

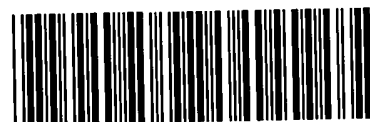
Registered Number: 958001

# **Scottish Sea Farms Limited**

## **Report and Financial Statements**

31 December 2016

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COMPANIES HOUSE

Scottish Sea Farms Limited

Registered No: 958001

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**Directors**

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

**Secretary**

D Anderson

**Auditors**

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

**Bankers**

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

**Solicitors**

Shepherd and Wedderburn  
191 West George Street  
Glasgow  
G2 2LB

**Registered Office**

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

## Strategic report

The directors present their strategic report for the year ended 31 December 2016.

### Review of the business

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

The group has achieved a satisfactory result for the year to 31 December 2016.

Group turnover was £154,405,000, an increase of £34,195,000 on 2015.

Group operating profit was £41,741,000, an increase of £32,586,000 on 2015.

The market conditions have been unprecedented this year delivering higher price returns from all global markets due largely to global volumes declining by 7%. Most of this decline came from Chile having algae plankton attacks at the beginning of the year reducing their volumes by approximately 150,000t.

Our key focus in 2016 was to improve our biological performance and be efficient in our cost base and through targeted investments in infrastructure, and with the commitment of our staff we made real progress in these areas. We took delivery of the first Thermolicer in Scotland at a cost of over £4 million, as well as continuing to utilise biological control Wrasse to support the work we do every day in optimising the biological performance of our fish.

We finalised the acquisition of the Marine Resource Centre at Barcaldine in June this year with an ambitious plan to build a new RAS freshwater smolt facility for the rearing of young salmon smolts. Our plan is to invest £37 million over the next two years raising our production capacity of smolts and supporting the growth in the volumes of fish we produce.

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

	<u>2016</u>	<u>2015</u>	
Profit margin	26.4%	7.1%	Profit before tax/turnover
Current ratio	2.57	2.31	Current assets: Current liabilities

Group shareholders' funds have increased by £22,227,000 to £74,172,000 (an increase of 42.8%).

Scottish Sea Farms Heart of the Community fund contributed £140,000 towards projects that continue to make a lasting difference in the communities we operate in this year.

We were also recognised at the Scotland Food and Drink Excellence Awards as the Best Food Producer Company of the Year. This award is a wonderful accolade for Scottish Sea Farms, our product, and our entire workforce.

## Strategic report (continued)

### Review of the business (continued)

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

On behalf of the board



J F Gallagher  
Director

9 FEBRUARY 2017

## Directors' report

The directors present their report and the group financial statements for the year ended 31 December 2016.

### Principal activity and review of the business

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

### Results and dividends

The profit for the year, after taxation, amounts to £32,727,000 (2016: £8,009,000).

Dividends of £10,000,000 were declared and paid during the year (2015: £15,000,000 was declared of which £7,500,000 was paid in 2016).

### Directors

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

### Financial management objectives and policies

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

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

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

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

### Going concern

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

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

### Disabled employees

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

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

## Directors' report (continued)

### Employee involvement

During the year, the policy of providing employees with information about the group has been continued through the regular newsletters. Employees have also been encouraged to present their suggestions and views on the group's performance. Regular meetings are held between management and employees to allow a free flow of information and ideas.

### Directors' statement as to disclosure of information to auditors

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

On behalf of the board



J F Gallagher  
Director

9TH FEBRUARY 2017

## **Statement of directors' responsibilities in respect of the financial statements**

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

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

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

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

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

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

We have audited the financial statements of Scottish Sea Farms Limited for the year ended 31 December 2016 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Statement of Financial Position and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102, the Financial Reporting Standard applicable to the UK.

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- ▶ give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS102 'The Financial reporting Standard applicable in the UK and Republic of Ireland'; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

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



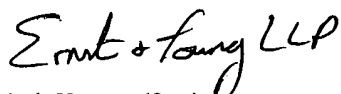
## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH SEA FARMS LIMITED (continued).

### Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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



Mark Harvey (Senior statutory auditor)

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

Glasgow

9<sup>th</sup> February 2017

## Group income statement

for the year ended 31 December 2016

	<i>Notes</i>	<i>2016 £000</i>	<i>2015 £000</i>
<b>Turnover</b>	2	154,405	120,210
Cost of sales		(105,462)	(104,541)
<b>Gross profit</b>		<u>48,943</u>	<u>15,669</u>
Distribution costs		(4,064)	(3,355)
Administrative expenses		(3,138)	(3,159)
<b>Group operating profit</b>	3	<u>41,741</u>	<u>9,155</u>
Net interest payable	6	(981)	(655)
Other finance income	7	66	35
<b>Profit on ordinary activities before taxation</b>		<u>40,826</u>	<u>8,535</u>
Tax on profit on ordinary activities	8(a)	(8,099)	(526)
<b>Profit for the financial year</b>		<u><u>32,727</u></u>	<u><u>8,009</u></u>

All the above relate to continuing operations.

## Group statement of comprehensive income

for the year ended 31 December 2016

	2016 £000	2015 £000
Profit for the financial year	32,727	8,009
Actuarial (loss)/ gain on defined benefit pension scheme, net of taxation	(1,039)	136
Restriction of defined benefit pension scheme surplus	539	(671)
<b>Total other comprehensive loss</b>	<b>(500)</b>	<b>(535)</b>
<b>Total comprehensive income for the year</b>	<b>32,227</b>	<b>7,474</b>

## Statement of changes in equity

for the year ended 31 December 2016

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
<i>Group</i>				
At 1 January 2015	21,400	1,600	36,471	59,471
Profit for the year	-	-	8,009	8,009
Other comprehensive loss	-	-	(535)	(535)
Total comprehensive income for the year	21,400	1,600	43,945	66,945
Equity dividends	-	-	(15,000)	(15,000)
At 31 December 2015	21,400	1,600	28,945	51,945
Profit for the year	-	-	32,727	32,727
Other comprehensive loss	-	-	(500)	(500)
Total comprehensive income for the year	21,400	1,600	61,172	84,172
Equity dividends	-	-	(10,000)	(10,000)
At 31 December 2016	21,400	1,600	51,172	74,172

A £10,000,000 equity dividend (£0.47 per share) was paid in the year (2015 – £15,000,000, £0.70 per share, was declared of which £7,500,000 was paid in 2016),

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
<i>Company</i>				
At 1 January 2015	21,400	1,600	24,824	47,824
Profit for the year	-	-	5,846	5,846
Other comprehensive loss	-	-	(535)	(535)
Total comprehensive income for the year	21,400	1,600	30,135	53,135
Equity dividends	-	-	(15,000)	(15,000)
At 31 December 2015	21,400	1,600	15,135	38,135
Profit for the year	-	-	26,960	26,960
Other comprehensive loss	-	-	(500)	(500)
Total comprehensive income for the year	21,400	1,600	41,595	64,595
Equity dividends	-	-	(10,000)	(10,000)
At 31 December 2016	21,400	1,600	31,595	54,595

A £10,000,000 equity dividend (£0.47 per share) was paid in the year (2015 – £15,000,000, £0.70 per share, of which £7,500,000 was paid in 2016).

## Group statement of financial position

at 31 December 2016

	Notes	2016 £000	2015 £000
<b>Fixed assets</b>			
Intangible assets	10	5,218	5,881
Tangible assets	11	43,507	29,294
		<u>48,725</u>	<u>35,175</u>
<b>Current assets</b>			
Stocks	13	69,501	65,398
Debtors	14	10,390	10,922
Cash at bank and in hand		4,614	2
		<u>84,505</u>	<u>76,322</u>
<b>Creditors:</b> amounts falling due within one year	15	(32,952)	(32,975)
		<u>51,553</u>	<u>43,347</u>
<b>Net current assets</b>			
		<u>100,278</u>	<u>78,522</u>
<b>Total assets less current liabilities</b>			
<b>Creditors:</b> amounts falling due after more than one year	16	(26,106)	(26,577)
		<u>74,172</u>	<u>51,945</u>
<b>Net assets</b>			
		<u>74,172</u>	<u>51,945</u>
<b>Capital and reserves</b>			
Called up equity share capital	19	21,400	21,400
Share premium account	20	1,600	1,600
Profit and loss account		51,172	28,945
		<u>74,172</u>	<u>51,945</u>
<b>Equity shareholders' funds</b>			
		<u>74,172</u>	<u>51,945</u>

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



J F Gallagher  
Director

9TH FEBRUARY 2017

## Company statement of financial position

at 31 December 2016

	Notes	2016 £000	2015 £000
<b>Fixed assets</b>			
Intangible assets	10	5,275	5,938
Tangible assets	11	33,367	22,501
Investments	12	6,500	6,500
		<u>45,142</u>	<u>34,939</u>
<b>Current assets</b>			
Stocks	13	53,180	55,112
Debtors	14	9,916	11,030
Cash at bank and in hand		4,614	2
		<u>67,710</u>	<u>66,144</u>
<b>Creditors:</b> amounts falling due within one year	15	(32,151)	(36,356)
<b>Net current assets</b>		<u>35,559</u>	<u>29,788</u>
<b>Total assets less current liabilities</b>		<u>80,701</u>	<u>64,727</u>
<b>Creditors:</b> amounts falling due after more than one year	16	(26,106)	(26,577)
<b>Provisions for liabilities and charges</b>	8 (d)	-	(15)
<b>Net assets</b>		<u><u>54,595</u></u>	<u><u>38,135</u></u>
<b>Capital and reserves</b>			
Called up equity share capital	19	21,400	21,400
Share premium account	20	1,600	1,600
Profit and loss account		31,595	15,135
<b>Equity shareholders' funds</b>		<u><u>54,595</u></u>	<u><u>38,135</u></u>

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



J F Gallagher  
Director

9TH FEBRUARY 2017

## Notes to the financial statements

at 31 December 2016

### 1. Accounting policies

#### **Statement of compliance**

Scottish Sea Farms Ltd is a limited liability company incorporated in England. The registered office is Condor House 10 Saint Paul's Churchyard, London, EC4M 8A. The Groups financial statements have been prepared in compliance with FRS102 and it applies to the financial statements of the Group for the year ended 31 December 2016.

#### **Basis of preparation**

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

#### **Basis of consolidation**

The group financial statements consolidate the financial statements of Scottish Sea Farms Limited and all its subsidiaries made up to 31 December 2016. No income statement is presented for the company as permitted by section 408 of the Companies Act 2006.

#### **Depreciation**

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

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

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

#### **Goodwill**

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

#### **Stocks**

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

#### **Research and development**

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

#### **Revenue recognition**

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

## Notes to the financial statements

at 31 December 2016

### 1. Accounting policies (continued)

#### *Sale of goods*

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

#### *Deferred taxation*

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

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

#### *Government grants*

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

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

#### *Leasing and hire purchase commitments*

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

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

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

#### *Pensions*

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

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

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

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

#### *Foreign currencies*

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



# Notes to the financial statements

at 31 December 2016

## 1. Accounting policies (continued)

### *Cash flow statement*

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

### *Derivative instruments*

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

## 2. Turnover

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

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

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

## 3. Group operating profit

This is stated after charging/(crediting):

	2016 £000	2015 £000
Depreciation of owned assets	6,089	6,044
Depreciation of assets held under finance leases and hire purchase contracts	758	457
	<u>6,847</u>	<u>6,501</u>
Directors' remuneration	707	597
Auditors' remuneration		
- audit services	42	42
- non audit services:		
Taxation - compliance	34	30
Pension	6	6
Taxation - advisory	80	150
Hire of plant and equipment	5,468	5,048
Research and development	53	494
Amortisation of goodwill	678	560
Exchange gain/ (loss)	88	(4)
Gain on sale of fixed assets	(37)	(773)
	<u>          </u>	<u>          </u>

## Notes to the financial statements

at 31 December 2016

### 4. Directors' remuneration

	2016 £000	2015 £000
Emoluments	707	597
Contributions paid into defined contributions pension scheme	16	35
	2016 No.	2015 No.
Active members of defined benefit pension scheme	-	-
Active members of defined contributions pension scheme	1	2

The emoluments of the highest paid director for the year ended 31 December 2016 were £496,000 (2015 - £400,000). He was a deferred member of the group's defined benefit pension scheme and his accrued pension at 31 December 2016 was £26,000. Pension contributions for the highest paid director amounted to £6,000 (2015 - £25,000).

### 5. Staff costs

	2016 £000	2015 £000
Wages and salaries	13,679	13,381
Social security costs	1,342	1,262
Other pension costs	284	304
	15,305	14,947

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

	2016 No.	2015 No.
Production	368	394
Administration	35	35
	403	429

### 6. Net interest payable

	2016 £000	2015 £000
Bank loan interest	802	605
Bank overdraft interest	76	14
Finance charges payable under finance leases and hire purchase contracts	103	66
	981	685
Less: interest received	-	30
	981	655

## Notes to the financial statements

at 31 December 2016

### 7. Other finance income

	2016 £000	2015 £000
Interest on pension scheme liabilities	(454)	(444)
Expected return on pension scheme assets	520	479
	<u>66</u>	<u>35</u>

### 8. Taxation

#### (a) Tax on profit on ordinary activities

##### Group

The tax charge is made up as follows:

	Note	2016 £000	2015 £000
UK corporation tax:			
UK corporation tax on profit for year		7,991	1,573
Tax (over)/ under provided in previous years		137	(1,159)
		<u>8,128</u>	<u>414</u>
Deferred tax:			
Originating and reversal of timing differences		185	146
Adjustment in respect of previous periods		(198)	(42)
Effect of changes in tax rates		(16)	8
		<u>8,099</u>	<u>526</u>
Total tax charge	8(b)		

#### (b) Factors affecting the total tax charge

##### Group

The tax assessed on the profit on ordinary activities for the year is lower/ higher than the standard rate of corporation tax in the UK of 20% (2015 – 20.25%). The differences are reconciled below:

	Note	2016 £000	2015 £000
Profit on ordinary activities before tax		40,826	8,535
		<u>          </u>	<u>          </u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 – 20.25%)		8,165	1,728
Effect of:			
Disallowed expenses and non-taxable income		111	102
Other timing differences		(100)	(153)
Tax (over)/ under provided in previous years		(61)	(1,159)
Tax rate changes		(16)	8
		<u>8,099</u>	<u>526</u>
	8(a)		

## Notes to the financial statements

at 31 December 2016

### 8. Taxation (continued)

#### (c) Factors that may affect future tax charges

The standard rate of UK corporation tax reduced from 21% to 20% on 1 April 2015. The Finance Act (No.2) 2015, which was given Royal Assent on 18 November 2015, included legislation which will decrease the rate to 19% from 1 April 2017. The Finance Act 2016, which was given Royal Assent on 15 September 2016, further reduced the corporation tax rate to 17% as of 1 April 2020.

#### (d) Deferred tax

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

	<i>Group</i>		<i>Company</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Fixed asset timing differences	(5)	(26)	69	78
Other timing differences	(113)	(63)	(117)	(63)
	<u>(118)</u>	<u>(89)</u>	<u>(48)</u>	<u>15</u>
			<i>Group</i>	<i>Company</i>
			<i>£000</i>	<i>£000</i>
At 1 January 2016			(89)	15
Deferred tax charge to income statement for the period			169	162
Adjustment in respect of prior years			(198)	(225)
At 31 December 2016			<u>(118)</u>	<u>(48)</u>

All the deferred tax balances above are stated at 17% (2015 – 18%).

### 9. Profit attributable to members of the parent company

The company has not presented its own profit and loss account for the year ended 31 December 2016. Of the group profit for the financial year, a profit attributable to the members of £26,460,000 (2015 – £5,311,000) has been dealt with in the financial statements of the company.

## Notes to the financial statements

at 31 December 2016

### 10. Intangible fixed assets

<i>Group</i>	<i>Goodwill £000</i>	<i>Sites £000</i>	<i>Total £000</i>
Cost:			
At 1st January 2016	8,345	2,510	10,855
Additions	-	15	15
At 31 December 2016	<u>8,345</u>	<u>2,525</u>	<u>10,870</u>
Depreciation			
At 1st January 2016	4,263	711	4,974
Provided in year	565	113	678
At 31 December 2016	<u>4,828</u>	<u>824</u>	<u>5,652</u>
Net book value:			
At 31 December 2016	<u>3,517</u>	<u>1,701</u>	<u>5,218</u>
At 1st January 2016	<u>4,082</u>	<u>1,799</u>	<u>5,881</u>
<i>Company</i>	<i>Goodwill £000</i>	<i>Sites £000</i>	<i>Total £000</i>
Cost:			
At 1st January 2016	8,064	2,305	10,369
Additions	-	15	15
At 31 December 2016	<u>8,064</u>	<u>2,320</u>	<u>10,384</u>
Depreciation			
At 1st January 2016	3,831	600	4,431
Provided in year	565	113	678
At 31 December 2016	<u>4,396</u>	<u>713</u>	<u>5,109</u>
Net book value:			
At 31 December 2016	<u>3,668</u>	<u>1,607</u>	<u>5,275</u>
At 1st January 2016	<u>4,233</u>	<u>1,705</u>	<u>5,938</u>

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

## Notes to the financial statements

at 31 December 2016

### 11. Tangible fixed assets

<i>Group</i>	<i>Freehold land and buildings £000</i>	<i>Buildings n leasehold land £000</i>	<i>Machinery and equipment £000</i>	<i>Motor vehicles £000</i>	<i>Assets under construction £000</i>	<i>Total £000</i>
Cost:						
At 1 January 2016	6,808	1,099	100,280	2,458	-	110,645
Additions	39	-	12,240	445	8,348	21,072
Disposals	-	-	(20)	(142)	-	(162)
At 31 December 2016	<u>6,847</u>	<u>1,099</u>	<u>112,500</u>	<u>2,761</u>	<u>8,348</u>	<u>131,555</u>
Depreciation						
At 1 January 2016	3,347	1,099	74,831	2,074	-	81,351
Additions	317	-	6,263	267	-	6,847
Disposals	-	-	(8)	(142)	-	(150)
At 31 December 2016	<u>3,664</u>	<u>1,099</u>	<u>81,086</u>	<u>2,199</u>	<u>-</u>	<u>88,048</u>
Net book value:						
At 31 December 2016	<u>3,183</u>	<u>-</u>	<u>31,414</u>	<u>562</u>	<u>8,348</u>	<u>43,507</u>
At 1 January 2016	<u>3,461</u>	<u>-</u>	<u>25,449</u>	<u>384</u>	<u>-</u>	<u>29,294</u>

The net book value of machinery and equipment and motor vehicles includes £5,338,000 (2015 - £3,491,000) and £496,000 (2015 - £377,000) respectively relating to assets held under finance leases and hire purchase contracts. The value of land included in the net book value of tangible fixed assets above is £5,470,000 (2015 - £261,000).

# Notes to the financial statements

at 31 December 2016

## 11. Tangible assets (continued)

<i>Company</i>	<i>Freehold land and buildings £000</i>	<i>Buildings n leasehold land £000</i>	<i>Machinery and equipment £000</i>	<i>Motor vehicles £000</i>	<i>Assets under construction £000</i>	<i>Total £000</i>
Cost:						
At 1 January 2016	4,160	1,099	85,741	2,169	-	93,169
Additions	38	-	7,675	331	8,348	16,392
Disposals	-	-	(20)	(142)	-	(162)
At 31 December 2016	<u>4,198</u>	<u>1,099</u>	<u>93,396</u>	<u>2,358</u>	<u>8,348</u>	<u>109,399</u>
Depreciation						
At 1 January 2016	3,133	1,099	64,589	1,847	-	70,668
Additions	317	-	4,963	234	-	5,514
Disposals	-	-	(8)	(142)	-	(150)
At 31 December 2016	<u>3,450</u>	<u>1,099</u>	<u>69,544</u>	<u>1,939</u>	<u>-</u>	<u>76,032</u>
Net book value:						
At 31 December 2016	<u>748</u>	<u>-</u>	<u>23,852</u>	<u>419</u>	<u>8,348</u>	<u>33,367</u>
At 1 January 2016	<u>1,027</u>	<u>-</u>	<u>21,152</u>	<u>322</u>	<u>-</u>	<u>22,501</u>

The net book value of machinery and equipment and motor vehicles includes £3,336,000 (2015 - £3,053,000) and £392,000 (2015 - £351,000) respectively relating to assets held under finance leases and hire purchase contracts. The value of land included in the net book value of tangible fixed assets above is £5,470,000 (2015 - £261,000).

## Notes to the financial statements

at 31 December 2016

### 12. Investments

#### *Company*

	<i>Subsidiary Undertakings</i>	<i>Subsidiary Undertakings</i>
	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
<i>Cost:</i>		
At 1 January and 31 December	6,500	6,500
	<u>        </u>	<u>        </u>

#### *Subsidiary undertakings*

	<i>Class of shares</i>	<i>Country of incorporation</i>	<i>Proportion held</i>
Orkney Sea Farms Ltd*	Ordinary £1	Scotland	100%

The above companies principal activity is the farming and sale of salmon.

The companies listed below are dormant.

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

\* Held by a subsidiary undertaking

### 13. Stocks

	<i>2016</i>	<i>Group 2015</i>	<i>2016</i>	<i>Company 2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Materials and feed	1,899	1,607	1,452	1,403
Ongrowing fish	67,602	63,791	51,728	53,709
	<u>69,501</u>	<u>65,398</u>	<u>53,180</u>	<u>55,112</u>

The stocks recognised as an expense in the year were £105,462,000 (2015 - £104,541,000).



# Notes to the financial statements

at 31 December 2016

## 14. Debtors

		<i>Group</i>		<i>Company</i>
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	6,721	7,324	6,721	7,324
Prepayments and accrued income	926	504	926	491
Amounts owed by ultimate parent undertakings	839	1,650	839	1,649
Other debtors	1,786	1,355	1,382	1,158
Deferred tax asset (note 8d)	118	89	48	-
Corporation tax recoverable	-	-	-	408
	<u>10,390</u>	<u>10,922</u>	<u>9,916</u>	<u>11,030</u>

In 2013, a loan of £150,000 was granted to J.F. Gallagher, a director, with interest accruing at 2% per annum. This loan was fully repaid in 2016.

## 15. Creditors: amounts falling due within one year

		<i>Group</i>		<i>Company</i>
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank loans (note 17)	1,812	3,000	1,812	3,000
Bank overdraft	-	6,328	-	6,328
Non secured loans	500	250	500	250
Trade creditors	17,777	10,513	13,064	9,089
Social security	820	496	820	496
Corporation tax payable	4,504	143	2,565	-
Dividend payable	-	7,500	-	7,500
Accruals and deferred income	6,016	3,586	5,165	3,094
Obligations under finance leases and hire purchase contracts (note 18)	1,523	1,112	1,523	1,112
Amounts owed to subsidiary undertakings	-	-	6,702	5,487
Amounts owed to ultimate parent undertakings	-	47	-	-
	<u>32,952</u>	<u>32,975</u>	<u>32,151</u>	<u>36,356</u>

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

# Notes to the financial statements

at 31 December 2016

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

	<i>Group</i>		<i>Company</i>	
	2016	2015	2016	2015
	£000	£000	£000	£000
Bank loans (note 17)	19,484	19,500	19,484	19,500
Non secured loans	4,250	4,750	4,250	4,750
Obligations under finance leases and hire purchase contracts (note 18)	2,372	2,327	2,372	2,327
	<u>26,106</u>	<u>26,577</u>	<u>26,106</u>	<u>26,577</u>

## 17. Bank loans

	<i>Group</i>		<i>Company</i>	
	2016	2015	2016	2015
	£000	£000	£000	£000
Wholly repayable within five years:				
£30 million bank loan	-	22,500	-	22,500
£21.75 million bank loan	21,296	-	21,296	-
Less: included in creditors: amounts falling due within one year (note 15)	(1,812)	(3,000)	(1,812)	(3,000)
Amounts falling due after one year (note 16)	<u>19,484</u>	<u>19,500</u>	<u>19,484</u>	<u>19,500</u>
Amounts repayable:				
Within one year	1,812	3,000	1,812	3,000
In two to five years	19,484	19,500	19,484	19,500
	<u>21,296</u>	<u>22,500</u>	<u>21,296</u>	<u>22,500</u>

In July 2016 the loan facility of £30 million was replaced by a £21.75m facility. The loan is repayable in twenty quarterly instalments of £453,000, with a final payment of £12.7 million due in 2021.

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

# Notes to the financial statements

at 31 December 2016

## 18. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

	<i>Group</i>		<i>Company</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Amounts payable:				
Within one year	1,646	1,200	1,646	1,200
In two to five years	2,564	2,510	2,564	2,510
	<u>4,210</u>	<u>3,710</u>	<u>4,210</u>	<u>3,710</u>
Less: finance charges allocated to future periods	(315)	(271)	(315)	(271)
	<u>3,895</u>	<u>3,439</u>	<u>3,895</u>	<u>3,439</u>

Finance leases and hire purchase contracts are analysed as follows:

	<i>Group</i>		<i>Company</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Current obligations (note 15)	1,523	1,112	1,523	1,112
Non-current obligations (note 16)	2,372	2,327	2,372	2,327
	<u>3,895</u>	<u>3,439</u>	<u>3,895</u>	<u>3,439</u>

## 19. Called up share capital

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>No</i>	<i>No</i>	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	21,400,000	21,400,000	21,400	21,400

## Notes to the financial statements

at 31 December 2016

### 20. Reserves

#### *Share premium account*

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

### 21. Financial instruments

	<i>Group</i>		<i>Company</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Financial assets that are equity instruments measured at cost less impairment</i>	-	-	6,500	6,500
<i>Financial assets that are debt instruments measured at cost</i>				
- Other debtors	1,786	1,355	1,382	1,158
<i>Financial liabilities measured at amortised cost</i>				
- Finance leases and hire purchase contracts	3,895	3,439	3,895	3,439
- Trade creditors	17,777	10,513	13,064	9,089
- Bank loans	21,296	22,500	21,296	22,500
- Bank overdraft	-	6,328	-	6,328
- Non secured loans	500	250	500	250

### 22. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £12,169,000 (2015 - £898,000) for the group and the company.

## Notes to the financial statements

at 31 December 2016

### 23. Pensions and other post-retirement benefits

#### *FRS102 disclosures*

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

A valuation of the scheme for FRS 102 purposes was carried out by a qualified independent actuary as at 31 December 2016. The FRS102 valuation is based on projecting forward the results of the 31 December 2013 funding valuation, allowing for changes in financial conditions.

The contributions made by the employer over the financial year have been £500,000 (2015 - £500,000). The company will pay a further £500,000 in 2017. In addition, all costs of administering the scheme are paid by the company.

The following amounts at 31 December 2016 were measured in accordance with the requirements of FRS102:

The assets and liabilities of the scheme at 31 December 2016 are:

#### *Scheme assets at fair value:*

	2016 £000	2015 £000
Corporate Bonds	6,788	6,106
Government Bonds	9,586	6,940
Cash	18	14
Fair value of scheme assets	16,392	13,060
Present value of scheme liabilities	(15,686)	(11,653)
Defined benefit pension scheme surplus	706	1,407
Effect of asset limitation	(706)	(1,407)
Net pension surplus on the balance sheet	-	-

The net surplus of £706,000 at 31 December 2016 (2015 - £1,407,000) has not been incorporated into the financial statements as Scottish Sea Farms Limited, as an employer, is not deemed to control or be able to benefit from the surplus, in line with FRS102.

The fair value of the assets of the scheme at 31 December 2016 relates wholly to corporate bonds, government bonds and cash.

## Notes to the financial statements

at 31 December 2016

### 23. Pension scheme (continued)

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

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

	2016 £000	2015 £000
Benefit obligation at beginning of the year	11,653	12,037
Interest cost	454	444
Experience losses	-	-
Benefits paid	(427)	(99)
Changes in assumptions	4,006	(729)
Benefit obligation at 31 December	15,686	11,653

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

	£000	£000
Fair value of scheme assets at beginning of the year	13,060	12,743
Expected return on scheme assets	520	479
Contributions by employer	500	500
Benefits paid	(427)	(99)
Actuarial gains/ (losses)	2,739	(563)
Fair value of scheme assets at 31 December	16,392	13,060
Net amount recognised	nil	nil

# Notes to the financial statements

at 31 December 2016

## 23. Pension scheme (continued)

	2016 £000	2015 £000
Current service cost	-	-
Interest income pension scheme assets (before asset limitation effect)	(520)	(479)
Interest income pension scheme assets (after asset limitation effect)	(454)	(444)
Interest on pension scheme liabilities	454	444
Net return (before asset limitation effect)	-	-
Net return (after asset limitation effect)	-	-

### Taken to the statement of comprehensive income:

	2016 £000	2015 £000
<b>Re-measurements (recognised in other comprehensive income (OCI))</b>		
Actual return less interest income on pension scheme assets	(2,739)	563
Experience gains and losses arising on the scheme liabilities	-	-
Changes in assumptions underlying the present value of the scheme assets	4,006	(729)
Actuarial gain/ (loss) recognised in OCI	(1,267)	166
Effect of asset limitation	1,267	(166)
Total amount recognised in OCI	-	-

### Recognised in the group income statement

	2016 £000	2015 £000
Expected return on pension scheme assets	(520)	(479)
Interest on pension obligation	454	444
Net income	(66)	(35)

## Notes to the financial statements

at 31 December 2016

### 23. Pension scheme (continued)

*Main assumptions:*

	2016	2015
Rate of increase in deferred pensions accrued pre 1 March 2002	3.60%	3.60%
Rate of increase in deferred pensions accrued post 1 March 2002	3.10%	3.10%
Rate of increase in pensions in deferment	2.16%	2.10%
Discount rate	2.70%	4.00%
Inflation assumption – RPI	3.16%	3.10%
Inflation assumption – CPI	2.16%	2.10%

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

The actual return on scheme assets during 2016 was a gain of £3,259,000, 2015 was -£84,000.

#### Statutory pension increases or revaluations based on price inflation

The same post retirement mortality base table assumption has been adopted as was used for the funding valuation at 31 December 2013 i.e. the SINA tables with a 20% uplift to the base  $q_x$  rates. The future improvements assumption has been updated to be in line with the CMI\_2013 projection model with 1.25% per annum long term rate of improvement. These tables correspond to life expectancies from age 65 as follows:

	Male	Female
Member currently aged 65	21	23.4
Member currently aged 45	22.8	25.3

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

In addition, an allowance has been made for members to choose to commute 25% of their pension entitlement for a tax free-free cash lump sum at retirement using factors currently in force (2015: 15%)

The company also operates a defined contribution scheme for its employees. Contributions accrued and due to be paid at 31 December 2016 amounted to £26,000 (2015 – £26,000). The contributions paid into this scheme in the year were £284,000 (2015 - £304,000).



## Notes to the financial statements

at 31 December 2016

### 24. Other financial commitments

As at 31 December 2016 the group had future minimum rentals payable under non-cancellable operating leases as set out below:

	2016 £000	2015 £000
Within one year	3,112	3,096

### 25. Related parties

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

	2016 £000	2015 £000
Sales to associated company	24,917	17,759
Purchases from associated companies	522	516

At the balance sheet date the amount due from Hallvard Leroy ASA was £889,000 (2015 - £1,528,000). The amount outstanding from Salmar ASA was £25,000 (2015 - £122,000).

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

### 26. Parent undertakings and controlling parties

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

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