Scottish Sea Farms Limited

Report and Financial Statements

31 December 2017

Directors

Leif-Inge Nordhammer
Gustave Witzoe
Jim F Gallagher
John Rea
Helge Singlestad
Henning Beltestad

Secretary

D Anderson

Auditors

Ernst & Young LLP
G1
5 George Square
Glasgow
G2 1DY

Bankers

DnB Nor Bank ASA
20 St Dunston's Hill
London
EC3R 8HY

Solicitors

Shepherd and Wedderburn
191 West George Street
Glasgow
G2 2LB

Registered Office

Condor House
10 Saint Paul's Churchyard
London
EC4M 8AL

Strategic report

The directors present their strategic report for the year ended 31 December 2017.

Review of the business

The principal activity of the group continued to be the farming and processing of Scottish Atlantic salmon.

The group has achieved a satisfactory result for the year to 31 December 2017.

Group turnover was £200,076,000, an increase of £45,671,000 on 2016.

Group operating profit was £62,253,000, an increase of £20,512,000 on 2016.

Our key focus in 2017 was to maintain and improve our biological performance and be efficient in our cost base through targeted investments in infrastructure, and with the commitment of our staff we have made real progress in these areas. We have invested heavily again in infrastructure in 2017 with a primary focus to enhance the health and welfare of our salmon, as well as continuing to utilise biological control cleaner fish Wrasse and the introduction of Lumpfish. This supports the work we do in optimising the biological performance of our fish.

In the majority of our farms we had strong husbandry and biological performance with good harvest weights, but we had isolated environmental challenges on 4 farms which resulted in higher losses at these farms and the early harvest of small fish which had a negative impact on our results. We have taken actions with a revised farming strategy and specific investments in infrastructure to mitigate these challenges going forward.

We are making progress with our strategic plan to build a new RAS freshwater smolt facility for the rearing of young salmon smolts, the build is on schedule and the first smolt will come from Barcaldine in spring 2019.

On 31 December 2017 the trade, assets and liabilities of the Ettrick Trout Limited and its subsidiaries were transferred to Scottish Sea Farms Limited.

Key financial performance indicators include the monitoring of the management of profitability and working capital.

	2017	2016	
Profit margin	31%	26%	Profit before tax/turnover
Current ratio	2.99	2.57	Current assets: Current liabilities

Group shareholders' funds have increased by £18,751,000 to £92,923,000 (an increase of 25.3%).

Scottish Sea Farms Heart of the Community fund is now in its seventh year and £809,000 has been contributed in this period. In 2017 £163,000 was paid towards projects that benefit local communities. The company also hosted a triathlon event inviting staff, customers and suppliers to take part. It was held at the University of Stirling, with over 100 competitors taking part, and it raised over £35,000 for various charities including Glasgow Children's Hospital Charity, the Beatson Cancer Centre and Samaritans Scotland.

Strategic report (continued)

Review of the business (continued)

The directors would like to take this opportunity to thank our employees for their continued hard work and dedication through the year.

On behalf of the board

Jim Gallagher

J F Gallagher
Director

9 February 2018

Directors' report

The directors present their report and the group financial statements for the year ended 31 December 2017.

Principal activity and review of the business

The principal activity of the group continued to be the farming and processing of Scottish Atlantic salmon.

Results and dividends

The profit for the year, after taxation, amounts to £49,751,000 (2016: £32,727,000).

Dividends of £30,000,000 were declared and paid during the year (2016: £10,000,000).

Directors

The directors during the year, at the year-end and at the date of signing these accounts are listed on page 2.

Financial management objectives and policies

The company's principal financial instruments comprise cash, short and long term deposits and/or borrowings, the main purpose of which is to provide finance for its normal trading operations.

Interest is payable on borrowings at commercial rates of interest. The company's interest payable can therefore be affected by changes in interest rates. The company does not undertake active hedging of this risk.

Other financial assets and liabilities such as trade debtors and trade creditors arise directly from trading operations.

The company manages credit risk by conducting credit checks on its customers and arranges credit terms accordingly. The majority of our supply relationships are with a long established base.

Going concern

The group's business activities, a review of the business, together with the factors likely to affect its future developments, its financial position, financial risk management objectives, details of its financial instruments, and its exposure to credit and interest risk are described above.

After making suitable enquiries, the Directors have a reasonable expectation that the company has adequate resources to meet its liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Disabled employees

The group gives full consideration to applications from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees where appropriate.

Directors' report (continued)

Employee involvement

The company continue to provide information via regular meetings with managers, and the company also send out regular newsletters and have an internal social network for business purposes. Employees are also encouraged to present their suggestions and views on the group's performance.

During the year, the company implemented an Employee Assistance Programme. An EAP is an employee benefit designed to assist any employee with personal, health or wellbeing issues they have and is a free confidential service provided by Scottish Sea Farms

Directors' statement as to disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the groups auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

On behalf of the board

Jim Gallagher

J F Gallagher
Director

9 February 2018

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 102 and in accordance with applicable accounting standards and law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH SEA FARMS LIMITED

Opinion

We have audited the financial statements of Scottish Sea Farms Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the Group income statement, the Group and parent company statements of comprehensive income, the Group and parent company statements of changes in equity, the Group and parent company statements of financial position and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH SEA FARMS LIMITED (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH SEA FARMS LIMITED (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ernst & Young LLP

Mark Harvey (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Glasgow

9 February 2018

Group income statement
for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Turnover	2	200,076	154,405
Cost of sales		(128,620)	(105,462)
Gross profit		71,456	48,943
Distribution costs		(5,501)	(4,064)
Administrative expenses		(3,702)	(3,138)
Group operating profit	3	62,253	41,741
Net interest payable	6	(778)	(981)
Other finance income	7	-	66
Profit on ordinary activities before taxation		61,475	40,826
Tax on profit on ordinary activities	8(a)	(11,724)	(8,099)
Profit for the financial year		49,751	32,727

All the above relate to continuing operations.

Group statement of comprehensive income

for the year ended 31 December 2017

	2017 £000	2016 £000
Profit for the financial year	49,751	32,727
Actuarial gain/ (loss) on defined benefit pension scheme, net of taxation	193	(1,039)
Restriction of defined benefit pension scheme surplus	(1,193)	539
Total other comprehensive loss	(1,000)	(500)
Total comprehensive income for the year	48,751	32,227

Company statement of comprehensive income

for the year ended 31 December 2017

	2017 £000	2016 £000
Profit for the financial year	41,719	26,960
Actuarial gain/ (loss) on defined benefit pension scheme, net of taxation	193	(1,039)
Restriction of defined benefit pension scheme surplus	(1,193)	539
Total other comprehensive loss	(1,000)	(500)
Total comprehensive income for the year	40,719	26,460

Statement of changes in equity

for the year ended 31 December 2017

	Share capital £000	*Share premium £000*	*Profit and loss account £000*	*Total £000*
Group				
At 1 January 2016	21,400	1,600	28,945	51,945
Profit for the year	-	-	32,727	32,727
Other comprehensive loss	-	-	(500)	(500)
Total comprehensive income for the year	21,400	1,600	61,172	84,172
Equity dividends	-	-	(10,000)	(10,000)
At 31 December 2016	21,400	1,600	51,172	74,172
Profit for the year	-	-	49,751	49,751
Other comprehensive loss	-	-	(1,000)	(1,000)
Total comprehensive income for the year	21,400	1,600	99,923	122,923
Equity dividends	-	-	(30,000)	(30,000)
At 31 December 2017	21,400	1,600	69,923	92,923

A £30,000,000 equity dividend (£1.40 per share) was paid in the year (2016 – £10,000,000, £0.47 per share)

	Share capital £000	*Share premium £000*	*Profit and loss account £000*	*Total £000*
Company				
At 1 January 2016	21,400	1,600	15,135	38,135
Profit for the year	-	-	26,960	26,960
Other comprehensive loss	-	-	(500)	(500)
Total comprehensive income for the year	21,400	1,600	41,595	64,595
Equity dividends	-	-	(10,000)	(10,000)
At 31 December 2016	21,400	1,600	31,595	54,595
Profit for the year	-	-	41,719	41,719
Other comprehensive loss	-	-	(1,000)	(1,000)
Total comprehensive income for the year	21,400	1,600	72,314	95,314
Equity dividends	-	-	(30,000)	(30,000)
At 31 December 2017	21,400	1,600	42,314	65,314

A £30,000,000 equity dividend (£1.40 per share) was paid in the year (2016 – £10,000,000, £0.47 per share)

Group statement of financial position

at 31 December 2017

	Notes	2017 £000	2016 £000
Fixed assets			
Intangible assets	10	4,597	5,218
Tangible assets	11	50,665	43,507
		55,262	48,725
Current assets			
Stocks	13	64,033	69,501
Debtors	14	16,875	10,390
Cash at bank and in hand		10,852	4,614
		91,760	84,505
Creditors: amounts falling due within one year	15	(30,649)	(32,952)
Net current assets		61,111	51,553
Total assets less current liabilities		116,373	100,278
Creditors: amounts falling due after more than one year	16	(23,076)	(26,106)
Accruals and deferred income	18	(317)	-
Provisions for liabilities and charges	8(d)	(57)	-
Net assets		92,923	74,172
Capital and reserves			
Called up equity share capital	20	21,400	21,400
Share premium account	21	1,600	1,600
Profit and loss account		69,923	51,172
Equity shareholders' funds		92,923	74,172

The financial statements were approved by the board of directors and signed on its behalf by:

J F Gallagher
Director

9 February 2018

Company statement of financial position

at 31 December 2017

	Notes	2017 £000	2016 £000
Fixed assets			
Intangible assets	10	4,654	5,275
Tangible assets	11	48,408	33,367
Investments	12	6,500	6,500
		59,562	45,142
Current assets			
Stocks	13	64,033	53,180
Debtors	14	16,875	9,916
Cash at bank and in hand		10,852	4,614
		91,760	67,710
Creditors: amounts falling due within one year	15	(62,558)	(32,151)
Net current assets		29,202	35,559
Total assets less current liabilities		88,764	80,701
Creditors: amounts falling due after more than one year	16	(23,076)	(26,106)
Accruals and deferred income	18	(317)	-
Provisions for liabilities and charges	8(d)	(57)	-
Net assets		65,314	54,595
Capital and reserves			
Called up equity share capital	20	21,400	21,400
Share premium account	21	1,600	1,600
Profit and loss account		42,314	31,595
Equity shareholders' funds		65,314	54,595

The financial statements were approved by the board of directors and signed on its behalf by:

J F Gallagher
Director
9 February 2018

Notes to the financial statements

at 31 December 2017

1. Accounting policies

Statement of compliance

Scottish Sea Farms Ltd is a limited liability company incorporated in England. The registered office is Condor House 10 Saint Paul's Churchyard, London, EC4M 8A. The Groups financial statements have been prepared in compliance with FRS102 and it applies to the financial statements of the Group for the year ended 31 December 2017.

Basis of preparation

The financial statements are prepared under the historical cost convention. The financial statements are prepared in accordance with applicable accounting standards. The financial statements are prepared in sterling which is the functional currency of the group and rounded to the nearest £000.

Basis of consolidation

The group financial statements consolidate the financial statements of Scottish Sea Farms Limited and all its subsidiaries made up to 31 December 2017. No income statement is presented for the company as permitted by section 408 of the Companies Act 2006.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land and houses, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	-	30 years
Leasehold property	-	10 years or over the period of the lease if shorter
Machinery and equipment	-	4 - 10 years
Motor vehicles	-	3 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Goodwill and other intangible assets

Goodwill is the difference between the amount paid on the acquisition of a business's assets and trade and the fair value of its separable net assets. It has been capitalised and is being written off in equal annual instalments over its expected economic life of 15 years commencing in the year of acquisition. This goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Stocks

Stocks are valued at the lower of cost and net realisable value. In the case of ongrowing fish, costs include direct labour, feed and direct overheads attributable to fish production.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Revenue recognition

Revenue is recognised to the extent that the group obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Notes to the financial statements

at 31 December 2017

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Grants of a revenue nature are credited to income in the period to which they relate.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

The group operates both a defined benefit and a defined contribution pension scheme. The assets of the schemes are held separately from those of the group.

Defined benefit pension scheme assets are measured using market value. Associated pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability.

Any increase in the present value of the liabilities of the group's defined benefit pension scheme expected to arise from employee service in the period, is charged to the operating profit. The net interest element is determined by multiplying the net defined benefit liability by the discount rate, at the start of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the income statement as other finance revenue or cost. Actuarial gains and losses are recognised in the statement of total comprehensive income.

A surplus will only be recognised if there is agreement from the Trustees of the Defined Benefit Scheme at the Balance Sheet date and that the company will obtain the benefit from either a refund or reduction in future contributions.

The company also operates a defined contribution pension scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All foreign currency exchange differences are dealt with through the income statement.

Notes to the financial statements
at 31 December 2017

1. Accounting policies (continued)

Cash flow statement

The company has taken advantage of the exemption conferred by FRS 102 with the requirements of section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d).

Derivative instruments

The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles. The company does not undertake any hedge accounting transactions.

2. Turnover

Turnover comprises the invoice value of goods and services supplied by the group exclusive of VAT and intra-group transactions.

Turnover is attributable to one continuing activity; the farming and processing of salmon.

No further analysis of turnover has been disclosed, as, in the opinion of the directors, any further analysis would be seriously prejudicial to the interests of the group.

3. Group operating profit

This is stated after charging/(crediting):

	2017	*2016*
	£000	*£000*
Depreciation of owned assets	6,705	6,089
Depreciation of assets held under finance leases and hire purchase contracts	1,037	758
	7,742	6,847
Auditors' remuneration		
- audit services	42	42
- non audit services:		
Taxation - compliance	29	34
Pension	7	6
Taxation - advisory	40	80
Hire of plant and equipment	8,119	5,468
Research and development	11	53
Amortisation of goodwill and intangible assets	621	678
Release of deferred government grants	(217)	-
Exchange gain	7	88
Gain on sale of fixed assets	52	37

Notes to the financial statements
at 31 December 2017

4. Directors' remuneration

	2017	*2016*
	£000	*£000*
Emoluments	874	707
Contributions paid into defined contributions pension scheme	2	16

	2017	*2016*
	No.	*No.*
Active members of defined benefit pension scheme	-	-
Active members of defined contributions pension scheme	-	1

The emoluments of the highest paid director for the year ended 31 December 2017 were £571,000 (2016 - £496,000) and pension contributions were £nil (2016 - £6,000). No directors were members of the Defined Benefit Pension Scheme.

5. Staff costs

	2017	*2016*
	£000	*£000*
Wages and salaries	15,348	13,679
Social security costs	1,548	1,342
Other pension costs	287	284
	17,183	15,305

The average number of persons employed by the group, including directors, was made up as follows:

	2017	2016
	No.	*No.*
Production	388	368
Administration	40	35
	428	403

6. Net interest payable

	2017	*2016*
	£000	*£000*
Bank loan interest	682	802
Bank overdraft interest	2	76
Finance charges payable under finance leases and hire purchase contracts	138	103
	822	981
Less: interest received	44	-
	778	981

Notes to the financial statements
at 31 December 2017

7. Other finance income

	2017 £000	2016 £000
Interest on pension scheme liabilities	(421)	(454)
Expected return on pension scheme assets	421	520
	-	66

8. Taxation

(a) Tax on profit on ordinary activities

Group

The tax charge is made up as follows:	Note	2017 £000	2016 £000
UK corporation tax:			
UK corporation tax on profit for year		11,728	7,991
Tax (over)/ under provided in previous years		(152)	137
		11,576	8,128
Deferred tax:			
Originating and reversal of timing differences		(186)	185
Adjustment in respect of previous periods		323	(198)
Effect of changes in tax rates		11	(16)
Total tax charge	8(b)	11,724	8,099

(b) Factors affecting the total tax charge

Group

The tax assessed on the profit on ordinary activities for the year is lower/ higher than the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are reconciled below:

	Note	2017 £000	2016 £000
Profit on ordinary activities before tax		61,475	40,826
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 – 20%)		11,832	8,165
Effect of:			
Disallowed expenses and non-taxable income		129	111
Other timing differences		(192)	(100)
Tax over provided in previous years		(56)	(61)
Tax rate changes		11	(16)
	8(a)	11,724	8,099

Notes to the financial statements

at 31 December 2017

8. Taxation (continued)

(c) Factors that may affect future tax charges

The standard rate of UK corporation tax reduced from 20% to 19% on 1 April 2017. The Finance Act 2016, which was given Royal Assent on 15 September 2016, further reduced the standard rate from 19% to 17% effective from 1 April 2020.

(d) Deferred tax

The deferred tax liability/ (asset)/ included in the group and company statement of financial position is as follows:

	Group		*Company*	
	2017	*2016*	*2017*	*2016*
	£000	*£000*	*£000*	*£000*
Fixed asset timing differences	176	(5)	176	69
Other timing differences	(119)	(113)	(119)	(117)
	57	(118)	57	(48)

	Group	*Company*
	£000	*£000*
At 1 January 2017	(118)	(48)
Deferred tax charge to income statement for the period	(175)	16
Adjustment in respect of prior years	323	290
Transfer from subsidiary undertaking	31	(201)
Other	(4)	-
At 31 December 2017	57	57

All the deferred tax balances above are stated at 17% (2016 – 17%).

9. Profit attributable to members of the parent company

The company has not presented its own profit and loss account for the year ended 31 December 2017. Of the group profit for the financial year, a profit attributable to the members of £40,719,000 (2016 – £26,460,000) has been dealt with in the financial statements of the company.

Notes to the financial statements
at 31 December 2017

10. Intangible fixed assets

Group

	Goodwill *£000*	*Sites* *£000*	*Total* *£000*
Cost:			
At 1 January and 31 December 2017	8,345	2,525	10,870
Depreciation			
At 1 January 2017	4,828	824	5,652
Provided in year	496	125	621
At 31 December 2017	5,324	949	6,273
Net book value:			
At 31 December 2017	3,021	1,576	4,597
At 1 January 2017	3,517	1,701	5,218

Company

	Goodwill *£000*	*Sites* *£000*	*Total* *£000*
Cost:			
At 1 January and 31 December 2017	8,064	2,320	10,384
Depreciation			
At 1st January 2017	4,396	713	5,109
Provided in year	496	125	621
At 31 December 2017	4,892	838	5,730
Net book value:			
At 31 December 2017	3,172	1,482	4,654
At 1 January 2017	3,668	1,607	5,275

Intangible assets are being amortised in equal annual instalments over its estimated economic life of 15 years.

Notes to the financial statements

at 31 December 2017

11. Tangible fixed assets

Group

	Freehold land and buildings £000	*Buildings and leasehold land £000*	*Machinery and equipment £000*	*Motor vehicles £000*	*Assets under construction £000*	*Total £000*
Cost:						
At 1 January 2017	6,847	1,099	112,500	2,761	8,348	131,555
Additions	393	-	6,288	431	8,036	15,148
Disposals	(114)	-	(391)	(159)	-	(664)
At 31 December 2017	7,126	1,099	118,397	3,033	16,384	146,039
Depreciation						
At 1 January 2017	3,664	1,099	81,086	2,199	-	88,048
Charge for year	320	-	7,091	331	-	7,742
Disposals	(40)	-	(217)	(159)	-	(416)
At 31 December 2017	3,944	1,099	87,960	2,371	-	95,374
Net book value:						
At 31 December 2017	3,182	-	30,437	662	16,384	50,665
At 1 January 2017	3,183	-	31,414	562	8,348	43,507

The net book value of machinery and equipment and motor vehicles includes £5,824,000 (2016 - £5,338,000) and £438,000 (2016 - £496,000) respectively relating to assets held under finance leases and hire purchase contracts. The cost of land included in the net book value of tangible fixed assets above is £5,489,000 (2016 - £5,470,000).

Notes to the financial statements
at 31 December 2017

11. Tangible assets (continued)

Company

	Freehold land and buildings £000	*Buildings and leasehold land £000*	*Machinery and equipment £000*	*Motor vehicles £000*	*Assets under construction £000*	*Total £000*
Cost:						
At 1 January 2017	4,198	1,099	93,396	2,358	8,348	109,399
Additions	393	-	5,145	403	8,036	13,977
Disposals	(114)	-	(391)	(143)	-	(648)
Transfers from subsidiary undertaking	41	-	7,824	129	-	7,994
At 31 December 2017	4,518	1,099	105,974	2,747	16,384	130,722
Depreciation						
At 1 January 2017	3,450	1,099	69,544	1,939	-	76,032
Charge for year	320	-	6,073	289	-	6,682
Disposals	(40)	-	(216)	(144)	-	(400)
At 31 December 2017	3,730	1,099	75,401	2,084	-	82,314
Net book value:						
At 31 December 2017	788	-	30,573	663	16,384	48,408
At 1 January 2017	748	-	23,852	419	8,348	33,367

The net book value of machinery and equipment and motor vehicles includes £5,824,000 (2016 - £3,336,000) and £438,000 (2016 - £392,000) respectively relating to assets held under finance leases and hire purchase contracts. The cost of land included in the net book value of tangible fixed assets above is £5,489,000 (2016 - £5,470,000).

Notes to the financial statements

at 31 December 2017

12. Investments

Company

	Subsidiary Undertakings 2017 £000	Subsidiary Undertakings 2016 £000
Cost:		
At 1 January and 31 December	6,500	6,500

Orkney Sea Farms Ltd*	Ordinary £1	Scotland	100%

The above company's principal activity is the farming and sale of salmon.

The companies listed below are dormant.

GSP Farms Limited	Ordinary £1	Scotland	100%
Scottish Sea Farms Sales Limited	Ordinary £1	Scotland	100%
Kerrera Fisheries Limited	Ordinary £1	Scotland	100%
MJM (Salmon) Ltd	Ordinary £1	Scotland	100%
Dury Salmon Ltd	Ordinary £1	Scotland	100%
Terregles Salmon Company Ltd*	Ordinary £1	Scotland	100%
Ettrick Trout Co Ltd	Ordinary £1	Scotland	100%

* Held by a subsidiary undertaking

13. Stocks

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Materials and feed	1,959	1,899	1,959	1,452
Ongrowing fish	62,074	67,602	62,074	51,728
	64,033	69,501	64,033	53,180

The stocks recognised as an expense in the year were £110,911,000 (2016 - £105,462,000).

Notes to the financial statements

at 31 December 2017

14. Debtors

		Group		Company
	2017	2016	2017	2016
	£000	£000	£000	£000
Trade debtors	9,673	6,721	9,673	6,721
Prepayments and accrued income	4,377	926	4,377	926
Amounts owed by ultimate parent undertakings	2,784	839	2,784	839
Other debtors	41	1,786	41	1,382
Deferred tax asset (note 8d)	-	118	-	48
	16,875	10,390	16,875	9,916

15. Creditors: amounts falling due within one year

		Group		Company
	2017	2016	2017	2016
	£000	£000	£000	£000
Bank loans (note 17)	1,812	1,812	1,812	1,812
Non secured loan	500	500	500	500
Trade creditors	12,619	17,777	12,619	13,064
Social security	936	820	936	820
Corporation tax payable	4,562	4,504	4,562	2,565
Accruals and deferred income	8,410	6,016	8,410	5,165
Obligations under finance leases and hire purchase contracts (note 19)	1,810	1,523	1,810	1,523
Amounts owed to subsidiary undertakings	-	-	31,909	6,702
	30,649	32,952	62,558	32,151

The bank loans and overdraft are secured by a fixed and floating charge and standard security over all the assets of the company and its subsidiaries. In addition there is a first priority charge of the company's shares in its subsidiary undertakings.

Notes to the financial statements

at 31 December 2017

16. Creditors: amounts falling due after more than one year

		Group		*Company*
	2017	*2016*	*2017*	*2016*
	£000	*£000*	*£000*	*£000*
Bank loans (note 18)	17,672	19,484	17,672	19,484
Non secured loan	3,750	4,250	3,750	4,250
Obligations under finance leases and hire purchase contracts (note 19)	1,654	2,372	1,654	2,372
	23,076	26,106	23,076	26,106

The £5m loan is unsecured and is repayable in fifteen quarterly instalments of £125,000, with a final payment of £3.125m due in 2020.

17. Bank loans

		Group		*Company*
	2017	*2016*	*2017*	*2016*
	£000	*£000*	*£000*	*£000*
Wholly repayable within five years:				
£21.75 million bank loan	19,484	21,296	19,484	21,296
Less: included in creditors: amounts falling due within one year (note 15)	(1,812)	(1,812)	(1,812)	(1,812)
Amounts falling due after one year (note 16)	17,672	19,484	17,672	19,484
Amounts repayable:				
Within one year	1,812	1,812	1,812	1,812
In two to five years	17,672	19,484	17,672	19,484
	19,484	21,296	19,484	21,296

The £21.75m loan facility is repayable in twenty quarterly instalments of £453,000, with a final payment of £12.7 million due in 2021.

The bank loans and overdraft are secured by a fixed and floating charge and standard security over all the assets of the company and its subsidiaries. In addition there is a first priority charge of the company's shares in its subsidiary undertakings.

18. Accruals and deferred income

		Group		*Company*
	2017	*2016*	*2017*	*2016*
	£000	*£000*	*£000*	*£000*
Deferred government grants:				
At 1 January 2017	-	-	-	-
Received in year	534	-	534	-
Released in year	(217)	-	(217)	-
At 31 December 2017	317	-	317	-

Notes to the financial statements
at 31 December 2017

19. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

		Group		*Company*
	2017	*2016*	*2017*	*2016*
	£000	*£000*	*£000*	*£000*
Amounts payable:				
Within one year	1,959	1,646	1,959	1,646
In two to five years	1,783	2,564	1,783	2,564
	3,742	4,210	3,742	4,210
Less: finance charges allocated to future periods	(278)	(315)	(278)	(315)
	3,464	3,895	3,464	3,895

Finance leases and hire purchase contracts are analysed as follows:

		Group		*Company*
	2017	*2016*	*2017*	*2016*
	£000	*£000*	*£000*	*£000*
Current obligations (note 15)	1,810	1,523	1,810	1,523
Non-current obligations (note 16)	1,654	2,372	1,654	2,372
	3,464	3,895	3,464	3,895

20. Called up share capital

		Authorised		*Allotted, called up and fully paid*
	2017	*2016*	*2017*	*2016*
	No	*No*	*£000*	*£000*
Ordinary shares of £1 each	21,400,000	21,400,000	21,400	21,400

Notes to the financial statements
at 31 December 2017

21. Reserves

Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

22. Financial instruments

	Group		*Company*	
	2017	*2016*	*2017*	*2016*
	£000	*£000*	*£000*	*£000*
Financial assets that are equity instruments measured at cost less impairment	-	-	6,500	6,500
Financial assets that are debt instruments measured at cost				
- Other debtors	41	1,786	41	1,382
Financial liabilities measured at amortised cost				
- Finance leases and hire purchase contracts	3,464	3,895	3,464	3,895
- Trade creditors	12,619	17,777	12,619	13,064
- Bank loans	19,484	21,296	19,484	21,296
- Non secured loans	4,250	4,750	4,250	4,750

23. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £24,777,000 (2016 - £12,169,000) for the group and the company.

Notes to the financial statements

at 31 December 2017

24. Pensions and other post-retirement benefits

FRS102 disclosures

The company sponsors the Scottish Sea Farms Defined Benefit Pension Scheme. The company took the decision to close the scheme to future accrual with effect from midnight on 31 December 2009. From 1 January 2010 members have been offered membership of the Company's Group Personal Pension Plan and no further defined benefits have accrued.

A valuation of the scheme for FRS 102 purposes was carried out by a qualified independent actuary as at 31 December 2017. The FRS102 valuation is based on projecting forward the results of the 31 December 2016 funding valuation, allowing for changes in financial conditions.

The following amounts at 31 December 2017 were measured in accordance with the requirements of FRS102:

The assets and liabilities of the scheme at 31 December 2017 are:

Scheme assets at fair value:

	2017	*2016*
	£000	*£000*
Corporate Bonds	6,165	6,788
Government Bonds	8,768	9,586
Cash	20	18
Other	303	-
Fair value of scheme assets	15,256	16,392
Present value of scheme liabilities	(13,287)	(15,686)
Defined benefit pension scheme surplus	1,969	706
Effect of asset limitation	(1,969)	(706)
Net pension surplus on the balance sheet	-	-

The net surplus of £1,969,000 at 31 December 2017 (2016 - £706,000) has not been incorporated into the financial statements as Scottish Sea Farms Limited, as an employer, is not deemed to control or be able to benefit from the surplus, in accordance with FRS102.

The fair value of the assets of the scheme at 31 December 2017 relates wholly to corporate bonds, government bonds, cash and other.

Notes to the financial statements

at 31 December 2017

24. Pension scheme (continued)

The movements in assets and liabilities in the year are as follows:

Changes in the present value of the defined benefit obligations are analysed as follows:

	2017 £000	2016 £000
Benefit obligation at beginning of the year	15,686	11,653
Interest cost	391	454
Experience losses on liabilities	(131)	-
Benefits paid	(2,378)	(427)
Changes in assumptions	(281)	4,006
Benefit obligation at 31 December	13,287	15,686

Changes in the fair value of plan assets are analysed as follows:

	£000	£000
Fair value of scheme assets at beginning of the year	16,392	13,060
Expected return on scheme assets	421	520
Contributions by employer	1,000	500
Benefits paid	(2,378)	(427)
Actuarial gains/ (losses)	(179)	2,739
Fair value of scheme assets at 31 December	15,256	16,392
Net amount recognised	nil	nil

The contributions made by the employer over the financial year have been £1,000,000 (2016 - £500,000). The company will pay a further £1,000,000 in 2018. In addition, all costs of administering the scheme are paid by the company and are charged directly to the profit and loss as a business expense outside of FRS102.

Notes to the financial statements

at 31 December 2017

24. Pension scheme (continued)

	2017 £000	2016 £000
Current service cost	-	-
Interest income pension scheme assets (before asset limitation effect)	(421)	(520)
Interest income pension scheme assets (after asset limitation effect)	(391)	(454)
Interest on pension scheme liabilities	391	454
Net return (before asset limitation effect)	-	-
Net return (after asset limitation effect)	-	-

Taken to the statement of comprehensive income:

	2017 £000	2016 £000
Re-measurements (recognised in other comprehensive income (OCI))		
Actual return less interest income on pension scheme assets	179	(2,739)
Experience gains and losses arising on the scheme liabilities	(131)	-
Changes in assumptions underlying the present value of the scheme assets	(281)	4,006
Actuarial gain/ (loss) recognised in OCI	(233)	(1,267)
Effect of asset limitation	233	1,267
Total amount recognised in OCI	-	-

Recognised in the group income statement

	2017 £000	2016 £000
Expected return on pension scheme assets	(421)	(520)
Interest on pension obligation	421	454
Net income	-	(66)

Notes to the financial statements

at 31 December 2017

24. Pension scheme (continued)

Main assumptions:

	2017	*2016*
Rate of increase in deferred pensions accrued pre 1 March 2002	3.60%	3.60%
Rate of increase in deferred pensions accrued post 1 March 2002	2.90%	3.10%
Rate of increase in pensions in deferment	2.08%	2.16%
Discount rate	2.57%	2.70%
Inflation assumption – RPI	3.08%	3.16%
Inflation assumption – CPI	2.08%	2.16%

An expected rate of return on asset assumption is not required under FRS102, where the interest income on assets will be calculated using the discount rate assumption.

The actual return on scheme assets during 2017 was a gain of £242,000. 2016 was £3,259,000.

Statutory pension increases or revaluations based on price inflation

The same post retirement mortality base table assumption has been adopted as was used for the funding valuation at 31 December 2016 i.e. the S2PA tables with a 20% uplift to the base q_x rates, with an additional one year age rating on the expensing basis. The future improvements assumption has been updated to be in line with the CMI_2016 projection model with 1.5% per annum long term rate of improvement. These tables correspond to life expectancies from age 65 as follows:

	Male	Female
Member currently aged 65	20.1	21.9
Member currently aged 45	21.8	23.8

The pre-retirement mortality assumption is the same as that which was adopted for the most recent actuarial valuation, i.e. the A92 tables with a -2 year age rating.

In addition, an allowance has been made for members to choose to commute 25% of their pension entitlement for a tax free-free cash lump sum at retirement using factors currently in force. A sample factor used is £15.255 at age 65 (2016: 25% with a sample factor of £10.255 at age 65).

The company also operates a defined contribution scheme for its employees. Contributions accrued and due to be paid at 31 December 2017 amounted to £29,000 (2016 – £26,000). The contributions paid into this scheme in the year were £287,000 (2016 - £284,000).

Notes to the financial statements

at 31 December 2017

25. Other financial commitments

As at 31 December 2017 the group had future minimum rentals payable under non-cancellable operating leases as set out below:

	2017	*2016*
	£000	*£000*
Within one year	3,460	3,112

26. Related parties

i) During the year, the group bought and sold fish in the normal course of business from/to Hallvard Leroy ASA and Salmar Sales ASA, both subsidiaries of its ultimate parent undertakings. The price charged was the normal market price in the case of each individual purchase/sale. Included in the profit and loss account are the following amounts relating to transactions with Hallvard Leroy ASA and Salmar Sales ASA:

	2017	*2016*
	£000	*£000*
Sales to associated company	27,210	24,917
Purchases from associated companies	1,366	522

At the balance sheet date the amount due from Hallvard Leroy ASA was £2,766,000 (2016 - £889,000). The amount outstanding from Salmar ASA was £18,000 (2016 - £25,000).

ii) There have been other intra group transactions but these have not been disclosed due to the exemption contained in Financial Reporting Standard 102.

27. Parent undertakings and controlling parties

In the opinion of the directors, the company's immediate parent undertaking is Norskott Havbruk AS, incorporated in Norway. It will include the company in its group financial statements, copies of which will be available from its registered office: Bontelabo 2, 5020 Bergen, Norway.

In the opinion of the directors, the company's ultimate parent undertakings and controlling parties are Leroy Seafood Group ASA and Salmar ASA, both companies incorporated in Norway. Copies of their group financial statements, which include the company, are available from PO Box 7600, N-5020 Bergen, Norway, and N-216 Kverva, Norway, respectively.