P/F BAKKAFROST
ANNUAL AND CONSOLIDATED REPORT AND ACCOUNTS

YEAR TO 31 DECEMBER 2010

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BAKKAFROST

ESTABLISHED 1968

KEY FIGURES

(DKK 1,000) **Profit and loss**	IFRS **2010**	IFRS **2009**	IFRS **2008**	FO-GAAP **2007**
Operating revenues	**820,212**	**596,565**	**365,634**	**229,525**
Operational EBIT*	247,300	158,740	70,789	103,346
Earnings before interest and taxes (EBIT)	315,580	192,394	63,157	41,560
Earnings before taxes (EBT)	307,259	181,237	46,148	30,437
Net earnings	**259,711**	**148,728**	**38,339**	**24,831**
Earnings per share before fair value adjustment of biomass (DKK)	3.97	40.49	14.91	8.30
Earnings per share after fair value adjustment of biomass (DKK)	5.41	49.71	12.81	8.30

Statement of financial position	**2010**	**2009**	**2008**	**2007**
Total non-current assets	519,427	257,741	247,657	223,242
Total current assets	665,229	363,291	304,873	248,159
TOTAL ASSETS	**1,184,656**	**621,032**	**552,530**	**471,401**
Total equity	902,289	388,887	241,650	196,308
Total liabilities	282,366	232,145	310,880	258,798
TOTAL EQUITY AND LIABILITIES	**1,184,656**	**621,032**	**552,530**	**471,401**
Net interest bearing debt	**70,190**	**97,293**	**243,696**	**225,789**
Equity share	**76%**	**63%**	**44%**	**42%**

*Aligned for fair value adjustment of biomass, onerous contracts provision and for 2010 costs related to the listing of the company on Oslo Børs. No adjustments are in the figures for 2007

BAKKAFROST'S HISTORY

The following is a summary of the main events and milestones of the company since its establishment:

1968

The Bakkafrost business was established by the two brothers Hans and Roland Jacobsen. The first processing plant was built the same year. The third brother, Martin Jakobsen, joined the company in 1971.

1972

A second processing plant was built in Glyvrar. The business idea was to catch herring in the Faroese fjords and to process and sell spiced and marinated herring fillets.

1977

Packaging of flatfish from other Faroese fish producers for the UK market was started. This was mainly to stabilise the existing business, as the volumes of herring caught decreased.

1979

Started fish farming activities – one of the first companies in the Faroe Islands to do so.

1980S

Development of the production of blue whiting into mince and surimi in the Faroe Islands. Blue whiting stock plummeted in 1990, causing financial distress for the Group and the rest of the sector.

1986

P/F Bakkafrost was incorporated as Sp/f Faroe Salmon by Jón Purkhús and Heini Gregersen, and started production of farmed salmon and smolt.

1992

Restructuring of the Group by Regin Jacobsen, Hans Jacobsen and Martin Jakobsen. At this time, the Group established P/F Alistøðin á Bakka. They had farming licences for salmon in two fjords, slaughtering capacities for salmon in Glyvrar, as well as pelagic processing capabilities and production of styropor boxes for transportation of fish.

1995

A value added product ("VAP") factory for salmon was built within an existing location, the factory in Glyvrar. The investment was limited, and the capacity was low. The company received a licence to produce smolt/fry in Glyvrar/Glyvradalur.

1999–2001

The Group increased the capacity of the VAP to around 22 tonnes gutted weight per day through two separate investments during this period in order to facilitate further growth.

2006

The Group grew through acquisitions and mergers, and increased its farming capacity by 15,000 tonnes gwt, to a total capacity of 18,000 tonnes gwt of salmon. The Group gained access to six new fish farming fjords and two hatcheries for production of smolts and fry. The Group made large investments to increase the VAP factory in Glyvrar to manage the increased volumes, and the factory reached a capacity of 55 tonnes gwt per day.

2008

The shareholders of Bakkafrost and Vestlax agreed to merge the companies. The merger was scheduled for 1 January 2010. P/f Vestlax Holding's shareholders agreed to be remunerated in Bakkafrost shares. The Vestlax Group had a capacity of 11,000 tonnes gwt of salmon and trout and a processing plant located in Kollafjørður.

2009

Best year ever in terms of produced volumes, revenues and operating profit. Decision made to list the company on Oslo Børs.

2010

Bakkafrost and Vestlax merged. The combined company is the largest farming company in the Faroes, with around 55% of the farmed salmon from the Faroes. The fully integrated company, spanning from smolt production to farming to finished VAP products, harvested 21,626 tonnes gwt in 2010. On 26 March 2010, the company was listed on Oslo Børs and broadened its shareholder base. In addition to local Faroese investors, the company is now owned by international investors from all over Europe and the USA.

GROUP STRUCTURE

- P/F Bakkafrost
  - P/F Bakkafrost Farming North
  - P/F Bakkafrost Farming West
  - P/F Bakkafrost Harvest
  - P/F Bakkafrost Processing
  - P/F Bakkafrost Sales
  - P/F Bakkafrost Packaging

The figure above shows the structure of the Bakkafrost Group, with activities separated into different entities based on activities. The Group produced 21,626 tonnes gwt in 2010 (2009: 30,650 tonnes gwt) through a total of 15 farming sites located around the Faroes.

OPERATION SITES

Bakkafrost's 15 fish farms are located in the central and northern part of the Faroe Islands. On average, each fish farm can produce around 2,500 tonnes gutted weight per year with the present production regime within the next 2–5 years.

HATCHERIES
Norðtoftir
Húsar
Glyvradalur
Viðareiði
Gjógv

FARMING
Hvannasund North
Hvannasund South
Haraldssund
Kunoyarnes
Lambavík
Borðoyavík
Árnafjørður
Fuglafjørður
Svínáir
Selatrað
Kolbeinargjógv
Undir Síðu
Vestmanna
Gulin

HARVESTING
Kollafjørður
Klaksvík

PROCESSING & HEADQUARTERS
Glyvrar

MAIN EVENTS

- Merged the Bakkafrost and the Vestlax Group, effective from 1 January 2010
- Listed the company on Oslo Stock Exchange
- Carried out a share capital increase and broadened the shareholder base
- Continued high productivity with low feed converting factor and low mortality
- Built the base for further increases in the production by increasing the smolt release and building up biomass

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CHAIRMAN'S STATEMENT

Since Bakkafrost started farming salmon in 1978, the farming industry has become one of the most important industries in the Faroe Islands. Today, the farming industry stands for over 30% of the total export. As the largest fish farming company in the Faroe Islands, with approx. 55% of the production in 2010, Bakkafrost has become important for the local community. The company has created many profitable jobs and is generating substantial activities in other industries in the Faroe Islands, as many of the Group's vendors are local businesses.

Bakkafrost will continue to focus on a sustainable farming operation, which is based on the veterinary model implemented in the Faroe Islands in 2003, and which so far has been successful. This model states quite strictly how salmon farmers must operate. The main objective of the veterinary model is to increase the biological and veterinary security and support a sustainable and healthy operation. Bakkafrost fully recognises the importance of such a model. Therefore, in the coming year, we will, together with the rest of the industry and the government in the Faroe Islands, participate in the development and maintenance of this model.

Based on the veterinary model, together with cost efficiency, our dedicated staff and high market prices for salmon products, Bakkafrost delivered the best financial result ever in 2010. The profit after tax was DKK 259.7 million, and earnings per kilo harvested salmon were in the upper end during the year compared to peers' on Oslo Børs. The aim for the future is to be in the front when compared with peers.

The Board of Directors is satisfied with the Group's financial results this year and would like to thank the staff for their efforts in 2010.

A NEW ERA

In 2010, a new era in the development of Bakkafrost began. In line with Bakkafrost's growth strategy, Bakkafrost was merged with the second largest farming company in the Faroe Islands, the Vestlax Group, with Bakkafrost as the continuing company. The merger created the largest salmon producer in the Faroe Islands by far, with a capacity of some 45,000 tonnes whole fish equivalent's (wfe) per year, assuming full utilisation of the 15 licences held by the company. Bakkafrost owns 39% of the total licences in the Faroe Islands, currently representing about 55% of total harvest volumes. The company operates five fully owned hatcheries and licences on 15 fish farming sites for marine production of Atlantic salmon in the Faroe Islands. The sites are located in thirteen different fjords. The combined Group also carries out primary processing and secondary processing. All primary processing takes place at the Group's slaughter facilities in Klaksvík and Kollafjørður, and all secondary processing takes place in the Group's VAP facility in Glyvrar.

Following the merger with Vestlax, Bakkafrost was listed on Oslo Børs the 26th of March 2010,, giving the shareholders a more transparent company and a more efficient pricing of the shares. In connection with the listing, some shareholders sold down part of their holdings in the company and a share capital increase was carried out. This broadened the share capital base so that Bakkafrost's shareholder base today spans from local Faroese investors to international investors from Scandinavia, Europe and the USA.

The listing on Oslo Børs increased the attention on the company from media, analysts and the investor community. We are therefore proud to deliver a strong result for 2010. The result is based on a good biological situation, high salmon prices, our dedicated staff and a sharp focus on costs. Despite a significant decrease in the harvested volumes compared to 2009, the Group's financial result was at a record level. The result after tax was DKK 259.7 million and earnings per share (EPS) of DKK 5.41. The Board of Directors has decided to propose to the Annual General Meeting that if no M&A activities have taken place before the next Annual General Meeting, DKK 3.91 (NOK 4.10**) per share shall be paid out as dividend. This corresponds to approximately DKK 191 million (NOK 200 million).

OPERATIONAL REVIEW

The Group's operations went well in 2010. Bakkafrost harvested 21,626 tonnes gutted weight at satisfying costs per kilo. The main factors behind the positive development over the last years are the company's main key competitive advantages, which are:

Low-cost producer

In terms of production costs, our farming operation has delivered strong results following the implementation of the veterinary regime[1] in the Faroe Islands. The Faroese veterinary system has improved fish health and reduced costs. Thus, Bakkafrost's EBIT per kg has improved and is among the highest compared to peers'.

Well placed to access the US

Bakkafrost and the Faroese salmon producers are in a favourable competitive position on the US market. Therefore, Bakkafrost has established an experienced sales force with long-term relations with customers in the US. We have a running operation and ongoing sales of large salmon supported by efficient logistical systems for the distribution of the products (both fresh and frozen) from the Faroe Islands to the US. The US market prefers the higher-than-average size and weight and the high level of Omega-3 offered in salmon produced from the Faroe Islands, causing Bakkafrost's sale to the US market to increase significantly, from almost nothing in 2008 to a substantial market for Bakkafrost since then.

VAP

Bakkafrost has long-term experience in producing and selling value added products (VAP). Production facilities are state of the art, with high production efficiency. Produced volumes have increased by 34% per annum over the last three years and approximately 8% per annum over the last 10 years. In 2010, the VAP production represented 60% of the total harvested volumes. In the future, the VAP will represent approx 40–50% of the Group's harvested volumes. The VAP production usually stabilises the Group's earnings, because the sale is based on fixed-price contracts. These contracts are not as volatile as the spot market price for fresh salmon.

Due to the high salmon prices in 2010, Bakkafrost has had a loss on its VAP production this year. 2010 was the first year, since Bakkafrost started its VAP production in 1995, with a negative contribution on this segment. The reason is that there always is a time lag between the increase in the spot prices and a subsequent increase in the contract prices for VAP products. On the other hand, when the spot prices decrease, there is a time lag until the contract prices decrease.

Strong customer base

By focusing on meeting existing customers' demands, Bakkafrost benefits from its long-term relationships with a large number of customers. The relationships with customers have proven to give a competitive advantage for both Bakkafrost and its customers through product development and marketing. Thus, Bakkafrost has customers it has been trading with for the last 15 years.

Geographical location

Bakkafrost's salmon farms are located in areas with attractive qualities for salmon farming in terms of water quality, water temperature and circulation. The Faroese fjords provide separation between locations, which improves biological control and area management. Relatively short distances between farming areas and processing facilities and well-developed infrastructure offer cost-efficient transportation of both feed and fish on land and at sea.

Veterinary model

The veterinary model implemented in the Faroe Islands since 2003 states quite strictly how salmon farmers must operate. The main objective of the veterinary model is to increase the biological and veterinary security and support a sustainable and healthy operation.

Through total separation of salmon generations, vaccination against different diseases (ISA among others), strict regulation of movement of equipment and fish and other regulations, the results for the 2005–2009 generation on feed conversion ratio, mortality and productivity are among the best results ever seen in the Faroese history of salmon production and are solid compared to, for instance, those of Norwegian peers.

These factors, together with our dedicated staff, are the basis for the satisfying result for 2010.

1 A set of laws implemented since 2003 in the Faroe Islands, stating quite strictly how salmon farmers must operate.

FINANCIAL REVIEW

Overall, 2010 was characterised by record high salmon prices and thus profit margins.

Income statement

The Bakkafrost Group generated gross operating revenues of DKK 820.2 million in 2010, compared with DKK 596.6 million in 2009. The increase relates primarily due to the merger with the Vestlax Group, but also to the increase in the salmon prices. The operations harvested a total of 21,626 tonnes gutted weight, compared with 18,685 tonnes in 2009. If you compare the 21,626 tonnes gutted weight in 2010 with what Bakkafrost and Vestlax harvested in 2009, it is a decrease, as the combined Groups harvested 30,650 tonnes gutted weight in 2009.

The Group made an operating EBIT* of DKK 247.3 million in 2010, compared with DKK 158.7 million in 2009. Operating EBIT came to DKK 11.44 per kg gutted weight, compared with DKK 8.49 in 2009. Consolidated net profit totalled DKK 259.7 million in 2010, compared with DKK 148.7 million in 2009. Earnings per share totalled DKK 5.41 in 2010. The cash flow from operations was DKK 195.0 million, compared with DKK 188.7 million in 2009. The Group's net interesting bearing debt amounted to DKK 70.2 million, and solvency was in excess of 76%.

Segment performance

Bakkafrost Group operates with two business segments: farming of fish, including sale of fresh fish, and value adding of salmonoid products and sale of these.

Farming including sale of fresh fish

Farming is one of Bakkafrost's segments. The Group has production facilities in the central and north-eastern parts of the Faroe Islands. There are no significant differences in the production properties of the licences, and the Group therefore reports the farmed salmonids, including the sale of fresh salmon, as one segment.

Value added products (VAP)

A significant share of the farmed products is value added at the factory in Glyvrar. The output of the factory is predominantly portions for the retail market. Therefore, this is reported as one segment. The strategy with the value added products is, in addition, to increase the Group's earnings to reduce the volatility in the Bakkafrost Group's net earnings.

Gross external operating revenues for Bakkafrost's farming segment increased to DKK 347.1 million in 2010, up from DKK 237.9 million in 2009. The increase is due to a combination of higher spot prices and increased harvested volumes after the merger with Vestlax. Operational EBIT, which is EBIT adjusted for fair-value adjustments on biomass and listing costs, totalled DKK 287.1 million, compared to DKK 127.9 million in 2009. This corresponds to an operating EBIT of DKK 13.27 per kg gutted weight, compared to DKK 6.84 per kg in 2009. The increase in the performance of the Group reflects the increase in the salmon price, the excellent biological situation and our dedicated staff. The Group's farming segment harvested 21,799 tonnes gutted weight in 2010, compared to 19,292 tonnes in 2009.

The value added segments external operating revenue amounted to DKK 473.1 million in 2010, compared to DKK 358.7 million in 2009. Operational EBIT, which is EBIT adjusted for provision for onerous contracts and listing costs, totalled DKK -39.8 million, compared to DKK 30.8 million in 2009. This corresponds to an operating EBIT of DKK -3.08 per kg gutted weight, compared to DKK 2.81 per kg in 2009. The calculation is based on Bakkafrost's own harvested salmon. The increase in the salmon price during 2010 reflects the negative result from the value added segment. During 2010, the salmon prices have increased gradually most of the year. As there is a time lag between the movement in the fresh salmon prices and the contract prices, it takes time to catch up to the strong price for fresh salmon. This has therefore resulted in a loss in the VAP segment in 2010 for the first year ever since the production of VAP products commenced in 1995 in Bakkafrost. The VAP segment purchases salmon from the farming segment at spot prices each week.

In 2010, the associated company P/F Salmon Proteins achieved a net result to Bakkafrost of DKK 0.5 million, compared to DKK 0.3 million in 2009. Since P/F Salmon Proteins is defined as an associated company on the Group consolidated level, the Bakkafrost Group recognises 58.5 percent of the company's profit after tax.

Financial income in 2010 amounted to DKK 1.1 million, compared to DKK 2.9 million in 2009. Net interest expenses amounted to DKK 8.2 million, compared to DKK 13.1 million in 2009. The decrease can be attributed to a decrease in long- and short-term interest bearing debt due to the Group's strong cash flow and to lower interest rates.

Statement of financial position

The Group's total balance as of 31 December 2010 amounted to DKK 1,184.7 million, compared to DKK 621.0 million at the end of 2009. The increase is most of all due to the merger with Vestlax.

*Aligned for fair value adjustment of biomass, onerous contracts provision and costs related to the listing of the company on Oslo Børs.

MANAGEMENT'S STATEMENT

During the year, the Group invested approximately DKK 68.4 million. Investments were made in buildings, processing equipment and general farming facilities. The company continues to invest in all activities to adjust capacity.

The Group's book value (fair value) of biological assets (fish in the sea) amounted to DKK 482.1 million at the end of the year, compared to DKK 227.5 million at the end of 2009. The total fair value adjustment of the biomass amounted to DKK 130.8 million year-end 2010, compared to DKK 46.9 million at the end of 2009. At the end of 2010, the biomass of fish at sea under 4 kg/each was 5,723 tonnes live weight, compared to 5,159 tonnes live weight at the end of 2009. The biomass of fish exceeding 4 kg was 12,266 tonnes live weight, compared to 5,510 tonnes live weight at the end of 2009. The reason for the increase is due to the merger with Vestlax at the beginning of 2010.

The Group's equity increased from DKK 388.9 million at the start of the year to DKK 902.3 million at the end of the year. The increase in equity can primarily be attributed to the good net result in 2010, the share capital increase in connection with the listing on Oslo Stock exchange and the merger with Vestlax on 1 January 2010. The increase in the equity due to the merger amounted to DKK 185.2 million, and the share capital increase amounted to DKK 75,000 before costs of DKK 7.3 million.

The Group's total non-current liabilities increased from DKK 91.4 million to DKK 157.4 million. The deferred tax increased by DKK 62.9 million, while the long-term debt increased by DKK 3.0 million, to DKK 37.4 million at the end of 2010. The Group's total non-current liabilities amounted to DKK 125.0 million, compared to DKK 140.7 million at the end of 2009.

The Bakkafrost Group's net interesting bearing debt amounted to DKK 70.2 million at the end of 2010, compared to DKK 97.3 million at the end of 2009. The Group had an equity ratio of 76.2 percent as of 31 December 2010, compared to 62.6 percent at the same date in 2009. A healthy financial position is considered to be a crucial element in the Group's strategy for further growth and profitability. The Group will continue to place great emphasis on this going forward.

Cash flow

The total cash flow from operating activities in 2010 was DKK 195.0 million, compared to DKK 188.7 million in 2009. Cash flow from investing activities came to DKK -71.7 million and relates to investment in farming equipment, the VAP plant and general investments. Cash flow from financing activities totalled DKK -149.9 million, which reflects a net payment of bank funding, the share capital increase prior to the listing on Oslo Stock Exchange, sale of own shares and payment of dividend. Net cash flow for the period amounted to DKK -26.6 million. Cash at the end of the year was DKK 9.1 million, compared to DKK 35.3 million at the start of the year. Together with established credit facilities with its banking partners, the Group's liquidity and financial strength is considered to be good. The undrawn financing facility amounted to approximately DKK 320 million at 31 December 2010.

OPERATIONAL RISK AND RISK MANAGEMENT

The Bakkafrost Group is exposed to a number of different market, operational and financial risks arising from our normal business activities as a salmon producer.

MARKET RISK:

Price on farmed salmon

The Group's financial position and future development depend to a considerable extent on the price of farmed salmon, which has historically been subject to substantial fluctuations. Farmed salmon is a commodity, and it is therefore reasonable to assume that the market price will continue to follow a cyclical pattern. The balance between the total supply and demand for farmed salmon is a key parameter. Overproduction may cause prices to decline, as was the case in 2001–2003. This could, in turn, have a significant impact on the company's profitability and liquidity.

Price on fish feed

Feed costs account for a significant proportion of total production costs within the salmon farming sector, and fluctuations in feed prices could therefore have a major impact on profitability. Feed prices are affected by both the global market for fishmeal and marine/animal/vegetable oils, and the feed industry is dominated by a small number of large, global producers.

Natural limitations in the marine resource base could lead to global shortages of fishmeal and oil for fish feed production. The feed producers have, however, come a long way in their efforts to replace some of the marine-based input factors with vegetable raw materials.

OPERATIONAL RISKS:

The rate at which farmed salmon grows, depends, among other things, on weather conditions. Unexpected warm or cold temperatures can have a significant negative impact on growth rates and feed consumption. The Group operates at sea under sometimes challenging conditions. This can result in incidents or necessary measures that can have significant cost implications, e.g. unexpected maintenance/repairs or escaped fish. The Group is continually working on reducing risks using experience with equipment, location and operational organisation. Bakkafrost's facilities are located in areas where the weather conditions are well known and the facilities well secured, though other weather conditions, such as storms or floods, could also lead to unexpected losses at facilities. Although the Group does not tolerate the escape of farmed salmon, there is always a risk that escapes will occur, in which case the Group's business could be materially adversely affected, directly through loss of farmed salmon and indirectly through the spread of diseases, governmental sanctions, negative publicity or other indirect effects. Procedures and new technological solutions in this respect are constantly monitored.

Although operational risk is, to a certain extent, reflected in budgets by means of estimates for mortality and the percentage of fish whose quality is downgraded in connection with primary processing, such risks might, if occurring, materially affect the Group's results and financial condition. The Group's operations can also be materially impacted by what is classified as normal operating risks, e.g. quality from suppliers and sub-suppliers, etc.

The salmon farming industry is associated with a high level of biological risk, and the Group aims to reduce that risk through the entire production cycle by means of systematic Group-wide bio-security auditing. The Group's production facilities are located within a relatively small geographical area limited to the Faroe Islands; accordingly, some operational risk, if occurring, can affect the Group strongly (e.g. weather conditions, some diseases, etc.).

PRODUCTION-RELATED DISORDERS:

As the aquaculture industry has evolved and developed, the biological limits for how fast fish can grow have also been challenged. As with all other forms of intensive food production, a number of production-related disorders arise, i.e. disorders caused by intensive farming methods. As a rule, such disorders appear infrequently, but certain populations can be severely affected. The most important production-related disorders relate to physical deformities and cataracts. These invariably cause financial loss by way of reduced growth and inferior health, reduced quality on harvesting and damage to the industry's reputation.

DISEASE:

Operation of fish farming facilities involves considerable risk with regard to disease. In the case of an outbreak of disease, Bakkafrost will, in addition to the direct loss of fish, incur substantial costs in the form of premature harvesting, loss of quality of harvested fish and subsequent periodic reduced production capacity. Salmon farming has historically been through several periods with extensive disease problems. Common to all of these is that a solution has been found through breeding, better operating routines, increased expertise regarding the fish's biological requirements and the development of effective vaccines. During the 1990s, the health situation in Faroese salmon farming improved dramatically. For example, the development of effective vaccines against the most important bacterial diseases, as well as generally better operating routines, have led to a reduction in antibiotic use in the Faroe Islands.

The economic importance of disease is measured in the form of mortality percentages (mortality), reduced growth or reduced quality on the end product. In addition, disease entails suffering for the fish. The percentage of loss per generation varies both between generations and between producing countries/regions, but an average for the industry would be around 8–15% per generation. Over half of this is fish that is taken out of the sea before it reaches 500g, with correspondingly limited costs associated with it. Farmed salmon are particularly vulnerable when they are released into the sea. The rapid change from freshwater to the full salinity of seawater exposes the smolts to osmotic stress, in addition to other stressors such as handling, pumping and transportation. The production of a high-quality smolt depends on a thorough control of the freshwater quality and the smoltification process. A high level of bio-security measures in addition to good management practices and selection of good production sites and technology is an important factor to obtain good growth and improve health.

FINANCIAL RISK AND RISK MANAGEMENT

The follow-up of internal procedures associated with financial reporting is undertaken as part of management's day-to-day supervision, the process owners' follow-up and the auditor's independent testing. Non-compliances and areas noted as needing improvement are followed-up and remedial measures implemented.

Foreign exchange risk

Bakkafrost trades on the world market for farmed salmonids, and parts of revenues and accounts receivable are denominated in foreign currency. On the other hand, purchases of raw materials, etc. are predominantly denominated in DKK. Fluctuations in foreign exchange rates, therefore, present a financial risk to the Group.

Credit risk

The risk that counterparties do not have the financial strength to meet their obligations is considered relatively low, since losses due to bad debts historically have been small. However, following the international crisis, the risk of losses may be considered increasing. The Group has guidelines to ensure that sales are made only to customers that have not previously had payment problems and that outstanding balances do not exceed fixed credit limits. The majority part of the total accounts receivable is insured. As not all receivables are insured, the Group has to accept a certain risk element in accounts receivable.

The gross credit risk on the date of the statement of financial position corresponds to the Group's receivables portfolio on the date of the statement of financial position.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by maintaining a flexible financial structure which is secured by means of established borrowing facilities. The Group's objective is to have sufficient cash, cash equivalents or medium-term credit facilities to meet its borrowing requirement in the short term. Unused credit facilities are described in note 16, where the terms also are described.

Capital structure and equity

The prime objective of the Group's capital management is to ensure that it maintains a good credit rating in order to achieve favourable borrowing terms. By ensuring a good debt-to-equity ratio, the Group will support its business operations. The Group manages and makes changes to its capital structure in response to an ongoing assessment of financial conditions under which the business operates and its short- and medium-term outlook, including any adjustment in dividend payouts, buyback of own shares, capital reduction or issue of new shares.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Group has spent approximately DKK 0.8 million in R&D expenses during 2010, compared to DKK 0.6 million in 2009.

GOING CONCERN

With reference to the Group's profits, financial strength and long-term forecasts for the years ahead, it is confirmed that the financial statements for 2010 are based on the assumption that Bakkafrost is a going concern. In the opinion of the Board, the Group's financial position is good.

DIVIDEND POLICY

Bakkafrost aims to give its shareholders a competitive return on their investment, both through payment of dividends from the company and by securing an increase in the value of the equity through positive operations. Generally, the company should pay dividends to its shareholders, but it is the responsibility of the Board of Directors to make an overall assessment in order to secure the company a healthy capital base, both for daily operations and for a healthy future growth of the company.

It is the Board of Directors view that 30–50% of EPS shall be paid out as dividend when the Group's equity ratio is above 60%.

PARENT COMPANY'S FINANCIAL STATEMENTS AND ALLOCATION OF PROFIT FOR THE YEAR

The parent company P/F Bakkafrost had a net profit of DKK 90.1 million for 2010. The Board of Directors has decided to propose to the Annual General Meeting that if no M&A activities have taken place before the next Annual General Meeting, DKK 3.91 (Approximately NOK 4.10) per share shall be paid out as dividend. This corresponds to approximately DKK 191 million (NOK 200 million).

The Board thereby proposes the following allocation of funds:

- Result for 2010 DKK 90.1 million.
- Transferred from other equity DKK 100.9 million.
- Total provision for dividend DKK 191.0 million.

After payment of dividend, the distributable equity totals DKK 161.9 million.

EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

From the date of the statement of financial position until today, no events have occurred which materially impact the information provided by the accounts.

*The dividend per share in NOK is subject to changes depending on the exchange rate between DKK and NOK when the dividend is paid out.

OUTLOOK 2011

The market outlook for salmon products in 2011 is good. We expect that salmon prices will stay on a high level in 2011.

Bakkafrost has increased the release of smolts each year over the last years. Therefore, Bakkafrost expects to harvest approx 33,000 tonnes gutted weight of salmon in 2011, compared to 21,626 tonnes in 2010.

Bakkafrost released 8.2 million smolts in 2010, compared to 6.4 million in 2009. The smolt release in the first half of 2010 will be harvested in the second half of 2011, and the smolt release in the second half of 2010 will be harvested in the first half of 2012.

Bakkafrost will continue to explore M&A possibilities, but it will be equally important to further utilise unused farming capacities in existing licences.

The ratio of harvested fish sold on long-term contracts in 2011 is planned to be between 40–50% of the harvested volumes, compared to 60% in 2010. The decrease in the relative share of harvested volumes from 2010 to 2011 is due to the increase in total harvested volumes.

The operational changes post-merger of Vestlax into Bakkafrost are on track, and Bakkafrost will receive further benefits of the merger during 2011.

The financial position of Bakkafrost is strong. The company has a strong balance sheet and is well funded with undrawn loan and credit facilities. It is the goal to continue to have a strong financial position to secure organic growth in the coming years and to be in a position to take advantage of M&A activities, as well as to handle the risks involved in our industry. The Board of Directors have decided to propose to the Annual General Meeting that if no M&A activities have taken place before the next Annual General Meeting, DKK 3.91 (NOK 4.10* per share) shall be paid out as dividend. This corresponds to approximately DKK 191 million (NOK 200 million).

MAIN TRENDS IN THE HUMAN CONSUMPTION OF SEAFOOD

The Food and Agriculture Organisation of the United Nations (the “FAO”) has estimated that in 2006, the total human consumption of seafood was approximately 110.4 million tonnes. According to the FAO, the demand for seafood has been growing and was expected to continue growing at a faster rate than most of the other main food product categories.

THE FOLLOWING FACTORS HAVE BEEN IDENTIFIED AS THE MAIN DRIVERS FOR CONTINUING GROWTH:

Increase of per capita consumption:

The global annual per capita consumption of fish has been predicted to increase from about 17.0 kilograms in 2008 to 19–21 kilograms by 2030. In particular, the FAO expects per capita consumption in North America and Europe, the main regions where farmed fish are currently regularly eaten, to increase rapidly over the next 10 years before slowing down to a more moderate growth level.

Increased standard of living:

Economic growth in Asia, Europe, the United States and parts of Eastern Europe has led to an increase in the standard of living, and this has increased the demand for premium food products such as salmon.

Growth in world population:

As world population continues to grow, with current projections of an increase from 6 billion people in the year 2000 to around 9 billion by 2050, farmed fish is expected to be one of the many food groups which will experience an increase due to larger demand for animal protein.

Enjoyment, health and practicality:

Seafood is considered to be a healthy and nutritious alternative to meat products. It is perceived as a healthy product due to its fairly low cholesterol content. In particular, fatty fish such as salmon have a high percentage of Omega-3 fatty acids, which have scientifically proven health benefits. These factors are believed to be key drivers for further growth of farmed fish and salmon in particular as an alternative to beef, poultry and pork.

Farmed fish production is a more efficient source of protein relative to other sources of animal protein. Fish farming has been shown to have a more efficient rate of conversion of feed into protein. For example, farmed salmon requires less than 50 percent of the weight of feed required to produce an equivalent weight of other animal protein products.

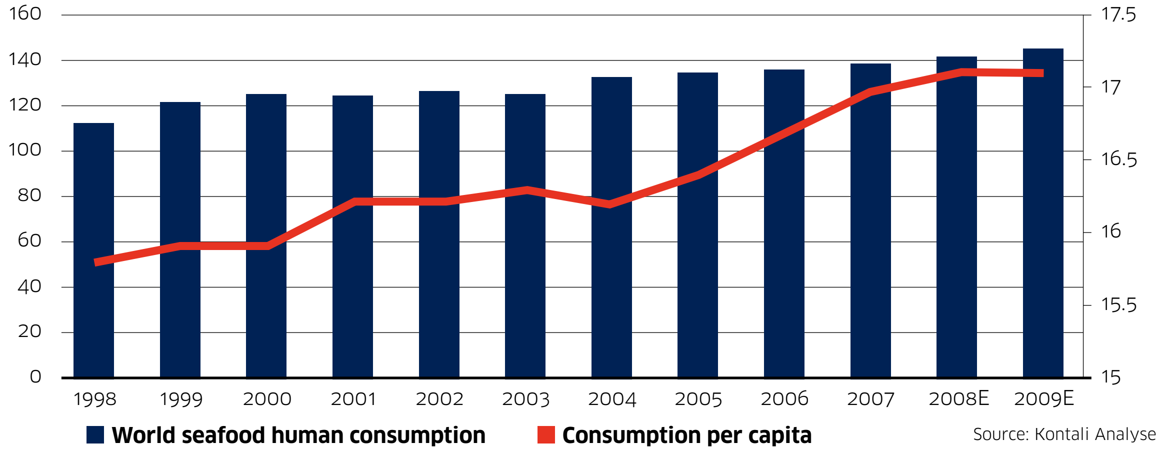
SEAFOOD CONSUMPTION

The world population is approximately 6.7 billion people. The world population has grown by 1.34% a year since 1990, corresponding to about 80 million people per year. The growth figures indicate a population of around 9–10 billion people by the year 2050.

Fish consumption has undergone major changes in the past four decades. World per capita consumption of fish has increased gradually, from an average of 10 kg in the 1960s to approximately 17 kg in 2010. The supply of fish has not grown uniformly in all fish producing regions. China is the major contributor to the growth in supply of fish. Their estimated share of world fish production increased from 21% in 1994 to 35% in 2005, while the Chinese per capita supply was about 26 kg.

The figure below shows world seafood production (for human consumption) and consumption per capita 1990–2009E.

World consumption of seafood



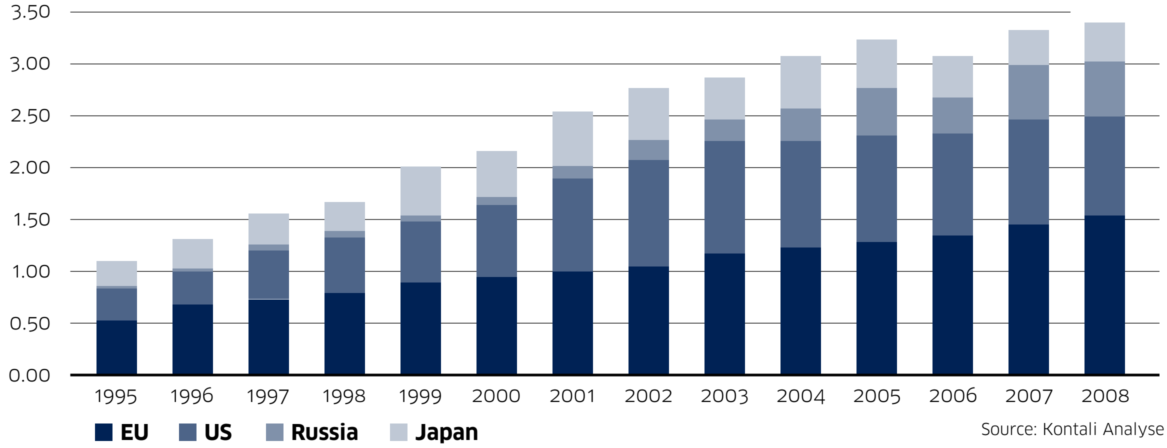
There are large variations in the consumption of seafood, both between regions and in different countries, and also within each country. The global increase in fish consumption follows the increase in general food consumption per capita. Over the last decades, consumers in the most developed countries are more dynamic in their dieting habits, and the consumption of meat and seafood per capita has a strong relation to consumer revenues. Less food is prepared at home, the supermarkets offer ready-to-cook products and a larger share of the population can afford dining out. However, many countries continue to face food shortages and nutrient inadequacies, and major inequalities exist in the access to food.

MAIN MARKETS FOR SALMON

The EU, the US, Japan and Russia are the main markets for Atlantic salmon. The EU market is the largest market in terms of volume. The EU market and especially the Russian market have shown solid growth over the last couple of years. These main markets seem to be partly independent of each other with regards to prices and demand, as shown in 2003, when prices in Europe were low compared to the relatively strong prices in the US.

The figure below shows per capita consumption for farmed Atlantic salmon from 1995–2008 for the selected main markets of the US, the EU, Russia and Japan.

Per capita consumption of Atlantic Salmon 1995 - 2008



Source: Kontali Analyse

THE US MARKET

The total supply of Atlantic salmon to the US market was approximately 278,800 tonnes in 2009, a decrease of 5% from 2008. The main reason for the decline in supply to the US is lower supply from Chile, which was caused by production problems, mainly ISA problems.

The largest supplier is still Chile, with approximately 105,500 tonnes, but the ISA problems in Chile have changed the picture. The European supply to the US market has increased by nearly 50,000 tonnes. The increased supply from other countries has partially compensated for the drop in supply from Chile and Canada, but the total supply to the US market dropped by 5% in 2009.

Bakkafrost and the Faroese salmon producers are competitive on the US market. The Group has a running operation and ongoing sales of large salmon, supported by efficient logistical systems for the distribution of the products (both fresh and frozen) from the Faroe Islands to the US. The US market prefers the higher-than-average size and weight and the high level of Omega-3 offered in salmon produced from the Faroe Islands.

SUPPLY OF ATLANTIC SALMON TO US MARKET (tonnes wfe)

Country	2002	2003	2004	2005	2006	2007	2008	2009E
Canada	85,400	64,800	62,200	78,900	86,000	80,100	86,300	81,100
Chile	176,300	195,400	207,900	202,900	184,100	187,500	174,200	107,100
Faroe Islands	1,200	2,700	1,100	900	300	1,600	2,700	11,200
Norway	14,500	16,400	10,200	9,000	11,000	14,300	9,600	40,300
United Kingdom	7,000	16,400	11,100	6,200	9,500	15,700	15,700	26,200
USA	8,900	12,100	6,100	3,000	3,000	7,100	4,500	8,800
Others	2,000	3,500	2,800	800	900	800	1,500	6,000
TOTAL	**295,300**	**311,300**	**301,400**	**301,700**	**294,800**	**307,100**	**294,500**	**280,700**
Change		5%	-3%	0%	-2%	4%	-4%	-5%

Source: Kontali Analyse

THE EU MARKET

The supply of Atlantic salmon increased from 736,600 tonnes in 2008 to 767,100 tonnes in 2009, an increase of 4%. This was mainly due to increased imports from Norway (77%). The bulk of the salmon supplied to the EU market is still whole gutted fresh fish, while the processing takes place in the market. In contrast, the US market is, to a larger extent, characterized as a market for processed fish, as the bulk of the supply is filleted fish from Chile. The EU consumption of farmed salmon comprises around half of the global consumption, with the largest share of the supply coming from Norwegian and UK salmon farmers.

SUPPLY OF ATLANTIC SALMON TO EU MARKET (tonnes wfe)

Country	2002	2003	2004	2005	2006	2007	2008	2009E
Norway	300,300	360,400	383,600	411,800	440,800	506,800	532,100	591,700
United Kingdom	130,700	138,300	134,300	109,300	111,100	112,800	115,700	111,100
Chile	34,800	23,900	42,200	84,000	80,700	67,800	67,100	39,800
Faroe Islands	37,600	41,900	32,800	16,100	9,700	13,100	29,900	30,000
Others	17,400	13,500	6,500	8,400	7,400	3,800	(8,200)	(5,500)
TOTAL	**520,800**	**578,000**	**599,400**	**629,600**	**649,700**	**704,300**	**736,600**	**767,100**
Growth rate		11%	4%	5%	3%	8%	5%	4%

Source: Kontali Analyse

THE RUSSIAN MARKET

During the last couple of years, the Russian market has increased its importance as a major market for Atlantic salmon. The total supply of Atlantic salmon to the Russian market was approximately 78,100 tonnes wfe in 2009, up from 74,800 tonnes in 2008, a 4% increase. However, in a longer perspective, the supply of Atlantic salmon to the Russian market has increased significantly, from less than 10,000 tonnes in 2000. Norway is by far the largest supplier of Atlantic salmon to the Russian market.

SUPPLY OF ATLANTIC SALMON TO RUSSIA MARKET (tonnes wfe)

Country	2002	2003	2004	2005	2006	2007	2008	2009E
Norway	22,000	28,900	39,800	56,000	36,900	60,400	62,400	69,600
Chile	900	1,100	2,400	5,900	5,600	3,200	6,000	5,000
Canada	0	0	0	0	0	0	0	0
USA	0	0	0	0	0	0	0	0
United Kingdom	0	0	100	1,200	4,000	3,400	200	1,400
Others	1,300	700	1,100	600	3,500	5,600	6,200	2,400
TOTAL	**24,200**	**30,700**	**43,400**	**63,700**	**50,000**	**72,600**	**74,800**	**78,400**
Growth rate		27%	41%	47%	-22%	45%	3%	5%

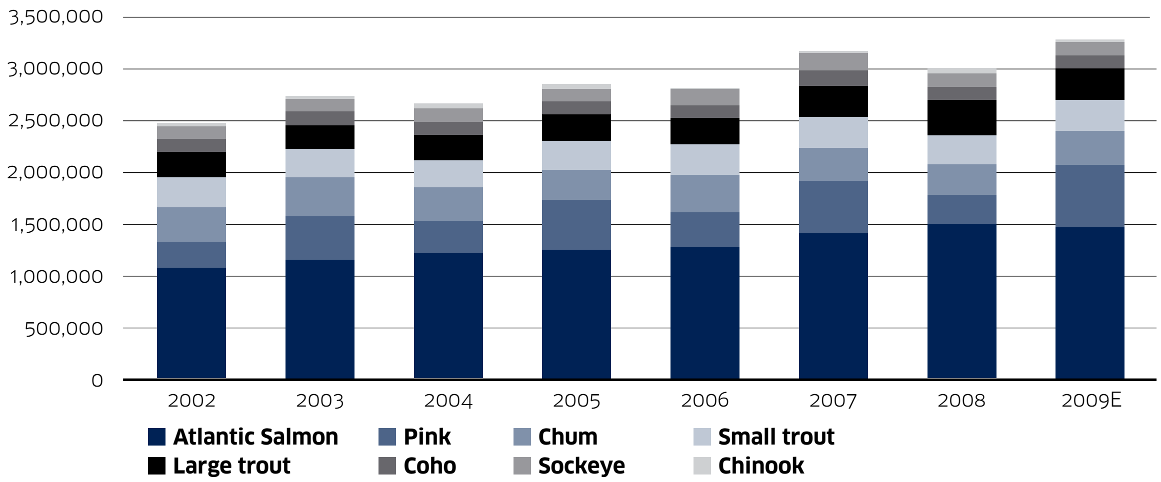
Source: Kontali Analyse

SUPPLY – PRODUCTION REGIONS

GLOBAL SUPPLY OF ALL SALMONIDS

HISTORICAL SUPPLY OF ALL SALMONIDS (tonnes wfe)

Country	2002	2003	2004	2005	2006	2007	2008	2009E
Atlantic salmon	1,058,300	1,144,900	1,207,600	1,252,000	1,272,000	1,398,500	1,493,400	1,468,400
Pink	278,400	418,900	300,000	463,400	338,700	521,400	293,300	600,300
Chum	327,200	378,300	333,400	306,000	352,800	316,700	275,000	332,800
Small trout	278,800	276,350	278,060	280,300	292,800	292,100	293,250	294,400
Large trout	245,450	232,080	242,200	236,050	253,600	306,050	332,300	299,650
Coho	138,400	134,400	133,000	137,000	138,500	142,200	144,400	126,000
Sockeye	100,300	111,000	139,000	139,400	143,000	158,600	135,600	140,200
Chinook	30,300	30,300	35,000	34,400	25,800	22,200	18,600	18,200
SUM	**2,457,150**	**2,726,230**	**2,668,260**	**2,848,550**	**2,817,200**	**3,157,750**	**2,985,850**	**3,279,950**
		11%	-2%	7%	-1%	12%	-5%	10%



Source: Kontali Analyse

GLOBAL SUPPLY OF ATLANTIC SALMON

The global supply of farmed Atlantic salmon had a negative growth by 2% (24,000 tonnes wfe) in 2009 compared to the year before.

Norway, Chile, the UK and Canada are the main suppliers of Atlantic salmon. The largest growth potential for production of Atlantic salmon is expected to be in Norway and Chile due to favourable growing conditions and availability of sites.

The global harvest quantity of Atlantic salmon for the period 2001–2009E is illustrated in the table below.

HARVEST OF ATLANTIC SALMON IN TONNES (tonnes wfe)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009E
Norway	411,000	444,000	508,000	537,000	574,000	599,000	723,000	741,000	856,000
UK	132,000	140,000	161,000	150,000	120,000	128,000	135,000	136,000	145,000
Chile	245,000	268,000	281,000	346,000	385,000	369,000	356,000	403,000	239,000
Canada	99,000	112,000	92,000	89,000	108,000	115,000	110,000	119,000	115,000
USA	21,000	13,000	18,000	13,000	10,000	10,000	12,000	17,000	16,000
Faroe Islands	41,000	42,000	47,000	37,000	17,000	12,000	19,000	38,000	48,000
Ireland	24,000	22,000	18,000	12,000	12,000	15,000	15,000	11,000	16,000
Others	16,000	17,000	20,000	23,000	27,000	26,000	28,000	28,000	34,000
TOTAL	**989,000**	**1,058,000**	**1,145 000**	**1,207,000**	**1,253,000**	**1,274,000**	**1,398,000**	**1,493,000**	**1,469,000**
Change		7%	8%	5%	4%	2%	10%	7%	-2%

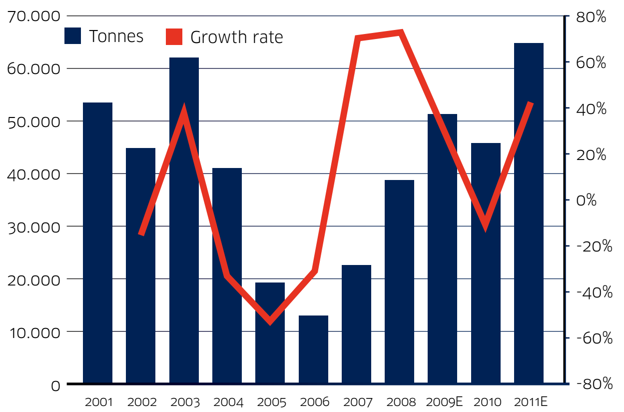
HARVEST OF LARGE TROUT IN TONNES (tonnes wfe)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009E
Chile	109,900	107,500	105,000	125,500	122,600	137,900	169,200	179,400	150,900
Norway	65,600	77,000	70,900	63,600	59,600	57,500	76,100	86,300	81,000
Finland	17,000	14,900	13,900	12,000	13,000	14,000	11,500	12,000	12,000
Denmark	7,000	6,500	6,500	5,500	6,000	7,000	7,000	7,500	9,000
Faroe Islands	2,300	9,500	10,000	4,200	3,800	4,700	6,700	8,700	9,200
Sweden	5,300	4,800	5,500	6,000	6,000	6,000	6,000	4,500	4,500
Others	22,000	25,300	20,300	25,400	25,100	26,500	29,600	30,900	33,100
TOTAL	**229,100**	**245,500**	**232,100**	**242,200**	**236,100**	**253,600**	**306,100**	**329,300**	**299,700**
Change		7%	-5%	4%	-3%	7%	21%	8%	-9%

Source: Kontali Analyse

The harvest quantity in the Faroe Islands was 45,391 tonnes wfe in 2010, compared to 51,214 tonnes in 2009.

Supply of Atlantic Salmon from Faroe Islands, tonnes wfe



	Tonnes	Growth rate
2001	53,557	
2002	44,954	-16%
2003	61,630	37%
2004	40,985	-33%
2005	18,962	-54%
2006	13,078	-31%
2007	22,305	71%
2008	38,494	73%
2009	51,214	33%
2010	45,391	-11%
2011E	64,634	42%

Source: Faroese Fish Farmers

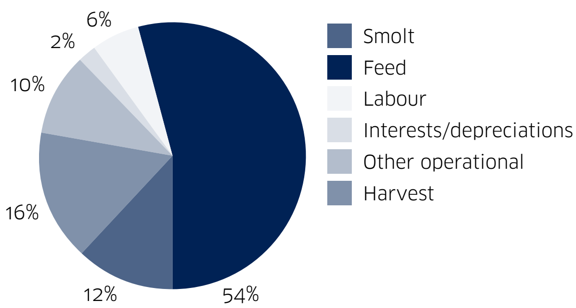
The Faroes had escalating problems with the ISA virus from the beginning of 2000 up to 2004. The harvest quantity peaked with 61,630 tonnes (wfe) in 2003, but increasing outbreaks of the ISA virus reduced the harvest quantity step by step down to 13,078 tonnes (wfe) in 2006. Since then, the production in the Faroe Islands has improved rapidly, and new outbreaks of ISA have not been registered since summer 2005. The harvest quantity has increased from 13,078 tonnes (wfe) in 2006 to 45,391 tonnes (wfe) last year. The loss rates have been historically low and considerably lower than the other competitive countries. The average harvest weights have increased in line with the growing harvest quantities. The average harvest quantity was 5.6 kg (wfe) last year, and the yield per released smolt (kg wfe per smolt released) in 2008 is estimated at approximately 5 kg (wfe), which is high compared to all producing regions. In addition, the average harvest weight was approximately 4.9 kg (wfe) in Norway at the same time. It is expected that the harvested quantity of salmon in the Faroe Islands will increase 42% in 2011 compared with 2010.

THE INDUSTRY STRUCTURE

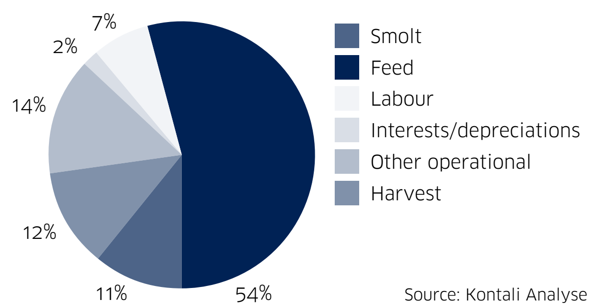
The salmon farming industry is characterised by strong competition between a limited number of multinational players and a large number of relatively small local players, particularly in Norway. Along with growth in the aquaculture industry, the structure has changed significantly over the past decade. From a structure of only local players serving a limited number of markets, primarily with standardised products, the industry has seen increased industrialisation and the emergence of multinational competitors serving all key markets on a global scale, with a growing product portfolio. Large structural changes have taken place, particularly in Norway and Europe, the last couple of years.

The production costs are highly influenced by the feed cost, which comprises nearly 55% of the production cost. Other main costs within the fish farming industry are smolt and harvest. The figures below show the split of cost for Faroese and Norwegian fish farmers in 2009.

Cost split Faroe Islands 2009E, gutted weight



Cost split Norway 2009E, gutted weight



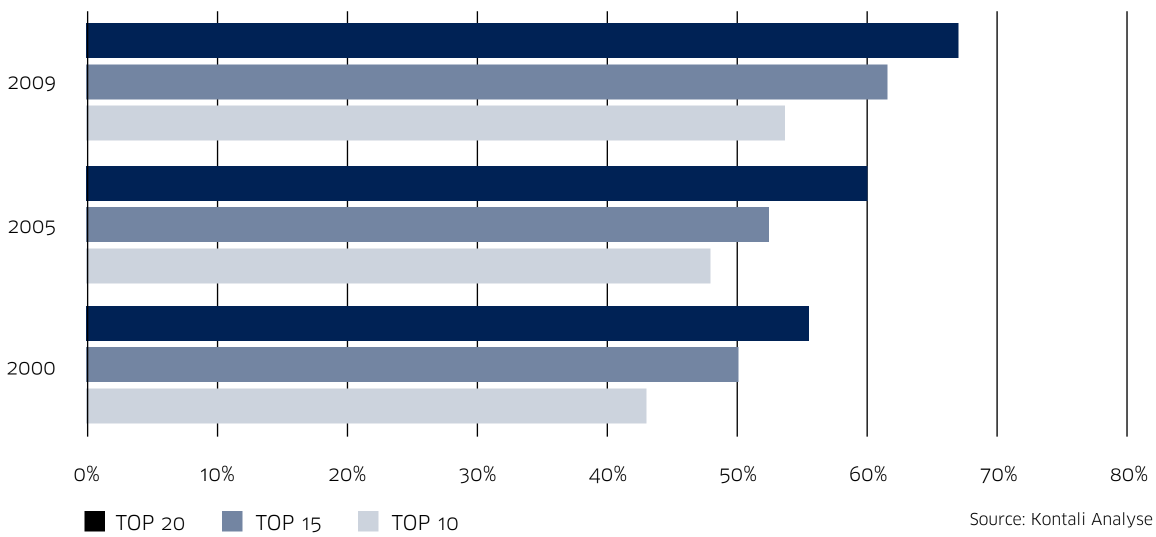
Source: Kontali Analyse

THE MARKET PLAYERS

In Chile, Scotland and Canada, more-efficient larger players have gradually taken over most of the smaller producers, and the same trend has, to some extent, been apparent in Norway lately. Globally, the 10 and 15 largest companies control approximately 50% and 60% of total harvest quantity, respectively.

The figure below shows the increased consolidation in the market the last couple of years.

Market structure development



Source: Kontali Analyse

HARVEST QUANTITY - 2009E, ATLANTIC SALMON, COHO, CHINOOK AND LARGE TROUT (tonnes wfe)

Ranking	Group	Head Office	Total	Norway	UK	Chile	Canada	USA	Faroe Islands	Ireland	Others
1	Marine Harvest Gr,	NO	358,500	224,100	41,900	35,200	40,600		7,100	9,600	
2	Lerøy Seafood Gr,	NO	120,600	120,600							
3	Cermaq	NO	115,300	34,100	7,400	48,900	24,900				
4	SalMar	NO	71,500	71,500							
5	Cooke Aquaculture*	CA	66,000			19,000	37,000	10,000			
6	Empresas Aquachile	CL	63,000			63,000					
7	Grieg Seafood	NO	54,300	29,200	13,800		11,300				
8	Pesquera Los Fiordos	CL	41,000			41,000					
9	Bakkafrost**	FO	34,500						34,500		
10	Nova Sea	NO	32,500	32,500							
11	Nordlaks Holding	NO	30,000	30,000							
12	Scottish Seafarms	UK	29,400		29,400						
13	Sjøtroll	NO	28,000	28,000							
14	Salmones Multiexport	CL	25,000			25,000					
15	Alsaker Fjordbruk	NO	22,600	22,600							
	Sum top 15		1,092,200	592,600	92,500	232,100	113,800	10,000	41,600	9,600	0
	Others		800,150	344,100	54,200	256,200	6,750	6,400	15,700	6,650	110,150
	Total		1,892,350	936,700	146,700	488,300	120,550	16,400	57,300	16,250	110,150
Top 10 in % of total harvest quantity			51%	55%	43%	42%	94%	61%	73%	59%	0%
Top 15 in % of total harvest quantity			58%	63%	63%	48%	94%	61%	73%	59%	0%
Top 20 in % of total harvest quantity			58%	63%	63%	48%	94%	61%	73%	59%	0%

* incl. S. Cupquelan
** incl. Vestlaks

Source: Kontali Analyse

Operational synergies may be generated from further consolidation, and it is expected that larger companies will benefit the industry in general. Size and integration tend to be advantageous for R&D and product development.

VISION

Bakkafrost's vision is to offer its customers value-added healthy quality products through long-term relationships with its partners. Bakkafrost wants to build its operations on sustainable raw materials and resources.

STRATEGY

Bakkafrost's main strategic goal is to be an independent company securing long-term sustainable growth with efficient and cost-effective production.

Based on the Group's experience and history, biological security is acknowledged to play an important part in the upstream production of salmon to achieve cost efficiency. Hence, the focus on biological security is given the highest priority within the Group. Through its experience from many years of salmon farming in the Faroe Islands and the results from veterinary and biological best practices, Bakkafrost aims to produce quality salmon products through balancing the production volumes between economies of scale and biological capacities.

Downstream, Bakkafrost's long-term growth and financial stability is a result of a strategy based on a mix of contract sale of value added products and spot sale of whole gutted fish.

The Group's long-term fundamental goals for a healthy, attractive and competitive low-cost salmon farming group are to be secured through:

- Control of the entire value chain, from smolt to retail product
- Utilisation of the benefits from the unique geographical placement of the farms
- Implementation of and non-stop development of best veterinary-, biological- and sustainable practices
- Implementation of best practices regarding quality assurance and traceability
- Utilisation of economies of scale through increased size of the harvested fish
- The offering of both value added products as well as whole salmon in order to meet the specific demands of each main market

Bakkafrost's strategic goals shall be achieved through the following main operational strategies:

BIOLOGICAL SECURITY

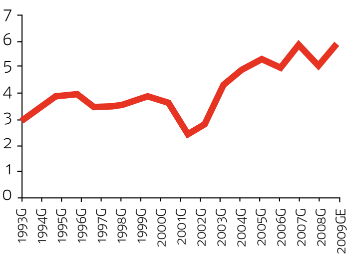
Bakkafrost aims to keep the salmon in a good and healthy environment, ensuring the welfare and well being of its fish. All natural and physiological needs must be met to the greatest extent possible in order to maintain a healthy sustainable production and reach cost efficiency.

The fish farming operations must be conducted in strict compliance with the directives and regulations of the Faroese food safety administration, which ensures that the Group's fish flourish and grow under the most natural conditions possible.

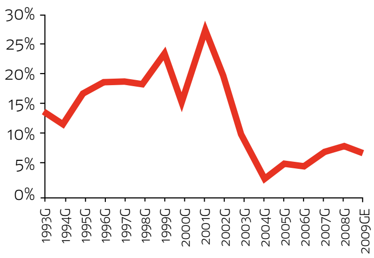
Since the new veterinary model was introduced in the Faroe Islands in 2003, Bakkafrost has experienced little loss due to disease, a significantly improved feed conversion ratio, lower mortality rates and increased productivity without the use of antibiotics.

The graphs below show the recent development in important parameters such as average harvest weight, mortality and feed conversion rate for Faroese salmon producers, clearly showing the positive development since the introduction of the new veterinary model.

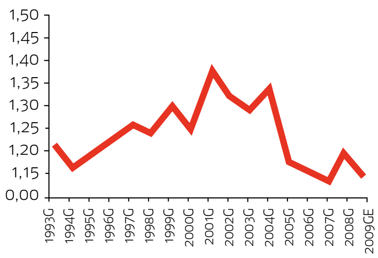
Average harvest weight LWE



Mortality % of output



Biological feed factor



Source: FarmControl[3]

The low weight and high mortality in 2002 was a result of disease and early harvesting on the remaining fish in order to prevent the disease from spreading. The average harvest weights have increased from a historical low average weight in the 2001 generation and a high mortality of approximately 30% to an average weight of 6 kg in the 2007 generation and a mortality of approximately 7%. The strong biological performance has provided the possibility of harvesting larger fish, reducing the feed costs per kilo to an average of approximately 1.12 on average in the Faroe Islands.

[3] FarmControl has, since 1993, registered and monitored data from Faroese fish farmers. Numbers shown in these graphs represent between 50–90% of the Faroese farmed salmon farmed for generations 1993–2002 and ~100% after 2003.

BUSINESS OBJECTIVES AND STRATEGY

BEST PRACTICE – HUMAN RESOURCES

The Group shall maintain its focus on human capital and high work satisfaction in order to keep the competence in-house and benefit from their expertise in all parts of the process. The Group has a HR department responsible for the Group's human resource management. The annual turnover of staff is 1–3% in the farming division, 3–10% in the harvesting division and 10% in the processing division. Administration had a turnover of around 10% in the year. There have been no changes in management during the recent year.

The managers of the farming sites have extensive experience, with most of them working since the beginning of the '90s and some working since the mid '80s, contributing to the strong results within the farming division. On the high end, the processing division hires a lot of younger personnel looking for short-term employment, typically 1–2 years, hence the higher turnover ratio. The Group is continuously working on improving the work satisfaction within the entire value chain.

COST EFFICIENCY

The Group shall maintain a strong focus on production and cost efficiency, realising economies of scale within the limits for biological sustainable farming. Key parameters are:

- Share, maintain and implement best practices in feeding regimes and husbandry
- Continue to monitor and evaluate the various steps within the processing in order to utilise production capacity and find potential for improvements
- Reward the ideas for new methods improving economy of scale and maintain/increase quality of products

VALUE ADDED PRODUCTION

In 2010, value added products (VAP), as e.g. portions and fillets, represented 60% of Bakkafrost's total production. The VAP operation is based on contractual sale and hence reduces the fluctuations of the Group's financial performance through a business cycle. In order to meet customers' demands, it is important to deliver high-quality products and a wide range of products.

Bakkafrost will continue to invest in state-of-the-art process equipment in order to meet the market demands on both product quality and new products. The Group will continue optimising the product portfolio in order to maintain the flexibility of the production between VAP and other products.

NEW OPPORTUNITIES

The merger between Bakkafrost and Vestlax on 1 January 2010 will give new opportunities for growth through increased utilisation of farming locations and increased raw material base. The Group will be better positioned to meet the large volumes requested by both new as well as existing customers, build long-term relationships and, at the same time, be able to benefit from opportunities within the spot market or explore new opportunities.

GROWTH STRATEGY

Since the new veterinary model was introduced in the Faroe Islands, Bakkafrost has increased the annual harvest volumes significantly based on improved biological key figures. The targeted milestone volume at 37,000 gwt is expected to be reached in 2012 within the existing facilities, representing a growth of 21% compared to the harvest volumes in 2009. Further growth on existing facilities has to be evaluated after learning how the biological performance develops at this volume. We believe there still are some possibilities for organic growth within existing licences.

The Group also has the opportunity to grow in the Faroe Islands through increasing the number of licences. Bakkafrost owns 11 licences of a total of 28 at 31 December 2010. The regulation allows one company to hold up to 50% of the total number of licences. The potential increase amounts therefore to 3 licences.

The Group also considers acquisitions outside the Faroe Islands as an opportunity for further growth. Currently, there are no such plans, but the management believes that the operating model conducted in the Faroe Islands will be equally successful in other geographic locations with favourable naturally-given conditions and will consider such opportunities when the timing is considered to be right.

Bakkafrost is the largest salmon producer in the Faroe Islands. Bakkafrost expects to produce 33,000 tonnes gwt in 2011, and the estimated overall capacity is considered to be at least 40,000 tonnes gwt per year. Bakkafrost owns 39% of the total licences in the Faroe Islands, currently representing ~60% of total harvest volumes[4].

The Group operates five fully owned hatcheries and fourteen fish farming licences for marine production of Atlantic salmon in the Faroe Islands in addition to one licence currently out of production. The licences are located in thirteen different fjords.

All primary processing takes place at the slaughtery facilities in Klaksvík and Kollafjørður , and all secondary processing takes place at the VAP facility in Glyvrar.

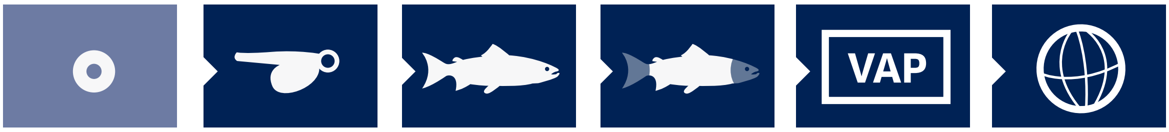
THE VALUE CHAIN

Bakkafrost controls the entire value chain from smolt to sales and marketing. Control of the entire value chain is considered important to be able to control the product flow on a daily basis. Both customers and processing facilities depend on daily availability of salmon and depend entirely on a steady flow of harvested fish.

The quality of the fish is a result of the whole operation, from salmon egg to the processing of the fish. The documentation and traceability from finished product back to the salmon egg and even to the raw materials in Bakkafrost's salmon feed is important for its customers and therefore important to Bakkafrost.

VALUE CHAIN TIMELINE:

Timeline:	12 months	+18m = 30 months	1 day	2-3 days	3-5 days
BIOLOGICAL PRODUCTION		**INDUSTRIAL PRODUCTION**			**SALES, LOGISTICS, DISTRIBUTION**



Brood stocks Eggs	**Hatcheries**	**Farming**	**Harvesting**	**Processing**	**Headquarters**
External suppliers	Norðtoftir Húsar Glyvradalur Viðareiði Gjógv	Hvannasund North Hvannasund South Haraldssund Kunoyarnes Lambavík Borðoyavík Árnafjørður Fuglafjørður Svínáir Selatrað Kolbeinargjógv Undir Síðu Vestmanna Gulin	Klaksvík Kollafjørður	Glyvrar	Glyvrar

The control of the entire value chain enables Bakkafrost to enter into long-term delivery contracts and long-term customer relationships, without being dependant on any third party to ensure the quality and predictability of its deliveries. It further enables better utilisation of the facilities throughout the value chain and prevents sub-optimisation between cost centres.

1. Brood stock

Bakkafrost purchases salmon eggs from several external suppliers based in the Faroe Islands, Iceland, Norway and Scotland. The capacity of Bakkafrost's suppliers is sufficient to meet the current and future need of eggs.

The vitality of the fish is important. Therefore, the selection of the best genetic properties is vital. The fish's resistance to diseases is an important property of the fish. In order to ensure access to high-quality eggs, Bakkafrost's strategy is to buy eggs from selected external suppliers that invest significant efforts and resources to improve product quality and performance.

2. Juveniles

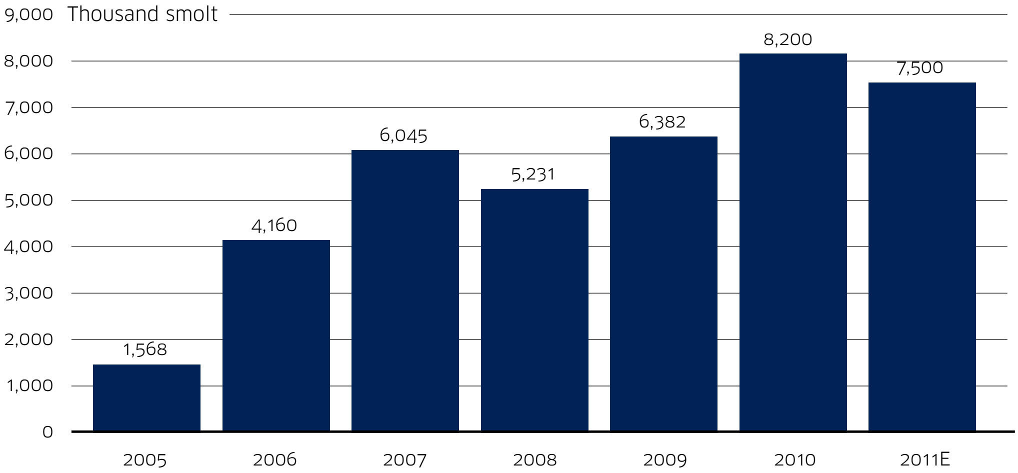
Bakkafrost owns a total of six hatchery licences. The merged Group operates five hatcheries, with a total produc-

4) 2009 figures

tion capacity of around eight million smolts per year, making the Group self-sufficient with smolts. Bakkafrost has been focused on producing smolts for its own production, and the number of smolts sold to third parties is limited. The Group will expand the hatchery capacity on existing facilities in line with the growth strategy, and this will be completed with limited investments.

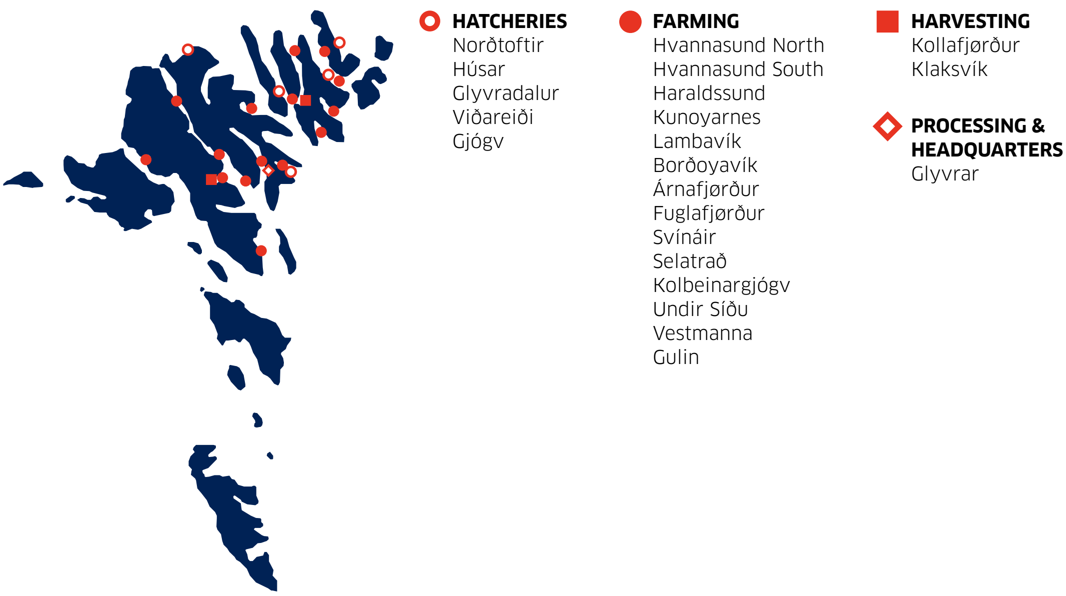
Bakkafrost's hatcheries are located in environments with large quantities of clean fresh water, where no villages or industries are competing for the water. This is important, as there is no ground water available in the Faroe Islands. The hatcheries are equipped with closed water circulation systems with bio filters, and the fish tanks are inside buildings in order to limit the effect of external factors such as weather, birds and other pollution.
The workforce in the hatcheries is very experienced; many of the employees have been working at the hatcheries since the early nineties.

Historically, Bakkafrost has released smolts into the sea when the weight was between 50–60g. Over the last four years, Bakkafrost has changed its strategy and waits until the size of the smolts has reached 80–100g before releasing them into the sea. The Group believes this has had a positive effect when measuring productivity and mortality, and hence contributed to improving the Group's results during this period.



3. Farming

Bakkafrost's 15 fish farms are located in the central and northern part of the Faroe Islands. On average, each fish farm can produce around 2,500 tonnes gutted weight per year with the present production regime within the next 3–5 years.



The fish is kept, fed and nurtured in large sea cages, providing the fish with abundant space to grow for a period of 16–18 months. During this period, the fish grows from 100g up to Bakkafrost's average target weight of about 6.0–6.5 kg wfe. This targeted weight is considered to provide an optimal breakdown/mix of sizes in order to serve both the fresh fish market and the internal VAP production. As a rule, the larger fish are distributed as fresh fish and the smaller fish are used as raw material in the VAP production.

The fish are fed several times a day, and the feed consumption is monitored continuously. Since the new veterinary model was implemented in 2003, the biological feed conversion rate has decreased from around 1.20 to around 1.10, reducing the feed cost by approximately 8.5%. This is considered to be a direct result of the improved fish health.

During the entire production period, each separate generation is kept in a separate fjord, and after all locations in a fjord have been harvested, the fjord is set aside for 3–4 months before a new generation is released. This operating model was introduced in 2003, and the observed effects are better productivity, less mortality and better utilisation of the feed. On average, the mortality rate has been less than 10% for all farmers in the Faroe Islands since the new veterinary model was implemented.

The main goal of the farming operation is to produce salmon at a low feed conversation rate and with low mortality. In order to reach this goal, Bakkafrost believes the environment is important, and therefore does its utmost to create and maintain a healthy environment for the fish. Following national regulations, environmental investigations are undertaken each year by external agencies on each farming location. The result of each survey becomes input data used in the tactical planning in order to achieve the best environmental sustainable farming results possible.

The environmental authorities also have to approve a 3-year production plan for the Faroese salmon companies on a yearly basis.

Farming North

The sites in Farming North (Bakkafrost's sites before the merger with Vestlax) are located in the north-east part of the Faroe Islands. The operations in this region show a strong historical performance based on excellent conditions for salmon farming.

Farming North has historically shown good productivity due to the general favourable environmental conditions in the sea. The Gulf Stream provides stable conditions throughout the year as well as high water quality. The water temperature in the region is steady, with a fluctuation of only 6°C during the year. The lowest temperatures, approximately 5.5°C, are usually reached in February, and the highest temperatures, approximately 11.5°C, are reached in the late summer months.

Further, the occurrence of salmon lice has been limited in these sites, again reflecting the favourable biological conditions combined with the veterinary model introduced in the Faroe Islands in 2003.

The farming areas are large and have the capacity to support the quantities farmed on each site.

The biological situation in the Faroe Islands provides the opportunity to utilise a higher-than-average weight of the fish, minimising unit costs, biological feed factor and giving a best-in-class performance. The excellent biological situation is crucial to maintain production costs at current levels and to maximise the return on the invested capital.

Farming West

The sites in Farming West (former Vestlax which is merged with Bakkafrost with effect from 1 January 2010) are located in the central part of the Faroe Islands. The locations in Farming West have previously shown a somewhat lower performance than Farming North. The biological results in 2010 give indications that these locations have the same potential in terms of biological performance and corresponding low production costs, as the natural given factors are more or less the same.

As for Farming North, these sites also have constant supplies of fresh seawater due to the Gulf Stream. But in contrast to the Bakkafrost sites in Farming North, where Bakkafrost operates regions without being close to other salmon farmers, the areas in Farming West are shared with other salmon farmers (Marine Harvest at two locations and Viking Salmon at one location). Unsynchronised operations between the companies have, in the opinion of Bakkafrost, been a decisive reason why the sites in Farming West have not performed equally well, e.g. contribution to occurrence of salmon lice in locations 14–16 during 2009. However, the synchronised fallowing of Sundalagið in 2010 have until now shown good results on the fish released in this area.

Going forward, we expect all companies to also synchronise operations in this area after the present generation.

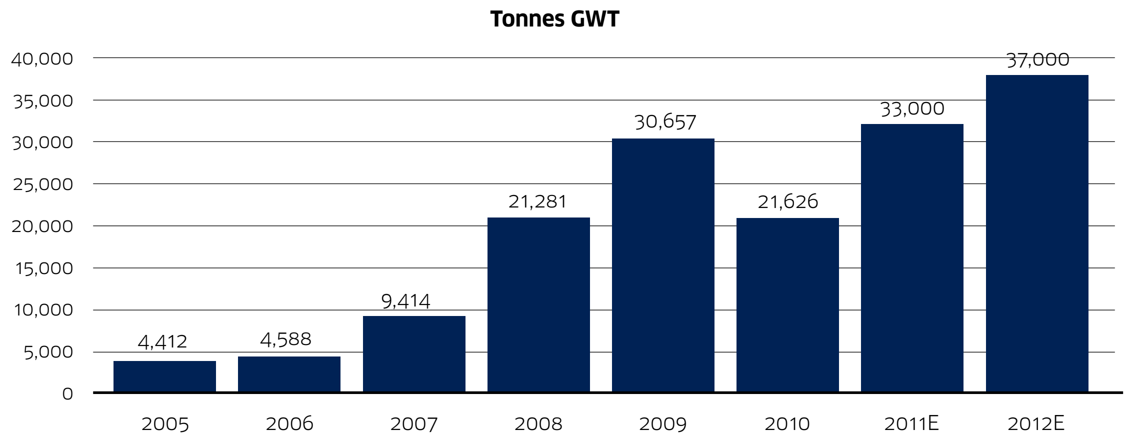
The increased production and investment in production equipment will continue during 2011.

4. Harvesting

All the fish are harvested at the slaughtery factories in Klaksvík and Kollafjørður. The slaughteries have a daily capacity of around 220 tonnes wfe at the current run rate of 1 shift on average. The fish is transported from the farming sites to the slaughteries in well boats with closed end-water systems.

Bakkafrost's well-boat fleet consists of two vessels: one smaller well boat (230m³ / 45 tonnes wfe) and a larger well boat (660m³ / 110 tonnes wfe), both with closed systems.

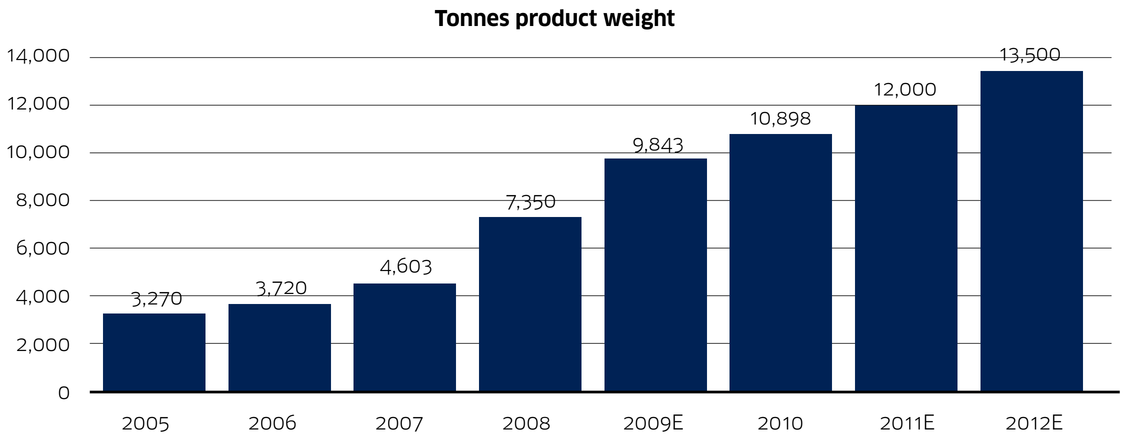
Bakkafrost has decided to terminate the trout activities and focus only on the production of Atlantic salmon. In 2010, trout volumes delivered 8.6% of the total volume, but were fully phased out in October 2010. Expectedly, this will result in a better utilisation of the existing facilities in the harvesting and processing capacity and an improved market position within the focus segments of the Group.



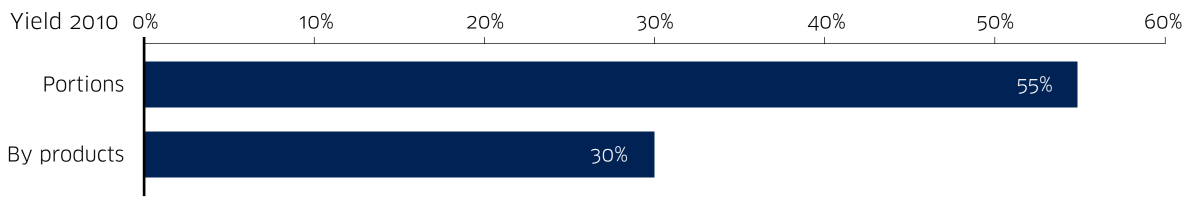
5. Processing and refinement

The 4,000m² VAP factory in Glyvrar has a production capacity of 160 tonnes of skinless and boneless 125g vacuum-packed portions in retail boxes per day.

The primary customers for this product are the European supermarket chains. Opportunities to grow into new regions and to new customers are present. However, as demand from existing customers has grown rapidly, Bakkafrost's strategy over the last years has been to show full commitment to existing customers rather than increasing the number of customers.



Another market segment important for the VAP products is industrial customers buying whole fillets for further processing and by-products. This market has been developed during the last five years, and all by-products are now sold at a margin. The customers in this segment are mainly European or from the Far East.



The Group intends to continuously upgrade the VAP factory in order to be able to deliver according to market demands. Expansions of the factory and production capacity are evaluated, and a decision will be made when it is concluded to be favourable for the Group.

6. Sales and distribution

Sales strategy

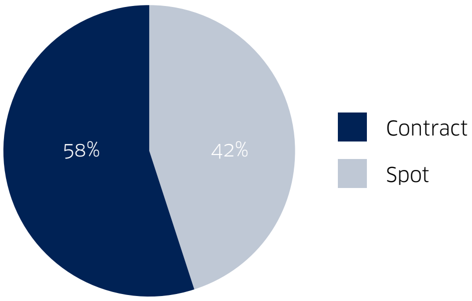
The strategy of the Group is to balance the sales mix between different geographical markets as well as different product segments.

The two most important markets are the European market and the US market, in which Bakkafrost mainly sells VAP products and whole fish. As a rule, the VAP products are sold on long-term contracts and the whole fish is sold in the spot market.

Bakkafrost believes that its capability to serve both these geographical markets with the two categories of products efficiently reduces cross-cycle fluctuations in both revenues and profitability.

The strategy is to offer advantages to the larger supermarket chains by securing product availability and stable high-quality and preferred products.

SPLIT CONTRACT VS SPOT OF REVENUE



Distribution

The current distribution network is based on boat to Europe and plane to the US. The Group is able to distribute both fresh and frozen fish to the market.

With the existing distribution network, Bakkafrost is able to ship products to Scotland within 20 hours by boat. From Scotland, the products are distributed by plane to major airports in the US within 24 hours, with a total cost of DKK 8–9 per kg from factory to customer.

Products planned for the European markets are transported by boat to Denmark or UK within 2 days for further distribution on trucks.

HEALTH, SAFETY AND THE ENVIRONMENT

ETHICS AND VALUES

In 2009, a new set of guidelines regarding ethics and values were drawn up to be valid for the company. Respect for the individual is the cornerstone of the company policy. All persons shall be treated with dignity and respect. All employees shall help to create a work environment free from any discrimination. The company's policy requires its directors and employees to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. The guidelines have in 2010 been communicated and distributed throughout the company, and the implementation of the guidelines is an ongoing process which will continue in the years to come.

HEALTH AND SAFETY

Health and safety is an area which always is in need of high attention and is highly prioritised. As stated in our code of conduct, we shall strive to apply a working methodology which ensures a good and sound working environment. In 2010, we continued the ongoing work on employee health and safety by setting a new internal safety board, by further educating and informing employees and by incorporating systems to support and manage this ongoing work. This work is being done in co-operation with the authorities. The human health safety work is ongoing and will continue in 2011 through further improving of an accident reporting system, examination and clarification of hazards and information and education of the employees.

FISH HEALTH AND ANIMAL WELFARE

Fish health, animal welfare and prevention of diseases are of high priority for the company. We have been able to make improvements regarding fish welfare in 2010 and will make further improvements in 2011. We will install new stunning systems in our slaughteries, as we also further improve our well boats in this respect.

We work closely with the veterinary authorities in order to secure the best production environment and to prevent any possible biological issues. We will increase our focus on the veterinary area even further in 2011, where we, in this regard, will expand our team with an in-house veterinarian.

Regarding sea lice, there has been a lot of attention on this area in 2010, just as it was in 2009. A new legislation came in late 2009 regarding management of sea lice, introducing new limits and demands. We have been and will continue to work closely with the authorities and other farmers on this important area. Our goal is to control and manage operating parameters to minimise and preferably avoid the use of therapeutic chemicals regarding lice control.

SUSTAINABILITY

Bakkafrost intends to maintain a healthy sustainable production built on sustainable raw materials and resources. The merger with Vestlax in 2010 gave us as a merged company a whole range of new possibilities and opportunities with regards of exploiting our sites in more sustainable ways. We have already seen positive synergies on this area in 2010.

A new sustainable heating system was introduced in 2010 to heat the buildings of Bakkafrost Processing. The system recycles/utilises the energy from our cooling and freezing systems to heat the buildings of Bakkafrost Processing. Using this system, we achieved a 90% reduction of oil usage and hence CO_2 release.

FOOD SAFETY

Bakkafrost has in the past several years focused greatly on food safety and traceability. This was also a special focus area in 2010 where we chose to implement new technology, both with regards to an updated and new traceability system and further by acquiring a new maintenance program. The total system gives us several expanded opportunities which we will further explore and implement in 2011.

Our VAP production holds both a BRC and IFS certification, both of which were updated in 2010. Our processing plants are approved and certified by the Faroese authorities. These approvals are all based on HACCP standards and EU legislation.

Global GAP is an international standard which focuses on food safety throughout the whole production (based on HACCP), fish welfare and health, safety and the environment. We are continuously working towards and in line with Global GAP and are aiming for a certification in 2011.

SHAREHOLDER INFORMATION

Information to shareholders has high priority in Bakkafrost. The company aims to maintain a regular dialogue with the Group's shareholders through the formal channel of stock exchange announcements, interim reports, annual reports, annual general meetings and presentations to investors and analysts.

FINANCIAL CALENDAR 2011

21 February	Presentation of Q4 2010 and annual results for 2010
7 April	Ordinary General Meeting at Glyvrar
24 May	Presentation of Q1 2011
16 August	Presentation of Q2 2011
7 November	Presentation of Q3 2011

All quarterly presentations will take place at Hotel Continental, Stortingsgaten 24/26, Oslo.

Please note that the financial calendar is subject to change. Any changes will be announced via Oslo Børs, and the Group's website, www.bakkafrost.com, will be updated accordingly.

ANNUAL GENERAL MEETING

The parent company's Annual General Meeting is planned for 7 April 2010.

AUDITORS

The consolidated accounts have been audited by Sp/f Grannskoðaravirkið Inpact, løggilt grannskoðaravirki (State-Authorised Public Accountants), which is also the auditor of the parent company and all its subsidiaries.

DIVIDEND

Bakkafrost aims to give its shareholders a competitive return on their investment, both through payment of dividends from the company and by securing an increase in the value of the equity through positive operations. Generally, the company should pay dividends to its shareholders, but it is the responsibility of the Board of Directors to make an overall assessment in order to secure the company a healthy capital base, both for daily operations and for a healthy future growth of the company.

It is the Board of Directors' view that 30–50% of EPS shall be paid out as dividend when the Group's equity ratio is above 60%.

SHAREHOLDERS, CAPITAL AND VOTES

P/F Bakkafrost had, on 31 December 2010, a total of 48,858,065, shares outstanding, each with a nominal value of DKK 1.

LARGEST SHAREHOLDERS

The 20 largest shareholders of the company as of 31 December 2010 were:

DKK	Nominal value of shares	Share holding	Voting rights
SALMAR ASA	11,380,265	23.30%	23.30%
HAVSBRÚN P/F	8,166,540	16.70%	16.70%
Hans Jacobsen	4,594,437	9.40%	9.40%
Regin Jacobsen	4,491,217	9.20%	9.20%
JPMORGAN CHASE BANK	2,157,501	4.40%	4.40%
TF ÍLØGUR P/F	1,719,095	3.50%	3.50%
JPMBLSA	1,063,875	2.20%	2.20%
ROYNDIN P/F	927,564	1.90%	1.90%
MORGAN STANLEY & CO INTERNAT. PLC	758,138	1.60%	1.60%
STATE STREET BANK AND TRUST CO	738,901	1.50%	1.50%
OM HOLDING AS	700,000	1.40%	1.40%
Katrin Jakobsen	545,441	1.10%	1.10%
JPMORGAN CHASE BANK	544,780	1.10%	1.10%
BROWN BROTHERS HARRIMAN & CO	489.625	1.00%	1.00%
UBS (LUXEMBOURG) S.A.	482,593	1.00%	1.00%
VARMA MUTUAL PENSION INSURANCE	457,400	0.90%	0.90%
SKANDINAVISKA ENSKILDA BANKEN	423,600	0.90%	0.90%
STICHTING PENSIOENFONDS METAAL EN	356,983	0.70%	0.70%
ALFRED BERG GAMBAK	350,676	0.70%	0.70%
Rógvi Jacobsen	350,038	0.70%	0.70%
Total held by the 20 largest shareholders	**40,698,669**	**83.20%**	**83.20%**
Total other shareholders	8,159,396	16.80%	16.80%
Total no. of shares	**48,858,065**	**100.00%**	**100.00%**

BOARD MEETINGS

In 2010, the Board of P/F Bakkafrost held 18 Board meetings. Below under each Director's profile is disclosed each director's participation in Board meetings held during 2010.

DIRECTORS' PROFILES

Rúni M Hansen, Chairman of the Board

Born 1967. MSc. in Economics and Business Administration, Copenhagen Business School, 1993. DBA, Lancaster University, The Management School, Lancaster UK, 1994. Career: Statoil, member of Global Exploration management team for Europe and North Africa, 2007–present. Director for Statoil Faroes and Statoil Greenland. Board member of Vónin 1998–2008, Chairman 2002–2008. Board Member of Føroya Banki 1999–2006, Vice Chairman 2003–2006.
Mr. Hansen has been a Board member of Bakkafrost since December 2009, when he also became Chairman of the Board of Directors. Mr. Hansen participated in all 18 Board meetings held during 2010.
Mr. Hansen is considered to be independent.
Mr. Hansen holds 10,000 shares in the company.

Johannes Jensen, Deputy Chairman of the Board

Born 1966. MBA, Lancaster, Lancaster University 1998. Faroe Seafood 1987–2001. Marketing Director Faroe Seafood 1999–2001, Managing Director Hotel Føroyar 2002–present. Board member Effo, Board member Sp/f Coastzone, Board member Framtak, Board member Sp/f Etika Holding.
Mr. Jensen has been a Board member of Bakkafrost since December 2009, when he also became the Deputy Chairman of the Board of Directors. Mr. Jensen participated in 17 of 18 Board meetings held during 2010.
Mr. Jensen is considered to be independent.
Mr. Jensen holds no shares in the company.

Odd Eliasen, Board member

Born 1965. Sales manager Havsbrún 1988–1995, Director of Feed Department of Havsbrún 1995–present. Board member of Viking Seafood and Faroe Farming.
Mr. Eliasen has been a Board member of Bakkafrost since August 2006. Mr. Eliasen participated in 16 of 18 Board meetings held during 2010.
Mr. Eliasen is not considered to be independent.
Mr. Eliasen holds no shares in the company.

Trine Sæther Romuld, Board member

Born 1968. State-authorised auditor from NHH. Career: Arthur Andersen & Co. / Ernst & Young for nine years. Executive Vice President in Aker ASA and CFO in Aker Drilling ASA from Aug. 2007–Dec. 2009. CFO in Pan Fish ASA / Marine Harvest ASA for four years. Board Director of Aker Seafoods ASA and Aker Floating Production ASA. Current position: EVP & CFO in Stream A/S.
Mrs. Romuld has been a Board member of Bakkafrost since December 2009. Mrs. Romuld participated in 15 of 18 Board meetings held during 2010.
Mrs. Romuld is considered to be independent.
Mrs. Romuld holds no shares in the company.

Virgar Dahl, Board member

Born 1958. Director of Marine Department in Tryggingarfelagið Føroyar, Board member of Føroya Realkreditstovnur.
Mr. Dahl has been a Board member of Bakkafrost since August 2006. Mr. Dahl participated in all 18 Board meetings held during 2010.
Mr. Dahl is considered to be independent.
Mr. Dahl holds 7,000 shares in the company.

Annika Frederiksberg, Board member

Born 1971. Graduated from Faroese Business School – Basic Vocational Course, Commercial Line in 1988. Part of Bakkafrost administration team 1990–2008. Part of Bakkafrost sales team 2008–present. Mrs. Frederiksberg has been a board member of Bakkafrost since February 2008. Mrs. Frederiksberg participated in all 18 Board meetings held during 2010.
Mrs. Frederiksberg is not considered to be independent.
Mrs. Frederiksberg holds 14,000 shares in the company.

The Board of Directors' remuneration is disclosed in the notes to the consolidated financial statement.

MANAGEMENT'S PROFILES

Regin Jacobsen, Chief Executive Officer

Regin Jacobsen (born 1966) has been the CEO of Bakkafrost since 1989. Mr. Jacobsen is educated at Aarhus School of Business, Graduate Diploma in Business Administration and Accounting (HD-R). From 1982 to 1988, Mr. Jacobsen was the accounting manager of the former P/f Bakkafrost, and from 1988 until 2006, he held the position of Managing Director of the former P/f Bakkafrost.
Mr. Jacobsen holds 4,491,217 shares in the company.

Teitur Samuelsen, Chief Financial Officer

Teitur Samuelsen (born 1972) was appointed CFO of Bakkafrost in December 2009. He holds a BA in Business Economics and an MSc in Business Economics & Auditing from Copenhagen Business School. Mr. Samuelsen has previously worked for KPMG, Dong Energy E&P A/S, and he was CFO of Atlantic Petroleum from 2005 to 2009.
Mr. Samuelsen holds 1,000 shares in the company.

Frederik Hansen, Sales Manager

Frederik Hansen (born 1973) has been Sales Manager of Bakkafrost since 2007. He was educated at Føroya Sjómansskúla as Captain in 1997. From 1997–2000, he sailed as a navigator and Captain. From 2000 to 2006, he was department leader of Faroe Ship's operations in various places, both in the Faroes and abroad. From 2006, he was Sales Manager of Faroe Ship.
Mr. Hansen holds no shares in the company.

Kári Jacobsen, Manager, VAP production and processing

Kári Jacobsen (born 1963) has been Manager of VAP production and processing since 2008. He is educated at Statens Fagskole for Fiskeindustri Vardø (1982/1983). Kári Jacobsen was Production Manager for Tavan from 1984 to 1994 and from 1999 to 2008. Kári Jacobsen was Production Manager for Faroe Seafood from 1994 to 1998.
Mr. Jacobsen holds 1,000 shares in the company.

Andrias Petersen, Harvest Manager

Mr. Andrias Petersen (born 1973) holds a BSc in Chemical Engineering from the technical university of Denmark (2001) and has since then completed courses in general-, project- and quality management. From 2002–2008, he worked with the Faroese Food, Veterinary and Environmental Agency in positions as official supervisor, quality manager and head of the department of fish health, where he obtained a good knowledge of the Faroese fish farming industry. From 2008, Mr. Petersen was Production Manager at the former Vestsalmon, and following the merger of the Vestlax group with the Bakkafrost group, Mr. Petersen has been Harvest Manager.
Mr. Petersen holds no shares in the company.

Jón Purkhús, Farming Manager

Jón Purkhús (born 1958) has been Farming Manager at Bakkafrost since 2006. Mr. Purkhús has extensive experience in the salmon farming industry, as he founded and has been director of Bakkafrost Farming North since 1988.

Jón Purkhús is Managing Director of JH Holding, which holds 172,068 shares in Bakkafrost.

Leif av Reyni, Fresh Water Manager

Leif av Reyni (born 1976) is Kandidat (BSc) in Aquaculture, Høgskolen i Sogndal, Norway (1999–2002) and MSc in Aquaculture, Stirling University, Scotland (2002–2003). From 2003–2004, he worked for Vestlax at two of their sea sites, in Vestmanna and Veðranes, farming salmon and trout. From 2004–2005, Mr. Reyni worked as project manager for the local Aquaculture Research Station in the Faroe Islands. From 2005 to 2009, he was Production Manager at Vestlax and responsible for sea sites and hatcheries. Following the merger of the Vestlax group with the Bakkafrost group, Mr. Reyni has been Freshwater Manager responsible for the Hatcheries. Since 2006, he has been on the Board of the Faroese Aquaculture Research Station.
Mr. Reyni holds no shares in the company.

The Management's remuneration is disclosed in the notes to the consolidated financial statement.

CORPORATE GOVERNANCE

P/F Bakkafrost is dedicated to maintaining high standards of corporate governance. The company endeavours to be in compliance with the Norwegian corporate governance regime, as detailed in the Norwegian Code of Practice for Corporate Governance, published on 21 October 2010 by the Norwegian Corporate Governance Board (the "Code of Practice").

The company's principles for corporate governance correspond with the Code of Practice. Reporting of compliance and any deviations from the code of practice is updated and available on Bakkafrost's website.

To ensure adherence to the principles, the company has elaborated specific instructions regarding rules of procedure for the Board of Directors, instructions for the Nomination Committee, instructions for the Chief Executive Officer and other management, guidelines with regards to values and ethics, instructions for the Audit Committee, an investor relations policy, guidelines relating to takeover bids and guidelines for related-party transactions.

The company's audit committee met 5 times during 2010 to review accounting and operational issues in detail. The committee consists of Rúni M. Hansen (Chairman), Johannes Jensen and Trine Sæther Romuld.

STATEMENT BY MANAGEMENT AND BOARD OF DIRECTORS ON THE ANNUAL AND CONSOLIDATED REPORT AND ACCOUNTS

The Management and Board of Directors have today considered and approved the Annual and Consolidated Report and Accounts of P/F Bakkafrost for the financial year 1 January 2010 to 31 December 2010.

The Annual Report has been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union (EU) and the additional requirements according to the Faroese Financial Reporting Act.

In our opinion, the accounting policies used are appropriate, and the Annual and Consolidated Report and Accounts give a true and fair view of the Group's and parent company's financial positions at 31 December 2010, as well as the results of the Group's and the parent company's activities and cash flows for the financial year 1 January 2010 to 31 December 2010.

Glyvrar, 15 March 2011

Management:
Regin Jacobsen
CEO

Board of Directors:

Rúni M. Hansen,
Chairman of the Board

Johannes Jensen,
Vice-Chairman

Trine Sæther Romuld,
Board Member

Virgar Dahl,
Board Member

Annika Frederiksberg,
Board Member

Odd Eliasen,
Board Member

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BAKKAFROST P/F

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Bakkafrost P/F, which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Faroese disclosure requirements for listed companies.

In addition to our audit, we have read the management's review, which is prepared in accordance with Faroese disclosure requirements for listed companies, and provides a statement accordingly.

THE BOARD OF DIRECTORS AND MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors and management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the preparation of a management's review that includes a fair description in accordance with Faroese disclosure requirements for listed companies.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

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

The audit has not resulted in any qualification.

OPINION

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Bakkafrost P/F and its subsidiaries as of 31 December 2010, and of their financial performance and cash flows for the year ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Faroese disclosure requirements for listed companies.

STATEMENT CONCERNING THE MANAGEMENT'S REVIEW

Our audit did not comprise the management's review.

Pursuant to the Faroese Financial Statements Act, we have read the management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements. On this basis, it is our opinion that the information provided in the management's review is consistent with the consolidated financial statements.

Tórshavn, 15 March 2011

Sp/F Grannskoðaravirkið INPACT

Løggilt grannskoðaravirki/State-Authorised Public Accountants

Heini Thomsen
State-Authorised Public Accountant

Jógvan Joensen
Authorised Public Accountant

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR 2010

DKK 1,000	Note	2010	2009
Operating revenue		**820,212**	**596,565**
Purchase of goods		-301,446	-213,606
Change in inventory and biological assets (at cost)		75,501	-32,724
Fair value adjustments on biological assets	13	83,926	33,655
Salary and personnel expenses	5	-118,409	-78,014
Provision for onerous contracts		-2,856	0
Listing costs		-12,790	0
Other operation expenses		-186,813	-93,025
Income from associates		512	340
Depreciation	9	-42,257	-20,797
Earnings before interest and taxes (EBIT)		**315,580**	**192,394**
Financial income		1,051	2,915
Net interest expenses		-8,180	-13,065
Net currency effects		819	-630
Other financial expenses		-2,011	-377
Earnings before taxes (EBT)	**7**	**307,259**	**181,237**
Taxes	18	-47,548	-32,509
Profit for the year		**259,711**	**148,728**
Earnings per share continued operations (DKK)	21	5.41	49.71
Diluted earnings per share (DKK)		5.41	49.71
Comprehensive income:			
Profit for the year		259,711	148,728
Fair value adjustment on securities available for sale net tax		5,830	4,279
Deferred tax on securities available for sale		-1,594	-770
Total comprehensive income for the year net tax		**263,947**	**152,237**

AS OF 31 DECEMBER 2010

DKK 1,000	Note	2010	2009
ASSETS			
Non-current assets			
Intangible assets	8	136,245	0
Total intangible assets		**136,245**	**0**
Land, buildings and other real estate		119,170	83,985
Plant, machinery and other operating equipment		223,009	137,461
Other operating equipment		14,240	9,556
Total property, plant and equipment	**9**	**356,419**	**231,002**
Non-current financial assets			
Investments in associated companies	10	5,984	2,723
Investments in stocks and shares	11	19,983	23,539
Other non-current receivables		796	730
Total non-current financial assets		**26,763**	**26,992**
TOTAL NON-CURRENT ASSETS		**519,427**	**257,994**
Current assets			
Biological assets (biomass)	13	482,091	227,497
Inventory	12	28,501	20,527
Total inventory		**510,592**	**248,024**
Accounts receivable	14	125,619	66,644
Other receivables	14	19,890	13,051
Total receivables		**145,509**	**79,695**
Cash and cash equivalents	17	9,128	35,319
Total current assets		**665,229**	**363,038**
TOTAL ASSETS		**1,184,656**	**621,032**

DKK 1,000	Note	2010	2009
EQUITY AND LIABILITIES			
Equity			
Share capital	16	48,858	2,992
Other equity		853,431	385,895
Total equity	**15**	**902,289**	**388,887**
Non-current liabilities			
Deferred taxes	18	120,009	57,082
Long-term interest bearing debts	17	37,357	34,350
Total non-current liabilities		**157,366**	**91,432**
Current liabilities			
Short-term interest bearing debt	17	41,961	98,262
Accounts payable and other debt	17	83,039	42,451
Total current liabilities		**125,000**	**140,713**
Total liabilities		**282,367**	**232,145**
TOTAL EQUITY AND LIABILITIES		**1,184,656**	**621,032**

CONSOLIDATED CASH FLOW STATEMENT FOR 2010

DKK 1,000	2010	2009
Cash flow from operations		
Operating profit (EBIT)	**315,580**	**192,394**
Adjustments for write-downs and depreciation	42,257	20,797
Adjustments for value adjustments on biomass	-83,926	-33,655
Provision for onerous contracts	2,856	0
Taxes paid	0	0
Change in inventory	-71,888	32,724
Change in other current assets	-16,226	-22,639
Change in current debts	6,390	-931
Cash flow from operations	**195,043**	**188,691**
Cash flow from investments		
Proceeds from sale of fixed assets	300	50
Payments made for purchase of fixed assets	-67,868	-21,194
Purchase of shares and other investments	-3,807	-11,967
Change in long-term receivables	-318	6,509
Cash flow from investments	**-71,693**	**-26,602**
Cash flow from financing		
Down payment of interest bearing debt (short and long)	-207,334	-111,084
Proceeds from share capital increase	67,727	0
Financial income	1,870	2,915
Net proceeds from sale of own shares	15,669	0
Financial expenses	-10,191	-14,072
Dividend paid	-17,643	-5,000
Cash flow from financing	**-149,902**	**-127,241**
Net change in cash and cash equivalents in period	**-26,552**	**34,848**
Cash and cash equivalents – opening balance	35,680	471
Cash and cash equivalents – closing balance total	**9,128**	**35,319**

BAKKAFROST GROUP

DKK 1,000	2010	2009
Total equity 01.01	**388,887**	**241,650**
Profit for the year to equity	**259,711**	**148,728**
Adjustment 01.01	**1,371**	**0**
Fair value adjustment on securities available for sale	5,830	4,279
Deferred tax on securities available for sale	-1,594	-770
Total other comprehensive income	**4,236**	**3,509**
Proposed dividend	-191,035	-18,000
Total proposed dividend	**-191,035**	**-18,000**
Total recognised income and expense to equity	**74,283**	**134,237**
Equity transactions between the Group and its shareholders		
Share issue related to IPO	75,000	0
Sale of treasury shares related to IPO	15,669	0
Tax on sale of treasury shares	-2,820	0
Costs related to IPO	-7,273	0
Net proceeds from share capital increases	**80,576**	**0**
Equity increases by merger		
Proceeds from merger	209,039	0
Deferred tax on recognised excess fair values	-23,888	0
Equity increase by merger	**185,151**	**0**
Equity to shareholder		
Distribution of dividend	-18,000	-5,000
Dividends on treasury shares	357	0
Proposed dividend	191,035	18,000
Total equity to shareholders during the year	**173,392**	**13,000**
Total change in equity during the year	**513,402**	**147,237**
Total equity 31.12	**902,289**	**388,887**

NOTE 1. GENERAL INFORMATION

P/F Bakkafrost ("company") is a public limited company domiciled in the Faroe Islands at Bakkavegur 9, Glyvrar. P/F Bakkafrost is listed on the Oslo Stock Exchange in 2010 with ticker code BAKKA.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented.

BASIS OF PRESENTATION

The Annual Report comprises the income statement, statement of financial position, specification of changes in equity, cash flow statement and note disclosures for the Group. The accounting year equals the calendar year.

The financial statements were formally drawn up in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board as approved by the European Community and the additional requirements according to the Faroese Accounting act.

The Annual and Consolidated Report and Accounts for the period 1 January to 31 December 2010 comprises both the Consolidated Annual Report and Accounts for P/F Bakkafrost and its subsidiaries (Group) and the separate Annual Accounts for the parent company.

The financial statements were formally approved by the Board of Directors on 15 March 2011.

The Annual Report has been prepared on a historical cost basis except for where IFRS require recognition at fair value, mainly valuation of biomass.

Preparation of the financial statements involves the use of estimates and assumptions. Changes in estimates and estimates assumptions are accounted for when they occur. Descriptions about the various estimates applied are given in the notes to the accounts where relevant.

CONSOLIDATION PRINCIPLES

The consolidated financial statements include P/F Bakkafrost and the subsidiaries over which P/F Bakkafrost has controlling influence either by shareholding or by agreement. A controlling interest is normally deemed to exist when ownership directly or indirectly exceeds 50 percent of the voting capital. Controlling interest may also exist by nature of agreement. Similarly, limitations in voting rights by agreement may impede exercise of control, and the investment concerned will be considered an associate. Newly acquired subsidiaries are included from the date on which a controlling interest is secured, and divested subsidiaries are included up until the date of divestment. The consolidated accounts have been prepared in accordance with uniform accounting principles for similar transactions in all companies included in the consolidated accounts. All material transactions and balances between Group companies have been eliminated.

Shares in subsidiaries have been eliminated in the consolidated financial statements in accordance with the acquisition method. This means that the acquired company's assets and liabilities are reported at fair value at the date of acquisition, with any excess value being classified as goodwill. Where the fair value of the assets acquired exceeds the payment made, the difference is treated as revenue in the Profit & Loss Account. Deferred tax is capitalised to the extent to which identifiable excess values ascribed to assets and liabilities leads to an increase or decrease in future tax payable when these differences are reversed in future periods. Deferred tax is capitalised and calculated using a nominal undiscounted tax rate.

When shares are acquired in stages, the value basis of the assets and liabilities is the date the Group was formed. Later acquisition of assets in existing subsidiaries will not affect the value of assets or liabilities, with the exception of goodwill, which is calculated with each acquisition.

Investments in companies in which the Group has a considerable interest (associated companies) are treated in accordance with the equity method in the consolidated accounts. A considerable influence is normally deemed to exist when the Group owns 20–50 percent of the voting capital. The Group's share of the profits in such companies is based on profit after tax, less internal gains and depreciation on excess value due to the cost price of the shares being higher than the acquired portion of book equity. In the Profit & Loss Account, the profit share is presented on a separate line, while the assets are presented in the statement of financial position as long-term financial assets. The accounting principles used by associated companies have been changed where necessary to achieve consistency with the principles used by the Group as a whole.

MINORITY INTERESTS

The share of the profit or loss after tax attributable to minority interests (non-controlling) is presented on a separate line after the Group's net profit for the year. The share of equity attributable to minority interests is presented on a separate line under Group equity.

REVENUES

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business. Revenue is recognised net of discounts, VAT and other sales-related taxes.

The revenue of the Group is mainly for sales of fish. Sales revenues are recognised when the goods are delivered and both title and risk has passed to the customer. This will normally be upon delivery.

FAIR VALUE ADJUSTMENTS ON BIOLOGICAL ASSETS

Changes in estimated fair value on biomass are recognised in the income statement at every closing. The fair value adjustment is reported on a separate line: "fair value adjustment on biomass". The change in fair value adjustment is calculated as the change in fair value of the biomass less the change in accumulated cost of production for the biomass. At harvest, fair value adjustments are reversed.

FINANCIAL INCOME

Interest income is recognised on an accrual basis. Dividend is recognised when the shareholders' right to receive a dividend has been approved by the Annual General Meeting.

SEGMENT REPORTING

Bakkafrost Group has fundamentally two business activities: farming of fish, including sale of fresh fish, and value adding of salmonoid products.

Farming including sale of fresh fish

The Group has production facilities in the central and north-eastern parts of the Faroe Islands. There are no significant differences in the production properties of the licences, and the Group therefore reports the farmed salmonids, including the sale of fresh salmon, as one segment.

Value added products (VAP)

A significant share of the farmed products is value added at the factory in Glyvrar. The output of the factory is predominantly portions for the retail market. Therefore, this is reported as one segment.

Realisation of excess values on tangible and intangible assets deriving from acquisitions is not allocated to the segments.

CLASSIFICATION PRINCIPLES

Cash and cash equivalents consist of cash in hand and bank deposits. Assets which form part of the production cycle and fall due for payment within 12 months are classified as current assets. Other assets are classified as non-current assets. Liabilities which form part of the production cycle or fall due for payment within 12 months are classified as current liabilities. Other liabilities are classified as non-current liabilities.

Dividend proposals are not capitalised as liabilities until the parent company has assumed an irrevocable obligation to pay the dividend, normally when dividend proposals have been approved by the Annual General Meeting.

Next year's instalments on long-term debts are classified as current liabilities.

Biomass is recognised at fair value in the Statement of Financial Position. Changes in biomass and inventory measured at cost are presented as a one-line item in the Profit & Loss Account. Biomass at cost consists of all production costs including actual interest costs.

The biomass is then adjusted to fair value, i.e. market value less finishing costs, by adding/deducting an IFRS adjustment. The IFRS adjustment is the difference between biomass measured at cost and measured at fair value. Changes in the fair value of biological assets are presented on a line item separately from biomass changes measured at cost, under operating profit/loss. This allows the reader of the Financial Report to determine both production efficiency and biomass at fair value.

If the estimated IFRS adjustment is negative, this is taken as an indication of impairment, and an impairment test is performed.

FOREIGN CURRENCIES

The consolidated accounts are presented in Danish Kroner (DKK), which is the Group's functional and presentation currency. All transactions in foreign currencies are translated into DKK at the time of transaction. In the statement of financial position, monetary items in foreign currencies are translated at the exchange rate in effect on the statement of financial position date.

BORROWING COSTS

Borrowing costs are charged as expenses as they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs directly attributable to the build-up of biomass in cages at sea is capitalised as part of the cost of the respective assets.

RECEIVABLES

Accounts receivable and other receivables are presented at face value less provisions for bad debts. Provisions for bad debts are made on the basis of an individual assessment of the receivable concerned. Due to insignificant cost and the short credit period, amortised cost is equivalent to face value less foreseeable losses.

INVENTORY

Inventories consist of inventories in the farming unit and VAP unit.

Farming unit. Inventories consist of feed and additives. Inventories are measured at the lesser of cost or expected sales price less sales costs. The FIFO principle is used concerning the periodic assignment of inventory costs.

VAP unit. Inventories consist of raw material, additives, packaging material and finished goods. Raw material in the VAP unit consists basically of processed salmonids. Raw materials are measured at fair value at the time of harvesting. Packaging material and additives are valued at the lesser of cost or expected sales price less sales costs. The FIFO principle is used concerning the periodic assignment of inventory costs. Finished goods in inventory, fresh or frozen, are measured at the lesser of cost or the expected sales price less sales costs. In a case where cost price exceeds sales price less sales cost, impairment is entered and charged to Profit & Loss.

The cost price of goods produced in-house is the full production cost, including production costs which can be only indirectly allocated to produce goods, less general administration costs. This includes actual interest paid for production credit facilities.

BIOLOGICAL ASSETS

Biological assets (biomass) comprise salmon fry and fish in the sea. The valuation of biological assets is based on cost price, with the addition/deduction of a fair value adjustment, which is based on market prices of salmon at marketable sizes on average for a generation. Consequently, the valuation of biomass in the statement of financial position reflects biomass at market values, and Profit & Loss presents production costs and fair value adjustments separately.

This is in accordance with IAS 41, which requires biological assets to be measured at fair value.

At the point when a new generation of smolt is launched to sea, the generation is measured at production cost. Smolts are predominantly produced in-house, and smolts put to sea are measured at production cost. At the early stages of production at sea, the assumption of the measurement being clearly unreliable is maintained. At average sizes of approximately 2 kilos/fish, the fair value measurement of the generation becomes less than clearly unreliable. At this point, fair value measurement commences.

Fair value is established by comparing to market prices of salmonids at a size of 4 kilo gutted weight, and deducting harvesting and sales costs. In addition, allowances are made for the fact that not all fish in a generation is of a superior quality. Fair value is based on market prices achieved by the Group at, or close to, the statement of financial position date.

The 4-kilo threshold is based on the fact that a generation is considered biologically and economically harvestable at that size, and fair value estimates should reflect the properties of smaller fish being able to grow to harvestable sizes.

If there exists an impairment requiring a write-down in value (further growth and sales price are not expected to meet production costs), an impairment write-down is entered to the statement of financial position and charged to the Profit & Loss.

The period immediately prior to harvesting makes estimating the fair value of not-yet-harvestable fish more uncertain than estimating the value of harvestable fish. See the note regarding biological assets for further information regarding the principles employed.

FIXED-PRICE CONTRACTS

The Group enters into sales contracts for value added salmon products (VAP) on an ongoing basis. The contracts involve physical settlement, and deliveries associated with the contracts form part of the Group's normal business activities. The contracts contain no built-in derivative elements.

With respect to fixed-price contracts which result in the Group being obligated to sell salmon products at a price less than production cost (including fair value adjustment of raw materials at the point of harvesting), the contracts are considered onerous, and provisions are calculated and entered to the statement of financial position. The provision is charged to the Profit & Loss Statement in the line item "Other Operation Cost".

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are capitalised at acquisition cost, less accumulated depreciation and write-downs. When assets are sold or divested, the book value is deducted and any loss or gain entered to Profit & Loss. Ordinary depreciation commences from the date on which the asset goes into normal operation, and is calculated on the basis of its economic lifespan. Depreciation is assigned in a straight line over the expected economic lifespan of the assets, taking into consideration the estimated residual value. If an asset comprises significant components with varying lifespan, these components are deprecated separately. The scrap value of the property, plant and equipment as well as the depreciation period and depreciation method employed are reassessed annually.

Facilities under construction are not depreciated. Depreciation is charged to expenses when the facilities are ready for use. If the situation or circumstances indicate that the carrying amount of an asset cannot be recovered, an assessment is made about whether to write down its value. If the recoverable value of the assets is less than the carrying amount and the impairment is not expected to be temporary, the assets are written down to the recoverable value. The recoverable value is the greater of net sales price or value in use. Value in use is the present value of the future cash flows which the asset will generate.

LEASING CONTRACTS

Operating assets which are leased on terms which transfer the bulk of the financial risk and control to the company (financial leasing) are recorded in the statement of financial position as property, plant and equipment, and the corresponding leasing liability is included under long-term interest bearing liabilities at the present value of the leasing payments. The asset is depreciated as scheduled, and the liability is reduced by the amount of lease paid less a calculated interest cost. The deprecation period is consistent with similar assets which are owned by the Group.

INTANGIBLE ASSETS

Intangible assets that are purchased individually are capitalised at acquisition cost. Intangible assets acquired in connection with the purchase of a business entity are capitalised at acquisition cost when the criteria for separate recognition are met.

Intangible assets with a limited economic lifespan are depreciated systematically. Intangible assets are written down to recoverable amount if the expected financial benefits do not cover their carrying amount and any remaining production costs.

Costs relating to research and development are charged as expenses as they accrue. R&D costs are capitalised in the statement of financial position when it can be demonstrated that the relevant R&D projects carry economic benefits, that they can be technically finalised and that the company intends to and is financially able to reap the economic benefits.

Capitalised R&D costs are recognised at acquisition cost less accumulated depreciation and write-downs. Capitalised R&D costs are depreciated in a straight line over the asset's estimated period of use.

Farming licences, which are purchased either as part of an acquisition or business combination according to IFRS 3, are capitalised at cost less accumulated write-downs. Seafarming licences in the Faroes are considered perpetual, given certain preconditions regarding environmental protection and animal welfare are met.

Consequently, sea farming licences are not depreciated systematically, but are subject to an annual impairment test. If the carrying amount exceeds the recoverable amount, licences are considered impaired, and write-downs are entered and charged to the Profit & Loss Account in the line item "Write-downs and reversal of write-downs".

Licences which are obtained at original distribution by the Faroese government are not capitalised due to the fact that no acquisition consideration is transferred.

Goodwill. When the company assumes control over a separate business entity for a consideration that exceeds the fair value of the individual assets, the difference is entered as goodwill in the statement of financial position.

Goodwill deriving from the purchase of subsidiaries and associates is presented under intangible assets.
Goodwill is not depreciated but is tested for impairment annually or more often if there are indications that its value is lower than the carrying amount. When assessing the need to write-down goodwill, this is assigned to relevant cash-flow generating units or those groups which are expected to benefit from the acquisition. Write-downs are performed in accordance with an assessment of the recoverable value of each of the cash-flow generating units to which the goodwill is assigned. To identify the Group's cash-flow generating units, the assets are

grouped according to the lowest level to which separate and independent cash flows may be ascribed. Recoverable value is calculated on the basis of value in use. This is arrived at by estimating future cash flows for the next three years based on approved budgets and forecasts. Cash flows after three years are assumed to equal the expected rate of inflation. Cash flows are discounted by a rate of interest before tax, which takes account of relevant market risk. If the calculated value in use is less than the carrying amount of the cash-flow generating unit, goodwill is written-down first and then other assets as required.

FINANCIAL INSTRUMENTS

In accordance with IAS39, financial instruments falling within its remit are classified into the following categories: fair value with changes in value posted to Profit & Loss, hold until maturity, loans and receivables, available for sale and other liabilities.

Financial instruments at fair value with changes in value entered to Profit & Loss. Financial instruments which are held primarily for the purpose of buying or selling in the short term are classified as being held for trading purposes. These instruments are included in the category of financial instruments recognised at fair value with changes in value posted to Profit &Loss alongside forward currency contracts which are recognised at fair value with changes in value entered to Profit & Loss.

Loans and receivables. Loans and receivables are recognised at amortised cost using the effective interest method less any losses from impairment. Due to immaterial transaction cost and short credit times, amortised cost equals nominal value less provisions for bad debts.

Financial assets available for sale. Financial assets which are available for sale are recognised at fair value. Any changes in fair value are taken directly to equity, with the exception of losses deriving from any fall in value.

PENSIONS

The Group has employed a defined contribution pension scheme. Pension premiums are charged to Profit & Loss as they accrue. The Group has no additional pension liabilities towards the employees, apart from these periodical payments. The net pension costs for the period are included in the line item "Salaries and payroll costs".

TAX

The tax expense is matched against the Profit & Loss before tax, as it appears in the accounts. Tax ascribable to equity transactions are taken to equity. The tax expense comprises tax payable (tax on the year's direct taxable income) and changes in net deferred taxes. Deferred tax liabilities and deferred tax assets are presented net in the statement of financial position, to the extent that tax assets and liabilities can be netted against each other.

Deferred tax in the statement of financial position is a nominal amount calculated on the basis of temporary differences between accounting and tax values at their intended use, as well as the taxable loss carried forward at the end of the financial year.

Deferred tax assets are capitalised when it is deemed probable that they will result in a reduction in future taxes payable on taxable income.

Deferred tax is calculated on the difference between the accounting and taxable values of licences.

PROVISIONS

A provision is recognised when, and only when, the company has a valid liability (legal or self-imposed) deriving from an event which has occurred and when it is probable (more likely than not) that a financial settlement will take place as a result at that liability and when the amount in question can be reliably quantified. Provisions are reviewed on each closing date, and the level reflects the best estimate for the liability.

EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

New information regarding the company's financial position on the statement of financial position which is received after the date of the statement of financial position has been recognised in the annual accounts. Events after the date of the statement of financial position which do not affect the company's financial position on the statement of financial position date, but which will affect the company's future financial position are reported if material.

STATEMENT OF CASH FLOW

The Group's statement of cash flow shows a breakdown of the Group's overall cash flow into operating, investing and financing activities. The statement shows the individual activity's impact on cash and cash equivalents. The cash flow deriving from the acquisition and sale of business is presented under investing activities.

INTRAGROUP REORGANISATION

The following intragroup reorganisation has taken place in 2010, following the merger between P/F Bakkafrost and P/F Vestlax Holding as of 1 January 2010. The subsidiaries P/F Sveipur, P/F Faroe Smolt and P/F Bakkafrost

Packaging were merged into a single entity. The merger was effective as of 1 January 2010. The companies are wholly owned subsidiaries, and the merger is recognised according to the pooling of interest method. Consequently, the merger has no impact on the consolidated financial report.

In the former Vestlax Group, P/F Vest Salmon was owned by P/F Vestlax. After the merger between P/F Vestlax Holding and P/F Bakkafrost, the shares that P/F Vest Salmon owned in P/F Vestlax were transferred to P/F Bakkafrost.

Further, the legal placement of the VAP activity was not in line with the segment definition, in note 4. Consequently, the harvesting operation in P/F Bakkafrost Processing has been transferred to P/F Bakkafrost Harvesting, which is part of the farming segment as of 1 January 2010.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following is a list of new or revised standards or interpretations which are considered to be relevant for the Bakkafrost Group's financial statements.

IAS 24 "Related Party disclosures" is revised. The revised standard amends the definition of a related party and modifies certain related party disclosure requirement for government-related entities. The revised IAS 24 is required to be applied from 1 January 2011.

IFRS 9 "Financial Instruments". A new standard issued as a part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business models and the contractual cash flows characteristics of the financial asset. The guidance in IAS 39 on impairment of financial and hedge accounting continues to apply. The standard is effective for periods starting 1 January 2013. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012.

IFRS 3 "Business Combinations". Amends the transition requirements for contingent consideration from a business combination, which occurred before the effective date of the revised IFRS. Applied to annual periods beginning on or after 1 July 2010, retrospectively.

IFRS 7 "Financial instruments". Emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. Applied to annual periods beginning on 1 January 2011, retrospectively.

IAS 1. "Presentation of Financial Statements". Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes to equity or in the notes to the financial statements. To be applied to periods starting 1 July 2010, retrospectively.

NOTE 3. ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make judgement estimates and assumptions that affect the application of accounting principles and carrying amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are based on past experience and other factors perceived to be relevant and probable when the judgements were made. Estimates are reviewed on an ongoing basis, and actual values and results may deviate from the initial estimates. Revision to accounting estimates are recognised in the period in which the estimates are revised.

The evaluations and estimates deemed to be of greatest significance for the Bakkafrost Group Financial Statements are as follows:

VALUATION OF BIOMASS

The valuation of biomass in the sea involves estimates of both volume and quality of the biomass. When valuing the biomass, the most updated data on development in the biomass is used, and the estimated quality grading is based on history. According to IAS 41, the biomass is carried in the statement of financial position at estimated fair value on the date of the statement of financial position. The estimate of the fair value of biomass will always be based on uncertain assumptions, even though the company has built substantial expertise in assessing these factors. The volume of biomass is, in itself, an estimate that is based on the number of smolt put to sea, the estimated growth from the time of stocking, estimated mortality based on observed mortality in the period, etc. The principles of valuation are described further in the note to the biological assets.

FIXED-PRICE CONTRACTS

The company holds long-term sale contracts related to salmon products. These contracts do not contain any elements of embedded derivates and are therefore not treated as financial instruments. The contracts are settled, based exclusively on the assumption that delivery of salmon products should take place. The contracts are not tradable, nor do they contain a clause for settlement in cash or cash equivalents.

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

ACCOUNTING FOR DEFERRED TAXES

The accounting of deferred taxes reflects tax rates and tax laws that have been enacted or substantively enacted by the date of the statement of financial position. The recognition of a deferred tax asset is based on expectations of profitability in the future. In addition, there are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Deferred taxes are calculated using the nominal tax rate according to IAS 12. This means that the net present value of effects from, for instant tax losses carried forward that are utilised in the future, will be different from carrying amounts.

NOTE 4. OPERATING SEGMENT INFORMATION

2010 – DKK 1,000	Farming	Value Added Products	Eliminations	Bakkafrost Group
External operating revenues	347,070	473,142	0	820,212
Internal operating revenues	424,677	0	-424,677	0
Total operating revenues	**771,747**	**473,142**	**-424,677**	**820,212**
Depreciation and amortisation	-38,076	-4,180	0	-42,256
Operating expenses	-447,094	-84,073	0	-531,167
Internal operating expenses	0	-424,677	424,677	0
Provision for onerous contracts	0	-2,856	0	-2,856
Fair value adjustments biological assets	83,926	0	0	83,926
Listing costs	-10,260	-2,530	0	-12,790
Income from associates	496	16	0	512
Net operating profit (EBIT)	**360,739**	**-45,158**	**0**	**315,581**
Net interest revenue	2,331	23	-1,304	1,050
Net interest expenses	-8,744	-1,932	1,304	-9,372
Earnings before taxes	**354,326**	**-47,067**	**0**	**307,258**
Tax	-56,020	8,472	0	-47,548
Net earnings	**298,306**	**-38,595**	**0**	**259,710**
EBITDA	**398,815**	**-40,978**	**0**	**357,838**
ASSETS				
Investments in associated companies	0	0	0	0
LIABILITIES	**271,604**	**86,298**	**-75,536**	**282,366**
INVESTMENTS				
Tangible operating assets	**295,146**	**7,912**	**0**	**303,058**
Intangible operation assets	136,245	0	0	136,245
Depreciation	-38,076	-4,180	0	-42,257

2009 – DKK 1,000	Farming	Value Added Products	Eliminations	Bakkafrost Group
External operating revenues	237,856	358,709	0	596,565
Internal operating revenues	250,011	0	-250,011	0
Total operating revenues	**487,867**	**358,709**	**-250,011**	**596,565**
Depreciation and amortisation	-16,997	-3,799	0	-20,796
Operating expenses	-343,284	-74,085	0	-417,369
Internal operating expenses	0	-250,011	250,011	0
Fair value adjustments biological assets	33,655	0	0	33,655
Income from associates	312	28	0	340
Net operating profit (EBIT)	**161,553**	**30,842**	**0**	**192,395**
Net interest revenue	7,765	14	-4,865	2,914
Net interest expenses	-16,615	-2,322	4,865	-14,072
Earnings before taxes	**152,703**	**28,534**	**0**	**181,237**
Tax	-27,396	-5,113	0	-32,509
Net earnings	**125,307**	**23,421**	**0**	**148,728**
EBITDA	**178,550**	**34,641**	**0**	**213,191**
ASSETS				
Investments in associated companies	0	0	0	0
LIABILITIES	**295,416**	**49,731**	**-113,002**	**232,145**
INVESTMENTS				
Tangible operating assets	17,226	4,113	0	21,339
Intangible operation assets	0	0	0	0
Depreciation	**-16,997**	**-3,799**	**0**	**-20,797**

DISTRIBUTION OF HARVESTED AND PURCHASED VOLUME (tonnes gwt)

	2010 gwt	2010 %	2009 gwt	2009 %
Harvested volume used in VAP production	12,903	59.2%	10,977	56.9%
External purchase of salmon for VAP production	163	0.7%	304	1.6%
Harvested volume sold fresh/frozen	8,723	40.1%	7,708	40.0%
External purchase of salmon sold fresh/frozen	10	0.0%	302	1.5%
Harvested and purchased volume (gwt)	**21,799**	**100.0%**	**19,291**	**100.0%**

GEOGRAPHIC BREAKDOWN OF SALES REVENUES BASED ON CUSTOMER LOCATION

By geographic market (group)	2010	2009
Europe	589,620	443,398
USA	121,366	128,210
(Other relevant segment)	109,226	24,956
Total	**820,212**	**596,564**

The Bakkafrost Group is predominantly operating on the foreign markets.

The Bakkafrost Group operates sea farming consisting of all production steps, from salmon roe to harvested fish, at an average size of approximately 5 kilos fresh and gutted. The salmon is partly sold on the spot market for salmon products and exported to foreign seafood processing companies.

In addition, Bakkafrost operates a VAP processing facility in which the fresh salmon is used as raw material for production of value added salmon. The business segment definition is based on the distinction between output sold to the industrial market and the value added products for the end consumers on the retail market.

NOTE 5. SALARIES AND OTHER PERSONNEL EXPENSES

BREAKDOWN OF PAYROLL EXPENSES

DKK 1,000	2010	2009
Wages and salaries	106,827	71,027
Social security taxes	3,650	2,073
Pension expenses	6,715	4,777
Other benefits	1,217	137
Total payroll expenses	**118,409**	**78,014**
Average number of full-time employees	363	256

REMUNERATION TO CORPORATE MANAGEMENT AND KEY PERSONNEL

DKK 1,000	Salary	Bonus	Pension	Other	Total 2010	Total 2009
Chief Executive Officer	1,309	0	30	0	1,339	974
Chief Financial Officer*	1,000	0	0	90	1,090	72
Sales manager	524	0	56	0	580	531
Operation manager – farming	684	0	67	0	751	684
Operation manager – VAP	584	0	25	0	609	560
Operation manager – harvest	550	0	49	0	599	569
Operation manager – fresh water	545	0	48	0	593	674
Total remuneration	**5,196**	**0**	**275**	**90**	**5,561**	**4,064**

* Employed from December 2009

Remuneration to management and key personnel

The total remuneration to the corporate management and key personnel consists of basic salary (main element), benefits in kind and pension schemes, but varies from person to person.

The Group's Chief Executive Officer determines the remunerations to other management and key personnel in agreement with the Chairman of the Board of Directors.

The total remuneration is determined based on the need to offer competitive terms in the various business areas. The remunerations should promote the Group's competitiveness in the relevant labour market. The total remuneration must neither pose a threat to Bakkafrost's reputation nor be market-leading, but should ensure that Bakkafrost attracts and retains senior executives with the desired skills and experience. The basic salary is subject to an annual evaluation and is determined based on general salary levels in the labour market.

NOTICE OF TERMINATION AND SEVERANCE PAY

The Group's Chief Executive Officer has a basic period of notice from the company of 24 months, and other management and key personnel have a notice period of 6 to 12 months, depending on the position concerned.

Fees paid to the Board of Directors

DKK 1,000		2010	2009
• Rúni M. Hansen* (appointed 15 December 2009)	Chairman of the Board	192	4
• Johannes Jensen** (appointed 15 December 2009)	Deputy Chairman of the Board	117	2
• Odd Eliasen*** (appointed August 2006)	Member of the Board	99	48
• Trine Sæther Romuld (appointed 15 December 2009)	Member of the Board	96	2
• Annika Frederiksberg (appointed February 2008)	Member of the Board	96	48
• Virgar Dahl (appointed August 2006)	Member of the Board	96	48
• Líggjas í Bø (resigned 15 December 2009)	Former Chairman of the Board	0	96
• Hans Jacobsen (resigned 15 December 2009)	Former Member of the Board	0	48
• Óli Mortensen (resigned 15 December 2009)	Former Member of the Board	0	48
• Total remuneration		**696**	**344**

* Rúni M Hansen was appointed board member and Chairman of the Board on 15 December 2009.
** Johannes Jensen was appointed board member 15 December 2009 and as Deputy Chairman of the Board on 15 February 2010.
*** Odd Eliasen was Deputy Chairman of the Board until 15 February 2010.

Loans to employees

As of 31.12.2010, there are no loans to employees.

NOTE 6. AUDITOR'S FEES

Fees paid to auditors (ex. VAT) breaks down as follows:

DKK 1,000	**2010**	**2009**
Statutory auditing	675	306
Tax advisory services	65	18
Other services	261	36
Prospectus, mergers and IFRS conversion	1,417	0
Total auditor's fees	**2,418**	**360**

NOTE 7. NET FINANCIAL ITEMS

DKK 1,000	**2010**	**2009**
Other financial income	1,051	2,915
Financial income	**1,051**	**2,915**
Interest expenses on long-term loans	-5,419	-7,691
Interest expenses on credit lines	-2,538	-5,365
Interest expenses on accounts payable	-223	-10
Financial expenses	**-8,180**	**-13,065**
Exchange differences	819	-630
Net currency effects	**819**	**-630**
Other financial expenses	-2,011	-377
Other financial items	**-2,011**	**-377**
Net financial items	**-8,321**	**-11,158**

NOTE 8. INTANGIBLE ASSETS

DKK 1,000	Goodwill	Licences	Total 2010	Total 2009
Acquisitions cost as of 01.01	0	0	0	0
Additions in the year as a result of acquisitions	3,537	132,708	136,245	0
Acquisitions cost as of 31.12	**3,537**	**132,708**	**136,245**	**0**
Impairments 01.01	0	0	0	0
Impairments during the year	0	0	0	0
Accumulated impairments as of 31.12	**0**	**0**	**0**	**0**
Net book value as of 31.12	**3,537**	**132,708**	**136,245**	**0**

IMPAIRMENT TESTING

The Group tests intangible assets annually for impairment, or more frequently if there are indications that the assets are impaired. The annual impairment test is performed at year-end. Bakkafrost has substantial assets with indefinite lives in the form of licences. The licences are subject to impairment testing in combination with goodwill in the annual test. Bakkafrost identifies each faming zone, which can contain one or a number of licences or farming sites as one cash generating unit.

THE PROCEDURE OF IMPAIRMENT TESTING

Impairment testing is carried out by calculating the net present value of estimated future cash flows (value in use) for the cash generating unit in line with IAS 36 and comparing the net present value of the cash flow towards the carrying amount of net asset held by the cash generating unit (CGU). If the carrying amount is greater than the calculated value in use, a write-down to the calculated value in use is made. The estimated cash flows are based on the assumption of continued operation. The basis for the estimated cash flows is the strategic plan for the following years. The strategic plans have been reviewed and the targets approved by Group management.

INDICATIONS OF IMPAIRMENT

The impairment testing at year-end did not result in identification of impairment losses. Intangible assets were tested for impairment to evaluate if the cash flows from a conservative estimate were sufficient to support the carrying amount of net assets. The test confirmed the asset values.

THE KEY ASSUMPTIONS

The key assumptions used in the calculation of value in use are harvest volume per generation, EBT and WACC in accordance to IAS 36. Harvested volume is based on the current stocking plans for each unit and forecasted figures for growth and mortality.

Seafarming licences in the Faroes are considered perpetual, given certain preconditions regarding environmental protection and animal welfare are met.

SENSITIVITY

In connection with the impairment testing of intangible assets, sensitivity analysis has been carried out. The value in use has been determined based on future strategic plans considering the expected development in both macroeconomic and company-related conditions. Sensitivity analysis has been performed for each of the defined cash generating units. Given the current strategic plans, all cash generating units have very high tolerance levels for changes to the assumptions.

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

DKK 1,000	Land and buildings	Plant, machinery, operating equipment, fixtures, etc.	Other operating equipment	Total 2010	Total 2009
Acquisitions cost as of 01.01	105,006	213,185	14,268	332,459	311,411
Acquisitions costs from merged company 01.01	38,423	188,009	8,224	234,656	0
Re-evaluations from merged company as of 01.01	-5,900	-21,004	0	-26,904	0
Acquisitions during the year	17,314	47,523	3,565	68,402	21,339
Disposals during the year	-300	-2,165	-517	-2,982	-291
Acquisitions cost as of 31.12	**154,543**	**425,548**	**25,540**	**605,630**	**332,459**
Accumulated depreciation and write-downs as of 01.01	-21,021	-75,724	-4,713	-101,458	-80,756
Accumulated depreciation and write-downs from merged company 01.01	-8,199	-92,482	-4,815	-105,496	0
Depreciations during the year	-4,355	-34,837	-2,199	-41,391	-20,797
Accumulated deprecations and write-downs on disposals	-1,797	505	427	-865	96
Accumulated depreciation and write-downs as of 31.12	**-35,372**	**-202,538**	**-11,300**	**-249,210**	**-101,457**
Net book value as of 31.12	**119,171**	**223,009**	**14,240**	**356,420**	**231,002**

Buildings in Glyvrar and Klaksvík are located on rented land.

Estimated lifetime	25 years	10 years	3–5 years
Depreciation method	linear	linear	linear

NOTE 10. SUBSIDIARIES AND ASSOCIATES

DKK 1,000 **Company**	**Consolidated Yes/No**	**Head Office**	**Ownership**	**Voting share**	**Carrying amount in P/F Bakkafrost 2010**	**Carrying amount in P/F Bakkafrost 2009**
P/F Bakkafrost Farming North	Yes	Glyvrar	100%	100%	71,796	71,796
P/F Bakkafrost Processing	Yes	Glyvrar	100%	100%	30,518	31,884
P/F Faroe Smolt*	Yes	Glyvrar	100%	100%	0	1,900
P/F Bakkafrost Sales	Yes	Glyvrar	100%	100%	879	879
P/F Bakkafrost Packaging	Yes	Glyvrar	100%	100%	7,781	3,951
P/F Bakkafrost Harvesting	Yes	Glyvrar	100%	100%	6,059	0
P/F Bakkafrost Farming West	Yes	Glyvrar	100%	100%	132,031	0
P/F Salmon Proteins	No	Eiði	58.5%	30%	1,456	1,362
Total					**250,521**	**111,773**

* Merged with P/F Bakkafrost Packaging in 2010

Summarised financial information concerning P/F Salmon Proteins (DKK 1,000):	**2010**	**2009**
Gross profit	3,964	3,836
Net earnings	1,077	1,042
Total assets	14,743	14,604
Net equity	10,230	9,152

ACQUISITIONS THROUGH BUSINESS COMBINATION

By 1 January 2010, P/F Bakkafrost and P/F Vestlax Holding were merged into one holding company. Under IFRS 3 concerning business combinations, the merger was treated as an acquisition, in which P/F Bakkafrost is the acquiring company and P/F Vestlax Holding the acquired company.

Details of the fair value allocation and the effect on the statement of financial position are presented in the table below:

DKK 1,000	**Impact on consolidated accounts**
Intangible assets	136,245
Property, plant and equipment	100,106
Financial assets	-9,932
Biomass	102,379
Other current assets	54,071
Deferred tax	-18,828
Long-term interest bearing debt	-37,065
Short-term interest bearing debt	-116,975
Other short-term liabilities	-25,623
Other IFRS adjustments on equity	3,564
Total effect on equity	**187,942**

The merger is considered a business combination according to IFRS 3. Bakkafrost is considered the acquiree and Vestlax the acquired group. Accordingly, a Purchase Price Allocation is performed in which Vestlax is recognised and measured at market value.

The market value is established by an actual transaction between independent parties in which shares in Bakkafrost were traded under the presumption of the merger taking place at 1 January 2010 at certain relative values.

The balance sheet of the Vestlax Group has been examined, and fair values have been identified in farming licences by employing generally accepted valuation techniques. The market values of licences are measured at DKK 132.7 million and goodwill at DKK 3.5 million, totalling 136.2 million. The adjustments relative to book values, amounting to DKK 67.7 million, are entered to intangible assets. Biomass is already measured at fair value, and the examination of the balance sheet revealed no further excess values.

According to IFRS 3, deferred tax is calculated on excess values of licences and entered to liabilities; this amounts to DKK 23.9 million, less tax assets in Vestlax Group of DKK 5.1 million. Goodwill is by definition a residual, and no deferred tax is entered. The Vestlax Group and the sea farming activity of Bakkafrost Group perform similar activities and will potentially benefit from economies of scale.

Under the item Investment in financial assets, DKK 16.1 million is eliminated, as this relates to Bakkafrost's share of the share capital in Vestlax. An adjustment to accounts receivable of DKK 5.3 million relates mainly to inter-group receivables that are eliminated.

The adjustment of DKK 27.7 million to shareholders' equity relates primarily to the following eliminations and adjustments. Bakkafrost's part of the share capital in Vestlax is eliminated, which amounts to DKK -16.1 million. As the merger consideration for Vestlax is paid in shares of Bakkafrost, the share capital in the merged Group is increased by DKK 1.0 million, so that the total share capital after the merger is DKK 4.0 million. The purchase price allocation, which is the excess value of the book value of the assets in Vestlax, amounting to DKK 67.7 million, is entered on other equity. Finally, a provision for deferred tax of the value of the licences is made, amounting to DKK 23.9 million.

NOTE 11. SHARES AND HOLDINGS IN OTHER COMPANIES

DKK 1,000 Company	Ownership	Acquisition cost	Write-down/-up	Carrying amount 2010	Carrying amount 2009
P/F Dagsbrún	13.7 %	11,127	8,854	19,981	7,427
P/F Vestlax Holding*	-	-	-	-	16,085
Others	-	2	0	2	27
Total		**11,129**	**8,854**	**19,983**	**23,539**

* P/F Vestlax Holding was merged with P/F Bakkafrost as the continuing company, 1 January 2010.

Investments in other companies are classified as available for sale. Shares and holdings in which the Group does not have significant influence are valued at cost. This is due to the fact that fair value cannot be measured reliably.

NOTE 12. INVENTORY

DKK 1,000	2010	2009
Raw materials and goods in progress	23,428	9,871
Finished goods	5,073	10,656
Total Inventory	**28,501**	**20,527**

Raw materials primarily consist of feed at the marine production sites, and raw materials and packaging materials used in processing.

Goods in progress include semi-finished products and spare parts.

Finished products include all products ready for sale, such as fresh and frozen whole salmon, as well as processed salmon products.

Inventories are measured at cost price, except from biomass harvested by Group companies, which are measured at fair value at the time of harvesting.

NOTE 13. BIOLOGICAL ASSETS

DKK 1,000	2010	2009
Biological assets carrying amount 01.01	227,497	229,720
Increase due to production or purchases	442,289	272,139
Increase due to acquisitions	98,986	0
Reduction due to harvesting or sale (costs of goods sold)	-370,607	-308,017
Fair value 01.01 reversed	-46,866	-13,211
Fair value adjustments 31.12 entered	130,792	46,866
Biological assets carrying amount 31.12	**482,091**	**227,497**
Biomass < 4 kg on average (tonnes live weight)	5,723	5,159
Biomass > 4 kg on average (tonnes live weight)	12,266	5,510
Volume of biomass at sea	**17,989**	**10,669**
Volume of biomass harvested during the year (tonnes gutted weight)	**21,626**	**18,685**
Fair value adjustment fish < 4 kg on average live weight	54,838	10,132
Fair value adjustment fish > 4 kg on average live weight	75,954	36,734
Total change in fair value on biological assets	**130,792**	**46,866**
Cost price biological assets	351,299	180,630
Fair value adjustments at the end of the period	130,792	46,866
Biological assets carrying amount	**482,091**	**227,497**

VALUATION OF BIOLOGICAL ASSETS

IAS 41 requires biomass to be accounted for at the estimated fair value net of sales costs and harvesting costs.

The calculation of the estimated fair value is based on market prices for harvested fish. The prices are reduced for harvesting costs and freight costs to market to arrive at a net value back to farm. The valuation reflects the expected quality grading. In the accounts, the change in estimated fair value is charged to the Profit & Loss account on a continuous basis.

THE VALUATION MODEL

The valuation model is completed for each business unit, and it is based on biomass in sea for each location. The specification of biomass includes total number of fish, estimated average weight and biological costs for the biomass. Number of kilo biomass is multiplied by value per kilo that reflects the actual value. The price used is the price for sellable fish. The valuation takes into consideration that not all the fish are of the same quality.

SIGNIFICANT ASSUMPTIONS FOR DETERMINING FAIR VALUE OF LIVE FISH

The estimate of fair value of biomass will always be based on uncertain assumptions, even though the company has built substantial expertise in assessing these factors. The volume of biomass is, in itself, an estimate that is based on the number of smolt put to sea, the estimated growth from the time of stocking, estimated mortality based on observed mortality in the period, etc. The quality of the biomass is difficult to estimate, and even in a situation with good estimates for the average weight of the fish, there will be a spread in quality with even minor changes in the market price which will give significant changes in the valuation, if assumed that all fish and weight of the fish actually is in the cage. The price assumption is also important for the valuation, and when the fish is a harvestable size and the volume is 17,989 tonnes, a change in price of DKK 1 will have an impact on the valuation of approximately DKK 18 million.

NOTE 14. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

DKK 1,000	**2010**	**2009**
Accounts receivable	125,604	66,649
Reversal of provision for bad debt	15	74
Provisions for bad debts	0	-79
Net accounts receivable	**125,619**	**66,644**
Prepayments	262	1,431
VAT	19,628	11,326
Other	0	294
Other receivables	**19,890**	**13,051**
Total accounts receivable and other receivables	**145,509**	**79,695**

AGE DISTRIBUTION OF ACCOUNTS RECEIVABLE

DKK 1,000	**2010**	**2009**
Receivables not overdue	125,553	66,517
Overdue 0–6 months	66	44
Overdue more than 6 months	0	83
Total	**125,619**	**66,644**

CURRENCY EXPOSURE TO ACCOUNTS RECEIVABLE

The Group holds accounts receivable in foreign currencies amounting to DKK 125,6 million at year-end. Below is presented the book value of receivables specified in currency, translated into DKK employing the currency value at 31.12.

Currency distribution of receivables

DKK 1,000	**2010**	**2009**
DKK	75,353	45,523
EUR	24,178	15,507
USD	16,064	1,643
GBP	4,445	2,077
Others	5,580	1,894
Total	**125,619**	**66,644**

NOTE 15. EQUITY COMPOSITION

Restricted equity comprises equity in which distribution to the shareholders can only take place adhering to specific procedures prescribed by the Faroese Limited Companies Act.

Restricted equity consists of Equity Recognition Surplus and Fair Value Adjustments of Biomass.

Free equity can be readily distributed to the shareholders, or otherwise disposed of, after due approval by the AGM.

The composition of equity can be specified as follows:

DKK 1,000	Share Capital	Share Premium Reserve	Equity Recognition Surplus	Proposed Dividend	Fair value adjust-ments Biomass	Retained Earnings	Total Equity
Equity 01.01.2010	**2,992**	**86,676**	**6,932**	**18,000**	**46,866**	**227,421**	**388,887**
Adjustment 01.01	0	0	0	0	0	1,371	1,371
Net profit after tax	0	0	0	0	83,926	175,785	259,711
Fair value adjustment on securities available for sale*	0	0	5,830	0	0	0	5,830
Deferred tax on securities available for sale*	0	0	-1,594	0	0	0	-1,594
Paid-out dividend	0	0	0	-18,000	0	0	-18,000
Dividend on treasury shares	0	0	0	0	0	357	357
Proposed dividend	0	0	0	191,035	0	-191,035	0
Write-ups share of profits in associates	0	0	512	0	0	-512	0
Share issue related to IPO	2,608	72,392	0	0	0	0	75,000
Costs related to IPO	0	-7,273	0	0	0	0	-7,273
Sale of treasury shares related to IPO	0	15,669	0	0	0	0	15,669
Tax on sale of treasury shares	0	-2,820	0	0	0	0	-2,820
Equity increase due to merger	972	208,067	0	0	0	0	209,039
Deferred tax on recognised excess fair value	0	-23,888	0	0	0	0	-23,888
Share split due to merger	42,286	-42,286	0	0	0	0	0
Equity 31.12.2010	**48,858**	**306,537**	**11,680**	**191,035**	**130,792**	**213,387**	**902,289**

* Other comprehensive income

DKK 1,000	Share Capital	Share Premium Reserve	Equity Recognition Surplus	Proposed Dividend	Fair Value Adjustments Biomass	Retained Earnings	Total Equity
Equity 01.01.2009	**2,992**	**86,676**	**3,083**	**5,000**	**13,211**	**130,688**	**241,650**
Net profit after tax	0	0	0	0	33,655	115,073	148,728
Fair value adjustment on securities available for sale*	0	0	4,279	0	0	0	4,279
Deferred tax on securities available for sale*	0	0	-770	0	0	0	-770
Paid-out dividend	0	0	0	-5,000	0	0	-5,000
Proposed dividend	0	0	0	18,000	0	-18,000	0
Write-ups share of profits in associates	0	0	340	0	0	-340	0
Equity 31.12.2009	**2,992**	**86,676**	**6,932**	**18,000**	**46,866**	**227,421**	**388,887**

* Other comprehensive income

NOTE 16. SHARE CAPITAL AND MAJOR SHAREHOLDERS

Share capital:

DKK 1,000	Share Capital
Share capital at 31 December 2009	2,992
Share issue related to IPO	2,608
Sale of treasury shares related to IPO	0
Equity increase due to merger	972
Share split due to merger	42,286
Share capital at 31 December 2010	**48,858**

The parent company's share capital comprises:

DKK 1,000	No. of Shares	Face Value	Share Capital
Ordinary Shares	48,858,065	1	48,858,065
Total Share Capital			**48,858,065**

SHAREHOLDERS

The 20 largest shareholders, including those holding more than 5% in the company as of 31 December 2010 were:

DKK 1,000	Nominal value of shares	Share holding	Voting rights
SALMAR ASA	11,380,265	23.30%	23.30%
HAVSBRÚN P/F	8,166,540	16.70%	16.70%
Hans Jacobsen	4,594,437	9.40%	9.40%
Regin Jacobsen	4,491,217	9.20%	9.20%
JPMORGAN CHASE BANK	2,157,501	4.40%	4.40%
TF ÍLØGUR P/F	1,719,095	3.50%	3.50%
JPMBLSA	1,063,875	2.20%	2.20%
ROYNDIN P/F	927,564	1.90%	1.90%
MORGAN STANLEY & CO INTERNAT. PLC	758,138	1.60%	1.60%
STATE STREET BANK AND TRUST CO	738,901	1.50%	1.50%
OM HOLDING AS	700,000	1.40%	1.40%
Katrin Jakobsen	545,441	1.10%	1.10%
JPMORGAN CHASE BANK	544,780	1.10%	1.10%
BROWN BROTHERS HARRIMAN & CO	489,625	1.00%	1.00%
UBS (LUXEMBOURG) S.A.	482,593	1.00%	1.00%
VARMA MUTUAL PENSION INSURANCE	457,400	0.90%	0.90%
SKANDINAVISKA ENSKILDA BANKEN	423,600	0.90%	0.90%
STICHTING PENSIOENFONDS METAAL EN	356,983	0.70%	0.70%
ALFRED BERG GAMBAK	350,676	0.70%	0.70%
Rógvi Jacobsen	350,038	0.70%	0.70%
Total held by the 20 largest shareholders	**40,698,669**	**83.20%**	**83.20%**
Total other shareholders	8,159,396	16.80%	16.80%
Total no. of shares	**48,858,065**	**100.00%**	**100.00%**

Shares owned directly and indirectly by the members of the Board of Directors and CEO:

Name	Position	No. of shares	Shareholding
Rúni M. Hansen	Chairman of the Board	10,000	0.02%
Johannes Jensen	Deputy Chairman of the Board	0	0.00%
Odd Eliasen	Member of the Board	0	0.00%
Trine Sæther Romuld	Member of the Board	0	0.00%
Annika Frederiksberg	Member of the Board	14,000	0.03%
Virgar Dahl	Member of the Board	7,000	0.01%
J. Regin Jacobsen	Chief Executive Officer	4,491,217	9.19%

DIVIDEND

The Board has proposed a dividend of DKK 191.035 million. The dividend proposal has not been recognised as a liability at 31 December 2010, but is presented as an item within equity.

NOTE 17. NET INTEREST BEARING DEBT

LONG-TERM INTEREST BEARING DEBT

DKK 1,000	2010	2009
Debt to credit institutions	44,324	87,382
Leasing liabilities	0	0
Next year's instalments on long-term debt	-6,967	-53,033
Other long-term debt	0	0
Total long-term interest bearing debt 31.12.	**37,357**	**34,349**
Debt to credit institutions	34,994	45,239
Next year's instalments on long-term debt	6,967	53,023
Total short-term interest bearing debt 31.12.	**41,961**	**98,262**
Total interest bearing debt	79,318	132,612
Cash and cash equivalents	9,128	35,319
Net interest bearing debt	**70,190**	**97,293**

Cash and cash equivalents consist of short-term bank deposits. The maturity structure of the Group's financial commitments, based on undiscounted contractual payments. The merged Group's (Bakkafrost and Vestlax) undrawn financing facility amounted to approximately DKK 320 million at 31 December 2010.

REMAINING PERIOD

31.12.2010	1–3 months	3–12 months	1–5 years	> 5 years	Total
Interest bearing bank loans	0	6,967	25,476	11,881	**44,324**
Leasing liabilities	0	0	0	0	**0**
Other debt	0	34,994	0	0	**34,994**
Accounts payable and other debt	74,113	8,927	0	0	**83,040**

REMAINING PERIOD

31.12.2009	1–3 months	3–12 months	1–5 years	> 5 years	Total
Interest bearing bank loans	12,500	40,523	29,782	4,568	**87,373**
Leasing liabilities	0	0	0	0	**0**
Other debt	0	45,239	0	0	**45,239**
Accounts payable and other debt	42,451	0	0	0	**42,451**

INTEREST BEARING DEBT IN MORE DETAIL.

The Group signed a loan agreement in February 2010 amounting to DKK 400 million, distributed between two revolving overdraft facilities amounting to a total of DKK 200 million and two instalment loans totalling DKK 200 million. In 2011, the loan agreement was amended with, among other things, new margins. At 31 December 2010, the available instalment loans amounted to DKK 150 million, with DKK 50 million to be paid back before the end of 2011, divided into quarterly instalments of DKK 12.5 million. After that, the payments shall follow an 8-year profile ending 31.12.2014. The loan facility is secured both in the company's property, plants and other material, and fixed assets as well as stock, farming licences and insurance policies.

The interest payable is CIBOR 3 months plus the current margin, which is calculated on the basis of the company's interest bearing debt ratio compared to EBITDA before fair value adjustments of biological assets. The margin may vary between 2% p.a. and 3.75% p.a.

The Group's net interest bearing debt, measured on a quarterly basis, based on a rolling 4 quarters, must not exceed EBITDA X 3.5 and from 31.12.2011, 3.0.

FINANCIAL COVENANTS

The revolving overdraft facility shall be distributed between financing of accounts receivables and fish at sea. One part of the facility must never exceed 80% of the insured accounts receivables, and the other part must not, at any time, exceed 65% of the lesser of the cost of the fish at sea or P/F BankNordik's estimated standard value in fish at sea.

EBITDA for the Group must at all times be 1.2 times the total interest and repayments to the two banks. The solvency for the Group must not be below 30%. Fair value adjustments of the biological assets shall not be included when calculating the EBITDA.

The Bakkafrost Group had total available finances of DKK 394 million, of which the undrawn amount at 31 December 2010 was approximately DKK 320 million.

NOTE 18. TAX

DKK 1,000

The tax expense for the year breaks down as follows:	**2010**	**2009**
Tax payable	8,927	0
Change in deferred tax	38,620	32,509
Tax expense on ordinary profit	**47,547**	**32,509**
Tax payable in the statement of financial position		
Tax on sale of treasury shares	2,820	0
Tax payable	8,927	0
Tax payable in the statement of financial position	**11,747**	**0**
Specifications of temporary differences		
Licences	132,709	0
Property, plant and equipment	147,199	120,644
Financial assets	8,853	8,012
Inventory	479,235	227,679
Receivables	0	-674
Losses carried forward	-101,281	-38,541
Total temporary differences	**666,715**	**317,120**
Deferred tax liabilities (+) / assets (-)	**120,009**	**57,082**
Reconciliation from nominal to actual tax rate		
Profit before tax	307,259	181,237
Expected tax at nominal tax rate (18%)	55,307	32,623
Tax on equity entries	-6,654	0
Permanent differences	-1,105	-114
Calculated tax expense	**47,548**	**32,509**
Effective tax rate	15.47%	17.90%

Under the Faroese tax regime, growth of live biomass is not tax relevant before harvesting. Consequently, large tax losses to be carried forward are incurred as biomass in inventory being built up. Tax losses to be carried forward are infinite. Deferred taxes on temporary differences, deriving from shares in associated Companies, are not entered because intercompany dividends are not tax relevant in the Faroese tax regime.

NOTE 19. MORTGAGES AND GUARANTEES

Carrying amount of debt secured by mortgages and pledges

DKK 1,000	**2010**	**2009**
Long-term debt to financial institutions	37,357	34,350
Short-term debt to financial institutions	41,961	98,262
Total	**79,318**	**132,612**

Carrying amount of assets pledged as security for recognised debt		
Licences	132,709	0
Property, plant and equipment	356,419	231,002
Shares	0	7,427
Biological assets (biomass)	482,091	227,497
Inventory	28,501	20,527
Accounts receivable	125,619	66,644
Other receivables	19,890	13,308
Total	**1,145,229**	**566,405**

The Group's companies have a guaranteed self-debtor in solidum for the balance without limitations for each other. Mortgages in each Group company also count as collateral for the bank debt of other Group companies. As part of the guarantees are also any insurance refunds.

NOTE 20. FINANCIAL MARKET RISK

FINANCIAL RISK

The Group has bank loans, raised for the purpose of providing capital for investment in the company's business. In addition, the company has financial instruments such as accounts receivable, accounts payable, etc. which are ascribable directly to day-to-day business operations. The Group has no forward currency contracts for hedging purposes.

The company does not employ financial instruments, including financial derivatives, for the purpose of speculation.

The most important financial risks to which the company is exposed are interest rate risk, foreign exchange risk, liquidity risk and credit risk. Management monitors these risks on an ongoing basis, and draws up guidelines for how they are to be dealt with.

MARKET RISK

Interest rate risk

The borrowing portfolio is currently at floating interest rates, which means that the Group is affected by changes in interest rates. Loans are capitalised at amortised cost, since the difference between amortised cost and fair value is negligible.

Given the financial instruments in effect on 31 December 2010, a 0.5% increase in interest rates would reduce the Group's profitability by DKK 0.4 million before tax.

Foreign exchange risk

Bakkafrost trades on the world market for farmed salmonids, and parts of revenues and accounts receivable are denominated in foreign currency. On the other hand, purchases of raw materials, etc. are predominantly denominated in DKK. Fluctuations in foreign exchange rates present a financial risk to the Group.

CREDIT RISK

The risk that counterparties do not have the financial strength to meet their obligations is considered relatively low, since losses due to bad debts historically have been small. However, following the international crisis, the risk of losses may be considered increasing. The Group has no material risk relating to individual counterparties or counterparties which may be considered a group due to similarities in the credit risk, though some markets have been hit harder by the ongoing world recession. The Group has guidelines to ensure that sales are made only to customers that have not previously had payment problems and that outstanding balances do not exceed fixed credit limits. The majority of the total accounts receivable is insured.

As not all receivables are insured, the Group has to accept a certain risk element in accounts receivable.

The gross credit risk on the statement of financial position corresponds to the Group's receivables portfolio on the statement of financial position.

LIQUDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by maintaining a flexible financial structure which is secured by means of established borrowing facilities. The Group's objective is to have sufficient cash, cash equivalents or medium-term credit facilities to meet its borrowing requirement in the short term. Unused credit facilities are described in note 17, where the terms are described.

CAPITAL STRUCTURE AND EQUITY

The prime objective of the Group's capital management is to ensure that it maintains a good credit rating in order to achieve favourable borrowing terms. By ensuring a good debt-to-equity ratio, the Group will support its business operations. The Group manages and makes changes to its capital structure in response to an ongoing assessment of financial conditions under which the business operates and its short- and medium-term outlook, including any adjustment in dividend payouts, buyback of own shares, capital reduction or issue of new shares.

NOTE 21. EARNINGS PER SHARE

DKK 1,000	**2010**	**2009**
Profit for the year to shareholders	259,711	148,728
Fair value adjustment of biomass (IAS 41)	-83,926	-33,655
Tax on fair value adjustment	15,107	6,058
Adjusted profit for the year to shareholders of P/F Bakkafrost	**190,892**	**121,131**
Ordinary shares as of 01.01*	46,250,000	2,991,789
Effect of own shares by merger	-918,384	0
Effect of share issue	2,608,065	0
Effect of sale of own shares	918,384	0
Ordinary shares as of 31.12	**48,858,065**	**2,991,789**
Time-weighted average number of shares outstanding through the year	**48,036,837**	**2,991,789**

* 1 January 2010 P/F Vestlax Holding was merged with P/F Bakkafrost. In connection with the merger, a share capital split was made where the nominal share capital of DKK 2,991,789 was divided into 46,250,000 shares.

Earnings per share	**2010**	**2009**
Basic (DKK)	5.41	49.71
Diluted (DKK)	5.41	49.71

Earnings per share before fair value adjustments of biomass	**2010**	**2009**
Basic (DKK)	3.97	40.49
Diluted (DKK)	3.97	40.49

Bakkafrost Group has no stock option programme running at present.

NOTE 22. CAPITAL COMMITMENTS

The Group had capital expenditure committed but not provided in these accounts at 31 December 2010 of approximately DKK 12 million.

NOTE 23. RELATED-PARTY TRANSACTIONS

Related parties in this respect are considered persons or legal entities which directly or indirectly have determining or substantial influence on Bakkafrost Group through shareholding or position.

Members of the Board of Directors	**Position**	**No. of shares**
Rúni M. Hansen	Chairman of the Board	10,000
Johannes Jensen	Deputy Chairman of the Board	0
Odd Eliasen	Member of the Board	0
Trine Sæther Romuld	Member of the Board	0
Annika Frederiksberg	Member of the Board	14,000
Virgar Dahl	Member of the Board	7,000
Other key personnel		
J. Regin Jacobsen	Chief Executive Officer	4,491,217
Teitur Samuelsen	Chief Financial Officer	1,000
Frederik Hansen	Sales manager	0
Jón Purkhús	Operation manager – farming	172,068
Kári Jacobsen	Operation manager – VAP	1,000
Andrias Petersen	Operation manager – harvest	0
Leif av Reyni	Operation manager – fresh water	0

SHAREHOLDERS

SalMar ASA and P/F Havsbrún are major shareholders of P/F Bakkafrost at the end of 2010. Havsbrún is also the central feed supplier to the sea farming activity of the Bakkafrost Group.

SPECIFICATION OF RELATED-PARTY TRANSACTIONS

Related parties are in this respect considered as persons or legal entities which directly or indirectly possess substantial influence on the company through ownership or position.

DKK 1,000	**2010**	**2009**
Revenues – P/F Havsbrún	2,245	2,342
Revenues – P/F BankNordik	-	238
Purchases – P/F Havsbrún	272,925	150,976
Interest costs – P/F BankNordik	0	5,578
Interest bearing debts – P/F BankNordik	-	46,401
Accounts receivable	-	-
Account receivables – P/F Havsbrún	282	-
Other receivables – P/F BankNordik	-	35,221
Accounts payable – P/F Havsbrún	27,358	15,074

NOTE 24. PRO-FORMA FINANCIALS

BAKKAFROST GROUP

The Bakkafrost Group and Vestlax Group were separate entities. In 2008, a group of investors, of which a majority also hold shares in Bakkafrost, set up Vestlax Holding, which then purchased all shares in Vestlax Group. Initially, the Groups were operated separately, with separate Boards of Directors and CEOs.

The Vestlax Group and the seafarming activity of the Bakkafrost Group perform similar activities and would benefit from economies of scale.

By 1 January 2010, P/F Bakkafrost and P/F Vestlax Holding were merged into one company. Consequently, the comparison figures for 2009 will not provide an adequate basis for comparison. Therefore, the following pro forma financial information, which presents the Profit & Loss statement as if the merger took place on 1 January 2009, will provide pro forma comparison.

The pro forma financials present the joint activity as one reporting entity for the period. The pro forma figures are based on the actual financial figures of the Groups. Internal trade, gains and losses and balances have been eliminated.

DKK 1,000	Proforma 2009
Operating revenue	**921,688**
Purchase of goods	-272,638
Change in inventory and biological assets (at cost)	-105,659
Fair value adjustments on biological assets	31,923
Fair value (excess of costs) on biological assets acquired and harvested	2,563
Salary and personnel expenses	-123,895
Other operating revenue	9,500
Other operation expenses	-186,727
Onerous contracts	0
Listing costs	0
Income from associates	699
Depreciation	-38,134
Earnings before interest and taxes (EBIT)	**239,320**
Financial income	1,197
Net interest expenses	-37,290
Net currency effects	1,577
Other financial expenses	-3,661
Earnings before taxes (EBT)	**201,143**
Taxes	-36,343
Profit for the period	**164,800**

P/F BAKKAFROST

ANNUAL AND FINANCIAL STATEMENT 2010

P/F BAKKAFROST PROFIT AND LOSS STATEMENT

DKK 1,000	Note	2010	2009
Operating revenue		**10,300**	**3,820**
Salary and personnel expenses	2	-8,381	-2,602
Other operation expenses		-5,160	-2,405
Depreciation	4	-2,118	-1,460
Listing costs		-12,790	0
Earnings before interest and taxes (EBIT)		**-18,149**	**-2,647**
Dividend from subsidiaries	5	98,624	0
Income from other investments in shares	6	94	170
Financial income	3	11,577	6,645
Net interest expenses	3	-2,084	-2,209
Other financial expenses		-1,745	0
Earnings before taxes (EBT)		**88,317**	**1,959**
Taxes	9	1,797	-356
Profit to shareholders of P/F Bakkafrost		**90,114**	**1,603**
Distribution of profit			
Dividend		191,035	18,000
Retained earnings		-100,921	-16,397
Distribution in total		**90,114**	**1,603**

P/F BAKKAFROST STATEMENT OF FINANCIAL POSITION

DKK 1,000	Note	2010	2009
ASSETS			
Non-current assets			
Intangible assets		0	0
Total intangible assets		**0**	**0**
Property, plant and equipment			
Land, buildings and other real estate	4	51,128	43,026
Plant, machinery and other operating equipment	4	2,100	409
Total property, plant and equipment		**53,228**	**43,435**
Non-current financial assets			
Investments in subsidiaries	5	249,065	110,411
Investments in stocks and shares	6	1,456	17,447
Other non-current receivables	7	253	506
Total non-current financial assets		**250,774**	**128,364**
TOTAL NON-CURRENT ASSETS		**304,002**	**171,799**
Receivable from Group companies		268,260	79,012
Accounts receivable		73	40
Other receivables		206	1,901
Total receivables		**268,539**	**80,953**
Cash and cash equivalents		69	7
TOTAL CURRENT ASSETS		**268,608**	**80,959**
TOTAL ASSETS		**572,611**	**252,758**

DKK 1,000	Note	2010	2009
EQUITY AND LIABILITIES			
Equity			
Share capital	8	48,858	2,992
Share premium fund		117,368	86,676
Retained earnings		161,902	121,931
Dividend		191,035	18,000
Total equity		**519,163**	**229,599**
Non-current liabilities			
Deferred taxes	9	5,225	5,474
Total non-current liabilities		**5,225**	**5,474**
Current liabilities			
Short-term interest bearing debt		34,993	15,979
Accounts payable		1,069	1,223
Other short term liabilities		12,161	483
Total current liabilities		**48,223**	**17,685**
Total liabilities		**53,447**	**23,159**
TOTAL EQUITY AND LIABILITIES		**572,611**	**252,758**

P/F BAKKAFROST CHANGES IN EQUITY

DKK 1,000	Share capital	Share premium account	Retained earnings	Proposed dividends	Total
1 January 2009	**2,992**	**86,676**	**136,439**	**5,000**	**231,107**
Paid-out dividends	0	0	0	-5,000	-5,000
Net annual profit	0	0	1,603	0	1,603
Fair value on share option	0	0	1,929	0	1,929
Adjustment to 01.01	0	0	-41	0	-41
Proposed dividends	0	0	-18,000	18,000	0
1 January 2010	**2,992**	**86,676**	**121,930**	**18,000**	**229,598**
Paid-out dividends	0	0	0	-18,000	-18,000
Dividend on treasury shares	0	0	357	0	357
Net annual profit	0	0	90,114	0	90,114
Share issue related to IPO	2,608	72,392	0	0	75,000
Costs related to IPO	0	-7,273	0	0	-7,273
Sale of treasury shares related to IPO	0	10,679	0	0	10,679
Tax on sale of treasury shares	0	-2,820	0	0	-2,820
Equity increase due to merger	972	0	140,512	0	141,484
Share split due to merger	42,286	-42,286	0	0	0
Adjustments to 01.01	0	0	24	0	24
Proposed dividends	0	0	-191,035	191,035	0
31 December 2010	**48,858**	**117,368**	**161,902**	**191,035**	**519,163**

NOTE 1. ACCOUNTING PRINCIPLES

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union (EU) and the additional requirements according to the Faroese Financial Reporting Act. The accounting policies applied to the consolidated accounts have also been applied to the parent company, P/F Bakkafrost. The notes to the consolidated accounts provide additional information to the parent company's accounts which is not presented here separately.

The company's financial statements are presented in DKK. Investments in subsidiaries are measured at historic cost, unless there is any indication of impairment. In case of impairment, an investment is written down to fair value.

NOTE 2. SALARIES AND OTHER PERSONNEL EXPENSES

Breakdown of payroll expenses

DKK 1,000	**2010**	**2009**
Wages and salaries	7,561	2,491
Social security taxes	238	79
Pension expenses	132	30
Other benefits	450	2
Total payroll expenses	**8,381**	**2,602**
Average number of full-time employees	14	3

REMUNERATION TO SENIOR EXECUTIVES AND AUDITORS

For details of remuneration paid to senior executives, see notes to the consolidated financial statements. The company paid DKK 25,000 for audit service and DKK 10,000 for tax advisory. For services related to prospectus, mergers and IFRS conversion see note to the consolidated financial statements.

NOTE 3. NET FINANCIAL ITEMS

DKK 1,000	**2010**	**2009**
Interests received from Group companies	11,450	4,865
Other financial income	127	1,780
Financial income	**11,577**	**6,645**

DKK 1,000		
Interests paid to Group companies	-335	0
Interest expenses on long-term loans	-1,749	-2,209
Interest expenses on accounts payable	-1	0
Financial expenses	**-2,085**	**-2,209**

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

DKK 1,000	**Land and buildings**	**Other equipment**	**Total 2010**	**Total 2009**
Acquisition cost as of 01.01	47,544	415	47,959	42,328
Acquisitions during the year	9,965	1,948	11,913	5,631
Acquisition cost as of 31.12	**57,509**	**2,363**	**59,872**	**47,959**
Accumulated depreciation and write-down as of 01.01	-4,519	-6	-4,525	-3,065
Depreciations during the year	-1,862	-256	-2,118	-1,460
Accumulated depreciation and write-down as of 31.12	**-6,381**	**-262**	**-6,643**	**-4,525**
Net book value as of 31.12	**51,128**	**2,100**	**53,228**	**43,435**

Buildings in Glyvrar are located on rented land.

Estimated lifetime	25 years	3–5 years
Depreciation method	linear	linear

NOTE 5. SUBSIDIARIES AND ASSOCIATES

	Subsidiaries		Associated	
DKK 1,000	**2010**	**2009**	**2010**	**2009**
Acquisition cost as of 01.01	110,411	110,411	0	318
Disposals during the year	0	0	0	-318
Additions in connection with merger	141,420	0	0	0
Additions during the year	0	0	0	0
Acquisition cost as of 31.12	**251,831**	**110,411**	**0**	**0**
Re-evaluations as of 01.01	0	0	0	-59
Re-evaluations during the year	0	0	0	59
Reversal during disposal	0	0	0	0
Excess of result payment of dividend	-2,766	0	0	0
Re-evaluations as of 31.12	**-2,766**	**0**	**0**	**0**
Net book value as of 31.12	**249,065**	**110,411**	**0**	**0**

DKK 1,000 Company	Cost Method Yes/No	Head Office	Ownership	Voting share	Carrying amount in P/F Bakkafrost 2010	Carrying amount in P/F Bakkafrost 2009
P/F Bakkafrost Farming North	Yes	Glyvrar	100%	100%	71,796	71,796
P/F Bakkafrost Processing	Yes	Glyvrar	100%	100%	30,518	31,884
P/F Faroe Smolt*	Yes	Glyvrar	100%	100%	0	1,900
P/F Bakkafrost Sales	Yes	Glyvrar	100%	100%	879	879
P/F Bakkafrost Packaging	Yes	Glyvrar	100%	100%	7,781	3,951
P/F Bakkafrost Harvesting	Yes	Glyvrar	100%	100%	6,059	0
P/F Bakkafrost Farming West	Yes	Glyvrar	100%	100%	132,032	0
Total subsidiaries					**249,065**	**110,411**

* P/F Faroe Smolt was merged with P/F Bakkafrost Packaging 1 January 2010.

P/F Bakkafrost and subsidiaries, the Group, own a total of 58.50% in P/F Salmon Proteins, which is an associated company on the Group level.

P/F Bakkafrost owns 14.23% in P/F Salmon Proteins which is in investment in stocks and shares.

DKK 1,000	Dividend*	Excess dividend on result	Total 2010	2009
P/F Bakkafrost Farming North	75,000	0	75,000	0
P/F Bakkafrost Processing	25,000	-1,366	23,634	0
P/F Faroe Smolt **	1,390	-1,400	-10	0
P/F Bakkafrost Sales	0	0	0	0
P/F Bakkafrost Packaging	0	0	0	0
P/F Bakkafrost Harvesting	0	0	0	0
P/F Bakkafrost Farming West	0	0	0	0
Total revenue Group contribution	**101,390**	**-2,766**	**98,624**	**0**

* Dividend from subsidiaries regarding 2009 paid out in 2010,
** P/F Faroe Smolt was merged with P/F Bakkafrost Packaging 1 January 2010.

NOTE 6. INVESTMENTS IN STOCKS AND SHARES

DKK 1,000	**2010**	**2009**
Acquisition cost as of 01.01	10,083	6,038
Acquisitions during the year	0	4,200
Reclassification due to merger	-10,000	0
Disposals during the year	0	-155
Acquisition cost as of 31.12	**83**	**10,083**
Re-evaluations as of 01.01	1,279	1,126
Re-evaluations during the year	94	6,238
Re-evaluations as of 31.12	**1,373**	**7,364**
Net book value as of 31.12	**1,456**	**17,447**

Shares and holdings in which the Group does not have significant influence are valued at cost. This is due to the fact that fair value cannot be measured reliably.

NOTE 7. OTHER NON-CURRENT RECEIVABLES FALLING DUE MORE THAN ONE YEAR FROM YEAR-END

DKK 1,000	**2010**	**2009**
Loan to municipality	253	506
Acquisition cost as of 31.12	**253**	**506**

NOTE 8. SHARE CAPITAL AND MAJOR SHAREHOLDERS

DKK 1,000	**Share Capital**
Share capital at 31 December 2009	2,992
Share issue related to IPO	2,608
Sale of treasury shares related to IPO	0
Equity increase due to merger	972
Share split due to merger	42,286
Share capital at 31 December 2010	**48,858**

The share capital is distributed into shares of DKK 1 and multiplications thereof.

SHAREHOLDERS

Shareholders holding more than 5% in the company as at 31 December 2010, see the Note in Group Accounts.

NOTE 9. TAX

The tax expense for the year breaks down as follows:

DKK 1,000	**2010**	**2009**
Tax payable	0	0
Compensation due to group taxation	-1,548	0
Change in deferred tax	-249	356
Tax expense on ordinary profit	**-1,797**	**356**

Tax in the statement of financial position		
DKK 1,000	**2010**	**2009**
Tax on sale of treasury shares	2,820	0
Deferred tax	5,225	5,474
Tax in the statement of financial position	**8,045**	**5,474**
Tax assets not recognised in the statement of financial position	**0**	**0**
Specifications of temporary differences		
Property, plant and equipment	29,028	28,455
Losses carried forward	0	-4,130
Total temporary differences	**29,028**	**24,325**
Deferred tax liabilities (+) / assets (-)	**5,225**	**4,379**
Reconciliation from nominal to actual tax rate		
Profit before tax	88,317	1,959
Expected tax at nominal tax rate (18%)	15,897	353
Permanent differences, including Group contribution without tax effect (18%)	-17,769	0
Other permanent differences (18%)	75	3
Calculated tax expense	**-1,797**	**356**
Effective tax rate	-2.03%	18.16%

NOTE 10. SECURITY PLEDGES AND CONTINGENT LIABILITIES

Carrying amount of debt secured by mortgages and pledges

DKK 1,000	**2010**	**2009**
Long-term debt to financial institutions	0	0
Short-term debt to financial institutions	34,993	15,979
Leasing debt	0	0
Total	**34,993**	**15,979**
Carrying amount of assets pledged as security for recognised debt		
Property, plant and equipment	53,228	43,434
Non-current financial assets	250,774	241,229
Receivables	268,539	81,108
Total	**572,541**	**365,771**

The company has guaranteed as self-debtor for the balance for each Group company in the merged Bakkafrost Group.

Mortgages in each Group company also count as collateral for the bank debt of other Group companies.

As part of the guarantees are also any insurance refunds.

RECONCILIATION FO-GAAP TO IFRS GAAP

The Annual Report of P/F Bakkafrost has, until 2009, been prepared according to the Faroese Financial Reporting Act.

The following reconciliations provide the effect of P/F Bakkafrost's transition to IFRS.

As of 1 January 2009, all figures will be converted to being prepared according to IFRS. The conversion is based on the actual statement of financial position of the company at 31.12.2008, which is then adjusted according to the recognition and measurement requirements of IFRS.

IFRS 1 requires presentation of a reconciliation demonstrating the differences between initially reported figures according to FO-GAAP and figures prepared according to IFRS-GAAP:

CHANGE IN EQUITY (DKK 1,000)	**31.12.2009**	**01.01.2009**
Equity FO-GAAP	**343,812**	**229,444**
Adjustment 01.01	-7	0
IFRS adjustments		
Convertible loan / share option	6,085	2,028
Subsidiaries at costs	-119,196	0
Associated companies	0	0
Tax on adjustments	-1,095	-365
Total IFRS adjustments	**-114,206**	**1,663**
Equity IFRS-GAAP	**229,599**	**231,107**

1) Convertible loan

According to IFRS, convertible loans have to be divided into two items: a) Loan and b) Share option. Under the previously adopted FO-GAAP, a convertible loan has been entered at face value.

Under the IFRS, after deduction of the share option, interest has been calculated on the otherwise interest-free loan and recognised as financial income in the Profit & Loss. At the time, for conversion in Q4 2009, the loan hereafter has reached face value. The share option is measured at fair value at the time for entering the convertible loan, and the increase in value until the date for exercise is entered in the Profit & Loss.

2) Subsidiary at costs

Under the previously adopted FO-GAAP, investments in subsidiaries were recognised by the equity method. According to IFRS, investments in subsidiaries shall be measured at cost according to IAS 27, or deemed costs.

The deemed costs can be the previous GAAP carrying amount at the transition date. Bakkafrost has applied the carrying amount at the transition date.

3) Tax on adjustments

Deferred tax is recognised on IFRS adjustments with 18%.

OPENING BALANCE AT 01.01.2009

IFRS OPENING STATEMENT OF FINANCIAL POSITION (DKK 1,000)	01.01.2009 FO-GAAP	Reclassi-fication	IFRS-Adjustments	01.01.2009 IFRS-GAAP
ASSETS				
Property, plant and equipment				
Land, buildings and other real estate	39,263	0	0	39,263
Plant, machinery and other operating equipment	0	0	0	0
Total property, plant and equipment	**39,263**	**0**	**0**	**39,263**
Non-current financial assets				
Investments in subsidiaries	110,411	0	0	110,411
Investments in stocks and shares	7,423	0	0	7,423
Other non-current receivables	1,046	4,200	2,028	7,274
Total non-current financial assets	**118,880**	**4,200**	**2,028**	**125,108**
TOTAL NON-CURRENT ASSETS	**158,143**	**4,200**	**2,028**	**164,371**
Receivable from Group companies	111,709	0	0	111,709
Accounts receivable	0	0	0	0
Other receivables	4,103	-4,103	0	0
Total receivables	**115,812**	**-4,103**	**0**	**111,709**
Cash and cash equivalents	4	0	0	4
TOTAL CURRENT ASSETS	**115,816**	**-4,103**	**0**	**111,713**
TOTAL ASSETS	**273,959**	**97**	**2,028**	**276,084**

IFRS OPENING STATEMENT OF FINANCIAL POSITION (DKK 1,000)	01.01.2009 FO-GAAP	Reclassi-fication	IFRS-Adjustments	01.01.2009 IFRS-GAAP
EQUITY AND LIABILITIES				
Equity				
Share capital	2,992	0	0	2,992
Share premium fund	86,676	0	0	86,676
Reserve equity method	99,379	-99,379	0	0
Retained earnings	35,397	99,379	1,663	136,439
Dividend	5,000	0	0	5,000
Total equity	**229,444**	**0**	**1,663**	**231,107**
Non-current liabilities				
Deferred taxes	4,330	0	365	4,695
Long-term interest bearing debts	34,964	0	0	34,964
Total non-current liabilities	**39,294**	**0**	**365**	**39,659**
Current liabilities				
Short-term interest bearing debt	3,717	0	0	3,717
Accounts payable	403	0	0	403
Short-term payables to associated companies	461	0	0	461
Other short-term liabilities	640	97	0	737
Total current liabilities	**5,221**	**97**	**0**	**5,318**
Total liabilities	**44,515**	**97**	**365**	**44,977**
TOTAL EQUITY AND LIABILITIES	**273,959**	**97**	**2,028**	**276,084**

PROFIT AND LOSS FO-GAAP-IFRS 01.01.2009-31.12.2009

IFRS Profit and Loss (DKK 1,000)	**2009 FO-GAAP**	**IFRS Adjustments**	**2009 IFRS GAAP**
Operating revenue	**3,820**	**0**	**3,820**
Salary and personnel expenses	-2,602	0	-2,602
Other operation expenses	-2,405	0	-2,405
Depreciation	-1,460	0	-1,460
Earnings before interest and taxes (EBIT)	**-2,647**	**0**	**-2,647**
Income from investments in subsidiaries	119,196	-119,196	0
Income from other investments in shares	170	0	170
Financial income	4,941	1,704	6,645
Net interest expenses	-2,209	0	-2,209
Earnings before taxes (EBT)	**119,451**	**-117,492**	**1,959**
Taxes	-49	-307	-356
Profit to shareholders of P/F Bakkafrost	**119,402**	**-117,799**	**1,603**

STATEMENT OF FINANCIAL POSITION AT 31.12.2009

(DKK 1,000)	31.12.2009 FO-GAAP	Reclassi-fication	Adjustment to opening balance	IFRS-Adjustments	31.12.2009 IFRS-GAAP
ASSETS					
Property, plant and equipment					
Land, buildings and other real estate	43,026	0	0	0	43,026
Plant, machinery and other operating equipment	409	0	0	0	409
Total property, plant and equipment	**43,435**	**0**	**0**	**0**	**43,435**
Non-current financial assets					
Investments in subsidiaries	229,590	17	0	-119,196	110,411
Investments in stocks and shares	11,386	-24	0	6,085	17,447
Other non-current receivables	506	0	2,028	-2,028	506
Total non-current financial assets	**241,482**	**-7**	**2,028**	**-115,139**	**128,364**
TOTAL NON-CURRENT ASSETS	**284,917**	**-7**	**2,028**	**-115,139**	**171,799**
Receivable from Group companies	79,012	0	0	0	79,012
Accounts receivable	40	0	0	0	40
Other receivables	1,804	0	97	0	1,901
Total receivables	**80,856**	**0**	**97**	**0**	**80,953**
Cash and cash equivalents	7	0	0	0	7
TOTAL CURRENT ASSETS	**80,862**	**0**	**97**	**0**	**80,959**
TOTAL ASSETS	**365,779**	**-7**	**2,125**	**-115,139**	**252,758**

(DKK 1,000)	31.12.2009 FO-GAAP	Reclassi-fication	Adjustment to opening balance	IFRS-Adjustments	31.12.2009 IFRS-GAAP
EQUITY AND LIABILITIES					
Equity					
Share capital	2,992	0	0	0	2,992
Share premium fund	86,676	0	0	0	86,676
Reserve equity method	218,711	-136	-99,379	-119,196	0
Retained earnings	17,433	129	101,042	3,326	121,931
Dividend	18,000	0	0	0	18,000
Total equity	**343,812**	**-7**	**1,663**	**-115,870**	**229,599**
Non-current liabilities					
Deferred taxes	4,379	0	365	730	5,474
Long-term interest bearing debts	0	0	0	0	0
Total non-current liabilities	**4,379**	**0**	**365**	**730**	**5,474**
Current liabilities					
Short-term interest bearing debt	15,979	0	0	0	15,979
Accounts payable	1,223	0	0	0	1,223
Short-term payables to associated companies	0	0	0	0	0
Other short-term liabilities	386	0	97	0	483
Total current liabilities	**17,588**	**0**	**97**	**0**	**17,685**
Total liabilities	**21,967**	**0**	**462**	**730**	**23,159**
TOTAL EQUITY AND LIABILITIES	**365,779**	**-7**	**2,125**	**-115,139**	**252,758**

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