The Scottish
Salmon Company

www.scottishsalmon.com

Producing **Scotland's finest** sea
loch fresh salmon with **pride** and **passion**

Annual Report **2018**

The Scottish Salmon Company

Annual Report 2018

The Scottish Salmon Company (SSC) is committed to the production and sale of the finest quality Scottish salmon along with complementary investments in other value added, Scottish seafood products. The Scottish Salmon Company PLC (the PLC) is the parent company of the Group and is listed on Oslo Børs, the Norwegian Stock Exchange.

The PLC is the parent company to The Scottish Salmon Company Limited (the Company), through which it conducts all its salmon farming, processing, sales and marketing activities.

The Company is registered and managed in Scotland, while the PLC is registered in Jersey.

The PLC and the Company are dynamic and innovative organisations, committed to achieving responsible growth in a thriving industry that has great importance to the Scottish economy and rural communities in Scotland.

Exclusively in Scotland

The Scottish Salmon Company

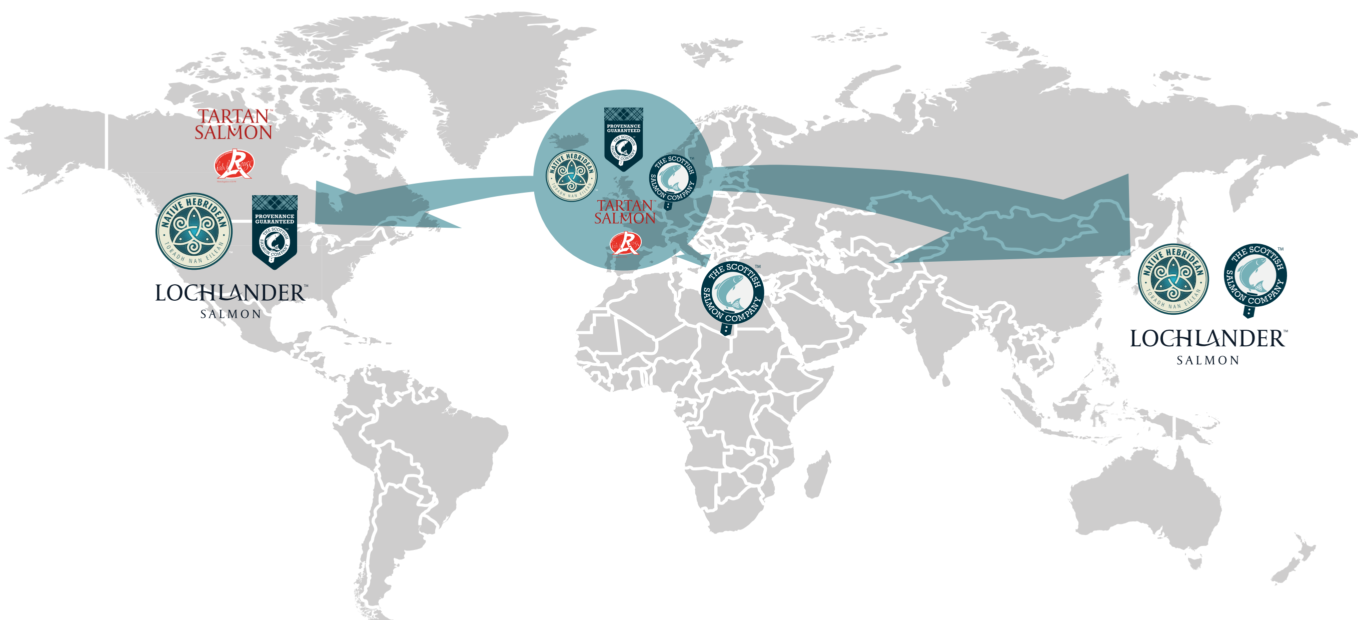
Scotland's leading independent salmon producer

SSC is a fully integrated salmon farming business operating exclusively in Scotland with 60 sites across the West Coast and Hebridean Islands. We are engaged in all stages of the value chain ensuring full traceability and total supply chain integrity. Our current potential production capacity is up to 50,000 tonnes annually and we export to 26 countries with a focus on North America and the Far East.

Integrated Value Chain

Integral to our strategy for business growth is brand development, underpinned by our commitment to Scottish provenance. We have developed a range of strong flagship brands, including Native Hebridean Salmon, Tartan Salmon Label Rouge and Lochlander Salmon.

Bringing Scottish salmon to worldwide markets



The Scottish Salmon Company

Our Purpose and Values

Our purpose is to deliver responsible business growth to become Scotland's leading fresh food business. Responsibility is at the heart of our strategy and embedded in the Company's values of Pride, Passion and Provenance.

- **Pride in our Scottish salmon**
  Every one of us strives for outstanding quality and value with integrity and confidence in our abilities.

- **Passion of our People**
  We respect and care for each other, our communities, partners and consumers. Working together to exceed expectations.

- **Provenance: the gift of our environment**
  We take individual and collective responsibility to be custodians of our environment. We are a sustainable business; our growth and our success will never be at the expense of our values.

Our Responsible Business Model

Underpinning our purpose and values is our commitment to sustainability, innovation and collaboration. The business strategy and operational model is driven through four key areas:

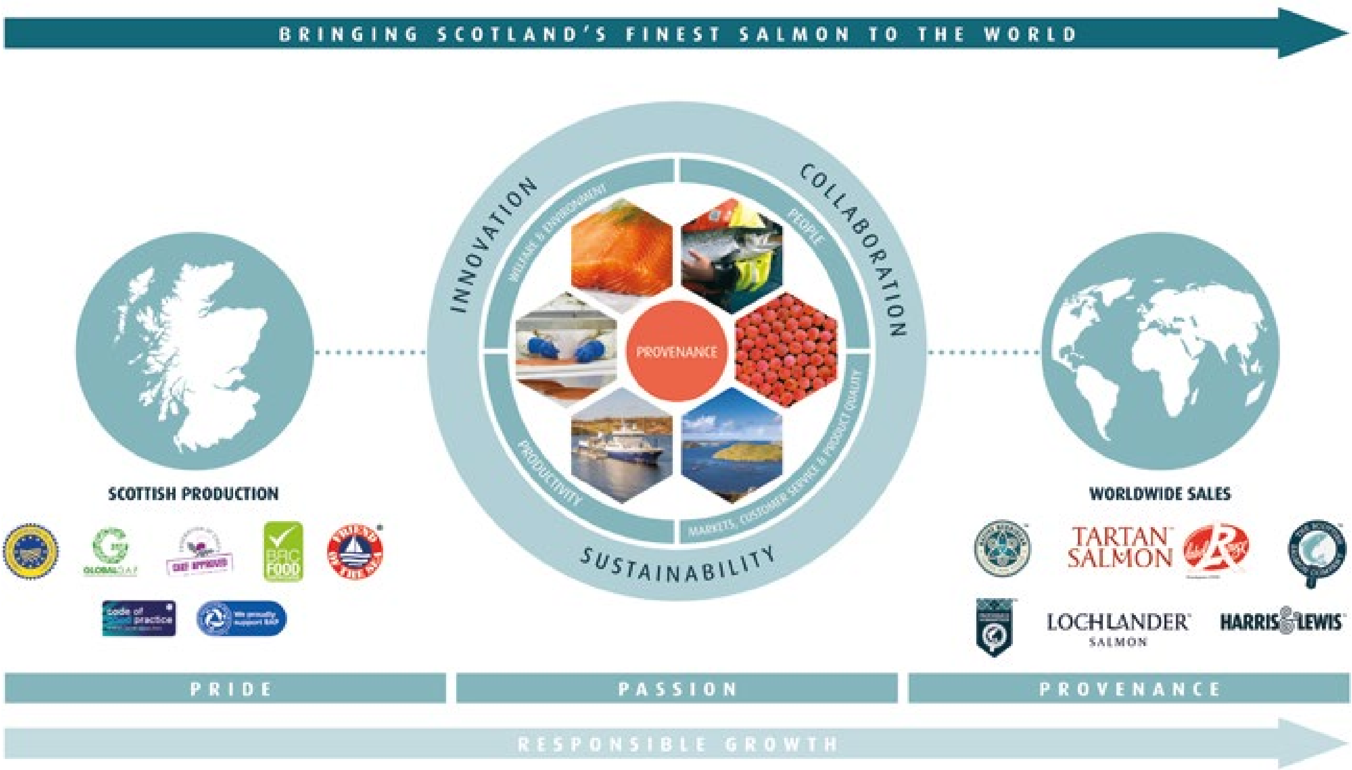
- **Welfare and the environment**
  We recognise good husbandry and sustainable farming methods as fundamental. They are intrinsically linked with the health and welfare of our stock and the environment, ensuring healthy growth and production of the finest quality Scottish salmon.

- **People**
  Our experienced management team are focussed on driving the strategy, delivering responsible growth and creating value for our stakeholders. We are committed to the health and safety of our staff and investing in their development. Recognising our broader responsibility to engage, support and work collaboratively with stakeholders.

- **Productivity**
  We focus on operational efficiency, consistency and cost control throughout the value chain. We have a programme of planned investment in infrastructure to drive operational efficiencies.

- **Markets, customer service and product quality**
  We are developing long term partnerships with customers, built on our reputation for delivering quality Scottish salmon and excellent customer service. The production strategy supports the long term objective of increasing capacity to meet international demand and driving export growth in key markets.

Responsible Business Growth



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The annual report gives a short description of The Scottish Salmon Company PLC that satisfies the legal requirements of the annual report. Additional information is available on our website www.scottishsalmon.je.

1 Key Figures

	2018 (£'000s)	2017 (£'000s)
Revenue	180,125	150,946
EBITDA before biomass fair value adjustment	56,658	38,669
EBITDA margin before biomass fair value adjustment	31.5%	25.6%
EBIT	60,247	30,770
Earnings before taxes	58,305	29,318
Earnings before taxes margin	32.4%	19.4%
Net earnings for the year	47,657	24,135
Total assets	250,143	198,341
Net interest bearing debt (NIBD)	35,788	38,519
Equity	157,759	116,255
Equity %	63.1%	58.6%
Net cash inflow from operations	37,662	19,198
Cash and cash equivalents	4,886	8,500
EBIT per kg before fair value adjustment	1.61	1.21
Harvest Volumes (HOG Tonnes)	29,913	25,272

2 Dear Shareholders

We continue to develop our business in an economic and environmentally sustainable manner, generating long term value for our shareholders, while creating value in Scotland.

I am delighted to have the opportunity to present our Annual Report for 2018. We remain fully committed to our long term strategy of responsible business growth, creating value for our shareholders, employees, communities and other stakeholders.

2018 was our best financial year to date. The price of SSC shares increased significantly during the year. In addition, SSC paid out dividends totalling £6m the first time a dividend has been paid since 2011. SSC has also declared a dividend of £10m to be paid in May 2019. We achieved record revenues in 2018, 19% higher than the previous year.

Reflecting on this year, this solid financial and operational performance has been achieved through driving exports and developing long term strategic partners, teamed with a relentless focus on operational efficiency and value chain development. This is testament to the quality of management and clarity of strategy to deliver on objectives.

It is the responsibility of the Board to pursue sound corporate governance and transparency to drive shareholder value and promote sustainable business conduct. This includes clear oversight of the financial and risk management activities and the future direction of the business, as well as careful environmental stewardship and management of health and welfare practices.

2018 was a milestone year for the Group and we fully expect to build upon this success during the coming year. The market outlook remains strong and we look forward with confidence to the exciting challenges ahead.

We remain fully committed to our long term strategy of responsible business growth creating value for our stakeholders. Finally, on behalf of the Board, I would like to thank our hardworking teams for their continued dedication and also to all who have supported SSC throughout the year.

Robert M Brown III
Chairman

2018 was our best financial year to date. The price of SSC shares increased significantly during the year.

3 Group History

2018

- 2018 Strategic acquisition of a hatchery and freshwater site
- 2018 Acquired Harris & Lewis Smokehouse
- 2018 Acquired new site at Maaey and developed Portree, adding 4,000T of consent

2017

- 2017 Three Highland & Island Food and Drink Awards: Innovation and New Product for Native Hebridean and Export of Label Rouge
- 2017 Developing operational platform and infrastructure efficiencies, and secured new licence consent of 2,000T

2016

- 2016 £55m refinancing package providing an increased and more flexible funding package to support the Company's objective for growth, as well as accommodating the variability in working capital requirements
- 2016 New harvest station and wellboat commissioned allowing greater flexibility and efficiency in logistics and harvesting as well as improving speed to market

2015

- 2015 Additional licence consent on Benbecula amounting to 2,000T
- 2015 26.6m new shares issued following conversion of bond to equity

2014

- 2014 Redevelopment of Langass Hatchery and established Native Broodstock Selection Programme
- 2014 Additional consents on Lewis, Skye and Mull amounting to 2,400T
- 2014 Two new sites on Harris, stocked in 2015, totalling 4,200T additional licence consents

2013

- 2013 Langass Hatchery, North Uist assets purchased
- 2013 Additional licence consents secured for three sites, amounting to 5,669T

2012

- 2012 Investment into value added products through Scottish Seafood Investments Limited
- 2012 Additional licence consents secured for two sites amounting to 4,091T

2011

- 2011 The Scottish Salmon Company PLC listed on Oslo Børs

2010

- 2010 The Scottish Salmon Company Limited purchased West Minch Salmon Limited
- 2010 Corporate rebranding to form The Scottish Salmon Company PLC

2007

- 2007 Lighthouse Caledonia ASA divested from Marine Harvest and listed on Oslo Axess

4 Operational Review – The Scottish Salmon Company Limited

2018 was a year of positive developments across the value chain as we drive forward our plan to bring the finest Scottish salmon to global markets. The reputation of Scottish food is synonymous with quality worldwide and the demand for Scottish salmon remains strong.

Driving value through Scottish provenance

Our commitment to Scottish provenance and the finest quality standards set us apart in the international marketplace and represent our key differentiators. Providing value for customers and delivering winning brand propositions for consumers will further underpin our export efforts.

A highlight of 2018 has been the introduction of our Native Hebridean Salmon into a leading UK retailer. Exclusive to SSC, their distinctive Hebridean heritage, taste and nutritional value have garnered much consumer and press acclaim, with our Native Hebridean Salmon being featured favourably in the national press. Moreover, our Native Hebridean Salmon have been awarded 'Product of the Year' at the Scotland Food & Drink Excellence Awards 2018.

The Native Hebridean Broodstock Programme has been in development for over 10 years, including investment in the new Family Breeding Facility at Langass in North Uist, with Research and Development spend of £3.8m to date. In 2018, we signed a partnership agreement with the leading international breeding technology company, Hendrix Genetics, to support the long term development of this extensive programme.

An exciting new development for the business in 2018 was the £3.6m acquisition of the Harris & Lewis Smokehouse on the Isle of Lewis. The smokehouse and restaurant, based in the Hebrides, represent a new consumer-facing focus for our business and extends our value chain to 'ready to eat' smoked salmon as well as allowing us to showcase our salmon in the local community.

We have seen strong growth of our export brands in key markets and have been strategic in our approach to driving overseas sales, identifying niche market opportunities to secure premium positioning. Exports have increased by 122% in the last two years, now accounting for 58% of revenue.

SSC is the leading global producer of Label Rouge and in 2018 we further differentiated our Label Rouge product by prefixing the 'Tartan Salmon Label Rouge' brand. In the USA we launched Lochlander Salmon, once again reinforcing our Scottish quality message, in a customer and consumer friendly way.

Strong operational and financial performance

We remain focused on improving operational performance and efficiency throughout the value chain; this has been integral in achieving record results in 2018.

Development in freshwater operations continues to be a high priority to ensure increased consistency and flexibility in smolt production. In 2018, this included the acquisition of a freshwater facility in the Highlands and a significant development at our freshwater facility at Applecross. Total capital expenditure of £20.5m includes 2 new marine sites at Maaey and Portree, with a total consent of 4,000 tonnes.

We are committed to the health and welfare of our stock through rigorous health management, investment, innovation and collaboration. In 2018 we invested over £6m in managing sea lice, expanding our non-medicinal sea lice treatment capacity, use of new treatment technologies and the continued expansion of our cleaner fish programme. We are working in partnership with industry and the Scottish Government for sustainable growth, developing the 'Farmed Fish Health Framework' which sets out strategic objectives for fish health over the next decade. We are also involved with a major collaborative project with industry and academia to improve gill health and resilience, one of the industry's most significant challenges.

Improving infrastructure has been key to strengthening flexibility and creating synergies across operations. We have increased our fleet to 5 ships and have invested in efficiencies at processing sites, including the introduction of pre-rigor filleting in the South region.

Both processing facilities were awarded the highest level of British Retail Consortium (BRC) accreditation for food safety, processing and supply chain management. In 2018 we were proud to be the first salmon producer in the UK to be awarded three stars in the internationally prestigious Best Aquaculture Practice (BAP) certification programme for all of our marine and processing sites and for sourcing our feed from BAP certified suppliers.

Delivering value for our Stakeholders

Our purpose and vision are clear and we have created a stronger and more agile business, well placed to take advantage of changing dynamics and opportunities, while driving business growth and delivering value to our stakeholders.

We remain committed to the environmental, cultural, economic growth and sustainability of rural Scotland. I would like to thank our shareholders, suppliers, partners, other stakeholders and our dedicated employees, whose commitment to our values has been at the heart of our strong performance in 2018.

Craig Anderson
Chief Executive Officer
The Scottish Salmon Company Limited

5 Corporate Social Responsibility

Our Responsibility

Responsibility is the key driver in our strategy for business growth and is embedded in our core values of Pride, Passion and Provenance. The responsibility for our stock, people and environment are reflected in 'Pride in our Scottish salmon', the 'Passion of our people' and the gift of our 'Provenance and our environment'.

Our approach identifies opportunities unique to our business, enables engagement with our stakeholders and proactively identifies and mitigates risk throughout the supply chain. This goes beyond compliance and regulation and is about good citizenship, including providing quality long term employment and being an integral part of local communities, ensuring our social investment has meaningful impact.

In this section, the Group reports on the outcomes of its 2018 Corporate Social Responsibility strategy, building on its 2017 Annual Report and overall materiality analysis, describing the course of action and approach that the Group is developing.

What sustainability means for The Scottish Salmon Company

Sustainable production of healthy and nutritious food will increase to meet the demands of the growing global population. Salmon is one of the most energy efficient ways to produce protein and development of the salmon farming industry has brought prosperity to many coastal and remote areas, generating new job opportunities, investment in local economies and retaining value in Scotland.

In line with the Scottish Government's pledge to create a healthier, and wealthier nation, it is our focus to supply healthy locally produced food while investing in the local economy.

Scottish salmon, as the UK's largest food export, plays an integral role in the growth of the food sector. SSC is the leading salmon producer exclusively farming in Scotland and we recognise our role in producing responsibly and providing a nutritious, quality food with 'Provenance Guaranteed'.

Recognising the importance of provenance to our business, SSC is committed to responsible stewardship of the unique natural environment in which we operate.

We pursue global best practice and were the first salmon producer in the UK to be awarded 3-star Best Aquaculture Practice (BAP) certification. In addition, we conduct our operations in accordance with the industry's Code of Good Practice and Community Engagement Charter. Our own Community Charter brings our values of Pride, Passion and Provenance to life and details our commitment to working closely with our people, suppliers and communities.

Highlights for the Year

- The first salmon producer in the UK to be awarded 3-star Best Aquaculture Practice (BAP) certification;
- Development of the Community Awards and introducing Staff Value Awards; and
- We are involved in various local long term projects restocking wild fisheries.

Priority Going Forward

We remain committed to our strategy of responsible growth and operating in an open and transparent manner. Pursuing global best practice, we will evaluate established frameworks and further develop our approach.

Values	Priorities
Pride in our Scottish salmon	• Quality, food safety and traceability across the value chain • High quality traceable feed • Good husbandry, health and welfare
Passion of our People	• Working conditions and diversity, talent attraction and retention • Employee health and safety • Ethical business conduct • Community engagement
Provenance and our Environment	• Environmental stewardship • Wildlife interaction • Sustainable production practices

5 Corporate Social Responsibility

Pride in our Scottish salmon

We take pride in producing the finest quality Scottish salmon with the trademark of 'Provenance Guaranteed'.

This underpins all that we do and sets us, and our branded products, apart from our competitors across the globe.

Commitment to quality, food safety and traceability

Key global consumer trends continue to highlight the importance of traceability, supply-chain integrity and provenance. These trends form the basis of our strategy and are integral to our brand development. Committed to Scottish provenance, we are engaged in all stages of the value chain, ensuring full traceability and total supply chain integrity.

Accreditation and certification

We have a robust Food Safety and Quality Policy, ensuring that product safety is controlled and maintained, in compliance with food hygiene legislation, as well as UK and EU legislation. We also hold national and international accreditations across the value chain including GLOBALG.A.P., the worldwide standard for Good Aquaculture Practice.

In 2018, we were the first salmon producer in the UK to be awarded 3-star Best Aquaculture Practice (BAP) certification for all our marine and processing sites, as well as our feed suppliers. This is considered to be the world's most trusted and comprehensive third-party aquaculture certification, administered by the Global Sustainable Seafood Initiative (GSSI). BAP is the only certification to cover the entire aquaculture production chain, from hatcheries to farms and processing plants. In addition, in 2018, both our processing facilities were awarded the highest level of British Retail Consortium (BRC) Accreditation for food safety, processing and supply chain management.

SSC is the leading supplier of Label Rouge Salmon, an accreditation established by the French Ministry of Agriculture, recognising superior taste and meeting strict criteria of quality, husbandry, feed and traceability. In 2018, we launched Tartan Salmon Label Rouge to further differentiate in the market place and introduced retail-ready fillets as part of our consumer focussed range.

A highlight of 2018 has been the success of Native Hebridean Salmon which was launched into a leading UK retailer as part of its highest quality range. Recognised for its distinctive Hebridean heritage, taste, nutritional value and quality, it was received to high acclaim and recognition by a leading national newspaper and won 'Product of the Year' at the Scotland Food & Drink Excellence Awards 2018. We also launched Lochlander Salmon at the Boston Seafood Expo, a product tailored specifically for the North American market, in which it was also well received.

High quality and traceable feed

We are dedicated to producing the finest quality Scottish salmon and fundamental to this is the quality of the feed to ensure healthy growth. Our feed strategy is focused on quality nutrition, sustainability and full traceability. Our dedicated team of nutritionists ensure that we only source fully traceable raw materials. Our Scottish salmon are fed on a bespoke diet higher in marine content than average, ensuring they are naturally rich in Omega 3.

We are committed to sourcing high specification feed, from speciality feed suppliers accredited to appropriate assurance schemes such as Universal Feed Assurance Scheme (UFAS), GLOBALG.A.P. and BAP. We require all of our feed suppliers to source marine ingredients from fisheries and producers certified by the International Fishmeal and Fish Oil Organisation (IFFO), under their Responsible Supply Scheme. SSC is the only Scottish producer with membership and ensures traceability back to the relevant responsibly managed fishery. All soya is ProTerra-certified and palm products are Sustainable Palm Oil (RSPO) certified.

Good husbandry, health and welfare

Fish health and welfare and the natural environment are intrinsically linked and are fundamental to responsible salmon farming. The salmon industry is one of the most transparent and regulated farming sectors in the UK. We are committed to the highest standards of animal husbandry in all our operations, adhering to the independently audited Code of Good Practice for Scottish Finfish Aquaculture, which covers all aspects of farm production including site and stock selection, biosecurity, fallowing, feed formulation and husbandry practices.

Operating in the natural environment involves many biological and environmental challenges. We are working collaboratively with the Scottish Government and industry to develop the 'Farmed Fish Health Framework', which sets out the strategic framework for fish health objectives for the next 10 years, to underpin sustainable growth of the sector. We are also involved with a major collaborative project with industry and academics with the aim of improving gill health and resilience – one of the industry's most significant challenges.

We are committed to the health and welfare of our stock through rigorous health management, investment, innovation and collaboration. We have a team of highly motivated and professional veterinarians and biologists who take the welfare of the stock under their care extremely seriously. We are focussed on reducing the use of chemical and medical treatments: we have not used antibiotics in marine for 7 years. In 2018, we invested over £6m to manage health challenges through proactive and reactive measures, including increasing our non-medicinal sea lice treatment capacity by using new treatment technologies and expanding our cleaner fish programme.

All mortalities and sea lice counts are reported in line with regulation and are published voluntarily on a monthly basis by site, as introduced by the industry in 2018.

Future priorities

Protecting and promoting our Scottish provenance is fundamental to driving exports and developing our brands. Our 'Provenance Guaranteed' is built on a commitment to quality, supply chain integrity and food authenticity.

Health and welfare of our stock remains a priority for the business and we take a holistic approach to improving biological performance, focusing on reducing the use of chemical treatments and minimising our impact on the environment. SSC is dedicated to working collaboratively with academics and industry partners to find long term innovative and sustainable solutions.

Pride case study: Native Hebridean Salmon

Hebridean salmon raised in the Hebrides by Hebridean People

A highlight of 2018 has been the success of Native Hebridean Salmon. This unique and award-winning breed was launched into the top quality range of a leading UK retailer due to its distinctive Hebridean heritage, taste, nutritional value and quality. Native Hebridean Salmon has since received high acclaim and recognition by a leading national newspaper and won 'Product of the Year' at the Scotland Food & Drink Excellence Awards 2018.

This has been a result of a 10-year broodstock programme with over significant Research and Development investment being made, including the new Family Breeding Facility at Langass in North Uist. In 2018, we signed a partnership agreement with the leading international breeding technology company, Hendrix Genetics, to support the long term development of this extensive programme.

An exciting new development for the business was the acquisition of the Harris & Lewis Smokehouse in Stornoway, on the Isle of Lewis. The smokehouse and restaurant represents a new consumer-facing focus for the business and extends our value chain in the Hebrides and producing smoked salmon. We have developed an innovative curing process and will exclusively smoke Native Hebridean Salmon. This facility is an integral part of the community, showcasing Scottish salmon.

With over 220 staff across 25 sites in the Hebrides, SSC is the largest private employer in the Outer Hebrides. Native Hebridean is more than just about developing a unique strain, it is about protecting Hebridean provenance and ensuring true sustainability by adding and retaining value locally, creating specialist, skilled, long term employment in an area classified by Highlands & Islands Enterprise as fragile.

Passion of our People

Our people are at the heart of our business. Their passion, dedication and expertise are essential for producing the finest quality Scottish salmon and driving our strategy forward. As a major employer with 60 sites on the West Coast and Hebridean Islands, we respect the role that salmon farming plays in the remote and rural areas in which we operate. We are committed to providing quality employment, developing staff, sourcing locally where possible and engaging with local communities.

Working conditions and diversity, talent attraction and retention

The Group adheres to equal opportunity regulations for the workplace and supports the value of a diverse workforce. We employ over 600 people across 60 sites on the west coast of Scotland and the Hebridean Islands. 85% of our staff reside in rural Scotland, in the areas in which we operate.

During 2018, we recruited 240 employees, of which 98 were new roles. All employees have employment contracts and are offered fair compensation with remuneration above the National Living Wage, along with a pension contribution exceeding minimum requirements. There are no zero hour contracts. In 2018, we reported in line with UK Government's annual Gender Pay Gap review. Women accounted for 16% of SSC's total workforce and 14.5% of managers. Our commitment to honest, respectful and fair working relationships is embodied in our Ethical Trading Policy, Modern Slavery Policy and Equal Opportunities Policy, for both permanent and temporary employees.

To drive the culture of continuous innovation we are committed to personal and team improvement and evolving the staffing structure to support responsible business development, including strengthened biology focus and restructuring within the marine team. During 2018, SSC provided 367 courses amounting to a total of 12,775 hours of training. SSC is committed to modern apprenticeships and in 2018 we enrolled 14 modern apprentices, bringing our total to 38 across the business. We have also started a new partnership to deliver Modern Apprentices in Processing covering SVQ II & III in Food & Drink Operations – Fish & Shellfish Processing Skills.

As part of our efforts to attract, recruit and develop new talent, we work collaboratively with national groups, including Lantra (a skills sector council for land-based and environmental industries) and regional groups, including the Developing Young Workforce (DYW). In addition, we have forged strong links with local schools and colleges by regularly attending career fairs and visiting schools to inspire young people with the diverse career opportunities available in our sector.

Employee health and safety

Health and safety is a priority, providing a safe working environment for everyone and ensuring we adopt a culture of continuous improvement and best practice is fundamental to our business.

We work proactively with industry bodies such as the Health & Safety Executive and the Maritime and Coastguard Agency. We work systematically to mitigate risk and respond to incidents and actively encourage open and honest reporting of all accidents – no matter how minor. We monitor and measure our progress related to safety using leading and lagging key industry indicators to ensure continuous improvement and health and safety of our staff. This includes audits and inspections, employee feedback forums, near-miss incidents, accidents and RIDDOR.

The average sickness absence rate in 2018 was 3.67%, compared to 4.27% in 2017. A total of 69 accidents, with a loss of 286.5 days were reported for the year, compared to 56 accidents in 2017. Reported RIDDOR incidents amounted to 7 for 2018, decrease of 46.1% from 13 RIDDOR incidents reported in 2017.

We have robust health and safety procedures and all employees are provided with training and guidance to ensure that they are familiar with relevant procedures. Comprehensive risk assessments are carried out regularly and the Company has reviewed and developed an extensive incident management and business recovery procedure. This is tested and reviewed on a regular basis. In addition, a business-wide Occupational Health Programme was launched for all employees.

Ethical business conduct

The Group's policy is to conduct all business in a responsible, honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity.

Following the implementation of General Data Protection Regulations (GDPR) in 2018, SSC implemented a separate policy committing the Group to complying with the Data Protection Law. The purpose of GDPR is to modernise laws that protect the personal information of individuals and is wholly in line with our own philosophy of protecting the information of all stakeholders with whom we interact.

We have implemented strict procedures and controls to safeguard against bribery, corruption and any form of modern slavery within our own business or by our suppliers. This also forms part of our employee induction programme, along with an introduction to our Code of Conduct, Conflict of Interest Policy, Anti-Bribery Policy and Whistle-blowing Policy. Extensive training among employees was conducted to ensure all employees are made familiar with the current policies and procedures. No instances of fraud or major breaches of our Code of Conduct were reported in 2018.

We are committed to conducting our business with the highest levels of integrity across the supply chain. In addition, we have developed a procurement policy to support the achievement of company goals on sustainability and profitability.

We have established a rigorous supply chain compliance programme using SEDEX membership and self-audit to make informed business decisions and drive continuous improvement across our value chain. All suppliers are carefully assessed to make sure that they are performing to an appropriate standard, especially regarding their level of quality management, health and safety, corporate social responsibility as well as ethics and environmental care. Key supplier relationships are closely managed through quarterly business reviews to measure and review the performance.

Community engagement

We farm in some of the most remote and fragile Scottish coastal regions. We respect the major role that salmon farming plays in these rural areas and are committed to being an active and integral part of our communities.

We seek to ensure open and transparent communication with industry, stakeholder groups, communities and our Community Charter. This pledges our commitment to our people, suppliers and communities.

We aim to source locally where possible to retain value in the local economy. In 2018, we sourced over £112m worth of supplies over 656 Scottish suppliers, representing about 76% of all procurement in 2018. We source everyday consumables – from safety equipment and multi-million-pound industrial equipment, to rib boats and feed barges – through Scottish companies.

A key part of our community engagement programme is supporting local, traditional, cultural and sporting events such as the Cowal Gathering and Lochcarron Highland Games, which are key gathering places and have been a highlight of the rural calendar for centuries. A large number of local community groups and initiatives have also benefited from sponsorship through donations of product and staff support. In addition, through our Community Fund, staff are encouraged to nominate local groups that promote health and well-being in their local communities. In 2018, over 30 staff-nominated community groups were awarded support through our Community Fund.

Future priorities

Our ambition is to maintain and strengthen our existing culture and support employee development, knowing that everyone has an important role in the responsible development of the business. We have developed a Value Awards program to drive cultural change, motivate, educate and support our employees to live the SSC core values. Launched in January 2019, the awards celebrate success, benchmark excellence within the business and inspire members of staff to strive to deliver their best at all times.

Our employees' health and safety remains a top priority. We will continue to carry out a proactive approach towards awareness, risk assessment, procedures and training, as well as developing an integrated responsibility culture with clear and meaningful key performance indictors (KPIs) and targets.

We remain committed to being a responsible employer and conducting our business with the highest levels of integrity across the supply chain. We will continue to raise awareness of bribery, corruption and modern slavery and promote ethical business conduct. We will also focus efforts to ensure suppliers meet our sustainability requirements.

We are committed to our Community Charter and will seek to ensure this is integrated into our daily operations.

Passion case study: SSC's Community Charter

Rhunahaorine Primary School takes on the great outdoors with support from SSC

SSC is passionately committed to the environmental, cultural and economic growth and sustainability of rural Scotland. We developed our own bespoke Community Charter which details the Company's commitment to working closely with our people, suppliers and the local communities in which we operate.

We are committed to playing an active role in the communities in which we live and work, with a focus on promoting health and well-being through sports and cultural events, education, staff community champions and environmental projects.

The SSC Community Fund was introduced in 2017, as part of the SSC Community Charter, to bring employees and communities together by encouraging staff to champion and engage in the communities where they live and work. Employees can nominate groups or charities which focus on promoting health and well-being in their local community and operate within approximately 20 miles of an SSC site.

During 2018, SSC supported a diverse range of community groups and projects including Rhunahaorine Primary School Parents whose main aim is to raise money for the local primary school, which is made up of around 15 pupils from 8 families. They used their donation to purchase new waterproofs for the pupils to use during their Forest/Beach School sessions, where they learn vital outdoor skills such as making fires, creating shelters and cooking outdoors.

Provenance and our Environment

The unique natural environment on the west coast of Scotland and the Hebrides is the fabric woven into the provenance of our Scottish salmon.

Environmental stewardship

We are committed to operating in an environmentally respectful way. The natural environment in which we farm is central to ensuring a sustainable business and high quality Scottish product.

Robust management procedures are integral to all our operations to ensure compliance with all relevant environmental legislation and driving continual improvement across the business. These procedures are maintained through our Environmental Management System (EMS) which has been implemented to meet the requirements of ISO 14001.

Our EMS is reviewed annually and presents a framework for setting environmental objectives. Our EMS is communicated to staff and relevant third-party suppliers and everyone is encouraged to contribute towards the goals. Our key environmental objectives are to promote energy saving, responsible use of resources, waste reduction and recycling.

Sustainable wildlife interaction and production practices

We appreciate our role as custodians of our natural environment. Considerable emphasis is placed on minimising the potential impact our activities could have on local ecosystems, biodiversity and wildlife.

During 2018, we piloted a pellet-detection camera to optimise feeding schedules and minimise feed waste. We have now embedded this into our in-house training for staff, in conjunction with our feed suppliers, to achieve best practice as part of the Company's Competency Framework.

Prevention of fish escapes and seal dispatches

We practice a zero-tolerance policy for fish escapes and seal dispatches and have incorporated robust contingency plans across all our sites. We have invested substantially in measures to improve containment, including the use of acoustic devices as a deterrent to predators and regular servicing of our nets and equipment. In addition, containment training is part of our marine induction training programme to ensure our teams are proficient in early identification of risks and can act swiftly if necessary.

All escapes and seal dispatches are reported, in compliance with the Code of Good Practice and regulations from the Scottish Government. SSC had one incident involving fish escape in 2018 due to a hole-in-net accident at a site in Argyll and Bute. The net was swiftly repaired to ensure escapes were kept to a minimum.

We recognise that seals entering our nets is detrimental to fish stocks and are continually researching new technologies and methodologies to keep these incidents to a minimum. In 2018, the number of seal dispatches amounted to 6, reduced by more than 57% since 2014. During 2018, mortalities attributed to seal damage totalled 69,117.

Restocking projects with local rivers

We recognise our broader responsibility to engage, support and work collaboratively with stakeholders in our wider environment. We are involved in various local projects focusing on wild fish interests, including research and habitat. An example is our involvement in a successful restocking project on the River Carron, supplying feed, equipment, sharing expertise and providing funding. We now manage the River Carron Breeding Programme and supply this strain of ova and fry for restocking the river.

We are working on a similar restocking programme close to our Langass Hatchery in North Uist. This project will restock the

Skealtar system, where the original Native Hebridean stock was first sourced in 2006. The first release of Native Hebridean Salmon fry reared at the Langass hatchery took place in spring 2018.

SSC was also engaged with a restocking project on Mull as part of its ongoing commitment to working collaboratively with wild fisheries in areas in which we work. 300,000 ova were supplied to the Benmore Estate at Gruline in early 2019, to assist in the restocking of salmon on its river.

Future priorities

We will continue to pursue efforts to minimise our environmental impact, in compliance with environmental legislation and operational obligations, as well as developing clear and meaningful KPIs and targets.

We will drive collaboration and innovation throughout the supply chain by initiating training and awareness among staff on energy saving, recycling and waste reduction, working collaboratively with procurement partners and suppliers to seek new ways of contributing to a circular economy and end-of-life recovery. We are developing an internal innovation fund for sustainable projects that reduce environmental impact and encourage the circular economy.

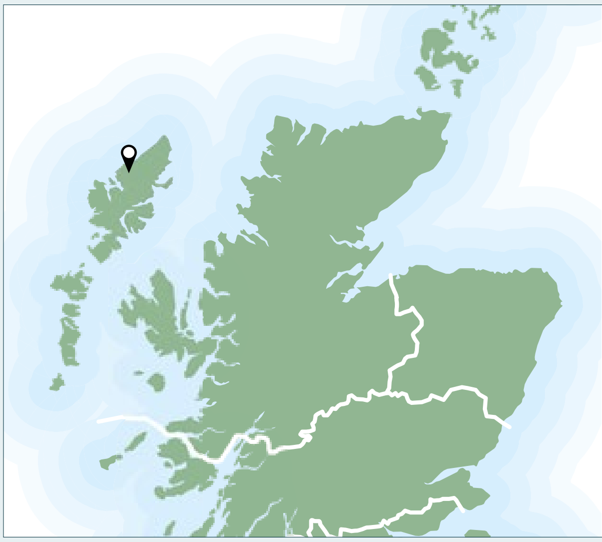
Provenance case study: OHLEH project

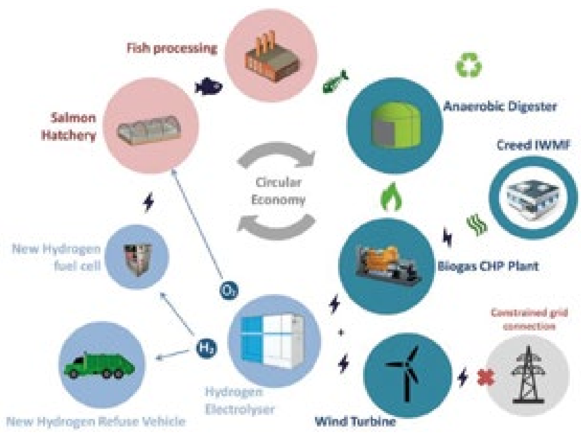
The Outer Hebrides Local Energy Hub (OHLEH) is an innovative project that will demonstrate how different renewable energy technologies can be integrated to support local energy economies and circular supply chains. The project, which is taking place on the Isle of Lewis, intends to integrate fish waste along with household and garden waste, instead of sending it to landfill. It is fed into an Anaerobic Digester (AD) which produces biogas that is used in the Council Creed Combined Heat & Power Plant (CHP) to provide heat for the Plant and the AD. The CHP also produces electricity, which powers an electrolyser that generates hydrogen and oxygen, which is then captured and stored in cylinders.

These gases will be used at some of our hatcheries, providing an oxygen supply and hydrogen power to some of the external fish tanks. Finally, the remaining hydrogen will power a hybrid bin collection lorry which will operate in the Lewis and Harris area.

This innovative project will have both a positive environmental and economic impact that will also have relevance and learning for future projects. SSC is a partner in the OHLEH project, along with Comhairlie nan Eilean Siar (CnES), the local authority for the Western Isles, Community Energy Scotland and Pure Energy Centre. It is funded by CnES and Scottish Government’s Local Energy Challenge Fund, which is administered by Local Energy Scotland.

Illustration of the OHLEH project and map over where the project is taking place





6 Corporate Governance

The Board of Directors (the Board) of The Scottish Salmon Company PLC will ensure that the Group continues to pursue sound corporate governance to drive value creation for shareholders and promote responsible business conduct.

The Scottish Salmon Company PLC is incorporated in Jersey and listed on the Norwegian Stock Exchange (Oslo Børs) and is subject to Norwegian securities legislation and stock exchange regulations. All operational activities are conducted through the subsidiary The Scottish Salmon Company Limited (the Company). The Group has adopted the Norwegian Code of Practice for Corporate Governance, last revised 17 October 2018 (the "Code of Practice"), and seeks to comply, where possible, with this Code. The Code of Practice is available at www.nues.no.

Application of the Code of Practice is based on the "comply or explain" principle and any deviation from the Code is explained under each item. The corporate governance framework of the Group is subject to annual review by the Board and the updated report is found in the Group's Annual Report, in accordance with the requirements for listed companies and the Code of Practice.

Business

The business purpose of the Company is defined in the Articles of Association Clause 1 (2) "Business" as:
"the production, refinement, sale and distribution of seafood and goods used in seafood production, either directly or through participation in other companies and including other activities related thereto."

The Board has developed clear objectives, strategies and risk profile for the Group within the scope of the definition of its business, to create value for its shareholders. A description of the key objectives and strategies can be found in the directors' report on page 18, while risk factors and risk management are described on page 20. The Group's objectives, strategies and risk profile is subject to annual review by the Board.

Responsibility is at the heart of SSC's strategy for quality sustainable business growth and is embedded in the Company's values of Pride, Passion and Provenance. SSC is developing a Responsibility Framework with clear policies and procedures on how considerations for its stakeholders are integrated into its value creation, including those stakeholders mostly affected by the SSC's activities such as customers, staff, investors and local communities. The Group is currently in the process of further developing its objectives and reporting measures for future evaluation purposes, as well as related procedures on how to achieve the proposed goals. A review of this work can be found in section 8 of the Annual Report.

At 31 December 2018, the Group had an equity ratio of 63.1% (2017: 58.6%). The Board regards the current capital structure as appropriate in the context of business objectives, strategy and risk profile.

The objectives will be achieved through sound business development and continuous growth. The Group aims to give shareholders a competitive return on capital relative to the underlying risk. In 2018, SSC paid a dividend of NOK 0.34 per share, its first dividend since 2011 for a total of £6m. This corresponds to a dividend pay-out ratio of 12%.

As of 31 December 2018, there were no mandates granted to the Board to increase the Group's authorised share capital of 300,000,000 shares, 194,029,173 (2017: 193,482,271) of which are issued and outstanding. Unissued shares can be issued by the Board according to Jersey law and the articles of association. The increase in issued share capital is attributable to the exercise of options under the employee equity incentive scheme.

Equal treatment of shareholders and transactions with close associates

The Scottish Salmon Company PLC has one single class of shares and all shares carry equal voting rights. Each share carries one vote and all shareholders are treated equally. Treasury shares will be traded on the stock exchange or in accordance with guidelines from the Oslo Stock Exchange.

Any transactions with close associates are disclosed in note 28 to the financial statements. In the event of any transactions between the Group and shareholders, a shareholder's parent company, directors, key personnel or close associates of any such parties, such transactions will be carried out at arm's length and at market terms. Material transactions with close associates will be subject to independent third-party valuation in accordance with the Code of Practice.

Freely negotiable shares

The shares of The Scottish Salmon Company PLC are freely negotiable. There are no restrictions on owning, trading or voting for shares in the articles of association.

General meetings

The Scottish Salmon Company PLC will seek to ensure that as many shareholders as possible can exercise their rights by participating in general meetings and that general meetings will be an effective forum for the views of shareholders and the Board. Clauses 11 and 12 of the Articles of Association of the Group regulate the convening of and proceedings at general meetings.

The Group intends to hold its Annual General Meeting no later than the end of June each year. Extraordinary General Meetings can be called by the Board at any time.

Notices of general meetings, along with supporting material, will be made available on the Group's website www.scottishsalmon.je,a minimum of 21 days prior to the meeting. The Board will seek to ensure that resolutions and supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting.

Shareholders who are not able to participate in general meetings will be given the opportunity to vote by proxy. A proxy form will be included in notices of general meetings, and the Group will appoint a person that will vote on behalf of shareholders as their proxy unless the shareholder has appointed another person.

The proxy form allows for separate voting instructions to be given for each matter to be considered by the meeting and for each of the candidates nominated for election. To be valid, forms of proxy must be submitted within a deadline set by the Board in the notice and the proxy form which is normally 2 to 3 business days before the meeting.

The right to attend and to vote at general meetings may only be exercised for shares registered in the shareholders' register by a deadline set by the Board in the notice and the proxy form, at least 48 hours before the time fixed for the meeting.

The Board and the Chairman of the general meeting will ensure that the general meeting is given the opportunity to vote separately for each candidate nominated for election to the Group's corporate bodies.

The Board does not as a general rule intend to propose an independent chair for general meetings. As such, the Chairman of the Board will normally chair all general meetings. The Board will propose an independent chair for the meeting if any of the matters to be considered calls for such an arrangement.

Deviation from the Code of Practice

The Code of Practice recommends that all members of the Board, the Nomination Committee and the auditor should attend general meetings/Annual General Meetings.

The Chairman of the Board will be available at all general meetings. Whether all members of the Board, and thus also representatives from the Nomination Committee, will be present at general meetings will be assessed on a case by case basis, as the Board believes it depends on the matters being considered whether there is a need for such participation. The Group's auditor will normally be available at Annual General Meetings, but not necessarily at Extraordinary General Meetings.

Nomination Committee

The Group's Nomination Committee shall have at least 2 members and consist of 2 Non-Executive Directors. The members of the Nomination Committee are appointed for a period of up to 3 years and may be re-elected. As of 31 December 2018, the members of the Nomination Committee were:

- Viacheslav Lavrentyev
- Robert M Brown III

Both Nomination Committee members are independent of the Company's Executive Management.

The Nomination Committee's work is determined by terms of reference approved by the Board in May 2017. The Nomination Committee is responsible for identifying and nominating candidates for the Board based on current and future Group needs. Shareholders may submit proposals for candidates to the Board by sending an email to nominations@scottishsalmon.je by end of March each year (available from the website www.scottishsalmon.je/ contacts). The Nomination Committee is also responsible for nominating candidates to the Executive Management of The Scottish Salmon Company Limited. There is no separate remuneration of the committee members.

The Nomination Committee shall have a minimum of 1 meeting per year. In 2018, the Nomination Committee held 1 meeting.

Deviation from the Code of Practice

The Code of Practice states that the general meeting should stipulate guidelines for the duties of the Nomination Committee, elect the chairperson and members of the committee and determine the committee's remuneration. Further, the Nomination Committee should be laid down in the Company's Articles of Association, and the majority of the committee should be independent of the Board and the Executive Management with at least 1 member not on the Board.

The Group has determined that the Board appoint the members of the Nomination Committee from amongst the Non-Executive Directors in compliance with Jersey company law. The Board believes that the Nomination Committee represents all shareholders' interests and all appointments to the Board will subsequently require ratification by shareholders at the next general meeting. The Nomination Committee is not laid down, nor is it required to be laid down under Jersey law, in the Company's Articles of Association.

Board of Directors: composition and independence

Pursuant to the Articles of Association clause 15 (5), the number of Directors shall not be subject to any maximum, but shall not be less than 3. As at 31 December 2018, the Board consisted of 5 directors, comprising of 4 men and 1 woman.

The composition of the Board is intended to ensure that the Board can attend to the common interests of all shareholders and meets the need for expertise, capacity and diversity, and can function effectively as a collegiate body. All the members of the Board are independent of the Executive Management of The Scottish Salmon Company Limited, whilst the Executive Management of The Scottish Salmon Company Limited is not represented on the Board. All members of the current Board are considered to be independent of the majority shareholder.

The chairman of the Board is elected by the Directors. One-third of the Directors will retire at each Annual General Meeting either by choice or by determination of length of service. Directors retire by rotation in accordance with the provisions of the Articles of Association with the longest serving Directors retiring each year. In the event of equal lengths of service, the retiring Director is chosen by lot. Retiring Directors are eligible for reappointment.

Members of the Board are encouraged to own shares in SSC.

The Annual Report will provide information to illustrate the expertise and capacity of the members of the Board, which is also available from the Group's website www.scottishsalmon.je.

Name	Role	Date of Appointment	Participation at Board Meetings 2018	Shareholding in the Group (direct or indirect)
Robert M Brown III	Chairman	10 October 2010	8 out of 9	-
Viacheslav Lavrentyev	Non-Executive Director	11 October 2010	7 out of 9	-
Merete Myhrstad	Non-Executive Director	11 October 2010	9 out of 9	65,000
Martins Jaunarajs	Non-Executive Director	28 March 2014*	9 out of 9	-
Douglas Low	Non-Executive Director	1 November 2016	9 out of 9	40,000

* Re-elected at the AGM in 2018

The work of the Board of Directors

The Board has adopted instructions for its own work that regulates its areas of responsibilities. The instructions were approved by the Board in November 2010. The Board ensures that it is fully informed about the financial position of the Group at all times and is responsible for the review and approval of the plans and budgets for the Group's business activities.

In order to ensure an independent approach by the Board, another Director will take the chair of the Board meeting when the Board considers matters of a material nature in which the chairman has, or has had, an active involvement. The Group's internal guidelines require all members of the Board and Executive Management to notify the Board if they have any material direct or indirect interest in any transaction entered into by the Group.

The Board will meet a minimum of 6 times a year, of which at least 4 meetings will consist of physical meetings. In 2018, the Board had 9 meetings in addition to 1 operational meeting where no decisions were made.

Audit Committee

The Audit Committee is a subcommittee of the Board and its work is determined by the terms of reference approved by the Board in November 2010. The Audit Committee will, on behalf of the Board, monitor financial reporting, the performance and independence of the external auditors and the Group's systems and controls. The Audit Committee consists of 2 Board members, appointed by the Board. As at 31 December 2018, the committee members were:

- Merete Myhrstad
- Martins Jaunarajs

The Audit Committee shall have at least 5 meetings per year and in 2018 5 meetings were held. The auditor and Chief Financial Officer usually attend all Audit Committee meetings. At least once per year, the Audit Committee has a meeting with the external auditors without Executive Management present.

Remuneration Committee

The Board has also established a Remuneration Committee, which proposes remuneration for Board members and Executive Management of The Scottish Salmon Company Limited. The work of the Remuneration Committee is determined by the terms of reference approved by the Board in May 2017. The Remuneration Committee shall have at least 2 members appointed by the Board for up to 3 years. As at 31 December 2018, the committee members were:

- Robert M Brown III
- Viacheslav Lavrentyev
- Douglas Low

The Remuneration Committee shall have at least 2 meetings each year and in 2018 5 meetings were held.

Risk management and internal control

One of the key responsibilities of the Board is to ensure that the Group has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the Group's activities. The internal controls and systems also encompass the Group's guidelines and practices on how consideration for its stakeholders is integrated into the SSC's value creation.

The Board attaches great importance to the Group's risk management and control systems. These systems form an integral part of the management's decision making process.

Risks can be divided into 2 main categories – financial risk (such as currency, liquidity etc.) and operational risk (such as development of the sales price, biological risk, feed utilisation etc.). Further details can be found in the Directors' Report and note 26 to the Group financial statements.

The Board alongside the Executive Management of The Scottish Salmon Company Limited is responsible for establishing and maintaining adequate internal control over financial reporting. The Audit Committee monitors the financial reporting and related internal control, including the application of accounting principles and judgements in financial reporting. The Executive Management and the Audit Committee have regular meetings with the external auditor present to discuss issues related to the financial reporting.

The main trading entity within the Group prepares its financial statements within a standard ERP system and these are manually consolidated into the Group's results. This process is reviewed by the Group's auditor for each set of published financial statements.

Furthermore, the Audit Committee requests that the auditors present a review of the internal control procedures, including identified weaknesses and proposals for improvement, to the Board at least once a year. In consultation with the Executive Management they have assessed the effectiveness of the Group's internal controls relevant to financial reporting. Based upon this assessment the Board is of the opinion that the Group's internal control of financial reporting is adequate.

Remuneration of the Board

Remuneration paid to members of the Board is voted upon at the Annual General Meeting. The remuneration reflects the duties required and there is no additional remuneration for Board members appointed to Board committees. A member of the Board may take on specific assignments for the Group in addition to their appointment, if this is disclosed to the full Board. The remuneration for such additional duties shall be approved by the Board and any additional remuneration will be specifically identified in the Annual Report. Board remuneration is not performance related and the Group does not grant share options to members of its board. Further details in relation to the remuneration of the Board of Directors can be found in note 7 to the Group financial statements.

Remuneration of Executive Management

The Board has established guidelines for the remuneration of Executive Management which are intended to help to ensure convergence of the financial interests of Executive Management and the shareholders. In 2015, the Group introduced an employee equity incentive scheme for selected employees consistent with its wish that remuneration of Executive Management be composed of both a fixed salary and benefits, a short-term incentive scheme and options to acquire shares. The Board's statement regarding remuneration of the Executive Management can be found in note 7 to the Group financial statements and are also available from www.scottishsalmon.je.

Deviation from the Code of Practice

The Code of Practice states that a statement in respect of the remuneration of Executive Management should be presented in a separate appendix to the agenda for the Annual General Meeting and that guidelines for the remuneration of Executive Management should be disclosed. The Code of Practice further states that separate votes should be held on these aspects at the Annual General Meeting.

The Group complies with the relevant requirements under Jersey Law regarding executive remuneration. Furthermore, the Board believes adequate information is disclosed in the notes to the Group financial statements to facilitate understanding of the nature of remuneration.

Information and communication

The Board has adopted an investor relations policy in respect of its reporting of financial and other information and contacts with shareholders outside of general meetings. This policy is based upon the key principles of openness and equal treatment, and can be found on the Group's website www.scottishsalmon.je.

Financial information is published by producing half-yearly and annual reports, in accordance with the latest version of continuing obligations for companies listed on the Oslo Stock Exchange. In addition, quarterly operational updates are provided for the first, third and fourth quarter.

Takeovers

The Code of Practice recommends that the Board establish guiding principles for how it will act in the event of a takeover bid.

If a takeover bid occurs, the Board will follow the overriding principle of equal treatment for all shareholders, and will seek to ensure that business activities are not disrupted unnecessarily. The Board will strive to ensure that shareholders are given sufficient information and time to form a view of the offer. The Board will not seek to prevent takeover bids unless it believes that the interests of the Group and the shareholders justify such actions. The Board will not exercise mandates or pass any resolutions with the intention of obstructing any takeover bid unless this is approved by the general meeting following the announcement of the bid. If a takeover bid is made, the Board will issue a statement in accordance with statutory requirements and the recommendations in the Code of Practice. In the event of a takeover bid, the Board will consider obtaining a valuation from an independent expert. Any transaction that is in effect a disposal of the Group's activities will be submitted to the general meeting for its approval.

Auditor

The auditor of the Group is Campbell Dallas Audit Services. The Board ensures that the auditor submits an annual plan for the audit to the Audit Committee. The auditor participates in Board meetings as and when required. The Board holds a meeting with the auditors at least once a year at which management are not present. The auditor presents a review of the internal control procedures, including identified weaknesses and proposals for improvement, to the Board at least once a year. There are guidelines in respect of the use of the auditor by the Executive Management for services other than the audit. Under the guidelines, the auditor is required to provide the Board with an annual overview of all services, in addition to audit work, that has been undertaken. The auditor has been requested to provide an annual written confirmation that it continues to satisfy the requirements for independence. Information on the remuneration paid to the auditor, including details of the fee paid for audit work and any fees paid for other specific assignments, is included in a note 8 to the Group financial statements. At each Annual General Meeting, the Board shall inform the Annual General Meeting of all services provided by the auditor and their remuneration.

7 The Board of Directors' Report

Introduction and summary

2018 was a strong year for the SSC with continued operational improvements and solid earnings growth. The positive development was driven by high harvest volumes, improved biology, increased operational efficiency and good price achievements.

SSC continued to pursue its ambition of responsible growth. Long term focus on biosecurity, volume growth and infrastructure development has proven good results for operational efficiency, while brand development has supported the export drive to bring more high quality Scottish salmon to key markets worldwide.

Higher harvest volumes and firm prices, increased Group revenues by 19% in 2018. Combined with lower costs driven by strong operational and biological performance, the Group recorded record high results with net earnings up 97% from 2017.

The nature of the business and strategy

SSC's overall ambition is responsible business growth, bringing the finest quality Scottish salmon to worldwide markets. The strategic focus is to create long term responsible growth through site development plans, driving operational efficiencies and market development across the value chain.

Key drivers to this strategy are sustainability, innovation and collaboration with an operational focus in four key areas:

- **Welfare and the environment**
  Good husbandry and sustainable farming methods are intrinsically linked with the health and welfare of our stock, ensuring we produce the finest quality Scottish salmon.
- **Productivity**
  Continues to be a focus throughout the value chain with projects improving operational efficiencies, infrastructure investment and site development.
- **People**
  Prioritising the health and safety of our staff and investing in their development. We recognise our broader responsibility to engage, support and work collaboratively with stakeholders in our wider environment.
- **Markets, customer service and product quality**
  Production strategy of quality fresh Scottish salmon supports the clear long term direction to increase capacity to meet international demand while driving export growth in key markets.

Important events in 2018

- Introduced the Lochlander Salmon brand to the North American market;
- Launched Native Hebridean Salmon into a leading UK retailer;
- Introduced Tartan Slamon Label Rouge;
- Awarded "Best Aquaculture Practice" (BAP) certification for all marine sites;
- Awarded the Scotland Food & Drink Excellence Award for its Native Hebridean Salmon;
- Nominated for "Rural Employer of the Year" in the 2019 Scottish Rural Awards;
- Acquired the Harris & Lewis Smokehouse in Stornoway;
- Development of our cleaner fish programme and a second Hydrolicer;
- Awarded new site at Portree, and acquired site at Maaey, with a total of 4,000 tonnes of consent;
- Acquired hatchery and freshwater facility in the North of Scotland; and
- Paid a dividend of NOK 0.34 per share for a total of £6m.

Subsequent Events

The Group announced a dividend of NOK 0.57 per share for a total of £10m on 1 March 2019 with a planned payment date of 15 May 2019; shares will be traded ex dividend from and including 28 March 2019.

On 4 March 2019, Fiona Larkin exercised 143,062 share options within the Company. All options under the employee equity share scheme have now been fully exercised.

Operational Review

The SSC continues with the strategic focus of developing the platform for responsible business growth through key operational priorities: steady sustainable volume growth, strengthened biosecurity and infrastructure and market development. During 2018, the Group made several investments to improve efficiency across its operations and to develop a strong platform for further growth.

Farming

SSC's farming operations performed well during 2018, and harvest volumes ended at 29,913 tonnes, compared with 25,272 tonnes in 2017. The growth was as a result of strong operational performance across the value chain and enhanced biological performance.

The health and welfare of the Group's stock remain fundamental to operations. SSC remains committed to its health management strategy through continued development of the cleaner fish programme, additional investments in treatment capacity and continuous monitoring of the health situation. During the year, the Group invested in a second Hydrolicer strengthening treatment capacity across the North and South farming regions.

Seawater temperatures below seasonal normal contributed to somewhat reduced mortalities during the first half of 2018. During the second half, SSC experienced a seasonal increase in mortalities, but the overall biological performance for 2018 was good.

Site development is an important element of the commitment to improve operational efficiency throughout the supply chain. During 2018, this included the consolidation of a group of sites in the Northern region, continued development of the new site at Portree and acquisition of a site at Maaey in the Hebrides, each with 2,000 tonnes of consent. Both new sites were stocked towards the end of 2018 and early 2019 and will be operated together with neighbouring sites to give larger scale and enable operational efficiencies to be realised.

Core to SSC's growth ambitions is the Company's freshwater strategy. During 2018, the company invested £3.7m in freshwater facilities expansion and increased in-house smolt production. The aim is to increase smolt numbers and mean weight, to improve operational efficiencies and ensure consistency, predictability and quality of smolts produced. The investments include an upgrade development at Applecross hatchery in North West Scotland and continued work at the Langass Native Hebridean family breeding unit in North Uist, as well as the acquisition of new facilities.

Investment of £1.4m has been focussed on processing to ensure efficiency and quality production. Filleting capacity has also been introduced in the South to ensure supply of the freshest fillets to market.

During the year, SSC was the first salmon farming Company in Scotland to be awarded Best Aquaculture Practice (BAP) certification, an important recognition to the Group's strategy of responsible and sustainable growth. BAP is considered to be the most trusted and comprehensive third-party aquaculture certification. The certification covers the entire aquaculture production chain. SSC was awarded certification for all marine sites and processing plants, and SSC is being audited to achieve full BAP accreditation across all operations including feed. The Group is now a 3-star BAP certified business.

In December 2018, SSC was nominated for "Rural Employer of the Year" in the 2019 Scottish Rural Awards. 85% of the SSC workforce live in remote and rural areas and the Group strives to be a positive force for the local communities and areas in which it operates.

Thus, moving into 2019, the Group's operational platform and value chain integration are stronger than ever. SSC remains committed to its ambition of ensuring sustainable, responsible growth while bringing the finest quality Scottish salmon to markets worldwide.

Sales and Marketing

Core to SSC's sales and marketing strategy is long term partnerships and brand development leveraging on Scottish provenance. Throughout the year, the Group continued to develop its long term partnerships with key customers and fostering strong relationships with premium retailers, smokers and restaurateurs, both in the UK and overseas. The Group's commitment to Scottish provenance underpins its export strategy and sets the Group apart in the international marketplace.

SSC is committed to expanding exports, with focus on North America and the Far East. In 2018, sales to export markets reached 58% of total sales compared to 50% in 2017. The Group is committed to 'Provenance Guaranteed' and continues to exploit the value of Scottish provenance through brand development. During 2018, SSC introduced its new export brand, 'Lochlander Salmon', specifically targeted for the North American market and tailored for high end food service. The product was well received, and exports to the North American market for 2018 amounted to 9% of total revenue, compared with 4% in 2017.

Label Rouge accreditation holds the leading position as a mark of quality. SSC has over time qualified to produce under this quality accreditation, and in 2018 the Group introduced 'Tartan Salmon Label Rouge' to differentiate its products and drive value in premium export food service markets.

Native Hebridean Salmon continues to gain traction in UK and around the world with its unique Hebridean origin and heritage. In 2018, Native Hebridean Salmon won the Scotland Food & Drink Excellence Award. To support the development of the Native Hebridean Brand, SSC acquired the Harris & Lewis Smokehouse in Stornoway in 2018, increasing the Native Hebridean smoked salmon capacity. The building of long term partnerships with customers, supported by consistent year-round supply, is key for Native Hebridean sales.

During 2018, SSC participated at several leading trade events for seafood buyers to increase exposure in target markets, introducing new customers and developing long term partnerships. Market development priorities continue to be focused on driving export growth, brand and product development together with building long term strategic partnerships.

Global demand for salmon remains strong with continued positive market conditions. Insights demonstrate the importance of quality, provenance, traceability and food security. These trends are the foundation of the demand for Scottish salmon.

Acquisitions

SSC acquired the Harris & Lewis Smokehouse in Stornoway in November 2018. The acquisition will increase the Native Hebridean smoked salmon capacity, supporting SSC's overall branding strategy, bringing premium value from branded quality products with Scottish provenance.

To further develop its freshwater infrastructure and increase smolt production capacity, SSC acquired the Appleburn hatchery and freshwater site in the North of Scotland. The freshwater strategy is core to the Group's growth ambitions and the development of its operational platform.

In April 2018, SSC purchased Bradan Cuan Siar Limited which has licence to operate the Maaey fish farm in the Hebrides, a site with 2,000 tonnes of consent.

Investment strategy

Global demand for Scottish salmon continues to be strong and the intent by the Scottish Government for growth in the sector was clearly established in the Aquaculture Growth to 2030 report, published by Scotland Food and Drink.

The Group continues to invest in sustainable expansion through its ongoing strategy of expanding existing sites and securing new licences to increase volumes and achieve more balanced year-round production. Investment in capital expenditure has been undertaken during the year to improve efficiency and capacity.

SSC will continue to review opportunities to invest in marine, freshwater and processing sites that demonstrate a solid return on investment and are in line with its strategy and customer requirements. In addition, the Group remains committed to exploring other opportunities within aquaculture to invest in complementary businesses along the value chain.

The industry continues to evolve and SSC has been proactively innovating in line with technological, scientific and operational developments to ensure its quality control, environmental stewardship and fish welfare are world-class.

Financial review

The Group recorded record revenues of £180.1m (2017: £150.9m) in 2018, a year-on-year increase of 19% driven by higher harvest volumes and favourable market conditions. Total harvest volumes were 29,913 tonnes compared with 25,272 tonnes. Volumes for 2019 are anticipated to be 33,000 tonnes.

EBITDA before biomass fair value adjustment amounted to £56.6m (2017: £38.7m) and net earnings were £47.7m (2017: £24.1m). Although earnings were strong throughout the year, costs increased during the second half of the year due to the change in site profile for volume harvested as well as higher processing costs in the South region due to capability extension.

The Group generated cash from operating activities of £37.6m (2017: £19.2m) during 2018 reflecting the strong earnings for the year. A significant capital investment of £27.8m was made during the year with a focus on freshwater facilities, new marine sites and acquisitions. A dividend of £6m was paid during 2018, the first dividend since 2011, whilst net interest bearing debt was reduced by £2.7m to £35.8m.

Exports continued to increase with 58% of sales exported during 2018 compared to 50% during 2017, with notable increases in both the US and Far East reflecting strong growth in our export brands in these key markets.

Going Concern

The Board confirms that the financial statements have been prepared on a going concern basis. This assumption is established based on the SSC's business strategy, financial situation, budget and long term forecasts.

Outlook

The strategic focus of SSC is to create long term sustainable growth through site development plans, driving operational efficiencies and market development across the value chain.

Health and welfare of the stock remain a priority for the business. SSC is committed to working collaboratively with academics and industry partners to find long term sustainable solutions as well as strengthening its internal capabilities. Whilst 2018 was seen as another year of strong prices, there will be seasonal variations.

In the longer term, SSC's strategy is to further develop a portfolio of brands. Market prices are forecast to remain strong and, while the Group's focus is on meeting contracted commitments, it will maximise traded volumes wherever possible. The Group will continue with its site development programme, with new sites coming into the harvest cycle in 2019, enhancing volume available.

SSC remains committed to both its Scottish provenance and its long term sustainable growth strategy, which positions the Group as a leading food producer in the global marketplace.

Risk Factors

The nature of SSC's business exposes the Group to financial and operational risks. The past few years have demonstrated the factors that can impact the business from market forces through to natural phenomena.

Biological risk

The industry is subject to a number of biological risks that could impact profitability and cash flow. SSC is proactive in monitoring general biological risks, relying not only on specialists to observe environmental conditions and fish health, but through providing basic diagnostic training across the wider staff population. The Group continues to work to mitigate this risk by working closely and collaboratively with other industry players to initiate new health monitoring programmes, treatment strategies and research.

The importance of environmental and food safety standards remains high at a local, national and international level and the industry is under constant scrutiny. SSC complies with all licences and consents, policies and regulations as overseen by the Scottish Environment Protection Agency (SEPA) and operates under the Code of Good Practice and GLOBALG.A.P. in terms of farm husbandry.

Market risk

SSC competes in a global market, where the growing supply of fresh and frozen fish products are an increasing challenge to our market position. Fluctuations in this supply impact the market price of farmed salmon while different tax regimes can help or hinder the supply chain.

The Group's exposure is mitigated by entering into fixed price and volume contracts with long term partnership arrangements, a balanced customer portfolio, as well as using derivative instruments. The traded price of Scottish farmed salmon continues to be strong compared to historic levels.

The price of important raw materials, particularly feed, also presents an economic risk and while the Group has invested in sourcing strategies and built up strong working relationships with its supply chain partners, the volatility of international markets will be beyond its control.

Currency risk
SSC's main transaction currency is GBP, which is also the main currency for the majority of contracted revenues. Traded and export sales can be denominated in other currencies, the most significant of which is EUR. The Group uses forward currency contracts to manage its exposure to currency fluctuations arising from these transactions. The Group is financed exclusively in sterling.

As exports continue to become an increasingly significant source of revenue for the Group, the Board will continue to adapt its currency hedging strategy.

Interest risk
The Group's risk arises principally from its bank borrowings as the Group has no interest bearing assets. As such, the Group's operating profit/loss and cash flow are largely independent of changes in interest rates. The Group hedges against interest rate risk in respect of the term loan facility.

Credit risk
The Group is exposed to credit risk from its operating activities, namely its trade receivables. This risk is mitigated through the use of credit insurance for the majority of trade receivables coupled with credit verification procedures before accepting new customers.

Liquidity risk
The Group is continuously monitoring liquidity through monthly updated budgets, long term cash flow projections and quarterly rolling forecasts to ensure that the Group has sufficient liquidity to meet its operational liabilities and banking covenants.

The Group continues to have a production imbalance, albeit decreasing, which affects liquidity. The Group continues to actively resolve this by securing new licence consents throughout the year and in 2017.

Geopolitical Risk
In June 2016, the United Kingdom voted to leave the European Union (Brexit) and in March 2017 the formal process was triggered by the UK Government followed by a 2-year period of negotiation with the EU on the terms of exit. As a Group whose operations are based in Scotland, we have assessed the potential impact on our business and have taken steps to counter risks wherever possible. Given the continued uncertainty as to the way in which Brexit will ultimately be delivered there is a potential risk of supply chain disruption which could impact on the Group. We continue to closely monitor the negotiations and will take steps to address risks and opportunities as and when they arise.

Corporate Social Responsibility (CSR)
SSC's corporate social responsibility reporting is disclosed in the Responsibility Statement in this Annual Report.

Corporate Governance
SSC has adapted The Norwegian Code of Practice for Corporate Governance, last revised 17 October 2018 and seeks to comply where possible with this Code of Practice. The Group's compliance with corporate governance is disclosed in the corporate governance statement in this Annual Report and on the website www.scottishsalmon.je.

8 Statement of Directors' Responsibilities
in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations. The Directors are required to prepare Group and Parent Company financial statements for each financial year. They are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis. 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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial Statements comply with the Companies (Jersey) Law 1991. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Directors are responsible for the preparation of the Board of Directors' Report and Corporate Governance Statement. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of Information to Auditors

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware. Each Director has taken all the steps that he or she ought to have taken, as a Director, in order to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

Campbell Dallas Audit Services have indicated their willingness to continue in office. Accordingly, a resolution to reappoint Campbell Dallas Audit Services will be proposed at the Annual General Meeting on 5 June 2019.

17 April 2019

Robert M Brown III
Chairman

Douglas Low
Board Member

Martins Jaunarajs
Board Member

Merete Myhrstad
Board Member

Viacheslav Lavrentyev
Board Member

9 Board of Directors of The Scottish Salmon Company PLC

Robert M Brown III,
Chairman
Robert M Brown III has over 35 years' experience in corporate business and finance, holding many senior positions with listed companies. His experience includes 17 years at Lehman Brothers in New York as a Managing Director of investment banking, 4 years of venture capital financing of internet start-ups, and 14 years of work financing and directing private companies in Russia. Mr Brown is an alumnus and Trustee of Carnegie Mellon University.

Douglas Low,
Board Member
Douglas Low has extensive seafood industry experience in a variety of sectors with senior roles in processing and aqua feed. He was Managing Director of EWOS UK and a member of the EWOS Group Senior Management Team for 11 years retiring in 2016. He is currently an external advisor for specific projects to Cargill Aqua Nutrition who acquired EWOS in 2015.

Merete Myhrstad,
Board Member
Merete Myhrstad has extensive experience of the Norwegian stock market with an expertise for financial reporting, corporate governance and listing issues. She is currently a responsible partner and member of the management of Uniconsult AS and is Chair of the Audit Committee. Prior positions include Oslo Børs and the Norwegian FSA (Finanstilsynet).

Viacheslav Lavrentyev,
Board Member
Viacheslav Lavrentyev has over 20 years' experience in finance and investment banking. He has significant knowledge and expertise in the salmon farming industry and played a key role in establishing Russia's salmon aquaculture company, Russian Salmon.

Martins Jaunarajs,
Board Member
Martins Jaunarajs is an Investment Director at AS BaltCap, a venture capital firm in the Baltic States. Prior to joining AS BaltCap in 2010, Mr Jaunarajs was a Senior Vice President and Global Head of Capital Markets and Investment Banking Division at Parex Banka and Head of Corporate Sales in Financial Markets division of Hansabanka in Latvia.

The Board		Length of service	Nomination Committee	Remuneration Committee	Audit Committee
Robert M Brown III	Chairman of the Board	8 years	x	x	
Viacheslav Lavrentyev	Non-Executive Director	8 years	x	x	
Merete Myhrstad	Non-Executive Director	8 years			x
Martins Jaunarajs	Non-Executive Director	5 years			x
Douglas Low	Non-Executive Director	2 year		x	

Executive Management of The Scottish Salmon Company Limited

Craig Anderson,
Chief Executive Officer
Craig Anderson has over 30 years' international business experience working with publicly listed companies with international growth potential. Mr Anderson joined The Scottish Salmon Company Limited in June 2013 and previously spent 20 years working in Russia, the last 6 being in property development.

Fiona Larkin,
Chief Financial Officer
Fiona Larkin is a Chartered Accountant with more than 20 years of experience spanning a range of financial disciplines and in a number of managerial positions. Ms Larkin joined The Scottish Salmon Company Limited in September 2014 having previously held the positions of European Financial Controller and Director of Business Performance and FP&A at InterGen UK Limited.

9 Board of Directors of The Scottish Salmon Company PLC

Advisors to The Scottish Salmon Company PLC

Auditors
Campbell Dallas
Audit Services
Titanium 1
King's Inch Place
Renfrew
PA4 8WF

Banking Facilities
Bank of Scotland
The Mound
Edinburgh
EH1 1YZ

Investor Relations
CRUX Advisers AS
Drammensveien 147 A
Oslo
Norway

Legal (Jersey)
Bedell Cristin
26 New Street
St Helier
Jersey
JE2 3RA

Legal (Norway)
Hjelseth
Inkognitogt. 33A
0256 Oslo
Norway

PR and Communications
3x1
16a Walker Street
Edinburgh
EH3 7LP

Tax
Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB

Company Secretary
JTC Trust
Company Limited
28 Esplanade
St Helier
Jersey
JE1 8SB

10 The Scottish Salmon Company Group Accounts & Notes

Consolidated Income Statement

	Note	2018 (£'000s)	2017 (£'000s)
Revenue	5	**180,125**	**150,946**
Purchase of goods		(114,159)	(100,801)
Change in inventory and biomass at cost		22,800	15,102
Salaries and related costs	6/7	(21,119)	(18,413)
Fair value adjustment on biomass	16	12,233	294
Other operating expenses	8	(10,989)	(8,165)
Earnings before interest, taxes and depreciation (EBITDA)		**68,891**	**38,963**
Depreciation and impairment	12/13	(8,288)	(8,198)
(Loss) / gain on disposal of tangible / intangible assets		(356)	5
Earnings before interest and taxes (EBIT)		**60,247**	**30,770**
Interest expenses	9	(1,099)	(1,136)
Other financial items	9	(843)	(316)
Earnings before taxes		**58,305**	**29,318**
Taxes	10	(10,648)	(5,183)
Net earnings for the year		**47,657**	**24,135**
Earnings per share			
Basic earnings per share (£) on The Scottish Salmon Company PLC shares in issue at 31 December	11	0.25	0.12
Diluted earnings per share (£) on The Scottish Salmon Company PLC shares in issue at 31 December	11	0.25	0.12

Consolidated Statement of Other Comprehensive Income

	Note	2018 (£'000s)	2017 (£'000s)
Net earnings		47,657	24,135
Change in fair value of cashflow hedges		(122)	(555)
Deferred tax on cashflow hedges	10	(50)	28
Cashflow hedges reclassified to income statement		419	392
Total items to be reclassified to income statement in subsequent periods		**247**	**(135)**
Total other comprehensive income		**247**	**(135)**
Total comprehensive income for the year		**47,904**	**24,000**

Consolidated Statement of Financial Position

	Note	2018 (£'000s)	2017 (£'000s)
Non-current assets			
Licences & other intangibles	13/14	28,011	24,314
Goodwill	13/14	6,098	2,164
Total intangible assets		**34,109**	**26,478**
Property, plant and equipment	12	55,891	43,991
Total tangible assets		**55,891**	**43,991**
Total non-current assets		**90,000**	**70,469**
Current assets			
Inventory	15	3,119	2,581
Biological assets	16	129,600	95,100
Trade receivables	17	20,552	18,785
Other receivables	17	1,986	2,906
Cash and cash equivalents	18	4,886	8,500
Total current assets		**160,143**	**127,872**
Total assets		**250,143**	**198,341**
Equity			
Share capital	19	17,530	17,485
Share premium reserve	19	64,028	64,028
Cashflow hedge reserve	19	(1,428)	(1,675)
Other equity	19	77,629	36,417
Total equity		**157,759**	**116,255**
Non-current liabilities			
Deferred taxes	10	10,484	8,133
Other long term liabilities	25	1,983	1,680
Long term interest bearing bank debt	20	29,380	36,021
Total non-current liabilities		**41,847**	**45,834**
Current liabilities			
Short term interest bearing bank debt	20	11,294	10,998
Trade payables	24	23,535	15,460
Other short term liabilities	25	10,715	8,422
Current taxes	10	4,993	1,372
Total current liabilities		**50,537**	**36,252**
Total liabilities		**92,384**	**82,086**
Total equity and liabilities		**250,143**	**198,341**
Equity Ratio		63.1%	58.6%

17 April 2019

Robert M Brown III	**Douglas Low**	**Martins Jaunarajs**	**Merete Myhrstad**	**Viacheslav Lavrentyev**
Chairman	Board Member	Board Member	Board Member	Board Member

Consolidated Statement of Cashflows

Period ended 31 December 2018	Note	2018 (£'000s)	2017 (£'000s)
Operating activities			
Earnings before interest and taxes		60,247	30,770
Adjustment to reconcile earnings before interest and tax to net cashflows			
Non cash:			
Fair value adjustment on biomass	16	(12,233)	(294)
Depreciation and impairment of property, plant and equipment	12	8,288	7,971
Impairment of farming licences	13	-	227
Loss / (gain) on disposal of assets		358	(5)
Other adjustments:			
Other financial expenses		(579)	(479)
Share based payment expense	7	55	100
Tax net settlement expense on employee share options	7	(457)	-
Working capital adjustments:			
Change in inventory, payables and receivables		(13,002)	(16,783)
Taxes paid		(5,015)	(2,309)
Net cashflows from operating activities		**37,662**	**19,198**
Investing activities			
Proceeds of sale of property, plant and equipment	12	42	192
Purchase of property, plant and equipment	12	(18,741)	(12,942)
Acquisitions	27	(7,286)	-
Capitalised development cost	13	(1,845)	(928)
Net cashflows used in investing activities		**(27,830)**	**(13,678)**
Financing activities			
Proceeds from borrowings		-	5,000
Repayment of borrowings		(6,000)	(5,000)
Borrowings from asset based financing		-	695
Repayment from asset based financing		(429)	-
Interest paid		(1,017)	(728)
Dividend paid		(6,000)	-
Net cashflows used in financing activities		**(13,446)**	**(33)**
Net change in cash and cash equivalents in period		**(3,614)**	**5,487**
Net (decrease) / increase in cash and cash equivalents		(3,614)	5,487
Cash and cash equivalents at 1 January		8,500	3,013
Cash and cash equivalents at 31 December	18	**4,886**	**8,500**

Consolidated Statement of Changes in Equity

	Issued Capital (Note 19) (£'000s)	Share Premium Reserve (Note 19) (£'000s)	Cashflow Hedge Reserve (Note 19) (£'000s)	Other Capital Reserves (Note 19) (£'000s)	Retained Earnings (Note 19) (£'000s)	Treasury Shares (Note 19) (£'000s)	Discontinued Operations (Note 19) (£'000s)	Total Equity (£'000s)
At 1 January 2018	**17,485**	**64,028**	**(1,675)**	**(36,266)**	**73,599**	**-**	**(916)**	**116,255**
Owner changes for the year recognised directly in equity:								
Share based payment	-	-	-	55	-	-	-	55
Settlement of share options	45	-	-	(296)	88	(292)	-	(455)
Dividend paid	-	-	-	-	(6,000)	-	-	(6,000)
Comprehensive income:								
Net earnings for the year	-	-	-	-	47,657	-	-	47,657
Other comprehensive income	-	-	247	-		-	-	247
At 31 December 2018	**17,530**	**64,028**	**(1,428)**	**(36,507)**	**115,344**	**(292)**	**(916)**	**157,759**
At 1 January 2017	**17,485**	**64,028**	**(1,540)**	**(36,366)**	**49,464**		**(916)**	**92,155**
Owner changes for the year recognised directly in equity:								
Share based payment	-	-	-	100	-	-	-	100
Comprehensive income:								
Net earnings for the year	-	-	-	-	24,135	-	-	24,135
Other comprehensive income	-	-	(135)	-	-	-	-	(135)
At 31 December 2017	**17,485**	**64,028**	**(1,675)**	**(36,266)**	**73,599**	**-**	**(916)**	**116,255**

Note 1 – General Information

The Scottish Salmon Company PLC is a company incorporated in Jersey, on 6 November 2009, and listed on the Norwegian Oslo Børs. Domiciled in Jersey, its registered office at 28 Esplanade, St Helier, Jersey JE1 8SB.

The results for the year to 31 December 2018 and its comparatives encompass the results of the Group as a combined entity. The Group's principal activity is the production and sale of premium quality Scottish salmon.

All financial statements are presented in GBP, the Group's functional currency.

Note 2 – Accounting Principles

Basis of accounting

The Annual Report comprises the Board of Directors' Report and the Annual Accounts. The Annual Accounts comprise the Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Cashflows, Statement of Changes in Equity and note disclosures for The Scottish Salmon Company Group. The accounting year is the calendar year.

The Annual Accounts for the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU-IFRS) and the IFRIC interpretations adopted by the International Accounting Standards Board (IASB and the EU).

The financial statements have been prepared on the historical cost basis, except for where IFRS requires recognition at fair value, specifically in relation to the valuation of biological assets (biomass) and measurement of financial instruments.

The Board of Directors believe that the Group has adequate resources for the foreseeable future to meet the Group's budget and long term projections. As such, the financial statements of the Group have been prepared on a going concern basis.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimates and judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described further in this Statement of Accounting Principles and in note 3.

Note 2 – Accounting Principles (continued)

Adoption of new and revised standards and interpretations

a) New and amended IFRS standards applicable for period beginning in 2018.

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

Title	Key Points	Impact
IFRS 15 – Revenue from contracts with customers	The new standard is a single global revenue standard and replaces IAS11, IAS18, IFRIC 13, IFRIC 18 and SIC 31. The standard contains a single model that applies to 2 approaches, being at point in time and over time. For complex transactions with multiple components, variable consideration or extended periods, application of the standard can lead to revenue being accelerated or deferred in comparison to current IFRS.	The Group has reviewed the contracts in place with customers and concluded that IFRS 15 has no material impact on the recognition of revenue in the current or prior year financial statements and are not expected to significantly affect future periods.
IFRS 9 – Financial Instruments	IFRS 9 was introduced in 2014 as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets.	The Group has certain types of financial assets that are subject to IFRS 9's new expected credit loss model. On transition to IFRS 9, the Group revised its impairment methodology – the identified impairment loss was immaterial. The changes to the classification and measurement requirements for financial assets have not materially impacted the numbers presented in the current or prior year financial statements and are not expected to significantly affect future periods.

There were no other IFRS standards or IFRIC interpretations adopted for the first time in these financial statements that had a material impact on the Group's financial statements.

Note 2 – Accounting Principles (continued)

Adoption of new and revised standards and interpretations

b) New IFRS standards not effective for 2018 and not adopted early.

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting period ending 31 December 2018 and have not been adopted early by the Group. The Group's assessment of the impact of these new standards and interpretations is set out in the following table:

Title	Key Points	Effective Date	Impact
IFRS 16 – Leases	IFRS 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.	The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption.	The Group reviewed all of their leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has operating lease commitments of £49.7m. Of these commitments, approximately £2.3m relate to short-term leases which will be recognised on a straight-line basis as an expense in profit or loss and approximately £20.9m relates to lease commitments where the lease term has not commenced. The Group has not quantified the value of low value leases, on the basis these are not material, which will also be recognised on a straight line basis as an expense in profit or loss. For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately £24.8m on 1 January 2019 and lease liabilities of £24.8m (being the discounted value of the above non short-term operating leases where the lease term has commenced), any adjustments for prepayments and accrued lease payments are not material. Overall net assets will be unchanged on transition, and net current assets will be £10.7m lower due to the presentation of a portion of the liability as a current liability. The Group expects that net profit after tax will decrease by approximately £0.2m for 2019 as a result of adopting the new rules. Adjusted EBITDA used to measure segment results is expected to increase by approximately £10.7m, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure. Operating cash flows will increase and financing cash flows decrease by approximately £9.8m as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Note 2 – Accounting Principles (continued)

Consolidation Principles

Consolidation

The consolidated accounts present the financial position, results and cashflow for The Scottish Salmon Company PLC and its subsidiaries as a combined entity.

The Scottish Salmon Company PLC was incorporated in Jersey on 6 November 2009 as a public company under Jersey Company Law with registered number 104328. On 8 July 2010, under a share for share exchange with the shareholders of Lighthouse Caledonia ASA, the PLC became the new holding company of the Group. The Group restructure was a reorganisation of an existing entity and was a common control transaction. This fell outwith the scope of IFRS 3 and, as such, the Group applied predecessor accounting to the transaction and accounted for the combination under the pooling of interest method. The Group consolidated accounts are presented as if the Group, with The Scottish Salmon Company PLC as the holding company, had always existed.

Subsidiaries

The Group's consolidated accounts comprise the accounts of companies in which the parent company or subsidiaries have a direct or indirect controlling influence. A controlling influence normally exists if a party directly or indirectly owns more than 50% of the voting capital in the controlled entity or has the power to govern the entity's financial and operational strategy. Recently acquired subsidiaries are included from the time a controlling interest is obtained. Divested subsidiaries are included in the consolidated accounts up to the point of divestment.

Elimination of internal transactions

All transactions and balances between companies in the Group are eliminated on consolidation.

Elimination of shareholdings in subsidiaries

Shareholdings in subsidiaries are eliminated in the Group accounts according to their method of acquisition.

Foreign Currencies

Foreign currency translation

The consolidated financial statements are presented in GBP, which is the functional and local currency of the trading subsidiaries.

Transactions in foreign currency

Transactions made in a foreign currency are translated using the currency rate at the time of the transaction.

Receivables, debt and monetary items in foreign currency are valued at the currency rate at closing date and the translation differences are charged to the Income Statement continuously.

Financial Assets and Liabilities

Financial instruments

Recognition and de-recognition

Financial assets and financial liabilities are recognised when the Group becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. Financial instruments are not entered into for trading purposes.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost;
- fair value through profit or loss (FVTPL); and
- fair value through other comprehensive income (FVOCI).

In the periods presented the Group does not have any financial assets categorised as FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other operating expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)

All derivative financial instruments are classified at fair value through profit and loss, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Note 2 – Accounting Principles (continued)

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Hedge accounting

The Group uses foreign currency and interest rate swaps to hedge the associated risks relating to highly probable forecast transactions.

The Group designates these derivatives in cashflow hedging relationships by applying hedge accounting principles under IFRS 9. The Group applies the new hedge accounting requirements in IFRS 9 prospectively. All hedging relationships under IAS 39 at the 31 December 2017 reporting date meet IFRS 9 criteria for hedge accounting at 1 January 2018 and are therefore regarded as continuing hedging relationships.

These derivatives are stated at fair value in the Statement of Financial Position at each reporting date. Changes in the fair value of derivatives designated and effective as cashflow hedges are recognised in the Consolidated Statement of Other Comprehensive Income (net of tax) and presented in the cashflow hedge reserve. Any ineffective portion is recognised immediately in the Income Statement.

The associated gain or loss is removed from equity and recognised in the Income Statement in the period in which the transaction to which it relates occurs. Any cumulative gain or loss on the hedging instrument is retained in equity until the forecast transaction affects the Income Statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. If the forecast transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Consolidated Statement of Other Comprehensive Income is immediately transferred to the Income Statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Upon recognition, these assets are measured at fair value less directly related transaction expenses. In successive periods these are measured at amortised cost and any differences between acquisition cost and redemption value is accounted for over the borrowing period by using the effective interest method. If transaction costs are immaterial and the credit period is short, amortised cost is equal to the nominal value less any allowance for credit losses. Amortised interest is recognised in financial items within the Income Statement.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In successive periods these are measured at amortised cost. Any differences between acquisition cost and redemption value is accounted for over the borrowing period by using the effective interest method.

Classification Principles

Assets and liabilities

An asset that is associated with the Group's normal operating cycle, held primarily for the purpose of being traded, expected to be realised within 12 months after the Statement of Financial Position date or is cash or cash equivalents (unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the Statement of Financial Position date) is classified as a current asset. All other assets are classified as non-current assets.

A liability is classified as current if it is expected to be settled in the Group's normal operating cycle, is held primarily for trading purposes, is due to be settled within 12 months after the Statement of Financial Position date or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the Statement of Financial Position date. The next year's instalment on long term debt is classified as a current liability. All other liabilities are classified as non-current.

Equity

Ordinary shares are classified as equity. Shares held by The Scottish Salmon Company PLC Employee Benefit Trust as a result of a share based payment plan are disclosed as treasury shares and deducted from contributed equity.

Financial instruments are classified as debt or equity in accordance with their underlying economic reality.

Costs directly attributable to the issue of shares are shown in equity as a deduction from proceeds. Costs directly attributable to the issue of debt are shown as a deduction from the debt issued.

Interest, dividends, gains or losses related to a financial instrument that is classified as debt, will be presented as an expense or income in the Income Statement.

Dividend distributions to the owners of ordinary shares are recognised in the period in which the dividends are paid and are taken directly to equity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods are recognised when the goods are delivered and title, risks and rewards have passed to the customer.

Note 2 – Accounting Principles (continued)

Changes in estimated fair value on biomass are recognised in the Income Statement. The fair value adjustment is reported on a separate line: Fair Value Adjustment on Biomass. The adjustment is calculated as the change in fair value of the biomass less the change in accumulated cost of production for the biomass.

Interest income is accrued on a time basis.

Farming licences

Separately acquired licences are shown at historical cost. Licences acquired as part of a business combination are recognised at fair value at the acquisition date. Licences in Scotland are perpetual as long as operations are run environmentally and with minimal impact on the surrounding area. Licences that are considered perpetual are not subject to amortisation, but an impairment test is performed annually. This impairment test is based on the net present value of future cashflows (value in use). Where this is less than carrying value, an assessment of fair value less costs to sell is made. A provision is made for any impairment when the recoverable amount (being the higher of value in use or fair value less costs to sell) is less than the carrying value. Any impairment write down/losses are reversed if that value recovers.

Research and development

Expenditure on research (or the research phase of an internal project) is recognised in the Income Statement in the period in which it is incurred. Development costs incurred are capitalised in the Statement of Financial Position when all the following conditions are satisfied:

- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed in the Income Statement as incurred.

Capitalised development costs are recognised at acquisition cost less accumulated depreciation and write-downs.

Development costs primarily relate to employment expenditure, external consultancy and the use of equipment and premises. The Group believes that the criteria for capitalisation have been met in 2018 in respect of its Native Hebridean Broodstock Programme and have capitalised costs associated with the project.

The programme is unique within Aquaculture, with management judging that, in the current environment, this intangible asset has an infinite life span. This assumption will be reviewed annually to ensure it continues to be appropriate. All internal and external information, financial and non financial, will be used when considering this. At the year end no impairment exists.

During the year no research and development expenditure was expensed through the Income Statement.

Business combinations and goodwill

Business combinations that are not common control transactions are accounted for using the acquisition method of accounting under IFRS 3. The cost of acquisition is the consideration given in exchange for control over the identifiable assets, liabilities and contingent liabilities of the acquired company. This consideration includes cash paid plus the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the Group. Contingent consideration arrangements are included in the cost of acquisition at fair value. Management judgement is required to assess facts and circumstances existing at the Statement of Financial Position date which indicate the ability to meet the conditions of the arrangements. The value of consideration is assessed in line with these judgements. Changes in the fair value of assets acquired, liabilities assumed and the value of contingent consideration that the Group recognises after the acquisition date as the result of additional information about facts and circumstances that existed at the acquisition date are considered measurement period adjustments. In accordance with IFRS 3, adjustments are recognised to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Increases and decreases resulting from the above are recognised by means of an increase and decrease in goodwill. Comparative information for prior periods presented in the financial statements is amended as necessary.

Changes resulting from additional information in relation to circumstances occurring after the acquisition date are not measurement period adjustments. Changes that are not measurement period adjustments are recognised in the Income Statement in accordance with IFRS 9.

Directly attributable transaction costs are expensed in the current period and reported within general and administration expenses unless these relate to the issue of debt or equity. Issue costs are taken directly against the debt or equity issued.

The acquired net assets, being the identifiable assets, liabilities and contingent liabilities are initially recognised at fair value.

Negative goodwill arising on acquisitions represents a gain on purchase. In accordance with IFRS 3 this constitutes an economic gain which is immediately recognised in the Income Statement.

Positive goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of

Note 2 – Accounting Principles (continued)

cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Where goodwill forms part of a cash generating unit (group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

When subsidiaries are sold, the difference between the selling price and the net assets plus goodwill is recognised in the Income Statement under "other revenue".

Property, plant and equipment

Plant and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Plant and equipment in progress is not depreciated. Depreciation is recognised when plant and equipment is substantially ready for use.

Land and buildings are measured at cost less accumulated depreciation on buildings and accumulated impairment in value. Depreciation is calculated on a straight-line basis over the useful life of the assets.

Depreciation is classified as operating expenses in the Income Statement.

Upon disposal, or when no future economic benefit is expected from an item of property, plant or equipment, any gain or loss arising is included in the Income Statement. The amount is calculated as the difference between the net disposal proceeds and the carrying amount of the asset.

Non current assets held for sale

Non current assets are classified as held for sale where:

- its carrying amount will principally be recovered through a sale transaction rather than continuing use;
- management are committed to sell the asset;
- the asset is available for sale in its present condition; and
- the sale is more likely than not.

These assets are held at the lower of their carrying amount or fair value less costs to sell. No depreciation is provided on assets after they are classified as held for sale. These assets are subject to regular impairment reviews.

Government grants

Government grants are deducted from the carrying amount of the asset to which they relate and are recognised as income through reduced depreciation of the asset.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired.

If any such indications exist, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cashflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future pre-tax cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are classified as Earnings before interest and tax (EBIT) in the Income Statement.

A previously recognised impairment loss is reversed only if there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the Income Statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (or group of cash generating units), to which the goodwill relates. Where the recoverable amount of the cash generating unit (or group of cash generating units) is less than the carrying amount of the cash generating unit (or group of cash generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Leasing

Leases that largely transfer rights and obligations to the Group (financial leasing) are capitalised as property, plant and equipment, and the financial obligations are entered as other long term debt. Other lease expenses are treated as operational leasing costs and presented as operating expenses in the Income Statement.

Leased items that are recorded in the Statement of Financial Position are subject to depreciation according to the useful life of the asset and the leasing liabilities are reduced with the leasing fees paid, after deduction of interest.

Note 2 – Accounting Principles (continued)

Inventory
Inventories comprise eggs, feed, packaging materials and finished goods.

Inventories of goods are stated at the lower of cost and net realisable value.

The cost of processed goods is a full production cost that includes direct material and personnel costs, and a percentage of indirect processing costs. Interest costs are not included in the value of inventory.

The cost price of purchased goods is the acquisition price. Cost is based on the first-in first-out principle.

Net realisable value is estimated sales price less selling expenses.

Biological assets (Biomass)
Biological assets (fish) are measured at fair value less costs to sell, in line with IAS 41 and IFRS 13.

In order to estimate the fair value of live fish, management apply an income approach valuation model based on estimated revenues from the market price of harvested fish, reduced for ongrowing, harvesting, gutting and freight costs to market in order to arrive at a fair value less costs to sell for the Group. This model assesses each farming site individually for the key assumptions of growth and survival. The model also reflects anticipated harvesting weight and variances in expected quality grades for each farm site. Juvenile fish under 1kg are measured at cost, being the best estimate of fair value on those fish.

Market prices are derived from the most recent contracts entered into by the Group and adjusted Norwegian quoted prices (from Fishpool). Future costs, growth rates, survival rates, anticipated harvest weights and quality grades are derived from the Group's harvesting and production data and financial budgets for 2019.

The change in estimated fair value is charged to the Income Statement and is reported separately from the related cost of the biomass when harvested. Accumulated direct and indirect production costs for fish harvested are classified as costs of goods sold whereas the change in the fair value adjustment is recognised on a separate line called "fair value adjustment on biomass".

Fixed price contracts
The Group holds long term sales contracts related to salmon products. These contracts do not contain any element of embedded derivatives and are therefore not treated as financial instruments. The contracts are settled based exclusively on the assumption that reception or delivery of salmon products should take place. The contracts are not tradeable, generally run for 6 to 12 month periods and are approximately aligned to the calendar year.

Provisions are made for fixed price contracts that oblige the Group to sell fish at a price lower than the calculated fair value of the biomass.

Trade receivables
Trade receivables do not carry any interest and are stated at amortised cost reduced by appropriate allowances for lifetime expected credit losses. The Group makes use of a simplified approach in accounting for trade receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical default rates adjusted for forward looking estimates.

The Group assess impairment of trade receivables on a collective basis based on the days past due. Further information on how the impairment requirements of IFRS 9 are applied can be found in note 26.

Other receivables
Other receivables consist of prepayments and sundry debtors and are carried at amortised cost.

Cash and cash equivalents
Cash and short term deposits in the Statement of Financial Position comprise cash at hand and in banks and short term deposits which without significant currency risk can be converted to cash within 3 months. For the purpose of the Consolidated Statement of Cashflows, outstanding bank overdrafts are included in cash and cash equivalents.

Taxes
Taxes for the year in the Income Statement comprise income taxes on the taxable profit for the year, changes in deferred taxes and adjustments to tax payable in respect of prior periods. Taxes on transactions that are recorded directly to equity are recognised respectively within equity.

Income tax payable is calculated using the nominal tax rate at the Statement of Financial Position date.

Deferred tax is calculated at the rate substantively enacted on the basis of temporary differences between accounting and taxation values at the Statement of Financial Position date and that applies to the period when such temporary differences are expected to unwind. Temporary differences related to goodwill that are not tax deductible are not taken into consideration when calculating deferred taxes. Deferred tax assets arise from temporary differences that give rise to future tax deductions. Deferred tax assets are only recognised in the Statement of Financial Position if it is likely that it can be utilised directly or by netting a deferred tax liability.

Tax increasing and tax decreasing timing differences are offset against each other to the extent that the taxes can be netted within one tax regime.

Defined contribution pension plans
Obligations to make payments to pension schemes that are contribution plans are expensed when they occur. The employer has no obligations under these pension schemes other than making regular payments according to agreement.

Note 2 – Accounting Principles (continued)

Provisions for liabilities

A provision is recognised in the accounts if the Group has a legal or constructive obligation related to a past event and it is likely that the obligation will lead to a financial loss for the Group. Provisions for restructuring are recorded only if the Group has authorised specific plans and commitments to carry out the restructuring. No provision is made for future operating losses. Long term provisions are valued based on discounted expected cashflows.

Contingent assets and liabilities

A contingent asset is not recognised in the financial statements but is disclosed when a possible asset arises from past events whose existence will be confirmed only by uncertain future events not wholly within the control of the entity and the inflow of economic benefits is assessed as probable at the date of the Statement of Financial Position.

A contingent liability is not recognised in the financial statements but is disclosed when an obligation arises from past events whose existence will be confirmed only by uncertain future events not wholly within the control of the entity; or an obligation arises from past events but is not recognised because it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Exceptional items

Exceptional items are those items which are separately identifiable by virtue of their size or incidence to allow a full understanding of the underlying performance of the Group.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting.

Share based payments

Share-based compensation benefits are provided to selective employees through an Employee Equity Incentive scheme administered via The Scottish Salmon company PLC Employee Benefit Trust. Further information relating to the scheme is set out in note 7.

The fair value of the options granted under the scheme is recognised as an expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which is measured using the Black Scholes model. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

Note 3 – Accounting Estimates and Judgements

The Group makes estimates and assumptions regarding the future. Actual results may differ from these estimates.

The estimates and judgements which are most significant for the Group are listed below.

Impairment testing of licences, goodwill and other intangible assets

The Group performs an annual impairment test of goodwill, farming licences and other intangible assets as described in the accounting principles. The recoverable amount for the cash generating units is calculated based on a going concern assumption within the Group.

All intangible assets are allocated to cash generating units. The impairment test is based on a discounted cashflow model per cash generating unit (which for the Group is a farming region basis). The cashflows used represent management's best estimates at the time of calculation.

In the cashflow models, the use of estimates is a central element. The calculations are based on assumptions in relation to sales prices, production costs, harvest volumes and their development in the future. The assumptions used are based on the approved 2019 budget, a further 3 years of long term projections for the Group and a terminal value. This generally takes in 2 farming cycles for each region in the model.

As a greater degree of reliability can be placed on costs, the model is highly dependent on salmon price market developments.

The model is also affected by a number of parameters such as long term growth in demand, competitive situation and behaviour, and expectations concerning long term profit margins. These different parameters can have different significance for the licence values over time.

Changes in these assumptions could cause corresponding impairments, or reversal of impairments, in the licence values and goodwill. Further information in respect of impairment testing can be seen in note 14 to the Group financial statements.

Biological assets (Biomass)

Significant estimates and judgements are made in relation to the fair value of biological assets under IAS 41 – Agriculture and in relation to volume of biological assets at the year end.

From January 2018, the Group changed its basis accounting estimate for mortalities to be more in line with industry practice. From 2018 only exceptional mortality is expensed as incurred, whereas previously all mortality was expensed. Consequently, mortality costs will be transiently low in 2018. The impact of this change resulted in a cost saving in the year of £7.5m to the Income Statement. It is impracticable for the Group to estimate the effect of this change in accounting estimate on future periods due to the uncertainty over future survival rates.

In respect of fair value, these estimates cover assumptions in relation to quality, salmon price, growth rates, sizes, volumes, survival rates, costs, and exchange rates all of which are uncertain in nature.

Estimated profit or losses at the reporting date may differ considerably from the final recorded profit or loss at the time of the sale.

The fair value adjustment has no impact on cashflow and does not impact operating results before fair value adjustment. Further information can be found in note 2 and in note 16 to the Group financial statements.

The very nature of salmon farming means that the volume of biological assets in the sea at each reporting period is itself an estimate. However, the Group grades and performs sample counts on all sites. Furthermore, all deviations between expected volumes and actual harvests are measured and reviewed. In general, unless there has been significant disease issues causing higher than normal mortality rates or a period of restricted handling, uncertainty levels are typically low.

Volume deviations can impact on the fair value adjustment of biomass as volume of fish at sea is an input into the fair value valuation model.

Development costs

The Group reviews each year whether the recognition requirements for development costs have been met. Careful judgement is required when determining whether the criteria has been met, specifically in relation to the future economic success of any development project. Judgements are based on the information available at each reporting date. All internal activities related to the research and development are continuously monitored by management throughout the year.

Note 4 – Consolidated Entities

The Consolidated Financial Statements include the following companies:

	Country	Ownership %	Function
Parent company			
The Scottish Salmon Company PLC	Jersey		Parent company
Subsidiaries			
The Scottish Salmon Company Limited	Scotland	100%	Salmon farming
Salmon Finance (Scotland) Ltd	Scotland	100%	Group finance
Harris & Lewis Smokers Trading Ltd	Scotland	100%	Restaurant and Smokehouse
Bradan Cuan Siar Ltd	Scotland	100%	Dormant
Lighthouse Caledonia ASA	Norway	100%	Dormant
Lighthouse Caledonia Ltd	Scotland	100%	Dormant
West Minch Salmon Ltd	Scotland	100%	Dormant
Atlantic West Salmon Company Ltd	Scotland	100%	Dormant
Sidinish Salmon Ltd	Scotland	100%	Dormant
Hebridean Salmon (Scotland) Ltd	Scotland	100%	Dormant
Scottish Smoked Salmon Ltd	Scotland	100%	Dormant
Hebridean Smoked Salmon Ltd	Scotland	100%	Dormant
Hebrides Harvest (Scotland) Ltd	Scotland	100%	Dormant
Loch Fyne Salmon (Scotland) Ltd	Scotland	100%	Dormant
Loch Fyne Salmon Ltd	Scotland	100%	Dormant
Loch Fyne Smoked Salmon Ltd	Scotland	100%	Dormant
Murray Seafoods Ltd	Scotland	100%	Dormant
Corrie Mohr Salmon Ltd	Scotland	100%	Dormant
Minnamurra Ltd	Scotland	100%	Holding
Fjord Seafood Scotland Farming Ltd	Scotland	100%	Dormant
Pieters UK Ltd	Scotland	100%	Holding
Fjord Seafoods Scotland Ltd	Scotland	100%	Dormant
Highland Fish Farmers Ltd	Scotland	100%	Dormant
Mull Salmon Ltd	Scotland	100%	Dormant
Kenmore Salmon Farms Ltd	Scotland	100%	Dormant
Loch Ness (Lachs) Ltd	Scotland	100%	Dormant
Portree Salmon Farmers Ltd	Scotland	100%	Dormant
Pulford (Scotland) Ltd	Scotland	100%	Dormant
Scotfish Farms Ltd	Scotland	100%	Dormant
Sea Catch PLC	Scotland	100%	Dormant
Tobson Fish Farms Ltd	Scotland	100%	Dormant

During the year the Group acquired Harris & Lewis Smokers Trading Ltd and Bradan Cuan Siar Ltd. See note 27 for further details.

Investments in Group undertakings are recorded at cost, which is the fair value of the consideration paid. As at 1 January 2018 and 31 December 2018 the cost of these Group undertakings was £nil.

All dormant and holding companies are exempt from audit by virtue of applicable company law in their country.

The following dormant companies were struck off after the year end:

	Country	Ownership %	Function
Lighthouse Caledonia ASA	Norway	100%	Dormant
Loch Ness (Lachs) Ltd	Scotland	100%	Dormant
Hebrides Harvest (Scotland) Ltd	Scotland	100%	Dormant

Note 5 – Segment Information

A segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns which are different from those of other business segments. The Group's core business activity is organised as one business segment – fish farming operations. All products, production processes, customers and distribution methods are similar within this segment. This is based on the Group's management and internal reporting structures and represents the level at which financial information is reported for strategic decisions. The Directors consider that the Group as a whole is the only reportable segment.

All of the Group's non current assets are based in Scotland.

The table below presents the operating income for the Group split by main geographical markets.

Customer location	2018 (£'000s)	% share	2017 (£'000s)	% share
UK	75,924	42%	75,465	50%
Europe	78,928	44%	66,269	44%
North America	15,678	9%	6,472	4%
Rest of World	9,595	5%	2,740	2%
Total	**180,125**	**100%**	**150,946**	**100%**

The following external customer individually makes up more than 10% of the Group's revenue for the current year or prior year

	2018 (£'000s)	% share	2017 (£'000s)	% share
Customer 1	18,339	10.18%	19,859	12.86%

Note 6 – Salaries and Related Costs

	2018 (£'000s)	2017 (£'000s)
Breakdown of Payroll Expenses		
Wages and salaries	18,414	16,127
National insurance contributions	1,947	1,590
Pension expenses	759	696
Total salaries and expenses	**21,119**	**18,413**
Average Number of Employees	**548**	**502**
Closing Number of Employees	**607**	**510**

In 2018 a profit share, including national insurance, of £1.6m (2017: £1.4m) was paid to employees.

The pension plan covers all of the employees and provides pension benefits upon retirement.

Note 7 – Remuneration to Key Personnel

Key personnel are, in addition to the Board of Directors, employees that have been or are part of Executive Management of The Scottish Salmon Company Limited and have had substantial influence in important decision making processes for the Group.

Executive Management have individual contracts that regulate salaries, bonuses, post-employment benefits and termination benefits. They were remunerated from The Scottish Salmon Company Limited throughout the year to 31 December 2018.

Salary and other benefits paid 2018

	2018 Salary & benefits (£'000s)	2018 Discretionary performance based bonus (£'000s)	2018 Discretionary company profit share (£'000s)	2018 Share based payment (£'000s)	2018 Pension (£'000s)	2018 Gross Remuneration (£'000s)
Craig Anderson	189	50	95	–	17	351
Fiona Larkin	163	43	87	55	15	363
Salary and other benefits paid to Management	**352**	**93**	**182**	**55**	**32**	**714**

Salary and other benefits paid 2017

	2017 Salary & benefits (£'000s)	2017 Discretionary performance based bonus (£'000s)	2017 Discretionary company profit share (£'000s)	2017 Share based payment (£'000s)	2017 Pension (£'000s)	2017 Gross Remuneration (£'000s)
Craig Anderson	175	47	82	52	16	372
Fiona Larkin	151	39	69	48	14	321
Salary and other benefits paid to Management	**326**	**86**	**151**	**100**	**30**	**693**

Note 7 – Remuneration to Key Personnel (continued)

The Board of Directors' Statement regarding Remuneration of Executive Management

The payments referred to in the previous table give the correct incentive in accordance with the Group's intentions regarding growth and profitability, as well as providing a good working environment.

Executive Management are neither entitled to overtime payment nor to receiving substantial payment in kind. The total remuneration is intended to be competitive, thus enabling the Group to attract and retain the most competent individuals.

The main principles for remuneration in 2018 will be retained in 2019.

The Group operates an Employee Equity Incentive Scheme for selective employees. All share options are to be settled by physical delivery of shares.

One third of share options become vested and may be exercised on each of the 1st, 2nd and 3rd anniversary of the granting of the share options. Options must be exercised within 5 years of this date. The fair value of the services received in return for share options granted is based on the fair value measured using the Black Scholes Model. The financial impact to the Income Statement for 2018 was £55,000 (2017: £100,000).

The Employee Equity Incentive Scheme is administered by The Scottish Salmon Company PLC Employee Benefit Trust, which is consolidated in accordance with the principle of control under IFRS 3. The trust facilitates a net settlement feature under which employees receive shares equivalent in value to the gain on the options exercised.

The Employee Share Trust withholds shares in order to settle the employees' tax obligations associated with a share based payment. The expected amount to be transferred to settle the employees' tax obligations is £457,000.

Set out below is a summary of options granted under the Scheme:

	2018 Average exercise price per share option (NOK)	2018 Number of options	2017 Average exercise price per share option (NOK)	2017 Number of options
As at 1 January	6.12	1,169,390	4.1	740,203
Granted during the year	-	-	9.6	429,187
Exercised during the year*	5.63	1,026,328	-	-
As at 31 December	9.6	143,062	6.12	1,169,390
Vested and exercisable at 31 December	**-**	**-**	**4.99**	**883,265**

* The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2018 was NOK 15.7 (2017 – not applicable).

Note 7 – Remuneration to Key Personnel (continued)

No options expired during the periods covered by the above table. Share options outstanding at the end of the year will expire on 1st January 2024.

The Board has also practised a profit share scheme for the Group's managers and staff. The scheme has consisted of lump sum payments and has been practised at the Board's discretion.

Amendments to the salary and other forms of remuneration for Executive Management, together with the granting of bonus payments, shall be discussed and determined by the Remuneration Committee in conjunction with the Board.

The Group has established a defined contribution group pension scheme for all employees. This is in accordance with the local country's pension regulations that govern the trading entity. Contributions in respect of Executive Management amounted to £32,000 (2017: £30,000).

There are no loans to employees.

Remuneration to Board of Directors

The Group paid the following Directors' fees in respect of services:

	2018	2017
Robert M Brown III	£90,000	£66,000
Viacheslav Lavrentyev	£37,500	£27,500
Merete Myhrstad	£37,500	£27,500
Martins Jaunarajs	£37,500	£27,500
Douglas Low	£37,500	£27,500

Note 8 – Expenses

Other operating expenses

	2018 (£'000s)	2017 (£'000s)
Administration and commercial costs	6,359	3,673
Other harvesting and processing costs	4,630	4,492
Total	**10,989**	**8,165**

Other harvesting and processing costs includes the cost of goods, materials and industrial service costs associated with running these departments.

Audit fees

	2018 Parent Company (£'000s)	2018 Subsidiaries (£'000s)	2018 Total (£'000s)
Audit services	46	55	101
Audit related assurance services	4	-	4
Other services non-audit related	-	32	32
Total fees for 2018	**50**	**87**	**137**

	2017 Parent Company (£'000s)	2017 Subsidiaries (£'000s)	2017 Total (£'000s)
Audit services	46	52	98
Audit related assurance services	4	-	4
Other services non-audit related	-	11	11
Total fees for 2017	**50**	**63**	**113**

Operating leases

Operating leases (excluding wellboat costs) expensed in the year to the Income Statement were £6.7m (2017: £0.8m). Wellboat lease costs expensed in the year to the Income Statement were £7.8m (2017: £7.0m)

At the end of 2018, the Group had future operating lease commitments as follows:

	2018 (£'000s)	2017 (£'000s)
Payable within 1 year	12,969	8,690
Payable over 2 to 5 years	31,080	25,530
Payable after 5 years	5,634	1,117

Further lease payments are payable to the Crown Estate for the lease of the seabed at each seawater site. Future payments in relation to these are contingent on the amount of fish harvested. Payments in respect of the current year amounted to £0.9m. Based on the anticipated harvest for next year, payments are expected to be £1.0m in 2019.

Note 9 – Specification of Financial Items

	2018 (£'000s)	2017 (£'000s)
Interest expenses	(1,099)	(1,136)
Net interest	**(1,099)**	**(1,136)**
Exchange gains	1,550	3130
Exchange losses	(1,807)	(3,817)
Other financial expenses	(250)	(427)
Fair value (loss) / gain on forward currency contracts	(335)	798
Total other financial expenses	**(843)**	**(316)**
Total net financial items	**(1,942)**	**(1,452)**

Note 10 – Taxes

	2018 (£'000s)	2017 (£'000s)
Consolidated Income Statement		
Current income tax:		
UK corporation tax	8,650	4,167
Deferred income tax	1,999	1,016
Income tax expense reported in the Consolidated Income Statement	**10,648**	**5,183**
Reconciliation between Statutory and Effective Tax Rate:		
Accounting profit before income tax	58,305	29,318
At statutory income tax rate of 19% (2017: 19.25%)	19%	19.25%
Tax calculated with statutory tax rate	**11,078**	**5,643**
Expenses not deductible for tax purposes (permanent differences)	91	333
Other permanent differences	-	351
Employee option plan	(180)	-
Research & development expenditure	(350)	-
Other adjustments	(47)	(1,021)
Impact of deferred tax rate change	(245)	(110)
Adjustments to tax in respect of previous periods	301	(13)
Total income tax expense reported in the Consolidated Income Statement	**10,648**	**5,183**
Tax expense / (credit) reported in the Consolidated Statement of Other Comprehensive Income		
Deferred Income tax relating to cashflow hedges	50	(28)
Total Tax expense / (credit) reported in the Consolidated Statement of Other Comprehensive Income	**50**	**(28)**
Taxes (Payable) in the Consolidated Statement of Financial Position		
Income taxes shown in the Statement of Financial Position	(4,993)	(1,372)
Total Taxes in the Consolidated Statement of Financial Position	**(4,993)**	**(1,372)**
Specification of Basis for Deferred Tax / Tax Assets		
Tax / reducing temporary differences		
Non-current assets	26,686	23,963
Current assets	35,563	25,895
Other liabilities	-	(2,018)
Unutilised tax losses carried forward	(580)	-
Total temporary differences (net)	**61,669**	**47,840**
Calculated deferred tax effective rate 17% (2017: 17%)	10,484	(8,133)
Deferred tax (liability) in the Consolidated Statement of Financial Position	**(10,484)**	**(8,133)**

Maturity of Tax Losses

Tax losses carried forward related to capital losses which have no time limitation.

	2018	2017
Tax Rates Applied		
Country		
Scotland	19%	19.25%

The effects of changes to the corporation tax rates substantively enacted as part of the Finance Act 2016, which was enacted on 15 September 2016, made a further reduction of UK corporation tax to 17% effective 1 April 2020. Deferred taxes at reporting date have been measured using these substantively enacted tax rates and reflected in these financial statements.

Note 11 – Earnings per Share

	No. of shares	
	2018	**2017**
At 1 January	193,482,271	193,482,271
Shares issued	546,902	-
At 31 December	194,029,173	193,482,271

	2018	**2017**
A) Profit in the year	£47,657,000	£24,135,000
B) Number of shares in The Scottish Salmon Company PLC	**194,029,173**	**193,482,271**
C) Weighted average number of shares in issue during the year	**193,516,828**	**193,482,271**
D) Weighted average number of shares adjusted for the effect of dilution	**193,659,890**	**194,651,661**
Earnings per share		
Basic earnings per share	24.63p (£0.25)	12.47p (£0.12)
Diluted earnings per share	24.61p (£0.25)	12.40p (£0.12)

The average diluted number of shares is affected by the number of share options granted under the Employee Equity Incentive Scheme.

Note 12 – Property, Plant and Equipment

2018	Land, buildings and property (£'000s) (1)	Sea cages, plant and equipment (£'000s) (2)	Ships and boats (£'000s) (2)	Other assets (£'000s) (3)	Total 2018 (£'000s)
Acquisition cost at 1 January 2018	**11,191**	**75,492**	**9,510**	**5,949**	**102,142**
Additions	429	1,293	-	18,822	20,544
Reallocations	1,187	12,346	1,773	(15,306)	-
Disposals in the year	(156)	(2,761)	(93)	-	(3,010)
Acquisition cost at 31 December 2018	**12,651**	**86,370**	**11,190**	**9,466**	**119,677**
Accumulated depreciation and write-downs as of 1 January 2018	**(7,009)**	**(44,782)**	**(5,649)**	**(711)**	**(58,151)**
Depreciation in the year	(399)	(6,899)	(781)	(209)	(8,288)
Accumulated depreciation and write-downs of disposed assets	131	2,458	64	-	2,653
Accumulated depreciation and write-downs as of 31 December 2018	**(7,277)**	**(49,223)**	**(6,366)**	**(920)**	**(63,786)**
Net Book Value as of 31 December 2018	**5,375**	**37,147**	**4,824**	**8,545**	**55,891**

2017	Land, buildings and property (£'000s) (1)	Sea cages, plant and equipment (£'000s) (2)	Ships and boats (£'000s) (2)	Other assets (£'000s) (3)	Total 2017 (£'000s)
Acquisition cost at 1 January 2017	**11,233**	**66,802**	**8,204**	**4,332**	**90,571**
Additions	-	318	225	12,399	12,942
Reallocations	-	9,605	1,164	(10,769)	-
Disposals in the year	(42)	(1,233)	(83)	(13)	(1,371)
Acquisition cost at 31 December 2017	**11,191**	**75,492**	**9,510**	**5,949**	**102,142**
Accumulated depreciation and write-downs as of 1 January 2017	**(6,647)**	**(39,173)**	**(5,062)**	**(482)**	**(51,364)**
Depreciation in the year	(404)	(6,684)	(642)	(241)	(7,971)
Accumulated depreciation and write-downs of disposed assets	42	1,075	55	12	1,184
Accumulated depreciation and write-downs as of 31 December 2017	**(7,009)**	**(44,782)**	**(5,649)**	**(711)**	**(58,151)**
Net Book Value as of 31 December 2017	**4,182**	**30,710**	**3,861**	**5,238**	**43,991**

Included within other assets in 2018 are assets in the course of construction amounting to £9.8m (2017: £6.1m) on which no depreciation is charged.

Included within property, plant and equipment are grants received in prior years amounting to £0.5m in relation to the capital expenditure with regards to the Group's Marybank processing facility in the Western Isles of Scotland. These are being released in line with depreciation rates of those assets to which it relates. The conditions of the grant funding shall continue for a period of between 5 years from the date of last payment of the grant to 10 years from the project completion date. A breach of conditions during this time could require the grant to be repaid.

Included within property, plant and equipment additions in 2018 are assets acquired during the acquisition of a hatchery, freshwater site and smokehouse. See note 27 for further details.

Impairment tests for specific fixed assets are performed when there are indications of impairment. Impairment losses recognised in 2018 amount to £nil (2017: £0.2m).

(1) assets depreciated over 10-25 years (2) assets depreciated over 3-20 years (3) assets depreciated over 3-5 years
Land is not depreciated.

Note 13 – Intangible Assets

2018	Goodwill (£'000s)	Farming licences (£'000s)	Other intangible assets (£'000s)	Total (£'000s)
Acquisition cost as of 1 January 2018	**2,164**	**22,622**	**1,919**	**26,705**
Additions	3,934	1,852	1,845	7,631
Disposals	-	-	-	-
Acquisition cost as of 31 December 2018	**6,098**	**24,474**	**3,764**	**34,336**
Accumulated impairment as of 1 January 2018	**-**	**(227)**	**-**	**(227)**
Impairment charge	-	-	-	-
Accumulated impairment as of 31 December 2018	**-**	**(227)**	**-**	**(227)**
Net Book Value as of 31 December 2018	**6,098**	**24,247**	**3,764**	**34,109**

2017	Goodwill (£'000s)	Farming licences (£'000s)	Other intangible assets (£'000s)	Total (£'000s)
Acquisition cost as of 1 January 2017	**2,164**	**22,251**	**1,361**	**25,776**
Additions	-	371	558	929
Disposals	-	-	-	-
Acquisition cost as of 31 December 2017	**2,164**	**22,622**	**1,919**	**26,705**
Accumulated impairment as of 1 January 2017	**-**	**-**	**-**	**-**
Impairment charge	-	(227)	-	(227)
Accumulated impairment as of 31 December 2017	**-**	**(227)**	**-**	**(227)**
Net Book Value as of 31 December 2017	**2,164**	**22,395**	**1,919**	**26,478**

The Group considers that all licences held have an indefinite useful life. As such, no licences are subject to amortisation but are instead tested annually for impairment.

Goodwill additions in the year relate to the acquisition of a hatchery, freshwater site and a smokehouse. Farming licences additions in the year relate to the acquisition of the assets of Bradan Cuan Siar Ltd. See note 27 for further details.

Other intangible assets includes capitalised development costs.

Note 14 – Impairment Testing

There are no indications of impairment in goodwill or intangible assets as at 31 December 2018.

The Group tests intangible assets for impairment at least once a year by assessing the net present value of the estimated future cashflows for the cash generating unit and comparing this with the book value of all assets held by the cash generating units. Cash generating units are determined on a regional basis and include licences, goodwill and specific property, plant and equipment. At the year end, the Group had 23 separate regions and each region contained one or more licences within it.

If book value is higher than the calculated net present value then an assessment of fair value less costs to sell is subsequently made for licences and property, plant and equipment. Book values are written down to the higher of fair value less costs to sell or value in use.

The determination of a need for an impairment write down is identified by calculating a value based on the continued operation of the cash generating unit and discounting the future estimated cashflow. The estimated cashflow is based on the Group's forecasted results and margins, including the necessary capital expenditure to meet the anticipated harvest volumes. The assumptions used represent management's best estimate and are based on past experience and internal information held by the Group.

Each amount of intangible asset allocated on a regional basis is less than 10% of the total carrying value of intangible assets. As such the Group does not consider there to be any one significant region.

The key assumptions used are:

Harvest Volumes (1)	Budgeted harvest volumes on current licences
Salmon price (2)	Budgeted price of salmon
Production costs (3)	Budgeted production costs
Capital expenditure (4)	Capital expenditure necessary to meet budgeted harvest volumes
Budget period (5)	4 years
Discount rate (6)	4.7% (pre tax)
Growth rate (7)	1.6%

(1) Harvest volumes were estimated on a region by region basis using production and harvest plans for 2019 and a further 3 years adjusted for expected volumes on current licences held.

(2) The calculation is highly influenced by expected developments in the price of salmon. For the basis of the impairment test management have utilised their budgeted prices for 2019. Long term sales contracts amount to between 35-50% of superior fish volume in 2019 which gives a degree of certainty over these prices. Spot prices budgeted have been estimated based on future market indications of price at the date of carrying out the budgeting process. The same assumption has been applied across all cash generating units.

(3) A key assumption in the calculation is the cost of production. Budgeted production costs on a region by region basis have been utilised for the impairment test. These are based on historical data taking into account known changes and anticipated developments in factors, such as the price of feed.

(4) The budgeted capital expenditure necessary to meet the forecast harvest volumes take into consideration current operating capacity.

(5) The basis for the estimated cashflow is the confirmed budgets for 2019 and the forecasting plan for the following 3 years. In the calculation, cashflows beyond the 3 year period are extrapolated using the estimated growth rate. The same assumption has been applied across all cash generating units.

(6) A pre tax Weighted Average Cost of Capital (WACC) employed of 4.7% has been used for discounting in this impairment review. The same assumption has been applied across all cash generating units.

(7) The growth rate utilised is based on expected inflationary growth in the UK beyond the period of forecasting. The same assumption has been applied across all cash generating units.

As a result of the value in use impairment testing carried out, no regions were identified with a book value in excess of the net present value of their future cashflows.

Sensitivities

As part of the impairment testing, a sensitivity analysis was carried out for each remaining cash generating unit. Management consider that sales price and discount rate are key driving factors and the analysis was carried out on these assumptions.

Sales price

In one region, a fall in budgeted salmon price by 10% would result in the net present value falling below book value (assuming all other factors remain the same). The range of impairment would be subject to the subsequent assessment of the fair value less costs of disposal of licences, property, plant and equipment.

Discount factor

On any further regions, an increase in pre tax discount rate to 10% would not result in the net present value falling below book value (assuming all other factors remain the same).

Note 15 – Inventory

	2018 (£'000s)	2017 (£'000s)
Raw materials	2,806	2,554
Finished goods	313	27
Inventory	**3,119**	**2,581**

Raw materials include eggs, feed, broodstock and packaging materials.

Note 16 – Biological Assets

	2018 (£'000s)	2017 (£'000s)
Book value of live fish	84,207	64,775
Book value of smolt	7,066	4,231
Total book value of biological assets	**91,273**	**69,006**
Fair value adjustments on biological assets in the Consolidated Statement of Financial Position		
The Scottish Salmon Company Limited	38,327	26,094
Total fair value adjustment in the Consolidated Statement of Financial Position	**38,327**	**26,094**
Total value of biological assets in the Consolidated Statement of Financial Position	**129,600**	**95,100**
Reconciliation of changes in value of live fish		
Opening fair value of live fish at 1 January	**95,100**	**80,167**
Fair value adjustment at 1 January	(26,094)	(25,800)
Fair value adjustment at 31 December	38,327	26,094
Net fair value adjustment taken to Consolidated Statement of Comprehensive Income	**12,233**	**294**
Increase due to purchases and capitalisation of costs	113,402	102,341
Decreases due to harvests	(95,995)	(74,914)
Decreases due to mortalities and culls	(2,206)	(17,019)
Fair value of live fish at 31 December	**122,534**	**90,869**
Book value of smolt	7,066	4,231
Fair value of live fish	122,534	90,869
Total value of biological assets in the Consolidated Statement of Financial Position	**129,600**	**95,100**
Volumes of biological assets (in tonnes)		
Volume of biological assets harvested during the year (GWT)	29,913	25,272
Volume of biological assets in the sea at year end (GWT)	21,176	16,472
Split as follows:		
Juvenile fish < 1 kg	1,442	1,791
Harvestable fish > 1kg	19,734	14,681

Note 16 – Biological Assets (continued)

Valuation of biological assets

IAS 41 requires that biological assets are accounted for at estimated fair value net of harvesting costs, processing and selling. Fair value is measured using the income approach, in accordance with IFRS 13, and is categorised into level 3 in the fair value hierarchy as the inputs include unobservable inputs.

Valuation model

The valuation under the income approach is completed based on a valuation model. This begins with forecasting revenues by estimating the fair value of ready to harvest fish, based on market prices. Whilst there is no clear defined published market price for Scottish farmed salmon, the Group considers the development in its contract and spot prices, and utilises future published prices for Norwegian salmon as a base price and applies an uplift to cover the average historic Scottish premium.

The valuation model is then completed for each site individually taking into account the following unobservable inputs on forecasted costs:

- volume of fish in the sea
- growth rates
- survival rates
- ongrowing costs including feed costs and feed conversion ratios
- harvesting costs
- gutting costs
- freight costs

These inputs also take into account any specific factors (such as disease) on a regional basis.

The forecasted costs are then deducted from the forecasted revenues after allowing for a regional adjustment for quality and size distribution, to calculate an expected cashflow for each site at farm gate. This is then discounted using the WACC to a net present value per site.

Sensitivity analysis is then performed on the valuation model with changes to sales price, survival rates and ongrowing costs taken into account. These are considered by the Group to be the key unobservable inputs which would impact the valuation model significantly. The weighted average results from the model are then taken to determine the estimated fair value of biological assets.

In the financial statements, the gains and losses from the change in estimated fair value are recorded separately in the Income Statement in the line "Fair Value Adjustment on Biomass".

No fair value adjustment is made for juvenile fish, less than 1kg, or for smolt. These are carried at acquisition or production cost as a fair value adjustment would not be reliable at that stage of growth.

Sensitivities

The valuation model by its nature is based upon uncertain assumptions on sales price, quality growth, survival etc and whilst the Group has a degree of expertise in these assumptions they are subject to change.

Interrelationships exist between all unobservable inputs. For example, a change in the volume of fish in the sea would impact the volume of fish harvested and thus estimated harvesting and freight costs.

Furthermore, relatively small changes in assumptions have a significant impact on the valuation. For example, a 10p per kg increase in sales price would increase the valuation of biological assets by £2,700,000.

Note 17 – Receivables

	2018 (£'000s)	2017 (£'000s)
Trade receivables	**20,552**	**18,785**
Prepayments and accrued income	666	1,492
Other receivables	1,153	1,414
Financial derivatives	167	-
Net other receivables	**1,986**	**2,906**
Total receivables	**22,538**	**21,691**

There was no provision made for bad debts at the year end (2017: £nil). There are no receivables due more than 1 year from the date of the Statement of Financial Position. All receivables denominated in foreign currencies are translated at the functional currency exchange rate ruling at the Statement of Financial Position date. Trade receivables can be split as follows:

			Not impaired as of the reporting date and past due in the following periods			
	Net receivable as of 31 December (£'000s)	Not past due (£'000s)	Less than 30 days (£'000s)	Between 30 and 60 days (£'000s)	Between 60 and 90 days (£'000s)	More than 90 days (£'000s)
Trade receivables 2018	**20,552**	**14,448**	**4,757**	**1,134**	**186**	**27**
Trade receivables 2017	18,785	12,622	5,110	1,053	-	-

Trade receivables past due but not impaired relate to customers for whom there is no recent history of default. As such, these are not considered to be impaired.

The Group's exposure to currency and credit risk in respect of trade receivables is disclosed in note 26.

Trade receivable include amounts from related party, as disclosed in note 28.

Note 18 – Cash and Cash Equivalents

	2018 (£'000s)	2017 (£'000s)
Cash at bank and in hand	**4,886**	**8,500**
Cash and cash equivalents presented for Statement of Cashflows	**4,886**	**8,500**

Note 19 – Issued Capital and Other Equity

	2018	2017
Total number of shares	**194,029,173**	**193,482,271**
Nominal value as of 31 December	£0.09	£0.09
Share capital (total number of shares at nominal value) (£'000s)	**17,530**	**17,485**

There is only 1 class of ordinary share. There are no restrictions on voting rights. The authorised share capital of the Company is 300,000,000 shares of NOK 0.9.

Issued capital

	Number of Shares	Par Value	Share Capital (£'000s)	Share Premium Reserve (£'000s)
At 1 January 2018	**193,482,271**	**NOK 0.9**	**17,485**	**64,028**
Shares issued	546,902	NOK 0.9	45	-
At 31 December 2018	**194,029,173**	**NOK 0.9**	**17,530**	**64,028**

The increase in issued share capital is attributable to the exercise of options under the Employee Incentive Scheme.

Cashflow Hedge Reserve

	Cashflow Hedge Reserve (£'000s	Total (£'000s)
At 1 January 2018	**(1,675)**	**(1,675)**
Other comprehensive income	247	247
At 31 December 2018	**(1,428)**	**(1,428)**

Note 19 – Issued Capital and Other Equity (continued)

Other equity

	Other Capital Reserve (£'000s)	Retained Earnings (£'000s)	Treasury Shares (£'000s)	Discontinued Operations (£'000s)	Total (£'000s)
At 1 January 2018	**(36,266)**	**73,599**	**-**	**(916)**	**36,417**
Owner changes for the year recognised directly in equity:					
Share based payment	55	-	-	-	55
Settlement of share options	(296)	88	(292)	-	(500)
Dividend paid	-	(6,000)	-	-	(6,000)
Comprehensive income:					
Net earnings for the year	-	47,657	-	-	47,657
At 31 December 2018	**(36,507)**	**115,344**	**(292)**	**(916)**	**77,629**

Other equity consists of retained earnings from continuing operations, retained losses from discontinued operations and other capital reserves. Other capital reserves include amounts recognised from the restructure of the Group in 2010.

Treasury shares are shares in The Scottish Salmon Company PLC that are held by the The Scottish Salmon Company PLC Employee Benefit Trust for the purpose of issuing shares under the Employee Equity Incentive Scheme (see note 7 for further information).

	Number of shares	£'000
At 1 January 2018	**-**	**-**
Acquisition of shares by the Trust	546,902	781
Employee Equity Incentive Scheme issue	(342,198)	(489)
At 31 December 2018	**204,704**	**292**

Note 19 – Issued Capital and Other Equity (continued)

Overview of the 20 largest shareholders as at 31 December 2018

SIX SIS AG	SWITZERLAND	140,658,551	
TEIGEN	NORWAY	12,300,000	
BNP Paribas Securities Services	FRANCE	5,379,101	
CLEARSTREAM BANKING S.A.	LUXEMBOURG	3,443,302	
Skandinaviska Enskilda Banken AB	SWEDEN	2,667,978	
KONTRARI AS	NORWAY	2,200,000	
MP PENSJON PK	NORWAY	1,728,232	
MELAND	NORWAY	1,207,753	
VPF NORDEA AVKASTNING	NORWAY	1,104,933	
Nordnet Bank AB	SWEDEN	991,168	
VPF NORDEA KAPITAL	NORWAY	935,291	
Deutsche Bank Aktiengesellschaft	GERMANY	896,144	
The Bank of New York Mellon SA/NV	BELGIUM	871,829	
JOHANSEN	NORWAY	608,266	
VERDIPAPIRFONDET NORDEA NORGE PLUS	NORWAY	490,716	
DZ PRIVATBANK S.A.	LUXEMBOURG	482,013	
NORDEA 1 SICAV	UNITED KINGDOM	464,834	
Danske Bank A/S	DENMARK	441,014	
N-UCIT NORDEA PRIVATE BK NO AK PT	UNITED KINGDOM	436,973	
DNB BANK ASA	SWEDEN	429,086	
Sub total		**177,737,184**	
OTHERS		16,291,989	
TOTAL SHARES		**194,029,173**	**100%**

SIX SIS AG is a custodian bank who holds shares on behalf of Northern Link Limited, the majority shareholder of the Group, as well as other shareholders. At 31 December 2018, Northern Link Limited held 133,125,109 shares (68.6%).

Shares owned by Board and Executive Management as at 31 December 2018

	Shares	Ownership	Voting right
Merete Myhrstad (Board Member)	65,000	0.03%	0.03%
Craig Anderson (Chief Executive Officer)	429,086	0.22%	0.22%
Douglas Low (Board Member)	40,000	0.02%	0.02%
Fiona Larkin (Chief Financial Officer)	57,089	0.03%	0.03%
	591,175	**0.30%**	**0.30%**

Note 20 – Financial Instruments

Borrowings

	2018 (£'000s)	2017 (£'000s)
Long term bank loans	29,380	36,021
Long term interest bearing debt	**29,380**	**36,021**
Current element of bank loans	11,294	10,998
Short term interest bearing debt	**11,294**	**10,998**
Total interest bearing debt	**40,674**	**47,019**

Long term bank loans are the main source of financing for the Group. The Group has the following bank facilities available with Bank of Scotland:

1. a £25m Term Loan facility and a £30m asset-based lending (ABL) facility;
2. £25m of the Term Loan facility has been drawn down and is being repaid in quarterly instalments, amounting to £1.5m with the final payment due December 2022. Balance outstanding at the end of the year was £16.8m; and
3. £23.9m of the £30m ABL facility has been drawn down at the end of the year.

The bank facilities have a variable interest rate, which at the year end was 3.17%.

Repayment profile for borrowings

	Carrying amount (£'000s)	Issue costs (£'000s)	Contracted payments due on demand or less than 1 year (£'000s)	Contracted payments due in 1-2 years (£'000s)	Contracted payments due in 2-5 years (£'000s)
Bank loans	40,674	195	11,294	12,000	17,185
Total	**40,674**	**195**	**11,294**	**12,000**	**17,185**

Issue costs represent direct costs of raising finance.

Reconciliation of liabilities arising from financing activities

	1 January 2018 (£'000s)	Proceeds from Borrowings (£'000s	Principal and Interest Repayments (£'000s)	Non Cash Changes: Interest Expense (£'000s)	31 December 2018 (£'000s)
Total Interest Bearing Debt	47,019	-	(7,444)	1,099	40,674

Note 20 – Financial Instruments (continued)

Net Interest Bearing Debt

	2018 (£'000s)	2017 (£'000s)
Total interest bearing debt	40,674	47,019
Cash and cash equivalents	(4,886)	(8,500)
Net interest bearing debt	**35,788**	**38,519**

Secured liabilities and guarantees given

The Group has been granted a floating charge in favour of Bank of Scotland, as security over the bank loans and ABL facility.

Book value of assets pledged

	2018 (£'000s)	2017 (£'000s)
Tangible and intangible fixed assets	90,000	70,469
Inventory and biomass	132,719	97,681
Cash	4,886	8,500
Receivables	20,552	18,785
Total assets pledged as security	**248,157**	**195,435**

The Group has not provided guarantees to third parties as at 31 December 2018.

Loan Facility and Financial Covenants

The following financial covenants are applied to the loan facilities and are calculated on consolidated numbers and verified in a quarterly compliance certificate to be delivered together with annual and interim financial statements:

a) interest cover, defined as the ratio of EBITDA to finance charges and shall not be less than 3:1;

b) the gearing ratio covenant is the ratio of total net debt to shareholders' equity and shall not exceed 1:1; and

c) gross asset cover is defined as the ratio of total assets to total net debt and cannot be less than 2.5:1.

Note 21 – Financial Liabilities at Fair Value through Profit and Loss

Derivative Financial Instruments

Interest rate swaps, currency forward contracts and salmon derivatives are valued at fair value and are categorised into level 2 in the fair value hierarchy using valuation techniques based on observable data. The fair value liability of derivative financial instruments amounted to:

	2018 (£'000s)	2017 (£'000s)
Financial derivatives designated for hedge accounting		
Currency swap	1,782	2,055
Interest rate swap	(61)	(37)
Sub total	**1,721**	**2,018**
Other financial derivatives		
Salmon derivatives	(74)	-
Forward currency contract	368	-
Sub Total	**294**	**-**
Total derivative financial instructions	**2,015**	**2,018**

Currency and interest rate swaps designated for hedge accounting are recognised within Equity. All other derivatives are recognised within the Income Statement.

In 2016 the Group entered into arrangements to hedge interest rate and currency risk as detailed in note 26 to these financial statements. The current hedging arrangement will expire in October 2022. The expected timing of the effect on the Income Statement is as follows:

	2018 (£'000s)	2017 (£'000s)
Expected timing of effect on Income Statement		
Within 1 year	449	538
Within 1 to 5 years	1,272	1,480
Total financial derivatives designated for hedge accounting	**1,721**	**2,018**

Note 22 – Categories of Financial Instruments

2018	Non-financial assets and liabilities (£'000s)	Financial assets and liabilities at fair value (£'000s)	Financial assets and liabilities at amortised cost (£'000s)	Total (£'000s)
Licences	24,247	-	-	24,247
Research & development	3,764	-	-	3,764
Goodwill	6,098	-	-	6,098
Property, plant and equipment	55,891	-	-	55,891
Inventory	3,119	-	-	3,119
Biological assets	129,600	-	-	129,600
Trade receivables	-	-	20,552	20,552
Other receivables	666	167	1,153	1,986
Cash and cash equivalents	-	-	4,886	4,886
Total assets	**223,385**	**167**	**26,591**	**250,143**
Equity	157,759	-	-	157,759
Deferred taxes	10,484	-	-	10,484
Long term interest bearing bank debt	-	-	29,380	29,380
Other long term debt	-	1,733	250	1,983
Short term interest bearing bank debt	-	-	11,294	11,294
Trade payables	-	-	23,535	23,535
Other short term liabilities	7,550	449	2,716	10,715
Current taxes	-	-	4,993	4,993
Total equity and liabilities	**175,793**	**2,182**	**72,168**	**250,143**

Note 22 – Categories of Financial Instruments (continued)

2017	Non-financial assets and liabilities (£'000s)	Financial assets and liabilities at fair value (£'000s)	Financial assets and liabilities at amortised cost (£'000s)	Total (£'000s)
Licences	22,377	-	-	22,377
Research & development	1,937	-	-	1,937
Goodwill	2,164	-	-	2,164
Property, plant and equipment	43,991	-	-	43,991
Inventory	2,581	-	-	2,581
Biological assets	95,100	-	-	95,100
Trade receivables	-	-	18,785	18,785
Other receivables	1,813	-	1,093	2,906
Cash and cash equivalents	-	-	8,500	8,500
Total assets	**169,963**	**-**	**28,378**	**198,341**
Equity	116,255	-	-	116,255
Deferred taxes	8,133	-	-	8,133
Long term interest bearing bank debt	-	-	36,021	36,021
Other long term debt	-	1,480	200	1,680
Short term interest bearing bank debt	-	-	10,998	10,998
Trade payables	-	-	15,460	15,460
Other short term liabilities	5,665	538	2,219	8,422
Current taxes	-	-	1,372	1,372
Total equity and liabilities	**130,053**	**2,018**	**66,270**	**198,341**

Note 23 – Fair Values

	Book value (£'000s)	Carrying value (£'000s)	Category Level 2 (£'000s)	Category Level 3 (£'000s)
Non financial assets				
Biological assets	91,273	129,600	-	129,600
Financial liabilities				
Financial derivatives designated for hedge accounting	-	1,721	1,721	-
Other financial derivatives	-	294	294	-

See note 16 for details of biological assets held at fair value. The Group considers this to be a recurring measurement using a level 3 valuation method.

The Group considers its financial derivatives to be a recurring measurement using level 2 valuation method. See note 21 for further details.

The value of all other financial assets and liabilities included in the financial statements are considered to be a reasonable approximation of fair value.

Note 24 – Trade Payables

All payables denominated in foreign currencies are translated at the functional currency exchange rate ruling at the Statement of Financial Position date.

	Net payable as of 31 December (£'000s)	Not past due (£'000s)	Less than 30 days (£'000s)	Between 30 and 60 days (£'000s)	Between 60 and 90 days (£'000s)	More than 90 days (£'000s)
Trade payables 2018	**23,535**	**11,113**	**7,698**	**4,569**	**84**	**71**
Trade payables 2017	15,460	5,854	6,202	3,369	35	-

Note 25 – Other Long and Short Term Liabilities

Long Term Liabilities

	2018 (£'000s)	2017 (£'000s)
Other creditors	250	200
Financial derivatives designated for hedge accounting	1,733	1,480
Total other long term liabilities	**1,983**	**1,680**

Note 25 – Other Long and Short Term Liabilities (continued)

Short Term Liabilities

	2018 (£'000s)	2017 (£'000s)
Accruals and deferred income	7,550	5,665
Other taxes and social security costs	1,899	1,025
Other creditors	200	200
Financial derivatives designated for hedge accounting	449	538
Finance lease liabilities	617	994
Total other short term liabilities	**10,715**	**8,422**

Note 26 – Financial Risk Management

Financial risk is assessed by Executive Management in conjunction with the Board of Directors.

The Group primarily manages its operations and will support its future growth strategy by raising finance through equity and long and short term bank borrowings. Whilst the Group has utilised financial derivatives during the year, no speculative treasury transactions are entered into. Other financial assets and liabilities include those assets and liabilities of a financial nature, namely cash, trade payables and trade receivables.

The Group is exposed to a variety of financial risks in respect of these, which are assessed below.

Currency risk

The Group is financed almost exclusively in its home currency (GBP) and the majority of business transactions are carried out using this as the transaction currency. However, the Group is exposed to foreign exchange risk in a number of currencies, namely EUR, USD, NOK and JPY and is aware of the impact that changes in exchange rates may have on its competitiveness within the industry. To this end, the Group has entered into forward currency contracts to manage exposure to other currencies. Further details on the Group's use of forward currency contracts can be seen in note 21 of the financial statements.

It is the Group's policy to hedge known foreign currency transactions, ensuring certainty of GBP income and expenditure for these transactions.

At 31 December 2018, net interest bearing debt, trade payables and trade receivables had the following currency structure:

	Total (£'000s)	GBP (£'000s)	NOK (£'000s)	EUR (£'000s)	USD (£'000s)	YEN (£'000s)
Trade receivables	20,552	12,733	-	7,111	496	212
Trade payables	(23,535)	(23,113)	(391)	(24)	(7)	-
Net interest bearing debt	(35,788)	(37,503)	661	1,096	(55)	13

Net interest bearing debt in non GBP relates to cash / (overdrafts) held at 31 December 2018 in foreign currencies.

On the basis of the above, a 10% variation in the exchange rate for GBP against EUR, USD, NOK and JPY would result in additional gains/losses of £725,000 recognised in the Income Statement.

Note 26 – Financial Risk Management (continued)

Currency risk in respect of commodity pricing is detailed further below.

The effect of interest rate swaps on the Group's financial position and perferfomce are as follows:

	2018 (£'000s)	2017 (£'000s)
Interest rate swaps		
Carrying amount asset	61	37
Notional amount	17,000,000	18,000,000
Maturity date	June 2021- October 2022	June 2021 – October 2021
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 January	24	81
Change in value of hedged item used to determine hedge effectiveness	(24)	(81)
Weighted average hedged rate for the year	**2.30%**	**2.28%**

Interest rate risk

The Group's risk arises principally from its bank borrowings, as the Group has no interest bearing assets other than cash and cash equivalents. The interest rate on bank loans and other loans is determined by reference to the market rate and is adjusted on a quarterly basis. To hedge against exposure in interest rates, the Group has entered into an interest rate swap agreement. Further details on the swap agreement can be found in note 21 to these financial statements.

In the year to 31 December 2018, if interest rates on all borrowings had been 1% higher, additional losses of £239,000 would have been recognised in the Income Statement.

The effect of foreign currency swaps on the Group's financial position and performance are as follows:

	2018 (£'000s)	2017 (£'000s)
Foreign currency swaps		
Carrying amount asset/(liability)	(1,782)	(2,055)
Notional amount	17,000,000	18,000,000
Maturity date	June 2021- October 2022	June 2021 – October 2021
Hedge ratio*	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 January	(146)	(635)
Change in value of hedged item used to determine hedge effectiveness	146	635
Weighted average hedged rate for the year	**EUR €1.22: GBP £1**	**EUR €1.24: GBP £1**

*The foreign currency swaps are denominated in the same currency as highly probably future Euro revenue, therefore the hedge ratio is 1:1.

Note 26 – Financial Risk Management (continued)

Credit risk

The Group is exposed to credit risk from its operating activities, namely its trade receivables. This risk is mitigated through the use of credit insurance for all trade receivables coupled with the Group's credit verification procedures before accepting new customers.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses on trade receivables. To measure the expected credit losses, trade receivables were considered on a days past due basis. The expected loss rates are based on the Group's historical default rates adjusted for forward looking estimates. The identified impairment loss arising after application of the expected credit loss model was not material to the financial statements.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to enter into a repayment plan with the Group and a failure to make contractual payments for a period of greater than 120 days past due. The Group's credit insurance covers claims on all non-associated companies that have a debt in excess of £25,000, whereby 90% of any losses can be reclaimed. Impairment losses on trade receivables are presented as net impairment losses within operating expenses. Subsequent recoveries of amounts written off are credited against the same line item. In 2018 the Group had a bad debt totalling £20,000.

Liquidity risk

The Group is continuously monitoring liquidity through monthly updated budgets, long term cashflow projections and quarterly rolling forecasts to ensure that the Group has sufficient liquidity to meet its operational liabilities and banking covenants.

Net cashflow, traditionally, has been lower through Q3 in any given year as a result of many markets reducing their requirements due to holidays. Cashflow through this period can be challenging, however, with the Groups current banking facilities, this, allows flexibility with working capital, by using the asset based lending facilities to utilise the available cash when it is needed, maximising efficiencies within cashflows.

At 31 December 2018, the Group's total exposure to liquidity risk was as follows:

	Total (£'000s)	< 1 year (£'000s)	1-5 years (£'000s)	> 5 years (£'000s)
Non derivative financial liabilities				
Bank borrowings	40,674	11,294	29,380	-
Trade payables	23,535	23,535	-	-
Other short term liabilities	10,266	10,266	-	-
Other long term liabilities	250	250	-	-
Total non derivatives	**74,725**	**45,345**	**29,380**	**-**
Derivative financial liabilities				
Trading derivatives	(74)	(74)	-	-
Gross settled (foreign currency-cashflow hedges):				
(Inflow)	(53,110)	(20,674)	(32,436)	-
Outflow	55,199	21,025	34,174	-
Total	**2,015**	**277**	**1,738**	**-**

Note 26 – Financial Risk Management (continued)

Commodity price risk

The spot price of farmed salmon impacts on the future financial results of the Group and the Group is exposed to both global changes in demand and global and local changes in supply. Furthermore, as the spot price of farmed salmon in Europe is predominantly based on externally quoted market prices in NOK or EUR, the Group is also exposed to currency volatility in respect of spot price. The Group's exposure is mitigated by entering into fixed price and volume contracts for its salmon products. These contracts do not contain any element of embedded derivatives and are therefore not treated as financial instruments. The contracts have typical durations of between 6 months and 1 year and are settled based exclusively on the assumption that reception or delivery of salmon products should take place. The contracts are not tradable.

To augment the Group's customer contracts, it has also entered into salmon derivatives to hedge exposure to quoted market prices and entered into a financial hedge on its EUR spot sales.

The traded price of Scottish farmed salmon is forecast to remain strong as a result of continued global demand against short supply. These market dynamics are expected to continue through 2019 and 2020. The Group has contracted, in line with historic practice, 35-50% of its superior volume for 2019.

A 10p per kg swing in the spot price of farmed salmon could impact revenue by circa £2.7m.

The Group is also exposed to the fluctuations in feed price. Feed prices are dependent on the marine and agricultural commodity prices of the ingredients. The Group is trying to mitigate these risks by investing in sourcing strategies, building up strong working relationships with its supply chain partners, reviewing its raw material basket and improving the utilisation of feed to the production of fish.

Environmental and biological risk

The Group is exposed to risks arising from adverse environmental and climatic changes. Disease, algae blooms, sea water temperatures etc all have an impact on the fish at sea. All of these impact growth rates, mortalities, fish quality, treatments required and ultimately impacts the cashflow of the business. The Group's geographical locations mean that there is an element of protection on a region by region basis against adverse conditions such as disease outbreaks and the Group is looking to further mitigate this risk by working proactively and collaboratively with other industry players to initiate innovative health monitoring programmes, treatment strategies and research.

The importance of environmental and food safety standards remains high at a local, national and international level and the industry is under constant scrutiny. The Group complies with all licences and consents, policies and regulations as overseen by the Scottish Environment Protection Agency (SEPA) (and enshrined in legislation through the Aquaculture & Fisheries Bill) and operates best practice in terms of farm husbandry.

Capital management

There were no changes to the Group's capital management objectives in 2018. The Group's objective is to ensure that the level of capital in the Group is appropriate for the scale of operations and suitable for a fish farming business of this size after taking into account its future growth strategy. The Group considers capital in this respect to be equity plus its long term bank debt and at the year end this amounted to £187,139,000 combined. This is monitored on an ongoing basis in order to maintain a suitable capital structure relevant to its operations and intentions and one which will maximise the value to shareholders.

The Group monitors capital on the basis of its equity ratio. The Group believes that the current ratio is sufficient to fulfil its objectives for capital management.

Dividends

Ordinary shares	2018 (£'000s)	2017 (£'000s)
Final dividend for the year ended 31 December 2018 of 0.34 NOK (2017: Nil) per fully paid share	6,000	-

The dividend was paid in cash.

Note 27 – Business Combinations

Summary of Acquisitions

Acquisition A

On 30 April 2018 the Group acquired 100% of the issued share capital of Bradan Cuan Siar Ltd, a company that held a salmon farming licence in North Uist. The acquisition added another marine site to the Group which increases production capacity in line with the Group's growth strategy.

The total purchase price is made up of cash paid of £1.05m and a further £0.50m of conditional deferred terms payable over the next 3 years. This amount is included within other payables.

The Group has carried out a purchase price allocation with the full value being allocated to non-current assets. The assets and liabilities recognised as a result of the acquisition are as follows:

	2018 (£'000s)
Fair Value	
Intangible assets	1,853
Deferred tax	(303)
Net assets acquired	**1,550**
Consideration paid and conditionally payable	**1,550**

The site was under development during 2018 so the acquisition has had no material impact on the Group's Income Statement during the period.

Acquisition costs

Acquisition-related costs of £27,075 were expensed to the Income Statement as incurred and included within operating cashflows in the Statement of Cashflows.

Acquisition B

On 7 November 2018 the Group acquired a Hatchery, Freshwater Site and related assets for a cash consideration of £2,161,294. The acquisition allows increased consistency and flexibility in smolt production. Details of the assets and goodwill recognised as a result of the acquisition are as follows:

	2018 (£'000s)
Fair Value	
Goodwill	1,239
Fixed assets	908
Stock	14
Net assets acquired	**2,161**
Consideration paid	**2,161**

The goodwill of £1,239,000 arising from the acquisition consists of the synergies and benefits of increased internal smolt production.

Since the acquisition date was near the end of the accounting period the acquisition had no material impact on the Group's Income Statement.

Acquisition costs

Acquisition-related costs of £19,194 were expensed to the Income Statement as incurred and included within operating cashflows in the Statement of Cashflows.

Note 27 – Business Combinations (continued)

Acquisition C

On 27 November 2018 the Group acquired the assets of a smokehouse and restaurant and 100% of the issued share capital of Harris & Lewis Smokers Trading Limited, the legal entity operating its trading business, for a cash consideration of £3,588,616. The acquisition will increase the Native Hebridean smoked salmon capacity, supporting the Group's overall branding strategy, bringing premium value branded quality products with Scottish provenance. The assets acquired were valued at fair value with the excess of purchase price being recognised as goodwill.

The assets and liabilities recognised as a result of the assets and share acquisition are as follows:

	2018 (£'000s)
Fair Value	
Goodwill	2,618
Intellectual property	70
Property	425
Fixed assets	457
Stock	14
Cash at bank	14
Other current assets	27
Current liabilities	(36)
Net assets acquired	**3,589**

Purchase consideration	
Consideration paid	3,589
Less: cash acquired	(14)
Net outflow of cash – investing activities	**3,575**

The goodwill of £2,618,000 arising from the acquisition consists of the synergies and benefits attributed to increasing Native Hebridean smoked salmon capacity and leveraging the Group's distribution channel.

Since the acquisition date was near the end of the accounting period the acquisition had no material impact on the Group's Income Statement.

Acquisition Costs

Acquisition-related costs of £30,050 were expensed to the profit or loss as incurred and included within operating cashflows in the Statement of Cashflows.

Note 28 – Related Party Transactions

Set out below are details of transactions between the Group and trading subsidiaries of Scottish Seafood Investments Limited ("SSI") – an entity the Group holds an investment in and in the opinion of the Directors, the transactions are material.

	2018 (£'000s)	2017 (£'000s)
Revenue	14,775	16,429
Purchases	(86)	(55)
Trade receivables*	3,971	3,771
Trade payables	(16)	(12)

* The Group holds security over £1.5m of trade receivables at the year end. Other amounts outstanding are unsecured. All amounts are due to be settled in cash.

Details of related party transactions with key management personnel and the Board of Directors are given in note 7 of the financial statements.

Note 29 – Events after the Statement of Financial Position date

On 1 March 2019, the Group announced a dividend of NOK 0.57 per share for a total of £10m on 1 March 2019 with a planned payment date of 15 May 2019, shares will be traded ex dividend from and including 28 March 2019.

On 4 March 2019, Fiona Larkin exercised 143,062 share options within the Company. All options under the employee equity share scheme have now been fully exercised.

Note 30 – Commitments

At 31 December 2018, the Group had capital commitments amounting to £6.1m, primarily being capital investment at new marine sites and the development of an existing freshwater site.

The Group signed an agreement in October 2018 for the charter of a ship from January 2020 for 5 years. The annual cost is NOK 46m.

Note 31 – Contingencies

The legal action raised in 2012 against Trouw (UK) Limited (t/a Skretting) is ongoing with trial proceedings scheduled to commence in Commercial Court, Court of Session, Edinburgh in June 2019.

11 The Scottish Salmon Company PLC Accounts & Notes

The Scottish Salmon Company PLC Statement of Comprehensive Income

	Note	2018 (£'000s)	2017 (£'000s)
Other revenue		76	101
Total revenue		**76**	**101**
Other operating expenses	2	(458)	(382)
Earnings before interest and taxes (EBIT)		**(382)**	**(281)**
Income from investments		6,000	-
Interest income	3	402	4,324
Interest expense		(1)	(1)
Earnings before taxes (EBT)		**6,019**	**4,042**
Taxes		-	-
Net earnings for the period		**6,019**	**4,042**
Other comprehensive income		-	-
Total comprehensive income for the period		**6,019**	**4,042**

The Scottish Salmon Company PLC Statement of Financial Position

	Note	2018 (£'000s)	2017 (£'000s)
Non-current assets			
Investments in subsidiaries	4	65,633	65,633
Long term financial assets	5	6,700	6,700
Total non-current assets		**72,333**	**72,333**
Current assets			
Other short term intercompany receivables	6	-	215
Cash and cash equivalents		322	29
Total current assets		**322**	**244**
Total assets		**72,655**	**72,577**
Equity			
Share capital	7	17,530	17,485
Share premium	7	64,028	64,028
Other equity	7	(9,750)	(9,322)
Total equity		**71,808**	**72,191**
Current liabilities			
Other short term liabilities	6	41	13
Other short term intercompany payables	6	806	373
Total current liabilities		**847**	**386**
Total liabilities		**847**	**386**
Total equity and liabilities		**72,655**	**72,577**

17 April 2019

Robert M Brown III
Chairman

Douglas Low
Board Member

Martins Jaunarajs
Board Member

Merete Myhrstad
Board Member

Viacheslav Lavrentyev
Board Member

The Scottish Salmon Company PLC Statement of Cashflows

	2018 (£'000s)	2017 (£'000s)
Operating activities		
Earnings before interest and taxes	(382)	(281)
Change in payables and receivables	731	284
Tax net settlement expense on employee share options	(457)	-
Net cashflow from operating activities	**(108)**	**3**
Financing activities		
Interest received	402	-
Interest paid	(1)	-
Dividends received from investments	6,000	-
Dividends paid to company's shareholders	(6,000)	-
Net cashflow from financing activities	**401**	**-**
Net change in cash and equivalents in period	**293**	**3**
Net change in cash and cash equivalents	293	3
Cash and cash equivalents opening balance	29	26
Cash and cash equivalents as of 31 December	**322**	**29**

The Scottish Salmon Company PLC Statement of Changes in Equity

	Issued Capital (£'000s) Note 7	Share Premium Reserve (£'000s) Note 7	Retained Earnings (£'000s) Note 7	Treasury Shares (£'000s) Note 7	Merger Reserve (£'000s) Note 7	Total Equity (£'000s) Note 7
Equity as of 1 January 2018	**17,485**	**64,028**	**9,224**	**-**	**(18,546)**	**72,191**
Owner changes for the year recognised directly in equity:						
Share based payment	-	-	55	-	-	55
Settlement of share options	45	-	(210)	(292)	-	(457)
Dividends paid	-	-	(6,000)	-	-	(6,000)
Comprehensive income: Net earnings for the year	-	-	6,019	-	-	6,019
Equity as of 31 December 2018	**17,530**	**64,028**	**9,088**	**(292)**	**(18,546)**	**71,808**

	Issued Capital (£'000s) Note 7	Share Premium Reserve (£'000s) Note 7	Retained Earnings (£'000s) Note 7	Merger Reserve (£'000s) Note 7	Total Equity (£'000s) Note 7
Equity as of 1 January 2017	**17,485**	**64,028**	**5,082**	**(18,546)**	**68,049**
Owner changes for the year recognised directly in equity: Share based payment	-	-	100	-	100
Comprehensive income: Net earnings for the year	-	-	4,042	-	4,042
Equity as of 31 December 2017	**17,485**	**64,028**	**9,224**	**(18,546)**	**72,191**

Note 1 – General Information and Accounting Principles

The Scottish Salmon Company PLC is a company incorporated in Jersey, on 6 November 2009. It is domiciled in Jersey and its registered office is JTC Group, 28 Esplanade, St Helier, Jersey JE1 8SB. The Scottish Salmon Company PLC is the parent company of The Scottish Salmon Company Group.

The Annual Accounts of The Scottish Salmon Company PLC comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cashflows, Statement of Changes in Equity and Notes. The accounts are presented in GBP, the PLC's functional currency and represent the separate financial statements of the PLC.

The Annual Accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU-IFRS) and the IFRIC interpretations adopted by the International Accounting Standards Board (IASB and the EU).

The Annual Accounts have been prepared on a going concern basis, as detailed in note 2 in the Group Annual Accounts.

For details of accounting policies used, reference is made to note 2 in the Group Annual Accounts. Overall the accounting principles used in the Group Accounts for The Scottish Salmon Company are the accounting principles used for the PLC's Annual Accounts. Any variations in principles are described below.

Revenue recognition

Other revenue represents Group charges and is measured at the fair value of the consideration received or receivable and represents amounts for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Interest income is accrued on a time basis.

Taxes

The PLC is subject to taxation at corporate tax rate of 0% in Jersey. No charge arises on capital gains in Jersey.

Investments in subsidiaries

Investments in subsidiaries are recorded in accordance with the cost method, though reduced for impairment. This is evaluated by considering the expected cashflow of the subsidiary. Where there are indications of impairment on the investment these are charged to the Statement of Comprehensive Income. Subsidiaries are those entities in which the Company has a direct or indirect controlling influence. A controlling influence normally exists if a party directly or indirectly owns more than 50% of the voting capital in the controlled entity. Recently acquired subsidiaries are included from the time a controlling interest is obtained.

Long term financial assets

Long term financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company intends and is able to hold to maturity. These are measured at amortised cost. Any differences between acquisition cost and redemption value are accounted for over the borrowing period by using the effective interest method.

The adoption of IFRS 9 from January 2018 resulted in a reclassification of the loan notes previously classified as held to maturity (HTM) investments under IAS 39 to long term financial assets under IFRS 9. The loan notes continue to be accounted for at amortised cost in accordance with the requirements of IFRS 9. There were no changes to the measurement or carry value of the loan notes as a result of the application of IFRS 9.

Pension costs and obligations

The Scottish Salmon Company PLC does not have any employees or other personnel who are entitled to a pension, hence, no obligations are reflected.

Note 2 – Other Operating Expenses

	2018 (£'000s)	2017 (£'000s)
Financial and legal assistance	140	156
Board member and other fees	318	226
Total other operating expenses	**458**	**382**

Remuneration to Board of Directors

The Group paid the following Directors' fees in respect of services to the Parent Company:

	2018	2017
Robert M Brown III	£90,000	£66,000
Viacheslav Lavrentyev	£37,500	£27,500
Merete Myhrstad	£37,500	£27,500
Martins Jaunarajs	£37,500	£27,500
Douglas Low	£37,500	£27,500

Note 3 – Finance Income

	2018 (£'000s)	2017 (£'000s)
Interest income (including interest income from subsidiaries)	402	4,324
Total finance income	**402**	**4,324**

Note 4 – Investments in Subsidiaries

	Shares (£'000s)	Capital contribution (£'000s)	Total 2018 (£'000s)
Opening cost and net book value	20,633	45,000	65,633
Additions	-	-	-
Closing cost and net book value	**20,633**	**45,000**	**65,633**

The company has the following subsidiary entities:

31 December 2017 and 31 December 2018	Country	Ownership %	Function
The Scottish Salmon Company Limited	Scotland	100%	Salmon Farming
Salmon Finance (Scotland) Ltd	Scotland	100%	Group Finance
Harris & Lewis Smokers Trading Ltd	Scotland	100%	Restaurant and Smokehouse
Bradan Cuan Siar Ltd	Scotland	100%	Dormant
Lighthouse Caledonia ASA	Norway	100%	Dormant
Lighthouse Caledonia Ltd	Scotland	100%	Dormant
West Minch Salmon Ltd	Scotland	100%	Dormant
Atlantic West Salmon Company Ltd	Scotland	100%	Dormant
Sidinish Salmon Ltd	Scotland	100%	Dormant
Hebridean Salmon (Scotland) Ltd	Scotland	100%	Dormant
Scottish Smoked Salmon Ltd	Scotland	100%	Dormant
Hebridean Smoked Salmon Ltd	Scotland	100%	Dormant
Hebrides Harvest (Scotland) Ltd	Scotland	100%	Dormant
Loch Fyne Salmon (Scotland) Ltd	Scotland	100%	Dormant
Loch Fyne Salmon Ltd	Scotland	100%	Dormant
Loch Fyne Smoked Salmon Ltd	Scotland	100%	Dormant
Murray Seafoods Ltd	Scotland	100%	Dormant
Corrie Mhor Salmon Ltd	Scotland	100%	Dormant
Minnamurra Ltd	Scotland	100%	Holding
Fjord Seafood Scotland Farming Ltd	Scotland	100%	Dormant
Pieters UK Ltd	Scotland	100%	Holding
Fjord Seafoods Scotland Ltd	Scotland	100%	Dormant
Highland Fish Farmers Ltd	Scotland	100%	Dormant
Mull Salmon Ltd	Scotland	100%	Dormant
Kenmore Salmon Farms Ltd	Scotland	100%	Dormant
Loch Ness (Lachs) Ltd	Scotland	100%	Dormant
Portree Salmon Farmers Ltd	Scotland	100%	Dormant
Pulford (Scotland) Ltd	Scotland	100%	Dormant
Scotfish Farms Ltd	Scotland	100%	Dormant
Sea Catch PLC	Scotland	100%	Dormant
Tobson Fish Farms Ltd	Scotland	100%	Dormant

Note 4 – Investments in Subsidiaries (continued)

During the year the Group acquired Harris & Lewis Smokers Trading Ltd and Bradan Cuan Siar Ltd. See note 27 in the Group Annual Accounts for further details.

The following dormant companies were struck off after the year end:

	Country	Ownership %	Function
Lighthouse Caledonia ASA	Norway	100%	Dormant
Loch Ness (Lachs) Ltd	Scotland	100%	Dormant
Hebrides Harvest (Scotland) Ltd	Scotland	100%	Dormant

Note 5 – Long Term Financial Assets

	2018 (£'000s)
Opening cost	**6,700**
Additions / (Disposals)	-
Closing cost	**6,700**

Long term financial assets relate to the issue of £6.7m fixed rate unsecured loan notes by Salmon Finance (Scotland) Limited to The Scottish Salmon Company PLC. The loan notes are listed on the Channel Islands Stock Exchange and are due to mature in 2021. Due to the date of maturity, the loan notes have been classified as a non-current asset at the year end.

Note 6 – Receivables and Payables

	2018 (£'000s)	2017 (£'000s)
Receivables		
Current intercompany receivables	-	215
Total receivables	**-**	**215**
Payables		
Accruals	41	13
Current intercompany payables	806	373
Total payables	**847**	**386**

Note 7 – Issued Capital and Other Equity

Issued capital

	31 December 2018	31 December 2017
Total number of shares	194,029,173	193,482,271
Nominal value as of 31 December	£0.09	£0.09
Share capital (total number of shares at nominal value) (£'000s)	17,530	17,485

There is only one class of ordinary share. The authorised share capital of the Company is 300,000,000 shares of NOK 0.9.

	Number of Shares	Par Value	Share Capital (£'000s)	Share Premium Reserve (£'000s)
At 1 January 2018	**193,482,271**	**NOK 0.9**	**17,485**	**64,028**
Shares issued	546,902	NOK 0.9	45	-
At 31 December 2018	**194,029,173**	**NOK 0.9**	**17,530**	**64,028**

Other equity

	Retained Earnings (£'000s)	Merger Reserve (£'000s)	Treasury Shares (£'000s)	Total (£'000s)
At 1 January 2018	**9,224**	**(18,546)**	**-**	**(9,322)**
Share based payment	55	-	-	55
Settlement of share options	(210)		(292)	(502)
Dividends paid	(6,000)	-	-	(6,000)
Net earnings for the period	6,019	-	-	6,019
At 31 December 2018	**9,088**	**(18,546)**	**(292)**	**(9,750)**

Overview of the 20 largest shareholders as at 31 December 2018

Please refer to note 19 of the Group Annual Accounts.

Note 8 – Audit Fee

	2018 (£'000s)	2017 (£'000s)
Audit services for parent company and consolidation	46	46
Audit related assurance services	4	4
Total fees	**50**	**50**

Note 9 – Events after the Statement of Financial Position date

Please refer to note 29 of the Group Annual Accounts for details in relation to events of the Group.

Note 10 – Financial Risk Management

The risk management, objectives and policies of the Company are aligned with that of the Group. Please refer to note 26 of the Group Annual Accounts for details.

Note 11 – Related Party Transactions

	2018 (£'000s)	2017 (£'000s)
Intercompany balances		
Current intercompany (payables) with The Scottish Salmon Company Limited	(773)	(373)
Current intercompany (payables) / receivables with Salmon Finance (Scotland) Limited	(33)	215
Interest income		
Salmon Finance (Scotland) Limited	402	4,324
Management fees		
The Scottish Salmon Company Limited	76	101

Independent Audit Report

Opinion on the financial statements

We have audited the Group and Parent Company financial statements (the financial statements) of The Scottish Salmon Company PLC for the period ended 31 December 2018 which comprise the following for the Group and Parent Company:

- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- The related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

In our opinion:

- the Group financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Parent Company financial statements give a true and fair view of the state of the Parent Company affairs as at 31 December 2018 and of the Parent Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the 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 as applied to listed public interest entities, 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.

Conclusions relating 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 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.

Key audit matters

Key audit matters are those which were of most significance during the audit of the financial statements for the current period. These matters were addressed during our audit of the financial statements in their entirety and when forming our audit opinion. We do not provide a separate opinion on these matters. For each matter, we have outlined a summary of our response as auditors.

Key audit matter	Description of key audit matter
Existence of biological assets	The nature of the business means that the volume of biological assets at sea at the year-end is an estimate due to difficulties in counting and observing biological assets in a way that does not compromise fish health. Material differences between estimated volume in the sea and actual volume could lead to errors in the value of biological assets in the financial statements.

Summary of auditor's response to key audit matter

In order to gain assurance over the existence of biological assets we:

- Conducted quarterly rotational site visits, verifying biological asset existence through sample checking and followed inputs through to the biological asset system;
- Reviewed the controls and processes in place regarding stocking, transfers, grading and harvesting;
- Reviewed the deviations throughout the year relating to estimated volumes against volumes harvested estimated volumes;
- Compared results of post year end harvests to estimated year end volumes to ensure year end estimates were reasonable;

Our procedures did not reveal any material deviations.

Key audit matter	Description of key audit matter
Valuation of IAS 41 fair value adjustment	Accounting for the fair value of biological assets under IAS 41 is a complex area subject to a number of inputs, significant estimates & judgements and is driven by a growth model to calculate the fair value adjustment. Incorrect assumptions or errors in the model could lead to the valuation of biomass being misstated in the financial statements.

Summary of auditor's response to key audit matter

Our testing focused around the fair value model. In assessing the model we:

- Reviewed its compliance with IFRS 13 and IAS 41;
- Checked that the information that formed the basis for the model agreed to the information held on Group's biological asset system;
- Tested the arithmetical accuracy of the model's calculations;
- Challenged management's assumptions on future sales prices, mortality and productions costs;
- Performed sensitivity analysis on management's assumptions;
- Reviewed individual CGU performance and cash flow forecasts to identify any indication of future losses or NRV issues.

Our procedures did not reveal any material deviations.

Key audit matter	Description of key audit matter
Impairment of licences and goodwill	The Group's licences and goodwill are subject to an annual impairment review. Where market prices are low or site costs are high there is a risk that certain sites may be impaired.

Summary of auditor's response to key audit matter

Management's impairment model was obtained. In assessing the model we:

- Checked the impairment model for arithmetical accuracy;
- Reviewed inputs to ensure that these were based on Board approved budgets;
- Reviewed the model's compliance with IAS 38;
- Challenged the assumptions and parameters employed in the impairment review to ensure that these were reasonable and appropriate to the business;
- Challenged management's sensitivity analysis by performing independent sensitivity analysis on selected assumptions and on selected CGUs;
- Assessed the adequacy of disclosures in the financial statements;

Our procedures did not reveal any material deviations.

Key audit matter	Description of key audit matter
Existence and valuation of research & development expenditure	As the point of cessation for capitalisation of development costs in respect of the Native Hebridean programme has yet to be defined, there is a risk that the costs capitalised do not meet the capitalisation criteria under IAS 38. Management deem the costs to have an indefinite useful life and, as such, the costs are not subject to amortisation and are reviewed for impairment annually. There is a risk that the asset is not perpetual due to potential advancements of others within the industry.

Summary of auditor's response to key audit matter

In order to gain assurance over the existence and valuation of research & development costs we:

- Considered the eligibility of development costs for capitalisation under IAS 38
- Reviewed management's impairment review of the development costs capitalised
- Checked the arithmetical accuracy of the model used for the impairment review
- Compared anticipated future cash flows to the book value of the intangible asset in order to quantify any impairment
- Considered the appropriateness of the development costs being designated as having an indefinite useful life

Our procedures did not reveal any material deviations.

Key audit matter	Description of key audit matter
Accounting for business combinations	The Group completed 3 acquisitions during the year which have been treated as business combinations, as disclosed in Note 27 to the financial statements. There is a risk that the acquisitions do not meet criteria to be treated as business combinations under IFRS 3. There is further risk of material misstatement where the purchase price allocation, assessment of the fair values of the assets and liabilities acquired and measurement of goodwill have not been measured and recorded appropriately.

Summary of auditor's response to key audit matter

In order to gain assurance that the business combinations had been accounted for correctly we:

- Reviewed acquisition agreements and related documentation to ensure the transactions had been accounted for appropriately.
- Assessed whether the acquisitions met criteria to be treated as business combinations in accordance with IFRS 3;
- Reviewed and challenged management's purchase price allocation, assessment of fair values of assets and liabilities acquired, and measurement of goodwill;
- Assessed the adequacy of disclosures in the financial statements;

Our procedures did not reveal any material deviations.

Our application of materiality and an overview of the scope of our audit

Based on our professional judgement, we determined materiality for the Group financial statements as a whole at £1.95m.

This was determined through reference to benchmarks of Group profit before tax and Revenue. We reported any corrected or uncorrected misstatements greater than £0.09m to the audit committee as well as those which warranted reporting on qualitative grounds.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risk of material misstatement at a group level.

All of the Group's signficant components were subjected to audit (The Scottish Salmon Company PLC, The Scottish Salmon Company Limited and Salmon Finance (Scotland) Limited). The remaining components of the Group are dormant entities and entities which are not material to the Group. For these entities, we performed analysis at an aggregated group level to ensure that there was no significant risk of material misstatement within these. The three components subject to full audit account for 99% of the Group's Revenue, 99% of the Group's EBITDA, 99% of the Group's Total Assets and 99% of the Group's Equity.

No component auditors were instructed with all audit work carried out by the Group audit team.

Opinion on other matters prescribed by the Companies (Jersey) Law 1991

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

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

Other information

The directors are responsible for the other information. The other information comprises the information in the Strategic Report and the Report of the Directors, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and 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, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We confirm that we have nothing to report in this regard.

Companies (Jersey) Law 1991

We have nothing to report in respect of the following matters which the Companies (Jersey) Law 1991 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 financial statements are not in agreement with the accounting records or returns; or
- We have not received all the information and explanations we require for our audit.

Corporate Governance
We review whether the Statement of Corporate Governance reflects the Company's compliance with the fifteen provisions of the Norwegian Code of Practice for Corporate Governance, and we report if it does not. We are not required to consider whether the Directors' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Responsibilities of directors
As explained more fully in the Statement of Directors' Responsibilities set out on page twenty-two, 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 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 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 company or to cease operations, or have no realistic alternative but to do so.

Our 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 a Report of the Auditors 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 www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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 Report of the Auditors 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.

Donald Boyd

For and on behalf of Campbell Dallas Audit Services
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17 April 2019

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