Sold (MT)	20,220	15,080	34%	16,399	23%
Juice Concentrate Sold (million Litres)	6.1	not disclosed		4.6	33%

A dirt road stretches from the foreground into the distance, flanked by lush green trees and bushes. On the right side of the road, there are several tall, neat stacks of lumber, each wrapped in green plastic. The sky is a clear, bright blue. The overall scene is bright and sunny, suggesting a clear day in a wooded or construction area.

**4**

**CAPITAL  
MANAGEMENT**

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# PERFORMANCE AGAINST BENCHMARKS

## Return on Capital Employed and EBITDA Margins

- We monitor the Return on Capital Employed (ROCE) and EBITDA Margins for each division and the group.
- We target a long-run ROCE of 15% and EBITDA Margin of 13%.
- The group surpassed all investment targets during 2015.

Capital Management				
	2015			2014
	Actual	PFI	Var %	Actual
<b>Return on Capital Employed</b>				
Horticulture	35%	21%	✓	20%
Storage & Logistics	13%	12%	✓	10%
Food Ingredients	49%	25%	✓	38%
<b>Group</b>	<b>24%</b>	<b>16%</b>	<b>✓</b>	<b>15%</b>
<b>Target</b>	<b>15%</b>	<b>15%</b>		<b>15%</b>
<b>EBITDA Margins</b>				
Horticulture	22%	15%	✓	16%
Storage & Logistics	17%	16%	✓	14%
Food Ingredients	13%	9%	✓	12%
<b>Group</b>	<b>20%</b>	<b>16%</b>	<b>✓</b>	<b>15%</b>
<b>Target</b>	<b>13%</b>	<b>13%</b>		<b>13%</b>

# CAPITAL EXPENDITURE

## Investing in Growth

- Operational capital expenditure at \$4.5m was slightly lower than 2014 results (\$4.6m) and slightly higher than our IPO forecast (\$4.0m).
- \$11.3m investment in future growth, to continue to improve our market position and earnings potential. Investments during 2015 included:
  - Storage & Logistics:
    - Acquisition of the bulk liquid processing terminal in Napier.
    - Auckland coldstore capex (as forecast).
    - IT and refrigeration upgrades.
  - Horticulture:
    - Reflective cloth.
    - Bin capacity.
    - Orchard redevelopment (11 hectares).

### Capital Expenditure

	2015			2014
	Actual	PFI	Var %	Actual
<b>Operational capital expenditure</b>				
Horticulture	1.9	1.8	6%	2.5
Storage & Logistics	2.4	1.8	29%	1.8
Food Ingredients	0.2	0.3	-26%	0.2
Other	0.0	0.1	-52%	0.0
<b>Total operational capital expenditure</b>	<b>4.5</b>	<b>4.0</b>	<b>13%</b>	<b>4.6</b>
<b>Growth capital expenditure</b>				
Horticulture	3.7	1.0	272%	2.7
Storage & Logistics	7.6	5.6	34%	3.8
Food Ingredients	-	-	-	-
<b>Total growth capital expenditure</b>	<b>11.3</b>	<b>6.6</b>	<b>70%</b>	<b>6.5</b>
<b>Total capital expenditure</b>	<b>15.8</b>	<b>10.6</b>	<b>48%</b>	<b>11.1</b>

An aerial photograph of an industrial facility, likely a water treatment plant or refinery. The scene is dominated by numerous large, white, cylindrical storage tanks arranged in rows. A yellow truck with a white trailer is parked on a paved area in the lower right. In the background, a blue swimming pool is visible, and the ocean stretches to the horizon under a clear sky. The text '5 STRATEGY' is overlaid on the left side of the image.

5

STRATEGY

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# UPDATE ON STRATEGIC OBJECTIVES

## Meeting or Exceeding our Objectives

- In our 2014 Annual Report we outlined a number of Near Term (<2 years) and Medium Term (2-5 years) objectives.
  - We intend to assess ourselves against these objectives, and to create new objectives where targets have been met.
  - We will report on our assessed progress each year in our Annual Report.
- For brevity we comment on the Scales Group objectives below:

## OUR OBJECTIVES

### NEAR TERM OBJECTIVES (<2 YEARS)

Align Health & Safety practices across the group to meet global best practice.

***Status – On Target.***

Meet or exceed Financial Performance projections in our Prospectus.

***Status – Target Exceeded.***

Enhance current business activities by continuing to invest in their growth and unlock their potential.

***Status – On Target. Significant investments made and being considered.***

### MEDIUM TERM OBJECTIVES (2-5 YEARS)

Be recognised as one of New Zealand's safest companies to work for.

***Status – On Target.***

Deliver meaningful growth in our existing, or potentially new, divisions through organic investment and/or acquisition.

***Status – On Target. A sustainable increase in EBITDA was recognised through 2015 and we continue to invest in future performance.***

A large grid of shipping containers, likely at a port or warehouse. The containers are arranged in a dense, repeating pattern. Each container has various labels, including company logos (MSC, Cronos, Tex, Caribina, SunCube, Calsonic), identification numbers (e.g., TRU 844527 4 4SR1, MSCU 747268 5 4SR1), and technical specifications (e.g., MAX. G.W. TARE NET, C/CAP.). There are also yellow warning signs with triangles and the text 'CAUTION 9'-6 HIGH'. The overall scene is a vast field of industrial equipment.

# 6 OUTLOOK

# WHAT WE KNOW ABOUT 2016

- Market dynamics and factors remain supportive:
  - Horticulture:
    - Whilst picking has yet to begin, current orchard performance and fruit quality indicates another strong crop. Potentially as high as 2015.
    - Size and varietal mix are expected to be favourable.
    - The market dynamic for Asia and Middle East remains supportive.
    - Based on current hedges in place, FX rates are likely to be lower than FY15 rates achieved.
    - During January we increased our stake in Fern Ridge Produce to ~73%.
  - Storage & Logistics:
    - Full year benefit of a number of late 2015 initiatives expected including Auckland Coldstore, oil storage contract, and bulk liquid processing terminal acquisition.
    - Demand indications for space at the Auckland Coldstore remain highly supportive.
    - Sea and airfreight volumes continue to grow.
  - Food Ingredients:
    - Volume outlook for both Meateor and Profruit generally positive, with continued growth expected from Meateor's strong procurement relationships throughout Australasia.
- Based on factors known to us at the time of writing, the Directors support previously provided guidance (EBITDA of between \$48m and \$55m).





# 7

# APPENDICES

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# RECONCILIATION TO STATUTORY ACCOUNTS

- The table to the right reconciles Underlying EBITDA and Underlying Net Profit to Net Profit as Reported in our Financial Statements
- In FY2016, IFRS rules around the treatment of biological assets change. Rather than revaluing orchards as is currently required, we will depreciate the value of trees over their economic life. Revaluations of land and buildings will take place on a 3-yearly basis as is currently the case. This will not impact on cash profit, but will result in an increase in our reported depreciation expense.

## Reconciliation of Underlying EBITDA to Net Profit

\$'000	2015		2014
	Actual	PFI	Actual
<b>Underlying EBITDA</b>	<b>61,405</b>	<b>41,248</b>	<b>39,849</b>
RECONCILIATION TO GAAP INFORMATION			
- Depreciation	(9,050)	(9,241)	(8,609)
- Amortisation	(1,088)	(389)	(941)
- Finance revenue	185	-	460
- Finance charges	(2,801)	(3,287)	(3,729)
- Taxation	(12,997)	(7,537)	(7,267)
<b>Underlying Net Profit</b>	<b>35,654</b>	<b>20,794</b>	<b>19,763</b>
Offer costs	-	-	(3,022)
Impact of IFRS revaluations:			
- Biological asset revaluation	3,031	-	1,409
- FX contract revaluations and other adjustments	1,759	-	445
- Equity settled employee benefits	(168)	-	-
- Taxation	(1,341)	-	(519)
	3,281	-	1,335
Profit (loss) for the year of demerged George H Investments Ltd Group:			
- Revenue	-	-	870
- Other income	-	-	-
- Other losses	-	-	-
- Impairment of non-current assets	-	-	-
- Cost of sales and expenses	-	-	(455)
- Taxation	-	-	(116)
	-	-	299
<b>Net Profit as reported in Financial Statements and PFI</b>	<b>38,935</b>	<b>20,794</b>	<b>18,375</b>

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- EBITDA. We calculate EBITDA by adding back (or deducting) depreciation, amortisation, finance expense / (income), and taxation expense to net earnings / (loss) from continuing operations.
- EBIT. We calculate EBIT by adding back (or deducting) finance expense / (income), and taxation expense to net earnings / (loss) from continuing operations.
- Underlying EBITDA and EBIT are calculated by adding back (or deducting) any non-cash IFRS adjustments and IPO offer costs.
- Underlying Net Profit is calculated by adding back or (or deducting) the after-tax effect of any non-cash IFRS adjustments, discontinued operations, and IPO offer costs

We believe that these non-GAAP financial measures provide useful information to readers to assist in the understanding of our financial performance, financial position or returns, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZIFRS. Non-GAAP financial measures may not be comparable to similarly titled amounts reported by other companies.

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