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.

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.