Scales
growing New Zealand

SCALES CORPORATION LIMITED
ANNUAL REPORT 2017

Agribusiness helps form the backbone of New Zealand's economy. We are passionate about Agribusiness. We believe in creating meaningful relationships and outcomes for our customers, partners, shareholders, employees and the communities that we work within.

Contents

“It is not the strongest of the species that survive, not the most intelligent, but the one most responsive to change.”

This is an extremely exciting time to be a diversified operator and investor in New Zealand agribusiness.

Globally there is strong demand for safe and premium positioned branded food products, and increasing benefits are being seen from the involvement of well-resourced entities in agriculture production.

Within New Zealand, stakeholders are expecting the agriculture sector to embrace an emphasis on environmentally friendly, sustainable and high value production. These targets will not only ensure New Zealand is making best use of its current natural resources but also create long lasting environmental benefits. This is also reflected in recent government announcements covering areas such as climate change and expectations of foreign investment.

After 106 years of operation, we believe that we have the skills, knowledge and, most importantly, the team, to be able to take advantage of changes in the agribusiness sector and we continue to work towards our vision of being the foremost investor in, and grower of, New Zealand agribusiness.

Horticulture

Mr APPLE NEW ZEALAND — Vertically integrated apple grower, packer & marketer

FERN RIDGE Fresh — Apple marketer[1]

Storage & Logistics

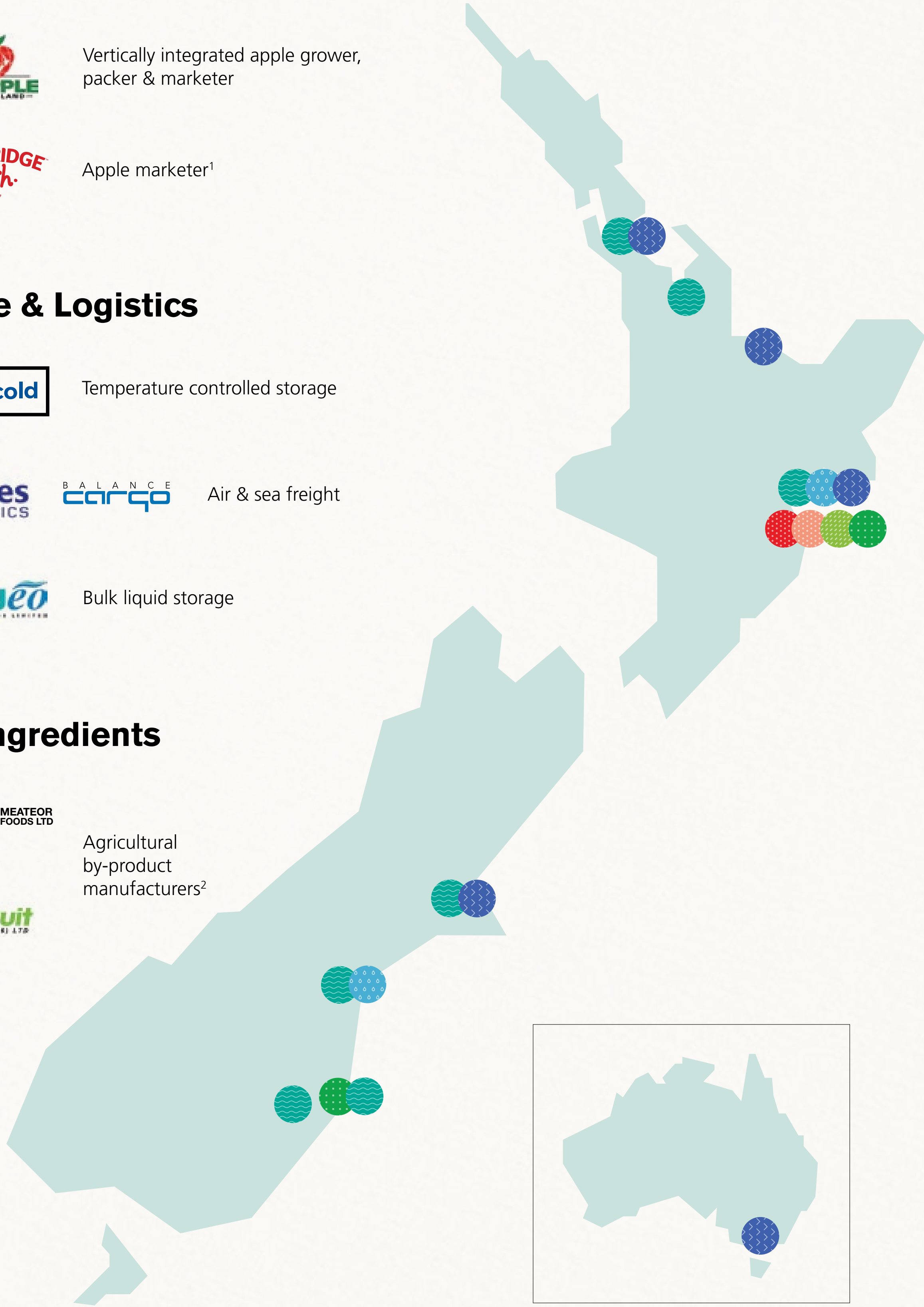
Polarcold — Temperature controlled storage

Scales LOGISTICS, BALANCE cargo — Air & sea freight

LIQUEO BULK STORAGE LIMITED — Bulk liquid storage

Food Ingredients

MEATEOR FOODS LTD, profruit (2006) LTD — Agricultural by-product manufacturers[2]

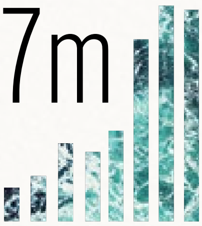


[1] *Scales owns 73 per cent of Fern Ridge Produce Limited (Fern Ridge).*
[2] *Profruit is a 50 per cent owned joint venture.*

Success in Fruition.

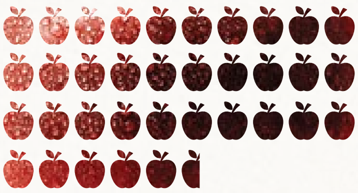
UNDERLYING NET PROFIT
$32.7m

15 per cent decrease on 2016



3.55m TCEs[3]

of export apples shipped, in line with 2016



6,217 AIRFREIGHT TONNES

handled, up 88 per cent

UNDERLYING EBITDA

$62.0m

9 per cent decrease on 2016

22.6c EARNINGS PER SHARE

(2016: 27.4 cents)

29,481 TEUs[4]

shipped, up 19 per cent

5.6m litres of juice sold, down 2 per cent

400+

AUDITS (third-party/ independent) undertaken

[3] *Tray Carton Equivalent.*
[4] *Twenty-foot Equivalent Unit.*

REVENUE

$399.1m

7 per cent increase on 2016

19.0c

DIVIDENDS PER SHARE

declared, (2016: 14.5 cents)

100%

of Mr Apple orchards became GRASP[5] (GlobalGap Risk Assessment on Social Practice) certified

RETURN ON CAPITAL EMPLOYED[6]

16% (ROCE)

(2016: 21 per cent)

27,663 METRIC TONNES

of petfood ingredients sold, up 20 per cent

3000+

TRAINING COURSES

undertaken

6% ENERGY INTENSITY REDUCTION

was achieved at Polarcold's North Island sites

700+ PERMANENT STAFF MEMBERS

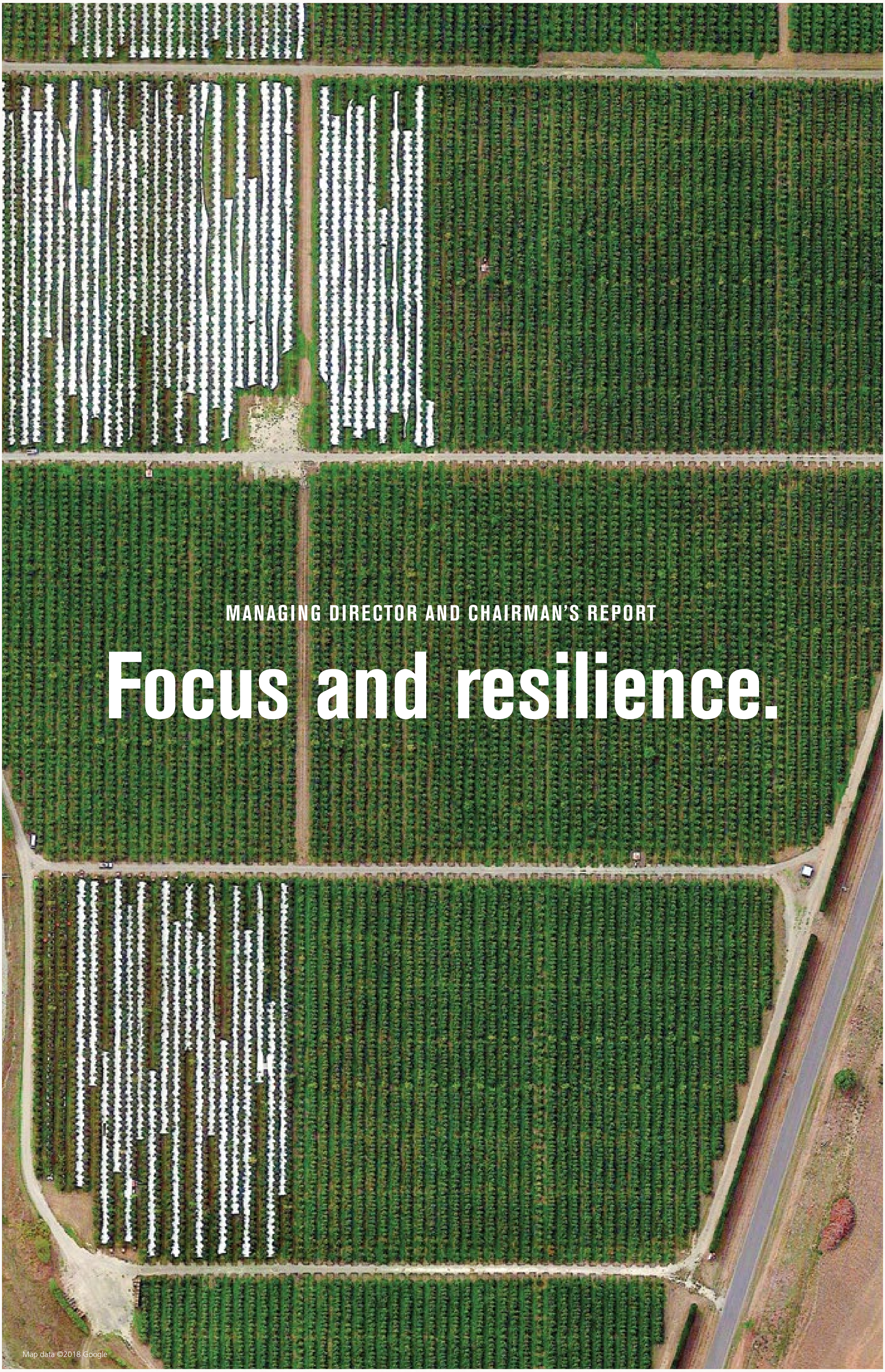
increasing to almost 2,500 total staff members at the height of the apple harvest season

[5] *See our Sustainability section for further information.*

[6] *Calculated as Underlying EBIT / Capital Employed, where Underlying EBIT is calculated as Underlying Net Profit plus Net Financing Costs and Tax, and Capital Employed is calculated as Non Current Assets plus Current Assets (excluding any Cash or Cash Equivalent balances) less Current Liabilities (excluding any Overdraft or Short-Term Debt balances).*

MANAGING DIRECTOR AND CHAIRMAN'S REPORT

Focus and resilience.



Tim Goodacre and Andy Borland

On behalf of the Board, we are pleased to present Scales' 2017 Annual Report for the year ended 31 December 2017.

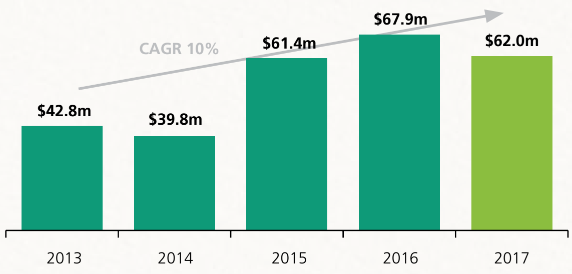
The Group generated Underlying EBITDA[7] of $62.0 million and Underlying Net Profit of $32.7 million. Whilst these are below our record 2016 results, it emphasises the skill, resilience, tenacity and commitment of the Scales team to achieve these returns whilst encountering a difficult growing season.

	2017 $'000	2016 $'000	Variance %
Underlying EBITDA	62,007	67,856	-9%
Underlying Net Profit	32,730	38,638	-15%
Net Profit	31,771	38,178	-17%

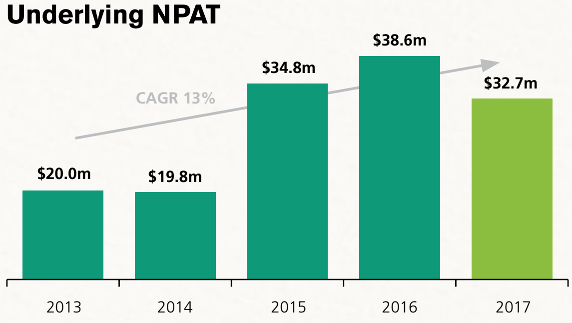
[7] Underlying Net Profit and Underlying EBITDA are considered by Management and the Board to be the best financial measures to describe the ongoing performance of Scales. Underlying Net Profit adjusts Net Profit for the post-tax implications of any non-cash International Financial Reporting Standards (IFRS) adjustments (such as asset revaluations). Underlying EBITDA is calculated by adding back to Underlying Net Profit Net Finance Costs, Tax, Depreciation and Amortisation expenses. A full reconciliation to Net Profit is provided on page 16.

Underlying EBITDA (our preferred profitability metric) has increased by 45 per cent since 2013 at a compounding annual growth rate (CAGR) of 10 per cent.

Underlying EBITDA



Underlying NPAT



Shareholder Returns

Shareholders who invested in the IPO have achieved a 216 per cent[8] return on funds invested to the end of February 2018. By comparison, an investment in the S&P NZX50 would have delivered a 61 per cent return on funds invested over the same period.

Scales' Team

As ever, our excellent results are due to the hard work and resilience of the entire Scales team. We currently employ over 700 permanent staff, which rises to almost 2,500 total staff during the height of the apple harvest season, and it is their effort and dedication that allows us to provide quality produce, goods and services to our customers. The Board would like to acknowledge and thank every member of the team for their efforts.

We would also like to thank the team for the attention paid to health and safety. The safety of our staff remains of utmost importance to us and we welcome innovations that have been suggested and implemented throughout the business. We will continue to ensure that health and safety is treated with the importance it deserves and that improvements are made quickly and efficiently.

Strategic and Operational Highlights

Following a busy 2016, we took the opportunity in 2017 to consolidate our position and build on our key skills. Some of the highlights of the year's activity included:

- The integration of the operations and team of Longview. This 2016 acquisition has added apple volumes as well as much needed packing capacity.
- The continued redevelopment of our apple orchards to higher value apple varieties, best suited to the changing tastes of consumers in all markets, including the latest variety addition, Dazzle®.
- The ongoing investment in the Mr Apple brand to ensure its continued pre-eminence as the highest quality premium offering in the international apple market.
- The acquisition of freight forwarding business OceanAir, which was acquired on 1 August 2017. This acquisition adds the ports of Auckland and Melbourne to our logistics offering and further extends our specialty in the export of perishable goods.
- A review of our group strategy, more information on which is provided on the following page.
- Progress on our sustainability journey, maintaining our commitment to stakeholders that we have sustainability at the heart of our businesses.

[8] Calculated as the difference between: the closing share price on 28 February 2018 plus all net dividends paid (a total of $0.54 per share) and the IPO listing price of $1.60.

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.

Scales' Long Term Goal

To generate a long-run average 15 per cent ROCE across the portfolio.

Strategy Update

Scales has been delighted with the performance of all our businesses since listing, as they continue to successfully implement their business and growth strategies. The most sustainable returns have been achieved through operating diversified businesses that are fully integrated and / or have credible export opportunities leveraging the core competencies of both New Zealand and Scales.

As a result of our performance to date, and noting recent government announcements on environmental issues and foreign investment, we have refreshed our group investment / growth strategy, adopting a greater focus on pure agri-businesses. In particular, we will focus on opportunities that:

- Are fully-vertically integrated.
- Are export-led.
- Add value from our China relationships.

Scales will seek to allocate new capital in sectors that have the above characteristics and play well to our strengths. We will look to release capital from businesses not directly benefitting from these long term trends and genuine growth opportunities.

Successful implementation of this strategy would ultimately result in a meaningful rebalance of our current portfolio of businesses, both via acquisition of businesses aligning with our strategy, and through possible divestment of businesses that do not align.

Strategies to Create Value

Our underlying strategies to create value remain the same. We will:

- Extend our agribusiness reach through disciplined and patient investment to develop new divisions or market sectors by:
  - Using our core investor competency of identifying sectors with the appropriate growth characteristics and supporting this with our in-depth industry due diligence capabilities.
  - Aligning investments with our core operating competencies to deliver collaborative synergies.
  - Seeking a ROCE target of 15 per cent across our portfolio.
  - Targeting investments that have scale, or are able to reach scale.
  - Retaining a focus predominately (but not exclusively) on New Zealand.
  - Where appropriate, investments will also align with our expanding network in Asia, taking advantage of the connection and support from our cornerstone shareholder China Resources Ng Fung Limited (China Resources Ng Fung) and our participation in Primary Collaboration New Zealand (PCNZ) and its Shanghai office.
- Support business units by making material investment in growth assets, our people and our culture.
  - This includes significant investment in our team, fixed assets, brands and market position.
  - Develop our sustainability philosophy and reporting such that we are seen to be an 'Employer of Choice'.
- Be transparent in our market communications.
  - Provide relevant key operating metrics with honesty and integrity, subject to maintaining commercial confidentiality.

Specific Strategic Targets

Division	Target	Status
Group	**Sustainability**	***Significant Progress***
	• Further develop and evolve our reporting and measuring of key sustainability aspects affecting Scales' businesses. • Develop best-in-class sustainability reporting. • Demonstrate improvements in sustainability.	Group Sustainability and Health & Safety role established. Monitoring of sustainability KPIs commenced.
	Financial	***On Track***
	• Maintain financial returns in line with, or above, industry returns. • Continue to seek acquisitive and organic growth to expand the business.	Solid return achieved. A number of acquisitions, strategic partnerships and growth opportunities reviewed.
	Shareholder returns	***Significant Progress***
	• Continue to provide shareholders with an attractive yield on dividends. • Deliver capital gains and shareholder liquidity through careful strategic execution.	Substantial growth in share price. Interim dividend increased to 9.0 cents per share.
Horticulture	**Brand and Intellectual Property development**	***Good Progress***
	• Continue to develop the Mr Apple brand, particularly within our newer markets of Asia and the Middle East, as well as our more traditional markets of Europe and elsewhere.	New sales collateral created and marketing strategies implemented.
	Volumes	***Good Progress***
	• Reach 4 million TCEs of our own grown apples.	Volumes in line with last year despite poor weather.
	Sales	***On Track***
	• Increase market penetration into Asia through services company PCNZ and strategic partner China Resources Ng Fung.	Continued development of branding and marketing specific to the Asia market.
	Plant Varieties	***Good Progress***
	• Acquire new Plant Variety Rights (PVRs) to meet emerging needs. • Redevelop lower-performing orchards and varieties into higher value crops, more aligned to changing consumer tastes in newer and traditional markets.	Dazzle® gaining market recognition, new PVRs in progress. Continued redevelopment of orchards undertaken.

Division	Target	Status
Storage & Logistics	**Capitalise on opportunities within coldstores**	***Good Progress***
	• Review existing coldstore activities to explore potential for improved financial performance and asset returns.	New racking introduced to improve efficiency and safety and extend customer reach.
	Software rollout	***Achieved***
	• Continue rollout of Fast Moving Consumer Goods (FMCG) capable warehouse management software through Polarcold.	Software upgrade completed in 2017.
	Coldstore merger	***Achieved***
	• Complete merger of Whakatu Coldstores and Polarcold Stores.	Merger completed effective 1 January 2018. Polarcold logo modernised.
	Expand logistics offerings	***Significant Progress***
	• Develop scale to utilise the expertise and capacity within the team. • Leverage our strength and knowledge in perishable products.	OceanAir acquired August 2017. Increased throughput of volumes from both new and existing customers. Continuing to investigate opportunities.
Food Ingredients	**Increase scale**	***Progressing***
	• Review strategic initiatives and consider organic and acquisition opportunities to increase divisional scale. • Widen our breadth of raw material sourcing options. • Strengthen our relationship with customers by providing a wider range of products and services.	A number of opportunities being considered.

Outlook

Looking forward, we believe that Scales is well positioned for growth. We are experiencing strong demand and anticipate volume growth in our existing businesses.

We continue to actively review organic, strategic and acquisitive growth opportunities that play well to our strengths and will review our holdings in operations that are less well-aligned. We believe 2018 will be an exciting year.

Appropriately Incentivising our Team

Whilst strategic input and governance is provided by the Board, the management team is accountable for implementing those strategies. As a result, Scales has a strong incentive based remuneration scheme aligned to positive personal performance and retaining and developing excellent team members over the long term.

The Board recognises that there is a balance between shorter term incentive arrangements and the need to ensure team members remain focused on the longer term objectives of building a strong and sustainable business. The Board continues to be supportive of the Long Term Incentive Scheme (LTI Scheme) which we believe is key to driving shareholder wealth. Due to the success of the LTI Scheme, the Board have agreed to extend it for a further three years, relating to the 2018 to 2020 financial years. The Board's current intention is to retain the same overall scheme structure, subject to changes required to reflect any legislative amendments.

The balance between shorter term incentives and long term business interests continues to be a key feature of the positive Scales business culture. The retention and continued development of the incentive based remuneration schemes are an important part of the Board and Managing Director's objectives. Scales' remuneration philosophy, and a detailed breakdown of executive remuneration, is outlined in more detail in the Corporate Governance section.

Tim Goodacre

As announced last year, Tim Goodacre was appointed as just the 9th Chairman of Scales in 106 years at the 2017 Annual Shareholders' Meeting (ASM), taking over from Jon Mayson.

Tim was elected to the Scales Board in 2014, having been appointed Chairman of Scales' Horticulture division in 2011. He has been involved in agribusiness for nearly forty years, including holding the position of CEO of Zespri International from 2003 to 2007, and thus brings a wealth of industry experience to the Chairman position.

We are delighted to be able to benefit from Tim's knowledge as our Chairman.

Additional background to Tim is provided in our Leadership Profiles section.

Group Financials

We are pleased to present record revenue of $399.1 million and group Underlying EBITDA of $62.0 million for the year ended 31 December 2017. This result was very satisfying in light of a difficult growing season and competitive trading conditions and, whilst Underlying EBITDA was 9 per cent below last year, it is reflective of the abilities of the Scales team to minimise the impact of these conditions.

The individual performance of each division is discussed further in the next section.

Income Statement

	2017 $'000	2016 $'000
Revenue	399,100	373,927
Underlying Cost of Sales	(287,062)	(262,472)
Underlying Gross Margin	**112,038**	**111,455**
Underlying Gross Margin %	28%	30%
Underlying EBITDA	**62,007**	**67,856**
Underlying EBIT	**47,758**	**55,757**
Underlying Net Profit	**32,730**	**38,638**
After tax impact of:		
Non-cash IFRS adjustments	(959)	(460)
Net Profit	**31,771**	**38,178**
Capital employed[9]	307,535	271,142
Return on capital employed[9]	16%	21%

Directors and management use non-GAAP (Underlying) profit measures when discussing financial performance in this document. The Directors and management believe that these measures provide information that is useful to stakeholders along with GAAP measures. For example, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) require us to value our foreign exchange contracts at the end of each year. Changes in the values of these contracts are recognised as a gain or loss in our accounts. However, because we intend to hold our foreign exchange contracts to completion (taking any associated gain or loss on those contracts at the point at which they are closed out), our approach is to focus on profit or loss prior to these adjustments. Furthermore, the non-GAAP profit measures discussed above are also used internally to evaluate performance of our divisions, to establish operational goals, and to allocate resources. They also represent some of the performance measures required by Scales' debt providers.

Non-GAAP profit measures are not prepared in accordance with NZ IFRS and are not uniformly defined, therefore the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation or considered as a substitute for measures reported by Scales in accordance with NZ IFRS.

The next table shows how Underlying EBITDA and Underlying Net Profit reconcile to Net Profit in our Financial Statements (which are prepared in accordance with NZ IFRS). Note that our financial statements are prepared on a fully NZ IFRS compliant basis.

[9] Capital Employed and Return on Capital Employed in 2016 excluded capital employed and net losses from the Longview acquisition which, due to the timing of the acquisition, did not contribute to 2016 profits. Longview has been included in the 2017 calculation.

Reconciliation of Underlying EBITDA to Net Profit

	2017 $'000	2016 $'000
Underlying EBITDA	**62,007**	**67,856**
Reconciliation to GAAP information		
- Depreciation	(13,661)	(11,438)
- Amortisation	(588)	(661)
- Finance revenue	175	167
- Finance charges	(3,039)	(2,533)
- Taxation	(12,164)	(14,753)
Underlying Net Profit	**32,730**	**38,638**
- Foreign exchange contracts revaluations / hedge ineffectiveness	214	(1,258)
- Change in fair value gain on apple inventory	(40)	993
- Cash settled share-based payments	(92)	-
- Change in gross liability for non-controlling interests	(629)	-
- Equity settled employee benefits	(389)	(270)
- Taxation	(23)	75
	(959)	**(460)**
Net Profit as Reported in Financial Statements	**31,771**	**38,178**

Capital Management

We continue to monitor the ROCE and EBITDA margin of each division and the group.

ROCE is a measure of how efficiently we are generating a return on our assets. It lies at the heart of how we monitor the performance of the portfolio as well as decisions around capital expenditure. Prior to committing to an investment in assets, we need to be confident that we will generate a return that meets or exceeds our targets. The ROCE targets vary by division, given each division's specific asset and risk profiles. However, as a group, we target a long-run combined ROCE of 15 per cent.

Group capital employed increased slightly between 2016 and 2017, mainly due to an increase in working capital. Despite this increase, Group ROCE exceeded the targeted 15 per cent in 2017.

EBITDA margin is a measure of profitability of each division. Over time we use it to monitor the competitive dynamics and cost control of each business within the Scales portfolio. EBITDA margin targets vary significantly by business. For example, our freight forwarding business is a high-turnover, low-margin business, whilst our asset intensive cold storage business tends to operate a higher EBITDA margin. As a group we target a long-run combined EBITDA margin of 13 per cent.

Our Group EBITDA margin exceeded the targeted 13 per cent in 2017.

Scales' Net Tangible Assets as at 31 December 2017 were $1.43 per share (31 December 2016: $1.41 per share)[10].

Scales' basic earnings per share for the year ended 31 December 2017 was 22.6 cents per share (27.4 cents per share in the year ended 31 December 2016).

[10] *Based on the weighted average number of ordinary shares.*

Capital Management Benchmarks

	2017 $'000	2016 $'000
ROCE		
Horticulture[11]	19%	28%
Storage & Logistics	13%	11%
Food Ingredients	30%	53%
Group[11]	**16%**	**21%**
Long term Group target	*15%*	*15%*
Underlying EBITDA margin[12]		
Horticulture	17%	20%
Storage & Logistics	15%	15%
Food Ingredients	10%	13%
Group	**16%**	**18%**
Target	*13%*	*13%*

Financing

Average Net Debt[13] for the year was $54.8 million, $11.4 million above Average Net Debt during 2016 of $43.4 million. This higher debt figure reflects the purchase of Longview and also movements in working capital.

Hedging Strategy

As an exporter, we continue to have significant exposure to foreign exchange movements. This is most prevalent in Mr Apple, but our Food Ingredients and Storage & Logistics divisions are also affected.

In 2017, Mr Apple made approximately 57 per cent of its apple sales in US dollars, 29 per cent in Euros, 8 per cent in British pounds, and 1 per cent in Canadian dollars.[14] We continue to have a natural hedge covering some of our US dollar exposure as all international shipping is payable in US dollars. We take cover on the remaining expected net US dollar, Euro, British pound and Canadian dollar exposures.

We also take out interest rate swaps and forward rate agreements which provide some certainty on interest costs on Scales' long-term and short-term borrowings.

Scales has a Board approved Treasury Management Policy within which all foreign exchange, interest rate and related activities are conducted. This policy is reviewed biennially.

Under this policy we take foreign exchange cover for up to 48 months using a variety of foreign exchange instruments (including options and forward contracts). Scales maintains a blend of instruments. For the next 12 months, approximately 80 per cent of Mr Apple's expected net foreign exchange exposure is covered.

We also have interest rate swaps and forward rate agreements covering interest on our long-term and short-term borrowings.

Dividend

A final 2016 fully imputed cash dividend of 10.0 cents per share (a gross amount of 13.9 cents per share) was paid on 7 July 2017. Together with an interim dividend of 8.0 cents per share (a gross amount of 11.1 cents per share) that was paid on 18 January 2017, this brought the annual dividends for 2016 to a total of 18.0 cents per share (a gross amount of 25.0 cents per share).

A fully imputed interim 2017 cash dividend of 9.0 cents per share (a gross amount of 12.5 cents per share) was declared in December 2017 and paid on 19 January 2018. Our expectation is to declare a final fully imputed cash dividend in respect of 2017 in May 2018, for payment in July 2018. As always, any dividend is subject to Board approval. It is standard practice for the Directors to consider all aspects of the Group's performance and financial position prior to declaring any dividend.

[11] Due to the timing of the acquisition, Longview was excluded from the calculation of Horticulture and Group 2016 ROCE. It has been included in 2017.

[12] Excluding share of profit from joint venture.

[13] Average Net Debt is calculated as the average term debt balance plus the average net working capital facility balance (averages are of 30 June 2017 and 31 December 2017 balances).

[14] The balance was made in NZD.

Capital Expenditure

Operational capital expenditure in 2017 of $7.4 million was slightly higher than 2016, whilst $6.0 million was invested in growth projects in 2017, positioning us strategically for future earnings growth.

	2017 $'000	2016 $'000
Operational capital expenditure		
Horticulture	3,826	3,290
Storage & Logistics	3,330	3,355
Food Ingredients	211	370
Other	73	8
Total operational capital expenditure	**7,440**	**7,023**
Growth capital expenditure		
Horticulture	5,237	4,975
Storage & Logistics	802	3,705
Food Ingredients	-	-
Total growth capital expenditure	**6,039**	**8,680**
Total capital expenditure	**13,479**	**15,703**

Major investments during 2017 included:

- Redevelopment of orchards to premium varieties such as Dazzle®.
- Installation of an apple washer at the Longview packhouse.
- Upgraded vehicles and accommodation for seasonal workers.
- Racking upgrades at Polarcold's Whakatu coldstore for improved FMCG storage and racking at Scales Logistics.
- Finalisation of the warehouse management system upgrade at Polarcold.

Outlook

Market dynamics for Scales remain supportive and we are optimistic about the overall agribusiness environment. In the year ahead, we will strive to grow in our target strategic industries. As a result, based on current market conditions and other factors known to us at the present time, we are optimistic that our 2018 results will build upon 2017.

As ever, thanks go to all of our management and staff, fellow Directors, suppliers, customers and other stakeholders. Your support in our 106th year of trading is hugely appreciated and we look forward to our continued journey in 2018.

Tim Goodacre
Chairman

Andy Borland
Managing Director

19 March 2018


SWAZI

"Scales operates all its businesses like we are just starting out. We need to leave our businesses better for the next generation of managers and owners."

Andy Borland, Managing Director and CEO

SUSTAINABILITY REPORT

Moving forward sustainably.

Map data ©2018 Google

Our Sustainability Journey

Following our inaugural sustainability report last year, we have continued to make strides in monitoring and reporting our sustainability journey. We are continuing on our long-term objective of aligning ourselves with the internationally-recognised sustainability reporting standard Global Reporting Initiative (GRI) framework as recommended in the NZX's Corporate Governance Code.

This year, we validated our materiality index (undertaken last year) with all business units. Each CEO and key operational manager took part in interviews to review the continuing relevance of each area and it was agreed that all materiality areas remain relevant to Scales and will form the foundation of how we will move forward.

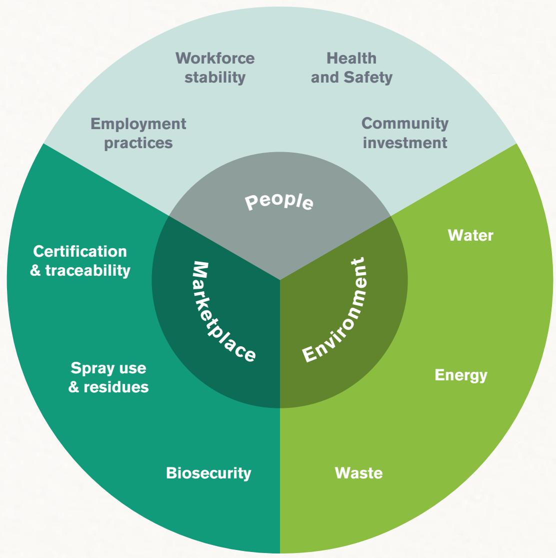
Within the categories of People, Environment and Marketplace are three areas of the business that have historically been of importance to Scales and are now becoming a focal point for future-proofing our business:

- Water (preservation and conservation).
- Energy (intensity savings and shared learning throughout the businesses).
- Being an Employer of Choice.

The entire Scales group is undertaking a review of its information technology, security and accounting systems to improve integrity, traceability and accountability throughout all businesses – the ultimate sustainability in identifying costs, drivers, and process improvements. We have also been delighted to appoint a Chief Information Officer, Group Sustainability and Health & Safety Manager and an Internal Auditor.

Whilst our sustainability journey continues to be in its infancy, many of the Scales businesses are the very essence of sustainability – taking a formerly discarded item and transforming it into a saleable and useable product (for example, in Liqueo and Meateor) and creating more from an existing footprint (as with increasing quality and yields at Mr Apple). The nimble nature of our diverse businesses leads us to be lean and dynamic in rapidly changing times and without our fantastic staff we would not be able to achieve any of this, nor innovate like we do. We will be including them at the forefront of our increased focus on the sustainability of Scales.

Scales' sustainability framework



Sustainability by Statistics

2017 has been about evaluating our current position, gathering data and analysing it with a view to developing the correct Key Performance Indicators (KPIs) for the future. So, what does the Scales Group look like right now?

700+ PERMANENT STAFF MEMBERS
increasing to almost 2,500 total staff at the height of the apple harvest season

~25% OVER 50 YEARS OF AGE[15]

~1,100 OVERSEAS WORKERS
at the peak of the harvest season[16]

800+ CUSTOMERS

~50 SITES

~40% FEMALE[17]

Going forward, it is our intent to extend, and capitalise on, this data as it will provide the base for our sustainability reporting requirements.

[15] *As at 31 December 2017, includes permanent and casual staff.*
[16] *Part of the Recognised Seasonal Employer (RSE) scheme.*
[17] *Permanent staff.*

Our People

Health and Safety

The Scales Team

We are fortunate to continue to have an amazing group of people working for us and without their input, passion and dedication Scales would not be where it is today. One of our long-term goals is to be recognised as an Employer of Choice, but first we must establish where we are at and where we want to be, whilst developing a pathway of how to get there.

The safety of our staff remains a key priority for all of us and innovations throughout the business have seen many improvements in these areas. Safety remains at the forefront of every discussion within all of our businesses and we continue to see a growth in our reporting culture with innovations being developed from staff throughout the business units.

During 2017:

- We had an increased focus on injury prevention and careful management.
- There were 4 notifiable injuries, thankfully all of a relatively minor nature.
- There was increased reporting of near misses and other incidents.
- We had 92 staff members with a formal Health and Safety Representative (HSR) qualification.
- 80 per cent of all staff members had completed formal security training on-line.
- Over 3,000 individual training courses were undertaken.
- We ensured that 100 per cent of the van fleet at Mr Apple is fitted with compliance technology to monitor and improve driver behaviour.
- 100 per cent of Mr Apple orchards became GRASP[18] (GlobalGap Risk Assessment on Social Practice) certified.

In addition, over the past 3 years, Mr Apple has seen 48 people succeed in a numeracy and literacy programme.

Health and Safety will always be a strong focus for us and 2018 will see a more structured governance approach, with a specific Board committee established, and a road map created for the short to medium term. A benchmark staff engagement survey will also commence in 2018.

[18] GRASP is a voluntary module developed to assess social practices on-orchard (and farms worldwide), addressing specific aspects of workers' health, safety and welfare.

Safety Innovations and Investments

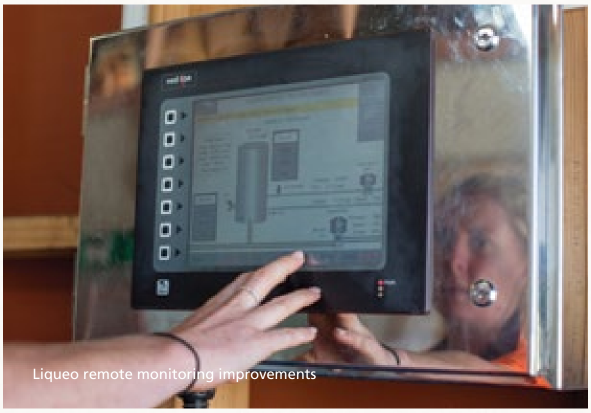
A small example of some of the safety innovations and investments that we have made during 2017 include:

- Racking - installations at Polarcold's Whakatu coldstore and Balance Cargo are improving safety and production flow.
- Liqueo remote monitoring improvements - Liqueo tanks are now remotely monitored for temperature and content level, thus removing the need for our teams to work at heights and speeding up the reaction time if issues occur.
- Manual handling initiatives - Mr Apple saw a 55 per cent drop in post-harvest Lost Time Injuries[19] (LTIs) between 2016 and 2017, and an extraordinary decrease of 80 per cent in the number of days being taken off, due to a change in our injury management process. These improved injury management techniques have been rolled out throughout the group, focussing on prevention first followed by effective management of any injuries. Prevention techniques have included regular stretches and also rotation of roles.
- Ladder innovations - in 2016 we spot welded ladders to help prevent slips or falls. In 2017 we started to introduce Velcro® strips, placed by the ladder user at a position that will remind them by touch that they are on the bottom step. We have seen a considerable drop in LTIs resulting from ladder incidents. Of the falls that have occurred an increased percentage required no treatment.
- Meateor stability improvements - Meateor has worked hard to better stabilise pallets of frozen goods giving them both additional operational and export space, and safety gains.

Going forward, an initial focus will be on continuing to improve engagement and to include our teams in all relevant aspects of our businesses from safety through to process innovations. It is our intention to streamline some of these processes through 2018.


Racking installations at Polarcold's Whakatu coldstore

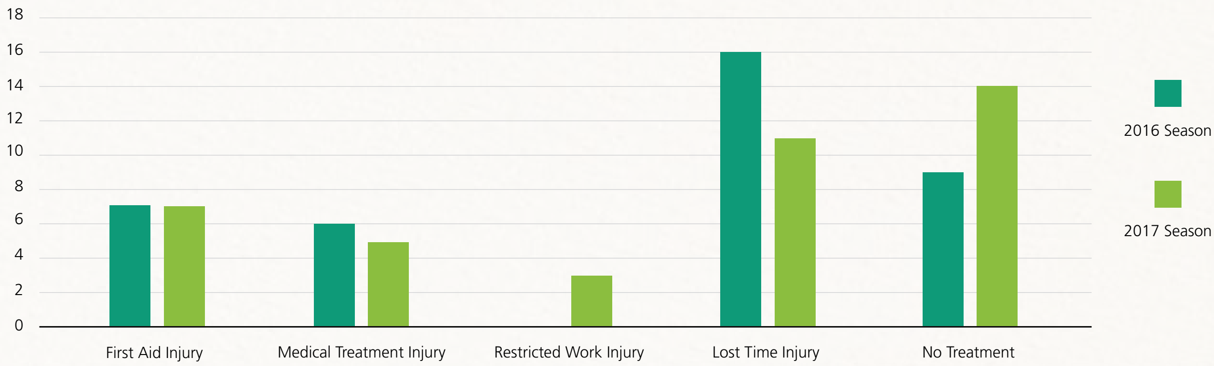

Ladder innovations


Liqueo remote monitoring improvements

Meateor stability improvements

[19] *LTI is an industry-wide standard term, defined by Worksafe New Zealand as "An event that causes an injury or illness of such a nature that, following basic first aid treatment, it prevents the sufferer from returning to their normal work."*

Severity of Ladder Incidents 2016 vs 2017



Training

Training and support of our staff remains a key focus and we have identified several star players throughout the group who are being mentored into future roles.

Jen Bunbury - We continue to participate in the Institute of Directors' Future Directors programme with Jen replacing Liz Muller as an attendee at Scales' Board Meetings. Jen is a Director in the Deutsche Craigs Investment Banking Team, with over 15 years Capital Markets experience in Auckland and London. The Future Directors programme is designed to help develop the next generation of Directors by providing experience at the boardroom table and it is a pleasure to provide these opportunities to aspiring Directors.

Kate Stokes - After leaving school, Kate joined Scales on a short-term contract, which quickly grew to a permanent role in the accounting team. With support from management, Kate is studying part-time towards her accounting degree and her aptitude and enthusiasm now sees her with responsibilities in accounts payable and receivable and looking after a large payroll system, all the while receiving invaluable mentoring from the senior Scales team. Beyond this Kate is keen to gain her Chartered Accountancy qualification and grow further within the Scales finance team.

Naomi Mannering - Naomi grew up on her family orchard (one of Mr Apple's biggest suppliers) and, after competing around the world in yachting and studying International Business and Marketing at university, she started at Fern Ridge in a senior role of export sales. With keen mentoring, Naomi is looking forward to gaining as much experience and knowledge as she can to allow her to enjoy a long career in the apple industry.

Job Share Solo Parent Programme - What started out at just one of Mr Apple's packhouses, the Job Share Solo Parent Programme is now being rolled out to another packhouse and is in its 4th year of operation. The programme, run in conjunction with the Ministry of Social Development, sees 10 staff share 5 positions on day shift. The staff take part in a pre-employment training programme covering a wide range of areas such as fitness, diet and hydration, budgeting, smoking/drug/alcohol awareness, wellness and setting up effective childcare. Coupled with ongoing support from an external provider, the team is monitored by our staffing team leaders and offers excellent employment opportunities for the future. The 2018 season sees 4 successful returnees working alongside 20 new recruits. Pictured above is **Robynne Edmonds**, one of our 2018 recruits.

Hawke's Bay Young Fruit Grower of the Year winners - Tom Dalziel, Jordan James and Anthony Taueki, all in key Mr Apple orchard positions, competed and secured 1st, 2nd and 3rd places at the Hawke's Bay Young Fruitgrower of the Year for 2017. Eight rigorous practical sessions were held to test the competitors, covering knowledge on pest and disease through to spray application and tractor safety and maintenance. The competition ended with a three-minute speech to an audience of 220 people. It is an excellent testament, not only to the competitors themselves, but also the teams and management around them. Mr Apple continues to enter candidates every year and supports them through their learning and preparation.

Marketplace

Certification and Auditing

Over the past few years there has been a move towards customers requiring more transparency and accountability of the supply chain. Accordingly, we have implemented a wide range of improvements and innovations in areas of health and safety and sustainability alongside streamlining processes and maximising our return on investment.

To summarise this investment in numbers:

- Over 52 third-party accreditations are required to keep our business operational.
- Over 400 third-party/independent audits are undertaken to achieve these accreditations.
- 100 per cent of directly owned Scales businesses operate under a business continuity plan as well as an overarching Scales crisis management plan.
- 795,200 sterile moths were released across the Central Hawke's Bay Mr Apple orchards in 2017. Working with Plant & Food Research in a 3-year partnership has seen a significant reduction in the fertile codling moth population (a major pest) with the eventual goal to be eradication.
- 26 of our sites are approved Ministry of Primary Industries facilities and we operate 14 transitional facility sites with strict biosecurity requirements.

Our plan for 2018 is to review and update our business continuity and crisis management plans, with a specific focus on ensuring that the right people know how to react at the right time, with a keen focus on maintaining the integrity of our supply chain.

Spray Use and Residue

Mr Apple residue tests nearly 300 apple samples each year to ensure that fruit safety is maintained for each of the different customer and market requirements. Extensive residue research, built up over the past eight years, means that we have sufficient confidence in our spray applications and resulting residues to enable us to safely eat the fruit straight from the tree at harvest time.

100 per cent of residues on fruit at Mr Apple are significantly below the EU Maximum Residue Limit (MRL).

Our Environment

Fundamentally Sustainable

Scales businesses are fundamentally sustainable at their core - from mulching apple tree prunings and giving nutrition back to the soil, to handling ingredients for soap manufacture from waste tallows, to creating pet food ingredients from meat by-products. In short, many of our businesses have their own sustainable circle that gives back.

Our focus on the environment, and the impact that we have on it, is about protecting what we have got and creating more benefit from the same or a lesser footprint and inputs. A few examples of current initiatives include:

- 100 per cent of fibre trays used at Mr Apple are recycled.
- 95 per cent of Mr Apple on-orchard plastics are recycled.
- Mr Apple generated a 10 per cent reduction in paper use due to the implementation of a paperless accounting system.
- 21,000 plastic dairy slip sheets are recycled per year at Balance Cargo.
- Polarcold's North Island sites (through their site by site energy monitoring) saw a 5.7 per cent energy intensity reduction, resulting in a refund of over $30,000 on energy costings.

We believe that we recycle a large percentage of waste products and reuse those items that we can. However, we will be undertaking a waste audit across our businesses in 2018 to identify areas where we can more effectively reduce, reuse and recycle. In conjunction with new software and lean manufacturing principles we will also look to streamline process and eliminate as much waste or repetition as we can.

The energy management system at Polarcold will be rolled out across the South Island sites in 2018 and other parts of the business will be tasked with reviewing their energy sources and usage and look at ways in which to improve going forward.

Water

Water is a significant area of focus within Horticulture, in particular the preservation of our access to, and the quality and quantity of, water we use. We operate within 83 water permits throughout our businesses (93 per cent within Mr Apple) therefore the Mr Apple management team takes a proactive role, working with local groups, to best fit allocation requirements to needs.

Through the use of precision agricultural techniques (cab tractors, computerised application systems and sophisticated sprayer set ups), water usage is kept to a minimum and all water sources are tested on a regular basis for potability to ensure safe use on our product.

Case study - Hawke's Bay Regional Council is working with landowners and communities living in the Tukituki River catchment in Central Hawke's Bay, to manage specific water quality issues. Tukituki River Catchment Plan Change 6 (Plan Change 6) seeks to address specific water allocation and water quality issues in the catchment. As a result, eight Mr Apple orchards have completed a nutrient management plan and independent calculations have verified that nitrogen leaching from our orchards is lower than one third of the allowable limit and that no risks were identified throughout the audit process.

Smarter Orchards

Mr Apple, together with its software partners, is embarking on a "Smarter Orchard" journey and has planned how the business can better monitor and measure its inputs and outputs in the medium term. The guiding principles of the Smarter Orchard project are to:

1. Improve marketable products.
2. Be an employer of choice.
3. Optimise quality and yield.

With exceptional improvements on yield over recent years (in part thanks to our proprietary software app "Billy"), Smarter Orchard will focus on areas that can help make better informed decisions, including in areas such as data mapping and hot-mapping with sensor technology (including the weather, trending, soil temperature and moisture levels and microclimates). It is our continued intent to drive increased performance in our orchards on our existing footprint with the same inputs or less.

The Board will continually review the issue of climate change and what it means for each of our businesses, both from the point of view of our inputs and what we can do to make a difference. We will assess how outcomes that impact our sites can be prepared for within our business continuity and crisis management plans.

Precision agricultural techniques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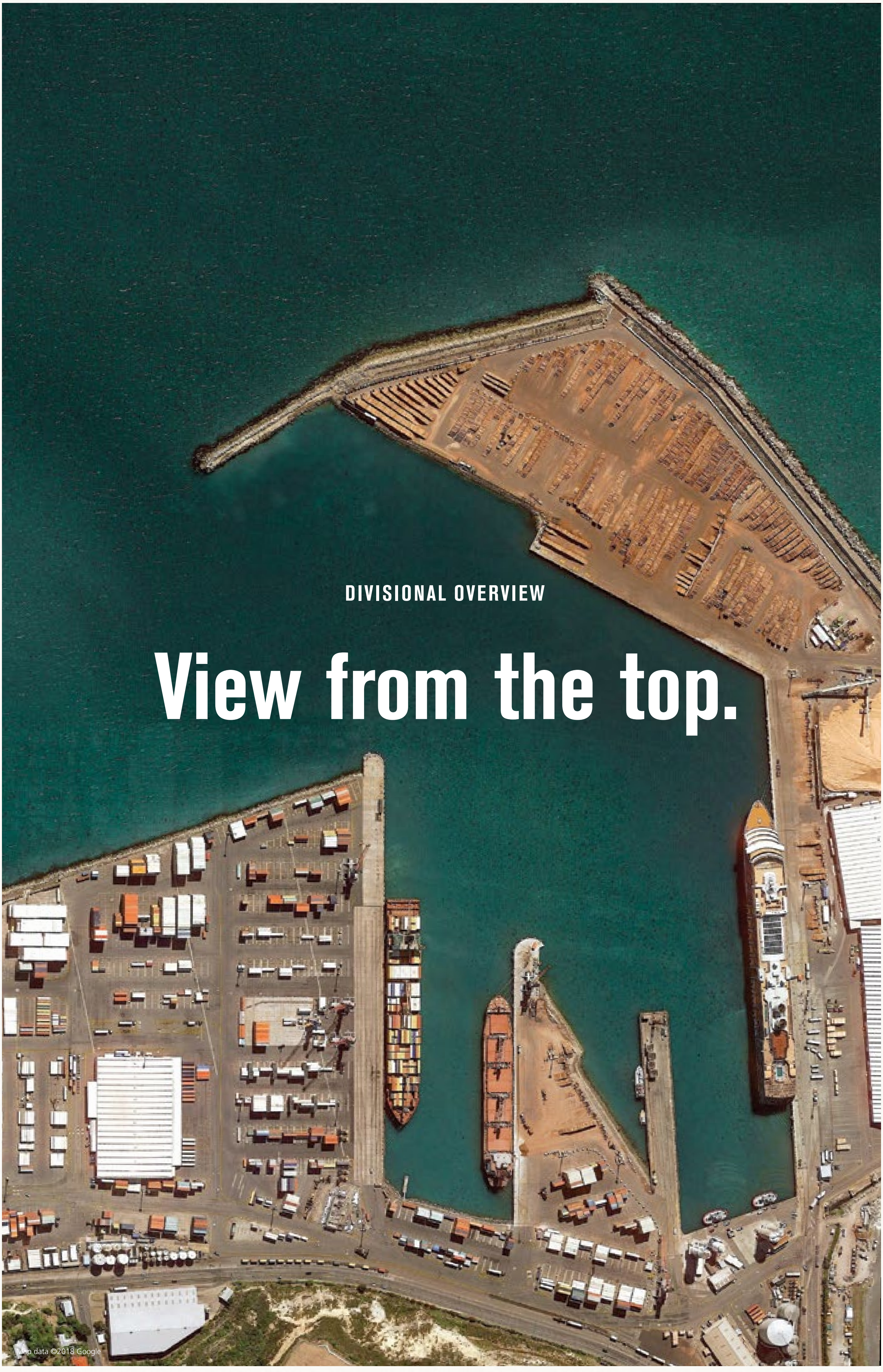
DIVISIONAL OVERVIEW

View from the top.



This section summarises divisional performance and key operating statistics of our three trading divisions. As in previous years, we focus on the underlying financial performance of our business divisions, which excludes certain one-off or non-cash IFRS year-end adjustments. Where such adjustments have been made we identify the quantum.

Horticulture

Overview

Our Horticulture division remains the largest division within the Scales group and comprises:

- Mr Apple (including Longview), New Zealand's largest fully vertically integrated apple business, based in Hawke's Bay, where we own or lease over 1,100ha of prime apple producing orchards.
- A 73 per cent stake in Fern Ridge, a fresh produce exporter in Hawke's Bay.

The division performed solidly in 2017:

- Revenue of $228.0 million, 1 per cent lower than last year.
- Underlying EBITDA of $38.9 million, 14 per cent lower than last year.
- Mr Apple picked over half a billion apples and sold 4.79 million TCEs.
- It operated 4 packhouses, 3 with high-speed optical grading machines, and 5 coolstores.

Orchard Redevelopment

Orchard redevelopment continues to be a major strategy for the division, with a significant investment being made. We scrutinise per hectare orchard returns and look to redevelop lower-performing orchards and varieties into higher value varieties. As historical redevelopment matures, volumes of premium varieties will continue to increase with the focus being on new and existing varieties for which Mr Apple has proprietary rights.

Apple Varieties and Brands

In addition to our existing range of traditional and premium varieties, we continue to focus on evolving our products with innovation to meet emerging needs.

- We successfully launched Dazzle® in December 2016 and it is gaining market recognition as a promising new variety. It has red, sweet characteristics and is targeted at Asia markets.
- Our Diva® branded apple is crisp, juicy and very sweet and delivers excellent returns through focussed marketing in the Asia and Middle East markets.
- Our Little Darlings® range are smaller apples, directed towards children in Asia.

We have further proprietary varieties in the pipeline, with marketing launches planned for 2018.

Markets

New Zealand has been ranked number 1 in the world as the most internationally competitive region to produce apples by the World Apple Review and New Zealand's global reputation for food quality positions it well to capture its share of Asia's fast growing apple market.

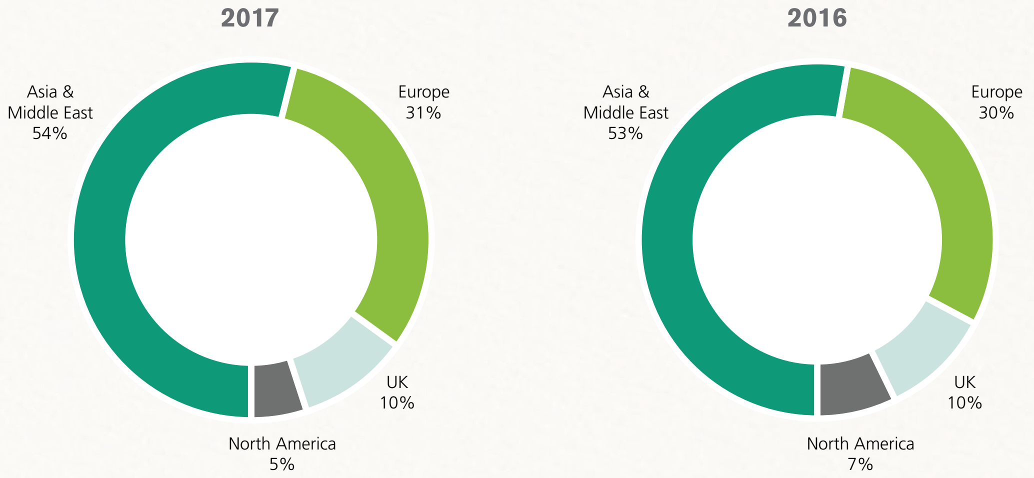
"Evolving apple growing from an art to a science."

Andrew van Workum, Mr Apple CEO

Markets (continued)

In 2017 we sold apples to more than 160 customers in over 40 countries, with sales to Asia and the Middle East accounting for 54 per cent of export sales.

Mr Apple - Sales by Region (TCEs)



With an increasing middle class and Westernisation of their diet driving considerable demand, Asia and the Middle East will continue to be key markets for the division. As a result, innovation and development will be focussed towards opportunities in those regions.

Continued development of our relationship with key strategic shareholder, China Resources Ng Fung, as well as participation in the PCNZ partnership provides improved access to the large Asia market. We believe that this is essential for our continuing successful trading in this market.

Asia – Developing a Market Leading Brand

Without a dominant apple brand in the Asia market, there is an opportunity for Mr Apple to take a leadership role. We believe we are uniquely positioned to fulfil this position by virtue of our size and our dedicated focus on apples.

To do so, we are engaging a range of marketing and branding strategies including:

- An emphasis on generating ‘pull-through’ demand with consumer focused branding.
- Understanding apple purchasing habits through customers’ eyes.
- Packaging innovation, specific to consumer needs and desires.
- Increasing market awareness through online advertising, live-streaming shows, in-store promotions and exhibitions.
- Extending our markets through, for example, e-commerce.

Financial Performance and Key Operating Statistics

Summary Performance

The table below shows the financial performance of our Horticulture division for 2017 and 2016:

Horticulture Financial Performance

	2017 $'000	2016 $'000
Revenue	227,970	230,077
Underlying Cost of Sales	(169,977)	(167,125)
Underlying Gross Margin	**57,992**	**62,952**
Underlying Gross Margin %	25%	27%
Other income, administration and operating expenses	(19,060)	(17,651)
Underlying Mr Apple EBITDA	**36,634**	**43,636**
Underlying Fern Ridge EBITDA	**2,299**	**2,114**
Underlying Longview EBITDA	**-**	**(411)**
Underlying Horticulture EBITDA	**38,933**	**45,339**
Depreciation and amortisation	(7,840)	(6,228)
Underlying Horticulture EBIT	**31,093**	**39,111**
IFRS impacts	(581)	(81)
Horticulture EBITDA	**38,352**	**45,258**
Horticulture EBIT	**30,512**	**39,030**
Capital employed	168,060	143,380
Return on capital employed[20]	19%	28%

NB. The table above includes 100 per cent of the EBITDA contribution from Fern Ridge. Approximately 27 per cent of Fern Ridge is owned by non-controlling shareholders. We record a non-controlling interest of $0.4 million (2016: $0.4 million) in our group results reflecting their share of tax paid profit from Fern Ridge.

Revenue for the Horticulture division was slightly below 2016 revenue as a result of slightly lower weighted average apple pricing. Our gross margin percentage at 25 per cent was also lower than the prior year, having been impacted by additional on-orchard expenses and additional labour costs.

Resulting Underlying EBITDA of $38.9 million was 14 per cent below 2016 but was a resilient performance in a challenging growing season.

Non-cash IFRS adjustments, before tax, in 2017 and 2016 relate to revaluation of foreign exchange contracts, fair value gains on unharvested agricultural produce and the revaluation of the Fern Ridge put option.

Note that gains and losses on foreign exchange contracts closed out during the year are a normal part of our business and are included in the calculation of Underlying EBITDA.

[20] Due to the timing of the acquisition, Longview was excluded from the calculation of 2016 Horticulture ROCE. It has been included in the 2017 calculation.

The following tables highlight various Key Operating Statistics that we monitor and report against.

Orchard Statistics

		2017	2016	2015	2014	2013
Orchard						
Total planted orchard (at time of harvest)*	Ha.	1,142	1,042	1,052	1,037	1,028
Fully mature equivalent planted orchard	Ha.	1,043	922	902	871	858
Apples picked (Mr Apple orchards)	TCE 000s	4,434	4,360	4,433	3,668	3,890
Apples packed (Mr Apple + external growers (Hawke's Bay))	TCE 000s	4,354	4,150	3,809	3,327	3,419
Exported volume						
Mr Apple	TCE 000s	3,545	3,546	3,155	2,752	2,833
External growers	TCE 000s	1,250	1,187	1,019	1,218	1,340
Total	**TCE 000s**	**4,794**	**4,733**	**4,174**	**3,970**	**4,173**
Mr Apple 'packout' %	%	80%	81%	71%	75%	73%
Total NZ production	TCE 000s	18,829	19,346	18,360	17,259	17,776
Mr Apple own grown volume share of NZ production	%	18.8%	18.3%	17.2%	15.9%	15.9%

**Planted orchard at the end of the year was 1,148 hectares.*

More than half a billion apples were, once again, picked from Mr Apple's planted apple orchards, equating to a gross production of 4.43 million TCEs (on average there were 116 apples in a TCE) from which 3.55 million TCEs were exported.

Production from our owned and leased orchards accounted for 18.8 per cent of the national crop, up from 18.3 per cent in 2016.

Volumes and Prices

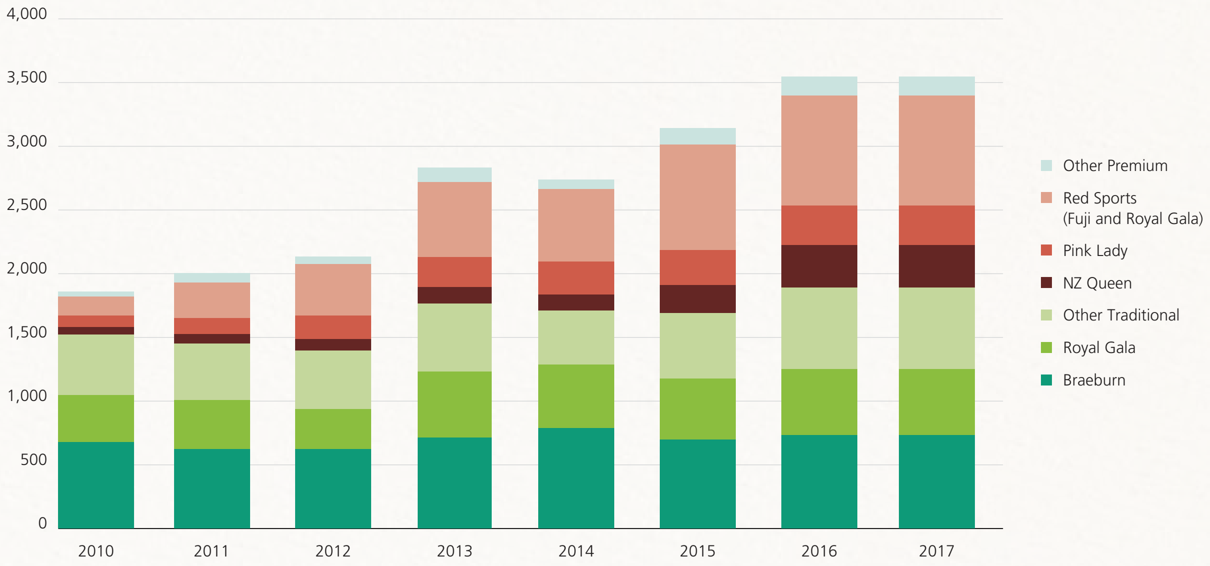
The table below shows volumes and prices (on a NZD FOB basis) for 2017 and 2016:

Varietal Performance - Mr Apple Volumes

Volumes by Variety (TCE 000s)	2017	2016
Premium Varieties		
NZ Queen	406	343
Pink Lady	253	301
Red Sports (Fuji and Royal Gala)	809	866
Other	148	147
Total	**1,616**	**1,657**
Growth	(2%)	14%
% premium	46%	47%
Traditional Varieties		
Braeburn	758	735
Royal Gala	567	516
Other	604	638
Total	**1,928**	**1,889**
Growth	2%	11%
Total Mr Apple owned and leased orchards	**3,545**	**3,546**
Growth	(0%)	12%
Prices by Variety (NZD / TCE (FOB))		
Weighted average price for premium varieties	36.3	37.4
Weighted average price for traditional varieties	28.6	29.3
Total weighted average price	32.1	33.1

Compared to the record 2016 prices that we achieved, our 2017 apple prices were affected by a softening of prices in some markets. However, our weighted average price for 2017 was only 3 per cent lower than 2016 and we firmly believe that our strategy is helping us to obtain a price premium for our apples.

Volumes by Variety (TCE 000s)



During 2017 we exported 1.61 million TCEs of premium fruit, a decrease of 2 per cent as a result of the inclement weather conditions. However, this was offset by a 2 per cent increase in the export of traditional varieties, from 1.89 million TCEs to 1.93 million TCEs, mainly in our Braeburn and Royal Gala varieties. We experienced strong growth in volumes of the Asia-targeted NZ Queen premium variety, with an increase of 18 per cent to over 400,000 TCEs.

Exchange Rates

The table below summarises our weighted average exchange rates for 2017, which were generally in line with 2016. This reflected our hedged position together with general rate movements. We continue to manage foreign exchange exposure, with all efforts made to lock in favourable rate movements and minimise the impact of any volatility in spot rates.

	2017	2016
NZD:USD	0.69	0.70
NZD:EUR	0.60	0.60
NZD:GBP	0.46	0.47
NZD:CAD	0.88	0.86

2018 Outlook

With a number of opportunities in the region, Asia and the Middle East will continue to be the key focus for the Horticulture division in 2018. We are positive in our outlook:

- Given a more settled growing season, gross production is expected to be consistent with 5-year average volumes and we are optimistic that packout rates will be slightly ahead of 2017.
- Marketing and branding efforts will continue throughout China and other Asian countries in order to ensure our products are relevant in the eyes of consumers and capitalise on opportunities there.
- However, foreign exchange spot rates may present a headwind for the business post 2018 should the current market conditions prevail.


COUNT
150
3 x 150A +
2 x 150B TRAY
+ 150B CAPPER
23

Storage & Logistics

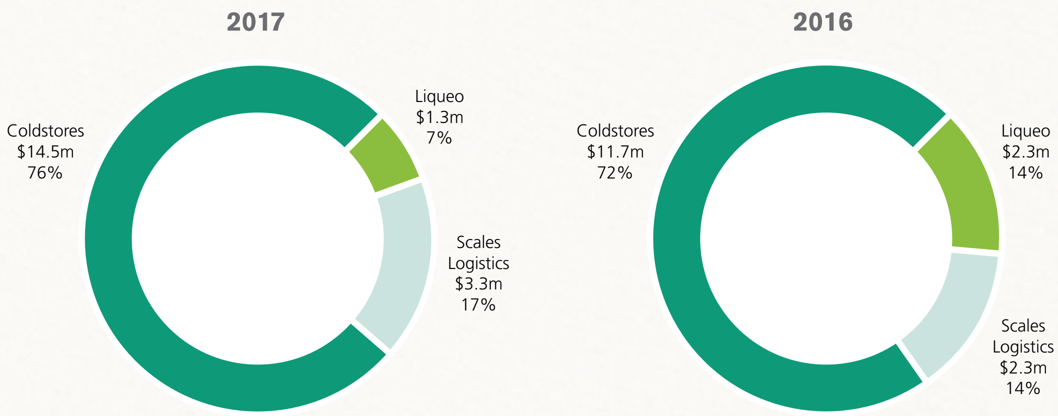
Overview

Our Storage & Logistics division comprises:

- Polarcold - specialists in temperature controlled storage and warehousing, with facilities in Auckland, Waikato, Hawke's Bay, Timaru, Christchurch and Dunedin.
- Scales Logistics (including OceanAir) – leaders in ocean freight services to exporters and importers of perishable products, with offices in Auckland, Christchurch, Tauranga, the Hawke's Bay, and Melbourne.
- Balance Cargo – providers of air freight services, including a purpose built chiller and warehousing facilities, based in Christchurch.
- Liqueo Bulk Storage – operator of bulk liquid storage terminals for the storage of tallow, edible and non-edible oils, liquid stock foods and liquid waste products, with operations at the ports of Timaru and Napier.

As shown in the chart below, the storage components of the division collectively make up 83 per cent of the divisional EBITDA:

Divisional Components of EBITDA



Divisional Developments

The Storage & Logistics division experienced excellent growth in 2017, taking advantage of both organic and acquisition opportunities:

- We acquired OceanAir on 1 August 2017.
- Coldstores reaped the benefit of industry conditions and storage times returning to normal trends.
- We increased our leased coldstore space in Christchurch by 5 per cent, securing space for anticipated demand.
- We merged our Polarcold and Whakatu businesses under the single "Polarcold" brand, with a new modernised logo being rolled out across the network.
- We had an excellent performance from Scales Logistics (which includes Balance Cargo) with strong increases in underlying activity from both internal and external customers, as well as the acquisition of new customers. Containers shipped were up 19 per cent and airfreight tonnes handled were a significant 88 per cent ahead of 2016.
- Liqueo was impacted by the combination of factors including the loss of a large customer, closure costs of a previously exited site and lower volumes.

Polarcold

Financial Performance

The table below outlines key operational metrics and the summarised financial performance for the Storage & Logistics division for 2017 and 2016:

Storage & Logistics

		2017	2016
Key Operational Metrics			
Polarcold			
Total available refrigerated coldstore space (at end of year)	m3 000s	775.1	737.6
Liqueo			
Installed capacity of all tanks	MT	20,308	20,308
Scales Logistics			
TEUs shipped	TEUs	29,481	24,713
Airfreight tonnes managed	MT	6,217	3,306
Financial Performance		**$'000**	**$'000**
Revenue		125,998	108,383
Cost of sales		(81,377)	(70,221)
Gross Margin		**44,621**	**38,162**
Gross Margin %		35%	35%
Administration, operating expenses and other gains and losses		(25,496)	(21,962)
Underlying EBITDA			
Coldstores		14,495	11,660
Liqueo		1,335	2,283
Scales Logistics		3,295	2,257
Underlying Storage & Logistics EBITDA		**19,125**	**16,200**
Depreciation and amortisation		(5,824)	(5,330)
Underlying Storage & Logistics EBIT		**13,301**	**10,870**
IFRS foreign exchange hedge revaluations		-	(18)
Storage & Logistics EBITDA		**19,125**	**16,182**
Storage & Logistics EBIT		**13,301**	**10,852**
Capital employed		103,396	98,105
Return on capital employed		13%	11%

Storage & Logistics delivered an excellent result in 2017 with overall revenues up 16 per cent to $126.0 million and EBITDA up 18 per cent to $19.1m.

We saw a strong EBITDA uplift of 24 per cent from coldstore activities, reflecting a return to more ordinary levels of trading. Scales Logistics acquired OceanAir in August 2017 and this, together with organic growth opportunities, resulted in a 46 per cent increase in EBITDA compared to 2016.

2018 Outlook

The outlook for the Storage & Logistics division is positive. Coldstores expects to consolidate returns from new and existing customers requiring additional storage. New racking to be installed in existing coldstores will improve the utilisable space and earnings potential of those sites whilst also improving safety and handling efficiency.

Scales Logistics anticipates further increases in activity from projected increased fruit and other volumes. And Liqueo is expected to benefit from an anticipated volume increase.

Food Ingredients

Overview

Our Food Ingredients division converts agricultural by-products into valuable food commodities. It comprises two businesses that complement Scales' other businesses:

- Meateor – a processor and marketer of pet food ingredients for the global pet food industry with processing plants in Whakatu and Dunedin.
- Profruit – a 50 per cent owned manufacturer of high quality apple, kiwifruit and pear juice concentrates, located in Hawke's Bay.

Divisional Developments

Meateor continued its steady growth in securing and selling petfood ingredient volumes with a record 27,663 MT of petfood ingredients sold in 2017, up 20 per cent on 2016. As in prior years, it has continued to seek alternative proteins for manufacture and it continues to explore a number of strategic initiatives to enhance relationships with suppliers and customers as well as build further scale within the division.

Profruit sales volumes remained relatively steady at 5.6 million litres of juice concentrate. This was a robust outcome given the difficult fruit growing conditions in the year. In addition, continued improvements being made in industry orcharding practices means there is an overall reduced amount of fruit available for processing.

Financial Performance

The table below outlines key operational metrics and the summarised financial performance for the Food Ingredients division for 2017 and 2016:

	2017	2016
Key Operational Metrics		
Meateor - Sales volumes (MT)	27,663	22,971
Profruit - Sales volumes (thousands of litres)	5,579	5,712
Financial Performance	**$'000**	**$'000**
Meateor revenue	68,855	58,038
Underlying Food Ingredients EBITDA	**8,041**	**9,182**
Depreciation and amortisation	(532)	(503)
Underlying Food Ingredients EBIT	**7,509**	**8,679**
IFRS foreign exchange hedge revaluations	125	(166)
Food Ingredients EBITDA	**8,166**	**9,016**
Food Ingredients EBIT	**7,634**	**8,513**
Capital employed	24,733	16,525
Return on capital employed	30%	53%

The increase in volumes processed delivered a 19 percent increase in divisional revenues to $68.9 million. Underlying EBITDA reduced by 12 per cent from 2016 levels reflecting increased margin pressures within the division.

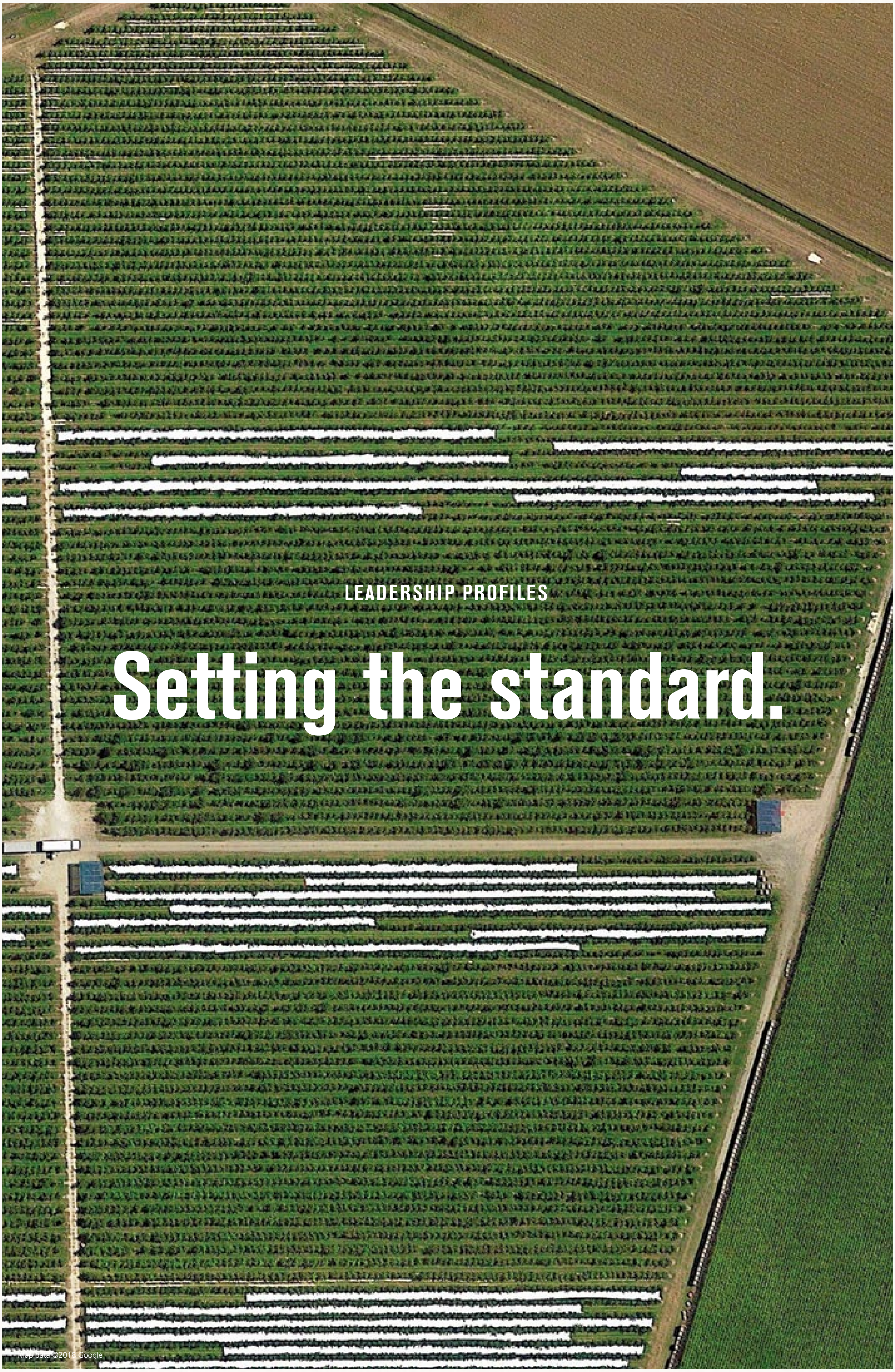
Profruit continued to deliver a robust result, with our share of earnings being $1.4 million.

2018 Outlook

We anticipate an increase in volumes in Food Ingredients in 2018, with potential changes in product mix and we continue to consider a number of exciting opportunities to grow and develop this division.

LEADERSHIP PROFILES

Setting the standard.



Board of Directors (as at 19 March 2018)

Tim Goodacre, Non-Executive Independent Chairman

Tim was elected to the Board in 2014, having been appointed Chairman of Scales' Horticulture division in 2012. He has been involved in agribusiness for nearly forty years and was CEO of Zespri International from 2003 to 2007. Tim is currently: Chairman of The Nutritious Kiwifruit Company Limited, which is a consortium of New Zealand kiwi fruit suppliers selling under a new single brand based around nutrition and health on the Australian market; Director of Prevar Limited, an Australian and New Zealand joint venture apple and pear industry company, supporting the development and commercialisation of new apple and pear varieties; Director of Nagambie Healthcare, a community hospital and aged care facility, based in regional Victoria, Australia; President of Nagambie Lakes Tourism and Commerce Incorporated; and Director of Featherston Resources Limited. Tim is a member of Scales' Nominations and Remuneration Committee.

Andrew (Andy) Borland, Executive 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 the 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 New Zealand Apples & Pears 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. Andy is a member of Scales' Finance and Treasury Committee and Scales' Health and Safety Committee.

Nick Harris, Non-Executive Independent Director

Nick was elected to the Board in 2014, having been appointed a Director of both Scales' Storage & Logistics division and Meateor in 2012. Nick was previously the Managing Director, and was one of the founding shareholders of Hellers Limited, New Zealand's largest bacon, ham and small goods company. Nick is a shareholder and Director of several private companies. He also chairs Enterprise North Canterbury Trust and is Deputy Chairman of the Canterbury Hockey Association. Nick is Chairman of Scales' Health and Safety Committee and is a member of Scales' Audit and Risk Management Committee.

Mark Hutton, Non-Executive Independent Director

Mark was elected to the Board in 2011. He is a founding partner of Direct Capital. Mark has a background in private equity, specialising in portfolio management with a focus on strategy, growth and capital funding. Mark is currently a Director of a number of Direct Capital entities and portfolio companies including George H Investments Limited. Mark is also: Director of dual listed (NZX and ASX) New Zealand King Salmon Investments Limited; and Director of investment company, Evergreen Partners Limited. Mark is Chairman of Scales' Nominations and Remuneration Committee, Scales Finance and Treasury Committee and is a member of Scales' Audit and Risk Management Committee.

Board of Directors (continued)

Alan Isaac, Non-Executive Independent Director

Alan was elected to the Board in 2014. Alan was the President of the International Cricket Council between 2012 and 2014 and is currently; Chairman of McGrathNicol and Partners NZ and the New Zealand Community Trust; a Director of New Zealand Vault Limited, Oceania Healthcare (NZ) Limited, Skellerup Holdings Limited and a number of private companies. Alan has an extensive background in the accounting and finance field and is a former National Chairman of KPMG. He was made a Companion of the New Zealand Order of Merit (CNZM) in 2013 for services to cricket and business. Alan is Chairman of Scales' Audit and Risk Management Committee.

Weiyong Wang, Non-Executive Director

Mr Wang was appointed to the Board in June 2016. He is a Director of China Resources Ng Fung Limited and CEO of its holding company, China Resources Enterprises, Limited (CRE). Mr Wang joined the China Resources National Corporation in 1988, and holds a Bachelor of Science degree and a Bachelor's degree in Management Science from the University of Science and Technology of China, as well as a Master's degree in Engineering from Tsinghua University. He has extensive experience in strategic planning and corporate management.

Carol Chen, Alternate Director for Weiyong Wang

Carol was appointed as an Alternate Director for Weiyong Wang on 2 November 2017. Carol is the Investment Director of the Corporate Development Department at CRE, and is responsible for Mergers & Acquisitions (M&A) initiation and execution in the Asia Pacific Region. Since joining CRE in 2009, Carol has participated in various key M&A transactions. Prior to that, Carol worked for China Resources Microelectronics Limited, a subsidiary of China Resources Holdings Limited that was formerly listed in Hong Kong. Carol holds a Bachelor's degree of Business Administration from the RMIT University, Australia.

Management Profiles

Andy Borland, Managing Director

Andy joined Scales in 2007 and became Managing Director in 2011. Andy's full biography is set out above.

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.

Karen Morrish, Group Health & Safety, Compliance and Sustainability Manager

Karen was appointed to this new Group role during 2017. Prior to that Karen was the Health & Safety and Compliance Manager for Mr Apple, where she has worked for 13 years.

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 Polarcold

Stephen has been with the Polarcold group of companies in various management roles for 24 years. Prior to that, Stephen worked for Dominion Breweries and had interests in orcharding in Hawke's Bay.

John Sainsbury, CEO Meateor

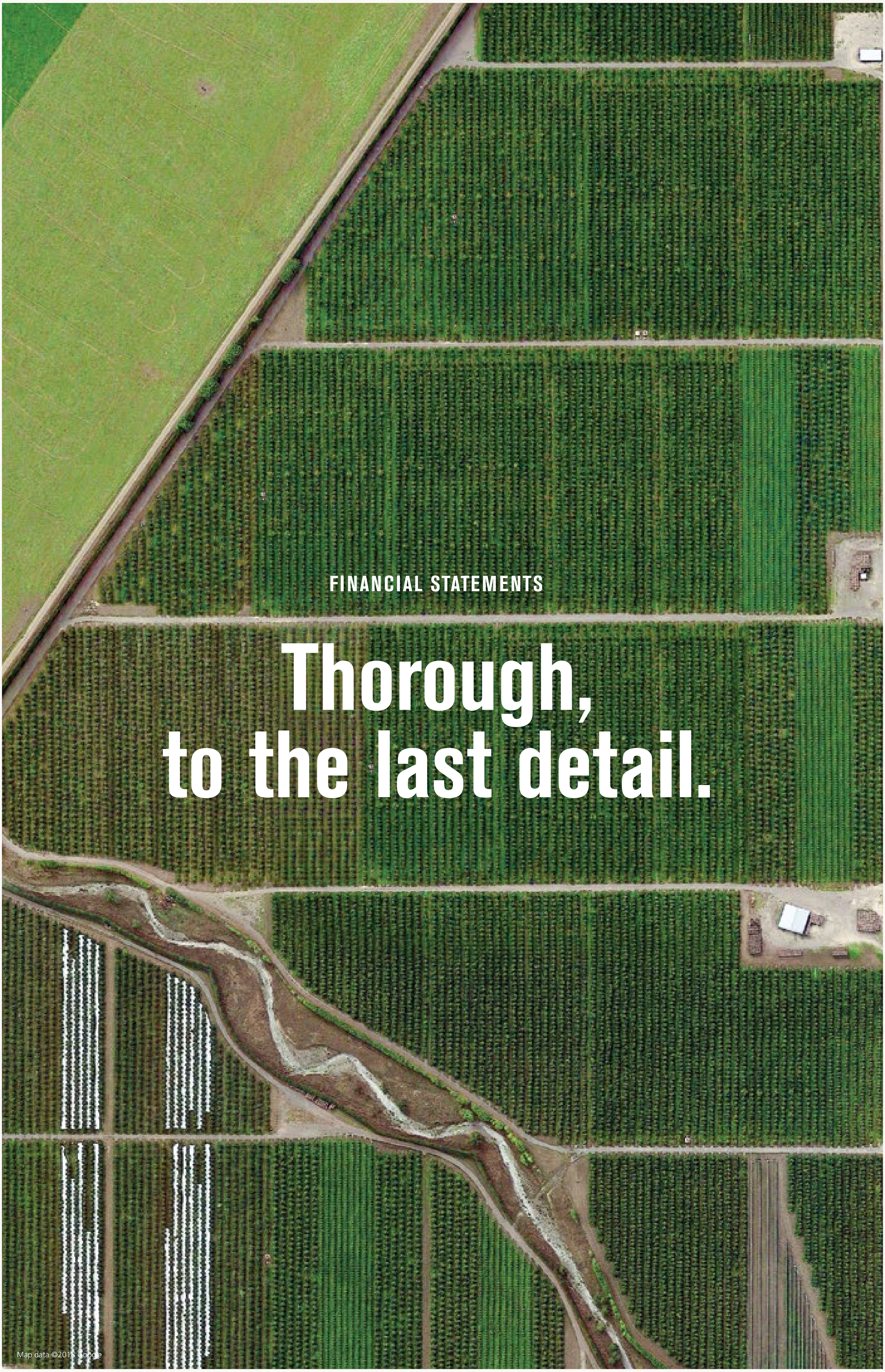
John has been with Meateor in various management roles for the last 17 years. Prior to that, John worked in senior management, marketing and operational roles in the United States. John was appointed CEO of Meateor Foods in March 2015.

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.



FINANCIAL STATEMENTS

Thorough, to the last detail.

Contents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

	NOTE	2017 $'000	2016 $'000
Revenue	B1	399,100	373,927
Cost of sales	B2	(287,102)	(257,038)
		111,998	**116,889**
Share of profit of entity accounted for using the equity method	C3	1,376	1,612
Other income	B3	233	275
Administration and operating expenses	B2	(51,871)	(50,197)
Other losses	B3	(665)	(1,258)
EBITDA		**61,071**	**67,321**
Amortisation		(588)	(661)
Depreciation	C1	(13,661)	(11,438)
EBIT		**46,822**	**55,222**
Finance revenue		175	167
Finance cost	B4	(3,039)	(2,533)
PROFIT BEFORE INCOME TAX EXPENSE		**43,958**	**52,856**
Income tax expense	B5	(12,187)	(14,678)
PROFIT FOR THE YEAR		**31,771**	**38,178**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
(Loss) gain on cash flow hedges		(6,377)	9,382
Income tax relating to cash flow hedges		1,786	(2,627)
		(4,591)	**6,755**
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings		4,200	26,945
Income tax relating to buildings		(588)	(3,041)
Revaluation of apple trees		-	11,839
Income tax relating to apple trees		-	(3,315)
		3,612	**32,428**
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(979)**	**39,183**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**30,792**	**77,361**
Profit for the year attributable to:			
Equity holders of the Company		31,330	37,772
Non-controlling Interests		441	406
		31,771	**38,178**
Total comprehensive income for the year attributable to:			
Equity holders of the Company		30,351	76,955
Non-controlling interests		441	406
		30,792	**77,361**
EARNINGS PER SHARE:			
Basic earnings per share (cents)	D5	22.6	27.4
Diluted earnings per share (cents)	D5	22.5	27.2

The notes to the financial statements on pages 53 to 77 form part of and should be read in conjunction with this statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	NOTE	Share Capital $'000	Revaluation Reserve $'000	Hedging Reserve $'000	Equity-settled Employee Benefits Reserve $'000	Retained Earnings $'000	Attributable to Owners of the Company $'000	Non-controlling Interests $'000	Total $'000
Balance at 1 January 2016		**90,755**	**25,289**	**2,210**	**233**	**39,498**	**157,985**	**-**	**157,985**
Profit for the year		-	-	-	-	37,772	37,772	406	38,178
Other comprehensive income for the year		-	32,428	6,755	-	-	39,183	-	39,183
Total comprehensive income for the year		-	32,428	6,755	-	37,772	76,955	406	77,361
Recognition of share-based payments	D2	-	-	-	270	-	270	-	270
Shares purchased	D2	(1,007)	-	-	-	-	(1,007)	-	(1,007)
Dividends paid	D3	-	-	-	-	(8,974)	(8,974)	-	(8,974)
Dividends declared	D3	-	-	-	-	(11,045)	(11,045)	-	(11,045)
Balance at 31 December 2016		**89,748**	**57,717**	**8,965**	**503**	**57,251**	**214,184**	**406**	**214,590**
Profit for the year		-	-	-	-	31,330	31,330	441	31,771
Other comprehensive income (loss) for the year		-	3,612	(4,591)	-	-	(979)	-	(979)
Total comprehensive income (loss) for the year		-	3,612	(4,591)	-	31,330	30,351	441	30,792
Recognition of share-based payments	D2	-	-	-	389	-	389	-	389
Shares sold		179	-	-	-	-	179	-	179
Shares issued	F2	970	-	-	-	-	970	-	970
Shares fully vested	D2	2,853	-	-	(462)	(591)	1,800	-	1,800
Dividends paid	D3	-	-	-	-	(13,811)	(13,811)	(406)	(14,217)
Dividends declared	D3	-	-	-	-	(12,586)	(12,586)	-	(12,586)
Balance at 31 December 2017		**93,750**	**61,329**	**4,374**	**430**	**61,593**	**221,476**	**441**	**221,917**

The notes to the financial statements on pages 53 to 77 form part of and should be read in conjunction with this statement.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

	NOTE	2017 $'000	2016 $'000
EQUITY			
Share capital	D1	93,750	89,748
Revaluation reserve	D2	61,329	57,717
Hedging reserve	D2	4,374	8,965
Equity-settled employee benefits reserve	D2	430	503
Retained earnings	D2	61,593	57,251
Equity attributable to Scales Corporation Limited Shareholders		221,476	214,184
Equity attributable to Non-controlling Interests		441	406
TOTAL EQUITY		**221,917**	**214,590**
Represented By:			
CURRENT ASSETS			
Cash and bank balances		5,690	6,355
Trade and other receivables	E1	23,437	17,529
Other financial assets	E2	6,415	8,464
Unharvested agricultural produce	C2	20,189	18,433
Inventories	C5	22,212	16,365
Prepayments		3,423	3,655
TOTAL CURRENT ASSETS		**81,366**	**70,801**
NON-CURRENT ASSETS			
Property, plant and equipment	C1	228,881	226,652
Investments accounted for using the equity method	C3	4,507	4,131
Goodwill	C4	18,177	16,222
Other financial assets	E2	7,764	11,561
Computer software		1,811	745
TOTAL NON-CURRENT ASSETS		**261,140**	**259,311**
TOTAL ASSETS		**342,506**	**330,112**
CURRENT LIABILITIES			
Trade and other payables	E3	22,215	22,047
Dividend declared	D3	12,586	11,045
Borrowings	E4	6,500	11,000
Current tax liabilities	B5	2,739	5,009
Other financial liabilities	E5	4,331	3,357
TOTAL CURRENT LIABILITIES		**48,371**	**52,458**
NON-CURRENT LIABILITIES			
Borrowings	E4	40,000	30,000
Deferred tax liabilities	B5	28,175	28,187
Other financial liabilities	E5	4,043	4,877
TOTAL NON-CURRENT LIABILITIES		**72,218**	**63,064**
TOTAL LIABILITIES		**120,589**	**115,522**
NET ASSETS		**221,917**	**214,590**

The notes to the financial statements on pages 53 to 77 form part of and should be read in conjunction with this statement.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from customers	393,145	373,223
Dividends received	1,018	525
Interest received	175	167
	394,338	**373,915**
Cash was disbursed to:		
Payments to suppliers and employees	(345,660)	(315,413)
Interest paid	(3,039)	(2,533)
Income tax paid	(13,271)	(14,627)
	(361,970)	**(332,573)**
NET CASH GENERATED BY OPERATING ACTIVITIES	**32,368**	**41,342**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Advances repaid	866	1,100
Sale of property, plant and equipment and computer software	147	216
	1,013	**1,316**
Cash was applied to:		
Net cash outflow on acquisition of businesses (Note F2)	(978)	(16,414)
Purchase of computer software	(1,654)	(445)
Purchase of shares in unlisted companies	(5)	(53)
Purchase of property, plant and equipment	(11,826)	(19,715)
	(14,463)	**(36,627)**
NET CASH USED IN INVESTING ACTIVITIES	**(13,450)**	**(35,311)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Proceeds from term facility borrowings	10,000	-
Proceeds from seasonal facility borrowings	52,500	65,000
Shares sold	179	-
	62,679	**65,000**
Cash was applied to:		
Repayments of seasonal facility borrowings	(57,000)	(54,000)
Dividends paid	(24,856)	(23,501)
Dividends paid to non-controlling interests	(406)	-
Shares purchased	-	(1,007)
	(82,262)	**(78,508)**
NET CASH USED IN FINANCING ACTIVITIES	**(19,583)**	**(13,508)**
NET DECREASE IN NET CASH	**(665)**	**(7,477)**
Cash and cash equivalents at the beginning of the year	6,355	13,832
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**5,690**	**6,355**
Represented by:		
Cash and bank balances	5,690	6,355
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**5,690**	**6,355**

The notes to the financial statements on pages 53 to 77 form part of and should be read in conjunction with this statement.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
for the year ended 31 December 2017

	2017 $'000	2016 $'000
NET CASH GENERATED BY OPERATING ACTIVITIES		
Reconciliation of profit for the year to net cash generated by operating activities:		
Profit for the year	31,771	38,178
Non-cash items:		
Amortisation	588	661
Hedge ineffectiveness on cash flow hedges	(214)	1,258
Deferred tax	1,186	36
Depreciation	13,661	11,438
Share of equity accounted results	(1,376)	(1,612)
Share-based payments	523	270
Change in gross liability on Fern Ridge Produce Limited put option	628	-
Items classified as investing and financing activities:		
Working capital amounts included in acquisition of businesses	(54)	(1,162)
Dividends received from equity accounted company	1,000	500
Gain (loss) on disposal of property, plant and equipment	36	(50)
Changes in net assets and liabilities:		
Trade and other receivables	(5,908)	(2,848)
Unharvested agricultural produce	(1,756)	(2,940)
Inventories	(5,847)	(2,051)
Prepayments	232	(689)
Trade and other payables	168	(229)
Current tax	(2,270)	582
NET CASH GENERATED BY OPERATING ACTIVITIES	**32,368**	**41,342**

Statement of Cash Flows

For the purpose of the statement of cash flows, cash and cash equivalents include cash and bank balances and investments in money market instruments.

The following terms are used in the statement of cash flows:

Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Group.

For and on behalf of the Board of Directors who authorised the issue of the financial statements on 27 February 2018.

Tim Goodacre, Chairman

Andy Borland, Managing Director

ABOUT THIS REPORT

IN THIS SECTION

The notes to the financial statements include information which is considered relevant and material to assist the reader in understanding the financial performance and financial position of the Scales Corporation Limited Group (Scales). Information is considered relevant and material if:

- the amount is significant because of its size and nature;
- it is important for understanding the results of Scales;
- it helps to explain changes in Scales' business; or
- it relates to an aspect of Scales' operations that is important to future performance.

Scales Corporation Limited (the "Company") is a for-profit entity domiciled and registered under the Companies Act 1993 in New Zealand. It is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. The Group consists of Scales Corporation Limited, its subsidiaries and joint venture. The principal activities of the Group are to provide logistics services, grow apples, export products, provide insurance services to companies within the Group and operate storage and processing facilities.

The financial statements have been prepared:

- in accordance with Generally Accepted Accounting Practice (GAAP), International Financial Reporting Standards (IFRS), the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for a Tier 1 for-profit entity;
- in accordance with the requirements of the Financial Markets Conduct Act 2013;
- in accordance with accounting policies that are consistent with those applied in the previous year;
- on the basis of historical cost, except for certain assets and financial instruments that are measured at fair values; and
- in New Zealand dollars with all values rounded to the nearest thousand dollars.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable. The levels are described as:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Key Judgements and Estimates

In the process of applying the Group's accounting policies and the application of financial reporting standards, Scales has made a number of judgements and estimates. The estimates and underlying assumptions are based on historical experience and various other factors that are considered to be appropriate under the circumstances. Actual results may differ from these estimates.

Judgements and estimates which are considered material to understanding the performance of Scales are explained in the following notes:

- Apple trees in note C1;
- Land and buildings in note C1; and
- Unharvested agricultural produce in note C2.

Basis of Consolidation

The Group financial statements incorporate the financial statements of the Company and its subsidiaries (being entities controlled by Scales Corporation Limited), and the equity accounted result, assets and liabilities of the joint venture.

The financial statements of members of the Group, are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the Group financial statements, all material intra-group transactions, balances, income, expenses and cash flows have been eliminated. Subsidiaries are consolidated from the date on which control is obtained to the date on which control is lost.

Other Accounting Policies

Other accounting policies that are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

Adoption of New and Revised Standards and Interpretations - Standards and Interpretations in Issue not yet Effective

NZ IFRS 9 (2014) Financial Instruments

NZ IFRS 9 (2014) *Financial Instruments* establishes the principles for hedge accounting and impairment of financial assets. The directors do not anticipate that application of NZ IFRS 9 (2014) will have a material impact on the financial performance or financial position of the Group when it becomes effective on 1 January 2018.

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 *Revenue from Contracts with Customers* establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. NZ IFRS 15 will supersede the current revenue recognition guidance including NZ IAS 18 *Revenue* and the related interpretations when it becomes effective on 1 January 2018.

The core principle of NZ IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under NZ IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in NZ IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by NZ IFRS 15.

Based on preliminary analysis, the directors do not anticipate that the implementation of NZ IFRS 15 will have a significant impact on the financial performance of the Group for the full year reporting period.

NZ IFRS 16 Leases

NZ IFRS 16 *Leases* introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. NZ IFRS 16 will supersede the current lease guidance including NZ IAS 17 *Leases* and the related interpretations when it becomes effective on 1 January 2018.

NZ IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The distinction between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, among others. Furthermore, the classification of cash flows will also be affected as operating lease payments under NZ IAS 17 are presented as operating cash flows; whereas under the NZ IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by NZ IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of $128 million. NZ IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note G2. A preliminary assessment indicates that these arrangements will meet the definition of a lease under NZ IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of NZ IFRS 16. The new requirement to recognise a right-of use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete their review.

Other

The Group has reviewed all other Standards, Interpretations and Amendments to existing Standards in issue not yet effective and, except as noted above, does not expect these Standards to have a material effect on the financial statements of the Group.

A. SEGMENT INFORMATION

IN THIS SECTION

This section explains the financial performance of the operating segments of Scales, providing additional information about individual segments, including:

- total segment revenue and revenue from external customers;
- segment profit before income tax; and
- total segment assets and liabilities.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, being the Managing Director. The Managing Director monitors the operating performance of each segment for the purpose of making decisions on resource allocation and strategic direction.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

No single external customer's revenue accounts for 10% or more of the Group's revenue.

All non-current assets are located in New Zealand.

The Group comprises the following operating segments:

Food Ingredients: processing and marketing of food ingredients such as pet food ingredients and juice concentrate. Meateor Foods Limited, Meateor Foods Australia Pty Limited and Profruit (2006) Limited.

Horticulture: orchards, fruit packing and marketing. Mr Apple New Zealand Limited, New Zealand Apple Limited, Fern Ridge Produce Limited, Longview Group Holdings Limited, Longview New Zealand Limited and Longview Packhouse Limited.

Storage & Logistics: cool, cold and bulk liquid storage and logistics services. Liqueo Bulk Storage Limited, Polarcold Stores Limited, Scales Logistics Limited, OceanAir Freight Pty Limited and Whakatu Coldstores Limited.

Other: Scales Corporation Limited, Geo. H. Scales Limited, Scales Employees Limited, Scales Holdings Limited and Selacs Insurance Limited.

	Food Ingredients $'000	Horticulture $'000	Storage & Logistics $'000	Other $'000	Eliminations $'000	Total $'000
2017						
Total segment revenue	68,855	227,970	126,851	3,779	(28,355)	399,100
Inter-segment revenue	-	-	(25,224)	(3,131)	28,355	-
Revenue from external customers	68,855	227,970	101,627	648	-	399,100
Loss on sale of non-current assets	-	(5)	(31)	-	-	(36)
Share of profit of entity accounted for using equity method	1,376	-	-	-	-	1,376
EBITDA	8,166	38,352	19,125	(4,572)	-	61,071
Amortisation expense	(3)	(247)	(312)	(26)	-	(588)
Depreciation expense	(528)	(7,593)	(5,512)	(28)	-	(13,661)
Finance revenue	1	94	20	60	-	175
Finance costs	-	(22)	-	(3,017)	-	(3,039)
Segment profit (loss) before income tax	7,636	30,584	13,321	(7,583)	-	43,958

SEGMENT REPORTING (continued)

	Food Ingredients $'000	Horticulture $'000	Storage & Logistics $'000	Other $'000	Eliminations $'000	Total $'000
Segment assets	35,743	182,362	120,203	4,198	-	342,506
Segment liabilities	7,906	38,229	23,155	51,299	-	120,589
Segment carrying value of investment accounted for using the equity method	4,507	-	-	-	-	4,507
Segment acquisition of property, plant and equipment and computer software	211	9,063	4,129	73	-	13,476
Property, plant and equipment and computer software included in business acquisitions (note F2)	-	-	47	-	-	47
2016						
Total segment revenue	58,038	230,077	108,383	3,525	(26,096)	373,927
Inter-segment revenue	-	(212)	(23,131)	(2,753)	26,096	-
Revenue from external customers	58,038	229,865	85,252	772	-	373,927
Gain on sale of non-current assets	1	70	(20)	(1)	-	50
Share of profit of entity accounted for using the equity method	1,612	-	-	-	-	1,612
EBITDA	9,016	45,258	16,182	(3,135)	-	67,321
Amortisation expense	(2)	(278)	(359)	(22)	-	(661)
Depreciation expense	(501)	(5,950)	(4,971)	(16)	-	(11,438)
Finance revenue	1	108	15	43	-	167
Finance costs	-	(13)	-	(2,520)	-	(2,533)
Segment profit (loss) before income tax	8,514	39,125	10,867	(5,650)	-	52,856
Segment assets	27,327	185,423	109,971	7,391	-	330,112
Segment liabilities	6,325	44,781	20,777	43,639	-	115,522
Segment carrying value of investment accounted for using the equity method	4,131	-	-	-	-	4,131
Segment acquisition of property, plant and equipment and computer software	370	12,722	7,060	8	-	20,160
Property, plant and equipment and computer software included in business acquisitions	-	11,722	-	-	-	11,722

	2017 $'000	2016 $'000
The total revenue from external customers in New Zealand and other countries are:		
New Zealand	127,919	107,111
Asia	106,925	112,712
Europe	76,603	76,530
North America	85,487	75,210
Other	2,166	2,364
	399,100	**373,927**

B. FINANCIAL PERFORMANCE

IN THIS SECTION

This section explains the financial performance of Scales, providing additional information about individual items in the statement of comprehensive income, including:

- accounting policies, judgements and estimates that are relevant for understanding items recognised in the statement of comprehensive income; and
- analysis of Scales' performance for the year by reference to key areas including revenue, expenses and taxation.

B1. REVENUE

	2017 $'000	2016 $'000
Revenue from the sale of goods	283,286	269,062
Revenue from the rendering of services	110,196	92,507
Fees and commission	476	681
Net foreign exchange gain	1,002	7,925
Net hail insurance proceeds	119	-
Rental revenue	4,021	3,752
	399,100	**373,927**

Sale of Goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the amount of revenue and costs incurred can be measured reliably, management have effectively ceased involvement or control over the goods sold and it is probable that the economic benefits associated with the transaction will flow to the Group.

Rendering of Services

Revenue from services is recognised on the basis of the value of services performed.

Fees and Commission

Fees and commission are recognised as revenue when the Group's right to receive payment becomes unconditional.

Net Hail Insurance Proceeds

Net hail insurance proceeds are recognised as revenue when the Group's right to receive payment becomes unconditional.

Rental Revenue

Rental revenue is recognised on a straight-line basis over the term of the relevant lease.

B2. COST OF SALES, ADMINISTRATION AND OPERATING EXPENSES

Auditor's remuneration:		
Audit of the financial statements		
Audit of the annual financial statements	139	141
Review of interim financial statements	42	40
Other services:		
Audit of solvency certificate for Selacs Insurance Limited	6	6
Acquisition due diligence services	-	89
Risk management review	-	17
Tax compliance services	-	4
Tax services re employee share scheme	-	6
Bad debts Incurred (recovered)	48	(390)
Change in fair value adjustment to unharvested agricultural produce	40	(993)

B2. COST OF SALES, ADMINISTRATION AND OPERATING EXPENSES (continued)

	2017 $'000	2016 $'000
Change in inventories	(5,847)	(2,051)
Direct expenses	38,022	35,299
Directors' fees	466	434
Donations	28	14
Electricity	8,581	8,427
Employee benefits expense:		
Post employment benefits - defined contribution plans	1,566	1,235
Salaries, wages and related benefits	72,986	68,777
Other employee benefits	748	314
Grower payments	55,620	58,972
Insurance	3,605	3,369
Management fees	119	108
Materials and consumables	60,133	44,238
Ocean and air freight	61,721	50,911
Operating lease expenses	18,415	14,998
Packaging	15,628	15,913
Repairs and maintenance	6,907	7,357
	338,973	**307,235**
Disclosed as:		
Cost of sales	287,102	257,038
Administration and operating expenses	51,871	50,197
	338,973	**307,235**

Employee Benefits

An accrual is made for benefits due to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Accruals are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Contributions to defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The costs relating to shares issued in accordance with the Senior Executive Share Scheme are explained in note D2.

Leased Assets

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are recognised as an expense on a straight-line basis over the lease term.

B3. OTHER INCOME AND LOSSES

Dividends	18	25
(Loss) gain on disposal of property, plant and equipment	(36)	50
Hedge ineffectiveness on cash flow hedges	214	(1,258)
Remeasurement of gross liability to non-controlling interest	(629)	-
Insurance proceeds	1	200
	(432)	**(983)**
Disclosed as:		
Other income	233	275
Other expenses	(665)	(1,258)
	(432)	**(983)**

B4. FINANCE COST

	2017 $'000	2016 $'000
Interest on loans	2,729	2,346
Other interest	180	41
Bank facility fees	130	146
	3,039	**2,533**

Finance costs consist of interest and other costs incurred in connection with the borrowing of funds. Interest expense is accrued on a time basis using the effective interest method.

B5. TAXATION

Income Tax Recognised in Profit or Loss

Income tax expense comprises:		
Current tax expense	11,504	14,648
Adjustments recognised in the current year in relation to the current tax of prior years	(503)	(6)
Deferred tax expense relating to the origination and reversal of temporary differences	1,186	36
Total income tax expense recognised in profit or loss	**12,187**	**14,678**

The prima facie income tax expense on pre tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit from continuing operations	**43,958**	**52,856**
Income tax expense calculated at 28%	12,308	14,799
Non-assessable income	(390)	(448)
Non-deductible expenses	443	321
Over provision of income tax in previous year - current tax	(503)	(6)
Under provision of income tax in previous year - deferred tax	329	12
	12,187	**14,678**

The tax rate used in the above reconciliation is the corporate tax rate of 28% payable by New Zealand companies under New Zealand tax law.

Current Tax Liability		
Balance at beginning of the year	5,009	4,427
Arising on acquisition of businesses	-	567
Current taxation expense - continuing operations	11,001	14,642
Taxation paid	(13,271)	(14,627)
Balance at end of the year	**2,739**	**5,009**

B5. TAXATION (continued)

	Opening balance	Charged to profit or loss	Charged to other comprehensive income	Acquisition of Businesses	Closing balance
	$'000	$'000	$'000	$'000	$'000
Deferred Tax Liability					
Taxable and deductible temporary differences arise from the following:					
31 December 2017					
Deferred tax liabilities (assets):					
Trade and other receivables	(5)	-	-	-	(5)
Unharvested agricultural produce	4,883	769	-	-	5,652
Property, plant and equipment and computer software	20,334	574	588	-	21,496
Trade and other payables	(512)	(157)	-	-	(669)
Other financial assets and liabilities	3,487	-	(1,786)	-	1,701
Net deferred tax liability	**28,187**	**1,186**	**(1,198)**	**-**	**28,175**
31 December 2016					
Deferred tax liabilities (assets):					
Trade and other receivables	(81)	76	-	-	(5)
Unharvested agricultural produce	4,338	440	-	105	4,883
Property, plant and equipment and computer software	13,345	(509)	6,356	1,142	20,334
Trade and other payables	(529)	29	-	(12)	(512)
Other financial assets and liabilities	860	-	2,627	-	3,487
Net deferred tax liability	**17,933**	**36**	**8,983**	**1,235**	**28,187**

Current tax is the taxation expected to be paid to Taxation Authorities in respect of the current year. Deferred taxation is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Current and deferred tax is calculated on the basis of the laws enacted or substantively enacted at balance date.

Income Tax

Current and deferred tax are recognised in profit or loss, except when the tax relates to items charged or credited to other comprehensive income, in which case the tax is also recognised in other comprehensive income.

B6. FOREIGN CURRENCY TRANSACTIONS

In preparing the financial statements of the individual entities, the transactions in currencies other than New Zealand dollars are recorded at the rates of exchange prevailing at the dates of the transaction. At the end of each reporting period financial assets and liabilities denominated in foreign currencies are retranslated into New Zealand dollars at the rates prevailing at the end of the reporting period.

Exchange differences are recognised in profit or loss in the period in which they arise.

C. KEY ASSETS

IN THIS SECTION

This section shows the key assets Scales uses to generate operating revenues. There is information about:

- property, plant and equipment;
- unharvested agricultural produce;
- investments accounted for using the equity method;
- goodwill; and
- inventories.

C1. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings at fair value $'000	Apple Trees at fair value $'000	Plant and Equipment at cost $'000	Office Equipment & Motor Vehicles at cost $'000	Capital Work in Progress at cost $'000	Total $'000
Gross carrying amount						
Balance at 1 January 2016	**104,532**	**18,510**	**100,755**	**16,889**	**4,152**	**244,838**
Additions	6,904	2,909	6,086	3,056	761	19,716
Acquisition of businesses	8,866	200	2,563	93	-	11,722
Disposals	-	-	(543)	(756)	-	(1,299)
Revaluation	20,368	9,520	-	-	-	29,888
Balance at 31 December 2016	**140,670**	**31,139**	**108,861**	**19,282**	**4,913**	**304,865**
Additions	252	2,209	7,599	2,505	(739)	11,826
Acquisition of businesses (Note F2)	-	-	-	47	-	47
Disposals	(9)	-	(685)	(1,032)	-	(1,726)
Revaluation	1,712	-	-	-	-	1,712
Balance at 31 December 2017	**142,625**	**33,348**	**115,775**	**20,802**	**4,174**	**316,724**
Accumulated depreciation and impairment						
Balance at 1 January 2016	**4,402**	**1,193**	**58,874**	**12,302**	**-**	**76,771**
Depreciation expense	2,175	1,311	6,128	1,824	-	11,438
Disposals	-	-	(432)	(668)	-	(1,100)
Revaluation	(6,577)	(2,319)	-	-	-	(8,896)
Balance at 31 December 2016	**-**	**185**	**64,570**	**13,458**	**-**	**78,213**
Depreciation expense	2,488	2,432	6,628	2,113	-	13,661
Disposals	-	-	(595)	(948)	-	(1,543)
Revaluation	(2,488)	-	-	-	-	(2,488)
Balance at 31 December 2017	**-**	**2,617**	**70,603**	**14,623**	**-**	**87,843**
Net book value						
As at 31 December 2016	140,670	30,954	44,291	5,824	4,913	226,652
As at 31 December 2017	**142,625**	**30,731**	**45,172**	**6,179**	**4,174**	**228,881**

C1. PROPERTY, PLANT AND EQUIPMENT (continued)

Accounting Policy

Land, buildings and apple trees are included in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of such land, buildings and apple trees is recognised in other comprehensive income and accumulated as a separate component of equity in the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land, buildings and apple trees is charged to profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and apple trees is charged to profit or loss. On the subsequent sale or retirement of revalued property or apple trees, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Office equipment, motor vehicles, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on property, plant and equipment, including buildings and apple trees but excluding land and capital work in progress. Depreciation is charged so as to write off the cost or valuation of assets, other than land and capital work in progress, over their estimated useful lives, using either the straight-line or the diminishing value method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The following estimated useful lives are used in the calculation of depreciation:

Apple trees	30 years
Buildings	10 to 50 years
Office Equipment and Motor Vehicles	2 to 20 years
Plant and Equipment	2 to 25 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Land and Buildings carried at Fair Value

Land and buildings shown at valuation were valued at fair value as at 31 December 2016 by independent registered valuers Added Valuation Limited, Logan Stone Limited and Telfer Young Limited. The valuations, which conform to the New Zealand Property Institute Practice Standard 3 - Valuations for Financial Reporting Purposes, were arrived at by reference to market evidence of transaction prices for similar properties.

An assessment of the fair value of land and buildings as at 31 December 2017 was completed by Scales using market information provided by independent valuers. Based on this assessment there was deemed to be no material change in the capitalisation rates from 31 December 2016 and only minor movements in potential market comparative rental rates. As a result a valuation increase of $4,200,000 has been recorded in other comprehensive income.

The fair value of land and buildings is calculated on the basis of market value. Market value is determined applying income capitalisation and comparative sales calculations which are benchmarked against depreciated replacement cost calculations. The valuations include adjustments to observable data for similar properties to take into account property-specific attributes.

The significant unobservable inputs, based on regional averages, for the land and buildings (mainly coldstores and packhouses) are potential market comparative rentals $10 - $220 per square metre and the capitalisation rates of 8% - 18%. The higher the rental rates the higher the fair value. The higher the capitalisation rates the lower the fair value. Significant changes in either of these inputs would result in significant changes to the fair value measurement.

The Group’s land and buildings are classified as Level 3 in the fair value hierarchy.

The carrying amount of land and buildings had it been recognised under the cost model is $82,221,000 (31 December 2016: $83,869,000).

Apple Trees carried at Fair Value

The Group’s apple orchards, being the apple trees other than the existing crop on the trees, were valued at fair value by Boyd Gross B.Agr (Rural Val), Dip Bus Std, FNZIV, FPINZ of Logan Stone Limited as at 31 December 2016. The market valuations completed by Boyd Gross were based on a DCF analysis of forecast income streams and costs. This was benchmarked against a comparison of sales of other orchards adjusted to reflect the location, plantings, age and varieties of trees and productive capabilities of the orchards.

An assessment of the fair value of the apple trees as at 31 December 2017 was completed by Scales using market information provided by the independent valuer. It was determined that the carrying amount as at 31 December 2017 did not differ materially from fair value.

C1. PROPERTY, PLANT AND EQUIPMENT (continued)

The significant unobservable inputs, based on district averages, for the apple trees are:

	2017	2016
Production levels (gross tray carton equivalent (tce)) per hectare	3,305 - 5,896	3,624 - 5,709
Orchard gate returns per tce	$24.36 - $39.90	$25.31 - $38.90
Orchard costs per tce	$18.77 - $31.39	$17.00 - $28.60
Discount rate	18.0% - 21.40%	18.0% - 21.40%

The higher the production levels and orchard gate return the higher the fair value. The higher the orchard costs and discount rate the lower the fair value. Significant changes in any of these inputs would result in significant changes to the fair value measurement. The Group's apple trees are classified as level 3 in the fair value hierarchy.

The apple trees, on owned and leased orchards, have the following planting profile:

	Total Hectares Planted	
	2017	2016
Premium varieties:		
NZ Queen	211	213
Pink Lady	119	121
Red sports (Fuji and Royal Gala)	234	234
Other premium	75	59
Traditional varieties:		
Braeburn	165	171
Royal Gala	186	186
Other traditional	158	160
	1,148	**1,144**

The exported volume from Mr Apple's planted apple orchard was 3,537,000 tce's (2016: 3,546,000 tce's).

Risk Management Strategy:

The Group is exposed to financial risks arising from changes in climatic conditions, market prices and the value of the New Zealand dollar. The Group mitigates these risks by installing hail and frost protection on orchards which have shown to be more susceptible to these risks, obtaining hail insurance cover, utilising foreign currency derivative instruments and building close working relationships with key customers.

C2. UNHARVESTED AGRICULTURAL PRODUCE

	2017	2016
	$'000	$'000
Balance at beginning of the year	18,433	15,493
Decrease due to harvest	(18,433)	(15,493)
Acquisition of businesses	-	375
Development expenditure	19,236	17,065
Fair value adjustment	953	993
Balance at end of the year	**20,189**	**18,433**

The assessment of the value of unharvested agricultural produce was undertaken by management, using a discounted cash flow model, and is calculated as the fair value less estimated harvest and post-harvest costs of the unharvested crop on the trees at the reporting date. The risk adjusting discount rate represents an allowance for adverse events that may affect crop, harvest and/or market conditions. This calculation is also benchmarked against orchard costs incurred during the current growing cycle.

C2. UNHARVESTED AGRICULTURAL PRODUCE (continued)

The significant unobservable inputs included in the model are the:

	2017 $'000	2016 $'000
Production levels (tonnes per hectare per annum)	60 - 107	50 - 100
Orchard gate returns per tce	$22 to $39	$20 to $40
Risk adjusting discount rates	51% to 72%	55% to 73%

The higher the yield per hectare and the higher the orchard gate returns per tce, the higher the fair value. The higher the risk adjusting discount rate, the lower the fair value.

C3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2017 $'000	2016 $'000
Share of profit before taxation	1,915	2,241
Share of income tax	(539)	(629)
Share of Net Profit for the Year and Total Comprehensive Income	**1,376**	**1,612**
Carrying value at beginning of the year	4,131	3,019
Dividend paid	(1,000)	(500)
INVESTMENT IN EQUITY ACCOUNTED ENTITY	**4,507**	**4,131**

Profruit (2006) Limited, which is domiciled in New Zealand and has a 31 December balance date, is the joint venture investment as at 31 December 2017 and 31 December 2016. The principal activity is juice production and sales. Scales held 50% of of Profruit (2006) Limited as at 31 December 2017 and 31 December 2016.

The Scales Corporation Limited Group share of the guarantee of the Profruit (2006) Limited bank loan facilities is $1,494,197 (2016: $240,000).

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Dividends or distributions received from a joint venture reduce the carrying amount of the investment in that joint venture in the Group financial statements. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture until the date it ceases to be a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying value of the investment. The requirements of NZ IAS 36 are applied to determine whether it is necessary to recognise any impairment loss.

C4. GOODWILL

	2017 $'000	2016 $'000
Gross Carrying Amount		
Balance at beginning of the year	16,222	5,319
Arising on acquisition of:		
Fern Ridge Produce Limited	-	5,702
Longview Group Holdings Limited	-	5,201
OceanAir business and assets and shares in OceanAir Freight Pty Limited (see Note F2)	1,955	-
Balance at end of the year	**18,177**	**16,222**

C4. GOODWILL (continued)

Goodwill arising on the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill has been allocated to the cash-generating units listed below which represent the lowest level at which the Directors monitor goodwill.

	2017 $'000	2016 $'000
Storage & Logistics	3,944	1,989
Horticulture	14,233	14,233
	18,177	**16,222**

As at 31 December 2017, the Directors have determined, based on discounted cash flow and value in use calculations, that there is no impairment of goodwill associated with Storage & Logistics and Horticulture. The Directors consider that any reasonably possible changes in the key assumptions would not cause the carrying amount of any of the cash-generating units to exceed their recoverable amount.

C5 . INVENTORIES

Finished goods	17,798	12,489
Other	4,414	3,876
	22,212	**16,365**

Inventories are stated at the lower of cost and net realisable value. Cost means the actual cost of the inventory and in determining cost the first in first out basis of stock movement is followed, with due allowance having been made for obsolescence. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

C6. IMPAIRMENT OF ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss and is not reversed in subsequent periods.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

D. CAPITAL FUNDING

IN THIS SECTION

This section explains how Scales manages its capital structure and how dividends are returned to shareholders. In this section there is information about:

- equity:
- dividends paid; and
- earnings per share.

Capital Management

The Group's capital includes share capital, reserves and retained earnings. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and customer confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

D1. SHARE CAPITAL

Issued and paid up capital consists of 140,510,292 fully paid ordinary shares (2016: 139,779,006) less treasury stock of 721,056 shares (2016: 1,847,257 shares) (refer to note D2). All shares rank equally in all respects.

Shares issued or purchased on market under the Senior Executive Share Scheme ("Share Scheme") (note D2) are treated as treasury stock until vesting to the employee.

	Number of shares	
	2017	2016
Fully paid ordinary shares		
Opening balance	139,779,006	139,779,006
Shares issued as consideration for business acquisition (Note F2)	283,405	-
Share Scheme - shares issued	335,211	-
Cash-settled share based payment shares issued	112,670	-
Closing balance	**140,510,292**	**139,779,006**
Treasury stock		
Opening balance	1,847,257	1,533,193
Share Scheme - shares issued	335,211	-
Share Scheme - shares purchased on market	-	314,064
Share Scheme - shares forfeited and sold on market	(50,212)	-
Share Scheme - shares fully vested	(1,411,200)	-
Closing balance	721,056	1,847,257

The Available Subscribed Capital of $38,531,000 (2016: $36,036,000) represents the amount of the shareholders' equity that is available to be returned to shareholders on a tax-free basis.

In accordance with the Companies Act 1993 the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

D2. RESERVES

Revaluation Reserve

The revaluation reserve arises on the revaluation of land, buildings and apple trees, net of the related deferred tax.

Hedging Reserve

The hedging reserve represents the unrealised gains and losses on interest rate and foreign currency contracts taken out to manage the Group interest rate and foreign currency risks, net of the related deferred tax.

Equity-settled Employee Benefits Reserve

The Senior Executive Share Scheme involves the Company making available interest-free loans to selected senior executives to acquire shares in the Company. The senior executives will not gain any benefit with respect to the shares purchased under the Scheme unless they remain in employment with the Group for a period of three years from the date of acquisition of those shares.

The shares are held by a custodian during the restrictive period and are then transferred to the senior executive. All net dividends or distributions received in respect of the shares must be applied to repayment of the interest-free loan.

Grant date	Vesting date	Exercise price, $	Number of shares				
			Opening balance	Granted	Forfeited	Vested and exercised	Closing balance
24 July 2014	24 July 2017	1.60	1,437,000	-	25,800	1,411,200	-
8 May 2015	8 May 2018	1.66	96,193	-	-	-	96,193
22 April 2016*	22 April 2019	1.67	314,064	-	15,066	-	298,998
5 May 2017†	5 May 2020	1.70	-	299,377	9,346	-	290,031
5 May 2017‡	5 May 2020	2.45	-	35,834	-	-	35,834
Total			**1,847,257**	**335,211**	**50,212**	**1,411,200**	**721,056**

The weighted average share price for shares that vested on 24 July 2017 was $3.45.

The shares issued vest over three years. The estimated value of the share options was determined using the Black-Scholes pricing calculator and is being amortised over the restrictive period. This cost is expensed with the corresponding credit included in the equity-settled employee benefits reserve. Expected share price volatility was based on historical volatility of the Company ordinary shares.

The inputs into the "option pricing calculator" are:

	2017	2017	2016
	†FY16A	‡FY16B	*FY15
Acquisition date share price, $	3.35	3.35	3.20
Expected share price volatility, %	23	23	24
Option life, years	3	3	3
Risk-free interest rate, %	2.31	2.31	2.12
Exercise price, $	1.70	2.45	1.67
Fair value of each instrument issued in the year, at the grant date, $	1.77	1.16	1.65

Retained Earnings

Retained earnings represents the profits retained in the business.

D3. DIVIDENDS

	2017	2016
	$'000	$'000
Final dividend - 10.00 (2016: 6.50) cents per share	13,811	8,974
Interim dividend - 9.00 (2016: 8.00) cents per share	12,586	11,045
	26,397	**20,019**

The 2017 interim dividend was declared on 5 December 2017 and paid on 19 January 2018.

D4. IMPUTATION CREDIT ACCOUNT

	2017 $'000	2016 $'000
Balance at end of the year	**18,583**	**17,408**

The imputation credit account balance represents the net amount available at the reporting date that can be attached to future dividends declared.

The Scales Corporation Limited consolidated tax group for income tax includes Scales Corporation Limited and all New Zealand registered subsidiary companies other than Scales Employees Limited.

D5. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the company by the weighted average number of ordinary shares on issue during the year, excluding shares held as treasury stock. Diluted earnings per share assumes conversion of all dilutive potential ordinary shares in determining the denominator.

	2017 $'000	2016 $'000
Profit attributable to equity holders of the Company - used in the calculation of earnings per share	31,330	37,772

	Number of shares	
	2017	2016
Basic and diluted earnings per share		
Weighted average number of ordinary shares	138,738,233	138,026,398
Effect of dilutive ordinary shares (non-vested Senior Executive Share Scheme)	751,619	832,669
Weighted average number of Ordinary Shares for diluted earnings per share	**139,489,852**	**138,859,067**
Basic earnings per share (cents)	22.6	27.4
Diluted earnings per share (cents)	22.5	27.2

E. FINANCIAL ASSETS AND LIABILITIES

IN THIS SECTION

This section explains the financial assets and liabilities of Scales, the related risks and how Scales manages these risks. In this section of the notes there is information on:

- the accounting policies, judgements and estimates relating to financial assets and liabilities; and
- the financial instruments used to manage risk.

ACCOUNTING POLICIES

Financial Assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) and 'measured at amortised cost'.

The classification depends on the business model for managing the financial asset and the cash flow characteristics of the financial asset and is determined at the time of initial recognition or when a change in the business model occurs.

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss if they are not measured at cost or amortised cost. Gains and losses on a financial asset designated in this category and not part of a hedging relationship are recognised in profit or loss.

Financial assets measured at amortised cost

The Group's financial assets held in order to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortised cost. Cash and cash equivalents, trade receivables and employee loans are classified in this category.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial Liabilities Measured at Amortised Cost

The Group's financial liabilities include trade and other payables and borrowings. These financial liabilities are initially recognised at fair value plus any directly attributable costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value with reference to observable market data at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as an effective hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as cash flow hedges. A derivative is presented as a non-current asset or a non-current liability where the cash flow will occur after 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge Accounting

At the inception of a hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item, attributable to the hedged risk.

Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in 'other income' or 'other losses'.

Amounts recognised in the hedging reserve are reclassified from equity to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in the hedging reserve is recognised immediately in profit or loss.

E1. TRADE AND OTHER RECEIVABLES

	2017 $'000	2016 $'000
Trade receivables	18,724	14,574
Other receivables	1,356	593
Owing by entity accounted for using the equity method	76	349
Goods and services tax	3,281	2,013
	23,437	**17,529**

Credit Risk Management

The Group activities expose it to credit risk which refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments which potentially subject the Group to credit risk principally consist of cash and cash equivalents, trade and other receivables and advances as disclosed in note E2. The Group performs credit evaluations on trade customers, obtains trade credit insurance as appropriate but generally does not require collateral. The Group continuously monitors the credit quality of its major receivables and does not anticipate non-performance of those customers. Cash and cash equivalents are placed with high credit quality financial institutions.

There is a significant concentration of credit risk with five customers who represent 25.93% (2016: five customers who represent 35.63%) of trade and other receivables.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Included in Trade Receivables are debtors which are past due at balance date, as payment was not received within one month, and for which no provision has been made as there has not been a significant change in credit quality and the amounts are still considered recoverable. No collateral is held over these balances although trade credit insurance cover is obtained in respect of some specific receivables. Interest is not charged on overdue debtors. The ageing of these past due trade receivables is:

One month	3,995	2,363
Two months	790	639
More than two months	786	2,139
	5,571	**5,141**

E2. OTHER FINANCIAL ASSETS

Current:

At fair value:		
Foreign currency derivative instruments	6,415	8,409
At amortised cost:		
Advances to other entities	-	55
	6,415	**8,464**

Non-current:

At fair value:		
Foreign currency derivative instruments	6,544	11,231
Shares in unlisted companies	211	206
At amortised cost:		
Employee loans	1,009	124
	7,764	**11,561**

E3. TRADE AND OTHER PAYABLES

	2017 $'000	2016 $'000
Trade payables	10,325	12,737
Accruals	7,214	4,882
Employee entitlements	4,676	4,428
	22,215	**22,047**

E4. BORROWINGS

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest method. The fair value of current and non-current borrowings is approximately equal to their carrying amount.

The Group signed Multi-Option Facility Agreements with Rabobank and Westpac New Zealand Limited on 22 March 2013. The total facility is $90,000,000 (2016: $100,000,000). At 31 December 2017 the undrawn amount under these facilities was $43,500,000 (2016: $59,000,000).

The floating interest rate is 2.94% to 3.34% (2016: 2.91% to 3.25%) and the term borrowing facility roll-over date is 30 June 2019. Seasonal facility presented as current borrowings is due for repayment within one year. The bank facilities are secured by a first ranking security interest granted by each of the Charging Group* Companies over all its present and after-acquired property (including proceeds) and a first ranking security interest over any of the Charging Group Companies present and future assets and undertakings which are not personal property. The bank facilities are also secured by first and exclusive registered mortgages over property comprising coolstores, orchards and industrial and commercial property owned by members of the Charging Group.

*Charging Group Companies are Scales Corporation Limited, Geo.H.Scales Limited, Liqueo Bulk Storage Limited, Meateor Foods Limited, Mr Apple New Zealand Limited, New Zealand Apple Limited, Polarcold Stores Limited, Scales Holdings Limited, Scales Logistics Limited and Whakatu Coldstores Limited.

The Multi-Option Facility Agreements with the Group's banks include the requirement that at all times the Tangible Net Worth of the Group, being Tangible Assets less Total Liabilities (excluding deferred tax liabilities), be not less than $100,000,000. The Group has complied with this requirement since the facility was established. The Group policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. There have been no material changes to the Group's management of capital during the year.

E5. OTHER FINANCIAL LIABILITIES

Current financial liabilities at fair value:

Foreign currency derivative instruments	1,312	2,047
Interest rate swap contracts and forward rate agreements	481	371
Fern Ridge Produce Limited put option	2,538	939
	4,331	**3,357**

Non-current financial liabilities at fair value:

Foreign currency derivative instruments	3,318	3,111
Interest rate swap contracts and forward rate agreements	725	826
Fern Ridge Produce Limited put option	-	940
	4,043	**4,877**

On 11 January 2016 the Group increased its shareholding in Fern Ridge Produce Limited ("Fern Ridge") to 75%. As part of the transaction, 2.12% of the shares were then sold to an employee of Fern Ridge, and Scales entered into agreements with the remaining shareholders of Fern Ridge whereby those shareholders have an option to "put" their shares to Scales at a value based on a multiple of Fern Ridge profits, but with a minimum value equivalent to that paid to the selling shareholders.

E6. INTEREST RATE RISK

Interest Rate Risk Management

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. Management monitors the level of interest rates on an ongoing basis and may use interest rate swaps and forward rate agreements to manage interest rate risk.

Interest Rate Swap Contracts and Forward Rate Agreements

Under interest rate swap contracts and forward rate agreements, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts, some of which commence in future reporting years, enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued floating rate debt. The fair value of these contracts at the reporting date is determined by discounting the future cash flows using the forward interest rate curves at reporting date and the credit risk inherent in the contracts. The average contracted fixed interest rate is based on the notional principal amount at balance date.

Details of interest rate swap contracts and forward rate agreements for the Group are:

Maturity Date	Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2017	2016	2017	2016	2017	2016
	%	%	$'000	$'000	$'000	$'000
Interest rate swap contracts:						
Within one year	-	4.97	-	10,000	-	(280)
Two to five years	4.02	4.02	30,000	30,000	(938)	(826)
After five years	3.25	-	10,000	-	(268)	-
Forward rate agreements:						
Within one year	-	3.55	-	25,000	-	(91)
					(1,206)	**(1,197)**

These interest rate swap contracts and forward rate agreements, exchanging floating rate interest amounts for fixed rate interest amounts, are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from floating interest rates on borrowings. The interest rate swap and forward rate agreement payments, and the interest payments on the loans occur simultaneously, and the amount deferred in equity is recognised in profit or loss over the period that the floating rate interest payments on debt impact profit or loss.

The Group's interest rate swap contracts and forward rate agreements are classified as Level 2 in the fair value hierarchy.

At 31 December 2017 it is estimated that a general increase of one percent in interest rates would decrease the Group's profit after income tax and equity by approximately $558,000 (2016: $451,000).

E7. FOREIGN CURRENCY RISK

Foreign Currency Risk Management

Foreign currency risk is the risk that the value of the Group's assets and liabilities or revenues and expenses will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk as a result of normal trading transactions denominated in foreign currencies. The currencies in which the Group primarily trades are the Australian dollar, Euro, Canadian dollar, Great Britain pound and United States dollar, with the largest exposure being to the United States dollar.

Currency risk is managed by the natural hedge of foreign currency receivables and payables and the use of foreign currency derivative financial instruments. The fair value of foreign currency derivative financial instruments at the reporting date is determined on a discounted cash flow basis whereby future cash flows are estimated based on forward exchange rates and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

The Group's forward foreign exchange contracts and foreign exchange options are classified as Level 2 in the fair value hierarchy.

Details of foreign currency instruments at balance date for the Group are:

	2017		2016	
	Contract Value	Fair Value	Contract Value	Fair Value
	$'000	$'000	$'000	$'000
Sale commitments forward foreign exchange contracts	260,406	3,546	165,524	7,250
Sale commitments foreign exchange options	96,787	4,783	128,150	7,232

E7. FOREIGN CURRENCY RISK (continued)

These foreign currency instruments are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from movements in foreign currency exchange rates on anticipated future transactions. It is anticipated that the sales will take place during the 2018 to 2021 financial years at which stage the amount deferred in equity will be released into profit or loss.

It is estimated that a general increase of five cents in the value of the New Zealand dollar against other foreign currencies would have decreased the Group's profit after income tax by $10,303,000 (2016: $9,939,000). A decrease in exchange rates would have the opposite impact on profit.

E8. CATEGORIES OF FINANCIAL INSTRUMENTS

	2017 $'000	2016 $'000
Financial Assets:		
Fair value through profit or loss	211	206
Derivative instruments in designated hedge accounting relationships	12,959	19,640
Amortised cost	26,855	22,050
	40,025	**41,896**
Financial Liabilities:		
Amortised cost	81,301	74,092
Fair value through profit or loss	2,538	1,879
Derivative instruments in designated hedge accounting relationships	5,836	6,355
	89,675	**82,326**

E9. MATURITY PROFILE OF FINANCIAL LIABILITIES

Liquidity Risk Management

The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Within Three Months $'000	Four Months to One Year $'000	One to Five Years $'000	Total $'000
2017				
Trade and other payables	22,215	-	-	22,215
Dividend declared	12,586	-	-	12,586
Fern Ridge Produce Limited put options	1,269	1,269	-	2,538
Borrowings	363	7,601	40,633	48,597
Interest rate swaps and forward rate agreements	120	364	1,247	1,731
	36,553	**9,234**	**41,880**	**87,667**
2016				
Trade and other payables	22,047	-	-	22,047
Dividend declared	11,045	-	-	11,045
Fern Ridge Produce Limited put options	939	-	940	1,879
Borrowings	324	11,812	31,462	43,598
Interest rate swaps and forward rate agreements	113	315	684	1,112
	34,468	**12,127**	**33,086**	**79,681**

F. GROUP STRUCTURE

IN THIS SECTION

This section provides information to help readers understand the Scales Group structure and how it affects the financial position and performance of the Group. In this section there is information about:

- subsidiaries; and
- the acquisition of assets and business of OceanAir Limited and shares in OceanAir Freight Pty Limited.

F1. SUBSIDIARY COMPANIES

Subsidiary Companies:	Principal Activity	Country of Incorporation	Holding 2017	Holding 2016	Balance Date
Fern Ridge Produce Limited	Trading company	New Zealand	72.88%	72.88%	31 December
Geo. H. Scales Limited	Non trading company	New Zealand	100%	100%	31 December
Liqueo Bulk Storage Limited	Trading company	New Zealand	100%	100%	31 December
Longview Group Holdings Limited	Non trading company	New Zealand	100%	100%	31 December
Longview New Zealand Limited	Non trading company	New Zealand	100%	100%	31 December
Longview Packhouse Limited	Non trading company	New Zealand	100%	100%	31 December
Meateor Foods Australia Pty Limited	Trading company	Australia	100%	100%	31 December
Meateor Foods Limited	Trading company	New Zealand	100%	100%	31 December
Mr Apple New Zealand Limited	Trading company	New Zealand	100%	100%	31 December
New Zealand Apple Limited	Trading company	New Zealand	100%	100%	31 December
OceanAir Freight Pty Limited (Note F2)	Freight consolidator	Australia	100%	0%	31 December
Polarcold Stores Limited	Coldstore operator	New Zealand	100%	100%	31 December
Scales Employees Limited	Custodial company	New Zealand	100%	100%	31 December
Scales Holdings Limited	Holding company	New Zealand	100%	100%	31 December
Scales Logistics Limited	Freight consolidator	New Zealand	100%	100%	31 December
Selacs Insurance Limited	Insurance company	New Zealand	100%	100%	31 December
Whakatu Coldstores Limited	Coldstore operator	New Zealand	100%	100%	31 December

Subsidiary companies are controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the company loses control of the subsidiary.

F2. ACQUISITION OF OCEANAIR

On 1 August 2017 Scales Corporation Limited through its wholly owned subsidiary Scales Logistics Limited completed the purchase of the assets and the business of OceanAir Limited and all of the shares in OceanAir Freight Pty Limited (collectively OceanAir), a freight forwarding business with offices in Auckland and Melbourne.

OceanAir specialises in sea and air freight for perishable produce, specifically kiwifruit and avocado exports, which account for about 50% of its activity.

Details of the acquisition are as follows:

	Fair Value on Acquisition $'000
Current assets	
Cash and cash equivalents	14
Trade and other receivables	247
Prepayments	4
Non-current assets	
Property, plant and equipment	47
Current liabilities	
Trade and other payables	(319)
Net liabilities acquired	(7)
Goodwill on acquisition	1,955
Consideration	**1,948**
Issue of shares in Scales Corporation Limited as part consideration	970
Net cash outflow on acquisition	**978**

Goodwill arising on acquisition

Goodwill arose on the acquisition of OceanAir because the cost of acquisition included immediate operational presences in the Auckland and Melbourne markets, synergies and future market benefits as the operations are integrated with the Scales Logistics operations. These benefits are not recognised separately from goodwill as the expected future economic benefits arising cannot be reliably measured and they do not meet the definition of identifiable intangible assets.

Impact of the acquisition on the results of the Group

OceanAir contributed $198,000 to the Group profit for the year. Group revenue for the year includes $4,308,000 in respect of OceanAir. Had the OceanAir acquisition been effective at 1 January 2017, the revenue of the Group would have been $403,854,000 and the profit for the year would have been $31,735,000.

G. OTHER

IN THIS SECTION

This section includes the remaining information relating to Scales' financial statements which is required to comply with NZ IFRS.

G1. CAPITAL COMMITMENTS

	2017 $'000	2016 $'000
Commitments entered into in respect of apple trees as at balance date	2,161	1,577
Commitments entered into in respect of property, plant and equipment as at balance date	-	150

G2. OPERATING LEASE COMMITMENTS

The Group as Lessee

Operating leases relate to coldstores, orchards, offices, vehicles and office equipment with lease terms of between 3 to 9 years, generally with options to extend for further periods. All operating lease contracts contain rental reviews that provide for reviews at regular intervals and in the event that the Group exercises its options to renew.

Non-cancellable operating lease commitments:		
Not later than one year	16,271	13,966
Later than one year and not later than five years	53,325	41,894
Later than five years	58,854	53,762

The Group as Lessor

Operating leases relate to coldstores owned by the Group with lease terms of between 3 to 9 years, generally with options to extend for further periods. All operating lease contracts contain review clauses that provide for reviews at regular intervals and in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Non-cancellable operating lease receivables:		
Not later than one year	4,065	1,520
Later than one year and not later than five years	3,696	3,668
Later than five years	1,866	2,796

G3. RELATED PARTY DISCLOSURES

Transactions with Related Parties

Certain Directors or senior management have relevant interests in companies with which Scales has transactions in the normal course of business. A number of Scales directors are also non-executive directors of other companies. Any transactions undertaken with these entities have been entered in the ordinary course of business on a third party arm's-length basis.

Key Management Personnel Remuneration

The compensation of the directors and executives, being the key management personnel of the Group, is as follows:

Short-term employee benefits	2,820	2,858
Share-based payments	433	262
Post-employment benefits	102	85
	3,355	**3,205**

During 2017 145,813 (2016: 146,028) shares were issued to key management personnel in accordance with the senior executive share scheme described in note D2.

G3. RELATED PARTY DISCLOSURES (continued)

	2017 $'000	2016 $'000
Transactions with the Equity Accounted Entity		
Revenue from sale of goods	890	1,128
Revenue from services	968	1,222
Dividends received	1,000	500
Trade receivables at balance date	76	349

G4. EVENTS OCCURRING AFTER BALANCE DATE

There were no events occurring subsequent to balance date which require adjustment to or disclosure in the financial statements.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF SCALES CORPORATION LIMITED

Opinion

We have audited the consolidated financial statements of Scales Corporation Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 48 to 77, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants,* and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of other assurance services, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Group.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $2.15 million.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of Unharvested Agricultural Produce	
Unharvested agricultural produce growing on bearer plants (i.e. fruit), is measured at fair value less costs to sell. The Group's unharvested agricultural produce was valued at $20.2 million at balance date as described in note C2. A revaluation gain of $1.0 million is recorded in profit or loss. Fair value less costs to sell is calculated by the Group using a discounted cash flow model. The model includes significant unobservable inputs and assumptions including, for each variety, the forecast production per hectare per annum by weight, sales prices, and risk-adjusting discount rates, as well as costs to harvest and sell. The risk-adjusting discount rates take into account the risk of unknown adverse events that may affect crop, harvest and/or market conditions. The valuation of unharvested agricultural produce is considered to be a key audit matter due to the level of judgement required to determine the fair value less costs to sell.	Our procedures focused on the appropriateness of the valuation methodology and the key assumptions applied in the internal valuation model. Our procedures included, amongst others: • Holding discussions with management and considering market information to identify factors, including environmental or market risks, that would impact the current crop valuation. • Engaging a Deloitte valuation specialist to consider whether the valuation method applied was appropriate and whether the risk-adjusting discount rates were reasonable based on market information and risks relating to the unharvested agricultural produce. • Challenging the reasonableness of the key assumptions by comparing the forecast production, prices, and costs to harvest and sell for the current growing season to the approved budgets for each orchard. • Assessing the historical accuracy of the Group's budget forecasts. • Checking the mechanical accuracy of the discounted cash flow model.
Valuation of Land and Buildings	
As disclosed in note C1, the Group has land and buildings of $142.6 million. The Group has a policy of recording land and buildings at fair value with revaluations performed with sufficient regularity that the carrying amount at the end of a reporting period does not differ materially from their fair value (usually every 3 years). The last independent valuation of land and buildings was carried out as at 31 December 2016. The significant assumptions adopted in the valuation of land and buildings include; sales prices for similar properties, market rental rates, and capitalisation rates. The valuations include adjustments to observable data for similar properties to take into account property-specific attributes. Management have considered and sought input from independent valuers as to any changes to the significant assumptions used in the 2016 valuation and whether these changes indicate that the land and buildings are not held at fair value as at 31 December 2017. Management have used the information provided by the independent valuers to determine that the fair value of the land and buildings has increased by $4.2 million. This increase is recorded through other comprehensive income in the consolidated statement of comprehensive income. Valuation of land and buildings is considered to be a key audit matter due to the significance of the assets to the Group's consolidated statement of financial position, and due to the judgment involved in the assessment of the fair value of these assets by the Group's Directors.	In conjunction with our internal valuation specialists we reviewed and evaluated the documentation prepared by the Group in support of their assessment of whether the carrying value of land and buildings classified as property, plant and equipment as at 31 December 2017 differed materially from their fair value. Our procedures included, amongst others: • Agreeing material additions to supporting documentation. • Assessing changes in the significant assumptions from the 31 December 2016 independent valuation against external information. • Assessing correspondence from the independent valuer. • Checking the mathematical accuracy used in the Group's assessment.

Valuation of Apple Trees

As disclosed in note C1 the Group has apple trees of $30.7 million. The Group has a policy of recording apple trees at fair value with valuations performed with sufficient regularity that the carrying amount at the end of a reporting period does not differ materially from their fair value (usually every 3 years). The last independent valuation of apple trees was carried out as at 31 December 2016.

The significant assumptions adopted in the valuation of these assets are production levels per hectare, orchard gate returns (market prices), orchard costs, and discount rates.

Management have considered and sought input from independent valuers as to any changes to the significant assumptions used in the 2016 valuation and whether these changes indicate that the apple trees are not held at fair value as at 31 December 2017.

Management have applied judgement in determining there have been no substantial changes to the significant assumptions used in the 2016 valuations, that these assumptions remain appropriate, and that fair value does not differ materially from carrying amount as at 31 December 2017.

Valuation of apple trees is considered to be a key audit matter due to the significance of the assets to the Group's consolidated statement of financial position, and due to the judgment involved in the assessment of the fair value of these assets by the Group's Directors.

In conjunction with our internal valuation specialists we reviewed and evaluated the documentation prepared by the Group in support of their assessment of whether the carrying value of the apple trees as at 31 December 2017 differed materially from their fair value.

Our procedures included, amongst others:

- Agreeing material additions to supporting documentation.
- Assessing management's assertion that there have been no substantial changes to the significant assumptions from the 31 December 2016 independent valuation against internal data and market information.
- Assessing correspondence from the independent valuer.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Our responsibility is to read the other information identified above when it becomes available and consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and consider further appropriate actions.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Michael Wilkes, Partner
for Deloitte Limited
Christchurch, New Zealand
27 February, 2018

CORPORATE GOVERNANCE STATEMENT

The Board of Scales Corporation Limited (Scales or the Company) is committed to ensuring that the Company meets best practice governance principles and maintains the highest ethical standards. This Corporate Governance Statement provides an overview of the Company's governance framework. It is structured to follow the NZX Corporate Governance Code (NZX Code) and discloses the practices relating to the NZX Code's recommendations.

The Board's view is that Scales complies with the corporate governance principles and recommendations set out in the NZX Code apart from two areas as outlined in this report. The Board expects to move to full compliance with the NZX Code during 2018.

The Company also complies with the principles in the Financial Markets Authority's Corporate Governance in New Zealand Principles and Guidelines and with the corporate governance requirements of the NZX Main Board Listing Rules (NZX Listing Rules). The Board regularly reviews and assesses Scales' governance structures and processes to ensure that they are consistent with best practice.

Scales' key corporate governance documents referred to in this statement, including charters and policies, can be found at www.scalescorporation.co.nz/about-us/governance.

Scales' Corporate Governance Code (the Scales Code) was reviewed and updated in February 2018 and is reviewed annually.
This Corporate Governance Statement was approved by the Board on 19 March 2018.

Principle 1 – Code of Ethical Behaviour

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."

RECOMMENDATION 1.1

The Board should document minimum standards of ethical behaviour to which the issuer's Directors and employees are expected to adhere (a Code of Ethics).

Code of Ethics

Scales' Board sets a framework of ethical standards for the Company via its Code of Ethics, which is contained in the Scales Code. Directors and employees of Scales and its subsidiaries are expected to be guided in their behaviour and actions by these standards.

The Code of Ethics covers a wide range of areas including: standards of behaviour; conflicts of interest; proper use of Company information and assets; gifts; delegated authorities; compliance with laws and policies; reporting concerns; and corporate opportunities. The procedure for advising the Company of a suspected breach is set out in the Code of Ethics. No breaches were identified during the year.

Every new Director, employee and contractor is to be provided with a copy of the Code of Ethics and must confirm that they have read and understand the Code of Ethics. The Code of Ethics is available on the Company's website. The Board is currently assessing options for training in ethics and consequently is not fully compliant with Recommendation 1.1.

The Code of Ethics is subject to biennial review by the Board.

RECOMMENDATION 1.2

An issuer should have a financial product dealing policy which applies to employees and Directors.

Share trading by Company Directors and Employees

The Board has implemented formal procedures to handle trading in the Company's securities by Directors, employees and advisors of the Company, with the approval of the Chief Financial Officer being required before trading can occur. A blackout period is imposed for all Directors and employees between the end of the half year and full year and the release to NZX of the result for that period. The policy provides that shares may not be traded at any time by any individual holding material information. The full procedures are outlined in the Securities Trading Policy and Guidelines, which is contained in the Scales Code.

The fundamental rule in the policy is that insider trading is prohibited at all times. The requirements of the policy are separate from, and in addition to, the legal prohibitions on insider trading in New Zealand.

Principle 2 – Board Composition & Performance

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

RECOMMENDATION 2.1

The Board of an issuer should operate under a written charter which sets out the roles and responsibilities of the Board.

Responsibilities of the Board

The Board has overall responsibility for all decision making within Scales. In this regard the Board is responsible for laying solid foundations for the direction, management and oversight of the Company in the support of its objectives to generate growth, corporate profit and shareholder gain. It has delegated day-to-day management of the Company to the Managing Director and the senior management team.

The main functions of the Board include to:

- Review and approve the strategic, business and financial plans prepared by Management.
- Monitor performance against the strategic, business and financial plans.
- Appoint, provide counsel to and review the performance of the Managing Director.
- Approve major investments and divestments.
- Ensure ethical behaviour by the Company, Board, Management and employees.
- Assess its own effectiveness in carrying out its functions.

The Board monitors these matters by receiving reports and plans from Management, maintaining an active programme of divisional visits and through its annual work programme.

The Board uses Committees to address certain issues that require detailed consideration by members of the Board who have specialist knowledge and experience. The Board retains ultimate responsibility for the functions of its committees and determines their responsibilities.

The Board has a statutory obligation to reserve responsibility for certain matters. It also deals directly with issues relating to the Company's mission, appointments to the Board, strategy, business and financial plans.

Details of the Board's role, composition, responsibilities, operation, policies and committees are provided in Scales Code.

RECOMMENDATION 2.2

Every issuer should have a procedure for the nomination and appointment of Directors to the Board.

Director nomination and appointment

The Board is responsible for appointing Directors. The Nominations and Remuneration Committee manages the appointment process for new Directors and the re-election of existing Directors in order to make a recommendation to the Board. When considering an appointment, the Committee will undertake a thorough check of the candidate and his or her background. Where the Board determines a person is an appropriate candidate, shareholders are notified of that and are provided with all material information that is relevant to the decision on whether to elect or re-elect a Director.

The Nominations and Remuneration Committee also has responsibility for reviewing the composition of the Board to ensure that the Company has access to the most appropriate balance of skills, qualifications, experience, perspectives and background to effectively govern the Company. The Board has developed a Board skills matrix setting out the preferred mix of skills of the Board. The skills matrix is used to evaluate whether the collective skills and experience of the Directors meet Scales' requirements both currently and into the future. If the Board determines that new or additional skills are required, training is completed or a formal recruitment process is undertaken.

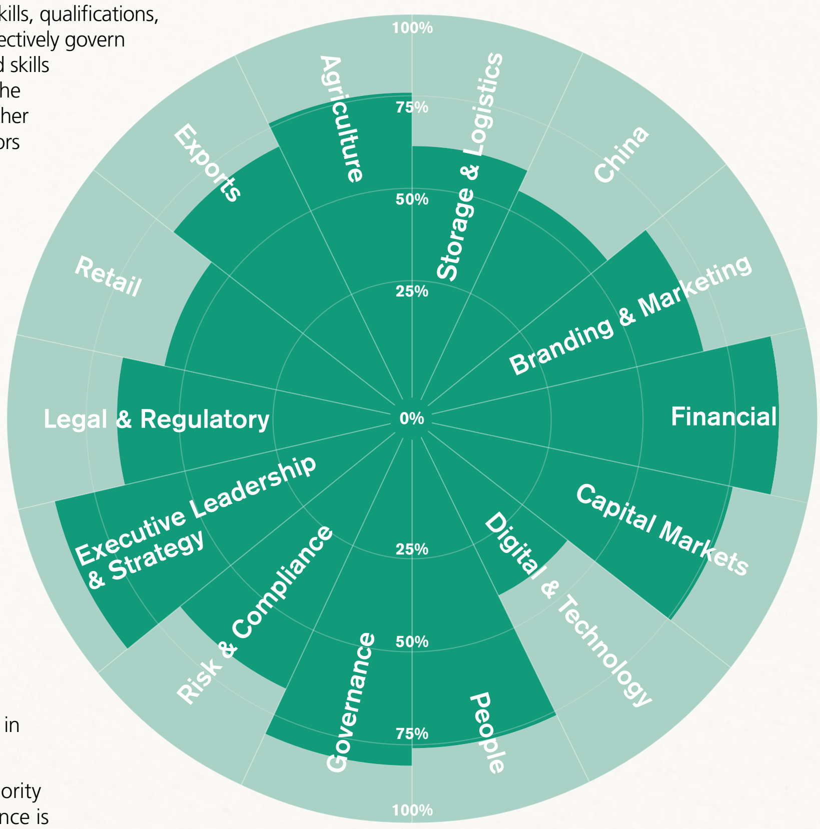
The Board has determined that to operate effectively and to meet its responsibilities it requires competencies in disciplines including executive leadership and strategy, governance, agriculture, storage and logistics, finance and capital markets, risk and compliance, legal and regulatory, people, digital and technology, export, retail and doing business in China.

The graphic on this page illustrates the current collective Board skill level for each discipline.

The current mix of skills and experience is considered appropriate for the responsibilities and requirements of governing Scales. The Board looks to strengthen its oversight of issues in all disciplines, as required, via expert advice.

As at 31 December 2017 the Board has a majority of Independent Directors. Director independence is considered on a case-by-case basis and is monitored on an ongoing basis.

Board Skills



RECOMMENDATION 2.3

An issuer should enter into written agreements with each newly appointed Director establishing the terms of their appointment.

Letter of appointment

All new directors will enter into a written agreement with Scales setting out the terms of their appointment.

RECOMMENDATION 2.4 AND 2.8

Every issuer should disclose information about each Director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interests.

Board of Directors

A profile of each of the Directors is on pages 43 – 44 of this report. The profiles include information on the year of appointment, skills, experience and background of each Director.

Tim Goodacre is the Independent Chairman of Scales. Nick Harris, Mark Hutton and Alan Isaac are Independent Directors. Weiyong Wang is the CEO, and a Director, of China Resources Ng Fung Limited, holder of a 15.3% shareholding in the Company. Carol Chen is an Alternate Director for Weiyong Wang. Mr Wang and Ms Chen are non-executive Directors.

Andy Borland is the Managing Director and Chief Executive Officer (CEO) of Scales.

The roles of Board Chairman, Audit and Risk Management Committee Chairman and CEO are not held by the same person.

The Board determines annually on a case-by-case basis on the advice of the Nominations and Remuneration Committee who, in its view, are Independent Directors. The guidelines set out in the NZX Listing Rules (para.3.3.1) are used for this purpose.

Ownership of Scales shares by Directors is encouraged rather than being a requirement. Directors' ownership interests are disclosed at page 97.

The Board does not have a tenure policy however it recognises that a regular refreshment programme leads to the introduction of new perspectives, skills, attributes and experience.

	Director period of appointment		
	0-3 years	3 – 9 years	9 years +
Number of Directors*	2	5	0

*Includes Alternate Director

Interests Register

The Board maintains an Interests Register. Any Director who is interested in a transaction with the Company must immediately disclose to the Board the nature, monetary value and extent of the interest. A Director who is interested in a transaction may attend and participate at a Board meeting at which the transaction is discussed but may not be counted in the quorum for that meeting or vote in respect of the transaction, unless it is one in respect of which Directors are expressly required by the Companies Act 1993 to sign a certificate.

Particulars of entries made in the Interests Register for the year ended 31 December 2017 are included in the Director Disclosures section on page 96.

RECOMMENDATION 2.5

An issuer should have a written diversity policy which includes requirements for the Board or a relevant Committee of the Board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them.

Diversity

Scales recognises the value in diversity of thinking and skills, and seeks to ensure that the Board and workforce both comprise members reflecting diversity. A formal diversity policy has been adopted by the Board.

The Board seeks diversity in the skills, attributes, perspectives and experience of its members across a broad range of criteria so as to represent the diversity of shareholders, business types and regions in which Scales operates.

Scales participates in the Institute of Directors' Future Directors programme. Our second and current Future Director, Jen Bunbury, will sit on the Board for a twelve month period from June 2017 as a participant in this programme. Jen participates in discussions at all Board meetings but does not participate in decision making. The programme is designed to give talented young aspiring Directors exposure to a company Board, whilst also giving the host company a fresh perspective.

In addition during 2017, Carol Chen joined the Board as an Alternate Director for Weiyong Wang.

Scales recruits, promotes and compensates on the basis of merit, regardless of gender, ethnicity, religion, age, nationality, sexual orientation, union membership or political opinion. Scales requires that people in the workplace are treated with respect in accordance with the Company's philosophies of equal employment opportunities, and anti-harassment and discrimination policies.

Responsibility for workplace diversity and the setting of measurable objectives is held by the Nominations and Remuneration Committee. The Committee is currently in the process of developing measurable diversity objectives and consequently is not compliant with Recommendation 2.5

The gender composition of Scales' Directors, Senior Managers and Management Team (comprising the top two layers of management) was as follows:

	As at 31 December 2017		As at 31 December 2016	
Position	**Female**	**Male**	**Female**	**Male**
Director*	1 (14%)	6 (86%)	0 (0%)	7 (100%)
Senior Managers	1 (14%)	6 (86%)	0 (0%)	6 (100%)
Management Team (excluding Senior Managers)	14 (35%)	26 (65%)	15 (40%)	22 (60%)

*Includes Alternate Director.

RECOMMENDATION 2.6

Directors should undertake appropriate training to remain current on how to best perform their duties as Directors of an issuer.

DIRECTOR TRAINING

The Board ensures that there is appropriate training available to all Directors to enable them to remain current on how best to discharge their responsibilities and keep up to date on changes and trends in areas relevant to their work. Directors are provided with industry information and receive copies of appropriate company documents to enable them to perform their role. The Board has allocated funding of $1,000 per annum for each Director to provide resources to help develop and maintain skills and knowledge.

The Board also ensures that new Directors are appropriately introduced to Management and the businesses.

RECOMMENDATION 2.7

The Board should have a procedure to regularly assess Director, Board and Committee performance.

Board Performance Evaluation

The Board annually assesses its effectiveness in carrying out its functions and responsibilities. The Chairman of the Board leads the review and evaluation of the Board as a whole, and of the Board Committees, against their charters. The Chairman of the Board also engages with individual Directors to evaluate and discuss performance and professional development.

In 2016 the Board undertook the Institute of Directors' BetterBoards evaluation. This provided the opportunity for a formal review of Board operations to ensure that best practice was being followed. In 2017 a less structured assessment of the performance, skills and tenure of the Board was undertaken. The conclusions and recommendations of the BetterBoards evaluation were considered as part of the 2017 performance evaluation.

Principle 3 – Board Committees

The Board should use Committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility.

Board Committees

The Board has four formally constituted committees – the Audit and Risk Management Committee, the Nominations and Remuneration Committee, the Health and Safety Committee and the Finance and Treasury Committee. Each Committee focuses on specific areas of governance and together they strengthen the Board's oversight of Scales. Committee membership is reviewed annually.

Each Committee has a written charter that is approved by the Board and sets out its mandate. The charters are reviewed annually with any proposed changes recommended to the Board for approval. The charters are included in the appendices within the Scales Code.

Annually each Committee agrees a programme of matters to be addressed over the following twelve month period. The Committees each annually review their performance against the Committee charter and objectives for the year and report their findings to the Board. The Audit and Risk Management Committee's recommendation of the establishment of a Health and Safety Committee and a Finance and Treasury Committee led to these Committee's being formed in late 2017.

Attendance at Meetings

The table below sets out Director attendance at Board and Committee meetings during the year ended 31 December 2017.
As both the Health and Safety Committee and Finance and Treasury Committees were constituted in December 2017 there were no meetings held during the year for these committees (there were however meetings held for the equivalent sub-committees which were replaced by the full Board Committees).

	Board	Audit and Risk Management Committee	Nominations and Remuneration Committee
Andrew Borland	8	-	-
Tim Goodacre	8	-	4
Nick Harris	8	5	-
Mark Hutton	7	4	4
Alan Isaac	8	5	-
Weiyong Wang	3	-	-
Carol Chen*	1	-	-
Jon Mayson*	4	-	2

*Jon Mayson retired from the Board in June 2017. Ms Chen was appointed as an Alternate Director to Weiyong Wang in November 2017.

RECOMMENDATION 3.1:

An issuer's Audit Committee should operate under a written charter. Membership on the Audit Committee should be majority independent and comprise solely of non-executive Directors of the issuer. The Chair of the Audit Committee should not also be the Chair of the Board.

Audit and Risk Management Committee

The primary functions of the Audit and Risk Management Committee are:

- To oversee the financial reporting process to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control.
- To provide the Board with an independent assessment of the Company's financial position and accounting affairs.
- To keep under review the effectiveness of the Company's procedures for the identification, assessment and reporting of material risks.
- To oversee the appointment and performance of the external auditor.

Members of the Committee are appointed by the Board and must comprise a majority of Independent Directors. The current members of the Committee are Alan Isaac (Chairman), Nick Harris and Mark Hutton. All members of the Audit and Risk Management Committee are Independent Directors. Alan Isaac is a former national chairman of KPMG. The Chairman of the Audit and Risk Management Committee and the Board Chairman are different people.

The Committee met on five occasions during the year. The agenda items for each meeting generally relate to financial governance, external financial reporting, external audit, internal audit, risk management, compliance and insurance.

RECOMMENDATION 3.2

Employees should only attend Audit Committee meetings at the invitation of the Audit Committee.

Meeting Attendance

The Managing Director and Chief Financial Officer are regularly invited to attend Audit and Risk Management Committee meetings.

RECOMMENDATION 3.3 AND 3.4:

An issuer should have a Remuneration Committee which operates under a written charter.

Nominations and Remuneration Committee

The primary functions of the Nominations and Remuneration Committee are:

- To establish a clear framework for oversight and management of the Company's remuneration structure, policies, procedures and practices to ensure Scales' remuneration is fair and reasonable.
- Defining the roles and responsibilities of the Board and senior management.
- Reviewing and making recommendations on Board and Committee composition and succession.

Members of the Committee are appointed by the Board and must comprise a majority of Independent Directors. The current members of the Committee are Mark Hutton (Chairman) and Tim Goodacre.

The Committee met on four occasions during the year.

RECOMMENDATION 3.5:

An issuer should consider whether it is appropriate to have any other Board Committees as standing Board Committees. All Committees should operate under written charters.

Health and Safety Committee

The Board's commitment to ensuring a safe and healthy workplace for staff, contractors and visitors led to it establishing a Health and Safety Committee during the year.

The primary functions of the Committee are:

- To assist the Board to provide leadership and policy for health and safety.
- To assist the Board to fulfil its responsibilities and to ensure compliance with all legislative and regulatory requirements in relation to the health and safety practices of the Company as those activities affect employees and contractors.
- To support the ongoing improvement of health and safety in the workplace.

Members of the Committee are appointed by the Board. The Committee must be chaired by an Independent Director. The current members of the Committee are Nick Harris (Chairman) and Andy Borland.

Finance and Treasury Committee

Scales is one of New Zealand's leading horticultural exporters and has material foreign currency receipts. The Board has determined that with the growth in Scales' treasury and funding activities it is appropriate to form a Board Committee to oversee this part of the business.

The primary function of the Committee is:

- To oversee the Company's capital and treasury risk management, and continuous disclosure processes to ensure their integrity, transparency and adequacy, and that they are in accordance with Company policies. In addition, the Committee will oversee takeover protocols and establish a Takeovers Committee comprising of independent directors.

Members of the Committee are appointed by the Board. The Committee must be chaired by an Independent Director. The current members of the Committee are Mark Hutton (Chairman) and Andy Borland.

RECOMMENDATION 3.6:

The Board should establish appropriate protocols that set out the procedure to be followed if there is a takeover offer for the issuer.

Takeover Protocols

The Board has documented and adopted a series of protocols to be followed in the event of a takeover offer being made, including communication between insiders and any bidder. A committee of Independent Directors would be formed and would have responsibility for managing the takeover in accordance with the Board protocols and the New Zealand Takeovers Code.

Principle 4 – Reporting and Disclosure

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosure.

RECOMMENDATION 4.1:

An issuer's board should have a written continuous disclosure policy.

Shareholder Communications and Market Disclosure

Scales' Board is committed to the principle that high standards of reporting and disclosure are essential for proper accountability between the Company and its investors, employees and stakeholders.

It achieves these commitments, and the promotion of investor confidence, by ensuring that trading in its shares takes place in an efficient, competitive and informed market. The Company has in place a written Shareholder Communications and Market Disclosure Policy designed to ensure this occurs. The policy includes procedures intended to ensure that disclosure is made in a timely and balanced manner and in compliance with the NZX Listing Rules, such that:

- All investors have equal and timely access to material information concerning the Company, including its financial situation, performance, ownership and governance.
- Company announcements are factual and presented in a clear and balanced way.

Accountability for compliance with disclosure obligations is with the Managing Director and Chief Financial Officer. Managers reporting to the Managing Director are required to provide the Chief Financial Officer with all relevant information that may be material and to regularly confirm that they have done so.

Significant market announcements, including the preliminary announcement of the half year and full year results, the financial statements for those periods, and any advice of a change in earnings forecast are approved by the Board.

Directors consider at each Board meeting whether there is any material information which should be disclosed to the market.

RECOMMENDATION 4.2:

An issuer should make its Code of Ethics, Board and Committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website.

Governance Policies and Charters

Scales' key corporate governance documents, including charters and policies, can be found at www.scalescorporation.co.nz/about-us/governance.

RECOMMENDATION 4.3:

Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks.

Financial and Non-Financial Reporting

Scales' Board is committed to ensuring integrity and timeliness in its financial reporting and in providing information to the market and shareholders which reflects a considered view on the present and future prospects of the Company.

A programme of clear, meaningful, timely and effective communications with shareholders is centred around a comprehensive set of information regarding Scales' operations and results being available on the Company's website and in shareholder reports.

The Audit and Risk Management Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness, balance and timeliness of financial statements. It reviews half-year and annual financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with financial reporting standards, stock exchange and legal requirements, and the results of the external audit. All matters required to be addressed and for which the Committee has responsibility were addressed during the period under review.

All interim and full-year financial statements are prepared in accordance with relevant financial standards.

Non-Financial Reporting

Both financial and non-financial disclosures are made at least annually, including reporting of material exposure to environmental, economic and social sustainability risks and other key risks. Scales has a strategic target to develop best-in-class sustainability reporting and to measure and report on key sustainability aspects affecting its businesses.

Scales' second Sustainability Report is included in this report at pages 20 – 29, and provides details of the continuing growth and improvements in Scales' initiatives in this area. The Group-wide report draws on the Global Reporting Initiative's materiality principles and identifies material sustainability topics, grouped under the headings Our People, Marketplace, and Our Environment.

Principle 5 - Remuneration

The remuneration of Directors and senior management should be transparent, fair and reasonable.

Remuneration Report

Introduction

This Remuneration Report outlines the Company's overall reward strategy for the year ended 31 December 2017 and provides detailed information on the remuneration arrangements in this period for the Directors of the Company, including the Managing Director, and other nominated executives.

The Board has adopted a Corporate Governance Code. Among other policies, the Corporate Governance Code includes the Company's Remuneration Policy, which may be amended from time to time and is reviewed at least once a year.

Remuneration Philosophy

The Nominations and Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages for Directors, the Managing Director and nominated executives. The primary objectives of the Remuneration Policy are to provide a competitive and flexible structure that reflects market practice, but is tailored to the specific circumstances of the Company and which reflects each person's duties and responsibilities so as to attract, motivate and retain people of the appropriate quality.

The Nominations and Remuneration Committee reviews market data on remuneration structure and quantum. The remuneration packages of the Managing Director and nominated executives are structured to include a Short Term Incentive Scheme (STI Scheme) that is directly linked to the overall financial and operational performance of the Company. The Managing Director and nominated executives may also be invited to participate in the Company's Long Term Incentive Scheme (LTI Scheme). The long-term benefits of the LTI Scheme are solely conditional upon the Company's share price meeting certain performance criteria, details of which are outlined below.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive Director remuneration is separate and distinct from the remuneration of the Managing Director and other executives.

Components of Compensation – Non-executive Directors

The Board seeks to set aggregate remuneration for non-executive Directors at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

No remuneration is payable to Directors unless it is approved by the Company's shareholders. The NZX Listing Rules specify that shareholders can approve a per-Director remuneration amount or an aggregate Directors' fee pool. At the Company's Annual Shareholders Meeting on 14 June 2017, the Company's shareholders approved an aggregate remuneration pool for non-executive Directors of $500,000 per annum (an increase of $60,000 per annum).

The aggregate remuneration paid to non-executive Directors and the manner in which it is apportioned amongst Directors is reviewed annually, with any proposed increase in the aggregate pool put to shareholders for approval at the Company's next Annual Shareholders Meeting. The Board reviews its fees to ensure the Company's non-executive Directors are fairly remunerated for their services, recognising the level of skill and experience required to fulfil the role, and to enable the Company to attract and retain talented non-executive Directors. The process involves benchmarking against a group of peer companies. In addition the board reviews the Committee structure and appropriate level of resourcing required to make an on-going contribution to long term value creation. During the year the Board formed two new Committees to focus on Health and Safety plus Finance and Treasury, both areas considered to be key drivers for the Company.

Non-executive Directors have no entitlement to any performance-based remuneration or participation in any share-based incentive schemes. This policy reflects the differences in the role of the non-executive Directors, which is to provide oversight and guide strategy, and the role of management, which is to operate the business and execute the Company's strategy. Non-executive Directors are encouraged to be shareholders, but are not required to hold shares in the Company.

Each non-executive Director receives a fee for services as a Director of the Company and an additional fee is also paid for being a member of the Board Committees. The payment of an additional fee recognises the additional time commitment required by Directors who serve on those Committees. All Directors are also entitled to be reimbursed for costs associated with carrying out their duties.

Fees payable to the non-executive Directors of the Company for the period 1 January 2017 to 31 December 2017 were as follows:

Director	Base fee	Fees for serving on Nominations and Remuneration Committee	Fees for serving on Audit and Risk Management Committee	Fees for serving on the Board of Selacs Insurance Limited	Fees for serving on Health and Safety Sub-Committee*	Fees for serving on Finance and Treasury Sub-Committee*
Jon Mayson	$51,228 (Chairman)	$2,632	$0	$0	$0	$0
Tim Goodacre	$97,605 (Chairman and Deputy Chairman)	$5,780	$0	$0	$0	$0
Alan Isaac	$63,560	$0	$17,330 (Chairman)	$11,560	$0	$0
Nick Harris	$63,560	$0	$5,780	$0	$2,890 (Chairman)	$0
Mark Hutton	$63,560	$8,670 (Chairman)	$5,780	$0	$0	$2,890 (Chairman)
Weiyong Wang	$63,560	$0	$0	$0	$0	$0

*The Health and Safety Sub-Committee and Finance and Treasury Sub-Committee were sub-committees of the Audit and Risk Management Committee. During 2017 these sub-committees were constituted as full Board Committees.

(a) Remuneration of Managing Director and executives

The number of employees of the Company (including former employees), not being a Director mentioned above, who received remuneration and other benefits in excess of $100,000 in the period 1 January 2017 to 31 December 2017 is set out in the remuneration bands detailed below:

Amount of Remuneration	Employees
$100,001 - $110,000	6
$110,001 - $120,000	9
$120,001 - $130,000	11
$130,001 - $140,000	7
$140,001 - $150,000	7
$150,001 - $160,000	2
$160,001 - $170,000	1
$170,001 - $180,000	3
$190,001 - $200,000	3
$200,001 - $210,000	4
$220,001 - $230,000	1
$230,001 - $240,000	1
$250,001 - $260,000	4
$260,001 - $270,000	2
$290,001 - $300,000	1
$300,001 - $310,000	1
$320,001 - $330,000	1
$330,001 - $340,000	1
$340,001 - $350,000	1
$450,001 - $460,000	1

As set out in further detail below, the total remuneration and value of other benefits paid to the Managing Director (including under the STI Scheme and LTI Scheme detailed below) for the year ended 31 December 2017 was $886,774 (2016: $851,155).

(b) Components of Compensation – Managing Director and Other Nominated Executives

(i) Structure

The Company aims to reward the Managing Director and nominated executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group, so as to:

- reward them for Company, business unit and individual performance against targets set by reference to appropriate benchmarks and key performance indicators;
- align their interests with those of shareholders; and
- ensure total remuneration is competitive by market standards.

Remuneration consists of both fixed and variable remuneration components. The variable remuneration component comprises the STI Scheme and the LTI Scheme.

The proportion of fixed remuneration and variable remuneration is established for the Managing Director and for each nominated executive by the Board, following recommendations from the Nominations and Remuneration Committee and the Managing Director (in the case of the nominated executives).

The remuneration packages for the Managing Director and nominated executives are all subject to Board approval. There were no material changes to the remuneration structure or targets for the 2017 year.

(ii) Fixed annual remuneration

Remuneration levels are reviewed annually to ensure that they are appropriate for the responsibility, qualifications and experience of the Managing Director and each nominated executive and are competitive with the market.

The Managing Director and nominated executives receive their fixed annual remuneration in cash and a limited range of prescribed fringe benefits such as superannuation, motor vehicle and health insurance. The total employment cost of any remuneration package, including fringe benefit tax, is taken into account in determining an employee's fixed annual remuneration.

For the financial year ended 31 December 2017, the Managing Director received $562,350 in fixed annual remuneration. By comparison, the Managing Director received $454,473 in fixed annual remuneration for the financial year ended 31 December 2016. The increase in fixed annual remuneration was supported by an external review and the base cash remuneration has been set for the next three year period.

(iii) Variable remuneration – STI Scheme

The objective of the STI Scheme is to link the achievement of the annual financial and operational targets with the remuneration received by the executives charged with meeting those targets. The total potential remuneration under the STI Scheme is set at a level so as to provide sufficient incentive to the executive to achieve the targets such that the cost to the Company is flexible and in line with the trading outcome for the year.

Actual STI Scheme payments granted to the Managing Director and each nominated executive depend on the extent to which specific targets, set at the beginning of the year, are met. The targets may include a weighted combination of:

- at least 40% for meeting budget or target Underlying Net Profit after Tax for the Group; plus
- at least 40% for meeting budget or target Underlying Net Profit after Tax and/or Return on Capital Employed for the group or business unit; and
- any balance for strategic objectives; and other contributions.

The Nominations and Remuneration Committee consider the performance against the targets, and determine the amount, if any, to be allocated to the Managing Director and nominated executives. STI Scheme payments relating to the financial year ended 31 December 2017 are delivered as a taxable cash bonus and are payable on completion of the annual audited financial statements. It should be noted the level of remuneration detailed in this report for the Managing Director includes the bonus paid in early 2017 relating to the 2016 financial year. The actual amount paid for all nominated executives of the STI Scheme for 2016 was $754,618 and the total accrual for 2017 is $675,000, being 72.3% of the total pool for the year.

The STI Scheme payment for the Managing Director relating directly to the financial year ended 31 December 2017 has been approved for payment, with the Managing Director receiving $80,133, being 56% of his maximum available bonus, compared to $121,500 in STI Scheme payments relating to the 2016 year.

STI Scheme payment values are set as a percentage of base cash remuneration, being 30% for the Managing Director and between 10% and 20% for other nominated executives for the financial year ended 31 December 2017. For the financial year ended 31 December 2017 there were 49 nominated executives in the STI Scheme, an increase of 12 from the 2016 year.

In addition to the STI Scheme the Board reserves the ability to pay ad hoc bonus payments to any employee, again directly related with the trading outcome.

(iv) Variable remuneration – LTI Scheme

The LTI Scheme has been designed to link reward with key performance indicators that drive sustainable growth in shareholder value over the long term. The objectives of the LTI Scheme are to:

- align the Managing Director and nominated executives' interests with those of shareholders;
- help provide a long term focus; and
- retain high calibre senior employees by providing an attractive equity-based incentive that builds an ownership of the Company mindset.

Under the LTI Scheme, the Managing Director and nominated executives are offered an interest free loan which is to be applied to acquire shares in the Company. Shares acquired under the LTI Scheme are held by a custodian and will only vest in the employee if he or she is still employed by the Company after three years from the date of acquisition. Once the shares vest, the employee still remains obligated to repay the outstanding balance of the loan. Alternatively, if an employee leaves employment before the expiry of the three year period, the Company is authorised to sell that employee's shares with the proceeds applied to repay the balance of the loan, with any deficit covered by the Company and any surplus retained by the Company.

Each employee's loan amount (which determines how many shares will be acquired) is set as a percentage of their base cash remuneration and selected employees will be offered a loan for this amount if the criteria set by the Board are met. For the first three years of the LTI Scheme, from 2015 until the 2017 allocation, the criterion has been the achievement of a gross Total Shareholder Return (TSR) of 12.5% over the reference share price. The reference share price for all new participants is set at the time of joining the scheme.

As a result of the success of the current scheme in meeting its objectives and targets, the board has agreed to extend the LTI Scheme for a further three year period relating to the 2018 to 2020 financial years. The Board's current intention is to retain the same scheme structure and introduce new TSR hurdles.

An offer may be made under the LTI Scheme to the Managing Director and nominated executives each financial year and is based on individual performance as assessed by the annual appraisal process. If an executive does not sustain a consistent level of high performance they will not be nominated for participation in the LTI Scheme. The Nominations and Remuneration Committee reviews all nominated executives, with participation in the LTI Scheme subject to final Board approval. The Board has retained the discretion to vary the applicable criteria for each offer under the LTI Scheme. Once the Board has fixed the criteria for a specific offer under the LTI Scheme, those performance hurdles cannot be varied in respect of that offer.

LTI Scheme loan amounts are set as a percentage of base cash remuneration, being 30% for the Managing Director and 10% for other nominated executives in respect of the financial year ended 31 December 2017. For the financial year ended 31 December 2017, there were 49 nominated executives in the LTI Scheme, an increase of 12 from the 2016 year.

During the financial year ended 31 December 2017, 335,211 shares were allocated under the LTI Scheme relating to the 2016 financial year with matching interest free loans of $596,735, an average of $1.78 per share. The Managing Director will receive 84,706 shares in the Company under the LTI Scheme relating to the financial year ended 31 December 2017, compared to 71,471 shares relating to the previous year. As at the end of the financial year ended 31 December 2017, the total balance owing under the loans advanced to the Managing Director under the LTI Scheme was $219,762.

During the year the shares issued to executives as part of the IPO vested. As at year end total loans, which are now full recourse, of $921,021 remain outstanding. The executives are obligated to repay the outstanding loan balance on the sale of the shares or on termination of employment.

Total shares allocated under the scheme as at the end of the financial year ended 31 December 2017 are as follows:

Grant date	**Vesting date**	**Exercise price ($)**	**Number of shares**				
			Opening balance	**Granted**	**Forfeited**	**Vested and exercised**	**Closing balance**
24 July 2014	24 July 2017	1.60	1,437,000	-	25,800	1,411,200	-
8 May 2015	8 May 2018	1.66	96,193	-	-	-	96,193
22 April 2016	22 April 2019	1.67	314,064	-	15,066	-	298,998
5 May 2017	5 May 2020	1.70	-	299,377	9,346	-	290,031
5 May 2017	5 May 2020	2.45	-	35,834	-	-	35,834
Total			**1,847,257**	**335,211**	**50,212**	**1,411,200**	**721,056**

The total cost of the LTI Scheme relating to the 2016 year share allocation was $840,753. Under accounting standard IFRS 2 Share Based Payments, the total option value of each annual allocation is spread across the three years of the vesting period from the date of issue. As a result, the total expense recorded in the Statement of Comprehensive Income for the financial year ended 31 December 2017 is $388,732. The total cost relating to each annual share allocation will be cumulative.

The total annual cost of the LTI Scheme relating to shares issued from 2014 to 2017 is detailed below. In addition, the annual allocation spread across the three years of the vesting period is as follows:

Financial Year	**LTI Year**	**Allocation Cost at Grant Date**	**P&L Amortisation***
2014	IPO	$469,985	$65,000
2015	2014	$31,465	$167,850
2016	2015	$517,879	$269,719
2017	2016	$572,866	$388,732
2018*			$352,290
2019*			$234,787
2020*			$63,952

*The forecast years assume no further Allocations.

It should be noted the level of remuneration detailed in this report for the Managing Director for 2017 includes all of the pro-rata portion of the accounting expense of the LTI Scheme to date. The actual cost relating to the 2017 LTI Scheme allocation will be included in the 2018 remuneration amount reported.

(v) Employee share ownership scheme

At the time of the Company's initial public offering, it established an employee share ownership scheme to facilitate an increase in the level of participation by employees as shareholders, which improves the alignment of interests between employees and shareholders. Under the scheme, each eligible employee was offered an interest free loan up to $5,000 to fund 50% of the subscription price for the shares which the employee wished to acquire in the Company. Employees are obliged to repay their loans when the shares are sold or when they leave the Company.

Principle 6: Risk Management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

RECOMMENDATION 6.1:

An issuer should have a risk management framework for its business and the issuer's Board should receive and review regular reports.

Risk Management Framework

The Board is responsible for ensuring that key business and financial risks are identified, and that appropriate controls and procedures are in place to effectively manage those risks.

The Audit and Risk Management Committee has overall responsibility for ensuring that Company's risk management framework is appropriate and that it appropriately identifies, considers and manages risks.

Risk management is an integral part of Scales' business. A risk management framework incorporating a risk register is used to identify those situations and circumstances in which the Company may be materially at risk and for which risk mitigation activities are appropriate. This approach is intended to embed a comprehensive, holistic, Group-wide culture of risk awareness in senior management, supported by a consistent method of identifying, assessing, controlling, monitoring and reporting existing and potential risks to Scales' business.

The objectives of the framework are to:

- Provide a consistent and structured way to manage risk across the Company;
- Ensure the Company manages effectively the risks it faces in achieving its objectives; and
- Ensure our people are aware of and meet their responsibilities to identify, evaluate and treat the risks that may prevent or restrict the Company from achieving its objectives.

The Board has delegated responsibility to the Audit and Risk Management Committee to establish and regularly review the Company's risk management framework. As part of this framework the Committee is tasked with identifying situations and circumstances in which the Company may be materially at risk, and initiating appropriate action through the Board or Managing Director. A risk management policy is overseen by the Managing Director and supports a comprehensive approach to the management of those risks identified as material to the Company's operations. Risk management is a standing item on the agenda for Audit and Risk Management Committee meetings, with detailed reports provided by Management.

The Managing Director and Chief Financial Officer have provided the Board, through the Audit and Risk Management Committee, with assurances that, in their opinion, financial records have been properly maintained, that the financial statements comply with those accounting standards under which Scales must report and that the statements give a true and fair view of Scales' financial position and performance. These representations are given on the basis that a sound system of internal controls and risk management is operating effectively in all material respects in relation to financial reporting.

Insurance

In managing the Company's business risks, the Board approves and monitors policy and procedures in areas such as treasury management, financial performance, taxation and delegated authorities.

Scales has insurance policies in place covering most areas where risk to its assets and business can be insured at a reasonable cost. It also operates a captive insurance subsidiary, Selacs Insurance Limited. Selacs Insurance accesses reinsurance, for the benefit of the Company, in the London insurance market.

RECOMMENDATION 6.2:

An issuer should disclose how it manages its health and safety risks and should report on their health and safety risks, performance and management.

Health and Safety

During 2017 the Board established a Health and Safety Committee to assist the Board to meet its responsibilities under the Health & Safety at Work Act 2015. In particular, the Committee is responsible for ensuring that health and safety is given an appropriate level of focus across the Scales Group by regularly reviewing the assurance processes around risk assessment and mitigation, safety systems, staff capability, staff competency, safety leadership and safety culture. Detailed reporting is provided to the Committee on lead and lag indicators including health and safety incidents, injury rates by severity, local site health and safety committee meetings, and sick leave. The findings of independent audit reports are provided to the Committee.

Further information is included in the Sustainability Report at pages 23 – 25

Principle 7 – Auditors

The Board should ensure the quality and independence of the external audit process.

RECOMMENDATION 7.1 AND 7.2

The Board should establish a framework for the issuer's relationship with its external auditors.

The external auditor should attend the issuer's Annual Shareholders Meeting to answer questions from shareholders in relation to the audit.

External Auditor

Oversight of the Company's external audit arrangements to safeguard the integrity of financial reporting is the responsibility of the Audit and Risk Management Committee. Scales maintains an External Auditor Independence Policy to ensure that audit independence is maintained, both in fact and appearance.

The policy covers the following areas:

- Appointment of the external auditor.
- Provision of other assurance services by the external auditor.
- Pre-approval process for the provision of other assurance services.
- External auditor lead and engagement partner rotation.
- Hiring of staff from the external auditor.
- Relationships between the external auditor and the Company.
- Reporting on fees and non-audit work.

The role of the external auditor is to audit the financial statements of the Company in accordance with applicable auditing standards in New Zealand and to report on its findings to the Board and shareholders of the Company.

The External Auditor Independence Policy is available in the Governance section of the Company's website.

Deloitte Limited is the Company's current external auditor. Michael Wilkes has been the audit engagement partner following a partner rotation after the completion of the 2015 audit. Michael was previously the audit engagement partner for the seven years up to 2012.

All services provided by the Company's external auditor are considered on a case by case basis by Management and the Audit and Risk Management Committee to ensure there is no actual or perceived threat to independence in accordance with the policy. The external auditor has provided the Audit and Risk Management Committee with written confirmation that, in his view, he was able to operate independently during the year.

Fees paid to Deloitte Limited are included in note B2 of the notes to the financial statements. A total of $186,517 was paid to Deloitte Limited for audit-related services. There were no non-audit services provided by Deloitte Limited for the year ended 31 December 2017, and consequently no fees paid in respect of non-audit services. All non-audit services provided must have the prior approval of the Audit and Risk Management Committee.

The effectiveness, performance and independence of the external auditors is reviewed by the Audit and Risk Management Committee. The auditor is regularly invited to meet with the Committee including without Management present.

The auditor has been invited to attend the Annual Shareholders' Meeting and will be available to answer questions about the audit process and the independence of the auditor.

RECOMMENDATION 7.3:

Internal audit functions should be disclosed.

Internal Audit

Scales internal audit function, established during 2017, is overseen by the Audit and Risk Management Committee. The objective of the internal audit function is to enhance and protect the organisational value of Scales by providing risk-based and objective assurance, advice and insight.

Internal audit activities are governed by Scales' Internal Audit Charter, which outlines, amongst other things, the principles, purpose, authority and scope of the function.

An annual internal audit plan is prepared for approval by the Audit and Risk Management Committee. Where necessary, external expertise is obtained for specific audit activities.

The internal auditor is regularly invited to meet with the Committee including without Management present.

Principle 8 – Shareholder Relations

The Board should respect the rights of shareholders and foster constructive relationship with shareholders that encourage them to engage with the issuer.

RECOMMENDATION 8.1:

An issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer.

Shareholder Relations

Scales' Board is committed to maintaining open and transparent communications with investors and other stakeholders. Annual and interim reports, NZX releases, governance policies and charters and a variety of corporate information is posted onto the Company's website. Recordings of results briefings are available at Investor Presentations in the Investors section of the website.

Each shareholder is entitled to receive a hard copy of each annual and interim report.

The Company has a Shareholder Meetings page in the Investors section on its website. Documents relating to meetings are available.

Shareholder meetings will be held at a time and location to encourage participation in person by shareholders. Annual meetings are currently held in Christchurch, reflecting the head office location for the Company, and the historical shareholder base.

RECOMMENDATION 8.2:

An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.

Electronic Communications

Shareholders have the option of receiving their communications electronically.

Contact details for Scales' head office are available on the website.

RECOMMENDATION 8.3:

Shareholders should have the right to vote on major decisions which may change the nature of the company in which they are invested in.

Major Decisions

Directors' commitment to timely and balanced disclosure is set out in its Shareholder Communications and Market Disclosure Policy and includes advising shareholders on any major decisions. Where voting on a matter is required the Board encourages investors to attend the meeting or to send in a proxy vote. Shareholders may raise matters for discussion at the Annual Shareholders' Meeting either in person or by emailing the Company with a question to be asked.

RECOMMENDATION 8.4:

Each person who invests money in a company should have one vote per share of the company they own equally with other shareholders.

Voting

Scales conducts voting at its Annual Shareholder Meetings by way of poll and on the basis of one share, one vote.

RECOMMENDATION 8.5:

The board should ensure that the annual shareholders notice of meeting is posted on the issuer's website as soon as possible and at least 28 days prior to the meeting.

Notice of Meeting

Scales' Notice of Meeting will be available at least 28 days prior to the meeting on the Shareholder Meetings page in the Investors section of the website.

DIRECTOR DISCLOSURES

Directors

The following persons were Directors of Scales and its subsidiaries during the year ended 31 December 2017:

Scales Corporation Limited

Andrew Borland	Executive Director
Carol Chen (appointed 2 November 2017)	Alternate Director
Tim Goodacre	Independent Chairman
Nick Harris	Independent Director
Mark Hutton	Independent Director
Alan Isaac	Independent Director
Jon Mayson (ceased 14 June 2017)	Independent Chairman
Weiyong Wang	Director

Fern Ridge Produce Limited

Russell Black

Andrew Borland

Hamish Davis

Andrew van Workum

Geo.H.Scales Limited

Andrew Borland

Steve Kennelly

Kent Ritchie

Liqueo Bulk Storage Limited

Andrew Borland

Kevin Cahill

Longview Group Holdings Limited

Andrew Borland

Andrew van Workum

Longview New Zealand Limited

Andrew Borland

Andrew van Workum

Longview Packhouse Limited

Andrew Borland

Andrew van Workum

Meateor Foods Limited

Andrew Borland

Stephen Foote

Nick Harris

Meateor Foods Australia Pty Limited

Andrew Borland

Tim Goodacre

Mr Apple New Zealand Limited

Andrew Borland

Tim Goodacre

Mark Hutton

New Zealand Apple Limited

Andrew Borland

Tim Goodacre

OceanAir Freight Pty Limited

Luke Mitchell (ceased 1 August 2017)

Russell Pope (ceased 1 August 2017)

Andrew Borland (appointed 1 August 2017)

Tim Goodacre (appointed 1 August 2017)

Polarcold Stores Limited

Andrew Borland

Nick Harris

Mark Hutton

Jon Mayson (ceased 14 June 2017)

Scales Employees Limited

Andrew Borland

Mark Hutton

Scales Holdings Limited

Andrew Borland

Steve Kennelly

Kent Ritchie

Scales Logistics Limited

Andrew Borland

Steve Kennelly

Kent Ritchie

Selacs Insurance Limited

Andrew Borland

Alan Isaac

Steve Kennelly

Whakatu Coldstores Limited

Andrew Borland

Stephen Foote

Interests Register

The following entries were made in the interests register of Scales and its subsidiaries during the period 1 January 2017 to 31 December 2017:

Indemnification and Insurance of Directors

As permitted by the company's Constitution and in accordance with Section 162 of the Companies Act 1993, the group has indemnified all Directors and arranged Directors' and Officers' liability insurance which ensures that, to the extent permitted by law, Directors will incur no monetary loss as a result of actions undertaken as Directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines, which may be imposed in respect of breaches of the law.

Share Dealings by Directors

Dealings by Directors in relevant interests in Scales' ordinary shares during the year ended 31 December 2017 as entered in the Interests Register of Scales are as follows:

Name of Director	No. of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition / Disposal
Andrew Borland	71,471	Beneficial owner	Acquisition	$3.35 per share	5 May 2017
Andrew Borland	220,800	Registered holder and beneficial owner	Transfer of legal title pursuant to the terms of the Scales Corporation Limited Senior Executive Share Scheme	Nil	25 July 2017
Andrew Borland	220,800	Registered holder and beneficial owner	Disposal	$3.40 per share	29 August – 1 September 2017
Andrew Borland	270,000	Registered holder, together with Gina Dellabarca and Mark Bolton, as trustees of the Borland Dellabarca Family Trust, of which Andrew Borland is a discretionary beneficiary.	Disposal	$3.74 per share	16-20 October 2017
Andrew Borland	180,000	Registered holder, together with Gina Dellabarca and Mark Bolton, as trustees of the Borland Dellabarca Family Trust, of which Andrew Borland is a discretionary beneficiary.	Disposal	$3.84 per share	31 October – 2 November 2017

General Notice of Disclosure of Interest in the Interests Register

Details of Directors' general disclosures entered in the relevant interests register for Scales or its subsidiaries during the period 1 January 2017 to 31 December 2017 are as follows:

Scales Corporation Limited	
Mark Hutton	
Evergreen Partners Limited	Appointed as Director
Carol Chen	
China Resources Enterprise, Limited	Noted as Investment Director

Relevant Interests

The table below records the Scales ordinary shares in which each Director had a relevant interest as at 31 December 2017.

Director	Number of Ordinary Shares – Beneficial	Number of Ordinary Shares – Non-Beneficial
Andrew Borland	144,225	1,500,000
Tim Goodacre	15,625	Nil
Nick Harris	100,000	Nil
Mark Hutton	Nil	748,277
Alan Isaac	25,000	3,000
Weiyong Wang	Nil	Nil
Carol Chen	Nil	Nil

Use of Company Information by Directors

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

Auditor's Fees

Deloitte Limited has continued to act as the auditor of Scales and its subsidiaries. The amount payable by Scales and its subsidiaries to Deloitte Limited as audit fees during the year ended 31 December 2017 was $186,517. There were no fees paid to Deloitte for non-audit work during the year ended 31 December 2017.

Shareholder Information

Spread of Shares

Set out below are details of the spread of shareholders of Scales as at 31 January 2018:

	Number of Shareholders	Number of Shares Held	% of Shares Held
Under 2,000	877	868,183	0.62
2,000 to 4,999	1,140	3,514,269	2.50
5,000 to 9,999	831	5,413,455	3.85
10,000 to 49,999	827	15,294,696	10.89
50,000 to 99,999	82	5,341,740	3.80
100,000 and over	72	110,077,949	78.34

20 Largest Shareholders

Set out below are details of the 20 largest shareholders of Scales as at 31 January 2018:

Shareholder	Number of Shares	% of Shares
New Zealand Central Securities Depository Limited	42,761,584	30.43
China Resources Ng Fung Limited	21,500,000	15.30
Custodial Services Limited	7,046,503	5.01
FNZ Custodians Limited	6,232,185	4.44
Custodial Services Limited	3,559,601	2.53
Custodial Services Limited	3,044,108	2.17
John Grant Sinclair & Camille Elizabeth Sinclair	2,241,000	1.59
Custodial Services Limited	2,084,424	1.48
John Grant Sinclair	1,680,700	1.20
Custodial Services Limited	1,595,970	1.14
Andrew James Borland & Gina Dellabarca & Mark Andrew Bolton	1,500,000	1.07
Investment Custodial Services Limited	1,251,275	0.89
PT (Booster Investments) Nominees Limited	1,101,535	0.78
Custodial Services Limited	993,437	0.71
New Zealand Depository Nominee Limited	753,091	0.54
Scales Employees Limited	721,056	0.51
Woolf Fisher Trust Incorporated	680,000	0.48
Forsyth Barr Custodians Limited	600,064	0.43
JB Were (NZ) Nominees Limited	562,148	0.40
Alan Richard Millward & Alistair Jeffrey Nicholson	552,377	0.39
Total	**100,461,058**	**71.50**

Substantial Product Holders

Set out below are details of the substantial product holders of Scales as advised by notice to Scales at 31 December 2017. The number of shares shown below is as advised in the most recent substantial product holder notices given to Scales and may not be their holding as at 31 December 2017.

Name	Number of Shares	Class of Shares
China Resources Ng Fung Limited	21,500,000	Ordinary
Harbour Asset Management Limited	11,578,080	Ordinary

The total number of Scales Corporation Limited ordinary shares on issue as at 31 December 2017 was 140,510,292.

Other Information

NZX Waivers

Scales did not rely upon any waivers granted by NZX Limited during the year ended 31 December 2017.

Exercise of NZX Disciplinary Powers

NZX Limited did not exercise any of its powers under Listing Rule 5.4.2 in relation to Scales during the year ended 31 December 2017.

Donations

Donations of $27,897 were made by Scales during the year ended 31 December 2017.

DIRECTORY

Board of Directors

Tim Goodacre (Chairman)
Andrew Borland (Managing Director)
Nick Harris
Mark Hutton
Alan Isaac
Weiyong Wang
Carol Chen (Alternate Director for Weiyong Wang, appointed 2 November 2017)

Audit and Risk Management Committee

Alan Isaac (Chairman)
Nick Harris
Mark Hutton

Nominations and Remuneration Committee

Mark Hutton (Chairman)
Tim Goodacre

Finance and Treasury Committee

Mark Hutton (Chairman)
Andrew Borland

Health and Safety Committee

Nick Harris (Chairman)
Andrew Borland

Registered Office

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Christchurch 8013
New Zealand

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Telephone

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Website

www.scalescorporation.co.nz

Auditor

Deloitte Limited

Level 4
151 Cambridge Terrace
Christchurch 8013

Bankers

ANZ Bank New Zealand Limited

Level 3
ANZ Centre
267 High Street
Christchurch 8011

Rabobank New Zealand Limited

Level 23
157 Lambton Quay
Wellington 6011

Westpac New Zealand Limited

Level 2
2 Show Place
Christchurch 8024

Solicitors

Anthony Harper

Level 9
HSBC Tower
62 Worcester Boulevard
Christchurch 8013

Chapman Tripp

23 Albert Street
Auckland 1010

Corporate Adviser

Maher & Associates

17 Albert Street
Auckland 1010

Share Registry

Computershare Investor Services Limited

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Takapuna
North Shore City
Auckland 0622

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