The Scottish Salmon Company PLC

First Half 2019 Report

30 August 2019

Highlights and key figures for the six months ended 30 June 2019

- Record revenues of £111.8m, driven by higher harvest volumes
- EBIT/kg of £1.70 compared with the exceptional £2.11 achieved during H1 2018 before fair value adjustment
- Export sales reached 67% (up from 59% YoY), driven by successful execution of export strategy
- Awarded 3 star "Best Aquaculture Practice" (BAP) certification for all processing facilities
- Significant continued capital expenditure on infrastructure development
- Dividend payment of NOK 0.57 per share
- On track to achieve full year volume guidance of 33,000 tonnes and 45,000 tonnes target by 2025

Craig Anderson, CEO, said:

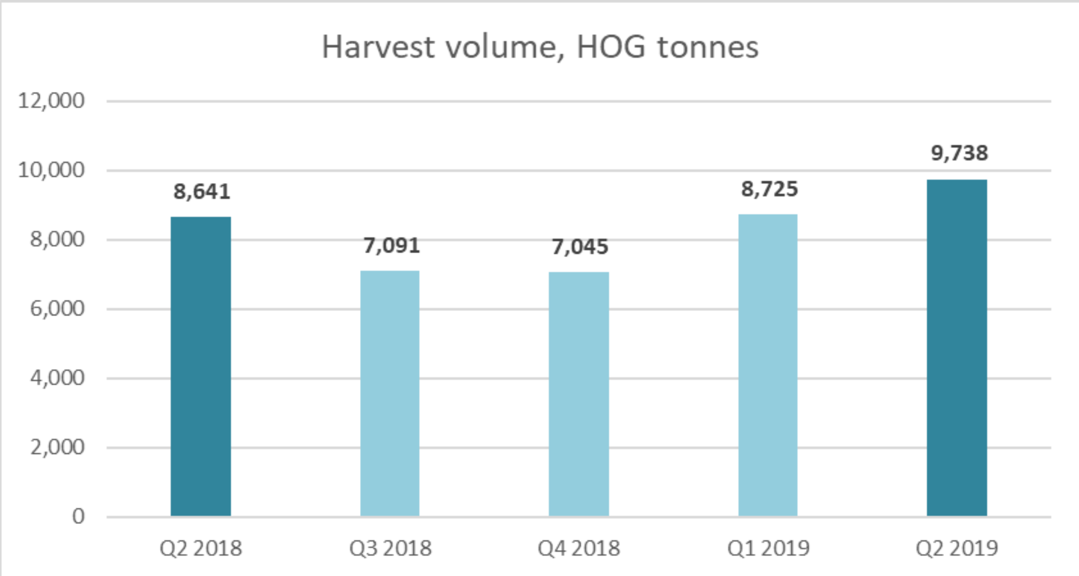
"The business has delivered strong results in the first half of the year and we remain committed to responsible business growth through our well-defined strategy. Priorities are: to invest in our operations, enhance operating efficiencies and maximise value; further strengthen the position of our brands; and increase exposure into key export markets, which now account for 67% of sales.

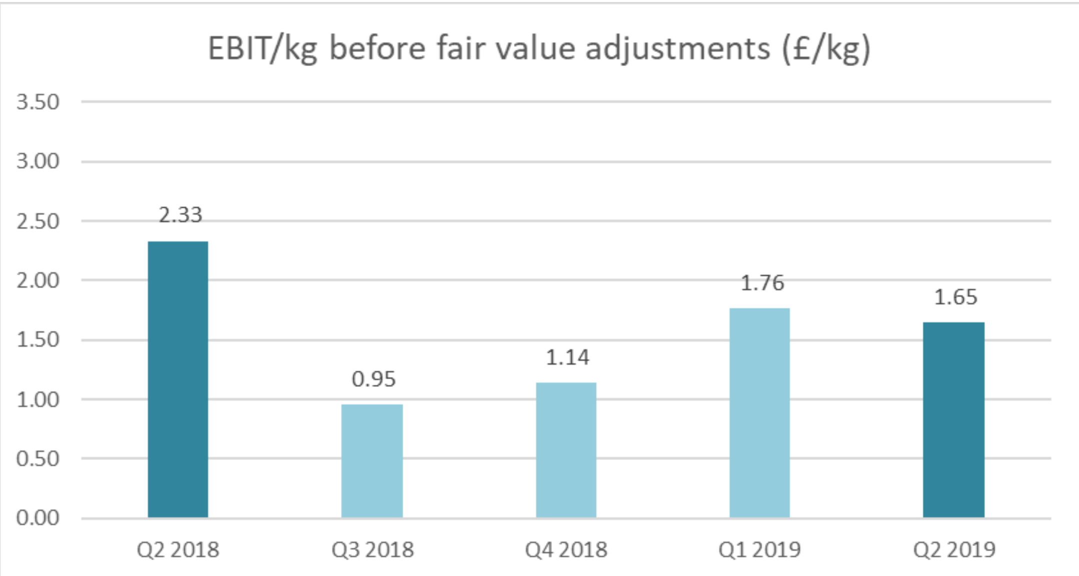
"In the first half of the year, we delivered record revenues of £111.8m, despite a softening in market conditions and contending with localised operational and biological events that impacted production in Q2. Over the long-term, the aim remains to deliver steady and sustainable growth. We remain on track to achieve our target volume of 33,000 tonnes by the year-end and 45,000 tonnes by 2025 with planning consent being obtained for two sites.

"Our ongoing investment strategy continues to demonstrate results and support increased production. As we achieve greater scale, we continue to make significant investments in site development, operational capacity, biological innovations and infrastructure. The full benefit of this investment cycle will be realised going forward, ensuring we take advantage of an increasing share of global market potential as the demand for our Scottish salmon continues to grow."

(£'000s)	H1 2019 Actual	IFRS 16 Adjusted	H1 2019 Excluding IFRS 16	H1 2018	FY 2018
Net operating revenues	111,804	-	111,804	98,276	180,125
EBITDA	41,339	(5,621)	35,718	37,550	56,658
EBIT before fair value adjustments	31,422	(271)	31,151	33,231	48,014
Equity ratio	61%	-	66%	66%	63%
NIBD	28,428	-	28,428	24,420	35,788
Harvested volume	18,463	-	18,463	15,777	29,913
EBIT/kg before fair value adjustments (£/kg)	1.70	(0.01)	1.69	2.11	1.61

(£'000s)	Q2 2019 Actual	IFRS 16 Adjusted	Q2 2019 Excluding IFRS 16	Q2 2018
Net operating revenues	58,318	-	58,318	54,901
EBITDA	21,104	(2,957)	18,147	22,384
EBIT before fair value adjustments	16,056	(193)	15,863	20,142
Equity ratio	61%	-	66%	66%
NIBD	28,428	-	28,428	24,420
Harvested volume	9,738	-	9,738	8,641
EBIT/kg before fair value adjustments (£/kg)	1.65	(0.02)	1.63	2.33





Financial update

First half 2019 results

The Scottish Salmon Company ("SSC" or the "Company") has reported record net operating revenues of £111.8m (H1 2018: £98.3), driven by a 17% increase in harvest volumes to 18,463 tonnes (H1 2018: 15,777 tonnes). This represents new highs for both metrics, driven by the successful execution of the Company's export strategy with exports now accounting for 67% (H1 2018: 59%) of revenue. EBIT before fair value adjustment and including IFRS 16 was £31.4m (H1 2018: £33.2m).

The overall performance of the Company year to date reflects a strong Q1 and a more financially resilient Q2 when compared to the exceptionally strong period of Q2 2018, which benefitted from a significantly more favourable pricing environment and an outstanding period of operational performance. The performance through Q2 was delivered against the backdrop of biological and environmental challenges arising from two separate events that increased exceptional net mortality costs to £3.0m (£0.3m in H1 18). In addition well-boat down time due to repairs disrupted harvests over the peak Easter period. These events negatively impacted direct costs and also had a bearing on spot prices achieved in Q2.

While the long term trend for pricing remains positive, the short term environment, as seen in Q2, was at times erratic due to inconsistent global supply. In particular, Q2 pricing reflected market reactions due to well-documented algal bloom in Norway. The Company expects pricing to firm in the remainder of the year.

Total operating costs (excluding IFRS 16 adjustment) increased from £60.7m in H1 2018 to £80.6m driven by the increased harvest volumes. Cost/kg of £4.36 in H1 2019 compares with £3.85 in H1 2018, the increase reflects SSC's continued investment to support the long term sustainable growth of the business, as well as the exceptional mortality in the period of £0.16/kg and the one off impact of the change in mortality accounting in 2018 of £0.23/kg.

This resulted in headline EBIT/kg of £1.70 (before fair value adjustment) compared with £2.11 in H1 2018, with the difference due to exceptional mortality and the one off impact of the change in mortality accounting in 2018.

In the period the FV adjustment on biomass reduced by £17.6m (H1 2018: increased £1.5m) reflecting the cyclical reduction in biomass and reduction in forward prices as referenced by the Fish Pool Index.

Cash flow

SSC saw a positive cash flow in H1 2019 of £2.3m (H1 2018: outflow of £3.8m). This reflects continued strong operating cash flow of £30.6m (H1 2018: £30.3m) which includes cash received from a legal settlement for a claim against a third party.

Net cash outflow from investing activities was £6.8m (H1 2018: £9.5m). Total outflow from financing activities was £21.5m (H1 2018: £24.6m) which included the payment of a £9.7m dividend as well as standard term loan repayments of £3.5m and interest repayments of £1.1m.

Financial position

At the close of H1 2019, the total value of SSC's assets was £259.9m (FY 2018: £250.1m) with the adoption of IFRS 16 impacting a number of balances, including tangible fixed assets, short and long term liabilities, and depreciation. Further details can be found on page 19.

Current assets of £146.3m at period end have decreased compared to the FY 2018 position of £160.1m due mostly to the movement in the FV adjustment on biomass.

Total net interest bearing debt stood at £28.4m at period end, compared with £24.4m twelve months earlier.

By the end of H1 2019, SSC's total equity amounted to £157.5m, corresponding to an equity ratio of 61%. On 31 December 2018 total equity was £157.8m, representing 63% of the total asset base.

Operational update

The Scottish Salmon Company is strategically focussed on responsible business growth through the key operational priorities of steady volume growth, strengthened biosecurity, infrastructure development, driving brand development underpinned by provenance, and increasing export sales to capture increasing global demand for Scottish salmon.

SSC's farming operations performed well during the first half of 2019. Harvest volumes for the second quarter were 9,738 tonnes, resulting in a total of 18,463 tonnes for H1 2019. This compared with 8,641 tonnes in Q2 2018 and 15,777 tonnes in H1 2018.

Biology

SSC is committed to health management strategies that, as far as possible, reduce the impact of biological events. These incorporate increased health monitoring and surveillance, the further development of the cleaner fish programme and enhancing treatment capacity and flexibility. While the Company recorded good growth in H1, operations were impacted by two mortality events in Q2 2019. Warmer waters resulted in an algae bloom that partially affected a site in the west coast of Scotland and a localised health challenge at a site in the Hebrides.

The Company continues to invest significantly in all aspects of its infrastructure to enable better identification and swift response to mitigate the risk of these industry wide naturally occurring challenges. As well as strengthening in-house capabilities, SSC continues to work collaboratively with Scottish Government agencies and academic and industry partners to develop long-term sustainable solutions.

Operational standards

Transparency and high standards of excellence remain integral to our business, with clear and relevant communication for the benefit of stakeholders. SSC tightly controls every aspect of the value chain to meet the exacting demands of customers, who appreciate SSC salmon, uniquely characterised by the guarantee of provenance. Showcasing this excellence, in addition to 3 star BAP accreditation, SSC achieved BRC-8 accreditation for both of its processing plants as well as the newly acquired Smokehouse in Stornoway. SSC continues to seek out best-in-class accreditation that underpins the high quality of its salmon, as discerning consumers increasingly seek robust verification of provenance, quality, health and welfare, environmental sustainability and operational excellence.

Growth and investment

SSC is committed to responsible growth and has set a long-term volume target of 45,000 tonnes by 2025. To achieve this aim the Company continues to invest in site development. Planning consent has been obtained for the expansion of a site on the Isle of Gigha, which will represent a net increase in consent of 1,900 tonnes that will come on stream in late 2020. The Company has also recently been granted planning permission for a new site in the North with an additional 2,000 tonnes consent.

During the period, the Company further developed its Applecross freshwater facility, in line with the strategic objective to deliver increasingly larger scale operations. SSC has invested £2.4m in this project year-to-date. Phase two is due to commence in August and the site is expected to be operational in early 2020.

During the first half of the year, the business continued to invest in its fleet and commissioned a first-of-its-kind multi-purpose vessel that is expected to enter operation in early 2021. The versatility of the vessel will support harvesting activities as well as act as a treatment response unit.

The Company takes seriously the responsibility of being a major employer in remote and rural areas of the west of Scotland and investing in people is integral to the success of the business. SSC is pleased to see the strong enrolment in its newly introduced employee share scheme. By the end of the period around 100 employees were enrolled in the scheme. The total number of full-time employees at the end of the half rose to 645 (H1 2018: 518) as the overall scale and footprint of SSC’s operations continued to grow.

Market update

The Company is proud of its Scottish provenance and heritage, which represents a unique proposition in the global salmon market. This differentiation forms the foundation of the Company's export strategy which has continued to be successfully executed whilst ensuring the UK market position remains strong. We anticipate a firmer market developing in the second half of the year.

One of the central pillars of SSC's strategy is a commitment to expanding exports underpinned by its commitment to Scottish Provenance. In H1 2019, exports increased to 67% of sales, up from 59% in the same period last year.

North America, a key target market, grew its share of revenue to 14%, significantly greater than the 9% share of revenue reported in the Full Year to 31 December 2018. The focus on seafood and specialist exhibitions in Boston and California opened new opportunities for business and strengthened existing partnerships. Furthermore, in Europe, the Brussels seafood exposition provided a platform for further development of the Label Rouge Tartan Salmon brand which achieved significant growth in the period.

Developing sales in the Far East continues to be a key focus. Sales in Japan are developing with increased volume driven by the introduction of brands underpinned by provenance and targeting more direct channels for market penetration.

Strategy and Outlook

The strategic focus is long-term responsible growth, investing in site development, driving operational efficiencies and market and brand development.

SSC is on track to meet its Full Year harvest guidance (which it increased on release of Q1 2019 results) of 33,000 tonnes. Furthermore, SSC continues to make good progress towards its production volume target of 45,000 tonnes by 2025, with the recent successful planning granted for a new marine site in the North with 2,000 tonnes of consent and the South with an increase of 1,900 tonnes.

The ongoing investment strategy continues to demonstrate results and support increased production. As the Company achieves greater scale, we continue to make significant investments in site development, operational capacity, biological innovations and infrastructure. The full benefit of this investment cycle will be realised going forward, ensuring we take advantage of an increasing share of global market potential as the demand for our Scottish salmon continues to grow.

SSC has developed a portfolio of customer partnerships and brands underpinned by the commitment to Scottish Provenance. These are increasingly gaining traction within target international markets. This strategic approach supports mitigation of price fluctuation and provides a certain level of resilience.

The Company is currently undertaking a Review of Strategic Options announced to the market at the time of Q1 2019 results and with an update on 8 July 2019. Whilst it is envisaged that the Review will be concluded by the end of September 2019, the Company does not expect to disclose further information on the development of the Review until the process has been completed or terminated, or if a disclosure is required in order to comply with applicable laws and regulations.

Important Events and Transactions during and after the first half 2019

Reference is made to already published information on the Company's webpage and www.newsweb.no, the information distribution system related to Oslo Børs.

28 March 2019:	Ex-dividend NOK 0.57
29 April 2019:	Annual Report 2018 published
29 April 2019	Review of Strategic Options announced
29 April 2019:	Announcement that Fiona Larkin will leave her position as Chief Financial Officer on 1 October 2019 to assume a senior management role in a company outside the seafood industry.
10 May 2019:	The litigation commenced by The Scottish Salmon Company Limited against Trouw (UK) Limited (trading as Skretting) in 2012 seeking £5,452,079 has now been resolved, without an admission of liability, following discussions between the parties.
5 June 2019:	AGM Held in Jersey with approval of the reappointment, as a Non-Executive Director of the Company, of Viacheslav Lavrentyev
8 July 2019:	Update announcement on the Review of Strategic Options

Principal Risks and Uncertainties for the remaining 6 months

The nature of the Group's business exposes it to operational, market and financial risk. The Company's risk management is continuously monitored, so that appropriate action can be taken when required, to eliminate or mitigate any potentially negative impact on operational or financial performance. A comprehensive evaluation of the risks was carried out as part of the 2019 Annual Report and Accounts and additional information can be found in that report.

SSC's most significant operational risk is related to the biological risks associated with salmon farming, including the quality, health and welfare of the salmon, availability and viability of smolt, and the quality and availability of the feed. The Group works closely and collaboratively with other industry players to initiate new health monitoring programmes, treatment strategies and research to mitigate the biological risks.

The Group competes in a global market, where the growing supply of fresh and frozen fish products are an increasing challenge to its 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 exposure is mitigated by entering into fixed price and volume contracts for its salmon products as well as using derivative instruments.

SSC's financial risk is primarily linked to currency and interest rate risk, credit risk, and liquidity risk. These risks are mitigated through the use of hedging instruments such as forward currency contracts, fixed interest rates on term loans, credit insurance and credit verification procedures, and closely monitoring of the Group's liquidity.

As a Group operating in Scotland, SSC is exposed to geopolitical risk related to the United Kingdom leaving the European Union (Brexit), which is expected to take place at the end of October 2019. Where potential risks can be anticipated, strategies will be put in place to counter them.

Transactions with Related Parties

Related party disclosures are given in Note 8.

Statement of Responsibility

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2019 have been prepared in accordance with IAS 34 – Interim Financial Reporting, and give a true and fair view of The Scottish Salmon Company's assets, liabilities, financial position and profit or loss as a whole.

We also confirm, to the best of our knowledge, that the interim management report includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, the most important areas of risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

The Scottish Salmon Company PLC
29 August 2019

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

Consolidated Income Statement

	2019 H1			2018 H1	FY 2018
	2019 H1 (£ 000's)	IFRS 16 Adj (£ 000's)	ex IFRS 16 (£ 000's)	(£ 000's)	(£ 000's)
Revenue	111,804	-	111,804	98,276	180,125
Total revenue	**111,804**	**-**	**111,804**	**98,276**	**180,125**
Purchase of goods	(53,421)	(5,621)	(59,042)	(50,874)	(114,159)
Change in inventory and biomass at cost	(2,452)		(2,452)	4,742	22,800
Salaries and related costs	(11,776)		(11,776)	(9,114)	(21,119)
Restructuring Cost	-		-	-	-
Other operating expenses	(7,302)		(7,302)	(5,480)	(10,989)
Cost of goods and operating costs	**(74,951)**	**(5,621)**	**(80,572)**	**(60,726)**	**(123,467)**
Other income	4,486		4,486	-	-
Earnings before depreciation and fair value adjustment (EBITDA)	**41,339**	**(5,621)**	**35,718**	**37,550**	**56,658**
%	**37%**		**32%**	**38%**	**31%**
Earnings before depreciation and fair value adj. on biomass (EBITDA)	**41,339**	**(5,621)**	**35,718**	**37,550**	**56,658**
Depreciation and Impairment	(9,917)	5,350	(4,567)	(4,319)	(8,288)
Gain on disposal of fixed and intangible assets	-			-	(356)
Earnings before fair value adjustment	**31,422**	**(271)**	**31,151**	**33,231**	**48,014**
%	**28%**		**28%**	**34%**	**27%**
Fair Value Adjustment on Biomass	(17,560)		(17,560)	1,469	12,233
Earnings before interest and taxes (EBIT)	**13,862**	**(271)**	**13,591**	**34,700**	**60,247**
%	**12%**		**12%**	**35%**	**33%**
Interest expenses	(1,137)	400	(737)	(608)	(1,099)
Other financial items (incl fair value adjustments on financial instruments)	(558)	343	(215)	(39)	(843)
	-			-	-
Earnings before taxes	**12,167**	**472**	**12,639**	**34,053**	**58,305**
%	**11%**		**11%**	**35%**	**32%**
Taxes	(2,787)		(2,787)	(6,893)	(10,648)
Net earnings from continuing operations	**9,380**	**472**	**9,852**	**27,160**	**47,657**
%	**8%**		**9%**	**28%**	**26%**
Net earnings	**9,380**	**472**	**9,852**	**27,160**	**47,657**
Number of shares in issue (million) at period end	194.0		194.0	193.5	194.0
Weighted average number of shares in issue (million)	194.0		194.0	194.0	193.5
Basic earnings per share (pence per share)	0.05		0.05	0.14	0.25
Diluted earnings per share (pence per share)	0.05		0.05	0.14	0.25

Consolidated Statement of Other Comprehensive Income

	2019 Qtr2 (£ 000's)	2018 Qtr2 (£ 000's)	2019 H1 (£ 000's)	2018 H1 (£ 000's)	FY 2018 (£ 000's)
Net earnings	**(4,946)**	**14,390**	**9,380**	**27,160**	**47,657**
Change in fair value of cash flow hedges	(82)	162	(82)	162	(122)
Deferred tax on cashflow hedges	-	(61)	-	(61)	(50)
Cashflow hedges reclassified to income statement	182	196	182	196	419
Total items to be reclassified to income statement in subsequent periods	**100**	**297**	**100**	**297**	**247**
Total other comprehensive income	**100**	**297**	**100**	**297**	**247**
Total comprehensive income	**(4,846)**	**14,687**	**9,480**	**27,457**	**47,904**

Consolidated Statement of Financial Position

	2019 H1			2018 H1	FY 2018
	2019 H1 (£ 000's)	IFRS 16 Adj (£ 000's)	ex IFRS 16 (£ 000's)	(£ 000's)	(£ 000's)
Non-current assets					
Licences & Other Intangibles	28,010	-	28,010	26,166	28,011
Goodwill	6,098	-	6,098	2,164	6,098
Total intangible assets	**34,108**	**-**	**34,108**	**28,330**	**34,109**
Property, plant and equipment	79,478	(21,387)	58,091	48,110	55,891
Total tangible assets	**79,478**	**(21,387)**	**58,091**	**48,110**	**55,891**
Total non-current assets	**113,586**	**(21,387)**	**92,199**	**76,440**	**90,000**
Current assets					
Inventory	3,691	-	3,691	4,847	3,119
Biological assets	110,063	-	110,063	99,045	129,600
Trade receivables	22,537	-	22,537	21,564	20,552
Other receivables	2,796	-	2,796	2,965	1,986
Cash and cash equivalents	7,203	-	7,203	4,721	4,886
Total current assets	**146,290**	**-**	**146,290**	**133,142**	**160,143**
Total assets	**259,876**	**(21,387)**	**238,489**	**209,582**	**250,143**
Equity					
Share capital	17,530	-	17,530	17,485	17,530
Share Premium	64,028	-	64,028	64,028	64,028
Cash Flow Hedge Reserve	(1,328)	-	(1,328)	(1,378)	(1,428)
Other equity	77,314	472	77,786	57,549	77,629
Total equity	**157,544**	**472**	**158,016**	**137,684**	**157,759**
Non-current liabilities					
Deferred taxes	7,817	-	7,817	9,064	10,484
Other long-term liabilities	13,908	(12,451)	1,457	1,357	1,983
Long-term interest bearing debt	22,514	-	22,514	21,374	29,380
Total non-current liabilities	**44,239**	**(12,451)**	**31,788**	**31,795**	**41,847**
Current liabilities					
Short-term interest bearing debt	13,117	-	13,117	7,768	11,294
Trade payables	19,461	-	19,461	20,206	23,535
Other short-term liabilities	19,851	(9,408)	10,443	5,450	10,715
Current taxes	5,664	-	5,664	6,679	4,993
Total current liabilities	**58,093**	**(9,408)**	**48,685**	**40,103**	**50,537**
Total liabilities	**102,332**	**(21,859)**	**80,473**	**71,898**	**92,384**
Total Equity and Liabilities	**259,876**	**(21,387)**	**238,489**	**209,582**	**250,143**
Equity Ratio	61%		66%	66%	63%

Consolidated Statement of Cash Flows

	H1 2019	H1 2018	FY 2018
	H1 2019 (£ 000's)	H1 2018 (£ 000's)	FY 2018 (£ 000's)
Operating Activities			
Earnings before interest and taxes	13,862	34,700	60,247
Fair Value Adjustment on Biomass	17,560	(1,469)	(12,233)
Depreciation and Impairment of property, plant and equipment	4,614	4,319	8,288
(Gain) on disposal of assets	-	-	358
Other financial Items	(794)	320	(579)
Share based payment	23	51	55
Tax net settlement expense on employee share options	-	-	(457)
Change in inventory, payables and receivables	168	(6,611)	(13,002)
Taxes paid	(4,828)	(1,020)	(5,015)
Cash flow from operations	**30,605**	**30,290**	**37,662**
Investing Activities			
Proceeds from sale of property, plant & equipment	302	-	42
Purchase of property, plant & equipment	(7,116)	(8,455)	(18,741)
Purchase of intangible assets	-	(1,050)	(1,845)
Acquisitions	-	-	(7,286)
Cash flow from investing activities	**(6,814)**	**(9,505)**	**(27,830)**
Financing activities			
Repayments of term loan	(3,500)	(3,000)	(6,000)
Payment of lease liabilities	(5,621)	-	-
Repayments on asset based financing	(1,585)	(14,919)	(429)
Interest paid	(1,093)	(566)	(1,017)
Dividend paid	(9,675)	(6,079)	(6,000)
Cash flow from financing	**(21,474)**	**(24,564)**	**(13,446)**
Net change in cash & cash equivalents in period	**2,317**	**(3,779)**	**(3,614)**
Cash & cash equivalents - opening balance	4,886	8,500	8,500
Net change in cash & cash equivalents in period	2,317	(3,779)	(3,614)
Cash & cash equivalents - closing balance total	**7,203**	**4,721**	**4,886**

	H1 2019 (£ 000's)	H1 2018 (£ 000's)	FY 2018 (£ 000's)
Cash flow from operations	30,605	30,290	37,662
Cash flow from investments	(6,814)	(9,505)	(27,830)
Cash flow from financing	(21,474)	(24,564)	(13,446)
Net cash flow in the period	**2,317**	**(3,779)**	**(3,614)**

Consolidated Statement of Changes in Equity

£000's	Issued Capital	Share Premium Reserve	Cash Flow Hedge Reserve	Other Capital reserves	Retained Earnings	Treasury Shares	Discontinued Operations	Total Equity
Equity at 1 January 2019	**17,530**	**64,028**	**(1,428)**	**(36,507)**	**115,344**	**(292)**	**(916)**	**157,759**
Owner changes in the period recognised in equity:								
Share based payment	-	-	-	12	-	-	-	**12**
Settlement of share options	-	-	-	(12)	(74)	44	-	**(43)**
Acquisition of treasury shares	-	-	-	-	-	(1)	-	**(1)**
Employee share incentive plan	-	-	-	4	-	8	-	**12**
Comprehensive Income:								
Net earnings for the year	-	-	-	-	9,380	-	-	**9,380**
Other comprehensive income	-	-	100	-		-	-	**100**
Dividend paid	-	-	-	-	(9,675)	-	-	**(9,675)**
Total Gains and Losses recognised in Equity	**-**	**-**	**100**	**4**	**(369)**	**51**	**-**	**(215)**
Equity at 30 June 2019	**17,530**	**64,028**	**(1,328)**	**(36,503)**	**114,975**	**(241)**	**(916)**	**157,544**
Equity at 1 January 2018	**17,485**	**64,028**	**(1,675)**	**(36,266)**	**73,599**	**-**	**(916)**	**116,255**
Owner changes in the period recognised in equity:								
Share based payment	-	-	-	51	-	-	-	51
Comprehensive Income:								
Net earnings for the year	-	-	-	-	27,160	-	-	27,160
Other comprehensive income	-	-	297	-	-	-	-	297
Dividend paid	-	-	-	-	(6,079)	-	-	(6,079)
Total Gains and Losses recognised in Equity	**-**	**-**	**297**	**51**	**21,081**	**-**	**-**	**21,429**
Equity at 30 June 2018	**17,485**	**64,028**	**(1,378)**	**(36,215)**	**94,680**	**-**	**(916)**	**137,684**

Segment Reporting

The Group’s core business activity, for accounting purposes, 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 to the Board for strategic decisions. Apart from the Group’s investment in its associate undertaking, the Group as a whole is the only reportable segment.

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

Geographical sales split:

	2019 H1 (£000's)	%	2018 H1 (£000's)	%	FY 2018 (£000's)	%
UK	36,902	33%	40,007	41%	75,924	42%
Europe	53,129	48%	38,517	39%	78,928	44%
North America	15,044	14%	12,310	12%	15,678	9%
Rest of World	6,729	5%	7,442	8%	9,595	5%
TOTAL	**111,804**		**98,276**		**180,125**	

Rest of the world relates predominantly to sales to Asia and the Far East.

Notes

Note 1: General Information

The results for the first half year and its comparatives encompass the results of the Group as a combined entity.

The Scottish Salmon Company PLC is a Company incorporated in Jersey.

The activities of the main subsidiary, The Scottish Salmon Company Limited, are located on the West Coast and Islands of Scotland and involve salmon farming with related processing.

Company information:

Registered Address	UK Address of the Main Subsidiary
The Scottish Salmon Company PLC 28 Esplanade St Helier Jersey JE1 8SB	The Scottish Salmon Company Limited 8 Melville Crescent Edinburgh EH3 7JA
www.scottishsalmon.je	www.scottishsalmon.com

The Scottish Salmon Company Limited IR Contacts:

Su Cox, Investor Relations
Fiona Larkin, Chief Financial Officer

This financial report was authorised for issue by the Board of Directors on 29 August 2019.

Note 2: Basis for the Quarterly Report - Accounting Principles

The report presents the consolidated financial performance and financial position of The Scottish Salmon Company PLC.

The report has been prepared in accordance with International Financial Reporting Standards (IFRS), applicable to interim financial reporting (IAS 34), as adopted by the European Union.

The Board confirms that the Financial Statements have been prepared on a going concern basis. This assumption is established based on the Group's business strategy, financial position, budget and long terms forecasts.

The report has not been subject to any external audit.

The same accounting principles and methods for calculation which were used with respect to the last annual report (2018) have been used in the preparation of this half year report except as described below.

From 2019, the Group has implemented the new accounting standard regarding leases (IFRS 16).

Leasing

The new standard requires capitalisation of all leasing agreements with duration exceeding 12 months, whereas the previous regulations only required capitalisation of financial leases. The right-of-use asset and liability to be recognised for each leasing agreement is the present value of the lease payments.

- The Group has implemented IFRS 16 using the modified retrospective approach, i.e. without restating comparative information, and by recognising the same amount as right-of-use assets and lease liabilities per 1 January 2019. Consequently, opening book value of equity has not been impacted.
- Total balance sheet value per 30 June 2019 has increased by £21.4m related to the implementation of the new standard.
- In the statement of profit and loss, leasing costs related to IFRS 16 has been replaced by depreciation costs of leasing assets and interest costs from lease liabilities. The positive EBIT effect related to this is £0.3m in the first half of the year. In the statement of cash flow, cash outflows related to leases previously included in the cash flow from operations has been replaced by cash outflows related to repayment of lease liabilities included in the cash flow from financing.

Reconciliation of Right-of-Use Assets and Liabilities (IFRS 16)

£ 000'S	Right-of-Use Assets	Liabilities
Closing balance 31.12.2018	-	-
Opening balance 01.01.209 (implementation of IFRS 16)	24,823	24,823
New contracts in H1 2019	1,914	1,914
Depreciation in H1 2019	(5,350)	-
Lease payments (down payment and interests)	-	(5,621)
Interest expense	-	400
Currency effects in H1 2019	-	343
Closing balance 30.06.2019	**21,387**	**21,859**

Split Current vs. Non-current

£ 000'S	Liabilities
Non-current leasing liabilities	12,451
Current leasing liabilities	9,408
Closing balance 30.06.2019	21,859

The Group’s accounting principles are described in detail in its annual report for 2018, which is available on the Group’s website www.scottishsalmon.je.

The key estimates and judgements involved in the preparation of the half year report are described in detail in the annual report for 2018.

Note 3: Specifications Related to Biological Assets

	2019 H1 (£ 000's)	2018 H1 (£ 000's)	FY 2018 (£ 000's)
Book value of live fish	83,590	66,846	84,207
Book value of smolt	5,706	4,636	7,066
Total book value of biological assets	**89,297**	**71,482**	**91,273**
Fair value adjustment on biological asssets in Consolidated Statement of Financial Position	20,767	27,563	38,327
Total value of biological assets in Consolidated Statement of Financial Position	**110,063**	**99,045**	**129,600**

IAS 41 requires that biological assets are accounted for at estimated fair value net of harvesting, processing and selling costs. 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.

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.

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
- on-growing 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 cash flow 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 and 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 or broodstock.

Interrelationships exist between all unobservable inputs and relatively small changes in assumptions can have a significant impact on the valuation. For example, a 10p per kg rise in sales price would increase the valuation of biological assets by £2,500,000.

Note 4: Income Taxes

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended 30 June 2019 is 19% (the estimated rate used for the six months ended 30 June 2018 was 19%).

Note 5: Dividends

A dividend of £9.7m (2018: £6.1m) was paid on 15 May 2019.

Note 6: Debt and Financing

The Group has the following bank facilities available with Bank of Scotland:

- £25m Term Loan facility and a £30m asset based lending (ABL) facility;
- £25m of the Term Loan facility has been drawn down and is being repaid in £2.0m quarterly instalments with the final payment due January 2024. £23.3m of the Term Loan facility was outstanding at the end of the period; and
- £12.3m of the £30m ABL facility has been drawn down at the end of the period.

The following financial covenants are applied to the loan facilities and are calculated on consolidated numbers, excluding the impact of IFRS 16, 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 7: Commitments

At 30 June 2019, the Group had capital commitments amounting to £4.5m for the development of an existing freshwater site, £900k for the development of an existing marine site and £645k for additional workboats. A further £3.7m has been committed for maintenance capital expenditure required at marine, freshwater and processing sites and on workboats.

Note 8: Related Party Transactions

Set out below are the details of transactions between the Group and entities in which it holds an investment that in the opinion of the Directors are material to the Group.

	30 June 2019 £'000s	30 June 2018 £'000s
Sales	6,864	6,997
Purchases	52	31
Trade receivables*	3,861	3,718
Trade payables	9	Nil

*The Group holds security over £2.3m of trade receivables and freehold property. Other amounts outstanding are unsecured. All amounts are due to be settled in cash.

Note 9: Other Income

Other Income £4.5m (2018:nil) includes settlement amounts in respect of a claim lodged by the Group against a third party in 2012, net of legal costs incurred during 2019.

Note 10: 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. At the period end, the fair value liability of derivative financial instruments amounted to:

	30 June 2019 £'000s	30 June 2018 £'000s
Long term other liabilities	1,460	1.110
Short term other liabilities	100	380
Total	**1,560**	**1,490**

There have been no transfers between levels in the fair value hierarchy.

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