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# ANNUAL REPORT 2016

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# Table of Contents

Chairman's Statement	4
Statement by the Management and the Board of Directors	6
Who Are We?	8
Key Figures	10
Main Events	12
Outlook	14

<b>■ STRATEGY</b>	<b>17</b>
Business Objectives and Strategy	18
Business Model	19
Bakkafrost's History	22
The Value Chain	24
Group Structure	29
Operation Sites	30

<b>■ PERFORMANCE</b>	<b>32</b>
Operational Review	33
Financial Review	36
Farming Segment	38
VAP Segment	40
FOF Segment	42
Business Review	46

<b>■ RISK</b>	<b>61</b>
Risk and Risk Management	62

<b>■ GOVERNANCE</b>	<b>67</b>
Corporate Governance	68
Health, Safety and the Environment	70
Shareholder Information	72
Directors' Profiles	73
Group Management's Profiles	76
Other Managers' Profiles	78

Statement by the Management and the Board of Directors on the Annual Report	80
Independent Auditor's Report	81

**CONTENS STATEMENTS AND NOTES 86**

Consolidated Income Statement	88
Consolidated Statement of Comprehensive Income	89
Consolidated Statement of Financial Position	90
Consolidated Statement of Financial Position	91
Consolidated Cash Flow Statement	92
Consolidated Statement of Changes in Equity	93

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 94**

■ NOTES - SECTION 1 BASIS OF PREPARATION	95
■ NOTES - SECTION 2 RESULT FOR THE YEAR	99
■ NOTES - SECTION 3 ASSETS AND LIABILITIES	110
■ NOTES - SECTION 4 CAPITAL STRUCTURE AND FINANCING ITEMS	129
■ NOTES - SECTION 5 OTHER DISCLOSURE	136

**P/F BAKKAFROST - TABLE OF CONTENTS 144**

P/F BAKKAFROST - Income Statement	145
P/F BAKKAFROST - Statement of Financial Position	146
P/F BAKKAFROST - Statement of Financial Position	147
P/F BAKKAFROST - Cash Flow Statement	148
P/F BAKKAFROST - Statement of Changes in Equity	149
P/F BAKKAFROST - Notes to the Financial Statements	151

**APPENDIX 158**

Quarterly Financial Figures 2015-2016	158
Market Announcements Published in 2016	160
Financial Calendar for 2017	161
Glossary	162

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# Chairman's Statement

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

## OVERVIEW

The salmon industry experienced nearly unprecedented price levels in 2016. The salmon price reached heights not seen since the 1980's due to the growing demand for salmon in the global market and the decreased global supply of salmon in 2016. Bakkafrost had a good year in 2016 with record high financial results.

Bakkafrost reached a profit of DKK 1,339 million after tax, which is an improvement, compared to previous years. The result is achieved by focused and committed employees throughout our operation and a quality product acknowl-

edged by our valuable customers. Bakkafrøst continues to be committed to providing tasty and healthy quality salmon products to the global marketplace.

### PREPARING FOR THE FUTURE

In order to sustain Bakkafrøst's profitability for the future, our focus must be on business; but no company within our field of industry will succeed without focusing on biology. Investments reducing the biological risk have therefore been key elements in Bakkafrøst's investment programme, with five-year's investment plans announced in 2013 and again in 2016.

To highlight our focus on the biological risk, Bakkafrøst has invested in a new service vessel in 2016, which was not part of the investment plan announced in June 2016. The primary assignment of the service vessel will be sea lice treatment of the salmon. Bakkafrøst has to be flexible in order to maintain the operational risk on an acceptable level.

Around half of our investments for the next five years will be enhancing the smolt production on land in hatcheries.

The plan is to increase the size of smolt produced on land to 500 grams each. This will reduce the production time in the sea and reduce the biological risks. These investments will also open up for production growth over the coming years.

In July 2016, Bakkafrøst acquired 51% of the remaining shares in Farøe Farming, making it 100% of the shares. Farøe Farming is the sole salmon farming company in the southern part of the Farøe Islands. Bakkafrøst sees some great opportunities both for the company and for the local community making this operation even more efficient and able to create more values..

### IMPROVING EFFICIENCY

2016 marked the year, when Bakkafrøst made a leap in the right direction when it comes to increasing competitiveness. The merging of seven factories into one factory in Glyvur took the finalizing phase in 2016. The harvest production opened in the summer of 2016, and the value added product processing has started in 2017. We trust both the harvest and the value added product production will start achieving synergies and optimizations at the new settings in Glyvur in the near future.

### SUSTAINABILITY AND SOCIAL RESPONSIBILITY

Bakkafrøst got its second farming site ASC certified in 2016, and aims to get all farming sites ASC certified by 2020. To get the certification, the operation needs to meet certain requirements varying from animal health to environment and social responsibility.

### DIVIDENDS FOR OUR SHAREHOLDERS

Although Bakkafrøst has initiated another five-year investment plan, the dividend policy is unchanged. And based on the solid performance of Bakkafrøst in 2016, the Board of Directors will propose a dividend of DKK 8.70 per share at the Annual General Meeting, which corresponds to a total dividend of DKK 425.1 million.

On behalf of the Board of Directors, I would like to express our appreciation to all of Bakkafrøst's employees for the commitment and hard work in 2016.

# 1,339 million (DKK)

Result after tax for 2016



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# Statement by the Management and the Board of Directors

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## **STRONG PERFORMANCE WITH RECORD HIGH SALMON PRICES IN 2016**

Bakkafrost harvested lower volumes in 2016 than in 2015, but delivered a record high financial result in 2016. The salmon market experienced significant increase in the salmon prices in 2016, compared to 2015. The VAP segment sells on long term contracts and in an environment where spot prices increase rapidly, thus the VAP segment struggled, as the prices in the long-term contracts have a time lag, compared with the spot price for fresh salmon. The Farming segment experienced record high margins, and the FOF segment had a very good year in 2016.

The Farming segment harvested 47,542 tgw in 2016, compared with 50,565 tgw in 2015. This corresponds to a decrease of 6%. The harvest in the Farming segment is dependent on available farming sites with fish at the aimed harvest weight. The biological situation has been stable in 2016, although there was a suspicion of ISA at one of our farming sites in July 2016. The suspicion arose after a routine surveillance test at the site. Mortality was not higher, and no factors indicated an ISA outbreak at the farming site.



# 425 million (DKK)

## Proposed dividend for 2016

The good performance in the Farming segment was due to the good biological situation and the high salmon spot prices achieved for the harvested volumes.

Bakkafrost acquired the remaining outstanding shares in P/F Faroe Farming, which became part of the Bakkafrost Group from the 1<sup>st</sup> of July 2016. Faroe Farming is a salmon farming company and operates in Suðuroy, the southernmost island in the Faroes. Faroe Farming had three farming licenses in Suðuroy. Simultaneously, Bakkafrost relinquished two farming licenses to the Faroese Authorities. The relinquished licenses were Svináir (A-03) and Hovsfjørður (A-17/18). After these two transactions, Bakkafrost now holds 14 licenses for farming salmon in the Faroe Islands. Faroe Farming is now part of Bakkafrost Group's Farming West division. Bakkafrost believes that salmon farming in Suðuroy can be significantly optimized. Bakkafrost has announced an investment plan for the next five years and trusts that opportunities concerning Faroe Farming and Suðuroy will result in increased value for both Bakkafrost and Suðuroy in general.

The VAP segment's production was nearly unchanged, 18,120 tgv in 2016, compared to 18,196 tgv in 2015. The percentage of total harvest used for VAP production increased to 37% in 2016, compared to 33% in 2015. The VAP contract prices have increased gradually in 2016, but were not able to increase at the same rate as the spot price for fresh salmon. Thus, the VAP segment realized negative margins in 2016.

The raw material intake in the FOF segment was record high at 235,014 tonnes in 2015. The raw material intake was 201,222 tonnes in 2016, a decrease of 14%, compared with 2015. The production of fishmeal and fish oil was consequently lower in 2016, compared to 2015. The feed sale increased 7% from 78,865 tonnes in 2015 to 84,587 tonnes in 2016. The margins in the FOF segment were high in 2016.

2016 was a year with a dramatic price increase, not seen for many years. The price increase in NOK was 50%, as the average NOS salmon price was NOK 63.13 per kilo in 2016, compared to NOK 42.09 per kilo in 2015. Taking the NOK/EUR currency situation into consideration, the price increase in 2016 was around 45%. The average NOS salmon price in EUR was EUR 6.80 per kilo in 2016, compared with EUR 4.70 per kilo in 2015.

The feed cost – representing around 60% of the costs in a kilo of salmon – have been relative flat in 2016 and at the same level as for the second half of 2015.

The health cost has increased in recent years, and sea lice is an area, which has demanded more and more attention. The cost related to sea lice treatment increased in 2016, compared to 2015. Part of the health cost relates to fresh water treatment with M/S Hans á Bakka and lumpfish. This part will most likely experience a relative increase in the coming years, and the cost related to medical treatment will in turn experience a relative decrease.

Bakkafrost Group's interest bearing debt amounted to DKK 635.3 million at the end of 2016, compared with DKK 391.7 million at year-end 2015, and had available funds of approximately DKK 654.5 million.

The Bakkafrost Group made a profit of DKK 1,338.9 million for 2016, compared with DKK 810.2 million for 2015. Bakkafrost's equity ratio was 66% at the end of 2016, compared to 66% at the end of 2015. Bakkafrost paid out DKK 403.1 million in dividends in the second quarter of 2016, corresponding to DKK 8.25 per share.

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# Who Are We?

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Bakkafrost is the market leader of top quality salmon from the Faroe Islands. We offer a wide range of healthy and nutritious salmon products from our own facilities.

The abundance of nature and the cool and steady sea temperature of the North Atlantic Current surround the Faroe Islands, providing perfect conditions for salmon.

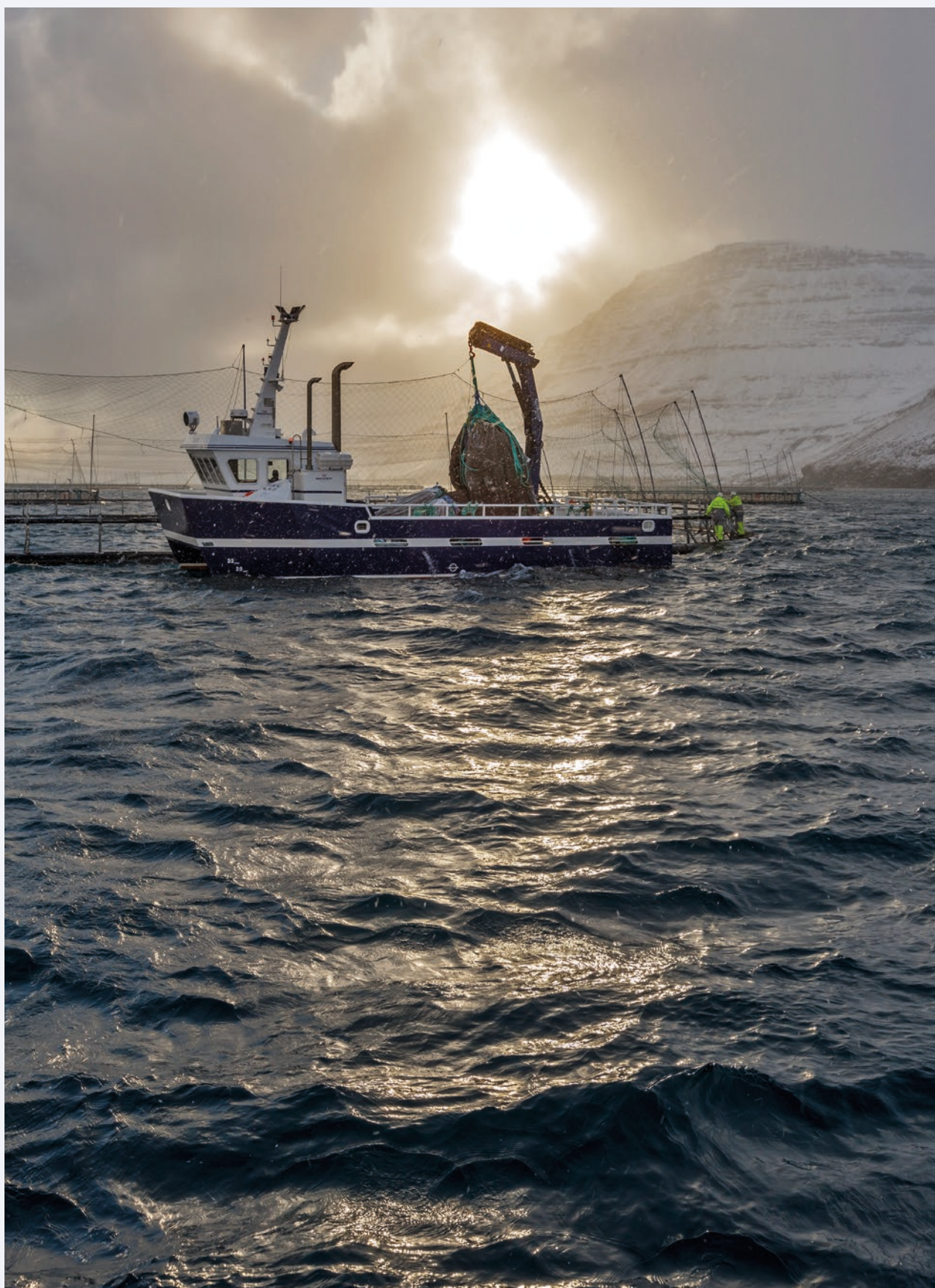
Bakkafrost is probably the most vertically integrated salmon farming company in the world. Bakkafrost controls all aspects of production – from feed to finished value added products. This ensures unrivalled traceability and consistent high quality.

Our longstanding experiences in the seafood industry and our focus on providing our customers with top quality salmon products has made Bakkafrost well reputed as a reliable and responsible partner.

We are committed to maintaining the highest standards in relation to fish welfare, sustainability and sound stewardship of the environment.

We are dedicated to providing consumers worldwide with top quality tasty and nutritious salmon products.





# Key Figures

Fig. 1

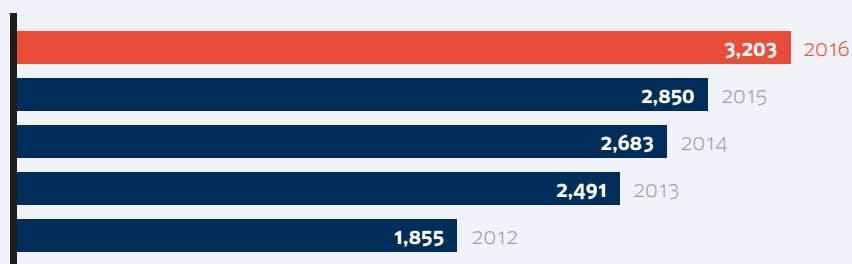
Income statement	2016	2015	2014	2013	2012
Operating revenues	3,202,686	2,850,363	2,683,319	2,491,081	1,855,544
Operational EBIT*	1,164,953	1,000,583	833,775	587,010	323,040
Operational EBITDA*	1,298,214	1,108,681	930,944	673,669	403,284
Earnings before interest and taxes (EBIT)	1,673,587	928,758	892,291	701,320	343,520
Earnings before taxes (EBT)	1,632,614	924,471	899,191	727,351	323,681
<b>Net earnings</b>	<b>1,338,887</b>	<b>810,175</b>	<b>647,105</b>	<b>589,218</b>	<b>267,875</b>
Earnings per share before fair value adjustment of biomass and provision for onerous contracts (DKK)	17.57	17.16	12.33	10.55	5.01
Earnings per share after fair value adjustment of biomass and provision for onerous contracts (DKK)	27.56	16.69	13.34	12.07	5.76
<b>Statement of financial position</b>					
Total non-current assets	2,567,212	1,957,061	1,462,633	1,328,179	1,197,655
Total current assets	2,850,904	1,963,325	2,000,300	1,784,047	1,373,256
<b>TOTAL ASSETS</b>	<b>5,418,116</b>	<b>3,920,386</b>	<b>3,462,933</b>	<b>3,112,226</b>	<b>2,570,911</b>
Total equity	3,549,035	2,580,482	2,063,653	1,665,277	1,262,912
Total liabilities	1,869,081	1,339,904	1,399,280	1,446,949	1,307,999
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5,418,116</b>	<b>3,920,386</b>	<b>3,462,933</b>	<b>3,112,226</b>	<b>2,570,911</b>
Net interest bearing debt**	635,266	391,743	232,711	603,074	806,903
Equity share	66%	66%	60%	54%	49%

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

\*\* Derivatives related to long-term interest bearing debt amounting to DKK 101,734 are not included.

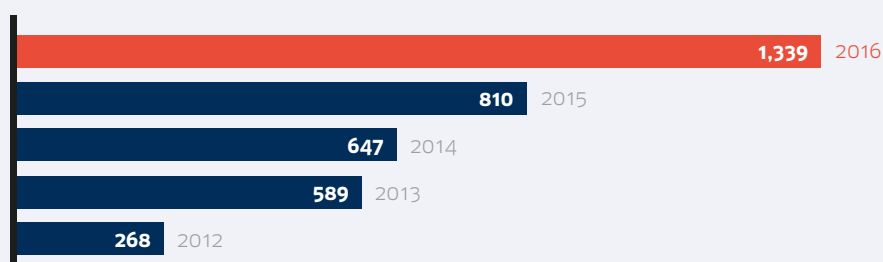
### OPERATING REVENUES MILL. DKK

Fig. 2



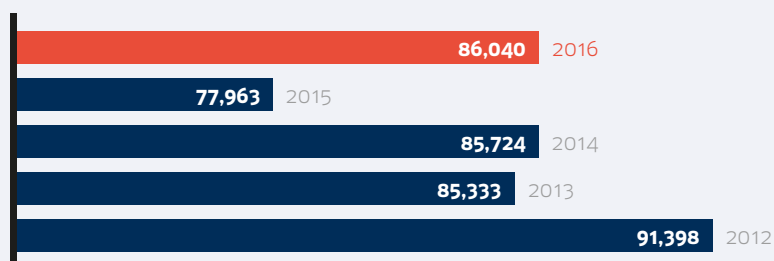
### NET EARNINGS MILL. DKK

Fig. 3



### FISH FEED PRODUCTION VOLUME TONNES

Fig. 4



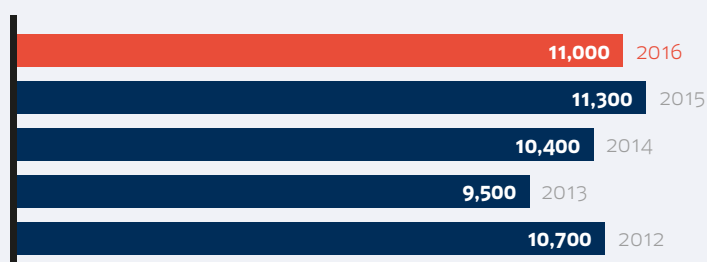
### HARVEST VOLUME TONNES GW

Fig. 5



### SMOLT RELEASE THOUSAND SMOLTS

Fig. 6

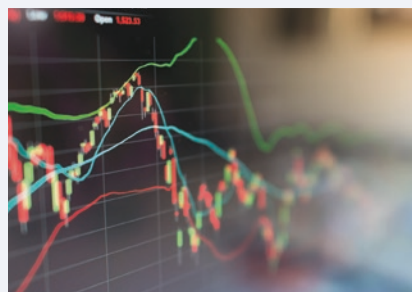


# Main Events



## MARCH

Bakkafrost enhances the already ongoing hatchery investments by announcing construction of a new 29,000 m<sup>3</sup> hatchery at Strond, Klaksvík.



## APRIL

AGM decides to pay a dividend of DKK 8.25 per share.

January

February

March

April

May

June



## JUNE

Bakkafrost presents the new five-year investment plan from 2016 to 2020 at Bakkafrost's Capital Markets Day.

Bakkafrost acquires the remaining outstanding shares (51%) of P/F Faroe Farming. P/F Faroe Farming is a salmon farming company and operates in the southern part of the Faroe Islands.





## JULY

Havsbrún, the fishmeal, fish oil and fish feed factory, celebrates its 50<sup>th</sup> anniversary. A public concert inside Havsbrún's new storage tunnels was part of the anniversary. The tunnels have a capacity of around 20 thousand tonnes of fishmeal.

July

August

September

October

November

December

## AUGUST

Bakkafrost's salmon farming site at Gulin is ASC certified. Gulin is Bakkafrost's second farming site to be ASC certified, and Bakkafrost aims at getting all farming sites ASC certified by 2020.



## OCTOBER

Bakkafrost purchases "M/S Martin". The ship will operate as a service vessel within sea farming operations and is equipped with a system for delousing salmon using lukewarm sea water.





# Outlook

## MARKET

The salmon prices have increased to record levels in 2016. The increase is due to strong demands in nearly all markets combined with a decrease in supply in 2016. The estimated decrease in total supply in 2016 is approximately 4%, compared to 2015.

2016 was special because of unusual circumstances in Chile, as a harmful algal bloom hit the Chilean salmon industry and resulted in around 25 million fish being taken out, corresponding to 100,000 tonnes of harvested fish. In a matter of days, the supply picture for 2016 changed from an expected increase to a decrease. Such force majeure circumstances cannot be assumed in future expectations. The latest update from Kontali still estimates a global supply of Atlantic salmon to increase around 1% in 2017, compared to 2016.

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

## FARMING

The outlook for the farming segment is good. The estimates for harvesting volumes and smolt releases are dependent on the biological development. The investments in producing larger smolts will gradually reduce the time needed in the fjords to farm the salmon. This is expected to reduce biological risk and increase the capacity. The capacity growth from this investment program will appear in harvested volumes gradually until 2021.

To reduce risk, Bakkafrøst decided in January 2017 to harvest 190,000 fish earlier than anticipated and not at optimal harvest weight. The harvest was a precautionary action as the fish was under suspicion of having pathogenic ISA. Reference is made to Bakkafrøst's market announcement on the 20<sup>th</sup> of January 2017. Bakkafrøst expects to harvest 55,500 tonnes gutted weight in 2017. This is 500 tonnes less

than the previous forecast and relates to the precautionary harvest.

Bakkafrøst expects to release 11.5 million smolts in 2017, compared with 11.7 million smolts in 2016 and 11.3 smolts released in 2015 – smolts released by Faroe Farming before becoming part of the Bakkafrøst Group are included. The number of smolts released is a key element of predicting Bakkafrøst's future production.

The biological situation is Bakkafrøst's most important risk area. The suspicion of a possible pathogenic ISA virus at one of Bakkafrøst's farming sites in July 2016 and again in January 2017 – although the suspicion has not been confirmed – draws attention to the importance of good animal welfare and biology, reducing the biological risk. Bakkafrøst focuses on biological risk continuously and has made several new investments and procedures to diminish this risk.

Sea lice is an area, which has demanded much effort and is a part of the biological risk. The new Faroese regulations on sea lice control in salmon farming are expected to increase the operational costs for farming salmon in the Faroe Islands.

Bakkafrøst focuses on using non-chemical methods in treatments against sea lice. Bakkafrøst's live fish carrier M/S Hans á Bakka has carried out fresh water treatment against sea lice since Q4 2015. In Q4 2016, Bakkafrøst invested in a service vessel, M/S Martin, which will primarily use warm sea water treatment against sea lice. M/S Martin is expected to start operation in Q1 2017, which will increase the treatment capacity against sea lice significantly. Furthermore, Bakkafrøst will increase the use of lumpfish in farming significantly in 2017.

### VAP (VALUE ADDED PRODUCTS)

Bakkafrost has signed contracts covering around 36% of the expected harvested volumes for 2017.

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 selling around 40-50% of the harvested volumes of salmon as VAP products at 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 instead of short-term fluctuations as in the spot market.

The price level on long-term contracts are on a higher level than ever before. At present, there are no indications that this price level should decrease significantly.

### FOF (FISHMEAL, OIL AND FEED)

The outlook for the production of fishmeal and fish oil is dependent on the availability of raw material. The ICES 2017 recommendation for blue whiting is 1,342 thousand tonnes, compared with 776 thousand tonnes in 2016. Recommendations for herring and mackerel quotas have increased as well. The forecast for production of fishmeal and fish oil are positive and will most likely increase due to higher quotas and better availability.

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

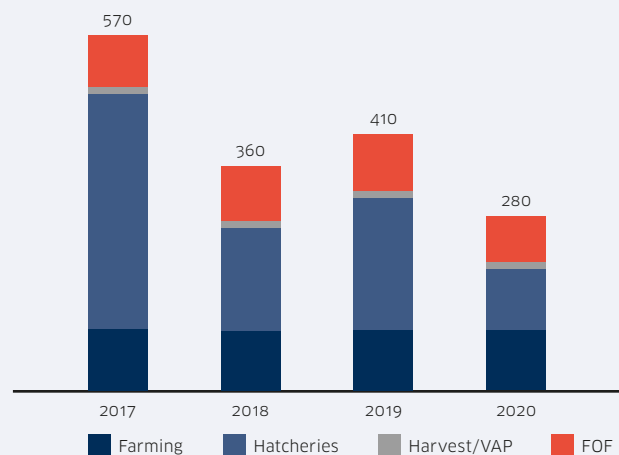
Havsbrún's sales of fish feed in 2017 are expected to be at 85,000 tonnes.

### INVESTMENTS

In June 2016, Bakkafrost announced a five-year investment plan from 2016 to 2020. The total investments for the period is DKK 2.2 billion, including maintenance CAPEX.

Fig. 7

#### INVESTMENT PLAN (mDKK)



The purpose of the investment plan is to continue to have one of the most cost conscious value chains in the farming industry, to carry out organic growth, increase flexibility and reduce the biological risk to meet the future consumers' trends and to be more end-customer orientated.

Bakkafrost aims at being self-supplied with smolts at a size of 500g each. The benefits are a shorter production time at sea as well as reduced biological risk. To reach this goal, approximately half of Bakkafrost's total investments over the next five years will be in hatcheries.

The investment of the new harvest/VAP factory at Glyvrrar is in its final stages. The harvest operation started in the summer of 2016 and ramped up during the second half of 2016. The harvest factory at Kollafjørður will be closed in Q1 2017. The VAP production in the new harvest/VAP factory will start operation in Q1 2017. The old VAP production factory at Glyvrrar was closed in Q4 2016 and the VAP production at Fuglafjørður will be closed in Q1 2017. There will be some extra costs during the start-up period, but the investment is expected to result in operational savings of DKK 70-90 million per year with gradual effect from 2017.

Bakkafrost plans to increase the value of offcuts from salmon harvested and processed in the new harvest/VAP factory. In 2017, Bakkafrost will invest in a new salmon meal and salmon oil plant, located in Fuglafjörður and operated by Havsbrún. The new salmon meal and salmon oil plant is expected to start operation in late 2017 and is expected to have positive margins in 2018. The FOF segment will also invest in a new feed line, which will increase the capacity of the feed production.

Free cash flow from operations, existing financing facilities and partly new financing if advantageous will finance the investments. The dividend policy will be unchanged.

### FINANCIAL

Improved market balances in the world market for salmon products and cost conscious production will likely improve the financial flexibility going forward. A high equity ratio together with Bakkafrost's bank financing and the issuance of bonds makes Bakkafrost's financial situation strong. This enables Bakkafrost 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.





# STRATEGY

## BAKKAFROST'S 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 the 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.



# 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 the 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 cost conscious 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 conscious 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 the society and continue pursuing the company's growth strategy.



# Business Model

Bakkafrost is probably the most vertically integrated salmon farming company in the world, which gives Bakkafrost full control and responsibility over all aspects of production. This enables Bakkafrost to have optimal control over the quality of its salmon and the costs of production.

## OPERATION

Bakkafrost holds 14 sea farming licenses in the Faroe Islands. The licenses give the right to utilize a given area of fjords for farming fish. The Faroese legislation has imposed measures in order to regulate the activity into being environmentally sustainable.

The Gulf Stream provides stable farming conditions in the Faroe Islands throughout the year as well as excellent water quality. The water temperature in the region is steady, with a fluctuation of only 5 °C during the year. The lowest

temperatures, approximately 6 °C, are usually reached in February, and the highest temperatures, approximately 11 °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, minimizing 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.

Bakkafrost operates five fully owned hatcheries and 17 fish farming sites for marine production of Atlantic salmon in the Faroe Islands in addition to three sites currently out of production. Bakkafrost has temporary permission to farm at one farming site until the fish is harvested, which

Fig. 8





is expected to be in 2017. The farming sites are located in 16 different fjords.

All primary processing takes place at the harvest factories in Glyvrrar, Kollafjörður and Vágur. The harvest factory at Glyvrrar started operation in the summer of 2016 at the same time as the harvest factory in Klaksvík was closed. The harvesting operation in Kollafjörður will close in Q1 2017. Harvest from Suðuroy will be in Vágur, while harvest from all other farming sites will be in Glyvrrar. The secondary processing takes place at the VAP facilities in Glyvrrar and Fuglafjörður. In 2017, the new VAP factory at Glyvrrar will replace the old VAP factory in Glyvrrar and Fuglafjörður.

## CERTIFICATES

To ensure prime quality, Bakkafróst has implemented a series of procedures and quality control systems not only at our own salmon farms and processing plants, but also for our suppliers. All stages of our production chain are Global GAP compliant. Other certifications include ASC, HACCP, IFS and BRC.

Bakkafróst is a member of the Global Salmon Initiative (GSI). GSI is focused on three pillars of sustainability: reducing environmental impact, increasing social contribution and maintaining economic growth.

## PEOPLE

Our most important asset is our employees, and for Bakkafróst to remain a high-performing organization 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 are the company culture and the fundamental values of Bakkafróst 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.

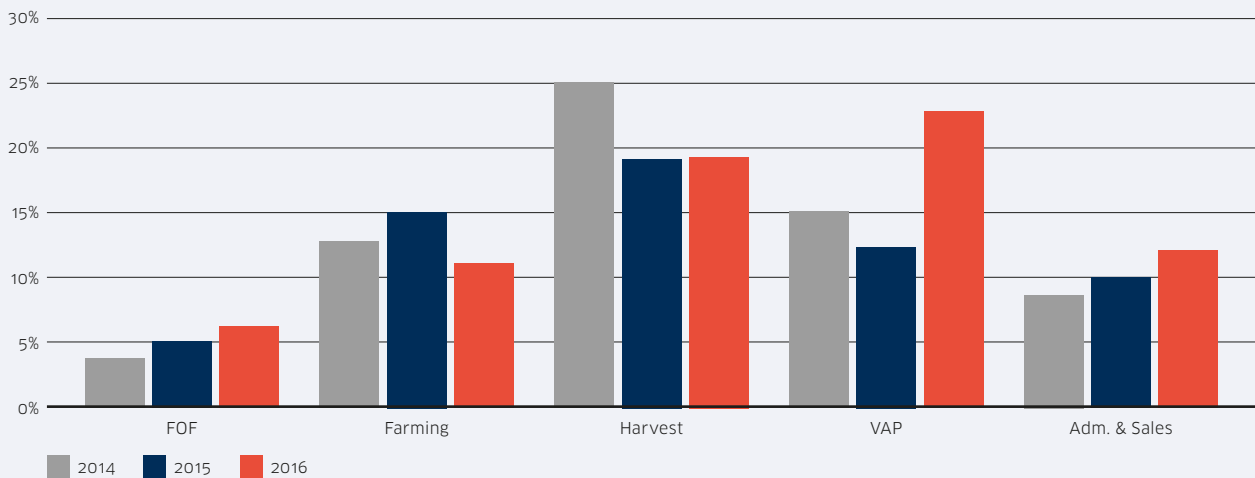
For work-related training, in-house and external courses, as well as other forms of training, we engage and form partnerships with local educational institutions and experts focusing on health, safety, business and commerce education.

In 2016, the number of full-time equivalent employees in the Bakkafrost Group was 820 employees, compared to 725 employees in 2015.

There are seasonal variations related to the Harvest and VAP divisions, primarily due to short-term employment of young employees of one to two years.

Fig. 9

#### Annual Turnover of Employees



# Bakkafrost's History

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

## 1968

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

## 1972

A second processing plant is built in Glyvvar. The business idea is 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 begins. This is mainly to stabilize the existing business, as the volumes of herring caught decreases.

## 1979

Bakkafrost starts 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 begins. The blue whiting stock plummets in 1990, causing financial distress for the Group and the rest of the sector.

## 1986

P/F Bakkafrost is incorporated as SP/F Faroe Salmon by Jón Purkhús and Heini Gregersen, and production of farmed salmon and smolt starts.

## 1992

The Group is restructured by Regin Jacobsen, Hans Jacobsen and Martin Jakobsen. At this time, the Group establishes P/F Alistøðin á Bakka, which has farming licences for salmon in two fjords, slaughtering capacities for salmon in Glyvvar as well as pelagic processing capabilities and production of styropor boxes for transportation of fish.

## 1995

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

## 1999–2001

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

## 2006

The Group grows through acquisitions and mergers and increases its farming capacity by 15,000 tkg, to a total capacity of 18,000 tkg of salmon. The Group gains access to six new fish farming fjords and two hatcheries for production of smolt and fry. The Group makes large investments to increase the VAP factory at Glyvvar to manage the increased volumes, and the factory reaches a capacity of 55 tkg per day.

## 2008

The shareholders of Bakkafrost and Vestlax agree to merge the companies. The merger is scheduled for 1 January 2010. P/F Vestlax Holding's shareholders agree to be remunerated in Bakkafrost shares. The Vestlax Group has a capacity of 11,000 tkg 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 is made to list the company on Oslo Børs.

**2010**

Bakkafrost and Vestlax merge. 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, harvests 21,626 tkg in 2010. On 26 March 2010, the company is 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 acquires P/F Havsbrún, a modern, internationally renowned producer of fishmeal, fish oil and fish feed situated in the Faroe Islands. Most the produced fishmeal and oil is used for its own fish feed production, and the rest is being exported. Bakkafrost is Havsbrún's largest customer. P/F Havsbrún owns 78.1% of the farming companies P/F Faroe Farming and P/F Viking Seafood with a total of 5 licenses. Following the acquisition of P/F Havsbrún, Bakkafrost also acquires the minority shares in P/F Viking Seafood and thus controls 100% of the shares.

**2012**

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

**2013**

Bakkafrost announces its five-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 exchanges the farming site in Vestmanna with the site in Gøtuvík, previously operated by P/F Luna.

**2014**

The first part of the investment plan is finalized, as the new packaging plant is built in Glyvvar and starts production. A new hatchery, making Bakkafrost self-supplied with smolts, is built in Norðtoftir and begins production. The building of the new Harvest/VAP facility in Glyvvar starts, and the construction of the new live fish carrier in Yalova, Istanbul, progresses. The ship will be delivered in June 2015.

**2015**

Bakkafrost starts feeding its salmon with feed produced from fish oil, which is cleaned for environmental pollutants. Bakkafrost achieves ASC certification for the salmon farming site at 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 is delivered.

**2016**

Bakkafrost announces a new five-year investment plan until 2020. Bakkafrost enhances the onshore operation and aims at producing 500 grams smolt by 2020. The new Harvest/VAP facility in Glyvvar starts harvest operation in the summer, and Bakkafrost acquires the remaining outstanding shares (51%) in P/F Faroe Farming. Bakkafrost purchases "M/S Martin", which will operate as a service vessel within sea farming operations.



# 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.

Fig. 10



## THE VALUE CHAIN

The quality of the salmon is the final result of the whole operation, from production of fishmeal and fish oil to the processing of the salmon. The documentation and traceability from finished product back to the raw material in the feed and the salmon eggs is important for the 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 dependent on any third party to ensure the quality and predictability of the deliveries. It further enables better utilization of the facilities throughout the value chain and prevents sub-optimization between cost centres.

Fig. 11



## FISHMEAL, FISH OIL AND FISH FEED

Bakkafrost sources raw material for the production of fishmeal and fish oil. Various pelagic species are used in this production. 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 the 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 the 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.

Since 2015, Bakkafrost has fed the salmon with fish feed produced from fish oil, which is cleaned for environmental pollutants like PCB and Dioxin. PCB and Dioxin can be detected in a variety of foods. Limits for the content of these

environmental pollutants are strictly regulated. Routine tests made by the Faroese Food and Veterinary Authority – prior to cleaning the fish oil for environmental pollutants – show that the levels of these environmental pollutants in the salmon from the Faroe Islands are far below all assigned limits. Bakkafrøst wants, however, to differentiate its salmon even more by cleaning the fish oil, and thus strengthening Bakkafrøst salmon's position as one of the healthiest farmed salmon in the marketplace.

Bakkafrøst has invested in a high marine profile in the fish feed, aiming at keeping the salmon's diet as close as possible to the natural diet of the wild salmon. Bakkafrøst's fish feed profile has measurable benefits. The salmon has a healthier nutritional profile, which gives the salmon a better meat structure, supplying the end customers with a superior product.

Fig. 12



## HATCHERIES

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

Bakkafrøst purchases salmon eggs from different external suppliers based in the Faroe Islands and Iceland. The capacity of Bakkafrøst'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. To ensure access to high-quality eggs, Bakkafrøst's strategy is to buy eggs from selected external suppliers that invest significant efforts and resources to improve product quality and performance.

Bakkafrøst'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 build-

ings 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 for a long period of time.

Historically, Bakkafrøst has released smolts into the sea with an average weight of 50–60g. Over the last years, Bakkafrøst has changed the strategy releasing smolt with an average weight of 150g and higher. The Group believes this has had a positive effect when measuring productivity and mortality, and hence contributed to improving the Group's results. Bakkafrøst has a long-term goal of increasing the size of the smolts further the coming years to 500g each.

To reach the long-term goal, Bakkafrøst has expanded the hatchery at Viðareiði by 8,000m<sup>3</sup>. Smolt production started in the new facilities in the second half of 2016. For the coming years, Bakkafrøst plans to gradually increase the average smolt size, and Bakkafrøst commenced the construction of a new 29,000m<sup>3</sup> capacity hatchery in 2016, which according to plan will start production in H2 2018.

Fig. 13



## FARMING

Bakkafrost's 20 fish farming sites are located in the central, northern and southern 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.

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 around 150g+ up to Bakkafrost's average target weight of about 6.0–6.5 kg wfe. This target 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 1.16, 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. 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 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.

Fig. 14



## FARMING SERVICE VESSELS (FSV)

Bakkafrost's FSV fleet consists of one vessel for smolt transport and three vessels for transportation of fish to harvest: one small live fish carrier (230m<sup>3</sup>/45 tonnes wfe) and a larger live fish carrier (660m<sup>3</sup>/110 tonnes wfe), both with closed systems. The third and largest live fish carrier (3,000m<sup>3</sup>/450 tonnes wfe), is equipped with the latest technology. In addition to transporting fish to harvest, the

largest live fish carrier has equipment for treatment of the fish.

In October, Bakkafrost acquired "M/S Martin", which will operate as a FSV within sea farming operations and is equipped with a system for delousing salmon using lukewarm sea water.

Fig. 15



## HARVESTING

All the fish is harvested at the harvest factories in Glyvvar, Kollafjörður and Vágur. In 2016, the harvest factory in Klaksvík was closed and the new harvest factory in Glyvvar started production. The harvest factory in Kollafjörður will close in Q1 2017, as the harvest factory at Glyvvar will

ramp up production. The harvest factories have a normal daily capacity of around 350 tonnes wfe at the current run rate with one shift on average, but can increase the daily capacity by 100-150 tonnes wfe. The fish is transported from the farming sites to the harvest factory in live fish carriers with closed water systems.

Fig. 16



## PROCESSING

The 4,000m<sup>2</sup> VAP factory at Glyvvar 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 Fuglafjörður 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.

Bakkafrost has invested in a state of the art VAP factory at Glyvvar. The VAP factory will be combined with the new harvest factory at Glyvvar, which started production in 2016. The new VAP factory will start production in early 2017 and the old VAP factories at Glyvvar and Fuglafjörður will close. The opening of the new VAP factory will increase the VAP capacity from the present approximately 20,000 tgv raw material up to 30,000 tgv, and will enable the VAP factory to deliver according to market demands. In addition to the increase in capacity, the VAP production will be more efficient and secure a continuing lead in quality.

Fig. 17



## PACKAGING

Bakkafrost has a packaging factory, which is located and integrated into the new harvest/VAP factory at Glyvvar. The packaging factory started operation in 2014 and produces styropor boxes for the fresh salmon, both for sea

and air freight. The packaging factory at Glyvvar meets all Bakkafrost's need for styropor boxes and has equipment to customize the boxes with logo etc.

Fig. 18



## 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. Bakkafrost's most important markets are the European, US, Chinese and Russian market. 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 geographical markets with the two categories of products efficiently reduces cross-cycle fluctuations in both revenues and profitability.

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

### Distribution

The current distribution network is based on transportation by ship and truck to Europe and Russia and by plane to the US and China from the UK. Bakkafrost can distribute both fresh and frozen fish to the various markets.

With the existing distribution network, Bakkafrost can 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.

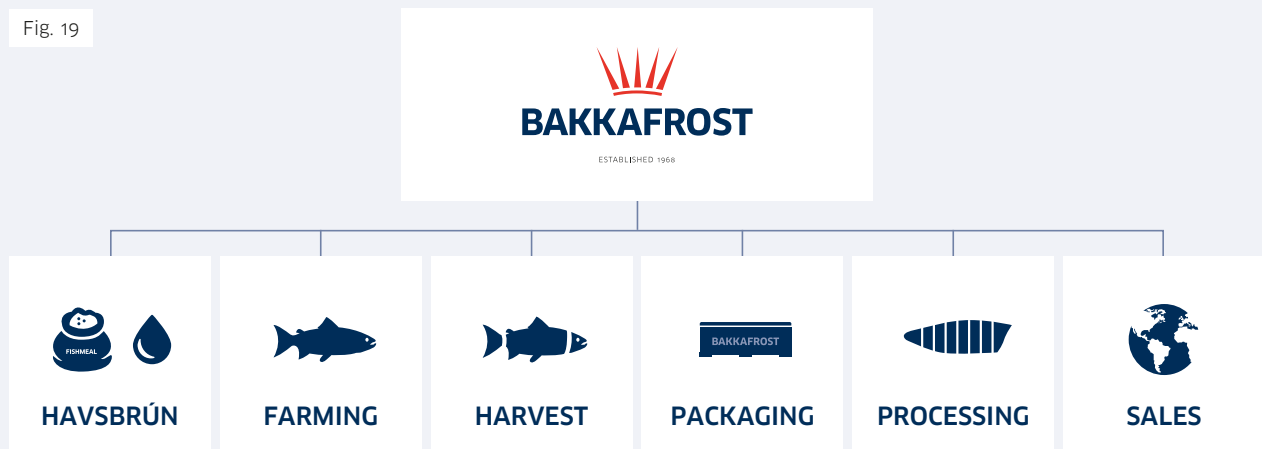
Products planned for the European and Russian markets are transported by ship to Denmark or the UK within two days for further distribution on trucks.



# Group Structure

The figure below shows the structure of the Bakkafrost Group based on activities.

Fig. 19



# Operation Sites

Bakkafrost is the market leader and 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 20 farming sites, and the company has 820 full-time employees.

## HATCHERIES

### Bakkafrost Farming:

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

## FARMING

### Bakkafrost Farming:

Svínaí A-03\*\*; Lambavík A-04; Undir Síðu A-05; Gulin 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\*

### Faroe Farming:

Drelnes/Øravík A-15; Hov\*\*\*A-18; Vágsfjørður A-92

## FARMING SERVICE VESSELS (FSV)

Stígabrúgv; Vesthav; Víkingur; Hans á Bakka; Martin

## HARVESTING

Glyvrar; Vágur FO-900; Kollafjørður\*\*\*\*

## PROCESSING (VAP)

Glyvrar; Fuglafjørður\*\*\*\*

## HEADQUARTER & SALES

Glyvrar; Grimsby, UK

## PACKAGING

Glyvrar

## FISHMEAL, FISH OIL & FISH FEED

Havsbrún, Fuglafjørður

\* Not in use at the moment

\*\* The license is relinquished.

\*\*\* In use until June 2017. The license is relinquished.

\*\*\*\* Will be closed in Q1 2017

Fig. 20



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# PERFORMANCE

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# 47,542<sub>tgw</sub>

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Harvested in 2016

# Operational Review

Bakkafrost had a record high financial result in 2016, although the harvested volumes decreased, compared to 2015. The farming segment harvested 47,542 tonnes gutted weight, compared to 50,565 tonnes gutted weight in 2015. The decrease in harvested volume is due to available farming sites at preferred harvest weight. The prices in 2016 were at a record high level and the biological performance was good, which is the basis for keeping costs low.

The VAP segment struggled because of the record high spot prices in 2016. The VAP operation performed well, and the activity level was the same as last year. The VAP factories at Glyvvar and Fuglafjørður produced 18,120 tonnes in 2016, compared to 18,196 tonnes in 2015. 2016 was the last full year of production from the factories at Glyvvar and Fuglafjørður. The old VAP factory at Glyvvar was closed at the end of 2016, and the VAP factory at Fuglafjørður was closed in the beginning of 2017. The new VAP factory at Glyvvar started in the beginning of 2017.

The FOF segment performed very well in 2016 and had good access to raw material. The production of fishmeal and fish oil depends on the sourcing of raw material, and the availability is highly related to the quotas for pelagic fishery in the North Atlantic. Bakkafrost received 201,222 tonnes of raw material, a decrease of 14%, compared to 2015, when 235,014 tonnes were sourced. Beside sourcing wild caught pelagic fish, Bakkafrost also sourced off cuts from fish factories in the Faroe Islands. Bakkafrost sold 84,587 tonnes of feed, of which 92% were used internally. Bakkafrost also sells excess fishmeal and fish oil externally, which is not used for Bakkafrost's own feed production. Bakkafrost sold 23,461 tonnes of fishmeal externally in 2016, which is similar to 2015. Nearly all the production of fish oil is used for Bakkafrost's feed production – only 10 tonnes of fish oil were sold in 2016, compared to 15 tonnes in 2015.

## 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, Bakkafrost's EBIT per kg has improved and is among the highest, compared to peers.

The farming costs have increased, compared to three to five years ago. This is especially related to the increased feed cost and health cost, and to the fact that the farming sites have been moved further out the fjords to more exposed areas, where more expensive equipment is needed. Bakkafrost uses salmon feed with a high marine profile, which is relatively costly, because of the high level of marine ingredients. Bakkafrost gets other benefits from this diet, which is similar to the diet of the wild salmon. Good animal welfare has positive impact on non-feed cost elements and results in higher production efficiency.

The health cost mainly relates to treatments against sea lice. The most used treatment has been medical treatment, but in 2015, Bakkafrost began using fresh water treatment against sea lice on board its new FSV M/S Hans á Bakka. In addition to this, Bakkafrost has used lumpfish at some farming sites to reduce number of sea lice. Bakkafrost will increase its use of lumpfish and has made investment in a new FSV, M/S Martin, which will use a system with lukewarm sea water against sea lice.

The purpose of these initiatives is to maintain a sustainable, cost conscious farming operation.

## 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– 2015 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 peers in the industry. These factors, to-



gether with our dedicated staff, are the basis for the satisfying result for 2016.

#### GEOGRAPHICAL LOCATION

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

Bakkafrost has over the last three years been working on merging seven factories into one. Bakkafrost replaced two old packaging factories in 2014 with a new packaging factory in Glyvrrar. The new packaging factory is integrated into the new harvest/VAP factory, which has been under construction for the last two years. The harvesting part of the factory started operation in the summer of 2016, and according to plan the full factory at Glyvrrar will be in operation from January 2017. This will secure a more cost conscious production from packaging to finished value added product ready for the market.

#### INVESTMENTS TO REDUCE BIOLOGICAL RISK

Bakkafrost invests in all parts of its value chain. Bakkafrost announced a five-year investment plan in 2013, and in June 2016, an updated five-year investment plan was announced. The updated investment plan amounts to around DKK 2.2 billion from 2016 to 2020. The 2013 and 2016 investment plans have three main goals; reducing the biological risk, increasing efficiency and giving organic growth.

Around half of the investment plan from 2016 will be in the hatchery operation. Bakkafrost was self-supplied with smolts in 2014, when the expansion on the hatchery at Norðtoftir was finished. Bakkafrost is now expanding the capacity, giving opportunity for production of larger smolt in the hatcheries. The larger smolt will have a positive effect on the biological risk and the future growth potential. Larger smolt will reduce the production time at sea in the farming sites. In 2016, Viðareiði started production in the new facilities. This has four folded the capacity of the hatchery at Viðareiði.

Bakkafrost started the construction of a new hatchery at Strond in 2016. This hatchery will be Bakkafrost's largest

hatchery by far, and will give a significant lift to Bakkafrost's production capacity, and will therefore be crucial for Bakkafrost to reach the goal of 500 g smolt average weight for all smolts released into the sea.

#### VAP

Bakkafrost has long-term experience in producing and selling value added products (VAP). In 2016, the total VAP production represented 37% of the harvested volumes, compared to 33% in 2015. The increase in percentage is due to lower harvested volumes, but the VAP production remained on the same level in 2016 as in 2015. Bakkafrost's long-term strategy is that VAP products shall represent 40-50% of the Group's harvested volumes.

The sales of VAP products stabilize 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. 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 2016, Bakkafrost had a significant loss on the sales of VAP products, which reflect the exceptional price increase of the salmon spot price in 2016. The loss in the VAP segment is related to the spread between the contract price level and the weekly spot prices. The VAP segment had contract prices on a record high level, but still realized a loss compared to the weekly spot prices.

The new VAP factory, which is combined with the new harvest factory at Glyvrrar, will increase the production capacity and give flexibility to expand the portfolio of VAP products.

#### STRONG CUSTOMER BASE

By focusing on meeting existing customers' demands, Bakkafrost benefits from its long-term relationships with a large number of customers.

The relationships with customers have proven to give a competitive advantage through product development and marketing. Thus, Bakkafrost has customers; it has been trading with for more than 20 years.

#### ASC CERTIFICATION

In 2014, Bakkafrost announced the goal to get the first farming site ASC certified in 2015 and have all its farming sites ASC certified by 2020. 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, sea lice, smolt production, feed production and the environment. Bakkafrøst's farming site, Gøtuvík, became ASC certified in 2015 as the first Faroese farming site to get an ASC certification, and in 2016, Bakkafrøst's farming site, Gulin, became ASC certified. Bakkafrøst is still working on getting more farming sites ASC certified.

#### WELL PLACED TO ACCESS THE US, CHINA AND RUSSIA

Bakkafrøst and the other 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 the salmon produced in the Faroe Islands by Bakkafrøst. As a result, the US market has become a significant market for Bakkafrøst. The sales to the US market accounted for 33% of Bakkafrøst's total sales of fresh whole salmon in 2016, compared to 26% in 2015. The US market performed well in 2016.

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 2016, the sales to China regained some of the sales lost in 2015. The sales to Asia, which is mainly China, accounted for 25%, compared to 21% of total sales of fresh whole salmon in 2015.

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 from second half of 2014 and throughout 2015. But in late 2015, the sales to Russia decreased again and have stabilized on a lower level. It is uncertain how long the import ban for Norwegian salmon will last. Of the total sales of fresh whole salmon, the Eastern Europe market, where Russia is the main market, accounted for 23% in 2016, compared to 42% in 2014, which is a decrease of nearly 50% year on year.

#### PRODUCTION OF FISHMEAL, FISH OIL AND FISH FEED

Havsbrún received record high quantities of raw materials in 2015, since becoming part of the Bakkafrøst Group in 2011. The received quantities of raw materials were also high in 2016. The raw material situation will be volatile in the future. Quotas for fishing blue whiting, however, have increased over the last years. This should improve Havsbrún's possibilities of sourcing raw material to its 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 two to three years. The price increased significantly at the end of 2014 and early 2015. In 2016, the fish oil price has decreased, but not to the same level as in the beginning of 2014. 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. Bakkafrøst'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 Bakkafrøst salmon are well within the safety limits imposed by e.g. the European Union, Bakkafrøst has cleaned the fish oil used for Bakkafrøst's salmon feed for PCB and other pollution from early 2015.

The fishmeal market did not experience the same price decrease as fish oil in 2016, but fell somewhat at the end of 2016. Havsbrún opened two tunnels for fishmeal inventory in the summer of 2016. Previously, Havsbrún has rented storage rooms in similar circumstances, but has now full control over the inventory capacity and is prepared to store large quantities of fishmeal. The production of fishmeal and fish oil is seasonal and it is important to be able to source the raw materials needed.

The sales of feed increased in 2016, compared to 2015, due to higher biomass. The total sales of feed in 2016 were 84,587 tonnes, compared to 78,865 tonnes in 2015. The fish feed price has been flat in 2016 and on average marginally lower than in 2015.

# Financial Review

The supply of salmon to the world market decreased by around 4% in 2016 (2015: 4% increase). The decrease was due to the harmful algal bloom in Chile in Q1 2016, where around 25 million fish were taken out and had a negative supply effect of around 100,000 tonnes in the second half of 2016. The average salmon spot price in 2016 was DKK 50.62, compared to DKK 35.12 in 2015, corresponding to an increase of 44%.

The prices for value added products (VAP) have increased in 2016 and are now on a level not experienced before. Important for the result for the VAP segment 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 seen a significant increase in 2016. Therefore, the VAP segment made a loss in 2016, although the sales prices achieved in 2016 had never been higher. 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 spread between the fixed price contracts and the spot market was big in 2016.

The feed prices have been fairly flat in 2016, and the average feed price in 2016 was lower than the average feed price in 2015. 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's/Havsbrún's salmon feed. The fluctuations in the feed prices will be reflected in the production costs for salmon.

## INCOME STATEMENT

DKK 1,000	2016	2015
<b>Operating revenue</b>	<b>3,202,686</b>	<b>2,850,363</b>
Purchase of goods	-920,148	-992,497
Change in inventory and biological assets (at cost)	58,874	215,432
Salary and personnel expenses	-327,825	-281,085
Other operation expenses	-715,373	-683,532
Depreciation	-133,261	-108,098
<b>Operational EBIT</b>	<b>1,164,953</b>	<b>1,000,583</b>
Fair value adjustments on biological assets	608,195	-27,578
Onerous contracts	-16,372	-51,004
Income from associates	14,821	6,757
Revenue tax	-108,450	0
Badwill	10,440	0
<b>EBIT</b>	<b>1,673,587</b>	<b>928,758</b>
<b>EBT</b>	<b>1,632,614</b>	<b>924,471</b>
Taxes	-293,727	-114,296
<b>Profit or loss for the period</b>	<b>1,338,887</b>	<b>810,175</b>

The Bakkafrøst Group generated gross operating revenues of DKK 3,202.7 million in 2016, compared to DKK 2,850.4 million in 2015. The increase in the revenue is mainly due to higher prices for both fresh/frozen salmon and value added products in 2016. Harvested volumes of salmon decreased 6% in 2016, compared to 2015, and the volumes sold as value added products were nearly the same in 2016 as in 2015. The external revenue from sales of feed and fishmeal was nearly the same in 2016, compared to 2015. The external sales of fish oil were marginal both in 2016 and in 2015.

The operations harvested a total of 47,542 tonnes gutted weight, compared to 50,565 tonnes in 2015. Operational EBIT was DKK 1,165.0 million, compared to DKK 1,000.6 million in 2015. A positive fair value adjustment of the Group's biological assets has been recognized in 2016 amounting to DKK 608.2 million, compared to a negative adjustment of DKK -27.6 million in 2015. The positive fair value adjustment is due to both improved prices and higher biomass in the sea at year-end 2016, compared to the previous year.

In 2016, Bakkafrøst made a change in provisions for onerous contracts of DKK -16.4 million, compared to a change in provisions for onerous contracts amounting to DKK -51.0 million in 2015. The provisions are made, as Bakkafrøst has long term contracts to deliver value added products at a fixed price in the future. The reason is high raw material costs at the end of 2016, compared to the contract prices.

In 2016, the Group's associated companies made a net result to Bakkafrøst of DKK 14.8 million, compared to DKK 6.8 million in 2015.

The Faroese Parliament changed the taxes on salmon farming in the Faroe Islands in December 2015. The tax changes were effective from 1 January 2016. The new revenue tax is not classified as taxes, but is classified as costs and is included in EBIT. The revenue tax amounted to DKK -108.5 million (DKK 0.0 million).

Bakkafrøst recognized a badwill amounting to DKK 10.4 million (DKK 0.0 million) in 2016, following the acquisition of the remaining outstanding shares in P/F Farøe Farming in 2016. The badwill is the difference between the payment for P/F Farøe Farming and the value of the net assets purchased.

Financial income in 2016 amounted to DKK 1.5 million, compared to DKK 3.6 million in 2015. Net interest expenses amounted to DKK -26.0 million, compared to DKK 24.6 million in 2015. Net currency effects amounted to DKK -12.4 million, compared to DKK 23.4 million in 2015. Included in the net currency is an unrealized exchange rate adjustment relating to the bond loan of NOK 500 million amounting to DKK -21.1 million, compared to DKK 23.6 million in 2015.

Net taxes amounted to DKK -293.7 million, compared to DKK -114.3 million in 2015.

The consolidated net profit totalled DKK 1,338.9 million in 2016, compared to DKK 810.2 million in 2015. Earnings per share totalled DKK 27.56 in 2016, compared to DKK 16.69 in 2015.

# 27.56 (DKK)

Earnings per share in 2016

# Farming Segment

1,000 DKK	2016	2015	Increase
Total revenue	2,840,870	2,273,595	25%
EBIT	1,825,963	815,544	124%
Operational EBIT	1,314,542	841,243	56%
Farming - Operational EBIT/kg (DKK)	27.65	16.64	66%
Harvested volume (tgv)	47,542	50,565	-6%

The farming segment produces high quality Atlantic salmon from juveniles to harvest size salmon. The salmon is sold to fresh fish markets globally and to the internal VAP production. The farming sites are located in the southern, central and northern part of the Faroe Islands.

## Volumes

Bakkafrost acquired the remaining outstanding shares of Faroe Farming, which became part of the Bakkafrost Group from 1 July 2016. Simultaneously with the Faroe Farming acquisition, Bakkafrost relinquished two farming licenses back to the Faroese Authorities and after these two transactions the salmon farming capacity of Bakkafrost has increased. The farming operation in Faroe Farming is organized into the farming operation of Farming West.

The Group's farming segment harvested 47,542 tonnes gutted weight in 2016, compared to 50,565 tonnes gutted weight in 2015. Farming North harvested 24,768 tonnes gutted weight in 2016, compared to 27,619 tonnes gutted weight in 2015. Farming West, including Faroe Farming from 1 July 2016, harvested 22,774 tonnes gutted weight in 2016, compared to 22,946 tonnes in 2015.

The Group transferred 11.0 million smolts to the sea in 2016. Faroe Farming, which is part of Bakkafrost Group from 1 July 2016, released 0.7 million smolts in 2016, prior to being part of the Group. The smolt release in 2015 was 11.3 million smolts.

## Financial performance

The market was very good for the farming segment in 2016 as the global supply of Atlantic salmon decreased and the spot price on salmon increased significantly in 2016. The good financial performance in the farming segment is also due to good and stable farming operations and no material biological issues in 2016.

Total revenues for Bakkafrost's farming segment in 2016 amounted to DKK 2,840.9 million, compared to DKK 2,273.6 million in 2015, an increase of 25%. Gross external operating revenues for Bakkafrost's farming segment increased to DKK 1,973.7 million in 2016, up from DKK 1,763.5 million in 2015, although the volumes sold externally decreased in 2016, compared to 2015. The internal revenue also increased in 2016 from DKK 510.1 million in 2015 to DKK 867.2 million in 2016. The volumes sold to the VAP segment were higher in 2016 than in 2015, but the main reason for the increase in revenue both externally and internally in 2016 was the price increase.

In 2016, operational EBIT totalled DKK 1,314.5 million, compared to DKK 841.2 million in 2015. This corresponds to an operational EBIT of DKK 27.65 (NOK 34.50) per kg gutted weight, compared to DKK 16.64 (NOK 19.63) per kg gutted weight in 2015.



Fig. 21

**TOTAL REVENUE (tDKK)**

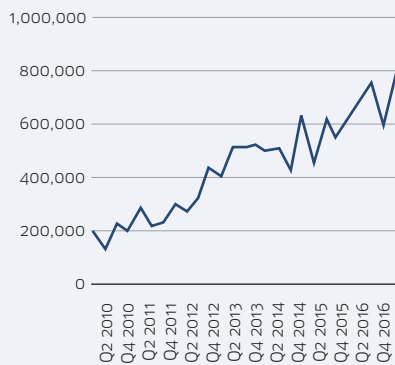


Fig. 22

**OPERATIONEL EBIT/KG (DKK)**



Fig. 23

**HARVESTED VOLUME (tgv)**

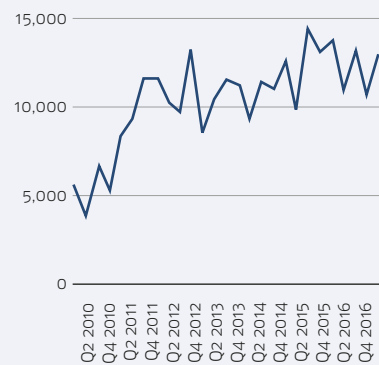


Fig. 24

**HARVESTED VOLUME (tgv)**

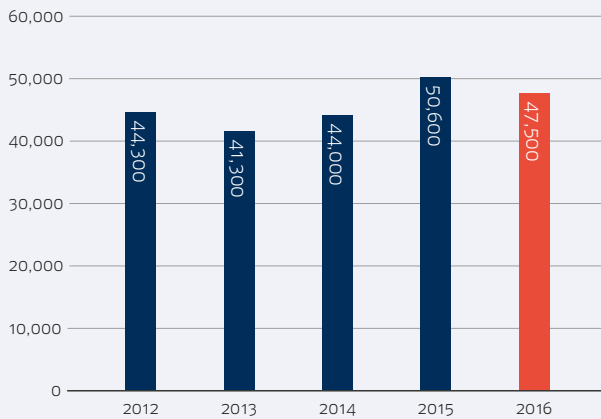
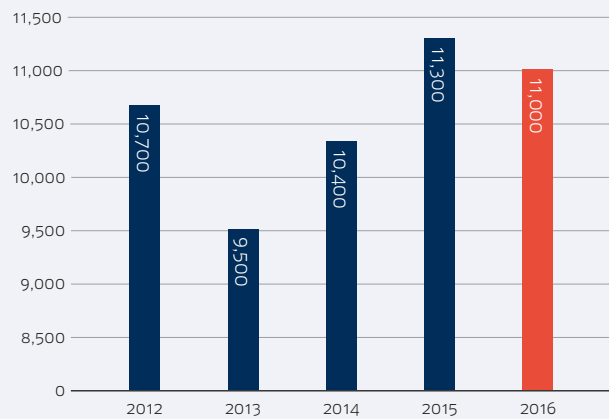


Fig. 25

**SMOLT RELEASE: THOUSAND SMOLTS**



# VAP Segment

1,000 DKK	2016	2015	Increase
Total revenue	880,945	736,657	20%
EBIT	-217,053	35,024	-720%
Operational EBIT	-200,681	86,051	-333%
VAP - Operational EBIT/kg (DKK)	-11.08	4.73	-334%
VAP produced volume (tgv)	18,120	18,196	0%

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

## 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 some sales are also to the US retail market. 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. Therefore, the VAP segment has struggled in 2016 even though the contract prices for the value added products have increased in 2016.

For 2016, 37% of the total harvested volumes went to the production of VAP products, compared to 33% in 2015.

The VAP production in 2016 was 18,120 tonnes gutted weight, compared to 18,196 tonnes gutted weight in 2015.

## Financial performance

The contract prices in 2016 have not increase at the same rate as the spot price, but the contract prices are on a higher level than in 2015. The VAP segment's operating revenue amounted to DKK 880.9 million in 2016, compared to DKK 736.7 million in 2015, an increase of 20%.

Operational EBIT in 2016, which is EBIT adjusted for provision for onerous contracts etc., totalled DKK -200.7 million, compared to DKK 86.1 million in 2015. This corresponds to an operational EBIT of DKK -11.08 (NOK -13.82) per kg gutted weight, compared to DKK 4.73 (NOK 5.58) per kg gutted weight in 2015. The main reason for the loss in the VAP segment in 2016 is the record high salmon spot prices affecting the raw material cost heavily.

The VAP segment had onerous contracts at the end of 2016, and therefore a change in provision amounting to DKK -16.4 million was made. The reason is the high raw material prices seen at the end of 2016, compared to the contract prices.

Fig. 26

**TOTAL REVENUE (tDKK)**

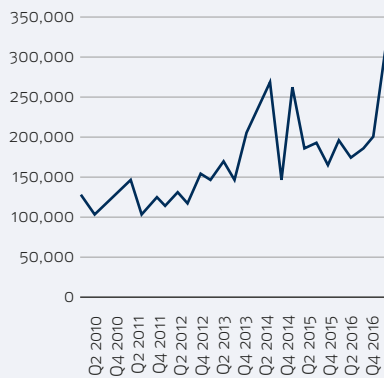


Fig. 27

**OPERATIONEL EBIT/KG (DKK)**

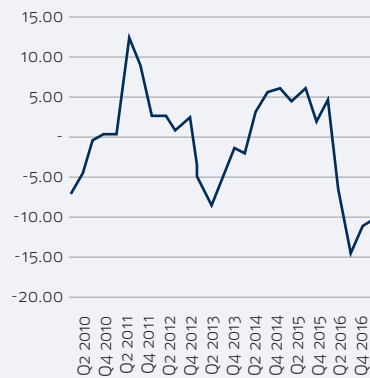


Fig. 28

**VAP VOLUME (tgv)**

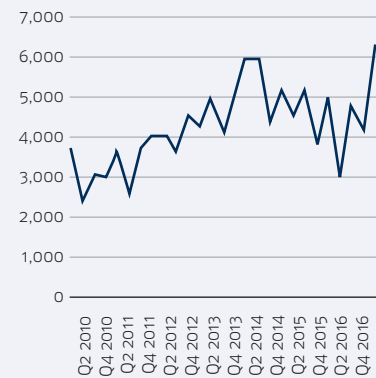


Fig. 29

**PRODUCT WEIGHT OF VAP (tgv)**

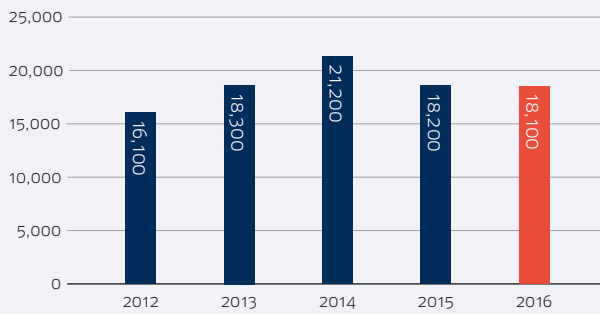
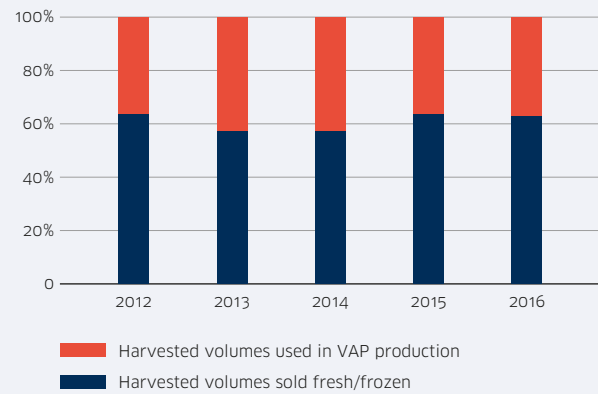


Fig. 30

**DISTRIBUTION OF HARVESTED VOLUMES (%)**



# FOF Segment

1,000 DKK	2016	2015	Increase
Total revenue	1,158,111	1,048,052	11%
EBIT	230,350	177,411	30%
EBITDA	247,881	202,052	23%
FOF - EBITDA margin	21.4%	19.3%	11%
Sold feed tonnes	84,587	78,865	7%

The FOF (fishmeal, -oil and feed) segment produces fishmeal, fish oil and fish feed. Most 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 the salmon from Bakkafrost. Fishmeal, fish oil and fish feed is also sold externally.

## Volumes

Havsbrún, which represents the FOF segment, has over the last couple of 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 2016, Havsbrún sourced 201,222 tonnes of raw material, compared to 235,014 tonnes in 2015, which corresponds to a decrease of 14%. The raw material intake depends on the fishery in the North Atlantic and available species of fish.

The production of fishmeal in 2016 was 44,155 tonnes, compared to 49,343 tonnes in 2015. The production of fish oil in 2016 was 7,369 tonnes, compared to 7,854 tonnes in 2015. The production of fish oil varies, depending on the species of fish for production and the timing of catch.

Havsbrún sold 84,587 tonnes of feed in 2016, compared to 78,865 tonnes in 2015. Bakkafrost used 78,029 tonnes of the sold feed in 2016 internally, corresponding to 92%. The internal use in 2015 was 89%.

## Financial performance

Total revenues for Bakkafrost's FOF segment in 2016 amounted to DKK 1,158.1 million, compared to DKK 1,048.1 million in 2015, an increase of 11%.

The external operating revenue for the FOF segment amounted to DKK 348.0 million in 2016, compared to DKK 350.2 million in 2015. The decrease in the external revenue from 2015 to 2016 is mainly due to lower external sale of fish feed and fish oil, as external sale of fishmeal was nearly the same in 2016 as in 2015.

The internal revenue in 2016 amounted to DKK 810.1 million, compared to DKK 697.8 million in 2015. The internal revenue comprises the sales of feed to Bakkafrost's farming activities.

EBITDA was DKK 247.9 million in 2016, compared to DKK 202.1 million in 2015, and the EBITDA margin was 21.4% in 2016, compared to 19.3% in 2015.

Fig. 31

**TOTAL EBITDA (tDKK)**

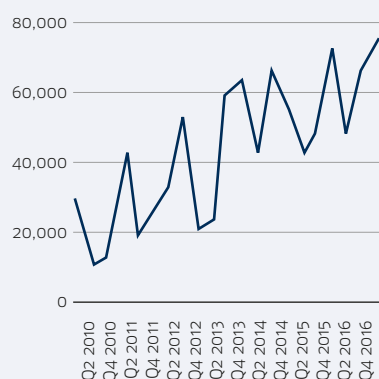


Fig. 32

**EBITDA MARGIN (%)**

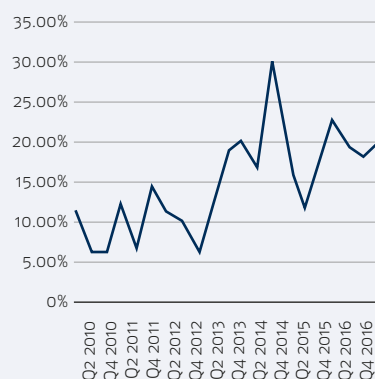


Fig. 33

**SOLD FEED TONNES (tgv)**

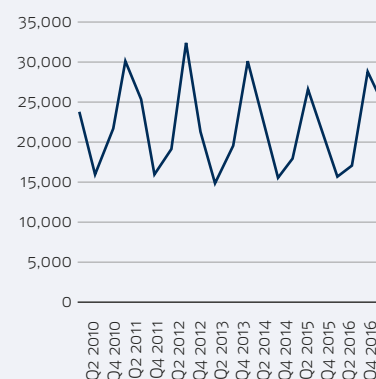


Fig. 34

**FISH FEED PRODUCTION VOLUME: TONNES**

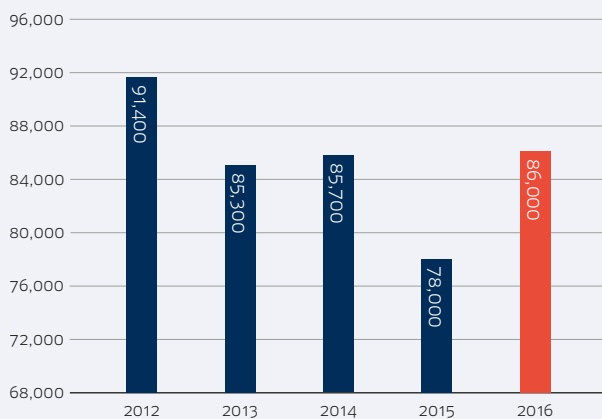
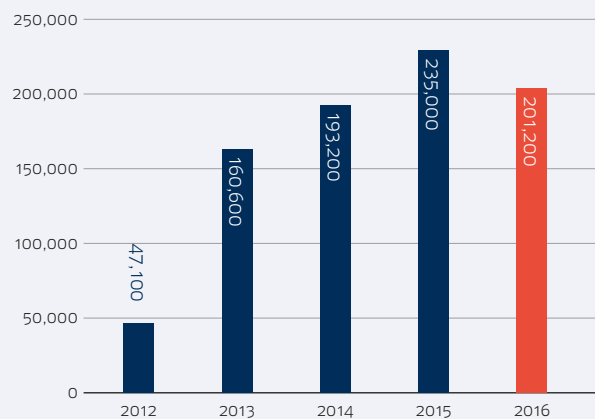


Fig. 35

**SOURCING OF RAW MATERIAL: TONNES**





## STATEMENT OF FINANCIAL POSITION

The Group's total assets as at end 2016 amounted to DKK 5,418.1 million, compared to DKK 3,920.4 million at the end of 2015. The acquisition of P/F Faroe Farming has had some effect on the Group's financial position in 2016. The Group's total assets have not changed significantly by the acquisition of P/F Faroe Farming, but changes have, however, been in the classification of assets and liabilities. Reference is made to Note 5.3.

The Group's intangible assets amounted to DKK 376.7 million at the end of 2016, compared to DKK 294.7 million at the end of 2015. Intangible assets comprise primarily the fair value of acquired farming licences. The addition of DKK 82.0 million in the period relates to the acquisition of P/F Faroe Farming. No licences in the North region are recorded with a value in the Bakkafrøst accounts.

Property, plant and equipment amounted to DKK 2,118.5 million at the end of 2016, compared to DKK 1,531.5 million at the end of 2015. In 2016, Bakkafrøst made investments in PP&E amounting to DKK 686.6 million. The most significant investments Bakkafrøst carried out in 2016, were in the expansion of the hatchery at Viðareid, the new FSV M/S Martin, the new hatchery at Strond, the new combined harvest/VAP factory at Glyvvar and the new administration building at Glyvvar. Other investments relate mainly to maintenance investments.

Investments in associated companies and stocks and shares amounted to DKK 59.4 million at the end of 2016, compared to DKK 130.9 million at the end of 2015. The decrease in financial assets relates to the acquisition of the remaining 51% outstanding shares in P/F Faroe Farming. Following the acquisition, Bakkafrøst holds 100% of the shares in P/F Faroe Farming, which is consolidated into the Group from 1 July 2016.

Bakkafrøst had DKK 12.7 million long-term receivables at the end of 2016, compared to DKK 0.0 million at the end of 2015.

The Group's carrying amount (fair value) of biological assets amounted to DKK 1,858.4 million at the end of 2016, compared to DKK 1,060.3 million at the end of 2015. Biological assets have increased by the inclusion of Faroe Farming's biological assets. Included in the carrying amount of the biological assets is a fair value adjustment amounting to DKK 880.5 million, compared to DKK 257.3 million at the end of

DKK 1,000	2016	2015
Intangible assets	376,675	294,675
Property, plant and equipment	2,118,470	1,531,493
Financial assets	72,067	130,893
<b>NON-CURRENT ASSETS</b>	<b>2,567,212</b>	<b>1,957,061</b>
Inventory	2,214,039	1,482,239
Receivables	401,869	379,234
Cash and cash equivalents	234,996	101,852
<b>CURRENT ASSETS</b>	<b>2,850,904</b>	<b>1,963,325</b>
<b>ASSETS</b>	<b>5,418,116</b>	<b>3,920,386</b>
<b>Equity</b>	<b>3,549,035</b>	<b>2,580,482</b>
Deferred taxes	545,699	349,546
Long-term interest bearing debt	827,146	447,559
Derivatives	101,456	128,804
<b>Non-current liabilities</b>	<b>1,474,301</b>	<b>925,909</b>
Trade payables	138,873	195,223
Current tax liabilities	140,704	155,359
Provision for onerous contracts	67,378	51,004
Other current liabilities	47,825	12,409
<b>Current liabilities</b>	<b>394,780</b>	<b>413,995</b>
<b>EQUITY AND LIABILITIES</b>	<b>5,418,116</b>	<b>3,920,386</b>

2015. The increase is due to higher biomass and higher salmon prices at the end of 2016, compared to end 2015.

The Group's total inventories amounted to DKK 355.6 million as at the end of 2016, compared to DKK 422.0 million at year-end 2015. 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.

The Group's total receivables amounted to DKK 401.9 million as at the end of 2016, compared to DKK 379.2 million at the end of 2015.

Cash and cash equivalents at the end of 2016 amounted to DKK 235.0 million, compared to DKK 101.9 million at the end of 2015.

The Group's equity at the end of 2016 was DKK 3,549.0 million, compared to DKK 2,580.5 million at the end of 2015. The increase in equity consists primarily of the positive result for 2016, reduced by the dividend paid out in April 2016.

The Group's total non-current liabilities amounted to DKK 1,474.3 million at the end of 2016, compared to DKK 925.9 million at the end of 2015. Deferred taxes amounted to DKK 545.7 million, compared to DKK 349.5 million at the end of 2015.

Long-term debt was DKK 827.1 million at the end of 2016, compared to DKK 447.6 million at the end of 2015. There was a currency loss on the long-term debt nominated in NOK, increasing the long-term debt. Derivatives amounted to DKK 101.5 million at the end of 2016, compared to DKK 128.8 million at the end of 2015 due to volatility in NOK, compared to DKK.

The Bakkafrøst Group's net interest bearing debt, including deposits and losses on financial derivatives relating to the interest bearing debt, amounted to DKK 635.3 million at the end of 2016, compared to DKK 391.7 million at the end 2015.

Bakkafrøst's interests bearing debt consists of a bank loan and a bond loan. The bank loan is a multicurrency revolving credit facility totalling DKK 850 million and 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 in 2013, Bakkafrøst entered into a currency/interest rate swap, hedging the exchange rate, and switched the interest rate from NIBOR 3m to CIBOR 3m. Bakkafrøst 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 2016, the Group's total current liabilities were DKK 394.8 million, compared to DKK 414.0 million at the end of 2015. Bakkafrøst had no short-term interest bearing debt at the end of 2016, and neither at the end of 2015.

Trade payable amounted to DKK 138.9 million, compared to DKK 195.2 million at the beginning of the year. Provision

for onerous contracts at year-end 2016 amounted to DKK 67.4 million, compared to DKK 51.0 million in 2015.

Bakkafrøst's equity ratio was 66% at the end of 2016, the same as at the end of 2015.

#### Cash flow

The total cash flow from operations in 2016 was DKK 849.6 million, compared to DKK 767.8 million in 2015. The cash flow from operation in 2016 is primarily due to strong results. Combined with paid taxes, the increase in receivables and the decrease of current debts in 2016 had a negative effect on the cash flow from operations in 2016. Cash flow from investment activities amounted to DKK -740.0 million, compared to DKK -601.5 million in 2015.

DKK 1,000	2016	2015
Cash flow from operations	849,599	767,838
Cash flow from investments	-739,985	-601,512
Cash flow from financing	23,530	-469,583
<b>Net change in cash and cash equivalents in period</b>	<b>133,144</b>	<b>-303,257</b>
Cash and cash equivalents - opening balance	101,852	405,109
<b>Cash and cash equivalents - closing balance total</b>	<b>234,996</b>	<b>101,852</b>

For 2016, cash flow from financing amounted to DKK 23.5 million, compared to DKK -469.6 million for 2015. The change in long term interest bearing debt of DKK 379.3 million had a positive effect on cash flow from financing in 2016. Other 2016 figures include financial expenses of DKK -30.5 million, sales of treasury shares of DKK 3.7 million, net dividend payment of DKK -400.6 million and financing of an associated company amounting to DKK 70.0 million.

With the established credit facilities, the Group's liquidity and financial strength is considered good. Bakkafrøst had undrawn credit facilities of approximately DKK 654.5 million at the end of 2016.

# Business Review

## MARKETING STRATEGY

Bakkafrost is committed to produce healthy, sustainable, top quality salmon with the properties that create value for the 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 and around the Faroe Islands are perfect for raising salmon, and Bakkafrost is committed to promote the Faroe Islands origin as a boutique origin for top quality salmon. The North Atlantic Current engulfs the Faroe Islands with cool and steady sea temperatures. Bakkafrost is the market leader in farming salmon in the Faroe Islands.

## SCARCITY

As the Faroe Islands produce only about 3% of the world's salmon and demand is high for the origin, the customers, who prefer the Faroe Islands origin, must pay a premium 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 2016 was 5.2 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 risks.

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 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 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. 55.6% of Bakkafrost's fresh salmon was exported by airfreight in 2016. 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 2016 (Fig. 36 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, which 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 only uses Non-GMO raw material in the feed.

Fig. 36



### 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 3-18 month contract prices and whole fresh salmon on spot prices. Bakkafrost 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 salmon feed is about 50% richer in marine content, than the industry average.

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

The natural diet for wild salmon is rich in marine resources, and by keeping the diet of Bakkafrost 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 of fish welfare and low production costs.

### Cleaning the fish oil

Bakkafrost has announced that from 2015 all of the Group's salmon is to be produced with fish oil, which is cleaned for environmental pollutants. All tests have shown that the levels of pollutants in the Bakkafrost salmon, prior to cleaning the fish oil, are well within the safety limits, imposed by e.g. the European Union. Some premium consumer segments are, however, concerned about any levels of environmental pollutants in their food, and by exclusively using cleaned fish oil, Bakkafrost can add value to its salmon by making it even more desirable to these discerning customers.

### ASC

Bakkafrost is pursuing the rigours 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, Bakkafrost 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 Bakkafrost's commitment to sustainability and care for the environment – values, which Bakkafrost's discerning customers value.

### SEAFOOD CONSUMPTION

Capture fisheries and aquaculture is estimated to have supplied about 168 million tonnes of fish in 2015, of which about 147 million tonnes were utilized as food. This corresponds to seafood consumption per capita of 20 kg (live weight equivalent).

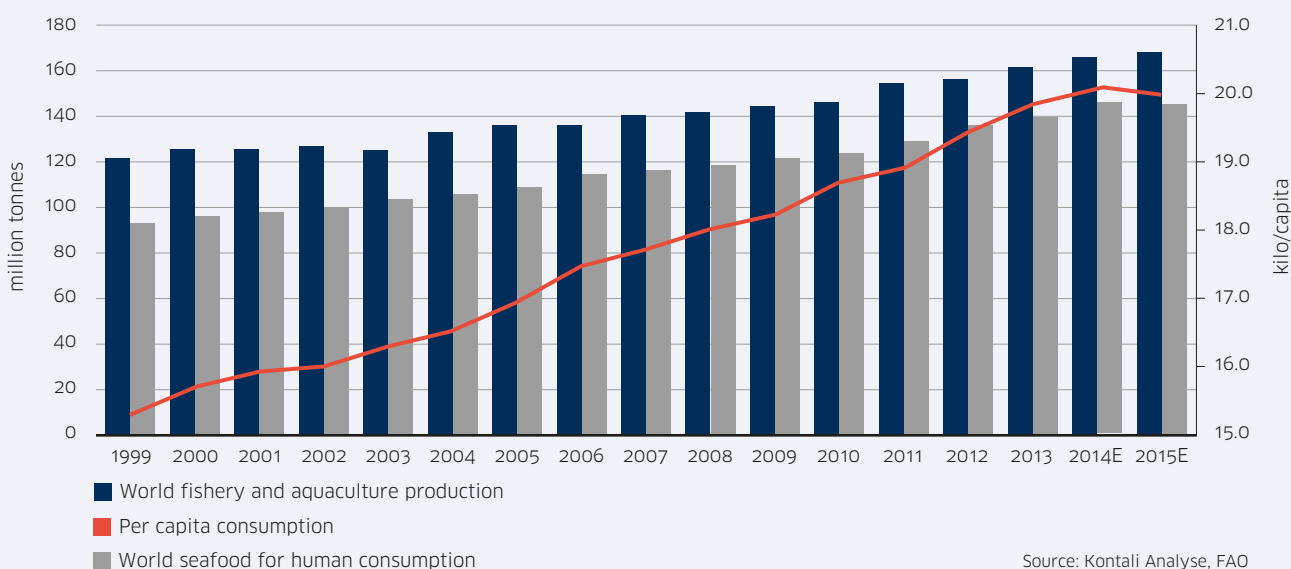
Overall global capture fisheries production continues to remain stable at just above 90 million tonnes of which about 20 million tonnes are utilized in the production of fishmeal and fish oil. This share of non-food uses has declined in recent year as quotas have been reduced, and there has been an increasing demand for seafood products for human consumption.

2014 was the first year where more than half of the world seafood for human consumption has been supplied by the aquaculture industry. While global aquaculture production has increased significantly from 2010 to 2014, industry reports indicate marginal growth in both 2015 and 2016.

The figure below shows world seafood production (for human consumption) and consumption per capita 1999–2015E:

Fig. 37

### World Consumption of Seafood



Source: Kontali Analyse, FAO



## MAIN MARKETS FOR SALMON AND CONSUMPTION

### TRENDS

In 2016, worldwide supply (all markets) of farmed Atlantic salmon declined by approximately 4 percent, and ended just above 2.2 million tonnes wfe, while the global harvest volume ended down 7 percent.

Furthermore, this only represents a world Atlantic salmon 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 1.05 million tonnes wfe were consumed in 2016, and with a population of approx. 512 million this corresponds to a per capita consumption of 2.05 kg wfe per year. This indicates approx. 7 meals per capita per year on average. Within the EU, Germany and France are the largest single markets.

Since the Russian import ban was implemented in August 2014, trade flow of Atlantic salmon products, saw a global

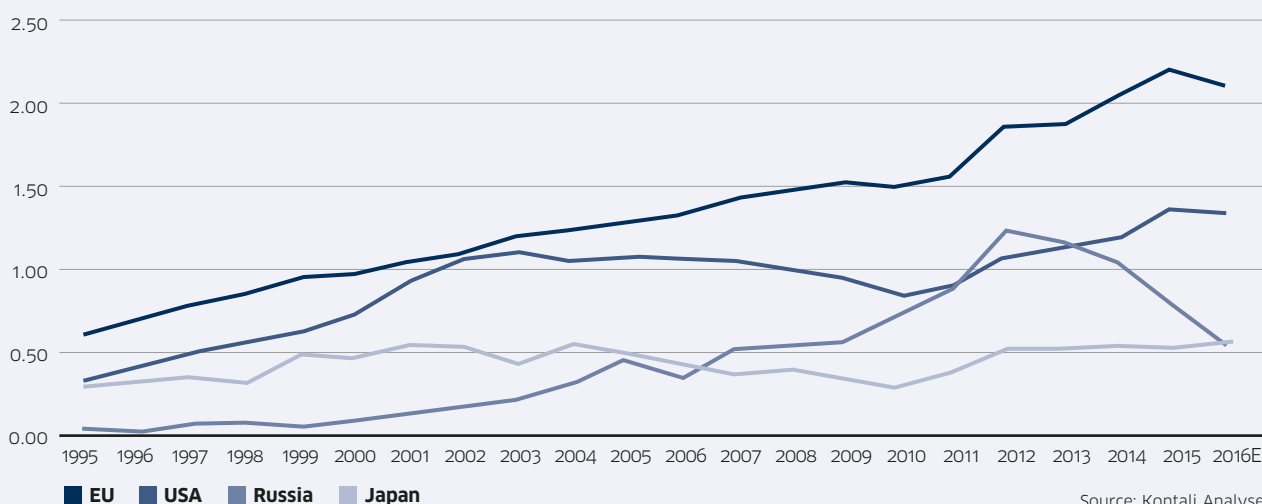
reallocation which continued in 2015. Chilean and Faroese salmon have taken over as the largest suppliers to the Russian market, which also saw a decline in 2016 to 75 thousand tonnes wfe – which is less than half of the volume supplied in 2012.

Market prices for Atlantic salmon saw a significant increase last year due to limited supply – and the Norwegian spot price for fresh whole superior salmon saw new records in 42 of 52 weeks in 2016, even when adjusted for currency (in EUR) and inflation. The average export price from the Faroe Islands versus Norway continued to show a significant premium – approximately 1.00 EUR per kilo hog for fresh whole salmon. This must be seen in relation to the price level for large sized salmon, which has trended on a correspondingly high level, and that a higher share of the production is large sized salmon (6+ kilo) in the Faroe Island.

The figure below shows per capita consumption for farmed Atlantic salmon from 1995-2016E for the selected main markets of the US, the EU, Russia and Japan.

Fig. 38

Per Capita Consumption of Atlantic Salmon 1995 - 2016E (kg/capita)



## THE US MARKET

In 2016, the US market for farmed Atlantic salmon ended on a similar level as the previous year – exceeding 400,000 tonnes wfe. With a population of more than 320 million, this corresponds to a per capita consumption of approx. 1.3 kg wfe per year – indicating 4-5 meals per capita per year.

While Chilean production of Atlantic salmon dropped last year – because of the algal bloom outbreak – a larger share of their sales was allocated to the US Market, increasing from 37.5% in 2015 to 43.1% in 2016. In terms of volume, supply dropped somewhat (-3%) to 217.3 thousand tonnes

wfe – and still every second Atlantic salmon consumed in the US market is of Chilean origin.

Canadian supply increased the most (+8% or 7,800 tonnes wfe) last year, while also Norway and the Faroe Islands increased the supply to the US market. Supply from the United Kingdom and Other regions (incl. domestic supply) saw a decline in 2016

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

Fig. 39

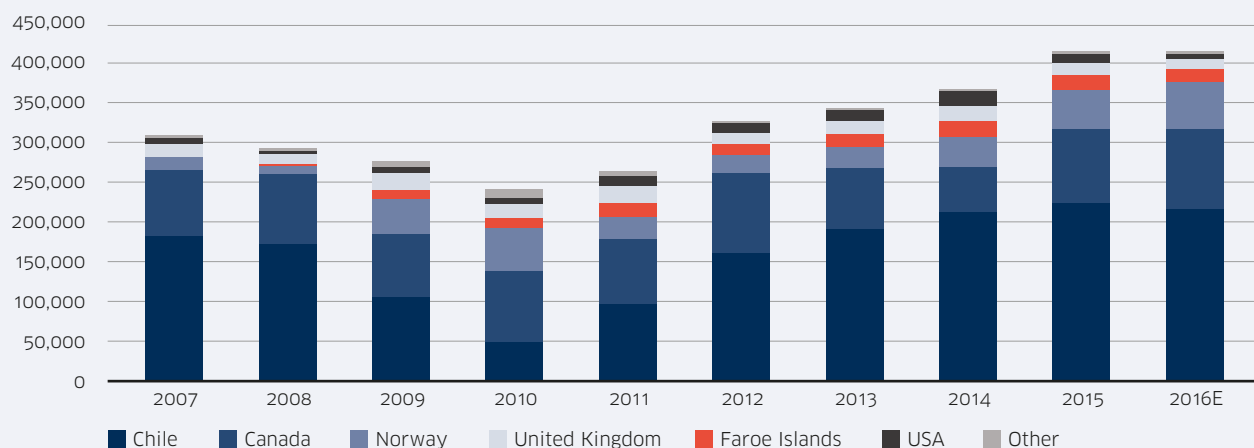
### Supply of Atlantic Salmon to the US Market (tonnes wfe)

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E
Chile	187,500	174,200	107,100	53,200	99,100	162,200	191,600	214,700	224,100	217,300
Canada	80,100	86,300	81,100	87,600	80,400	98,200	77,400	55,000	92,900	100,700
Norway	14,300	9,600	40,300	53,800	28,700	23,700	27,000	39,900	51,200	55,700
Faroe Islands	1,600	2,700	11,200	10,000	16,700	13,100	16,400	16,900	14,500	16,600
United Kingdom	14,300	13,100	21,900	20,600	21,500	17,700	16,100	20,400	16,300	12,900
USA	7,100	4,500	8,800	6,900	13,200	9,400	10,100	16,200	13,800	8,300
Other	800	1,500	6,100	10,900	3,900	2,300	4,200	4,200	2,800	2,700
<b>Total</b>	<b>305,700</b>	<b>291,900</b>	<b>276,500</b>	<b>243,000</b>	<b>263,500</b>	<b>326,600</b>	<b>342,800</b>	<b>367,300</b>	<b>415,600</b>	<b>414,200</b>
Change	4%	-5%	-5%	-12%	8%	24%	5%	7%	13%	0%

Source: Kontali Analyse

Fig. 40

### Supply of Atlantic Salmon to the US Market (tonnes wfe)



Source: Kontali Analyse

### THE EUROPEAN MARKET

Despite strong demand for Atlantic salmon products, reflected by increased prices – also compared to other protein sources – supply fell by 3 percent in 2016. In wfe-equivalents, supply totalled just above 1.05 million tonnes last year – of which Norwegian salmon accounted for 82 percent.

The two largest suppliers to the EU Market, Norway and United Kingdom, both saw lower sales in terms of volume last year – decreasing 6 and 3 percent, respectively. While salmon with both Chilean and Faroese origins increased their sales and market share on the EU market.

The trend observed on the EU Market during the past 3 years must be seen in relation to the Russian import ban – which was imposed in August 2014. The share of Norwegian sales going to the EU was 66 percent in 2013, compared to 74 percent in both 2015 and 2016. This means the largest market for Atlantic salmon is more sensitive to the production and productivity development in Norway.

The top 3 countries in the European market (France, Germany and the United Kingdom) represent more than 50 percent of the Atlantic salmon consumption.

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

Fig. 41

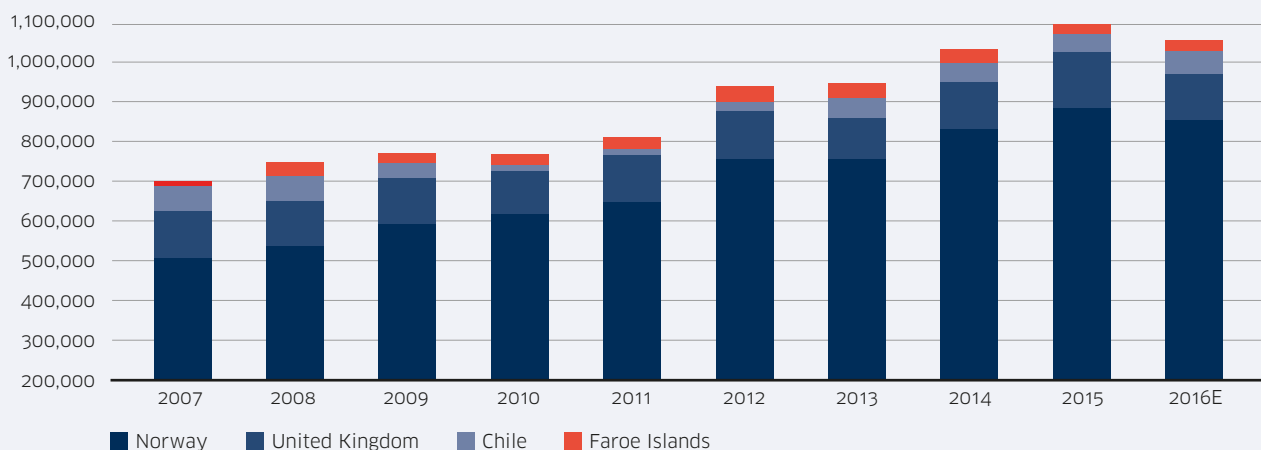
#### Supply of Atlantic Salmon to the EU Market (tonnes wfe)

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E
Norway	506,800	532,200	591,700	615,300	648,400	761,900	755,500	834,600	912,200	860,200
United Kingdom	114,200	118,300	114,400	112,800	117,500	117,000	110,300	117,800	120,700	117,400
Chile	67,800	67,100	39,900	10,600	17,200	27,000	50,200	50,500	44,900	53,900
Faroe Islands	13,100	29,900	30,000	26,300	29,900	36,000	33,500	31,400	19,000	25,200
Other/ Re-export	3,800	-8,200	-5,600	-12,500	-6,000	-6,400	-16,700	-16,700	-8,800	-1,900
<b>Total</b>	<b>705,700</b>	<b>739,300</b>	<b>770,400</b>	<b>752,500</b>	<b>807,000</b>	<b>935,500</b>	<b>932,800</b>	<b>1,017,600</b>	<b>1,088,000</b>	<b>1,054,800</b>
Change	9%	5%	4%	-2%	7%	16%	0%	9%	7%	-3%

Source: Kontali Analyse

Fig. 42

#### Supply of Atlantic Salmon to the EU Market (tonnes wfe)



Source: Kontali Analyse

## CHINA/HONG KONG

While supply to China and Hong Kong saw 2-digit growth from 2010 to 2014 – increasing from just above 40,000 tonnes wfe to almost 90,000 tonnes wfe – supply in both 2015 and 2016 ended on a similar level.

In the corresponding time-period, supply from the Faroe Islands to these markets grew to just above 10,000 tonnes wfe – accounting for more than 10% of the total market.

Supply from Norway saw a significant drop last year – particularly to Hong Kong – while supply from Chile (direct to China) increased significantly. Furthermore, an increasing

share of Chilean supply has been fresh whole salmon – of the 29,300 tonnes wfe supplied in 2016, 51% of the volume was fresh whole.

In addition to direct supply from Australia and Canada to China, the other category below includes estimated re-export of Norwegian salmon through Vietnam and Thailand. In 2016, this re-export is estimated to have increased to more than 10,000 tonnes wfe.

Supply of Atlantic salmon to China and Hong Kong – in tonnes wfe:

Fig. 43

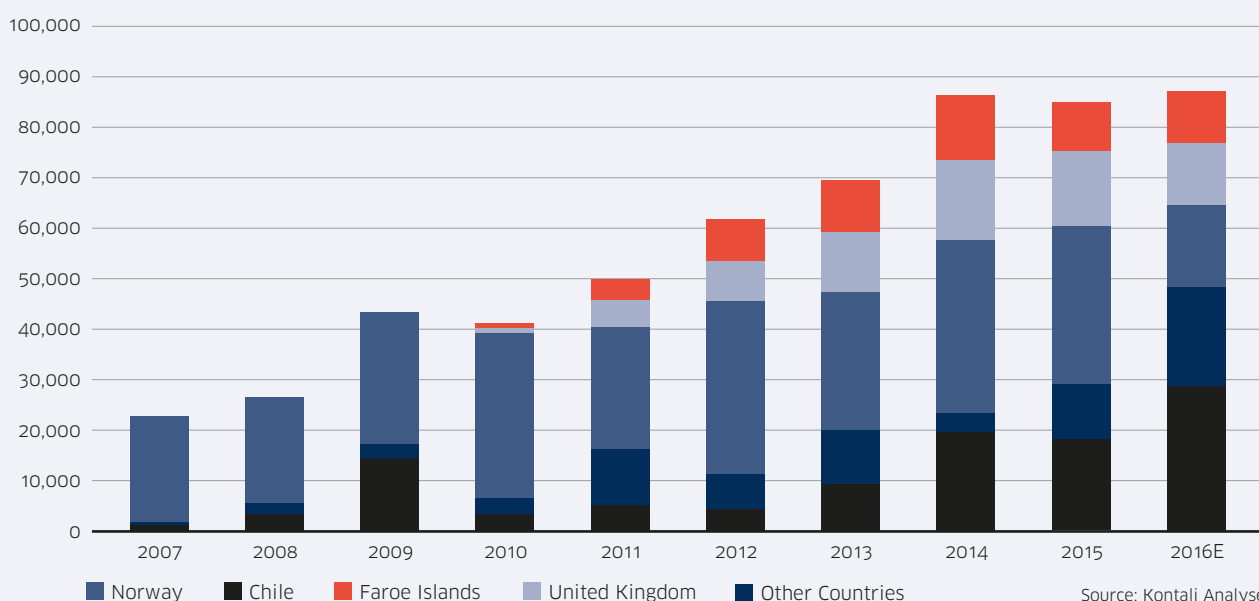
### Supply of Atlantic Salmon to China and Hong Kong (tonnes wfe)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E
Chile	1,300	3,700	14,900	3,400	5,200	4,900	9,600	20,000	18,300	29,300
Other countries	700	2,300	2,700	3,500	11,300	7,000	10,400	4,100	11,500	19,400
Norway	21,000	20,600	25,800	33,000	24,300	34,500	27,800	34,100	31,100	16,500
United Kingdom	300	400	800	800	5,400	8,000	11,500	16,400	14,900	12,100
Faroe Islands	-	-	-	300	4,400	7,800	10,200	12,400	9,600	10,300
<b>Total</b>	<b>23,300</b>	<b>27,000</b>	<b>44,200</b>	<b>41,000</b>	<b>50,600</b>	<b>62,200</b>	<b>69,500</b>	<b>87,000</b>	<b>85,400</b>	<b>87,600</b>
Growth rate		16%	64%	-7%	23%	23%	12%	25%	-2%	3%

Source: Kontali Analyse

Fig. 44

### Supply of Atlantic Salmon to the Chinese and Hong Kong Market (tonnes wfe)



Source: Kontali Analyse

Fig. 45

### Global Supply of All Salmonids

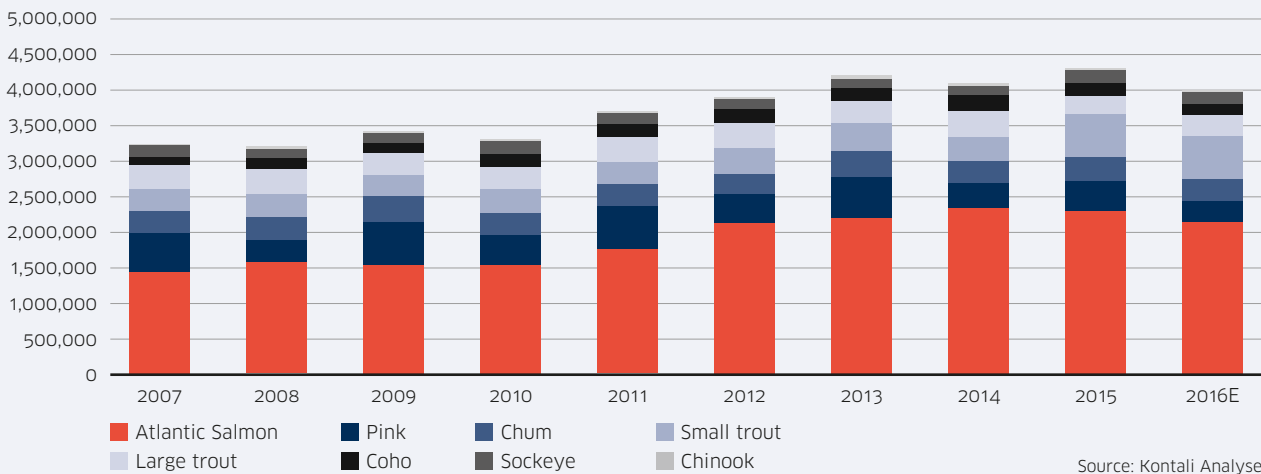
#### Historical Supply of All Salmonids (tonnes wfe)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E
Atlantic salmon	1,398,500	1,495,300	1,475,100	1,455,500	1,633,700	2,000,350	2,041,650	2,228,000	2,318,900	2,163,900
Pink	521,400	310,000	608,600	399,100	587,500	410,300	580,600	307,900	398,900	307,400
Chum	316,800	293,300	357,200	309,300	274,600	294,700	338,300	321,900	338,100	308,000
Small trout	386,500	404,500	432,700	446,600	490,600	534,100	577,500	569,000	588,800	631,600
Large trout	312,600	338,700	310,000	319,900	335,300	376,900	309,500	292,200	268,300	263,100
Coho	142,200	144,800	131,000	160,700	174,400	191,000	176,800	200,400	189,900	154,000
Sockeye	158,700	132,900	141,000	167,600	148,800	142,300	133,200	173,700	190,300	191,500
Chinook	22,200	18,100	18,500	19,700	22,000	18,800	22,000	25,900	25,100	24,500
<b>Total</b>	<b>3,258,900</b>	<b>3,137,600</b>	<b>3,474,100</b>	<b>3,278,400</b>	<b>3,666,900</b>	<b>3,968,450</b>	<b>4,179,550</b>	<b>4,119,000</b>	<b>4,318,300</b>	<b>4,044,000</b>
Growth rate	11%	-4%	10%	-6%	11%	8%	5%	-1%	5%	-7%

Source: Kontali Analyse

Fig. 46

#### Supply of All Salmonids (tonnes wfe)



**GLOBAL HARVEST OF FARMED ATLANTIC SALMON**

Following 5 years with global growth in harvest of farmed Atlantic salmon, 2016 saw a decline of 7 percent or 155,000 tonnes wfe worldwide.

The two largest producing countries, Norway and Chile, which combined account for approximately 80 percent of the global harvest volume, both saw a significant drop in harvest.

In Norway, mainly challenges with sea lice and other fish health issues led to a reduction in both production and productivity. As a result of harvesting salmon earlier at lower harvest weight, in addition to poorer growth development the second year in sea due to sea lice treatments - led to a fall in harvest volume of 7 percent.

The algal bloom outbreak in Chile led to extraordinary losses of approximately 25 million individuals. Consequentially, this led to lower harvest potential for the second half of 2016. Furthermore, slightly poorer growth development due to both sea lice and SRS was also a contributing factor to the 16 percent decline in harvest volume.

The only notable increase in harvest volume, observed last year, came from North America, which increased by almost 10,000 tonnes wfe. In addition, on Iceland production is picking up and increased approx. 4,000 tonnes wfe, a doubling compared to the previous year.

The global harvest quantity of Atlantic salmon for 2007-2016E is illustrated in the table below.

Fig. 47

**Harvest of Atlantic Salmon (tonnes wfe)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E
Norway	723,300	741,000	855,700	944,600	1,005,600	1,183,100	1,143,600	1,199,000	1,234,200	1,171,100
Chile	356,400	403,500	239,100	129,600	221,000	364,000	468,100	582,900	598,200	504,400
United Kingdom	134,900	136,400	144,300	142,900	154,700	159,400	157,800	170,500	166,300	160,100
Canada	111,000	122,000	121,900	122,000	119,500	136,500	115,100	95,000	135,200	142,500
Faroe Islands	19,100	36,900	47,100	41,800	56,300	70,300	72,600	82,700	76,900	75,900
Australia	23,800	25,700	32,200	33,000	36,000	40,000	39,000	42,000	55,000	54,000
USA	12,300	17,000	16,400	18,000	18,300	19,600	20,300	24,000	20,200	22,000
Others	2,400	1,400	3,600	5,800	6,300	11,850	14,550	19,600	17,200	19,000
Ireland	15,300	11,400	14,800	17,800	16,000	15,600	10,600	12,300	15,700	14,900
<b>Total</b>	<b>1,398,500</b>	<b>1,495,300</b>	<b>1,475,100</b>	<b>1,455,500</b>	<b>1,633,700</b>	<b>2,000,350</b>	<b>2,041,650</b>	<b>2,228,000</b>	<b>2,318,900</b>	<b>2,163,900</b>
Growth rate	10%	7%	-1%	-1%	12%	22%	2%	9%	4%	-7%

**Harvest of Large Trout (tonnes wfe)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E
Norway	76,200	86,300	81,000	55,600	54,000	73,700	73,900	73,800	71,500	84,500
Chile	169,300	179,300	149,600	189,000	203,500	227,900	156,600	131,700	100,400	74,200
Others	34,500	36,700	41,000	44,900	46,900	45,300	48,900	54,400	62,700	69,800
Finland	11,500	12,000	12,700	10,400	9,300	9,000	9,900	12,400	13,000	14,500
Denmark	9,900	10,000	10,100	9,800	10,900	10,500	10,500	10,500	10,900	10,500
Sweden	4,500	5,700	6,400	7,900	10,700	10,500	9,700	9,400	9,800	9,600
Faroe Islands	6,700	8,700	9,200	2,300	-	-	-	-	-	-
<b>Total</b>	<b>312,600</b>	<b>338,700</b>	<b>310,000</b>	<b>319,900</b>	<b>335,300</b>	<b>376,900</b>	<b>309,500</b>	<b>292,200</b>	<b>268,300</b>	<b>263,100</b>
Growth rate	21%	8%	-8%	3%	5%	12%	-18%	-6%	-8%	-2%

Source: Kontali Analyse



### SUPPLY OF FARMED ATLANTIC SALMON FROM THE 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 82.7 thousand tonnes wfe, which in comparison to 2006 represents an increase of just above 70 thousand tonnes wfe.

Mainly due to reorganization of the production cycle of one company, harvest decreased 8 percent in 2015. Last year, the harvest volume fell further and down by 5 percent. Preliminary indications point towards a 10 percent increase in 2017.

The biological performance of the Faroese salmon producers has over the last few years been the best in the world – with low loss rates and high average harvest weight, leading to the highest smolt yield in the industry.

Furthermore, with limited global production of large sized salmon – the Faroese companies focused on markets demanding these products, and achieving premium and higher sales prices compared to other producing regions. This combined with low cost of production, has led to the best EBIT-margins in the industry.

Fig. 48

#### Supply of Atlantic Salmon from the Faroe Islands (tonnes wfe)

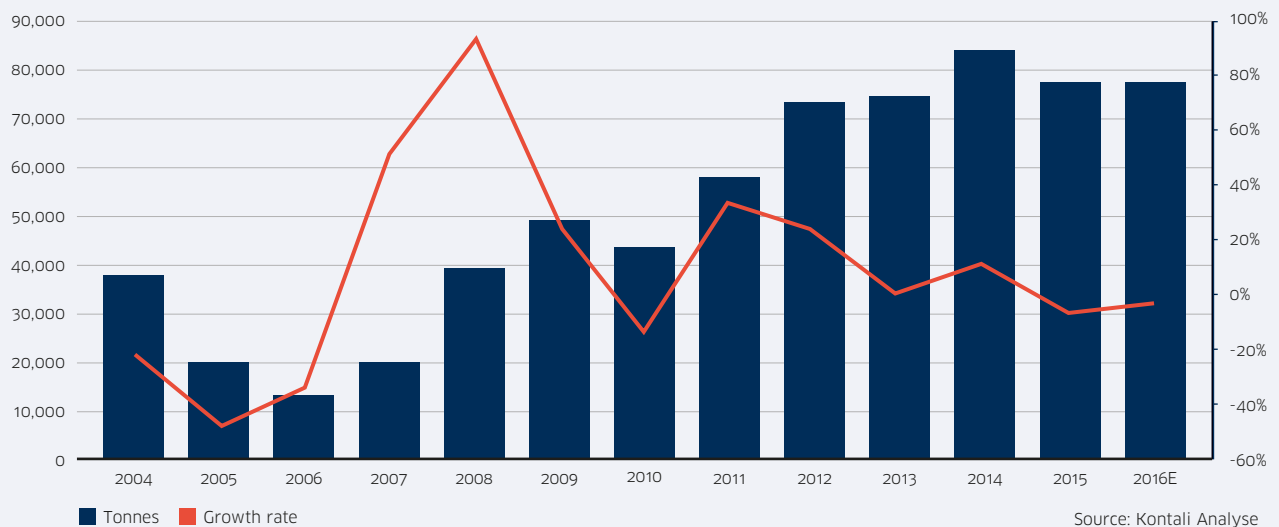


Fig. 49

#### FO Supply of Atlantic Salmon (tonnes wfe)

Year	Supply from			Supply to Markets							
	Faroe Islands	EU	share	USA	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	72,100	36,000	50%	13,100	18%	1,100	2%	8,000	11%	13,900	19%
2013	73,400	33,500	46%	16,400	22%	1,100	1%	2,600	4%	19,800	27%
2014	83,300	31,400	38%	16,900	20%	800	1%	15,700	19%	18,500	22%
2015	76,900	19,000	25%	14,500	19%	800	1%	27,300	36%	15,300	20%
2016E	73,200	25,200	34%	16,600	23%	400	1%	18,500	25%	12,500	17%

Source: Kontali Analyse

## CHANGE IN MARKET SUPPLY AND MARKET PRICES

During 2016, the salmon farming industry has seen record high price levels, both in Europe and America. As mentioned earlier, reduced production and productivity in the two largest Atlantic salmon producing countries has led to a fall in global harvest of approximately 7 percent. However, due to realization of frozen inventory stock in Chile, global supply to all markets is estimated down 4 percent – of which H1 2016 was in line with last year, but where the second half decreased by almost 8 percent.

Limited supply and lower supply volumes, combined with an increasing share of sales on contracts – had an amplifying effect on the available spot volume and spot prices. Furthermore, prices measured in NOK were also positively affected by the weak Norwegian krone against the main trading currencies.

In Europe, prices for Atlantic salmon increased also significantly – also compared to other protein sources, such as

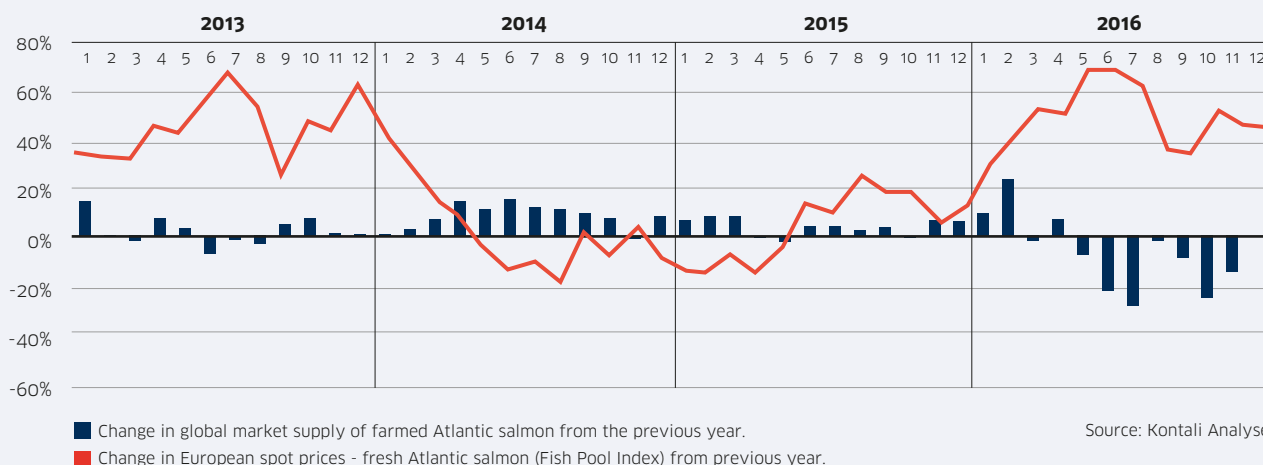
chicken, beef, and pork. While the coverage, i.e. number of retail stores selling salmon products, only fell slightly – the notable change was in the promotion activity. In France, promotions of fresh whole salmon fell from 19 % on average in 2015 to 13 % last year. For fresh fillets and fresh portions, promotion fell from 32 % to 23 % and 19 % to 13 % on average.

In contrast to spot prices, average export prices for fresh whole salmon in Norway trended on a lower level – a result of high contract share, and partly high deviation between spot and contract prices. Thus, achieved sales prices for farmers and purchase prices for consumers is somewhat lower than the trend observes in the graph below.

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 2013 to 2016.

Fig. 50

### Supply and Market Prices



Source: Kontali Analyse

### TOP 15 - SALMON FARMING COMPANIES

Norway is the largest producing country of farmed salmonids, while Chile during the past years has 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 industry consolidations.

In 2015, the world's fifteen largest salmon farming companies harvested approx. 1.7 million tonnes of Salmonids (Atlantic Salmon, Coho Salmon, Chinook, Big Trout), representing 61% of the total harvest quantity in 2015. In Norway, these companies made up 61% of the total harvest and 66% in Chile. See table below for more details:

Fig. 51

#### Harvest Quantity - 2015e, 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	466,800	283,100	55,700	69,400	44,600	3,200	10,800	
2	LERØY SEAFOOD GROUP (incl. Norskott Havbruk)	NO	190,200	175,200	15,000					
3	MITSUBISHI / CERMAQ	NO	185,000	64,000		100,000	21,000			
4	SALMAR (incl. Norskott Havbruk)	NO	166,600	151,600	15,000					
5	EMPRESAS AQUACHILE	CL	108,900			108,900				
6	COOKE AQUACULTURE	CA	95,200		21,000	25,000	49,200			
7	GRIEG SEAFOOD	NO	72,700	38,600	18,200		15,900			
8	SALMONES MULTIEXPORT	CL	63,700			63,700				
9	AUSTRALIS SEAFOOD	CL	60,100			60,100				
10	BAKKAFROST	FO	56,200					56,200		
11	PESQUERA LOS FIORDOS	CL	50,000			50,000				
12	PESQUERA CAMANCHACA	CL	43,300			43,300				
13	NORDLAKE HOLDING	NO	43,000	43,000						
14	NOVA SEA	NO	41,600	41,600						
15	SALMONES AUSTRAL (PACIFIC STAR + TRUSAL)	CL	40,000			40,000				
Sum top 15			1,683,300	797,100	124,900	560,400	130,700	59,400	10,800	0
Others			1,088,900	508,600	46,100	291,600	31,500	17,500	5,400	188,200
<b>Total</b>			<b>2,772,200</b>	<b>1,305,700</b>	<b>171,000</b>	<b>852,000</b>	<b>162,200</b>	<b>76,900</b>	<b>16,200</b>	<b>188,200</b>
Top 10 WW in % of total harvest quantity			53%	55%	73%	50%	81%	77%	67%	0%
Top 15 WW in % of total harvest quantity			61%	61%	73%	66%	81%	77%	67%	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 of fish at the point of harvest/sale. The latter is also known as the economic feed conversion rate (EFCR), and considers losses (mortality, escapes, discards, etc.), biological feed conversion rate and other factors.

During the past decade, it is 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 markup 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 labour and other operational costs.

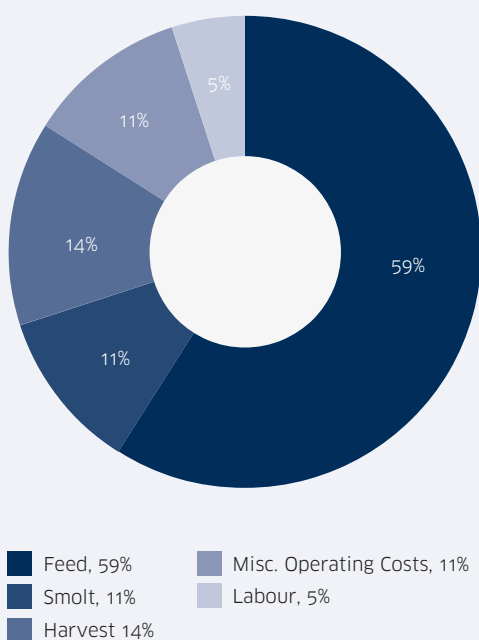
Compared to Norwegian farmers the average cost of production is somewhat lower for Faroese farmers - a result of better biological performance; lower feed conversion ratio and higher smolt yield (higher average harvest weights and lower loss-rates), but also due to what has become a generally higher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

The figure below shows the cost split for Atlantic salmon – 2015G est.

Fig. 52

### Cost split Faroe Islands 2015G est.

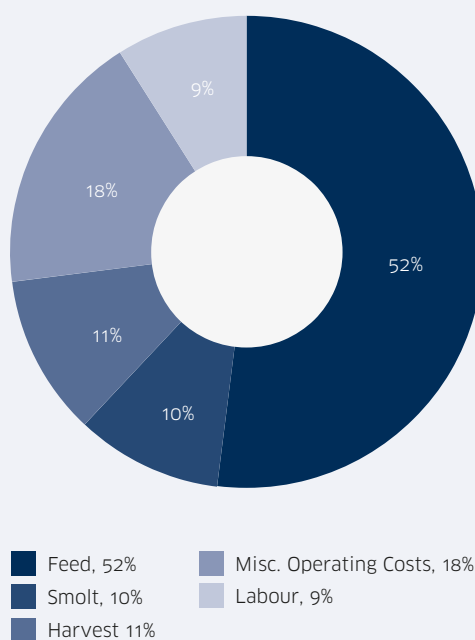
(GUTTED WEIGHT)



Source: Kontali Analyse

### Cost split Norway 2015G est.

(GUTTED WEIGHT)



## FISH FEED

Feed consumption to ocean-farmed salmonids saw double digit growth in both 2011 and 2012, while at the same time total tonnages exceeded 3.7 million. The following year (2013), consumption and sales decreased approx. 2% due to lower production in the main farming regions.

The following year (2014) feed consumption increased with 8% to a new all-time high record of just above 3.9 million tonnes of fish feed. This record was again beaten in 2015, by a marginal increase of 1 percent or 20,000 tonnes.

Last year, the global feed consumption decreased by 6 percent – mainly driven by a 17% fall in feed consumption (all-salmonids) in Chile. The lost growth and feed consumption of the individual losses in the algal bloom is the main reason behind this development.

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.

The raw material situation in 2016 to the fishmeal and fish oil producers has been difficult due to a 20% decrease in the landings of industrial species in the main producing countries.

However, a successful second season in Peru has built fishmeal inventories during the last months of 2016. The Peruvian fishmeal production is estimated to approximately 450,000 tonnes the last season. This eased the situation in the fishmeal and fish oil markets, and prices decreased towards the end of 2016.

China is the world's largest consumer of fishmeal and represents approx. 70% of the Peruvian exports. Imports of fishmeal to China were above 1 million tonnes last year.



Fig. 53

### Estimated Feed Consumption/Sale to Salmonids for Selected Salmonid Producing Regions

Atlantic Salmon, Large Trout, Coho, Chinook

In 1000 tonnes	2011	2012	Change	2013	Change	2014	Change	2015	Change	2016E	Change
Norway	1,494	1,652	11%	1,618	-2%	1,738	7%	1,743	0%	1,707	-2%
Chile*	1,037	1,258	21%	1,204	-4%	1,283	7%	1,237	-4%	1,023	-17%
Others	239	272	14%	286	5%	319	12%	346	8%	365	5%
North America	225	235	5%	202	-14%	235	16%	253	8%	257	2%
UK	228	210	-8%	224	7%	230	3%	241	5%	247	2%
Faroe Islands	85	89	5%	96	8%	97	2%	103	6%	106	3%
<b>Total</b>	<b>3,307</b>	<b>3,716</b>	<b>12%</b>	<b>3,630</b>	<b>-2%</b>	<b>3,903</b>	<b>8%</b>	<b>3,923</b>	<b>1%</b>	<b>3,705</b>	<b>-6%</b>

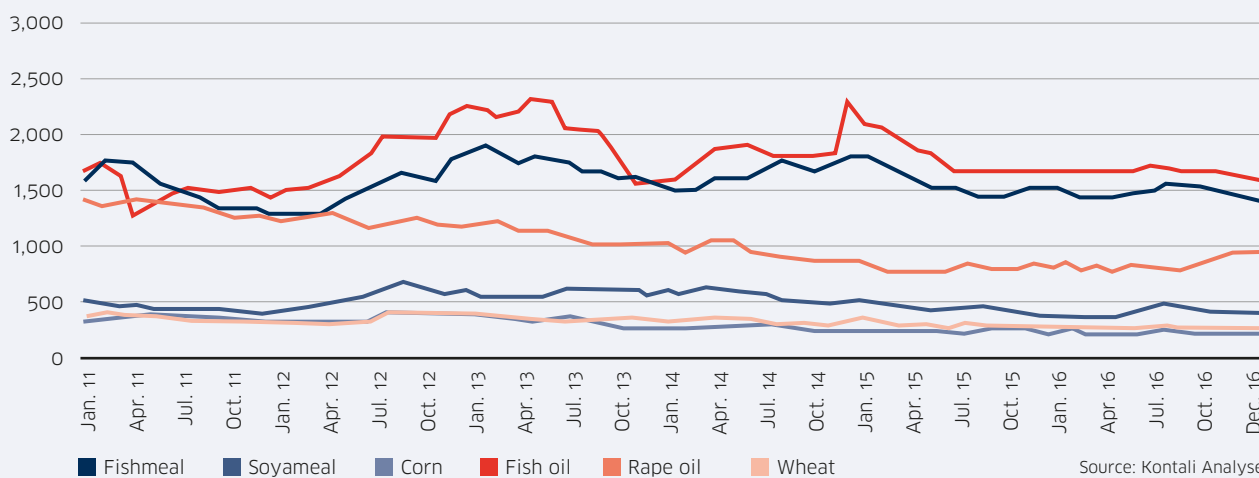
\* Chile - Including fresh water feed, but excluding exports (exports ranging from 10-15,000 tonnes between 09 and 14E)

Source: Kontali Analyse

Fig. 54

### Raw Material Prices 2011-2016

(USD/TONNES)



Source: Kontali Analyse



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# RISK

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# Risk and Risk Management

The Bakkafrost Group is exposed to a number of different risks, and risks will always be a natural part of our business activities. Risk management is therefore crucial, so that the risks Bakkafrost is exposed to, are reduced to an acceptable level.

Bakkafrost has general operational and business risks arising from the normal business activities in the value chain. In addition to the operational risks, Bakkafrost is exposed to markets and financial risks arising from the normal business activities in the value chain.

## OPERATIONAL RISKS

### FARMING

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 Bakkafrost's results and financial condition. Bakkafrost'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 Bakkafrost aims at reducing that risk through the entire production cycle by means of systematic group-wide biosecurity auditing.

Bakkafrost's production facilities are located within a relatively small geographical area limited to the Faroe Islands; accordingly, some operational risks, if occurring, can affect Bakkafrost strongly (e.g. weather conditions, some diseases, etc.).

### Storms

The growth rate of farmed salmon depends, among other things, on weather conditions. Unexpected warm or cold temperatures can have a significant negative impact on growth rates and feed consumption. Bakkafrost 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. Bakkafrost is continually working

on reducing risks using experience with equipment, location and operational organization. Bakkafrost's facilities are located in areas where the weather conditions are well known and the facilities well secured, though other weather conditions, such as storms or floods, could also lead to unexpected losses at facilities.

### 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.

A routine surveillance test in July 2016, detected a possible pathogenic ISA-virus at Bakkafrost farming site A-73 Hvannasund Norður. After the suspicion, extensive tests at the farming site have been carried out with the purpose of confirming the suspicion. All results have been negative and have not proven the presence of a pathogenic ISA virus.

As the tests in July 2016 did not confirm the suspicion, the Veterinary Authority increased surveillance for at least six months at the farming site and carried out extra tests on neighbouring farming sites as well. This procedure is stipulated in the Faroese veterinary farming regime, which has the purpose of securing and maintaining good biology in the Faroese farming industry. Tests taken by the Faroese Veterinary Authority at farming site A-73 Hvannasund Norður in January 2017, as part of the increased surveillance, resulted again in suspicion of a pathogenic ISA virus at the farming site. The suspicion of a pathogenic ISA virus concerned two cages, whereof one cage was the same cage that was under suspicion of a pathogenic ISA virus in July 2016. Bakkafrost decided to take immediate action and harvested all the fish in these two cages. The results from these tests and following tests have not confirmed the suspicion of a pathogenic ISA virus at farming site A-73 Hvannasund Norður. The farming site will continue to be under increased surveillance.

The finding of this potentially virulent ISA virus highlights the importance of the Faroese strict prophylactic measures and surveillance. The Faroese veterinary farming regime stipulates vaccination against ISA of minimum 80% of the fish in each farming site. Bakkafrøst vaccinates all fish against ISA.

The suspicion of *Neoparamoeba perurans* in the Faroe Islands 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.

#### Sea lice

The increasing number of sea lice is one of the largest risks and challenges in the farming industry globally and in the Faroe Islands today. Increased number of sea lice may cause stress, which can lead to diseases. Bakkafrøst 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, Bakkafrøst is looking into non-medicinal treatment options. The future goal is that medicinal treatments will be exchanged with non-medicinal treatment options.

Bakkafrøst uses lumpfish as cleaner fish for sea lice. Lumpfish is the only cleaner fish used in the Faroe Islands,

and is an important preventive measure against sea lice. Bakkafrøst will increase the use of lumpfish in its farming sites.

Since late 2015, Bakkafrøst used fresh water baths on-board Hans á Bakka as sea lice treatment. This treatment has been effective. Bakkafrøst has made new investments in two FSVs, installed with treatment systems using lukewarm sea water to clean the salmon for lice.

#### Escapes

Although Bakkafrøst does not tolerate the escape of farmed salmon, there is a risk that escapes will occur, in which case the Bakkafrøst'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.

#### Deformities

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.

Fig. 55

#### AVERAGE HARVEST WEIGHT KG LWE\*

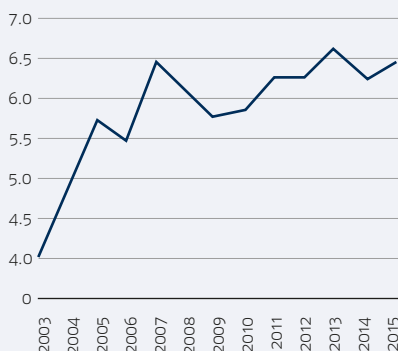


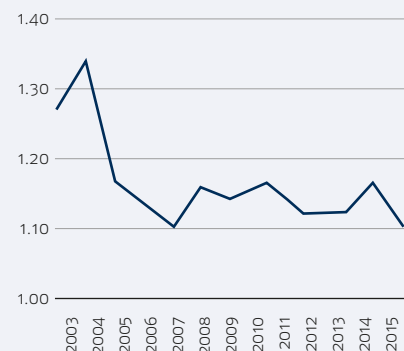
Fig. 56

#### MORTALITY % OF OUTPUT\*



Fig. 57

#### BIOLOGICAL FEED FACTOR\*



Source: Avrik

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

**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 down-time 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. Bakkafrøst is continually working on reducing risks.

Bakkafrøst'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. Bakkafrøst'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 Bakkafrøst'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.

Bakkafrøst'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 Bakkafrøst salmon are well within the safety limits, imposed by e.g. the European Union, Bakkafrøst has from early 2015 cleaned the fish oil used for Bakkafrøst'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.

**IT**

IT-related risks have increased in recent years, as IT has become more integrated in Bakkafrøst's operations. Therefore, breakdown of Bakkafrøst's control systems and administrative systems will have negative effect on Bakkafrøst's operations. The IT risks are assessed continuously based on the importance of a potential event for Bakkafrøst operations and the likelihood that the event may occur.

**MARKET RISKS****Price on farmed salmon**

Bakkafrost'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 price of fishmeal and fish oil, 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 fish oil for the 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.

**FINANCIAL RISKS**

Bakkafrost 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 and the process owners' follow-up. Please refer to Note 4.1 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 Bakkafrost.

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. Bakkafrøst 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, Bakkafrøst must accept a certain risk element in accounts receivables.

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

**Liquidity risk**

Liquidity risk is the risk that Bakkafrøst 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. Bakkafrøst'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 4.1.

**Capital structure and equity**

The prime objective of Bakkafrøst's capital management is to ensure that it maintains a good credit rating to achieve favourable borrowing terms. By ensuring a good debt-to-equity ratio, Bakkafrøst will support its business operations. Bakkafrøst 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.





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# GOVERNANCE

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# 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"). The recommendation may be found at [www.nues.no](http://www.nues.no). Beside the Corporate Governance description in our annual report, Bakkafrøst publishes a more detailed report on Corporate Governance, which may be found on our website.

Bakkafrøst does not comply with the following recommendations in the Norwegian Code of Practice for Corporate Governance:

- Section 3 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.

## Bakkafrøst's Governance Model

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

## BAKKAFRØST'S GOVERNANCE MODEL

### SHAREHOLDERS

### GENERAL MEETING

Bakkafrøst's shareholders exercise their rights at the General Meeting.

### NOMINATION COMMITTEE

Consists of four members which are elected by AGM. Recommends candidates for election to the Board of Directors and Directors' fees.

### BOARD OF DIRECTORS

Consists of six members, which are elected every second year. The Chairman is elected every year. The Board of Directors is responsible for the overall management of Bakkafrøst.

### AUDIT COMMITTEE

Consists of three members from the Board of Directors and is chaired by the Board of Directors' Chairman.

### GROUP EXECUTIVE MANAGEMENT

The Group Executive Management is responsible for the day-to-day management of Bakkafrøst.

values and ethics, instructions for the Audit Committee, an investor relations policy, guidelines relating to takeover bids and guidelines for related-party transactions.

## Shareholders and General Meeting

Shareholders exercise their rights at Bakkafrøst's general meeting – such as appointing Bakkafrøst's Nomination Committee, Board of Directors and auditor.

The procedures at Bakkafrost's general meeting follow the standard rules stipulated in the Faroese company law and Bakkafrost's Article of Association.

#### **Nomination Committee**

The Nomination Committee recommends candidates for election to the Board of Directors and the Directors' fees. The deadlines for submitting proposals to the Nomination Committee is 31 January.

Bakkafrost's General Meeting elects the members, hereunder its chairman, for the Nomination Committee for a period of two years, unless the General Meeting decides otherwise. The remuneration payable to the Nomination Committee's members is also determined by the General Meeting.

The regulations governing the work of the Nomination Committee are incorporated in Bakkafrost's Articles of Association.

At the end of 2016, the members of the Nomination Committee were:

- Gunnar í Liða (Chairman)
- Eyðun Rasmussen
- Rógvi Jacobsen
- Leif Eriksrød

#### **Board of Directors**

Bakkafrost's Board of Directors is responsible for the overall management of the company and appoints a management of one or several managers to manage the daily business of Bakkafrost. The Board of Directors sets out the strategy for Bakkafrost and decides major investments and divestments. The Board of Directors is also responsible that Bakkafrost at any time has an appropriate capital base, key policies, control and audit matters. The Board of Directors is responsible for Bakkafrost's Risk Management and material operational decisions.

The majority of the members of the Board of Directors shall be resident in the Faroe Islands. The chairman of the Board of Directors is elected by the general meeting, whilst the vice-chairman is appointed by the Board of Directors. The Board of Directors shall have between three and seven members. Information about the members of the Board of Directors may be found in "Directors' Profiles" in the Annual Report.

The Board of Directors has laid down detailed rules regarding its activities in a working procedure, which is reviewed regularly.

The Board of Directors held nine meetings in 2016. Below under each Director's profile is disclosed each Director's participation in the Board meetings held during 2016.

The members of the Board of Directors receive a fixed remuneration, which is approved by the general meeting. The members of the Board of Directors are not part of Bakkafrost's share savings plan for employees.

#### **Audit Committee**

The Audit Committee is a sub-committee of the Board of Directors and assists the Board of Directors in overseeing the financial and non-financial reporting process, financial and business-related risks, internal controls and compliance with statutory and other requirements from public authorities.

The Audit Committee decides the framework of Bakkafrost's external auditors, evaluates the auditors' independence and qualifications.

The company's audit committee met five times during 2016 to review accounting and operational issues in detail. The committee consists of Rúni M. Hansen (Chairman), Øystein Sandvik and Teitur Samuelsen.

#### **Group Executive Management**

The Group Executive Management manages Bakkafrost's daily business and shall adhere to any decisions made by the Board of Directors as well as to any rules and requests from the Board of Directors.

The Board of Directors has in executive instructions laid down specific rules regarding the authority and duties of the Group Executive Management. The Board of Directors also decides the employment conditions of the Group Executive Management and gives more specific rules regarding its work.

The Group Executive Management consist of CEO Regin Jacobsen, CFO Gunnar Nielsen and MD Odd Eliassen. Information about the Group Executive Management may be found in "Group Managements' Profiles" in the Annual Report.

# 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 2016 was equivalent to 820 full-time employees at 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. We aim to support, maintain and improve standards on all levels in the Group, with focus on training on all levels, and 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. All sites are continuously under a disease and health surveillance, and efforts are made to ensure that the fish thrive and that good fish welfare is maintained at all sites.

In February 2014, a potential virus causing ISA was found at Bakkafrost site A-80, holding harvest size fish. Due to the early detection programme, surveillance and everyday bio-security procedures, this potential threat was revealed and contained at this one site whilst the fish was harvested. This ISA-virus did not result in clinically ill fish.

The suspicion of a pathogenic ISA virus was again raised last year, in July 2016, at Bakkafrost site A-73. It was not possible to confirm the presence of the virus, and the site was under increased veterinary surveillance, and strict bio-security measures have since been employed, according to stipulation in the Faroese Veterinary Regime.

New suspicion of pathogenic ISA virus at this same site rose again in January 2017. To reduce the risk, Bakkafrost decided as a precautionary action to harvest the two cages, which were under suspicion. No clinical sign of disease has been established at the site and further testing has not confirmed the presence of a pathogenic ISA virus. At present, a quarantine zone has been established around the site, and the site will be under increased surveillance for the next six months.

Bakkafrost has high focus on combatting sea lice. The focus is 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.

Efforts are made to find alternative methods to reduce salmon lice infestation. The new methods include mechanical and non-medicinal treatment such as treatment with fresh water and thermal delicing, and preventive steps such as the use of cleaner fish. Bakkafrost sees great importance in investing in new equipment to implement alternative treatment methods and optimizing procedures of alternative treatment already in place. With the new investments in FSV Martin and FSV Róland (purchased in February 2017), Bakkafrost will significantly increase treatment capacity and reduce medical treatments. Bakkafrost also aims to insert cleaner fish (lumpfish) in all new stocking in sea cages, where possible, to prevent salmon lice infestation.

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 ongoing, and Bakkafrøst is well equipped for treatments if necessary.

Bakkafrøst is increasing the hatchery capacity significantly 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.

Bakkafrøst is working on ASC standard certifications and this work will continue over the coming years. The standards seek to minimize or eliminate the key negative environmental and social impacts of salmon farming. At this point two of the company's sites have achieved ASC standard certification, and an additional two are in the process of being certified.

#### **Food safety and certifications**

Food safety and quality is of top priority to Bakkafrøst. The centralization of our activity facilities – packaging plant, harvesting plant and VAP production is now finalized with the building of a new state-of-the-art integrated harvesting and VAP plant at Glyvvar. This project will improve the quality of our products and 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 2016.

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 earlier, we have started working towards an ASC standard certification for all sites and have achieved certification at two of the company's farming sites and the processing plant, and an additional two farming sites are in the process of being certified. Our intention is to have all of our sites certified by 2020.

# 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.

## AUDITORS

The consolidated accounts have been audited by P/F Januar, l ggilt grannsko anarvirki (State Authorized Public Accountants), which is also the auditor of the parent company and all its subsidiaries, registered in the Faroe Islands. Auditor for Havsbr n Norge ASA is Bruli Revisjon AS, and auditor for Havsbr n 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 the 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 8.70 (NOK 10.36\*) per share shall be paid out as dividends. This corresponds to approximately DKK 425.1 million (NOK 506.0\* million).

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

The parent company P/F Bakkafrøst had a net profit of DKK 746.6 million for 2016. The Board of Directors has decided to propose to the Annual General Meeting that DKK 8.70 (approximately NOK 10.36\*) per share shall be paid out as dividends. This corresponds to approximately DKK 425.1 million (NOK 506.0\* million).

The Board thereby proposes the following allocation of funds:

- Result for 2016: DKK 746.6 million
- Transferred from other equity: DKK 321.5 million
- Total provision for dividends: DKK 425.1 million

After payment of dividends, the distributable equity totals DKK 2,391.6 million.

## SHAREHOLDERS, CAPITAL AND VOTES

P/F Bakkafrøst had, on 31 December 2016, 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 274,575 treasury shares as at 31 December 2016.

Ticker code: BAKKA

## LARGEST SHAREHOLDERS

These shareholders held directly or indirectly more than 5% of the shares in the company as at 31 December 2016: Oddv r Jacobsen and Regin Jacobsen.

\* The dividend per share in NOK is subject to changes depending on the currency rate NOK/DKK. The currency rate NOK/DKK will be announced on ex-date.



# Directors' Profiles



## RÚNI M. HANSEN

Chairman of the Board

Born 1967. Faroese citizen. Joined the Board in 2009 and has been Chairman since. Term of office expires in 2017. Is considered to be independent. Executive chairman of the industry holding company Tjaldur.

### Education:

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

### Board meetings in 2016:

Participated in 8 Board meetings in 2016.

### Number of shares held in Bakkafrost:

Holds 10,000 shares – no change in portfolio in 2016.

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 at Statoil.

Member of the World Economic Forum's Global Agenda Council on the Arctic in the period 2012-2016.



## JOHANNES JENSEN

Deputy Chairman of the Board

Born 1962. Faroese citizen. Joined the Board in 2009 and has been Deputy Chairman since. Term of office expires in 2018. Is considered to be independent. Managing Director at Hotel Føroyar.

### Education:

MBA, Lancaster University Management School.

### Board meetings in 2016:

Participated in all 9 Board meetings in 2016.

### Number of shares held in Bakkafrost:

Holds no shares – no change in portfolio in 2016.

Mr. Jensen has extensive experience in seafood and marketing. Mr. Jensen had a long career at 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.

**TEITUR SAMUELSEN**

Board member

Born 1972. Faroese citizen. Joined the Board in 2016. Term of office expires in 2018. Is considered to be independent. Managing Director at P/F Eystur- og Sandoyartunlum.

**Education:**

MSc. in Business Economics & Auditing, Copenhagen Business School.

**Board meetings in 2016:**

Participated in 7 Board meetings in 2016.

**Number of shares in Bakkafrost:**

Holds 100 shares – no change in portfolio in 2016.

Mr. Samuelsen has an extensive experience from accounting and finance. Mr. Samuelsen has worked at KMPG and Dong E/P in Denmark and has been the financial manager at Atlantic Petroleum (2005-2009) and Bakkafrost (2009-2014). Mr. Samuelsen is presently a member of the Board of Directors at P/F 6. September, Vest Pack and Tryggingarfelagið Føroyar.

**VIRGAR DAHL**

Board member

Born 1958. Faroese citizen. Joined the Board in 2006. Term of office expires in 2018. Is not considered to be independent. Manager at the Marine Department in Tryggingarfelagið Føroyar.

**Education:**

Chief Officer, Vinnuháskúlin, Centre of Maritime Studies & Engineering.

**Board meetings in 2016:**

Participated in all 9 Board meetings in 2016.

**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. Term of office expires in 2017. Is not considered to be independent. Sales Manager at Bakkafrost.

**Education:**

Basic Vocational Course, Commercial Line, Faroese Business School.

**Board meetings in 2016:**

Participated in 8 Board meetings in 2016.

**Number of shares in Bakkafrost:**

Holds directly and indirectly 14,974 shares – change in portfolio in 2016: +166 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. Term of office expires in 2017. Is considered to be independent.

**Education:**

Bank Economist.

**Board meetings in 2016:**

Participated in all 9 Board meetings in 2016.

**Number of shares in Bakkafrost:**

Holds no shares – no change in portfolio in 2016.

Mr. Sandvik has an extensive experience from the finance sector and seafood. Mr. Sandvik has held several positions at Nordea Bank Norge within fish farming and fishery. Mr. Sandvik is presently a member of the Board of Directors of Coldwater Prawns of Norway AS.

## Group Management's Profiles

**REGIN JACOBSEN**

Chief Executive Office

Born 1966. Faroese citizen.

Mr. Jacobsen 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 held in Bakkafrøst:**

Holds 4,493,517 shares – changes in portfolio in 2016: +503 shares.

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

**GUNNAR NIELSEN**

Chief Financial Officer

Born 1977. Faroese citizen.

Mr. Nielsen has been Chief Financial Officer of Bakkafrost since 2014.

**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 held in Bakkafrost:**

Holds 662 shares – changes in portfolio in 2016: +345 shares.

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

**ODD ELIASSEN**

Managing Director of Havsbrún

Born 1965. Faroese citizen.

Mr. Eliassen has been Managing Director for Havsbrún since 2012.

**Education:**

Teacher Certificate Exam, Faroese Teacher Training College.

**Number of shares held in Bakkafrost:**

Holds 171,717 shares – changes in portfolio in 2016: +385 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 a board member of Bakkafrost from 2006 to 2012.

## Other Managers' Profiles



**SÍMUN P. JACOBSEN**, Senior Sales Manager

Símun P. Jacobsen (born 1963) was appointed Senior Sales Manager at Bakkafrost in 2012. Mr. Jacobsen holds a Graduate Diploma in Business Administration and Accounting (HD-R) from Handelshøjskolen Syd in Denmark. Mr. Jacobsen held the position as sales manager at United Seafood from 1998 and at Faroe Seafood from 2005.



**KÁRI JACOBSEN**, VAP Manager

Kári Jacobsen (born 1963) was appointed VAP Manager at Bakkafrost in 2008. Mr. Jacobsen was educated at Statens Fagskole for Fiskeindustri in Vardø and held the position as production manager at Tavan from 1984 to 1994, and from 1999 to 2008. Mr. Jacobsen held the position as production manager at United Seafood from 1994 to 1998.



**ANDRIAS PETERSEN**, Harvest Manager

Andrias Petersen (born 1973) was appointed Harvest Manager at Bakkafrost in 2010, following the merger of Vestlax Group with Bakkafrost. Mr. Petersen holds a BSc in Chemical Engineering from the Technical University of Denmark. From 2002 to 2008, he joined the Faroese Food, Veterinary and Environmental Agency, and from 2008 to 2010, Mr. Petersen held the position as production manager at Vestlax.



**JÓN PURKHÚS**, Farming Manager (North region)

Jón Purkhús (born 1958) was appointed Farming Manager at Bakkafrost in 2006, following the merger of Faroe Salmon with Bakkafrost. Mr. Purkhús has held positions in the Faroese salmon farming industry and was the founder of Faroe Salmon, where he held the position as managing director from 1985.



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

Oddvald Olsen (born 1964) was appointed Farming Manager at Bakkafrost in 2011. Mr. Olsen has held positions in the Faroese salmon farming industry and from 1993 to 2004, he held the position as managing director in Sjólakstur. Mr. Olsen joined Bakkafrost in 2010.



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

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



**RÚNI WEIHE**, Manager, Feed

Rúni Weihe (born 1980) holds a MSc in Fisheries from the University in Tromsø, Norway. From 2008, Mr. Weihe held the position as Research & Development Manager of Havsbrún's Feed Division and in 2014, he was appointed Division Manager. Mr. Weihe holds both managerial positions.

**ANNA JOHANSEN**, Group Quality Manager

Anna Johansen (born 1974) was appointed Quality Manager at Bakkafrøst in 2010, following the merger of Vestlax Group with Bakkafrøst. Mrs. Johansen holds a cand.scient in biology from the University of Copenhagen, Denmark. From 2003 to 2007, she joined the Faroese Food, Veterinary and Environmental Agency, and from 2007 to 2010, she held the position as quality manager at Vestlax. In 2015, Mrs. Johansen was appointed Group Quality Manager.

**LEIF AV REYNI**, Fresh Water Manager

Leif av Reyni (born 1976) was appointed Fresh Water Manager at Bakkafrøst in 2010, following the merger of Vestlax Group with Bakkafrøst. Mr. Reyni holds a BSc in Aquaculture from Høgskolen in Sogndal, Norway and a MSc degree in Aquaculture from Stirling University, Scotland. From 2003 to 2004 and from 2005 to 2009, Mr. Reyni held positions at Vestlax as production manager and manager for sea sites and hatcheries.

**GUÐRUN OLSEN**, Group HR Manager

Guðrun Olsen (born 1964) was appointed Group HR Manager at Bakkafrøst in 2012. She 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.

**SVERRI KJÆRBÆK**, Operations Manager

Sverri Kjærbæk (born 1964) was appointed Operations Manager at Bakkafrøst in September 2016. Mr. Kjærbæk holds a Master's Certificate from Føroya Sjómansskúli in Tórshavn, Faroe Islands, and from 1989 to 2007, he held positions as captain in Mærsk Line. From 2007, Mr. Kjærbæk has served as captain on board passenger as well as offshore vessels.

# 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 Bakkafrost for the financial year 1 January 2016 to 31 December 2016.

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 appropriate, 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 2016, as well as

the results of the Group's and the parent company's activities and cash flows for the financial year 1 January 2016 to 31 December 2016.

In our opinion, the management's review provides a true and fair account of the development in the Group's and the parent company's operations and financial circumstances, of the results for the year and of the overall financial position of the Group and the parent company as well as a description of the most significant risks and elements of uncertainty facing the Group and the parent company.

We recommend that the annual report be adopted at the annual general meeting.

Glyvrar, 13 March 2017

## Management:

**Regin Jacobsen**  
CEO

## The Board of Directors of P/F Bakkafrost

Rúni M. Hansen  
Chairman of the Board

Johannes Jensen  
Deputy Chairman of the Board

Øystein Sandvik  
Board Member

Virgar Dahl  
Board Member

Annika Frederiksberg  
Board Member

Teitur Samuelsen  
Board Member

# Independent Auditor's Report

TO THE SHAREHOLDERS OF P/F BAKKAFROST

## Opinion

In our opinion, the consolidated annual accounts and the annual accounts give a true and fair view of the assets and liabilities, of the financial position of the Group and the Company as at 31 December 2016, and of the results of the Group and the Company operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU.

## Identification

We have audited the consolidated annual accounts and the annual accounts of P/F Bakkafrost for the financial year 1 January - 31 December 2016, which comprise Income Statement, Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, and notes, including a summary of accounting policies used, for both the Group and the Company, as well as consolidated statement of cash flows. The consolidated annual accounts and the annual accounts are prepared in accordance with the International Financial Reporting Standards as adopted by the EU.

## Basis of opinion

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the consolidated annual accounts and the annual accounts".

## Independence

We are independent of the Group in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in the Faroe Islands, and we have fulfilled our additional ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit matters

Key audit matters are the matters, which we consider central to our audit of the annual and consolidated accounts for 2016. The matters are considered during our audit of the accounts in their entirety and when forming our opinion. We do not provide separate opinions on these matters.

### Key Audit matter

#### Accounting for Biomass

Biomass at marine sites is not accurately ascertainable prior harvest. Accounting for biomass at marine sites involves performing accounting estimates, based on factual information about the production process such as stocking, feeding, sea temperature, exposure to daylight and treatment for lice and other health issues and knowledge about how salmon responds to these factors in terms of growth rate, mortality, feed consumption ratio, and liability to stress and disease. Management exercises material accounting estimates in accounting for biomass.

### Our response to the matter during our audit

We apply our experience and knowledge about the characteristics of salmon production process when considering the accounting estimates. We assure ourselves, that the estimates are based on factual data, and data which can be supported empirically. We assure ourselves, that management is applying estimates in a way consistent with knowledge of the production process, and that the estimates are performed consistently and that the estimates are free from bias. Further, we assure ourselves of the ability of the management to perform these estimates

Measuring biomass at fair value entails exercising material estimates on future events and values, such as development in biomass during remaining growth period, future quality distribution, future market conditions at expected point of harvest, finishing costs etc. The management is exercising material estimates in value measurement on biomass at Fair Value.

by examining estimates made by the management at prior balance sheet dates on an ex-post basis.

We assure ourselves, that estimates are based on ascertainable information on market forecasts as well as company specific data. We assure ourselves that the forecasts of future conditions are based on the best information available at the time of the estimates. We also ascertain that estimates on future market conditions are based on public market analyses, and that valuation techniques are in line with generally accepted valuation principles, and are applied in a consistent and unbiased manner.

#### **Statement on the management's review**

The management is responsible for the management's review.

Our opinion on the consolidated annual accounts and the annual accounts does not cover the management's review, and we do not express any kind of assurance opinion on the management's review.

In connection with our audit of the consolidated annual accounts and the annual accounts, our responsibility is to read the management's review and in that connection consider whether the management's review is materially inconsistent with the consolidated annual accounts and the annual accounts or our knowledge obtained during the audit, or whether it otherwise appears to contain material misstatement.

Furthermore, it is our responsibility to consider whether the management's review provides the information required under the International Financial Reporting Standards as adopted by EU.

Based on the work we have performed, we believe that the management's review is in accordance with the consolidated annual accounts and the annual accounts and that it

has been prepared in accordance with the requirements of the International Financial Reporting Standards as adopted by EU. We did not find any material misstatement in the management's review.

#### **Responsibilities for the accounts and the audit**

##### **The management's responsibilities for the consolidated annual accounts and the annual accounts**

The management is responsible for the preparation of consolidated annual accounts and annual accounts that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by EU. The management is also responsible for such internal control as the management determines what is necessary to enable the preparation of consolidated annual accounts and annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts and the annual accounts, the management is responsible for evaluating the Group's and the Company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the consolidated annual

accounts and the annual accounts, unless the management either intends to liquidate the Group or the Company or to cease operations, or if it has no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the consolidated annual accounts and the annual accounts**

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts and the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands will always detect a material misstatement when it exists. Misstatements may arise due to fraud or error and may be considered material if, individually or on aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of these consolidated annual accounts and annual accounts.

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands, we exercise professional evaluations and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated annual accounts and the annual accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or overriding of internal control.
- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal controls.
- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of ac-

counting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's preparation of the consolidated annual accounts and the annual accounts being based the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts and the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated annual accounts and the annual accounts, including the disclosures in the notes, and whether the consolidated annual accounts and the annual accounts reflect the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or the business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control that we identify during our audit.

We also provide a statement to the Board of Directors stating, that we adhere to the relevant ethical requirements relating to our independence, and provide information on any relation, which may reasonably be considered to influence our independence, and where relevant, security measures employed.

Based on the issues communicated to the Board of Directors, we determine which issues we consider key to our audit of the annual and consolidated accounts for the current period, and hence Key Audit Matters. We describe these matters in our report, unless legislation or other legal impediments prohibit publication of the matters, or in

the extremely rare circumstances, where we determine, that matters cannot be described in our Auditors Report, because negative implications thereof may reasonably be expected to outweigh the public interest in the information provided by description of Key Audit Matters.

Tórshavn, 13 March 2017

**Januar P/F**

løggilt grannskoðanarvirki

State Authorized Public Accountants

Company reg.no. 5821

Heini Thomsen

State Authorized Public Accountant



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# Contents Statements and Notes

Bakkafrost Group

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**BAKKAFROST GROUP**

# Table of Contents

Consolidated Income Statement for the year ended 31 December	88
Consolidated Statement of Comprehensive Income for the year ended 31 December	89
Consolidated Statement of Financial Position as at 31 December	90
Consolidated Cash Flow Statement for the year ended 31 December	92
Consolidated Statement of Changes In Equity for the year ended 31 December	93

**Notes - Section 1 Basis of Preparation** **95**

This section gives an overview of the financial accounting policies in general and an overview of the management's key accounting estimates.

Note 1. General Information	95
Note 1.1 Summary of Significant Accounting Policies	95
Note 1.2 Basis of Presentation	95
Note 1.3 Consolidation Principles	95
Note 1.4 Translation of Foreign Currencies	96
Note 1.5 Classification Principles	96
Note 1.6 Functional Currency	97
Note 1.7 Standards Issued, but not yet effective	97
Note 1.8 Amendments to Existing Standards in Issue	97
Note 1.9 Accounting Estimates	98

**Notes - Section 2 Result for the Year** **99**

This section gives more details on the results for the year, including operating segments, taxes and employee costs.

Note 2.1 Revenues	99
Note 2.2 Major Customers	99
Note 2.3 Operating Segment Information	100
Note 2.4 Salaries and other Personnel Expenses	104
Note 2.5 Other Operating Expenses	106
Note 2.6 Research and Development	106
Note 2.7 Net Financial Items	107
Note 2.8 Tax	108

**Notes - Section 3 Assets and Liabilities 110**

This section gives more details on the assets that form the basis for the activities of Bakkafróst, and the related liabilities.

Note 3.1 Intangible Assets	110
Note 3.2 Property, Plant and Equipment	114
Note 3.3 Companies in the Group	116
Note 3.4 Shares and Holdings in other Companies	117
Note 3.5 Inventory	117
Note 3.6 Biological Assets	118
Note 3.7 Accounts Receivables and other Receivables	121
Note 3.8 Cash and Cash Equivalents	122
Note 3.9 Share Capital and Major Shareholders	122
Note 3.10 Interest Bearing Debt	123
Note 3.11 Mortgages and Guarantees	126
Note 3.12 Derivatives	126
Note 3.13 Provisions	128

**Notes - Section 4 Capital Structure and Financing Items 129**

This section gives an insight into the capital structure and financing items.

Note 4.1 Financial Risk Management	129
Note 4.2 Categories and Fair Value of Financial Instruments	134
Note 4.3 Earnings Per Share	135

**Notes - Section 5 Other Disclosure 136**

This section gives more details on the statutory notes that have secondary importance from the perspective of Bakkafróst.

Note 5.1 Capital Commitments	136
Note 5.2 Related-Party Transactions	137
Note 5.3 Business Combinations	138
Note 5.4 Events after the Date of the Statement of Financial Position	139
Note 5.5 Auditor's Fees	139
Note 5.6 Going Concern	139
Note 5.7 Alternative Performance Measures	140
Note 5.8 Correction to Prior Period Line Items	142

# Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2016	2015
<b>Operating revenue</b>		<b>3,202,686</b>	<b>2,850,363</b>
Purchase of goods		-920,148	-992,497
Change in inventory and biological assets (at cost)		58,874	215,432
Salary and personnel expenses	2.4	-327,825	-281,085
Other operation expenses	2.5	-715,373	-683,532
Depreciation	3.2	-133,261	-108,098
<b>Operational EBIT*</b>		<b>1,164,953</b>	<b>1,000,583</b>
Fair value adjustments on biological assets	3.6	608,195	-27,578
Onerous contracts	3.13	-16,372	-51,004
Income from associates		14,821	6,757
Revenue tax		-108,450	0
Badwill		10,440	0
<b>Earnings before interest and taxes (EBIT)</b>		<b>1,673,587</b>	<b>928,758</b>
Financial income	2.7	1,524	3,599
Net interest expenses	2.7	-25,983	-24,622
Net currency effects	2.7	-12,355	23,350
Other financial expenses	2.7	-4,159	-6,614
<b>Earnings before taxes (EBT)</b>		<b>1,632,614</b>	<b>924,471</b>
Taxes	2.8	-293,727	-114,296
<b>Profit or loss for the period continuing operations</b>		<b>1,338,887</b>	<b>810,175</b>
<b>Profit or loss for the year attributable to</b>			
Non-controlling interests		0	0
<b>Owners of P/F Bakkafrøst</b>		<b>1,338,887</b>	<b>810,175</b>
*Operational EBIT is EBIT before fair value on biomass, onerous contracts and income from associates, badwill and revenue tax			
Earnings per share (DKK)	4.3	27.56	16.69

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	2016	2015
<b>Profit for the year</b>	<b>1,338,887</b>	<b>810,175</b>
Fair value adjustment on financial instruments	26,789	-11,492
Income tax effect	-4,364	1,753
Currency translation differences	3,822	576
Reserve to share-based payment	1,566	924
Adjustment on treasury shares	-1,366	0
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>26,447</b>	<b>-8,239</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>26,447</b>	<b>-8,239</b>
<b>Total comprehensive income for the year net tax</b>	<b>1,365,334</b>	<b>801,936</b>

# Consolidated Statement of Financial Position

AS AT 31 DECEMBER

DKK 1,000	Note	2016	2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		376,675	294,675
<b>Total intangible assets</b>	3.1	<b>376,675</b>	<b>294,675</b>
Land buildings and other real estate		874,907	585,741
Plant machinery and other operating equipment		906,046	797,450
Other operating equipment		58,999	44,093
Vessels		278,518	0
Prepayments for purchase of PP&E		0	104,209
<b>Total property, plant and equipment</b>	3.2	<b>2,118,470</b>	<b>1,531,493</b>
<b>Non-current financial assets</b>			
Investments in associated companies	3.3	34,111	105,785
Investments in stocks and shares	3.4	25,296	25,108
Long term receivables	3.7	12,660	0
<b>Total non-current financial assets</b>		<b>72,067</b>	<b>130,893</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,567,212</b>	<b>1,957,061</b>
<b>Current assets</b>			
Biological assets (biomass)	3.6	1,858,435	1,060,273
Inventory	3.5	355,604	421,966
<b>Total inventory</b>		<b>2,214,039</b>	<b>1,482,239</b>
Accounts receivables	3.7	292,009	199,263
Other receivables	3.7	109,860	179,971
<b>Total receivables</b>		<b>401,869</b>	<b>379,234</b>
Cash and cash equivalents	3.8	234,996	101,852
<b>TOTAL CURRENT ASSETS</b>		<b>2,850,904</b>	<b>1,963,325</b>
<b>TOTAL ASSETS</b>		<b>5,418,116</b>	<b>3,920,386</b>



# Consolidated Statement of Financial Position

AS AT 31 DECEMBER

DKK 1,000	Note	2016	2015
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	3.9	48,858	48,858
Other equity		3,500,177	2,531,624
<b>Total equity</b>	3.9	<b>3,549,035</b>	<b>2,580,482</b>
<b>Non-current liabilities</b>			
Deferred taxes	2.8	545,699	349,546
Long-term interest bearing debt	3.10	827,146	447,559
Derivatives	3.12	101,456	128,804
<b>Total non-current liabilities</b>		<b>1,474,301</b>	<b>925,909</b>
<b>Current liabilities</b>			
Short-term interest bearing debt	3.10	0	0
Trade payables		138,873	195,223
Current tax liabilities	2.8	142,016	155,359
Provisions for onerous contracts	3.13	67,378	51,004
Other current liabilities		46,513	12,409
<b>Total current liabilities</b>		<b>394,780</b>	<b>413,995</b>
<b>Total liabilities</b>		<b>1,869,081</b>	<b>1,339,904</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,418,116</b>	<b>3,920,386</b>

# Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2016	2015
<b>Cash flow from operations</b>			
<b>Operating profit (EBIT)</b>		<b>1,673,587</b>	<b>928,758</b>
Adjustments for write-downs and depreciation	3.2	135,575	112,812
Adjustments for value adjustments on biomass	3.6	-608,195	27,578
Adjustments for income from associates		-9,146	-6,758
Adjustments for currency effects		-10,125	27,138
Adjustments for goodwill		-10,440	0
Received dividend		3,186	0
Provision for onerous contracts		16,372	51,004
Taxes paid		-154,635	-148,225
Change in inventory		-4,494	-228,898
Change in receivables		-78,769	-60,296
Change in current debts		-103,317	64,725
<b>Cash flow from operations</b>		<b>849,599</b>	<b>767,838</b>
<b>Cash flow from investments</b>			
Proceeds from sale of fixed assets		20,539	4,801
Payments made for purchase of fixed assets	3.2	-686,605	-607,627
Purchase of shares and other investments		-75,244	0
Change in long-term receivables		1,325	1,314
<b>Cash flow from investments</b>		<b>-739,985</b>	<b>-601,512</b>
<b>Cash flow from financing</b>			
Repayment of long-term debt		0	-100,000
Change in revolving credit facilities		379,329	-51,076
Financial income		1,523	3,601
Financial expenses		-30,459	-31,235
Proceeds/Acquisition of treasury shares		3,712	6,092
Financing of associate		70,048	-5,981
Dividend paid		-400,623	-290,984
<b>Cash flow from financing</b>		<b>23,530</b>	<b>-469,583</b>
<b>Net change in cash and cash equivalents in period</b>		<b>133,144</b>	<b>-303,257</b>
<b>Cash and cash equivalents - opening balance</b>		<b>101,852</b>	<b>405,109</b>
<b>Cash and cash equivalents - closing balance total</b>		<b>234,996</b>	<b>101,852</b>

## § 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 Recogni-

tion Surplus 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:

	Share Capital	Share Premium Reserve	Treasury Shares	Share-Based Payment	Currency translation differences	Derivatives	Proposed Dividend	Biomass Fair value adjust-ments	Retained Earnings	Total Equity
<b>DKK 1,000</b>										
<b>Equity 01.01.2016</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>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>623,214</b>	<b>719,514</b>	<b>1,342,728</b>
<b>Other comprehensive income:</b>										
Fair value adjustment on financial derivatives	0	0	0	0	0	26,789	0	0	0	26,789
Income tax effect	0	0	0	0	0	-4,364	0	0	0	-4,364
Share-based payment	0	0	0	1,566	0	0	0	0	0	1,566
Currency translation differences	0	0	0	0	3,822	0	0	0	0	3,822
<b>Total other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,566</b>	<b>3,822</b>	<b>22,425</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27,813</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,566</b>	<b>3,822</b>	<b>22,425</b>	<b>0</b>	<b>623,214</b>	<b>719,514</b>	<b>1,370,541</b>
<b>Transaction with owners:</b>										
Treasury shares	0	0	-1,366	0	0	0	0	0	0	-1,366
Paid-out dividend	0	0	0	0	0	0	-403,079	0	2,457	-400,622
Proposed dividend	0	0	0	0	0	0	425,065	0	-425,065	0
<b>Total transaction with owners</b>	<b>0</b>	<b>0</b>	<b>-1,366</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21,986</b>	<b>0</b>	<b>-422,608</b>	<b>-401,988</b>
<b>Total changes in equity</b>	<b>0</b>	<b>0</b>	<b>-1,366</b>	<b>1,566</b>	<b>3,822</b>	<b>22,425</b>	<b>21,986</b>	<b>623,214</b>	<b>296,906</b>	<b>968,553</b>
<b>Total equity 31.12.2016</b>	<b>48,858</b>	<b>306,537</b>	<b>-21,045</b>	<b>2,651</b>	<b>5,856</b>	<b>-83,196</b>	<b>425,065</b>	<b>880,491</b>	<b>1,983,818</b>	<b>3,549,035</b>
<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>

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# Notes to the Consolidated Financial Statements

Bakkafrost Group

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## NOTES - SECTION 1

# Basis of Preparation

The section gives an overview of the financial accounting policies in general and an overview of the management's key accounting estimates.

## 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 1.1 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.

## NOTE 1.2 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 in the Faroese Financial Reporting act.

The Annual and Consolidated Report and Accounts for the period 1 January to 31 December 2016 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 13 March 2017.

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 2016 that are assumed to have a material impact on the Group.

## NOTE 1.3 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 rights. 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, except for 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.

#### NOTE 1.4 TRANSLATION OF FOREIGN CURRENCIES

For each individual entity, which is recognized 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, then 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 recognized 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 recognized 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.

#### NOTE 1.5 CLASSIFICATION PRINCIPLES

Biomass is recognized 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 classified 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.

#### **NOTE 1.6 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.

#### **NOTE 1.7 STANDARD ISSUED BUT NOT YET EFFECTIVE**

Standards and interpretations which are issued at the date of the Groups Financial statements, but will become effective later 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.

#### **IFRS 16 Leases**

IFRS 16 Leases was issued in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. IFRS 16 is effective for annual reporting periods beginning

on or after 1 January 2019. Earlier application is permitted given certain preconditions are adhered to. The standard will be material to leases by Bakkafrøst Group, but has no effect on present lease obligations.

#### **NOTE 1.8 AMENDMENTS TO EXISTING STANDARDS IN ISSUE.**

##### **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 recognized 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 recognize 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.

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

The disclosure initiative amendments address concerns expressed about some of the existing presentation and disclosure requirements in IAS 1 and ensure that entities can 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 IAS 1 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 1.9 ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with IFRS requires the 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 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 recognized 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.

**NOTES - SECTION 2**

# Result For The Year

This section gives more details on the results for the year, including operating segments, taxes and employee costs.

**NOTE 2.1 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 recognized net of discounts, VAT and other sales related taxes.

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

**NOTE 2.2 MAJOR CUSTOMERS**

One customer represents DKK 452 million of the revenue amount in the VAP segment. This is 51% of the total revenue in the VAP segment.

## NOTE 2.3 OPERATING SEGMENT INFORMATION

		Value Added	Fishmeal,		Bakkafrost
2016 - DKK 1,000	Farming	Products	oil and feed	Eliminations	Group
External operating revenues	1,973,720	880,945	348,021	0	3,202,686
Internal operating revenues	867,150	0	810,090	-1,677,240	0
<b>Total operating revenues</b>	<b>2,840,870</b>	<b>880,945</b>	<b>1,158,111</b>	<b>-1,677,240</b>	<b>3,202,686</b>
Depreciation and amortization	-89,089	-13,056	-31,116	0	-133,261
Operating expenses	-627,149	-201,420	-910,230	-165,672	-1,904,471
Internal operating expenses	-810,090	-867,150	0	1,677,240	0
<b>Operating EBIT</b>	<b>1,314,542</b>	<b>-200,681</b>	<b>216,765</b>	<b>-165,672</b>	<b>1,164,954</b>
Provision for onerous contracts	0	-16,372	0	0	-16,372
Fair value adjustments on biological assets	608,195	0	0	0	608,195
Income from associates	1,236	0	13,585	0	14,821
Badwill	10,440	0	0	0	10,440
Revenue tax	-108,450	0	0	0	-108,450
<b>EBIT</b>	<b>1,825,963</b>	<b>-217,053</b>	<b>230,350</b>	<b>-165,672</b>	<b>1,673,588</b>
Net interest revenue	22,108	4,738	54	-25,376	1,524
Net interest expenses	-30,623	-54	-20,682	25,376	-25,983
Net currency effects	-14,744	1	2,388	0	-12,355
Other financial expenses	-3,948	-17	-194	0	-4,159
<b>Earnings before taxes</b>	<b>1,798,756</b>	<b>-212,385</b>	<b>211,916</b>	<b>-165,672</b>	<b>1,632,615</b>
Taxes	-293,798	38,228	-38,157	0	-293,727
<b>Net earnings</b>	<b>1,504,958</b>	<b>-174,157</b>	<b>173,759</b>	<b>-165,672</b>	<b>1,338,888</b>
<b>Operating EBITDA</b>	<b>1,403,631</b>	<b>-187,625</b>	<b>247,881</b>	<b>-165,672</b>	<b>1,298,215</b>
<b>ASSETS</b>	<b>5,060,263</b>	<b>375,538</b>	<b>703,222</b>	<b>-720,907</b>	<b>5,418,116</b>
Whereof intangible assets	376,675	0	0	0	376,675
<b>LIABILITIES</b>	<b>710,184</b>	<b>25,895</b>	<b>495,784</b>	<b>637,218</b>	<b>1,869,081</b>
<b>INVESTMENTS</b>					
Property, plant and equipment	541,940	113,296	31,767	0	687,003
Depreciation	-89,089	-13,056	-31,116	0	-133,261

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 amortization	-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>
Taxes	-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>	<b>3,976,007</b>	<b>261,835</b>	<b>793,774</b>	<b>-1,111,230</b>	<b>3,920,386</b>
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

**SALMON - DISTRIBUTION OF HARVESTED**

<b>AND PURCHASED VOLUME</b>	<b>2016</b>		<b>2015</b>	
	<b>tgw</b>	<b>%</b>	<b>tgw</b>	<b>%</b>
Harvested volume used in VAP production	17,458	35.2%	16,870	29.8%
External purchase of salmon for VAP production	662	1.3%	1,325	2.3%
Harvested volume sold fresh/frozen	30,084	60.7%	33,695	59.6%
External purchase of salmon sold fresh/frozen	1,392	2.8%	4,681	8.3%
<b>Harvested and purchased volume</b>	<b>49,596</b>	<b>100%</b>	<b>56,571</b>	<b>100%</b>

**FISHMEAL, OIL AND FEED (FOF)**

<b>DISTRIBUTION FEED</b>	<b>2016</b>		<b>2015</b>	
	<b>tonnes</b>	<b>%</b>	<b>tonnes</b>	<b>%</b>
Volumes used internally	78,028	92.2%	70,074	88.9%
External purchase	6,558	7.8%	8,791	11.1%
<b>Sold volumes</b>	<b>84,586</b>	<b>100.0%</b>	<b>78,865</b>	<b>100.0%</b>

**PRODUCTION OF FISHMEAL AND FISH OIL**

	<b>2016</b>		<b>2015</b>	
	<b>tonnes</b>	<b>%</b>	<b>tonnes</b>	<b>%</b>
Fishmeal	44,155	85.7%	49,343	86.3%
Fish oil	7,369	14.3%	7,854	13.7%
<b>Sold volume</b>	<b>51,524</b>	<b>100.0%</b>	<b>57,197</b>	<b>100.0%</b>

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

<b>2016 - DKK 1,000</b>	<b>Farming</b>	<b>VAP</b>	<b>FOF</b>
Europe	344,031	784,054	348,021
Eastern Europe	400,584	33,002	0
USA	576,926	28,960	0
China	407,887	2,062	0
Other	244,292	32,867	0
<b>Total</b>	<b>1,973,720</b>	<b>880,945</b>	<b>348,021</b>

<b>2015 - DKK 1,000</b>	<b>Farming</b>	<b>VAP</b>	<b>FOF</b>
Europe	163,750	642,591	350,208
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>350,208</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. The pricing principle between the FOF and farming segment is based on quarterly contracts.



#### ACCOUNTING POLICIES SEGMENT REPORTING

Realization 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 harvesting, sales and distribution of salmon. The Group has production facilities in the southern, central and northern parts of the Faroe Islands. There are no significant differences in the production properties of the licences, and the Group therefore reports the farmed salmonids, including the sale of fresh salmon, as one segment.

##### Value added products (VAP)

A significant share of the farmed products is value added at the factories in Glyvrrar 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 in Fuglafjørður.



## NOTE 2.4 SALARIES AND OTHER PERSONNEL EXPENSES

DKK 1,000	2016	2015
Wages and salaries	288,787	250,211
Social security taxes	11,407	9,038
Pension expenses	22,413	19,001
Other benefits	5,218	2,835
<b>Total payroll expenses</b>	<b>327,825</b>	<b>281,085</b>
Average number of full-time employees	820	725

## REMUNERATION TO CORPORATE MANAGEMENT

DKK 1,000					Total
Salary and other benefits paid	Salary	Bonus	Pension	Other	2016
Chief Executive Officer	1,800	189	0	87	2,076
Managing Director	1,380	144	0	87	1,611
Chief Financial Officer**	1,296	138	0	87	1,521
<b>Total remuneration</b>	<b>4,476</b>	<b>471</b>	<b>0</b>	<b>261</b>	<b>5,208</b>

DKK 1,000					Total
Salary and other benefits paid	Salary	Bonus	Pension	Other	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>4,340</b>	<b>416</b>	<b>0</b>	<b>264</b>	<b>5,020</b>

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

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

## Fees paid to the Board of Directors

DKK 1,000		2016	2015
Rúni M. Hansen**	Chairman of the Board	440	421
Johannes Jensen	Deputy Chairman of the Board	250	239
Annika Frederiksberg*	Member of the Board	200	191
Virgar Dahl	Member of the Board	200	191
Teitur Samuelsen**/****	Member of the Board	172	0
Øystein Sandvik	Member of the Board	240	235
Tor Magne Lønnum***	Member of the Board	66	235
<b>Total remuneration</b>		<b>1,568</b>	<b>1,512</b>

\* Annika Frederiksberg is also an employee in the Bakkafrost Group. For this, she received DKK 604 thousand (2015: DKK 596 thousand)

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

\*\*\* Member of the Board of Directors until April 2016

\*\*\*\* Member of the Board of Directors from April 2016

**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 Bakkafrøst's reputation nor be market leading, but should ensure that Bakkafrøst 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**

Bakkafrøst 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**

Bakkafrøst 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 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 Bakkafrøst shares. The saved amount is deducted from the monthly net salary and used to purchase Bakkafrøst shares in behalf of the employees. The purchase will be made from Bakkafrøst'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 31.12.2016, 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 share price 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 share price, when the shares are granted, will be booked as a financial item in the income statement. The liability is recognized 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 2.5 OTHER OPERATING EXPENSES**

	2016	2015
Maintenance	-157,186	-138,927
Operating expenses	-66,426	-55,526
Health	-104,313	-88,435
Freight	-234,050	-238,401
Energy	-90,554	-94,073
Other costs	-62,843	-68,170
<b>Other operating expenses total</b>	<b>-715,372</b>	<b>-683,532</b>

**NOTE 2.6 RESEARCH AND DEVELOPMENT**

	2016	2015
<b>R &amp; D expenditure consist of other operating expenses and of salaries in total</b>	<b>127</b>	<b>1,150</b>

R & D expenditure in this note is only costs and salaries directly attributable to R & D in our FOF segment. Bakkafrost has a continued development of all the value chain. This is

not seen as a R & D, but is an integrated part of other operating expenses and salaries.

## NOTE 2.7 NET FINANCIAL ITEMS

DKK 1,000	2016	2015
Other financial income	1,524	3,599
<b>Financial income</b>	<b>1,524</b>	<b>3,599</b>
Interest expenses on long-term loans	-21,613	-22,304
Interest expenses on credit lines	-4,175	-2,287
Interest expenses on accounts payable	-195	-31
<b>Financial expenses</b>	<b>-25,983</b>	<b>-24,622</b>
Unrealized exchange gain on bond	21,050	16,835
Other exchange differences	-33,405	6,515
<b>Net currency effects</b>	<b>-12,355</b>	<b>23,350</b>
Other financial expenses	-4,159	-6,614
<b>Other financial items</b>	<b>-4,159</b>	<b>-6,614</b>
<b>Net financial items</b>	<b>-40,973</b>	<b>-4,287</b>

## § ACCOUNTING POLICIES FINANCIAL INCOME

Interest income is recognized on an accrual basis. Dividend is recognized 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 amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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 2.8 TAX

DKK 1,000

The tax expense for the year breaks down as follows:

	2016	2015
Tax payable	141,176	177,048
Change in deferred tax	152,551	-62,752
<b>Tax expense on ordinary profit</b>	<b>293,727</b>	<b>114,296</b>
Tax payable	141,176	177,048
<b>Tax payable in the statement of financial position</b>	<b>141,176</b>	<b>177,048</b>

## Specifications of temporary differences and deferred tax

		Temporary	2016		Temporary	2015
	Tax rate	Differences	Deferred tax	Tax rate	Differences	Deferred tax
Licences	18.0%	375,678	67,622	18.0%	293,675	52,862
Property, plant and equipment	18.0%	897,044	161,468	18.0%	669,378	120,488
Financial assets	18.0%	26,972	4,855	18.0%	16,620	2,992
Biomass	18.0%	1,858,433	334,518	18.0%	1,065,828	191,849
Receivables	18.0%	-70,745	-12,734	18.0%	-54,006	-9,721
Currency effects	18.0%	45,736	8,233	18.0%	79,226	14,261
Derivatives (Equity posted)	18.0%	-101,456	-18,262	18.0%	-128,804	-23,185
<b>Total temporary differences</b>		<b>3,031,662</b>			<b>1,941,917</b>	

<b>Deferred tax liabilities (+) / assets (-)</b>	<b>545,699</b>	<b>349,546</b>
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## Reconciliation from nominal to actual tax rate

Profit before tax	1,632,614	924,471
Expected tax at nominal tax rate (18%)	293,871	166,405
Special tax on farming licences - deferred	0	-79,780
Special tax on farming licences - payable tax	0	21,140
Permanent differences	-524	6,531
<b>Calculated tax expense</b>	<b>293,346</b>	<b>114,296</b>
Effective tax rate excl, equity entries	17.97%	12.36%

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%, and a minor sales company is in Norway, where the tax rate is 29%.

In 2015, there was an addition to the normal 18% company tax rate in the Faroes, a special resource tax of 4.5%. There was also a special revenue tax on 0.5% based on official registered salmon prices. But for 2016, the special resource tax of 4.5% lapsed, and the revenue tax increases to 4.5%. This change in regulations affects the deferred special tax in 2015 with -79.8 million DKK.

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

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 be-

fore 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.

## NOTES - SECTION 3

## Assets And Liabilities

This section gives more details on the assets that form the basis for the activities of Bakka Frost, and the related liabilities.

## NOTE 3.1 INTANGIBLE ASSETS

DKK 1,000	Goodwill	Licences	Total 2016
Acquisitions costs as at 01.01.16	4,537	290,138	294,675
Additions in the year as a result of acquisitions	0	82,000	82,000
<b>Acquisitions costs as at 31.12.16</b>	<b>4,537</b>	<b>372,138</b>	<b>376,675</b>
Impairments 01.01.16	0	0	0
<b>Accumulated depreciation and write-downs as at 31.12.16</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net book value as at 31.12.16</b>	<b>4,537</b>	<b>372,138</b>	<b>376,675</b>

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 costs 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>

Bakka Frost operates its sea farming activity in 14 identifiable CGUs based on single or groups of sea farming licences, seven out of which are issued by the government without consideration, and hence are not capitalized. These belong to the North region.

The other seven CGUs are acquired as part of business combinations. Respectively, when acquiring the Vestlax Group, Havsbrún Group and Faroe Farming hence three groups of CGUs. These are all belonging to the West region. Bakka Frost considers these as significant in comparison to Bakka Frost's total carrying amount of goodwill and intangible assets with indefinite useful lives. Bakka Frost has decided to disclose specific information concerning these three 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. Bakka Frost has substantial assets with indefinite lives in the form of licences. The licences are subject to impairment testing in combination with goodwill in the annual test. Bakka Frost identifies each farming zone, which may contain one or several 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 regarding product prices, input prices, biological performance and future regulatory frameworks. Costs can normally be estimated with more 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 8.9% 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 5,729 million.

- A change in the EBITDA margin of +/- 1% would affect the headroom with +/- DKK 250 million.
- A change in WACC of +1% would affect the headroom with DKK -1,171 million.
- A change in WACC of -1% would affect the headroom with DKK +1,802 million.



### ACCOUNTING POLICIES

Intangible assets, that are purchased individually, are capitalized at acquisition cost. Intangible assets acquired in connection with the purchase of a business entity are capitalized 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 capitalized 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 finalized, and that the company intends to and is financially able to reap the economic benefits.

Capitalized R&D costs are recognized at acquisition cost less accumulated depreciation and write-downs. Capitalized 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 capitalized 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 utilize 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 means that sea farming licenses are operated in a 12-year rolling lifespan system, where the licenses are renewed every 12<sup>th</sup> 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 capitalized, 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 based on 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:

31.12.2016		Other	Total		Number	EBITDA	WACC	WACC
CGUs (1,000)	Licenses	assets****	booked	WACC	of	change	change	change
			value		thousand	of +/-1%	of -1%	of +1%
			tested		smolt			
Vestlax acquisition*	132,708	773,456	906,164	8.90%	7,700	143,366	431,382	-280,535
Havsbrún acquisition**	157,430	316,562	473,992	8.90%	2,810	63,832	1,063,453	-691,548
Faroe Farming acquisition***	82,000	261,071	343,071	8.90%	2,000	42,555	307,034	-199,669
<b>TOTAL</b>	<b>372,138</b>	<b>1,351,089</b>	<b>1,723,227</b>	<b>8.90%</b>	<b>12,510</b>	<b>249,753</b>	<b>1,801,869</b>	<b>-1,171,752</b>
<b>31.12.2015</b>								
Vestlax acquisition*	132,708	633,474	766,182	8.60%	6,400	41,354	151,453	-105,667
Havsbrún acquisition**	157,430	275,351	432,781	8.60%	2,800	92,826	338,759	-236,335
<b>TOTAL</b>	<b>290,138</b>	<b>908,825</b>	<b>1,198,963</b>	<b>8.60%</b>	<b>9,200</b>	<b>134,180</b>	<b>490,212</b>	<b>-342,002</b>

\* 4 CGUs in license numbers A03, A05, A06, A25, A57, A80 and A81. Acquired in 2010.

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

\*\*\* 1 CGU in license number A15 and A92. Acquired in 2016.

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

## NOTE 3.2 PROPERTY, PLANT AND EQUIPMENT

DKK 1,000	Land and buildings	Plant, machinery, operating equipment, fixtures etc.	Other operating equipment	Vessels	Prepayments for purchase of PP&E	Total
Acquisition costs as at 01.01.16 entities before acquisition	794,661	1,367,029	123,283	0	104,209	2,389,183
Acquisition costs from acquisition of subsidiary	24,188	76,076	3,755	0	0	104,019
Reclassification	-37,675	-363,002	0	231,571	0	-169,106
Acquisitions during the year	315,738	384,962	23,229	67,284	-104,209	687,003
Disposals and scrapping during the year	-24,870	-8,328	-6,607	0	0	-39,805
<b>Acquisition costs as at 31.12.16</b>	<b>1,072,042</b>	<b>1,456,737</b>	<b>143,660</b>	<b>298,855</b>	<b>0</b>	<b>2,971,294</b>
Accumulated depreciations and write-downs as at 01.01.16	-208,921	-569,580	-79,189	0	0	-857,690
Depreciation from acquisition of subsidiary	-4,315	-38,639	-3,398			-46,352
Reclassification	37,675	142,157		-10,726	0	169,107
Depreciations during the year	-26,115	-89,118	-8,417	-9,611	0	-133,261
Accumulated depreciations and write-downs on disposals and scrapping	4,541	4,488	6,345		0	15,374
<b>Accumulated depreciations and write-downs as at 31.12.16</b>	<b>-197,135</b>	<b>-550,692</b>	<b>-84,660</b>	<b>-20,337</b>	<b>0</b>	<b>-852,823</b>
<b>Net book value as at 31.12.16</b>	<b>874,907</b>	<b>906,046</b>	<b>58,999</b>	<b>278,518</b>	<b>0</b>	<b>2,118,470</b>
<b>DKK 1,000</b>						
Acquisition costs as at 01.01.15 entities before acquisition	585,491	1,013,653	109,253	0	114,513	1,822,910
Acquisitions during the year	209,605	391,486	16,536	0	-10,305	607,322
Disposals and scrapping during the year	-435	-38,110	-2,505	0	0	-41,050
<b>Acquisition costs as at 31.12.15</b>	<b>794,661</b>	<b>1,367,029</b>	<b>123,284</b>	<b>0</b>	<b>104,209</b>	<b>2,389,183</b>
Accumulated depreciations and write-downs as at 01.01.15	-185,221	-522,191	-74,251	0	0	-781,663
Depreciations during the year	-23,744	-77,530	-6,824	0	0	-108,098
Accumulated depreciations and write-downs on disposals and scrapping	44	30,141	1,886	0	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>0</b>	<b>-857,690</b>
<b>Net book value as at 31.12.15</b>	<b>585,740</b>	<b>797,454</b>	<b>44,094</b>	<b>0</b>	<b>104,209</b>	<b>1,531,493</b>

	Estimated lifetime	Depreciation method	Scrap value
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%
Vessels	15-25 years	linear	10%



## ACCOUNTING POLICIES

Property, plant and equipment are capitalized 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 based on 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 3.3 COMPANIES IN THE GROUP**

The consolidated accounts for 2016 include the following subsidiaries and associates:

Subsidiary Companies DKK 1,000	Currency	Nature of Business	Head Office	Ownership	Nominal share capital
P/F Bakkafrøst Farming	DKK	Salmon farming	Glyvrrar	100%	16,394
P/F Bakkafrøst Processing	DKK	Value adding of salmon (VAP)	Glyvrrar	100%	50,000
P/F Bakkafrøst Sales	DKK	Sales of salmon and VAP products	Glyvrrar	100%	667
P/F Bakkafrøst Packaging	DKK	Production of styrofoam boxes	Glyvrrar	100%	8,022
P/F Bakkafrøst Harvest	DKK	Harvesting and gutting of salmon	Glyvrrar	100%	795
P/F Havsbrún	DKK	Production and sales 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£
P/F Faroe Farming	DKK	Salmon farming and harvesting	Glyvrrar	100%	44,300

DKK 1,000 Associated Companies	Head Office	Ownership	Net Additions	Share of the result	Carrying value 2016	Carrying value 2015
P/F Pelagos	Fuglafjörður	30%	0	9	25,178	19,798
P/F Salmon Proteins*	Eiði	76%	0	257	8,933	8,626
P/F Faroe Farming**	Vágur	100%	0	0	0	77,361
<b>Total</b>					<b>34,111</b>	<b>105,785</b>

	Total Assets 2016	Total assets 2015	Equity 2016	Equity 2015	Result 2016	Result 2015
P/F Pelagos	298,273	390,121	83,096	65,502	17,594	187
P/F Salmon Proteins*	15,418	15,095	11,566	11,308	258	118
P/F Faroe Farming**	-	174,240	-	80,326	-	12,960

\* Voting rights 30%. The voting rights are limited in the Articles of Association of P/F Salmon Proteins

\*\* P/F Faroe Farming is in the consolidation from 1 July 2016.

**NOTE 3.4 SHARES AND HOLDINGS IN OTHER COMPANIES**

DKK 1,000	Carrying amount	Carrying amount
Companies	2016	2015
Others	25,296	25,108
<b>Total</b>	<b>25,296</b>	<b>25,108</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 as fair value cannot be measured reliably.

**NOTE 3.5 INVENTORY**

DKK 1,000	2016	2015
Raw materials and goods in-progress	286,573	325,146
Finished goods	69,031	96,820
<b>Total inventory</b>	<b>355,604</b>	<b>421,966</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 include semi-finished products and spare parts.

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

Inventories are measured at cost price.

consist 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 the cost price exceeds the 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 realizable 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

**§ 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



realizable 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 3.6 BIOLOGICAL ASSETS

DKK 1,000	2016	2015
Biological assets carrying amount 01.01.	1,060,274	1,013,959
Increase due to production or purchases	1,408,221	1,267,199
Increase due to acquisitions	118,233	0
Reduction due to harvesting or sale (costs of goods sold)	-1,296,244	-1,201,426
Fair value adjustment at the beginning of the period reversed	-257,278	-284,855
Fair value adjustments at the end of the period	880,492	257,278
Reversal of elimination at the beginning of the period	43,224	51,342
Eliminations	-98,487	-43,224
<b>Biological assets carrying amount 31.12.</b>	<b>1,858,434</b>	<b>1,060,274</b>
Cost price biological assets	1,076,429	846,220
Fair value adjustments at the end of the period	880,492	257,278
Eliminations	-98,487	-43,224
<b>Biological assets carrying amount</b>	<b>1,858,434</b>	<b>1,060,274</b>
<b>Whereof capitalized interests in biological assets*</b>	<b>22,000</b>	<b>21,119</b>
* The capitalized interest rate is calculated using CIBOR 3 months +4.72%.		
Biomass < 1 kg on average (tonnes live weight)	2,039	2,215
Biomass 1 kg - 4 kg on average (tonnes live weight)	17,560	14,312
Biomass > 4 kg on average (tonnes live weight)	25,510	17,297
<b>Volume of biomass at sea (tonnes live weight)</b>	<b>45,109</b>	<b>33,824</b>
Number of fish < 1 kg on average (thousand)	4,884	5,259
Number of fish 1 kg - 4 kg on average (thousand)	7,842	5,624
Number of fish > 4 kg on average (thousand)	5,123	3,233
<b>Total number of fish at sea (thousand)</b>	<b>17,849</b>	<b>14,116</b>
<b>Volume of biomass harvested during the year (tonnes gutted weight)</b>	<b>47,542</b>	<b>50,565</b>
Number of smolts released in Q1 (thousand)	1,926	2,208
Number of smolts released in Q2 (thousand)	1,946	1,415
Number of smolts released in Q3 (thousand)	3,795	2,765
Number of smolts released in Q4 (thousand)	3,318	4,873
<b>Total number of smolts released in 2016 (thousand)</b>	<b>10,985</b>	<b>11,261</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 at sea for each location. The specification of biomass includes total number of fish, estimated average weight and costs of the biomass. Number of kilo biomass is multiplied by value per kilo, which 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 recognized 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 2016	78.89
Q1-17	74.00
Q2-17	71.80
Q3-17	64.70
Q4-17	64.50

Source: Fish Pool

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

**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 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 must be estimated. The estimate is based on the most recent historical data. History shows that realized 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 +/-1.5 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 +/- 16 million, with current stocking.

#### Sensitivity analysis of biomass

Change of +/-1%	mDKK
Volume of biomass	+/-23.0
Percentage of superior quality	+/-1.5%
Market price	+/-16.0

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 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.

#### 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 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 and again in 2016. 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 the first Quarter of 2017.

With respect to item 2 above, work has been initiated, and will continue in 2017. The group aims to complete this work in time for an updated model to be implemented with effect from the first Quarter of 2017.

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 3.7. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES**

<b>DKK 1,000</b>	<b>2016</b>	<b>2015</b>
Accounts receivables	292,009	199,263
Provisions for bad debts	0	0
<b>Net accounts receivables</b>	<b>292,009</b>	<b>199,263</b>
Receivables from associated companies	0	70,049
Prepayments	2,772	1,888
Deposit for interest- and currency swap	58,340	83,040
VAT	48,673	24,995
Other	75	0
<b>Other receivables</b>	<b>109,860</b>	<b>179,972</b>
<b>Total short term receivables</b>	<b>401,869</b>	<b>379,235</b>
Long term receivables	12,660	0
<b>Total accounts receivables and other receivables</b>	<b>414,529</b>	<b>379,235</b>

**AGE DISTRIBUTION OF ACCOUNTS RECEIVABLES**

<b>DKK 1,000</b>	<b>2016</b>	<b>2015</b>
Receivables not overdue	206,301	185,082
Overdue 0-6 months	83,212	7,848
Overdue more than 6 months	2,496	6,333
<b>Total</b>	<b>206,009</b>	<b>199,263</b>

The Group's exposure to credit risks related to accounts receivables is disclosed in Note 4.1.

**CURRENCY EXPOSURE TO ACCOUNTS RECEIVABLES**

The Group holds accounts receivables in foreign currencies amounting to DKK 160.1 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	2016	2015
DKK	144,579	70,422
EUR	53,133	42,250
USD	79,666	47,888
GBP	11,873	9,459
Others	15,418	29,244
<b>Total</b>	<b>304,669</b>	<b>199,263</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 assess-

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

**NOTE 3.8 CASH AND CASH EQUIVALENTS**

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

**NOTE 3.9 SHARE CAPITAL AND MAJOR SHAREHOLDERS****Share capital:**

DKK 1,000	2016	2015
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:**

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

**Reconciliation of outstanding shares:**

	2016	2015
Outstanding shares at 1 January	48,557,621	48,520,737
Purchase of treasury shares	0	0
Sale of own shares to cover the employee bonus program	25,869	36,884
<b>Outstanding shares at 31 December</b>	<b>48,583,490</b>	<b>48,557,621</b>
Treasury shares at 31 December	274,575	300,444

All full-time employees from 2015, still employed in Bakkafrøst, have received bonus shares in 2016 with a total value of 2% of paid out salary in 2015. In total, Bakkafrøst has allocated 16,484 shares to its employees at a fair value of DKK 4.3 million. The grant date was 26 May 2016, and the share price was DKK 259.03 (NOK 322.10) per share.

#### SHAREHOLDERS

These shareholders held directly or indirectly more than 5% of the shares in the company as at 31 December 2016: Oddvør Jacobsen and Regin Jacobsen.

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

Name	Position	No. of shares	Shareholding
Rúni M. Hansen	Chairman of the Board	10,000	0.02%
Johannes Jensen	Deputy Chairman of the Board	0	0.00%
Teitur Samuelsen	Member of the Board	100	0.00%
Annika Frederiksberg	Member of the Board	14,974	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	4,493,517	9.20%
Odd Eliasen	Managing Director	171,717	0.35%
Gunnar Nielsen	Chief Financial Officer	662	0.00%

#### Dividend

The Board has proposed a dividend per share of DKK 8.70 for 2016. Dividends in 2015 were DKK 8.25 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 425.1 million. The dividend proposal has not been recognized as a liability at 31 December 2016, but is presented as an item within equity.

### NOTE 3.10 INTEREST BEARING DEBT

#### LONG-TERM INTEREST BEARING DEBT

DKK 1,000	2016	2015
Long-term interest bearing debt	419,496	62,246
Next year's instalments on long-term interest bearing debt	0	0
Bonds	407,650	385,313
<b>Total long-term interest bearing debt 31.12.</b>	<b>827,146</b>	<b>447,559</b>
Derivatives	101,456	129,076
Security account derivatives	58,340	83,040
Next year's instalments on long-term interest bearing debt	0	0
<b>Total short-term interest bearing debt 31.12.</b>	<b>0</b>	<b>0</b>
Total interest bearing debt	870,262	493,595
Cash and cash equivalents	-234,996	-101,852
<b>Net interest bearing debt</b>	<b>635,266</b>	<b>391,743</b>

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 avail-

able under the facilities at any time. In addition to the bank credit lines, which is issued in DKK, Bakkafrøst has issued a 5-year tenor bond of NOK 500 million, equivalent to DKK 409.1 million, which matures in 2018.

The maturity plan of the Group's interest bearing debt is as follows	2016		2015	
	Carrying amount	Contractual payments	Carrying amount	Contractual payments
Credit facilities	419,496	419,496	62,246	62,246
Bonds	407,650	409,100	385,313	388,050
Current liabilities	0	0	0	0
<b>Gross interest bearing debt</b>	<b>827,146</b>	<b>828,596</b>	<b>447,559</b>	<b>450,296</b>
Credit line		1,259,100		1,164,600
Available credit lines		431,954		553,000
Cash and cash equivalents		234,996		405,109
<b>Total available credit lines</b>		<b>666,950</b>		<b>958,109</b>

#### REMAINING PERIOD

31.12.2016	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest bearing bank loans	0	0	419,496	0	419,496
Bonds	0	0	407,650	0	407,650
Accounts payable and other debt	252,764	142,016	0	0	394,780

#### REMAINING PERIOD

31.12.2015	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest bearing bank loans	0	0	62,246	0	62,246
Bonds	0	0	385,313	0	385,313
Accounts payable and other debt	258,636	155,359	0	0	413,995

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

Bakkafrøst 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 Bakkafrøst 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 2016.

The loan facility is secured in both the Group's property, plants and other tangible, and fixed assets as well as stock, farming licences and insurance policies. The interest payable is the reference interest rate for the respective curren-



cies (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, Bakkafrøst 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, Bakkafrøst has entered into a currency/interest rate swap, hedging the exchange rate and switching 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 2016, the currency/interest rate swap was negative with DKK 101.5 million, charged to the comprehensive income. On the other hand, there was exchange gain on the NOK 500 million bond loan of DKK 95 million. This gain is entered to the Income Statement on a continuous basis. For unrealized losses in excess of DKK 45 million on the currency/interest rate swap, Bakkafrøst is obliged to deposit the loss into a restricted bank account. At the end of 2016, the deposited amount is DKK 58.3 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 Bakkafrøst Group had total available bank finances of DKK 850 million. The undrawn amount at 31 December 2016 was DKK 654.5 million. In addition to the undrawn amount of DKK 654.5 million, Bakkafrøst had DKK 235.0 million in cash and thus available funds in total of DKK 889.5 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

	2017	2018	2019	2020	2021
Long-term credit facilities	0	0	0	419,496	0
Bonds (NOK 500 million)	0	407,650	0	0	0
Interest rate/currency swap	0	101,734	0	0	0
Current liabilities	0	0	0	0	0
<b>Gross interest bearing debt</b>	<b>0</b>	<b>509,384</b>	<b>0</b>	<b>419,496</b>	<b>0</b>

## Reconciliation of development in interest bearing debt

	2015	Cash flows	Acquisition	FX movements	2016
Long term interest bearing debt	447,559	357,250	0	22,337	827,146
Short term interest bearing debt	0	0	0	0	0
<b>Total interest bearing debt</b>	<b>447,559</b>	<b>357,250</b>	<b>0</b>	<b>22,337</b>	<b>827,146</b>

**NOTE 3.11 MORTGAGES AND GUARANTEES**

Carrying amount of debt secured by mortgages and pledges

The Bakkafrøst Group has a group financing covering the Group. In addition, the Group companies are liable jointly

and severely 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.

DKK 1,000	2016	2015
Long-term debt to financial institutions	419,496	62,246
Derivatives	101,456	128,804
Short-term debt to financial institutions	0	0
<b>Total</b>	<b>520,952</b>	<b>191,050</b>
<b>Carrying amount of assets pledged as security for recognized debt</b>		
Licences	376,675	294,675
Property, plant and equipment	2,118,470	1,531,493
Financial assets	34,111	100,461
Biological assets (biomass)	1,858,435	1,060,273
Inventory	355,604	421,966
Accounts receivables	0	199,263
Other receivables	0	179,971
<b>Total</b>	<b>4,743,295</b>	<b>3,788,102</b>

**NOTE 3.12 DERIVATIVES**

DKK 1,000	2016	2015
Currency swaps regarding forward contracts	-278	-272
Interest and currency swaps regarding bonds	101,734	129,076
<b>Derivatives total</b>	<b>101,456</b>	<b>128,804</b>

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

	Fair Value 2016	Recognized in the Income Statement 2016	Recognized in equity 2016	Fair Value 2015	Recognized in the Income Statement 2015	Recognized in equity 2015
Currency derivatives	-278	0	-278	-272	0	-272
Interest and currency derivatives	101,734	0	101,734	129,076	0	129,076
<b>Total</b>	<b>101,456</b>	<b>0</b>	<b>101,456</b>	<b>128,804</b>	<b>0</b>	<b>128,804</b>

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

	Currency derivatives	Interest and currency derivatives	Total 2016	Currency derivatives	Interest and currency derivatives	Total 2015
Within one year	-278	0	-278	-272	0	-272
Between one and five years	0	101,734	101,734	0	129,076	129,076
After five years	0	0	0	0	0	0
<b>Total</b>	<b>-278</b>	<b>101,734</b>	<b>101,456</b>	<b>-272</b>	<b>129,076</b>	<b>128,804</b>

## FINANCIAL INSTRUMENTS

In accordance with IFRS 9, 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.

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

Financial instruments, which are held primarily for 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 recognized at fair value, with changes in value entered to the Income Statement alongside forward currency contracts, which are recognized at fair value, with changes in value, entered to the Income Statement.

### 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 cash flow hedges.

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

Amounts recognized 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 recognized.

If the forecast transactions or commitments are no longer expected to occur, the cumulative gain or loss previously recognized 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 recognized in other comprehensive income remains in other comprehensive income until firm commitment affects profit or loss, or settlement payments are made.

**NOTE 3.13 PROVISIONS**

A provision is recognized 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 because 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.

**PROVISIONS FOR ONEROUS CONTRACTS**

	2016	2015
Provisions for onerous contracts 01.01	51,004	0
Change in provisions for onerous contracts for the year	16,374	51,004
<b>Provisions for onerous contracts 31.12</b>	<b>67,378</b>	<b>51,004</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.

## NOTES - SECTION 4

# Capital Structure And Financing Items

This section gives an insight into the capital structure and financing items.

## NOTE 4.1 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 2016, 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 8.70 per share for the financial year 2016, corresponding to a distribution to shareholders of DKK 425 million.

The Group manages the capital structure and adjusts 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 2016, net interest bearing debt amounted to DKK 635.3 million. Note 3.10 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 2016.

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 viable. 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 2016, 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, Transactional exposure and Economic currency exposure:

#### 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 summarizes 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****Currency**

<b>2016</b>	<b>EUR/DKK</b>	<b>GBP/DKK</b>	<b>USD/DKK</b>	<b>NOK/DKK</b>	<b>JPY/DKK</b>
Cash and cash equivalents	78,451	44,350	-	5,506	61
Accounts receivables	53,133	11,873	79,666	14,130	1,288
Trade payables	-13,773	-394	-2,443	-6,471	-
Interest bearing debt	-	-	-	-409,100	-
Forward contracts	-	-	-95,256	-	-
<b>Net exposure</b>	<b>117,811</b>	<b>55,829</b>	<b>-18,033</b>	<b>-395,935</b>	<b>1,349</b>

<b>2015</b>	<b>EUR/DKK</b>	<b>GBP/DKK</b>	<b>USD/DKK</b>	<b>NOK/DKK</b>	<b>JPY/DKK</b>
Cash and cash equivalents	21,602	3,846	29,809	5,629	969
Accounts receivables	42,250	9,459	47,888	29,244	-
Trade payables	-588	-7,678	-89,773	-549	-
Interest bearing debt	-	-	-	-388,050	-
Forward contracts	-	-	-18,316	-	-
<b>Net exposure</b>	<b>63,264</b>	<b>5,627</b>	<b>-30,392</b>	<b>-353,726</b>	<b>969</b>

**Sensitivity analysis****DKK 1,000****Currency**

<b>2016</b>	<b>EUR/DKK</b>	<b>GBP/DKK</b>	<b>USD/DKK</b>	<b>NOK/DKK</b>	<b>JPY/DKK</b>	<b>Result</b>
Net exposure	117,811	55,829	-18,033	-395,935	1,349	
Historical volatility last 5 years	0.32%	8.31%	8.54%	8.23%	10.92%	
<b>Total effect on Profit of +movements</b>	<b>377</b>	<b>4,639</b>	<b>-1,540</b>	<b>-32,585</b>	<b>147</b>	<b>-28,962</b>
<b>Total effect on Profit of -movements</b>	<b>-377</b>	<b>-4,639</b>	<b>1,540</b>	<b>32,585</b>	<b>-147</b>	<b>28,962</b>

<b>2015</b>	<b>EUR/DKK</b>	<b>GBP/DKK</b>	<b>USD/DKK</b>	<b>NOK/DKK</b>	<b>JPY/DKK</b>	<b>Result</b>
<b>Net exposure</b>	<b>63,264</b>	<b>5,627</b>	<b>-30,392</b>	<b>-353,726</b>	<b>969</b>	
Historical volatility last 5 years	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>-3,033</b>	<b>-30,031</b>	<b>118</b>	<b>-32,162</b>
<b>Total effect on Profit of -movements</b>	<b>-323</b>	<b>-461</b>	<b>3,033</b>	<b>30,031</b>	<b>-118</b>	<b>32,162</b>

The analysis is based on the currencies that the Group is most exposed to at the end of 2016. 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 29.0 million (2015: DKK 32.2 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 Desember 2016**

Bakkafrost Group buys		Bakkafrost Group sells	
DKK	95,256	USD	13,498
NOK	500,000	DKK	505,050

**Currency forward contracts as at 31 Desember 2015**

Bakkafrost Group buys		Bakkafrost Group sells	
DKK	18,316	USD	2,641
NOK	500,000	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 monitored, but as the exposure is currently considered limited it is not actively hedged.

Significant exchange rates (average) during the year	EUR/DKK	GBP/DKK	USD/DKK	NOK/DKK	JPY/DKK
2016	744.52	910.57	673.27	80.18	6.21
2015	745.86	1,028.24	672.69	83.43	5.56

**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 101.5 million as at 31 Desember 2016. 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 6.4 million (2015: DKK 3.9 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, mainly inside the Group. 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 3.10 for information on committed credit facilities, available credit lines, and maturity of interest bearing debt.

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 2016 included DKK 101.9 million, and DKK 101.9 million as at 31 December 2015 (see Note 3.10) of cash and cash equivalents held in various currencies.

**Credit risk**

Credit risk represents the accounting loss that would have to be recognized 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 recognized 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 537.7 million. (2015: DKK 481.1 million). For age distribution of accounts receivables, please refer to Note 3.7.

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 4.2 CATEGORIES AND FAIR VALUE OF FINANCIAL INSTRUMENTS

### Fair value of financial instruments

All assets/liabilities, for which fair value is recognized or disclosed, are categorized 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 3.6.

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

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			
Assets and liabilities measured at fair value	Fair value	amount	Level 1	Level 2	Level 3
Financial assets	0	0	0	0	0
Biological assets (biomass)	1,858,435	1,076,429	0	0	1,858,434
<b>Assets measured at fair value 31-12-16</b>	<b>1,858,435</b>	<b>1,076,429</b>	<b>0</b>	<b>0</b>	<b>1,858,434</b>
<b>Liabilities measured at fair value 31-12-16</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

DKK 1,000		Cost			
Assets and liabilities measured at fair value	Fair value	amount	Level 1	Level 2	Level 3
Financial assets	31	500	31	0	0
Biological assets (biomass)	1,060,274	846,220	0	0	1,060,274
<b>Assets measured at fair value 31-12-15</b>	<b>1,060,305</b>	<b>846,720</b>	<b>31</b>	<b>0</b>	<b>1,060,274</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>

**NOTE 4.3 EARNINGS PER SHARE**

<b>DKK 1,000</b>	<b>2016</b>	<b>2015</b>
Profit for the year to the shareholders of P/F Bakkafrøst	1,338,887	810,175
Fair value adjustment of biomass (IAS 41)	-608,195	27,578
Onerous contracts provision	16,372	51,004
Tax on fair value adjustment	106,528	-15,386
<b>Adjusted profit for the year to shareholders of P/F Bakkafrøst</b>	<b>853,592</b>	<b>873,371</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>48,574,193</b>	<b>48,545,675</b>
<b>Earnings per share</b>	<b>2016</b>	<b>2015</b>
Basic (DKK)	27.56	16.69
Diluted (DKK)	27.56	16.69
<b>Adjusted earnings per share (before fair value adjustments of biomass and provision for onerous contracts (adjusted EPS))</b>	<b>2016</b>	<b>2015</b>
Basic (DKK)	17.57	17.16
Diluted (DKK)	17.57	17.16

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.

## NOTES - SECTION 5

# Other Disclosures

This section gives more details on the statutory notes that have secondary importance from the perspective of Bakkafrost.

## NOTE 5.1. CAPITAL COMMITMENTS

2016	2017	2018
Total contractual new Hatchery	411,200	0
Total contractual other PPE investments	73,680	0
<b>Total</b>	<b>484,880</b>	<b>0</b>

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>

The Group had capital expenditure committed but not provided in these accounts at the date of the Statement of Financial

Position of approximately DKK 485 million. DKK 411 million relate to the building of the new hatchery stations.

**NOTE 5.2 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 shareholding or

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

DKK 1,000	2016	2015
<b>Based on key personel</b>		
Revenues - Tryggingarfelagið Føroyar P/F	4,314	2,859
Purchase - Tryggingarfelagið Føroyar P/F	28,040	25,847
Accounts receivables - Tryggingarfelagið Føroyar P/F	668	0
Accounts payable - Tryggingarfelagið Føroyar P/F	1,140	974
Purchase - Hotel Føroyar P/F	540	218
Purchase - P/F Vest Pack	9,629	0
Accounts payable - P/F Vest Pack	889	0
<b>Based on association</b>		
Revenues - FF Skagen A/S	57,729	53,348
Purchase - FF Skagen A/S	11,710	12,201
Accounts payable - FF Skagen A/S	0	96
Revenues - Pelagos P/F	71	4
Purchase - Pelagos P/F	10,808	11,851
Accounts receivables - Pelagos P/F	43	0
Accounts payable - Pelagos P/F	0	256
Revenues - Salmon Proteins P/F	15,991	12,977
Purchase - Salmon Proteins P/F	3,866	2,054
Accounts receivables - Salmon Proteins P/F	1,386	1,504
Accounts payable - Salmon Proteins P/F	172	0

**NOTE 5.3 BUSINESS COMBINATIONS**

On the 29<sup>th</sup> of June 2016, Bakka Frost purchased 51% of the shares in P/F Faroe Farming. With this purchase, Bakka Frost became the owner of 100% of the shares in P/F Faroe Farming effective from the 1<sup>st</sup> of July 2016. The transaction is approved by the authorities.

Simultaneously with the agreement of acquiring 51% of the shares in P/F Faroe Farming, Bakka Frost has filed two licenses to the Faroese Authorities. The licenses filed (relinquished) are Svinár (A-03) and Hovsfjørður (A-17/18).

Following these two transactions, P/F Bakka Frost has 14 licenses for farming salmon in the Faroe Islands.

Prior to the acquisition of P/F Faroe Farming, Bakka Frost had approximately 50% of the licenses in the Faroe Islands. Regulations limit the number of licenses controlled by one company to 50% of the total licenses. With the purchase of P/F Faroe Farming, Bakka Frost has filed (relinquished) two licenses and fulfils the legal requirements.

From 1 July to 31 December 2016, Faroe Farming contributed with a revenue of 0 DKK and a profit of 127.2 mDKK to the Group's results, mainly related to fair value adjustments of the biomass, as there was no harvest during this period. If the acquisition had occurred on the 1<sup>st</sup> of January 2016, the management estimates no change in the consolidated revenue, as the Group already sells all of Faroe Farming's harvest, and the consolidated profit for the period would have been 1.9 mDKK higher. In determining these amounts, the management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on the 1<sup>st</sup> of January 2016.

The payment is paid in cash and financed by existing facilities.

The key employees of P/F Faroe Farming will continue in the company.

The following fair values have been determined on this basis:

The fair value of intangible assets (Faroe Farming holds 2 farming licences) has been determined on an estimated fair value. Fair value has been identified in farming licences by employing generally accepted valuation techniques. The market value of the licences is measured to DKK 82 million.

The fair value of biological assets has been determined based on the same accounting principles as in Bakka Frost.

The fair value of property, plant and equipment has been provisionally determined based on the booked value in P/F Faroe Farming's financial statements. The fair value of property, plant and equipment is pending a completion of an independent valuation. It is expected that there will not be a material fair value adjustment of property, plant and equipment.

Accounts receivables consists of receivables from VAT.

Accounts payable and other taxes comprise amounts payable to Bakka Frost of DKK 51.7 million.



DKK 1,000	30 June 2016
Intangible assets	82,000
Property, plant and equipment	56,486
Financial assets	50
Biological assets (biomass)	119,112
Receivables	2,543
Deferred taxes and other taxes	-41,830
Accounts payable and other debt	-51,661
<b>Total net identifiable assets</b>	<b>166,700</b>

#### NOTE 5.4 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

On 20 January 2017, Bakkafrøst announced that suspicion of pathogenic ISA at farming site A-73 Hvannasund Norður had risen again. Initially, suspicion of pathogenic ISA rose in July 2016, after a routine surveillance test detected a possible pathogenic ISA-virus at farming site A-73 Hvannasund Norður. The results from the tests in January and following tests have not confirmed the suspicion of a pathogenic ISA virus at farming site A-73 Hvannasund Norður. The farming site will continue to be under increased surveillance. Reference is made to the Risk section of this report for further information. Apart from the above, from the date of the statement of financial position until today, no events have

occurred which materially influence the information provided by this report.

This is regarding 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 recognized 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.

#### NOTE 5.5 AUDITOR'S FEES

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

DKK 1,000	2016	2015
Statutory auditing	846	819
Tax advisory services	9	34
Other services	156	229
<b>Total auditor's fees</b>	<b>1,011</b>	<b>1,082</b>

#### NOTE 5.6 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 2016 are based on

the assumption that Bakkafrøst is a going concern. In the opinion of the Board, the Group's financial position is good.

**NOTE 5.7 ALTERNATIVE PERFORMANCE MEASURES**

Bakkafrost's financial information is prepared in accordance with international financial reporting standards (IFRS). In addition, the management's intention is to provide alternative performance measures, which are regularly reviewed by the management to enhance the understanding of the company's performance, but not replacing the financial statements prepared in accordance with IFRS. The alternative performance measures presented may be determined or calculated differently by other companies. Bakkafrost's experience is that these APM's are frequently used by analysts, investors and other parties.

These APM's are adjusted IFRS measures defined, calculated and used in a consistent and transparent manner over the years and across the company where relevant.

**NIBD**

Net interest bearing debt consists of both current and non-current interest-bearing liabilities, less related current and non-current hedging instruments, financial instruments, such as debt instruments and derivatives, and cash and cash equivalents. The net interest bearing debt is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess both the Group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure. Net debt is an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate interest-bearing liabilities (both current and non-current) and cash and cash equivalents. A reconciliation from these to net debt is provided below.

	31 Dec 2016	31 Dec 2015
<b>DKK 1,000</b>		
Cash and cash equivalents	234,996	101,852
Deposit for interest- and currency swap	58,340	83,040
Derivatives	-101,456	-129,076
Long-term interest bearing debt	-827,146	-447,559
<b>Net interest bearing debt</b>	<b>-635,266</b>	<b>-391,743</b>

**Operational EBIT**

Operational EBIT is EBIT aligned for fair value adjustments, onerous contracts provisions, income from associates, badwill and revenue tax.

Operational EBIT is a major alternative performance measure in the salmon farming industry. A reconciliation from EBIT to Operational EBIT is provided below.

DKK 1,000	2016	2015
<b>EBIT</b>	<b>1,673,587</b>	<b>928,758</b>
Fair value adjustments on biological assets	-608,195	27,578
Onerous contracts	16,372	51,004
Income from associates	-14,821	-6,757
Revenue tax	108,450	0
Badwill	-10,440	0
<b>Operational EBIT</b>	<b>1,164,953</b>	<b>1,000,583</b>

**Operational EBIT per kg**

**Farming segment:** 
$$\frac{\text{Operational EBIT Farming segment}}{\text{Total harvested volumes (gw)}}$$

**VAP segment:** 
$$\frac{\text{Operational EBIT VAP segment}}{\text{Total volumes produced (raw material gw)}}$$

**Farming and VAP:** 
$$\frac{\text{Operational EBIT Farming and VAP segment}}{\text{Total harvested volumes (gw)}}$$

**EBITDA**

Earnings before interest, tax, depreciations and amortizations (EBITDA) is a key financial parameter for Bakkafrøst's FOF segment. EBITDA before other income and other expenses is defined as EBITDA less gains and losses on disposals of fixed assets and operations, and is reconciled in the section Group overview. This measure is useful to users of Bakkafrøst's financial information in evaluating operating profitability on a more variable cost basis as it excludes depreciations and amortization expenses related primarily to capital expenditures and acquisitions, which

occurred in the past, nonrecurring items, as well as evaluating operating performance in relation to Bakkafrøst's FOF segments competitors. The EBITDA margin presented is defined as EBITDA before other income and other expenses divided by total revenues.

**Adjusted EPS**

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.

DKK 1,000	2016	2015
Profit for the year to the shareholders of P/F Bakkafrøst	1,338,887	810,175
Fair value adjustment of biomass	-608,195	27,578
Onerous contracts provision	16,372	51,004
Tax on fair value adjustment	106,528	-15,386
<b>Adjusted profit for the year to shareholders of P/F Bakkafrøst</b>	<b>853,592</b>	<b>873,371</b>
<b>Time-weighted average number of shares outstanding through the year</b>	<b>48,574,193</b>	<b>48,545,675</b>
<b>Adjusted earnings per share (before fair value adjustments of biomass and provision for onerous contracts (adjusted EPS))</b>	<b>17.57</b>	<b>17.99</b>

**NOTE 5.8 CORRECTION TO PRIOR PERIOD LINE ITEMS**

A reclassification is made in the comparative figures in 2015 between the line items "Purchase of goods" and "Change in inventory and biological assets (at cost)". The

correction is made for an error in the classification in the line items. The correction has no impact on other figures in the the annual account.

2015	Before	Reclassification	After
Purchase of goods	-1,201,208	208,711	-992,497
Change in inventory and biological assets (at cost)	424,143	-208,711	215,432

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# Financial Statements

P/F Bakkafrost

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## P/F BAKKAFROST

# Table of Contents

P/F Bakkafröst – Income Statement for the Year Ended 31 December	145
P/F Bakkafröst – Statement of Financial Position as at 31 December	146
P/F Bakkafröst – Cash Flow Statement for the Year Ended 31 December	148
P/F Bakkafröst – Statement of Changes in Equity for the Year Ended 31 December	149
Note 1. Accounting Policies	151
Note 2. Salaries and Other Personnel Expenses	151
Note 3. Net Financial Items	152
Note 4. Property, Plant and Equipment	153
Note 5. Subsidiaries and Associates	154
Note 6. Investments in Stocks and Shares	155
Note 7. Share Capital and Major Shareholders	155
Note 8. Tax	156
Note 9. Security Pledges and Contingent Liabilities	157
Note 10. Related-Party Transactions	157

## P/F BAKKAFROST

## Income Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2016	2015
Operating revenue		60,538	47,800
Salary and personnel expenses	2	-21,827	-19,803
Other operation expenses		-21,321	-20,206
Depreciation	4	-5,119	-4,124
<b>Earnings before interest and taxes (EBIT)</b>		<b>12,271</b>	<b>3,667</b>
Dividends from subsidiaries	5	722,203	525,261
Income from other investments in shares	6	33	-132
Financial income	3	66,518	72,184
Net interest expenses	3	-29,940	-33,400
Net currency effects	3	-15,797	19,249
Other financial expenses	3	-3,336	-5,937
<b>Earnings before taxes (EBT)</b>		<b>751,952</b>	<b>580,892</b>
Taxes	8	-5,375	-10,013
<b>Profit to shareholders of P/F Bakkafrøst</b>		<b>746,577</b>	<b>570,879</b>
<b>Distribution of profit</b>			
Dividends		425,065	403,079
Retained earnings		321,512	167,800
<b>Distribution in total</b>		<b>746,577</b>	<b>570,879</b>



## P/F BAKKAFROST

## Statement of Financial Position

AS AT 31 DECEMBER

DKK 1,000	Note	2016	2015
<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	356,527	182,895
Plant, machinery and other operating equipment	4	39,512	52,388
Prepayments	4	0	104,208
<b>Total property plant and equipment</b>		<b>396,039</b>	<b>339,491</b>
<b>Non-current financial assets</b>			
Investments in subsidiaries	5	1,395,671	1,320,671
Investments in stocks and shares	6	1,747	1,714
<b>Total non-current financial assets</b>		<b>1,397,418</b>	<b>1,322,385</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,794,457</b>	<b>1,662,876</b>
<b>Current assets</b>			
Inventory		2,606	1,123
<b>Total inventory</b>		<b>2,606</b>	<b>1,123</b>
Receivables from Group companies		1,840,156	1,496,782
Deferred taxes	8	0	1,526
Accounts receivables		13,043	20,440
Other receivables		58,386	80,814
<b>Total receivables</b>		<b>1,911,585</b>	<b>1,599,562</b>
Cash and cash equivalents		90,005	122,988
<b>TOTAL CURRENT ASSETS</b>		<b>2,004,196</b>	<b>1,723,673</b>
<b>TOTAL ASSETS</b>		<b>3,798,653</b>	<b>3,386,549</b>



## P/F BAKKAFROST

## Statement of Financial Position

AS AT 31 DECEMBER

DKK 1,000	Note	2016	2015
<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		494	202
Retained earnings		2,224,874	1,876,497
Dividends		425,065	403,079
<b>Total equity</b>		<b>2,816,659</b>	<b>2,446,004</b>
<b>Non-current liabilities</b>			
Long-term interest bearing debt	9	812,442	446,549
Derivatives		101,456	128,804
Deferred taxes	8	7,111	0
<b>Total non-current liabilities</b>		<b>921,009</b>	<b>575,353</b>
<b>Current liabilities</b>			
Short-term interest bearing debt		0	0
Payables to Group companies		4,695	327,706
Accounts payable		16,865	37,486
Other short-term liabilities		39,425	0
<b>Total current liabilities</b>		<b>60,985</b>	<b>365,192</b>
<b>Total liabilities</b>		<b>981,994</b>	<b>940,545</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,798,653</b>	<b>3,386,549</b>

## P/F BAKKAFROST

## Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2016	2015
<b>Cash flow from operations</b>			
<b>Operating profit (EBIT)</b>		<b>12,271</b>	<b>3,667</b>
Adjustments for write-downs and depreciation	4	5,119	4,124
Adjustments for net currency effects		-20,481	19,249
Adjustments for share-based payment	2	292	176
Taxes paid	8	-10,093	-6,757
Change in inventory		-1,483	-642
Change in receivables		29,825	38,388
Change in current debts		27,239	19,161
<b>Cash flow from operations</b>		<b>42,689</b>	<b>77,366</b>
<b>Cash flow from investments</b>			
Investment in share capital in subsidiaries, etc., net	5	-75,000	0
Payments made for purchase of fixed assets	4	-61,667	-218,976
<b>Cash flow from investments</b>		<b>-136,667</b>	<b>-218,976</b>
<b>Cash flow from financing</b>			
Changes in interest bearing debt (short and long)		365,893	-172,115
Financial income		66,516	72,184
Financial expenses		-33,276	-39,337
Financing of associates/subsidiaries		-666,385	-139,604
Acquisition/sale treasury shares		6,667	2,529
Dividend from subsidiaries	5	722,203	525,261
Dividend paid		-400,623	-290,985
<b>Cash flow from financing</b>		<b>60,995</b>	<b>-42,067</b>
<b>Net change in cash and cash equivalents in period</b>		<b>-32,983</b>	<b>-183,677</b>
Cash and cash equivalents – opening balance		122,988	306,665
<b>Cash and cash equivalents – closing balance total</b>		<b>90,005</b>	<b>122,988</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
1 January 2016	48,858	117,368	202	1,876,497	403,079	2,446,004
Net annual profit	0	0	0	746,577	0	746,577
<b>Other comprehensive income:</b>						
Fair value adjustment on financial derivatives	0	0	0	26,789	0	26,789
Income tax effect	0	0	0	-4,364	0	-4,364
<b>Total other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22,425</b>	<b>0</b>	<b>22,425</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>769,002</b>	<b>0</b>	<b>769,002</b>
<b>Transaction with owners:</b>						
Share-based payment	0	0	292	0	0	292
Dividend treasury shares	0	0	0	2,457	0	2,457
Proceeds/acquisition treasury shares	0	0	0	1,983	0	1,983
Paid-out dividends	0	0	0	0	-403,079	-403,079
Proposed dividends	0	0	0	-425,065	425,065	0
<b>Total transaction with owners</b>	<b>0</b>	<b>0</b>	<b>292</b>	<b>-420,625</b>	<b>21,986</b>	<b>-398,347</b>
<b>Total changes in equity</b>	<b>0</b>	<b>0</b>	<b>292</b>	<b>348,377</b>	<b>21,986</b>	<b>370,655</b>
31 December 2016	48,858	117,368	494	2,224,874	425,065	2,816,659

1 January 2015	48,858	117,368	26	1,713,917	293,148	2,173,317
<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
<b>Total other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-9,739</b>	<b>0</b>	<b>-9,739</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>561,140</b>	<b>0</b>	<b>561,140</b>
<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>
31 December 2015	48,858	117,368	202	1,876,497	403,079	2,446,004

## 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>2016</b>	<b>2015</b>
Wages and salaries	17,930	16,996
Share-based payments	292	176
Social security taxes	754	577
Pension expenses	706	686
Other benefits	2,146	1,368
<b>Total payroll expenses</b>	<b>21,828</b>	<b>19,803</b>
Average number of full-time employees	29	29

### 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>2016</b>	<b>2015</b>
Interests received from Group companies	65,314	69,611
Realized profit on financial derivatives	0	0
Other financial income	1,204	2,573
<b>Financial income</b>	<b>66,518</b>	<b>72,184</b>
Interests paid to Group companies	-6,205	-10,853
Interest expenses on long- and short-term loans	-23,664	-22,545
Loss on financial derivatives	0	0
Interest expenses on accounts payable	-71	-2
<b>Financial expenses</b>	<b>-29,940</b>	<b>-33,400</b>
Unrealized exchange gain on bond	21,050	23,550
Other exchange differences	-5,253	-4,301
<b>Net currency effects</b>	<b>15,797</b>	<b>19,249</b>
Other financial expenses	-3,336	-5,938
<b>Other financial items</b>	<b>-3,336</b>	<b>-5,938</b>
<b>Net financial items</b>	<b>49,037</b>	<b>52,095</b>

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

DKK 1,000	Land and buildings	Other equipment	Prepayments	Total 2016
Acquisition cost as at 01.01.16	199,660	56,904	104,208	360,772
Reclassification prepayments	24,333	79,875	-104,208	0
Disposals and scrapping during the year - reclass	0	-240,395	0	-240,395
Acquisitions during the year	152,392	149,578	0	301,970
<b>Acquisition cost as at 31.12.16</b>	<b>376,385</b>	<b>45,962</b>	<b>0</b>	<b>422,347</b>
Accumulated depreciation and write-down as at 01.01.16	-16,765	-4,516	0	-21,281
Depreciations disposed assets		92		92
Depreciations during the year	-3,093	-2,026		-5,119
<b>Accumulated depreciation and write-down as at 31.12.16</b>	<b>-19,858</b>	<b>-6,450</b>	<b>0</b>	<b>-26,308</b>
<b>Net book value as at 31.12.16</b>	<b>356,527</b>	<b>39,512</b>	<b>0</b>	<b>396,039</b>

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		-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>

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

	Estimated lifetime	Depreciation method	Scrap value
Land and buildings	15-25 years	linear	10%
Other operating equipment	3-8 years	linear	0%

## NOTE 5. SUBSIDIARIES AND ASSOCIATES

DKK 1,000	2016	2015
Acquisition cost as at 01.01.	1,323,437	1,323,437
Additions during the year	75,000	0
<b>Acquisition cost as at 31.12.</b>	<b>1,398,437</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>1,395,671</b>	<b>1,320,671</b>

DKK 1,000	Cost Method	Head Office	Ownership	Voting share	Carrying amount in P/F Bakkafrøst 2016	Carrying amount in P/F Bakkafrøst 2015
Company	Yes/No					
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
P/F Faroe Farming	Yes	Glyvvar	51%	51%	75,000	0
<b>Total subsidiaries</b>					<b>1,395,671</b>	<b>1,320,671</b>

DKK 1,000	Dividends*	Excess dividends on result	Result 2016	Result 2015
P/F Bakkafrøst Farming	310,391	343,334	653,725	310,457
P/F Bakkafrøst Sales	225,405	-110,164	115,241	225,382
P/F Bakkafrøst Packaging	5,531	8,206	13,737	5,486
P/F Bakkafrøst Harvest	59,215	-39,309	19,906	59,169
P/F Bakkafrøst Processing	0	-147,211	-147,211	69,271
P/F Havsbrún	121,661	52,146	173,807	126,555
Bakkafrøst UK Ltd.	0	7,161	7,161	3,774
P/F Faroe Farming**	0	30,570	30,570	0
<b>Total revenue Group contribution</b>	<b>722,203</b>	<b>114,1733</b>	<b>866,936</b>	<b>800,094</b>

\*Dividends from subsidiaries paid out in 2016

\*\* In consolidation from 1 July 2016

P/F Bakkafrøst and subsidiaries, the Group, owns a total of 76% 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% in P/F Salmon Proteins and is included in the item Investment in stocks and shares.



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

DKK 1,000	2016	2015
Acquisition cost as of 01.01.	183	183
<b>Acquisition cost as at 31.12.</b>	<b>183</b>	<b>183</b>
Re-evaluations as of 01.01.	1,531	1,663
Re-evaluations during the year	33	-132
<b>Re-evaluations as at 31.12.</b>	<b>1,564</b>	<b>1,531</b>
<b>Net book value as at 31.12.</b>	<b>1,747</b>	<b>1,714</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	2016	2015
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 2016, see Group Accounts.

**NOTE 8. TAX**

The tax expense for the year breaks down as follows:

DKK 1,000	2016	2015
Tax payable	-1,661	-10,076
Change in deferred tax	-3,714	63
<b>Tax expense on ordinary profit</b>	<b>-5,375</b>	<b>-10,013</b>
<b>Tax in the statement of financial position</b>		
Deferred tax	7,111	-1,526
<b>Tax in the statement of financial position</b>	<b>7,111</b>	<b>-1,526</b>
<b>Specification of temporary differences</b>		
Property, plant and equipment	95,950	39,753
Swaps	-101,456	-128,804
Currency effects	45,011	80,573
<b>Total temporary differences</b>	<b>39,505</b>	<b>-8,478</b>
<b>Deferred tax liabilities (+) / assets (-)</b>	<b>7,111</b>	<b>-1,526</b>
<b>Reconciliation from nominal to actual tax rate</b>		
Profit before tax	751,952	580,892
Expected tax at nominal tax rate (18%)	-135,351	-104,561
Permanent differences, including Group contribution without tax effect (18%)	129,997	92,380
<b>Calculated tax expense</b>	<b>-5,355</b>	<b>-12,181</b>
Effective tax rate	-0.71%	-2.10%

As Parent company in the Bakkafrost Group, Bakkafrost P/F is the administrating company in the Group Joint Tax-

ation, 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:

DKK 1,000	2016	2015
Long-term debt to financial institutions	812,442	446,549
Short-term debt to financial institutions	0	0
<b>Total</b>	<b>812,442</b>	<b>446,549</b>
<b>Carrying amount of assets pledged as security for recognized debt:</b>		
Property, plant and equipment	396,039	339,491
Non-current financial assets	1,397,418	1,322,253
Receivables	1,911,585	1,599,562
<b>Total</b>	<b>3,705,042</b>	<b>3,261,306</b>

The company participates in a Group financing for the Bakkafrøst 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 severally and jointly for the balance without limitations for each other.

As part of the guarantees are also any insurance refunds.

As Parent company in the Bakkafrøst Group, Bakkafrøst 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 4.6 million (2015: DKK 3.9 million), allocation of administration etc. DKK 53.0 million (2015: DKK 42.5 million), financial incomes of DKK 65.3 million (2015: DKK 69.6 million) and financial expenses amounting to DKK 6.2 million (2015: DKK 10.9 million). The principle of arm's length is used in all transactions with related parties.

## APPENDIX

## Quarterly Financial Figures 2015-2016

DKK 1,000	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
<b>Operating revenue</b>	<b>613,197</b>	<b>799,947</b>	<b>677,484</b>	<b>759,735</b>	<b>904,550</b>	<b>789,690</b>	<b>639,999</b>	<b>868,447</b>
Purchase of goods	-304,084	-206,761	-139,048	-342,602	-306,427	-243,112	-159,521	-211,088
Change in inventory and biological assets (at cost)	167,919	-28,169	-73,489	149,168	-70,320	39,083	53,180	36,931
Salary and personnel expenses	-64,075	-76,606	-60,201	-80,203	-72,555	-83,542	-73,632	-98,096
Other operating expenses	-151,834	-158,667	-172,254	-200,779	-173,461	-165,935	-173,046	-202,931
Depreciation	-26,252	-26,325	-26,726	-28,795	-28,217	-29,092	-32,311	-43,641
<b>Operational EBIT *</b>	<b>234,871</b>	<b>303,419</b>	<b>205,769</b>	<b>256,524</b>	<b>253,570</b>	<b>307,092</b>	<b>254,669</b>	<b>349,622</b>
Fair value adjustments on biological assets	-54,936	-38,042	-17,652	83,052	107,646	-29,379	121,802	408,126
Onerous contracts	0	0	0	-51,004	-59,959	22,778	86,411	-65,602
Income from associates	-2,867	-10,796	85	20,335	3,087	6,665	-4,689	9,758
Revenue tax					-22,575	-29,520	-23,370	-32,985
Badwill	0	0	0	0	0	0	10,440	0
<b>Earnings before interest and taxes (EBIT)</b>	<b>177,068</b>	<b>254,581</b>	<b>188,202</b>	<b>308,907</b>	<b>281,769</b>	<b>277,636</b>	<b>445,263</b>	<b>668,919</b>
Net interest revenue	934	479	963	1,223	553	616	214	141
Net interest expenses	-7,739	-6,187	-5,218	-5,478	-6,380	-6,609	-6,507	-6,487
Net currency effects	-2,571	-8,630	28,493	6,058	-14,490	1,163	-13,987	14,959
Other financial expenses	-1,536	-3,040	-928	-1,110	-1,066	-1,045	-1,022	-1,026
<b>Earnings before taxes (EBT)</b>	<b>166,156</b>	<b>237,203</b>	<b>211,512</b>	<b>309,600</b>	<b>260,386</b>	<b>271,761</b>	<b>423,961</b>	<b>676,506</b>
Taxes	-33,731	-46,134	-43,457	9,026	-47,074	-48,001	-77,611	-121,041
<b>Profit or loss for the period</b>	<b>132,425</b>	<b>191,069</b>	<b>168,055</b>	<b>318,626</b>	<b>213,312</b>	<b>223,760</b>	<b>346,350</b>	<b>555,465</b>
Earnings per share (DKK)	2.71	3.91	3.44	6.56	4.39	4.61	7.13	11.44
Diluted earnings per share (DKK)	2.71	3.91	3.44	6.56	4.39	4.61	7.13	11.44

\*Operational EBIT is EBIT before fair value on biomass, onerous contracts and income from associates, badwill and revenue tax

## APPENDIX

DKK 1,000	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015	31 Mar 2016	30 Jun 2016	30 Sep 2016	31 Dec 2016
<b>ASSETS</b>								
<b>Non-current assets</b>								
Intangible assets	294,675	294,675	294,675	294,675	294,675	294,675	376,675	376,675
Property, plant and equipment	1,121,493	1,168,209	1,345,531	1,531,493	1,622,469	1,792,855	1,971,356	2,118,470
Financial assets	123,605	112,842	112,927	130,893	130,793	136,134	49,405	59,407
Long term receivables	1,314	0	0	0	0	0	0	12,660
<b>Total non-current assets</b>	<b>1,541,087</b>	<b>1,575,726</b>	<b>1,753,133</b>	<b>1,957,061</b>	<b>2,047,937</b>	<b>2,223,664</b>	<b>2,397,436</b>	<b>2,567,212</b>
<b>Current assets</b>								
Biological assets (biomass)	974,351	902,525	947,372	1,060,273	1,129,744	1,036,553	1,412,544	1,858,435
Inventory	407,220	418,860	297,090	421,966	370,759	485,187	378,493	355,604
<b>Total inventory</b>	<b>1,381,571</b>	<b>1,321,385</b>	<b>1,244,462</b>	<b>1,482,239</b>	<b>1,500,503</b>	<b>1,521,740</b>	<b>1,791,037</b>	<b>2,214,039</b>
Accounts receivables	182,449	206,881	128,086	199,263	240,594	240,698	222,895	292,009
Other receivables	89,734	97,865	194,037	179,971	114,642	182,900	88,312	109,860
<b>Total receivables</b>	<b>272,183</b>	<b>304,746</b>	<b>322,123</b>	<b>379,234</b>	<b>355,236</b>	<b>423,598</b>	<b>311,207</b>	<b>401,869</b>
Cash and cash equivalents	414,851	295,843	250,215	101,852	320,624	173,730	240,856	234,996
<b>Total current assets</b>	<b>2,068,605</b>	<b>1,921,974</b>	<b>1,816,800</b>	<b>1,963,325</b>	<b>2,176,363</b>	<b>2,119,068</b>	<b>2,343,100</b>	<b>2,850,904</b>
<b>TOTAL ASSETS</b>	<b>3,609,692</b>	<b>3,497,700</b>	<b>3,569,933</b>	<b>3,920,386</b>	<b>4,224,300</b>	<b>4,342,732</b>	<b>4,740,536</b>	<b>5,418,116</b>
<b>EQUITY AND LIABILITIES</b>								
<b>Equity</b>								
Share capital	48,858	48,858	48,858	48,858	48,858	48,858	48,858	48,858
Other equity	2,168,572	2,072,405	2,211,432	2,531,624	2,752,840	2,585,138	2,948,297	3,500,177
<b>Total equity</b>	<b>2,217,430</b>	<b>2,121,263</b>	<b>2,260,290</b>	<b>2,580,482</b>	<b>2,801,698</b>	<b>2,633,996</b>	<b>2,997,155</b>	<b>3,549,035</b>
<b>Non-current liabilities</b>								
Deferred and other taxes	451,452	495,184	529,831	349,546	398,242	445,033	567,992	545,699
Long-term interest bearing debt	501,131	549,048	389,430	447,559	492,697	736,572	708,084	827,146
Financial derivatives	91,069	91,775	127,255	128,804	119,780	114,425	94,222	101,456
<b>Total non-current liabilities</b>	<b>1,043,652</b>	<b>1,136,007</b>	<b>1,046,516</b>	<b>925,909</b>	<b>1,010,719</b>	<b>1,296,030</b>	<b>1,370,298</b>	<b>1,474,301</b>
<b>Current liabilities</b>								
Accounts payable and other debt	248,610	240,430	263,127	413,995	411,883	412,706	373,083	394,780
<b>Total current liabilities</b>	<b>348,610</b>	<b>240,430</b>	<b>263,127</b>	<b>413,995</b>	<b>411,883</b>	<b>412,706</b>	<b>373,083</b>	<b>394,780</b>
<b>Total liabilities</b>	<b>1,392,262</b>	<b>1,376,437</b>	<b>1,309,643</b>	<b>1,339,904</b>	<b>1,422,602</b>	<b>1,708,736</b>	<b>1,743,381</b>	<b>1,869,081</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,609,692</b>	<b>3,497,700</b>	<b>3,569,933</b>	<b>3,920,386</b>	<b>4,224,300</b>	<b>4,342,732</b>	<b>4,740,536</b>	<b>5,418,116</b>

# Market Announcements Published in 2016

(Exclusive Invitations, Managements', Board of Directors' and large shareholders' notification of trade and notification of trade regarding Bakkafróst's Share Savings Plan).

## Q1 2016

4 January 2016	Q4 2015 Trading Update
24 February 2016	Q4 2015 Interim Results and Full Year 2015
3 March 2016	Presentation Held at North Atlantic Seafood Forum
14 March 2016	Notice to Annual General Meeting
14 March 2016	Annual Report 2015
14 March 2016	Strategic Decision to Enhance Investments in Hatchery
15 March 2016	Key Information Regarding Cash Dividend for Bakkafróst

## Q2 2016

4 April 2016	Q1 2016 Trading Update
8 April 2016	Protocol from Annual General Meeting
11 April 2016	Ex-Dividend DKK 8.25
11 April 2016	Payment of Dividend in NOK on 25 April 2016
25 April 2016	Payment Date for the Dividend
10 May 2016	Q1 2016 Interim Results
7 June 2016	Capital Markets Day Presentation
7 June 2016	General Bakkafróst Presentation
29 June 2016	Acquisition of Faroe Farming and of Two Licenses Relinquished

## Q3 2016

4 July 2016	Q2 2016 Trading Update
14 July 2016	Suspicion of a Possible ISA Virus on Farming Site A-73
21 July 2016	Tests Have Not Confirmed ISA Virus on Farming Site A-73, Increased Surveillance Continues
21 July 2016	Acquisition of Faroe Farming Approved by Authorities
23 August 2016	Q2 2016 Interim Results

## Q4 2016

5 October 2016	Q3 2016 Trading Update
4 November 2016	Financial Calendar 2017
8 November 2016	Q3 2016 Interim Results
23 November 2016	Presentation Held at Havbrukskonferansen
3 January 2017	Q4 2016 Trading Update
10 January 2017	Presentation Held at SEB Nordic Seminar
20 January 2017	Suspicion of Pathogenic ISA at A-73 Hvannasund Norður Rises Again
27 February 2017	Q4 2016 Interim Results and Full Year 2016

All market announcements are available on [www.bakkafróst.com](http://www.bakkafróst.com) and [www.newsweb.no](http://www.newsweb.no).

# Financial Calendar for 2017

27 February 2017	Presentation of Q4 2016 and full year 2016
7 April 2017	Annual General Meeting
23 May 2017	Presentation of Q1 2017
22 August 2017	Presentation of Q2 2017
7 November 2017	Presentation of Q3 2017

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

Annual General Meeting will take place at Bakkavegur 8, Glyvvar, 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.bakkafrost.com](http://www.bakkafrost.com), will be updated accordingly.

# 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, Amortization and Tax
<b>EBITDA:</b>	Earnings Before Interest, Tax, Depreciation and Amortization
<b>EPS:</b>	Earnings Per Share
<b>FOF:</b>	Fishmeal, Oil and Feed
<b>FSV:</b>	Farming Service Vessel
<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 Gutted 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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