



# ANNUAL REPORT 2015

[www.bakkafrost.com](http://www.bakkafrost.com)

Faroese Company Registration No.: 1724

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# Chairman's Statement

Bakkafrost has in recent years grown into one of the largest companies in the Faroe Islands. Our aim to run Bakkafrost responsibly and sustainably is important to our entire stakeholders, i.e. employees, shareholders and society. Bakkafrost has a growth strategy of creating sustainable values and not just short-term gains. This strategy demands daily awareness of opportunities and threats to our operations from both the board, the management and the employees.



**RÚNI M. HANSEN**  
Chairman of the Board

# 810

million (DKK)

The result after tax for 2015



March 2015 marked the five years' milestone since Bakkafrøst was listed on Oslo Stock Exchange. Being listed on Oslo Stock Exchange gave Bakkafrøst equal access to capital in the capital market as its peers. The five years' period has been eventful and fruitful for Bakkafrøst. Year 2015 also marked the year when Bakkafrøst reached operational earnings over DKK 1 billion, which was hardly believable five years ago.

Bakkafrøst controls the value chain from the sourcing of raw material for fishmeal and oil to finished value added salmon products. This contributes significant values to Bakkafrøst, and we aim at increasing this value. In our pursuit to farm the healthiest salmon in the world and continue to sell premium quality salmon, Bakkafrøst chose in 2015 to feed our salmon with feed containing purified fish oil. These measures are not necessary, but we at Bakkafrøst strive to give our customers a part of our value.

Having concluded the third investment year of the ambitious five-year investment plan from 2013, some of the major investments start to materialise. The new live fish carrier M/S Hans á Bakka was delivered in July 2015 and has been operating the last few months of 2015 with very promising results. Bakkafrøst has lifted its live fish carrier operation significantly with the investment of M/S Hans á Bakka. Bakkafrøst will continue to focus on the operational performance in order to maintain Bakkafrøst's position as a cost conscious salmon farmer. The next step in this process will be when the combined harvest/VAP factory at Glyvrrar will

commence production in 2016, and our processing operations will reach another level.

In December 2015, the Faroese tax regulations on the salmon farming industry were changed yet again, less than two years after the last bill on taxes in the salmon farming industry was passed in the summer of 2014. If Bakkafrøst shall maintain its competitive advantages compared to its international peers, it is of utmost importance that the legal framework, which the salmon farming industry is governed by, is stable and at least on the same level as in other salmon farming regions. If the legal framework is competitive and stable, and the industry is well run, Bakkafrøst can continue to create value to its shareholders, employees and the Faroese community.

The result after tax for 2015 was DKK 810.2 million, and earnings per share were DKK 16.69. The result is due to a strong salmon market, a good biological situation in the Faroe Islands and a diligent job carried out by our dedicated employees.

Bakkafrøst's dividend policy is unchanged, and the Board of Directors will propose a dividend of DKK 8.25 per share, which corresponds to DKK 403 million, to the Annual General Meeting.

All in all the Board of Directors is satisfied with the Group's financial result this year and takes the opportunity to thank our employees for their great efforts in 2015.

# Statement by the Management and the Board of Directors

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## THE BAKKAFROST GROUP HAD A STRONG RESULT IN 2015

Building on the results previous years, Bakkafrost delivered yet another record financial result for 2015. Good market conditions combined with good biological situation were the main drivers behind the strong performance in 2015. Second year in a row all of Bakkafrost's three business segments, Farming, Value Added Production (VAP) and Fishmeal, Oil and Feed (FOF) had positive margins.

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**403** million (DKK)

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Proposed dividend for 2016





The farming segment harvested record high volumes in 2015 and realised high salmon spot prices for the harvested volumes. The good performance in the Farming segment is also due to the good biological situation.

The VAP segment was challenged by the high salmon spot price in 2015, as the VAP segment buys the raw material at spot prices. The VAP segment volumes decreased in 2015, compared to 2014, but the VAP segment realised record high contract prices per kilo in 2015.

The FOF segment had record high raw material intake in 2015, since being part of the Bakkafrøst Group. This resulted in increased production of fishmeal and fish oil. The fish feed volumes decreased as lower volumes of feed were sold to external customers, while the amount of fish feed

used internally was stable. The FOF segment achieved high margins in 2015.

The average NOS salmon price was NOK 42.09 per kilo in 2015, compared to NOK 40.30 per kilo in 2014, corresponding to an increase of 4%. Taking the NOK/EUR currency situation into account, there was no price increase in 2015. The average NOS salmon price in EUR was EUR 4.70 per kilo in 2015, compared with EUR 4.82 per kilo in 2014, a decrease of 2%.

Bakkafrøst's harvested volumes of salmon increased from 44,013 tonnes gutted weight in 2014 to 50,565 tonnes gutted weight in 2015. The increase was mainly due to increased smolt release the last years in addition to sites available for harvesting.

The volumes produced as VAP products decreased from 21,196 tonnes gutted weight in 2014 to 18,196 tonnes gutted weight in 2015, a decrease of 14%.

The VAP contract prices were high in 2015 and resulting in high margins per kilo, although the salmon spot price was high.

Bakkafrost's production of fishmeal and oil depends on available raw material, which is fishery of pelagic fish in the North Atlantic. Since Havsbrún became part of the Bakkafrost Group in 2011, the raw material sourcing has been highest in 2015. The good raw material situation has improved the production of fishmeal and oil in 2015 even further. Havsbrún received 235,014 tonnes in 2015, compared to 193,231 tonnes in 2014. The sales of fish feed came to 78,865 tonnes in 2015, which is a decrease of 8% from 2014, when it was 85,724 tonnes. The decrease is because external sales of fish feed in 2015 were only half of the volumes sold externally in 2014.

The biological situation is monitored continually and has been stable and good in 2015. The low mortality and feed conversion rate has, together with good growth rate, been a significant factor in the good result in 2015. Sea lice have over the past years demanded more effort. Cost related to sea lice treatment decreased in 2015. As part of Bakkafrost's investment plan, the new live fish carrier M/S Hans á Bakka was delivered to Bakkafrost in 2015. M/S Hans á

Bakka will increase transport capacity and at the same time reduce biological risks. The capacity is 450 tonnes of live fish, and the ship is equipped with state of the art technology, included equipment to freshwater treatment, which is effective in sea lice treatment.

Feed costs, which account for 50-60% of the costs in a kilo of salmon, have increased in recent years. The feed costs increased in the first half of 2015, but fell again in second half of 2015.

Bakkafrost secured the refinancing of its bank loan in 2015. The new financing agreement both extends and restructures Bakkafrost's credit facilities. The new bank loan is a multicurrency revolving credit facility for a period of five years and totalling DKK 850 million. In addition to the DKK 850 million credit facility, the new financing agreement has an accordion increase option of maximum DKK 750 million.

The Bakkafrost Group had a net interest bearing debt at the end of 2015 amounting to DKK 391.5 million (DKK 232.7 million at year-end 2014) and had available funds of approx. DKK 889.6 million, of which DKK 38.3 million were restricted.

The Bakkafrost Group made a profit for 2015 of DKK 810.2 million (DKK 647.1 million). Bakkafrost's equity ratio at the end of 2015 is 66%, compared to 60% at the end of 2014. Bakkafrost paid out DKK 293.1 million in dividends in the second quarter of 2015, corresponding to DKK 6 per share.

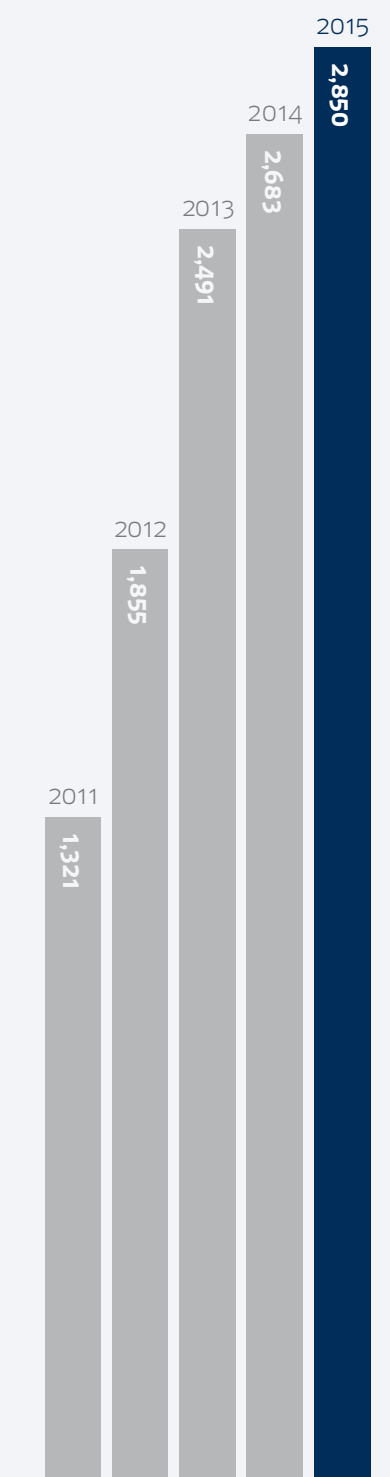




# Key Figures

OPERATING REVENUES  
MILL. DKK

FIG.  
1



## KEY FIGURES

	2015	2014	2013	2012	2011
<b>Income statement</b>					
Operating revenues	2,850,363	2,683,319	2,491,081	1,855,544	1,321,092
Operational EBIT*	1,000,583	833,775	587,010	323,040	335,146
Operational EBITDA*	1,108,681	930,944	673,669	403,284	402,471
Earnings before interest and taxes (EBIT)	928,758	892,291	701,320	343,520	400,698
Earnings before taxes (EBT)	924,471	899,191	727,351	323,681	370,196
<b>Net earnings</b>	<b>810,175</b>	<b>647,105</b>	<b>589,218</b>	<b>267,875</b>	<b>323,417</b>
Earnings per share before fair value adjustment of biomass and provision for onerous contracts (DKK)	17.99	12.33	10.55	5.01	7.43
Earnings per share after fair value adjustment of biomass and provision for onerous contracts (DKK)	16.69	13.34	12.07	5.76	6.66
<b>Statement of financial position</b>					
Total non-current assets	1,957,061	1,462,633	1,328,179	1,197,655	1,234,333
Total current assets	1,963,325	2,000,300	1,784,047	1,373,256	1,067,441
<b>TOTAL ASSETS</b>	<b>3,920,386</b>	<b>3,462,933</b>	<b>3,112,226</b>	<b>2,570,911</b>	<b>2,301,774</b>
Total equity	2,580,482	2,063,653	1,665,277	1,262,912	1,061,011
Total liabilities	1,339,904	1,399,280	1,446,949	1,307,999	1,240,763
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,920,386</b>	<b>3,462,933</b>	<b>3,112,226</b>	<b>2,570,911</b>	<b>2,301,774</b>
Net interest bearing debt**	391,743	232,711	603,074	806,903	816,825
Equity share	66%	60%	54%	49%	46%

\* Aligned for fair value adjustments of biomass, onerous contracts provision, income from associates and other non-operating related adjustments.

\*\* Derivatives related to long-term interest bearing debt amounting to DKK 129,076 are not included.

# Bakkafrost's History

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

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Live fish carrier M/S Hans á Bakka



**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 Glyvrrar. 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 began. 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 began. The 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 Glyvrrar 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 Glyvrrar. The investment was limited, and the capacity was low. The company received a licence to produce smolt/fry in Glyvrrar/Glyvrradalur.

**1999–2001**

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



Glyvrrar approx. 1983





The new Harvest/VAP facility at Glyvrrar

## 2006

The Group grew through acquisitions and mergers and increased its farming capacity by 15,000 t<sub>gw</sub>, to a total capacity of 18,000 t<sub>gw</sub> of salmon. The Group gained access to six new fish farming fjords and two hatcheries for production of smolt and fry. The Group made large investments to increase the VAP factory in Glyvrrar to manage the increased volumes, and the factory reached a capacity of 55 t<sub>gw</sub> per day.

## 2008

The shareholders of Bakka Frost 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 Bakka Frost shares. The Vestlax Group had a capacity of 11,000 t<sub>gw</sub> 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

Bakka Frost and Vestlax merged. The combined company is the largest farming company in the Faroe Islands with around 55% of the farmed salmon from the Faroe Islands. The fully integrated company, ranging from smolt production to farming to finished VAP products, harvested 21,626 t<sub>gw</sub> 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 fishmeal, fish oil and fish feed situated in the Faroe Islands. The majority of the produced fishmeal and oil is used for its own fish feed production, and the rest 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.

## 2012

The Havsbrún Group, acquired in 2011, was integrated into the Bakkafrost Group, and business synergies, created by this acquisition, were realised. The integration process included the reorganisation of the Group structure, and in order to comply with the Faroese farming law, 51% of the farming company Faroe Farming were sold. With effect from 1 January 2013, a sales company, Bakkafrost plc in UK, was acquired in late 2012.

## 2013

Bakkafrost announced its 5-year investment plan to make the onshore operation more efficient, to increase organic growth and to reduce the biological risk. Part of the plan is also building a new live fish carrier, "Hans á Bakka". To reduce biological risk, Bakkafrost exchanged the farming site in Vestmanna with the site in Gøtuvík, previously operated by P/F Luna.

## 2014

The first part of the investment plan was finalised, as the new packaging plant was built in Glyvvar and came into production. A new hatchery, making Bakkafrost self-supplied with smolts, was built in Norðtoftir and commenced production. The building of the new Harvest/VAP facility in Glyvvar started, and the construction of the new live fish carrier in Yalova, Istanbul, progressed. The ship will be delivered in June 2015.

## 2015

Bakkafrost started feeding its salmon with feed produced from fish oil, which is cleaned for environmental pollutants. Bakkafrost achieved ASC certification for the salmon farming site in Gøtuvík - the first farming site in the Faroe Islands to be ASC certified. In July, Bakkafrost's new live fish carrier M/S Hans á Bakka was delivered.



P/F Havsbrún produces fishmeal, fish oil and fish feed at Fuglafjørður

# Group Structure

The figure below shows the structure of the Bakkafrost Group with activities separated into different entities based on activities. The Group produced 50,565 tonnes of gutted salmon in 2015 (2014: 44,013 tgr) and 78,865 tonnes of fish feed (2014: 85,724 tonnes).

FIG.  
2

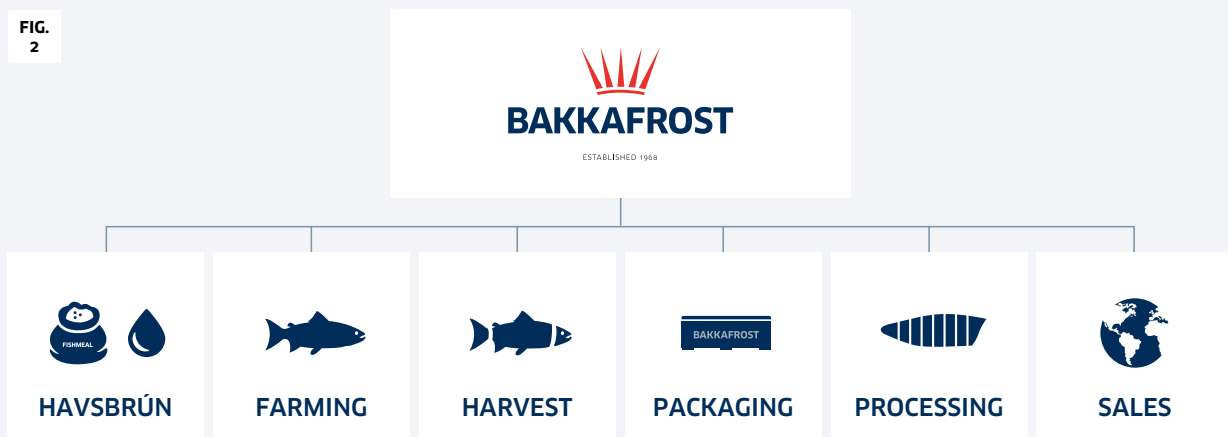


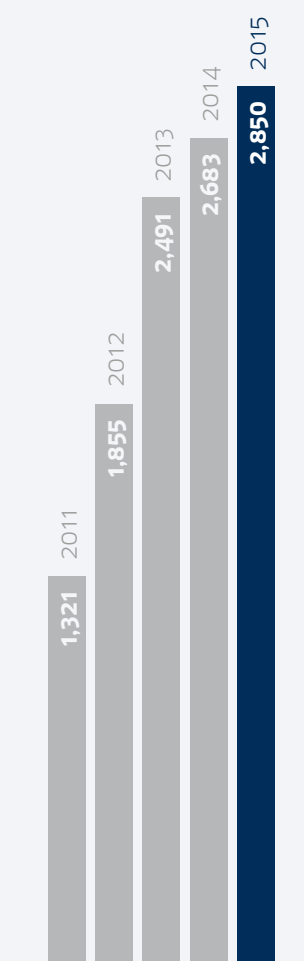




FIG.  
3

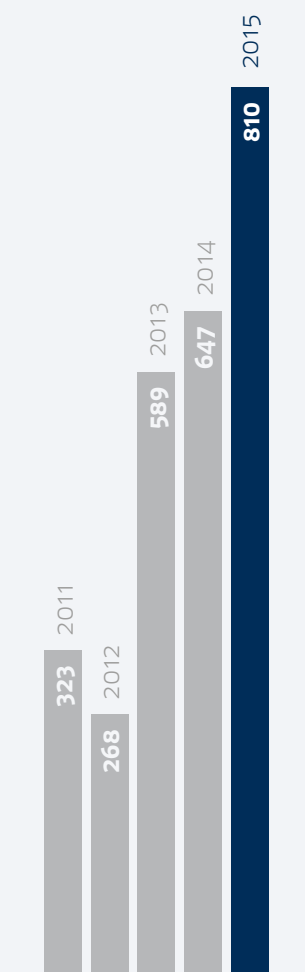
### OPERATING REVENUES

MILL. DKK

FIG.  
4

### NET EARNINGS

MILL. DKK

FIG.  
5

### FISH FEED PRODUCTION VOLUME

TONNES

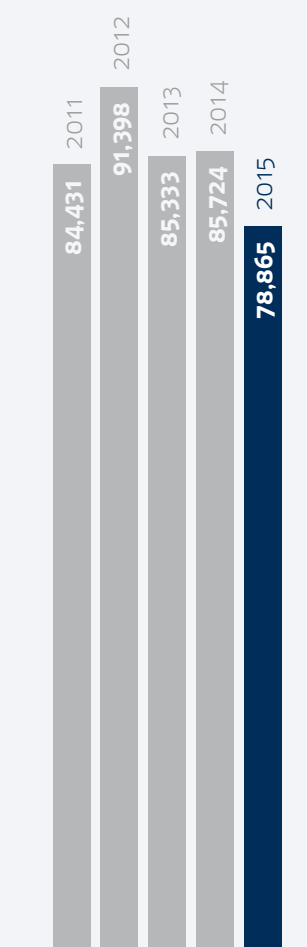
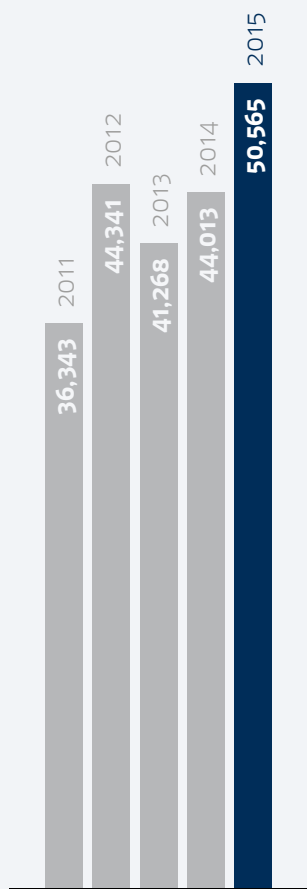
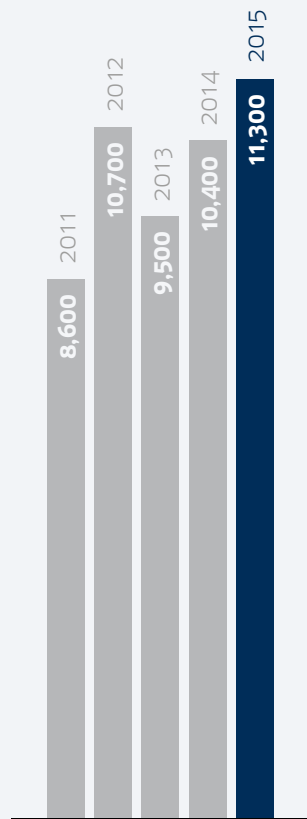




FIG.  
6**HARVEST VOLUME**  
TONNES GWFIG.  
7**SMOLT RELEASE**  
THOUSAND SMOLTS

# Operation Sites

Bakkafrost is the largest salmon farmer in the Faroe Islands. The Group is fully integrated, from production of fishmeal, fish oil and fish feed to production of smolt, farming, value added products and sales. Bakkafrost operates 19 farming sites, and the company has 725 full-time employees.

## HATCHERIES

### Bakkafrost Farming

Norðtoftir S-03  
Húsar S-04  
Gjógv S-08  
Svínoy S-10  
Glyvradalur S-16  
Viðareiði S-21

## FARMING

### Bakkafrost Farming

Svínáir A-03\*  
Lambavík A-04  
Undir Síðu A-05  
Gulín A-06  
Hvannasund Suður A-11  
Kunoyarnes A-12  
Borðoyarvík A-13  
Hvannasund Suður A-21  
Gøtuvík A-25 and A-47\*  
Fuglafjørður A-57

Árnafjørður A-63  
Funningsfjørður A-71  
Haraldssund A-72  
Hvannasund Norður A-73  
Selatrað A-80\*  
Kolbeinagjógv A-81  
Kaldbaksfjørður A-82  
Undir Nesi A-85\*

## LIVE FISH CARRIERS

Grønalíð  
Stígabrúgv  
Vesthav  
Víkingur  
Hans á Bakka

## HARVESTING

### Bakkafrost Harvest

Klaksvík FO-103  
Strendur FO-114  
Kollafjørður FO-147

## PROCESSING (VAP)

### Bakkafrost Processing

Glyvrar FO-125  
Fuglafjørður FO-139

## HEADQUARTER & SALES

### Bakkafrost and Bakkafrost Sales

Glyvrar

## PACKAGING

### Bakkafrost Packaging

Glyvrar

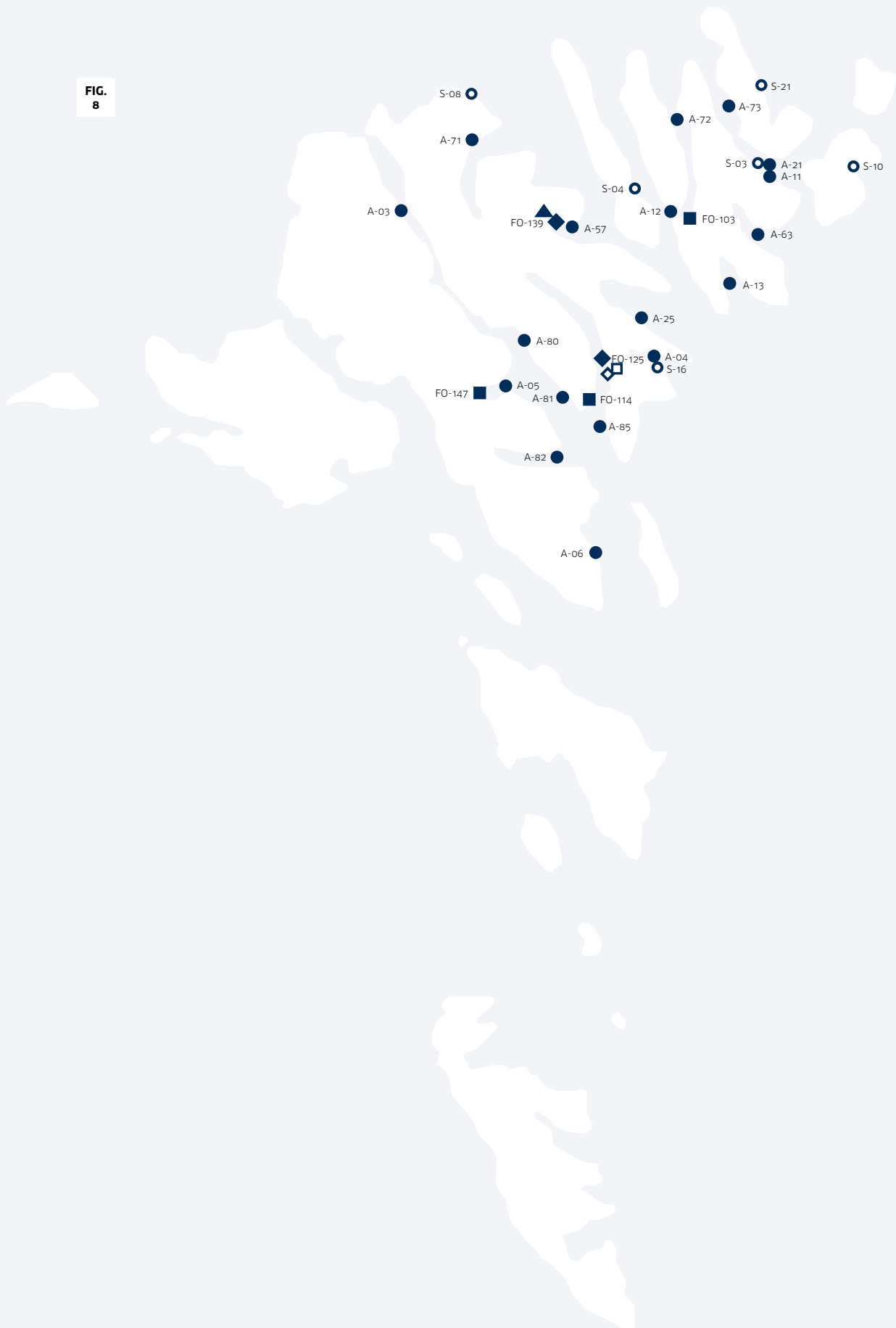
## FISHMEAL, FISH OIL & FISH FEED

### Havsbrún

Fuglafjørður

\*Not in use at the moment

FIG.  
8



# Main Events



## JANUARY

Bakkafrost signs contracts to expand hatchery at Viðareiði.



## MARCH

Bakkafrost's salmon farming site at Gøtuvík is ASC certified – the first farming site to be ASC certified in the Faroe Islands.

January

February

March

April

May

June

## FEBRUARY

Bakkafrost starts using feed produced from fish oil, which is cleaned for environmental pollutants.



## APRIL

AGM decides to pay a dividend of DKK 6.00 per share.





## JULY

Bakkafrost's new live fish carrier M/S Hans á Bakka – named after one of the company's founders – arrives at Glyvrrar, Faroe Islands.



## DECEMBER

Bakkafrost secures refinancing agreement of its bank loan, which extends and restructures its credit facility.

July

August

September

October

November

December

## SEPTEMBER

Bakkafrost is awarded Faroese Company of the Year 2015.

Bakkafrost receives the Norwegian Stockman price (Stockman-prisen) for 2015 for small and medium sized companies.





# Operational Review

The Group's operations continued to perform well in 2015. The biological situation in the Faroe Islands regarding salmon farming is still good, and the high capacity utilization in all parts of the value chain contributed to the good financial result. The farming segment harvested 50,565 t<sub>gw</sub>, compared to 44,013 t<sub>gw</sub> in 2014.

The volumes produced as value added products decreased in 2015, compared to the year before. The VAP factories in Glyvrar and Fuglafjørður produced 18,196 tonnes in 2015, compared to 21,196 tonnes in 2014.

The production of fishmeal and fish oil was higher in 2015, compared to 2014. The sourcing of raw material is the driver behind the production intensity and the availability of raw material was good in 2015. The intake of raw material is among other things dependent on the quotas for pelagic fishery in the North Atlantic. Bakkafrøst received 235,014 tonnes of raw material. Bakkafrøst sold 78,865 tonnes of feed, of which 89% were used internally.

## Cost conscious producer

In terms of production costs, our farming operation has delivered strong results following the implementation of the veterinary regime in the Faroe Islands – a set of laws implemented since 2003, stating quite strictly, how salmon farmers must operate. The Faroese veterinary system has improved fish health and reduced costs. Thus, Bakkafrøst's EBIT per kg has improved and is among the highest, compared to peers.

## Veterinary model

The objective of the veterinary model is to increase biological and veterinary security and to 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 2005–2014 generations 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 those of Norwegian peers. These factors, together with our dedicated staff, are the basis for the satisfying result for 2015.

## Geographical location

Bakkafrøst'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.

# 50,565 t<sub>gw</sub>

Harvested in 2015

### Investments to reduce biological risk

To reduce biological risk is one of the three main goals in Bakkafróst's five-year investment plan from 2013.

The investment in Bakkafróst's new live fish carrier M/S Hans á Bakka was concluded in the summer of 2015. Hans á Bakka is equipped with state of the art technology to meet future challenges and carries 450 tonnes of live salmon. This investment improves efficiency; increases transport capacity reducing biological risks. After delivery of the ship, M/S Hans á Bakka has had effective operations in treatment of sea lice.

Bakkafróst was self-supplied with smolts in 2014, when the expansion on the hatchery in Norðtoftir was finished. Early 2015, another expansion started on the hatchery in Viðar-eiði, which will fourfold the capacity of the hatchery. The smolt production in this new facility will commence in 2016. The objective of investments in the hatchery is to

produce larger smolt, which will have a positive effect on both biological risk and the future growth potential.

### VAP

Bakkafróst has long-term experience in producing and selling value added products (VAP). In 2015, the total VAP production represented 36% of the harvested volumes, compared to 45% in 2014. The decrease in percentage is due to both a decreased VAP production and higher harvested volumes. Bakkafróst's long-term strategy is that VAP shall represent 40-50% of the Group's harvested volumes.

The sales of VAP products usually stabilises the Group's earnings, as the sales are based on fixed-price contracts. The contract prices are not as volatile as the spot market prices 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. In 2015, Bakkafrøst had a significant profit on the sales of VAP products, even though the volume decreased and the salmon spot prices were high. The contract prices were on a record high level.

The investment in the new combined harvest/VAP factory proceeded according to plan in 2015. The factory will increase the production capacity and give flexibility to expand the portfolio of VAP products. The factory will commence production in 2016.

### Strong customer base

By focusing on meeting existing customers' demands, Bakkafrøst 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 Bakkafrøst and its customers through product development and marketing. Thus, Bakkafrøst has customers; it has been trading with for more than 15 years.

### ASC Certification

Bakkafrøst announced in 2014 the goal to get the first farming site ASC certified in 2015. The ASC standard was developed in cooperation with WWF and is seen as the most stringent standard in the aquaculture industry with requirements regarding fish welfare, lice, smolt production, feed production and the environment. Bakkafrøst's farming site, Gøtuvik, got ASC certified in 2015 as the first Faroese farming site to get an ASC certification. Bakkafrøst is working on getting more farming sites ASC certified.

### Well placed to access the US, China and Russia

Bakkafrøst and the Faroese salmon producers are in a favourable competitive position in the US market. Therefore, Bakkafrøst has established an experienced sales force with long-term relations with customers in the US. The company has 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 in the Faroe Islands by Bakkafrost. The result of this is that the US market has become a significant market for Bakkafrost, from almost nothing in 2008. The sales to the US market accounted for 26% of Bakkafrost's total sales of fresh whole salmon in 2015, compared to 31% in 2014. The US market performed relatively well in 2015, considering that the sales of fresh whole salmon to the Russian market increased considerably.

Since 2011, the export of large fresh salmon to China has increased significantly. The logistics from the Faroe Islands to China are also efficient. In 2015, the sales to China decreased some, due to better prices on other markets, and accounted for 19%, compared to 21% of total sales of fresh whole salmon in 2014.

The sales to Russia increased significantly following the import ban of Norwegian salmon to Russia in Q3 2014. The ban resulted in a favourable market position and access for Faroese salmon on the Russian market throughout 2015, but it is uncertain how long this position will last. Of the total sales of fresh whole salmon, the Russian market accounted for 42% in 2015, compared to 31% in 2014.

#### **Production of fishmeal, fish oil and fish feed**

Havsbrún received record high quantities of raw materials in 2015, since Havsbrún became part of the Bakkafrost Group in 2011, but still the raw material situation is expected to be volatile in the future. Quotas for fishing of blue whiting, however, have increased over the last years. This

should improve Havsbrún's possibilities of sourcing raw material to its own production of fishmeal and oil. Furthermore, processing plants for pelagic species have been built in the Faroe Islands in recent years, increasing access to off-cuts from this production.

The fish oil market has been volatile for the last years. The price continued from 2014 to increase in the beginning of 2015 and fell somewhat during the year, but increased again towards the end of the year. 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 scarce resource in the future, but decreasing content of fish oil in the salmon feed, led by the major producers, will reduce some of the demand. Bakkafrost's strategy is to have a high content of fish oil in the feed, resulting in a salmon with a high content of omega 3.

Even though all tests show that the levels of pollutants in the Bakkafrost salmon are well within the safety limits imposed by e.g. the European Union, Bakkafrost has decided from early 2015 to clean the fish oil used for Bakkafrost's salmon feed for PCB and other pollution. The first salmon, which is just fed with feed containing cleaned oil, is expected to enter the market in the first half of 2016.

The sales of feed decreased in 2015, compared to 2014, due to lower sales of feed to external customers in 2015. The total sales of feed in 2015 was 78,865 tonnes, compared to 85,724 tonnes in 2014. In 2015, Bakkafrost sold externally 11% of the total production and used 89% internally.

# Financial Review

The supply of salmon to the world market increased by around 4% in 2015 (2014: 9%). The average salmon price in 2015 was DKK 35.67, compared to DKK 35.99 in 2014, corresponding to a decrease of less than 1%.

The prices for value added products (VAP) have since the end of 2014 been good and have been important to the good result for the VAP segment in 2015. Important for the result are also the raw material prices, as the VAP segment purchases its raw material on the salmon spot market every week. The raw material prices in DKK have been fairly stable in 2015. The value added products are typically sold on fixed price contracts with duration of 6-12 months, where the prices for VAP products follow the trend on the spot market with a time lag.

The feed prices were on a record high price level in the beginning of 2015, but decreased during the year. The feed prices were significantly higher in 2015, compared to 2014. The reason for the fluctuations in the feed price is the market situation for fish oil and fishmeal, which are the main ingredients in Bakkafrøst/Havsbrún's salmon feed. The fluctuations in the feed prices will be reflected in the production costs for salmon.

## INCOME STATEMENT

The Bakkafrøst Group generated gross operating revenues of DKK 2,850.4 million in 2015, compared to DKK 2,683.3 million in 2014. The increase in the revenue is mainly due to higher harvested volumes of salmon. The volumes sold as value added products were lower in 2015, compared to 2014, and therefore the dropping effect on the revenue in 2015. The feed and fish oil sold externally in 2015 decreased from 2014, but fishmeal sold externally increased in the same period.

The operations harvested a total of 50,565 tonnes gutted weight, compared to 44,013 tonnes in 2014. Operational EBIT was DKK 1,000.6 million, compared to DKK 833.8 million in 2014. A negative fair value adjustment of the Group's biological assets has been recognised in 2015 amounting to DKK -27.6 million, compared to a negative adjustment of DKK -11.5 million in 2014.

# 16.69 (DKK)

Earnings per share in 2015



In 2015, Bakkafrost has made provisions for onerous contracts of DKK -51.0 million, compared to a reversal for onerous contracts amounting DKK 70.9 million in 2014. The provisions are made, as Bakkafrost has long term contracts to deliver value added products at a fixed price in the future. The reason for this is a combination of lower contract prices for VAP prices and high raw material costs at the end of 2015.

In 2015, the Group's associated companies made a net result to Bakkafrost of DKK 6.8 million, compared to DKK -0.8 million in 2014. The profit is due to a positive result in Faroe Farming.

Financial income in 2015 amounted to DKK 3.6 million, compared to DKK 4.6 million in 2014. Net interest expenses

amounted to DKK 24.6 million, compared to DKK 32.4 million in 2014. Net currency effects amounted to DKK 23.4 million, compared to DKK 40.5 million in 2014. The amount is mainly due to currency gains on the bond loan of NOK 500 million.

Net taxes amounted to DKK -114.3 million, compared to DKK -252.1 million in 2014. As the Faroese Parliament changed the taxes on salmon farming companies in December 2015, the deferred taxes have decreased by DKK 79.8 million and thus had a positive effect on net taxes.

The consolidated net profit totalled DKK 810.2 million in 2015, compared to DKK 647.1 million in 2014. Earnings per share totalled DKK 16.69 in 2015, compared to DKK 13.34 in 2014.



## FARMING SEGMENT

### Share of Group Operational EBIT 76.5%

Farming produces high quality Atlantic Salmon from juveniles to harvest size. Farming sells salmon to fresh fish markets globally and to the internal VAP production. Farming's salmon farm sites are located in the central and northern part of the Faroe Islands.

#### 1,000 DKK

	2015	2014	Increase
Total revenue	2,273,595	2,099,471	8%
Operational EBIT	841,243	693,971	21%
Farming - Operational EBIT/kg (DKK)	16.64	15.77	6%
Harvested volume (tgv)	50,565	44,013	15%

#### Volumes

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.

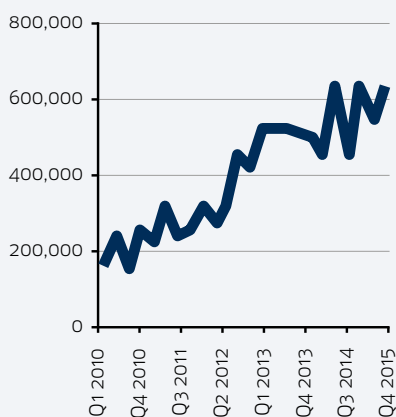
The Group's farming segment harvested 50,565 tonnes gutted weight in 2015, compared to 44,014 tonnes gutted weight in 2014. Faroe Farming, in which Bakkafrøst holds 49%, harvested 4,681 tonnes gutted weight in 2015, compared to 4,957 tonnes gutted weight in 2014.

The Group transferred 11.3 million smolts to the sea in 2015, compared to 10.4 million smolts in 2014.

#### Financial performance

The market was good for the farming segment in 2015, as the increase in global supply of Atlantic salmon was only 4% in 2015, and therefore the spot price on salmon was not under pressure. The good financial performance in the farming segment is also due to good and stable farming operations and no material biological issues in 2015.

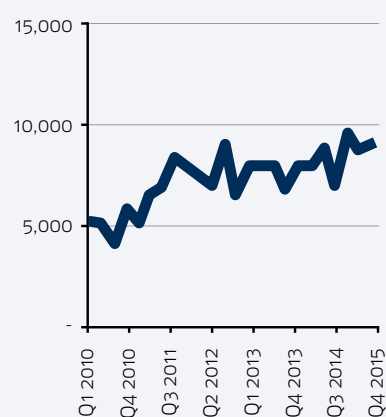
**FIG. 9** TOTAL REVENUE per quarter



**FIG. 10** OPERATIONAL EBIT/KG (DKK) per quarter



**FIG. 11** HARVESTED VOLUME (tgv) per quarter



Total operating revenues for Bakkafrøst's farming segment in 2015 amounted to DKK 2,273.6 million, compared to DKK 2,099.5 million in 2014, an increase of 8%. Gross external operating revenues for Bakkafrøst's farming segment increased to DKK 1,763.5 million in 2015, up from DKK 1,412.5 million in 2014. The increase is due to higher volumes sold to the fresh fish market, while the internal revenue decreased to DKK 510.0 million in 2015, down from DKK 687.0 million in 2014. The volumes sold to the VAP segment were lower in 2015, than in 2014.

In 2015, operational EBIT totalled DKK 841.2 million, compared to DKK 694.0 million in 2014. This corresponds to an operating EBIT of DKK 16.64 per kg gutted weight, compared to DKK 15.77 per kg gutted weight in 2014.



## VAP SEGMENT

### Share of Group Operational EBIT 7.8%

The VAP (value added products) segment produces skinless and boneless portions of salmon. The main market for the VAP products is Europe, but the VAP has increasing sales in other markets. The VAP products are sold on long-term contracts

#### 1,000 DKK

	2015	2014	Increase
Total revenue	736,657	913,404	-19%
Operational EBIT	86,051	69,914	23%
VAP - Operational EBIT/kg (DKK)	4.73	3.30	43%
VAP produced volume (tgw)	18,196	21,196	-14%

#### Volumes

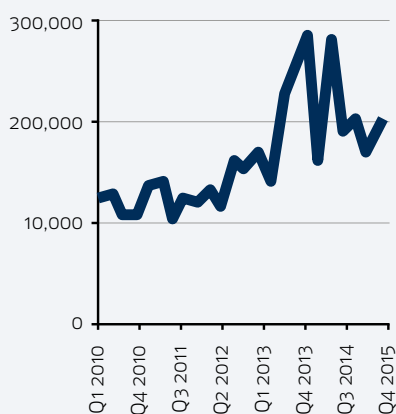
Bakkafrost has a long-term strategy of producing 40-50% of its harvested salmon as value added products. The output is predominantly portions for the retail market in Europe, but for the last two years, sales to the US commenced. The strategy with the value added products is, in addition to increasing 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. As 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 increase during a period.

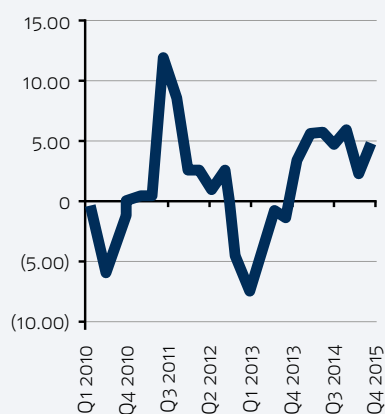
For 2015, 33% of the total harvested volumes went to production of VAP products, compared to 45% in 2014.

The VAP production in 2015 was 18,196 tonnes gutted weight, compared to 21,196 tonnes gutted weight in 2014.

**FIG. 12** TOTAL REVENUE per quarter



**FIG. 13** OPERATIONAL EBIT/KG (DKK) per quarter



**FIG. 14** VAP VOLUME (tgw) per quarter



**Financial performance**

The contract prices in 2015 continued from late 2014 on a satisfying level for the VAP segment, so although the volumes in the VAP segment decreased in 2015, compared to 2014, the revenue was on a satisfying level. The VAP segment's operating revenue amounted to DKK 736.7 million in 2015, compared to DKK 913.4 million in 2014.

Operational EBIT in 2015, which is EBIT adjusted for provision for onerous contracts etc., totalled DKK 86.1 million, compared to DKK 69.9 million in 2014. This corresponds to an operating EBIT of DKK 4.73 per kg gutted weight, compared to DKK 3.30 per kg gutted weight in 2014.

At the end of 2015, the market conditions changed for the VAP segment. The VAP segment had some contracts, which were onerous, and therefore provision amounting to DKK 51.0 million was made. The reason for this is mainly due to the contracts prices being on a too low level, compared to the raw material prices seen at the end of 2015.





## FOF SEGMENT

### Share of Group Operational EBIT 15.7%

The FOF (fishmeal, -oil and feed) segment produces fishmeal, fish oil and fish feed. The majority of the production is used for fish feed, which is used internally in the farming segment. The quality of the fish feed is important to the quality of Bakkafróst's salmon. Fishmeal, fish oil and fish feed is also sold externally.

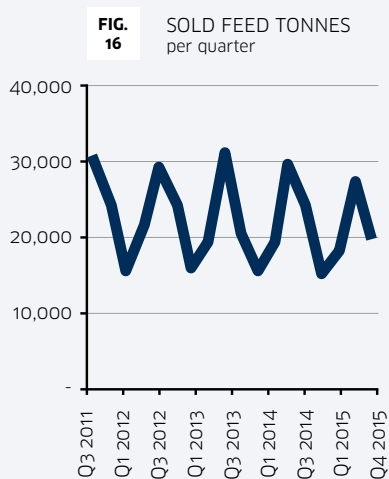
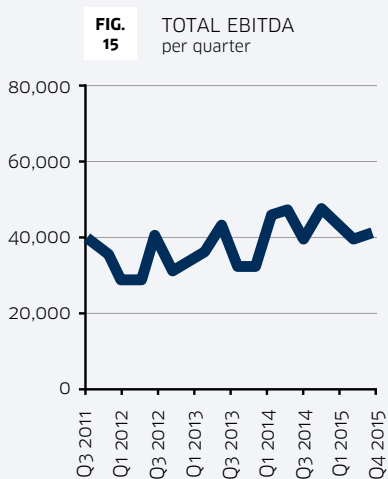
1,000 DKK	2015	2014	Increase
Total revenue	1,048,052	970,730	8%
EBITDA	202,052	181,550	11%
FOF - EBITDA margin	19.3%	18.7%	3%
Sold feed tonnes	78,865	85,724	-8%

### Volumes

Havsbrún, which represents the FOF segment, has over the last three years had an improving raw material situation for the fishmeal and fish oil production. The produced fishmeal and oil was partly used internally for the feed production and partly exported. In 2015, Havsbrún sourced 235,014 tonnes of raw material, compared to 193,231 tonnes in 2014. The raw material intake depends on the fishery in the North Atlantic and available species of fish.

The production of fishmeal in 2015 was 49,343 tonnes, compared to 40,827 tonnes in 2014. The production of fish oil in 2015 was 7,854 tonnes, compared to 6,460 tonnes in 2014. The production of fish oil varies, depending on the species of fish for production and the timing of catch.

Havsbrún sold 78,865 tonnes of feed in 2015, compared to 85,724 tonnes in 2014. Bakkafróst used 70,074 tonnes of the sold feed in 2015 internally, corresponding to 89%. The internal use in 2014 was 80%.



### Financial performance

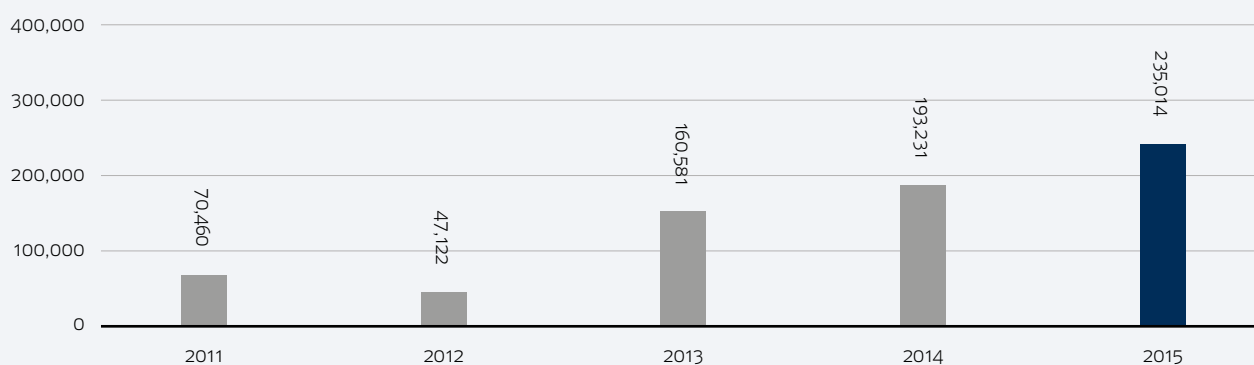
The external operating revenue for the FOF segment amounted to DKK 350.2 million in 2015, compared to DKK 357.4 million in 2014. The decrease in the external revenue from 2015 to 2014 is mainly due to lower external sale of fish feed and fish oil, while external sale of fishmeal was higher in 2015, than in 2014.

The internal revenue in 2015 amounted to DKK 697.8 million, compared to DKK 613.3 million in 2014. The internal revenue comprises the sales of feed to Bakkafrost's farming activities.

EBITDA was DKK 202.1 million in 2015, compared to DKK 181.6 million in 2014, and the EBITDA margin was 19.3% in 2015, compared to 18.7% in 2014. The reason for the increase in the margin is primarily due to higher production of fishmeal and fish oil.

FIG.  
18

SOURCING OF RAW MATERIAL: TONNES



## STATEMENT OF FINANCIAL POSITION

The Group's total assets as at end 2015 amounted to DKK 3,920.4 million, compared to DKK 3,462.9 million at the end of 2014.

The Group's intangible assets are unchanged, compared to the beginning of the year, and amounted to DKK 294.7 million. Intangible assets comprise primarily the fair value of acquired farming licences. No licences in the North region are recorded with a value in the Bakkafrøst accounts.

Property, plant and equipment amounted to DKK 1,531.5 million at the end of 2015, compared to DKK 1,041.2 million at the end of 2014. In 2015, Bakkafrøst made investments in PP&E amounting to DKK 607.6 million. The most significant investments, Bakkafrøst carried out in 2015, were in the new live fish carrier M/S Hans á Bakka, expansion of the hatchery in Viðareid and the new combined harvest/VAP factory in Glyvur. Other investments relate mainly to maintenance investments.

Financial assets amounted to DKK 130.9 million at the end of 2015, compared to DKK 125.4 million at the end of 2014. The increase in the financial assets relates to the positive result from associates in 2015.

Bakkafrøst has no long-term receivables at the end of 2015, compared to DKK 1.3 million at the end of 2014.

The Group's carrying amount (fair value) of biological assets amounted to DKK 1,060.3 million at the end of 2015, compared to DKK 1,014.0 million at the end of 2014. Included in the carrying amount of the biological assets is a fair value adjustment amounting to DKK 257.3 million, compared to DKK 284.9 million at the end of 2014. The decrease is a combination of higher salmon prices at the end of 2015, compared to end 2014, as the biomass at sea is lower, than at the beginning of the year, and the new tax regulation.

The Group's total inventories amounted to DKK 422.0 million as at the end of 2015, compared to DKK 267.0 million at year-end 2014. The inventory primarily represents Havsbrún's inventory of fishmeal, fish oil and fish feed in addition to feed at the feed stations, finished VAP products, packing materials and other raw materials. Havsbrún

sourced relatively high volumes of raw material at the end of 2015 and this affects the inventory at year-end.

The Group's total receivables amounted to DKK 379.2 million as at the end of 2015, compared to DKK 314.3 million at the end of 2014.

Cash and cash equivalents at the end of 2015 amounted to DKK 101.9 million, compared to DKK 405.1 million at the end of 2014.

The Group's equity at the end of 2015 is DKK 2,580.5 million, compared to DKK 2,063.7 million at the end of 2014. The increase in equity consists primarily of the positive result for 2015, reduced by the dividend paid out in April 2015.

The Group's total non-current liabilities amounted to DKK 925.9 million at the end of 2015, compared to DKK 1,036.3 million at the end of 2014. Deferred taxes amounted to DKK 349.5 million, compared to DKK 414.0 million at the end of 2014. Because the Faroese Parliament changed the taxes on salmon farming companies in December 2015, the deferred taxes have decreased by DKK 79.8 million.

Long-term debt was DKK 447.6 million at the end of 2015, compared to DKK 505.4 million at the end of 2014. There was a currency gain on the long-term debt nominated in NOK and therefore reduced the long-term debt. Derivatives amounted to DKK 128.8 million at the end of 2015, compared to DKK 116.9 million at the end of 2014 due to volatility in NOK, compared to DKK.

The Bakkafrøst Group's net interest bearing debt amounted to DKK 391.5 million at the end of 2015 including deposits and losses on financial derivatives relating to the interest bearing debt, compared to DKK 232.7 million at the end 2014.

Bakkafrøst's interests bearing debt consists of a bank loan and a bond loan. Bakkafrøst secured the refinancing of its bank loan in December 2015. The new bank loan is a multi-currency revolving credit facility for a period of five years and totalling DKK 850 million. The bond loan of NOK 500 million has a five-year maturity and is payable 14 February 2018. The interest rate of the bonds is NIBOR 3m +4.15%.

Following the issuance of the bonds, Bakkafrøst has entered into a currency/-interest rate swap, hedging the exchange rate, and has switched the interest rate from NIBOR 3m to CIBOR 3m. Bakkafrøst has entered the swap due to its exposure to DKK, as a large part of the income and costs are in DKK and EUR.

At the end of 2015, the Group's total current liabilities are DKK 414.0 million, compared to DKK 362.9 million at the end of 2014. Bakkafrøst had no short-term interest bearing debt at the end of 2015, compared to DKK 100.0 million at the end of 2014. Accounts payable amount to DKK 414.0 million, compared to DKK 262.9 million at the beginning of the year. Provision for onerous contracts in 2015 amounted to DKK 51.0 million, compared to DKK 0 million in 2014.

Bakkafrøst's equity ratio is 66%, compared to 60% at the end of 2014.

#### **Cash flow**

The total cash flow from operations in 2015 was DKK 767.8 million, compared to DKK 877.2 million in 2014. The cash

flow from operation in 2015 is primarily due to strong results from all segments and higher harvest volumes and reduced receivables from sales. Combined with paid taxes, the increase in inventory and receivables from sales in 2015 had a negative effect on the cash flow from operations in 2015. Cash flow from investment activities amounted to DKK -601.5 million, compared to DKK -239.8 million in 2014.

For 2015, cash flow from financing amounted to DKK -469.6 million, compared to DKK -414.4 million for 2014. The 2015 figure includes down payment of long-term debt of DKK -100.0 million, change in a revolving credit facility of DKK -51.1 million, financial expenses of DKK -31.2 million, sales of treasury shares of DKK 6.1 million, net dividend payment of DKK -291.0 million and financing of an associated company amounting to DKK -6.0 million.

With the established credit facilities, the Group's liquidity and financial strength is considered good. The available funds amounted to DKK 889.6 million at 31 December 2015 of which DKK 38.3 million are restricted.

# 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 RISKS:

### 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. Increased supply may cause prices to decline, as was the case in 2001–2003, 2011–2012 and again in mid-2014. This could, in turn, have a significant impact on the company's profitability and cash position.

### Price on fishmeal and fish oil

The Group's financial position and future development depend to some extent on the price of fishmeal and fish oil, which have historically been subject to substantial fluctuations. Fishmeal 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 fishmeal and fish oil is a key parameter. Decreased supply may cause prices to increase. This could in turn have an impact on the company's profitability and cash position.

### Price on fish feed

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

Natural limitations in the marine resource base could lead to global shortages of fishmeal and oil for fish feed production. The feed producers have come a long way, however, in their efforts to replace some of the marine based input factors with vegetable raw materials. Furthermore the production of fish feed is an integrated part in Bakkafrost's value chain and thus reducing this risk.

### Geography

Bakkafrost sells its salmon products to more than 20 different countries. Fishmeal, fish oil and feed are sold to a limited number of countries. From time to time, due to different reasons, the company might suffer export restrictions to countries or regions. This could, in turn, have a significant impact on the company's profitability and cash position.



## 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 may 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. Bakkafróst'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 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 risks are, 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 at reducing that risk through the entire production cycle by means of systematic Group-wide biosecurity auditing.

The increasing number of sea lice is one of the largest risks and challenges in the farming industry globally and in the Faroes today. Increased number of sea lice may cause stress, which can lead to diseases. The company has procedures for how to reduce the number of sea lice with different types of treatment. The procedures are improved on a continuing basis. Like almost all other salmon farming companies, Bakkafróst is looking into non-medicinal treatment options. The future goal is that some medicinal treatments will be exchanged with non-medicinal treatment options. In 2015, Bakkafróst has tested lumpfish as cleaner-fish for sea lice. Sea lice treatments using freshwater bath on-board a live fish carrier has also been tested. The lumpfish and the non-medical treatments on-board the live fish carrier have proved their value in combating salmon sea lice and will be used more in the future.

The Group's production facilities are located within a relatively small geographical area limited to the Faroe Islands; accordingly, some operational risks, 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.

#### **Fishmeal, fish oil and fish feed**

The production of fishmeal, fish oil and fish feed follows 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 may result in incidents or necessary measures that may have significant cost implications. The Group is continually working on reducing risks.

Bakkafrost's fishmeal, fish oil 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 Group's operations may 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 fishmeal 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 may 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 may 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 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.

Even though all tests show that the levels of pollutants in the Bakkafrost salmon are well within the safety limits, imposed by e.g. the European Union, Bakkafrost has from early 2015 cleaned the fish oil used for Bakkafrost's salmon feed for PCB and other pollutants.

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.

#### **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 no use of antibiotic 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.

The suspicion of *Neoparamoeba perurans* in the Faroe Island in 2013 has further increased the risk for diseases. The *Neoparamoeba perurans* agent is known to be able to cause amoeba gill disease (AGD). Farming sites, where there is suspicion of *Neoparamoeba perurans*, are treated with Hydrogen Peroxide. Hydrogen Peroxide is also used as treatment against sea lice. Bakkafrøst has the necessary equipment and staff knowledge to carry out treatments if necessary, and with the new modern live fish carrier capable to carry out fresh water treatment of the fish, Bakkafrøst is well prepared to handle the risk.

# Financial Risk and Risk Management

The Group seeks to manage financial risks through operational measures or (where such measures are not available) through the use of financial derivatives. A policy on the management of these risks has been approved by the Board of Directors.

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. Please refer to note 21 for additional information.

## Foreign exchange risk

Bakkafrost trades in the world market for farmed salmonids. The revenues and accounts receivables are predominantly denominated in DKK, EUR and USD, but to some extent also in other foreign currencies. On the other hand, purchases of raw materials etc. are predominantly denominated in DKK, but linked to the USD. Therefore, Bakkafrost has some natural hedging. For those currencies not fully hedged, fluctuations in foreign exchange rates present a financial risk to the Group.

Bakkafrost's financing is in DKK and NOK and is a combination of bank financing and bond financing. The bank financing is in DKK, but Bakkafrost has the possibility to finance in different other currencies. The bond financing is in NOK and thus, there is a currency risk towards the bond financing. To reduce this risk, Bakkafrost has entered into a currency/interest rate swap, hedging the exchange rate and has switched the interest rate from NIBOR 3m to CIBOR 3m.

In connection with some material investments, Bakkafrost is in some degree exposed to NOK, USD and EUR.

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

The main credit risk on the date of the statement of financial position regards the Group's receivables portfolio.

## 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 and terms are described in note 17.

## Capital structure and equity

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

## Research and development activities

The Group has spent approximately DKK 1.2 million in R&D expenses during 2015, compared to DKK 1.7 million in 2014,



which are charged to other operation expenses in the income statement.

#### **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 2015 are based on the assumption that Bakkafrøst is a going concern. In the opinion of the Board, the Group's financial position is good.

#### **Dividend policy**

Bakkafrøst aims at providing its shareholders with 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 adjusted EPS shall be paid out as dividends.

#### **Parent company's financial statements and allocation of profit for the year**

The parent company P/F Bakkafrøst had a net profit of DKK 570.9 million for 2015. The Board of Directors has decided to propose to the Annual General Meeting that DKK 8.25 (approximately NOK 10.38\*) per share shall be paid out as dividends. This corresponds to approximately DKK 403.1 million (NOK 507.0\* million).

The Board thereby proposes the following allocation of funds:

- Result for 2015: DKK 570.9 million
- Transferred from other equity: DKK 0 million
- Total provision for dividends: DKK 403.1 million

After payment of dividends, the distributable equity totals DKK 1,993.9 million.

#### **Events after the date of the statement of financial position**

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

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

# Outlook

## Market

The global demand in the salmon market continues with strong growth rates. The markets are affected differently by the currency development during the year. The market balance in 2016 will be tighter in 2016, compared to 2015. Global supply of Atlantic salmon is expected to decrease by 5-7% in volume during 2016, compared to 2015. Production capacity is close to full utilization and further expansion relates to high investments.

The market place is one of Bakkafrost's most significant risk areas. Bakkafrost has a geographical and a market price approach. These approaches reduce the exposure to the market risk. To diversify the geographical market risk, Bakkafrost sells its products to some of the largest salmon markets in the world, the US, the Far East, Europe and Russia.

The Russian ban on EU- and Norwegian salmon implemented in August 2014 gave temporary challenges to move volumes between markets. The markets have more or less adapted to the new market balance.

## Farming

The outlook for the farming segment is good. Biology and veterinary situation is the most important risk area for Bakkafrost. The Group is focusing on this risk with new investments and procedures to diminish the risk. Sea lice is an area, which has demanded more effort and is a part of the biological risk. Bakkafrost's new live fish carrier, M/S Hans á Bakka, has freshwater treatment equipment installed. M/S Hans á Bakka's operations using freshwater has shown to be effective against sea lice and therefore these operations will be an important part of Bakkafrost's treatment against sea lice. The biological situation is good, and the price outlook in the market place is good.

Bakkafrost's expected harvest is 48,000 tonnes gutted weight in 2016.

The number of smolt released is one key element of predicting the future production for the Group. Bakkafrost forecasts a release of 10.4 million smolts in 2016, compared with 11.3 million smolts released in 2015 and 10.4 million smolts released in 2014.

The estimates for harvesting volumes and smolt releases are as always dependent on the biological situation.

## VAP (Value added products)

The currency development has had a negative effect on the competitive position in some markets. Bakkafrost has signed contracts covering around 60% of the VAP capacity for 2016. This corresponds to around 25% of the expected harvested volumes for 2016. The remaining 40% of the VAP capacity is expected to be committed during the period. The VAP contracts are at fixed prices, based on the salmon forward prices at the time they are agreed and the expectations for the salmon spot price for the contract period.

The contracts last for 6 to 12 months. The long-term strategy is to sell around 40-50% of the harvested volumes of salmon as VAP products on fixed price contracts. Selling the products at fixed prices reduces the financial risk with fluctuating salmon prices. The market price for contracted VAP products follows a more stable pattern with trends instead of short-term fluctuations as in the spot market.

### FOF (Fishmeal, -oil and feed)

The outlook for the production of fishmeal and fish oil is dependent on the availability of raw material. The quotas for catching blue whiting in the North Atlantic are expected to be reduced and therefore, the production of fishmeal and fish oil are most likely to reduce in volume in 2016 from relatively high volumes in 2015.

The major market for Havsbrún's fish feed is the local Faroese market, including Bakkafróst's internal use of fish feed.

Havsbrún's sales of fish feed in 2016 is expected to be at 80,000 tonnes.

### Investments

Bakkafróst has announced an investment plan for the period until 2017, latest updated in August 2014. The purpose of the investment plan is to continue to have one of the most cost efficient value chains in the farming industry, carry out organic growth, increase flexibility and reduce the biological risk to meet the future consumers' trends and to be more end-customer orientated.

The total investments for the period 2014-2017 were announced to be DKK 1,370 million including maintenance CAPEX. The future investment plan for the next two years is DKK 570 million, according to the announced investment plan from August 2014.

The investment of the new harvest/-VAP factory will be finalised in 2016. The harvest operation is expected to start in Q2 2016, while the VAP operation will start in Q4 2016. There will be some costs during the start-up period, but the

investment is expected to result in operational savings of DKK 70-90 million per year from 2017.

Bakkafróst plans to increase the smolt capacity, making Bakkafróst self-supplied with smolts at a size of 200-300g each before end 2017. The benefits are shorter production time at sea as well as reduced biological risk. The expansion of the hatchery in Viðareiði, which started in 2015, will be finalised in Q2 2016. The expansion will fourfold the capacity of this hatchery. An investment in a new hatchery site is expected to start in 1H 2016.

Free cash flow from operations, existing financing facilities and partly new financing if advantageous will finance the investments. In addition, Bakkafróst has the possibility to postpone investments in case of adverse events. The dividend policy will be un-changed.

### Financial

Improved market balances in the world market for salmon products and costs effective production will likely improve the financial flexibility going forward. A high equity ratio together with the Group's bank financing and the issuance of bonds makes Bakkafróst's financial situation strong. This enables Bakkafróst to carry out its investment plans to further focus on strengthening the Group, M&A's, organic growth opportunities and fulfil its dividend policy in the future.

# Business Review

## MARKETING STRATEGY

Bakkafrost is committed to producing healthy, sustainable, top quality salmon with the qualities that create value for our customers and thereby maximize the Group's result. Because of this, Bakkafrost has received a price premium for its salmon in recent years.

The Bakkafrost Group is determined to further strengthening its position in the marketplace by investing in the implementation and marketing of the below USPs (unique selling points).

## THE FAROE ISLANDS ORIGIN

The natural conditions in the Faroe Islands are perfect for salmon, and Bakkafrost is committed to promoting the Faroe Islands origin as a boutique origin for top quality salmon. The North Atlantic Current engulfs the Faroe Islands with cool and steady seawater temperatures. Bakkafrost's share of the salmon production in the Faroe Islands is 77% in 2015.

## SCARCITY

As the Faroe Islands produce only about 3% of the world's salmon and demand is high for the origin, the customers, who have a preference for the Faroe Islands origin, pay a premium in order to get their share of Faroe Islands salmon.

## LARGE SALMON

The Faroe Islands aquaculture industry produces the largest Atlantic salmon in the world. The average weight of Faroese salmon in 2015 was 5.4 kg gutted weight.

The price difference between the different sizes of salmon has been historically big during the last years, where especially the 6+ kg salmon sizes have received a considerable

price premium. This is due to a lack of supply of larger size salmon, as it requires good biology to produce large salmon. The longer the salmon is at sea, the more it is exposed to different complications.

Bakkafrost aims at producing salmon with an average weight of around 5.2 kg gutted weight, which is possible due to the Group's good biological situation.

## SALES AND GEOGRAPHICAL DIVERSIFICATION

Bakkafrost has its own Sales and Marketing Department, which is responsible for selling all of Bakkafrost's salmon worldwide. The Group aims at selling its salmon as directly as possible to the best paying segments worldwide. Bakkafrost's strategy is to have a healthy geographical sales diversification in order to minimize the risk of any individual market fluctuations.

## Worldwide reach

Bakkafrost wants to have as many options as possible when it comes to markets and global reach. By working closely with key freight forwarders, Bakkafrost has developed an industry leading logistics setup, which ensures that Bakkafrost's salmon is delivered as fresh as possible by airfreight worldwide at the most competitive transport prices. 46.6% of Bakkafrost's salmon was exported by airfreight in 2015. Bakkafrost's salmon is shipped to major airports, where the salmon is transported with passenger airlines to markets worldwide.

This effective logistics network is evident when looking at Bakkafrost's sales in 2015 (Fig. 19 marked blue).



### Segmentation

The brand preference for Bakkafrost's salmon is especially strong in the US, where demand from the Group's customers for salmon above 6 kg is particularly strong. Bakkafrost has a strong market share in China as well. A large share of the salmon, Bakkafrost exports to the US and China, is used for sushi.

Bakkafrost's salmon appeals especially to the premium sushi segment, as it has a strong sustainability profile. Bakkafrost does not use any antibiotics and does only use Non-GMO raw material in the feed.

### VAP

Bakkafrost is one of the leading processors of frozen salmon portions, which are sold by leading European and US retailers. Bakkafrost aims to add value to its VAP production through focusing on producing high quality products and being a reliable and responsible supplier.

The strategy of diversifying Bakkafrost's product mix has other clear benefits for the Group. It increases the revenue stability as salmon portions are sold on 3-12 months contract prices and whole fresh salmon on spot prices. Bakka-

frost does not need to push fresh whole fish sales in adverse market conditions.

### FEED

Feed is one of the most important aspects in the production of salmon, both in regards to costs and quality of the salmon.

### Full vertical integration

Bakkafrost is one of the most vertically integrated salmon farming companies in the world. Uniquely, Bakkafrost even produces its own fishmeal and fish oil, which is used for the company's salmon feed. This gives Bakkafrost full control and responsibility over all aspects of production, and it gives our clients unparalleled traceability.

### Feed rich in marine content

The vertical integration gives Bakkafrost the knowhow and ability to make the decision to invest in salmon feed with a substantially higher percentage of marine content. Bakkafrost's salmon feed is about 50% richer in marine content, than the industry average.

FIG.  
19



The marine content gives Bakkafrøst salmon a better fat content especially rich in the healthy Omega 3 fatty acids DHA and EPA. This natural diet is also evident in the good taste of Bakkafrøst's salmon.

The natural diet for wild salmon is rich in marine resources, and by keeping the diet of Bakkafrøst salmon as natural as possible, the Group is able to have one of the industry's best Feed Conversion Ratios, which is a key indicator for fish welfare and low production costs.

### **Cleaning the fish oil**

As the only salmon farming company in the world, Bakkafrøst exclusively uses salmon feed produced with fish oil, which has been cleaned for environmental pollutants. All previous tests showed that the levels of pollutants in the Bakkafrøst salmon are well within the safety limits, imposed by e.g. the European Union. But still, Bakkafrøst decided to give its salmon an even healthier profile by exclusively using purified fish oil in its feed. This initiative adds further value to the product and insures the customers of the healthy benefits of eating Bakkafrøst salmon.

### **ASC**

Bakkafrøst is pursuing the rigorous ASC certification, and the first farming area was certified in 2015.

ASC is predicted to become the main aquaculture certification standard, and by being one of the first companies to obtain this standard, Bakkafrøst should be able to get a price premium for its ASC certified salmon, as the supply of ASC salmon will be quite limited in the near future.

Becoming one of the first companies certified by ASC also underlines Bakkafrøst's commitment to sustainability and care of the environment – values, which Bakkafrøst's discerning customers value.

### **SEAFOOD CONSUMPTION**

Capture fisheries and aquaculture is estimated to have supplied about 165 million tonnes of fish in 2014, of which about 145 million tonnes were utilized as food. This corresponds to seafood consumption per capita of 20 kg (wfe).

Overall global capture fisheries production continues to remain stable at about 90 million tonnes, of which about 20-25 million is utilized in the production of fishmeal and fish

oil. This share of direct non-food usage has declined in recent year as quotas have been reduced, and there has been an increasing demand for seafood products for human consumption.

2013 was the first year, when more than half of the world seafood for human consumption was supplied by the aquaculture industry. In 2014, this share is estimated to have increased to 52%.

Figure 21 shows world seafood production (for human consumption) and consumption per capita 1999–2014E.

### **MAIN MARKETS FOR SALMON AND CONSUMPTION TRENDS**

In 2015, worldwide supply of farmed Atlantic salmon exceeded 2.3 million tonnes wfe. This corresponds to a 4.5 percent increase in global supply.

Furthermore, this represents only a global Atlantic salmon average per capita consumption of around 300 grams wfe or approx. 150 grams of edible product, which is one meal per capita per year.

The world's largest consumer market of Atlantic salmon, however, is the European Union, where almost 1.1 million tonnes wfe were consumed in 2015 and with a population of approx. 510 million this corresponds to a per capita consumption of 2.15 kg wfe per year. This indicates approx. 7 meals per capita per year. Within the EU, Germany and France are the largest single markets.

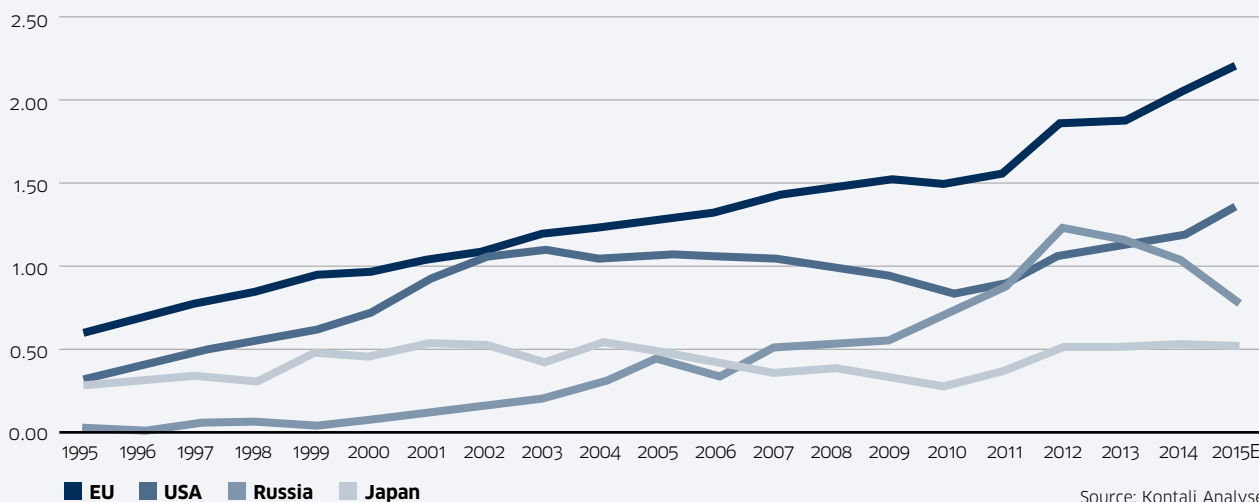
Since the Russian import ban was implemented in the second half of 2014, trade flow of Atlantic salmon products, saw a global reallocation, which continued in 2015. The EU market absorbed more volumes from Norway and ended with a growth rate of 7% - while Chile and Faroe Islands have taken over as the largest suppliers to the Russian market.

Market prices on the European market ended down -2% in 2015, when measured in EUR / kilo – but up 4% in NOK / kilo, as a result of a weaker Norwegian krone. When measured in DKK, the average price ended also down -1% from 2014, as the Danish krone weakened against the EUR during 2015. Compared to 2014, the DKK was stronger during the first quarter and then trended on a similar level before being weaker year-on-year in the second half of 2015.

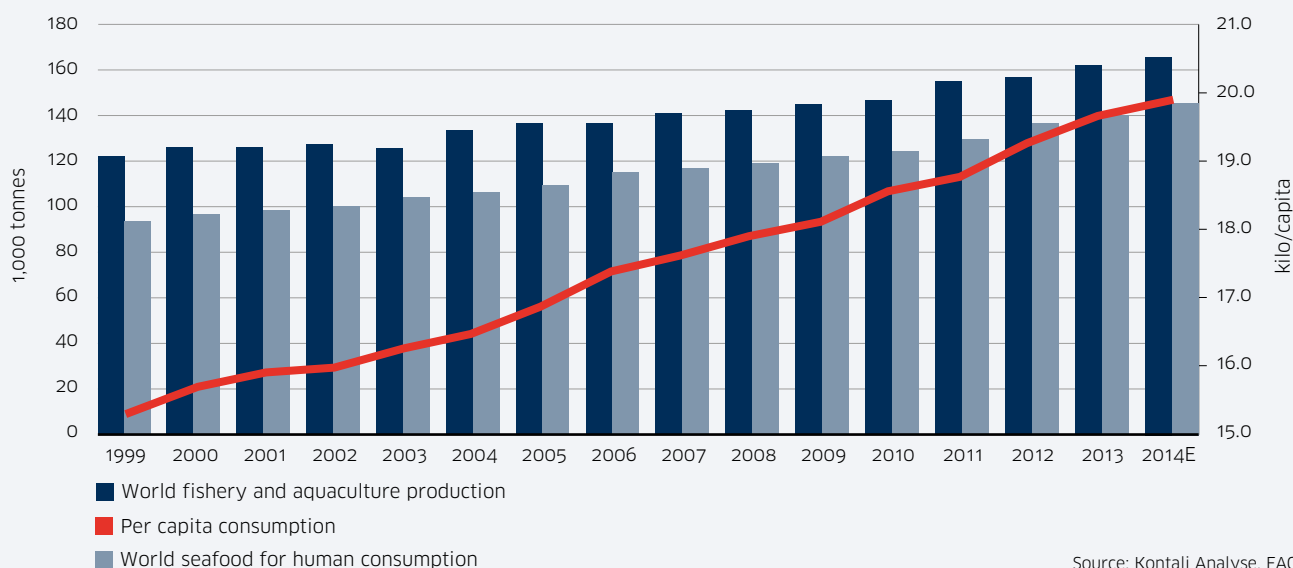
The currency situation also made Norwegian salmon more competitive in other markets, such as the US – where global supply ended up 14%. Here, increased harvest and supply from Canada also contribute to a downwards price pressure. Measured in USD / kilo, the average achieved export price for fresh Chilean fillet, delivered US, decreased by 21%, compared to the previous year.

Figure 20 shows per capita consumption for farmed Atlantic salmon from 1995–2015E for the selected main markets of the US, the EU, Russia and Japan.

**FIG. 20** PER CAPITA CONSUMPTION OF ATLANTIC SALMON 1995 - 2015E



**FIG. 21** WORLD CONSUMPTION OF SEAFOOD



## THE US MARKET

In 2015, the US market for farmed Atlantic showed a strong volume growth rate (+14%) and for the first time in history supply to the US market exceeded 400 000 tonnes (wfe). This corresponds to a per capita consumption of approx. 1.3 kg wfe per year – indicating 4-5 meals per capita per year.

Every second Atlantic salmon consumed on the US market is of Chilean origin and supply from Chile to the US market rose steadily in 2015 (+4%). However, supply from Canada increased the most. From a 15-year low supply volume from Canada in 2014, supply to the US market rose by 68% in 2015. Strong increase was also observed for Norwegian salmon.

From 2014 to 2015, there have been notable changes in the supply patterns; changes affected by better biological performance in salmon production in North America, the Russian import ban and fluctuations in the foreign exchange markets. The latter, combined with reduced freight cost, has made Faroese and Norwegian salmon increasingly competitive on the US market through 2015. On the other hand, market conditions for American salmon have in periods of 2015 been in the other end of the scale.

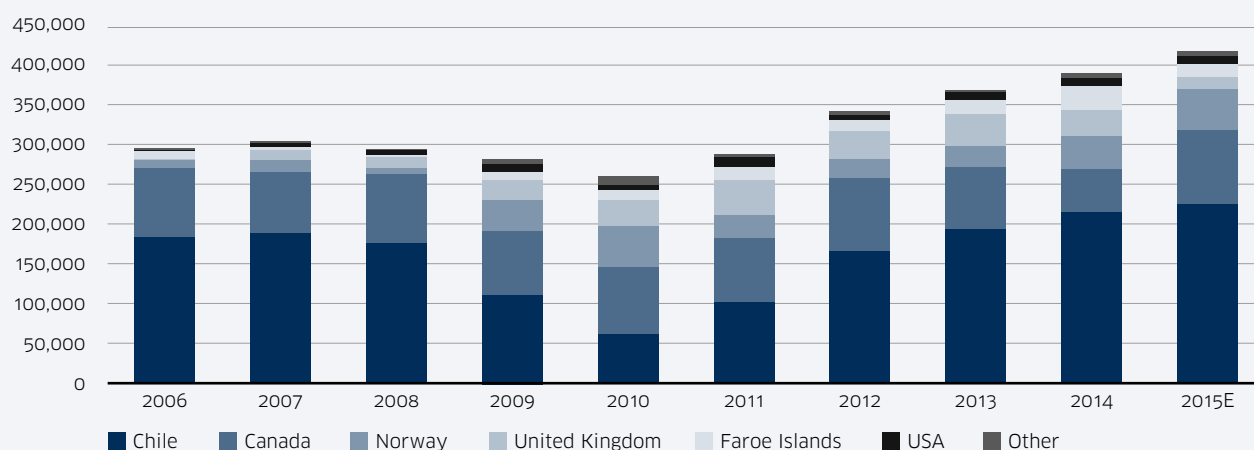
The table below shows supplies of Atlantic salmon to US market – in tonnes wfe:

**FIG. 22** SUPPLY OF ATLANTIC SALMON IN THE US MARKET 2006-2015E TONNES WFE

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E
Chile	184,100	187,500	174,200	107,100	53,200	99,100	162,200	191,600	214,700	224,100
Canada	86,000	80,100	86,300	81,100	87,600	80,400	98,200	77,400	55,000	92,400
Norway	11,000	14,300	9,600	40,300	53,800	28,700	23,700	27,000	39,900	51,200
United Kingdom	9,400	14,300	13,100	21,900	20,600	21,500	17,700	16,100	20,400	16,600
Faroe Islands	300	1,600	2,700	11,200	10,000	16,700	13,000	16,400	16,900	14,500
USA	3,000	7,100	4,500	8,800	6,900	13,200	9,400	10,100	12,600	13,100
Other	1,000	800	1,500	6,100	10,900	3,900	2,300	3,800	4,000	3,300
<b>Total</b>	<b>294,800</b>	<b>305,700</b>	<b>291,900</b>	<b>276,500</b>	<b>243,000</b>	<b>263,500</b>	<b>326,500</b>	<b>342,400</b>	<b>363,500</b>	<b>415,200</b>
Change	-2%	4%	-5%	-5%	-12%	8%	24%	5%	6%	14%

Source: Kontali Analyse

**FIG. 23** SUPPLY OF ATLANTIC SALMON 2006 - 2015E (tonnes wfe)



Source: Kontali Analyse

## THE EUROPEAN MARKET

The demand for farmed Atlantic salmon on the EU market in 2015 remained strong. Supply reached almost 1.1 million tonnes wfe, which represents an increase of 7% from 2014. Despite the relatively strong volume growth, prices remained relatively stable. Spot prices for fresh whole salmon fell by 2% in EUR / kilo, but increased 4% when measured in NOK / kilo – due to a weaker Norwegian krone.

The Russian import ban, imposed in August 2014, has to some extent affected the supply pattern to the EU market. The Norwegian market share on the EU market rose to 83% in 2015. On the other hand, Chile and the Faroe Islands lost

some ground on the EU market, but gained market shares on the Russian market.

Supply from UK to the European Union rose by 5% to 125 000 tonnes wfe. This is the highest supply volume from UK to the EU since 2004.

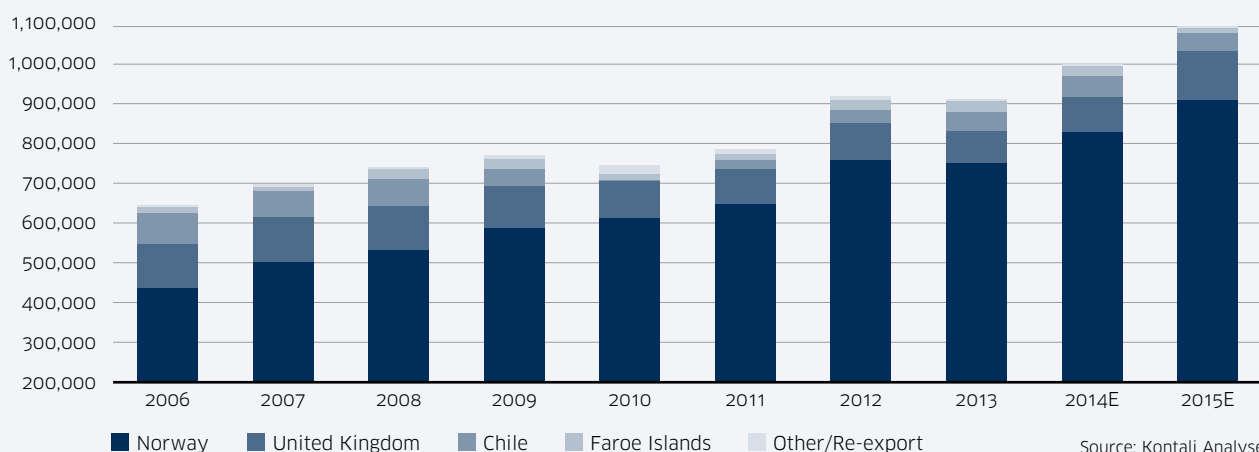
The table below shows supplies of Atlantic salmon to EU market – in tonnes wfe:

**FIG. 24** SUPPLY OF ATLANTIC SALMON TO THE EU MARKET 2006 – 2015E

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E
Norway	440,800	506,800	532,200	591,700	615,300	648,400	761,900	755,500	834,600	912,200
United Kingdom	111,000	114,200	118,300	114,400	112,800	117,500	117,000	110,300	118,800	125,200
Chile	80,700	67,800	67,100	39,900	10,600	17,200	27,000	50,200	50,500	44,900
Faroe Islands	9,700	13,100	29,900	30,000	26,300	29,900	35,700	33,400	31,400	19,300
Other/ Re-export	7,300	3,800	-8,200	-5,600	-12,500	-6,000	-5,500	-17,000	-17,300	-8,400
<b>Total</b>	<b>649,500</b>	<b>705,700</b>	<b>739,300</b>	<b>770,400</b>	<b>752,500</b>	<b>807,000</b>	<b>936,100</b>	<b>932,400</b>	<b>1,018,000</b>	<b>1,093,200</b>
Change	3%	9%	5%	4%	-2%	7%	16%	0%	9%	7%

Source: Kontali Analyse

**FIG. 25** SUPPLY OF ATLANTIC SALMON 2006 – 2015E (TONNES WFE)





### THE CHINESE MARKET

From a two-digit supply growth rate on the Chinese market over the previous 4 years, the growth rate in 2015 ended far lower. According to preliminary data, supply of farmed Atlantic salmon to China increased by 1% in 2015.

Supply from both Faroe Islands and Norway fell in 2015 while overall supply from Chile remained stable. However, supply of fresh salmon products from Chile to China doubled from 2014 to 2015.

Australia is in the other countries group (along with re-exports from Vietnam and Thailand). Supply from Australia to China ended 5,100 tonnes wfe, which is six times higher than in 2014. Most of the Australian salmon shipped to the Chinese market is fresh.

Supply of Atlantic salmon to Chinese Market - in tonnes wfe:

**FIG. 26** SUPPLY OF ATLANTIC SALMON TO CHINA 2006 - 2015E

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E
Norway	5,200	8,800	7,800	10,500	13,700	7,000	14,100	9,500	11,500	9,200
Chile	3,800	1,300	3,600	13,900	2,200	3,800	4,000	8,200	17,400	17,200
Faroe Islands	-	-	-	100	-	4,300	7,700	10,200	12,200	9,800
United Kingdom	-	-	100	-	100	5,100	7,400	10,800	15,000	14,600
Other countries*	100	400	800	900	2,000	11,100	6,900	10,200	4,500	10,200
<b>Total</b>	<b>9,100</b>	<b>10,500</b>	<b>12,300</b>	<b>25,400</b>	<b>18,000</b>	<b>31,300</b>	<b>40,100</b>	<b>48,900</b>	<b>60,600</b>	<b>61,000</b>
Growth rate	-1%	15%	17%	107%	-29%	74%	28%	22%	24%	1%

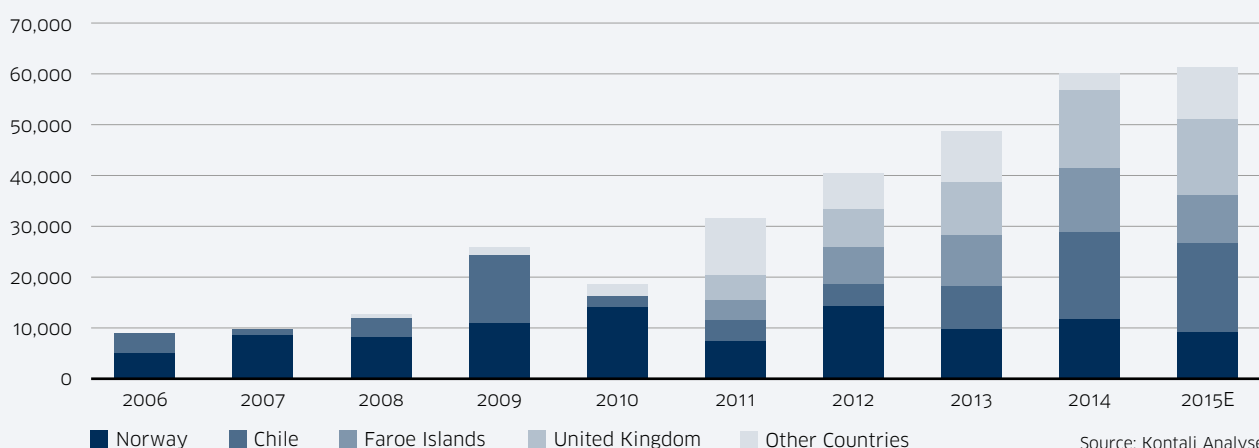
\* Supply from other producing countries as well as re-export from Denmark and Poland.

Re-export from neighboring countries such as Vietnam are also included in these figures

- Re-export from Vietnam to China estimates: 9 kt in 2011 - 6 kt in 2012 - 9.5 kt in 2013 - 2.9 kt in 2014.

Source: Kontali Analyse

**FIG. 27** SUPPLY OF ATLANTIC SALMON 2006 - 2015E (TONNES WFE)



Source: Kontali Analyse

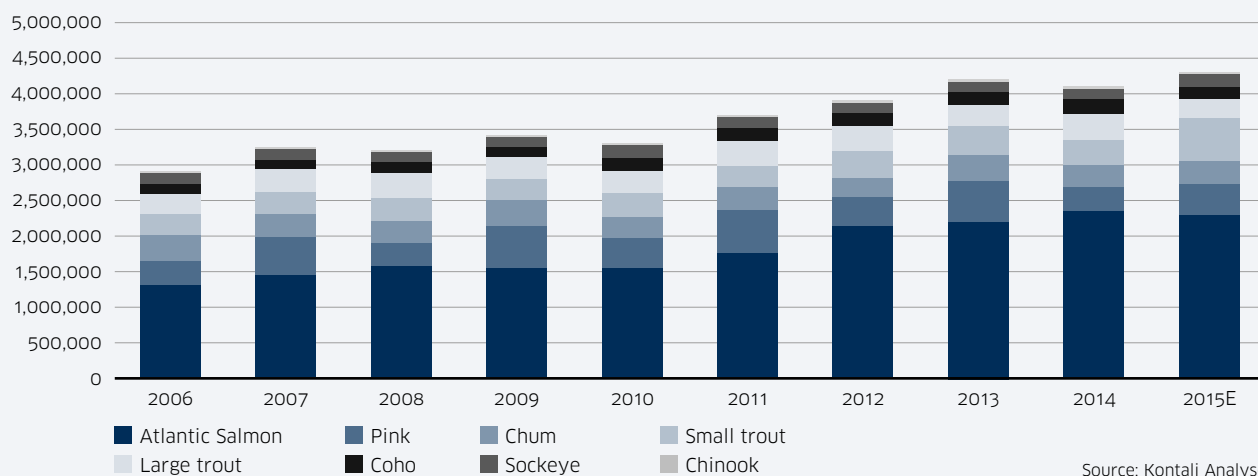
## GLOBAL SUPPLY OF ALL SALMONIDS

FIG.  
28

HISTORICAL SUPPLY OF ALL SALMONIDS (TONNES WFE)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E
Atlantic salmon	1,270,800	1,398,700	1,496,000	1,474,800	1,455,300	1,633,400	2,000,300	2,041,500	2,226,800	2,307,600
Pink	338,700	521,400	309,900	606,600	399,100	586,100	409,500	583,000	307,000	414,000
Chum	352,800	316,700	293,400	357,200	309,400	274,600	294,700	337,000	322,000	339,000
Small trout	373,100	386,500	404,500	432,700	446,600	490,600	534,100	577,500	567,600	599,800
Large trout	253,700	307,600	332,700	304,000	313,900	328,300	369,900	301,500	285,200	257,800
Coho	138,500	142,200	144,800	131,000	160,700	174,400	191,000	177,400	200,400	181,000
Sockeye	143,000	158,600	132,900	141,000	167,600	148,800	142,200	133,200	171,100	188,600
Chinook	25,800	22,200	18,100	18,500	19,600	22,100	18,900	21,500	25,500	26,600
<b>Total</b>	<b>2,896,400</b>	<b>3,253,900</b>	<b>3,132,300</b>	<b>3,465,800</b>	<b>3,272,200</b>	<b>3,658,300</b>	<b>3,960,600</b>	<b>4,172,600</b>	<b>4,105,600</b>	<b>4,314,400</b>
Growth rate	-1%	11%	-4%	10%	-6%	11%	8%	5%	-2%	5%

Source: Kontali Analyse

FIG.  
29

Source: Kontali Analyse

### GLOBAL HARVEST OF FARMED ATLANTIC SALMON

Global harvest of farmed Atlantic salmon grew strongly in 2011 and even stronger in 2012 due to the rapid growth and recovery of the Chilean Industry. There was a modest growth in 2013, but the Chilean Industry continued with the trend from the past years with a rapid growth (+29%), while other large producing countries like Norway, UK, and Canada had a reduction in harvest quantity.

In 2014, Chile yet again showed solid growth (+25%), while Norway showed increase in harvest at a growth rate of 5%, compared to 2013. Overall, global harvest of farmed Atlantic salmon exceeded 2.2 million tonnes wfe (+9%).

On a global level, 2015 ended with a marginal supply growth of 4%, where Norway and Chile increased by only 3% and 1%, respectively. Canada saw a notable increase of 33%, after seeing a decrease in both 2013 and 2014 – the harvest volume ended approx. on the same level as in 2012.

The global harvest quantity of Atlantic salmon for 2006–2015E is illustrated in the table below.

**FIG. 30** HARVEST OF ATLANTIC SALMON IN TONNES (TONNES WFE)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E
Norway	598,500	723,300	741,000	855,700	944,600	1,005,600	1,183,100	1,143,600	1,199,000	1,234,200
United Kingdom	127,500	134,900	136,400	144,300	142,900	154,700	159,400	157,800	171,500	171,300
Chile	368,700	356,400	403,500	239,100	129,600	221,000	364,000	468,100	582,900	590,900
Canada	115,000	111,000	122,000	121,900	122,000	119,500	136,500	115,100	101,000	134,600
USA	10,200	12,300	17,000	16,400	18,000	18,300	19,600	20,300	20,400	20,200
Faroe Islands	11,900	19,100	36,900	47,100	41,800	56,300	70,300	72,600	82,700	76,900
Australia	19,400	23,800	25,700	32,200	33,000	36,000	40,000	39,000	39,000	44,000
Ireland	14,500	15,300	11,400	14,800	17,800	16,000	15,600	10,600	12,300	15,700
Others	5,200	2,600	2,100	3,300	5,500	6,000	11,400	14,200	18,100	18,000
<b>Total</b>	<b>1,270,900</b>	<b>1,398,700</b>	<b>1,496,000</b>	<b>1,474,800</b>	<b>1,455,200</b>	<b>1,633,400</b>	<b>1,999,900</b>	<b>2,041,300</b>	<b>2,226,900</b>	<b>2,305,800</b>
Growth rate	2%	10%	7%	-1%	-1%	12%	22%	2%	9%	4%

Source: Kontali Analyse

### SUPPLY OF FARMED ATLANTIC SALMON FROM FAROE ISLANDS

After the ISA-crisis in the Faroe Islands (2006), the average annual harvest growth rate has been 26.5% for Atlantic salmon until 2014, where harvest and production reached its all-time high level. Harvest in 2014 was 83.3 thousand tonnes wfe, which in comparison to 2006 represents an absolute increase of approx. 70 thousand tonnes wfe. Mainly due to reorganization of the production cycle of one company, harvest decreased -7% 2015E.

The biological performance of the Faroese salmon producers have over the last years been the best in Europe - low loss rates and high average harvest weight. Preliminary

estimates indicate average harvest weight of 6.6 kg wfe pluss (+2% YoY) in 2015.

Through the second half of 2014 and all of 2015, the Faroese salmon industry has benefited from Russian trade sanctions on other European produced salmon and seafood products - achieving a price premium and contributing to the best EBIT-margins in the industry.

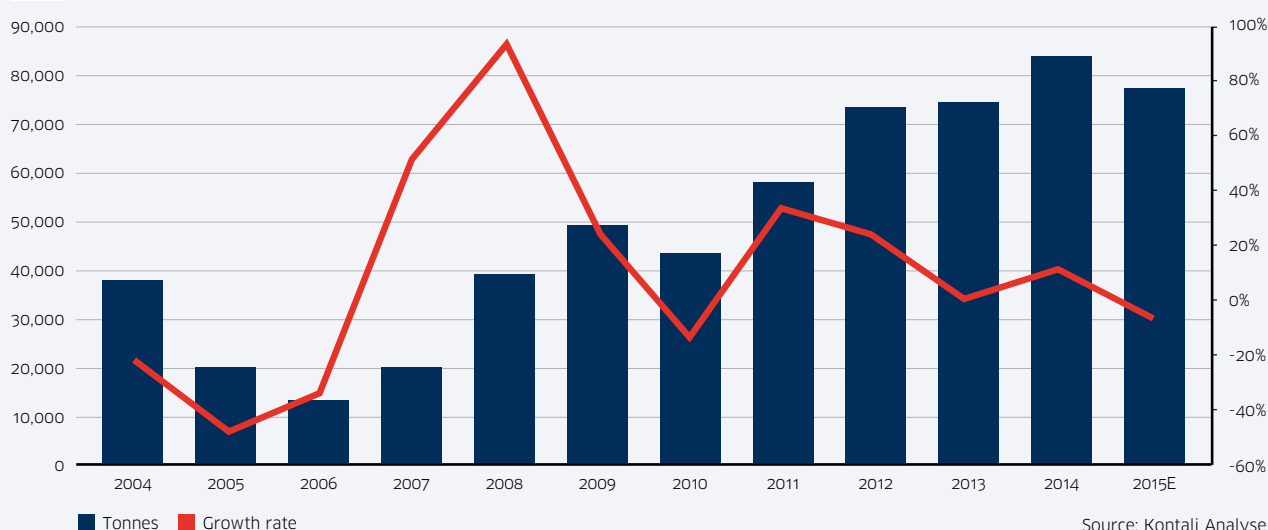
The US East Coast Market remained the second most important market for Faroese salmon - accounting for approx. 20% of the total sales volume.

**FIG. 31** FO SUPPLY OF ATLANTIC SALMON IN TONNES (TONNES WFE)

Year	Supply from			Supply to markets							
	Faroe Islands	EU	Share	US	Share	Japan	Share	Russia	Share	Others	Share
2009	48,100	30,000	62%	11,200	23%	600	1%	1,100	2%	5,200	11%
2010	42,400	26,300	62%	10,000	24%	700	2%	200	0%	5,200	12%
2011	57,200	29,900	52%	16,700	29%	600	1%	2,500	4%	7,500	13%
2012	71,800	35,700	50%	13,000	18%	1,100	2%	8,000	11%	14,000	19%
2013	73,400	33,400	46%	16,400	22%	1,100	1%	2,600	4%	19,900	27%
2014	83,300	31,400	38%	16,900	20%	800	1%	15,700	19%	18,500	22%
2015E	77,300	19,300	25%	14,500	19%	900	1%	27,100	35%	15,500	20%

Source: Kontali Analyse

**FIG. 32** SUPPLY OF ATLANTIC SALMON FROM FAROE ISLANDS (TONNES WFE)



### CHANGE IN MARKET SUPPLY AND MARKET PRICES

From the second half of 2011 to the first half of 2012 there was an impressive growth in global supply of farmed Atlantic salmon. With the strong growth seen in the second half of 2011 it came as no surprise that the supply growth rate showed a falling trend in the second half of 2012.

Despite the fact that global supply rose by as much as 22% in 2012, European spot prices were the most stable in many years. European spot prices trended in average on a higher level in the second half of 2012, than in the corresponding period in 2011.

In 2013, harvest of Atlantic salmon in the Americas rose by 15% while harvest in Europe fell by 3 %. The situation has in general led to higher prices on the European market. Strong demand on the European market contributed to lift spot prices to record high levels in December 2013.

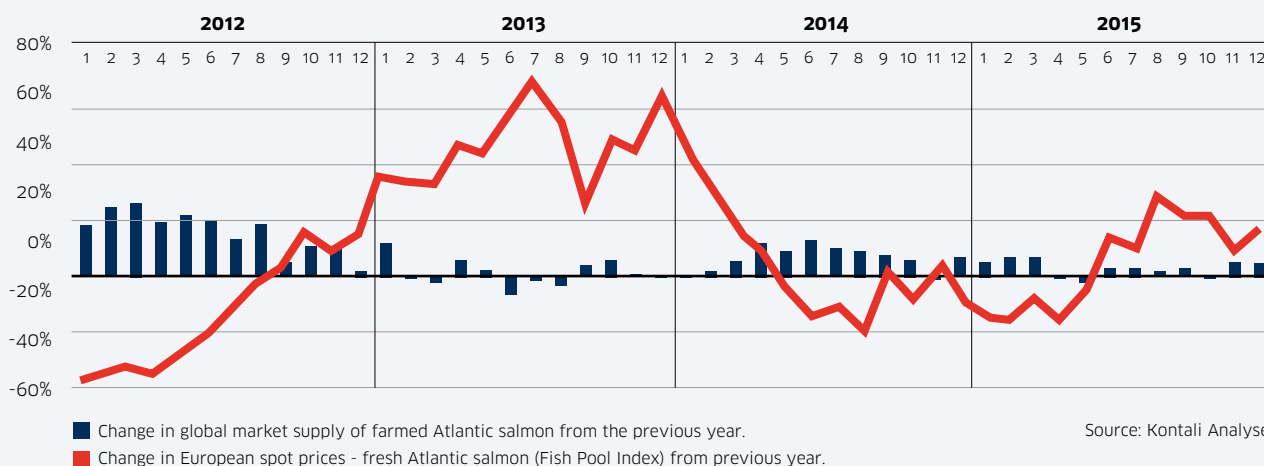
During the first four months of 2014, European spot prices continued to trend on a high level, but as supply increased the price level fell below 40 NOK/kg. With only moderate supply growth in the last two months of 2014 and strong demand, prices increased like in 2013, but not to the record high levels in December, due to the Russian import ban.

With good growth during the winter period – due to high sea temperatures in Norway, supply saw a significant increase in the first quarter of 2015. Simultaneously, spot prices for fresh whole salmon (NOK / kilo) continued to trend down year-on-year. This must be seen in relation to strengthening of the Norwegian krone from December 2014 to May 2015 – measured in EUR / kilo, prices remained on a similar level as in 2014.

Since May, the Norwegian krone weakened again – from a level of 8.3 EUR/NOK to 9.5 in December. So despite higher supply volumes to the EU market, prices increased year-on-year for Norwegian farmers. The weak krone also made Norwegian salmon more competitive in the markets. The DKK also weakened against the EUR in 2015, but strengthened against the NOK as result of the oil-driven economic downturn in Norway. This is a year where Faroe produced salmon also has become far less dependent on the EU market.

The graph below shows relative change in global supply of Atlantic salmon and European spot prices for fresh Atlantic salmon (NOK / kilo), by month – year over year, from 2012 to 2015.

**FIG. 33** SUPPLY AND MARKET PRICES





### TOP 15 - SALMON FARMING COMPANIES

Norway is still the largest producing country of farmed salmonids, while Chile in 2013 and 2014 again strengthened its position as the world second largest producer. Before the ISA-crisis (2008), Chilean production and harvest of salmonids almost reached 700 000 tonnes wfe. Highly affected by the significant fall, the market structure reversed in 2010 back to the structure seen in 2005. The recovery of the Chilean industry and growth in production in Europe contributed to consolidations in both 2011 & 2012. In 2014, there

was another significant increase in the production (+8%), where most of this came from the Chilean production (+14%).

In 2014, the world's fifteen largest salmon farming companies harvested approx. 1.6 million tonnes of Salmonids (Atlantic Salmon, Coho Salmon, Chinook, Large Trout), representing 61% of the total harvest quantity in 2014. In Norway, these companies made up 64% of the total harvest and 65% in Chile. See table below for more details:

**FIG. 34** HARVEST QUANTITY - 2014E  
ATLANTIC SALMON, COHO CHINOOK, AND LARGE TROUT (tonnes wfe)

Ranking	Group	Head-office	Total	Norway	UK	Chile	North America	Faroe Islands	Ireland	Others
1	MARINE HARVEST GROUP	NO	465,500	286,700	54,300	75,000	29,700	12,800	7,000	
2	mitsubishi / CERMAQ	NO	187,000	57,000		110,000	20,000			
3	LERØY SEAFOOD GROUP *	NO	182,600	182,600						
4	SALMAR *	NO	156,700	156,700						
5	EMPRESAS AQUACHILE	CL	98,700			98,700				
6	PESQUERA LOS FIORDOS	CL	75,000			75,000				
7	COOKE AQUACULTURE	CA	74,200		19,300	18,200	36,700			
8	GRIEG SEAFOOD	NO	72,000	43,600	21,400		7,000			
9	SALMONES MULTIEXPORT	CL	68,600			68,600				
10	BAKKAFROST	FO	48,900					48,900		
11	NORDLAKE HOLDING	NO	48,000	48,000						
12	SALMONES BLUMAR	CL	43,400			43,400				
13	NOVA SEA	NO	43,000	43,000						
14	PESQUERA CAMANCHACA	CL	39,000			39,000				
15	SALMONES AUSTRAL (PACIFIC STAR + TRUSAL)	CL	39,000			39,000				
Sum top 15			1,641,600	817,600	95,000	566,900	93,400	61,700	7,000	0
Others			1,116,400	503,600	91,900	318,500	34,700	20,400	5,150	142,150
<b>Total</b>			<b>2,697,600</b>	<b>1,272,900</b>	<b>175,500</b>	<b>865,800</b>	<b>127,600</b>	<b>82,700</b>	<b>12,700</b>	<b>160,400</b>
Top 10 WW in % of total harvest quantity			53%	57%	54%	51%	73%	75%	55%	0%
Top 15 WW in % of total harvest quantity			61%	64%	54%	65%	73%	75%	55%	0%

Source: Kontali Analyse

### COST OF PRODUCTION

The cost of producing 1 kg of Atlantic salmon is highly influenced by the feed cost, which comprises between 50 and 60 percent of the production cost. This expense depends mainly on two factors: The price of the fish feed, and how much feed is needed to produce 1 kg fish reaching the point of harvest/sale. The latter is also known as the Economic Feed Conversion Rate (EFCR) and takes into account not only the biological conversion, but also the effect of mortality, escapes, gutting yield and other factors.

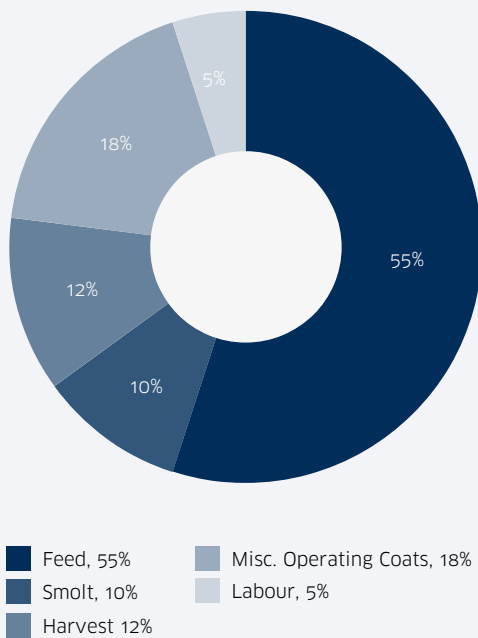
During the past decade it's mainly the increased feed price, which has driven the total cost upwards – as commodity prices for the ingredients used in the salmon feed have increased, and the mark-up for the feed producers have

remained fairly stable. During the last 5 years, biological challenges and efforts to combat the levels of sea lice have increased both labour and other operational costs.

Compared to Norwegian farmers, the average cost of production is somewhat lower for Faroese farmers – a result of better biological performance; lower feed conversion ratio and higher smolt yield (higher average harvest weights and lower loss-rates), but also due to what has become a generally higher cost level in Norway. Cost level has, however, also increased in the Faroe Islands.

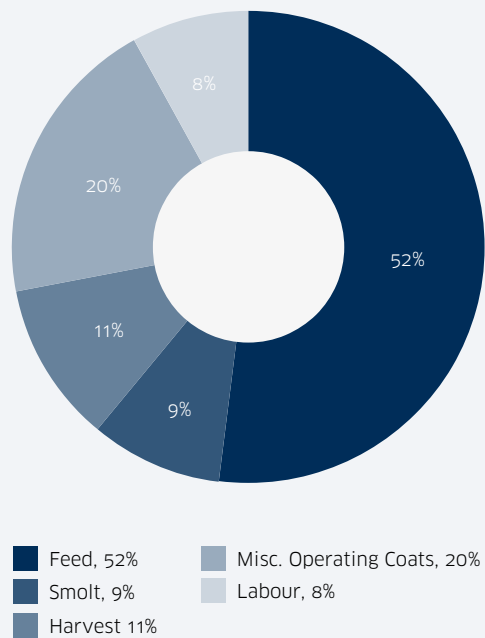
The figure below shows the cost split for Atlantic salmon on a hog-basis – 2015E:

**FIG. 35** COST SPLIT FAROE ISLANDS 2015E  
(GUTTED WEIGHT)



Source: Kontali Analyse

COST SPLIT NORWAY 2015E  
(GUTTED WEIGHT)



Source: Kontali Analyse

## FISH FEED

From a moderate growth in 2010, feed consumption to ocean-farmed salmonids saw double digit growth in both 2011 and 2012, while at the same time exceeded 3.7 million tonnes of fish feed. The following year (2013), consumption/sales decreased approx. 2% due to lower production in the main farming regions.

Industry figures for 2014 show that feed consumption increased with 7% to a new all-time high record of almost 3.9 million tonnes of fish feed. In terms of volume, Norway increased most, while North America saw the largest relative increase.

In 2015, the global estimated feed consumption ended only marginally up – to a new record level. This was a result of lower smolt release of particularly coho and trout in Chile, which led to a decrease in feed consumption of approx. 50 thousand tonnes – and a similar increase combined of the other production regions.

The share of marine ingredients in feed for farmed salmonids has over the last decade decreased. However, both fishmeal and fish oil prices still impact the feed-price delivered to farmers.

Prices for both fish oil and fishmeal reached nearly record levels again in 2014, as a result of lower catches and

correspondingly lower production in Peru and South America. The main reason was that the Peruvian season in the second half year of 2014 was cancelled.

A weak demand from Chinese buyers throughout the first half year of 2015 contributed to a decreasing global price level of fishmeal. The strong El Nino which was seen in 2015 did not affect the Peruvian Anchoveta fishery as much as feared and the 1.1 mill tonnes in the Nov – Jan season 15/16 were caught. However, the oil yield on last season's catches was low, so the fish oil production output was quite low.

Demand from Chinese buyers picked up throughout the second half year of 2015 and exports to China has increased, but at the same time also rebuilt the fishmeal inventories in China.

The price development the coming months depends on how strong the demand from Chinese buyers will be. The Chinese economy has weakened and also experiences some financial upsets which in turn might affect the Chinese fishmeal business.

In Europe one should not expect higher fishmeal and fish oil production this year as quotas on blue whiting and capelin are reduced.

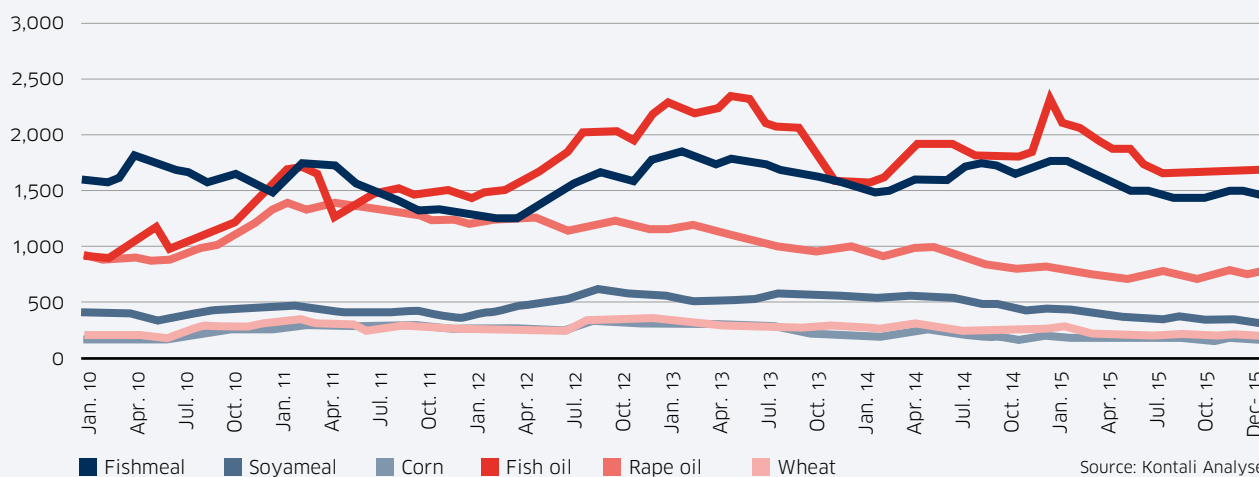
FIG.  
36ESTIMATED FEED CONSUMPTION/SALE TO SALMONIDS FOR SALMONID PRODUCING REGIONS  
ATLANTIC SALMON, LARGE TROUT, COHO, CHINOOK (in 1000 tonnes)

	2010	2011	Change	2012	Change	2013	Change	2014	Change	2015E	Change
Norway	1,337	1,494	12%	1,652	11%	1,618	-2%	1,738	7%	1,748	1%
Chile **	724	1,036	43%	1,258	21%	1,204	-4%	1,283	7%	1,231	-4%
UK	216	228	5%	211	-8%	223	6%	236	6%	244	3%
North America	213	225	6%	235	5%	202	-14%	235	16%	245	4%
Faroe Islands	61	85	38%	89	5%	96	8%	98	2%	102	5%
Others	238	239	0%	262	9%	275	5%	299	9%	323	8%
<b>Total</b>	<b>2,790</b>	<b>3,306</b>	<b>19%</b>	<b>3,706</b>	<b>12%</b>	<b>3,617</b>	<b>-2%</b>	<b>3,888</b>	<b>7%</b>	<b>3,893</b>	<b>0%</b>

\* Incl. freshwater feed to the above listed species

\*\* Chile - Including freshwater feed, but excluding exports (exports ranging from 10 - 15,000 tonnes between 09 and 14E)

Source: Kontali Analyse

FIG.  
37RAW MATERIAL PRICES 2009-2015  
(USD/TONNES)

Source: Kontali Analyse







# Business Objectives and Strategy

## MISSION & VISION

Bakkafrost aims at being a world-class company in the salmon industry. We are committed to provide tasty and healthy quality salmon products to the global marketplace, while focusing on:

- a highly sustainable production from feed to salmon products
- fish welfare and production of top quality food
- creating value to customers, shareholders and society

The Group's strategic focus is to develop the core business further and to focus on activities, which create the best possible value for customers and shareholders. Bakkafrost's long-term experiences within the seafood industry date back to 1968 and overall the Group's long-term strategic objective is to secure a healthy, attractive and competitive low-cost salmon farming group.

## STRATEGY

Our aim – to be a world-class company in the salmon industry providing consumers worldwide with a wide range of healthy and nutritious salmon products – is supported by Bakkafrost's main operational strategies:

## SUSTAINABILITY

We are committed to securing a long-term sustainable increase in production, while balancing animal welfare and a cost-efficient production.

## BIOLOGICAL SECURITY

Fish health, fish welfare and the prevention of diseases are areas of vital importance to us. We aim at farming salmon in a sustainable environment securing the welfare and well-being of the salmon.

## FOOD SAFETY & TOP QUALITY

We aim at delivering products that match or exceed the requirements of our customers.

## ATTRACTIVE COMPANY CULTURE

We are dedicated to creating an interesting place of work, promoting dialogue and making room for different points of view to find the best solutions.

## EFFICIENCY & CREATING VALUE

We are dedicated to optimizing the total value chain – from feed to finished product – and utilizing the benefits of competitive advantages throughout the value chain.

## DEVELOPMENT & GROWTH

We strive for a continuous market driven increase and development in feed, farming, production and sales, in addition to other potential prospects for growth.

## SALES & MARKETING

We are focused on maintaining and strengthening our position in the marketplace as a reliable partner and supplier of healthy and nutritious salmon products.

These priorities shape our actions with the purpose of creating value to our customers and shareholders. Furthermore, we aim at contributing to society and continue pursuing the company's growth strategy.

## CORE VALUES

- We are reliable
- We show respect
- We are persistent, efficient and ambitious

Bakkafrost's core values support our performance and guide our behaviour as company, individuals and group. In all our activities, we are committed to creating long-term value to our customers, shareholders and society by living our values to be reliable, show respect and to be persistent, efficient and ambitious. Our core values and high standards define the attitudes and behaviours that are required to be a world-class company in the salmon industry.

## PEOPLE

Our most important asset is our employees, and in order for Bakkafrost to remain a high-performing organisation and expand our leading market position, it is vital to attract and retain employees with the right competences and knowledge. Therefore, we shall maintain and further strengthen the focus on HR, work satisfaction and developing the competences of the employees.

The foundations of our human resource development is the company culture and the fundamental values of Bakkafrost to be a reliable and responsible partner. Many great results have been achieved during the past years, but there is still room for improvement. Thus striving continuously to improve our business is embedded in our company culture.

We aim at strengthening the competences of our employees on all levels in the Group on a continuous basis by implementing relevant training schemes to meet current and future demands for a qualified workforce. Supporting Bakkafrost's strategy and securing high standards in our

business conduct in addition to creating the best possible value for our customers is essential for all training efforts.

Bakkafrost's training is performed as work-related training, in-house and external courses and other forms of training. It is an ongoing process to further developing professional competences as well as developing leadership skills on all levels in the Group.

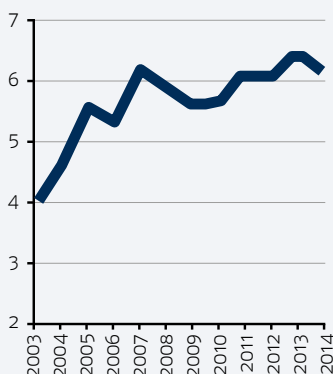
For work-related training, in-house and external courses, as well as other forms of training, we engage and form partnerships with local educational institutions and experts focusing on health, safety, business and commerce education.

## EMPLOYEES

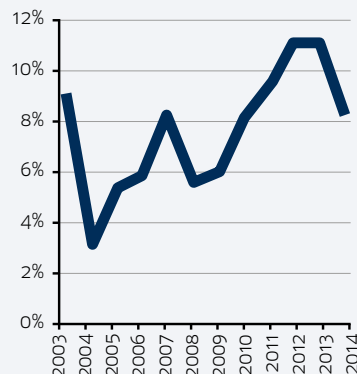
In 2015, the number of full-time equivalent employees in the Bakkafrost Group was 725 employees, compared to 700 employees in 2014. The increase in numbers of employees can be ascribed to increased activities in the FOF and Farming divisions.

The annual turnover of employees in 2015 was 5% in the FOF division, 15% in the Farming division, 19% in the Harvest division and 12% in the VAP division. In 2015, the annual turnover of employees was 10% in Administration and Sales. There are strong seasonal variations related to the Harvest and VAP divisions, primarily due to short-term employment of young employees of 1 to 2 years.

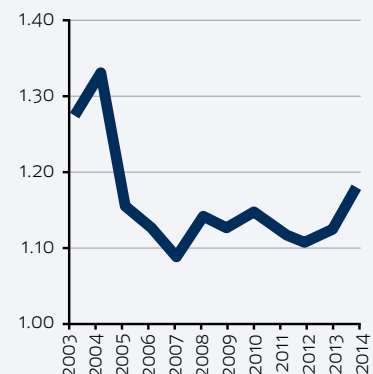
**FIG. 38** AVERAGE HARVEST WEIGHT WFE



**FIG. 39** MORTALITY % OF OUTPUT



**FIG. 40** BIOLOGICAL FEED FACTOR



Source: Avrik\*

\* The figures represent salmon generations from approx. 100% of all Faroese fish farmers.

# Operation

Bakkafrost is the largest salmon producer in the Faroe Islands with a total production of 50,565 t<sub>gw</sub> in 2015. Bakkafrost owns 50% of the total licences in the Faroe Islands, currently representing 77% of the total harvest volumes, which was 66,090 tonnes t<sub>gw</sub> in 2015. In addition to this, Bakkafrost owns 49% in the farming company Faroe Farming, which owns three licences and had a total production of 4,681 t<sub>gw</sub> in 2015.

The Group operates six fully owned hatcheries and 15 fish farming sites for marine production of Atlantic salmon in the Faroe Islands in addition to four sites currently out of production. The sites are located in 14 different fjords. All primary processing takes place at three slaughteries, and the secondary processing takes place at the VAP facilities in Glyvrar and Fuglafjørður.

## THE VALUE CHAIN

Bakkafrost controls the entire value chain from own production of fishmeal, 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 fishmeal 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 utilization of the facilities throughout the value chain and prevents sub-optimization between cost centres.

## 1. Fishmeal, fish oil and fish feed

Bakkafrost sources raw material for the production of fishmeal and fish oil. Various pelagic species are used in the production of fishmeal and fish oil. Bakkafrost maintains exceptionally high standards with regard to the raw material used, and thus secures a first-class meal, oil and feed product. The fish utilized in production is purchased from Faroese as well as foreign vessels operating in the North Atlantic.

Fishmeal has a very high protein content, which makes it an ideal ingredient in feed blends for fish. The fish oil produced is mainly used in fish feed, but is also used in a variety of health supplements and other products.

As producers of our own quality fish feed raw material, Bakkafrost is uniquely situated to select the very best fishmeal and oil for our feed production. Moreover, the produced fishmeal and oil in our fish feed comes from the very same species of fish on which wild ocean salmon feed. This fact alone dramatically enhances and assures the best possible growth conditions for our farming.

## 2. Brood stock

Bakkafrost purchases salmon eggs from different external suppliers based in the Faroe Islands and Iceland. 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 sig-

nificant efforts and resources to improve product quality and performance.

### 3. Juveniles

Bakkafrost owns a total of seven hatchery licences. The Bakkafrost Group operates six hatcheries with a total production capacity of some 12 million smolts per year.

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 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. Bakkafrost has a long-term goal of increasing the size of the smolts further the coming years to 200–300g each.

### 4. Farming

Bakkafrost's nineteen fish farms sites are located in the central and northern part of the Faroe Islands. On average, each fish farm can produce around 3,000 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 1.13, 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 2–4 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 utilization 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 at 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

FIG. 41 THE VALUE CHAIN



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 utilize a higher-than-average weight of the fish, minimising unit costs, biological feed conversion rate and giving a best-in-class performance. The excellent biological situation is crucial to maintain production costs at current levels and to maximize the return on the invested capital.

### 5. Harvesting

All the fish is harvested at the slaughter factories in Klaksvík, Kollafjørður and Strendur. The slaughteries have a daily capacity of around 270 tonnes wfe at the current run rate of 1 shift on average. The fish is transported from the farming sites to the slaughteries in live fish carriers with closed water systems.

Bakkafrost's live fish carrier fleet consists of two vessels for smolt transport and three vessels for transportation of fish to harvest: one small live fish carrier (230m³/45 tonnes wfe) and a larger live fish carrier (660m³/110 tonnes wfe), both with closed systems. The third and largest live fish carrier (3,500 m³/450 tonnes wfe), which was delivered to Bakkafrost in 2015, is equipped with the latest technology. In addition to transport fish to harvest, the largest live fish carrier has equipment for treatment of the fish.

As part of Bakkafrost's investment plan, the current har-

vesting stations will be laid down in 2016 and replaced by one new harvesting plant at Glyvrar.

### 6. Processing and refinement

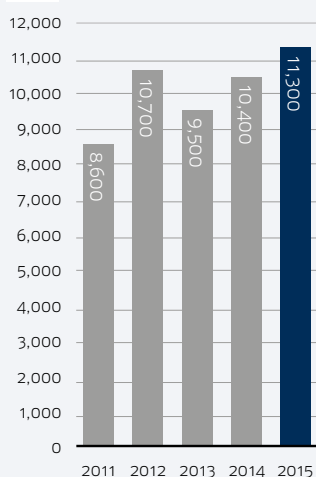
The 4,000m² VAP factory at Glyvrar has a production capacity of 30 tonnes of skinless and boneless 125g vacuum-packed portions in retail boxes per day with two shifts. The VAP factory at Fuglafjørður has a capacity of 15 tonnes of skinless and boneless 125g vacuum-packed chain packed portions per day with two shifts.

The primary customers for these products are the European supermarket chains. Opportunities to grow into new regions and to new customers are present, but 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.

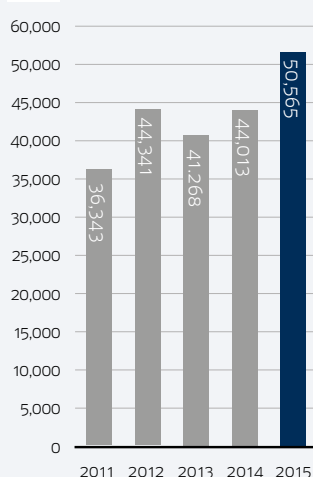
Another market segment important for the VAP products is industrial customers buying whole fillets for further processing and by-products. This market has been developed during the last eight years, and all by-products are now sold at a margin. The customers in this segment are mainly European or from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

The Group intends continuously to upgrade the VAP factory in order to be able to deliver according to market demands. Bakkafrost will increase the VAP capacity from the present approx. 20,000 t<sub>gw</sub> raw material up to 30,000 t<sub>gw</sub>. Therefore, a new combined harvest/VAP factory is built in Glyvrar.

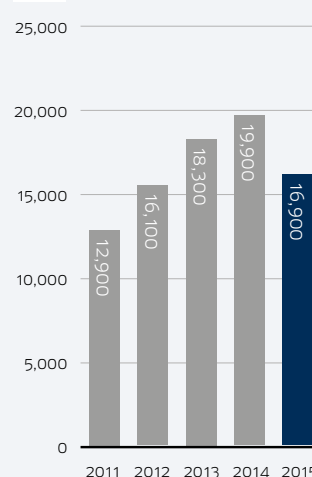
**FIG. 42** SMOLT RELEASE THOUSAND SMOLTS



**FIG. 43** HARVEST VOLUME T<sub>gw</sub>



**FIG. 44** TONNES PRODUCT WEIGHT OF VAP T<sub>gw</sub>





In addition to the increase in capacity, the VAP production will be more efficient and secure a continuing lead in quality. The new plant is expected to open late 2016.

## 7. Sales and distribution

Bakkafrost has two sales offices, one office located in Glyvvar in the Faroe Islands, serving the global market, and one in the UK, serving the UK market. The UK sales office was acquired in late 2012. Prior to this, the sales office was owned by a Bakkafrost customer, thus having the experience and knowledge of selling Bakkafrost's products into the UK market.

### Sales strategy

The Group's strategy is to balance the sales mix between different geographical markets and different product segments. The most important markets are the European, US, Chinese and Russian 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 on the spot market.

Bakkafrost believes that its capability to serve these geo-

graphical 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.

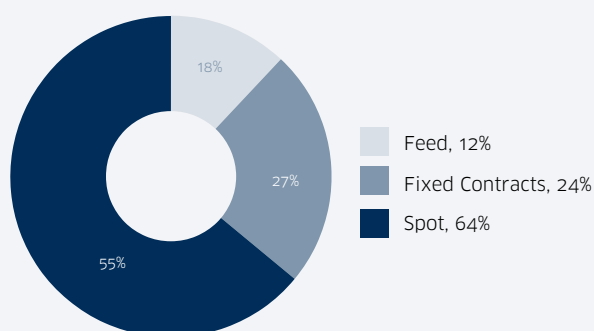
### Distribution

The current distribution network is based on transportation by ship to Europe and Russia and by plane to the US and China from the UK. The Group is able to distribute both fresh and frozen fish to the market.

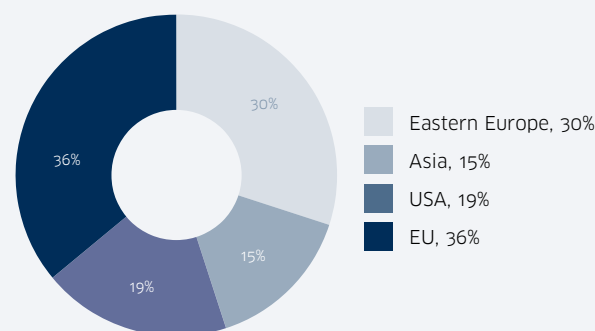
With the existing distribution network, Bakkafrost is able to ship products to the UK within 20 hours by ship. From the UK, the products are distributed by plane to major airports in the US and China within 24 hours, with a total cost of DKK 10-14 per kg from factory to customer.

Products planned for the European and Russian markets are transported by ship to Denmark or the UK within two days for further distribution on trucks.

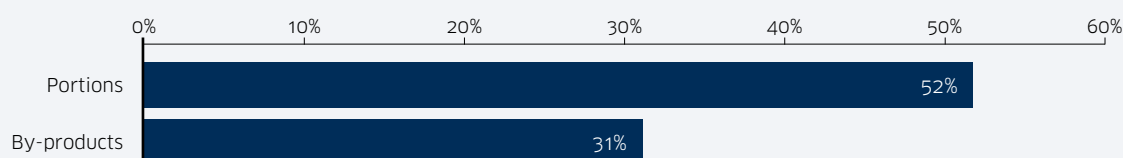
**FIG. 45** EXTERNAL REVENUE OF FIXED CONTRACTS, SPOT AND FEED



**FIG. 46** SALMON - SALES BY MARKETS 2015



**FIG. 47** YIELD IN VAP 2015



# Health, Safety and the Environment

## Values and ethics

Bakkafrost is a totally vertical integrated company controlling the extended value chain from feed to salmon products. The number of employees in the Bakkafrost Group at year-end 2015 was equivalent to 725 full-time employees on a large number of locations in the Faroe Islands.

Bakkafrost's Code of Conduct and the Group's values define standards that apply to the entire Group guiding all employees on how to interact at work and promoting standards of good business practice. Bakkafrost's most important asset is the employees. Our employees are committed to creating value to our customers and shareholders by living our values to be reliable, show respect and to be persistent, efficient and ambitious. Our company policy is to ensure that all employees are treated equally and with respect, and we encourage our employees to help create a work environment free from any discrimination.

## Health and safety

The safety and occupational health of our employees are of vital importance to Bakkafrost. Great focus is on all initiatives in relation to the employees' health and safety and we aim at supporting, maintaining and improving standards on all levels in the Group with focus on training on all levels to continue to work towards our goal to be an injury and accident free work place.

## Fish health and animal welfare

Fish health, animal welfare and bio-security are of the utmost importance for Bakkafrost.

There have been no disease outbreaks at sea since 2005. In February 2014, a potential disease causing ISA-virus was

found in one Bakkafrost site, holding harvest size fish. Due to good disease surveillance and everyday bio-security procedures, this potential threat was revealed and contained at this one site whilst the fish were harvested. This ISA-virus did not result in clinically ill fish and there has been no detections nor suspicions in other sites since.

The challenge regarding sea lice is ongoing. We work on a local level, as well as on a regional and national level, in collaboration with all other salmon farming companies and the authorities in the Faroe Islands on both short- and long-term prevention strategies and trying out non-medicinal approaches.

In 2015, the new live fish carrier M/S Hans á Bakka arrived. The live fish carrier has a 3000m<sup>3</sup> volume and is able to hold 450 tonnes of live fish. The main task for this ship is transporting fish for harvest. With its high carrying capacity, the live fish carrier will improve fish welfare during loading, transport and unloading of the fish and quality after harvest, even more. However, with regards to the lice situation, our intention is primarily to use the ship for freshwater treatments in the first half of 2016 as we have successfully started freshwater treatments using the new live fish carrier. The treatments have shown very good effects.

In 2015, we also introduced cleaner-fish (lumpfish) at a site and the intention is to use cleaner-fish on more sites in 2016.

The amoeba "Paramoeba perurans", known to be able to cause amoebic gill disease (AGD), has since 2013 been a normal find in PCR samples from Faroese salmon sites. The amoeba has not shown to be aggressive on the gills of

Faroese salmon and clinical signs caused by this amoeba are infrequent. Close surveillance with gill-scoring and PCR-samples was initiated in 2014 and is on-going. Bakkafröst is well equipped to treatments if necessary, both with fresh-water in the live fish carrier and with hydrogen peroxide using closed tarpaulins.

When it comes to smolt production, Bakkafröst is greatly increasing capacity and focusing even more on larger high quality smolts. Introduction of IPN-QTL eggs has lowered mortalities in hatcheries and further improved fish quality and welfare.

### **Sustainability**

Our goal is to minimize the impact of our production on the environment and wildlife. This is applicable throughout the whole value chain from feed, farming and to the processed finished product.

Bakkafröst is working towards an ASC standard certification and this work will continue over the coming years. The standards seeks to minimize or eliminate the key negative environmental and social impacts of salmon farming. In 2015, our first site achieved the ASC certification.

In 2015, Havsbrún introduced feed with marine oil cleansed for environmental pollutants, hence ensuring that these substances are removed from the food chain.

### **Food safety and certifications**

Food safety and quality is of top priority for Bakkafröst. The new project of centralisation of our activities of packaging, harvest plant and VAP production at Glyvvar has started, and the building of a new state-of-the-art integrated harvesting and VAP plant is well underway. The new packaging

plant is finished and processing. According to plan, the harvesting part will be ready in summer 2016 and the VAP later in 2016. This project will improve the quality of our product, and it will increase our capacity and emergency backup. We will be able to take out synergies, reduce costs, increase efficiency and meet future consumers' trends.

The company holds several certifications. The whole company is Global GAP certified. Global GAP is an international standard, which focuses on food safety throughout the whole production (based on HACCP), fish welfare and health, safety and minimizing the impact on the environment. Hence, all of our value chain is Global GAP certified – this includes our feed production, hatcheries, all our sea sites, our harvesting and processing plant.

All units, both harvesting and processing are approved and certified by the Faroese authorities based on HACCP standards and EU legislation.

The VAP production is certified according to the BRC and IFS standards both of which were updated in 2015.

Havsbrún, the meal, oil and feed production, holds multiple certifications. Havsbrún is certified according to the Global GAP standard, the ISO 9001:2000 and GMP+ standards, and holds an IFFO RS certification.

As mentioned above, we have started working towards an ASC standard certification and achieved certification on our first site in 2015. Our intention is to have all of our sites certified by 2020.

All units in the company are approved by the Environmental Agency and hold individual environmental approvals.

# Shareholder Information

Information to shareholders has high priority in Bakkafrøst. The company aims at maintaining 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 2016

8 April,	Annual General Meeting
10 May,	Presentation of Q1 2016
7 June,	Capital Market Day
23 August,	Presentation of Q2 2016
8 November,	Presentation of Q3 2016

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

Annual General Meeting and Capital Market Day will take place at Bakkavegur 8, Glyvur, Faroe Islands.

Please note that the financial calendar is subject to change. Any changes will be announced via Oslo Børs, and the Group's website, [www.bakkafrøst.com](http://www.bakkafrøst.com), will be updated accordingly.

## ANNUAL GENERAL MEETING

The parent company's Annual General Meeting is planned for 8 April 2016.

## AUDITORS

The consolidated accounts have been audited by P/F Januar, lögilt grannskoðanarvirki (State Authorised Public Accountants), which is also the auditor of the parent company and all its subsidiaries, registered in the Faroe Islands. Auditor for Havsbrún Norge ASA is Bruli Revisjon AS, and auditor for Havsbrún Shetland Plc. is A9 Partnership Ltd. Auditors for Bakkafrøst UK Ltd. is Forrester Boyd Chartered Accountants.

## DIVIDEND POLICY

Bakkafrøst 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 adjusted EPS shall be paid out as dividends.

Bakkafrøst'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 8.25 (NOK 10.38\*) per share shall be paid out as dividends. This corresponds to approximately DKK 403.1 million (NOK 507.0\* million).

## SHAREHOLDERS, CAPITAL AND VOTES

P/F Bakkafrøst had, on 31 December 2015, a total of 48,858,065 shares outstanding, each with a nominal value of DKK 1. Of the 48,858,065 shares outstanding, P/F Bakkafrøst holds 300,444 treasury shares as at 31 December 2015.

### LARGEST SHAREHOLDERS

These shareholders held directly or indirectly more than 5% of the shares in the company as at 31 December 2015: Oddvør Jacobsen and Regin Jacobsen.

### BOARD MEETINGS

In 2015, the Board of P/F Bakkafrost held 11 Board meetings. Below under each Director's profile is disclosed each Director's participation in Board meetings held during 2015.

\* 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.



# Directors' Profiles







# **RÚNI M. HANSEN**

## **Chairman of the Board**

Born 1967. Faroese citizen. Joined the Board in 2009 and has been Chairman since. Is considered to be independent. Head of Statoil's Arctic Unit and member of Statoil's worldwide exploration management team.

**Education:** MSc. in Economics and Business Administration, Copenhagen Business School. MBA, Lancaster University Management School.

**Board meetings in 2015:** Participated in all 11 Board meetings in 2015.

**Number of shares held in Bakkafrost:** Holds 10,000 shares – no change in portfolio in 2015.

Mr. Hansen has extensive experience in the international oil and gas industry. For a number of years, Mr. Hansen was the Country Manager for Statoil in charge of operations in the Faroes and Greenland, including operation of drilling campaigns. He has also been Manager of Commercial and Negotiations for Europe and North Africa in Statoil.

Member of the World Economic Forum's Global Agenda Council on the Arctic.



# **JOHANNES JENSEN**

## **Deputy Chairman of the Board**

Born 1962. Faroese citizen. Joined the Board in 2009 and has been Deputy Chairman since. Is considered to be independent. Managing Director at Hotel Føroyar.

**Education:** MBA, Lancaster University Management School.

**Board meetings in 2015:** Participated in all 11 Board meetings in 2015.

**Number of shares held in Bakkafrost:** Holds no shares – no change in portfolio in 2015.

Mr. Jensen has extensive experience in seafood and marketing. Mr. Jensen had a long career for Faroe Seafood, where Mr. Jensen was Marketing Director from 1999 to 2001. Mr. Jensen is presently also Chairman of P/F Frost and of the Faroe Islands Tourist Board.



#### **TOR MAGNE LØNNUM**

##### **Board member**

Born 1967. Norwegian citizen. Joined the Board in 2014. Is considered to be independent. CFO of Tryg AS and Tryg Forsikring AS.

**Education:** State authorised public accountant. Executive Master of Business and Administration, University of Bristol and Ecole Nationale des Ponts et Chaussées.

**Board meetings in 2015:** Participated in 8 Board meetings in 2015.

**Number of shares in Bakkafrost:** Holds 1,500 shares – no change in portfolio in 2015.

Mr. Lønnum has extensive experience in the insurance and finance sector. Mr. Lønnum has been Chief Financial Officer of Gjensidige NOR Insurance, Group Director for Strategy and Group Development of Gjensidige NOR Insurance, Deputy CEO, CFO of Gjensidige Forsikring ASA for 9 years.



#### **VIRGAR DAHL**

##### **Board member**

Born 1958. Faroese citizen. Joined the Board in 2006. Is not considered to be independent. Manager in the Marine Department in Tryggingarfelagið Føroyar.

**Education:** Chief Officer, Vinnuháskúlin, Centre of Maritime Studies & Engineering.

**Board meetings in 2015:** Participated in all 11 Board meetings in 2015.

**Number of shares in Bakkafrost:** Holds 7,000 shares – no change in portfolio in 2015.

Mr. Dahl has maritime experience, has sailed as both officer and captain. Following his maritime career, Mr. Dahl has extensive experience from the insurance and finance sector. Mr. Dahl is presently Director of Føroya Realkreditstovnur, the Faroese ship-financing fund.



**ANNIKA FREDERIKSBERG**

**Board member**

Born 1971. Faroese citizen. Joined the Board in 2008. Is not considered to be independent. Sales Manager at Bakkafrost.

**Education:** Basic Vocational Course, Commercial Line, Faroese Business School.

**Board meetings in 2015:** Participated in all 11 Board meetings in 2015.

**Number of shares in Bakkafrost:** Holds directly and indirectly 14,808 shares – change in portfolio in 2015: +276 shares.

Mrs. Frederiksberg has extensive experience in the salmon industry and sales. Mrs. Frederiksberg has been part of Bakkafrost's administration team and sales team for over 25 years.



**ØYSTEIN SANDVIK**

**Board member**

Born 1948. Norwegian citizen. Joined the Board in 2013. Is considered to be independent.

**Education:** Bank Economist.

**Board meetings in 2015:** Participated in all 11 Board meetings in 2015.

**Number of shares in Bakkafrost:** Holds no shares – no change in portfolio in 2015.

Mr. Sandvik has an extensive experience from the finance sector and seafood. Mr. Sandvik has held several positions in Nordea Bank Norge within fish farming and fishery. Mr. Sandvik is presently a member of the Board of Directors of Havfisk ASA.

# Group Management's Profiles





**REGIN JACOBSEN****Chief Executive Officer**

Born 1966. Faroese citizen.

Has been Chief Executive Officer of Bakkafrøst since 1989.

**Education:** Graduate Diploma in Business Administration and Accounting (HD-R), Aarhus School of Business.

**Number of shares in Bakkafrøst:** Holds 4,493,014 shares – changes in portfolio in 2015: +803 shares.

Mr. Jacobsen has extensive experience from the salmon industry and finances. Mr. Jacobsen was Financial Manager of P/F Bakkafrøst before he became Chief Executive Officer of P/F Bakkafrøst.

**GUNNAR NIELSEN****Chief Financial Officer**

Born 1977. Faroese citizen.

**Education:** Graduate Diploma in Business Administration and Accounting (HD-R), Aarhus School of Business. MSc in Business Economics & Auditing, Copenhagen Business School.

**Number of shares in Bakkafrøst:** Holds 317 shares – changes in portfolio in 2015: +317 shares.

Mr. Nielsen has experience in the finance sector. Mr. Nielsen has held positions as corporate finance advisor and auditor. Before joining Bakkafrøst, Mr. Nielsen held different positions in the TF Group, including being advisor and CEO in TF Íløgur.

**ODD ELIASSEN****Managing Director of Havsbrún**

Born 1965. Faroese citizen.

**Education:** Teacher Certificate Exam, Faroese Teacher Training College.

**Number of shares in Bakkafrøst:** Holds 171,332 shares – changes in portfolio in 2015: +651 shares.

Mr. Eliassen 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. Eliassen has been responsible for Havsbrún's farming activities and has held various board positions in the industry. Mr. Eliassen was board member of Bakkafrøst from 2006 to 2012, when he was appointed Managing Director for Havsbrún and member of the Bakkafrøst Group Management.

## Other Managers' Profiles



### **SÍMUN P. JACOBSEN**

#### **Senior Sales Manager**

Símun P. Jacobsen (born 1963), was appointed Senior Sales Manager for the Bakkafrost Group in 2012. Mr. Jacobsen holds a Graduate Diploma in Business Administration and Accounting (HD-R) from Handelshøjskolen Syd in Denmark. Mr. Jacobsen has an extensive career within the business of sales and management in the white fish industry as well as sales of salmon products to European supermarket chains. He was sales manager for United Seafood from 1998 and for Faroe Seafood from 2005.



### **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 in 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 United Seafood from 1994 to 1998.



### **ANDRIAS PETERSEN**

#### **Harvest Manager**

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 thorough 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.



### **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.



**ODDVALD OLSEN****Farming Manager (West region)**

Oddvald Olsen (born 1964) has been Farming Manager at Bakkafrost Farming West since 2011. Mr. Olsen has extensive experience in the salmon farming industry, where he started in 1985.

**HARTVIG JOENSEN****Manager, Fishmeal and Fish oil**

Hartvig Joensen (born 1967) has been Manager of Havsbrún's Fishmeal and Fish oil Department since 2005. He was educated at Copenhagen University College of Engineering as a Technical Assistant in 1995 and holds a Diploma in Leadership from the Faroese Business School from 2005.

**RÚNI WEIHE****Manager, Feed**

Rúni Weihe (born 1980) holds an MSc in Fisheries from the University in Tromsø, Norway (2008). From 2001-2003, Mr. Weihe worked as fish farmer for Vestlax. In 2008, Mr. Weihe became the RnD Manager of Havsbrún's Feed Division. He was appointed Division Manager in 2014 and holds both managerial positions.

**ANNA JOHANSEN****Senior Quality Manager**

Anna Johansen (born 1974) holds a cand.scient in biology from the University of Copenhagen, Denmark (2002). 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 started as Senior Group Quality Manager.

**LEIF AV REYNI****Fresh Water Manager**

Leif av Reyni (born 1976) holds a BSc in Aquaculture from Høgskolen in Sogndal, Norway (1999-2002) and an MSc degree in Aquaculture from Stirling University, Scotland. From 2003-2004, Mr. Reyni worked for Vestlax and 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.

**GUÐRUN OLSEN****HR Manager**

Guðrun Olsen (born 1964) holds a BA from the Copenhagen Business School and a 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 at Faroe Seafood. Guðrun Olsen has been Group HR Manager of Bakkafrost since 2012.

# Corporate Governance

P/F Bakkafrøst 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 30 October 2014 by the Norwegian Corporate Governance Board (the “Code of Practice”).

Bakkafrøst has published the statutory corporate governance report based on the comply or explain principle for each recommendation. The corporate governance report is available on Bakkafrøst’s website.

Bakkafrøst is in compliance with the Norwegian Code of Practice for Corporate Governance apart from:

Article 3 that stipulates, “that mandates granted to the board should be limited in time to no later than the date of the next annual general meeting”.

Bakkafrøst’s Articles of Association § 4A gives the Board of Directors authorization to increase the share capital until the ordinary general meeting of the company in 2017 and § 4B gives the Board of Directors authorization to buy own shares on behalf of the company until the annual general meeting is held in 2017. According to the Faroese company law, a company may in its Article of Association decide that the AGM may give the Board of Directors authority to

increase the share capital and buy own shares. This permission may last for more than one year. For practical reasons, this has been implemented into the Articles of Association of P/F Bakkafrøst. It is the board’s view that if shareholders find this authorisation unacceptable, the board will support a change to the Articles of Associations.

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 2015 to review accounting and operational issues in detail. The committee consists of Rúni M. Hansen (Chairman), Øystein Sandvik and Tor Magne Lønnum.

# Statement by the Management and the Board of Directors on the Annual Report

The Management and the Board of Directors have today considered and approved the Annual and Consolidated Report and Accounts of P/F Bakkafrøst for the financial year 1 January 2015 to 31 December 2015.

The Annual Report has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and Faroese disclosure requirements for listed companies.

In our opinion, the accounting policies used are appropri-

ate, and the Annual and Consolidated Report and Accounts gives a true and fair view of the Group's and parent company's financial positions at 31 December 2015, as well as the results of the Group's and the parent company's activities and cash flows for the financial year 1 January 2015 to 31 December 2015.

Glyvrrar, 14 March 2016

## Management:

Regin Jacobsen,  
CEO

## Board of Directors:

Rúni M. Hansen,  
Chairman of the Board

Johannes Jensen,  
Deputy Chairman of the Board

Tor Magne Lønnum,  
Board Member

Virgar Dahl,  
Board Member

Annika Frederiksberg,  
Board Member

Øystein Sandvik,  
Board Member

# Independent Auditor's Report

TO THE SHAREHOLDERS OF BAKKAFROST P/F

## REPORT ON CONSOLIDATED FINANCIAL STATEMENTS AND PARENT COMPANY FINANCIAL STATEMENTS

We have audited the consolidated financial statements and parent company financial statements of Bakkafrost P/F for the financial year ended 31 December 2015, which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, cash flow statement and notes, including summary of significant accounting policies for the Group as well as for the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Faroese disclosure requirements for listed companies.

## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

The Management is responsible for the preparation of consolidated financial statements and parent company financial statements, that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Faroese disclosure requirements for listed companies and for such internal control as the Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

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

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

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 consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders equity and financial position at 31 December 2015 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year ended 31 December 2015 in accordance with International Financial Reporting Standards as adopted by the EU and Faroese disclosure requirements for listed companies.

Tórshavn, 14 March 2016

**Januar**

løggilt grannskoðanarvirki P/F  
State Authorised Public Accountants

Heini Thomsen  
State Authorised Public Accountant

**STATEMENT ON THE STATEMENTS BY THE CHAIRMAN, BOARD OF DIRECTORS AND MANAGEMENT**

Pursuant to the Faroese Financial Statements Act, we have read the Statements by the Chairman, Board of Directors and Management. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements.

On this basis, it is our opinion that the information provided in the Statements by the Chairman, Board of Directors and Management is consistent with the consolidated financial statements and parent company financial statements.

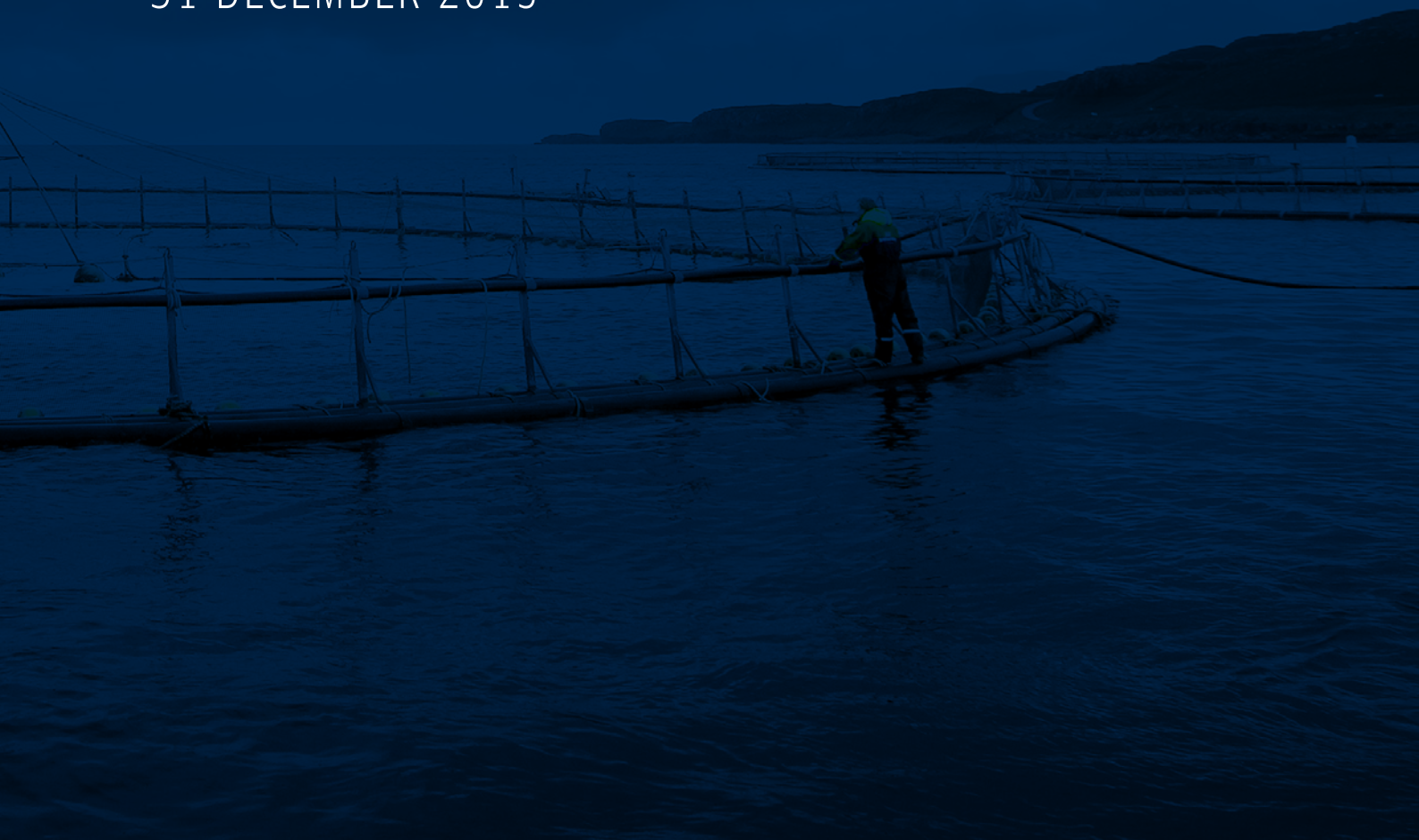
BAKKAFROST GROUP

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# CONSOLIDATED FINANCIAL STATEMENTS

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FOR THE YEAR ENDED  
31 DECEMBER 2015





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# Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2015	2014
<b>Operating revenue</b>		<b>2,850,363</b>	<b>2,683,319</b>
Purchase of goods		-1,201,208	-913,130
Change in inventory and biological assets (at cost)		424,143	96,560
Salary and personnel expenses	5	-281,085	-263,897
Other operation expenses	6	-683,532	-671,908
Depreciation	10	-108,098	-97,169
<b>Operational EBIT*</b>		<b>1,000,583</b>	<b>833,775</b>
Fair value adjustments on biological assets	14	-27,578	-11,547
Onerous contracts	25	-51,004	70,908
Income from associates		6,757	-845
<b>Earnings before interest and taxes (EBIT)</b>		<b>928,758</b>	<b>892,291</b>
Financial income	8	3,599	4,575
Net interest expenses	8	-24,622	-32,376
Net currency effects	8	23,350	40,448
Other financial expenses	8	-6,614	-5,747
<b>Earnings before taxes (EBT)</b>		<b>924,471</b>	<b>899,191</b>
Taxes	19	-114,296	-252,086
<b>Profit or loss for the period continuing operations</b>		<b>810,175</b>	<b>647,105</b>
Profit or loss for the year attributable to			
Non-controlling interests		0	0
<b>Owners of P/F Bakkafrøst</b>		<b>810,175</b>	<b>647,105</b>
Earnings per share (DKK)	23	16.69	13.34

\* EBIT before fair value on biomass, onerous contracts and income from associates

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	2015	2014
<b>Profit for the year</b>	<b>810,175</b>	<b>647,105</b>
Fair value adjustment on financial instruments	-11,492	-40,678
Income tax effect	1,753	6,205
Currency translation differences	576	349
Reserve to share based payment	924	161
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>-8,239</b>	<b>-33,963</b>
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>	<b>0</b>	<b>0</b>
<b>Other comprehensive income</b>	<b>-8,239</b>	<b>-33,963</b>
<b>Total comprehensive income for the year net tax</b>	<b>801,936</b>	<b>613,142</b>

# Consolidated Statement of Financial Position

AS AT 31 DECEMBER

DKK 1,000	Note	2015	2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		294,675	294,675
<b>Total intangible assets</b>	9	<b>294,675</b>	<b>294,675</b>
Land buildings and other real estate		585,741	400,271
Plant machinery and other operating equipment		797,450	491,462
Other operating equipment		44,094	35,002
Prepayments for purchase of PP&E		104,208	114,513
<b>Total property, plant and equipment</b>	10	<b>1,531,493</b>	<b>1,041,248</b>
<b>Non-current financial assets</b>			
Investments in associated companies	11	105,785	100,130
Investments in stocks and shares	12	25,108	25,289
Long-term receivables		0	1,291
<b>Total non-current financial assets</b>		<b>130,893</b>	<b>126,710</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,957,061</b>	<b>1,462,633</b>
<b>Current assets</b>			
Biological assets (biomass)	14	1,060,273	1,013,959
Inventory	13	421,966	266,960
<b>Total inventory</b>		<b>1,482,239</b>	<b>1,280,919</b>
Accounts receivables	15	199,263	172,360
Other receivables	15	179,971	141,912
<b>Total receivables</b>		<b>379,234</b>	<b>314,272</b>
Cash and cash equivalents	17	101,852	405,109
<b>TOTAL CURRENT ASSETS</b>		<b>1,963,325</b>	<b>2,000,300</b>
<b>TOTAL ASSETS</b>		<b>3,920,386</b>	<b>3,462,933</b>

DKK 1,000	Note	2015	2014
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	16	48,858	48,858
Other equity		2,531,624	2,014,795
<b>Total equity</b>		<b>2,580,482</b>	<b>2,063,653</b>
<b>Non-current liabilities</b>			
Deferred taxes	19	349,546	414,014
Long-term interest bearing debts	17	447,559	505,393
Derivatives	18	128,804	116,928
<b>Total non-current liabilities</b>		<b>925,909</b>	<b>1,036,335</b>
<b>Current liabilities</b>			
Short-term interest bearing debts	17	0	100,000
Trade payables		195,223	127,720
Current tax liabilities	19	155,359	124,765
Provisions for onerous contracts	25	51,004	0
Other current liabilities		12,409	10,460
<b>Total current liabilities</b>		<b>413,995</b>	<b>362,945</b>
<b>Total liabilities</b>		<b>1,339,904</b>	<b>1,399,280</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,920,386</b>	<b>3,462,933</b>



# Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2015	2014
<b>Cash flow from operations</b>			
Operating profit (EBIT)		928,758	892,291
Adjustments for write-downs and depreciation	10	112,812	104,476
Adjustments for value adjustments on biomass	14	27,578	11,547
Adjustments for income from associates		-6,758	845
Adjustments for currency effects		27,138	40,452
Provision for onerous contracts	25	51,004	-70,908
Taxes paid	19	-148,225	-81,381
Change in inventory		-228,898	-91,084
Change in receivables		-60,296	152,166
Change in current debts		64,725	-81,166
<b>Cash flow from operations</b>		<b>767,838</b>	<b>877,238</b>
<b>Cash flow from investments</b>			
Acquisition/sale of subsidiaries and activities, etc., net		0	2,450
Proceeds from sale of fixed assets		4,801	8,227
Payments made for purchase of fixed assets	10	-607,627	-237,255
Purchase of shares and other investments		0	-13,409
Change in long-term receivables		1,314	181
<b>Cash flow from investments</b>		<b>-601,512</b>	<b>-239,806</b>
<b>Cash flow from financing</b>			
Repayment of long-term debt		-100,000	-100,000
Change in revolving credit facilities		-51,076	-71,850
Financial income		3,601	4,558
Financial expenses		-31,235	-38,106
Proceeds/Acquisition of treasury shares		6,092	3,437
Financing of associate		-5,981	5,721
Dividend paid		-290,984	-218,160
<b>Cash flow from financing</b>		<b>-469,583</b>	<b>-414,400</b>
<b>Net change in cash and cash equivalents in period</b>		<b>-303,257</b>	<b>223,032</b>
Cash and cash equivalents - opening balance		405,109	182,077
<b>Cash and cash equivalents - closing balance total</b>		<b>101,852</b>	<b>405,109</b>

Unused credit facilities and terms are described in note 17.

## § ACCOUNTING POLICIES

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.

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER

Restricted equity comprises equity in which distribution to the shareholders may only take place adhering to specific procedures prescribed by the Faroese Limited Companies Act. Restricted equity consists of Equity Recognition Sur-

plus and Fair Value Adjustments of Biomass. Free equity may be readily distributed to the shareholders, or otherwise disposed of, after due approval by the AGM. The composition of equity may be specified as follows:

DKK 1,000	Share Capital	Share Premium Reserve	Treasury Shares	Share-Based Payment	Currency translation differences	Derivatives	Proposed Dividend	Fair value adjustments	Retained Earnings	Total Equity
<b>Equity 01.01.2015</b>	<b>48,858</b>	<b>306,537</b>	<b>-25,557</b>	<b>161</b>	<b>1,458</b>	<b>-95,882</b>	<b>293,148</b>	<b>284,855</b>	<b>1,250,075</b>	<b>2,063,653</b>
<b>Consolidated profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-27,578</b>	<b>837,753</b>	<b>810,175</b>
<b>Other comprehensive income:</b>										
Fair value adjustment on financial derivatives	0	0	0	0	0	-11,492	0	0	0	-11,492
Income tax effect	0	0	0	0	0	1,753	0	0	0	1,753
Share-based payment	0	0	0	924	0	0	0	0	0	924
Currency translation differences	0	0	0	0	576	0	0	0	0	576
<b>Total other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>924</b>	<b>576</b>	<b>-9,739</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-8,239</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>924</b>	<b>576</b>	<b>-9,739</b>	<b>0</b>	<b>-27,578</b>	<b>837,753</b>	<b>801,936</b>
<b>Transaction with owners:</b>										
Treasury shares	0	0	5,878	0	0	0	0	0	0	5,878
Paid-out dividend	0	0	0	0	0	0	-293,148	0	2,163	-290,985
Proposed dividend	0	0	0	0	0	0	403,079	0	-403,079	0
<b>Total transaction with owners</b>	<b>0</b>	<b>0</b>	<b>5,878</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>109,931</b>	<b>0</b>	<b>-400,916</b>	<b>-285,107</b>
<b>Total changes in equity</b>	<b>0</b>	<b>0</b>	<b>5,878</b>	<b>924</b>	<b>576</b>	<b>-9,739</b>	<b>109,931</b>	<b>-27,578</b>	<b>436,837</b>	<b>516,829</b>
<b>Total equity 31.12.2015</b>	<b>48,858</b>	<b>306,537</b>	<b>-19,679</b>	<b>1,085</b>	<b>2,034</b>	<b>-105,621</b>	<b>403,079</b>	<b>257,277</b>	<b>1,686,912</b>	<b>2,580,482</b>
<b>Equity 01.01.2014</b>	<b>48,858</b>	<b>306,537</b>	<b>-28,949</b>	<b>0</b>	<b>1,109</b>	<b>-61,409</b>	<b>219,862</b>	<b>296,402</b>	<b>882,867</b>	<b>1,665,277</b>
<b>Consolidated profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-11,547</b>	<b>658,652</b>	<b>647,105</b>
<b>Other comprehensive income:</b>										
Fair value adjustment on financial derivatives	0	0	0	0	0	-40,678	0	0	0	-40,678
Income tax effect	0	0	0	0	0	6,205	0	0	0	6,205
Share-based payment	0	0	0	161	0	0	0	0	0	161
Currency translation differences	0	0	0	0	349	0	0	0	0	349
<b>Total other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>161</b>	<b>349</b>	<b>-34,473</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-33,963</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>161</b>	<b>349</b>	<b>-34,473</b>	<b>0</b>	<b>-11,547</b>	<b>658,652</b>	<b>613,142</b>
<b>Transaction with owners:</b>										
Treasury shares	0	0	3,392	0	0	0	0	0	0	3,392
Paid-out dividend	0	0	0	0	0	0	-219,862	0	1,704	-218,158
Proposed dividend	0	0	0	0	0	0	293,148	0	-293,148	0
<b>Total transaction with owners</b>	<b>0</b>	<b>0</b>	<b>3,392</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>73,286</b>	<b>0</b>	<b>-291,444</b>	<b>-214,766</b>
<b>Total changes in equity</b>	<b>0</b>	<b>0</b>	<b>3,392</b>	<b>161</b>	<b>349</b>	<b>-34,473</b>	<b>73,286</b>	<b>-11,547</b>	<b>367,208</b>	<b>398,376</b>
<b>Total equity 31.12.2014</b>	<b>48,858</b>	<b>306,537</b>	<b>-25,557</b>	<b>161</b>	<b>1,458</b>	<b>-95,882</b>	<b>293,148</b>	<b>284,855</b>	<b>1,250,075</b>	<b>2,063,653</b>

# Notes to the Consolidated Financial Statements

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BAKKAFROST GROUP

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**NOTE 1. GENERAL INFORMATION**

P/F Bakkafrost ("company") is a public limited company domiciled in the Faroe Islands at Bakkavegur 8, Glyvrrar.

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.

**2.1 BASIS OF PRESENTATION**

The Annual Report comprises the income statement, statement of comprehensive income, 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 Financial Reporting act.

The Annual and Consolidated Report and Accounts for the period 1 January to 31 December 2015 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 authorised for issue by the Board of Directors on 14 March 2016.

The Annual Report has been prepared on a historical cost basis except for where IFRS require recognition at fair value, mainly valuation of licences, which are acquired by business combinations, 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.

There are no new or amended IFRSs or IFRIC interpretations that are effective for the financial year beginning on or after 1 January 2015 that are assumed to have a material impact on the Group.

**2.2 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 goodwill in the Income Statement.

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 significant influence (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 Income Statement, the profit share is presented on a separate line, while the assets are presented in the statement of financial position as non-current 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.

### 2.2.1 Translation of Foreign Currencies

For each individual entity, which is recognised in the consolidated accounts, a functional currency is determined in which the entity measures its results and financial position. The functional currency is the currency of the primary economic environment in which the entity operates. Transactions in other currencies, than the functional currency, are transactions in a foreign currency.

A foreign currency transaction is, on initial recognition, recorded in the functional currency, at the spot exchange rate between the functional currency and the foreign currency on the date of the transaction.

At each balance sheet date, receivables, payables and other monetary items in foreign currency are translated to the functional currency using the closing rate. Exchange differences arising on the settlement of monetary items or on translating monetary items, at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, shall be recognised in the income statement under financial revenues and expenses.

On consolidation, the results and financial position of the Group's individual entities with different functional currencies than the Group's presentation currency (DKK) are translated into the Group's presentation currency using the following procedure:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet.
- Income and expenses are translated at exchange rates at the dates of the transactions.
- All resulting exchange differences are recognised directly in equity as a separate component of equity. For practical reasons an average rate for the period that approximates the exchange rates at the dates of the transactions is used.

### 2.3 REVENUES

Revenue is measured at the fair value of the consideration received or receivables 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 salmon, fish-meal, oil and feed. 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.

### 2.4 CLASSIFICATION PRINCIPLES

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 Income Statement. 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 an IFRS adjustment. The IFRS adjustment is the difference between biomass measured at cost and measured at fair value.

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 noncurrent 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.

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.



## 2.5 FUNCTIONAL CURRENCY

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.

## 2.6 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 entered to the Income Statement, hold until maturity, loans and receivables, available for sale, and other liabilities.

### 2.6.1 Financial instruments at fair value with changes in value entered to the Income Statement

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 entered to the Income Statement alongside forward currency contracts, which are recognised at fair value, with changes in value, entered to the Income Statement.

### 2.6.2 Hedge accounting

Bonds are measured at fair value.

Interest rate swaps and forward currency settlement contracts are used as hedges of its exposure to foreign currency risk, interest expenses and instalment payments in foreign currencies. The hedges are considered to be cash flow hedges.

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve.

Amounts recognised as other comprehensive income are transferred to the Income Statement, when the hedged transaction affects profit or loss, and when financial liabilities are settled, such as when the hedged financial income or financial expense is recognised.

If the forecast transactions or commitments are no longer expected to occur, the cumulative gain or loss previously

recognised in equity is transferred to the Income Statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until firm commitment affects profit or loss, or settlement payments are made.

### 2.6.3 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.

## 2.7 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.

## 2.8 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 disclosed if material.

## 2.9 STANDARDS ISSUED, BUT NOT YET EFFECTIVE

Standards and interpretations, which are issued at the date of the Groups Financial statements, but will become effective at a later date, are disclosed below. The disclosures contain standards including amendments, which may influence recognition or measurements in the Financial statements, alter existing disclosures or require additional disclosures when effective at a future date. The standards are implemented as they become effective.

New standards regulating issues not relevant to the Group are omitted from this narrative.

**2.9.1 IFRS 14 Regulatory Deferral Accounts**

IFRS 14 was issued in January 2014 and allows entities, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption to IFRS. The standard becomes effective for statements beginning on 1 January or later. As the Group is an existing preparer of statements according to IFRS, this standard does not apply.

**2.9.2 IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and supersedes all current revenue recognition requirements under existing IFRS regulation. IFRS 15 is more prescriptive than existing IFRS regulation and establishes a comprehensive framework for revenue recognition. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled to, in exchange for transferring goods or services to a customer. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers: Identify the contract with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for periods beginning on or after 1 January 2017. Earlier application is permitted.

**2.10 AMENDMENTS TO EXISTING STANDARDS IN ISSUE****2.10.1 IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments sets out the requirements to recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 is intended to replace IAS 39 in its entirety. In July 2014, the complete version of IFRS 9 was issued.

It includes a model for classifying financial assets that is driven by an asset's cash flow and the business model in which it is held; a model for classifying liabilities, including recognition in other comprehensive income, rather than in profit or loss, of gains (and losses) that are due to the deterioration (improvement) in an entity's own credit risk on financial liabilities that an entity has elected to measure at fair value; a single forward-looking "expected loss" impairment model for financial assets not measured at fair value through profit or loss that requires entities to account for

expected credit losses from when the financial assets are first recognised, and to recognise full lifetime expected losses when credit risk has increased significantly since initial recognition. The model applies equally to off-balance sheet exposures such as loan commitments and financial guarantee contracts; a hedge accounting model that more closely aligns the accounting treatment with the entity's risk management activities and provides enhanced disclosures about risk management activity.

IFRS 9 becomes effective for accounting periods beginning on 1 January 2018. Earlier application is permitted.

IAS 16, IAS 38 and IAS 16 Clarification of acceptable methods of depreciation and amortisation.

The standards state that the expected pattern of consumption of the economic benefits of assets is the basis of depreciations and amortisations. The amendment clarifies that the use of the revenue based method as basis for depreciation and amortisation is not appropriate because revenue generated by use of the assets generally reflects factors other than the consumption of the economic benefits embodied in the assets. The presumption can be rebutted in certain limited circumstances. The amendment is required to be applied in periods beginning on 1 January 2016.

**2.10.2 IAS 41 and IAS 16 Bearer plants**

Amendments to IAS 16 and 41 regarding bearer plants was issued in May 2014. Before the amendments, all biological assets were to be measured at fair value less costs to sell. However, a subset of biological assets are exclusively used to produce further biological assets. At maturity, no further biological transformation takes place and the economic benefits derived is solely further biological assets, IASB decided, that that bearer plants should be accounted for in the same way as PPE in IAS 16, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16 instead of IAS 41. The amendment is required to be applied on periods beginning on 1 January 2016, and will be relevant if the Group decides to keep biomaterial for roe production.

**2.10.3 IAS 27 Equity method in separate financial statements**

Equity method in separate financial statements was issued in August 2014 and will allow entities to use the equity method to account for investments in subsidiaries in the separate financial statements. The amendment is required

to be applied on periods beginning on 1 January 2016, and must be applied retrospectively in accordance with IAS 8.

#### **2.10.4 IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate of joint venture**

The amendments address the conflict between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates when accounting for the sale or contribution of a subsidiary to a joint venture or associate resulting in the loss of control of the subsidiary. The amendment is required to be applied on periods beginning on 1 January 2016.

#### **2.10.5 IAS 1 Disclosure initiative**

The disclosure initiative amendments address concerns expressed about some of the existing presentation and disclosure requirements in IAS1 and ensure that entities are able to use judgement when applying those requirements. As a result, it introduces five narrow focus improvements to the disclosure requirements that relate to materiality; order of the notes, subtotals, accounting policies and disaggregation. The amendments also clarify the requirements in paragraph 82A of IAS1 for presenting an entity's share of items of other comprehensive income of associates and joint ventures accounted for using the equity method. These amendments are required to be applied for accounting periods beginning on or after 1 January 2016. Earlier application is permitted.

### **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 Bakkafrost Group's Financial Statements, are described in the notes.

## NOTE 4. OPERATING SEGMENT INFORMATION

2015 - DKK 1,000	Farming	Value Added Products	Fishmeal, oil and feed	Eliminations	Bakkafrost Group
External operating revenues	1,763,498	736,657	350,208	0	2,850,363
Internal operating revenues	510,097	0	697,844	-1,207,941	0
<b>Total operating revenues</b>	<b>2,273,595</b>	<b>736,657</b>	<b>1,048,052</b>	<b>-1,207,941</b>	<b>2,850,363</b>
Depreciation and amortisation	-71,202	-7,354	-29,542	0	-108,098
Operating expenses	-663,306	-133,155	-846,000	-99,221	-1,741,682
Internal operating expenses	-697,844	-510,097	0	1,207,941	0
<b>Operating EBIT</b>	<b>841,243</b>	<b>86,051</b>	<b>172,510</b>	<b>-99,221</b>	<b>1,000,583</b>
Provision for onerous contracts	0	-51,004	0	0	-51,004
Fair value adjustments on biological assets	-27,578	0	0	0	-27,578
Income from associates	1,879	-23	4,901	0	6,757
<b>EBIT</b>	<b>815,544</b>	<b>35,024</b>	<b>177,411</b>	<b>-99,221</b>	<b>928,758</b>
Net interest revenue	25,681	7,093	512	-29,687	3,599
Net interest expenses	-31,682	-8	-22,619	29,687	-24,622
Net currency effects	23,539	-7	-182	0	23,350
Other financial expenses	-6,370	-16	-228	0	-6,614
<b>Earnings before taxes</b>	<b>826,712</b>	<b>42,086</b>	<b>154,894</b>	<b>-99,221</b>	<b>924,471</b>
Tax	-80,324	-6,030	-27,942	0	-114,296
<b>Net earnings</b>	<b>746,388</b>	<b>36,056</b>	<b>126,952</b>	<b>-99,221</b>	<b>810,175</b>
<b>Operating EBITDA</b>	<b>912,445</b>	<b>93,405</b>	<b>202,052</b>	<b>-99,221</b>	<b>1,108,681</b>
<b>ASSETS</b>	3,976,007	261,835	793,774	-1,111,230	3,920,386
Whereof intangible assets	294,675	0	0	0	294,675
<b>LIABILITIES</b>	<b>1,148,144</b>	<b>50,788</b>	<b>572,846</b>	<b>-431,874</b>	<b>1,339,904</b>
<b>INVESTMENTS</b>					
Property, plant and equipment	470,565	1,535	31,013	0	503,113
Prepayment for PP&E	104,209	0	0	0	104,209
Depreciation	-71,202	-7,354	-29,542	0	-108,098

2014 - DKK 1,000	Farming	Value Added Products	Fishmeal, oil and feed	Eliminations	Bakkafrost Group
External operating revenues	1,412,509	913,406	357,404	0	2,683,319
Internal operating revenues	686,962	0	613,326	-1,300,288	0
<b>Total operating revenues</b>	<b>2,099,471</b>	<b>913,406</b>	<b>970,730</b>	<b>-1,300,288</b>	<b>2,683,319</b>
Depreciation and amortisation	-62,784	-9,133	-25,250	0	-97,167
Operating expenses	-729,390	-147,397	-789,180	-86,410	-1,752,377
Internal operating expenses	-613,326	-686,962	0	1,300,288	0
<b>Operating EBIT</b>	<b>693,971</b>	<b>69,914</b>	<b>156,300</b>	<b>-86,410</b>	<b>833,775</b>
Provision for onerous contracts	0	70,908	0	0	70,908
Fair value adjustments on biological assets	-11,547	0	0	0	-11,547
Income from associates	-7,182	31	6,307	0	-844
<b>EBIT</b>	<b>675,242</b>	<b>140,853</b>	<b>162,607</b>	<b>-86,410</b>	<b>892,292</b>
Net interest revenue	29,863	1,988	1,573	-28,866	4,558
Net interest expenses	-35,610	-880	-24,735	28,866	-32,359
Net currency effects	43,696	-3	-3,245	0	40,448
Other financial expenses	-5,451	-21	-275	0	-5,747
<b>Earnings before taxes</b>	<b>707,740</b>	<b>141,937</b>	<b>135,925</b>	<b>-86,410</b>	<b>899,192</b>
Tax	-202,071	-25,549	-24,467	0	-252,087
<b>Net earnings</b>	<b>505,669</b>	<b>116,388</b>	<b>111,458</b>	<b>-86,410</b>	<b>647,105</b>
<b>Operating EBITDA</b>	<b>756,755</b>	<b>79,047</b>	<b>181,550</b>	<b>-86,410</b>	<b>930,942</b>
<b>ASSETS</b>	3,305,566	187,328	754,904	-784,865	3,462,933
Whereof intangible assets	294,675	0	0	0	294,675
<b>LIABILITIES</b>	<b>753,064</b>	<b>7,949</b>	<b>545,308</b>	<b>92,959</b>	<b>1,399,280</b>
<b>INVESTMENTS</b>					
Property, plant and equipment	107,777	2,399	12,566	0	122,742
Prepayment for PP&E	114,513	0	0	0	114,513
Depreciation	-62,784	-9,133	-25,250	0	-97,167

<b>SALMON - DISTRIBUTION OF HARVESTED AND PURCHASED VOLUME</b>	<b>2015 Tgw</b>	<b>2015 %</b>	<b>2014 Tgw</b>	<b>2014 %</b>
Harvested volume used in VAP production	16,870	29.8%	19,897	39.6%
External purchase of salmon for VAP production	1,325	2.3%	1,290	2.6%
Harvested volume sold fresh/frozen	33,695	59.6%	24,116	48.0%
External purchase of salmon sold fresh/frozen	4,681	8.3%	4,956	9.9%
<b>Harvested and purchased volume</b>	<b>56,571</b>	<b>100.0%</b>	<b>50,259</b>	<b>100.0%</b>

<b>FISHMEAL, OIL AND FEED (FOF) DISTRIBUTION FEED</b>	<b>2015 tonnes</b>	<b>2015 %</b>	<b>2014 tonnes</b>	<b>2014 %</b>
Volumes used internally	70,074	88.9%	68,186	79.5%
External purchase	8,791	11.1%	17,538	20.5%
<b>Sold volumes</b>	<b>78,865</b>	<b>100.0%</b>	<b>85,724</b>	<b>100.0%</b>

<b>PRODUCTION OF FISHMEAL AND FISH OIL</b>	<b>2015 Tonnes</b>	<b>2015 %</b>	<b>2014 tonnes</b>	<b>2014 %</b>
Fishmeal	49,343	86.3%	40,827	86.3%
Fish oil	7,854	13.7%	6,460	13.7%
<b>Sold volumes</b>	<b>57,197</b>	<b>100.0%</b>	<b>47,287</b>	<b>100.0%</b>

**GEOGRAPHIC BREAKDOWN OF SALES REVENUES BASED ON SEGMENTS AND CUSTOMER LOCATION**

<b>2015 - DKK 1,000</b>	<b>Farming</b>	<b>VAP</b>	<b>FOF</b>
Europe	163,750	642,591	350,209
Eastern Europe	659,651	39,728	0
USA	430,503	41,741	0
China	296,396	4,476	0
Other	213,198	8,121	0
<b>Total</b>	<b>1,763,498</b>	<b>736,657</b>	<b>350,209</b>

<b>2014 - DKK 1,000</b>	<b>Farming</b>	<b>VAP</b>	<b>FOF</b>
Europe	151,906	837,419	357,404
Eastern Europe	348,336	22,992	0
USA	387,392	35,680	0
China	328,252	8,988	0
Other	196,623	8,327	0
<b>Total</b>	<b>1,412,509</b>	<b>913,406</b>	<b>357,404</b>



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 sales of fishmeal, fish oil and fish feed (FOF).

The same accounting principles, as described for the consolidated financial statements, have been applied for the segment reporting. Intersegment transfers or transactions are entered into under normal commercial terms and conditions, and the measurement used in the segment reporting is the same as used for the third parties transactions. The pricing principle between the VAP and Farming segment is based on market reference prices for spot sale.

#### MAJOR CUSTOMERS

One customer represents DKK 578 million of the revenue amount in the VAP segment. This is 63% of the total revenue in the VAP segment.

#### § ACCOUNTING POLICIES

##### SEGMENT REPORTING

Fundamentally, the Bakkafrost Group has three business activities: farming of fish, including sales of fresh fish; value adding of salmonoid products; and the production of fishmeal, fish oil and fish feed.

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

#### Farming including sales of fresh fish

Fish farming involves the breeding and on-growing of salmon as well as the slaughtering, sales and distribution of salmon. The Group has production facilities in the 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. The salmon is partly sold on the spot market for salmon products and exported to foreign seafood processing companies.

#### Value added products (VAP)

A significant share of the farmed products is value added at the factories in Glyvvar and Fuglafjørður. The outputs of the factories are predominantly portions for the retail market. 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.

#### Fishmeal, fish oil and fish feed (FOF)

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

## NOTE 5. SALARIES AND OTHER PERSONNEL EXPENSES

### BREAKDOWN OF PAYROLL EXPENSES

DKK 1,000	2015	2014
Wages and salaries	250,211	234,315
Social security taxes	9,038	8,466
Pension expenses	19,001	17,396
Other benefits	2,835	3,720
<b>Total payroll expenses</b>	<b>281,085</b>	<b>263,897</b>
Average number of full-time employees	725	700

## REMUNERATION TO CORPORATE MANAGEMENT

Salary and other benefits paid	Salary	Bonus***	Pension	Other	Total 2015
Chief Executive Officer	1,792	183	0	88	2,063
Managing Director	1,353	142	0	88	1,583
Chief Financial Officer*	124	0	0	0	124
Chief Financial Officer**	1,071	91	0	88	1,250
<b>Total remuneration</b>	<b>4,599</b>	<b>330</b>	<b>0</b>	<b>264</b>	<b>5,020</b>

Salary and other benefits paid	Salary	Bonus***	Pension	Other	Total 2014
Chief Executive Officer	1,554	158	0	44	1,756
Managing Director	1,352	144	0	89	1,585
Chief Financial Officer*	1,603	28	0	82	1,713
Chief Financial Officer**	90	0	0	7	97
<b>Total remuneration</b>	<b>4,599</b>	<b>330</b>	<b>0</b>	<b>222</b>	<b>5,151</b>

\* The former Chief Financial Officer resigned his position in November 2014.

\*\* Appointed Chief Financial Officer as of December 2014.

\*\*\* Included is provision to share-based payment.

## FEES PAID TO THE BOARD OF DIRECTORS

DKK 1,000		2015	2014
Rúni M. Hansen**	Chairman of the Board	421	385
Johannes Jensen	Deputy Chairman of the Board	239	224
Trine Sæther Romuld**	Member of the Board	0	47
Annika Frederiksberg*	Member of the Board	191	175
Virgar Dahl	Member of the Board	191	175
Øystein Sandvik**	Member of the Board	235	207
Tor Magne Lønnum***/**	Member of the Board	235	165
<b>Total remuneration</b>		<b>1,512</b>	<b>1,378</b>

\* Annika Frederiksberg is also an employee in the Bakkafrost Group. For this, she received DKK 596 thousand (2014: DKK 579 thousand).

\*\* Member of the audit committee. Salary includes fee to the audit committee.

\*\*\* Elected as member of the board in April 2014.

**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 Payment**

Bakkafrost may terminate employment by giving Group Management Executives a notice period. The company's period of notice for the Group's Chief Executive Officer is 24 months. The company's period of notice for other Group Management Executives covers a period from 6 to 12 months.

**SHARE BASED PAYMENT**

Bakkafrost has established a share saving plan for its employees. It is the Board's intention that the plan shall be a continuing part of the company's employee incentive scheme. The Board shall, however, have the right to decide, in its sole discretion, whether or not the plan will be extended in the future, and the terms of the plan.

Employees may invest up to 5% of their base salary in Bakkafrost shares. The saved amount is deducted from the monthly net salary and used to purchase Bakkafrost shares in behalf of the employees. The purchase will be made from

Bakkafrost's treasury shares or on the market. An employee may not change the savings amount during the year, but an employee may cancel the subscription during the year. The purchase price and the number of shares acquired by the company will be reported in accordance with the applicable regulations.

After a lock-in period of two calendar years, one extra share will be awarded for each share purchased. Shares transferred to employees are acquired by the company on the market.

**LOANS TO EMPLOYEES**

As at 31.12.2015, there are no loans to employees.

**§ ACCOUNTING POLICIES****SHARE BASED PAYMENTS**

The share saving plan liabilities and payroll expense have been allocated over the employees' contribution period. The contribution period is from when the employee signed the share saving plan and until the shares are granted. The fair value of these liabilities will be determined using the number of shares contracted at the start of the share saving plan, using the exchange rate on the date of the employee signature, adjustment is made for estimated leavers of the share saving plan. The difference between the fair value and the exchange rate, when the shares are granted, will be booked as a financial item in the income statement. The liability is recognised in other equity reserves within equity.

**PENSIONS**

The Group has employed a defined contribution pension scheme. Pension premiums are charged to the Income Statement as they accrue. The Group has no additional pension liabilities towards the employees, apart from these periodical payments.

**NOTE 6. OTHER OPERATING EXPENSES**

	2015	2014
Maintenance	-138,927	-116,378
Operating expenses	-55,526	-64,167
Health	-88,435	-115,074
Freight	-238,401	-214,468
Energy	-94,073	-98,996
Other costs	-68,170	-62,825
<b>Other operating expenses total</b>	<b>-683,532</b>	<b>-671,908</b>
R&D expenditure consist of other operating expenses and of salaries in total	-1,150	-1,746

**NOTE 7. AUDITOR'S FEES**

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

DKK 1,000	2015	2014
Statutory auditing	-819	-825
Tax advisory services	-34	-18
Other services	-229	-136
<b>Total auditor's fees</b>	<b>-1,082</b>	<b>-979</b>

**NOTE 8. NET FINANCIAL ITEMS**

DKK 1,000	2015	2014
Other financial income	3,599	4,575
<b>Financial income</b>	<b>3,599</b>	<b>4,575</b>
Interest expenses on long-term loans	-22,304	-30,843
Loss on financial derivatives	0	-17
Interest expenses on credit lines	-2,287	-1,457
Interest expenses on accounts payable	-31	-59
<b>Financial expenses</b>	<b>-24,622</b>	<b>-32,376</b>
Unrealised exchange gain on bond	16,835	31,100
Other exchange differences	6,515	9,348
<b>Net currency effects</b>	<b>23,350</b>	<b>40,448</b>
Other financial expenses	-6,614	-5,747
Other financial items	-6,614	-5,747
<b>Net financial items</b>	<b>-4,287</b>	<b>6,900</b>

## § ACCOUNTING POLICIES

### 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.

### BORROWING COSTS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## NOTE 9. INTANGIBLE ASSETS

DKK 1,000	Goodwill	Licences	Total 2015
Acquisitions costs as at 01.01.15	4,537	290,138	294,675
Additions in the year as a result of acquisitions	0	0	0
<b>Acquisitions cost as at 31.12.15</b>	<b>4,537</b>	<b>290,138</b>	<b>294,675</b>
Impairments 01.01.15	0	0	0
<b>Accumulated depreciation and write-downs as at 31.12.15</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net book value as at 31.12.15</b>	<b>4,537</b>	<b>290,138</b>	<b>294,675</b>

DKK 1,000	Goodwill	Licences	Total 2014
Acquisitions costs as at 01.01.14	4,537	290,138	294,675
Additions in the year as a result of acquisitions	0	0	0
<b>Acquisitions cost as at 31.12.14</b>	<b>4,537</b>	<b>290,138</b>	<b>294,675</b>
Impairments 01.01.14	0	0	0
<b>Accumulated depreciation and write-downs as at 31.12.14</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net book value as at 31.12.14</b>	<b>4,537</b>	<b>290,138</b>	<b>294,675</b>

Bakkafrost operates its sea farming activity in 13 identifiable CGUs based on single or groups of sea farming licenses.

Seven out of these licenses are issued by the government without consideration, and hence are not capitalised. These belong to the North region.

The other six CGUs are acquired as part of business combinations. Respectively, when acquiring the Vestlax Group and the Havsbrún Group, hence two groups of CGUs. These

are belonging to the West region. Bakkafrost considers these as significant in comparison to Bakkafrost's total carrying amount of goodwill and intangible assets with indefinite useful lives. Bakkafrost has decided to disclose specific information concerning these two groups of CGUs.

### 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. Bakkafrøst has substantial assets with indefinite lives in the form of licenses. The licenses are subject to impairment testing in combination with goodwill in the annual test. Bakkafrøst identifies each farming zone, which may 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). The cash flow used in the calculations represents the management's best estimate at the time of reporting. If the carrying amount is higher than the calculated value in use, the assets are considered impaired. The estimated cash flow is based on the assumption of continued operation. The basis for the estimated cash flow is the strategic plan for the following years. The strategic plans have been reviewed and the targets approved by the Group management.

All CGUs have the same operating assumptions since the operating conditions are predominantly the same all over the Faroe Islands. The considered operating conditions are costs of feed, smolt, harvest, packaging, transport and other costs. Other operating conditions considered the same are mortality, production time, fallowing and harvest weight. CAPEX is also assumed to be the same for all CGUs over the calculated period. All CGUs are calculated with the same WACC. If there will be variances between the assumptions for the different CGUs in the future, this will be incorporated into the impairment test.

### 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 flow from a conservative estimate was sufficient to support the carrying amount of net assets. The test confirmed the asset values.

### The key assumptions

The key assumptions in the calculations of value in use are harvest volume, prices and costs, hence EBIDTA and WACC. Amongst other assumptions are inflation, CAPEX and terminal growth.

In general, the value in use has been determined based on

future strategic plans considering the expected development in both macroeconomic and company-related conditions.

The assumptions used rest on uncertainty with regard to product prices, input prices, biological performance and future regulatory frameworks. Costs can normally be estimated with a higher degree of accuracy than income. As profitability in the salmon farming industry historically has been very volatile, depending on developments in the prices of salmon. Bakkafrøst uses budgets and long-term plans for the first five years of the analysis, but returns to long-term historic averages for profitability in the sixth year and terminal period.

The key assumptions used in determining the value in use are:

- Harvested volume is based on the current stocking plans for each unit, and forecasted figures for growth, assumed harvest weight and mortality, based on historical figures.
- The costs are based on Bakkafrøst's own assumptions based on historical costs and expectations. The costs are expected to remain stable, but are calculated to increase with an inflation rate of 2%.
- The forward prices are based on the Fish Pool index, which is a part of Oslo Børs ASA, at the day of the calculation. The long-term forward prices are based on third-parties sources.
- The WACC is 8.6% pre-tax and calculated in accordance with IAS 36. The WACC model is used for estimating the discount rate. The input data for the model is updated each year for the annual impairment test. The choice of input data for the model significantly influences the outcome of the model, and to ensure that there is as little uncertainty as possible with regards to the calculation of the WACC, third-party sources are used where available (interest, inflation, beta). The discount rate is based on a five-year average for ten-year bonds issued by the Danish government, with an adjustment margin for the food industry in the EU.
- The inflation is set to 2% for the budget period. This is done based on third-parties sources.
- The terminal growth is set to 1%.
- Capital expenditure (CAPEX). In the 5-year forecast period, the capital expenditure necessary to meet the expected growth in revenue and profit is taken into consideration. Capital expenditures are aligned with the growth and replacement plans. Capital expenditure to comply with current laws and regulations has been included. Capex



related to committed and approved efficiency improvement programs has also been included to support the inclusion of the benefits in the applied margin. Changes in applicable laws and regulations may affect future estimated capital expenditure needs; this is not reflected in the figures used in the impairment test. Beyond the forecast period, capital expenditure will in general equal depreciation and relate to maintenance investments.

### Sensitivity

In connection with the impairment testing of intangible assets, a sensitivity analysis has been carried out. Sensitivity analysis has been performed for each of the defined cash generating units. With the assumptions used, the headroom is DKK 1,354 million.

- A change of +10% on the total costs, or fall in long-term sales prices of -10% would cause the first impairment.
- A change in the EBITDA margin of +/- 1% would affect the headroom with +/- DKK 134 million.
- A change in WACC of +1% would affect the headroom with DKK -342 million, and a change in WACC of -1% would affect the headroom with DKK 490 million.

## § ACCOUNTING POLICIES

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 the recoverable amount if the expected financial benefits do not cover their carrying amount.

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.

Sea 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 according to a PPA analysis. Sea farming licences in the Faroe Islands 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 and charged to the Income Statement.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be appropriate. If not, the change in useful life from indefinite to finite is made on a prospective basis.

### Licenses with indefinite useful lives

The sea farming licenses in the Faroe Islands are defined as the right to utilise a given area of fjords for farming fish. There are no provisions as to the maximum allowed biomass at the given site, but the legislation has imposed strict measures to regulate the farming activity in order to be environmentally sustainable.

The sea farming licenses are issued with a nominal lifespan of 12 years. Licenses are renewed, unless there is a specific reason against renewal, based on failure to fulfil the veterinary conditions set by the authorities. In connection with renewal of licenses, authorities may only decline renewal if specific legislation on area planning, animal welfare or environmental protection is in conflict with renewal of the licenses. Special emphasis is to be placed on the fact, that it is renewals of existing licenses. This actually means that sea farming licenses are operated in a 12-year rolling lifespan system, where the licenses are renewed every 12th year. In the very rare cases, where the authorities have declined to renew licenses in order the use locations for other purposes, the farmers have obtained licenses from the authorities at other locations.

Bakkafrost has therefore decided to account for sea farming licenses, which are capitalised, following the provisions for intangible rights with indefinite useful lives.

**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 purchases 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 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.

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.

**Specification of CGUs - Booked value tested and sensitivity**

The CGUs tested are in the West region.

**Sensitivity analyses and booked value per CGU as per 31-12-15**

CGUs (1,000)	Licenses	Other assets***	Time booked value tested	WACC	Number of thousand smolt	EBITDA change of +/-1%	WACC change of +1%	WACC change of +1%
Vestlax acquisition*	132,706	633,474	765,457	8.6%	6,400	41,354	151,453	-105,667
Havsbrún acquisition**	157,430	275,351	432,460	8.6%	2,800	92,826	338,759	-236,335
<b>TOTAL</b>	<b>290,136</b>	<b>908,825</b>	<b>1,197,917</b>	<b>8.6%</b>	<b>9,200</b>	<b>134,180</b>	<b>490,212</b>	<b>-342,002</b>

**Sensitivity analyses and booked value per CGU as per 31-12-14**

CGUs (1,000)	Licenses	Other assets***	Time booked value tested	WACC	Number of thousand smolt	EBITDA change of +/-1%	WACC change of +1%	WACC change of +1%
Vestlax acquisition*	132,706	526,116	658,822	10.8%	6,400	65,564	181,995	-102,513
Havsbrún acquisition**	157,430	231,021	388,451	10.8%	2,800	28,685	55,106	-72,189
<b>TOTAL</b>	<b>290,136</b>	<b>757,137</b>	<b>1,047,273</b>	<b>10.8%</b>	<b>9,200</b>	<b>94,249</b>	<b>237,101</b>	<b>-174,702</b>

\* 4 CGUs in license numbers A03, A05, A06, A25, A80 and A81. Acquired in 2010.

\*\* 2 CGUs in license numbers A71 and A82. Acquired in 2011.

\*\*\* Other assets consist of goodwill, PP&E, inventory, receivables, etc. that can be allocated to CGUs or are directly attributable to CGUs.

**NOTE 10. PROPERTY, PLANT AND EQUIPMENT**

<b>DKK 1,000</b>	<b>Land and buildings</b>	<b>Plant, machinery, operating equipment, fixtures etc.</b>	<b>Other operating equipment</b>	<b>Prepayments for purchase of PP&amp;E</b>	<b>Total</b>
Acquisition costs as at 01.01.15	585,492	1,013,653	109,253	114,513	1,822,911
Acquisitions during the year	209,605	391,487	16,536	-10,305	607,323
Disposals and scrapping during the year	-435	-38,110	-2,506	0	-41,051
<b>Acquisition costs as at 31.12.15</b>	<b>794,662</b>	<b>1,367,030</b>	<b>123,283</b>	<b>104,208</b>	<b>2,389,183</b>
Accumulated depreciations and write-downs as at 01.01.15	-185,221	-522,191	-74,251	0	-781,663
Depreciations during the year	-23,744	-77,530	-6,824	0	-108,098
Accumulated depreciations and write-downs on disposals and scrapping	44	30,141	1,886	0	32,071
<b>Accumulated depreciations and write-downs as at 31.12.15</b>	<b>-208,921</b>	<b>-569,580</b>	<b>-79,189</b>	<b>0</b>	<b>-857,690</b>
<b>Net book value as at 31.12.15</b>	<b>585,741</b>	<b>797,450</b>	<b>44,094</b>	<b>104,208</b>	<b>1,531,493</b>
<b>DKK 1,000</b>					
Acquisition costs as at 01.01.14	552,045	971,711	99,024	0	1,622,779
Acquisitions during the year	42,352	64,579	15,810	114,513	237,255
Disposals and scrapping during the year	-8,905	-22,637	-5,581	0	-37,124
<b>Acquisition costs as at 31.12.14</b>	<b>585,492</b>	<b>1,013,653</b>	<b>109,253</b>	<b>114,513</b>	<b>1,822,910</b>
Accumulated depreciations and write-downs as at 01.01.14	-163,222	-473,948	-73,186	0	-710,355
Depreciations during the year	-24,891	-66,274	-6,004	0	-97,169
Accumulated depreciations and write-downs on disposals and scrapping	2,891	18,031	4,939	0	25,861
<b>Accumulated depreciations and write-downs as at 31.12.14</b>	<b>-185,221</b>	<b>-522,191</b>	<b>-74,251</b>	<b>0</b>	<b>-781,663</b>
<b>Net book value as at 31.12.14</b>	<b>400,271</b>	<b>491,462</b>	<b>35,002</b>	<b>114,513</b>	<b>1,041,248</b>

A significant part of Bakkafrost's buildings is located on rented land.

	<b>Estimated lifetime</b>	<b>Depreciation method</b>	<b>Scrap value</b>
Land and buildings	15-25 years	linear	10%
Plant, machinery, operating equipment, fixtures etc.	8-15 years	linear	0%-10%
Other operating equipment	3-8 years	linear	0%

## § ACCOUNTING POLICIES

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 the Income Statement. 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.

### NOTE 11. COMPANIES IN THE GROUP

The consolidated accounts for 2015 include the following subsidiaries and associates of significant size:

DKK 1,000	Currency	Nature of business	Head Office	Ownership	Nominal Share Capital
P/F Bakkafrøst Farming	DKK	Salmon farming	Glyvvar	100%	16,394
P/F Bakkafrøst Processing	DKK	Value added salmon products (VAP)	Glyvvar	100%	50,000
P/F Bakkafrøst Sales	DKK	Sales of salmon and VAP products	Glyvvar	100%	667
P/F Bakkafrøst Packaging	DKK	Production of styrofoam boxes	Glyvvar	100%	8,022
P/F Bakkafrøst Harvest	DKK	Harvesting and gutting of salmon	Glyvvar	100%	795
P/F Havsbrún	DKK	Production of fishmeal, oil and salmon feed	Fuglafjörður	100%	2,000
Havsbrún Shetland Ltd.	GBP	Sales company for Havsbrún	Lerwick	100%	17
Havsbrún Norge ASA	NOK	Sales company for Havsbrún	Flekkefjord	100%	105
Bakkafrøst Sales UK Ltd.	GBP	Sales company for Bakkafrøst Sales	Grimsby	100%	1£

DKK 1,000 Associated Companies	Head Office	Ownership	Share of the result	Carrying value 2015	Carrying value 2014
P/F Pelagos	Fuglafjörður	30%	9	19,798	19,789
P/F Salmon Proteins*	Eiði	76%	-731	8,624	9,355
P/F Faroe Farming	Vágur	49%	6,375	77,361	70,986
<b>Total</b>				<b>105,785</b>	<b>100,130</b>

DKK 1,000 Associated Companies	Total Assets 2015	Total assets 2014	Equity 2015	Equity 2014	Result 2015	Result 2014
P/f Pelagos	390,121	418,576	65,502	65,814	187	10,214
P/f Salmon Proteins*	15,095	13,514	11,308	11,190	118	246
P/f Faroe Farming	174,240	164,143	80,326	72,365	12,960	17,756

\* Voting rights 25%. The voting rights are limited in the Articles of Association of P/F Salmon Proteins.

**NOTE 12. SHARES AND HOLDINGS IN OTHER COMPANIES**

DKK 1,000 Companies	Carrying amount 2015	Carrying amount 2014
Others	25,108	25,289
<b>Total</b>	<b>25,108</b>	<b>25,289</b>

**§ ACCOUNTING POLICIES**

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 13. INVENTORY**

DKK 1,000	2015	2014
Raw materials and goods in-progress	325,146	233,044
Finished goods	96,820	33,916
<b>Total inventory</b>	<b>421,966</b>	<b>266,960</b>

Raw materials primarily consist of raw material for the production of fishmeal, fish oil and fish feed and packaging materials used in processing.

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

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

Inventories are measured at cost price.

**§ ACCOUNTING POLICIES**

Inventories consist of inventories in the farming unit, the VAP unit and the FOF 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 the Income Statement.

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.

**FOF unit**

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

Finished goods are fishmeal, oil and 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.

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.

#### NOTE 14. BIOLOGICAL ASSETS

DKK 1,000	2015	2014
Biological assets carrying amount 01.01.	1,013,959	965,895
Increase due to production or purchases	1,267,200	1,106,337
Reduction due to harvesting or sale (costs of goods sold)	-1,201,426	-1,029,122
Fair value adjustment at the beginning of the period reversed	-284,855	-296,402
Fair value adjustments at the end of the period	257,278	284,855
Reversal of elimination at the beginning of the period	51,342	33,738
Eliminations	-43,225	-51,342
<b>Biological assets carrying amount 31.12.</b>	<b>1,060,273</b>	<b>1,013,959</b>
Cost price biological assets	846,220	780,446
Fair value adjustments at the end of the period	257,278	284,855
Eliminations	-43,225	-51,342
<b>Biological assets carrying amount</b>	<b>1,060,273</b>	<b>1,013,959</b>
<b>Whereof capitalized interests in biological assets*</b>	<b>21,119</b>	<b>15,771</b>
* The capitalized interest rate is calculated using CIBOR 3 months + 4.72%.		
Biomass < 1 kg on average (tonnes)	2,215	1,834
Biomass 1 kg < 4 kg on average (tonnes)	14,312	11,194
Biomass > 4 kg on average (tonnes)	17,297	22,463
<b>Volume of biomass at sea (tonnes)</b>	<b>33,824</b>	<b>35,491</b>
Number of fish < 1 kg on average (thousand)	5,259	5,055
Number of fish 1 kg < 4 kg on average (thousand)	5,624	4,948
Number of fish > 4 kg on average (thousand)	3,233	4,537
<b>Total number of fish (thousand)</b>	<b>14,116</b>	<b>14,540</b>
<b>Volume of biomass harvested during the year (tonnes gutted weight)</b>	<b>50,565</b>	<b>44,013</b>
Smolts released in Q1 (thousand pcs.)	2,208	3,030
Smolts released in Q2 (thousand pcs.)	1,415	1,920
Smolts released in Q3 (thousand pcs.)	2,765	2,240
Smolts released in Q4 (thousand pcs.)	4,873	3,225
<b>Total smolt release 2014 (thousand pcs.)</b>	<b>11,261</b>	<b>10,415</b>



## 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 entered to the Income Statement 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 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 based on prices from Fish pool. The valuation takes into consideration that not all the fish are of the same quality.

## MORTALITY

Mortality above normal will be accounted for, when a site either experiences elevated mortality over time or massive mortality due to an incident at the farm (outbreak of disease, lack of oxygen etc.).

Bakkafrost has not had mortality above expected normal in the past years.

## § ACCOUNTING POLICIES

### 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.

Biological assets (biomass) comprise salmon fry and fish in the sea. The valuation of biological assets is at fair value. The calculation is based on cost price with the addition/subtraction 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 Income Statement 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.

The fair value estimate 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. The sales prices are based on externally quoted spot and 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 spot market prices are applied to mature fish. Forward and spot prices from Fish Pool, a part of Oslo Børs ASA, are used as source for forward prices.

Quarter	Prices in NOK FCA Oslo
At year-end 2015	57.28
Q1-16	53.40
Q2-16	47.50
Q3-16	44.10
Q4-16	44.60

\* Source: Fish Pool

As fish at fair value is harvested within one year, the fair value is not amortised.

## § SIGNIFICANT ASSUMPTIONS

### DETERMINING FAIR VALUE OF LIVE FISH AND SENSITIVITY

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. Estimates are applied to the following factors: biomass volume, the quality of the biomass, the size distribution and market price.

The volume of biomass is, in itself, an estimate that is based on the number of smolts put to sea, the estimated growth from the time of stocking, estimated mortality based on observed mortality in the period, etc.

The quality distribution of the biomass is not known until harvest and has to be estimated. The estimate is based on the most recent historical data. History shows that realised downgrade has not resulted in significant price reductions. A change of +/-1% on the superior quality will have an impact on the valuation of approximately DKK +/-1 million, with current stocking.

Fish at sea grows at different rates, and even in a situation with good estimates for the average weight of the individual fish, there may be a spread in weight of the fish. The size distribution affects the price achieved for the fish, as each size-category of fish is priced separately in the market. When estimating the biomass value, a normal size distribution is applied.

The market price assumption is very important for the valuation, and even minor changes in the market price will give significant changes in the valuation. Valuation of biological assets is affected by the market prices of fish. A change of +/-1% will have an impact on the valuation of approximately DKK +/- 8 million, with current stocking.

### Sensitivity analysis of biomass

Change of +/-1%	MDKK
Volume of biomass	+/-7.0
Percentage of superior quality	+/-1.0
Market price	+/-8.0

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 historical data. 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 smolts put to sea, the estimat-

ed growth from the time of stocking, estimated mortality based on observed mortality in the period, etc.

### Draft of a new model of valuation of biomass

In the autumn of 2014, The Financial Supervisory Authority of Norway (Finanstilsynet) initiated an evaluation of certain aspects of the financial reporting prepared by fish farming companies listed on Oslo Stock Exchange. The purpose of this process was to evaluate whether or not the industry companies reported in a uniform and consistent manner in accordance with IFRS. Finanstilsynet published a final report 17 November 2015 on their website ([www.finanstilsynet.no](http://www.finanstilsynet.no).) In response to this process, affected fish farming companies established a financial reporting industry group as an arena for discussions and improvement work.

The group has had several meetings during the autumn of 2015. The two main purposes have been as follows:

- 1) Identify possible improvements in disclosures as well as in accounting practices to promote comparability.
- 2) Develop a common model for measurement of fair value of biomass according to IAS 41.

With respect to item 1 above, the participating companies have identified certain areas of improvement, and certain updates to the fair value model and information included in the disclosures have been made with effect from December 31, 2015. Further refinement to the disclosures and accounting practices are expected to be implemented with effect from December 31, 2016.

With respect to item 2 above, work has been initiated, and will continue in 2016. The group aims to complete this work in time for an updated model to be implemented from December 31, 2016.

Participating companies in the financial reporting industry group are:

Lerøy Seafood Group ASA, Grieg Seafood ASA, Salmar ASA, Cermaq Group AS, Bakkafrøst P/F and Marine Harvest ASA.

**NOTE 15. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES**

DKK 1,000	2015	2014
Accounts receivables	199,263	172,360
Provisions for bad debts	0	0
<b>Net accounts receivables</b>	<b>199,263</b>	<b>172,360</b>
Receivables from associated companies	70,049	64,068
Prepayments	1,888	1,111
Deposit for interest- and currency swap	83,040	74,480
VAT	24,995	2,232
Other	0	21
<b>Other receivables</b>	<b>179,972</b>	<b>141,912</b>
<b>Total accounts receivables and other receivables</b>	<b>379,235</b>	<b>314,272</b>

The Group's exposure to credit risks related to accounts receivables is disclosed in note 21.

**AGE DISTRIBUTION OF ACCOUNTS RECEIVABLES**

DKK 1,000	2015	2014
Receivables not overdue	185,082	132,024
Overdue 0-6 months	7,848	40,234
Overdue more than 6 months	6,333	102
<b>Total</b>	<b>199,263</b>	<b>172,360</b>

**CURRENCY EXPOSURE TO ACCOUNTS RECEIVABLES**

The Group holds accounts receivables in foreign currencies amounting to DKK 128.8 million at year-end. Below is pre-

sented 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	2015	2014
DKK	70,422	59,206
EUR	42,250	50,837
USD	47,888	42,514
GBP	9,459	15,323
Others	29,244	4,480
<b>Total</b>	<b>199,263</b>	<b>172,360</b>

**§ ACCOUNTING POLICIES**

Accounts receivables 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 receivables concerned. Due to insignificant cost and the short credit period, amortised cost is equivalent to face value less foreseeable losses.

**NOTE 16. SHARECAPITAL AND MAJOR SHAREHOLDERS****Share capital:**

<b>DKK 1,000</b>	<b>2015</b>	<b>2014</b>
Share capital at 1 January	48,858	48,858
<b>Share capital at 31 December</b>	<b>48,858</b>	<b>48,858</b>

**The parent company's share capital comprises:**

<b>DKK</b>	<b>No. of Shares</b>	<b>Face Value</b>	<b>Share Capital</b>
Ordinary shares	48,858,065	1	48,858,065
<b>Total share capital</b>			<b>48,858,065</b>

**Reconciliation of outstanding shares:**

	<b>2015</b>	<b>2014</b>
Outstanding shares at 1 January	48,520,737	48,479,484
Sales of own shares to cover the employee bonus program	36,884	41,253
<b>Outstanding shares at 31 December</b>	<b>48,557,621</b>	<b>48,520,737</b>
Treasury shares at 31 December	300,444	337,328

In 2015, all full-time employees from 2014, still employed in Bakkafrøst, have received bonus shares in 2015 with a total value of 2% of paid out salary in 2014. In total Bakkafrøst has allocated 22,107 shares to its employees at a fair value of DKK 3.7 million. The grant date was 12 May 2015, and the share price was DKK 166.69 (NOK 187.50) per share.

**SHAREHOLDERS**

These shareholders held directly or indirectly more than 5% of the shares in the company as at 31 December 2014: Oddvør Jacobsen and Regin Jacobsen.

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

<b>Name</b>	<b>Position</b>	<b>No. of shares</b>	<b>Shareholding</b>
Rúni M. Hansen	Chairman of the Board	10,000	0.02%
Johannes Jensen	Deputy Chairman of the Board	0	0.00%
Tor Magne Lønnum	Member of the Board	1,500	0.00%
Annika Frederiksberg	Member of the Board	14,808	0.03%
Virgar Dahl	Member of the Board	7,000	0.01%
Øystein Sandvik	Member of the Board	0	0.00%
Regin Jacobsen	Chief Executive Officer	4,493,014	9.20%
Odd Eliassen	Managing director	171,332	0.35%
Gunnar Nielsen	Chief Financial Officer	317	0.00%

**Dividend**

The Board has proposed a dividend per share of DKK 8.25 for 2015. Dividends in 2014 were DKK 6.0 per share. The dividends proposed are to be approved at the Annual General Meeting and if approved, the total dividend payment will

amount to DKK 403.1 million. The dividend proposal has not been recognised as a liability at 31 December 2015, but is presented as an item within equity.

**NOTE 17. NET INTEREST BEARING DEBT****LONG-TERM INTEREST BEARING DEBT**

<b>DKK 1,000</b>	<b>2015</b>	<b>2014</b>
Long-term interest bearing debt	62,246	200,000
Next year instalments on long-term interest bearing debt	0	-100,000
Bonds	385,313	405,393
<b>Total long-term interest bearing debt 31.12.</b>	<b>447,559</b>	<b>505,393</b>
Next year's instalments on long-term interest bearing debt	0	100,000
<b>Total short-term interest bearing debt 31.12.</b>	<b>0</b>	<b>100,000</b>
Total interest bearing debt	493,595	637,820
Cash and cash equivalents	-101,852	-405,109
<b>Net interest bearing debt</b>	<b>391,743</b>	<b>232,711</b>

Cash and cash equivalents consist of short-term bank deposits.

The maturity structure of the Group's financial commitments is based on undiscounted contractual payments. As the credit limit is not necessarily in the same currency of debt drawn,

currency fluctuations affect the amount available under the facilities at any time. In addition to the bank credit lines, which is issued in DKK, Bakkafrost has issued a 5-year tenor bond of NOK 500 million, equivalent to DKK 385.3 million.

**The maturity plan of the Group's interest bearing debt is as follows DKK 1,000**

	<b>2015 Carrying amount</b>	<b>2015 Contractual payments</b>	<b>2014 Carrying amount</b>	<b>2014 Contractual payments</b>
Credit facilities	62,246	62,246	100,000	100,000
Bonds	385,313	388,050	405,393	411,600
Current liabilities	0	0	100,000	100,000
<b>Gross interest bearing debt</b>	<b>447,559</b>	<b>450,296</b>	<b>605,393</b>	<b>611,600</b>
Credit line		1,238,050		1,164,600
Available credit lines		787,754		553,000
Cash and cash equivalents		101,852		405,109
<b>Total available credit lines</b>		<b>889,606</b>		<b>958,109</b>

**REMAINING PERIOD DKK 1,000**

<b>31.12.2015</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Interest bearing bank loans	0	0	62,246	0	62,246
Bonds	0	0	385,313	0	385,313
Accounts payable and other debt	258,635	155,359	0	0	413,994

**REMAINING PERIOD**

<b>31.12.2014</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Interest bearing bank loans	25,000	75,000	100,000	0	200,000
Bonds	0	0	405,393	0	405,393
Accounts payable and other debt	138,180	124,765	0	0	262,945

The difference between the carrying amount and the total expected payments in the table above is due to upfront arrangement and legal fees incurred in connection with the refinancing of the credit facilities and the bond issue. One long-term bank borrowing is drawn from a revolving credit facility, under which the Group may draw and pay down any amount. The contractual payments illustrated in the table above do not reflect rollovers dates of loans drawn, but are based on the maturity date of the credit facilities.

**INTEREST BEARING DEBT IN MORE DETAIL**

Bakkafrost entered a new bank loan in December 2015. The bank loan is a multicurrency revolving credit facility of DKK 850 million for a period of five years. In addition to the DKK 850 million credit facility, the new agreement has an accordion increase option of maximum DKK 750 million. In connection with the refinancing Bakkafrost paid out the instalment loan in 2015, an amount of DKK 200 million. The new loan was effectuated in January 2016 and at the same time, the overdraft facility on DKK 553 million expired. Thus, the total bank financing amounts to DKK 850 million as per end 2015.

The loan facility is secured in both the Group's property, plants and other material, and fixed assets as well as stock, farming licences and insurance policies. The interest payable is the reference interest rate for the respective currencies (IBOR) plus a margin, which is calculated based on the Group's leverage ratio. The margin may vary between 0.85% p.a. and 1.90% p.a.

On 14 February 2013, Bakkafrost issued unsecured bonds on the Norwegian market at a total nominal value of NOK 500

million with a 5-year tenor. The bonds were listed on the market on 3 May 2013. The interest rate is NIBOR 3m, plus a margin of 4.15%. The bonds are measured at fair value at initial recognition.

Following the issuance of the bonds, Bakkafrost has entered into a currency/interest rate swap, hedging the exchange rate and switched the interest rate from NIBOR 3m to CIBOR 3m. Bakkafrost has entered the swap, due to its exposure to DKK, as a large part of the income and costs are in DKK and EUR.

At the end of 2015, the currency/interest rate swap was negative with DKK 129.1 million, charged to the comprehensive income. On the other hand, there was exchange gain on the NOK 500 million bond loan of DKK 117 million. This gain is entered to the Income Statement on a continuous basis. For unrealised losses in excess of DKK 45 million on the currency/interest rate swap, Bakkafrost is obliged to deposit the loss into a restricted bank account. At the end of 2015, the deposited amount is DKK 83 million and is presented under other receivables.

**FINANCIAL COVENANTS**

Regarding the loan facility, amounting to DKK 850 million, the covenant stipulates that the equity ratio of the Group must be at least 35% from the end of 2015. Furthermore, the leverage ratio shall not exceed 4.5. The Company has the right to have leverage ratio up to 6.0 for three quarters.

The Bakkafrost Group had total available bank finances of DKK 850 million. The undrawn amount at 31 December 2015 was DKK 787.8 million, of which DKK 38.3 million was re-



stricted. In addition to the undrawn amount of DKK 787.8 million, Bakkafrøst had DKK 101.9 million in cash and thus available funds in total of DKK 889.6 million.

The bonds amounting to NOK 500 million have the following covenants:

- Equity Ratio of minimum the highest of 35%, and the highest Equity Ratio requirement in the senior bank loan agreements applicable at any time
- Leverage Ratio of maximum the lowest of 4.0 times, and the lowest Leverage Ratio requirement in the senior bank loan agreements applicable at any time

#### Maturity analysis - contractual payments

DKK 1,000	2016	2017	2018	2019
Long-term credit facilities	62,246	0	0	0
Bonds (NOK 500 million)	0	0	385,313	0
Interest rate/currency swap	0	0	129,076	0
<b>Gross interest bearing debt</b>	<b>62,246</b>	<b>0</b>	<b>514,389</b>	<b>0</b>

#### NOTE 18. DERIVATIVES

Interest and currency swaps are used to hedge interest and currency exposure on bonds, and currency swaps are used to hedge currency exposure on forward contracts and to

hedge currency exposure on committed purchase of the live fish carrier that was delivered in 2015.

DKK 1,000	2015	2014
Currency swaps regarding forward contracts	-272	0
Currency swaps regarding purchase of live fish carrier	0	10,021
Interest and currency swaps regarding bonds	129,076	106,908
<b>Derivatives total</b>	<b>128,804</b>	<b>116,929</b>

The fair value of derivatives held at the balance sheet date can be allocated as follows:

	Fair Value	Recognised in the income statement	Recognised in equity	Fair value	Recognised in the income statement	Recognised in equity
	2015	2015	2015	2014	2014	2014
Currency derivatives	-272	0	-272	10,021	0	10,021
Interest and currency derivatives	129,076	0	129,076	106,908	0	106,908
<b>Total</b>	<b>128,804</b>	<b>0</b>	<b>128,804</b>	<b>116,929</b>	<b>0</b>	<b>116,929</b>

The expected timing of the effect on the income statement is as follows:

	Currency derivatives	Interest and currency derivatives	Total	Currency derivatives	Interest and currency derivatives	Total
			2015			2014
Within one year	-272	0	-272	10,021	0	10,021
Between one and five years	0	129,076	129,076	0	106,908	106,908
After five years	0	0	0	0	0	0
<b>Total</b>	<b>-272</b>	<b>129,076</b>	<b>128,804</b>	<b>10,021</b>	<b>106,908</b>	<b>116,929</b>

**NOTE 19. TAX****DKK 1,000****The tax expense for the year breaks down as follows:**

	<b>2015</b>	<b>2014</b>
Tax payable	177,048	141,452
Change in deferred tax	-62,752	110,634
<b>Tax expense on ordinary profit</b>	<b>114,296</b>	<b>252,086</b>

Tax payable	177,048	141,452
<b>Tax payable in the statement of financial position</b>	<b>177,048</b>	<b>141,452</b>

**Specifications of temporary differences and deferred tax**

	<b>Temporary</b>			<b>Temporary</b>		
	<b>Tax rate</b>	<b>Differences</b>	<b>Deferred tax</b>	<b>Tax rate</b>	<b>Differences</b>	<b>Deferred tax</b>
Licences	18.0%	293,675	52,862	22.5%	293,675	66,077
Property, plant and equipment	18.0%	669,378	120,488	18.0%	305,251	54,945
Property, plant and equipment	22.5%	0	0	22.5%	298,113	67,075
Financial assets	18.0%	16,620	2,992	18.0%	10,553	1,900
Biomass	18.0%	1,065,828	191,849	22.5%	1,013,958	228,141
Receivables	18.0%	-54,006	-9,721	18.0%	-492	-88
Currency effects	18.0%	79,226	14,260	18.0%	94,515	17,011
Derivatives (equity posted)	18.0%	-128,804	-23,185	18.0%	-116,929	-21,047
<b>Total temporary differences</b>		<b>1,941,917</b>			<b>1,898,644</b>	

<b>Deferred tax liabilities (+) / assets (-)</b>	<b>349,545</b>	<b>414,014</b>
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**Reconciliation from nominal to actual tax rate**

Profit before tax	924,471	899,191
Expected tax at nominal tax rate (18%)	166,405	161,854
Deferred tax regulation on special farming tax on 01.01.14	0	54,866
Special tax on farming licences - deferred	-79,780	17,565
Special tax on farming licences - payable	21,140	17,212
Permanent differences (18%)	6,531	589
<b>Calculated tax expense</b>	<b>114,296</b>	<b>252,086</b>

Effective tax rate excl. equity entries	12.4%	28.0%
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Normal tax rate for companies resident in the Faroe Islands is 18%. All of Bakkafrost's material operations are in the Faroe Islands, but a minor sales office is in UK, where the

tax rate is 20.8%, and a minor sales company is in Norway, where the tax rate is 27.0%.

**2015**

In addition to the normal 18% company tax rate in the Faroes, there is a special resource tax of 4.5%. There is also a special revenue tax on 0.5% based on official registered salmon prices. But for 2016, the special resource tax of 4.5% lapses, and the revenue tax increases to 4.5%. This change in regulations affects the deferred special tax with -79.8 million DKK.

But the new revenue tax falls outside the scope of IAS 12 and is hereafter classified as a cost, which will be included in EBIT.

**2014**

In addition to the normal 18% company tax rate in the Faroes, there is a special resource tax of 4.5% for 2014 and forward. There is also a special revenue tax on 0.5%, based on official registered salmon prices. In comparison with 2013, these special taxes are no longer preliminary, but permanent. This special tax is on entities holding farming licenses or entities, which are harvesting salmon. In the Bakkafrost Group, P/F Bakkafrost Farming and P/F Bakkafrost Harvest are subject to this special resource tax. The other companies in the Group are not subject to this special tax. The deferred taxes are based on the normal tax rate of 18%, but are adjusted for the special tax. As the new special taxes are permanent, this has had effect on the deferred tax on 01.01.14 with a total of 54.9 million DKK.

Under the Faroese tax regime, growth of live biomass is not tax relevant before harvesting. 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.

**§ ACCOUNTING POLICIES**

The tax expense is matched against the profit or 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.

**⚖ SIGNIFICANT ASSUMPTION  
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 utilized in the future will be different from carrying amounts.

**NOTE 20. MORTGAGES AND GUARANTEES**

Carrying amount of debt secured by mortgages and pledges

<b>DKK 1,000</b>	<b>2015</b>	<b>2014</b>
Long-term debt to financial institutions	62,246	100,000
Derivatives	128,804	116,929
Short-term debt to financial institutions	0	100,000
<b>Total</b>	<b>191,050</b>	<b>316,929</b>

**Carrying amount of assets pledged as security for recognised debt**

Licences	294,675	294,675
Property, plant and equipment	1,531,493	1,041,248
Financial assets	100,461	100,130
Biological assets (biomass)	1,060,273	1,013,959
Inventory	421,966	266,960
Accounts receivables	199,263	172,360
Other receivables	179,971	141,912
<b>Total</b>	<b>3,788,102</b>	<b>3,031,244</b>

The Bakkafrøst Group has a group financing covering the Group. In addition, the Group companies are liable jointly and severally for the balance without limitations for each other.

As part of the guarantees are also any insurance refunds. The bonds amounting to NOK 500 million, issued in 2013, are unsecured.

**NOTE 21. FINANCIAL RISK MANAGEMENT****CAPITAL MANAGEMENT**

The Group's objective, when managing capital, is to maintain a capital structure able to support the operations and maximize shareholder value. The farming business is characterized by price volatility and challenging production dynamics. The Group must be financially solid in order to be able to cope with fluctuations in profits and financial position, and the consolidated equity ratio shall at no time be lower than 35 percent. At 31 December 2015, the Group's equity ratio was 66 percent.

According to the Group's dividend policy, under normal circumstances, average dividends over several years should be 30 to 50 percent of the adjusted net profit. The Board has proposed a dividend of DKK 8.25 per share for the financial year 2015, corresponding to a distribution to shareholders of DKK 403.1 million.

The Group manages the capital structure and makes adjustments corresponding to changes in the underlying economic conditions. The Group monitors continuously access to borrowed capital and has ongoing dialogue with its lenders. The Group is financed by bank loans and unsecured bonds. At 31 December 2015, net interest bearing debt amounted to DKK 391.5 million. Note 17 provides an overview of the debt's maturity profile and information on the debt's financial covenants. Bakkafrøst complied with the covenants in its loan and bond agreements at the end of 2015.

There were no changes in the Group's approach to capital management during the year. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

**FINANCIAL RISK MANAGEMENT**

The Group has exposure to the following risks from its use of financial instruments: market risk, liquidity risk and credit risk. This note presents information about the Group's exposure to each of these risks, the Group's objectives, policies and procedures for measuring and managing risk.

Further quantitative disclosures are included throughout these consolidated financial statements.

The main objective of Bakkafrøst's financial risk management policies is to ensure the ongoing liquidity of the Group, defined as being at all times in a position to meet the liabilities of the Group as they fall due. This also includes being able to meet financial covenants on Group debt under normal circumstances.

Concerning insurance coverage, the Group insures against material risks, where the insurance is economically available. The balance between the amount covered by insurance and what is left to own risk varies, depending on the nature of the risk, the value of the assets and prospective liabilities and the cost, actual coverage and the availability of insurance.

The Board of Directors believe that the most important measure against any risk is to have a strong financial position. At 31 December 2015, the Group's equity ratio was 66 percent.

Risk management policies and procedures are reviewed regularly to reflect changes in market conditions and the Group's activities.

**FINANCIAL RISK**

Financial risk can be defined as the risk that the Group will not be able to meet its financial obligations.

In addition to bank loans and unsecured bonds, the Group has financial instruments such as accounts receivables, cash, shares, accounts payable, etc., which are ascribable directly to day-to-day business operations.

The Group uses financial derivatives, mainly currency forward contracts and interest rate swaps. The purpose of these instruments is to manage the interest rate and currency risks arising from the Group's operations. In 2013, the Group entered into a forward currency/interest rate swap, hedging the exchange rate and switching the interest rate on the bond loan from NIBOR 3m to CIBOR 3m.

The Group 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 these should be managed.

### **MARKET RISK**

Market risk can be defined as the risk that the Group's income and expenses, future cash flows or fair value of financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rates risk and other price risk (such as commodity prices and salmon spot prices).

Market risk is monitored and actively managed by the Group. Exposure to these risks is reduced by diversification, suitable controls and business tactics. In some cases, market risks are transferred to third parties via contractual price adjustment clauses, but rarely by means of financial derivatives. As hedging activities normally result in lower average expected return, the Group only uses external hedging, where there is a significant risk of breach of financial covenants.

### **Foreign exchange risk**

Because of the international nature of its operations, the Group is exposed to fluctuations of foreign currency rates. For risk management purposes, three types of currency exposure have been identified:

### **Translational exposure**

Bakkafrost has subsidiaries abroad in the UK, Shetland and Norway. Therefore, Bakkafrost faces currency risks arising from the translation of subsidiaries whose functional currency differ from the presentation currency of the Group. The exposure related to equity of foreign subsidiaries is generally not hedged, as it is not considered material.

### **Transactional exposure**

Most of the operating companies in the Group are exposed to changes in the value received or paid under foreign currency denominated committed transactions. For the farming segment exposure arises mainly from export sales, while for the FOF segment exposure results from the sourcing of raw materials in the international commodities markets.

Transactional exposure for the Group is mitigated by diversification benefits. Where opposite exposure from different segments are not perfectly offset, the residual effect of adverse movements in foreign currency rates on transaction streams could negatively impact the results and financial position of the Group, thus affecting covenants based on accounting measures.

The table below summarises the foreign currency exposure on the net monetary position of all Group entities against their functional currency. The exposure on translating the financial statements of subsidiaries into the presentation currency is not included in the analysis.

**Exposure to currency risk****DKK 1,000****2015**

	<b>Currency</b>				
	<b>DKK/EUR</b>	<b>DKK/GBP</b>	<b>DKK/USD</b>	<b>DKK/NOK</b>	<b>DKK/JPY</b>
Cash and cash equivalents	21,602	3,846	29,809	5,629	969
Accounts receivables	42,250	9,459	47,888	29,244	0
Trade payables	-588	-7,678	-89,773	-549	0
Interest bearing debt	0	0	0	-388,050	0
Forward contracts	0	0	18,316	0	0
<b>Net exposure</b>	<b>63,264</b>	<b>5,627</b>	<b>6,240</b>	<b>-353,726</b>	<b>969</b>

**2014**

	<b>DKK/EUR</b>	<b>DKK/GBP</b>	<b>DKK/USD</b>	<b>DKK/NOK</b>	<b>DKK/JPY</b>
Cash and cash equivalents	42,993	8,355	7,843	34,656	18
Accounts receivables	50,837	15,323	42,514	1,690	2,790
Trade payables	-988	-851	0	-8,251	0
Interest bearing debt	0	0	0	-411,600	0
Forward contracts	0	0	0	-114,953	0
<b>Net exposure</b>	<b>92,842</b>	<b>22,827</b>	<b>50,357</b>	<b>-498,458</b>	<b>2,808</b>

**Sensitivity analysis****DKK 1,000****2015**

	<b>DKK/EUR</b>	<b>DKK/GBP</b>	<b>DKK/USD</b>	<b>DKK/NOK</b>	<b>DKK/JPY</b>	<b>Result</b>
Net exposure	63,264	5,627	6,240	-353,726	969	
Volatility*	0.51%	8.20%	9.98%	8.49%	12.21%	
<b>Total effect on Profit of +movements</b>	<b>323</b>	<b>461</b>	<b>623</b>	<b>-30,031</b>	<b>118</b>	<b>-28,506</b>
<b>Total effect on Profit of -movements</b>	<b>-323</b>	<b>-461</b>	<b>-623</b>	<b>30,031</b>	<b>-118</b>	<b>28,506</b>

**2014**

	<b>DKK/EUR</b>	<b>DKK/GBP</b>	<b>DKK/USD</b>	<b>DKK/NOK</b>	<b>DKK/JPY</b>	<b>Result</b>
Net exposure	92,842	22,827	50,357	-498,458	2,808	
Volatility*	0.45%	7.42%	9.35%	7.61%	12.15%	
<b>Total effect on Profit of +movements</b>	<b>418</b>	<b>1,694</b>	<b>4,708</b>	<b>-37,933</b>	<b>341</b>	<b>-30,772</b>
<b>Total effect on Profit of -movements</b>	<b>-418</b>	<b>-1,694</b>	<b>-4,708</b>	<b>37,933</b>	<b>-341</b>	<b>30,772</b>

\* Source: Nordea Markets



The analysis is based on the currencies that the Group is most exposed to at the end of 2015. The reasonable shifts in exchange rates in the table above are based on 5 years historical volatility.

If the relevant cross foreign exchange rates moved by the amounts showed in the table above, the effect on the Group's

net income would be DKK 28.5 million (2014: DKK 30.8 million).

The Group does not hedge transaction exposure in the financial markets as a general rule. Currency protection measures may be allowed to prevent situations of financial distress in those cases, where the exposure cannot be effectively reduced by use of operational hedges.

#### Currency forward contracts as at 31 December 2015

(1,000)

##### Bakkafrost Group buys

DKK	18,316
NOK	500,000

##### Bakkafrost Group sells

USD	2,641
DKK	505,050

#### Economic currency exposure

The Group is exposed to the risk that medium/long-term trend shifts in exchange rates might affect its competitive position. This strategic currency exposure is regularly mon-

itored, but as the exposure is currently considered limited it is not actively hedged.

Significant exchange rates (average) during the year*	DKK/EUR	DKK/GBP	DKK/USD	DKK/NOK	DKK/JPY
2015	745.86	1,028.24	672.69	83.43	5.56
2014	745.47	925.11	561.90	89.31	5.32

\* Source: [www.nationalbanken.dk](http://www.nationalbanken.dk)

#### Interest rate risk

The Group is exposed to increase in interest rates as a result of having debt with floating interest rate terms. An increased cost of borrowing might adversely affect the Group's profitability. The Group does not have fixed interest rate debt.

According to the Group's finance policy, the main objective of interest rate risk management activities should be to minimize the risk of breach of the Group's debt covenants and to avoid situations of financial distress that might jeopardize strategic flexibility. Trading in interest rate derivatives is undertaken to cover existing exposures. Purely speculative transactions are not allowed.

In 2013, the Group entered into a currency/interest rate swap agreement with an underlying total of NOK 500 million in order to reduce interest rate and currency exposure on NOK, as the issued bonds are denominated in NOK. The currency/interest rate swap qualifies for hedge accounting, hence changes in fair value of this instrument is reported in

Other Comprehensive Income and amounted to DKK 129.1 million as at 31 December 2015. The currency/interest rate swap has settlement that match the maturity of the bond loan in 2018.

The Group has no fixed rate liabilities and is therefore not exposed to the risk, that changes in interest rates might drive changes in market value of outstanding debt.

A 100 basis points increase in interest rate at the reporting date would have a negative impact on the income statement amounting to DKK 3.9 million (2014: DKK 2.3 million), based on NIBD.

#### Price risk

The farming segment is sensitive to fluctuations in the spot prices of salmon, which is determined by global supply and demand. The impact of changes in salmon spot prices is partly mitigated by long-term contracts at fixed prices in

the VAP segment and financial contracts, however, due to long production cycles, it is difficult to respond quickly to global trends in market prices. Salmon is to a large extent traded based on spot prices, although this would vary with different markets and with the market position of the Group.

#### Other price risk

The Group's FOF segment is active in the international commodity markets. A large portion of raw materials needed in production is contracted in advance of periodic sales price regulations, this way the risk associated with increases in commodity prices is effectively transferred to feed customers. Constraints in the availability of certain raw materials might result in increased sourcing costs in those cases, where an unexpected surge in sales volume makes it necessary to purchase raw materials outside of previously negotiated purchase agreements. Under these circumstances, it might not be possible to charge the customers with the increased cost, and profitability would thus suffer.

#### LIQUIDITY RISK

Liquidity risk arises from the Group's potential inability to meet its financial obligations towards suppliers and debt capital providers. The Group's liquidity situation is closely monitored, and rolling forecasts of cash flows and cash holdings are prepared regularly.

Liquidity risk is managed through maintaining flexibility in funding by securing available committed credit lines, provided by our bank syndicate, and through maintaining sufficient liquid assets with the same relationship banks.

The Group seeks to maintain committed facilities to cover forecast borrowings for the next 12 months, plus financial headroom to cover the planned investments and unforeseen movements in cash requirements. Please also refer to note 17 for information on committed credit facilities, available credit lines, and maturity of interest bearing debt. Other short-term debt is specified in note 17.

In addition to the above described sources of liquidity, Bakkafrøst monitors funding options available in the capital markets as well as trends in the availability and cost of such funding with a view to maintain financial flexibility and limiting refinancing risk. Bakkafrøst's overall liquidity as at 31 December 2015 included DKK 101.9 million, and DKK 405 million as at 31 December 2014 (see note 17) of cash and cash equivalents held in various currencies.

#### CREDIT RISK

Credit risk represents the accounting loss that would have to be recognised if other parties failed to perform as contracted, and is related to financial instruments such as cash and cash equivalents, receivables and derivative financial instruments.

Bakkafrøst has a Group-wide credit management policy, governed by Bakkafrøst's credit committee. The committee is responsible for granting credits to the Groups customers. In general, Bakkafrøst uses credit insurance, bank guarantees, parent company guarantees, factoring agreement or other securities such as pledges on biological assets, thus reducing the actual risk on outstanding receivables significantly. Historically, losses due to bad debts have been low in Bakkafrøst. Recoverable VAT, included in the balance, also reduces the risk. In addition to such risk mitigating measures, the Group focuses on detailed credit management in operating companies, supported by regular follow up by central functions.

Concentration of credit risk is at the outset not considered significant, since the Group's customers represent various industries and geographic areas. Counterparty risk against financial institutions is not considered significant, due to limited liquid assets and low traded volumes in derivatives. For these transactions, the Group relies upon Nordic relationship banks, other relationship banks or widely recognised commodity exchanges.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date consists of accounts receivables, other receivables and cash and cash equivalents and amounts to DKK 481 million. (2014: DKK 719 million). For age distribution of accounts receivables, please refer to note 15.

Bakkafrøst has implemented a Group-wide cash management policy with the overall objective of minimizing cash holdings, while ensuring sufficient liquidity to meet business needs, avoid shortage of cash and limit the need for borrowing. The cash management is carried out from the Group's head office.

The Group does not make extensive use of financial derivatives, and in those cases, where it is deemed appropriate to hedge an existing exposure on the financial markets, agreements are entered into with one of the Group's relationship banks.

**NOTE 22. CATEGORIES AND FAIR VALUE OF FINANCIAL INSTRUMENTS****Fair value of financial instruments**

All assets/liabilities, for which fair value is recognised or disclosed, are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

**Level 1:** Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.

**Level 2:** Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).

**Level 3:** Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

For biological assets, the fair value calculation is done using a valuation model (level 3 in the valuation hierarchy), where the value is estimated based on observable market prices per period end. For more information on these calculations, refer to note 14.

For assets/liabilities that are recognised at fair value on a recurring basis, the Group determines, whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement).

During 2014, there have been transfers between Level 2 and Level 3 fair value measurements of biological assets. In addition, intangible assets and long-term liabilities are removed from the scheme. These changes are regarded as reassessment, and the comparing figures are corrected.

There have been no transfers into or out of Level 3 fair value measurements.

**As at December 31<sup>st</sup>, the Group held the following classes of assets/liabilities measured at fair value:**

**DKK 1,000****Cost**

<b>Assets and liabilities measured at fair value</b>	<b>Fair value</b>	<b>amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Financial assets	31	500	31	0	0
Biological assets (biomass)	1,060,273	802,995	0	0	1,060,273
<b>Assets measured at fair value 31-12-15</b>	<b>1,060,304</b>	<b>803,495</b>	<b>31</b>	<b>0</b>	<b>1,060,273</b>
<b>Liabilities measured at fair value 31-12-15</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**DKK 1,000****Cost**

<b>Assets and liabilities measured at fair value</b>	<b>Fair value</b>	<b>amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Financial assets	233	500	233	0	0
Biological assets (biomass)	1,013,959	729,104	0	0	1,013,959
<b>Assets measured at fair value 31-12-14</b>	<b>1,014,192</b>	<b>729,604</b>	<b>233</b>	<b>0</b>	<b>1,013,959</b>
<b>Liabilities measured at fair value 31-12-14</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**NOTE 23. EARNINGS PER SHARE**

<b>DKK 1,000</b>	<b>2015</b>	<b>2014</b>
Profit for the year to the shareholders of P/F Bakkafrøst	810,175	647,105
Fair value adjustment of biomass (IAS 41)	27,578	11,547
Onerous contracts provision	51,004	-70,908
Tax on fair value adjustment	-15,386	10,165
<b>Adjusted profit for the year to shareholders of P/F Bakkafrøst</b>	<b>873,371</b>	<b>597,909</b>
Ordinary shares as at 01.01.	48,858,065	48,858,065
<b>Ordinary shares as at 31.12.</b>	<b>48,858,065</b>	<b>48,858,065</b>
<b>Time-weighted average number of shares outstanding through the year</b>	<b>48,545,675</b>	<b>48,504,488</b>

<b>Earnings per share</b>	<b>2015</b>	<b>2014</b>
Basic (DKK)	16.69	13.34
Diluted (DKK)	16.69	13.34

**Adjusted earnings per share (before fair value adjustments of biomass and provision for onerous contracts (adjusted EPS))**

	<b>2015</b>	<b>2014</b>
Basic (DKK)	17.99	12.33
Diluted (DKK)	17.99	12.33

Bakkafrøst Group has no stock option programme running at present.

**Earnings per share (EPS)****Basic earnings per share**

Basic EPS is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company and held as treasury shares.

**Diluted earnings per share**

Diluted earnings per share are adjusted for the dilution effect of issued share options. Bakkafrøst has no share options outstanding.

**Adjusted earnings per share**

Adjusted EPS is based on the reversal of certain fair value adjustments shown in the table above, as it is Bakkafrøst's view that this figure provides a more reliable measure of the underlying performance.

**NOTE 24. CAPITAL COMMITMENTS**

The Group had capital expenditure committed, but not provided, in these accounts at the date of the Statement of Financial Position of approximately DKK 356 million, of

which DKK 215 million is related to the building of the new harvest and VAP factory and 53 million relate to the building of the new hatchery.

2015	2016	2017
Total contractual new Harvest/VAP plant	214,707	0
Total contractual other PPE investments	141,173	0
<b>Total</b>	<b>355,880</b>	<b>0</b>

2014	2015	2016
Total contractual new live fish carrier	147,369	0
Total contractual other PPE investments	195,094	45,681
<b>Total</b>	<b>342,463</b>	<b>45,681</b>

**NOTE 25. PROVISIONS FOR ONEROUS CONTRACTS**

	2015	2014
Provisions for onerous contracts 01.01	0	70,908
Change in provisions for onerous contracts for the year	51,004	-70,908
<b>Provisions for onerous contracts 31.12</b>	<b>51,004</b>	<b>0</b>

**§ ACCOUNTING POLICIES**

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 Income Statement.

**⚖ SIGNIFICANT ASSUMPTION**

The company holds long-term sale contracts related to salmon products. These contracts do not contain any elements of embedded derivatives 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 calculated production costs including raw materials, biomass, measured at fair value.

**NOTE 26. RELATED-PARTY TRANSACTIONS**

Related parties are in this respect considered as persons or legal entities, which directly or indirectly possess significant influence on the Bakkafrost Group through sharehold-

ing or position and vice versa. Related party transactions are at arm's length terms.

<b>DKK 1,000</b>	<b>2015</b>	<b>2014</b>
<b>Based on key personnel</b>		
Revenues - P/F TF Holding	2,859	12,340
Purchase - P/F TF Holding	25,847	28,638
Accounts receivable - P/F TF Holding	0	942
Accounts payable - P/F TF Holding	974	0
Purchase - P/F Hotel Føroyar	218	165
Accounts payable - P/F Hotel Føroyar	24	0
Purchase - P/F Frost	227	402
Accounts payable - P/F Frost	29	39
<b>Based on association</b>		
Revenues - P/F Faroe Farming	80,439	75,988
Purchase - P/F Faroe Farming	152,056	166,548
Accounts receivable - P/F Faroe Farming	70,049	64,068
Revenues - FF Skagen A/S	53,348	0
Purchase - FF Skagen A/S	12,201	22,513
Accounts payable - FF Skagen A/S	96	0
Revenues - Pelagos P/F	4	114
Purchase - Pelagos P/F	11,851	7,229
Accounts payable - Pelagos P/F	256	262
Revenues - Salmon Proteins P/F	12,977	11,590
Purchase - Salmon Proteins P/F	2,054	2,696
Accounts receivable - Salmon Proteins P/F	1,504	0
Accounts payable - Salmon Proteins P/F	0	678

P/F BAKKAFROST

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# FINANCIAL STATEMENTS

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FOR THE YEAR ENDED  
31 DECEMBER 2015





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## P/F BAKKAFROST

## Income Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2015	2014
Operating revenue		47,800	41,071
Salary and personnel expenses	2	-19,803	-17,858
Other operation expenses		-20,206	-15,741
Depreciation	4	-4,124	-4,059
<b>Earnings before interest and taxes (EBIT)</b>		<b>3,667</b>	<b>3,413</b>
Dividends from subsidiaries	5	525,261	513,224
Income from other investments in shares	6	-132	188
Financial income	3	72,184	70,723
Net interest expenses	3	-33,400	-32,842
Net currency effects	3	19,249	32,703
Other financial expenses	3	-5,937	-4,911
<b>Earnings before taxes (EBT)</b>		<b>580,892</b>	<b>582,498</b>
Taxes	8	-10,013	-12,470
<b>Profit to shareholders of P/F Bakkafrost</b>		<b>570,879</b>	<b>570,028</b>
Distribution of profit			
Dividends		403,079	293,148
Retained earnings		167,800	276,880
<b>Distribution in total</b>		<b>570,879</b>	<b>570,028</b>

## P/F BAKKAFROST

## Statement of financial position

AS AT 31 DECEMBER

DKK 1,000	Note	2015	2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		1,000	1,000
<b>Total intangible assets</b>		<b>1,000</b>	<b>1,000</b>
<b>Property, plant and equipment</b>			
Land, buildings and other real estate	4	182,895	72,236
Plant, machinery and other operating equipment	4	52,388	3,342
Prepayments	4	104,208	49,061
<b>Total property plant and equipment</b>		<b>339,491</b>	<b>124,639</b>
<b>Non-current financial assets</b>			
Investments in subsidiaries	5	1,320,671	1,320,671
Investments in stocks and shares	6	1,714	1,846
Total non-current financial assets		1,322,385	1,322,517
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,662,876</b>	<b>1,448,156</b>
Inventory		1,123	481
<b>Total inventory</b>		<b>1,123</b>	<b>481</b>
<b>Receivables from Group companies</b>		<b>1,496,782</b>	<b>1,161,577</b>
Deferred taxes		1,526	0
Accounts receivables		20,440	313
Other receivables		80,814	139,329
<b>Total receivables</b>		<b>1,599,562</b>	<b>1,301,219</b>
Cash and cash equivalents		122,988	306,665
<b>TOTAL CURRENT ASSETS</b>		<b>1,723,673</b>	<b>1,608,365</b>
<b>TOTAL ASSETS</b>		<b>3,386,549</b>	<b>3,056,521</b>

DKK 1,000	Note	2015	2014
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	7	48,858	48,858
Share premium fund		117,368	117,368
Share based payment		202	26
Retained earnings		1,876,497	1,713,917
Dividends		403,079	293,148
<b>Total equity</b>		<b>2,446,004</b>	<b>2,173,317</b>
<b>Non-current liabilities</b>			
Long-term interest bearing debt		446,549	508,413
Derivatives		128,804	116,929
Deferred taxes	8	0	675
<b>Total non-current liabilities</b>		<b>575,353</b>	<b>626,017</b>
<b>Current liabilities</b>			
Short-term interest bearing debt		0	100,000
Payables to Group companies		327,706	132,105
Accounts payable		37,486	25,082
<b>Total current liabilities</b>		<b>365,192</b>	<b>257,187</b>
<b>Total liabilities</b>		<b>940,545</b>	<b>883,204</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,386,549</b>	<b>3,056,521</b>

## P/F BAKKAFROST

## Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2015	2014
<b>Cash flow from operations</b>			
Operating profit (EBIT)		3,667	3,413
Adjustments for write-downs and depreciation	4	4,124	4,059
Adjustments for net currency effects		19,249	32,703
Adjustments for share based payment	2	176	26
Taxes paid	8	-6,757	-6,830
Change in inventory		-642	-481
Change in receivables		38,388	-27,203
Change in current debts		19,161	5,988
<b>Cash flow from operations</b>		<b>77,366</b>	<b>11,675</b>
<b>Cash flow from investments</b>			
Increase of share capital in subsidiaries, etc., net	5	0	-98,073
Payments made for purchase of fixed assets	4	-218,976	-68,984
<b>Cash flow from investments</b>		<b>-218,976</b>	<b>-167,057</b>
<b>Cash flow from financing</b>			
Changes in interest bearing debt (short and long)		-172,115	-182,673
Financial income		72,184	70,723
Financial expenses		-39,337	-37,753
Financing of associates/subsidiaries		-139,604	213,792
Acquisition/sale treasury shares		2,529	3,392
Dividend from subsidiaries	5	525,261	513,224
Dividend paid		-290,985	-217,787
<b>Cash flow from financing</b>		<b>-42,067</b>	<b>362,918</b>
<b>Net change in cash and cash equivalents in period</b>		<b>-183,677</b>	<b>207,536</b>
Cash and cash equivalents - opening balance		306,665	99,129
<b>Cash and cash equivalents - closing balance total</b>		<b>122,988</b>	<b>306,665</b>

## P/F BAKKAFROST

## Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Share capital	Share premium account	Share based payment	Retained earnings	Proposed dividends	Total
<b>1 January 2015</b>	<b>48,858</b>	<b>117,368</b>	<b>26</b>	<b>1,713,917</b>	<b>293,148</b>	<b>2,173,317</b>
<b>Net annual profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>570,879</b>	<b>0</b>	<b>570,879</b>
<b>Other comprehensive income:</b>						
Fair value adjustment on financial derivatives	0	0	0	-11,492	0	-11,492
Income tax effect	0	0	0	1,753	0	1,753
Total other comprehensive income	0	0	0	-9,739	0	-9,739
Total comprehensive income	0	0	0	561,140	0	561,140
<b>Transaction with owners:</b>						
Share based payment	0	0	176	0	0	176
Dividend treasury shares	0	0	0	2,163	0	2,163
Currency exchange				-173	0	-173
Proceeds/acquisition treasury shares	0	0	0	2,529	0	2,529
Paid-out dividends	0	0	0	0	-293,148	-293,148
Proposed dividends	0	0	0	-403,079	403,079	0
<b>Total transaction with owners</b>	<b>0</b>	<b>0</b>	<b>176</b>	<b>-398,560</b>	<b>109,931</b>	<b>-288,453</b>
<b>Total changes in equity</b>	<b>0</b>	<b>0</b>	<b>176</b>	<b>162,580</b>	<b>109,931</b>	<b>272,687</b>
<b>31 December 2015</b>	<b>48,858</b>	<b>117,368</b>	<b>202</b>	<b>1,876,497</b>	<b>403,079</b>	<b>2,446,004</b>
<b>1 January 2014</b>	<b>48,858</b>	<b>117,368</b>	<b>0</b>	<b>1,466,043</b>	<b>219,862</b>	<b>1,852,131</b>
<b>Net annual profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>570,028</b>	<b>0</b>	<b>570,028</b>
<b>Other comprehensive income:</b>						
Fair value adjustment on financial derivatives	0	0	0	-40,678	0	-40,678
Income tax effect	0	0	0	6,205	0	6,205
<b>Total other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-34,473</b>	<b>0</b>	<b>-34,473</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>535,555</b>	<b>0</b>	<b>535,555</b>
<b>Transaction with owners:</b>						
Share based payment	0	0	26	0	0	26
Dividend treasury shares	0	0	0	2,075	0	2,075
Proceeds/acquisition treasury shares	0	0	0	3,392	0	3,392
Paid-out dividends	0	0	0	0	-219,862	-219,862
Proposed dividends	0	0	0	-293,148	293,148	0
<b>Total transaction with owners</b>	<b>0</b>	<b>0</b>	<b>26</b>	<b>-287,681</b>	<b>73,286</b>	<b>-214,369</b>
<b>Total changes in equity</b>	<b>0</b>	<b>0</b>	<b>26</b>	<b>247,874</b>	<b>73,286</b>	<b>321,186</b>
<b>31 December 2014</b>	<b>48,858</b>	<b>117,368</b>	<b>26</b>	<b>1,713,917</b>	<b>293,148</b>	<b>2,173,317</b>

## P/F BAKKAFROST

# Notes to the financial statements

**NOTE 1. ACCOUNTING POLICIES**

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**

<b>DKK 1,000</b>	<b>2015</b>	<b>2014</b>
Wages and salaries	16,996	15,400
Share based payments	176	26
Social security taxes	577	546
Pension expenses	686	397
Other benefits	1,368	1,489
<b>Total payroll expenses</b>	<b>19,803</b>	<b>17,858</b>
Average number of full-time employees	29	24

**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 28,000 for audit service and DKK 10,000 for tax

advisory. For other services, see note to the consolidated financial statements.

**NOTE 3. NET FINANCIAL ITEMS**

<b>DKK 1,000</b>	<b>2015</b>	<b>2014</b>
Interests received from Group companies	69,611	68,210
Other financial income	2,573	2,513
<b>Financial income</b>	<b>72,184</b>	<b>70,723</b>
Interests paid to Group companies	-10,853	-2,236
Interest expenses on long- and short-term loans	-22,545	-30,589
Loss on financial derivatives	0	-16
Interest expenses on accounts payable	-2	-1
<b>Financial expenses</b>	<b>-33,400</b>	<b>-32,842</b>
Unrealized exchange gain on bond	23,550	31,100
Other exchange differences	-4,301	1,603
<b>Net currency effects</b>	<b>19,249</b>	<b>32,703</b>
Other financial expenses	-5,938	-4,911
<b>Other financial items</b>	<b>-5,938</b>	<b>-4,911</b>
<b>Net financial items</b>	<b>52,095</b>	<b>65,673</b>

**NOTE 4. PROPERTY, PLANT AND EQUIPMENT**

DKK 1,000	Land and buildings	Other equipment	Prepayments	Total 2015
Acquisition cost as at 01.01.15	85,933	6,802	49,061	141,796
Acquisitions during the year	113,727	50,102	55,147	218,976
<b>Acquisition cost as at 31.12.15</b>	<b>199,660</b>	<b>56,904</b>	<b>104,208</b>	<b>360,772</b>
Accumulated depreciation and write-down as at 01.01.15	-13,697	-3,460	0	-17,157
Depreciations during the year	-3,068	-1,056	0	-4,124
<b>Accumulated depreciation and write-down as at 31.12.15</b>	<b>-16,765</b>	<b>-4,516</b>	<b>0</b>	<b>-21,281</b>
<b>Net book value as at 31.12.15</b>	<b>182,895</b>	<b>52,388</b>	<b>104,208</b>	<b>339,491</b>

DKK 1,000				Total 2014
Acquisition cost as at 01.01.14	66,050	6,802	0	72,852
Disposals and scrapping during the year	-994	0	0	-994
Acquisitions during the year	20,877	0	49,061	69,938
<b>Acquisition cost as at 31.12.14</b>	<b>85,933</b>	<b>6,802</b>	<b>49,061</b>	<b>141,796</b>
Accumulated depreciation and write-down as at 01.01.14	-11,206	-1,932	0	-13,138
Accumulated depreciations and write-downs on disposals and scrapping	0	40	0	40
Depreciations during the year	-2,491	-1,568	0	-4,059
<b>Accumulated depreciation and write-down as at 31.12.14</b>	<b>-13,697</b>	<b>-3,460</b>	<b>0</b>	<b>-17,157</b>
<b>Net book value as at 31.12.14</b>	<b>72,236</b>	<b>3,342</b>	<b>49,061</b>	<b>124,639</b>

A significant part of Bakkafrost's buildings is located on rented land.

	Estimated lifetime	Depreciation method
Land and buildings	15-25	linear
Other operating equipment	3-8	linear

**NOTE 5. SUBSIDIARIES AND ASSOCIATES**

<b>DKK 1,000</b>	<b>2015</b>	<b>2014</b>
Acquisition cost as at 01.01.	1,323,437	1,225,364
Additions during the year	0	98,073
<b>Acquisition cost as at 31.12.</b>	<b>1,323,437</b>	<b>1,323,437</b>
Re-evaluations as at 01.01.	-2,766	-2,766
<b>Re-evaluations as at 31.12.</b>	<b>-2,766</b>	<b>-2,766</b>
<b>Net book value as at 31.12.</b>	<b>1,320,671</b>	<b>1,320,671</b>

P/F Bakkafrøst and subsidiaries, the Group, owns a total of 78.66% in P/F Salmon Proteins, which is an associated company on the Group level due to restrictions in exercising majority-voting rights.

P/F Bakkafrøst owns 14.23% in P/F Salmon Proteins and is included in the item Investment in stocks and shares.

<b>DKK 1,000 Company</b>	<b>Cost Method Yes/No</b>	<b>Head Office</b>	<b>Ownership</b>	<b>Voting share</b>	<b>Carrying amount in P/F Bakkafrøst 2015</b>	<b>Carrying amount in P/F Bakkafrøst 2014</b>
P/F Bakkafrøst Processing	Yes	Glyvvar	100%	100%	158,591	158,591
P/F Bakkafrøst Sales	Yes	Glyvvar	100%	100%	879	879
P/F Bakkafrøst Packaging	Yes	Glyvvar	100%	100%	7,781	7,781
P/F Bakkafrøst Harvesting	Yes	Glyvvar	100%	100%	6,059	6,059
P/F Bakkafrøst Farming	Yes	Glyvvar	100%	100%	233,828	233,828
P/F Havsbrún	Yes	Glyvvar	100%	100%	908,884	908,884
Bakkafrøst UK Ltd	Yes	Grimsby	100%	100%	4,649	4,649
<b>Total subsidiaries</b>					<b>1,320,671</b>	<b>1,320,671</b>

	<b>Dividends paid out in 2015</b>	<b>Dividends paid out in 2014</b>	<b>Excess dividends on result 2015</b>	<b>Result 2015</b>	<b>Result 2014</b>
P/F Bakkafrøst Farming	201,873	361,945	108,584	310,457	202,354
P/F Bakkafrøst Sales	161,478	58,521	63,904	225,382	161,509
P/F Bakkafrøst Packaging	4,093	3,617	1,393	5,486	4,155
P/F Bakkafrøst Harvest	58,329	23,591	840	59,169	58,329
P/F Bakkafrøst Processing	0	0	69,271	69,271	48,802
P/F Havsbrún	99,488	65,550	27,067	126,555	110,439
Bakkafrøst UK Ltd	0	0	3,774	3,774	1,803
<b>Total revenue Group contribution</b>	<b>525,261</b>	<b>513,224</b>	<b>274,833</b>	<b>800,094</b>	<b>587,391</b>

**NOTE 6. INVESTMENTS IN STOCKS AND SHARES**

DKK 1,000	2015	2014
Acquisition costs as at 01.01.	183	183
<b>Acquisition costs as at 31.12.</b>	<b>183</b>	<b>183</b>
Re-evaluations as at 01.01.	1,663	1,475
Re-evaluations during the year	-132	188
<b>Re-evaluations as at 31.12.</b>	<b>1,531</b>	<b>1,663</b>
<b>Net book value as at 31.12.</b>	<b>1,714</b>	<b>1,846</b>

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. SHARE CAPITAL AND MAJOR SHAREHOLDERS**

DKK 1,000	2015	2014
Share capital at 31.12.	48,858	48,858
<b>Share capital at 31.12.</b>	<b>48,858</b>	<b>48,858</b>

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 2015, see note 16 in Group Accounts.

**NOTE 8. TAX**

The tax expense for the year breaks down as follows:

DKK 1,000	2015	2014
Tax payable	-10,076	-6,756
Change in deferred tax	63	-5,714
<b>Tax expense on ordinary profit</b>	<b>-10,013</b>	<b>-12,470</b>
<b>Tax in the statement of financial position</b>		
Deferred tax	-1,526	675
<b>Tax in the statement of financial position</b>	<b>-1,526</b>	<b>675</b>
<b>Specifications of temporary differences</b>		
Property, plant and equipment	39,753	27,402
Swaps	-128,804	-116,929
Currency effects	80,573	93,273
<b>Total temporary differences</b>	<b>-8,478</b>	<b>3,746</b>
<b>Deferred tax liabilities (+) / assets (-)</b>	<b>-1,526</b>	<b>675</b>

**Reconciliation from nominal to actual tax rate**

<b>Profit before tax</b>	<b>580,892</b>	<b>582,498</b>
Expected tax at nominal tax rate (18%)	-104,561	-104,850
Permanent differences, including Group contribution without tax effect (18%)	92,380	92,380
<b>Calculated tax expense</b>	<b>-12,180</b>	<b>-12,470</b>
Effective tax rate	-2.10%	-2.14%

As Parent company in the Bakkafrost Group, Bakkafrost P/F is the administrating company in the Group Joint Taxation, and is liable towards the Faroese Tax Authorities for taxes payable on behalf of its subsidiaries.

**NOTE 9. SECURITY PLEDGES AND CONTINGENT LIABILITIES**

Carrying amount of debt secured by mortgages and pledges

<b>DKK 1,000</b>	<b>2015</b>	<b>2014</b>
Long-term debt to financial institutions	446,549	508,413
Short-term debt to financial institutions	0	100,000
<b>Total</b>	<b>446,549</b>	<b>608,413</b>

**Carrying amount of assets pledged as security for recognised debt**

Property, plant and equipment	339,491	124,639
Non-current financial assets	1,322,385	1,322,517
Receivables	1,599,562	1,301,219
<b>Total</b>	<b>3,261,438</b>	<b>2,748,375</b>

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, shareholdings, 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.

As Parent company in the Bakkafrost Group, Bakkafrost P/F is the administrating company in the Group Joint Taxation and is liable towards the Faroese Tax Authorities for taxes payable on behalf of its subsidiaries.

**NOTE 10. RELATED-PARTY TRANSACTIONS**

The company operates cash pooling arrangements in the Group. Further, the company extends loans to subsidiaries and associates at terms and conditions reflecting prevailing market conditions for corresponding services, allowing a margin to cover administration and risk. The company allocates costs for corporate staff services and shared services to subsidiaries and renting of buildings.

The total amounts for rent are DKK 3.9 million (2014: DKK 3.2 million), allocation of administration etc. DKK 42.5 million (2014: DKK 37.8 million), financial incomes of DKK 69.6 million (2014: DKK 68.2 million) and financial expenses amounting to DKK 10.9 million (2014: DKK 2.2 million). The principle of arm's length is used in all transactions with related parties.

# Glossary

<b>AGM:</b>	Annual General Meeting
<b>ASC:</b>	Aquaculture Stewardship Council
<b>CGU:</b>	Cash-generating Unit
<b>EBT:</b>	Earnings Before Tax
<b>EBIT:</b>	Earnings Before Interest and Tax
<b>EBITA:</b>	Earnings Before Interest, Amortisation and Tax
<b>EBITDA:</b>	Earnings Before Interest, Tax, Depreciation and Amortisation
<b>EPS:</b>	Earnings Per Share
<b>FOF:</b>	Fishmeal, Oil and Feed
<b>HACCP:</b>	Hazard Analyses Critical Control Point
<b>IAS:</b>	International Accounting Standards
<b>IFRS:</b>	International Financial Reporting Standards
<b>ISO:</b>	International Organization for Standardization
<b>NIBD:</b>	Net Interesting Bearing Debt
<b>PP&amp;E:</b>	Property, Plant and Equipment
<b>R&amp;D:</b>	Research and Development costs
<b>TGW:</b>	Tonnes Guttet Weight
<b>USP:</b>	Unique Selling Points
<b>VAT:</b>	Value Added Tax
<b>VAP:</b>	Value Added Products; Value Added Production
<b>WACC:</b>	Weighted Average Cost of Capital
<b>WFE:</b>	Whole Fish Equivalent





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