P/F BAKKAFROST
ANNUAL AND CONSOLIDATED REPORT AND ACCOUNTS

YEAR TO 31 DECEMBER 2011

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BAKKAFROST

ESTABLISHED 1968

KEY FIGURES

(DKK 1,000) **Profit and loss**	IFRS **2011**	IFRS **2010**	IFRS **2009**	IFRS **2008**	FO-GAAP **2007**
Operating revenues	1,321,092	820,212	596,565	365,634	229,525
Operational EBIT *	335,146	246,788	158,740	70,789	41,460
Operational EBITDA *	402,471	289,045	213,191	89,752	57,052
Earnings before interest and taxes (EBIT)	400,698	315,580	192,394	63,157	41,560
Earnings before taxes (EBT)	370,196	307,259	181,237	46,148	30,437
Net earnings	**323,417**	**259,711**	**148,728**	**38,339**	**24,831**
Earnings per share before fair value adjustment of biomass (DKK)	6.66	3.97	40.49	14.91	8.30
Earnings per share after fair value adjustment of biomass (DKK)	7.43	5.41	49.71	12.81	8.30

Statement of financial position	**2011**	**2010**	**2009**	**2008**	**2007**
Total non-current assets	1,234,333	519,427	257,741	247,657	223,242
Total current assets	1,067,441	665,229	363,291	304,873	248,159
TOTAL ASSETS	**2,301,774**	**1,184,656**	**621,032**	**552,530**	**471,401**
Total equity	1,061,011	902,289	388,887	241,650	196,308
Total liabilities	1,240,763	282,366	232,145	310,880	258,798
TOTAL EQUITY AND LIABILITIES	**2,301,774**	**1,184,656**	**621,032**	**552,530**	**471,401**
Net interest bearing debt	**816,825**	**70,190**	**97,293**	**243,696**	**225,789**
Equity share	**46%**	**76%**	**63%**	**44%**	**42%**

* Aligned for fair value adjustment of biomass, onerous contracts provision and for 2011 costs related to acquisition costs and badwill. 2010 is also adjusted for costs related to the listing of the company.

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 Róland 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 Bakkafrost 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 was started. 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 production of farmed salmon and smolt started.

1992 The Group was restructured by Regin Jacobsen, Hans Jacobsen and Martin Jakobsen. At this time, the Group established P/f Alistøðin á Bakka, which 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 tgw, to a total capacity of 18,000 tgw 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 tgw per day.

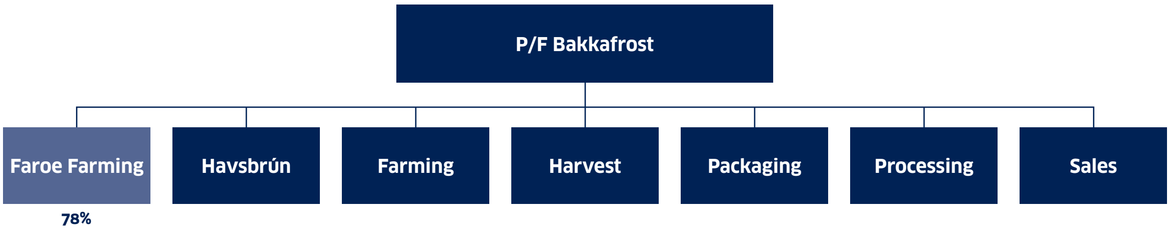
2008 The shareholders of Bakkafrost and Vestlax agreed to merge the companies. The merger was scheduled for 1 January 2010. P/f Vestlax Holding's shareholders agreed to be remunerated in Bakkafrost shares. The Vestlax Group had a capacity of 11,000 tgw of salmon and trout and a harvesting plant located in Kollafjørður.

2009 This was the best year so far in terms of produced volumes, revenues and operating profit. The decision was 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 tgw 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.

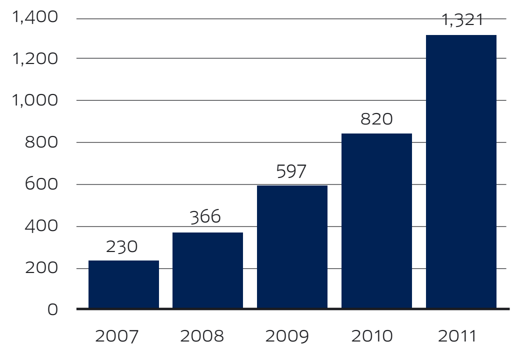
2011 Bakkafrost acquired P/f Havsbrún, a modern, internationally renowned producer of fish meal, fish oil and fish feed situated in the Faroe Islands. Almost all of the produced fish meal and oil is used for its own fish feed production, and only a small part is being exported. Bakkafrost was Havsbrún's largest customer. P/f Havsbrún owned 78.1% of the farming companies P/f Faroe Farming and P/f Viking Seafood with a total of 5 licenses. Following the acquisition of P/f Havsbrún, Bakkafrost also acquired the minority shares in P/f Viking Seafood and thus controls 100% of the shares.

GROUP STRUCTURE

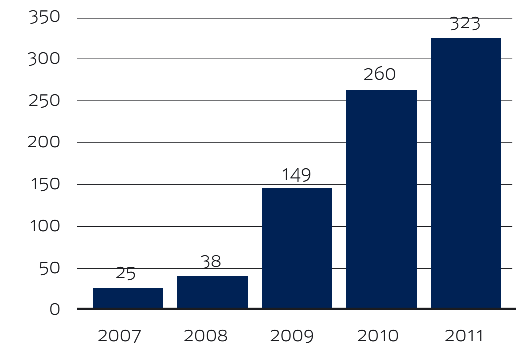


The figure above shows the structure of the Bakkafrost Group with activities separated into different entities based on activities. The Group produced 36,343 tgw in 2011 (2010: 21,626 tgw).

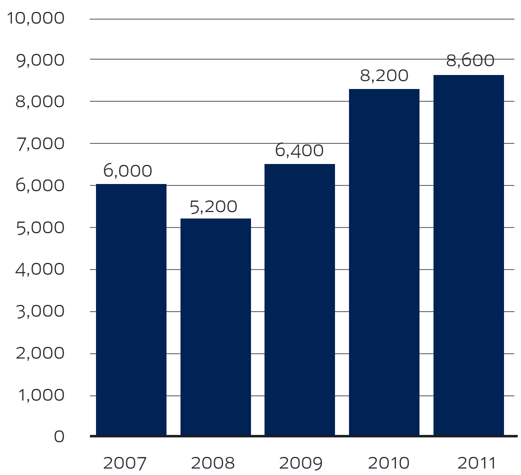
OPERATING REVENUES: Mill. DKK



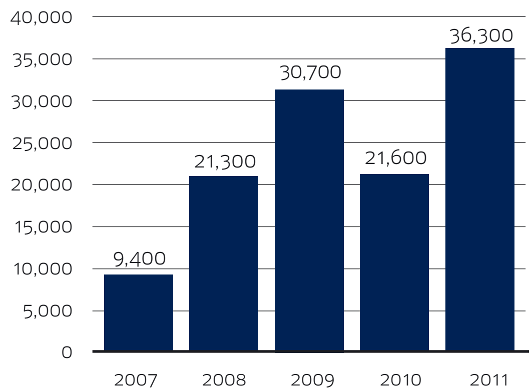
NET EARNINGS: Mill. DKK



SMOLT RELEASE: Thousand smolts



HARVEST VOLUME: Tonnes gw



OPERATION SITES

Bakkafrost is the largest salmon farmer in the Faroe Islands and holds 57% of all licences in the islands. The Group is fully integrated, from production of fish oil, fish meal and fish feed to production of smolt, farming, value added products and sales. Bakkafrost operates licenses on 19 farming sites located in 18 different fjords, and the company has a total of 550 employees.

HATCHERIES
Svínoy
Viðareiði
Norðtoftir
Húsar
Glyvradalur
Gjógv

FARMING
Hvannasund Norður
Hvannasund Suður
Árnafjørður
Borðoyavík
Haraldssund
Kunoyarnes
Lambavík
Fuglafjørður
Kolbeinargjógv
Selatrað
Funningsfjørður
Svínáir
Argir
Kaldbaksfjørður
Undir Síðu
Vestmanna
Hov
Lopra
Trongisvágur

HARVESTING
Klaksvík
Strendur
Kollafjørður
Vágur

FISH MEAL, FISH OIL AND FISH FEED
Fuglafjørður

PROCESSING
Glyvrar
Fuglafjørður

HEADQUARTER
Glyvrar

MAIN EVENTS

- Acquired the Faroese Company Havsbrún. With the acquisition Bakkafrost:
  - Increased the smolt production by 1 million smolts/year
  - Extended its value chain with production of fish oil, fish meal and fish feed
  - Increased the farming capacity with up to 15,000 tgw of salmon/year by acquiring the two farming companies Viking Seafood (100%) and Faroe Farming (78%), with a total of 5 licences
  - Increased the harvesting capacity
  - Increased the VAP capacity

- Continued high productivity with a low feed converting factor and low mortality

- Built-up the biomass to increase the harvest

- Broadened the customer base with increased export to the Far East

- Secured new financing for the Bakkafrost Group for the next five years, sufficient for the current activities

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CHAIRMAN'S STATEMENT

Bakkafrost has a clear strategy to be an independent Company securing long-term sustainable growth by way of an efficient and cost-effective production.

In accordance with this strategy, Bakkafrost acquired Havsbrún in 2011. Havsbrún is a fish meal, fish oil and fish feed producer. Havsbrún's ownership in the two farming companies, Viking Seafood and Faroe Farming, was also included in the transaction. This acquisition was instrumental in Bakkafrost extending its value chain. Bakkafrost now controls the entire value chain - from the purchase of raw material for the fish meal and oil production for fish feed - to the production and sales of value added salmon products for the retail markets. By controlling the extended value chain, Bakkafrost can deliver products to its customers based on best practices regarding quality assurance and traceability. Furthermore, Bakkafrost aims at improving operational efficiency in the consolidated Group.

The acquisition of Havsbrún has made Bakkafrost an even larger actor in the Faroese business community as well as in the international market.

It is an honour for us to participate in the operation and management of a Company that has become such an important local actor. With this position we also accept the responsibility to operate Bakkafrost in an honest manner and with personal integrity towards employees, business contacts, competitors, authorities and the local community. Together with our dedicated employees, Bakkafrost will do so.

To the benefit of the shareholders of Bakkafrost, the Company will continue to focus on a sustainable farming operation, which is based on the veterinary model implemented in the Faroe Islands in 2003. Based on this model, a cost-efficient operation and our dedicated employees, Bakkafrost delivered a sufficient result in 2011. The profit after tax was DKK 323.4 million. During 2011, earnings per kilo harvested salmon were at the high end compared to peers on Oslo Børs. Our aim for the future is to be the leading actor, when compared to peers.

The Board of Directors is satisfied with the Group's financial results this year and takes this opportunity to thank our employees for their efforts in 2011.

EXPANDING THE VALUE CHAIN

Bakkafrost continued to follow its growth strategy in 2011. This was carried out by acquiring companies that both extended the value chain and increased the capacity in the existing parts in the value chain. In addition to this, Bakkafrost also expanded with organic growth.

Bakkafrost closed one of the largest company transactions ever seen in the Faroe Islands by acquiring the Havsbrún Group effective 1 July 2011. P/f Havsbrún, a modern, internationally renowned producer of fish meal, fish oil and fish feed, is situated in the Faroe Islands.

P/f Havsbrún purchased 65,347 tonnes of raw material in 2011 (116,000 tonnes in 2010) and produced 84,431 tonnes of feed (60,250 tonnes in 2010), 13,141 tonnes of fish meal (25,000 tonnes in 2010) and 6,061 tonnes of fish oil (9,900 tonnes in 2010).

Almost all of the produced fish meal and oil is used for its own fish feed production, and only a small part is being exported. P/f Havsbrún owned 78.1% of the farming companies P/f Faroe Farming and P/f Viking Seafood with a total of 5 licenses and a total production of 9,132 tgw of salmon in 2011. The estimated capacity is 15,000 tgw of salmon per year. On 1 July, Bakkafrost also acquired the 21.9% owned by other investors in Viking Seafood. Thus, Bakkafrost now owns 100% of the shares in Viking Seafood.

The company is satisfied with the deal, as it gives Bakkafrost additional farming capacity and thus opportunities of economies of scale. In addition, it gives Bakkafrost full control of the value chain from production of fish oil and fish meal to finished salmon products. The Havsbrún Group was acquired effective from 1 January 2011, but will be, according to IFRS 3, consolidated into Bakkafrost's financial statement from the date of change of control, which was 1 July 2011.

Prior to the acquisition of the Havsbrún Group, Bakkafrost owned 11 licenses, which accounted for approx. 39% of the licenses in the Faroe Islands. Regulations limit the number of licenses controlled by one company to 50% of the total licenses. With the purchase of Havsbrún, Bakkafrost has 2 licenses above the 50% limit. Bakkafrost has received a grace period to fulfil the legal requirements. The purchase price was agreed to DKK 1,100 million, based on, among other things, the value of a share position held by Havsbrún in Bakkafrost. The payment was made as a combination of existing shares in Bakkafrost, which Havsbrún owned, and cash. At the same time, Bakkafrost also acquired all the minorities' shares in the farming company Viking Seafood, which now is a fully owned subsidiary. The management and key employees of P/f Havsbrún continued in the new combined Group.

We are therefore proud to deliver a strong result for 2011. The result is based on a good biological situation, high spot and contracts prices, our dedicated staff and a sharp focus on costs. The result after tax was DKK 323.4 million, and earnings per share (EPS) were DKK 6.66.

In accordance with the Group's 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. Bakkafrost's financial position is strong, with a healthy balance sheet, a competitive operation and undrawn available credit facilities. The Board of Directors has therefore decided to propose to the Annual General Meeting that DKK 1.00 (NOK 1.01*) per share shall be paid out as dividend. This corresponds to approximately DKK 48.9 million (NOK 49.3* million).

*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.

OPERATIONAL REVIEW

The Group's operations went well in 2011. Bakkafrost harvested 36,343 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.

Veterinary model

The veterinary model implemented in the Faroe Islands since 2003 strictly details how salmon farmers must operate. The main objective of the veterinary model is to increase 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 2005–2010 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 2011.

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.

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 each year, and in January 2012 a second VAP factory opened in Fuglafjørður, while the other factory is located in Glyvrar. The opening of the second factory will increase the VAP capacity by approx. 25% compared to 2011. In 2011, the VAP production represented 37% of the total harvested volumes, compared to 60% in 2010. The decrease in percentage is due to a 68% increased raw material base, as Bakkafrost harvested more fish in 2011 than in 2010. The aim for the future is that VAP shall 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. Usually, there 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. Due to the high salmon prices in the first half of 2011, earnings were very limited. But in the second half, the salmon price in the spot market dropped significantly, and earnings improved accordingly.

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 more than 15 years.

Well placed to access the US and China

Bakkafrost and the Faroese salmon producers are in a favourable competitive position in 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 on-going 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.

In 2011, the export of large fresh salmon to China increased significantly, and in 2011, it accounted for 7.5% of Bakkafrost's total sale. The logistics from the Faroes to China are also efficient.

Own production of fish meal, fish oil and fish feed

By acquiring Havsbrún, Bakkafrost controls the whole value chain from production of fish meal, fish oil and fish feed to the production of value added salmon products (VAP). Control of the entire value chain is considered important, as documentation and traceability from the raw materials in Bakkafrost's salmon feed to finished product is important for its customers and therefore important to Bakkafrost.

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

STATEMENT BY THE MANAGEMENT AND THE BOARD OF DIRECTORS

P/f Havsbrún received less raw material in 2011 than in 2010, and the raw material situation is also expected to be volatile in the future. But quotas of blue whiting have increased ten times, to around 400,000 tonnes in 2012, which should improve Havsbrún's possibilities to source raw material to its own production of fish meal and oil.

The fish oil market has been volatile during the last years. From an historical high first half of 2008, the prices fell considerably towards the end of 2008. The decline continued in the first half of 2009, but since summer 2009, the market prices have improved. The world's total production of fish oil has been relatively stable for many decades, while the demand for fish oil has increased. Therefore, fish oil is expected to be a scare resource in the future.

FINANCIAL REVIEW

The price trend in the salmon market for 2011 can be divided into two periods: One - the first half of 2011 which was a period with record high prices in the spot market. Two - the second half of the year, fell below the production cost after decreasing rapidly over the summer.

The prices for value added products followed the trend in the spot market with a time lag. The reason is that the value added products typically are sold on fixed contracts of 6–12 months. Therefore, the prices in this segment relatively did not fluctuate as much as the prices in the spot market.

The purchase of the Havsbrún Group is expected to bring significant opportunities to Bakkafrost in the future. Increased utilisation of the feed capacity in the years to come is a focus area. Havsbrún feed sales have increased by 43% in 2011 compared to 2010. The raw material situation is also expected to be volatile in the future; however, quotas have increased, and this should improve Havsbrún's possibilities to source raw material for its own production of fish meal and oil.

Bakkafrost increased activities significantly during 2011. With the acquisition of the fish oil, fish meal and fish feed producer Havsbrún and its subsidiaries, Bakkafrost extended the Group's value chain and increased the capacity of the prior operations. Consequently, the balance sheet increased with additional fixed and current assets, and the debt level of the Group increased significantly as well.

Income statement

The Bakkafrost Group generated gross operating revenues of DKK 1,321.1 million in 2011, compared to DKK 820.2 million in 2010. The reason for the increase in the revenue is higher harvested volumes at a lower price, and the acquisition of the Havsbrún Group.

The operations harvested a total of 36,343 tonnes gutted weight, compared to 21,626 tonnes in 2010. Included in the number for 2011 are 1,988 tonnes gutted weight harvested by Viking Sefood and Faroe Farming in H1 2011, prior to the acquisition. The Group made an operating EBIT* of DKK 335.1 million in 2011, compared to DKK 246.8 million in 2010.

Consolidated net profit totalled DKK 323.4 million in 2011, compared to DKK 259.7 million in 2010. Earnings per share totalled DKK 6.66 in 2011, compared to DKK 5.41 in 2010. The cash flow from operations was DKK 409.9 million, compared to DKK 195.0 million in 2010. The Group's net interesting bearing debt amounted to DKK 816.8 million, and solvency was 46% at the end of 2011.

In 2011, Bakkafrost recognised badwill following the acquisition of the Havsbrún Group amounting to DKK 126.6 million. The badwill is calculated as the difference between the amount paid for the Group and the value of net assets purchased. The cost associated to the same transaction of DKK 16.0 million has been expensed in 2011.

In 2011, the Group's associated companies made a net result to Bakkafrost of DKK -2.0 million, compared to DKK 0.5 million in 2010.

Financial income in 2011 amounted to DKK 2.8 million, compared to DKK 1.1 million in 2010. Net interest expenses amounted to DKK 33.3 million, compared to DKK 8.2 million in 2010. The increase can be attributed to an increase in long- and short-term interest bearing debt following the acquisition of the Havsbrún Group and the realisation of interest rate swaps and losses related to termination of loans in the Havsbrún Group amounting to DKK 5 million.

Segment performance

The Bakkafrost Group operates with three business segments: farming of fish, including sales of fresh fish; value adding of salmonoid products and sales of these; and production and sales of fish oil, fish meal and fish feed.

Farming including sales of fresh fish

Farming is one of Bakkafrost's segments. The Group has only production facilities in 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 sales of fresh salmon, as one segment.

Gross external operating revenues for Bakkafrost's farming segment increased to DKK 643.0 million in 2011, up from DKK 347.1 million in 2010. The increase is primarily due to increased harvested volumes following the acquisition of the Havsbrún Group and increased harvesting compared to 2010. Operational EBIT totalled DKK 246.1 million, compared to DKK 286.6 million in 2010. This corresponds to an operating EBIT of DKK 7.16 per kg gutted weight, compared to DKK 13.25 per kg in 2010. The performance of the Group reflects the decrease in the salmon price during 2011. The Group's farming segment harvested 36,343 tonnes gutted weight in 2011, compared to 21,799 tonnes in 2010. Included in the number for 2011 are 1,988 tonnes gutted weight harvested by Viking Seafood and Faroe Farming in H1 2011, prior to the acquisition.

Value added products (VAP)

A significant share of the farmed products is value added at the factory in Glyvrar. In January 2012, a second factory commenced production in Fuglafjørður. The output is predominantly portions for the retail market in Europe. 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, as these products are sold at different fixed-price contracts for a period of up to 12 months.

The value added segments external operating revenue amounted to DKK 507.2 million in 2011, compared to DKK 473.1 million in 2010. Operational EBIT, which is EBIT adjusted for provision of onerous contracts, etc., totalled DKK 69.5 million, compared to DKK -39.8 million in 2010. This corresponds to an operating EBIT of DKK 5.46 per kg gutted weight, compared to DKK -3.08 per kg in 2010. The calculation is based on Bakkafrost's own harvested salmon. The decrease in the salmon price during second half of 2011 is reflected in the profit from the value added segment, as the VAP segment purchases salmon from the farming segment at spot prices each week. Because there is a time lag between the movement in the fresh salmon prices and the contract prices, Bakkafrost normally makes a profit in the VAP segment, when the spot prices are decreasing and vice versa, when the spot prices increases in a period. The result for the VAP segment close to balanced in the first half of 2011, while it made a significant profit in the second half.

Fish oil, fish meal and fish feed

This is the first year that the fish meal, fish oil and fish feed segment is reported in Bakkafrost's annual consolidated accounts. The segment result only includes numbers from 1 July 2011, as the Havsbrún Group was acquired effective from July 1st 2011.

The external operating revenue for the fish meal, fish oil and fish feed segment amounted to DKK 170.8 million in 2011. The internal operating revenue amounted to DKK 337.9 million and covers the sale of feed to Bakkafrost's farming activities. EBITDA was DKK 68.7 million in 2011, and the EBITDA margin was 13.5%. The result after taxes amounted to DKK 39.7 million.

Statement of financial position

The Group's total assets as of 31 December 2011 amounted to DKK 2,301.8 million, compared to DKK 1,184.7 million at the end of 2010. The reason for the increase in the total assets relates to the acquisition of the Havsbrún Group.

The Group's intangible assets amounted to DKK 370.0 million and comprise primarily the fair value of farming licenses. The increase since 1 January 2011 amounts to DKK 233.7 million and represents the value of the licenses acquired in connection with the acquisition of the Havsbrún Group.

Property, plant and equipment have increased from DKK 356.4 million at 1 January 2011 to DKK 828.5 million at the end of 2011. The increase represents primarily the acquisition of Havsbrún, but also includes investments of DKK 103.9 million.

The Group's booked value (fair value) of biological assets (fish in the sea) amounted to DKK 700.3 million at end of 2011, compared to DKK 482.1 million at the end of 2010. Included in the booked value of the biological assets is a fair value adjustment amounting to DKK 86.0 million. Bakkafrost has, effective from Q4 2011, amended its calculation model for estimating fair value of biomass, see note 2 for further details. The effect from the updated fair value estimate amounted to an additional write-up of DKK 53.3 million, which is included in the fair value adjustment in Q4 2011. The booked value also includes the biomass of Viking Seafood and Faroe Farming, both of which were part of the Havsbrún acquisition.

The Group's total inventories amounted to DKK 179.2 million as of 31 December 2011, compared to DKK 28.5 million as of year-end 2010. The increase primarily represents Havsbrún's inventory of fish meal, fish oil and fish feed.

The Group's total receivables amounted to DKK 171.1 million as of 31 December 2011, compared to DKK 145.5 million at the end of 2010. The increase is mainly due to the inclusion of Havsbrún's receivables.

The Group's equity at 31 December 2011 is DKK 1,061.0 million, compared to DKK 902.3 million at the end of 2010. The increase in 2011 consists primarily of the result for the year, including badwill recognised in connection with the acquisition of Havsbrún. On the other hand, Bakkafrost paid out DKK 191.0 million in April 2011.

The Group's total non-current liabilities amounted to DKK 989.7 million at the end of 2011, compared to DKK 157.4 million at the end of 2010. Deferred taxes amounted to DKK 256.0 million, compared to DKK 120.0 million at the end of 2010. Long-term debt increased from DKK 37.4 million at the end of 2010 to DKK 733.7 million at the end of 2011. The increase relates to the acquisition of Havsbrún, which took place on 1 July 2011. To partly fund the acquisition of the Havsbrún Group and to replace all the existing debt in the new Group, Bakkafrost entered into two new loans: one instalment loan of DKK 500 million, payable with DKK 25 million each quarter, and one loan payable after five years with the full amount of DKK 600 million.

The Group's total current liabilities are DKK 251.1 million at the end of 2011, compared to DKK 125.0 million at the end of 2010. Short-term interest bearing debt amounted to DKK 100.0 million and relates to a short-term part of long-term debt, as described above. Accounts payable amounted to DKK 151.0 million and increased from DKK 83.0 million at the beginning of the year

Bakkafrost had an equity ratio of 46% as of year-end 2011, compared to 76% at the end of 2010. The equity ratio has decreased following the acquisition of Havsbrún. It is still Bakkafrost's goal to have a healthy financial position to enable the Group to follow the strategy pursuing 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 2011 was DKK 409.9 million, compared to DKK 195.0 million in 2010. For 2011, the cash flow from investment activities amounted to DKK -723.7 million (DKK -71.7 million for 2010). Of this, DKK 98.0 million are payments for fixed assets, while the acquisition of Havsbrún amounts to DKK 976.8 million. A part of the DKK 976.8 million was paid with shares in Bakkafrost and amounts to DKK 349.5 million.

For 2011, cash flow from financing amounts to DKK 321.6 million (DKK -149.9 million for 2010) and includes both the financing of the Havsbrún acquisition and the pay-out of dividend amounting to DKK 191.0 million, which took place in April 2011.

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 DKK 283.2 million at 31 December 2011.

OPERATIONAL RISK AND RISK MANAGEMENT

The Bakkafrost Group is exposed to a number of different markets, operational and financial risks arising from our normal business activities in our value chain.

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 and again in H2 2011. This could, in turn, have a significant impact on the company's profitability and liquidity.

Prices on fish meal and fish oil

The Group's financial position and future development depend to some extent on the price of fish meal and fish oil, which has historically been subject to substantial fluctuations. Fish meal and fish oil are commodities, 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 fish meal and fish oil is a key parameter. Overproduction may cause prices to decline. This could in turn have an 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 fish meal 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 fish meal 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:

Farming

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.).

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.

Fish oil, fish meal and fish feed

The production of fish oil, fish meal and fish feed follow established methods with automated and controlled processes. However, any production is vulnerable to downtime and possible insufficient supply of raw material input. Unexpected shortfalls in raw material due to limited catch volumes or limited delivery or purchase of fish or supply of substitutes could affect the volumes produced in the factory. This can result in incidents or necessary measures that can have significant cost implications. The Company is continually working on reducing risks. Bakkafrost's fish oil, fish meal and fish feed department at Havsbrún's facilities are located in the Faroe Islands, in which case the Company's business could be materially adversely affected directly from any trade restrictions or indirectly through restrictions on ocean harvests or quotas. Although operational risk is to a certain extent reflected in budgets by means of estimates for prices and volumes, such risks might, if occurring, materially affect the Company's results and financial condition. The Company's operations can also be materially impacted by what is classified as normal operating risks, i.e. quality from suppliers and sub-suppliers, etc.

Feed contaminants

Feed may, through its use of different types of raw materials and ingredients and through its production processes, be exposed to contamination by a number of undesirable substances. Most contaminants are accumulated in organisms such as marine wild catch used to produce fish meal and fish oil. These contaminants are deposited into the organism's fat, and the concentration is greater the higher up the food chain. Authorities set maximum allowable levels for the most important contaminants. These limits are continuously monitored by the authorities and can be altered. There is also the possibility of "new" contaminants being added periodically to the list. Generally, contamination may occur either accidentally or deliberately through malicious product tampering. Such contamination has the potential to affect the environment, fish health and/or food safety, with a potential negative impact on the public's confidence in eating salmon. Any of these events could have a negative impact on the Group's operating result and financial condition. Future legislation may increase the risk of non-compliance and the cost of ensuring compliance. The reputation risk associated with non-compliance can be significant even if there is no impact on the environment, fish health or food safety. Bakkafrost's feed department, Havsbrún, operates a number of controls to reduce the risk of contamination. Examples of measures and controls included in HACCP (Hazard Assessment Critical Control Point) and ISO procedures include supplier audits and supplier specifications of raw materials, targeted sourcing of raw materials, regular raw material and finished feed quality control analyses, procedures for cleaning of fish oils, etc. and strict plant security procedures. The risks, however, can never be completely eliminated.

Contaminants that may be a risk for fish feed include, but are not limited to, organic contaminants such as dioxins and PCB, mycotoxins, pesticides, anti-oxidants (such as Ethoxyquin and BHT), brominated flame retardants and bacterial contamination and inorganic contaminants such as lead, mercury, arsenic and cadmium. The feed may also, through accidents or tampering, be contaminated by other inorganic substances such as mineral oil, physical objects, etc. Several substances in addition to the list above are being monitored. Legislative bodies, research groups and non-governmental organisations (NGOs) are currently building up data sets on these substances.

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 of 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 is particularly vulnerable, when it is 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 the 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 in 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 but linked to the USD. 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 on-going assessment of financial conditions under which the business operates and its short- and medium-term outlook, including any adjustment in dividend pay-outs, buyback of own shares, capital reduction or issue of new shares.

Research and development activities

The Group has spent approximately DKK 1.8 million in R&D expenses during 2011, compared to DKK 0.8 million in 2010.

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 2011 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.

A long-term goal for the Board of Directors is 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 674.9 million for 2011. The Board of Directors has decided to propose to the Annual General Meeting that DKK 1.00 (approximately NOK 1.01) per share shall be paid out as dividend. This corresponds to approximately DKK 48.9 million (NOK 49.3* million).

The Board thereby proposes the following allocation of funds:

- Result for 2011: DKK 674.9 million
- Transferred from other equity: DKK 0 million
- Total provision for dividend: DKK 48.9 million

After payment of dividend, the distributable equity totals DKK 787.9 million.

*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.

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.

OUTLOOK

The salmon prices decreased during Q2 and Q3 2011 and stayed relatively low for the rest of 2011. Lately, it seems like the salmon price has stabilised in the range of NOK 23–25/kg. Being a low-cost producer, a salmon price in the upper end of this range is still manageable for Bakkafrost. The reduction in the salmon price will have a positive impact on volumes sold, when the decreased prices reach the end users.

With Bakkafrost's combined market strategy as a farming company and a processor of VAP products sold on long-term contracts prices, Bakkafrost is less vulnerable in times of fluctuating salmon prices. The farming segment is highly negatively affected by the price drop, while the VAP segment, on the other hand, is better off with lower salmon prices.

To adjust, utilise and optimise the capacity in the Bakkafrost value chain, Bakkafrost plans to make an investment of around DKK 115 million in 2012. The Group's replacements costs are around DKK 90 million each year. Thus, the investments are about DKK 25 million above the Group's yearly depreciations.

The integration of the Havsbrún Group's activities is on track.

Bakkafrost – salmon farming and VAP

Bakkafrost expects to harvest between 48,000 and 50,000 tonnes gutted weight in 2012, compared to 36,343 tonnes gutted weight in 2011.

Bakkafrost expects to transfer 11.6 million smolts in 2012.

Bakkafrost's VAP division has contracted VAP products corresponding to around 10,000 tgw of salmon for 2012. This is around the same level as one year ago.

The Group's VAP capacity will increase in 2012. In addition to the factory in Glyvrar, Bakkafrost opened a factory in Fuglafjørður in January 2012. The opening of the factory in Fuglafjørður has increased Bakkafrost's VAP capacity by 15–25%.

Havsbrún – fish meal, oil and feed

The purchase of the Havsbrún Group is expected to bring significant opportunities to Bakkafrost in the future. Increased utilisation of the feed capacity in the years to come is a focus area. Havsbrún feed sales have increased by 43% in 2011 compared to 2010. The raw material situation is expected to be volatile in the future as well; however, quotas have increased, and this should improve Havsbrún's possibilities to source raw material to its own production of fish meal and oil. Havsbrún expects to sell around 85,000 tonnes of fish feed in 2012.



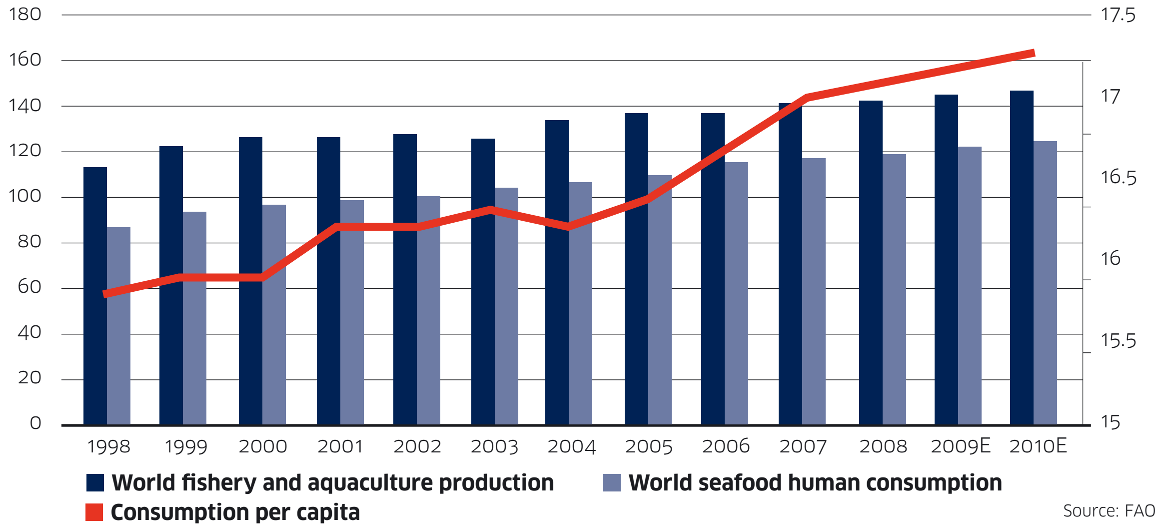
SEAFOOD CONSUMPTION

In 2011, a milestone was reached as the world population turned 7 billion people. The annual average population growth rate has, over the last 7 years, been 1.2%. The world population is projected to reach 8 billion in 2023, 9 billion in 2038 and 10 billion in 2052 (according to the UN). In 2010, 60% of the world's population was from Asia.

While catches of fish and seafood have remained relatively stable over the last decades, supply from aquaculture has shown a rising trend, with an estimated annual average growth rate over the last 2 decades of 7%. In 2010, approx. 50% of the world seafood supply came from aquaculture.

The figure below shows world seafood production (for human consumption) and consumption per capita 1990–2010E.

World consumption of seafood



Source: FAO

Over the last decades, the seafood industry has become increasingly more global, with regard to both industry structures and trade. Seafood from Asia has increased its market shares in the European and North American market. Simultaneously, seafood from Europe and America is holding its position in the Far East markets.

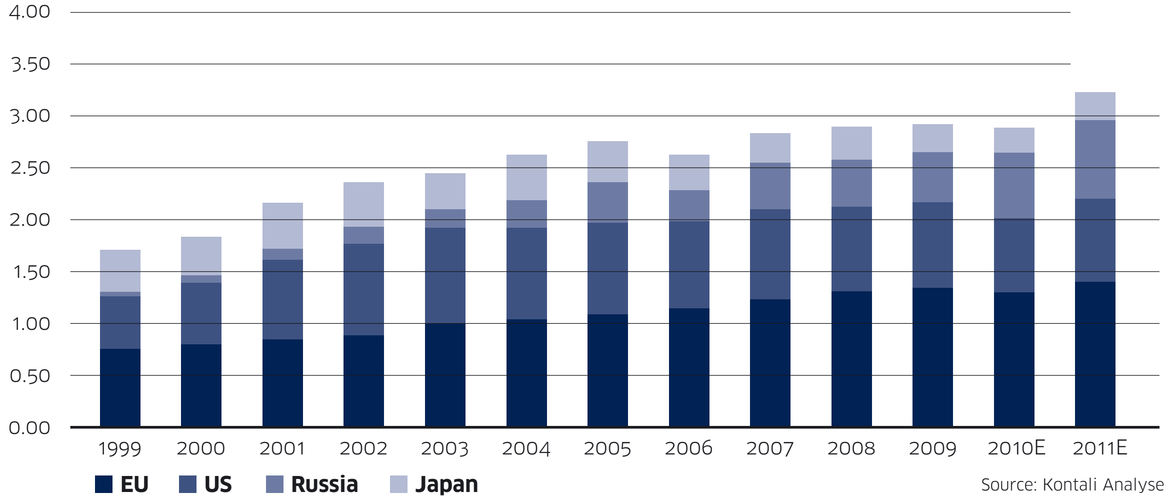
While the European and the North American markets have been, and still are, important drivers for growth in aquaculture production in the Far East, the competition from the Far East markets and other fast-growing economies has increased due to increased standard of living. This is especially applicable over the last decade.

MAIN MARKETS FOR SALMON

From an average annual growth rate from 1990 to 2008 of 6%, the world's supply of farmed Atlantic salmon showed a moderate increase in 2009 and fell by 4% in 2010. Preliminary figures for 2011 indicate a strong growth rate on a year-over-year basis. The supply trend for 2009 and 2010, which was highly affected by biological challenges in Chile, had a strong impact on consumption in the US and the Japanese market. The downturn in Chilean production also had an effect on consumption in the EU market, however to a smaller degree. On the other hand, Russian consumption rose steadily, with a 2-digit growth rate over the last 5 years (on average).

The figure below shows per capita consumption for farmed Atlantic salmon from 1995–2011 (preliminary estimate) for the selected main markets of the US, the EU, Russia and Japan.

Per capita consumption of Atlantic Salmon 1999 - 2011E



Source: Kontali Analyse

THE US MARKET

The total supply of Atlantic salmon to the US market was approximately 257,000 tonnes in 2010, a decline of 9% from 2009. 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.

Due to the Chilean production problems, Canada became the largest supplier to the US market in 2010. With the reduced availability of farmed Atlantic salmon from Chile in 2009 and 2010, supply from Europe increased significantly – from approx. 30,000 tonnes wfe in 2008 to approx. 110,000 tonnes wfe in 2010. With Chile on its way back, supply of Atlantic salmon to the US market is estimated to have grown by 10%, exceeding 280,000 tonnes wfe in 2011.

Supply to the US market from the UK and the Faroe Islands continued to increase in 2011. Supply from the Faroe Islands reached an all-time high in 2011, as approximately 16,000 tonnes wfe of salmon of Faroese origin entered the US market. Through 2011, the US market (especially the East coast market) was highly competitive for Faroese salmon compared to the European market, with good demand for large-sized fresh Atlantic salmon.

SUPPLY OF ATLANTIC SALMON TO US MARKET (tonnes wfe)

Country	2004	2005	2006	2007	2008	2009	2010	2011E
Chile	207,900	202,900	184,100	187,500	174,200	107,100	53,200	101,000
Canada	62,200	78,900	86,000	80,100	86,300	81,100	87,600	79,000
Norway	10,200	9,000	11,000	14,300	9,600	40,300	53,800	29,000
United Kingdom	11,100	6,200	9,500	15,700	15,700	26,500	34,700	41,000
Faroe Islands	1,100	900	300	1,600	2,700	11,200	10,000	16,000
USA	6,100	3,000	3,000	7,100	4,500	8,800	6,900	12,000
Other	2,800	800	900	800	1,500	6,100	10,800	5,000
TOTAL	**301,400**	**301,700**	**294,800**	**307,100**	**294,500**	**281,100**	**257,000**	**283,000**
Change	-3%	0%	-2%	4%	-4%	-5%	-9%	10%

Source: Kontali Analyse

THE EU MARKET

Despite a relatively strong growth in production of farmed Atlantic salmon in Europe, this was not fully reflected in the supply to the EU market in 2010. An increased share of European harvest found its way to markets outside the EU (USA, Russia and Asia). When also taking into account a significant fall in supply from Chile, the overall supply of farmed Atlantic salmon to the EU market fell by 4% in 2010.

In 2011, the global supply situation improved due to both recovery in Chile and production growth in Europe. More salmon was available for the EU market, and supply to the EU rose by 8% (estimate). However, the supply growth rate seen on the EU market was far lower than the growth rate seen on other markets. The EU market is still the most important market for Faroese salmon.

The high price level in 2010 and 2011 combined with the shortfall of Chilean salmon led to an increased supply of fresh whole salmon to the EU market. The high raw material prices seen over the last years have been challenging for the processing industry in the EU and for processors exporting to the EU. However, lower prices in the 2nd half of 2011 have, to some extent, improved the situation for processors.

SUPPLY OF ATLANTIC SALMON TO EU MARKET (tonnes wfe)

Country	2004	2005	2006	2007	2008	2009	2010	2011E
Norway	383,600	411,800	440,800	506,800	532,100	591,700	615,400	648,500
United Kingdom	134,300	109,300	111,100	112,800	115,700	110,300	97,600	101,000
Chile	42,200	84,000	80,700	67,800	67,100	39,800	10,600	18,000
Faroe Islands	32,800	16,100	9,700	13,100	29,900	30,000	26,300	32,000
Other/ Re-export	6,500	8,400	7,400	3,800	(8,200)	(5,700)	(12,900)	(6,000)
Total	**599,400**	**629,600**	**649,700**	**704,300**	**736,600**	**766,100**	**737,000**	**793,500**
Change	4%	5%	3%	8%	5%	4%	-4%	8%

Source: Kontali Analyse

THE RUSSIAN MARKET

In 2010 and 2011, the Russian market for farmed Atlantic salmon has grown steeply. Supply rose by 27% in 2010 and 23% in 2011. The growth rate is even more impressive when the high market prices are taken into consideration. During the 2nd half of 2011, Russia became the biggest market for fresh whole Atlantic salmon from Norway, consequently increasing its importance to the Norwegian salmon industry. Norway is by far the largest supplier of Atlantic salmon to the Russian market with a market share of 94%.

SUPPLY OF ATLANTIC SALMON TO RUSSIA MARKET (tonnes wfe)

Country	2004	2005	2006	2007	2008	2009	2010	2011
Norway	39,800	56,000	36,900	60,400	62,400	69,600	93,500	115,600
Chile	2,400	5,900	5,600	3,200	6,000	5,000	800	1,200
Canada	-	-	-	-	-	-	-	-
USA	-	-	-	-	-	-	-	-
United Kingdom	100	1,200	4,000	3,400	200	1,300	2,500	1,900
Faroe Islands	600	300	600	1,800	1,600	1,100	200	1,100
Other	500	300	2,900	3,800	4,600	1,500	2,600	3,200
Total	**43,400**	**63,700**	**50,000**	**72,600**	**74,800**	**78,500**	**99,600**	**123,000**
Growth rate	41%	47%	-22%	45%	3%	5%	27%	23%

Source: Kontali Analyse

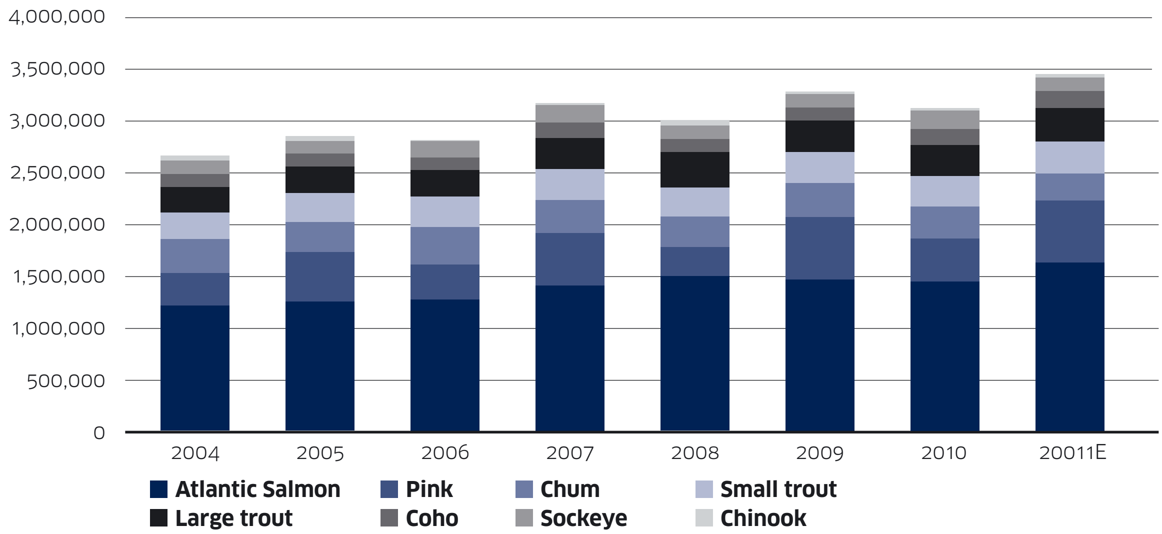
SUPPLY – PRODUCTION REGIONS

GLOBAL SUPPLY OF ALL SALMONIDS

HISTORICAL SUPPLY OF ALL SALMONIDS (tonnes wfe)

Country	2004	2005	2006	2007	2008	2009	2010	2011E
Atlantic salmon	1,207,600	1,252,000	1,272,100	1,398,500	1,493,700	1,468,100	1,446,400	1,616,000
Pink	300,000	463,400	338,700	521,400	309,900	601,100	398,900	589,800
Chum	333,400	306,000	352,800	316,700	291,700	348,800	309,200	280,000
Small trout	278,000	280,300	292,800	292,100	293,250	294,400	295,800	297,000
Large trout	242,200	236,000	253,600	305,600	328,750	297,800	307,300	317,600
Coho	133,000	137,000	138,500	142,200	144,600	130,700	160,600	158,800
Sockeye	139,000	139,400	143,000	158,600	132,600	140,400	175,600	149,500
Chinook	35,000	34,400	25,800	22,100	17,700	18,400	20,800	21,700
TOTAL	**2,668,200**	**2,848,500**	**2,817,300**	**3,157,200**	**3,012,200**	**3,299,700**	**3,114,600**	**3,430,400**
Growth rate		7%	-1%	12%	-5%	10%	-6%	10%

Source: Kontali Analyse



GLOBAL SUPPLY OF ATLANTIC SALMON

From a negative growth in 2010, the global supply of farmed Atlantic salmon grew steeply in 2011. Preliminary figures indicate that harvest of Atlantic salmon rose to 1,625 million tonnes wfe, which is an increase of 12% from the year before. Harvest in Norway reached a milestone in 2011 as harvest exceeded 1 million tonnes.

After 2 disastrous harvest years for Chile's Atlantic salmon industry, which culminated with the 2010 harvest, 1/3 of the average harvest in the 2005–2008 periods, harvest volumes rose significantly in 2011, and Chile regained its position as the 2nd-largest Atlantic salmon producer. However, harvest volume in 2011 was still below the highly moderate level seen in 2009. Production and harvest in Chile is expected to continue to increase in 2012.

The global harvest quantity of Atlantic salmon for 2004–2011E is illustrated in the table below.

HARVEST OF ATLANTIC SALMON IN TONNES (TONNES WFE)

	2004	2005	2006	2007	2008	2009	2010	2011 E
Norway	537,000	573,600	598,500	723,300	741,000	855,700	944,700	1,006,200
United Kingdom	149,800	119,700	127,500	134,900	136,400	144,800	141,800	157,500
Chile	346,200	385,200	368,600	356,400	403,500	239,100	129,600	221,500
Canada	89,000	107,500	115,000	109,500	118,500	115,400	118,000	109,900
USA	13,300	9,600	10,200	12,300	17,000	16,400	18,000	18,500
Faroe Islands	36,800	17,200	11,900	19,100	37,900	48,100	42,100	56,500
Australia	14,100	17,900	19,400	23,800	25,700	32,200	33,000	36,000
Others	21,400	21,300	20,900	19,200	13,800	16,500	19,200	18,900
TOTAL	**1,207,600**	**1,252,000**	**1,272,000**	**1,398,500**	**1,493,800**	**1,468,200**	**1,446,400**	**1,625,000**
Growth rate		4%	2%	10%	7%	-2%	-1%	12%

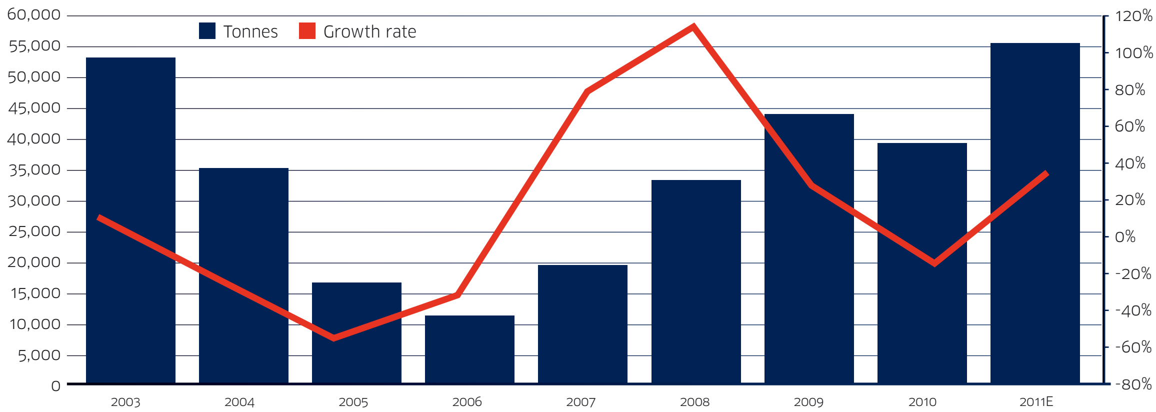
HARVEST OF LARGE TROUT IN TONNES (TONNES WFE)

	2004	2005	2006	2007	2008	2009	2010	2011 E
Chile	125,500	122,600	137,900	169,200	179,400	149,700	189,100	205,700
Norway	63,600	59,600	57,500	76,100	86,300	81,000	55,700	54,100
Finland	12,000	13,000	14,000	11,500	12,000	12,000	13,700	13,500
Denmark	5,500	6,000	7,000	7,000	7,500	9,000	9,000	8,500
Faroe Islands	4,200	3,800	4,700	6,700	8,700	9,200	2,300	-
Sweeden	6,000	6,000	6,000	6,000	4,500	4,500	5,000	4,500
Others	25,400	25,050	26,500	29,100	30,350	32,400	32,500	32,500
TOTAL	**242,200**	**236,050**	**253,600**	**305,600**	**328,750**	**297,800**	**307,300**	**318,800**
Growth rate		-3%	7%	21%	8%	-9%	3%	4%

Source: Kontali Analyse

The harvest quantity in the Faroe Islands is estimated to be 56,500 tonnes wfe in 2011, compared to 42,100 tonnes in 2009.

Supply of Atlantic Salmon from Faroe Islands, tonnes wfe



Source: Kontali Analyse

Year	Supply from Faroe Islands	EU	Share	USA	Share	Japan	Share	Russia	Share	Others	Share
		Supply to markets									
2008	37,900	29,900	79%	2,700	7%	500	1%	1,600	4%	3,200	8%
2009	48,100	30,000	62%	11,200	23%	600	1%	1,100	2%	5,200	11%
2010	41,900	26,300	63%	10,000	24%	700	2%	200	0%	4,700	11%
2011E	56,500	32,900	58%	16,400	29%	500	1%	1,100	2%	5,600	10%

Source: Kontali Analyse

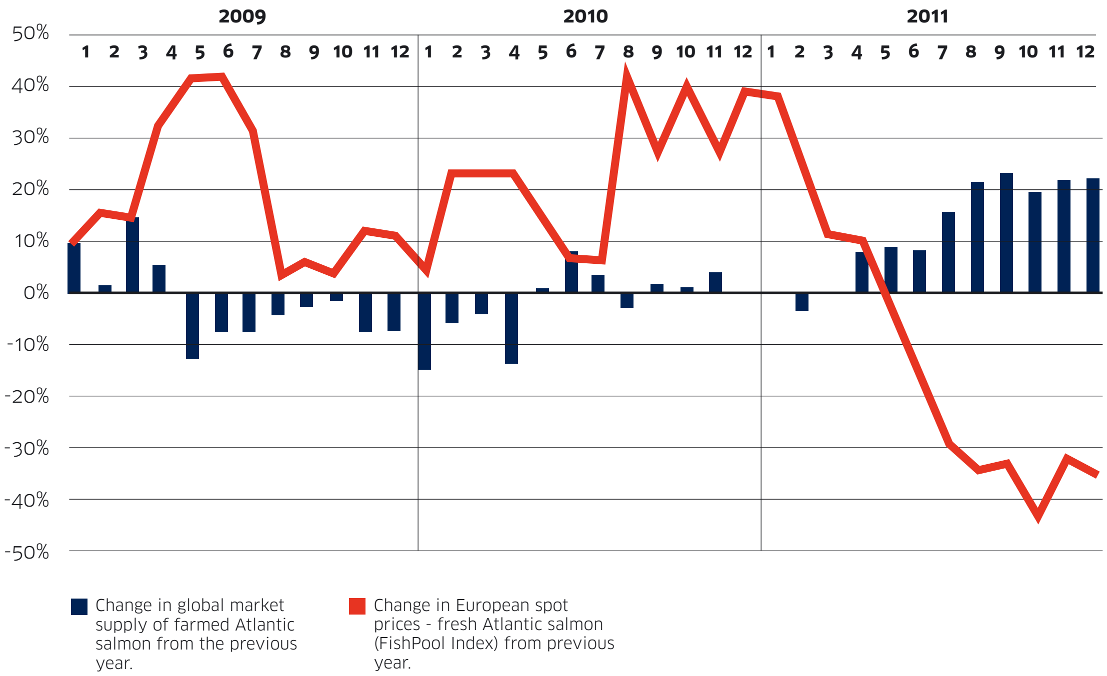
Over the last 6 years, the Faroese annual average harvest growth rate was 30%. Biological production is performing well, with low loss rates and high average harvest weight. Over the last 2 years, average harvest weight was 5.4 kilo wfe and the yield per smolt released approx. 5 kilo.

An increasing share of Faroese salmon has found its way to the US market. From 2008 to 2011, supply to the US market grew from 2,700 tonnes wfe to 16,400 tonnes wfe. In 2011, approx. 29% of the harvest of Atlantic salmon in the Faroe Islands entered the US market. The share sold to the EU market has, for the same period, trended in the opposite direction, from 79% to 58% in 2011.

CHANGE IN MARKET SUPPLY AND MARKET PRICES THROUGH 2011

From a high price level in 2009, 2010 and in the first quarter of 2011, spot prices for fresh Atlantic salmon started to fall in the 2nd quarter of 2011. Simultaneously, global supply of Atlantic salmon started to rise as both harvest volumes from Chile and harvest in Europe trended up. While the price formation is more complex than only looking at the supply side – as other factors also affect prices, the steep increase in supply seen in the 2nd half of 2011 has been a major factor for the falling price trend.

The graph below shows the relative change in global supply of Atlantic salmon and European spot prices for fresh Atlantic salmon, by month – year over year, from 2009 to 2011.

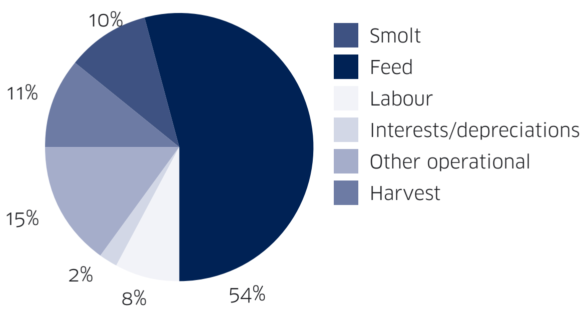


THE INDUSTRY STRUCTURE

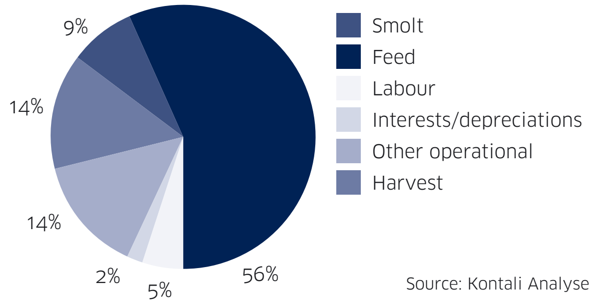
The salmon farming industry is characterised by still-notable competition between a limited number of multinational players and many relatively small local players. Along with growth in the aquaculture industry, the structure has changed significantly over the past decade. From a structure of only local 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. Over the last decade, large structural changes have taken place, particularly in Norway and Europe.

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 smolts and harvesting. The figures below show the split of cost for Faroese and Norwegian fish farmers in 2011E.

Cost split Faroe Islands 2011E, gutted weight



Cost split Norway 2011E, gutted weight



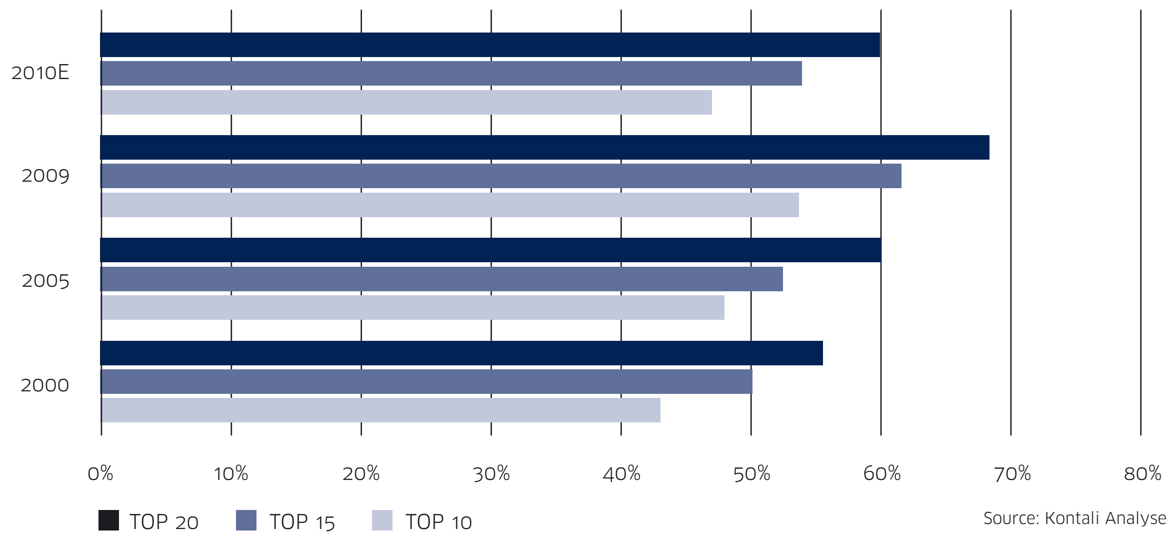
Source: Kontali Analyse

THE MARKET PLAYERS

Up until 2009, the largest salmon and trout producers gained an increasingly bigger share of the world production. In 2010, the situation to some extent reversed, mainly due to the significant fall in harvest volumes of Atlantic salmon from Chile. In 2010, the top 20 salmon and trout farming companies accounted for 60% of the world harvest, while the corresponding percentage in 2009 was close to 70.

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 GROUP	NO	328,600	225,000	36,800	11,800	37,200		6,000	11,800	
2 LERØY SEAFOOD GROUP	NO	126,400	126,400							
3 CERMAQ	NO	107,500	41,100	1,900	41,400	23,100				
4 GRIEG SEAFOOD	NO	71,300	37,200	18,900		15,200				
5 SALMAR *	NO	67,600	67,600							
6 COOKE AQUACULTURE **	CA	61,500			16,500	34,000	11,000			
7 EMPRESAS AQUACHILE	CL	48,000			48,000					
8 NOVA SEA	NO	30,200	30,200							
9 NORDLAKS HOLDING	NO	30,000	30,000							
10 SCOTTISH SEAFARMS	UK	30,100		30,100						
11 SALMONES MULTIEXPORT	CL	29,500			29,500					
12 LIGHTHOUSE CALEDONIA	UK	27,300		27,300						
13 PESQUERA LOS FIORDOS	CL	26,000			26,000					
14 BAKKAFROST ****	FO	24,000						24,000		
15 ALSAKER FJORDBRUK	NO	22,800	22,800							
Sum top 15		1,030,800	580,300	115,000	173,200	109,500	11,000	30,000	11,800	0
Others		880,700	420,100	28,800	274,600	13,000	7,000	14,400	6,750	116,050
Total		**1,911,500**	**1,000,400**	**143,800**	**447,800**	**122,500**	**18,000**	**44,400**	**18,550**	**116,050**
Top 10 in % of total harvest quantity		47%	56%	61%	26%	89%	61%	14%	64%	0%
Top 15 in % of total harvest quantity		54%	58%	80%	39%	89%	61%	68%	64%	0%
Top 20 in % of total harvest quantity		60%	62%	80%	49%	89%	61%	68%	64%	19%

* Ex Raumagruppen

** Incl. Salmones Cupquelan

**** incl. Vestlaks

FISH FEED

Consumption of fish feed for farmed salmonids in the main producing countries fell significantly in 2009 due to downturn in Chilean production. From a moderate growth in consumption in 2010, feed consumption in 2011 is estimated to increase by 20%, with Norway and Chile as the main contributors.

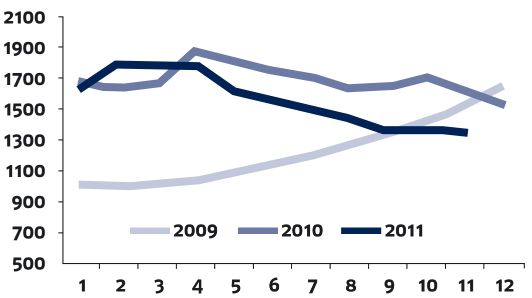
Estimeted feed Consumption/sale to salmonids for selected producing regions

Atlantic Salmon, Large Trout, Coho, Chinook (In 1000 tonnes)

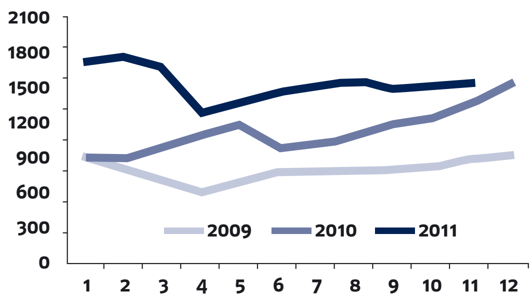
	2005	**2006**	Change	**2007**	Change	**2008**	Change	**2009**	Change	**2010**	Change	**2011**	Change
Norway	880	957	9%	1,109	16%	1,164	5%	1,1331	14%	1,337	0%	1,501	12%
Chile	902	1,060	18%	1,148	8%	1,018	-6%	622	-42%	724	16%	1,045	44%
UK	210	202	-4%	221	9%	210	-5%	211	0%	210	0	221	5%
North America	209	101	-3%	211	4%	212	0%	217	2%	211	-3%	199	-6%
Faroe Islands	17	29	70%	45	58%	63	40%	64	1%	64	-1%	84	32%
TOTAL	**2,218**	**2,451**	**11%**	**2,733**	**12%**	**2,729**	**0%**	**2,445**	**-10%**	**2,546**	**4%**	**3,050**	**20%**

The share of marine ingredients in feed for farmed salmonids has over the last decade been decreasing. However, both fish meal and fish oil prices have an impact on feed prices for the salmon farming industry. While fish meal prices have shown a falling trend through 2011, fish oil prices have trended on a three-year-high level.

Fishmeal-price (c&f Hamburg)



Fishoil-price (c&f Hamburg)



BUSINESS OBJECTIVES AND STRATEGY

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 own production of fish meal, fish oil and fish feed to retail products
- 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

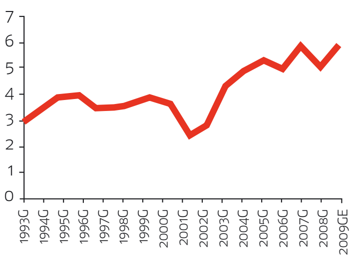
Bakkafrost aims to keep the salmon in a good and healthy environment, ensuring the welfare and well-being of its fish. All natural and physiological needs must be met to the greatest extent possible in order to maintain a healthy sustainable production and reach cost efficiency.

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.

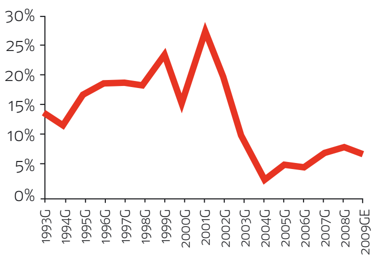
Since the new veterinary model was introduced in the Faroe Islands in 2003, Bakkafrost has experienced little loss due to disease, a significantly improved feed conversion ratio, lower mortality rates and increased productivity without the use of antibiotics.

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.

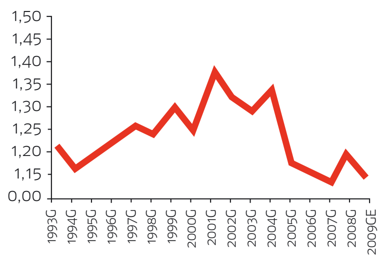
Average harvest weight LWE



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 5.8 kg in the 2010 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.

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 an HR department responsible for the Group's human resource management. The competences in the HR department have been strengthened, as Bakkafrost has employed an HR manager starting in February 2012, reporting to the CEO. 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 less than 5% 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 2011, value added products (VAP), as e.g. portions and fillets, represented 37%, compared to 60% in 2010, of Bakkafrost's total production. The reason for the relative decline in share of total production from 2010 to 2011 is due to the acquisition of the Havsbrún Group and increased production on Bakkafrost farming sites in general, as the production of VAP products is quite stable.

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.

With the increased raw material base after the acquisition of the farming licences in the Havsbrún Group and the increased production in Bakkafrost's previous licences, Bakkafrost opened a second VAP factory in January 2012. This will, in the medium term, make it possible to produce 40–50% of the total harvested salmon in a year to VAP products.

NEW OPPORTUNITIES

The acquisition of the Havsbrún Group on 1 July 2011 will give new opportunities for growth through increased utilisation of farming locations, especially in Viking Seafood, and increase the 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 tgw 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. In addition to this comes the production in the Havsbrún farming companies Viking Seafood and Faroe Farming of approx. 9,000 tonnes, leading to a estimated total production of 48,000–50,000 tonnes gutted weight in 2012.

The Group does not have the opportunity to grow further in the Faroe Islands through increasing the number of licences. Bakkafrost owns 16 licences of a total of 28 at 31 December 2011, corresponding to 57%. The regulation allows one company to hold up to 50% of the total number of licences. Therefore, Bakkafrost must reduce the number of licences.

BUSINESS OBJECTIVES AND STRATEGY

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 48,000–50,000 tgw in 2012, and the estimated overall capacity is considered to be at least 50,000 tgw per year. Bakkafrost owns 57% of the total licences in the Faroe Islands, currently representing ~73% of the total harvest volumes. The Group operates six fully owned hatcheries and nineteen fish farming sites for marine production of Atlantic salmon in the Faroe Islands in addition to one site currently out of production. The sites are located in eighteen different fjords.

All primary processing takes place at four slaughteries, and the secondary processing takes place at the VAP facilities in Glyvrar and the recently opened facility in Fuglafjørður.

THE VALUE CHAIN

Bakkafrost controls the entire value chain from own production of fish meal, fish oil and fish feed to sales and marketing of finished VAP products. Control of the entire value chain is considered important to ensure availability, traceability and 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 production of fish meal and fish oil to the processing of the fish. The documentation and traceability from finished product back to the raw material in the feed and the salmon eggs and even to the raw materials in Bakkafrost's salmon feed is important for its customers and therefore important to Bakkafrost.

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.

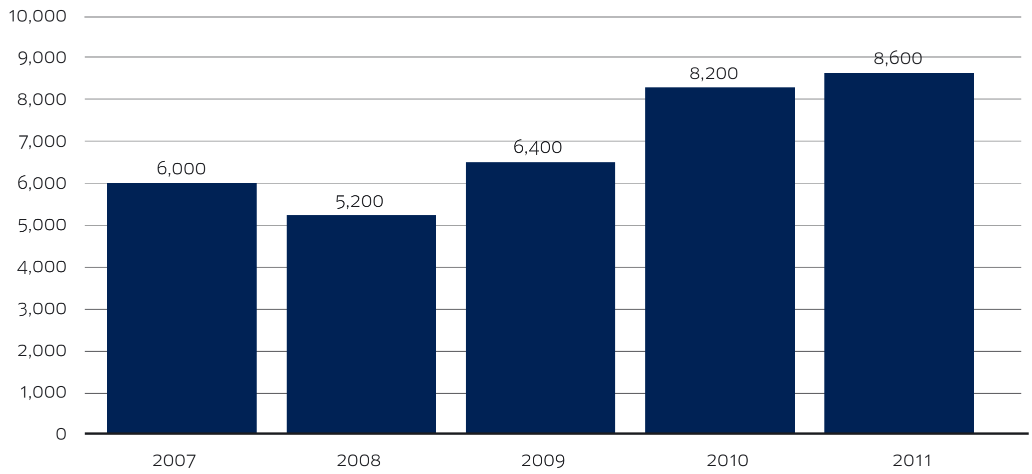
2. Juveniles

Bakkafrost owns a total of seven hatchery licences. The Bakkafrost Group operates six hatcheries, with a total production capacity of above 11 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 in existing facilities in line with the growth strategy.

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 '90s.

Historically, Bakkafrost has released smolts into the sea when the weight was between 50–60g. Over the last 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.

SMOLT RELEASE: Thousand smolt



3. Farming

Bakkafrost's 20 fish farms are located in the south (Faroe Farming), 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 in the foreseeable future.

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 used 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 conversion 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.

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.

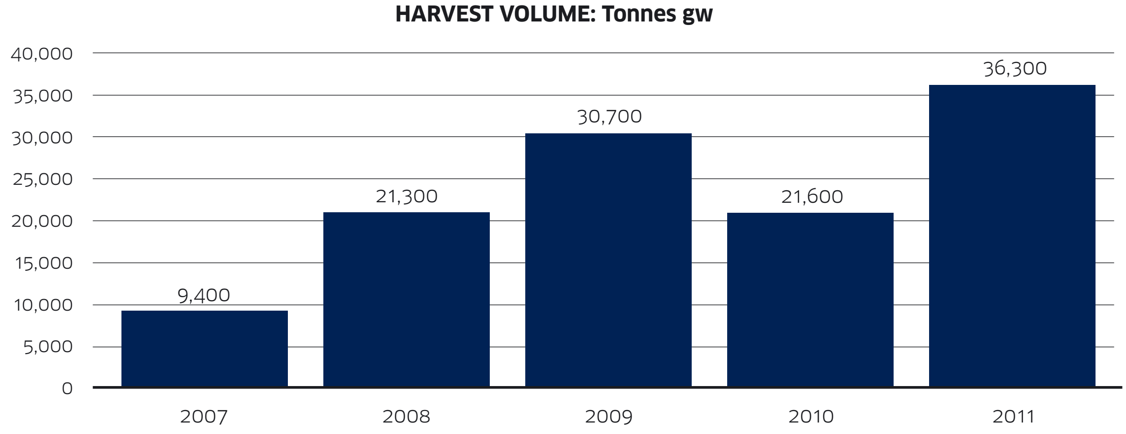
The farming areas are large and have the capacity to support the quantities farmed on each site.

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.

4. Harvesting

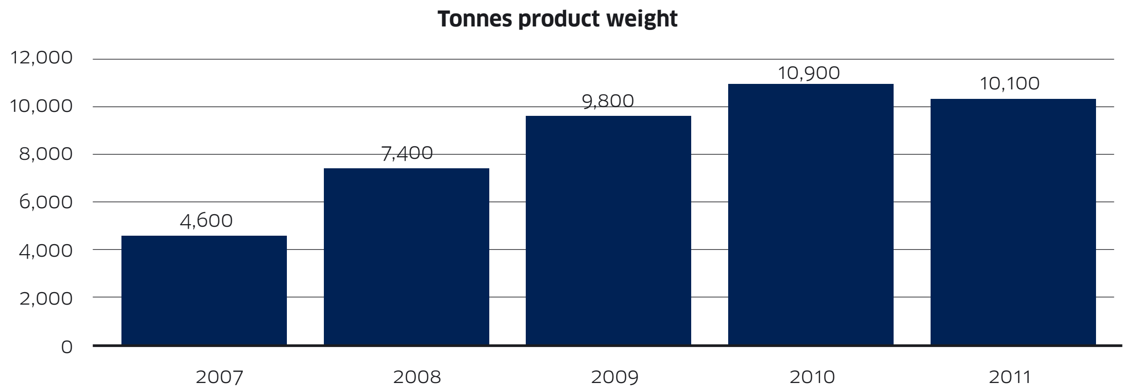
All the fish are harvested at the slaughtery factories in Klaksvík, Kollafjørður Strendur and Vági. The slaughteries have a daily capacity of around 300 tonnes wfe at the current run rate of 1 shift on average. The fish is primarily transported from the farming sites to the slaughteries in well boats with closed end-water systems.

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



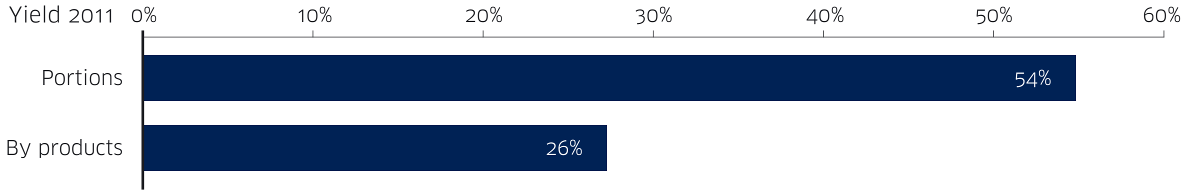
5. Processing and refinement

The 4,000m² VAP factory in Glyvrar has a production capacity of 30 tonnes of skinless and boneless 125g vacuum-packed portions in retail boxes per day (two shifts). The VAP factory in Fuglafjørður that opened in January 2012 has a capacity of 6 tonnes of skinless and boneless 125g vacuum-packed portions in retail boxes per day with one shift.



The primary customers for these products 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 factories and production capacity are considered from time to time, and decisions are taken when it is concluded to be favourable for the Group to increase the capacity.

6. Sales and distribution

Sales strategy

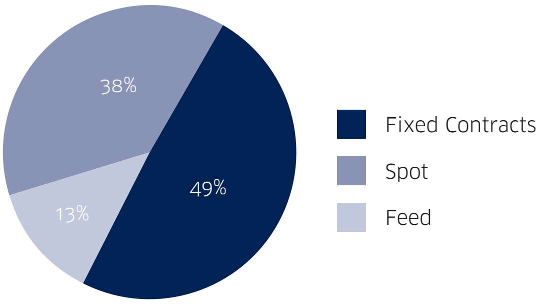
The strategy of the Group is to balance the sales mix between different geographical markets as well as different product segments.

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. The Chinese marked has recently also become more and more important for Bakkafrost's sale of whole fish.

Bakkafrost believes that its capability to serve 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.

EXTERNAL REVENUE OF FIXED CONTRACTS, SPOT AND FEED



Distribution

The current distribution network is based on transportation by ship to Europe and by plane to the US and China. 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 the UK within 20 hours by boat. From the UK, the products are distributed by plane to major airports in the US and China 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 the UK within 2 days for further distribution on trucks.

HEALTH, SAFETY AND THE ENVIRONMENT

VALUES AND ETHICS

Bakkafrost has control over the whole value chain from feed to the finished product, and employs – after the acquisition of Havsbrún in 2011 – about 550 people around the Faroe Islands. Our company policy is to ensure that each employee has the same rights and opportunities free from any discrimination and is able to work in a sound and healthy working environment as an integrated part of the Bakkafrost team. Respect for the individual is the cornerstone of the company policy. The policy is stated in our Corporate Governance rules with guidelines regarding ethics and values which were drawn up in 2009. These have since been updated, the latest in 2011, when the social responsibility guidelines were enhanced. We have been focusing on implementing our policies and guidelines regarding ethics and values in 2011 and have now also chosen to strengthen the human resource area by adding an HR manager to our company.

HEALTH AND SAFETY

Employee health and safety is of great concern for the Bakkafrost Group. We have many different working environments and hence different risks ranging from hatcheries and sea sites to factories. Our challenge is to reach everyone and integrate the HSE into the respective working places at the same levels. The human health safety work is on-going, and in 2012, we will especially focus on working place risk assessments, information and further education of our employees.

FISH HEALTH AND ANIMAL WELFARE

Fish health, animal welfare and bio-security are of crucial importance for the company. We have had no outbreaks of diseases at sea during the last years. However, the focus and challenges regarding sea lice has increased in the last few years. We have, especially in 2011, focused on optimising the necessary treatments by acquiring best suitable equipment, by working closely with the other farmers and by educating our already experienced employees in using closed tarpaulins, as the usage of these will be obligatory from May 2012. We are and have been working on both short-term and long-term strategies on prevention which are currently being implemented. Our long-term strategy also involves biological lice control on which research is carried out in the Faroe Islands at the moment, as well as other places we see it. We will follow and participate in the development of biological control in the Faroe Islands.

Fish welfare is of importance throughout the production and up to transport and harvesting. In order to improve the transport and harvesting stage, we have upgraded our systems in the well boats and have installed a new stunning system. This has shown to be very efficient whilst ensuring a superb quality. We are currently in the process of evaluating this system, as we are planning to install a system to the second plant. This work will continue in 2012.

SUSTAINABILITY

We strive to minimise the impact of our production on the environment and wildlife with regards to the sea site farming but also reaching the hatcheries, factories and feed production. We will, in 2012, continue our focus on risk assessing our production and participating in relevant research projects relating to our impact on the environment to be able to set new goals for the entire company.

FOOD SAFETY AND CERTIFICATIONS

Food safety and quality are a main priority of Bakkafrost. We have, in 2010 and 2011, focused on upgrading and expanding our technological systems. We upgraded our systems in 2010 with a new traceability system and a maintenance system. These are now fully implemented in our factories. The maintenance system also covers the sea sites and hatcheries and is being integrated. This work will continue in 2012. Furthermore, we have, in 2011, added a new quality system which is being implemented at our factories.

Bakkafrost holds several certifications, the newest being Global GAP. In early 2012, Bakkafrost achieved the Global GAP certification. Global GAP is an international standard which focuses on food safety throughout the whole production (based on HACCP), fish welfare and health, safety and minimising the impact on the environment. Hence all our value chain is now Global GAP certified. This includes our hatcheries, all our sea sites, our harvesting and processing plants, as well as our feed production.

The VAP production is certified according to the BRC and IFS standards, both of which were updated in 2011. All plants, both harvesting and processing, are food safety approved and certified by the Faroese authorities based on HACCP standards and EU legislation.

Havsbrún, the meal, oil and feed production, are certified according to ISO 9001:2000. In addition the feed factory is GlobalGAP certified and the fish meal factory is GMP+ certified. Furthermore Havsbrún is working towards an IFFO RS scheme certification.

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 2012

26 March	Ordinary General Meeting at Glyvrar
22 May	Presentation of Q1 2012
14 August	Presentation of Q2 2012
6 November	Presentation of Q3 2012

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 26 March 2011.

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 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.

A long-term goal for the Board of Directors is that 30–50% of EPS shall be paid out as dividend when the Group's equity ratio is above 60%.

Bakkafrost's financial position is strong with a healthy balance sheet, a competitive operation and undrawn available credit facilities. The Board of Directors has therefore decided to propose to the Annual General Meeting that, DKK 1.00 (NOK 1.01*) per share shall be paid out as dividend. This corresponds to approximately DKK 48.9 million (NOK 49.3* million).

SHAREHOLDERS, CAPITAL AND VOTES

P/f Bakkafrost had, on 31 December 2011, a total of 48,858,065, shares outstanding, each with a nominal value of DKK 1.

LARGEST SHAREHOLDERS

These shareholders held directly or indirectly more than 5% of the shares in the company as of 31 December 2011:

Salmar ASA, TF Holding, Hans Jacobsen and Regin Jacobsen

BOARD MEETINGS

In 2011, the Board of P/f Bakkafrost held 14 Board meetings. Below under each Director's profile is disclosed each Director's participation in Board meetings held during 2011.

DIRECTORS' PROFILES

Rúni M. Hansen, Chairman of the Board

Born 1967. MSc. in Economics and Business Administration, Copenhagen Business School, 1993. Lancaster University, The Management School, Lancaster UK, 1994. Career: Statoil, Vice President Exploration international 2010–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 14 Board meetings held during 2011.
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. Career: 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 all 14 Board meetings held during 2011.
Mr. Jensen is considered to be independent.
Mr. Jensen holds no shares in the company.

Odd Eliasen, Board member

Born 1965. Teacher Certificate Exam from Faroese Teacher Training College 1988. Sales manager Havsbrún 1988–1995, Director of Feed Department of Havsbrún 1995–present. Mr. Eliasen has broad experience from the fish farming industry, and has been an active player in restructuring the fish farming industry in the Faroe Islands. Mr. Eliasen has been responsible for Havsbrún´s farming activity and has held various board positions in the industry.
Mr. Eliasen has been a Board member of Bakkafrost since August 2006.
Mr. Eliasen participated in 13 of 14 Board meetings held during 2011.
Mr. Eliasen is not considered to be independent.
Mr. Eliasen holds 169,895 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.
Current position: EVP & CFO in Stream A/S.
Mrs. Romuld has been a Board member of Bakkafrost since December 2009.
Mrs. Romuld participated in all 14 Board meetings held during 2011.
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 14 Board meetings held during 2011.
Mr. Dahl is not 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 13 of 14 Board meetings held during 2011.
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.

GROUP MANAGEMENT'S PROFILES

Following the acquisition of Havsbrún, it was decided to adjust the Group Management effective from 1 July 2011. The Group Management now consists of CEO Regin Jacobsen, Managing Director Bergur Poulsen and CFO Teitur Samuelsen.

Regin Jacobsen, Chief Executive Officer

Regin Jacobsen (born 1966) has been the CEO of Bakkafrost since 1989. Mr. Jacobsen was 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.

Bergur Poulsen, Managing Director

Mr. Poulsen (born 1953) is responsible for the Havsbrún activities (feed, meal and oil). Bergur Poulsen has been Managing Director of Havsbrún for the last 16 years and holds a degree in pharmacy from the University of Copenhagen.
Mr. Poulsen holds 339,791 shares in the company.

Teitur Samuelsen, Chief Financial Officer

Teitur Samuelsen (born 1972) was appointed CFO of Bakkafrost in 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 was CFO of Atlantic Petroleum from 2005 to 2009.
Mr. Samuelsen holds 1,000 shares in the company.

OTHER MANAGERS:

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 was 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 (North region)

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.

Oddvald Olsen, Farming Manager (West region)

Oddvald Olsen (born 1964) has been Farming Manager in Bakkafrost Farming West since 1 August 2011. Mr. Olsen has extensive experience in the salmon farming industry, where he started in 1985.
Mr. Olsen holds no shares in the company.

Anna Johansen, Group Quality Manager

Anna Johansen (born 1974) holds a cand.scient in biology from the University of Copenhagen, Denmark (2002) and has since completed courses in project management, basic law and communication. From 2003–2007, she worked with the Faroese Food, Veterinary and Environmental Agency as an environmental supervisor and a project manager. Anna Johansen has been quality manager for P/f Vestlax and P/f Vestsalmon since 2007 until the merger with Bakkafrost, when she startet as Group Quality Manager.
Ms. Johansen holds no shares in the company.

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.

Hartvig Joensen, Fish Oil and Fish Meal Manager

Hartvig Joensen (born 1967) has been manager of the fish oil and fish meal department of Havsbrún since 2005.
Mr. Joensen holds no shares in the company.

Odd Eliasen, Fish Feed Manager

Odd Eliasen (born 1965) is manager of the feed department of Havsbrún and also board member of Bakkafrost. See further details under the Directors' profiles.

Guðrun Olsen, Group HR Manager

Guðrun Olsen (born 1964) holds a BA in Business Languages from the Copenhagen Business School and an MA degree in International Corporate Communication from the University of Southern Denmark in Odense. From 1994 to 2004, Mrs. Olsen held positions as Company Secretary and HR & Adm. Manager in Faroe Seafood. Guðrun Olsen has been appointed Group HR Manager of Bakkafrost as of 1 February 2012.
Mrs. Olsen holds no shares in the company.

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 and amended in autumn 2011 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, http://www.bakkafrost.com/default.asp?menu=221.

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 2011 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 2011 to 31 December 2011.

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 2011, as well as the results of the Group's and the parent company's activities and cash flows for the financial year 1 January 2011 to 31 December 2011.

Glyvrar, 2 March 2012

Management:

Regin Jacobsen
CEO

Board of Directors:

Rúni M. Hansen, Chairman of the Board	Johannes Jensen, Deputy Chairman of the Board	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 P/F BAKKAFROST

AUDITOR'S REPORT TO THE CONSOLIDATED FINANCIAL REPORT

We have audited the financial report of P/f Bakkafrost for the financial year 1 January to 31 December 2011, which comprise the accounting policies used, the consolidated statement of financial position as of 31 December 2011, the consolidated statement of income, consolidated statement of comprehensive income and the consolidated cash flow statement for the year then ended, and the accompanying explanatory notes. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards, as adopted by EU and additional Faroese Disclosure Requirements for listed companies.

THE BOARD OF DIRECTORS' AND THE BOARD OF EXECUTIVES' RESPONSIBILITY

The Board of Directors and the Board of Executives are responsible for the preparation and presentation of the financial report giving a true and fair view in accordance with the International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant for the preparation and presentation of the financial report giving a true and fair view and being free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Furthermore, the Board of Directors and the Board of Executives are responsible for the preparation of a Statement by the Management and the Board of Directors including a fair description in accordance with the International Financial Reporting Standards, as adopted by EU and additional Faroese Disclosure Requirements for listed companies..

AUDITOR'S RESPONSIBILITY AND BASIS OF OPINION

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and presentation of the financial report giving 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Board of Executives, as well as the overall presentation of the financial report.

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

The audit has not resulted in any qualification.

OPINION

In our opinion, the financial report gives a true and fair view of P/f Bakkafrost's and its subsidiaries' consolidated assets, consolidated liabilities, and consolidated financial position at 31 December 2011 and of the consolidated results of P/f Bakkafrost's and its subsidiaries' operations, consolidated comprehensive income and consolidated cash flow for the financial year 1 January to 31 December 2011 in accordance with the International Financial Reporting Standards, as adopted by EU and additional Faroese Disclosure Requirements for listed companies.

STATEMENT CONCERNING THE STATEMENT BY THE MANAGEMENT AND THE BOARD OF DIRECTORS

Our audit did not comprise the Statement by the Management and the Board of Directors.

In accordance with the Faroese Financial Statements Act, we have read the statement by the management and the board of directors without taking any further action in addition to the performed audit of the financial report. In our opinion, the information appearing from the statement by the management and the board of directors is in accordance with the audited financial report.

Tórshavn, 2 March 2012

Sp/F Grannskoðaravirkið INPACT

Løggilt grannskoðaravirki

Heini Thomsen

State Authorised Public Accountant

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR 2011

DKK 1,000	Note	2011	2010
Operating revenue		**1,321,092**	**820,212**
Purchase of goods		-450,815	-301,446
Change in inventory and biological assets (at cost)		19,796	75,501
Salary and personnel expenses	5	-168,144	-118,409
Other operation expenses		-319,458	-186,813
Depreciation	9	-67,325	-42,257
Operational EBIT		**335,146**	**246,788**
Fair value adjustments on biological assets		-45,882	83,926
Onerous contracts		2,856	-2,856
Income from associates		-2,021	512
Listing costs		0	-12,790
Acquisition costs		-16,019	0
Badwill related to the acquisition of the Havsbrún Group		126,618	0
Earnings before interest and taxes (EBIT)		**400,698**	**315,580**
Financial income		2,835	1,051
Net interest expenses		-30,830	-8,180
Net currency effects		-609	819
Other financial expenses		-1,898	-2,011
Earnings before taxes (EBT)	7	**370,196**	**307,259**
Taxes	18	-46,779	-47,548
Profit for the year		**323,417**	**259,711**
Profit or loss for the year attributable to:			
Non-controlling interests		-1,971	0
Owners of P/f Bakkafrost		325,388	259,711
Earnings per share continued operations (DKK)	21	6.66	5.41
Diluted earnings per share (DKK)		6.66	5.41
Comprehensive income:			
Profit for the year		323,417	259,711
Reversal of fair value adjustment on interest rate swap		1,589	0
Fair value adjustment on securities available for sale net tax		-12,831	5,830
Deferred tax on securities available for sale		3,024	-1,594
Total comprehensive income for the year net tax		**315,199**	**263,947**

AS OF 31 DECEMBER 2011

DKK 1,000	Note	2011	2010
ASSETS			
Non-current assets			
Intangible assets	8	369,955	136,245
Total intangible assets		**369,955**	**136,245**
Land buildings and other real estate		366,468	119,170
Plant machinery and other operating equipment		446,403	223,009
Other operating equipment		15,652	14,240
Total property, plant and equipment	9	**828,523**	**356,419**
Non-current financial assets			
Investments in associated companies	10	33,635	5,984
Investments in stocks and shares	11	2,220	19,983
Other non-current receivables		0	796
Total non-current financial assets		**35,855**	**26,763**
TOTAL NON-CURRENT ASSETS		**1,234,333**	**519,427**
Current assets			
Biological assets (biomass)	13	700,336	482,091
Inventory	12	179,179	28,501
Total inventory		**879,515**	**510,592**
Accounts receivable	14	154,496	125,619
Other receivables	14	16,562	19,890
Total receivables		**171,058**	**145,509**
Cash and cash equivalents	17	16,868	9,128
Total current assets		**1,067,441**	**665,229**
TOTAL ASSETS		**2,301,774**	**1,184,656**

DKK 1,000	Note	2011	2010
EQUITY AND LIABILITIES			
Equity			
Share capital	16	48,858	48,858
Other equity		977,596	853,431
Non-controlling interests		34,557	0
Total equity	15	**1,061,011**	**902,289**
Non-current liabilities			
Deferred taxes	18	256,023	120,009
Long-term interest bearing debts	17	733,693	7,357
Total non-current liabilities		**989,716**	**157,366**
Current liabilities			
Short-term interest bearing debt	17	100,000	41,961
Accounts payable and other debt	17	151,047	83,039
Total current liabilities		**251,047**	**125,000**
Total liabilities		**1,240,763**	**282,367**
TOTAL EQUITY AND LIABILITIES		**2,301,774**	**1,184,656**

CONSOLIDATED CASH FLOW STATEMENT FOR 2011

DKK 1,000	Note	2011	2010
Cash flow from operations			
Operating profit (EBIT)		**400,698**	**315,580**
Adjustments for write-downs and depreciation		67,325	42,257
Adjustments for value adjustments on biomass		45,882	-83,926
Adjustments for income from associates		2,021	0
Adjustments for badwill		-126,618	0
Provision for onerous contracts		-2,856	2,856
Taxes paid		-32,490	0
Change in inventory		24,455	-71,888
Change in other current assets		32,081	-16,226
Change in current debts		-598	6,390
Cash flow from operations		**409,900**	**195,043**
Cash flow from investments			
Acquisition of businesses		-976,770	0
Proceeds from sale of fixed assets		1,436	300
Proceeds from sale of financial assets		349,530	0
Payments made for purchase of fixed assets		-98,009	-67,868
Purchase of shares and other investments		-700	-3,807
Change in long-term receivables		796	-318
Cash flow from investments		**-723,717**	**-71,693**
Cash flow from financing			
Increase/Decrease of interest bearing debt (short and long)		543,094	-207,334
Proceeds from share capital increase		0	67,727
Financial income		2,835	1,870
Net proceeds from sale of own shares		0	15,669
Financial expenses		-33,337	-10,191
Dividend paid		-191,035	-17,643
Cash flow from financing		**321,557**	**-149,902**
Net change in cash and cash equivalents in period		**7,740**	**-26,552**
Cash and cash equivalents – opening balance		9,128	35,680
Cash and cash equivalents – closing balance total		**16,868**	**9,128**

CONSOLIDATED CHANGES IN EQUITY

DKK 1,000	Note	2011	2010
Total equity 01.01		**902,289**	**388,887**
Profit for the year to equity		**323,417**	**259,711**
Adjustment 01.01		**0**	**1,371**
Fair value adjustment on interest rate swap		1,589	0
Reversal of fair value adjustment on securities available for sale		-12,831	5,830
Reversal of deferred tax on securities available for sale		3,024	-1,594
Total other comprehensive income		**-8,218**	**4,236**
Proposed dividend		-48,858	-191,035
Total proposed dividend		**-48,858**	**-191,035**
Total recognised income and expense to equity		**266,341**	**74,283**
Equity transactions between the Group and its shareholders			
Share issue related to IPO		0	75,000
Sale of treasury shares related to IPO		0	15,669
Tax on sale of treasury shares		0	-2,820
Costs related to IPO		0	-7,273
Net proceeds from share capital increases		**0**	**80,576**
Equity increases by merger			
Proceeds from merger		0	209,039
Deferred tax on recognised excess fair values		0	-23,888
Equity increase by merger		**0**	**185,151**
Equity to shareholder			
Distribution of dividend		-191,035	-18,000
Dividends on treasury shares		0	357
Proposed dividend		48,858	191,035
Total equity to shareholders during the year		**-142,177**	**173,392**
Total change in equity during the year		**124,164**	**513,402**
Non-controlling interests acquired in the period		36,528	0
Result for the period		-1,971	0
Non-controlling interests at the end of the period		**34,557**	**0**
Total equity 31.12		**1,061,011**	**902,289**

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 was 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 2011 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 2 March 2012.

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

Preparation of the financial statements involves the use of estimates and assumptions. Changes in estimates and estimated 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 badwill 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.

NON-CONTROLLING INTERESTS

The share of the profit or loss after tax attributable to non-controlling interests 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 fundamentally has three business activities: farming of fish, including sale of fresh fish; value adding of salmonoid products; and the production of fish meal, fish oil and fish feed.

Farming including sale of fresh fish

Fish farming involves the breeding and on-growing of salmon, as well as the slaughtering, sale and distribution of salmon. The Group has production facilities in the southern, central and northern 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 factories in Glyvrar and Fuglafjørður. The outputs of the factories are 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.

Fish meal, fish oil and fish feed

Fish meal, fish oil and fish feed involves the production and sale of fish meal, fish oil and fish feed. The production of fish meal, fish oil and fish feed is operated by Bakkafrost's subsidiary Havsbrún and is located in Fuglafjørður.

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, the VAP unit and fish meal, fish oil and fish feed 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.

Fish meal, fish oil and fish feed unit

Finished goods in the fish meal, fish oil and fish feed unit are feed ready for delivery to customer, valued at the lower of cost and net realisable value. The cost of finished goods includes any processing costs that have incurred. Processing costs consist of logistics, handling and storage costs.

Raw materials and purchased commodities are valued at the lower of historical cost and net realisable value in accordance with the FIFO principle.

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 1 kg/fish, the fair value measurement of the generation becomes less than clearly unreliable. At this point, fair value measurement commences.

During the second half of 2011, the largest salmon farming companies in Norway, with support from audit firms, formed an industry working group where the objective was to reach a converged and improved common approach for estimating the fair value of the biomass in accordance with IAS 41. Following the working group's conclusions, Bakkafrost has with effect from end 2011 refined its calculation model for estimating the fair value of biomass. The model enhancements have been made to improve capture of the fair value development of the biological inventory during the lifetime of the fish. Previously, the point of intersection was when fair value was equal to or higher than historical cost. The refined model incorporates the proportionate expected net profit at harvest during the interval starting from 1 kg ending at 4 kg. The best fair value estimate on fish below 1 kg is considered to be accumulated cost, while fish above 4 kg (mature fish) are valued to full expected net value. Consequently, there might be a negative fair value adjustment on the biological inventory. The sales prices are based on externally quoted forward prices, where applicable, and/or the most relevant price information available for the period of which the fish is expected to be harvested, whereas spotmarked prices are applied to mature fish. The effect at the end of 2011 from the enhanced fair value estimate on biomass amounted to an income before taxes of DKK 53.3 million compared to the previous model. This effect is included in the DKK 45.9 million fair value adjustment expense.

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 on-going 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.

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 depreciated 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. Sea farming licences in the Faroes are considered perpetual, given that 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 charged to the Profit & Loss Account.

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 IAS 39, 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.

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 of 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 2011. The subsidiaries of P/f Bakkafrost – P/f Bakkafrost Farming West and P/f Bakkafrost Farming North – were merged as of 1 January 2011. 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.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of the issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Bakkafrost Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified or recycled to profit or loss at a future point in time (for example upon de-recognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment introduces the requirement that deferred tax on non-depreciable assets that have been measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and, therefore, are required to be consolidated by a parent, compared to the requirements that were in IAS 27.

This standards becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC – 13 Jointly controlled entities – Non-monetary Contributions by Venturers.
IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture, must be accounted for using the equity method.
This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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 on-going 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 derivitives 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, e.g. tax losses carried forward that are utilised in the future will be different from carrying amounts.

NOTE 4. OPERATING SEGMENT INFORMATION

2011 – DKK 1,000	Farming	Value Added Products	Fish meal, oil and feed	Eliminations	Bakkafrost Group
External operating revenues	643,031	507,241	170,821	0	1,321,093
Internal operating revenues	339,126	0	337,896	-677,022	0
Total operating revenues	**982,157**	**507,241**	**508,717**	**-677,022**	**1,321,093**
Depreciation and amortisation	-52,087	-4,785	-10,453	0	-67,325
Operating expenses	-346,094	-93,827	-440,057	-38,644	-918,622
Internal operating expenses	-337,896	-339,126	0	677,022	0
Operating EBIT	**246,080**	**69,503**	**58,207**	**-38,644**	**335,146**
Provision for onerous contracts	0	2,856	0	0	2,856
Fair value adjustments on biological assets	-45,882	0	0	0	-45,882
Acquisition costs	-15,801	-218	0	0	-16,019
Badwill related to the acquisition of the Havsbrún Group	126,618	0	0	0	126,618
Income from associates	127	-8	-2,140	0	-2,021
EBIT	**311,142**	**72,133**	**56,067**	**-38,644**	**400,698**
Net interest revenue	4,378	10	2,053	-3,606	2,835
Net interest expenses	-24,466	-1,758	-10,719	3,606	-33,337
Earnings before taxes	**291,054**	**70,385**	**47,401**	**-38,644**	**370,196**
Tax	-26,326	-12,708	-7,745	0	-46,779
Net earnings	**264,728**	**57,677**	**39,656**	**-38,644**	**323,417**
Operating EBITDA	**298,167**	**74,288**	**68,660**	**-38,644**	**402,471**
ASSETS					
Assets	2,368,388	83,279	677,199	-827,012	2,301,774
Intangible assets	369,955	0	0	0	369,955
LIABILITIES	**1,883,953**	**12,588**	**149,408**	**-805,186**	**1,240,763**
INVESTMENTS					
Tangible operating assets	95,270	5,437	3,217	0	103,924
Intangible operation assets	233,710	0	0	0	233,710
Depreciation	-52,087	-4,785	-10,453	0	-67,325

2010 – DKK 1,000	Farming	Value Added Products	Fish meal, oil and feed	Eliminations	Bakkafrost Group
External operating revenues	347,070	473,142	0	0	820,212
Internal operating revenues	424,677	0	0	-424,677	0
Total operating revenues	**771,747**	**473,142**	**0**	**-424,677**	**820,212**
Depreciation and amortisation	-38,076	-4,180	0	0	-42,256
Operating expenses	-447,094	-84,073	0	0	-531,167
Internal operating expenses	0	-424,677	0	424,677	0
Provision for onerous contracts	0	-2,856	0	0	-2,856
Operating EBIT	**286,577**	**-39,788**	**0**	**0**	**246,788**
Provision for onerous contracts	0	-2,856	0	0	-2,856
Fair value adjustments on biological assets	83,926	0	0	0	83,926
Listing costs	-10,260	-2,530	0	0	-12,790
Income from associates	496	16	0	0	512
EBIT	**360,739**	**-45,158**	**0**	**0**	**315,581**
Net interest revenue	2,331	23	0	-1,304	1,050
Net interest expenses	-8,744	-1,932	0	1,304	-9,372
Earnings before taxes	**354,326**	**-47,067**	**0**	**0**	**307,258**
Tax	-56,020	8,472	0	0	-47,548
Net earnings	**298,306**	**-38,595**	**0**	**0**	**259,710**
Operating EBITDA	**324,653**	**-35,608**	**0**	**0**	**289,045**
ASSETS					
Assets	1,751,930	76,237	0	-643,511	1,184,656
Intangible assets	136,245	0	0	0	136,245
LIABILITIES	**271,604**	**86,298**	**0**	**-75,536**	**282,366**
INVESTMENTS					
Tangible operating assets	295,146	7,912	0	0	303,058
Intangible operation assets	136,245	0	0	0	136,245
Depreciation	-38,076	-4,180	0	0	-42,257

SALMON - DISTRIBUTION OF HARVESTED AND PURCHASED VOLUME (tgw)	2011 tgw	%	2010 tgw	%
Harvested volume used in VAP production	12,720	37.0%	12,903	59.2%
External purchase of salmon for VAP production	0	0.0%	163	0.7%
Harvested volume sold fresh/frozen	21,635	63.0%	8,723	40.1%
External purchase of salmon sold fresh/frozen	0	0.0%	10	0.0%
Harvested and purchased volume (tgw)	**34,355**	**100.0%**	**21,799**	**100.0%**

FISH MEAL, OIL AND FEED DISTRIBUTION FEED	2011 tonnes	%	2010 tonnes	%
Volumes used internally	63,657	75.4%	0	0.0%
External purchase	20,774	24.6%	0	0.0%
Sold volume (tonnes)*	**84,431**	**100.0%**	**0**	**0.0%**

PRODUCTION OF FISH MEAL AND FISH OIL	2011 tonnes	%	2010 tonnes	%
Fish meal	13,141	68.4%	0	0.0%
Fish oil	6,061	31.6%	0	0.0%
Sold volume (tonnes)	**19,202**	**100.0%**	**0**	**0.0%**

* From 1 January 2011

GEOGRAPHIC BREAKDOWN OF SALES REVENUES BASED ON SEGMENTS AND CUSTOMER LOCATION

2011	Farming	VAP	FEED
Europe	275,527,659	498,192,916	170,821,000
USA	275,441,017	0	0
Other	92,062,324	9,048,084	0
Total	**643,031,000**	**507,241,000**	**170,821,000**

2010	Farming	VAP	FEED
Europe	187,244,723	466,879,244	0
USA	115,281,795	0	0
Other	44,543,752	6,262,486	0
Total	**347,070,270**	**473,141,730**	**0**

The Group has three reportable segments in accordance with IFRS 8 Operating segments. The Group's main strategic business area is aquaculture, which consists of three segments: fish farming; value added products (VAP); and production and sale of fish meal, fish oil and fish feed.

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 in the spot market for salmon products and exported to foreign seafood processing companies.

In addition, Bakkafrost operates VAP processing facilities 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 in the retail market.

Fish meal, fish oil and fish feed involves the production of fish meal and fish oil from raw materials, which are ingredients in the production of fish feed.

NOTE 5. SALARIES AND OTHER PERSONNEL EXPENSES

BREAKDOWN OF PAYROLL EXPENSES

DKK 1,000	2011	2010
Wages and salaries	152,623	106,827
Social security taxes	4,622	3,650
Pension expenses	8,027	6,715
Other benefits	2,872	1,217
Total payroll expenses	**168,144**	**118,409**
Average number of full-time employees including the staff in the Havsbrún Group from 1 July 2011.	550	363

REMUNERATION TO CORPORATE MANAGEMENT

Salary and other benefits paid	Salary	Bonus	Pension	Other	Total 2011	Total 2010
Chief Executive Officer	1,410	10	30	0	1,450	1,339
Managing Director*	659	0	0	90	749	8
Chief Financial Officer	1,017	10	0	90	1,117	1,090
Total remuneration	**3,086**	**20**	**30**	**180**	**3,316**	**2,437**

*The Managing Director was appointed on 1 July 2011. In addition to this, the Managing Director is member of the nomination committee.

Remuneration to corporate management

The total remuneration to the corporate management 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 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 the other persons in the corporate management team have a notice period of 6 to 12 months.

Fees paid to the Board of Directors

DKK 1,000		2011	2010
Rúni M. Hansen***	Chairman of the Board	288	192
Johannes Jensen***	Deputy Chairman of the Board	186	117
Odd Eliasen*	Member of the Board	137	99
Trine Sæther Romuld***	Member of the Board	152	96
Annika Frederiksberg**	Member of the Board	137	96
Virgar Dahl	Member of the Board	137	96
Total remuneration		**1,037**	**696**

* Following the acquisition of P/f Havsbrún, Odd Eliasen is also an employee in the Bakkafrost Group. For this, he has received DKK 441 thousand.
** Annika Frederiksberg is also an employee in the Bakkafrost Group. For this, she received DKK 493 thousand.
*** Member of the audit committee. Salary includes fee to the audit committee.

Loans to employees

As of 31.12.2011, there are no loans to employees.

NOTE 6. AUDITOR'S FEES

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

DKK 1,000	2011	2010
Statutory auditing	764	675
Tax advisory services	24	65
Other services	790	261
Prospectus, mergers and IFRS conversion	0	1,417
Total auditor's fees	**1,578**	**2,418**

NOTE 7. NET FINANCIAL ITEMS

DKK 1,000	2011	2010
Other financial income	2,835	1,051
Financial income	**2,835**	**1,051**
Interest expenses on long-term loans	-12,860	-5,419
Termination of interest rate swap	-2,562	0
Termination of long-term loans (adjustment)	-2,424	0
Interest expenses on credit lines	-12,121	-2,538
Interest expenses on accounts payable	-863	-223
Financial expenses	**-30,830**	**-8,180**
Exchange differences	-609	819
Net currency effects	**-609**	**819**
Other financial expenses	-1,898	-2,011
Other financial items	**-1,898**	**-2,011**
Net financial items	**-30,502**	**-8,321**

NOTE 8. INTANGIBLE ASSETS

DKK 1,000	Goodwill	Licences	Total 2011	Total 2010
Acquisitions cost as of 01.01	3,537	132,708	136,245	136,245
Additions in the year as a result of acquisitions	0	233,710	233,710	0
Acquisitions cost as of 31.12	**3,537**	**366,418**	**369,955**	**136,245**
Impairments 01.01	0	0	0	0
Impairments during the year	0	0	0	0
Accumulated depreciation and write-downs as of 31.12	**0**	**0**	**0**	**0**
Net book value as of 31.12	**3,537**	**366,418**	**369,955**	**136,245**

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 assets 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 which varies from licence to licence, EBT of DKK2 per kg reflecting the long term market expectancy and production efficiency forecasts and WACC of 6.4%, in accordance with IAS 36. Harvested volume is based on the current stocking plans for each unit and forecasted figures for growth and mortality.

Sea farming 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, a 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 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 2011	Total 2010
Acquisitions cost as of 01.01	291,295	757,944	29,017	1,078,256	332,459
Acquisitions costs from merged company 01.01	0	0	0	0	234,656
Acquisitions during the year in acquired entities before acquisition	16,835	9,426	0	26,261	0
Re-evaluations	187,886	99,483	0	287,369	-26,904
Acquisitions during the year	7,432	93,916	2,576	103,924	68,402
Disposals during the year	0	-5,329	-70	-5,400	-2,982
Acquisitions cost as of 31.12	**503,448**	**955,439**	**31,523**	**1,490,410**	**605,630**
Accumulated depreciation and write-downs as of 01.01	-122,204	-450,908	-13,096	-586,208	-101,458
Accumulated depreciation and write-downs from merged company 01.01	0	0	0	0	-104,630
Depreciations during the year in acquired entities before acquisition	-2,875	-10,258	0	-13,133	0
Depreciations during the year	0	4,778	-2,775	4,778	-865
Accumulated deprecations and write-downs on disposals	-11,901	-52,648	0	-67,325	-42,257
Accumulated depreciation and write-downs as of 31.12	**-136,980**	**-509,036**	**-15,871**	**-661,887**	**-249,210**
Net book value as of 31.12	**366,468**	**446,403**	**15,652**	**828,523**	**356,420**

Buildings in Glyvrar, Kollafjørður and Fuglafjørður are located on rented land.

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

NOTE 10. COMPANIES IN THE GROUP

The consolidated accounts for 2011 include the following subsidiaries and associates of significant size:

	Currency	Head Office	Ownership	Nominal share capital
P/f Bakkafrost Farming	DKK	Glyvrar	100%	12,696
P/f Bakkafrost Processing	DKK	Glyvrar	100%	2,000
P/f Bakkafrost Sales	DKK	Glyvrar	100%	667
P/f Bakkafrost Packaging	DKK	Glyvrar	100%	8,022
P/f Bakkafrost Harvesting	DKK	Glyvrar	100%	795
L/f Føroya Sildasøla	DKK	Glyvrar	100%	420
L/f Føroya Sildaskip	DKK	Glyvrar	100%	210
P/f Dagsbrún	DKK	Glyvrar	100%	12,765
P/f Føroya Fiskiídnaður	DKK	Glyvrar	100%	2,000
P/f Havsbrún	DKK	Fuglafjørður	100%	10,600
Havsbrún Shetland Ltd.	DKK	Lerwick	100%	17
Havsbrún Norge ASA	DKK	Flekkefjord	100%	105
P/f Havsbrún Farming	DKK	Glyvrar	100%	300
P/f Sundalaks	DKK	Glyvrar	100%	3,000
P/f Viking Seafood	DKK	Glyvrar	100%	2,905
Sp/f Salmex Faroe	DKK	Glyvrar	100%	200
P/f Smoltpro	DKK	Glyvrar	100%	3,000
P/f Salmpro	DKK	Glyvrar	100%	4,500
P/f Faroe Farming	DKK	Vágur	78%	44,300
P/f Hovsá	DKK	Vágur	78%	300

Associates	Head Office	Ownership	Additions	Share of the result	Carrying value 2011	Carrying value 2010
Companies						
P/f Salmon Proteins*	Eiði	79%	2,832	-1,019	7,797	5,984
P/f Keldan	Fuglafjørður	25%	4,739	1,374	6,113	0
Hanstholms Fiskemelsfabrik	Hanstholm	34%	22,101	-2,376	19,725	0
Total					**33,635**	**5,984**

*Voting rights 25%

ACQUISITIONS THROUGH BUSINESS COMBINATION

Year 2011

On 1 July 2011, Bakkafrost purchased all the outstanding shares in P/f Havsbrún. P/f Havsbrún, a modern, internationally renowned producer of fish meal, fish oil and fish feed, is situated in the Faroe Islands. P/f Havsbrún purchased 65 thousand tonnes of raw material in 2011 and produced approx. 84 thousand tonnes of feed, 13 thousand tonnes of fish meal and 6 thousand tonnes of fish oil. Almost all of the produced fish meal and oil is used for its own fish feed production, and only a small part is being exported. P/f Havsbrún owns 78.1% of the farming companies P/f Faroe Farming and P/f Viking Seafood, with a total of 5 licenses. On 1 July 2011, Bakkafrost also acquired the 21.9% owned by other investors in Viking Seafood. Thus, Bakkafrost now owns 100% of the shares in Viking Seafood. The deal gives Bakkafrost additional farming capacity and thus opportunities of economies of scale. In addition, it gives Bakkafrost full control of the value chain from production of fish oil and fish meal to finished salmon products. The Havsbrún Group was acquired effective from 1 January 2011 but is, in accordance with IFRS 3, consolidated into Bakkafrost's financial statement from the date of change of control, which was 1 July 2011.

Prior to the acquisition of the Havsbrún Group, Bakkafrost owned 11 licenses, which accounted for approx. 39% of the licenses on the Faroe Islands. Regulations limit the number of licenses controlled by one company to 50% of the total licenses. With the purchase of Havsbrún, Bakkafrost has 2 licenses above the 50% limit. Bakkafrost has received a grace period to fulfil the legal requirements.

The cash payment was paid in cash and was financed by a combination of new debt financing and existing facilities.

The management and key employees of P/f Havsbrún continued in the company.

Consideration paid for the Havsbrún Group:

DKK 1,000	**2011**
Cash	627,241
Havsbrún's shares in Bakkafrost	349,529
Total consideration	**976,770**

Net identifiable assets:

DKK 1,000		**2011**
Intangible assets	1)	233,710
Property, plant and equipment	2)	440,928
Financial assets	3)	380,471
Long-term receivables		136
Biological assets		154,889
Inventory		284,280
Other current assets	4)	139,361
Cash and cash equivalents		10,097
Deferred tax and other taxes		-180,567
Long-term interest bearing debt		-113,632
Short-term interest bearing debt		-146,629
Other short-term liabilities		-63,128
Other IFRS adjustments on equity		0
Minority interests	5)	-36,528
Total net identifiable assets		**1,103,388**

1) The Havsbrún Group holds 5 farming licences. Fair values have been identified in farming licenses by employing generally accepted valuation techniques. The market value of licences is measured at DKK 233.7 million.

2) The fair value of property, plant and equipment is based on an independent valuation. A material fair value adjustment of property, plant and equipment was recognised.

3) Financial assets include the fair value of Havsbrún's share in Bakkafrost, amounting to DKK 349.5 million on 1 July.

4) Accounts receivable include DKK 80.2 million payable by Bakkafrost.

5) In accordance with IFRS 3.20 ref. B44. The measurement of the non-controlling interest is based on using other valuation techniques, due to the fact that no market prices for the equity share not held by Bakkafrost exist.

All the accounts receivable are expected to be collectible.

Acquisition-related costs

The Group incurred acquisition-related costs of DKK 16.0 million relating to external legal fees and due diligence costs. The amount has been disclosed on a separate line in the Consolidated Profit and Loss Account.

Year 2010

On 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 was the acquiring company and P/f Vestlax Holding the acquired company.

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

The market value was 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.

DKK 1,000		2010
Intangible assets	1)	136,245
Property, plant and equipment		100,106
Financial assets	3)	-9,932
Long-term receivables		0
Biological assets		102,379
Inventory		0
Other current assets	4)	54,071
Cash and cash equivalents		0
Deferred tax and other taxes	2)	-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
Minority interests		0
Total effect on equity		**187,942**

The balance sheet of the Vestlax Group was examined, and fair values identified in farming licences by employing generally accepted valuation techniques.

1) The market values of licences were measured at DKK 132.7 million and goodwill at DKK 3.5 million, totalling DKK 136.2 million. The adjustments relative to book values, amounting to DKK 67.7 million, were entered to intangible assets. Biomass was already measured at fair value, and the examination of the balance sheet revealed no further excess values.

2) According to IFRS 3, deferred tax was 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 the Bakkafrost Group perform similar activities and will potentially benefit from economies of scale.

3) Under the item financial assets, DKK 16.1 million was eliminated, as it relates to Bakkafrost's share of the share capital in Vestlax.

4) An adjustment to accounts receivable of DKK 5.3 million relates mainly to intergroup receivables that were 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 was eliminated, which amounted to DKK -16.1 million. As the merger consideration for Vestlax was paid in shares of Bakkafrost, the share capital in the merged Group was increased by DKK 1.0 million, so that the total share capital after the merger was DKK 4.0 million. The purchase price allocation, which was the excess value of the book value of the assets in Vestlax, amounting to DKK 67.7 million, was entered on other equity. Finally, a provision for deferred tax of the value of the licences was made, amounting to DKK 23.9 million.

NOTE 11. SHARES AND HOLDINGS IN OTHER COMPANIES

DKK 1,000	**Carrying amount**	**Carrying amount**
Company	**2011**	**2010**
P/f Dagsbrún*	0	19,981
Others	2,220	2
Total	**2,220**	**19,983**

*On 1 July 2011, Bakkafrost acquired all the other issued shares in P/f Dagsbrún. Thus, at the end of 2011, Dagsbrún was a 100%-owned subsidiary in the Bakkafrost Group.

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	**2011**	**2010**
Raw materials and goods in-progress	158,498	23,428
Finished goods	20,681	5,073
Total inventory	**179,179**	**28,501**

Raw materials primarily consist of raw material for the production of fish meal, fish oil and fish feed 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	2011	2010
Biological assets carrying amount 01.01	482,091	227,497
Increase due to production or purchases	740,590	442,289
Increase due to acquisitions	154,269	98,986
Reduction due to harvesting or sale (costs of goods sold)	-605,536	-370,607
Fair value 01.01 reversed	-130,792	-46,866
Eliminations	-26,323	0
Fair value adjustments 31.12 entered	86,037	130,792
Biological assets carrying amount 31.12	**700,336**	**482,091**
Biomass < 4 kg on average (tonnes live weight)	14,135	12,266
Biomass > 4 kg on average (tonnes live weight)	20,085	12,266
Volume of biomass at sea	**34,193**	**17,989**
Volume of biomass harvested during the year (tonnes gutted weight)	**34,355**	**21,626**
Cost price biological assets	640,621	351,299
Fair value adjustments at the end of the period	86,037	130,792
Eliminations	-26,323	0
Biological assets carrying amount	**700,336**	**482,091**

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 34,193 tonnes, a change in price of DKK 1 will have an impact on the valuation of approximately DKK 34 million.

NOTE 14. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

DKK 1,000	2011	2010
Accounts receivable	154,688	125,604
Reversal of provision for bad debt	0	15
Provisions for bad debts	-192	0
Net accounts receivable	**154,496**	**125,619**
Prepayments	1,263	262
VAT	13,798	19,628
Other	1,501	0
Other receivables	**16,562**	**19,890**
Total accounts receivable and other receivables	**171,058**	**145,509**

AGE DISTRIBUTION OF ACCOUNTS RECEIVABLE

DKK 1,000	2011	2010
Receivables not overdue	135,970	125,553
Overdue 0–6 months	16,824	67
Overdue more than 6 months	1,702	0
Total	**154,496**	**125,619**

CURRENCY EXPOSURE TO ACCOUNTS RECEIVABLE

The Group holds accounts receivable in foreign currencies amounting to DKK 65.6 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	2011	2010
DKK	88,923	75,353
EUR	36,670	24,178
USD	15,292	16,064
GBP	4,696	4,445
Others	8,915	5,580
Total	**154,496**	**125,619**

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 01.01.2011	**48,858**	**306,537**	**11,680**	**191,035**	**130,792**	**213,387**	**902,289**
Net profit after tax	0	0	0	0	-45,882	369,299	323,417
Fair value adjustment on interest rate swap						1,589	1,589
Reversal of fair value adjustment on securities available for sale*	0	0	-12,831	0	0	0	-12,831
Reversal of deferred tax on securities available for sale*	0	0	3,024	0	0	0	3,024
Paid-out dividend	0	0	0	-191,035	0	0	-191,035
Proposed dividend	0	0	0	48,858	0	-48,858	0
Write-ups share of profits in associates*	0	0	-1,873	0	0	1,873	0
Total equity excluding non-controlling interest 31.12.2011	**48,858**	**306,537**	**0**	**48,858**	**84,910**	**537,290**	**1,026,453**
Non-controlling interests							34,557
Total equity 31.12.2011	**48,858**	**306,537**	**0**	**48,858**	**84,910**	**537,290**	**1,061,011**

* 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 01.01.2010	**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 a vailable 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		-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

NOTE 16. SHARE CAPITAL AND MAJOR SHAREHOLDERS

Share capital:

DKK 1,000	**2011**	**2010**
Share capital at 1 January	48,858	2,992
Share issue related to IPO	0	2,608
Sale of treasury shares related to IPO	0	0
Equity increase due to merger	0	972
Share split due to merger	0	42,286
Share capital at 31 December 2010	**48,858**	**48,858**

The parent company's share capital comprises:

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

SHAREHOLDERS

These shareholders held directly or indirectly more than 5% of the shares in the company as of 31 December 2011:

Salmar ASA, TF Holding, Hans Jacobsen and Regin Jacobsen

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

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	169,895	0.35%
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%
Bergur Poulsen	Managing Director	339,791	0.70%
Teitur Samuelsen	Chief Financial Officer	1,000	0.00%

Dividend

The Board has proposed a dividend of DKK 48.858 million. The dividend proposal has not been recognised as a liability at 31 December 2011 but is presented as an item within equity.

NOTE 17. NET INTEREST BEARING DEBT

LONG-TERM INTEREST BEARING DEBT

DKK 1,000	2011	2010
Debt to credit institutions	833,693	44,324
Next year's instalments on long-term debt	-100,000	-6,967
Other long-term debt	0	0
Total long-term interest bearing debt 31.12	**733,693**	**37,357**
Debt to credit institutions	0	34,994
Next year's instalments on long-term debt	100,000	6,967
Total short-term interest bearing debt 31.12	**100,000**	**41,961**
Total interest bearing debt	833,693	79,318
Cash and cash equivalents	-16,868	-9,126
Net interest bearing debt	**816,825**	**70,190**

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 Group's undrawn financing facility amounted to approximately DKK 283.2 million at 31 December 2011.

REMAINING PERIOD

31.12.2011	1–3 months	3–12 months	1–5 years	> 5 years	Total
Interest bearing bank loans	25,000	75,000	733,693	0	833,693
Other debt	0	0	0	0	0
Accounts payable and other debt	72,401	78,646	0	0	151,047

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
Other debt	0	34,994	0	0	34,994
Accounts payable and other debt	74,113	8,927	0	0	83,039

INTEREST BEARING DEBT IN MORE DETAIL

Following the acquisition the Havsbrún Group, Bakkafrost has signed a loan agreement with its bank syndicate. The loan agreement includes two loans: one instalment loan of DKK 500 million, payable with DKK 25 million each quarter (first payment 31 March 2012), and one loan payable after five years, payable with the full amount of DKK 600 million. The Group's total financing is DKK 1,100 million.
The loan facility is secured both in the Group's property, plants and other material, and fixed assets as well as stock, farming licences and insurance policies.

The interest payable is CIBOR plus the current margin, which is calculated on the basis of the Company's net 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.

FINANCIAL COVENANTS

The loan facility amounting to DKK 600 million must never exceed the total of 80% of the insured accounts receivables, 65% of the lesser of the cost of the fish at sea or P/f BankNordik's estimated standard value in fish at sea and 65% of the booked value of the Group's inventory.

The covenant further stipulates that the equity ratio of the Group must be at least 35%, 37.5% from the end of 2012 and 40% from the end of 2013.

Furthermore, the NIBD/EBITDA ratio must not be higher than 3.5 during a 12-month period.

The Bakkafrost Group had total available finances of DKK 1,100 million, of which the undrawn amount at 31 December 2011 was DKK 283.2 million.

NOTE 18. TAX

DKK 1,000		
The tax expense for the year breaks down as follows:	**2011**	**2010**
Tax payable	26,212	8,927
Change in deferred tax	20,567	38,620
Tax expense on ordinary profit	**46,779**	**47,547**
Tax on sale of treasury shares	44,523	2,820
Tax payable	28,089	8,927
Tax payable in the statement of financial position	**72,612**	**11,747**
Specifications of temporary differences		
Licences	437,711	132,709
Property, plant and equipment	467,361	147,199
Financial assets	860	8,853
Inventory	655,368	479,235
Receivables	-1,100	0
Losses carried forward	-137,852	-101,281
Total temporary differences	**1,422,348**	**666,715**
Deferred tax liabilities (+) / assets (-)	**256,023**	**120,009**
Reconciliation from nominal to actual tax rate		
Profit before tax	370,196	307,259
Expected tax at nominal tax rate (18%)	66,635	55,307
Tax on equity entries	3,024	-6,654
Permanent differences (18%)*	-22,880	-1,106
Calculated tax expense	**46,779**	**47,547**
Effective tax rate**	12.64%	15.47%

* Whereof 22,791 are arising from badwill
** Effective tax rate excluding badwill is 18,8%

In 2011 P/F Havsbrún, which from 1 July became a part of the Bakkafrost Group, sold its share in P/F Bakkafrost. The tax payable related to the sale amounts to DKK 44 million and is not included in the Profit and Loss statement.

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.

A dispute has arisen concerning tax losses carried forward in a company acquired by Bakkafrost. The dispute is pending arbitration. An outcome can be an increase in deferred taxes at mDKK 6.2. The issue has no impact on tax payments in 2012.

NOTE 19. MORTGAGES AND GUARANTEES

Carrying amount of debt secured by mortgages and pledges

DKK 1,000	2011	2010
Long-term debt to financial institutions	733,693	37,357
Short-term debt to financial institutions	100,000	41,961
Total	**833,693**	**79,318**

Carrying amount of assets pledged as security for recognised debt		
Licences	369,955	132,709
Property, plant and equipment	828,523	356,419
Biological assets (biomass)	700,336	482,091
Inventory	179,179	28,501
Accounts receivable	154,496	125,619
Other receivables	16,562	19,890
Total	**2,249,051**	**1,145,229**

The Bakkafrost Group has a group financing covering the Bakkafrost Group. In connection with this, P/f Bakkafrost has together with other Group companies pledged licenses, property, plant and equipment, share holdings, inventory and receivables as security for the Group's total debt to the banks. In addition, the Group companies have a guaranteed self-debtor in solidum for the balance without limitations for each other.
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. The management monitors these risks on an on-going 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 2011, a 0.5% increase in interest rates would reduce the Group's profitability by DKK 4.0 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 on-going 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.

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 17, where the terms are also 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 on-going assessment of financial conditions under which the business operates and its short- and medium-term outlook, including any adjustment in dividend pay-outs, buyback of own shares, capital reduction or issue of new shares.

NOTE 21. EARNINGS PER SHARE

DKK 1,000	**2011**	**2010**
Profit for the year to the shareholders of P/f Bakkafrost	325,388	259,711
Fair value adjustment of biomass (IAS 41)	45,882	-83,926
Tax on fair value adjustment	-8,259	15,107
Adjusted profit for the year to shareholders of P/f Bakkafrost	**363,011**	**190,892**
Ordinary shares as of 01.01*	48,858,065	46,250,000
Effect of own shares by merger	0	-918,384
Effect of share issue	0	2,608,065
Effect of sale of own shares	0	918,384
Ordinary shares as of 31.12	**48,858,065**	**48,858,065**
Time-weighted average number of shares outstanding through the year	**48,858,065**	**48,036,837**

* On 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	**2011**	**2010**
Basic (DKK)	6.66	5.41
Diluted (DKK)	6.66	5.41

Earnings per share before fair value adjustments of biomass	**2011**	**2010**
Basic (DKK)	7.43	3.97
Diluted (DKK)	7.43	3.97

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 2011 of approximately DKK 1.6 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	169,895
Trine Sæther Romuld	Member of the Board	0
Annika Frederiksberg	Member of the Board	14,000
Virgar Dahl	Member of the Board	7,000
Group Management		
J. Regin Jacobsen	Chief Executive Officer	4,491,217
Bergur Poulsen	Managing Director	339,791
Teitur Samuelsen	Chief Financial Officer	1,000
Other Managers		
Frederik Hansen	Manager – Sales	0
Jón Purkhús	Manager – Farming North	172,068
Oddvald Olsen	Manager – Farming West	0
Kári Jacobsen	Manager – VAP	1,000
Andrias Petersen	Manager – Harvest	0
Leif av Reyni	Manager – Fresh water	0
Anna Johansen	Group Quality Manager	0
Guðrun Olsen	Group HR Manager	0
Hartvig Joensen	Manager – fish meal fish oil	0
Odd Eliasen	Manager – fish feed	169,895

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. Related party transactions are at arm's length terms.

DKK 1,000	**2011**
Revenues – P/f TF Holding	5,472
Purchase – P/f TF Holding	18,626
Revenues – Salmar ASA	6,178
Accounts receivable Salmar ASA	4,585
Accounts receivable – P/f TF Holding	7

NOTE 24. PRO-FORMA FINANCIALS

The Bakkafrost Group and Havsbrún Group were separate entities. On 1 July 2011, Bakkafrost acquired all the share capital of the Havsbrún Group. Prior to that, Havsbrún was the largest shareholder in Bakkafrost. Consequently, the comparison figures for 2010 will not provide an adequate basis for comparison, as the Havsbrún Group is incorporated into the Profit & Loss Statement from 1 July 2011. Therefore, the following pro forma financial information, which presents the Profit & Loss statement as if the merger took place on 1 January 2011, 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	**Pro forma 2011**
Operating revenue	**1,471,918**
Purchase of goods	-577,344
Change in inventory and biological assets (at cost)	154,874
Salary and personnel expenses	-203,248
Other operating expenses	-386,518
Depreciation	-83,240
Operational EBIT	**376,442**
Fair value adjustments on biological assets	-57,169
Impairment of biological assets	-2,540
Onerous contracts	2,856
Income from associates	-2,021
Acquisition costs	-16,019
Badwill related to the acquisition of the Havsbrún Group	126,618
Earnings before interest and taxes (EBIT)	**428,167**
Financial income	2,098
Net interest expenses	-56,439
Net currency effects	-675
Other financial expenses	-1,930
Earnings before taxes (EBT)	**371,221**
Taxes	-66,820
Profit or loss for the period	**304,401**

P/F BAKKAFROST

ANNUAL AND FINANCIAL STATEMENT 2011

P/F BAKKAFROST PROFIT AND LOSS STATEMENT

DKK 1,000	**Note**	**2011**	**2010**
Operating revenue		**19,961**	**10,300**
Salary and personnel expenses	2	-10,875	-8,381
Other operation expenses		-7,118	-5,160
Depreciation	4	-2,496	-2,118
Listing costs		0	-12,790
Acquisition costs		-14,927	0
Earnings before interest and taxes (EBIT)		**-15,455**	**-18,149**
Dividend from subsidiaries	5	696,422	98,624
Income from other investments in shares	6	-45	94
Financial income	3	8,411	11,577
Net interest expenses	3	-17,570	-2,084
Other financial expenses		-1,563	-1,744
Earnings before taxes (EBT)		**670,200**	**88,317**
Taxes	9	4,693	1,797
Profit to shareholders of P/f Bakkafrost		**674,893**	**90,114**
Distribution of profit			
Dividend		48,858	191,035
Retained earnings		626,035	-100,921
Distribution in total		**674,893**	**90,114**

P/F BAKKAFROST STATEMENT OF FINANCIAL POSITION

DKK 1,000	Note	2011	2010
ASSETS			
Non-current assets			
Intangible assets		0	0
Total intangible assets		**0**	**0**
Property, plant and equipment			
Land, buildings and other real estate	4	50,819	51,128
Plant, machinery and other operating equipment	4	1,861	2,100
Total property plant and equipment		**52,680**	**53,228**
Non-current financial assets			
Investments in subsidiaries	5	1,217,949	249,065
Investments in stocks and shares	6	1,511	1,456
Other non-current receivables	7	0	253
Total non-current financial assets		**1,219,460**	**250,774**
TOTAL NON-CURRENT ASSETS		**1,272,140**	**304,002**
Receivable from Group companies		689,409	268,260
Accounts receivable		57	73
Other receivables		395	206
Total receivables		**689,861**	**268,539**
Cash and cash equivalents		78	69
TOTAL CURRENT ASSETS		**689,939**	**268,608**
TOTAL ASSETS		**1,962,079**	**572,611**

DKK 1,000	Note	2011	2010
EQUITY AND LIABILITIES			
Equity			
Share capital	8	48,858	48,858
Share premium fund		117,368	117,368
Retained earnings		787,937	161,902
Dividend		48,858	191,035
Total equity		**1,003,021**	**519,163**
Non-current liabilities			
Long-term interest bearing debt		725,336	0
Deferred taxes	9	5,258	5,225
Total non-current liabilities		**730,594**	**5,225**
Current liabilities			
Short-term interest bearing debt		100,000	34,993
Payables to Group companies		104,939	0
Accounts payable		1,163	1,069
Other short-term liabilities		22,362	12,161
Total current liabilities		**228,464**	**48,223**
Total liabilities		**959,058**	**53,447**
TOTAL EQUITY AND LIABILITIES		**1,962,079**	**572,611**

P/F BAKKAFROST CHANGES IN EQUITY

DKK 1,000	Share capital	Share premium account	Retained earnings	Proposed dividends	Total
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 share	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
January 2011	**48,858**	**117,368**	**161,902**	**191,035**	**519,163**
Paid-out dividends				-191,035	-191,035
Net annual profit			674,893		674,893
Proposed dividends			-48,858	48,858	0
31 December 2011	**48,858**	**117,368**	**787,937**	**48,858**	**1,003,021**

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	**2011**	**2010**
Wages and salaries	9,462	7,561
Social security taxes	358	238
Pension expenses	191	132
Other benefits	864	450
Total payroll expenses	**10,875**	**8,381**
Average number of full-time employees	14	14

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	**2011**	**2010**
Interests received from Group companies	8,250	11,450
Other financial income	161	127
Financial income	**8,411**	**11,577**
Interests paid to Group companies	-2,712	-335
Interest expenses on long- and short-term loans	-14,858	-1,749
Interest expenses on accounts payable	0	-1
Financial expenses	**-17,570**	**-2,085**

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

DKK 1,000	**Land and buildings**	**Other equipment**	**Total 2011**	**Total 2010**
Acquisition cost as of 01.01	57,509	2,363	59,872	47,959
Acquisitions during the year	1,735	212	1,947	11,913
Acquisition cost as of 31.12	**59,244**	**2,575**	**61,819**	**59,872**
Accumulated depreciation and write-down as of 01.01	-6,381	-262	-6,643	-4,525
Depreciations during the year	-2,045	-451	-2,496	-2,118
Accumulated depreciation and write-down as of 31.12	-8,426	-713	-9,139	-6,643
Net book value as of 31.12	**50,818**	**1,862**	**52,680**	**53,228**

Buildings in Glyvrar are located on rented land.

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

NOTE 5. SUBSIDIARIES AND ASSOCIATES

DKK 1,000	Subsidiaries 2011	Subsidiaries 2010	Associated 2011	Associated 2010
Acquisition cost as of 01.01	251,831	110,411	0	0
Disposals during the year	0	0	0	0
Addition in connection with merger	0	141,420	0	0
Additions during the year	968,884	0	0	0
Acquisition cost as of 31.12	**1,220,715**	**251,831**	**0**	**0**
Re-evaluations as of 01.01	-2,766	0	0	0
Re-evaluations during the year	0	0	0	0
Reversal during disposal	0	0	0	0
Excess of result payment of dividend	0	-2,766	0	0
Re-evaluations as of 31.12	**-2,766**	**-2,766**	**0**	**0**
Net book value as of 31.12	**1,217,949**	**249,065**	**0**	**0**

DKK 1,000 Company	Cost Method Yes/No	Head Office	Ownership	Voting share	Carrying amount in P/F Bakkafrost 2011	Carrying amount in P/F Bakkafrost 2010
P/f Bakkafrost Farming North*	Yes	Glyvrar	100%	100%	0	71,796
P/f Bakkafrost Processing	Yes	Glyvrar	100%	100%	60,518	30,518
P/f Bakkafrost Sales	Yes	Glyvrar	100%	100%	879	879
P/f Bakkafrost Packaging	Yes	Glyvrar	100%	100%	7,781	7,781
P/f Bakkafrost Harvesting	Yes	Glyvrar	100%	100%	6,059	6,059
P/f Bakkafrost Farming West	Yes	Glyvrar	100%	100%	203,828	132,031
P/f Dagsbrún	Yes	Glyvrar	100%	100%	399,909	0
L/f Sildaskip	Yes	Glyvrar	100%	100%	281,754	0
L/f Føroya Sildasøla	Yes	Glyvrar	100%	100%	227,221	0
P/f Viking Seafood	Yes	Glyvrar	100%	78%	30,000	0
Total subsidiaries					**1,217,949**	**249,065**

P/f Bakkafrost and subsidiaries, the Group, own a total of 78.66% 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 and is in investment in stocks and shares.

P/f Bakkafrost Farming North* and P/f Bakkafrost Farming West were merged 1 January 2011, with P/f Bakkafrost Farming West as the continuing company; at the same time, the Company changed name to P/f Bakkafrost Farming.

DKK 1,000	Dividend*	Excess dividend on result	Total 2011	2010
P/f Bakkafrost Farming North	219,199	-73,842	145,357	75,000
P/f Bakkafrost Processing	0	0	0	23,634
P/f Faroe Smolt **	0	0	0	-10
P/f Bakkafrost Sales	13,145	-5,169	7,976	0
P/f Bakkafrost Packaging	3,031	-2,242	789	0
P/f Bakkafrost Harvesting	7,684	-5,136	2,548	0
P/f Bakkafrost Farming West	120,632	-36,686	83,946	0
P/f Dagsbrún	129,516	0	129,516	0
L/f Sildaskip	90,128	0	90,128	0
L/f Føroya Sildasøla	113,087	0	113,087	0
Total revenue Group contribution	**696,422**	**-123,075**	**573,347**	**98,624**

* Dividends from subsidiaries paid out in 2011.
** P/f Faroe Smolt was merged with P/f Bakkafrost Packaging on 1 January 2010.

NOTE 6. INVESTMENTS IN STOCKS AND SHARES

DKK 1,000	**2011**	**2010**
Acquisition cost as of 01.01	83	10,083
Acquisitions during the year	100	0
Reclassification due to merger	0	-10,000
Disposals during the year	0	0
Acquisition cost as of 31.12	**183**	**83**
Re-evaluations as of 01.01	1,373	1,279
Re-evaluations during the year	-45	94
Re-evaluations as of 31.12	**1,328**	**1,373**
Net book value as of 31.12	**1,511**	**1,456**

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	**2011**	**2010**
Loan to municipality	0	253
Acquisition cost as of 31.12	**0**	**253**

NOTE 8. SHARE CAPITAL AND MAJOR SHAREHOLDERS

DKK 1,000	**2011**	**2010**
Share capital at 31 December 2010	48,858	2,992
Share issue related to IPO	0	2,608
Equity increase due to merger	0	972
Share split due to merger	0	42,286
Share capital at 31 December 2011	**48,858**	**48,858**

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

For shareholders holding more than 5% in the company as at 31 December 2011, see the note in Group Accounts.

NOTE 9. TAX

The tax expense for the year breaks down as follows:

DKK 1,000	**2011**	**2010**
Tax payable	0	0
Compensation due to Group taxation	4,725	1,548
Change in deferred tax	-32	249
Tax expense on ordinary profit	**4,693**	**1,797**

Tax in the statement of financial position		
DKK 1,000	**2011**	**2010**
Tax on sale of treasury shares	0	2,820
Deferred tax	5,258	5,225
Tax in the statement of financial position	**5,258**	**8,045**
Tax assets not recognised in the statement of financial position	**0**	**0**
Specifications of temporary differences		
Property, plant and equipment	29,209	29,028
Losses carried forward	0	0
Total temporary differences	**29,209**	**29,028**
Deferred tax liabilities (+) / assets (-)	**5,258**	**5,225**
Reconciliation form nominal to actual tax rate		
Profit before tax	670,200	88,317
Expected tax at nominal tax rate (18%)	-120,636	-15,897
Permanent differences, including Group contribution without tax effect (18%)	125,356	17,765
Other permanent differences (18%)	-27	-71
Calculated tax expense	**4,693**	**1,797**
Effective tax rate	0,70%	2,03%

NOTE 10. SECURITY PLEDGES AND CONTINGENT LIABILITIES

Carrying amount of debt secured by mortgages and pledges

DKK 1,000	**2011**	**2010**
Long-term debt to financial institutions	725,336	0
Short-term debt to financial institutions	100,000	34,993
Leasing debt	0	0
Total	**825,336**	**34,993**

Carrying amount of assets pledged as security for recognised debt		
Property, plant and equipment	52,680	53,228
Non-current financial assets	1,219,460	250,774
Receivables	689,861	268,539
Total	**1,962,001**	**572,541**

The Company participates in a Group financing for the Bakkafrost Group. In connection to this, the Company has together with other Group Companies pledged licenses, property, plant and equipment, share holdings, inventory and receivables as surety for the Group's total debt to the banks. In addition, the Group Companies have a guaranteed self-debtor in solidum for the balance without limitations for each other. As part of the guarantees are also any insurance refunds.

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