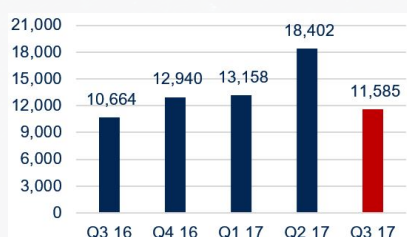


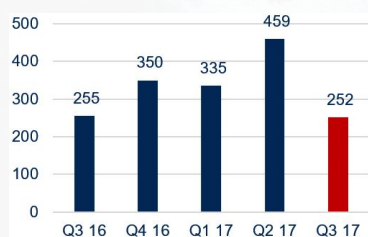
## Q3 - 2017 INTERIM REPORT

Salmon from the  
**FAROE ISLANDS**

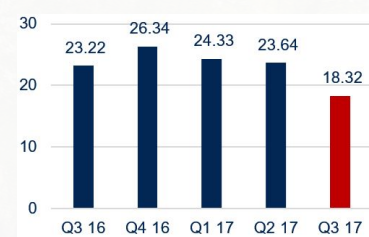
HARVEST VOLUME TGW



OPERATIONAL EBIT MDKK



OPERATIONAL EBIT DKK/KG  
VAP AND FARMING



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## Highlights

DKK 1,000	Q3 2017	Q3 2016	YTD 2017	YTD 2016
<b>INCOME STATEMENT</b>				
Group - Operating revenue	804,150	639,999	2,863,979	2,334,239
Group - Operational EBIT*	251,796	254,669	1,046,407	815,331
Group - EBIT	84,082	445,263	678,448	1,004,668
Group - Profit for the period	56,215	346,350	533,311	783,422
Operational EBIT (Farming and VAP) (DKK)*	212,221	247,570	967,385	772,995
Operational EBIT*/kg (Farming and VAP) (DKK)	18.32	23.22	22.42	22.34
Operational EBIT*/kg (Farming and VAP) (NOK)	23.02	28.97	27.82	28.13
Farming - Operating revenue	619,289	610,149	2,409,278	2,063,625
Farming - Operational EBIT*	216,691	294,265	1,079,373	912,900
Farming - Operational EBIT margin	35%	48%	45%	44%
Farming - Operational EBIT/kg (DKK)	18.70	27.59	25.02	26.38
Farming - Operational EBIT/kg (NOK)	23.51	34.44	31.05	33.22
VAP - Operating revenue	246,230	201,258	710,355	568,208
VAP - Operational EBIT*	-4,470	-46,695	-111,988	-139,905
VAP - Operational EBIT margin	-2%	-23%	-16%	-25%
VAP - Operational EBIT/kg (DKK)	-0.86	-11.34	-7.93	-11.71
VAP - Operational EBIT/kg (NOK)	-1.08	-14.15	-9.84	-14.75
FOF - Operating revenue	342,130	320,111	936,304	827,662
FOF - EBITDA	79,493	62,354	172,467	176,785
FOF - EBITDA margin	23.23%	19.48%	18.42%	21.36%
DKK/NOK (average)	79.57	80.13	80.58	79.43
<b>FINANCIAL POSITION AND CASH FLOW</b>				
Total Assets***	5,365,486	5,418,116	5,365,486	5,418,116
Equity***	3,661,846	3,549,035	3,661,846	3,549,035
Equity ratio***	68%	66%	68%	66%
Net interest-bearing debt***	355,559	635,266	355,559	635,266
Cash flow from operations	333,603	284,851	1,196,904	777,490
Cash flow from financing	-221,721	11,601	-617,728	-91,814
<b>PROFITABILITY</b>				
Basic earnings per share (DKK)	1.16	7.13	10.97	16.13
Diluted earnings per share (DKK)	1.16	7.13	10.97	16.13
ROCE**	5.4%	6.1%	22.5%	19.7%
<b>VOLUMES</b>				
Harvested volumes (tgw)	11,585	10,664	43,145	34,602
VAP produced volumes (tgw)	5,209	4,119	14,118	11,943
Sold feed (tonnes)	22,320	28,850	59,179	59,599
Internal feed sale (tonnes)	20,398	27,344	55,363	54,853
Smolt released thousand (pcs)	3,206	3,795	6,519	7,667

\* Aligned for fair value adjustment of biomass, onerous contracts provisions, income from associates and revenue tax – refer to Note 9

\*\* Return on average capital employed, based on operational EBIT – refer to Note 9

\*\*\* Comparing figures from end 2016

## Summary of the 3<sup>rd</sup> Quarter 2017 and the First Nine Months of 2017

(Figures in parenthesis refer to the same period last year)

The Bakkafröst Group delivered a total operating EBIT of DKK 251.8 million in Q3 2017. Harvested volumes were 11.6 thousand tonnes gutted weight. The combined farming and VAP segments made an operational EBIT of DKK 212.2 million. The farming segment made an operational EBIT of DKK 216.7 million. The salmon spot prices decreased in Q3 2017, compared to the previous quarter. The price decrease had a negative effect on the operational EBIT in the farming segment. The VAP segment made an operational EBIT of DKK -4.5 million, which is an improvement due to the decrease in the salmon spot prices in Q3 2017. The EBITDA for the FOF segment was DKK 79.5 million.

The Group made a profit for the third quarter 2017 of DKK 56.2 million (DKK 346.4 million). For the first nine months of 2017, the profit was DKK 533.3 million (DKK 783.4 million).

The total volumes harvested in Q3 2017 were 11,585 tonnes gutted weight (10,664 tgw). Total harvested volumes in the first nine months of 2017 were 43,145 tonnes gutted weight (34,602 tgw).

Bakkafröst transferred 3.2 million smolts (3.8 million) during Q3 2017, which is in line with the company's plans. 6.5 million smolts (7.7 million) were transferred during the first nine months of 2017.

The combined farming and VAP segments made an operational EBIT of DKK 212.2 million (DKK 247.6 million) in Q3 2017. The operational EBIT per kg in Q3 2017 was DKK 18.32 (DKK 23.22), which corresponds to NOK 23.02 (NOK 28.97) for the combined farming and VAP segments. For the first nine months of 2017, the combined farming and VAP segment made an operational EBIT of DKK 967.4 million (DKK 773.0 million).

The farming segment made an operational EBIT of DKK 216.7 million (DKK 294.3 million) in Q3 2017. The harvested volumes were higher, but the average spot price was lower in Q3 2017, compared to Q3 2016. For the first nine months of 2017, the operational EBIT was DKK 1,079.4 million (DKK 912.9 million).

The farming site A-57 Fuglafjörður received ASC certification in September 2017, Bakkafröst's fourth farming site to be ASC certified – the others are A-25 Götuvík, A-06 Gulin and A-71 Funningsfjörður.

Bakkafröst aims at having all its farming sites ASC certified by 2020.

The VAP segment made an operational EBIT of DKK -4.5 million (DKK -46.7 million) for Q3 2017. The VAP segment has had a loss since the first quarter of 2016, and although the salmon spot price has decreased in Q3 2017, the VAP segment had a negative margin. At the end of Q3 2017, the margins were positive. For the first nine months of 2017, the operational EBIT was DKK -112.0 million (DKK -139.9 million).

The FOF segment (fishmeal, oil and feed) made an EBITDA of DKK 79.5 million (DKK 62.4 million) for Q3 2017, and the EBITDA margin was 23.2% (19.5%). The EBITDA was DKK 172.5 million for the first nine months of 2017 (DKK 176.8 million), corresponding to an EBITDA margin of 18.4% (21.4%).

Havsbrún sourced 21,937 tonnes (11,003 tonnes) of raw material during Q3 2017, and for the first nine months of 2017, Havsbrún sourced 291.604 tonnes (166,542 tonnes) of raw material.

The Bakkafröst Group's net interest bearing debt amounted to DKK 355.6 million at the end of Q3 2017 (DKK 635.3 million at year-end 2016) including deposits and losses on financial derivatives relating to the interest-bearing debt. Bakkafröst had undrawn credit facilities of DKK 932.6 million at the end of Q3 2017.

Bakkafröst's equity ratio was 68% at 30 September 2017, compared to 66% at the end of 2016.

## Financial Review

(Figures in parenthesis refer to the same period last year)

### Income Statement

The operating revenue amounted to DKK 804.2 million (DKK 640.0 million) in Q3 2017, and for the first nine months of 2017, the operating revenue amounted to DKK 2,864.0 million (DKK 2,334.2 million). The revenue increased due to higher activity and volumes in all segments in Q3 2017, compared to Q3 2016. The farming segment's harvest in Q3 2017 was higher, compared to same quarter last year. The VAP segment had higher revenues because of higher volumes and higher prices in Q3 2017, compared to Q3 2016. The FOF segment had higher external sales, especially of fishmeal in Q3 2017, compared to Q3 2016.

Operational EBIT was DKK 251.8 million (DKK 254.7 million) in Q3 2017. The VAP and FOF segments had improved operational EBIT in Q3 2017, compared to Q3 2016. The farming segment had lower operational EBIT in Q3 2017, compared to Q3 2016. For the first nine months of 2017, the operational EBIT was DKK 1,046.4 million (DKK 815.3 million).

The fair value adjustment of the Group's biological assets amounted to DKK -155.1 million (DKK 121.8 million) in Q3 2017. The negative adjustment is due to lower market prices for salmon at the end of the quarter, compared to the beginning of the quarter. For the first nine months of 2017, the fair value adjustment amounted to DKK -334.8 million (DKK 200.1 million).

Change in provisions for onerous contracts amounted to DKK 12.2 million (DKK 86.4 million) in Q3 2017.

For the first nine months of 2017, the change in provisions for onerous contracts amounted to DKK 67.4 million (DKK 49.2 million).

In Q3 2017, there was a loss from associated companies amounting to DKK -1.0 million (DKK -4.7 million). For the first nine months of 2017, the result from associated companies amounted to DKK -1.1 million (DKK 5.1 million).

The revenue tax in Q3 2017 amounted to DKK -23.7 million (DKK -23.4 million). The revenue tax was nearly unchanged in Q3 2017, compared to Q3 2016. The harvested volumes were higher, but the salmon prices were lower. For the first nine months of 2017, the revenue tax was DKK -99.4 million (DKK -75.5 million).

Net interests in Q3 2017 were DKK -16.1 million (DKK -21.3 million), whereof an unrealized exchange rate adjustment of DKK -6.9 million (DKK -14.6 million), relating to the bond loan of NOK 500 million, is posted in Q3 2017. For the first nine months 2017, net interests were DKK -27.3 million (DKK -48.6 million).

Net taxes amounted to DKK -11.7 million (DKK -77.6 million) in Q3 2017. For the first nine months of 2017, net taxes amounted to DKK -117.8 million (DKK -172.7 million).

The result for Q3 2017 was DKK 56.2 million (DKK 346.3 million), and for the first nine months of 2017, the result was DKK 533.3 million (DKK 783.4 million).

# 56 million DKK

Result for Q3 2017

## Statement of Financial Position

(Figures in parenthesis refer to end last year)

The Group's total assets amounted to DKK 5,365.5 million (DKK 5,418.1 million) at the end of Q3 2017.

The Group's intangible assets are unchanged, compared to the beginning of the year, and amounted to DKK 376.7 million at the end of Q3 2017. Intangible assets are primarily comprised of the fair value of acquired farming licences. No licences in the North region are recorded with a value in the Bakkafrøst accounts.

Property, plant and equipment amounted to DKK 2,448.0 million (DKK 2,118.5 million) at the end of Q3 2017. In Q3 2017, Bakkafrøst made investments in PP&E amounting to DKK 117.8 million.

Non-current financial assets amounted to DKK 58.3 million (DKK 59.4 million) at the end of Q3 2017.

The Group's carrying amount (fair value) of biological assets amounted to DKK 1,417.0 million (DKK 1,858.4 million) at the end of Q3 2017. Biological assets have decreased due to lower fair value adjustment and lower volume of biomass at the end of Q3 2017, compared to year end 2016. Included in the carrying amount of the biological assets is a fair value adjustment amounting to DKK 546.6 million (DKK 880.5 million) at the end of Q3 2017.

The Group's inventories amounted to DKK 352.9 million (DKK 355.6 million) at the end of Q3 2017. The inventories primarily represent Havsbrún's inventory of fishmeal, fish oil and fish feed.

The Group's total receivables amounted to DKK 365.3 million (DKK 401.9 million) at end of Q3 2017.

The Group's equity amounted to DKK 3,661.8 million (DKK 3,549.0 million) at the end of Q3 2017. The change in equity consists primarily of the positive result for the first nine months of 2017 and the dividend payment of gross DKK 425.1 million in Q2 2017.

The Group's total non-current liabilities amounted to DKK 917.1 million (DKK 1,474.3 million) at the end of Q3 2017. The reduction in total non-current liabilities is due to reclassification of the bond loan, which is payable 14 February 2018, to current liabilities.

Deferred taxes amounted to DKK 660.7 million (DKK 545.7 million) at the end of Q3 2017.

Long-term debt was DKK 256.5 million (DKK 827.1 million) at the end of Q3 2017.

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 for a five-year period and is payable in December 2020. The bond loan of NOK 500 million has a five-year maturity and is payable 14 February 2018. The interest rate of the bonds is NIBOR 3m + 4.15%. Following the issuance of the bonds, Bakkafrøst has entered into a currency/-interest rate swap, hedging the exchange rate, and has switched the interest rate from NIBOR 3m to CIBOR 3m.

At the end of Q3 2017, the Group's total current liabilities were DKK 786.5 million (DKK 394.8 million). The current liabilities consist of derivatives, short-term interest-bearing debt, accounts payable and tax payable.

Derivatives under current liabilities amounted to DKK 110.8 million (DKK 0 million) at the end of Q3 2017. The derivatives are payable similar to the bond loan on 14 February 2018 and are therefore classified as current liabilities.

Short-term interest-bearing debt amounted to DKK 395.4 million (DKK 0 million) at the end of Q3 2017.

Bakkafrøst's equity ratio was 68% at the end of Q3 2017, compared with 66% at the end of 2016.

# 68%

Equity ratio at the end of Q3 2017

## Cash Flow

(Figures in parenthesis refer to the same period last year)

The cash flow from operations was DKK 333.6 million (DKK 284.9 million) in Q3 2017. The decrease in total inventory and lower receivables had a positive effect on the cash flow from operations, while lower current non-interest-bearing debts affected the cash flow from operations negatively in Q3 2017. For the first nine months of 2017, the cash flow from operations was DKK 1,196.9 million (DKK 777.5 million).

The cash flow from investment activities amounted to DKK -117.8 million (DKK -229.3 million) in Q3 2017. The amount relates to investments in property, plant and equipment. For the first nine months of 2017, the cash flow from investments amounted to DKK -466.8 million (DKK -546.7 million).

The cash flow from financing activities totalled DKK -221.7 million (DKK 11.6 million) in Q3 2017. For the first nine months of 2017, the cash flow from financing amounted to DKK -617.7 million (DKK -91.8 million).

In Q3 2017, net change in cash flow amounted to DKK -6.0 million (DKK 67.1 million). For the first nine months of 2017, net change in cash flow amounted to DKK 112.4 million (DKK 139.0 million).

At the end of Q3 2017, Bakkafrøst had unused credit facilities of DKK 932.6 million (DKK 766.7 million).

# 11,585 **tgw**

Harvested in Q3 2017

## Farming Segment

Harvested Volumes Q3 2017	11,585 t <sub>gw</sub>
EBIT Q3 2017	37.9 mDKK
Operational EBIT Q3 2017	216.7 mDKK

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.

Farming segment 1,000 DKK	Q3 2017	Q3 2016	Change	YTD 2017	YTD 2016	Change
Total revenue	619,289	610,149	1%	2,409,278	2,063,625	17%
EBIT	37,857	404,190	-91%	645,135	1,048,954	-38%
Operational EBIT	216,691	294,265	-26%	1,079,373	912,900	18%
Farming - Operational EBIT/kg (DKK)	18.70	27.59	-32%	25.02	26.38	-5%
Harvested volumes (t <sub>gw</sub> )	11,585	10,664	9%	43,145	34,602	25%

### Volumes

The total volumes harvested in Q3 2017 were 11,585 tonnes gutted weight (10,664 t<sub>gw</sub>) – an increase in volumes of 9%. Total harvested volumes for the first nine months of 2017 were 43,145 tonnes gutted weight (34,602 t<sub>gw</sub>), which is in line with the forecast for 2017.

Bakkafrost transferred 3.2 million smolts (3.8 million smolts) in Q3 2017. In the first nine months of 2017, 6.5 million smolts (7.6 million smolts) were transferred. This is in line with Bakkafrost's smolt transfer plan for 2017.

### Financial performance

In Q3 2017, the operating revenue for Bakkafrost's farming segment was DKK 619.3 million (DKK 610.1 million). The operating revenue for the farming segment for the first nine months of 2017 was DKK 2,409.3 million (DKK 2,063.6 million).

In Q3 2017, the farming segment's EBIT amounted to DKK 37.9 million (DKK 404.2 million). The farming segment's EBIT for the first nine months of 2017 was DKK 645.1 million (DKK 1,049.0 million).

Operational EBIT amounted to DKK 216.7 million (DKK 294.3 million) in Q3 2017, which corresponds to an operational EBIT margin of 35% (48%). In the first nine months of 2017, operational EBIT was DKK 1,079.4 million (DKK 912.9 million).

Operational EBIT/kg for the farming segment was DKK 18.70 (NOK 23.51) in Q3 2017, compared with DKK 27.59 (NOK 34.44) in Q3 2016.

Operational EBIT/kg for the first nine months of 2017 was DKK 25.02 (NOK 31.05), compared with DKK 26.38 (NOK 33.22) for the first nine months of 2016.

Harvested volumes	Q3	Q3	YTD	YTD
Tons gutted weight	2017	2016	2017	2016
Farming North	1,659	10,372	24,364	20,785
Farming West	9,926	292	18,781	13,817
<b>Total harvested volumes</b>	<b>11,585</b>	<b>10,664</b>	<b>43,145</b>	<b>34,602</b>

Smolt transfer						YTD	YTD
1,000 pieces	2012	2013	2014	2015	2016	2017	2016
Farming North	6,500	7,200	3,000	7,100	5,600	3,042	2,272
Farming West	4,200	2,300	7,400	4,200	*6,100	3,475	5,353
<b>Total</b>	<b>10,700</b>	<b>9,500</b>	<b>10,400</b>	<b>11,300</b>	<b>11,700</b>	<b>6,517</b>	<b>7,625</b>

\* Including smolt release for Faroe Farming prior to consolidation per 1 July 2016



## VAP Segment

Produced Volumes Q3 2017	5,209 tgw
EBIT Q3 2017	7.7 mDKK
Operational EBIT Q3 2017	-4.5 mDKK

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 fixed price contracts.

Value added products 1,000 DKK	Q3 2017	Q3 2016	Change	YTD 2017	YTD 2016	Change
Total revenue	246,230	201,258	22%	710,355	568,208	25%
EBIT	7,687	39,716	-81%	-44,610	-90,675	51%
Operational EBIT	-4,470	-46,695	90%	-111,988	-139,905	20%
VAP - Operational EBIT/kg (DKK)	-0.86	-11.34	92%	-7.93	-11.71	32%
VAP produced volumes (tgw)	5,209	4,119	26%	14,118	11,943	18%

### Volumes

45% (39%) of the total harvested volumes in Q3 2017 went to production of VAP products. 33% (33%) of the harvested volumes in the first nine months of 2017 went to production of VAP products.

The VAP production in Q3 2017 was 5,209 tonnes gutted weight (4,119 tgw). The increase in production in Q3 2017 was 26%, compared to Q3 2016. In the first nine months of 2017, the VAP production was 14,118 tgw (11,943 tgw).

### Financial performance

The operating revenue for the VAP segment amounted to DKK 246.2 million (DKK 201.3 million) in Q3 2017. The increase in revenue is due to higher volumes and higher prices in Q3 2017, compared with Q3 2016. In the first nine months of 2017, the VAP revenue was DKK 710.4 million (DKK 568.2 million).

The VAP segment had an EBIT amounting to DKK 7.7 million (DKK 39.7 million) in Q3 2017. Changes in onerous contracts of DKK 12.2 million (DKK 86.4 million) had an effect on the segment's EBIT in Q3 2017. In the first nine months of 2017, the VAP seg-

ment's EBIT amounted to DKK -44.6 million (DKK -90.7 million)

Operational EBIT amounted to DKK -4.5 million (DKK -46.7 million) in Q3 2017, corresponding to an operational EBIT of DKK -0.86 (NOK -1.08) per kg gutted weight in Q3 2017, compared with DKK -11.34 (NOK -14.15) per kg gutted weight in Q3 2016. The lower salmon spot prices in Q3 2017 had a positive effect on the VAP segment's margin as the VAP segment buys the raw material at spot prices. As expected, the VAP segment had improvements in operational costs in Q3 2017, compared to operational costs in the first half of 2017, which is related to start up issues.

For the first nine months of 2017, operational EBIT amounted to DKK -112.0 million (DKK -139.9 million), corresponding to an operational EBIT of DKK -7.93 (NOK -9.84) per kg, compared with an operational EBIT of DKK -11.71 (NOK -14.75) in the first nine months of 2016.

Distribution of harvested volumes	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Harvested volume used in the VAP production	45%	39%	33%	33%
Harvested volume sold fresh/frozen	55%	61%	67%	67%
<b>Harvested and purchased volumes</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## FOF Segment

Sold Feed Q3 2017	22,320 tonnes
EBIT Q3 2017	71.3 mDKK
EBITDA Q3 2017	79.5 mDKK

The FOF (fishmeal, oil and feed) segment produces fishmeal, fish oil and fish feed. Most of the production is used for fish feed, used internally in the farming segment. The quality of the fish feed is important to the quality of the salmon from Bakkafrøst. Fishmeal, fish oil and fish feed is also sold externally.

Fishmeal, Fish Oil and Fish Feed 1,000 DKK	Q3 2017	Q3 2016	Change	YTD 2017	YTD 2016	Change
Total revenue	342,130	320,111	7%	936,304	827,662	13%
EBIT	71,270	48,694	46%	147,869	157,619	-6%
EBITDA	79,493	62,354	27%	172,467	176,785	-2%
FOF - EBITDA margin	23.2%	19.5%	19%	18.4%	21.4%	-14%
Sold feed tonnes	22,320	28,850	-23%	59,179	59,599	-1%

### Volumes

During Q3 2017, Havsbrún received 21,937 tonnes (11,003 tonnes) of raw material for the production of fishmeal and fish oil. The raw material intake depends on the fishery in the North Atlantic and available species of fish. In the first nine months of 2017, Havsbrún received 291,604 tonnes (166,542 tonnes) of raw material.

The production of fishmeal in Q3 2017 was 5,615 tonnes (2,829 tonnes). For the first nine months of 2017, Havsbrún produced 62,332 tonnes (36,574 tonnes) of fishmeal.

The production of fish oil in Q3 2017 was 1,789 tonnes (1,075 tonnes). The production of fish oil varies, depending on the species of fish sourced for production and the timing of catch. For the first nine months of 2017, Havsbrún produced 6,291 tonnes (4,757 tonnes) of fish oil.

Sales of feed amounted to 22,320 tonnes (28,850 tonnes) in Q3 2017, of which the farming segment internally used 20,398 tonnes (27,344 tonnes) or 91% (95%). For the first nine months of 2017, Havsbrún sold 59,179 tonnes (59,599 tonnes) of feed.

### Financial performance

The operating revenue for the FOF segment amounted to DKK 342.1 million (DKK 320.1 million) in Q3 2017, of which DKK 184.7 million (DKK 285.1 million) represented sales to Bakkafrøst's farming segment, corresponding to 54% (89.1%). For the first nine months of 2017, the revenue amounted to DKK 936.3 million (DKK 827.7 million) of which DKK 519.7 million (DKK 572.9 million) represented sales to Bakkafrøst's farming segment, corresponding to 56% (69%).

Total revenue for the FOF segment in Q3 2017 increased 7%, compared to the same quarter last year. The internal revenue has decreased, but external sales have increased significantly. The increase in external revenue is due to higher volumes of fishmeal sold in Q3 2017, compared to Q3 2016.

EBITDA was DKK 79.5 million (DKK 62.4 million) in Q3 2017, and the EBITDA margin was 23.2% (19.5%). Havsbrún sources raw pelagic fish for the fishmeal and fish oil production, which are part of the recipe to produce salmon feed. For the first nine months of 2017, the EBITDA was DKK 172.5 million (DKK 176.8 million), corresponding to an EBITDA margin of 18.4% (21.4%).

Sales FOF volume (tonnes)	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Feed internal sale	20,398	27,344	55,363	54,853
Feed external sale	1,922	1,506	3,816	4,746
<b>Total Feed sold</b>	<b>22,320</b>	<b>28,850</b>	<b>59,179</b>	<b>59,599</b>
Fishmeal external sale	14,547	1,516	40,051	17,295
Fish oil external sale	10	1	10	6

## Outlook

### Market

The salmon prices have been on record high levels since 2016, but as expected, the salmon price decreased in Q3 2017 as supply of salmon increased. The latest update from Kontali Analyse estimates the global supply of Atlantic salmon to increase around 2% in 2017 and 7-8% in 2018, compared to -6% in 2016.

The market place is one of Bakkafrost's most significant risk areas. To diversify the geographical market risk, Bakkafrost 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 number of sea lice has demanded more effort in Q3 2017 than in Q3 2016 and has caused reduction of growth in the quarter, which will most likely postpone some harvest quantity from Q4 2017 to Q1 2018. Bakkafrost focuses on using non-chemical methods in treatments against sea lice. Bakkafrost has now two service vessels, M/S Martin and M/S Róland, which use lukewarm seawater treatment against sea lice. In addition, M/S Hans á Bakka – whose primary operation is transportation of live fish – can be used in treatment against sea lice with freshwater treatment. Bakkafrost will increase the use of lumpfish in farming in 2018.

The confirmed presence of pathogenic ISA-virus at farming site A-73 in March draws attention to the importance of a high quality veterinary system to reduce the biological risk. The harvest of the fish at farming site A-73 was finished on 12<sup>th</sup> April 2017, and the site has been fallowed for a period of 6 months. Bakkafrost focuses on biological risk continuously and has made several new investments and procedures to diminish this risk.

Bakkafrost's guidance for harvest in 2017 is increased by 1,000 tonnes gutted weight, from 53,500 to 54,500 tonnes gutted weight. In 2018, Bakkafrost expects to harvest 51,000 tonnes gutted weight.

Bakkafrost expects to release 10.5 million smolts in 2017, compared with 11.7 million smolts in 2016 and 11.3 million smolts released in 2015. In 2018, Bakkafrost expects to release 13.0 million smolts. The number of smolts released is a key element of predicting Bakkafrost's future production.

The construction of the new hatchery at Strond, Klaksvík, progresses according to plan. The hatchery is expected to be in operation during 2018 and deliver full capacity from 2020. 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.

### VAP (Value added products)

Bakkafrost has signed contracts covering around 53% of the expected harvested volumes for the rest of 2017 and is presently negotiating new contracts for 2018.

The VAP contracts are at fixed prices, based on the salmon forward prices at the time they are agreed and the expectations for the salmon spot price for the contract period. The contracts last for 6 to 12 months.

The long-term strategy is 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.

### FOF (Fishmeal, oil and feed)

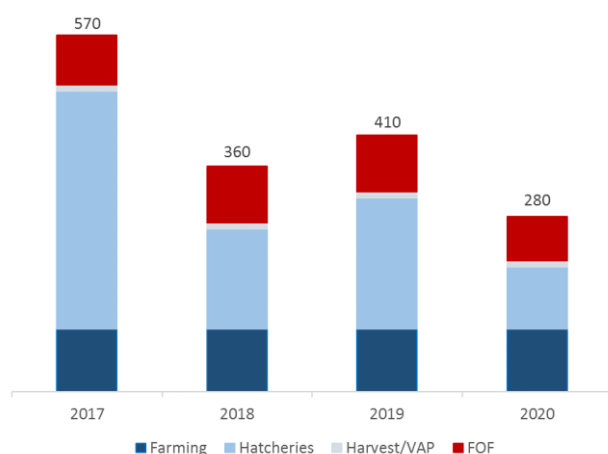
The outlook for the production of fishmeal and fish oil is dependent on the availability of raw material. The ICES 2018 recommendation for blue whiting is 1,388 thousand tonnes, compared with 1,342 thousand tonnes in 2017. The production of fishmeal and fish oil in 2018 will most likely be at the same level as in 2017.

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 80,000 tonnes, which is a reduction of 5,000 tonnes from previous expectation for fish feed sales in 2017. The reduction is related to lower growth in Q3 2017, as mentioned under Farming. Depending on external sales, the sales of fish feed in 2018 is expected to be at 85,000 tonnes.

## Investments

In June 2016, Bakkafröst announced a five-year investment plan from 2016 to 2020. The total investments for the period are DKK 2.2 billion, including maintenance CAPEX. Investments of around DKK 100 million in the two service vessels, M/S Martin and M/S Róland during 2017, are not included in the investment plan.



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.

Bakkafröst 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 Bakkafröst's total investments from 2016 to 2020 will be in hatcheries.

Bakkafröst has started upgrading the harvest operation in Vágur, Suðuroy. The upgrading cost is expected to be around DKK 40 million.

Bakkafröst plans to increase the value of offcuts from salmon harvested and processed in the new harvest/VAP factory. The new salmon meal and salmon oil plant, located in Fuglafjørður and operated by Havsbrún, is expected to start operation in the beginning of 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

Favourable market balances in the world market for salmon products and cost-conscious production will likely maintain the financial flexibility going forward. A high equity ratio together with Bakkafröst's bank and bond financing makes Bakkafröst's financial situation strong. This enables Bakkafröst 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.



## Risks

The Annual Report 2016 is available on request from Bakkafröst and on Bakkafröst's website, [www.bakkafröst.com](http://www.bakkafröst.com).

Bakkafröst is, as explained in the Annual Report 2016, exposed to the salmon price. A limited increase in supply is expected in 2017 and therefore a tight market balance.

Biological risk has been and will be a substantial risk for Bakkafröst. The Annual Report 2016 gives more explanation on the biological risk and Bakkafröst's risk management in this regard.

Reference is made to the Outlook section of this report for other comments to Bakkafröst's risk exposure and to Note 3.

## Events after the Date of the Statement of Financial Position

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

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

The Management and the Board of Directors have today considered and approved the interim report of P/F Bakkafrost for the period 1 January 2017 to 30 September 2017.

The interim report, which has not been audited or reviewed by the company's independent auditors, has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and Faroese disclosure requirements for listed companies.

In our opinion, the accounting policies used are appropriate, and the interim report gives a true and fair view of the Group's financial positions at 30 September 2017, as well as the results of the Group activities

and cash flows for the period 1 January 2017 to 30 September 2017.

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

Over and above the disclosures in the interim report, no changes in the Group's most significant risks and uncertainties have occurred relative to the disclosures in the annual report for 2016.

Glyvrrar, November 13<sup>th</sup>, 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

## Consolidated Income Statement

For the period ended 30 September 2017

DKK 1,000	Q3 2017	Q3 2016	YTD 2017	YTD 2016
<b>Operating revenue</b>	<b>804,150</b>	<b>639,999</b>	<b>2,863,979</b>	<b>2,334,239</b>
Purchase of goods	-159,166	-159,521	-759,807	-709,060
Change in inventory and biological assets (at cost)	-72,885	53,180	-128,134	21,943
Salary and personnel expenses	-85,361	-73,632	-293,523	-229,729
Other operating expenses	-184,755	-173,046	-498,850	-512,442
Depreciation	-50,187	-32,311	-137,258	-89,620
<b>Operational EBIT *</b>	<b>251,796</b>	<b>254,669</b>	<b>1,046,407</b>	<b>815,331</b>
Fair value adjustments of biological assets	-155,122	121,802	-334,846	200,069
Onerous contracts	12,157	86,411	67,376	49,230
Income from associates	-1,037	-4,689	-1,097	5,063
Revenue tax	-23,712	-23,370	-99,392	-75,465
Badwill	0	10,440	0	10,440
<b>Earnings before interest and taxes (EBIT)</b>	<b>84,082</b>	<b>445,263</b>	<b>678,448</b>	<b>1,004,668</b>
Net interest revenue	456	214	1,010	1,383
Net interest expenses	-6,814	-6,507	-20,361	-19,496
Net currency effects	-8,728	-13,987	-4,610	-27,314
Other financial expenses	-1,035	-1,022	-3,362	-3,133
<b>Earnings before taxes (EBT)</b>	<b>67,961</b>	<b>423,961</b>	<b>651,125</b>	<b>956,108</b>
Taxes	-11,746	-77,611	-117,814	-172,686
<b>Profit or loss for the period</b>	<b>56,215</b>	<b>346,350</b>	<b>533,311</b>	<b>783,422</b>
<b>Profit or loss for the year attributable to</b>				
Non-controlling interests	0	0	0	0
<b>Owners of P/F Bakkafrøst</b>	<b>56,215</b>	<b>346,350</b>	<b>533,311</b>	<b>783,422</b>
Earnings per share (DKK)	1.16	7.13	10.97	16.13
Diluted earnings per share (DKK)	1.16	7.13	10.97	16.13

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

## Consolidated Statement of Comprehensive Income

For the period ended 30 September 2017

DKK 1,000	Q3 2017	Q3 2016	YTD 2017	YTD 2016
<b>Profit for the period</b>	<b>56,215</b>	<b>346,350</b>	<b>533,311</b>	<b>783,422</b>
Fair value adjustment of financial derivatives	6,830	16,962	-10,889	30,875
Income tax effect	-1,042	-2,588	1,661	-4,710
Reserve to share based payment	195	392	415	1,175
Currency translation differences	319	1,462	732	3,820
Adjustment of treasury shares	191	177	4,249	-1,526
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>6,493</b>	<b>16,405</b>	<b>-3,832</b>	<b>29,634</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>0</b>	<b>0</b>
<b>Other comprehensive income</b>	<b>6,493</b>	<b>16,405</b>	<b>-3,832</b>	<b>29,634</b>
<b>Total other comprehensive income for the period</b>	<b>62,708</b>	<b>362,755</b>	<b>529,479</b>	<b>813,056</b>
<b>Comprehensive income for the period attributable to</b>				
Non- controlling interests	0	0	0	0
Owners of P/F Bakkafrøst	62,708	362,755	529,479	813,056



# Consolidated Statement of Financial Position

As at 30 September 2017

	30 Sept	31 Dec
DKK 1,000	2017	2016
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	376,675	376,675
Property, plant and equipment	2,447,998	2,118,470
Financial assets	58,303	59,407
Long term receivables	0	12,660
<b>Total non-current assets</b>	<b>2,882,976</b>	<b>2,567,212</b>
<b>Current assets</b>		
Biological assets (biomass)	1,416,990	1,858,435
Inventory	352,858	355,604
<b>Total inventory</b>	<b>1,769,848</b>	<b>2,214,039</b>
Accounts receivables	333,423	292,009
Other receivables	31,845	109,860
<b>Total receivables</b>	<b>365,268</b>	<b>401,869</b>
<b>Cash and cash equivalents</b>	<b>347,394</b>	<b>234,996</b>
<b>Total current assets</b>	<b>2,482,510</b>	<b>2,850,904</b>
<b>TOTAL ASSETS</b>	<b>5,365,486</b>	<b>5,418,116</b>

## Consolidated Statement of Financial Position

As at 30 September 2017

DKK 1,000	30 Sept 2017	31 Dec 2016
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	48,858	48,858
Other equity	3,612,988	3,500,177
<b>Total equity</b>	<b>3,661,846</b>	<b>3,549,035</b>
<b>Non-current liabilities</b>		
Deferred and other taxes	660,664	545,699
Long-term interest-bearing debt	256,475	827,146
Financial derivatives	0	101,456
<b>Total non-current liabilities</b>	<b>917,139</b>	<b>1,474,301</b>
<b>Current liabilities</b>		
Financial derivatives	110,798	0
Short-term interest-bearing debt	395,350	0
Accounts payable and other debt	280,353	394,780
<b>Total current liabilities</b>	<b>786,501</b>	<b>394,780</b>
<b>Total liabilities</b>	<b>1,703,640</b>	<b>1,869,081</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5,365,486</b>	<b>5,418,116</b>

## Consolidated Cash Flow Statement

For the period ended 30 September 2017

DKK 1,000	Q3 2017	Q3 2016	YTD 2017	YTD 2016
<b>Earnings before interest and taxes (EBIT)</b>	<b>84,082</b>	<b>445,263</b>	<b>678,448</b>	<b>1,004,668</b>
Adjustments for write-downs and depreciation	50,187	32,311	137,258	89,620
Adjustments for value adjustment on biomass	155,122	-121,802	334,846	-200,069
Adjustments for income from associates	1,037	10,362	1,097	612
Adjustments for goodwill	0	-10,440	0	-10,440
Adjustments for currency effects	-8,227	-13,584	1,939	-25,530
Adjustments for provision for onerous contracts	-12,157	-86,411	-67,376	-49,230
Received dividend	0	0	0	3,186
Change in inventory	78,672	-28,383	109,345	10,382
Change in receivables	55,139	64,900	52,308	24,553
Change in current debts	-70,252	-7,365	-50,961	-70,262
<b>Cash flow from operations</b>	<b>333,603</b>	<b>284,851</b>	<b>1,196,904</b>	<b>777,490</b>
<b>Cash flow from investments</b>				
Payments made for purchase of fixed assets	-117,837	-154,326	-466,778	-472,997
Dividends received from associates	0	0	0	1,325
<b>Cash flow from investments</b>	<b>-117,837</b>	<b>-229,326</b>	<b>-466,778</b>	<b>-546,672</b>
<b>Cash flow from financing</b>				
Change of interest-bearing debt (short and long)	-214,517	-32,692	-174,898	256,773
Financial income	455	214	1,009	1,382
Financial expenses	-7,849	-7,529	-23,723	-22,946
Net proceeds from sale of own shares	190	321	2,679	3,552
Financing of associate	0	51,287	0	70,048
Dividend paid	0	0	-422,795	-400,623
<b>Cash flow from financing</b>	<b>-221,721</b>	<b>11,601</b>	<b>-617,728</b>	<b>-91,814</b>
<b>Net change in cash and cash equivalents in period</b>	<b>-5,955</b>	<b>67,126</b>	<b>112,398</b>	<b>139,004</b>
Cash and cash equivalents – opening balance	353,349	173,730	234,996	101,852
<b>Cash and cash equivalents – closing balance total</b>	<b>347,394</b>	<b>240,856</b>	<b>347,394</b>	<b>173,730</b>

# Consolidated Statement of Changes in Equity

As at 30 September 2017

DKK 1,000	Share Capital	Share Premium Reserve	Treasury Shares	Share-based Payment	Currency translation differences	Derivatives	Proposed Dividend	Biomass Fair value adjustments	Retained Earnings	Total Equity
Equity 01.01.2017	48,858	306,537	-21,045	2,651	5,856	-83,196	425,065	880,491	1,983,818	3,549,035
<b>Consolidated profit</b>	0	0	0	0	0	0	0	-334,846	874,279	539,433
<i>Other comprehensive income:</i>										
Fair value adjustment of financial derivatives	0	0	0	0	0	-10,889	0	0	0	-10,889
Income tax effect	0	0	0	0	0	1,661	0	0	0	1,661
Share-based payment	0	0	0	415	0	0	0	0	0	415
Currency translation differences	0	0	0	0	732	0	0	0	0	732
<b>Total other comprehensive income</b>	0	0	0	415	732	-9,228	0	0	0	-8,081
<b>Total comprehensive income</b>	0	0	0	415	732	-9,228	0	-334,846	874,279	531,352
<i>Transaction with owners:</i>										
Treasury shares	0	0	4,249	0	0	0	0	0	0	4,249
Paid-out dividend	0	0	0	0	0	0	-425,065	0	2,271	-422,794
Proposed dividend	0	0	0	0	0	0	0	0	0	0
<b>Total transaction with owners</b>	0	0	4,249	0	0	0	-425,065	0	2,271	-418,545
<b>Total changes in equity</b>	0	0	4,249	415	732	-9,228	-425,065	-334,846	876,550	112,807
<b>Total equity 30.09.2017</b>	<b>48,858</b>	<b>306,537</b>	<b>-16,796</b>	<b>3,066</b>	<b>6,588</b>	<b>-92,424</b>	<b>0</b>	<b>545,645</b>	<b>2,860,368</b>	<b>3,661,842</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>	0	0	0	0	0	0	0	623,214	719,514	1,342,728
<i>Other comprehensive income:</i>										
Fair value adjustment of 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>	0	0	0	1,566	3,822	22,425	0	0	0	27,813
<b>Total comprehensive income</b>	0	0	0	1,566	3,822	22,425	0	623,214	719,514	1,370,541
<i>Transaction with owners:</i>										
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>	0	0	-1,366	0	0	0	21,986	0	-422,608	-401,988
<b>Total changes in equity</b>	0	0	-1,366	1,566	3,822	22,425	21,986	623,214	296,906	968,553
<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 01.01.2016</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>	0	0	0	0	0	0	0	-200,069	987,729	787,660
<i>Other comprehensive income:</i>										
Fair value adjustment of financial derivatives	0	0	0	0	0	30,876	0	0	0	30,876
Income tax effect	0	0	0	0	0	-4,710	0	0	0	-4,710
Share-based payment	0	0	0	1,175	0	0	0	0	0	1,175
Currency translation differences	0	0	0	0	3,820	0	0	0	0	3,820
<b>Total other comprehensive income</b>	0	0	0	1,175	3,820	26,166	0	0	0	31,161
<b>Total comprehensive income</b>	0	0	0	1,175	3,820	26,166	0	-200,069	987,729	818,821
<i>Transaction with owners:</i>										
Treasury shares	0	0	-1,526	0	0	0	0	0	0	-1,526
Paid-out dividend	0	0	0	0	0	0	-403,079	0	2,457	-400,622
Proposed dividend	0	0	0	0	0	0	0	0	0	0
<b>Total transaction with owners</b>	0	0	-1,526	0	0	0	-403,079	0	2,457	-402,148
<b>Total changes in equity</b>	0	0	-1,526	1,175	3,820	26,166	-403,079	-200,069	990,186	416,673
<b>Total equity 30.09.2016</b>	<b>48,858</b>	<b>306,537</b>	<b>-21,205</b>	<b>2,260</b>	<b>5,854</b>	<b>-79,455</b>	<b>0</b>	<b>57,208</b>	<b>2,677,098</b>	<b>2,997,155</b>



## Notes to the Account

### Accounting Policy

#### General Information

P/F Bakkafrost is a limited company incorporated and domiciled in the Faroe Islands.

The Group's Annual Report as at 31 December 2016 is available upon request from the company's regist-

ered office at Bakkavegur 8, FO-625 Glyvrrar, Faroe Islands, or at [www.bakkafrost.com](http://www.bakkafrost.com).

This Condensed Consolidated Interim Report is presented in DKK.

#### Note 1. Statement of Compliance

This Condensed Consolidated Interim Report has been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 Interim Financial Reporting as adopted by the EU. It does not include all the information required for the full Annual and Consolidated Report and Accounts and should

be read in conjunction with the Annual and Consolidated Report and Accounts for the Group as at 31 December 2016.

This interim report has not been subject to any external audit.

#### Note 2. Significant Accounting Policies

The accounting policies applied by the Group in this Condensed Consolidated Interim Report are the same as those applied in the Annual Report as at and for the year ended 31 December 2016.

The company has, nevertheless, chosen to reproduce the note on biological assets from the Annual Report 2016. The information in the note is adjusted,

as Bakkafrost has changed the calculation model in Q1 2017. The new model involves calculation techniques and does not represent a change in accounting policies.

Please refer to Note 4 for further information.

#### Note 3. Estimates and Risk Exposures

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting principles and recognized amounts of assets, liabilities, income and expenses. The most significant estimates relate to the valuation of biological assets and some financial instruments, which are measured at fair value. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on the management's best assessment at the time of reporting. All changes in estimates are reflected in the financial statements as they occur.

The accounting estimates are described in the notes to the financial statements in the Annual Report 2016.

For other risk exposures, reference is made to the Management's Statement in the Annual Report for 2016, where Bakkafrost's operational and financial risks are described, as well as to Note 4.1 (Financial risk management) in the same report.

The risks and uncertainties described therein are expected to remain.

## Note 4. Biomass

DKK 1,000	30 Sept 2017	30 Sept 2016	31 Dec 2016
Biological assets carrying amount 01.01.	1,858,434	1,060,274	1,060,274
Increase due to production or purchases	1,030,442	988,986	1,408,220
Increase due to acquisitions - fair value included	0	118,233	118,233
Reduction due to harvesting or sale (costs of goods sold)	-1,154,897	-935,257	-1,296,244
Reduction due to mortality (costs of incident based mortality)	-15,794	0	0
Fair value adjustment at the beginning of the period reversed	-880,492	-257,278	-257,278
Fair value adjustment at the end of the period	545,646	472,366	880,492
Reversal of elimination at the beginning of the period	98,487	43,224	43,224
Eliminations	-64,837	-78,004	-98,487
<b>Biological assets carrying amount at the end of the period</b>	<b>1,416,990</b>	<b>1,412,544</b>	<b>1,858,434</b>
Cost price biological assets	929,041	994,609	1,054,429
Capitalized interest	7,139	23,573	22,000
Fair value adjustment at the end of the period	545,646	472,366	880,492
Eliminations	-64,837	-78,004	-98,487
<b>Biological assets carrying amount</b>	<b>1,416,990</b>	<b>1,412,544</b>	<b>1,858,434</b>
Biomass < 1 kg on average (tonnes)	2,134	2,420	2,039
Biomass 1 kg < 2 kg on average (tonnes)	3,892	5,794	5,866
Biomass 2 kg < 3 kg on average (tonnes)	3,727	6,775	6,523
Biomass 3 kg < 4 kg on average (tonnes)	6,572	10,929	5,168
Biomass 4 kg < on average (tonnes)	21,345	15,389	25,513
<b>Volume of biomass at sea (tonnes)</b>	<b>37,670</b>	<b>41,307</b>	<b>45,109</b>
Number of fish < 1 kg on average (thousand)	4,111	4,821	4,884
Number of fish 1 kg < 2 kg on average (thousand)	2,524	4,155	3,650
Number of fish 2 kg < 3 kg on average (thousand)	1,476	2,519	2,730
Number of fish 3 kg < 4 kg on average (thousand)	1,930	3,221	1,462
Number of fish 4 kg < on average (thousand)	3,947	2,790	5,123
<b>Total number of fish at sea (thousand)</b>	<b>13,988</b>	<b>17,506</b>	<b>17,849</b>
Number of smolts released YTD in Farming North (thousand)	3,042	2,272	5,590
Number of smolts released YTD in Farming West (thousand)	3,475	5,353	5,353
<b>Total number of smolts YTD released (thousand)</b>	<b>6,517</b>	<b>7,625</b>	<b>10,943</b>

## § ACCOUNTING POLICIES

### 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. In the accounts, the change in estimated fair value is entered to the Income Statement on a continuous basis.

The Group's biological assets are salmon at all stages of the life cycle. The fish is divided into two main groups, depending on the stage of the life cycle. The first group is fish produced on shore. The second is, when the fish is released to sea.

For the first group, historical cost is deemed a reasonable approach to fair value, as there is little biological transformation. This assessment must be seen in the light of the fact that smolts are currently released to sea at a stage, when their weight is still relatively low.

For the second group, the fair value is calculated by applying a present value model at level 3 in the fair value hierarchy in IFRS 13. In accordance with the principle in IFRS 13 for highest and best use, the Group considers optimal harvest weight to be 5.2 kg gutted weight (6.3 kg live weight).

In November 2015, the Financial Supervisory Authority of Norway published a report on thematic supervision of fish-farming companies. The report encouraged that the valuation model of biological assets is revised and harmonized by the industry.

Bakkafrost has been part of a cross-industry group with the purpose to replace the growth model with a present value model (discounted cash flow). Bakkafrost has applied the changed model with effect from Q1 2017.

Taking into account the industry's common goal to harmonize the model, Bakkafrost expects minor changes and adaptations to the model and parameters during 2017.

Changes to the model involve calculation techniques and do not represent a change in accounting policies. The impact of the change has therefore been recorded through profit or loss in 2017. The impact of the transition on the financial statements is presented in the note on biological assets.

The change between the old and the new calculation has an effect on the profit and loss accounts for the first nine months of 2017 of DKK +139.7 million.

### The valuation model

The valuation model calculates the net present value of expected cash flow from biological assets.

Changes to estimated fair value of biological assets are presented on the line Fair value adjustments of biological assets in the Income Statement.

The measurement unit is the individual fish. However, for practical reasons, cash flows and estimates are carried out per locality.

Main components in the model are:

- Volume
- Production costs
- Sales price
- Discount rate

### Volume

Estimated harvest volume is based on the actual number of fish in the sea on the balance sheet date minus estimated future mortality from balance sheet date and multiplied by optimal harvest weight per fish.

Future mortality is estimated to be 0.6% of the number of incoming fish per month.

### Cost

Estimated future costs are based on Bakkafrost's prognoses per locality.

Cost comprises of mainly feed-, production-, harvest- and transport costs.

### Price

Estimated sales prices are based on externally quoted prices from Fish Pool.

Fish Pool is a market place for financial purchase and sale agreements for superior Norwegian salmon size 3-6 kg gutted weight. The volume on Fish Pool is, however, limited. This market is therefore initially to be insufficiently active and effective. Despite this, Bakkafrost's opinion is that the observable forward prices must be seen as the best approach to a price for the sale of salmon.

## Fish Pool forward prices in EUR FCA Oslo

Q3 17	5.61
Q4 17	6.40
Q1-18	6.72
Q2-18	6.54
Q3-18	6.01
Q4-18	6.07

**Discounts**

The estimated future cash flow is discounted monthly. The monthly discount rate at 30 September 2017 is estimated to be 6% per month. The discount rate takes into account a risk adjustment and time value. The risk adjustment takes into account the volatility in volume, costs and price.

**Mortality**

Mortality above normal will be accounted for, when a farming site either experiences elevated mortality over time or mortality due to an incident.

Costs related to abnormal mortality will be recognized in the Income Statement and presented on the line for changes in inventory, while normal mortality is classified as part of production costs.

Bakkafrost uses a common indicator and threshold for all farming sites to assess normal and abnormal mortality. Indication of abnormal mortality is when a farming site in a month registers mortality exceeding

1.5% of the incoming number of fish. A more detailed assessment is then carried out to evaluate, whether mortality is abnormal. These assessments take into account the cause of mortality and the size of the fish.

Bakkafrost recorded incident based mortality costs of DKK 15.8 million in Q3 2017 (DKK 0 million in Q3 2016). These incidents are related to lice mitigation. The cost is included in the line item purchase of goods in the consolidated income statement.

**SIGNIFICANT ASSUMPTIONS****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.

The Group considers three components to be key parameters for valuation. These are: average price, monthly discount rate and estimated biomass volume. The table below shows a simulated sensitivity to changes in fair value of the biological assets in the event of changes in these parameters.

**Sensitivity (DKK 1,000)**

Change in discount rate +1%	78,489
Change in discount rate -1%	-87,212
Change in sales price +5 DKK	-217,583
Change in sales price -5 DKK	217,583
Change in biomass volume +1%	-6,529
Change in biomass volume -1%	6,529



## Note 5. Segments

Farming segment	Q3	Q3	YTD	YTD
DKK 1,000	2017	2016	2017	2016
External revenue	405,687	399,748	1,736,999	1,498,278
Internal revenue	213,602	210,401	672,279	565,347
<b>Total revenue</b>	<b>619,289</b>	<b>610,149</b>	<b>2,409,278</b>	<b>2,063,625</b>
Operating expenses	-363,870	-293,192	-1,228,284	-1,089,294
Depreciation and amortization	-38,728	-22,692	-101,621	-61,431
<b>Operational EBIT</b>	<b>216,691</b>	<b>294,265</b>	<b>1,079,373</b>	<b>912,900</b>
Fair value adjustments of biological assets	-155,122	121,802	-334,846	200,069
Badwill related to the acquisition of Faroe Farming	0	10,440	0	10,440
Income from associates	0	1,053	0	1,010
Revenue tax	-23,712	-23,370	-99,392	-75,465
<b>Earnings before interest and taxes (EBIT)</b>	<b>37,857</b>	<b>404,190</b>	<b>645,135</b>	<b>1,048,954</b>
Net interest revenue	456	-835	1,010	-3,612
Net interest expenses	-5,495	151	-16,816	437
Net currency effects	-7,920	-14,690	477	-29,588
Other financial expenses	-976	-971	-3,194	-2,977
<b>Earnings before taxes (EBT)</b>	<b>23,922</b>	<b>387,845</b>	<b>626,612</b>	<b>1,013,214</b>
Taxes	2,072	-62,589	-100,812	-162,942
<b>Profit or loss for the period</b>	<b>25,994</b>	<b>325,256</b>	<b>525,800</b>	<b>850,272</b>

Value Added Products	Q3	Q3	YTD	YTD
DKK 1,000	2017	2016	2017	2016
<b>External revenue</b>	<b>246,230</b>	<b>201,258</b>	<b>710,355</b>	<b>568,208</b>
Internal purchase of raw material	-213,602	-210,401	-672,278	-565,347
Operating expenses	-32,825	-35,851	-137,929	-137,796
Depreciation and amortization	-4,273	-1,701	-12,136	-4,970
<b>Operational EBIT</b>	<b>-4,470</b>	<b>-46,695</b>	<b>-111,988</b>	<b>-139,905</b>
Provision for onerous contracts	12,157	86,411	67,378	49,230
<b>Earnings before interest and taxes (EBIT)</b>	<b>7,687</b>	<b>39,716</b>	<b>-44,610</b>	<b>-90,675</b>
Net interest revenue	0	1,018	0	4,738
Net interest expenses	-238	0	-699	-5
Net currency effects	30	0	-295	-2
Other financial expenses	-4	-4	-8	-12
<b>Earnings before taxes (EBT)</b>	<b>7,475</b>	<b>40,730</b>	<b>-45,612</b>	<b>-85,956</b>
Taxes	-1,345	-7,332	8,211	15,471
<b>Profit or loss for the period</b>	<b>6,130</b>	<b>33,398</b>	<b>-37,401</b>	<b>-70,485</b>

Fishmeal, Fish Oil and Fish Feed	Q3	Q3	YTD	YTD
DKK 1,000	2017	2016	2017	2016
External revenue	157,430	35,030	416,625	254,807
Internal revenue	184,700	285,081	519,679	572,855
<b>Total revenue</b>	<b>342,130</b>	<b>320,111</b>	<b>936,304</b>	<b>827,662</b>
Cost of goods sold	-230,388	-224,977	-623,547	-532,206
Operating expenses	-32,249	-32,780	-140,290	-118,671
Depreciation and amortization	-7,186	-7,918	-23,501	-23,219
<b>Operational EBIT</b>	<b>72,307</b>	<b>54,436</b>	<b>148,966</b>	<b>153,566</b>
Income from associates	-1,037	-5,742	-1,097	4,053
<b>Earnings before interest and taxes (EBIT)</b>	<b>71,270</b>	<b>48,694</b>	<b>147,869</b>	<b>157,619</b>
Net interest revenue	0	31	0	257
Net interest expenses	-1,081	-6,658	-2,846	-19,928
Net currency effects	-838	703	-4,792	2,276
Other financial expenses	-55	-47	-160	-144
<b>Earnings before taxes (EBT)</b>	<b>69,296</b>	<b>42,723</b>	<b>140,071</b>	<b>140,080</b>
Taxes	-12,473	-7,690	-25,213	-25,215
<b>Profit or loss for the period</b>	<b>56,823</b>	<b>35,033</b>	<b>114,858</b>	<b>114,865</b>

Reconciliation of reportable segments to Group earnings before taxes (EBT)	Q3	Q3	YTD	YTD
DKK 1,000	2017	2016	2017	2016
Farming	23,922	387,845	626,612	1,013,214
VAP (Value Added Products)	7,475	40,730	-45,612	-85,956
FOF (Fishmeal, Fish Oil and Fish Feed)	69,296	42,723	140,071	140,080
Eliminations	-32,732	-47,337	-69,946	-111,229
<b>Group earnings before taxes (EBT)</b>	<b>67,961</b>	<b>423,961</b>	<b>651,125</b>	<b>956,109</b>

Assets and liabilities per segment DKK 1,000	30 Sept 2017	30 Sept 2016	31 Dec 2016
Farming	4,950,906	4,519,277	5,060,263
VAP (Value Added Products)	329,112	154,561	375,538
FOF (Fishmeal, Fish Oil and Fish Feed)	801,759	690,126	703,222
Eliminations	-716,291	-623,428	-720,907
<b>Total assets</b>	<b>5,365,486</b>	<b>4,740,536</b>	<b>5,418,116</b>
Farming	-471,522	-861,644	-710,184
VAP (Value Added Products)	-5,321	-15,968	-25,895
FOF (Fishmeal, Fish Oil and Fish Feed)	-461,634	-540,565	-495,784
Eliminations	-765,163	-325,204	-637,218
<b>Total liabilities</b>	<b>-1,703,640</b>	<b>-1,743,381</b>	<b>-1,869,081</b>

## Note 6. Capital commitments

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

303.7 million. DKK 243.3 million relate to the building of new hatchery stations.

## Note 7. Transactions with related parties

Note 5.2 in Bakkafrøst's Annual Report for 2016 provides detailed information on related parties' transactions.

actions. As these transactions are eliminated on consolidation, they are not disclosed as related party transactions.

Transactions between P/F Bakkafrøst and its subsidiaries meet the definition of related party trans-

## Note 8. Fair value measurements

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 hier-

archy) where the value is estimated based on observable market prices per period end.

For more information on these calculations, please refer to Note 4.

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 30 September 2017, 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
Biological assets (biomass)	1,416,990	871,343	0	0	1,416,990
<b>Assets measured at fair value 30/9-2017</b>	<b>1,416,990</b>	<b>871,343</b>	<b>0</b>	<b>0</b>	<b>1,416,990</b>
<b>Liabilities measured at fair value 30/9-2017</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Biological assets (biomass)	1,858,434	977,942	0	0	1,858,434
<b>Assets measured at fair value 31/12-2016</b>	<b>1,858,434</b>	<b>977,942</b>	<b>0</b>	<b>0</b>	<b>1,858,434</b>
<b>Liabilities measured at fair value 31/12-2016</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Note 9. APM

### - 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), derivatives and cash and cash equivalents. A reconciliation is provided below.

DKK 1,000	30 Sept 2017	31 Dec 2016
Cash and cash equivalents	347,394	234,996
Deposit for interest- and currency swap	59,670	58,340
Derivatives	-110,798	-101,456
Long- and short-term interest-bearing debt	-651,825	-827,146
<b>Net interest-bearing debt</b>	<b>-355,559</b>	<b>-635,266</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	Q3 2017	Q3 2016	YTD 2017	YTD 2016
<b>EBIT</b>	<b>84,082</b>	<b>445,263</b>	<b>678,448</b>	<b>1,004,668</b>
Fair value adjustments of biological assets	155,122	-121,802	334,846	-200,069
Onerous contracts	-12,157	-86,411	-67,376	-49,230
Badwill	0	-10,440	0	-10,440
Income from associates	1,037	4,689	1,097	-5,063
Revenue tax	23,712	23,370	99,392	75,465
<b>Operational EBIT</b>	<b>251,796</b>	<b>254,669</b>	<b>1,046,407</b>	<b>815,331</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 below, as it is

Bakkafrøst's view that this figure provides a more reliable measure of the underlying performance.

DKK 1,000	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Profit for the year to the shareholders of P/F Bakkafrøst	56,215	346,350	533,311	783,422
Fair value adjustment of biomass	155,122	-121,802	334,846	-200,069
Onerous contracts provisions	-12,157	-86,411	-67,376	-49,230
Tax on fair value adjustment	-25,734	37,478	-48,145	44,874
<b>Adjusted profit for the year to shareholders of P/F Bakkafrøst</b>	<b>173,446</b>	<b>175,615</b>	<b>752,636</b>	<b>578,997</b>
<b>Time-weighted average number of shares outstanding through the year</b>	<b>48,600,933</b>	<b>48,566,496</b>	<b>48,600,933</b>	<b>48,566,496</b>
<b>Adjusted earnings per share (before fair value adjustment of biomass and provisions for onerous contracts (adjusted EPS))</b>	<b>3.57</b>	<b>3.62</b>	<b>15.49</b>	<b>11.92</b>



**ROCE**

Return on average capital employed (ROCE) is defined as the period's operational EBIT divided by the average capital employed, which is total assets

adjusted for total current liabilities. The performance measure is expressed as a percentage and is useful for evaluating Bakkafrøst's profitability.

	Q3	Q3	YTD	YTD
DKK 1,000	2017	2016	2017	2016
Group -Operational EBIT	251,796	254,669	1,046,407	815,331
Average Capital Employed	4,651,018	4,148,740	4,651,018	4,148,740
<b>ROCE</b>	<b>5.4%</b>	<b>6.1%</b>	<b>22.5%</b>	<b>19.7%</b>

## Contacts

**P/F BAKKAFROST**

Bakkavegur 8

FO-625 Glyvvar

Faroe Islands

Telephone: +298 40 50 00

Fax: +298 40 50 09

Email: [bakkafrost@bakkafrost.com](mailto:bakkafrost@bakkafrost.com)

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