

Scales Corporation Limited

Growing your Diversified Agribusiness

Annual Results Presentation
For the year ended 31 December 2019
26 February 2020

Agenda

1. Operating & Strategic Summary
2. Group Financials
3. Divisional Performance and Strategy
4. Capital Management
5. Sustainability
6. Governance and Outlook
7. Appendices



A photograph of three people in an orchard. In the foreground, a woman wearing a blue bucket hat and a blue polo shirt with a 'Mr Apple' logo is smiling and looking down at something in her hands. In the background, two men in similar blue polo shirts are working among the trees. The scene is outdoors with lush green foliage and some fruit visible on the branches.

Operating & Strategic Summary

1

Operating & Strategic Summary

- Statutory Profit for the Year \$121.6m (2018: \$45.5m) including gains from sale of Polarcold and part-sale of Meateor.
 - Underlying* NPAT \$36.4m ahead of 2018 (\$35.8m).
- Underlying EBITDA from the Horticulture Division of \$39.7m (2018: \$42.6m):
 - Outstanding result in light of mixed regional market returns. Our varietal mix and focus on premium apples, enabled our weighted average sales price to remain firm.
 - Premium volumes now make up more than half of the crop (57% of total volume) for the first time.
 - Outstanding crop, with volumes of 3,822k TCEs in line with 2018 (3,867k TCEs) and significantly ahead of forecast (3,620k TCEs) notwithstanding redevelopment.
 - Orchard redevelopment continues – 44 hectares redeveloped during 2019 winter. A further 32 hectares scheduled for winter 2020.
- Food Ingredients retains positive momentum with further offshore opportunities:
 - Positive first year from Shelby (acquired December 2018), both financially and strategically.
 - Strong diversification of protein and geographical sources.
 - Exploring innovative opportunities for further value-add.

* Underlying Results exclude some New Zealand International Financial Report Standards (NZ IFRS) non-cash and other adjustments. Management and the Board believe that Underlying Results more accurately demonstrate the change in operational performance of the Group. Underlying Results are shown before the deduction of share of NPAT for Non-Controlling Interests (Fern Ridge and Shelby) of \$3.6m (2019) vs \$0.4m (2018). Underlying Results for 2018 include Polarcold (full year), Liqueo (up to 1 August 2018), 100% of earnings from Meateor's NZ business and operations, and earnings from Shelby from the 20th of December 2018. Underlying Results for 2019 do not include earnings from Polarcold and include only 50% of earnings from Meateor's NZ business and operations from 1 April 2019. A reconciliation of Underlying to Reported Measures is provided in Appendix I.

Strength in Numbers

5,953,000

TCEs of apples exported*
(up 2% on 2018)

\$484.6m

Revenue
(new revenue record)

39,438

TEU equivalents freighted
(up 12% on 2018)

16%

ROCE
(2018: 17%)

19.0 cents

Dividends declared
per share

111.0 MT

Petfood ingredients sold**
(step change resulting from acquisition
of Shelby)

\$104.9m

Net cash
(2018: \$62.2 net debt)

3,822,000

TCEs of own-grown
apples exported
(in line with 2018)

* Mr Apple, Longview, outside growers and Fern Ridge Fresh.

** Includes 100% of volumes from Meateor NZ; i.e. total volumes controlled directly and indirectly by the Meateor Group.

Strategic Update – Investment

Scales remains committed to reinvesting the proceeds from the sale of Polarcold, Liqueo and 50% of Meateor NZ

- Scales will seek to reinvest in the following focus areas:
 - Organic growth opportunities that strengthen our existing business units.
 - Acquisition growth opportunities that strengthen our existing business units.
 - Investment opportunities in new sectors where Scales can add-value or enhance an existing business through its capital resources, agri-business experience, and export network – especially in China.
- Scales is considering a number of opportunities. Some examples include:
 - Continued orchard redevelopment and RSE accommodation investment at Mr Apple.
 - A significant post-harvest investment in a modern coolstore near Mr Apple's Whakatu packhouse. The coolstore will take advantage of modern technologies and be designed to deliver improved labour efficiency. The coolstore, which is expected to be operational during the 2021 season, will achieve improved centralisation of Mr Apple's post-harvest operations giving rise to reduced truck movements – lowering both Mr Apple's carbon footprint as well as improving transportation efficiencies.
 - The food ingredients division is progressing a number of organic growth opportunities both domestically and offshore to further extend the range of added-value petfoods that this division makes available to its customers.
 - Acquisition opportunities – including opportunities that strengthen existing business units as well as opportunities in new agribusiness sectors.



Group Financials

2

Group Financial Performance

Strategic changes contributing to record profit for the year

- New revenue record of \$484.6m, an increase of 20% on 2018:
 - Includes full year trading from Shelby.
- Reported Profit for the Year \$121.6m (2018: \$45.5m) impacted by:
 - Gain on sale of Polarcold (\$73.0m, including interest).
 - Establishment of Meateor NZ (gain on sale of \$9.8m and revaluation gain \$9.8m).
 - Implementation of NZ IFRS 16 *Leases* (net impact of negative \$1.0m)
- Underlying EBITDA of \$52.7m:
 - 2018 Underlying EBITDA (\$67.1m) includes Polarcold (full year), Liqueo (up to 1 August 2018), and full share of Meateor NZ earnings.
- Underlying NPAT \$36.4m, slightly ahead of 2018, and near the upper end of previous guidance.

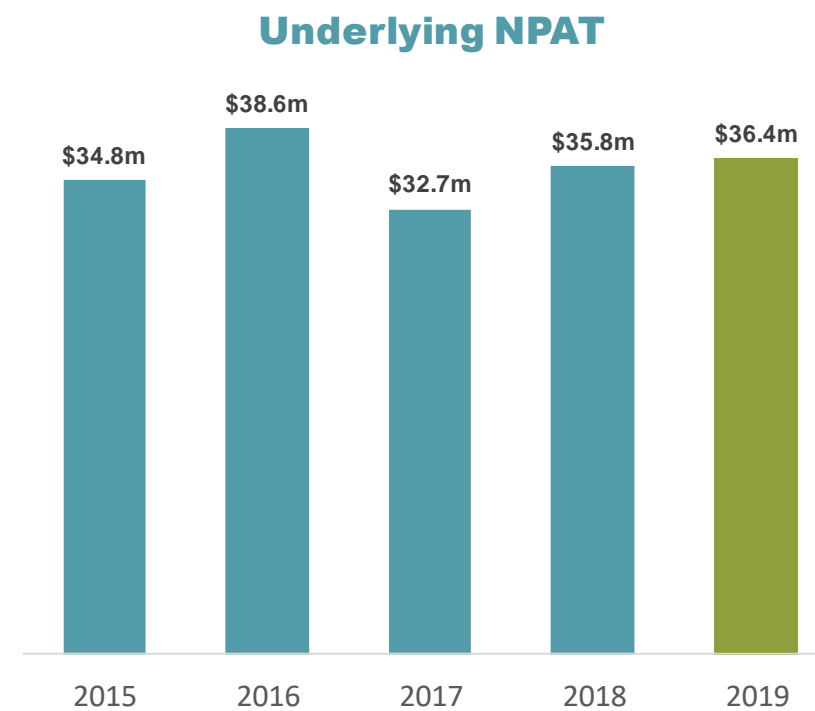
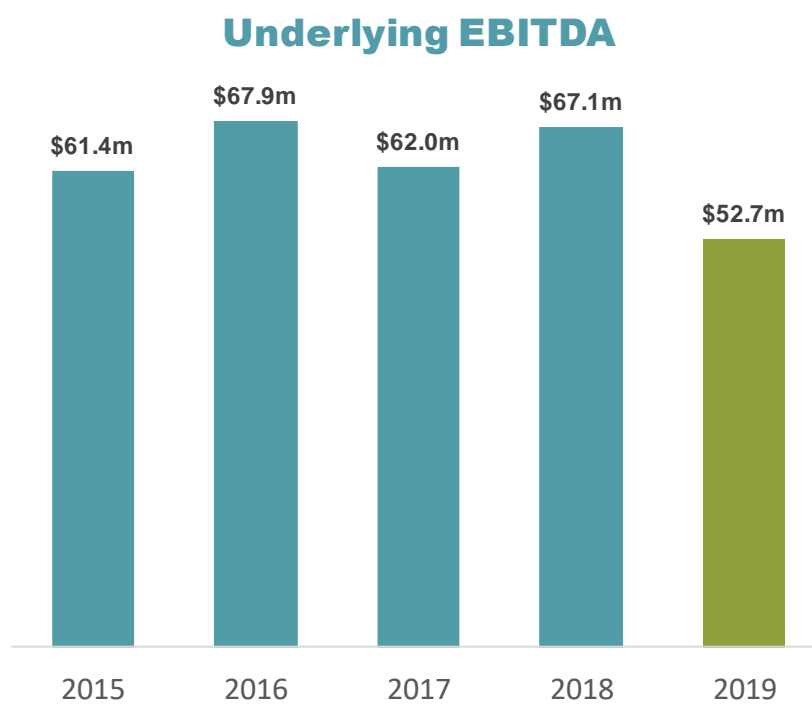
Income Statement

Reported Financials			
\$Millions	2019	2018	% chg.
Revenue	484.6	402.5	20%
Gross Margin	101.5	90.3	12%
EBITDA	79.9	51.7	54%
EBIT	61.8	42.5	45%
Profit for the Year	121.6	45.5	167%
Underlying Results*			
\$Millions	2019	2018	% chg.
Underlying EBITDA	52.7	67.1	-21%
Underlying EBIT	42.5	52.3	-19%
Underlying NPAT	36.4	35.8	2%

* Underlying Results exclude some New Zealand International Financial Report Standards (NZ IFRS) non-cash and other adjustments. Management and the Board believe that Underlying Results more accurately demonstrate the change in operational performance of the Group. Underlying Results are shown before the deduction of share of NPAT for Non-Controlling Interests (Fern Ridge and Shelby) of \$3.6m (2019) vs \$0.4m (2018). Underlying Results for 2018 include Polarcold (full year), Liqueo (up to 1 August 2018), 100% of earnings from Meateor's NZ business and operations, and earnings from Shelby from the 20th of December 2018. Underlying Results for 2019 do not include earnings from Polarcold and include only 50% of earnings from Meateor's NZ business and operations from 1 April 2019. A reconciliation of Underlying to Reported Measures is provided in Appendix I.

Trends in Financial Performance

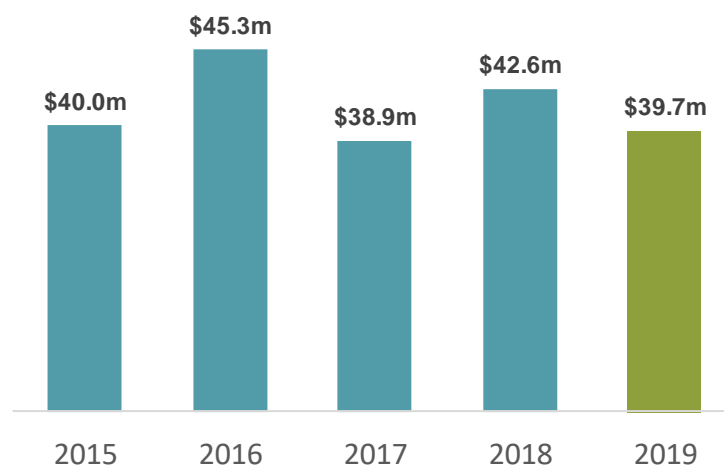
- Variation in 2019 Underlying EBITDA reflects changes in Group structure. Historic results are unadjusted for businesses that have been sold or acquired.



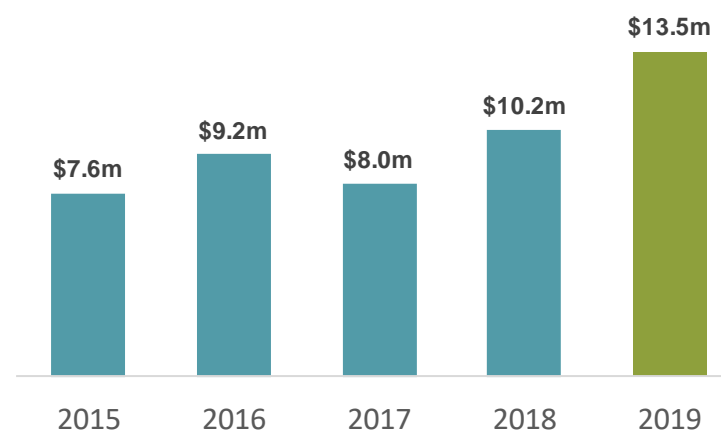
Trends in Divisional Performance

- Stable or growing earnings from all divisions

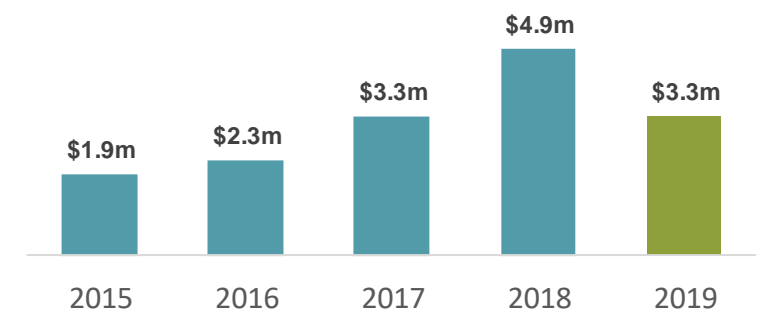
**Horticulture
Underlying EBITDA**



**Food Ingredients
Underlying EBITDA**



**Logistics*
Underlying EBITDA**



* Previously Storage and Logistics. Showing performance of continuing business only.

Balance Sheet

- Balance sheet reflects strategic and NZ IFRS changes:
 - Divestment of Polarcold, as well as 50% of the Meateor NZ business.
 - Implementation of NZ IFRS 16 *Leases*, resulting in additional assets and liabilities of ~\$80m.
- Working capital changes are mostly due to the removal of Meateor's NZ business and operations from the group accounts:
 - Following the establishment of the 50:50 Meateor JV with Alliance, Scales' share in the JV is reported as an "Investment".
 - The removal of Meateor's NZ business and operations has resulted in a reduction in Inventory and Trade Creditors & Other Payables.
 - Other working capital changes due to normal variability within continuing operations.
- Increases in Non-Current Assets also include capital expenditure, including ongoing orchard redevelopment and investment in RSE* accommodation.

* Recognised Seasonal Employer.

Balance Sheet		
\$Millions	2019	2018
Current Assets (excluding Cash)		
Trade and other receivables	20.6	22.9
Inventories	26.4	45.4
Unharvested agricultural produce	21.6	20.5
Other	8.2	7.3
Assets held for sale	-	97.6
	76.9	193.9
Current Liabilities (excluding Overdraft, Borrowings, and Dividends Declared)		
Trade and other payables	(19.8)	(27.3)
Lease liability	(9.4)	-
Other	(7.2)	(6.5)
Liabilities assoc. w/assets held for sale	-	(19.3)
	(36.5)	(53.1)
Net Working Capital	40.4	140.8
Non-Current Assets		
Land and buildings at fair value	96.8	86.7
Apple trees at fair value	33.9	31.6
Other property, plant and equipment	35.0	32.3
Investments, intangibles and goodwill	69.6	50.2
Right of use asset	78.8	-
Other	7.1	6.9
	321.2	207.7
Capital Employed	361.6	348.5

Balance Sheet (continued)

- Scales is ready for investment with a net cash position at 31 December 2019 of \$104.9m (2018: Net Debt of \$62.2m), comprising:
 - Cash and term deposits of \$159.4m.
 - Borrowings of \$54.6m (a voluntary repayment of \$10m of term debt was made during the period).
- The movement in net debt to net cash of \$167.1m reflects:
 - Proceeds from divestments*.
 - Investments in capex.

Balance Sheet (continued)		
\$Millions	2019	2018
Non-Current or Other Liabilities		
Deferred tax liabilities	(19.4)	(15.6)
Lease liability	(70.7)	-
Other financial liabilities	(4.0)	(7.5)
Dividends declared	(13.3)	(13.3)
	(107.4)	(36.4)
Net Cash / (Debt)		
Cash less overdraft	17.4	(1.0)
Term deposits	142.0	-
Cash in assets held for sale	-	6.7
Borrowings	(54.6)	(68.0)
	104.9	(62.2)
Total Equity	359.0	249.9

* Polarcold settled May 2019, Meateor NZ settled April 2019.



Divisional Performance and Strategy

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Horticulture – Financial Performance

Continued stability in orchard volumes notwithstanding redevelopment

- Record revenue of \$264.8m, up 4% on 2018.
- Underlying EBITDA of \$39.7m (2018: \$42.6m).
- Higher than expected Mr Apple export crop:
 - 3,822k TCEs in line with 2018 volumes of 3,867k TCEs.
 - 6% ahead of forecast (3,620k TCEs).
 - 9% increase in external grower volumes.
 - Excellent export packout of 79% (2018: 76%).
- Margin initiatives:
 - Mitigating reduction in EBIT margin is a key focus for Mr Apple.
 - Investments on-orchard and across post-harvest facilities to reduce inefficiency and / or increase the use of automation. Management are working on a number of initiatives.
 - The investment in a new coolstore next to Mr Apple's largest packhouse. Cost efficiencies are anticipated through the use of improved product flow and automation.
 - Mr Apple also expects to see a net improvement in margin as fruit volumes from the Phase 2 redevelopment come online from 2022.

Financial Performance - Horticulture			
\$Millions	2019	2018	% chg.
Horticulture Revenue	264.8	254.6	4%
Underlying Horticulture EBITDA	39.7	42.6	-7%
Underlying Horticulture EBIT	30.9	34.2	-10%
Underlying Horticulture EBIT %	11.7%	13.4%	

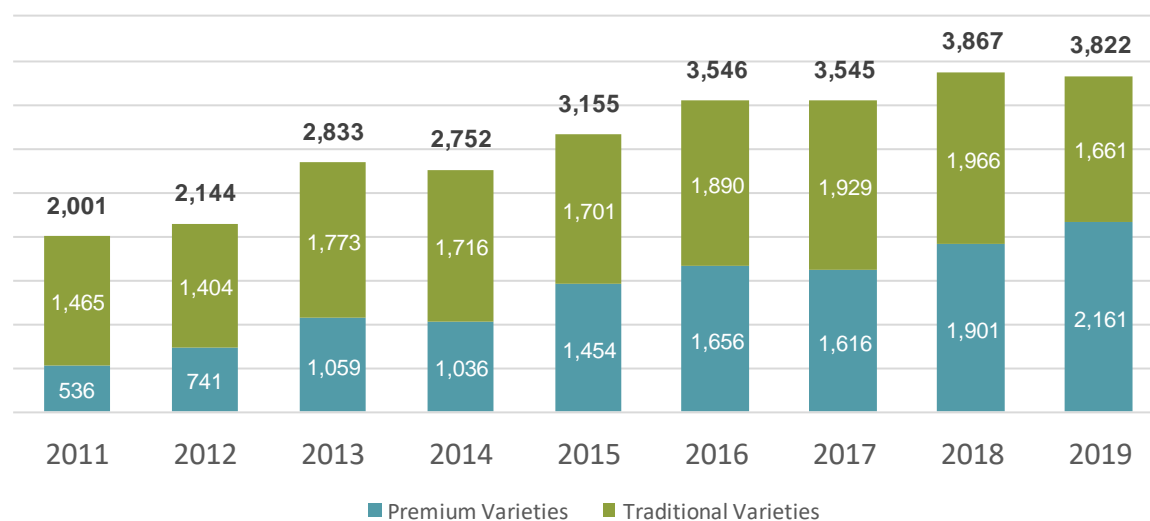


Horticulture – Own-Grown Volumes

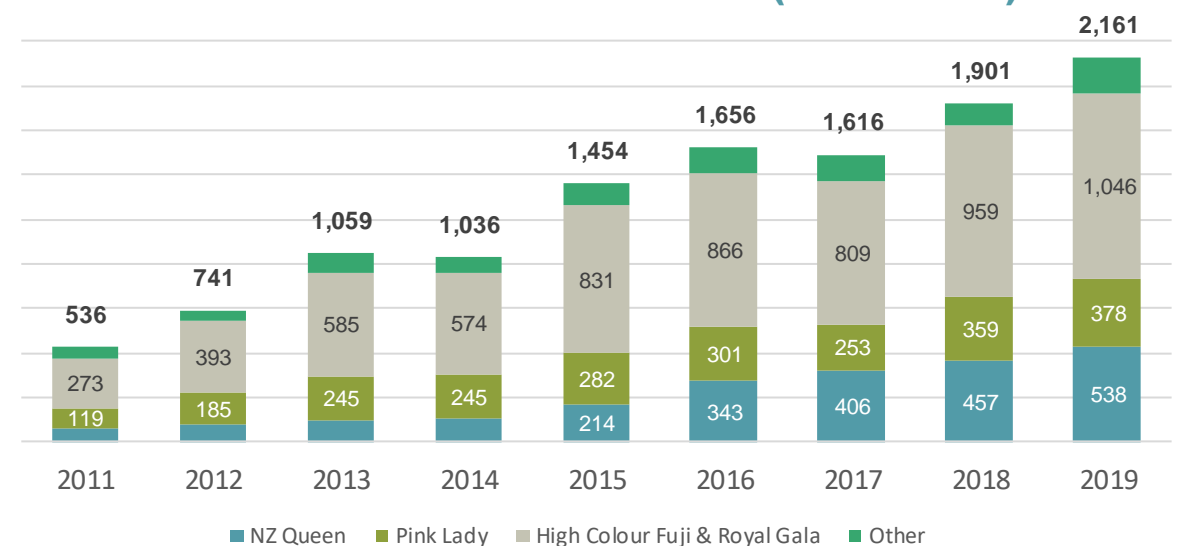
Steady export crop levels, growth in premium volumes

- Excellent total own grown export crop of 3.8m TCEs, well ahead of previous guidance.
- Premium variety volumes up 14% on 2018:
 - Growth across all premium varieties, with 18% increase in NZ Queen.
 - Continued strong focus on Asia and Middle East markets.
 - First commercial crop for Posy™ and Dazzle™ varieties.

Mr Apple Own Export Volumes (TCE 000s)



Growth in Premium Volumes (TCEs 000s)



Horticulture – Prices & Other KPIs

Increased average prices for Premium Varieties

- Weighted average FOB price similar to 2018 reflecting:
 - Improved pricing for Premium Varieties, including solid performance from proprietary varieties and brands, particularly in Asia and Middle East.
 - Change in mix, with Premium varieties now accounting for nearly 57% of all sales (2018: 49%).
 - Adverse market conditions in Europe affected pricing for traditional varieties.
 - Minor, but generally favourable, movements in FX rates achieved. With existing cover in place, similar rates as achieved in 2019 are anticipated for the 2020 year.
- A total of 5,953k TCEs exported, up 2% on 2018.

Horticulture KPIs

Apple Prices by Variety (NZD / TCE, FOB)			
	2019	2018	% chg.
Premium Varieties	39.8	38.8	3%
Traditional Varieties	29.3	32.7	-10%
Weighted Average all Apples	35.2	35.7	-1%

FX Rates			
	2019	2018	% chg.
NZD:USD	0.67	0.69	3%
NZD:EUR	0.57	0.58	2%
NZD:GBP	0.48	0.48	1%
NZD:CAD	0.87	0.86	-1%

Volumes (TCE 000s)			
	2019	2018	% chg.
Mr Apple own-grown volumes	3,822	3,867	-1%
External grower volumes*	2,132	1,964	9%
Total volume exported	5,953	5,831	2%

* External grower volumes comprise external grower volumes handled by Mr Apple (1,287k TCEs) and Fern Ridge Fresh (845k TCEs)

Horticulture – Orchard Redevelopment

A decade long investment

- Initial redevelopment (2008 to 2014)
 - Approximately 300 ha of orchard redeveloped.
 - Sales to Asia and Middle East increased from 20% to 53% between 2007 and 2015.
- Phase 2 Redevelopment (2017 to 2020):
 - Total redevelopment of around 175 ha, with a focus on Dazzle™ and Posy™.
 - Approximately 143 ha developed over the 2018 to 2019 winters, a further 32 ha scheduled for winter 2020.
- When completed, approximately 475 ha of orchard will have been redeveloped to premium varieties.
- Mr Apple continues to:
 - Evaluate the performance of traditional varieties with a view to implementing further redevelopment.
 - Focus on increasing the depth and breadth of its premium variety offering. It is our belief that a multi-premium variety strategy is more attractive to global retailers.
 - Focus on branding and market presence to improve returns.
 - Explore opportunities in automation and technology, both on-orchard and post-harvest.

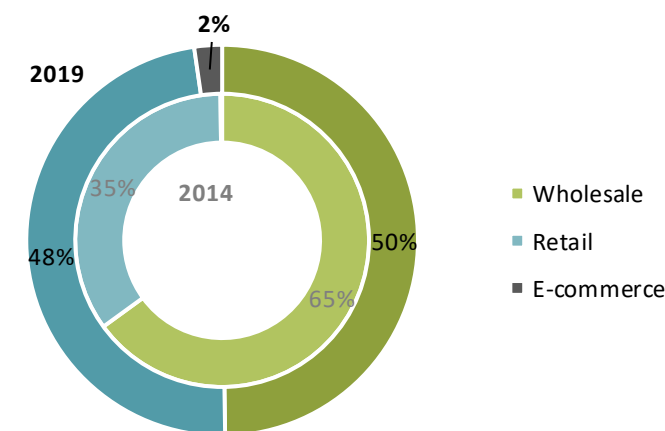


Horticulture – Market Strategies

Maximising appeal throughout the value chain – to consumers, wholesalers and retailers.

- Renewed marketing activations, and increased in-market branding initiatives, particularly in Asia and Middle East:
 - Notable increase in volumes to these markets now comprising ~65% of export sales.
 - Move to retail and e-commerce channels, now comprising around 50% of sales (2014: 35%).
 - E-commerce sales are concentrated in Asian markets where they comprise a material percentage of sales to those regions.
- Our presence in China continues to grow:
 - China represented 17% of Mr Apple export volumes in 2019 up from 10% in 2018.
 - Market growth is supported by our strategic shareholder China Resources Ng Fung Ltd, and increased participation in that market by Primary Collaboration New Zealand.
 - China sales for 2019 also benefitted from a smaller domestic crop in that market. Accordingly, sales for 2020 are expected to comprise a lower proportion of total export volumes.
- Ongoing product development and launches:
 - Posy™ is a very early apple which is picked in February, marketing for Posy™ commenced in China mid-2019.
 - A special shipment of Posy™ was airfreighted to China earlier this month for immediate sale. These apples are available to be purchased online (through platforms such as Benlai and JD.com) as well as in selected supermarkets. Market feedback has been very positive, and product has sold quickly, including JD.com selling out within one week.

Sales by Channel – 2014 vs 2019



Horticulture – Volume Outlook

Replanting profile: future volumes and apple pricing

- Mr Apple is nearing the end of its second phase of orchard redevelopment. Since 2017, 143 hectares of new orchard have been developed including 78 hectares of Dazzle®.
- Further plantings of approximately 32 hectares (through the redevelopment of traditional varieties, specifically Braeburn) are anticipated to take place over the upcoming 2020 winter for a total of 175 hectares of new plantings.
- As a result of this redevelopment, total orchard production is likely to decline slightly over the next two years. Note that the volume forecasts shown below have been updated for actual redevelopment and movement in orchard under management and are higher than previous long-term volume forecasts.
- Due to the increased proportion of premium varieties including Dazzle® and Posy®, the weighted average NZ FOB sale price would increase to ~\$37 / TCE by 2023F if 2019 varietal pricing is maintained (future sale prices will depend on market conditions at the time).



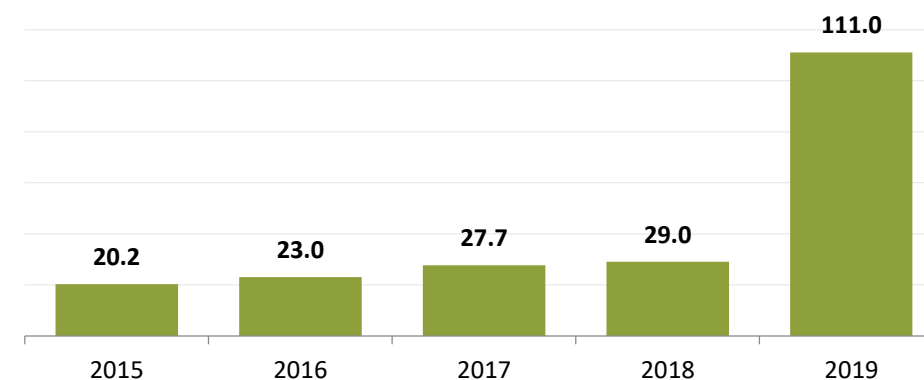
Food Ingredients

Food Ingredients retains positive momentum with further offshore opportunities

- Divisional progress:
 - The Food Ingredients division has made significant progress in diversifying its geographical exposure and range of protein options.
 - Investment partnerships with Alliance and Shelby improve vertical relationships and provide opportunities to consider products for further value growth. The division is considering a number of opportunities at present.
- Improved earnings and trading metrics from the Food Ingredients division reflect:
 - Inclusion of Shelby results, significantly increasing divisional volumes.
 - Profitability impact of the previously announced one-off inventory valuation adjustment.
 - Profruit sales volumes in line with 2018.
 - The division has a number of growth opportunities ahead and continues to progress towards its long-run EBITDA target.

Financial Performance - Food Ingredients			
\$Millions	2019	2018	% chg.
Food Ingredients Revenue	155.1	83.1	87%
Underlying Food Ingredients EBITDA	13.5	10.2	32%
Underlying Food Ingredients EBIT	12.5	9.6	29%
KPIs			
	2019	2018	% chg.
Food Ingredients Volume Sold (MT)	110,970	29,028	282%
Juice Concentrate Sold (000 L)	6,170	6,219	-1%

Petfood Ingredients Sold (MT 000s)

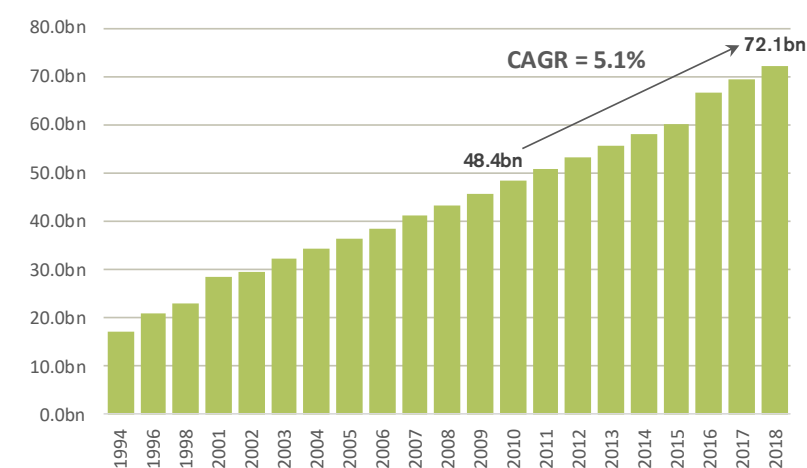


Food Ingredients – A Global Strategy

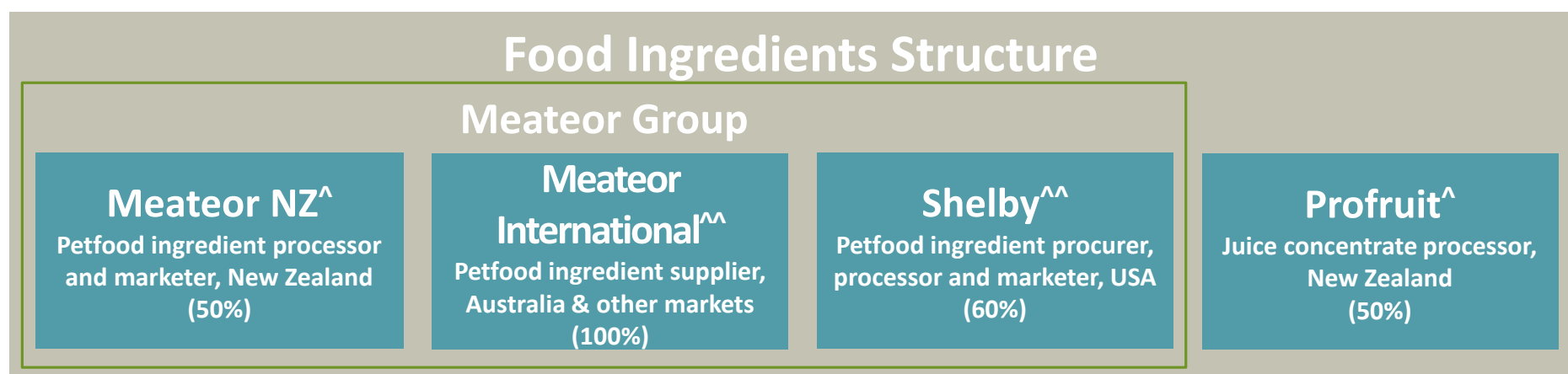
Developing a \$25m EBITDA division

- Petfood ingredients is an attractive industry for investment:
 - Global industry now worth over US\$100b* and growing strongly.
 - China market growing very strong (9.7% CAGR next 5-years).**
 - The inclusion of petfood in the latest US / China trade agreement enhances prospects for US produced petfood.
- Scales' global petfood strategy:
 - Actively investigating the high-growth China market.
 - Actively reviewing opportunities to expand product range, with added-value and functional petfoods.
 - Aiming to be a key provider to a range of international petfood brand owners.
 - Continuing to seek diversification in source and range of proteins.

Petcare expenditure in the United States (US\$b)



Source: American Pet Products Association (www.americanpetproducts.org)



* Source: Euromonitor , The State of Global Petfood : New Trends and Growth Opportunities, November 2016. / ** Source: Mordor Intelligence.

^ Equity accounted. / ^^ Fully consolidated into Scales' financial results, with non-controlling interests deducted from NPAT.

Logistics

122 years old and still evolving

- Return to normalised trading, following a particularly strong 2018:
 - Arranged ocean freight for the equivalent of 39,438 TEUs, up 12% on 2018.
 - Arranged 6,184 tonnes of airfreight, compared to 9,251 tonnes in 2018. 2018 airfreight tonne volumes boosted due to initial 'pipe fill' orders. 2019 volumes reflect normalised sea vs air freight dynamics and equilibrium trading conditions.
 - Increased resource in Christchurch (warehouse) and Melbourne (sales).
- Committed to seek further opportunities for growth, both organic and through acquisition.

Financial Performance - Logistics*			
\$Millions	2019	2018	% chg.
Logistics Revenue	87.1	89.3	-2%
Underlying Logistics EBITDA	3.3	4.9	-32%
Underlying Logistics EBIT	2.9	4.6	-37%

* For the purpose of this analysis, the 2018 comparatives show only Scales Logistics. The division changed its name from 'Storage & Logistics' to 'Logistics' following the settlement of Polarcold in May 2019.



4

Capital Management

Performance Against Benchmarks

Redefining our targets

- Return on Capital Employed (ROCE) varies between each of the individual divisions:
 - Horticulture capital employed increased by around \$15m between 2018 and 2019, mainly due to orchard redevelopment and RSE accommodation capex.
 - Group level ROCE remains at our long-run objective level.
- ROCE remains our long-run performance measure for continuing businesses and growth opportunities. We expect ROCE to remain at or about 2019 levels until redeveloped orchard reaches maturity from 2022.

Capital Management

Return on Capital Employed		
	2019	2018
Horticulture	17%	21%
Food Ingredients*	16%	32%
Logistics**	70%	107%
Group	16%	17%
Target	15%	15%

* Food Ingredients ROCE in 2018 excludes Shelby.

** Logistics ROCE for 2018 (and 2019) is based only on Scales Logistics.

Capital Expenditure

Investments in organic growth

- Continuing to invest in growth, including:
 - Orchard redevelopment at Mr Apple - approximately 44 hectares at a cost of \$5.4m.
 - RSE accommodation upgrade at Mr Apple (an investment of \$4.8m), to improve housing availability as well as the standard of living for RSE workers.
- Excluding discontinued operations, operational capital expenditure was slightly below 2018.
- Capital expenditure for 2020 is expected to exceed \$25m.



Capital Management

Operational Capital Expenditure		
\$Millions	2019	2018
Horticulture	3.1	3.5
Food Ingredients	0.2	0.5
Logistics	0.5	0.3
Other	0.0	0.2
	3.8	4.5

Growth Capital Expenditure		
\$Millions	2019	2018
Horticulture	11.9	6.5
Food Ingredients	-	-
Logistics	-	0.4
	11.9	6.9

Other Capital Expenditure		
\$Millions	2019	2018
Discontinued Operations (Polarcold & Liqueo)	-	4.9
Total Capital Expenditure	15.7	16.3

A woman with blonde hair and safety glasses, wearing a dark blue shirt and a bright yellow high-visibility vest, is operating a large green industrial machine. She is wearing grey work gloves. The machine has a control panel with a red emergency stop button, a green power button, and a yellow warning label. A sticker on the machine reads "Strapping Re-order Call: 0508 474 66337 Email: sales@pioneergroup.co.nz" and "PIONEER WASTE & RECYCLING EQUIPMENT". The background shows a warehouse setting with blue pallets.

Sustainability

5

Sustainability – Environment

Reducing our environmental impact

- Second carbon footprint certification process recently carried out at Mr Apple. Early indications suggest:
 - A slight reduction in footprint.
 - Excellent reductions in waste to landfill and electricity use.
- An EECA* audit at two Mr Apple sites showed excellent energy management:
 - Further saving expected as a result of a large lighting replacement scheme underway at the Hastings Coolstore site.
- We acknowledge water as a valuable resource and are continually investing to ensure we use it efficiently.
- Development of a Mr Apple Environmental Plan with all areas of the business undertaking projects to further reduce carbon footprint.
 - A team of over 20 people meet quarterly to track progress and innovate.
 - Initial focus on the following 4 UN Sustainable Development Goals:



* Energy Efficiency and Conservation Authority.

Sustainability – People and Safety

It's all about our people

- Second group-wide staff engagement survey undertaken November 2019:
 - A rise in engagement to 61% in 2019 from 56% in 2018.
 - Business units to focus on how they can engage with staff, communicate smarter and be more collaborative throughout the group.
- Leadership, bullying & harassment, and mental health awareness training undertaken in 2019:
 - Initial focus at Mr Apple, to be rolled out to other divisions during 2020.
 - Business ethics training for Mr Apple and Meateor staff undertaken October 2019.
 - *Report It Now* ethical hotline launched August 2019, Ethics Committee created to manage calls received.
- Significant investment in community living environment and infrastructure for our critical RSE scheme and seasonal workers.
- Continued high level of attention to Health and Safety:
 - Mr Apple forklift training matrix refined and rolled out successfully to Scales Logistics and Meateor Foods.
 - Gains in key traffic management “hot spots” at all sites with installation of barriers, separation zones and audible proximity sensors.
 - Safety learnings and resources shared throughout Mr Apple, Fernridge Fresh, Meateor, Profruit and Scales Logistics.



Governance and Outlook

Governance

Investing in our strategic leadership

- Two new additions to the Board in 2019:
 - Tomakin Lai – appointed January 2019.
 - Nadine Tunley – appointed February 2019.
- Tomakin and Nadine have brought complementary skills and expertise to our Board table.
- Continued participation in the Institute of Directors' *Future Directors* programme:
 - Jemma McCowan, General Manager Marketing at New Zealand King Salmon Limited – appointed June 2019.



Jemma McCowan

2020 Outlook

Shaping our future

- COVID-19:
 - The impact on Scales and Mr Apple in particular from the COVID-19 outbreak remains uncertain at this time. It is expected that any impact may be mitigated by the following:
 - Mr Apple is expecting a more balanced global supply situation in 2020 with sales more equally focussed between Europe / UK and Asia. Initial shipments to Asia are scheduled to arrive in market in early March, and to China in mid-March.
 - No issues with shipping to non-China markets have been experienced to date.
 - There appears to be a strong pipeline of sales from the e-commerce channel in Asia balancing out a potential reduction of in store sales.
 - Our dedicated in-house logistics operation and our agents throughout Asia remain confident of the actions of authorities to facilitate flow of food products in particular.
 - Scales is pleased to contribute product to those impacted, through our agents, to support those communities most affected by the COVID-19 outbreak.
- Horticulture:
 - Apple harvest underway, early indications suggest a crop in line with forecast.
 - Sales are anticipated to reflect a bounce back in volumes to Europe.
 - Continued investment in orchard redevelopment and RSE accommodation. Initial construction is expected to begin on the new Whakatu coolstore in late Quarter 2 / early Quarter 3.
 - Continuing our marketing and branding efforts to drive brand awareness and loyalty in Asia.
 - Early market indications remain supportive.

2020 Outlook (continued)

- Food Ingredients:
 - Given specific 2019 challenges that are not expected to repeat, Scales expects a further improvement in performance from this division in 2020.
 - Divisional entities are continuing to develop organic growth opportunities both domestically and offshore.
 - Shelby, and the division's other petfood interests, are likely to benefit in the medium term from the inclusion of petfood in the recent US / China trade agreement – providing improved and faster access for these products.
 - Market demand continues to remain firm, and at this stage, we do not expect this division to be adversely affected by COVID-19.
- Logistics:
 - With our export focus, we expect to meet our trading targets.
- 2020 Underlying Net Profit guidance reconfirmed at between \$30m and \$36m:
 - Implies an Underlying EBITDA range of between \$49m and \$55m, unchanged from 2019.
 - Includes lower forecasted interest income due to lower interest rates and previous interest benefit from the sale of Polarcold.

Appendices

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Airfreighted Posy™ apples for sale in a Chinese supermarket (February 2020)

Appendix I - Reconciliation of Underlying to Reported Measures

Reconciliation of Divisional Underlying Profitability to Reported Profitability										
	Group		Horticulture		Food ingredients		Logistics		Corporate and eliminations	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
EBITDA										
Underlying	52.7	67.1	39.7	42.6	13.5	10.2	3.3	21.1	(3.7)	(6.9)
Fair value gain on recognition of investment in joint venture	9.8	-	-	-	9.8	-	-	-	-	-
Gain on disposal of Meateor New Zealand business	9.8	-	-	-	9.8	-	-	-	-	-
NZ IFRS 16 Leases	9.5	-	8.6	-	0.1	-	0.8	-	0.1	-
Equity settled employee benefits	(0.9)	(0.8)	-	-	-	-	-	-	(0.9)	(0.8)
Meateor NZ business disposal transaction costs	(0.4)	-	-	-	-	-	-	-	(0.4)	-
Change in fair value gain on apple inventory	(0.3)	(0.3)	(0.3)	(0.3)	-	-	-	-	-	-
Change in gross liability for non-controlling interests	(0.3)	0.1	(0.1)	0.1	(0.2)	-	-	-	-	-
Share based payments	(0.1)	(0.0)	-	-	-	-	-	-	(0.1)	(0.0)
Intercompany transactions with discontinued operations	0.0	-	0.0	1.0	-	0.8	-	(0.5)	-	(1.3)
Discontinued operations less cost to sell	-	(14.3)	-	-	-	-	-	(15.7)	-	1.4
Reported	79.9	51.7	47.9	43.5	32.9	11.0	4.1	4.9	(5.0)	(7.6)
EBIT										
Underlying	42.5	52.3	30.9	34.2	12.5	9.6	2.9	15.3	(3.8)	(6.9)
Fair value gain on recognition of investment in joint venture	9.8	-	-	-	9.8	-	-	-	-	-
Gain on disposal of Meateor New Zealand business	9.8	-	-	-	9.8	-	-	-	-	-
NZ IFRS 16 Leases	1.7	-	1.5	-	0.0	-	0.2	-	0.0	-
Equity settled employee benefits	(0.9)	(0.8)	-	-	-	-	-	-	(0.9)	(0.8)
Meateor NZ business disposal transaction costs	(0.4)	-	-	-	-	-	-	-	(0.4)	-
Change in fair value gain on apple inventory	(0.3)	(0.3)	(0.3)	(0.3)	-	-	-	-	-	-
Change in gross liability for non-controlling interests	(0.3)	0.1	(0.1)	0.1	(0.2)	-	-	-	-	-
Share based payments	(0.1)	(0.0)	-	-	-	-	-	-	(0.1)	(0.0)
Intercompany transactions with discontinued operations	0.0	-	0.0	1.0	-	0.8	-	(0.5)	-	(1.3)
Discontinued operations less cost to sell	-	(8.8)	-	-	-	-	-	(10.2)	-	1.4
Reported	61.8	42.5	32.0	35.1	31.8	10.4	3.1	4.7	(5.2)	(7.7)
NPAT										
Underlying	36.4	35.8	22.2	24.6	11.2	7.4	2.0	11.0	1.0	(7.1)
Gain on sale of Polarcold	73.0	-	-	-	-	-	-	-	73.0	-
Add back interest on settlement of Polarcold, net of tax	(4.1)	-	-	-	-	-	-	-	(4.1)	-
Fair value gain on recognition of investment in joint venture	9.8	-	-	-	9.8	-	-	-	-	-
Gain on disposal of Meateor New Zealand business	9.8	-	-	-	9.8	-	-	-	-	-
NZ IFRS 16 Leases	(1.0)	-	(0.9)	-	(0.0)	-	(0.1)	-	(0.0)	-
Equity settled employee benefits	(0.9)	(0.8)	-	-	-	-	-	-	(0.9)	(0.8)
Meateor NZ business disposal transaction costs	(0.4)	-	-	-	-	-	-	-	(0.4)	-
Change in fair value gain on apple inventory	(0.3)	(0.3)	(0.3)	(0.3)	-	-	-	-	-	-
Change in gross liability for non-controlling interests	(0.3)	0.1	(0.1)	0.1	(0.2)	-	-	-	-	-
Share based payments	(0.1)	(0.0)	-	-	-	-	-	-	(0.1)	(0.0)
Intercompany transactions with discontinued operations	0.1	-	0.0	1.0	-	0.8	-	(0.5)	0.0	(1.3)
Tax effect of other NZ IFRS adjustments	(0.4)	0.1	0.1	0.1	(0.5)	-	-	-	0.0	0.0
Discontinued operations - Polarcold and Liqueo	-	8.2	-	-	-	-	-	(7.2)	-	15.3
Depreciation after transfer to disposal	-	2.4	-	-	-	-	-	-	-	2.4
Reported	121.6	45.5	21.0	25.5	30.1	8.2	1.9	3.4	68.6	8.4

Appendix II - Disclaimer

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- EBITDA. We calculate EBITDA by adding back (or deducting) depreciation, amortisation, finance charges / (revenue), and taxation expense to net earnings / (loss) from continuing operations.
- EBIT. We calculate EBIT by adding back (or deducting) finance charges / (revenue), and taxation expense to net earnings / (loss) from continuing operations.
- Underlying EBITDA and EBIT are calculated by adding back (or deducting) certain non cash NZ IFRS and other adjustments as detailed in Appendix I.
- Underlying Net Profit is calculated by adding back or (or deducting) the after-tax effect of certain non cash NZ IFRS and other adjustments as detailed in Appendix I.

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