



FACT SHEET 2018

About Scales

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

Horticulture



Vertically integrated apple grower, packer & marketer



Apple marketer¹

Storage & Logistics



Temperature controlled storage



Air & sea freight



Bulk liquid storage

Food Ingredients



Agricultural by-product manufacturers²



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

- Mr Apple is New Zealand's largest integrated apple grower, packer and marketer, expanded by the acquisition of Longview Group Holdings Limited (Longview) in November 2016.
- Polarcold Stores Limited (Polarcold) is the largest independent provider of temperature controlled storage in New Zealand.³
- Scales Logistics is a leader in freight forwarding services to exporters and importers of perishable products.
- Meateor Foods Limited (Meateor) and Profruit (2006) Limited (Profruit) manufacture high quality, New Zealand-made, pet food ingredients and juice concentrate respectively.

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

² Profruit is a 50 per cent owned joint venture.

³ Scales has entered into an agreement with Emergent Cold to sell all shares in Polarcold for \$151.4m, subject only to OIO approval.

Vision and Strategy

Scales' vision

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

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 performances 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 Chinese 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 will 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 agri-business 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, align investments with our expanding network in China and 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).
- 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.

Sustainability Report

As an agribusiness investor we clearly recognise that we have a responsibility to all stakeholders to ensure we have a sustainable business. For us, it is important to know that we operate a work environment where people feel safe and comfortable at work, that we provide opportunities to develop and build a career, that we do right by the environment, and that we treat suppliers, customers and all our stakeholders with respect.

Following our inaugural sustainability report in 2016, we have continued to make strides in monitoring and reporting on our sustainability journey. Our long-term objective is to align ourselves with the internationally-recognised sustainability reporting standard GRI framework as recommended in the NZX's Corporate Governance Code.

In 2017, we appointed a Chief Information Officer, Group Sustainability and Health and Safety manager and an Internal Auditor to help lead our efforts in this area.

The chart below outlines Scales' sustainability framework – our three key stakeholder categories and the sustainability priorities that sit within each.

Scales' sustainability framework



Within this framework, we have recently validated sustainability priorities across all business units. From this exercise, three areas in particular have been identified as the focal points of plans to future proof our business:

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

To progress each of these areas a range of initiatives are underway across the business.

For further information, please read our full Sustainability Report in our 2017 Annual Report.

Share Information

NZX code	SCL
Shares on issue at 31-May-2018	140,896,574
Gross dividend yield⁴	7.0%
NZX industry sector	Primary / Agriculture and Fishing

Closing share price at 31-May-2018	\$4.66
Market capitalisation at 31-May-2018	\$657m
Financial Year End	31 December
Indices:	NZX All NZX 50



Dividends

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

Period	Date Paid	Amount (cash paid)
2016 Interim	18/01/17	8.0 cps
2016 Final	07/07/17	10.0 cps
2017 Interim	19/01/18	9.0 cps
2017 Final	06/07/18	9.0 cps

Research Coverage

Company	Analyst	Email
Deutsche Craigs	Adrian Allbon	adrian.allbon@craigsip.com
First NZ Capital	Jack Crowley	jack.crowley@fnzc.co.nz

⁴Based on the 2017 fully imputed interim and final dividends of 9.0 cents each (gross 12.5 cents) as at 31 May 2018 and average share price for the 2017 financial year.

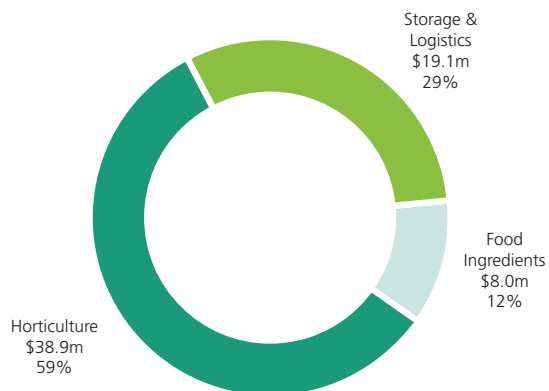


Key Financials

\$ million	FY2013	FY2014	FY2015	FY2016	FY2017
Revenue	272.2	263.3	301.4	373.9	399.1
Underlying EBITDA ⁵	42.8	39.8	61.4	67.9	62.0
Underlying EBITDA Margin	15.7%	15.1%	20.4%	18.1%	15.5%
Underlying Net Profit	19.6	19.8	34.8	38.6	32.7
Net Profit (Statutory)	20.4	18.4	35.9	38.2	31.8
Basic Earnings per share (cents)	16.2 ⁶	14.3	25.7	27.4	22.6
Dividends per share (cents - declared)	11.3	10.0	17.5	14.5	19.0
Average Net Debt	N/A	40.8	32.5	43.4	54.8
Capital Expenditure	13.0	11.1	15.8	15.7	13.5

Divisional Overview

The chart below shows the 2017 Underlying EBITDA contribution from each of Scales' three key operating divisions. Our Corporate division ran at an EBITDA loss of \$4.1m to achieve Underlying Group EBITDA of \$62.0m:



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

⁶ Pro forma financial information.

Horticulture

\$ million	FY2013	FY2014	FY2015	FY2016	FY2017
Revenue	174.2	158.8	178.1	230.1	228.0
% of Group Revenue	64%	60%	59%	62%	57%
Underlying EBITDA	26.2	23.9	40.0	45.3	38.9
% of Group Underlying EBITDA	61%	60%	65%	67%	63%
Orchard Area					
- Total planted orchard at harvest	1,028	1,037	1,052	1,042	1,142
- Fully mature planted orchard	858	871	902	922	1,043
Packhouses					
	3	3	3	4	4
Peak coolstore volumes (bins)	71,700	71,361	106,875	107,385	109,818

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

- Mr Apple (including Longview), New Zealand's largest vertically integrated grower, packer and marketer of apples, based in Hawke's Bay. Mr Apple also packs, stores and markets apples on behalf of a number of external growers in Hawke's Bay and markets on behalf of external growers in Nelson.
- A 73 per cent stake in Fern Ridge, a fresh produce exporter in Hawke's Bay.

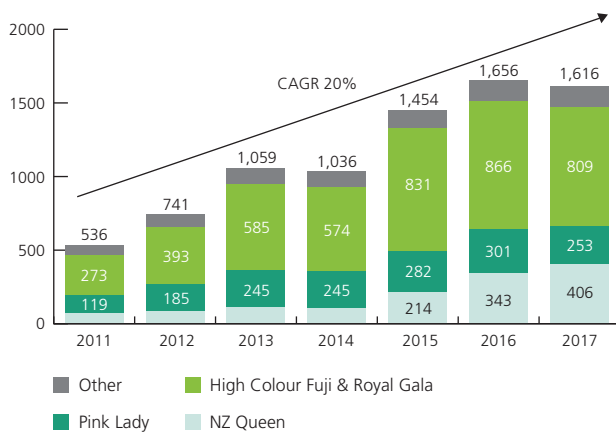
Our strategy is to grow our sales of premium branded apples throughout Asia and the Middle East. We made good progress against this strategy in 2017:

- We continue to invest in our apple varieties and brands. Dazzle® continues to gain market recognition following launch in December 2016, our Diva® branded apple is crisp, juicy, sweet and delivers excellent returns out of Asia and the Middle East and our Little Darlings® range of smaller apples is directed toward children in China. We also have further proprietary varieties in the pipeline, with marketing launches planned for 2018.
- China in particular, remains a special focus. Without a dominant apple brand, there is an opportunity for Mr Apple to take a leadership role in this market. We continue to develop the opportunity through our relationship with key strategic shareholder, China Resources Ng Fung, our participation in the PCNZ partnership for improved access, and other targeted investments in brand, market and channel strategies.
- Finally, we continue to make significant investments in orchard redevelopment. 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.

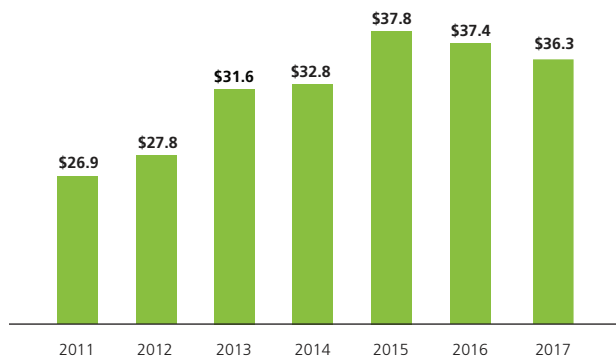
More than half a billion apples were picked from Mr Apple's orchards in the 2017 season from approximately 1,142 hectares of Mr Apple's planted apple orchard. This equates to a gross production of 4.43 million TCEs of which 3.55 million TCEs were exported.

Including Fern Ridge, the Horticulture division sold approximately 5.5 million TCEs, with Mr Apple exports to the fast growing Asia and Middle East markets accounting for 54 per cent of export sales.

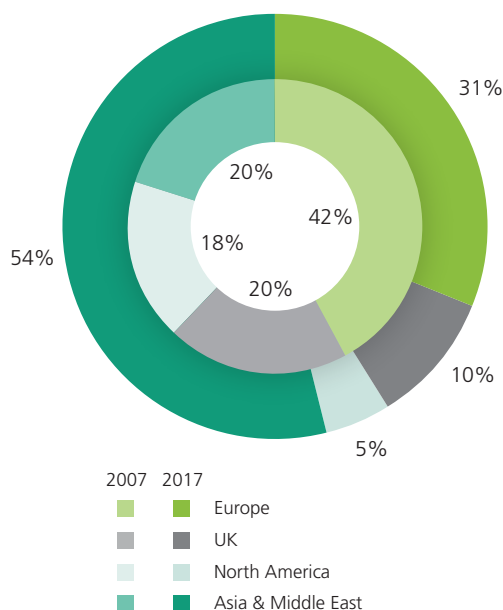
Premium Apple Volumes by Variety (TCE 000s)



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



Exports by Market



Financial Seasonality

Scales has pronounced financial seasonality.

Horticulture Division:

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

Storage & Logistics Division:

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

Storage & Logistics

\$ million	FY2013	FY2014	FY2015	FY2016	FY2017
Revenue	91.7	90.6	95.6	108.4	126.0
% of Group Revenue	34%	34%	32%	29%	32%
Underlying EBITDA	13.9	12.3	16.3	16.2	19.1
% of Group Underlying EBITDA	32%	31%	27%	24%	31%

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

- Polarcold, offering essential supply chain coldstore services for some of New Zealand's largest exporters, importers, and FMCG businesses with facilities in Auckland, Waikato, Hawke's Bay, Timaru, Christchurch and Dunedin.⁷
- Scales Logistics (including OceanAir), a leader in ocean freight services for exporters and importers of perishable products, with offices in Auckland, Tauranga, Hawke's Bay, Christchurch and Melbourne.
- Balance Cargo, providing air freight services, including a purpose built chiller and warehousing facilities, based out of Christchurch.
- Liqueo Bulk Storage, operating bulk liquid storage terminals for the storage of tallow, edible and non-edible oils, liquid stock foods and liquid waste products. Liqueo has direct ship to shore loading / unloading capability at the Ports of Timaru and Napier.

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

⁷ As previously noted, Scales has entered into an agreement with Emergent Cold to sell all shares in Polarcold for \$151.4m.

Food Ingredients

\$ million	FY2013	FY2014	FY2015	FY2016	FY2017
Revenue	33.1	37.2	48.6	58.0	68.9
% of Group Revenue	12%	14%	16%	16%	17%
Underlying EBITDA	4.7	5.7	7.6	9.2	8.0
% of Group Underlying EBITDA	11%	14%	12%	14%	13%

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

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

Meateor continued to drive volume growth in the Food Ingredients division in 2017 as it successfully secured and sold more petfood ingredients. Profruit sales volumes were steady, as poor weather and continued improvements in industry orcharding practices meant an overall reduction in fruit available for processing.

⁸ Excluding the share of profit from joint venture.

⁹ Due to the timing of the acquisition, Longview was excluded from the calculation of Horticulture and Group 2016 ROCE.

Capital Management

Target returns for the group are:

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

The group exceeded both targets during 2017.

	2016		2017	
	ROCE	Underlying EBITDA Margin ⁸	ROCE	Underlying EBITDA Margin ⁹
Horticulture ⁹	28%	20%	19%	17%
Storage & Logistics	11%	15%	13%	15%
Food Ingredients	53%	13%	30%	10%
Group⁸	21%	18%	16%	16%
Target	15%	13%	15%	13%
EBITDA margin:	A measure of the business' core profitability			
Calculation:	Underlying EBITDA (earnings before interest, tax, depreciation and amortisation) divided by revenue			
Return on capital employed (ROCE):	A measure of the business' return on its capital invested			
Calculation:	Underlying EBIT (earnings before interest and tax) divided by capital employed (non-current assets plus current assets (excluding any cash or cash equivalent balances) less current liabilities (excluding any overdraft or short term debt))			



Governance

Board of Directors

Tim Goodacre	Independent Chairman
Andy Borland	Managing Director
Nick Harris	Independent Director, Chair Health and Safety Committee
Mark Hutton	Independent Director, Chair Nominations and Remuneration and Finance and Treasury Committees
Alan Isaac	Independent Director, Chair Audit and Risk Management Committee
Weiyong Wang	Director
Nelson Liu	Alternate Director for Weiyong Wang

Management

Andrew (Andy) Borland, Managing Director

Andy joined Scales in 2007 and became Managing Director in 2011. Prior to joining Scales he had a 20 year career in banking, with his final role being Head of Corporate at Westpac New Zealand. Andy has overall responsibility for the strategic direction and day-to-day management of Scales. In addition to his directorships of the Group, Andy is currently 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 Apple & 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.

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.

Company information

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Registry information

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Glossary

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