

Fact Sheet

April 2017

Scales
growing New Zealand

About Scales:

Scales Corporation Limited (Scales) is an S&P NZX 50 listed agribusiness group with three diverse operating divisions:



Scales' origins date back to 1897 when it was established by George H Scales to challenge the freight rates being charged by the large British shipping lines to New Zealand wool exporters.

Now:

- Mr Apple is New Zealand's largest integrated apple grower, packer and marketer, expanded by the acquisition of Longview Group Holdings Limited (Longview) in November 2016.
- Polarcold Stores Limited (Polarcold) and Whakatani Coldstores Limited (Whakatani Coldstores) are the largest independent providers of temperature controlled storage in New Zealand.
- Meateor Foods Limited (Meateor) and Profruit (2006) Limited (Profruit) manufacture high quality, New Zealand made, pet food ingredients and juice concentrate respectively.

¹ Scales owns 73 per cent of Fern Ridge Produce Limited (Fern Ridge).

² Profruit is a 50 per cent joint venture.

Vision and Strategy

Scales' vision:

To be the foremost investor in, and grower of, New Zealand agribusinesses by leveraging our unique insights, experience, and access to collaborative synergies.

At Scales we take immense pride in helping to grow New Zealand's agribusiness sector in a manner that is sustainable and operate a portfolio of businesses that will directly benefit from improvements in New Zealand agricultural output. We have the people, experience, expertise, networks, insights and assets to help unlock agribusiness growth.

As a Group:

- We will grow our existing divisions or extend our agribusiness reach through disciplined and patient investment.
- We will continue to develop and evolve our sustainability reporting.

In our Horticulture division:

- We partner with appropriate organisations to develop proprietary apple brands around varieties to which we have commercial rights. This includes Dazzle® (launched in December 2016), Diva® plus two new varieties in the pipeline.
- We have invested heavily in orchard redevelopment such that large portions have been redeveloped into premium varieties targeted at Asian and Middle Eastern consumers.
- We use world-leading orchard technology to improve quality and traceability and thus secure higher prices.
- We have met our previous target of growing 3.5m TCEs of our own apples 4 years ahead of schedule and are now aiming for a target of 4.0m TCEs.
- We have identified China as a key export market. We are focussed on increasing our presence in that market through tailored marketing and supplying critical volumes of preferred varieties, via our strategic partner and shareholder China Resources Ng Fung Limited (China Resources Ng Fung), and also through services company Primary Collaboration New Zealand Limited.

In the Storage & Logistics division:

- We will roll out our FMCG capable warehouse management software through Polarcold
- We will review our existing coldstore activities to explore potential for improved financial performance and asset returns.
- We will seek complementary acquisitions to expand our bulk liquid storage and logistics offerings.

In Food Ingredients:

- We will seek to develop new value-add opportunities and diversify protein sources within Meateor.
- We are considering organic and acquisition opportunities to increase divisional scale and significance throughout the division.

Sustainability Report

As an agribusiness investor we clearly recognise that we have a responsibility to all stakeholders to ensure we have a sustainable business. For us, it is important to know that we operate a work environment where people feel safe and comfortable at work, that we provide opportunities to develop and build a career, that we are looking after our environment, and that we treat suppliers and customers with respect recognising their bespoke needs and requirements.

We produced our inaugural Sustainability Report in our 2016 Annual Report. In making sustainability disclosures we sought to meet the NZX's proposed draft Corporate Governance Code requirements and drew upon the internationally-recognised Global Reporting Initiative's materiality principles and related guidance. We identified 16 sustainability topics and our sustainability matrix presents the topics that we identified and their relative level of materiality.



We grouped the topics under three headings:

Our People

Scales is extremely lucky to have a stable, experienced, and hard-working team of people. In return, we are committed to being an employer of choice, developing our people's skills and potential. Our reporting areas therefore included health and safety, employment, training, and seasonal employment.

Our Marketplace

Market and customer requirements for safe food, and the demand for transparent information about environmental and social impacts of food production methods, are increasing. We therefore reported on certification and auditing, traceability systems, and spray use and residues.

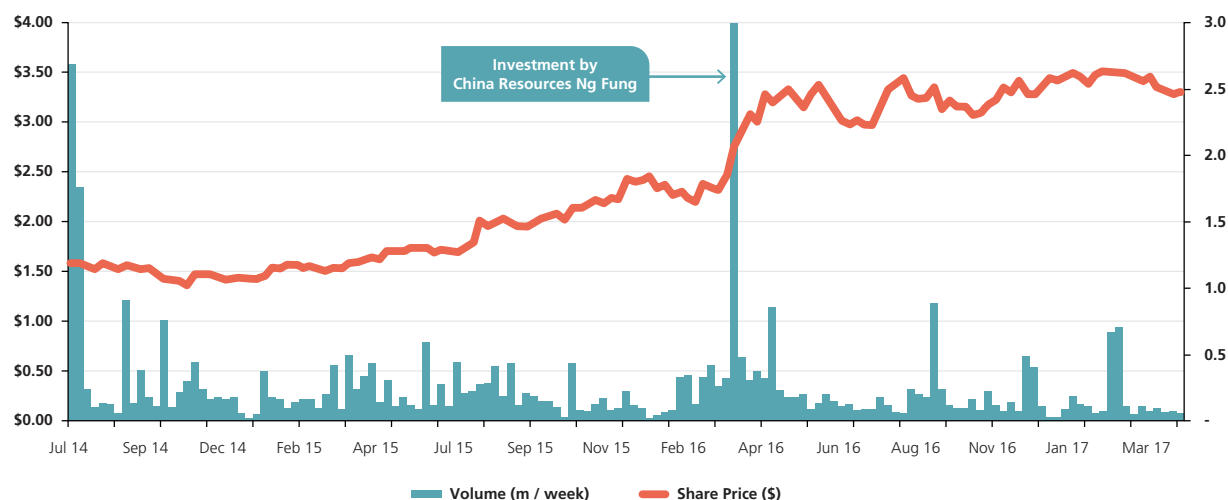
Our Environment

As a food producer, food storage, and logistics business, we have a strong awareness of our environmental impacts and the need to protect and enhance the natural systems and resources on which it depends. As a result, the three key environmental focus areas that we reported on were water conservation, energy efficiency and waste minimisation.

For further information, please read our full Sustainability Report in our 2016 Annual Report.

Share Information

NZX code	SCL	Closing share price at 31-Mar-2017	\$3.47
Shares on issue	139,779,006	Market capitalisation at 31-Mar-2017	\$485m
Dividend yield incl. imputation credits ³	6.4%	Financial Year End	31 December
NZX industry sector	Primary / Agriculture and Fishing	Indices:	NZX All NZX 50



Dividends

A long term average payout of between 65 per cent and 75 per cent of Net Profit is targeted. It is expected that dividends will be fully imputed for NZ tax residents with the interim and final dividends split approximately evenly and payable in January (interim) and July (final).

Period	Date Paid	Amount (cash paid)
2015 Interim	20/01/16	6.5 cps
2015 Special	20/01/16	4.0 cps
2015 Final	08/07/16	6.5 cps
2016 Interim	18/01/17	8.0 cps

Research Coverage

Company	Analyst	Email
Deutsche Craigs	Adrian Allbon	adrian.allbon@craigsip.com
First NZ Capital	Kar Yue Yeo	karyue.yeo@fnzc.co.nz



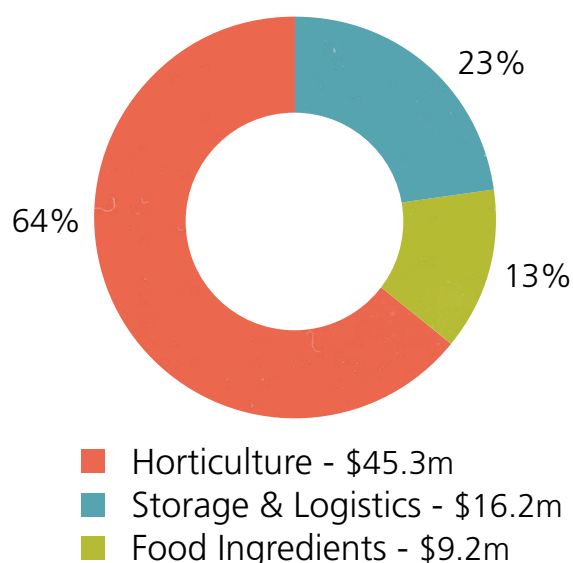
³ Based on the 2016 interim dividend of 8.0 cents (gross 11.1 cents) and assuming a 2016 final dividend of the same value, both with full imputation credits, as at 31 March 2017. As always, any dividend is subject to Board approval.

Key Financials

\$ million	FY2012	FY2013	FY2014	FY2015 (Restated) ⁴	FY2016
Revenue	221.7	272.2	263.3	301.4	373.9
Underlying EBITDA ⁵	27.4	42.8	39.8	61.4	67.9
Underlying EBITDA Margin	12.4%	15.7%	15.1%	20.4%	18.1%
Underlying Net Profit	6.8	19.6	19.8	34.8	38.6
Net Profit (Statutory)	13.6	20.4	18.4	35.9	38.2
Earnings per share (cents)	N/A	16.2 ⁶	14.3	25.7	27.0
Dividends per share (cents - declared)	N/A	11.3	10.0	17.5	8.0 ⁷
Average Net Debt	N/A	N/A	40.8	32.5	43.4
Capital Expenditure	14.5	13.0	11.1	15.8	15.7

Divisional Overview

The chart below shows the 2016 Underlying EBITDA contribution from each of Scales' three key operating divisions. Our Corporate division ran at an EBITDA loss of \$2.9m to achieve Underlying Group EBITDA of \$67.9m:



⁴ FY2015 results have been restated for amendments to NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 41 *Agriculture*, effective for periods beginning on 1 January 2016. The amendments account for bearer plants (apple trees) in the same way as property, plant and equipment whilst the produce growing on apple trees continues to be accounted for as unharvested agricultural produce assets under NZ IAS 41.

⁵ We use non-GAAP (Underlying) profit measures when discussing financial performance in this document. Underlying results exclude certain one-off or non-cash IFRS year-end adjustments such as gains or losses associated with asset revaluations or valuation of foreign exchange contracts and interest rate swaps.

⁶ Pro forma financial information.

⁷ We expect to declare a final FY2016 dividend in May 2017 for payment in July 2017, subject to Board approval.

⁸ The acquisition of Longview was made after the apple season had ended.

Horticulture

\$ million	FY2012	FY2013	FY2014	FY2015 (Restated)	FY2016
Revenue	134.2	174.2	158.8	178.1	230.1
% of Group Revenue	61%	64%	60%	59%	62%
Underlying EBITDA	10.3	26.2	23.9	40.0	45.3
% of Group Underlying EBITDA	38%	61%	60%	65%	67%
Orchard Area					
- Owned				727	742
- Leased				315	402
- Total				1,042	1,144
Packhouses					
				3	4
Coolstore facilities					
				5	7

Mr Apple is New Zealand's largest integrated grower, packer and marketer of apples. All of its growing and post-harvest activities are located in Hawke's Bay. In addition, Mr Apple packs, stores and markets apples on behalf of a number of external growers in Hawke's Bay and markets on behalf of external growers in Nelson.

Our strategy is to grow our sales of premium branded apples throughout Asia and the Middle East. We made good progress against this strategy in 2016:

- We launched a new variety, Dazzle®, in December 2016. Dazzle® is a big, highly coloured and very sweet apple, which complements our existing Diva® brand. Our very best Fuji apples can be marketed under the Diva® brand and commands a premium price. And we have two further varieties and brands in the pipeline, which are yet to have their full marketing launches.
- In March 2016 we recognised China Resources Ng Fung as a key strategic shareholder in the Group. China Resources Ng Fung brings considerable experience and a wide ranging network to allow us to develop our apple sales throughout China. The China Resources Ng Fung shareholding was mostly acquired from Direct Capital, which originally took a cornerstone shareholding in the Group in 2011.
- In November 2016 we acquired the vertically integrated apple grower, packer, and marketer Longview. Longview is an iconic and well established business in the Hawke's Bay that operates a modern and customised packhouse and coolstore operation. Its acquisition increases our supply of Asia-focused apples whilst also unlocking post-harvest capacity and synergies to meet the expected future growth in the combined horticulture business.

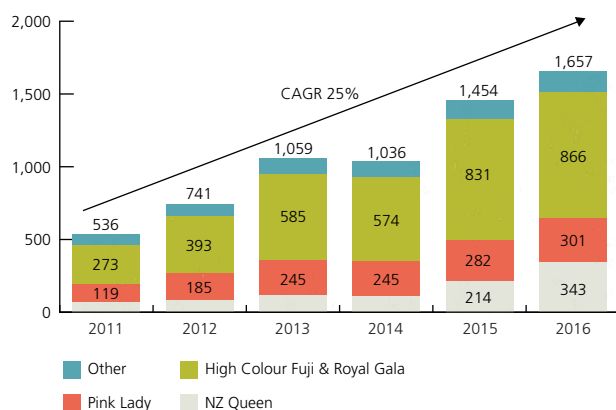
We also own approximately 73 per cent of Fern Ridge. Fern Ridge is a well regarded marketing business that increases our sphere of influence in the sale of New Zealand apples.

More than half a billion apples were picked from Mr Apple's orchards in the 2016 season from approximately 1,042 hectares of Mr Apple's planted apple orchard. This equates to a gross production of 4.36 million TCEs (on average there were 116 apples in a TCE) from which 3.55 million TCEs were exported.

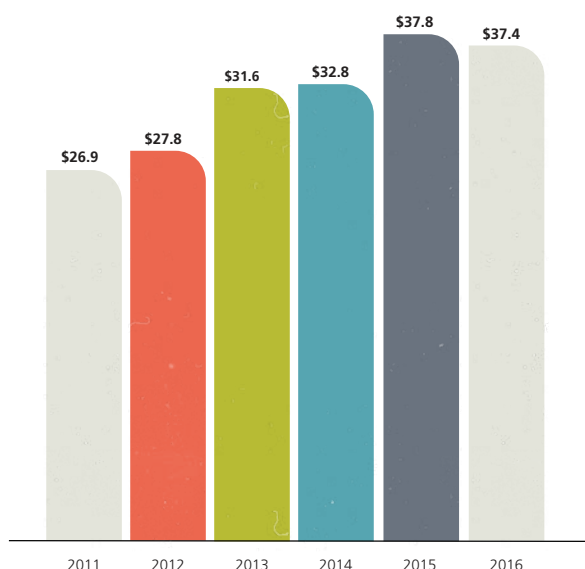
Including Fern Ridge, the Horticulture division⁸ sold nearly 5.5 million TCEs.

Production from our owned and leased orchards accounted for approximately 18 per cent of the national crop and Mr Apple now exports more than half of its production to the fast growing Asian and Middle Eastern markets.

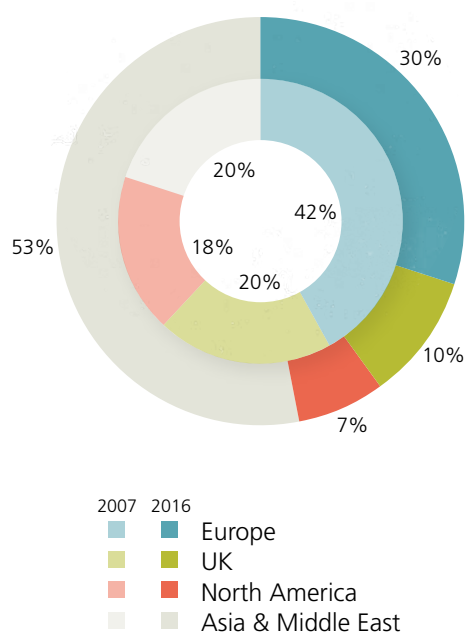
Premium Apple Volumes by Variety (TCE 000s)



Weighted Average FOB Price / TCE for Premium Apples (NZD)



Exports by Market



Financial Seasonality

Scales has pronounced financial seasonality

Horticulture Division:

- ~55 per cent of Mr Apple's sales are made between February and June each year.
- Produce growing on apple trees are accounted for as unharvested agricultural produce assets under NZ IAS 41 *Agriculture*. This requires unsold agricultural produce to be measured at fair value less costs to sell meaning that expected profit on unsold fruit is recognised in the interim result.

Storage & Logistics Division:

- ~75 per cent of divisional EBITDA is earned during the first 6 months due to the seasonality of customers' storage and logistics requirements.
- Lower storage volumes, coupled with scheduled maintenance during the off-season, result in lower levels of profit during the second half of the year.

Storage & Logistics

\$ million	FY2012	FY2013	FY2014	FY2015	FY2016
Revenue	77.2	91.7	90.6	95.6	108.4
% of Group Revenue	35%	34%	34%	32%	29%
Underlying EBITDA	14.0	13.9	12.3	16.3	16.2
% of Group Underlying EBITDA	51%	32%	31%	27%	24%

The range of services provided by the Storage & Logistics division gives our customers end-to-end confidence that their product will arrive fresh, on time, and complying with all relevant import rules and regulations.

Polarcold and Whakatu Coldstores offer essential supply chain services for some of New Zealand's largest exporters, importers, and FMCG businesses.

The group has facilities in Auckland, Waikato, Hawke's Bay, Timaru, Christchurch, and Dunedin. Our coldstore businesses have total temperature controlled storage capacity of over 780,000m³, making us the largest independent providers of temperature controlled storage in New Zealand⁹.

Scales Logistics is a leader in ocean freight services to exporters and importers of perishable products including fish, fruit, and vegetables. With offices in Christchurch, Tauranga, and Hawke's Bay, Scales Logistics specialises in providing tailored international freight services and all land-side services for import and export transportation.

Balance Cargo provides air freight services, including a purpose built chiller and warehousing facilities. Balance Cargo was formed in 2012 as part of Scales Logistics and is based in Christchurch.

Liqueo Bulk Storage operates bulk liquid storage terminals with a total capacity of approximately 20,300 tonnes for the storage of tallow, edible and non-edible oils, liquid stock foods, and liquid waste products. It has direct ship to shore loading / unloading capability at the Ports of Timaru and Napier.

⁹ Whakatu Coldstores managed a facility in Wellington under contract during 2016. Damage caused by the Wellington earthquake in November 2016 has caused this facility to close in 2017.

Food Ingredients

\$ million	FY2012	FY2013	FY2014	FY2015	FY2016
Revenue	33.6	33.1	37.2	48.6	58.0
% of Group Revenue	15%	12%	14%	16%	16%
Underlying EBITDA	5.5	4.7	5.7	7.6	9.2
% of Group Underlying EBITDA	20%	11%	14%	12%	14%

The Food Ingredients division comprises two businesses that complement Scales' other businesses:

- Meateor, which processes and markets pet food ingredients for the global pet food industry. Meateor operates processing plants in Whakatu and Dunedin with a combined processing capacity of more than 30,000 metric tonnes a year.
- Profruit, which is a 50 per cent owned manufacturer of high quality apple, kiwifruit and pear juice concentrates located in Hawke's Bay.

Capital Management

Target returns for the group are:

- Return on capital employed of 15 per cent or greater.
- Underlying EBITDA margin of 13 per cent or greater.

The group exceeded both targets during 2016.

	2015 (Restated)		2016	
	ROCE	Underlying EBITDA Margin ¹⁰	ROCE	Underlying EBITDA Margin ¹⁰
Horticulture ¹¹	34%	22%	28%	20%
Storage & Logistics	13%	17%	11%	15%
Food Ingredients	49%	13%	53%	13%
Group¹¹	24%	20%	21%	18%
<i>Target</i>	<i>15%</i>	<i>13%</i>	<i>15%</i>	<i>13%</i>
EBITDA margin:	A measure of the business' core profitability			
Calculation:	Underlying EBITDA (earnings before interest, tax, depreciation and amortisation) divided by revenue			
Return on capital employed (ROCE):	A measure of the business' return on its capital invested			
Calculation:	Underlying EBIT (earnings before interest and tax) divided by capital employed (non-current assets plus current assets (excluding any cash or cash equivalent balances) less current liabilities (excluding any overdraft or short term debt))			



¹⁰ Excluding the share of profit from associate company and joint venture.

¹¹ Due to the timing of the acquisition, Longview has been excluded from the calculation of Horticulture and Group 2016 ROCE.

Governance

Board of Directors

Jon Mayson	Independent Chairman
Tim Goodacre	Independent Deputy Chairman
Andy Borland	Managing Director
Nick Harris	Independent Director
Mark Hutton	Independent Director, Chair Nominations and Remuneration Committee
Alan Isaac	Independent Director, Chair Audit and Risk Management Committee
Weiyong Wang	Director

Management

Andy Borland, Managing Director

Andy joined Scales in 2007 and became Managing Director in 2011. Prior to joining Scales he had a 20 year career in banking, with his final role being Head of Corporate at Westpac New Zealand. Andy has overall responsibility for the strategic direction and day-to-day management of Scales. In addition to his directorships of the Group, Andy is currently a Chairman of Akaroa Salmon Limited, Primary Collaboration New Zealand Limited and Primary Collaboration New Zealand (Shanghai) Co. Limited, and is a Director of apple and pear industry body Pipfruit New Zealand Incorporated, George H Investments Limited, Rabobank New Zealand Limited, Rabobank Australia Limited and Rabo Australia Limited. Andy also has an involvement with Central Otago deer and beef cattle breeding and fattening farming company Loganbrae Limited.

Steve Kennelly, Chief Financial Officer

Steve has been with Scales since 1993 in a variety of accounting and financial roles. As CFO, Steve is responsible for finance, funding, legal, company secretarial, and information technology. Steve is a member of Chartered Accountants Australia and New Zealand.

Andrew van Workum, CEO Mr Apple

Andrew has worked in the apple industry for over 30 years. He joined Mr Apple at its inception in 2001 and prior to that was General Manager of Mr Apple's predecessor Grocorp Pacific Limited, where he worked for 16 years. He has extensive experience in the production aspects of the apple industry, and was previously a Director of Pipfruit New Zealand.

Stephen Foote, CEO Whakatu Coldstores and Polarcold

Stephen has been with the Whakatu Coldstores' group of companies in various management roles for 23 years. Prior to joining Whakatu Coldstores, Stephen worked for Dominion Breweries and had interests in orcharding in Hawke's Bay.

John Sainsbury, CEO Meateor

John has been with Meateor in various management roles for the last 16 years. Prior to that, John worked in senior management, marketing, and operational roles in the United States. John was appointed CEO of Meateor Foods in March 2015.

Kent Ritchie, CEO Scales Logistics

Kent joined Scales in 1998, and has spent over 30 years in the shipping industry. He has been involved in setting up shipping services from New Zealand, has experience in all aspects of the transport industry, and has led Scales' expansion into the logistics arena.

Kevin Cahill, Executive Director Liqueo

Kevin joined the staff of Polarcold in 1978 as Works Manager, when the company was known as SC Co-op Cool Stores Limited. Kevin was previously the CEO of Polarcold and Liqueo, retiring from his position as CEO of Polarcold in May 2015, having spent 37 years with the company.

Company information

Scales Corporation Limited
PO Box 1590, Christchurch 8140, New Zealand
52 Cashel Street, Christchurch 8013, New Zealand
T: +64 3 379 7720
E: info@scalescorporation.co.nz
W: www.scalescorporation.co.nz

Registry information

Computershare Investor Services Limited
Private Bag 92119, Auckland 1142
T: +64 9 488 8777
E: enquiry@computershare.co.nz

Glossary

~	Approximately
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FMCG	Fast moving consumer goods
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
ROCE	Return on capital employed. A measure of Scales' return on its capital invested
TCE	Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight, which equates to 18.0kg sale weight
Underlying EBIT / EBITDA	Statutory EBIT / EBITDA adjusted for non-cash IFRS adjustments (such as foreign exchange contract and asset revaluations)

