

Delivering long-term value

Sustainability Report

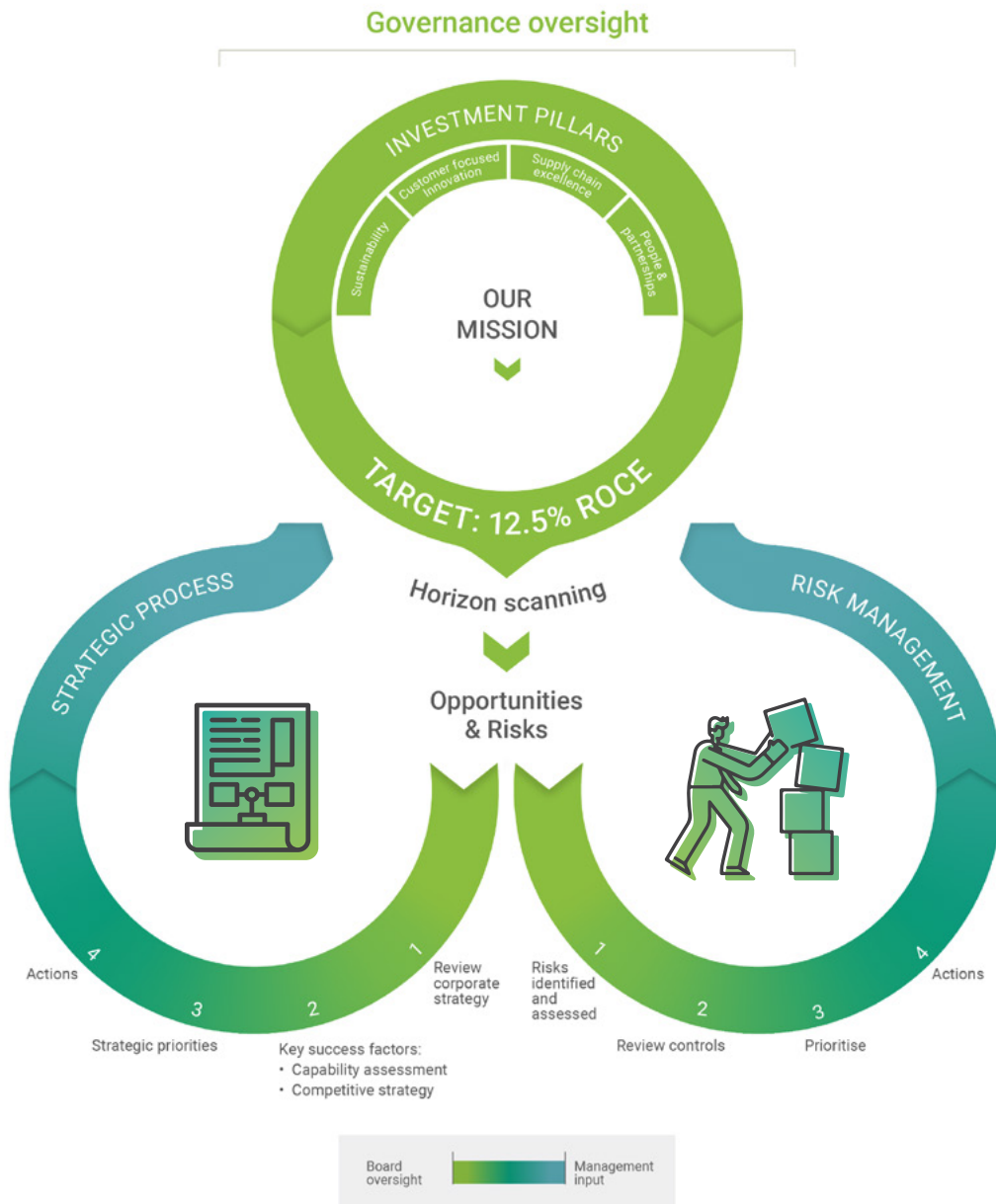


We have integrated Climate-Related Disclosures (CRD) into this year’s Sustainability Report. An index at the conclusion of this section provides page references to Aotearoa New Zealand Climate Standard 1 *Climate-related Disclosures*.

Governance and Strategy

As part of our Sustainability review, we are conducting horizon scans across all our divisions. This process looks at the broad factors influencing our future operating environment and assesses future risk and opportunities. Along with our Sustainability strategy, this process also informs our corporate, competitive and risk management strategies. All risks and opportunities are considered under the same assessment process during the horizon scan (see climate risk section) and are prioritised on this basis.

Scales governance, strategy and risk management process



We will conduct horizon scans every 4 years and involve members from both the divisional sustainability committees and the Scales Board Health & Safety and Sustainability Committee. The outputs are reviewed by the Board and are considered alongside stakeholder input via our materiality process.

The Board Committee is also responsible for reviewing sustainability strategy, including associated targets, and is responsible for making sure management have the appropriate capabilities and resource to execute.

Materiality

Following the materiality review in 2021, we have re-visited the materiality domains to achieve more focus on key areas of impact and have also simplified our categorisation. We define materiality through the GRI framework of double materiality, which considers both financial and non-financial impacts, to a wider stakeholder group.

People

- Labour affordability
- Labour security
- Health, safety & labour practices

Marketplace

- Market access
- Consumer preferences
- Innovation
- Regulation

Environment

- Water management
- Carbon emissions
- Climate conditions & weather events
- Biodiversity

Corporate

- Brand reputation

Board Appointments

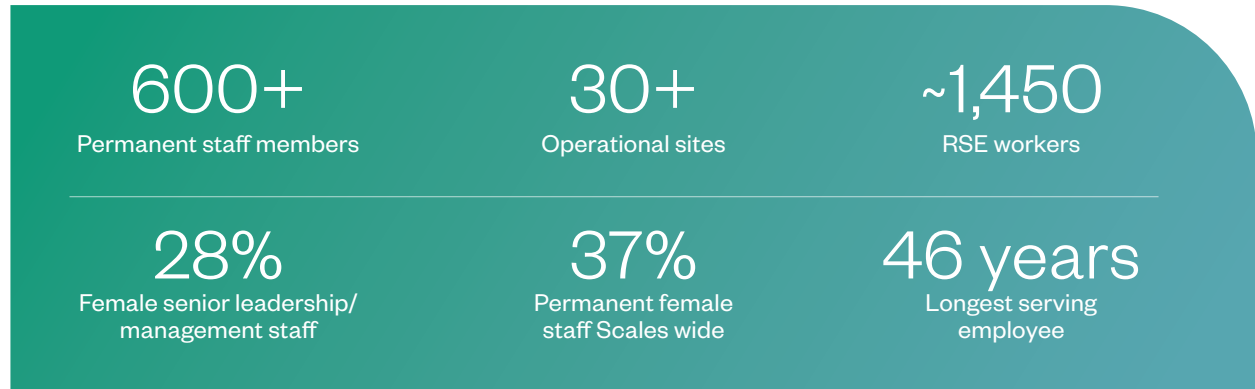
During the year, we were pleased to announce the appointment of Miranda Burdon to the Board. Miranda was appointed as a Non-Executive Independent Director, effective from 31 August 2022. Miranda is Chair of Meadow Mushrooms, Emerging Proteins NZ, an organisation that seeks to accelerate the development of a thriving emerging proteins sector in New Zealand, and Live Ocean, a New Zealand based ocean conservation charity. Miranda brings extensive commercial experience, focused on marketing and brand management.

Earlier this month, we were also pleased to announce the appointment of Michael (Mike) Petersen to the Board, effective on 28 April 2023. Mike will be a Non-Executive Independent Director of Scales and will also be appointed as 10th Chair of Scales. Mike is a Director of ANZCO Foods and Kelso Genetics Limited and is Chair of agri-food digital marketplace developer, Nui Markets Limited. Mike also has advisory roles with a number of other privately-owned companies.



People

Our Team



Health and Safety

Our health & safety culture is at the heart of our everyday operations.

2022 presented some challenges with the outbreak of the COVID-19 Omicron variant occurring during peak harvest for Mr Apple, our largest employer. However, operations were maintained throughout the season despite significant labour shortages due to isolation requirements. There was a strong focus on wellbeing, including preventative and recovery measures, and mental fitness support through facilitated workshops (via Groov) and one to one counselling (via Vitae).

Pleasingly, Mr Apple reduced its Lost Time Injury rate by 39 per cent from the prior year, and it was at its lowest since 2018, which is an amazing result. Notwithstanding this, Mr Apple is continuing to strive for excellence and, at the end of 2022, it shifted to a Health, Safety & Wellbeing partnership model. The aim is to achieve a more proactive field-based approach with Health, Safety & Wellbeing partners dedicated to both the orchards and to post-harvest operations.

Scales continues to look at ways to innovate and improve across all its businesses. As an example, during the year Profruit participated in the Healthy Work Group project led by Massey University. The aim is to explore how to reduce work related ill health in small and medium sized organisations in New Zealand, with a specific focus on mental wellbeing in the initial assessments.

Employee Value Proposition and Leadership

In 2022 Mr Apple built and communicated their EVP, which was weaved into the 2023 seasonal recruitment campaign. We are also partnering with Māori Wardens and Land Based Training to provide pre-employment training and pastoral care to improve the retention of full-time team members.

In addition, Mr Apple custom built 2 leadership programmes: Leading through Others (Senior Managers) and Emerging Leaders (Assistant Managers/Team Leaders/Site Managers). This has been rolled out to our orchard and post-harvest teams and will be extended to the remaining teams during 2023.

RSE Spotlight

Mr Apple re-engaged its 'Ethical Voice' worker wellbeing platform in 2022. Targeted at our seasonal employees, Ethical Voice is an independent online survey which is aimed at assessing our employees' wellbeing and working environment. It is modelled on United Nations' 'Guiding Principles on Business and Human Rights', and GLOBALG.A.P's 'GRASP'. It is translated into the local language of our employees. With scores over 75 per cent across all themes, Mr Apple has consistently scored in the 'excellent' range and improved across all 2019 baselines.

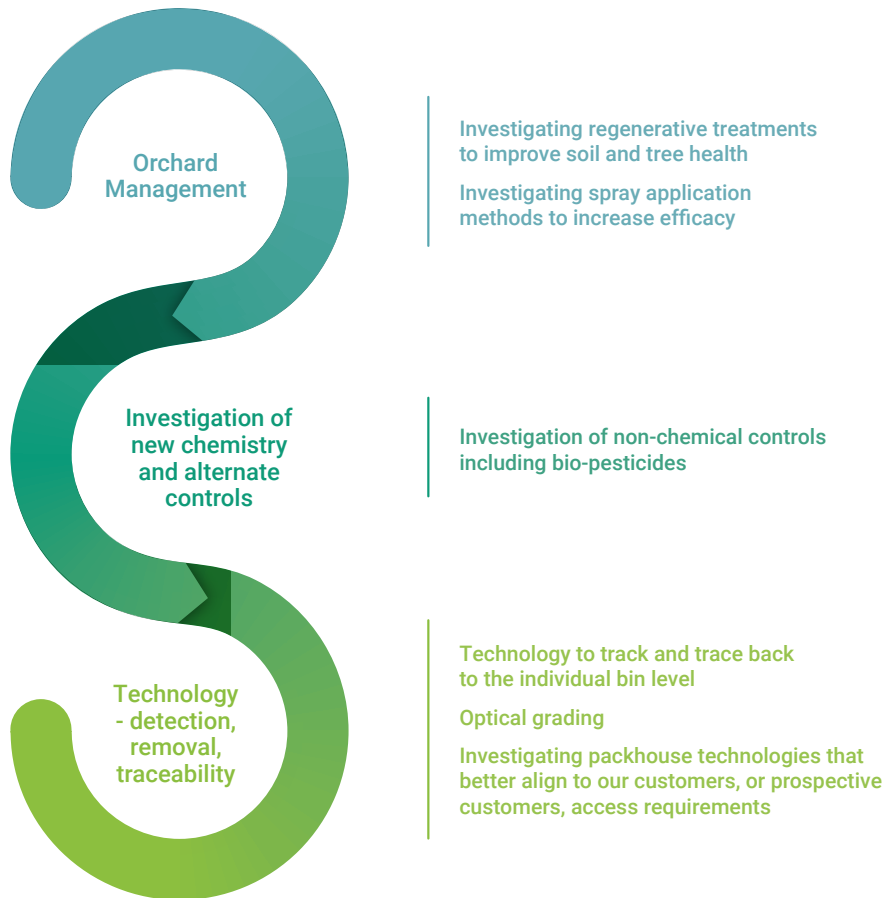
Marketplace

Increasingly, our customers and our markets require upstream sustainability reporting as part of their own internal frameworks and regulations. A key component of our horizon scan process for each division is to understand these changes and to align our action plans with our customer and market requirements.

As part of Mr Apple’s assessment there was a continued focus on its pest and disease strategy, which includes exploring new prevention, detection and control methods. Mr Apple has also developed a world-class traceability system and, in 2022, set baselines for its regenerative soil trial, which aims to improve soil carbon, organic matter and water retention. The key goal is to identify new orchard management practices that improve soil and tree health and ultimately reduce pest and disease responses¹. Additionally, Mr Apple is actively investigating further technology and controls in its post-harvest operations.

In parallel, through its leadership on the Research Consultative Group of New Zealand Apples and Pears, Mr Apple is supporting the delivery of the \$14.8 million ‘Smart and Sustainable’ programme. Over the next 7 years the programme will investigate the minimisation of sprays while continuing to ensure world leading market access for our apples.

This research will support our own internal work on decision support tools, alternative non-chemical control options, pest and disease detection technologies, new application methods and integrated online dashboards.



¹ This trial was impacted by Cyclone Gabrielle, which will require new baseline assessments and a new site.

Environment

Water

In 2022, we completed our first Group-wide water footprint. As with carbon, this baseline measure allows us to assess areas for improvement including reporting, reduction and efficiency gains.

Mr Apple accounted for 96 per cent of water usage across the Group and will have a dedicated water action plan as part of its refreshed sustainability strategy.

Carbon

Energy Monitoring Trial

In 2022, we commenced a trial programme, installing sensors in some of our post-harvest machinery to provide real-time information on energy usage. The purpose of the trial was to assess the benefits of identifying abnormal consumption trends and to benchmark plant performance to identify replacement options.

Decarbonisation Reports

Scales engaged DETA Consulting to prepare a decarbonisation roadmap across all our businesses with operational facilities. This roadmap provides guidance on potential areas for carbon reduction and future capital expenditure requirements.

While the final document is being finalised, the key areas of focus identified across all businesses were:

- Alternative fuel usage
- Refrigerant replacement and plant upgrades
- Transport efficiencies
- Electricity decarbonisation
- Accommodation upgrades

This document will form the basis of our divisional carbon action plans and a roadmap for our goal setting.

GHG Reporting and Performance.

This was the first year we have completed a Group-wide carbon assessment. It was based on the equity share approach, applying ISO 14064-1:2018 standard.¹

Given the nature of our portfolio, the equity share approach gives us the most consistency across our various business structures and meets all requirements under the Aotearoa New Zealand Climate Standard.

Divisional results (absolute emissions) are below and include Category 1-4 emissions:

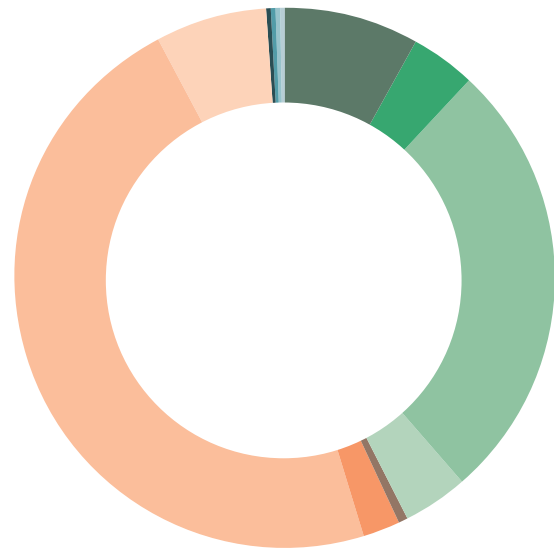
Divisional tCO2e emissions 2022, Category 1-4			
Global proteins	Horticulture	Logistics	Total
35,035	26,603	264	61,902

Categories 1 and 2 make up 15 per cent of overall emissions and these will be the initial focus for our decarbonisation initiatives.

Indirect freight (Category 3) represents 74 per cent of overall emissions. Whilst not the immediate focus, we will see improvements over time due to changes in our market mix, network design (centralisation of processing and storage sites) and technology improvements in the freight industry. Category 3 emissions are accounted for by the cargo owners, hence Logistics, as a service provider, has a very small footprint relative to our other divisions.

We will be reviewing our targets across the Group once our strategic process is completed.

Emissions Breakdown



	Horticulture	Global Proteins	Logistics
Category 1	5,023	255	119
Category 2	2,496	1,337	48
Category 3	16,627	29,276	74
Category 4	2,458	4,168	23

¹ This standard classifies emissions into one of 6 Categories, of which Categories 1-4 are relevant to Scales. These categories are: Category 1 - Direct GHG emissions and removals; Category 2 - Indirect GHG emissions from imported energy; Category 3 - Indirect GHG emissions from transportation; and Category 4 - Indirect GHG emissions from products an organisation uses. Global Warming Potentials (GWP) from the Intergovernmental Panel on Climate Change fifth assessment report are the preferred GWP conversion.

Environment (continued)



Mr Apple - 2022 Emissions

This was Mr Apple's fifth season under the Toitū certification programme. As mentioned previously, the year was impacted by certain disruptions that have in turn affected our GHG emissions performance. Factors such as irregular and / or inefficient sailings and extended onshore storage requirements (increased electricity consumption) drove increases in Category 2 and 3 emissions. Combined with reduced revenue, this led to an increase in carbon intensity. Overall emissions declined from last year, primarily due to reduced volumes and trucking requirements.



Absolute 2022 emissions
= 21,581 tCO₂e
4 per cent decrease¹



Carbon intensity goal of 1
per cent reduction in GHG
emissions per million dollars
gross revenue from 2018-2024
11 per cent increase



Reduce paper use by 10
per cent per annum
53 per cent total reduction



Reduce waste to landfill by 30
per cent by 2024 (post-harvest)
30 per cent reduction



Reduce electricity consumption
by 3 per cent by 2024
13 per cent increase



Reduce overall fuel use by
5 per cent by 2024
4 per cent reduction

Prior to 2022, initiatives such as centralising domestic freight, EROAD monitoring, market allocations reducing ocean freight kilometres and waste minimisation programs were starting to have an impact on our 2018 baseline. We expect this trend to continue when normal operating conditions resume.

Climate Risk Framework

Methodology

In 2022, we developed our 3 climate scenarios which are aligned to the Aotearoa Circle's Agri-Adaptation Road Map:

1. Orderly – RCP 2.6: this is an orderly transition to a low-carbon future that avoids major physical changes
2. Disorderly – RCP 2.6: expected to result in a 1-2°C increase in global temperature. This scenario has a delayed, disorderly and disruptive transition to a low-carbon future. It avoids major physical changes but has high transition impacts
3. Hothouse – RCP 8.5: this converts to a 2.4°C increase across our long-term horizon of 2050 (although it is on track to achieve > 3°C by 2100). There is low transition risk as global carbon reduction initiatives do not come into legislation. As a result, there are increased physical impacts

These scenarios were considered as part of the horizon scan to help identify key risks and opportunities (both climate and other) across the business. Scales has developed an online tool, in conjunction with external consultants, to act as a sustainability dashboard, displaying risks, opportunities, scenario analysis, action plans and KPIs. This tool considers both financial and non-financial impacts on the business and ranks all risks based on a combination of impact, likelihood and confidence (spread of the responses), as well as looking at the impacts over both a short-term (to 2030) and long-term (to 2050) basis.

¹ Percentage changes are calculated over the period 2018-2022.

Outcomes

Key climate risks for Mr Apple are shown below. These risks and opportunities helped inform Mr Apple's 6-point action plan, and this strategic planning process will be rolled out to the other divisions in 2023. The table below includes both transition and physical risks and traverses the entire Mr Apple value chain from orchard to consumer impacts. The risks and opportunities have been ranked on impact (noting that this ranking does not take into account likelihood).

Risks	Time Horizon	Strategies
Volume impacted by extreme weather	Short-term	<ul style="list-style-type: none"> Geographical spread of orchards reduces catastrophic risk from single event Invested in more support structures for the trees in our new developments Future proof drainage when orchards are redeveloped to allow for increased rainfall events Hail nets are not considered currently viable, however we will continue to review this position
Labour security and affordability impacted by external factors	Short-term	<ul style="list-style-type: none"> Continual industry and government engagement to highlight the benefits of the RSE programme Diversify geographic sources of RSE labour pools Further investment in technology to improve labour efficiency
Water security impacted by rainfall and drought changes	Long-term	<ul style="list-style-type: none"> Staggered renewal dates for water consents Implemented successful post-harvest reticulation and storage systems at Whakatu, opportunities to roll out across other sites Investigate on-orchard water storage options
Supply chain reliability and affordability impacted by regulatory changes and extreme weather	Short-term	<ul style="list-style-type: none"> Regular review of concentration risk to key suppliers and business continuity plans Internal trials and industry partnerships to reduce and develop more sustainable inputs
Yield impacted by sea level rise and changing seasonal conditions	Long-term	<ul style="list-style-type: none"> Spread of lease renewals, so we can continually assess appropriateness of locations Option to use existing products and technology to offset the increased risk of sunburn, manage harvest windows and chill requirements
Yield impacted by pests and diseases and biodiversity loss	Long-term	<ul style="list-style-type: none"> Formalising the pest and disease strategy, which includes prevention, reduction and control options Continued support and partnership with industry initiatives

Opportunities

Changes to market access requirements – opportunity to improve access relative to competitors	Short-term	<ul style="list-style-type: none"> See above for pest and disease strategy Regular review of market concentration risk Continual development of carbon and biodiversity programmes to align with increased market requirements Additional investment in R&D for packaging and label options Ongoing focus on existing compliance requirements and assurance programmes including GAP and GRASP
Market demand impacted by customer perceptions and preference	Short-term	<ul style="list-style-type: none"> Identified our target markets are aligning our pipeline of new varieties with customer preferences Embedding sustainability into our strategy, brand and communications - opportunity to improve premiumisation of the Mr Apple brand

As well as resulting in new mitigation / adaptation actions, the opportunities identified above are being reflected in Mr Apple's strategic plan, including target markets, variety selection, branding and supply chain efficiency initiatives. The capability and resources (including capital deployment) required to unlock these initiatives are considered by the Board and made at a Group level across our portfolio.

Environment (continued)

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