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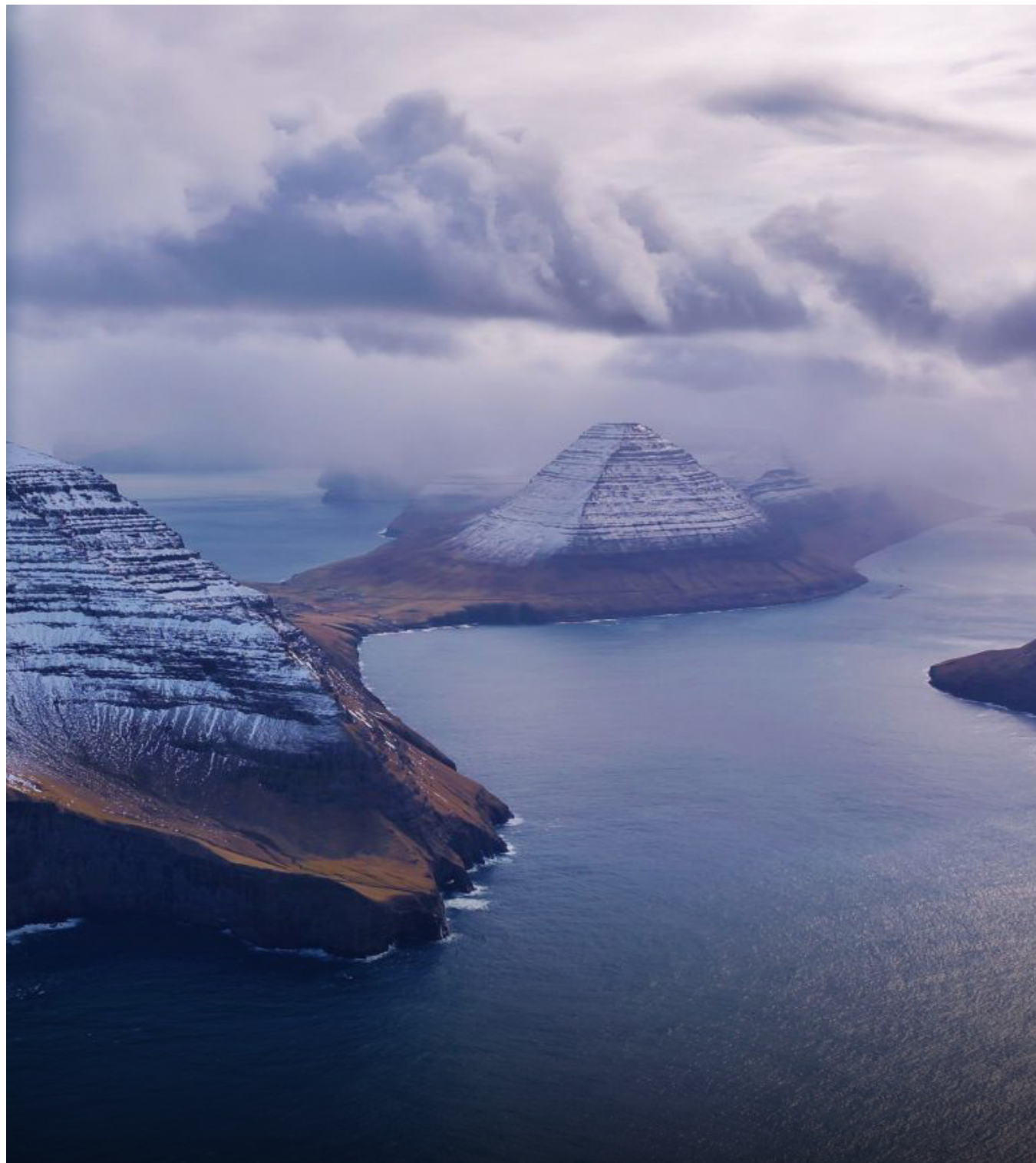
# ANNUAL REPORT

## 2017

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

Faroese Company Registration No. 1724



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# Chairman's Statement

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

## OVERVIEW

2017 was a landmark in Bakkafróst's history. The investment in the combined harvest and value added production facility in Glyvrrar was finalized, and this concludes the merging of seven factories into one facility. Looking at the performance, 2017 was also satisfactory. The operating EBIT for 2017 was DKK 1,378 million.

## INVESTMENTS AND OPPORTUNITIES

All of Bakkafróst's investments have the same goal - to prepare the company for the future by reducing the biological risk and making Bakkafróst competitive. It must be stressed

that Bakkafróst is competing internationally. Success in this competition means that more values can be created to the local community. We, who are responsible for the company, must endeavour to have an operation as effective and sustainable as possible, while the politicians must aim to set competitive framework, compared to foreign competition. If one of these objectives fails, we and the community will lose.

Great value creation is already taken place at Bakkafróst. Havsbrún transforms wild caught fish and offcuts into high quality and healthy fish feed, which makes Bakkafróst's



salmon unique. At the brand new VAP factory in Glyvvar, salmon is created into tasty and healthy products ready for the consumers. With our unique product and our sales and marketing effort we have achieved premium prices.

By building the new factory in Glyvvar, we wanted to go even longer in value creation, and the plan is to use the "old" factory at Glyvvar for product development and research. A new salmon fishmeal and -oil factory will start operation in Havsbrún in 2018. By producing salmon fishmeal and -oil from guts, skin and offcuts of salmon into more valuable products, Bakkafróst pursues more value creation. The plan is to certify this production as human grade. By this, all parts of the salmon will be used and sold as healthy food.

It is most important for us as a company to continuously develop in all areas. Bakkafróst has probably the longest value chain in the salmon farming business. We produce healthy and tasty quality products to the global market, and we strive to have a sustainable and competitive production throughout the value chain.

## SUSTAINABILITY

Bakkafróst's core values specify an intent to act responsibly, this includes thinking long-term on economic, social and environmental issues. Bakkafróst strives to be market leading in sustainable business. All employees are required to bear in mind the environmental effects, work-related activities have on nature and the environment and to apply environmentally friendly solutions to the extent reasonably possible.

For the first time, Bakkafróst has published Bakkafróst's Sustainability Report 2017. The report is prepared, using Oslo Børs Guidance on the Reporting Corporate Responsibility and will give valuable information on Bakkafróst's strategy and action on sustainability.

## REWARDING OUR SHAREHOLDERS

Based on the solid performance in 2017, the Board of Directors will propose a dividend of DKK 10.50 per share at the Annual General Meeting, which corresponds to a total dividend of DKK 513 million.

## THANK YOU TO OUR EMPLOYEES

On behalf of the Board of Directors, I would like to express our appreciation to all Bakkafróst employees for the commitment and hard work in 2017.

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**513** million  
(DKK)

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**Proposed dividend for 2017**



# Statement by the Management and the Board of Directors

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## STRONG PERFORMANCE IN 2017

The overall performance in 2017 was strong and satisfying. Operational EBIT for 2017 was DKK 1,378 million, compared to DKK 1,165 million for 2016. The salmon market continued with record high salmon prices in 2016 and into 2017. As expected, the salmon price decreased in the second half of 2017, especially during the last quarter of 2017, as the supply of salmon began to increase again. The VAP segment moved its operation into the new facility at Glyvrrar in the beginning of 2017 and experienced start-up issues. Since the summer of 2017,

the VAP segment's operation has improved. As in 2016, the VAP segment had a loss in 2017, because of high salmon spot prices. The VAP segment sells on long-term contracts and typically the prices in the long-term contracts have a time lag, compared with the spot price for fresh salmon. The VAP segment had a profit for the last quarter of 2017. The Farming segment experienced high margins, and the FOF segment had a very good year in 2017.



2017 started dramatically for the Farming segment with a ISA pathogenic virus confirmation at farming site Hvannasund Norður (A-73). This was the first ISA confirmation since 2015 in the Faroe Islands. The farming site Hvannasund Norður had been under increased surveillance since July 2016, when suspicion of ISA arose. The incident had a negative effect on harvested volumes in 2017, as the fish at the farming site was harvested early and not at optimal weight.

Bakkafrost has made investments in both harvesting facilities and live fish carriers in recent years, which played an important part in handling the ISA incident in the right manner - a concrete example of the importance of having a good contingency plan and appropriate equipment in order to reduce the biological risk.

The Farming segment harvested 54,615 t<sub>gw</sub> in 2017, compared with 47,542 t<sub>gw</sub> in 2016. This corresponds to an increase of 15%. The harvest in the Farming segment is dependent on available farming sites with fish at the aimed harvest weight and the general biological situation. The ISA incident in Hvannasund Norður had a negative effect on harvested volumes of around 2,500 tonnes gutted weight.

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# 1,378

million (DKK)

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**Operational EBIT for 2017**

The VAP segment's production increased in 2017 to 19,067 t<sub>gw</sub>, compared to 18,120 t<sub>gw</sub> in 2016. The percentage of total harvest used for VAP production was 35% in 2017, compared to 37% in 2016. 2017 was a transitional year for the VAP segment, and moving to the new VAP factory has been demanding.

The raw material intake in the FOF segment was 342,456 tonnes in 2017. This is a record high raw material intake in Havsbrún's history going back to 1966. The raw material intake was 201,222 tonnes in 2016. The production of fishmeal and fish oil was consequently higher in 2017, compared to 2016. The feed sale decreased 7% from 84,587 tonnes in 2016 to 78,134 tonnes in 2017. The margins in the FOF segment were high for 2017.

The average salmon spot price decreased to NOK 60.88 per kilo for 2017, compared to NOK 63.13 per kilo for 2016, corresponding to a decrease of 4%. The decrease was the same, taking the NOK/EUR currency situation into consideration. The average NOS salmon price was EUR 6.54 per kilo for 2017, compared with EUR 6.80 per kilo for 2016.

Feed costs – representing around 60% of the costs in a kilo of salmon – have decreased marginally in 2017, compared to 2016.

Health costs have increased in recent years, and sea lice is an area, which has demanded more and more attention. Bakkafrost has for the last two years increased treatment against sea lice with freshwater, lukewarm seawater and lumpfish. Costs related to these operations will most likely experience a relative increase in the coming years, and costs related to medical treatment will in turn experience a relative decrease. Health costs have been flat in 2017, compared to 2016.

The Bakkafrost Group's interest-bearing debt amounted to DKK 258.1 million at the end of 2017, compared with DKK 635.3 million at year-end 2016. The Group had available funds of approximately DKK 1,004.6 million at the end of 2017. In January 2018, Bakkafrost made an agreement with its existing lender, Nordea, to refinance the existing DKK 850 million bank facility and the outstanding NOK 500 million bond loan, which had maturity and was paid on 14 February 2018, with a senior secured five-year EUR 200 million credit facility. The facility includes an accordion increase option, which provides flexibility for the parties to agree an increased size of the facility by further up to EUR 200 million during the term of the facility.

The Bakkafrost Group made a profit of DKK 511.4 million for 2017, compared with DKK 1,338.9 million for 2016. Bakkafrost's equity ratio was 70% at the end of 2017, compared to 66% at the end of 2016. Bakkafrost paid out DKK 425.1 million in dividends in the second quarter of 2017, corresponding to DKK 8.70 per share.

# Outlook

## MARKET

The salmon prices have dropped significantly during the second half of 2017 from all-time high levels earlier in 2017 and in 2016. This drop was expected, as the combination of high prices and supply ramp up emerged with the harvest of new generation fish released in 2016.

The two most important farming regions, Norway and Chile, increased their volumes significantly in Q4 2017, compared to the same period in 2016. The strong supply increase is the main driver for the price drop in Q4 2017. The latest update from Kontali Analyse estimates that the global supply of Atlantic salmon increased around 12% in Q4 2017, compared to Q4 2016. Going forward, the global harvest growth is expected to be around 4% in 2018.

Bakkafrost operates in the main salmon markets, Europe, USA, the Far East and Russia. Variation in sales distribution between the different markets are driven by the change in demand from quarter to quarter in the different regions. Bakkafrost, however, aims to have a balanced market diversification to reduce market risk.

## FARMING

The outlook for the farming segment is good. The estimates for harvesting volumes and smolt releases are dependent on the biological development.

Bakkafrost focuses on reducing biological risk continuously and has made several new investments and procedures to diminish this risk. Bakkafrost focuses on using non-medical methods in treatments against sea lice and has invested in new technology to comply with this strategy.

Bakkafrost expects to harvest 51,000 tonnes gutted weight in 2018.

Bakkafrost expects to release 13.9 million smolts in 2018, compared with 9.9 million smolts in 2017 and 11.7 million smolts released in 2016. The number of smolts released is a key element of predicting Bakkafrost's future production.

Bakkafrost aims at being self-supplied with 500 grams smolts in 2020. The benefits are a shorter production time at sea as well as reduced biological risk. The new hatchery under construction at Strond, Klaksvík, is an important part of this plan. The hatchery is expected to start operation during 2018 and to be in full operation from 2020. The capacity growth from this investment program will gradually appear in harvested volumes from 2020.

According to the agreement between Bakkafrost, P/F Fiskalning and the Faroese Ministry of Foreign Affairs and Trade, Bakkafrost will take responsibility of the Faroese brood stock program from 1 April 2018 and continue to develop the brood stock program with the option to get the genome rights in 2021. Bakkafrost will use the next three years to examine the feasibility of the brood stock program and whether investments will be needed in a new brood stock facility.

## VAP (VALUE ADDED PRODUCTS)

Bakkafrost has signed contracts covering around 14% of the expected harvested volumes for 2018. The contract coverage is reduced, compared to previous year, as some contracts were not renewed in Q4 2017. Bakkafrost's long-term strategy is to sell around 40-50% of the harvested volumes of salmon as VAP products at fixed price contracts.

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 prices for the contract period. The contracts last for 6 to 12 months.



## 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 2017 was record high because of good availability of raw material. Bakkafrøst expects relatively high production volumes of fishmeal and fish oil in 2018.

The new salmon meal and salmon oil plant is expected to start operation in the beginning of Q2 2018 with full production in the second half of 2018. This operation will increase the value of offcuts from salmon harvested and processed in the new harvest/VAP factory at Glyvvar.

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

Havsbrún's sales of fish feed in 2018 are expected to be at 85,000 tonnes, depending on external sales.

## INVESTMENTS

In June 2016, Bakkafrøst 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 130 million in the two service vessels, M/S Martin and M/S Róland during 2016 and 2017, and the upgrading cost of around DKK 40 million during 2017 and 2018 of the harvest operation in Vágur, Suðuroy, are not included in the DKK 2.2 billion from the investment plan from 2016.

The purpose of the investment plan is to continue to have one of the most cost-conscious value chains in the farming indus-

try, 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.

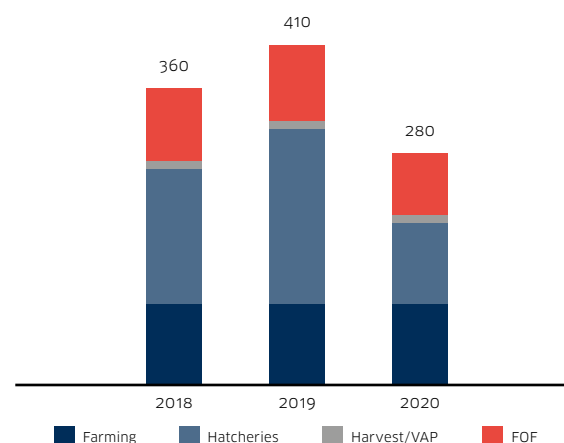
## FINANCIAL

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 Bakkafrøst's bank financing, which was renewed for five years in Q1 2018, makes Bakkafrøst's financial situation strong. This enables Bakkafrøst to carry out its investment plans to further focus on strengthening the Group, M&A's, organic growth opportunities and to fulfil its dividend policy in the future.

Fig. 1

### INVESTMENT PLAN (mDKK)



# Bakkafrost at a Glance



## BAKKAFROST

Salmon, packaging, fishmeal, oil and feed producer

**Location:** Faroe Islands

**Headquarters:** Glyvrrar, Eysturoy

**Listed on:** Oslo Børs

**Brands:** Bakkafrost and Havsbrún

1,104 employees (960 full time equivalent)

Business to business

Longest integrated supply chain in the industry



## FISHMEAL

450 tonnes of fishmeal daily capacity



## FISH OIL

300 tonnes of fish oil daily capacity



## FISH FEED

700 tonnes of fish feed daily capacity



## HATCHERIES

14 million smolts annual capacity



## FARMING

21 farming sites operating across 17 fjords



## FSV (FARMING SERVICE VESSELS)

4 live fish carriers and two service vessels



## HARVESTING

54.6 thousand tonnes of salmon harvested in 2017



## PROCESSING

130,000 tonnes in primary and 40,000 tonnes in secondary annual processing capacity



## PACKAGING

70,000 tonnes annual salmon packaging capacity



## SALES

3.8 DKK billion operating revenues for salmon, fishmeal, oil and feed

18% salmon sales to USA

44% salmon sales to EU

21% salmon sales to Eastern Europe

17% salmon sales to Asia

HAVSBRÚN

BAKKAFROST HEADQUARTERS

Map excludes farming sites not in operation in 2017

A-15 & A-16  
A-17  
A-19 & A-92  
190



Fig. 2

# Key Figures

DKK 1,000

Income Statement	2017	2016	2015	2014	2013
Operating revenues	3,770,049	3,202,686	2,850,363	2,683,319	2,491,081
Operational EBIT*	1,377,647	1,164,953	1,000,583	833,775	587,010
Operational EBITDA*	1,561,237	1,298,214	1,108,681	930,944	673,669
Earnings before interest and taxes (EBIT)	649,104	1,673,587	928,758	892,291	701,320
Earnings before taxes (EBT)	623,884	1,632,614	924,471	899,191	727,351
<b>Net earnings</b>	<b>511,402</b>	<b>1,338,887</b>	<b>810,175</b>	<b>647,105</b>	<b>589,218</b>
Earnings per share before fair value adjustments of biomass and provision for onerous contracts (DKK)	21.08	17.57	17.16	12.33	10.55
Earnings per share after fair value adjustments of biomass and provision for onerous contracts (DKK)	10.52	27.56	16.69	13.34	12.07
<b>Statement of Financial Position</b>					
Total non-current assets	3,023,807	2,567,212	1,957,061	1,462,633	1,328,179
Total current assets	2,131,709	2,850,904	1,963,325	2,000,300	1,784,047
<b>TOTAL ASSETS</b>	<b>5,155,516</b>	<b>5,418,116</b>	<b>3,920,386</b>	<b>3,462,933</b>	<b>3,112,226</b>
Total equity	3,626,429	3,549,035	2,580,482	2,063,653	1,665,277
Total liabilities	1,529,087	1,869,081	1,339,904	1,399,280	1,446,949
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5,155,516</b>	<b>5,418,116</b>	<b>3,920,386</b>	<b>3,462,933</b>	<b>3,112,226</b>
Net interest-bearing debt**	258,070	635,266	391,743	232,711	603,074
Equity share	70%	66%	66%	60%	54%

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

\*\* Derivatives related to long-term interest-bearing debt amounting to DKK 127,255 are not included

# Main Events

## April

The AGM decides to pay a dividend of DKK 8.70 per share.

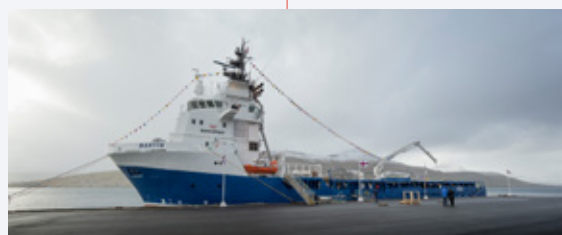


## September

M/S Róland, Bakkafróst's third farming service vessel, is delivered at Glyvvar, equipped as M/S Martin. Bakkafróst's treatment capacity against sea lice is significantly increased with the purchase of M/S Martin and M/S Róland.

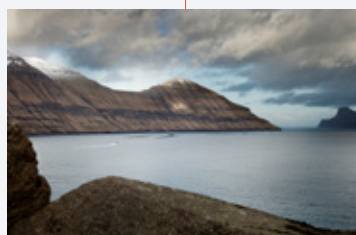
## September

Bakkafróst invites the public to visit the new harvest/VAP factory and the new headquarters in Glyvvar.



## March

Bakkafróst's second farming service vessel, M/S Martin, is delivered at Glyvvar. M/S Martin is equipped with a system for delousing salmon, using lukewarm seawater.



## May

Farming site A-71 Funningsfjørður is ASC certified.

## August

Farming site A-06 Gulin is ASC certified. Bakkafróst now has four salmon farming sites ASC certified.



## December

Bakkafróst signs an agreement with P/F Fiskaaling and the Ministry of Industry and Foreign Affairs on the Faroese brood stock program. Bakkafróst takes responsibility of the program with the option to get genome rights transferred to Bakkafróst in 2021.

# STRATEGY

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# Business Objectives and Strategy

## VISION

To be a world-class company in the salmon industry

## MISSION

To produce healthy world-class salmon

## VALUES

To be responsible, respectful, persistent, efficient and ambitious

Bakkafrost's vision is to be a world-class company in the salmon industry. Our mission is to produce healthy world-class salmon to meet the world's growing demand for sustainably and responsibly produced protein and essential fatty acids.

Bakkafrost's experience within the seafood industry dates back to 1968, and since then, our priority has been to run a healthy, attractive and competitive cost-conscious salmon farming group.

Our strategy is focused on sustainable value creation. This extends beyond healthy financial returns, to the strength, capability and reputation of the business, the quality of our workforce, and collective social and environmental wellbeing. We recognize that by investing in the health of our business, our people, our salmon, the environment and the communities in which we operate, we will be in a better position to achieve this.

Today, our seven financial and non-financial strategic objectives are:

### • 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. See page 35, 37

and 39 for more information on how we have expanded our value chain and grown production in 2017.

### • 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.

### • FOOD SAFETY & TOP QUALITY

We aim at delivering products that match or exceed the requirements of our customers. See page 29 for more information on how we ensure product quality through external certification in 2017.

### • SUSTAINABILITY

We are committed to securing a long-term sustainable increase in production, while balancing animal welfare and a cost-conscious production. See our new sustainability report [www.bakkafrost.com/sustainability](http://www.bakkafrost.com/sustainability) for more information on our progress in 2017.

### • 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. See our new sustainability report

[www.bakkafrost.com/sustainability](http://www.bakkafrost.com/sustainability) for more information on our progress in 2017.

- **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.

- **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. See page 96 for more information on how we have increased sales in 2017.

Our core values which support our performance and guide our behavior, reflect our commitment to creating long-term value for our customers, shareholders and the society by acting responsibly, showing respect, and being persistent, efficient and ambitious. See page 16 for more information on the resources we rely on in our Business Model.



# 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.

Fig. 3



# Outline of Bakka Frost's History

For more details on Bakka Frost's history, please visit [www.bakkafrost.com/about/history](http://www.bakkafrost.com/about/history)

## 1968

The Bakka Frost 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.

## 1979

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

## 1995

Bakka Frost builds a factory for value adding salmon at Glyv-rar. Although the investment is limited and the capacity is low, this is Bakka Frost's starting point of value added salmon production.

## 2006

The Bakka Frost Group grows through acquisitions and mergers with several farming companies. Bakka Frost's farming operation increases significantly, both on land and at sea.

## 2010

The shareholders of Bakka Frost and Vestlax agree to merge the companies. Vestlax Group's shareholders agree to be remunerated in Bakka Frost shares. The Vestlax Group is a farming company with a harvest factory in Kollafjørður. The Bakka Frost Group is a fully integrated farming company, ranging from smolt production, fish farming, production of packaging materials to finished VAP products and Sales.

Bakka Frost is listed on Oslo Børs and broadens 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

Bakka Frost acquires P/F Havsbrún, a modern, internationally renowned producer of fishmeal, fish oil and fish feed, situated in the Faroe Islands.

## 2013

Bakka Frost announces its five-year investment plan to make the onshore operation more efficient, to increase organic growth and to reduce the biological risk.

## 2016

Bakka Frost updates a new five-year investment plan with the same goals as in 2013. Bakka Frost enhances the onshore operation and aims at producing 500 grams smolt by 2020.

# 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 a daily availability of salmon and depend entirely on a steady flow of harvested fish.

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 the 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. 4

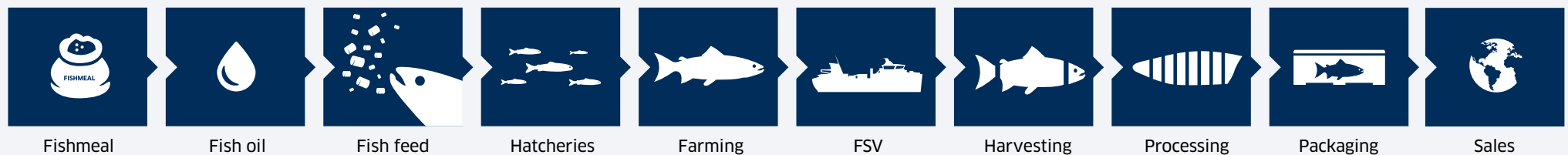
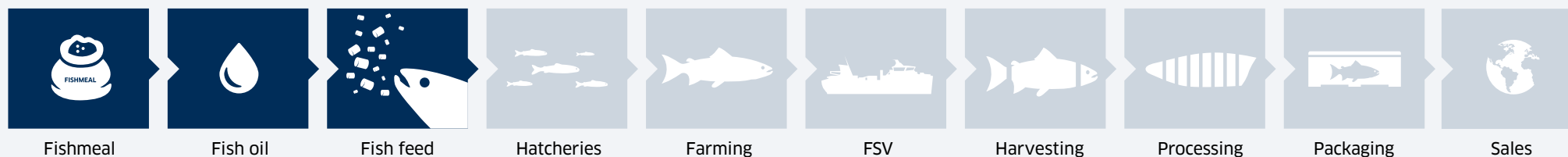




Fig. 5



## 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.

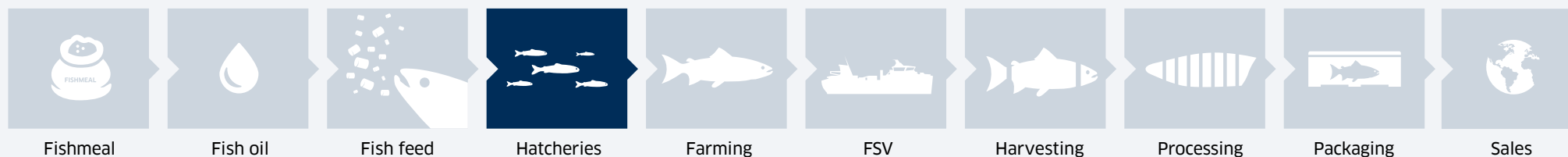
Since 2015, Bakkafrost has fed the salmon with fish feed produced from fish oil, which is cleaned for environmental

pollutants like DL-PCBs and Dioxin. DL-PCBs 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. Bakkafrost wants, however, to differentiate its salmon even more by cleaning the fish oil, and thus strengthening Bakkafrost salmon's position as one of the healthiest farmed salmon in the marketplace.

In Q1 2018, Bakkafrost decided to stop the use of the antioxidant, Ethoxyquin, and replace it with natural antioxidant.

Bakkafrost 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. Bakkafrost'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. 6



## HATCHERIES

Bakkafrost owns a total of six hatchery licences. The Bakkafrost Group operates five hatcheries with a total production capacity of some 14 million smolts per year.

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

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

Bakkafrost's hatcheries are located in environments with large quantities of clean fresh water, where no villages or industries are competing for the water. This is important, as there is no ground water available in the Faroe Islands. The hatcheries are equipped with closed water circulation systems with biofilters, and the fish tanks are inside buildings in order to limit the effect of external factors, such as weather, birds

and other pollution. The workforce in the hatcheries is very experienced; many of the employees have been working at the hatcheries for a long time.

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

To reach the long-term goal, Bakkafrost started building a new 29,000 m<sup>3</sup> hatchery at Strond in 2016. Bakkafrost expects to start production at Strond in mid-2018, to be in full operation later this year.

Fig. 7



## FARMING

Bakkafrost's 21 fish farming sites are located in areas around the Faroe Islands. On average, each fish farm can produce around 3,000 tonnes of salmon in gutted weight per year with the present production regime in the foreseeable future.

The fish is kept, fed and nurtured in large sea cages, providing the fish with abundant space to grow for a period of 16–18 months. During this period, the fish grows from 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.

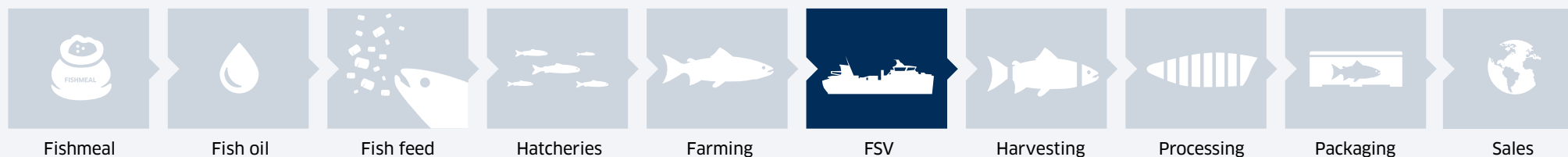
As a rule, the larger fish are distributed as fresh fish and the smaller fish are used as raw material in the VAP production. The fish are fed several times a day, and the feed consumption is monitored continuously. Since the new veterinary model was implemented in 2003, the biological feed conversion rate has decreased from around 1.20 to around 1.13, reducing the feed used by approximately 8.5%. This is considered to be a direct result of the improved fish health.

During the entire production period, each separate generation is kept in a separate fjord, and after all locations in a fjord have been harvested, the fjord is set aside for 2–4 months before a new generation is released. This operating model was introduced in 2003, and the observed effects are better productivity, less mortality and better utilization of the feed. On average, the mortality rate has been less than 10% for all farmers in the Faroe Islands, since the new veterinary model was implemented.

The main goal of the farming operation is to produce salmon at a low feed conversion rate and with low mortality. 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. 8



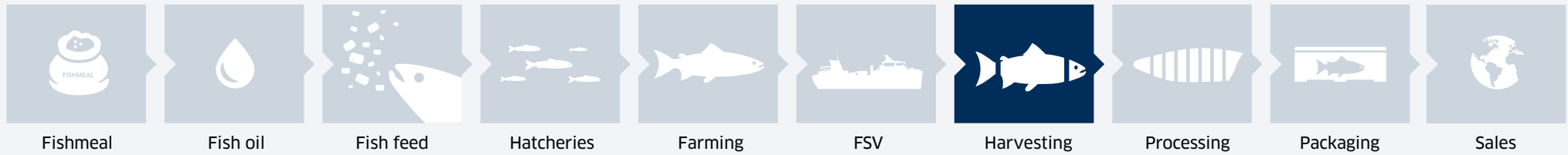
## FARMING SERVICE VESSELS (FSV)

Bakkafrost's FSV fleet consist of seven vessels: Five live fish carriers and two service vessels. The live fish carrier fleet again consists of two vessels 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 2017, Bakkafrost added two more vessels to its fleet, Martin M/S and Róland M/S. The two service vessels are equipped with an Optilice system for treatment of fish. Optilice is a system removing sea lice from the salmon without using chemicals or medicals. Bakkafrost is continually seeking to improve methods for better delicing results.



Fig. 9



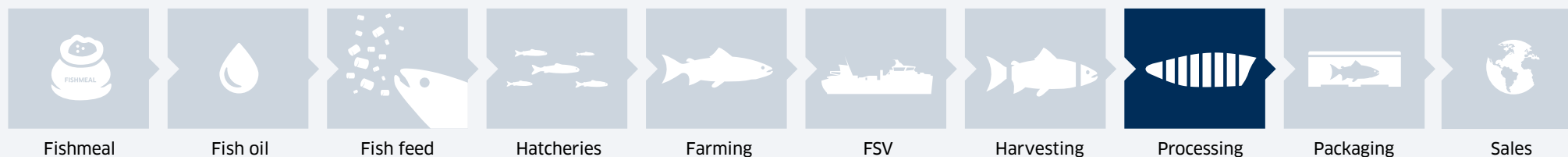
## HARVESTING

All Bakkafrost's fish is harvested at the harvest factories in Glyvrrar, Kollafjörður and Vágur. In 2016, Bakkafrost started production in its new harvest factory at Glyvrrar. This harvest factory has 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. The harvest factories in Kollafjörður and Vágur have a normal daily capacity of respectively 100 tonnes and 40 tonnes. The reconstruction of the harvest factory in Vágur is expected to be finished in H2 2018, increasing its daily capacity to 100 tonnes.





Fig. 10



## PROCESSING

The 4,000m<sup>2</sup> VAP factory at Glyvvar has a production capacity of approx. 100 tonnes of value added products a day. The customers for these products are both the retail and the catering segments. Historically, these products have mainly gone to the EU market, but Bakkafrost has experienced a growing demand from markets outside the EU during the last couple of years.

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

The new VAP factory started its production in January 2017 as the old VAP factories at Glyvvar and Fuglafjörður closed. The opening of the new VAP factory increased the VAP capacity from approximately 20,000 t<sub>gw</sub> of raw material up to 30,000 t<sub>gw</sub>. Having experienced some start up difficulties during 2017, the VAP production is now up running in nearly full capacity.

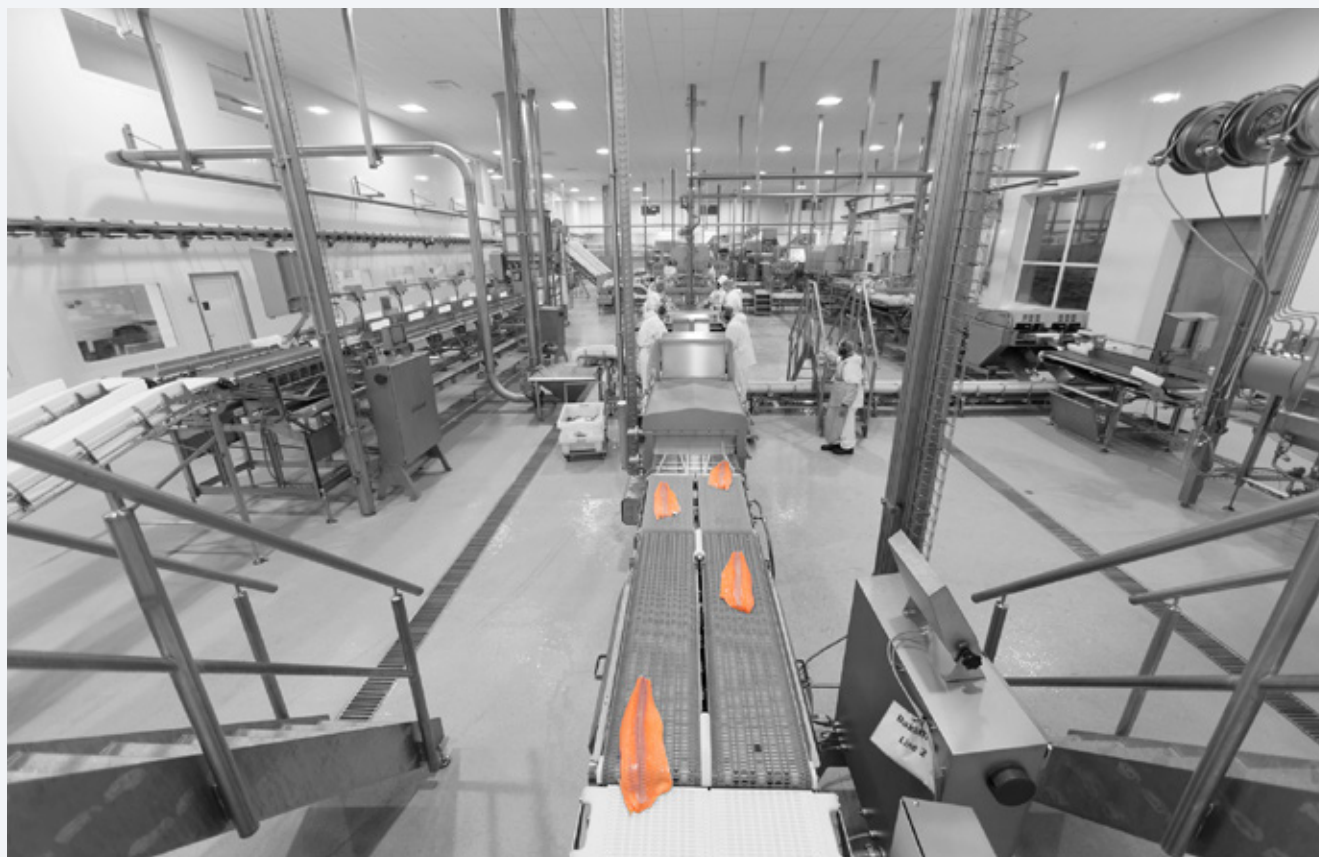
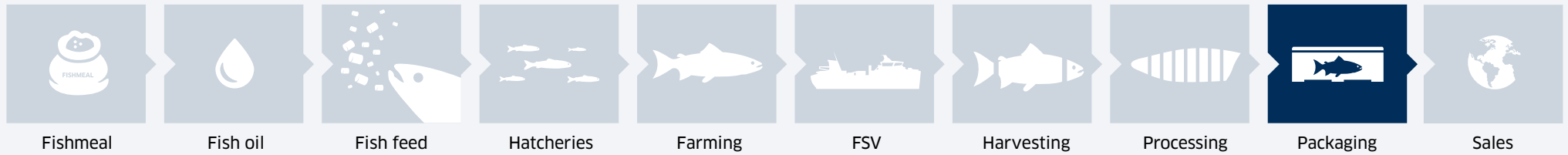


Fig. 11

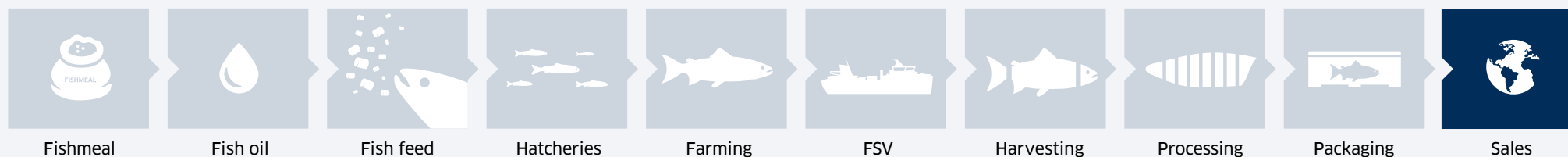


## PACKAGING

Bakkafrøst 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 Bakkafrøst's need for styropor boxes and has equipment to customize the boxes with logo etc.



Fig. 12



## SALES AND DISTRIBUTION

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

### SALES STRATEGY

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

# PERFORMANCE

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# 54,615<sub>tgw</sub>

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Harvested in 2017

# Operational Review

Bakkafrost holds 21 sea farming licenses in the Faroe Islands. The licenses give 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 Faroese legislation has imposed strict measures in order to regulate the activity into being environmentally sustainable. The farming sites are located in 17 different fjords.

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 6 °C during the year. The lowest temperatures, approximately 5.5 °C, are usually reached in February, and the highest temperatures, approximately 11.5 °C, are reached in the late summer months.

The farming areas are large and have the capacity to support the quantities farmed on each site. The biological situation in the Faroe Islands provides the opportunity to 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.

Bakkafrost had a record high operational EBIT for 2017, and harvested volumes of salmon have never been higher. The activity level in the FOF segment was also record high in 2017. The beginning of 2017 started rather gloomy, when one of Bakkafrost's farming sites had pathogenic ISA virus confirmed. The farming site A-73 Hvannasund Norður had been under surveillance since July 2016, when a routine surveillance test by the Veterinary Authority resulted in suspicion of pathogenic ISA virus at the farming site. Bakkafrost took immediate

precautionary action, and when pathogenic ISA virus was confirmed, the farming site was harvested. Bakkafrost was able to empty the farming site within a month. It was evident that some of the investments, Bakkafrost had made since 2014 – Hans á Bakka and the new VAP/Harvest factory at Glyvrrar – showed their value in such an emergency situation.

## **COST-CONSCIOUS PRODUCER AND VETERINARY MODEL**

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 objective of the veterinary model in the Faroe Islands 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 2005–2016 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.

The situation in A-73 Hvannasund Norður has shown that the routine surveillance set out in the veterinary model has valuable preventive measures for the farming operation in the Faroe Islands.

The Faroese veterinary system has improved fish health and reduced costs. Thus, Bakkafrost's EBIT per kg has improved and is among the highest, compared to peers.



The farming costs have increased in recent years, especially because of increased feed costs and health costs. Another factor is that the farming sites have been moved further out the fjords to more exposed areas, where more expensive equipment is needed. Bakkafrøst uses salmon feed with a high marine profile, which is relatively costly, because of the high level of marine ingredients. Bakkafrøst 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 costs mainly relate to treatments against sea lice. The treatment against sea lice used to be medical treatment, but in 2015, Bakkafrøst began using freshwater treatment against sea lice on board its new live fish carrier/FSV M/S Hans á Bakka. In addition to this, Bakkafrøst has used lump-

fish at some farming sites to reduce the number of sea lice. In 2016 and 2017, Bakkafrøst made investments in two new farming service vessels (FSV), M/S Martin and M/S Róland. Both Martin M/S and Róland M/S are equipped with a system, which uses lukewarm seawater against sea lice. This operation started in 2017. Initially, this new treatment resulted in elevated mortality, but after a start-up phase and more experience and better knowledge of the equipment and the treatment method, the mortality level has improved.

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

These factors, together with the knowledge and effort from our dedicated staff, are the basis for the satisfying result for 2017 in the farming segment.

## INVESTMENTS TO REDUCE BIOLOGICAL RISK

Bakkafrøst invests in all parts of its value chain. Bakkafrøst 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. Bakkafrøst has been self-supplied with smolts since 2014, when the expansion of the hatchery at Norðtoftir was finished. In 2016, the expansion of the hatchery at Viðareiði was finished, which four folded the capacity at the hatchery at Viðareiði.

Fig. 13

### MORTALITY % OF OUTPUT\*

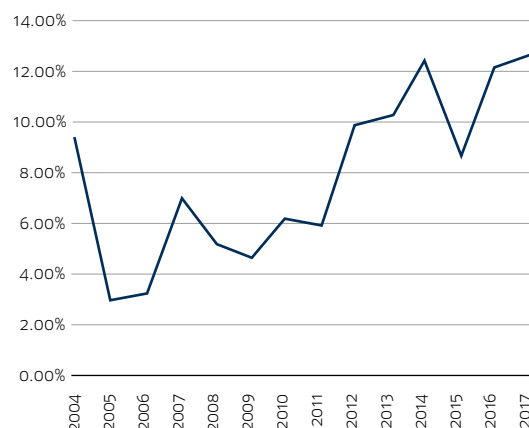


Fig. 14

### BIOLOGICAL FEED FACTOR\*

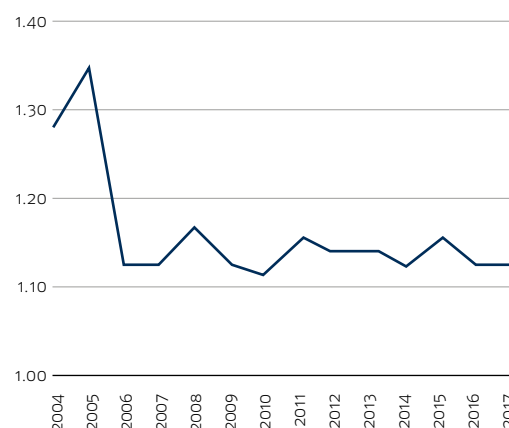
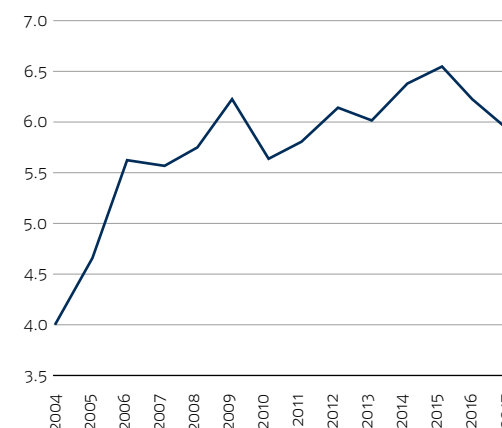


Fig. 15

### AVERAGE HARVEST WEIGHT KG LW\*



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

Bakkafrost aims to have an average weight of 500g for all smolts released into the sea. The expansions at Norðtoftir and Viðareiði have taken the average weight of smolts released into the sea from around 110-120g in 2013-2014 to around 200g in 2017. Bakkafrost expands the hatchery capacity even more, giving opportunity for production of larger smolts in the hatcheries. The larger smolts will have a positive effect on the biological risk and the future growth potential, as larger smolts will reduce the production time at sea in the farming sites.

Bakkafrost started the construction of a new hatchery at Strond in 2016. This hatchery will be Bakkafrost's largest hatchery by far, giving a significant lift to Bakkafrost's production capacity, and will therefore be crucial for Bakkafrost to reach the goal of 500g smolts. The construction of the hatchery at Strond has proceeded according to plan. The plan is to put salmon roe in the facility in 2018 and start production.

## CERTIFICATES

To ensure prime quality, Bakkafrost 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 GLOBALG.A.P. compliant. Other certifications include ASC, HACCP, IFS, GMP+, MSC, ISO 9001:2008 and BRC.

Bakkafrost 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.

Bakkafrost's goal is to 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.

Bakkafrost's farming site, Gøtuvík, was ASC certified in 2015 as the first Faroese farming site to get an ASC certification. In 2016 and 2017, Bakkafrost had three additional farming sites ASC certified, Gulin, Funningsfjørður and Fuglafjørður. Bakkafrost is still working on getting more farming sites ASC certified.

## 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. Transportation opportunities from Faroe Islands to the different markets are good.

Bakkafrost has over the last four years been working on merging seven factories into one, and this work was finalized in 2017. 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. The harvesting part of the factory started operation in the summer of 2016, and the VAP part of the factory started operation in January 2017. Bakkafrost had some challenges in the start-up phase of the new harvest/VAP factory in 2016 and 2017, but during 2017 these challenges have been taken care of, and the operation has steadily improved throughout 2017. This investment will secure a more cost-conscious production from packaging to finished value added products ready for the market.

## 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.

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

Bakkafrost and the other Faroese salmon producers are in a favourable competitive position in the US market. Therefore, Bakkafrost has established an experienced sales force with long-term relations with customers in the US. 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 Bakkafrost. As a result, the US market has become a significant market for Bakkafrost. The sales to the US market accounted for 24% of Bakkafrost's total sales of fresh whole salmon in 2017, compared to 33% 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. Over the last two years, the sales to China of fresh salmon has been stable. The sales to Asia, mainly China, accounted for 23% in 2017, compared to 25% of total sales of fresh whole salmon in 2016.

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. 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 30% in 2017, compared to 23% in 2016.

## VAP

Bakkafrost has long-term experience in producing and selling value added products (VAP). In 2017, the total VAP production represented 35% of the harvested volumes, compared to 37% in 2016. The decrease in percentage is due to higher harvested volumes. Bakkafrost's long-term strategy is that VAP products shall represent 40-50% of the Group's harvested volumes.

The VAP segment struggled both in 2016 and in 2017, because of the record high spot prices. In the first half of 2017, The VAP operation started up production in the new facility in Glyvvar, as the old VAP factories at Glyvvar and Fuglafjörður closed down. The start-up of the new VAP factory had a negative effect on the performance of the VAP production, but in the second half of 2017, improvements were made. At the end of 2017, the VAP segment had positive margins again for the first time since 2015. The VAP segment produced 19,067 tonnes gutted weight in 2017, compared to 18,120 tgv in 2016.

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.

## PRODUCTION OF FISHMEAL, FISH OIL AND FISH FEED

Havsbrún - FOF segment - performed very well in 2017 and had good access to raw material. Havsbrún received record high quantities of raw materials in 2017. 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. The raw material situation will be volatile in the future. Quotas for fishing blue whiting, how-

ever, have increased over the last years. This has improved Havsbrún's possibilities of sourcing raw material to its production of fishmeal and oil. Bakkafrost received 342,456 tonnes of raw material, an increase of 70%, compared to 2016, when 201,222 tonnes were sourced. Beside sourcing wild caught pelagic fish, Bakkafrost also sourced offcuts from fish factories in the Faroe Islands. Processing plants for pelagic species have been built in the Faroe Islands in recent years, increasing access to offcuts from this production.

Bakkafrost sold 78,134 tonnes of feed in 2017, of which 93% were used internally, compared to 84,587 tonnes of feed in 2016. Bakkafrost also sells excess fishmeal and fish oil externally. Bakkafrost sold 59,006 tonnes of fishmeal externally in 2017, which is significantly higher than in 2016, when 23,461 tonnes of fishmeal were sold. Nearly all the production of fish oil is used for Bakkafrost's feed production - only 22 tonnes of fish oil were sold externally in 2017.

The fish oil market has been volatile for the last two years. The price increased significantly at the end of 2014 and has been on a high level until first half of 2017, when the fish oil price fell. This drop only lasted half a year, because the prices rose again in the second half of 2017 and resulted in fish oil prices at the end of 2017 being on the same level as in 2016. The world's total production of fish oil has been relatively stable for many decades, while the demand for fish oil has increased. Therefore, fish oil is expected to be a scarce resource in the future, but decreasing content of fish oil in the salmon feed, led by the major producers, will reduce some of the demand. Bakkafrost's strategy is to have a high content of fish oil in the feed, resulting in a salmon with a high content of omega 3.

Even though all tests show that the levels of pollutants in the Bakkafrost salmon are well within the safety limits imposed

by e.g. the European Union, Bakkafrost has cleaned the fish oil used for Bakkafrost's salmon feed for DL-PCBs and other pollution from early 2015.

The fishmeal market did experience the same price development as fish oil in 2017. Havsbrún opened two tunnels for fishmeal inventory in the summer of 2016. Previously, Havsbrún has rented storage rooms in similar circumstances, but the new tunnels have been valuable in 2017, as sourcing of raw material is seasonal, and Havsbrún has been able to source record high volumes and store large quantities of fishmeal.

## PEOPLE

Our most important asset is our employees, and for Bakkafrost 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 Bakkafrost to be a reliable and responsible partner. Many great results have been achieved during the past years, but there is still room for improvement. Thus, striving continuously to improve our business is embedded in our company culture.

We aim at strengthening the competences of our employees on all levels in the Group on a continuous basis by implementing relevant training schemes to meet current and future demands for a qualified workforce. Supporting Bakkafrost's strategy and securing high standards in our business conduct in addition to creating the best possible value for our customers is essential for all training efforts.

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

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

In 2017, the number of full-time equivalent employees in the Bakkafrost Group was 960 employees, compared to 820 employees in 2016. The increase in the number of employees can be ascribed to increased activities in the Farming and Processing divisions. The integration of Faroe Farming in the Group also had a positive effect on the number of full-time equivalent employees in the Bakkafrost Group.

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

For further information see our Sustainability Report 2017.



# Financial Review

The supply of salmon to the world market increased by around 2% in 2017 (2016: 4% decrease). The increase was due to a comeback in Chile after a decrease in 2016, because of an algae bloom. The improved biological performance in Norway in 2017, also had a positive effect on the supply. The average salmon spot price in 2017 was DKK 48.65, compared to DKK 50.62 in 2016, corresponding to an decrease of 4%.

The prices for value added products (VAP) have increased in 2017 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. Therefore, the VAP segment made a loss in 2017, although the sales prices achieved in 2017 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 2017.

The feed prices have been fairly flat in 2017, and the average feed price in 2017 was lower than the average feed price in 2016. 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.

## CONSOLIDATED INCOME STATEMENT

DKK 1,000	2017	2016
<b>Operating revenue</b>	<b>3,770,049</b>	<b>3,202,686</b>
Purchase of goods	-883,871	-920,148
Change in inventory and biological assets (at cost)	-141,406	58,874
Salary and personnel expenses	-400,267	-327,825
Other operating expenses	-783,268	-715,373
Depreciation	-183,590	-133,261
<b>Operational EBIT</b>	<b>1,377,647</b>	<b>1,164,953</b>
Fair value adjustments of biological assets	-693,540	608,195
Onerous contracts	67,376	-16,372
Income from associates	17,302	14,821
Revenue tax	-119,681	-108,450
Badwill	0	10,440
<b>EBIT</b>	<b>649,104</b>	<b>1,673,587</b>
<b>EBT</b>	<b>623,884</b>	<b>1,632,614</b>
Taxes	-112,482	-293,727
<b>Profit or loss for the period</b>	<b>511,402</b>	<b>1,338,887</b>

The Bakkafrøst Group generated gross operating revenues of DKK 3,770.0 million in 2017, compared to DKK 3,202.7 million in 2016. The increase in the revenue is mainly due to higher volumes and higher prices for both fresh/frozen salmon and value added products in 2017. Harvested volumes of salmon increased 15% in 2017, compared to 2016, and the volumes



sold as value added products increased 5% in 2017. The external revenue from sales of fishmeal increased significantly in 2017, compared to 2016. The external sales of fish oil were marginal both in 2017 and in 2016.

The operations harvested a total of 54,615 tonnes gutted weight, compared to 47,542 tonnes in 2016. Operational EBIT was DKK 1,377.6 million, compared to DKK 1,165.0 million in 2016. A negative fair value adjustment of the Group's biological assets has been recognized in 2017 amounting to DKK -693.5 million, compared to a positive adjustment of DKK 608.2 million in 2016. The negative fair value adjustment is due to lower prices in the sea at year-end 2017, compared to the previous year. In 2017, Bakkafrøst made a change in provisions for onerous contracts of DKK 67.4 million, compared to a change in provisions for onerous contracts amounting to DKK -16.4 million in 2016. The change in provisions are made, as Bakkafrøst has no long-term contracts to deliver value added products at a fixed price in the future with a negative margin. The reason is low raw material costs at the end of 2017, compared to the contract prices.

# 10.52 (DKK)

Earnings per share in 2017

In 2017, the Group's associated companies made a net result to Bakkafrøst of DKK 17.3 million, compared to DKK 14.8 million in 2016.

There is no goodwill in 2017, but Bakkafrøst recognized a goodwill amounting to DKK 10.4 million in 2016, following the acquisition of the remaining outstanding shares in P/F Farøe Farming in 2016. The goodwill is the difference between the payment for P/F Farøe Farming and the value of the net assets purchased.

Financial income in 2017 amounted to DKK 1.4 million, compared to DKK 1.5 million in 2016. Net interest expenses

amounted to DKK -26.4 million, compared to DKK -26.0 million in 2016. Net currency effects amounted to DKK 4.7 million, compared to DKK -12.4 million in 2016. Included in the net currency is an unrealized exchange rate adjustment relating to the bond loan of NOK 500 million amounting to DKK 30.8 million, compared to DKK -21.1 million in 2016.

Net taxes amounted to DKK -112.5 million, compared to DKK -293.7 million in 2016.

The consolidated net profit totalled DKK 511.4 million in 2017, compared to DKK 1,338.9 million in 2016. Earnings per share totalled DKK 10.52 in 2017, compared to DKK 27.56 in 2016.



# Farming Segment

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 Faroe Islands.

DKK 1,000	2017	2016	Change
Total revenue	2,986,561	2,840,870	5%
EBIT	495,116	1,825,963	-73%
Operational EBIT	1,308,194	1,314,542	0%
Farming - Operational EBIT/kg (DKK)	23.95	27.65	-13%
Harvested volume (tgw)	54,615	47,542	15%

## VOLUMES

The Group's farming segment harvested 54,615 tonnes gutted weight in 2017, compared to 47,542 tonnes gutted weight in 2016. Farming North harvested 24,365 tonnes gutted weight in 2017, compared to 24,768 tonnes gutted weight in 2016. Farming West harvested 30,250 tonnes gutted weight in 2017, compared to 22,774 tonnes in 2016, including Faroe Farming from 1 July 2016.

The Group transferred 9.9 million smolts to the sea in 2017. The smolt release in 2016 was 11.7 million smolts including Faroe Farming.

## FINANCIAL PERFORMANCE

The market was very good for the farming segment in 2017 as in 2016. The good financial performance in the farming segment is also due to good and stable farming operations and only minor biological issues in 2017.

Total revenues for Bakkafrøst's farming segment in 2017 amounted to DKK 2,986.6 million, compared to DKK 2,840.9 million in 2016, an increase of 5%. Gross external operating revenues for Bakkafrøst's farming segment increased to DKK 2,150.9 million in 2017, up from DKK 1,973.7 million in 2016. The volumes sold externally increased in 2017, compared to 2016. The internal revenue also decreased in 2017 from DKK 867.2 million in 2016 to DKK 835.6 million in 2017. The volumes sold to the VAP segment were higher in 2017 than in 2016, but the price was lower.

In 2017, operational EBIT totalled DKK 1,308.2 million, compared to DKK 1,314.5 million in 2016. This corresponds to an operational EBIT of DKK 23.95 (NOK 30.02) per kg gutted weight, compared to DKK 27.65 (NOK 34.50) per kg gutted weight in 2016.

Fig. 16

**TOTAL REVENUE (DKK 1,000)**

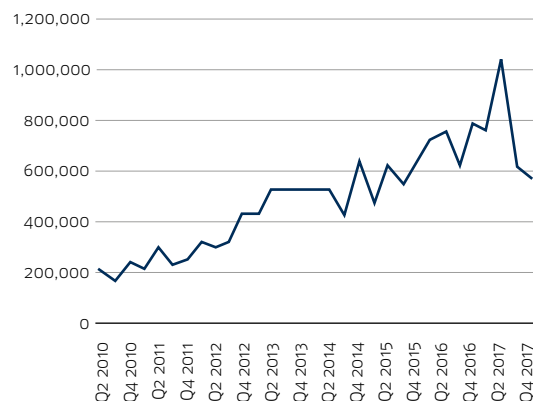


Fig. 17

**OPERATIONAL EBIT/KG (DKK)**

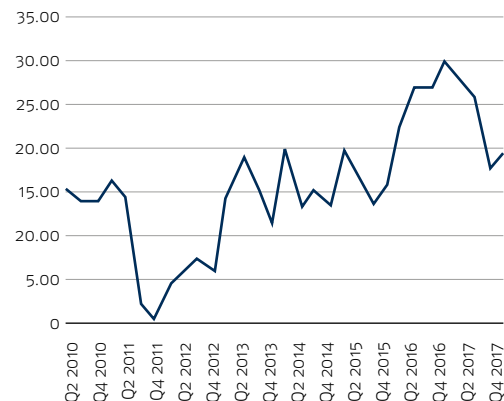


Fig. 18

**HARVESTED VOLUME (TGW)**

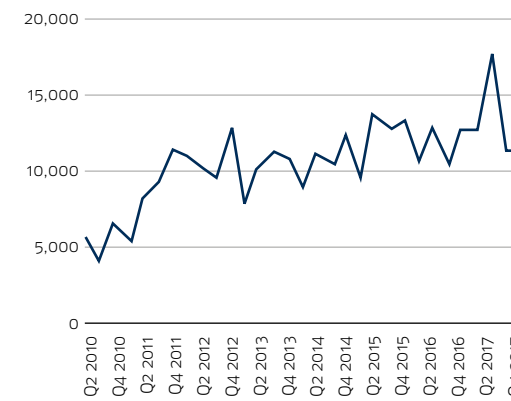


Fig. 19

**SMOLT RELEASE - THOUSAND SMOLTS**

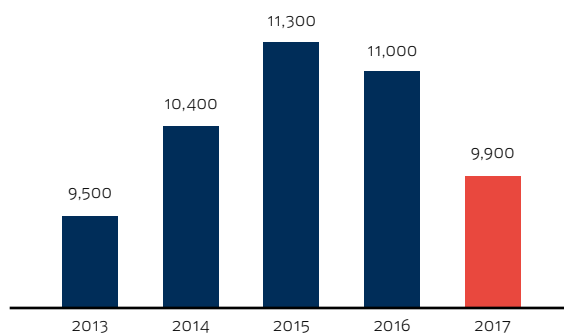
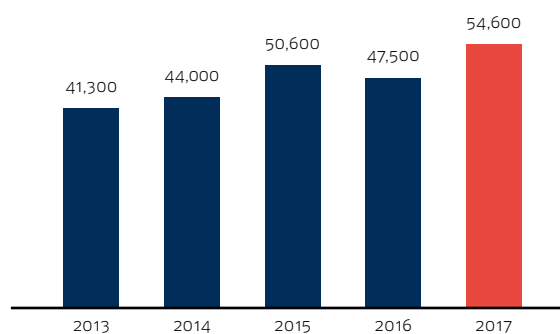


Fig. 20

**HARVEST VOLUME (TGW)**



# VAP Segment

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.

DKK 1,000	2017	2016	Change
Total revenue	998,778	880,945	13%
EBIT	-8,064	-217,053	96%
Operational EBIT	-75,441	-200,681	62%
VAP - Operational EBIT/kg (DKK)	-3.96	-11.08	64%
VAP produced volume (tgw)	19,067	18,120	5%

## 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 2017 even though the contract prices for the value added products have increased in 2017.

For 2017, 35% of the total harvested volumes went to the production of VAP products, compared to 37% in 2016.

The VAP production in 2017 was 19,067 tonnes gutted weight, compared to 18,120 tonnes gutted weight in 2016.

## FINANCIAL PERFORMANCE

The contract prices in 2017 have not increased at the same rate as the spot prices, but the contract prices were on a higher level than in 2016. The VAP segment's operating revenue amounted to DKK 998.8 million in 2017, compared to DKK 880.9 million in 2016, an increase of 13%.

Operational EBIT in 2017, which is EBIT adjusted for provision for onerous contracts etc., totalled DKK -75.4 million, compared to DKK -200.7 million in 2016. This corresponds to an operational EBIT of DKK -3.96 (NOK -4.96) per kg gutted weight, compared to DKK -11.08 (NOK -13.82) per kg gutted weight in 2016. The main reason for the loss in the VAP segment in 2016 was the record high salmon spot prices affecting the raw material cost heavily.

The VAP segment had no onerous contracts at the end of 2017, and therefore a change in provision amounting to DKK 67.4 million was made, compared to a change of DKK -16.4 million in 2016.

Fig. 21

### TOTAL REVENUE (DKK 1,000)

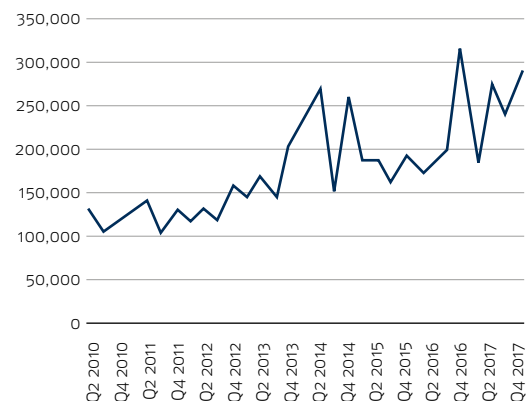


Fig. 22

### OPERATIONEL EBIT/KG (DKK)

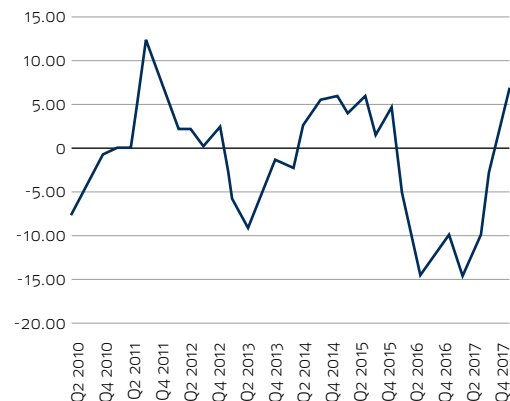


Fig. 23

### VAP VOLUME (TGW)

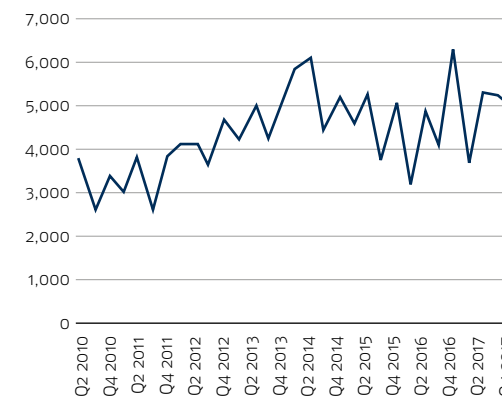


Fig. 24

### PRODUCT WEIGHT OF VAP (TGW)

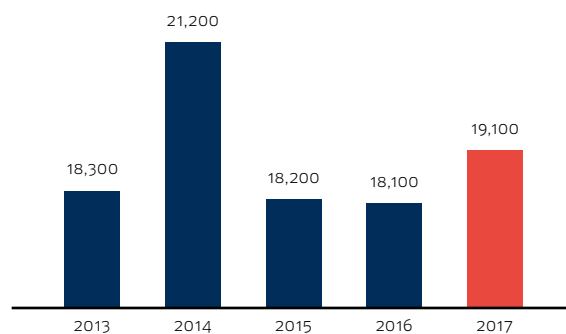
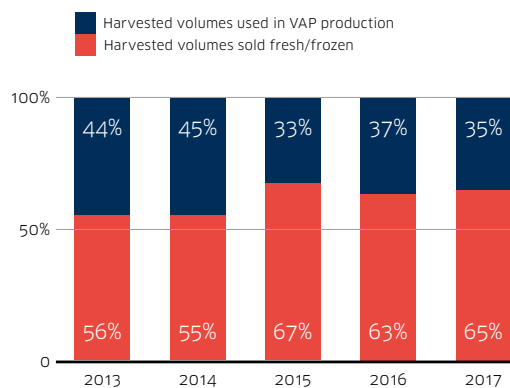


Fig. 25

### DISTRIBUTION OF HARVESTED VOLUMES (%)





# FOF Segment

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 Bakkafrøst. Fishmeal, fish oil and fish feed is also sold externally.

DKK 1,000	2017	2016	Change
Total revenue	1,303,161	1,158,111	13%
EBIT	252,556	230,350	10%
EBITDA	266,093	247,881	7%
FOF - EBITDA margin	20.4%	21.4%	-5%
Sold feed tonnes	78,134	84,587	-8%

## 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 were partly used internally for the feed production, and partly exported. In 2017, Havsbrún sourced 342,456 tonnes of raw material, compared to 201,222 tonnes in 2016, which corresponds to a increase of 70%. The raw material intake depends on the fishery in the North Atlantic and available species of fish.

The production of fishmeal in 2017 was 74,089 tonnes, compared to 44,155 tonnes in 2016. The production of fish oil in 2017 was 10,387 tonnes, compared to 7,369 tonnes in 2016. The production of fish oil varies, depending on the species of fish for production and the timing of catch.

Havsbrún sold 78,134 tonnes of feed in 2017, compared to 84,587 tonnes in 2016. Bakkafrøst used 72,960 tonnes of the sold feed in 2017 internally, corresponding to 93%. The internal use in 2016 was 78,029 tonnes, corresponding to 92%.

## FINANCIAL PERFORMANCE

Total revenues for Bakkafrøst's FOF segment in 2017 amounted to DKK 1,303.2 million, compared to DKK 1,158.1 million in 2016, an increase of 13%.

The external operating revenue for the FOF segment amounted to DKK 620.3 million in 2017, compared to DKK 348.0 million in 2016. The increase in the external revenue from 2016 to 2017 is mainly due to higher external sale of fishmeal.

The internal revenue in 2017 amounted to DKK 682.8 million, compared to DKK 810.1 million in 2016. The internal revenue comprises the sales of feed to Bakkafrøst's farming activities.

EBITDA was DKK 266.1 million in 2017, compared to DKK 247.9 million in 2016, and the EBITDA margin was 20.4% in 2017, compared to 21.4% in 2016.

Fig. 26

**TOTAL EBITDA (DKK 1,000)**

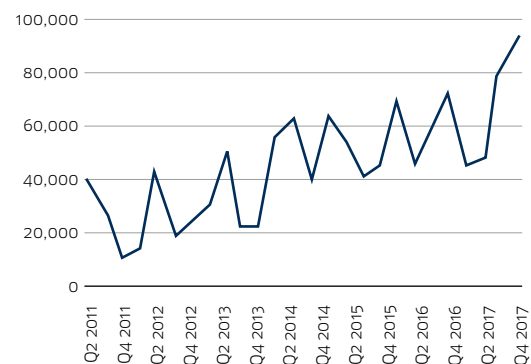


Fig. 27

**EBITDA MARGIN (%)**

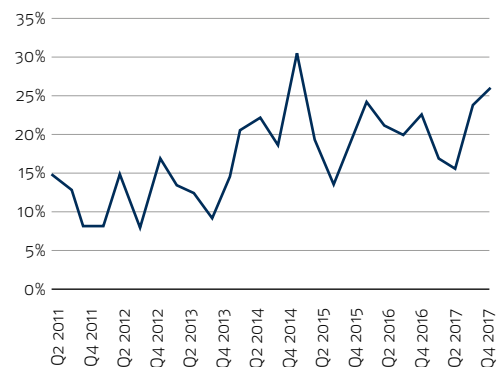


Fig. 28

**SOLD FEED TONNES (TGW)**

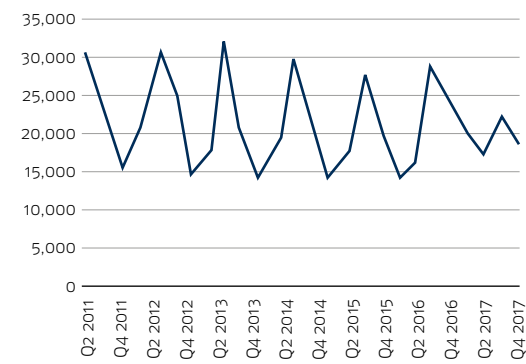


Fig. 29

**FISH FEED PRODUCTION VOLUME: TONNES**

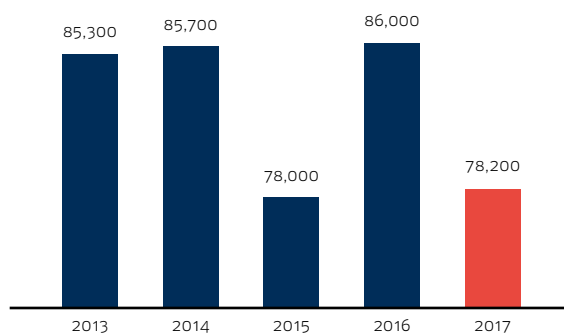
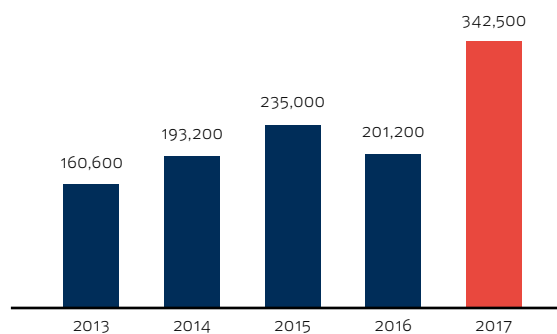


Fig. 30

**SOURCING OF RAWMATERIAL: TONNES**



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's total assets as at end 2017 amounted to DKK 5,155.5 million, compared to DKK 5,418.1 million at the end of 2016.

The Group's intangible assets amounted to DKK 376.7 million at the end of 2017, unchanged compared to the end of 2016. Intangible assets comprise primarily the fair value of acquired farming licences. No licences in the North region are recorded with a value in the Bakkafrøst accounts.

Property, plant and equipment amounted to DKK 2,570.4 million at the end of 2017, compared to DKK 2,118.5 million at the end of 2016. In 2017, Bakkafrøst made investments in PP&E amounting to DKK 640.6 million, compared to 687.0 million in 2016. The most significant investments, Bakkafrøst carried out in 2017, were in finalizing the new combined harvest/VAP factory at Glyvrrar and the new administration building at Glyvrrar, the farming vessel M/S Róland and the new hatchery at Strond. Other investments relate mainly to maintenance investments.

Investments in associated companies and stocks and shares amounted to DKK 76.7 million at the end of 2017, compared to DKK 59.4 million at the end of 2016. The increase in financial assets relates to the result from the associated companies.

Bakkafrøst had DKK 0.0 million in long-term receivables at the end of 2017, compared to DKK 12.7 million at the end of 2016.

The Group's carrying amount (fair value) of biological assets amounted to DKK 1,096.6 million at the end of 2017, compared to DKK 1,858.4 million at the end of 2016. 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 187.0 million,

compared to DKK 880.5 million at the end of 2016. The decrease is due to lower biomass and lower salmon prices at the end of 2017, compared to end 2016.

The Group's total inventories amounted to DKK 305.8 million as at the end of 2017, compared to DKK 355.6 million at year-end 2016. 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 419.6 million as at the end of 2017, compared to DKK 401.9 million at the end of 2016.

Cash and cash equivalents at the end of 2017 amounted to DKK 309.6 million, compared to DKK 235.0 million at the end of 2016.

The Group's equity at the end of 2017 was DKK 3,626.4 million, compared to DKK 3,549.0 million at the end of 2016. The increase in equity consists primarily of the positive result for 2017, reduced by the dividend paid out in April 2017.

DKK 1,000	2017	2016
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	376,675	376,675
Property, plant and equipment	2,570,430	2,118,470
Financial assets	76,702	72,067
<b>NON-CURRENT ASSETS</b>	<b>3,023,807</b>	<b>2,567,212</b>
<b>Current assets</b>		
Inventory	1,402,509	2,214,039
Receivables	419,649	401,869
Cash and cash equivalents	309,551	234,996
<b>CURRENT ASSETS</b>	<b>2,131,709</b>	<b>2,850,904</b>
<b>ASSETS</b>	<b>5,155,516</b>	<b>5,418,116</b>
<b>Equity</b>	<b>3,626,429</b>	<b>3,549,035</b>
Deferred taxes	455,448	545,699
Long-term interest-bearing debt	146,696	827,146
Derivatives	0	101,456
<b>Non-current liabilities</b>	<b>602,144</b>	<b>1,474,301</b>
<b>Current liabilities</b>		
Derivatives	127,255	0
Short-term interest-bearing debt	378,300	0
Trade payables	189,548	138,873
Current tax liabilities	198,141	142,016
Provisions for onerous contracts	0	67,378
Other current liabilities	33,699	46,513
<b>Current liabilities</b>	<b>926,943</b>	<b>394,780</b>
<b>Total liabilities</b>	<b>1,529,087</b>	<b>1,869,081</b>
<b>EQUITY AND LIABILITIES</b>	<b>5,155,516</b>	<b>5,418,116</b>

The Group's total non-current liabilities amounted to DKK 602.1 million at the end of 2017, compared to DKK 1,474.3 million at the end of 2016. Deferred taxes amounted to DKK 455.5 million, compared to DKK 545.7 million at the end of 2016. The main reason for the decrease is the decrease in the fair value adjustment of the biomass.

Long-term debt was DKK 146.7 million at the end of 2017, compared to DKK 827.1 million at the end of 2016. The decrease is due to a reclassification for the bond loan and the related financial derivatives to current liabilities.

There was a currency gain on the short-term interest-bearing debt nominated in NOK, increasing the long-term debt. Derivatives amounted to DKK 127.3 million at the end of 2017, compared to DKK 101.5 million at the end of 2016 due to volatility in NOK, compared to DKK.

Bakkafrost's total 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, Bakkafrost entered into a currency/interest rate swap, hedging the exchange rate, and switched the interest rate from NIBOR 3m to CIBOR 3m. Bakkafrost 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 2017, the Group's total current liabilities were DKK 926.9 million, compared to DKK 394.8 million at the end of 2016. The increase is due to the reclassification from long-term to short-term interest-bearing debt at the end of 2017 amounting to DKK 378.3 million alongside financial derivatives amounting to DKK 127.3 million. These are fully paid on 14 February 2018.

Trade payable amounted to DKK 189.5 million, compared to DKK 138.9 million at the beginning of the year. Provision for onerous contracts at year-end 2017 amounted to DKK 0.0 million, compared to DKK 67.4 million in 2016.

In January 2018, Bakkafrost made an agreement with its existing lender, Nordea, to refinance its existing DKK 850 million bank facility and its outstanding NOK 500 million bond loan, which had a maturity on 14 February 2018, with a senior secured five-year EUR 200 million credit facility.

The facility includes an accordion increase option, which provides flexibility for the parties to agree an increased size of the facility by further up to EUR 200 million during the term of the facility.

Bakkafrost's equity ratio was 70% at the end of 2017, compared to 66% at the end of 2016.

## CASH FLOW

DKK 1,000	2017	2016
<b>Cash flow from operations</b>		
Operating profit (EBIT)	649,104	1,673,587
Cash flow from operations	1,458,162	849,599
Cash flow from investments	-635,542	-739,985
Cash flow from financing	-748,065	23,530
<b>Cash and cash equivalents - opening balance</b>	<b>234,996</b>	<b>101,852</b>
<b>Cash and cash equivalents - closing balance total</b>	<b>309,551</b>	<b>234,996</b>

## CASH FLOW

The total cash flow from operations in 2017 was DKK 1,458.2 million, compared to DKK 849.6 million in 2016. The cash flow from operation in 2017 is primarily due to strong results, but also due to a decrease in inventory. Paid taxes had a negative effect on the cash flow from operations in 2017. Cash flow from investment activities amounted to DKK -635.5 million, compared to DKK -740.0 million in 2016.

For 2017, cash flow from financing amounted to DKK -748.1 million, compared to DKK 23.5 million for 2016. The change in long-term interest-bearing debt of DKK -298.8 million had a negative effect on the cash flow from financing in 2017. Other 2017 figures include financial expenses of DKK -30.8 million, sales of treasury shares of DKK 2.9 million and net dividend payment of DKK -422.8 million

With the established credit facilities, the Group's liquidity and financial strength is considered good. Bakkafrost had undrawn credit facilities of approximately DKK 1,004.6 million at the end of 2017.

# Market 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. Hence, Bakkafrost has received a price premium for its salmon in recent years.

The Bakkafrost Group is determined to further strengthen 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's share of the salmon production in the Faroe Islands is 72%.

## 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 2017 was 5.02 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. 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 2017 (Fig. 31 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.



Fig. 31



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.

### 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 months 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 regard 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 the 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.

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

As the only salmon farming company in the world, all of the Group's salmon is produced with fish oil, cleaned for environmental pollutants.

## ASC

Bakkafrost is pursuing the rigorous ASC certification, and the goal is to have all sites certified by 2020.

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 appreciate.

## SEAFOOD CONSUMPTION

Capture fisheries and aquaculture is estimated to have supplied about 172 million tonnes of fish in 2016, of which about 152 million tonnes were utilized as food. This corresponds to seafood consumption per capita of 20.5 kg (live weight equivalent).

Overall, global capture fisheries production continues to remain stable, just above 90 million tonnes, of which about 20 million is utilized in the production of fishmeal and fish oil. The share of non-food uses has remained at a steady level over the last couple of years.

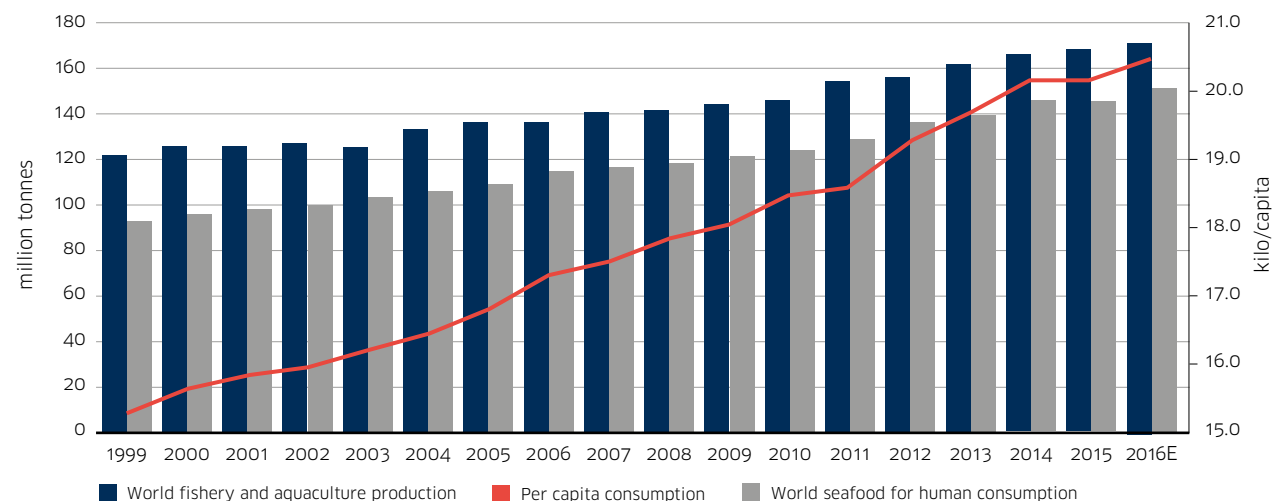
Aquaculture production continues to increase its share of the world seafood consumption, as capture fisheries production has

been stable for a long period. Increased volumes from farming have therefore covered the increasing demand for seafood. This trend is most likely to continue also in the upcoming years.

The figure below shows world seafood production (for human consumption) and consumption per capita 1999–2016E (Fig. 32)

Fig. 32

### WORLD CONSUMPTION OF SEAFOOD



## MAIN MARKETS FOR SALMON AND CONSUMPTION TRENDS

In 2017, worldwide supply of farmed Atlantic salmon increased by approximately 2 percent and ended just above 2.3 million tonnes wfe.

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 1.02 million tonnes wfe

were consumed in 2017 (-2%). With a population of approx. 515 million, this corresponds to a per capita consumption of 2 kg wfe per year. This indicates approx. 6.5 meals per capita per year on average.

With continued Russian embargo - Chile and the Faroe Islands have remained the largest salmon suppliers to Russia, exporting approximately the same tonnage as in 2016. A strong Russian ruble and high salmon prices have limited the market potential.

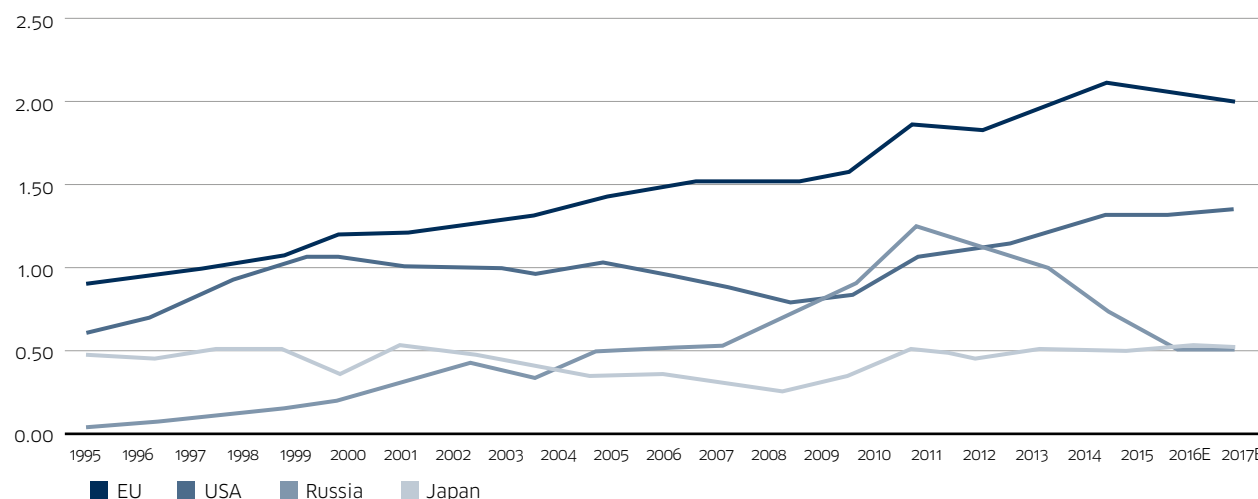
Other major markets like USA, ASEAN and Greater China saw significant growth last year, increasing 18,000, 19,000 and 10,000 tonnes wfe respectively. This while the Latin American markets (Brazil) and the Japanese market, saw a marginal decline. All other markets saw also a strong growth, increasing 8% or 20,000 tonnes wfe.

Market prices for Atlantic salmon fell through 2017 - from a record high price level (75 NOK/kg, Spot FCA Oslo) in January down to approx. 50 NOK/kg in December, primarily due to higher supply volumes in the second half (+8% volume growth). Contract shares also fell during H2 - leading to even better availability and a higher relative change in "spot" volumes. 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 in relation to the price level for larger sized salmon, markets among other factors.

The figure on the left shows per capita consumption for farmed Atlantic salmon from 1995-2017E for the selected main markets of the US, the EU, Russia and Japan.

Fig. 33

### PER CAPITA CONSUMPTION OF ATLANTIC SALMON 1995 - 2017E (kg/capita)



## THE US MARKET

In 2017, the US market for farmed Atlantic salmon increased by 18,100 tonnes wfe – to a total supply of 440,700 tonnes. With a population of 325 million, this corresponds to a per capita consumption of approx. 1.35 kg wfe per year – indicating 4-5 meals per capita per year.

While Canadian supply fell by 8,800 tonnes, the market growth was covered by significant increase from Norway, UK and domestic supply in 2017. Norwegian supply increased the most, by 12,700 tonnes (+23%) and now covers 16% of the market. Total supply from Europe rose by 21% from 2016 to 2017 and European market share on the US market rose to 24%.

Despite a slight increase in harvest volume, Faroese supply of Atlantic salmon to the US market decreased by 12% in 2017, covering 3% of the market.

The aftermath of the algal bloom outbreak in Chile in 2016, resulted in limited supply to the US market in the first half of 2017, and all time high market prices were recorded for fresh Chilean salmon fillets. Despite increase in supply, volumes from Chile in the second half of 2017, and a downward price trend, Chilean fillet prices averaged the highest so far recorded. For the full year of 2017, Chilean supply to the US market totalled 220,400 tonnes wfe, up 3,100 tonnes wfe from 2016.

Canadian supply fell by 9% in 2017, down to 92,600 tonnes wfe, approximately the same volume as in 2015. Chile and Canada continue to be the main suppliers to the US market with a combined market share of 71%.

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

Fig. 34

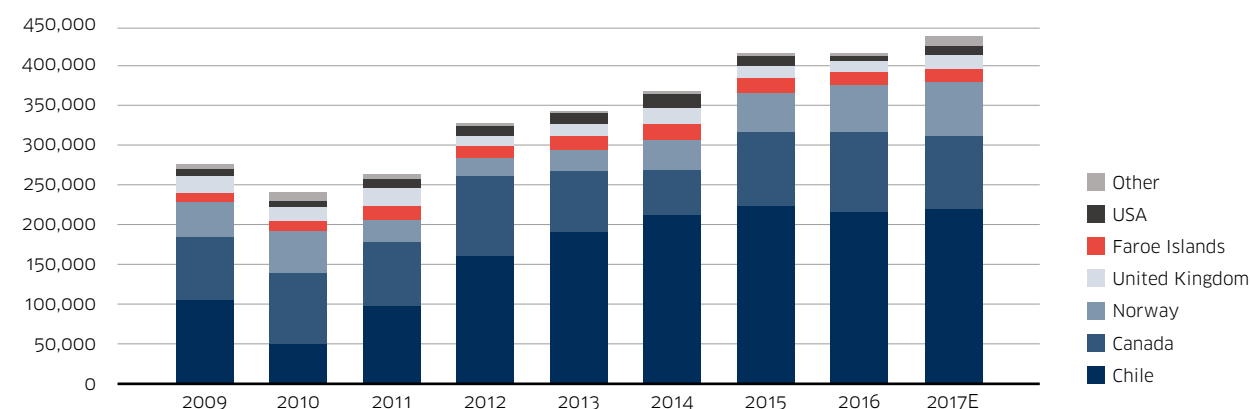
### SUPPLY OF ATLANTIC SALMON TO THE US MARKET (tonnes wfe)

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017E
Chile	107,100	53,200	99,100	162,200	191,600	214,700	224,100	217,300	220,400
Canada	81,100	87,600	80,400	98,200	77,400	55,000	92,900	100,900	92,100
Norway	40,300	53,800	28,700	23,700	27,000	39,900	51,200	55,700	68,400
Faroe Islands	11,200	10,000	16,700	13,100	16,400	16,900	14,500	16,600	14,600
United Kingdom	21,900	20,600	21,500	17,700	16,100	20,400	16,300	12,700	18,000
USA	8,800	6,900	13,200	9,400	10,100	16,200	13,800	7,700	13,100
Other	6,100	10,900	4,500	5,800	11,400	10,000	9,400	11,200	13,600
<b>Total</b>	<b>276,500</b>	<b>243,000</b>	<b>264,100</b>	<b>330,100</b>	<b>350,000</b>	<b>373,100</b>	<b>422,200</b>	<b>422,100</b>	<b>440,200</b>
Change	-5%	-12%	9%	25%	6%	7%	13%	0%	4%

Source: Kontali Analyse

Fig. 35

### SUPPLY OF ATLANTIC SALMON TO THE US MARKET (tonnes wfe)



Source: Kontali Analyse

## THE EUROPEAN MARKET

Supply of Atlantic salmon to the European market has declined over the last two years with 5.5%. Since the record year in 2015, volumes have decreased by 60,300 tonnes. The decrease must be seen in relation to reduction in volumes from the main suppliers.

Supply of Atlantic salmon to the EU market ended 1.02 million tonnes wfe in 2017, down by approx. 2% from 2016. Through the second half of 2017, the availability of salmon improved. Market shares on the EU market remained stable from 2016 to 2017, with Norway and UK as the main suppliers (82% and 12% market share).

A downward spot price trend observed through 2017, points to a better balance between supply and demand in the EU market in the second half of 2017. The downward spot price trend seen on the EU market in the second half has not yet been fully reflected in prices to the end consumer.

Among the top suppliers, supply from Norway and Chile to the EU market fell by 30,000 tonnes wfe from 2016 to 2017. While supply from the Faroe Islands remained stable in the same period, supply from the UK rose by 5%.

Supply from Iceland, who can be reckoned as a newcomer on the EU salmon market, rose sharply in 2017. Preliminary data indicate that between 7,000 – 8,000 tonnes wfe of salmon of Icelandic origin entered the EU market in 2017. This represents an increase of 70-90%.

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

Fig. 36

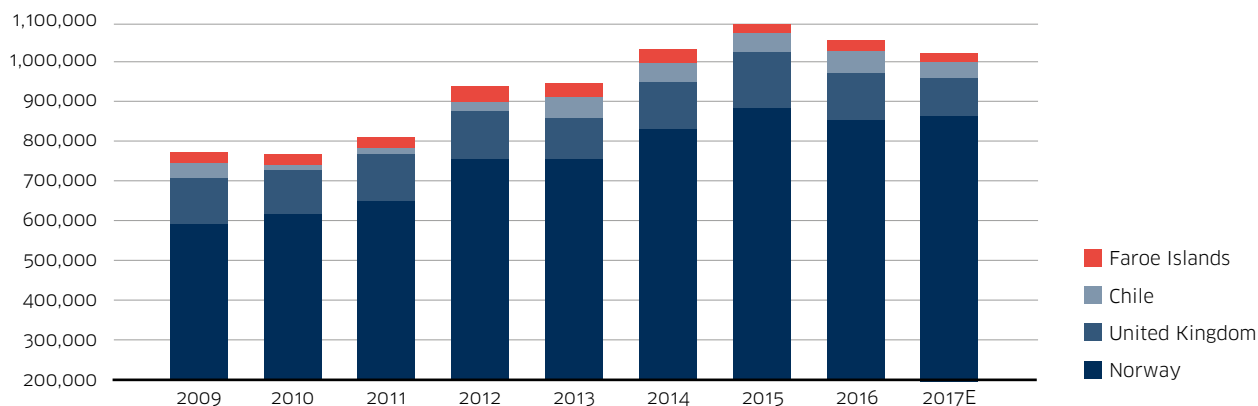
### SUPPLY OF ATLANTIC SALMON TO EU MARKET (tonnes wfe)

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017E
Norway	591,700	615,300	648,400	761,900	755,500	834,600	912,200	860,200	841,400
United Kingdom	114,400	112,800	117,500	117,000	110,300	117,800	121,100	115,400	121,700
Chile	39,900	10,600	17,200	27,000	50,200	50,500	44,900	53,900	42,500
Faroe Islands	30,000	26,300	29,900	36,000	33,500	31,400	19,000	26,000	26,100
Other/ Re-export	-5,600	-12,500	-6,800	-9,400	-19,100	-22,400	-16,600	-10,600	-11,400
<b>Total</b>	<b>770,400</b>	<b>752,500</b>	<b>806,200</b>	<b>932,500</b>	<b>930,400</b>	<b>1,011,900</b>	<b>1,080,600</b>	<b>1,044,900</b>	<b>1,020,300</b>
Change	4%	-2%	7%	16%	0%	9%	7%	-3%	-2%

Source: Kontali Analyse

Fig. 37

### SUPPLY OF ATLANTIC SALMON TO THE EU MARKET (tonnes wfe)



Source: Kontali Analyse



## CHINA/HONG KONG

The growth in supply of Atlantic salmon to China and Hong Kong continued in 2017 as volumes increase by 6,400 tonnes wfe, up 7% from 2016. Approx. 94,000 tonnes of Atlantic salmon entered this market in 2017, which corresponds to a consumption per capita of just 0.07 kg.

Australian supply increased significantly with 8,800 tonnes wfe more than in 2016, which covered the added demand for Atlantic salmon in 2017. Supply from the Faroe Islands decreased somewhat in 2017, down by 1,600 tonnes wfe to a total of 8,500 tonnes – a market share of 9%.

Supply from Norway saw an 8% increase last year. In 2017, efforts have been made to improve relations between Norway and China to remove barriers for trade. Salmon trade indicate improvement in the relations between the countries as exports from Norway to China in the last 2 months rose by 92%.

On the other hand, supply from Chile dropped by 5% in 2017. The main reason for the decline was a drop in supply of fresh whole salmon. On the contrary, a slight increase was observed for frozen products.

Fig. 38

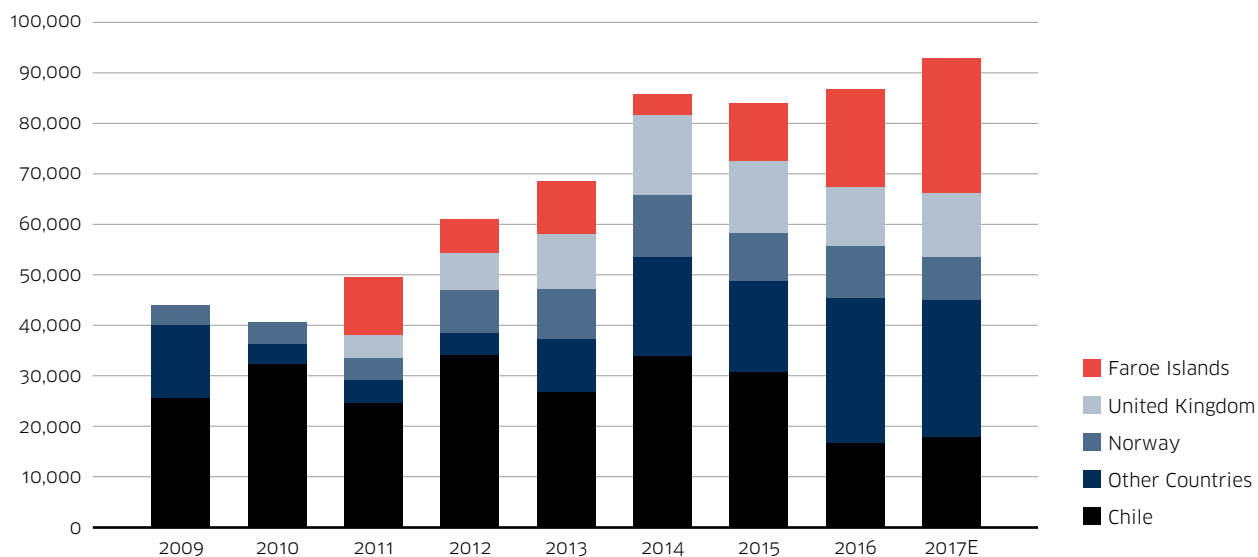
### SUPPLY OF ATLANTIC SALMON TO CHINA AND HONG KONG (tonnes wfe)

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017E
Norway	25,800	33,000	24,300	34,500	27,800	34,100	31,100	16,500	17,900
Chile	14,900	3,400	5,200	4,900	9,600	20,000	18,300	29,300	27,800
Faroe Islands	-	300	4,400	7,800	10,200	12,400	9,600	10,100	8,500
United Kingdom	800	800	5,400	8,000	11,500	16,400	14,900	12,300	12,900
Other countries	2,700	3,500	11,300	7,000	10,400	4,100	11,500	19,600	27,100
<b>Total</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>87,800</b>	<b>94,200</b>
Growth rate	64%	-7%	23%	23%	12%	25%	-2%	3%	7%

Source: Kontali Analyse

Fig. 39

### SUPPLY OF ATLANTIC SALMON TO THE CHINESE AND HONG KONG MARKET (tonnes wfe)



Source: Kontali Analyse

## GLOBAL SUPPLY OF ALL SALMONIDS

Fig. 40

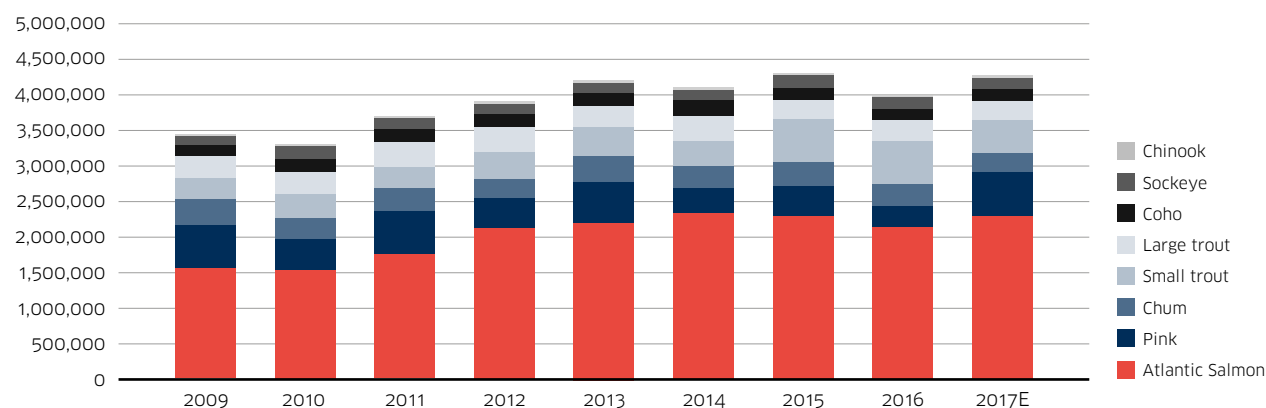
### HISTORICAL SUPPLY OF ALL SALMONIDS (tonnes wfe)

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017E
Atlantic salmon	1,475,100	1,455,500	1,633,700	2,000,350	2,041,650	2,228,000	2,317,000	2,166,100	2,303,900
Small trout	432,700	446,600	490,600	534,100	577,500	559,300	551,800	576,000	604,700
Chum	357,200	309,300	274,600	294,700	338,300	321,900	338,100	280,900	257,400
Pink	608,600	399,100	587,500	410,300	580,600	307,900	398,900	354,300	453,700
Large trout	312,500	325,700	343,400	386,200	321,700	305,900	284,400	280,800	263,200
Sockeye	141,000	167,600	148,800	142,300	133,200	173,700	190,300	183,000	178,300
Coho	131,000	160,700	174,400	191,000	176,800	200,400	189,900	151,800	187,600
Chinook	18,500	19,700	22,000	18,800	21,500	22,300	23,900	22,200	23,200
<b>Total</b>	<b>3,476,600</b>	<b>3,284,200</b>	<b>3,675,000</b>	<b>3,977,750</b>	<b>4,191,250</b>	<b>4,119,400</b>	<b>4,294,300</b>	<b>4,015,100</b>	<b>4,272,000</b>
Growth rate	10%	-6%	11%	8%	5%	-2%	4%	-7%	6%

Source: Kontali Analyse

Fig. 41

### SUPPLY OF ALL SALMONIDS (tonnes wfe)



Source: Kontali Analyse

## GLOBAL HARVEST OF FARMED ATLANTIC SALMON

After 2016, which saw a decline in volumes for the first time in five years, the global harvest of Atlantic salmon increased by 6% in 2017. 2,303,900 tonnes is the second highest volume ever harvested.

The two largest producing countries, Norway and Chile, which combined account for approximately 80 percent of the global harvest volume, both saw an increase in harvest again after the biological issues in 2016. Their increase of respectively 36,700 and 74,700 tonnes wfe accounted for approx. 80% of the global growth.

In Norway, the improved biological performance has resulted in an increase in average harvest weights, compared to 2016. The sea lice management with focus on preventive measures has been successful with reduced loss and 1 % higher harvest weights, compared to 2016 as a result. Especially the performance on the harvest ready biomass has improved in 2017. This shift in productivity might be the turning point towards an increase in harvest volumes.

In Chile, productivity and harvest volumes have increased significantly in 2017, recovering after the algae bloom in 2016. The average harvest weight was record high at 4.94 kg wfe, which is higher than for Norway.

The global harvest quantity of Atlantic salmon for 2009–2017E, is illustrated in the table.

Fig. 42

### HARVEST OF ATLANTIC SALMON IN TONNES (tonnes wfe)

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017E
Norway	855,700	944,600	1,005,600	1,183,100	1,143,600	1,199,000	1,234,200	1,171,100	1,207,800
Chile	239,100	129,600	221,000	364,000	468,100	582,900	598,200	504,400	579,100
United Kingdom	144,300	142,900	154,700	159,400	157,800	170,500	166,300	157,400	174,300
Canada	121,900	122,000	119,500	136,500	115,100	95,000	135,200	146,000	140,000
Faroe Islands	47,100	41,800	56,300	70,300	72,600	82,700	75,600	77,300	80,500
Australia	32,200	33,000	36,000	40,000	39,000	42,000	54,400	50,900	61,000
USA	16,400	18,000	18,300	19,600	20,300	24,000	20,200	22,500	21,700
Ireland	14,800	17,800	16,000	15,600	10,600	12,300	15,700	15,800	17,200
Others	3,600	5,800	6,300	11,850	14,550	19,600	17,200	20,700	22,300
<b>Total</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>2,317,000</b>	<b>2,166,100</b>	<b>2,303,900</b>
Growth rate	-1%	-1%	12%	22%	2%	9%	4%	-7%	6%

Source: Kontali Analyse

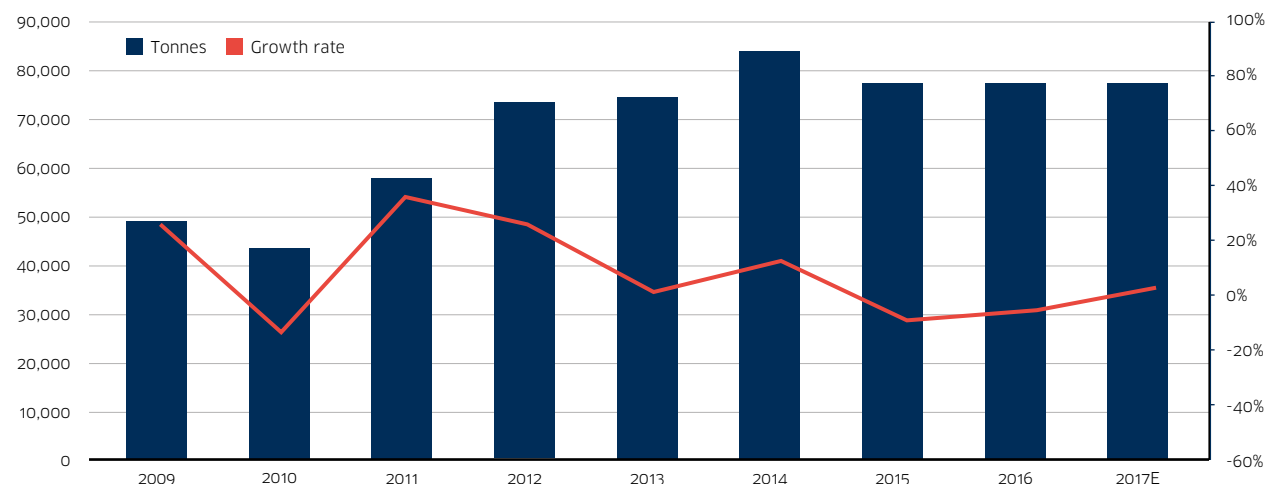
## SUPPLY OF FARMED ATLANTIC SALMON FROM THE FAROE ISLANDS

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

In 2017, the industry was challenged by health issues like higher levels of sea lice and caligus. The loss was significantly higher over the last months of 2017, compared with 2016, furthermore, the total average harvest weight was 4% lower than in 2016. Despite this, the overall harvest volumes reached 80,000 tonnes wfe, which is the highest volume since 2014.

Fig. 43

SUPPLY OF ATLANTIC SALMON FROM THE FAROE ISLANDS (tonnes wfe)



Source: Kontali Analyse

Fig. 44

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%
2016	73,600	26,000	35%	16,600	23%	400	1%	18,700	25%	11,900	16%
2017E	76,100	26,100	34%	14,600	19%	600	1%	23,300	31%	11,500	15%

Source: Kontali Analyse

## CHANGE IN MARKET SUPPLY AND MARKET PRICES

During 2017, there was a shift in supply of farmed Atlantic salmon. The effect of biological challenges in Norway and Chile in 2016 (which caused limitations in supply) lasted for the half of 2017. Globally, supply of Atlantic salmon in the first half of 2017 fell by 5%, supply to the EU fell by 8.5%, and prices again rose to record high levels.

Improved biological performance from the end of 2016 and through the summer of 2017 turned the situation around. In the second half of 2017, global supply rose by 8% and supply to the EU market rose by 3%. Globally, salmon supply totalled 2.26 million tonnes wfe in 2017, which represents an increase of 1.7%.

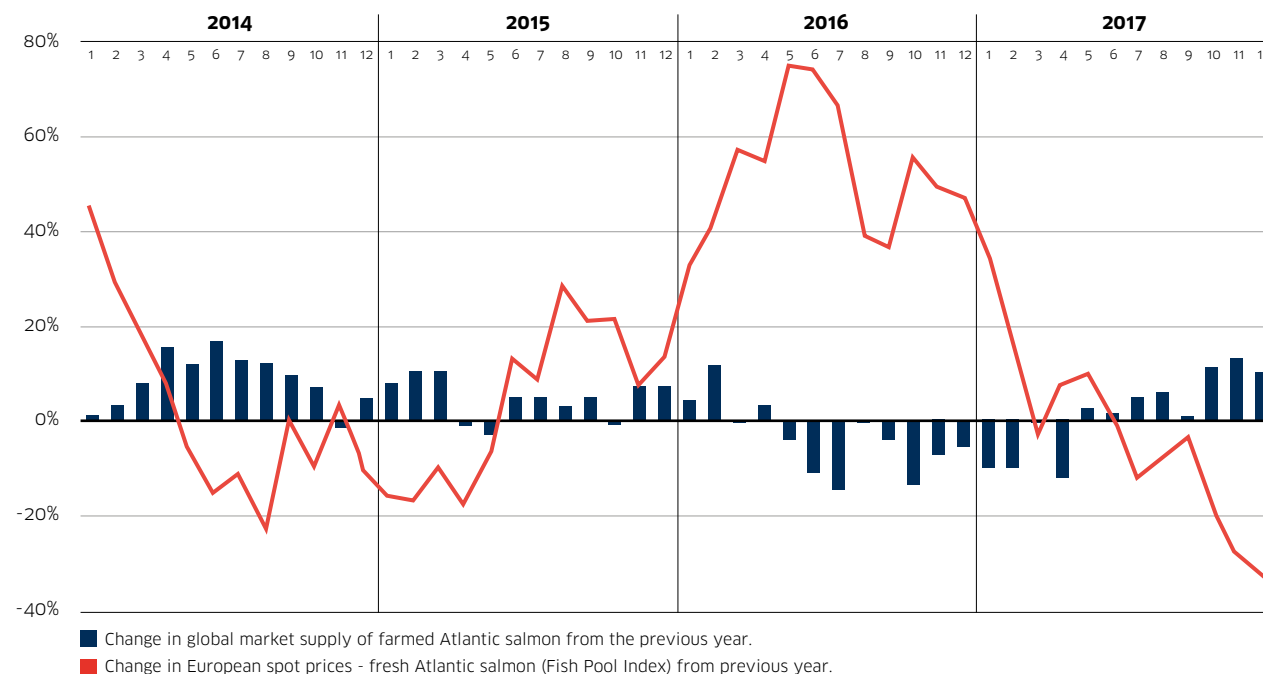
Increase in supply volumes in the second half of 2017 led to a better balance between supply and demand, as a result prices adjusted down to a more moderate level (compared with 2016). In the last quarter of 2017, the supply and price picture was completely different from the last quarter in 2016. Global supply rose by 12% (-9% in 2016), and European spot prices fell by 31% (+54% in 2016).

On the European market, the shift in supply and shift in price level have contributed to increased purchase interest from both traditional and new markets. In France (one of the biggest salmon markets in Europe) the number of large-scale retailers offering fresh salmon products has increased in the last quarter of 2017 and in the beginning of 2018. It could be that both producers and end consumers will benefit from the increased availability, as prices have come down to a level that seems to be profitable for the whole value chain and affordable for the end consumer.

The graph below shows the relative change in global supply of Atlantic salmon and European spot prices for fresh Atlantic salmon, by month - year over year, from 2014 to 2017E.

Fig. 45

### SUPPLY AND MARKET PRICES



## TOP 15 - SALMON FARMING COMPANIES

Norway is still 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 reached almost 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 2016, the world's fifteen largest salmon farming companies harvested approx. 1.5 million tonnes of Salmonids (Atlantic Salmon, Coho Salmon, Chinook, Big Trout), representing 57% of the total harvest quantity in 2016. In Norway, these companies made up 60% of the total harvest and 61% in Chile.

See table for more details.

Fig. 46

### HARVEST QUANTITY - 2016E, 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	423,000	262,200	50,100	41,000	48,200	12,100	9,400	
2	LERØY SEAFOOD GROUP (Excl, Scottish Seafarm)	NO	166,900	166,900						
3	CERMAQ GROUP	NO	135,600	64,300		48,000	23,300			
4	SALMAR (Excl, Scottish Seafarm)	NO	128,400	128,400						
5	COOKE AQUACULTURE	CA	108,000		23,000	18,000	67,000			
6	AQUACHILE	CL	81,616			81,616				
7	GRIEG SEAFOOD	NO	71,900	45,000	15,000		11,900			
8	MULTIEXPORT FOODS	CL	60,900			60,900				
9	PESQUERA LOS FIORDOS	CL	60,708			60,708				
10	AUSTRALIS SEAFOOD	CL	53,700			53,700				
11	BAKKAFROST	FO	52,800					52,800		
12	NOVA SEA	NO	41,200	41,200						
13	NORDLAKE HOLDING	NO	40,800	40,800						
14	PESQUERA CAMANCHACA	CL	32,600			32,600				
15	COMERCIAL AUSTRAL	CL	32,000			32,000				
Sum top 15			1,490,124	748,800	88,100	428,524	150,400	64,900	9,400	
Others			1,106,576	506,900	74,000	270,276	24,100	12,400	6,900	212,000
<b>Total</b>			<b>2,596,700</b>	<b>1,255,700</b>	<b>162,100</b>	<b>698,800</b>	<b>174,500</b>	<b>77,300</b>	<b>16,300</b>	<b>212,000</b>
Top 10 WW in % of total harvest quantity			50%	53%	54%	52%	86%	16%	58%	0%
Top 15 WW in % of total harvest quantity			57%	60%	54%	61%	86%	84%	58%	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 45 and 60 percent of the production cost. This expense depends mainly on two factors: The price of 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 takes into account mortality, escapes, harvest weight and other factors.

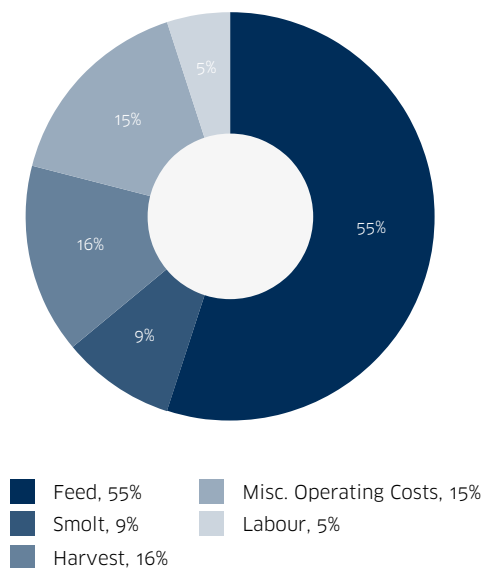
During the past decade, it's mainly the increased feed price, which has driven the total cost upwards - as commodity prices for the ingredients used in the salmon feed have increased, and markup for the feed producers have remained fairly stable. During the last 5 years, biological challenges and efforts 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 figures show the cost split for Atlantic salmon - 2017E

Fig. 47

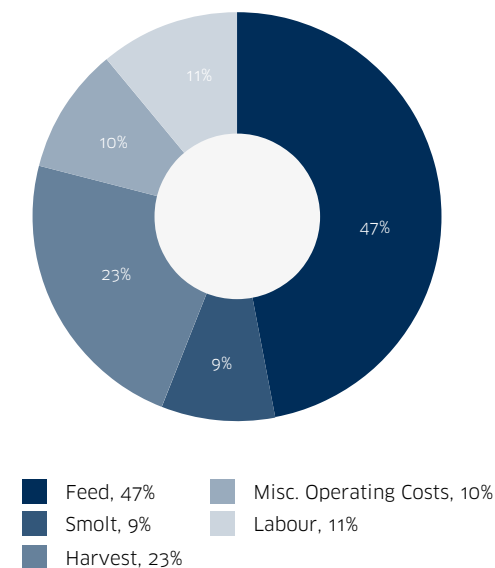
**COST SPLIT FAROE ISLANDS 2017E** (GUTTED WEIGHT)



Source: Kontali Analyse

Fig. 48

**COST SPLIT NORWAY 2017E** (GUTTED WEIGHT)



Source: Kontali Analyse

## FISH FEED

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

The following year (2014), feed consumption increased with 7% to a new all-time high record of just below 3.9 million tonnes of fish feed. This record was again beaten in 2015, by a marginal increase of one percent or 20,000 tonnes.

In 2017, the global feed consumption again increased after a downfall in 2016. Mainly driven by a 15 % increase in feed consumption (all-salmonids) in Chile, the total consumption ended up by 9%. The positive development from Chile and Norway comes because of better biological performance, especially Chile, which has recovered from the algae bloom in 2016.

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 increased fishmeal and fish oil stocks in South America after the successful fishing seasons by the end of 2016 and in May-June 2017, gave rise to the growth in exports from Peru and Chile during 2017. However, notable interest from the consumption markets, and in particular China, prices remained on a reasonable level throughout the year, which triggered the demand further. Fishmeal import to China reached nearly 1.6 mill tonnes last year, a level that is not seen the last 10 years. Imports from Peru constituted 56% of the total, while Peru exported nearly 80% of its fishmeal to China. Total fishmeal exports from Peru ended at 982,000 tonnes, an increase by 72%. Exports from Chile increased by 17%.

The latest Peruvian fishing season ended on January 26<sup>th</sup> having achieved less than half of the 1.49 mill tonnes quota. Since the season turned out quite disappointing, and the stocks on hand in Peru are low, due to strong demand and presold com-

modities before the season, prices jumped notably in the last part of 2017. Fish oil prices have not been on this level since 2013, and fishmeal prices are on its highest since 2015.

Fig. 49

### ESTIMATED FEED CONSUMPTION/SALE TO SALMONIDS FOR SALMONID PRODUCING REGIONS

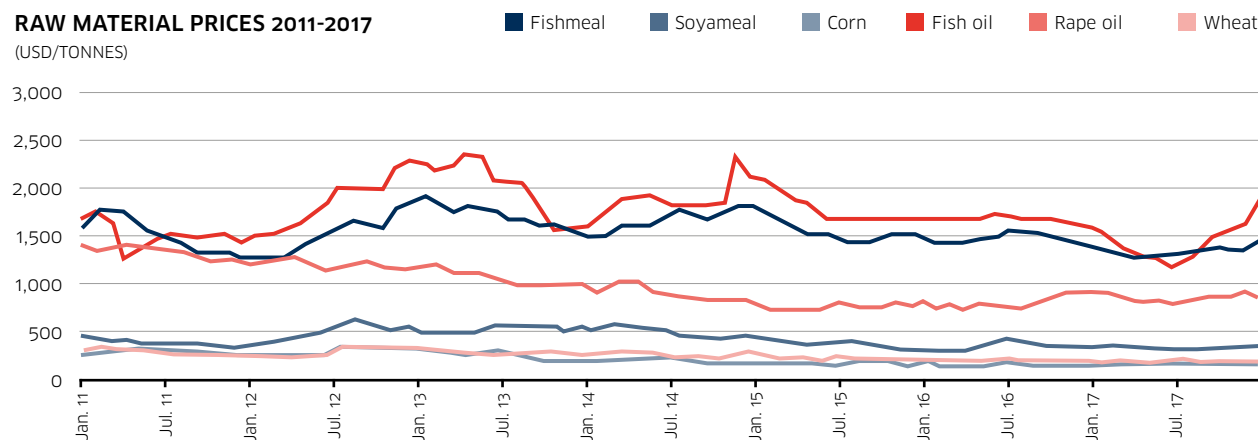
Atlantic salmon, Large Trout, Coho, Chinook

In 1000 tonnes	2012	2013	Change	2014	Change	2015	Change	2016	Change	2017E	Change
Norway	1,652	1,618	-2%	1,738	7%	1,743	0%	1,704	-2%	1,822	7%
Chile	1,254	1,204	-4%	1,285	7%	1,241	-3%	1,040	-16%	1,196	15%
UK	210	223	6%	231	4%	245	6%	242	-1%	250	3%
North America	235	202	-14%	235	16%	258	10%	266	3%	275	4%
Faroe Islands	89	96	8%	97	2%	103	6%	107	3%	101	-5%
Others	272	285	5%	313	10%	334	7%	335	0%	365	9%
<b>Total</b>	<b>3,712</b>	<b>3,628</b>	<b>-2%</b>	<b>3,900</b>	<b>7%</b>	<b>3,924</b>	<b>1%</b>	<b>3,694</b>	<b>-6%</b>	<b>4,010</b>	<b>9%</b>

Fig. 50

### RAW MATERIAL PRICES 2011-2017

(USD/TONNES)



Source: Kontali Analyse

# RISK

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# Risk and Risk Management

The Bakkafrøst 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, Bakkafrøst is exposed to, are reduced to an acceptable level.

Bakkafrøst has general operational and business risks arising from the normal business activities in the value chain. In addition to the operational risks, Bakkafrøst 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 Bakkafrøst's results and financial condition. Bakkafrøst'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 Bakkafrøst aims at reducing that risk through the entire production cycle by means of systematic group-wide biosecurity auditing.

Bakkafrøst's production facilities are located within a relatively small geographical area, limited to the Faroe Islands; accordingly, some operational risks, if occurring, can affect Bakkafrøst 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. Bakkafrøst 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. Bakkafrøst is continually working on reducing risks using experience with equipment, location and operational organisation. Bakkafrøst'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, Bakkafrøst 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.

### 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 freshwater bath on-board a live fish carrier as sea lice treatment. This treatment has been effective, and Bakkafrøst has made investments in two service vessels, installed with a treatment system using lukewarm fresh seawater and is striving to improve the delicing methods continuously.

## Escapes

In December 2017, Bakkafrøst experienced an escape of appr. 109,000 salmon at A-06 Gulin, due to a heavy storm. The fish weighed around 1.8 kg in average at the time. Bakkafrøst followed all of its internal and external procedures to ensure that no further damage occurred.

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.

## Fishmeal, fish oil and fish feed

The production of fishmeal, fish oil and fish feed follows established methods with automated and controlled processes. However, any production is vulnerable to downtime and possible insufficient supply of raw material input. Unexpected shortfalls in raw material due to limited catch volumes or lim-

ited 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 DL-PCBs, mycotoxins, pesticides, antioxidants (such as Ethoxyquin (not in use after Q1 2018) 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 DL-PCBs 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

Bakkafrøst'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

Bakkafrøst's financial position and future development depend to some extent on the price of fishmeal and fish oil, which have historically been subject to substantial fluctuations. Fishmeal and fish oil are commodities, and it is therefore reasonable to assume that the market price will continue to follow a cyclical pattern. The balance between the total supply and demand for fishmeal and fish oil is a key parameter. Decreased supply may cause prices to increase. This could in turn have an impact on the company's profitability and cash position.

### Price on fish feed

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

Natural limitations in the marine resource base could lead to global shortages of fishmeal and 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 Bakkafrøst's value chain and thus reducing this risk.

### Geography

Bakkafrøst 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

Bakkafrøst 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

Bakkafrøst 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, Bakkafrøst has some natural hedging. For those currencies not fully hedged, fluctuations in foreign exchange rates present a financial risk to Bakkafrøst.

Bakkafrøst's financing is in DKK and NOK and is a combination of bank financing and bond financing. The bank financing is in DKK, but Bakkafrøst has the possibility to finance in other currencies. The bond financing is in NOK and thus, there is a currency risk towards the bond financing. To reduce this risk, 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. The bond was repaid in February 2018.

In connection with some material investments, Bakkafrøst 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 Bakkafrost 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. Bakkafrost'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 Bakkafrost'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, Bakkafrost will support its business operations. Bakkafrost manages and makes changes to its capital structure in response to an ongoing assessment of financial conditions under which the business operates and its short- and medium-term outlook, including any adjustment in dividend payouts, buyback of own shares, capital reduction or issue of new shares.



# 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 2022, 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 2022. According to the Faroese company law, a company may in its Articles 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 authorization unacceptable, the board will support a change to the Articles of Association.

## 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 3-7 members, which are elected every second 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.



### Bakkafrost'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 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 Bakkafrost's general meeting – such as appointing Bakkafrost'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 Articles 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 2017, 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 2017. Below under each Director's profile is disclosed each Director's participation in the Board meetings held during 2017.

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.

neration, 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 2017 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.

# Corporate Responsibility and Sustainability

## Governance and management

Bakkafrost's core values specify an intent to act responsibly, this includes thinking long-term on economic, social, and environmental issues. The company follows a precautionary approach to the management of sustainability risk through our risk assessment process. The process allocates responsibility for the mitigation of significant operational risks. Risks are monitored throughout the supply chain and reported internally on a regular basis and externally on an annual basis in the Annual Report and Sustainability Report, published for the first time in 2018.

The Audit Committee assists the Board in overseeing financial and business-related risks, internal controls and compliance with statutory and other requirements from public authorities. Sustainability strategy, management and reporting is overseen by the Board of Directors and is the day-to-day responsibility of Bakkafrost's Management Team.

Sustainability is covered in Bakkafrost's corporate strategy and management plans, and will be further integrated into these in 2018.

## Compliance and ethical conduct

Bakkafrost acts in accordance with strict national workplace health and safety, environmental, and fish health and welfare regulation in the Faroes. The company has an ongoing commitment to have zero cases of non-compliance.

The company upholds and promotes good business practice throughout the value chain, consistent with Bakkafrost's core values and principles. Its values guide its behavior and approach to creating long-term value for customers, shareholders and society and are outlined in Bakkafrost's Code of Conduct, which aims to create a sound corporate culture. The Code requires all employees to observe high standards of

business and personal ethics in the conduct of their duties and responsibilities. They must employ a fair and honest approach in every dealing with other employees and all external stakeholders.

Further commitment to voluntary sustainability standards and certifications are outlined below.

## Workplace and human rights

The company is committed to respecting the protection of human rights and to making sure that it is not complicit in human rights abuses.

Its Code states a commitment to ensure that neither Bakkafrost nor its business partners shall exploit children as a labour force. This is supported by the standards, suppliers are asked to sign up to, when entering into agreements.

Bakkafrost's Code of Conduct also outlines its approach to creating optimal working conditions and culture, including a commitment to create a professional and positive work environment which is inclusive and free from discrimination.

## Human capital

Bakkafrost employs 1,104 full-time employees (960 full time equivalent) in the Faroe Islands. It acknowledges that in order to achieve its mission and meet its strategic objectives, it must have a capable and engaged workforce, which is committed to its core values.

The company is dedicated to having a diverse and inclusive workplace, to attract and retain talent and expertise, to build workforce competency, and to maintain high employee engagement. By 2020, it will renew its employee strategy.

### Health, safety and wellbeing

Protecting human capital involves maintaining a high standard of occupational health and safety and creating a healthy working culture.

The company's Code outlines its intention to ensure a systematic approach to attaining an injury and accident free workplace. This is achieved through a set of guidelines based on the highest health, safety and environment standards. Employees receive regular training on these.

### Product quality and safety

Through various best practice standards and certification programmes (outlined below), Bakkafrøst ensures industry-leading product quality and safety standards. A comprehensive internal control system is in place, which is regularly inspected by the authorities; this involves daily product testing and monitoring for compliance with national health and food safety regulations. As well as ongoing adherence to the highest standards, the company has made a commitment to maintain our high omega 3 levels and maintain high customer product quality scores.

### Biosecurity and fish health and welfare

Bakkafrøst is committed to upholding leading welfare standards and reducing the use of chemicals and medicines in the prevention of disease and sea lice. The experienced fish health team – made up of certified veterinarians, biologists, and assistants – has a strategy in place to achieve this, which includes surveillance across all sites to ensure that optimal health and welfare is maintained at all times. The company has made a commitment to maintain low fish mortality rates, to further develop and implement non-medicinal treatments (with high focus of fish welfare), and to have zero fish escapes.

### Environmental management and sustainable feed

Bakkafrøst is committed to minimizing pollution of the environment from each stage of the value chain. The company's Code outlines an intention to strive to be market leading in environmental protection. All employees will be required to bear in mind the environmental effects work-related activities have on nature and the environment and apply environmentally friendly solutions to the extent reasonably possible.

The company is focused on optimizing its efficient use of fossil fuels, and has made a series of commitments towards the health of the environment, including investment in a new biogas plant, a sustainable feed policy, and implementation of measures to reduce pollution in the fjords.

### Collaboration and certification

As well as collaborating with the salmon industry through the Faroe Fish Farmer's Association and the Global Salmon Initiative (GSI). Bakkafrøst subscribes to a number of external standards and certification programmes to ensure product sustainability, quality and safety. The entire value chain – feed production, hatcheries, farming sites, and harvesting and processing plant – is certified according to the international GLOBALG.A.P. standard, which focuses on food safety throughout the production, fish welfare, health and safety, and environmental management.

Bakkafrøst's harvesting and value-added product (VAP) production has the Aquaculture Stewardship Council (ASC) Chain of Custody certification, and the VAP production is certified according to the BRC and IFS food safety standards. The fish-meal, oil and feed production at Havsbrún, hold multiple certifications; all units are certified to ISO 9001:2008, and the meal and oil division is certified according to the GMP+ standards, the IFFO RS certification and the MSC Chain of Custody standard.

Bakkafrøst has made a commitment to have all farming sites ASC certified by 2020.

### Responsible leadership and value generation

The considerable value generated by Bakkafrøst for the Faroe Islands, through employment, taxes and returns, means it has a big responsibility to everyone with an invested interest in the company. The company has made a commitment to demonstrate responsible leadership at both a local and international level, and increase transparency on issues of high stakeholder interest, such as community investment.

Further information on Bakkafrøst's management approach to these issues, its plan to meet its commitments, and its 2017 performance against them, can be found in the Bakkafrøst 2017 Healthy Living Sustainability Report.



# 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, lggilt grannskoðanarvirki (State Authorized Public Accountants), which is also the auditor of the parent company and all its subsidiaries, registered in the Faroe Islands. Auditor for Havsbrún Norge ASA is Bruli Revisjon AS, and auditor for Havsbrún Shetland Plc. is A9 Partnership Ltd. Auditors for Bakkafrøst UK Ltd is Forrester Boyd Chartered Accountants.

## DIVIDEND POLICY

Bakkafrøst aims to give its shareholders a competitive return on their investment, both through payment of dividends from the company and by securing an increase in the value of the equity through positive operations.

Generally, the company should pay dividends to its shareholders, but it is the responsibility of the Board of Directors to make an overall assessment in order to secure the company a healthy capital base, both for 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 10.50

(NOK 13.65\*) per share shall be paid out as dividends. This corresponds to DKK 513.0 million (NOK 667.0\* 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 1,072.2 million for 2017. The Board of Directors has decided to propose to the Annual General Meeting that DKK 10.50 (approximately NOK 13.65\*) per share shall be paid out as dividends. This corresponds to DKK 513.0 million (NOK 667.0\* million).

The Board thereby proposes the following allocation of funds:

- Result for 2017: DKK 1,072.2 million
- Transferred to other equity: DKK 559.2 million
- Total provision for dividends: DKK 513.0 million

After payment of dividends, the distributable equity totals DKK 2,941.7 million.

## SHAREHOLDERS, CAPITAL AND VOTES

P/F Bakkafrøst had, on 31 December 2017, 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 236,925 treasury shares as at 31 December 2017.

Ticker code: BAKKA

## LARGEST SHAREHOLDERS

These shareholders held directly or indirectly more than 5% of the shares in the company as at 31 December 2017: Oddvør Jacobsen, Regin Jacobsen and Folketrygdfondet.

\* 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 and Management



**Øystein Sandvik**  
Board member

**Virgar Dahl**  
Board member

**Gunnar Nielsen**  
Chief Financial  
Officer

**Odd Eliassen**  
Managing Director  
of Havsbrún

**Regin Jacobsen**  
Chief Executive  
Officer

**Rúni M. Hansen**  
Chairman of the  
Board

**Annika Frederiksberg**  
Board member

**Teitur Samuelsen**  
Board member

**Johannes Jensen**  
Deputy Chairman  
of the Board

# 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 2019. 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 2017:

Participated in all 9 Board meetings in 2017.

#### Number of shares held in Bakkafrost:

Holds 10,000 shares – no change in portfolio in 2017.

Mr. Hansen has extensive experience in the international oil and gas industry. He has been Head of Statoil's Arctic Unit and a member of Statoil's Worldwide Exploration Management Team. For a number of years, he was the Country Manager for Statoil, in charge of operations in the Faroes and Greenland, including operated drilling campaigns. He has also been the Manager of Commercial and Negotiations for Europe and North Africa at Statoil. During his time in Statoil, he has been based in Copenhagen, London, Oslo and the Faroe Islands. Prior to Statoil, he was in the shipping and seafood industry. Rúni M. Hansen was a 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 P/F Gist & Vist.

#### Education:

MBA, Lancaster University Management School.

#### Board meetings in 2017:

Participated in all 9 Board meetings in 2017.

#### Number of shares held in Bakkafrost:

Holds no shares – no change in portfolio in 2017.

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 1992 to 2001. Mr. Jensen is presently also Chairman of P/F Frost and of P/F Visit Faroe Islands.

## 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 Sandoyartunlar.

#### Education:

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

#### Board meetings in 2017:

Participated in all 9 Board meetings in 2017.

#### Number of shares in Bakkafrost:

Holds 100 shares – no change in portfolio in 2017.

Mr. Samuelson has an extensive experience from accounting and finance. Mr. Samuelson 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. Samuelson is presently a member of the Board of Directors at P/F 6. September, Vest Pack and Betri Trygging.

## 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 P/F Betri Trygging.

#### Education:

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

#### Board meetings in 2017:

Participated in all 9 Board meetings in 2017.

#### Number of shares in Bakkafrost:

Holds 7,000 shares – no change in portfolio in 2017.

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.

## ANNIKA FREDERIKSBERG

### Board member

Born 1971. Faroese citizen. Joined the Board in 2008. Term of office expires in 2019. Is not considered to be independent. Sales Manager at Bakkafrost.

#### Education:

Basic Vocational Course, Commercial Line, Faroese Business School.

#### Board meetings in 2017:

Participated in all 9 Board meetings in 2017.

#### Number of shares in Bakkafrost:

Holds directly and indirectly 15,255 shares – change in portfolio in 2017: +281 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 2019. Is considered to be independent.

#### Education:

Bank Economist.

#### Board meetings in 2017:

Participated in all 9 Board meetings in 2017.

#### Number of shares in Bakkafrost:

Holds no shares – no change in portfolio in 2017.

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 Cold-water Prawns of Norway AS.

# Group Management's Profiles

## REGIN JACOBSEN

Chief Executive Officer

Born 1966. Faroese citizen. Mr. Jacobsen has been Chief Executive Officer of Bakkafrost since 1989.

### Education:

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

### Number of shares held in Bakkafrost:

Holds 4,494,314 shares – changes in portfolio in 2017: +797 shares.

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

## 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 1,043 shares – changes in portfolio in 2017: +381 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 Betri 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 of Havsbrún since 2012.

### Education:

Teacher Certificate Exam, University of the Faroe Islands.

### Number of shares held in Bakkafrost:

Holds 172,369 shares – changes in portfolio in 2017: +652 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.



### **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.



### **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.



### **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 and Managing Director of P/F Faroe Salmon 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 Sjólaksur. 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 Bakkafrost in 2010, following the merger of Vestlax Group with Bakkafrost. 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.



**RÚNI OLSEN, Fresh Water Manager**

Rúni Olsen (born 1967) was appointed Fresh Water Manager at Bakkafrost from the 1<sup>st</sup> of February 2018. Rúni Olsen holds a Master's Certificate from Føroya Sjómansskúli in Tórshavn, Faroe Islands. And from 1996 to 2009, he held leading positions in international shipping. From 2009, Rúni held the position as Maritime Director at P/F Smyril Line.



**GUÐRUN OLSEN, Group HR Manager**

Guðrun Olsen (born 1964) was appointed Group HR Manager at Bakkafrost 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 Bakkafrost 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 off-shore vessels.

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

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The Management and the Board of Directors have today considered and approved the Annual and Consolidated Report and Accounts of P/F Bakkafrøst for the financial year 1 January 2017 to 31 December 2017.

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 2017, as well as the results of the

Group's and the parent company's activities and cash flows for the financial year 1 January 2017 to 31 December 2017.

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.

Glyvfrar, 19 March 2018

## Management:

**Regin Jacobsen**  
CEO

## The Board of Directors of P/F Bakkafrøst

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

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## 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 2017, 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 2017 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 2017, 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 2017. 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

### Biomass

Biomass at marine sites is not accurately ascertainable until harvest, but based on accounting estimates, which again is based on partly factual information relevant to stocking, feeding, sea temperature, mortality, and production expenses, as well as experience on growth, undetected mortality, feed consumption ratio, etc.

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

## Our response to the matter during our audit

We apply our experience and knowledge on salmon production, considering the estimates, and assure ourselves, that the estimates are based on factual data, that the management is applying estimates based on factual and empirical data on salmon production, and that the estimates are free from bias. Moreover, we assure ourselves on an ex-post basis, that accounting estimates made by the management at the balance sheet are not materially misstated, once the biomass has been harvested.

We assure ourselves, that estimates are based on ascertainable information in line with company specific data as that estimates on future conditions are based on the best information available. 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 consistently applied.

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 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,

## 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.

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 accounting 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, 19 March 2018

**Januar P/F**

løggit grannskoðanarvirki

State authorized Public Accountants

Company reg.no. 5821

Fróði Sivertsen

State Authorized Public Accountant

# Statements and Notes

Bakkafrost Group

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## BAKKAFROST GROUP

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# Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2017	2016
<b>Operating revenue</b>		<b>3,770,049</b>	<b>3,202,686</b>
Purchase of goods		-883,871	-920,148
Change in inventory and biological assets (at cost)		-141,406	58,874
Salary and personnel expenses	2.4	-400,267	-327,825
Other operating expenses	2.5	-783,268	-715,373
Depreciation	3.2	-183,590	-133,261
<b>Operational EBIT*</b>		<b>1,377,647</b>	<b>1,164,953</b>
Fair value adjustments of biological assets	3.6	-693,540	608,195
Onerous contracts	3.13	67,376	-16,372
Income from associates		17,302	14,821
Revenue tax		-119,681	-108,450
Badwill		0	10,440
<b>Earnings before interest and taxes (EBIT)</b>		<b>649,104</b>	<b>1,673,587</b>
Financial income	2.7	1,395	1,524
Net interest expenses	2.7	-26,365	-25,983
Net currency effects	2.7	4,173	-12,355
Other financial expenses	2.7	-4,423	-4,159
<b>Earnings before taxes (EBT)</b>		<b>623,884</b>	<b>1,632,614</b>
Taxes	2.8	-112,482	-293,727
<b>Profit or loss for the period continuing operations</b>		<b>511,402</b>	<b>1,338,887</b>
<b>Profit or loss for the year attributable to</b>			
Non-controlling interests		0	0
<b>Owners of P/F Bakkafrøst</b>		<b>511,402</b>	<b>1,338,887</b>
Earnings per share (DKK)	4.3	10.52	27.56

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

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	2017	2016
<b>Profit for the year</b>	<b>511,402</b>	<b>1,338,887</b>
Fair value adjustment on financial instruments	-25,799	26,789
Income tax effect	4,644	-4,364
Currency translation differences	415	3,822
Reserve to share-based payment	1,223	1,566
Adjustment treasury shares	2,885	-1,366
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>-16,632</b>	<b>26,447</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>-16,632</b>	<b>26,447</b>
<b>Total comprehensive income for the year net tax</b>	<b>494,770</b>	<b>1,365,334</b>

# Consolidated Statement of Financial Position

AS AT 31 DECEMBER

DKK 1,000	Note	2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		376,675	376,675
<b>Total intangible assets</b>	<b>3.1</b>	<b>376,675</b>	<b>376,675</b>
Land buildings and other real estate		1,183,286	874,907
Plant machinery and other operating equipment		881,572	906,046
Other operating equipment		139,225	58,999
Vessels		366,347	278,518
<b>Total property, plant and equipment</b>	<b>3.2</b>	<b>2,570,430</b>	<b>2,118,470</b>
<b>Non-current financial assets</b>			
Investments in associated companies	3.3	51,406	34,111
Investments in stocks and shares	3.4	25,296	25,296
Long-term receivables	3.7	0	12,660
<b>Total non-current financial assets</b>		<b>76,702</b>	<b>72,067</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,023,807</b>	<b>2,567,212</b>
<b>Current assets</b>			
Biological assets (biomass)	3.6	1,096,664	1,858,435
Inventory	3.5	305,845	355,604
<b>Total inventory</b>		<b>1,402,509</b>	<b>2,214,039</b>
Accounts receivables	3.7	262,493	292,009
Other receivables	3.7	157,156	109,860
<b>Total receivables</b>		<b>419,649</b>	<b>401,869</b>
Cash and cash equivalents	3.8	309,551	234,996
<b>TOTAL CURRENT ASSETS</b>		<b>2,131,709</b>	<b>2,850,904</b>
<b>TOTAL ASSETS</b>		<b>5,155,516</b>	<b>5,418,116</b>

DKK 1,000	Note	2017	2016
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	3.9	48,858	48,858
Other equity		3,577,571	3,500,177
<b>Total equity</b>	<b>3.9</b>	<b>3,626,429</b>	<b>3,549,035</b>
<b>Non-current liabilities</b>			
Deferred taxes	2.8	455,448	545,699
Long-term interest-bearing debt	3.10	146,696	827,146
Derivatives	3.12	0	101,456
<b>Total non-current liabilities</b>		<b>602,144</b>	<b>1,474,301</b>
<b>Current liabilities</b>			
Financial derivatives	3.12	127,255	0
Short-term interest-bearing debt	3.10	378,300	0
Trade payables		189,548	138,873
Current tax liabilities	2.8	198,141	142,016
Provisions for onerous contracts	3.13	0	67,378
Other current liabilities		33,699	46,513
<b>Total current liabilities</b>		<b>926,943</b>	<b>394,780</b>
<b>TOTAL LIABILITIES</b>		<b>1,529,087</b>	<b>1,869,081</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,155,516</b>	<b>5,418,116</b>



# Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER

## 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 cash flow statement is prepared according to the indirect method. 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.

DKK 1,000	Note	2017	2016
<b>Cash flow from operations</b>			
<b>Operating profit (EBIT)</b>		<b>649,104</b>	<b>1,673,587</b>
Adjustments for write-downs and depreciation	3.2	183,590	135,575
Adjustments for value adjustments on biomass	3.6	693,540	-608,195
Adjustments for income from associates		-17,301	-9,146
Adjustments for currency effects		11,198	-10,125
Adjustments for goodwill		0	-10,440
Received dividend		0	3,186
Provision for onerous contracts		-67,376	16,372
Taxes paid		-140,337	-154,635
Change in inventory		117,990	-4,494
Change in receivables		-2,073	-78,769
Change in current debts		29,827	-103,317
<b>Cash flow from operations</b>		<b>1,458,162</b>	<b>849,599</b>
<b>Cash flow from investments</b>			
Proceeds from sale of fixed assets		2,954	20,539
Payments made for purchase of fixed assets	3.2	-638,496	-686,605
Purchase of shares and other investments		0	-75,244
Change in long-term receivables		0	1,325
<b>Cash flow from investments</b>		<b>-635,542</b>	<b>-739,985</b>
<b>Cash flow from financing</b>			
Change in revolving credit facilities		-298,757	379,329
Financial income		1,393	1,523
Financial expenses		-30,789	-30,459
Proceeds/Acquisition of treasury shares		2,883	3,712
Financing of associate		0	70,048
Dividend paid		-422,795	-400,623
<b>Cash flow from financing</b>		<b>-748,065</b>	<b>23,530</b>
<b>Net change in cash and cash equivalents in period</b>		<b>74,555</b>	<b>133,144</b>
Cash and cash equivalents - opening balance		234,996	101,852
<b>Cash and cash equivalents - closing balance total</b>		<b>309,551</b>	<b>234,996</b>

# Consolidated Statement of Changes in Equity

AS AT 31 DECEMBER

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

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
Consolidated profit	0	0	0	0	0	0	0	-693,540	1,210,359	516,819
<b>Other comprehensive income:</b>										
Fair value adjustment on financial derivatives	0	0	0	0	0	-25,799	0	0	0	-25,799
Income tax effect	0	0	0	0	0	4,644	0	0	0	4,644
Share-based payment	0	0	0	1,223	0	0	0	0	0	1,223
Currency translation differences	0	0	0	0	415	0	0	0	0	415
<b>Total other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,223</b>	<b>415</b>	<b>-21,155</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-19,517</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,223</b>	<b>415</b>	<b>-21,155</b>	<b>0</b>	<b>-693,540</b>	<b>1,210,359</b>	<b>497,302</b>
<b>Transaction with owners:</b>										
Treasury shares	0	0	2,886	0	0	0	0	0	0	2,886
Paid-out dividend	0	0	0	0	0	0	-425,065	0	2,271	-422,794
Proposed dividend	0	0	0	0	0	0	513,009	0	-513,009	0
<b>Total transaction with owners</b>	<b>0</b>	<b>0</b>	<b>2,886</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>87,944</b>	<b>0</b>	<b>-510,738</b>	<b>-419,908</b>
<b>Total changes in equity</b>	<b>0</b>	<b>0</b>	<b>2,886</b>	<b>1,223</b>	<b>415</b>	<b>-21,155</b>	<b>87,944</b>	<b>-693,540</b>	<b>699,621</b>	<b>77,394</b>
<b>Total equity 31.12.2017</b>	<b>48,858</b>	<b>306,537</b>	<b>-18,159</b>	<b>3,874</b>	<b>6,271</b>	<b>-104,351</b>	<b>513,009</b>	<b>186,951</b>	<b>2,683,439</b>	<b>3,626,429</b>
Equity 01.01.2016	48,858	306,537	-19,679	1,085	2,034	-105,621	403,079	257,277	1,686,912	2,580,482
Consolidated profit	0	0	0	0	0	0	0	623,214	719,514	1,342,728
<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>



# Notes to the Consolidated Financial Statements

Bakkafrost Group

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## NOTES - SECTION 1

# BASIS OF PREPARATION

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

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

P/F Bakkafrost was listed on 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 2017 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 authorized for issue by the Board of Directors on 19 March 2018.

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 2017 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 badwill 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 than the functional currency are transactions in a foreign currency.

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

At each balance sheet date, receivables, payables and other monetary items in foreign currency are translated to the functional currency using the closing rate. Exchange differences arising on the settlement of monetary items or on translating monetary items, at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, shall be 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 STANDARDS 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 15 Revenue from Contracts with Customers

A new comprehensive standard on revenue recognition. The standard may potentially affect revenue recognition in a num-

ber of areas including timing of recognition of revenue and recognition of variable consideration. The standard is not expected to have any material effect on the Annual Report.

IFRS 15 will be effective for financial years beginning on or after 1 January 2018.

### IFRS 9 Financial Instruments, Recognition and Measurement

IFRS 9 is a new standard on financial instruments replacing IAS 39. It provides new guidance in respect of classification of financial instruments and hedge accounting. Finally, the standard introduces an expected loss model for impairment losses on receivables. The standard is not expected to have any material effect on the Annual Report.

IFRS 9 will be effective for financial years beginning on or after 1 January 2018.

### IFRS 16 Leases

IFRS 16 is a new standard on the accounting treatment of leases. Going forward, the lessee is required to recognize all leases as a lease liability and a lease asset in the balance sheet with two exceptions: short-term leases (less than 12 months) and leases relating to low-value assets. The standard is only expected to have a minor effect on the Annual Report.

The standard will be effective for financial years beginning on or after 1 January 2019.

## NOTE 1.8 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 Bakkafrøst Group's Financial Statements, are described in the notes.



## NOTES - SECTION 2

# RESULTS FOR THE YEAR

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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, fish-meal, fish oil and feed. Sales revenues are recognized, when the goods are delivered and both title and risk have passed to the customer. This will normally be upon delivery.

## NOTE 2.2 MAJOR CUSTOMERS

One customer represents DKK 583 million of the revenue amount in the VAP segment. This is 59% of the total revenue in the VAP segment.

## NOTE 2.3 OPERATING SEGMENT INFORMATION

2017 – DKK 1,000	Farming	Value Added Products	Fishmeal, oil and feed	Eliminations	Bakkafrost Group
External operating revenues	2,150,939	998,778	620,332	0	3,770,049
Internal operating revenues	835,622	0	682,829	-1,518,451	0
<b>Total operating revenues</b>	<b>2,986,561</b>	<b>998,778</b>	<b>1,303,161</b>	<b>-1,518,451</b>	<b>3,770,049</b>
Depreciation and amortization	-136,673	-16,221	-30,696	0	-183,590
Operating expenses	-858,865	-222,377	-1,037,068	-90,502	-2,208,812
Internal operating expenses	-682,829	-835,622	0	1,518,451	0
<b>Operating EBIT</b>	<b>1,308,194</b>	<b>-75,442</b>	<b>235,397</b>	<b>-90,502</b>	<b>1,377,647</b>
Provision for onerous contracts	0	67,378	0	0	67,378
Fair value adjustments on biological assets	-693,540	0	0	0	-693,540
Income from associates	142	0	17,159	0	17,301
Revenue tax	-119,680	0	0	0	-119,680
<b>EBIT</b>	<b>495,116</b>	<b>-8,064</b>	<b>252,556</b>	<b>-90,502</b>	<b>649,106</b>
Net interest revenue	7,089	0	0	-5,694	1,395
Net interest expenses	-21,433	-2,899	-7,729	5,694	-26,367
Net currency effects	16,531	-345	-11,536	0	4,650
Other financial expenses	-4,672	-10	-218	0	-4,900
<b>Earnings before taxes</b>	<b>492,631</b>	<b>-11,318</b>	<b>233,073</b>	<b>-90,502</b>	<b>623,884</b>
Taxes	-71,541	1,679	-42,620	0	-112,482
<b>Net earnings</b>	<b>421,090</b>	<b>-9,639</b>	<b>190,453</b>	<b>-90,502</b>	<b>511,402</b>
<b>Operating EBITDA</b>	<b>1,444,867</b>	<b>-59,221</b>	<b>266,093</b>	<b>-90,502</b>	<b>1,561,237</b>
<b>ASSETS</b>	<b>4,728,402</b>	<b>302,135</b>	<b>803,359</b>	<b>-678,380</b>	<b>5,155,516</b>
Whereof intangible assets	376,675	0	0	0	376,675
<b>LIABILITIES</b>	<b>529,931</b>	<b>3,248</b>	<b>562,189</b>	<b>433,719</b>	<b>1,529,087</b>
<b>INVESTMENTS</b>					
Property, plant and equipment	545,932	35,450	59,207	0	640,589
Depreciation	-136,673	-16,221	-30,696	0	-183,590

2016 – DKK 1,000	Farming	Value Added Products	Fishmeal, oil and feed	Eliminations	Bakkafrost 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

**SALMON - DISTRIBUTION OF HARVESTED AND PURCHASED VOLUMES**

	2017		2016	
	tgw	%	tgw	%
Harvested volume used in VAP production	19,067	34.9%	17,458	35.2%
External purchase of salmon for VAP production	0	0.0%	662	1.3%
Harvested volume sold fresh/frozen	35,548	65.1%	30,084	60.7%
External purchase of salmon sold fresh/frozen	0	0.0%	1,392	2.8%
<b>Harvested and purchased volumes</b>	<b>54,615</b>	<b>100.0%</b>	<b>49,596</b>	<b>100.0%</b>

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

	2017		2016	
	tonnes	%	tonnes	%
<b>Distribution Feed</b>				
Volumes used internally	72,960	93.4%	78,028	92.2%
External purchase	5,175	6.6%	6,558	7.8%
<b>Sold volumes</b>	<b>78,135</b>	<b>100.0%</b>	<b>84,586</b>	<b>100.0%</b>

**PRODUCTION OF FISHMEAL AND FISH OIL**

	2017		2016	
	tonnes	%	tonnes	%
Fishmeal	74,089	87.7%	44,155	85.7%
Fish oil	10,387	12.3%	7,369	14.3%
<b>Sold volumes</b>	<b>84,476</b>	<b>100.0%</b>	<b>51,524</b>	<b>100.0%</b>

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

2017 – DKK 1,000	Farming	VAP	FOF
Europe	489,617	886,010	620,332
Eastern Europe	644,233	21,048	0
USA	519,681	58,132	0
China	491,765	37,084	0
Other	2,147	0	0
<b>Total</b>	<b>2,147,444</b>	<b>1,002,273</b>	<b>620,332</b>

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

2016 – DKK 1,000	Farming	VAP	FOF
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>

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 party's transactions. The pricing principle between the VAP and Farming segment is based on market

reference prices for spot sale, and the pricing principle between the FOF and the 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 around the Faroe Islands. There are no significant differences in the production properties of

the licences, and the Group therefore reports the farmed salmonids, including the sale of fresh salmon, as one segment. The salmon is sold on the spot market for salmon products and to foreign seafood processing companies.

#### Value added products (VAP)

A significant share of the farmed products is value added at the factory in Glyvrrar. 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 involve 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, located in Fuglafjørður.

## NOTE 2.4 SALARIES AND OTHER PERSONNEL EXPENSES

DKK 1,000	2017	2016
Wages and salaries	354,432	288,787
Social security taxes	14,625	11,407
Pension expenses	26,541	22,413
Other benefits	4,669	5,218
<b>Total payroll expenses</b>	<b>400,267</b>	<b>327,825</b>
Average number of full-time employees	960	820

### REMUNERATION TO CORPORATE MANAGEMENT

DKK 1,000					Total
Salary and other benefits paid	Salary	Bonus	Pension	Other	2017
Chief Executive Officer	1,800	189	0	87	2,076
Managing Director	1,410	144	0	0	1,554
Chief Financial Officer	1,347	143	0	87	1,577
<b>Total remuneration</b>	<b>4,557</b>	<b>476</b>	<b>0</b>	<b>174</b>	<b>5,207</b>

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>



## FEES PAID TO THE BOARD OF DIRECTORS

DKK 1,000		2017	2016
Rúni M. Hansen**	Chairman of the Board	440	440
Johannes Jensen	Deputy Chairman of the Board	250	250
Annika Frederiksberg*	Member of the Board	200	200
Virgar Dahl	Member of the Board	200	200
Teitur Samuelsen**/****	Member of the Board	240	172
Øystein Sandvik**	Member of the Board	240	240
Tor Magne Lønnum***	Member of the Board	0	66
<b>Total remuneration</b>		<b>1,570</b>	<b>1,568</b>

\* Annika Frederiksberg is also an employee in the Bakka Frost Group. For this, she received DKK 613 thousand (2016: DKK 604 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 Bakka Frost's reputation nor be market leading, but should ensure that Bakka Frost 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

Bakka Frost 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

Bakka Frost 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 Bakka Frost shares. The saved amount is deducted from the monthly net salary and used to purchase Bakka Frost shares in behalf of the employees. The purchase will be made from Bakka Frost'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 31.12.2017, 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**

	2017	2016
Maintenance	-171,486	-157,186
Operating expenses	-62,396	-66,426
Health	-113,702	-104,313
Freight	-237,845	-234,050
Energy	-124,169	-90,554
Other costs	-73,670	-62,843
<b>Other operating expenses total</b>	<b>-783,268</b>	<b>-715,373</b>

**NOTE 2.6 RESEARCH AND DEVELOPMENT**

	2017	2016
R&D expenditure consist of other operating expenses and of salaries in total	587	127

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 the entire 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	2017	2016
Other financial income	1,395	1,524
<b>Financial income</b>	<b>1,395</b>	<b>1,524</b>
Interest expenses on long-term loans	-21,118	-21,613
Interest expenses on credit lines	-4,831	-4,175
Interest expenses on accounts payable	-416	-195
<b>Financial expenses</b>	<b>-26,364</b>	<b>-25,983</b>
Unrealized exchange gain on bond	30,800	21,050
Other exchange differences	-26,627	-33,405
<b>Net currency effects</b>	<b>4,173</b>	<b>-12,355</b>
Other financial expenses	-4,423	-4,159
<b>Other financial items</b>	<b>-4,423</b>	<b>-4,159</b>
<b>Net financial items</b>	<b>-25,220</b>	<b>-40,973</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

The tax expense for the year breaks down as follows:

DKK 1,000	2017	2016
Tax payable	198,093	141,176
Change in deferred tax	-85,611	152,551
<b>Tax expense on ordinary profit</b>	<b>112,482</b>	<b>293,727</b>
Tax payable	198,093	141,176
<b>Tax payable in the statement of financial position</b>	<b>198,093</b>	<b>141,176</b>

### Specifications of temporary differences and deferred tax

	2017			2016		
	Tax rate	Temporary Differences	Deferred tax	Tax rate	Temporary Differences	Deferred tax
Licences	18.0%	375,678	67,622	18.0%	375,678	67,622
Property, plant and equipment	18.0%	1,021,867	183,936	18.0%	897,044	161,468
Financial assets	18.0%	44,572	8,023	18.0%	26,972	4,855
Biomass	18.0%	1,096,667	197,400	18.0%	1,858,433	334,518
Receivables	18.0%	-2,644	-476	18.0%	-70,745	-12,734
Currency effects	18.0%	121,833	21,930	18.0%	45,736	8,233
Derivatives (Equity posted)	18.0%	-127,256	-22,906	18.0%	-101,456	-18,262
Losses carried forward	18.0%	-450	-81	0	0	0
<b>Total temporary differences</b>			<b>2,530,267</b>			<b>3,031,662</b>
<b>Deferred tax liabilities (+) / assets (-)</b>			<b>455,448</b>			<b>545,699</b>

## Reconciliation from nominal to actual tax rate

DKK 1,000	2017	2016
Profit before tax	623,884	1,632,614
Expected tax at nominal tax rate (18%)	112,299	293,871
Permanent differences	183	-144
<b>Calculated tax expense</b>	<b>112,482</b>	<b>293,727</b>
Effective tax rate excl. equity entries	18.03%	17.99%

Normal tax rate for companies resident in the Faroe Islands is 18%. 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%.

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, as intercompany dividends are not tax relevant in the Faroese tax regime.

## ACCOUNTING POLICIES

The tax expense is matched against the profit or loss before tax, as it appears in the accounts. Tax ascribable to equity transactions is 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 2017
Acquisitions costs as at 01.01.17	4,537	372,138	376,675
<b>Acquisitions costs as at 31.12.17</b>	<b>4,537</b>	<b>372,138</b>	<b>376,675</b>
Impairments 01.01.17	0	0	0
<b>Accumulated depreciation and write-downs as at 31.12.17</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net book value as at 31.12.17</b>	<b>4,537</b>	<b>372,138</b>	<b>376,675</b>

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>

Bakka Frost operates its sea farming activity in 14 identifiable CGUs based on single or groups of sea farming licenses, 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

belong 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 two groups of CGUs.

### Impairment testing

The Group tests intangible assets annually for impairment or more frequently if there are indications that the assets are impaired. The annual impairment test is performed at year-end. Bakkafrøst has substantial assets with indefinite lives in the form of licenses. The licenses are subject to impairment testing in combination with goodwill in the annual test. Bakkafrøst identifies each farming zone, which may contain one or 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 9.1% 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 0%.
- 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 2,032 million.

- A change in the EBITDA margin of +/- 1% would affect the headroom with +/- DKK 207 million.
- A change in WACC of +1% would affect the headroom with DKK -634 million.
- A change in WACC of -1% would affect the headroom with DKK +893 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 12th year. In the very rare cases, where the authorities have declined to renew licenses in order the use locations for other purposes, the farmers have obtained licenses from the authorities at other locations.

Bakkafrost has therefore decided to account for sea farming licenses, which are 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:

CGU's DKK 1,000	Licenses	Other assets****	Total booked value tested	WACC	Number of smolts (1,000)	EBITDA change of +/-1%	WACC change of -1%	WACC change of +1%
<b>31.12.2017</b>								
Vestlax acquisition*	132,708	1,096,040	1,228,748	9.10%	7,220	55,417	169,942	-239,347
Havsbrún acquisition**	157,430	494,419	651,849	9.10%	3,250	123,111	377,532	-531,719
Faroe Farming acquisition***	82,000	269,476	351,476	9.10%	1,660	28,305	86,801	-122,251
<b>TOTAL</b>	<b>372,138</b>	<b>1,859,935</b>	<b>2,232,073</b>	<b>9.10%</b>	<b>12,130</b>	<b>206,833</b>	<b>634,275</b>	<b>-893,317</b>
<b>31.12.2016</b>								
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>

\* 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 cost as at 01.01.17	1,072,042	1,456,737	143,660	298,855	0	2,971,294
Reclassification	6,952	-6,952	0	0	0	0
Acquisitions during the year	306,607	180,867	49,393	103,722	0	640,589
Disposals and scrapping during the year	-20,132	-1,771	0	0	0	-21,903
<b>Acquisition costs as at 31.12.17</b>	<b>1,365,469</b>	<b>1,628,881</b>	<b>193,053</b>	<b>402,577</b>	<b>0</b>	<b>3,589,980</b>
Accumulated depreciations and write-downs as at 01.01.17	-197,135	-550,691	-84,660	-20,337	0	-852,823
Reclassification	6,952	-6,952	0	0	0	0
Depreciations during the year	-42,507	-114,452	-10,739	-15,893	0	-183,590
Accumulated depreciations and write-downs on disposals and scrapping	15,792	1,071	0	0	0	16,863
<b>Accumulated depreciations and write-downs as at 31.12.17</b>	<b>-216,897</b>	<b>-671,024</b>	<b>-95,399</b>	<b>-36,230</b>	<b>0</b>	<b>-1,019,550</b>
<b>Net book value as at 31.12.17</b>	<b>1,148,572</b>	<b>957,857</b>	<b>97,654</b>	<b>366,347</b>	<b>0</b>	<b>2,570,430</b>
<b>DKK 1,000</b>						
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	0	0	-46,352
Reclassification	37,675	142,157	0	-10,726	0	169,106
Depreciations during the year	-26,115	-89,117	-8,417	-9,611	0	-133,261
Accumulated depreciations and write-downs on disposals and scrapping	4,541	4,488	6,345	0	0	15,374
<b>Accumulated depreciations and write-downs as at 31.12.16</b>	<b>-197,135</b>	<b>-550,691</b>	<b>-84,660</b>	<b>-20,337</b>	<b>0</b>	<b>-852,824</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>

Description of depreciations	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 2017 include the following subsidiaries and associates:

Subsidiary Companies DKK 1,000	Currency	Nature of Business	Head Office	Ownership	Nominal share capital
P/F Bakka Frost Farming	DKK	Salmon farming	Glyvvar	100%	16,394
P/F Bakka Frost Processing	DKK	Value adding of salmon (VAP)	Glyvvar	100%	50,000
P/F Bakka Frost Sales	DKK	Sales of salmon and VAP products	Glyvvar	100%	667
P/F Bakka Frost Packaging	DKK	Production of styrofoam boxes	Glyvvar	100%	8,022
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
Bakka Frost Sales UK Ltd.	GBP	Sales company for Bakka Frost Sales	Grimsby	100%	1£

Associated Companies DKK 1,000	Head Office	Ownership	Net Additions	Share of the result	Carrying value 2017	Carrying value 2016
P/F Pelagos	Fuglafjörður	30%	0	17,156	42,334	25,178
P/F Salmon Proteins*	Eiði	76%	0	-31	9,072	8,933
<b>Total</b>					<b>51,406</b>	<b>34,111</b>

	Total Assets 2017	Total assets 2016	Equity 2017	Equity 2016	Result 2017	Result 2016
P/F Pelagos	444,253	298,273	139,717	83,096	56,621	17,594
P/F Salmon Proteins*	17,355	15,418	11,527	11,566	-40	258

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

## NOTE 3.4 SHARES AND HOLDINGS IN OTHER COMPANIES

DKK 1,000	Carrying amount 2017	Carrying amount 2016
<b>Companies</b>		
Others	25,296	25,296
<b>Total</b>	<b>25,296</b>	<b>25,296</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	2017	2016
Raw materials and goods in-progress	262,131	286,573
Finished goods	43,714	69,031
<b>Total inventory</b>	<b>305,845</b>	<b>355,604</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.

### 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 consist basically of processed salmonids. Raw material is 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 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	2017	2016
Biological assets carrying amount 01.01.	1,858,435	1,060,274
Increase due to production or purchases	1,368,608	1,408,220
Increase due to acquisitions	0	118,233
Reduction due to harvesting or sale (costs of goods sold)	-1,475,571	-1,296,244
Fair value adjustment at the beginning of the period reversed	-880,492	-257,278
Fair value adjustments at the end of the period	186,956	880,492
Reversal of elimination at the beginning of the period	98,487	43,224
Eliminations	-59,758	-98,487
<b>Biological assets carrying amount 31.12.</b>	<b>1,096,664</b>	<b>1,858,435</b>
Cost price biological assets	969,466	1,076,429
Fair value adjustments at the end of the period	186,956	880,492
Eliminations	-59,758	-98,487
<b>Biological assets carrying amount</b>	<b>1,096,664</b>	<b>1,858,435</b>
<b>Whereof capitalized interests in biological assets*</b>	<b>6,684</b>	<b>22,000</b>
Biomass < 1 kg on average (tonnes lw)	1,775	2,039
Biomass 1 kg < 2 kg on average (tonnes lw)	3,605	5,866
Biomass 2 kg < 3 kg on average (tonnes lw)	4,562	6,523
Biomass 3 kg < 4 kg on average (tonnes lw)	5,810	5,168
Biomass 4 kg < on average (tonnes lw)	21,544	25,513
<b>Volume of biomass at sea (tonnes lw)</b>	<b>37,296</b>	<b>45,109</b>

\* The capitalized interest rate is calculated based on actual paid external interest

	2017	2016
Number of fish < 1 kg on average (thousand)	4,390	4,884
Number of fish 1 kg < 2 kg on average (thousand)	2,456	3,650
Number of fish 2 kg < 3 kg on average (thousand)	1,813	2,730
Number of fish 3 kg < 4 kg on average (thousand)	1,665	1,462
Number of fish 4 kg < on average (thousand)	4,105	5,123
<b>Total number of fish at sea (thousand)</b>	<b>14,429</b>	<b>17,849</b>
<b>Volume of biomass harvested during the year (tonnes gutted weight)</b>	<b>54,615</b>	<b>47,542</b>
Number of smolts released in Q1 (thousand)	1,395	1,926
Number of smolts released in Q2 (thousand)	1,918	1,946
Number of smolts released in Q3 (thousand)	3,204	3,795
Number of smolts released in Q4 (thousand)	3,411	3,318
<b>Total number of smolts released in 2017 (thousand)</b>	<b>9,928</b>	<b>10,985</b>
<b>Sensitivity analysis of biomass</b>		
Change in discount rate +1%	73,961	114,985
Change in discount rate -1%	-83,038	-126,725
Change in sales price +5 DKK	-212,869	-269,635
Change in sales price -5 DKK	212,869	269,635
Change in biomass volume +1%	-4,217	-14,911
Change in biomass volume -1%	4,217	14,911
At year-end	54.18	78.89
Q1 (forward)	53.93	74.00
Q2 (forward)	53.18	71.80
Q3 (forward)	53.25	64.70
Q4 (forward)	55.03	64.50

\* Source Fish Pool



## 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. 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 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 the Oslo Stock Exchange. The purpose of this process was to evaluate whether or not the industry companies reported in a uniform and consistent manner in accordance with IFRS. Finanstilsynet published a final report November 17, 2015 on their website (finansstilsynet.no). In response to Finanstilsynets evaluation 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 also in 2017. The main purpose of the group has been as follows:

1. Identify possible improvements of disclosures as well as accounting practices to promote comparability, and
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 identified certain areas of improvement, and certain updates to the fair value model and information included in disclosures were made with effect from December 31, 2015.

With respect to item 2 above, the participating companies have now agreed on the main principles for a common model for measurement of fair value of biomass according to IAS 41. The industry group plans to continue its discussions in 2018, with the aim to reach even further agreement regarding the different aspects of a common model.

The participating companies in the financial reporting industry group are Lerøy Seafood Group ASA, Grieg Seafood ASA, Salmar ASA, P/F Bakkafrøst, NRS ASA, NTS ASA, Cermaq Group AS and Marine Harvest ASA.

Based on the work in the industry group, Bakkafrøst has updated its model with effect from Q1 2017 on the financial statements. The refined model is based on a present value methodology, while the previous model was based on a growth methodology with proportionate allocation of expected net profit based on size of the fish and historical carried expenses added. The new model is a discounted cash flow-based present value model, which does not rely on historical cost.

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 2017 of DKK -102.2 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 Bakkafrøst's prognoses per locality.

Cost comprises 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, Bakkafrøst's opinion is that the observable forward prices must be seen as the best approach to a price for the sale of salmon.

The prices are reduced for harvesting costs, Faroese revenue tax and freight costs to market to arrive at a net value back-to-farm. The valuation also reflects the expected quality grading.

#### **Discounts**

The estimated future cash flow is discounted monthly. The monthly discount rate at 31 December 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, cost 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.

Bakkafrøst 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.

#### **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. In the table above a simulated sensitivity analysis to changes in fair value of the biological assets is portrayed in the event of changes in these parameters.

### NOTE 3.7. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES

DKK 1,000	2017	2016
Accounts receivables	262,493	292,009
Provisions for bad debts	0	0
<b>Net accounts receivables</b>	<b>262,493</b>	<b>292,009</b>
Prepayments	4,322	2,772
Deposit for interest- and currency swap	84,630	58,340
VAT	68,201	48,673
Other	3	75
<b>Other receivables</b>	<b>157,156</b>	<b>109,860</b>
<b>Total short-term receivables</b>	<b>419,649</b>	<b>401,869</b>
Long-term receivables	0	12,660
<b>Total accounts receivables and other receivables</b>	<b>419,649</b>	<b>414,529</b>

### AGE DISTRIBUTION OF ACCOUNTS RECEIVABLES

DKK 1,000	2017	2016
Receivables not overdue	237,661	206,301
Overdue 0-6 months	24,809	83,212
Overdue more than 6 months	23	2,496
<b>Total</b>	<b>262,493</b>	<b>292,009</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 230.5 million at year-end.

Below is presented the book value of receivables specified in currency, translated into DKK employing the currency value at 31.12.

**CURRENCY DISTRIBUTION OF RECEIVABLES**

<b>DKK 1,000</b>	<b>2017</b>	<b>2016</b>
DKK	32,013	144,579
EUR	59,724	53,133
USD	62,630	79,666
GBP	5,952	11,873
NOK	95,134	14,130
Others	7,039	1,288
<b>Total</b>	<b>262,492</b>	<b>304,669</b>

**ACCOUNTING POLICIES**

Accounts receivables and other receivables are presented at face value less provisions for bad debts. Provisions for bad debts are made on the basis of an individual assessment of the receivables concerned. Due to insignificant cost and the short credit period, 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 and were DKK 310 million at year-end 2017, compared to DKK 235 million at year-end 2016.

## NOTE 3.9 SHARE CAPITAL AND MAJOR SHAREHOLDERS

### Share capital:

DKK 1,000	2017	2016
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:

	2017	2016
Outstanding shares at 1 January	48,583,490	48,557,621
Purchase of treasury shares	0	0
Sale of own shares to cover the employee bonus program	37,650	25,869
<b>Outstanding shares at 31 December</b>	<b>48,621,140</b>	<b>48,583,490</b>
Treasury shares at 31 December	236,925	274,575

All full-time employees from 2016, still employed in Bakka-frost, have received bonus shares in 2017 with a total value of 2% of paid out salary in 2016. In total, Bakkafrøst has allocated 19,631 shares to its employees at a fair value of DKK 4.7 million. The grant date was 29 May 2017, and the share price was DKK 240.07 (NOK 303.50) per share.

### SHAREHOLDERS

These shareholders held directly or indirectly more than 5% of the shares in the company as at 31 December 2017: Oddvør Jacobsen, Regin Jacobsen and Folketrygdfondet.

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	15,255	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	4,494,314	9.20%
Odd Eliassen	Managing Director	172,369	0.35%
Gunnar Nielsen	Chief Financial Officer	1,043	0.00%

### Dividend

The Board has proposed a dividend per share of DKK 10.50 for 2017. Dividends in 2016 were DKK 8.70 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 513.0 million. The dividend proposal has not been recognized as a liability at 31 December 2017, but is presented as an item within equity.

## NOTE 3.10 INTEREST-BEARING DEBT

DKK 1,000	2017	2016
Long-term interest-bearing debt	146,696	419,496
Next year instalments on long-term interest-bearing debt	0	0
Bonds	0	407,650
<b>Total long-term interest-bearing debt 31.12.</b>	<b>146,696</b>	<b>827,146</b>
Bonds	378,300	0
Next year's instalments on long-term interest-bearing debt	0	0
<b>Total short-term interest-bearing debt 31.12.</b>	<b>378,300</b>	<b>0</b>
Derivatives	127,255	101,456
Security account derivatives	-84,630	-58,340
Total interest-bearing debt	567,621	870,262
Cash and cash equivalents	-309,551	-234,996
<b>Net interest-bearing debt</b>	<b>258,070</b>	<b>635,266</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 available 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 385.3 million. This loan was repaid in February 2018.



The maturity plan of the Group's interest-bearing debt is as follows

DKK 1,000	2017		2016	
	Carrying amount	Contractual payments	Carrying amount	Contractual payments
Credit facilities	146,696	146,696	419,496	419,496
Bonds	378,300	378,300	407,650	409,100
<b>Gross interest-bearing debt</b>	<b>524,996</b>	<b>524,996</b>	<b>827,146</b>	<b>828,596</b>
Credit line		1,228,300		1,259,100
Available credit lines		703,304		431,954
Cash and cash equivalents		309,551		234,996
<b>Total available credit lines</b>		<b>1,012,855</b>		<b>666,950</b>

#### REMAINING PERIOD

31.12.2017	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest-bearing bank loans	0	0	146,696	0	146,696
Bonds	378,300	0	0	0	378,300
Accounts payable and other debt	223,247	189,548	0	0	412,795

#### 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

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 rollover dates of loans drawn, but are based on the maturity date of the credit facilities.

#### INTEREST-BEARING DEBT IN MORE DETAIL

Bakkafrost's 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. The new loan was effectuated in January 2016. Thus, the total bank financing amounts to DKK 850 million as per end 2017.

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 currencies (IBOR) plus a margin, which is calculated based on the Group's leverage ratio.

On 14 February 2013, Bakkafrost issued unsecured bonds on the Norwegian market at a total nominal value of NOK 500 million with a 5-year tenor. The bonds were listed on the market on 3 May 2013. The interest rate is NIBOR 3m, plus a margin of 4.15%. The bonds are measured at fair value at initial recognition.

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

At the end of 2017, the currency/interest rate swap was negative with DKK 127.2 million, charged to the comprehensive income. On the other hand, there was exchange gain on the NOK 500 million bond loan of DKK 121.7 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, Bakkafrost is obliged to deposit the loss into a restricted bank account. At the end of 2017, the deposited amount is DKK 84.6 million and is presented under other receivables.

In January 2018, Bakkafrost made an agreement with its existing lender, Nordea, to refinance its existing DKK 850 million bank facility and its outstanding NOK 500 million bond loan, which has a maturity during Q1 2018, with a senior secured five-year EUR 200 million credit facility. The facility includes an accordion increase option, which provides flexibility for the parties to agree an increased size of the facility by further up to EUR 200 million during the term of the facility. The bonds were repaid in February 2018.

#### FINANCIAL COVENANTS

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

The Bakkafrost Group had total available bank finances of DKK 850 million. The undrawn amount at 31 December 2017 was DKK 1,004.6 million.

## NOTE 3.11 MORTGAGES AND GUARANTEES

### Carrying amount of debt secured by mortgages and pledges

The Bakkafrost 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.

The bonds were repaid in February 2018.

DKK 1,000	2017	2016
Long-term debt to financial institutions	146,696	419,496
Derivatives	127,255	101,456
<b>Total</b>	<b>273,951</b>	<b>520,952</b>

### Carrying amount of assets pledged as security for recognized debt

Licences	294,675	376,675
Property, plant and equipment	1,719,430	2,118,470
Financial assets	51,406	34,111
Biological assets (biomass)	993,037	1,858,435
Inventory	305,845	355,604
<b>Total</b>	<b>3,364,393</b>	<b>4,743,295</b>

## NOTE 3.12 DERIVATIVES

DKK 1,000	2017	2016
Currency swaps regarding forward contracts	-148	-278
Interest and currency swaps regarding bonds	127,403	101,734
<b>Derivatives total</b>	<b>127,255</b>	<b>101,456</b>

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

DKK 1,000	Fair Value 2017	Recognized in the Income Statement 2017	Recognized in equity 2017	Fair Value 2016	Recognized in the Income Statement 2016	Recognized in equity 2016
Currency derivatives	-148	0	-148	-278	0	-278
Interest and currency derivatives	127,403	0	127,403	101,734	0	101,734
<b>Total</b>	<b>127,255</b>	<b>0</b>	<b>127,255</b>	<b>101,456</b>	<b>0</b>	<b>101,456</b>

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

	Currency derivatives	Interest and currency derivatives	Total 2017	Currency derivatives	Interest and currency derivatives	Total 2016
Within one year	-148	127,403	127,255	-278	0	-278
Between one and five years	0	0	0	0	101,734	101,734
After five years	0	0	0	0	0	0
<b>Total</b>	<b>-148</b>	<b>127,403</b>	<b>127,255</b>	<b>-278</b>	<b>101,734</b>	<b>101,456</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.

### 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 con-

tracts 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.

### PROVISIONS FOR ONEROUS CONTRACTS

	2017	2016
Provisions for onerous contracts 01.01.	67,378	51,004
Change in provisions for onerous contracts for the year	-67,378	16,374
<b>Provisions for onerous contracts 31.12.</b>	<b>0</b>	<b>67,378</b>

## 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 2017, the Group's equity ratio was 70 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 10.50 per share for the financial year 2017, corresponding to a distribution to shareholders of DKK 513 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 2017, net interest-bearing debt amounted to DKK 258.1 million. Note 3.10 provides an overview of the debt's maturity profile and information on the debt's financial covenants. Bakka Frost complied with the covenants in its loan and bond agreements at the end of 2017.

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 Bakka Frost'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 2017, the Group's equity ratio was 70%.

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. Thus 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

2017	EUR/DKK	GBP/DKK	USD/DKK	NOK/DKK	JPY/DKK
Cash and cash equivalents	24,073	16,240	94,935	65,425	3
Accounts receivables	50,743	5,142	57,331	93,769	6,339
Trade payables	-2,169	-647	-73	-6,958	0
Interest-bearing debt	0	0	0	-378,300	0
Forward contracts	0	0	-3,429	0	0
<b>Net exposure</b>	<b>72,647</b>	<b>20,735</b>	<b>148,764</b>	<b>-226,064</b>	<b>6,342</b>

2016	EUR/DKK	GBP/DKK	USD/DKK	NOK/DKK	JPY/DKK
Cash and cash equivalents	78,451	44,350	0	5,506	61
Accounts receivables	53,133	11,873	79,666	14,130	1,288
Trade payables	-13,773	-394	-2,443	-6,471	0
Interest-bearing debt	0	0	0	-409,100	0
Forward contracts	0	0	-95,256	0	0
<b>Net exposure</b>	<b>117,811</b>	<b>55,829</b>	<b>-18,033</b>	<b>-395,935</b>	<b>1,349</b>

## Sensitivity analysis

DKK 1,000

2017	EUR/DKK	GBP/DKK	USD/DKK	NOK/DKK	JPY/DKK	Result
Net exposure	72,647	20,735	148,764	-226,064	6,342	
Historical volatility for the last 5 years	0.33%	8.79%	8.51%	8.42%	10.40%	
<b>Total effect on Profit of +movements</b>	<b>240</b>	<b>1,823</b>	<b>12,660</b>	<b>-19,035</b>	<b>660</b>	<b>-3,653</b>
<b>Total effect on Profit of -movements</b>	<b>-240</b>	<b>-1,823</b>	<b>-12,660</b>	<b>19,035</b>	<b>-660</b>	<b>3,653</b>

2016	EUR/DKK	GBP/DKK	USD/DKK	NOK/DKK	JPY/DKK	Result
Net exposure	117,811	55,829	-18,033	-395,935	1,349	
Historical volatility for the 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>

The analysis is based on the currencies that the Group is most exposed to at the end of 2017. 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 3.7 million (2016: DKK 29.0 million).

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

#### Currency forward contracts as at 31 December 2017

Bakkafrost Group buys		Bakkafrost Group sells	
DKK 1,000			
DKK	-3,429	USD	21,376
NOK	500,000	DKK	505,050

#### Currency forward contracts as at 31 December 2016

Bakkafrost Group buys		Bakkafrost Group sells	
DKK	95,256	USD	13,498
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
2017	743.86	848.63	659.53	79.82	5.88
2016	744.52	910.57	673.27	80.18	6.21

#### 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 127.3 million as

at 31 December 2017. The bond loan was repaid in February 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 2.6 million (2016: DKK 6.4 million), based on NIBD.

#### Price risk

The farming segment is sensitive to fluctuations in the spot prices of salmon, which are 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 2017 included DKK 309.6 million, and DKK 235.0 million as at 31 December 2016 (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 agreements 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 729.2 million. (2016: DKK 636.9 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

Assets and liabilities measured at fair value	Fair value	Cost amount	Level 1	Level 2	Level 3
Financial assets	0	0	0	0	0
Biological assets (biomass)	1,096,664	909,708	0	0	1,096,664
<b>Assets measured at fair value 31-12-17</b>	<b>1,096,664</b>	<b>909,708</b>	<b>0</b>	<b>0</b>	<b>1,096,664</b>
<b>Liabilities measured at fair value 31-12-17</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
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>

## NOTE 4.3 EARNINGS PER SHARE

DKK 1,000	2017	2016
Profit for the year to the shareholders of P/F Bakka Frost	511,402	1,338,887
Fair value adjustment of biomass (IAS 41)	693,540	-608,195
Onerous contracts provision	-67,376	16,372
Tax on fair value adjustment	-112,710	106,528
<b>Adjusted profit for the year to shareholders of P/F Bakka Frost</b>	<b>1,024,856</b>	<b>853,592</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>
Time-weighted average number of shares outstanding through the year	48,609,644	48,574,193
<b>Earnings per share</b>	<b>2017</b>	<b>2016</b>
Basic (DKK)	10.52	27.56
Diluted (DKK)	10.52	27.56
<b>Adjusted earnings per share (before fair value adjustments of biomass and provision for onerous contracts (adjusted EPS))</b>	<b>2017</b>	<b>2016</b>
Basic (DKK)	21.08	17.57
Diluted (DKK)	21.08	17.57

Bakka Frost 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. Bakka Frost 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 Bakka Frost'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

2017	2018	2019
Total contractual new Hatchery stations	299,510	0
Total contractual other PPE investments	37,960	0
<b>Total</b>	<b>337,470</b>	<b>0</b>

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>

The Group had capital expenditure committed, but not provided, in these accounts at the date of the Statement of Financial Position of approximately DKK 337 million. DKK 299 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	2017	2016
<b>Based on key personnel</b>		
Revenues - Betri P/F	2,804	4,314
Purchase - Betri P/F	15,204	28,040
Accounts receivables - Betri P/F	0	668
Accounts payable - Betri P/F	5,329	1,140
Revenues - Gist & Vist P/F	329	0
Purchase - Gist & Vist P/F	768	540
Accounts payable - Hotel Føroyar	0	24
Purchase - Frost P/F	388	21
Accounts payable - Frost P/F	10	29
Purchase - Vest Pack P/F	12,557	9,629
Accounts payable - Vest Pack P/F	2,047	889
<b>Based on association</b>		
Purchase - Faroe Farming P/F	0	152,056
Accounts receivables - Faroe Farming P/F	0	70,049
Revenues - FF Skagen A/S	35,049	57,729
Purchase - FF Skagen A/S	328	11,710
Revenues - Pelagos P/F	92	71
Purchase - Pelagos P/F	36,504	10,808
Accounts receivables - Pelagos P/F	0	43
Accounts payable - Pelagos P/F	1,860	0
Revenues - Salmon Proteins P/F	13,361	15,991
Purchase - Salmon Proteins P/F	0	3,866
Accounts receivables - Salmon Proteins P/F	2,253	1,386
Accounts payable - Salmon Proteins P/F	0	172



## NOTE 5.3 BUSINESS COMBINATIONS

### 2017:

There were no business combinations in 2017.

### 2016:

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 becomes 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 Svináir (A-03) and Hovs-fjørður (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 licenses 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 AUDITOR'S FEES

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

DKK 1,000	2017	2016
Statutory auditing	950	846
Tax advisory services	75	9
Other services	210	156
<b>Total auditor's fees</b>	<b>1,235</b>	<b>1,011</b>

## NOTE 5.5 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.

DKK 1,000	31 Dec 2017	31 Dec 2016
Cash and cash equivalents	309,551	234,996
Deposit for interest- and currency swap	84,630	58,340
Derivatives	-127,255	-101,456
Long-term interest-bearing debt	-524,996	-827,146
<b>Net interest-bearing debt</b>	<b>-258,070</b>	<b>-635,266</b>

### Operational EBIT

Operational EBIT is EBIT aligned for fair value adjustments, onerous contracts provisions, income from associates, goodwill 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	2017	2016
EBIT	649,104	1,673,587
Fair value adjustments on biological assets	693,540	-608,195
Onerous contracts	-67,376	16,372
Income from associates	-17,302	-14,821
Revenue tax	119,681	108,450
Goodwill	0	-10,440
<b>Operational EBIT</b>	<b>1,377,647</b>	<b>1,164,953</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	2017	2016
Profit for the year to the shareholders of P/F Bakkafrøst	511,402	1,338,887
Fair value adjustment of biomass	693,540	-608,195
Onerous contracts provision	-67,376	16,372
Tax on fair value adjustment	-112,710	106,528
<b>Adjusted profit for the year to shareholders of P/F Bakkafrøst</b>	<b>1,024,856</b>	<b>853,592</b>
<b>Time-weighted average number of shares outstanding through the year</b>	<b>48,600,933</b>	<b>48,574,193</b>
<b>Adjusted earnings per share (before fair value adjustments of biomass and provision for onerous contracts (adjusted EPS))</b>	<b>21.09</b>	<b>17.57</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 2017 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 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

This is regarding new information regarding the company's financial position on the statement of financial position, which is received after the date of the statement of financial position, has been 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.

# Financial Statements

P/F Bakkafrost

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P/F BAKKAFROST

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## P/F BAKKAFROST

# Income Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2017	2016
Operating revenue		114,914	60,538
Salary and personnel expenses	2	-27,466	-21,827
Other operating expenses		-61,584	-21,321
Depreciation	4	-19,249	-5,119
<b>Earnings before interest and taxes (EBIT)</b>		<b>6,615</b>	<b>12,271</b>
Dividends from subsidiaries	5	1,042,959	722,203
Income from other investments in shares	6	-6	33
Financial income	3	20,741	66,518
Net interest expenses	3	-23,113	-29,940
Net currency effects	3	36,544	-15,797
Other financial expenses	3	-3,644	-3,336
<b>Earnings before taxes (EBT)</b>		<b>1,080,096</b>	<b>751,952</b>
Taxes	8	-7,900	-5,375
<b>Profit to shareholders of P/F Bakkafrøst</b>		<b>1,072,196</b>	<b>746,577</b>
<b>Distribution of profit</b>			
Dividends		513,009	425,065
Retained earnings		559,187	321,512
<b>Distribution in total</b>		<b>1,072,196</b>	<b>746,577</b>



## P/F BAKKAFROST

# Statement of Financial Position

AS AT 31 DECEMBER

DKK 1,000	Note	2017	2016
<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	387,251	356,527
Plant, machinery and other operating equipment	4	37,174	39,512
<b>Total property plant and equipment</b>		<b>424,425</b>	<b>396,039</b>
<b>Non-current financial assets</b>			
Investments in subsidiaries	5	1,395,671	1,395,671
Investments in stocks and shares	6	1,741	1,747
<b>Total non-current financial assets</b>		<b>1,397,412</b>	<b>1,397,418</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,822,837</b>	<b>1,794,457</b>
<b>Current assets</b>			
Inventory		11,390	2,606
<b>Total inventory</b>		<b>11,390</b>	<b>2,606</b>
Receivables from Group companies		2,061,618	1,840,156
Accounts receivables		1,230	13,043
Other receivables		84,630	58,386
<b>Total receivables</b>		<b>2,147,478</b>	<b>1,911,585</b>
Cash and cash equivalents		150,417	90,005
<b>TOTAL CURRENT ASSETS</b>		<b>2,309,285</b>	<b>2,004,196</b>
<b>TOTAL ASSETS</b>		<b>4,132,122</b>	<b>3,798,653</b>

DKK 1,000	Note	2017	2016
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	7	48,858	48,858
Other equity		3,405,809	2,767,801
<b>Total equity</b>		<b>3,454,667</b>	<b>2,816,659</b>
<b>Non-current liabilities</b>			
Long-term interest-bearing debt	9	137,769	812,442
Derivatives	3.12	0	101,456
Deferred taxes	8	10,658	7,111
<b>Total non-current liabilities</b>		<b>148,427</b>	<b>921,009</b>
<b>Current liabilities</b>			
Derivatives	3.12	127,255	0
Short-term interest-bearing debt	9	389,100	0
Payables to Group companies		0	4,695
Accounts payable		10,312	16,865
Other short-term liabilities		2,361	39,425
<b>Total current liabilities</b>		<b>529,028</b>	<b>60,985</b>
<b>Total liabilities</b>		<b>677,455</b>	<b>981,994</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,132,122</b>	<b>3,798,653</b>

## P/F BAKKAFROST

# Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2017	2016
<b>Cash flow from operations</b>			
<b>Operating profit (EBIT)</b>		<b>6,615</b>	<b>12,271</b>
Adjustments for write-downs and depreciation	4	19,249	5,119
Adjustments for net currency effects		43,150	-20,481
Adjustments for share-based payment		270	292
Taxes paid	8	-1,661	-10,093
Change in inventory		-8,784	-1,483
Change in receivables		-14,431	29,825
Change in current debts		-41,957	27,239
<b>Cash flow from operations</b>		<b>2,451</b>	<b>42,689</b>
<b>Cash flow from investments</b>			
Investment in share capital in subsidiaries, etc., net	5	0	-75,000
Payments made for purchase of fixed assets	4	-47,635	-61,667
<b>Cash flow from investments</b>		<b>-47,635</b>	<b>-136,667</b>
<b>Cash flow from financing</b>			
Changes in interest-bearing debt (short and long)		-285,573	365,893
Financial income		20,741	66,516
Financial expenses		-26,757	-33,276
Financing of associates/subsidiaries		-226,157	-666,385
Acquisition/sale treasury shares		3,177	6,667
Dividend from subsidiaries	5	1,042,959	722,203
Dividend paid		-422,794	-400,623
<b>Cash flow from financing</b>		<b>105,596</b>	<b>60,995</b>
<b>Net change in cash and cash equivalents in period</b>		<b>60,412</b>	<b>-32,983</b>
Cash and cash equivalents – opening balance		90,005	122,988
<b>Cash and cash equivalents – closing balance total</b>		<b>150,417</b>	<b>90,005</b>

## P/F BAKKAFROST

# Statement of Changes in Equity

AS AT 31 DECEMBER

DKK 1,000	Share capital	Share premium account	Treasury Shares	Share-based payment	Derivatives	Proposed dividends	Retained earnings	Total
<b>1 January 2017</b>	<b>48,858</b>	<b>117,368</b>	<b>-21,045</b>	<b>494</b>	<b>-83,196</b>	<b>425,065</b>	<b>2,329,115</b>	<b>2,816,659</b>
<b>Net annual profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,078,802</b>	<b>1,078,802</b>
<b>Other comprehensive income:</b>								
Fair value adjustment on financial derivatives	0	0	0	0	-25,800	0	0	-25,800
Income tax effect	0	0	0	0	4,644	0	0	4,644
<b>Total other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-21,156</b>	<b>0</b>	<b>0</b>	<b>-21,156</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-21,156</b>	<b>0</b>	<b>1,078,802</b>	<b>1,057,646</b>
<b>Transaction with owners:</b>								
Treasury shares	0	0	2,886	0	0	0	-2,886	0
Share-based payment	0	0	0	270	0	0	0	270
Dividend treasury shares	0	0	0	0	0	0	2,271	2,271
Proceeds/acquisition treasury shares	0	0	0	0	0	0	2,886	2,886
Paid-out dividends	0	0	0	0	0	-425,065	0	-425,065
Proposed dividends	0	0	0	0	0	513,009	-513,009	0
<b>Total transaction with owners</b>	<b>0</b>	<b>0</b>	<b>2,886</b>	<b>270</b>	<b>0</b>	<b>87,944</b>	<b>-510,738</b>	<b>-419,638</b>
<b>Total changes in equity</b>	<b>0</b>	<b>0</b>	<b>2,886</b>	<b>270</b>	<b>-21,156</b>	<b>87,944</b>	<b>568,064</b>	<b>638,008</b>
<b>31 December 2017</b>	<b>48,858</b>	<b>117,368</b>	<b>-18,159</b>	<b>764</b>	<b>-104,352</b>	<b>513,009</b>	<b>2,897,179</b>	<b>3,454,667</b>
<b>1 January 2016</b>	<b>48,858</b>	<b>117,368</b>	<b>-19,679</b>	<b>202</b>	<b>-105,621</b>	<b>403,079</b>	<b>2,001,797</b>	<b>2,446,004</b>
<b>Net annual profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>747,943</b>	<b>747,943</b>
<b>Other comprehensive income:</b>								
Fair value adjustment on financial derivatives	0	0	0	0	26,789	0	0	26,789
Income tax effect	0	0	0	0	-4,364	0	0	-4,364
<b>Total other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22,425</b>	<b>0</b>	<b>0</b>	<b>22,425</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22,425</b>	<b>0</b>	<b>747,943</b>	<b>770,368</b>
<b>Transaction with owners:</b>								
Treasury shares	0	0	-1,366	0	0	0	0	-1,366
Share-based payment	0	0	0	292	0	0	0	292
Dividend treasury shares	0	0	0	0	0	0	2,457	2,457
Proceeds/acquisition treasury shares	0	0	0	0	0	0	1,983	1,983
Paid-out dividends	0	0	0	0	0	-403,079	0	-403,079
Proposed dividends	0	0	0	0	0	425,065	-425,065	0
<b>Total transaction with owners</b>	<b>0</b>	<b>0</b>	<b>-1,366</b>	<b>292</b>	<b>0</b>	<b>21,986</b>	<b>-420,625</b>	<b>-399,713</b>
<b>Total changes in equity</b>	<b>0</b>	<b>0</b>	<b>-1,366</b>	<b>292</b>	<b>22,425</b>	<b>21,986</b>	<b>327,318</b>	<b>370,655</b>
<b>31 December 2016</b>	<b>48,858</b>	<b>117,368</b>	<b>-21,045</b>	<b>494</b>	<b>-83,196</b>	<b>425,065</b>	<b>2,329,115</b>	<b>2,816,659</b>

## P/F BAKKAFROST

# Notes to the Financial Statements

## NOTE 1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), endorsed by the European Union (EU), and the additional requirements according to the Faroese Financial Reporting Act. The accounting policies applied to the consolidated accounts have also been applied to the parent company, P/F

Bakkafrost. The notes to the consolidated accounts provide additional information to the parent company's accounts, which is not presented here separately. The company's financial statements are presented in DKK. Investments in subsidiaries are measured at historic cost, unless there is any indication of impairment. In case of impairment, an investment is written-down to fair value.

## NOTE 2. SALARIES AND OTHER PERSONNEL EXPENSES

<b>DKK 1,000</b>	<b>2017</b>	<b>2016</b>
Wages and salaries	22,174	17,930
Share-based payments	400	292
Social security taxes	853	754
Pension expenses	906	706
Other benefits	3,133	2,146
<b>Total payroll expenses</b>	<b>27,466</b>	<b>21,827</b>
Average number of full-time employees	36	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 45,000 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**

DKK 1,000	2017	2016
Interests received from Group companies	20,010	65,314
Other financial income	731	1,204
<b>Financial income</b>	<b>20,741</b>	<b>66,518</b>
Interests paid to Group companies	0	-6,205
Interest expenses on long- and short-term loans	-23,052	-23,664
Interest expenses on accounts payable	-61	-71
<b>Financial expenses</b>	<b>-23,113</b>	<b>-29,940</b>
Unrealized exchange gain on bond	30,800	21,050
Other exchange differences	5,744	-5,253
<b>Net currency effects</b>	<b>36,544</b>	<b>15,797</b>
Other financial expenses	-3,644	-3,336
<b>Other financial items</b>	<b>-3,644</b>	<b>-3,336</b>
<b>Net financial items</b>	<b>30,528</b>	<b>49,039</b>

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

DKK 1,000	Land and buildings	Other equipment	Prepayments	Total 2017
Acquisition cost as at 01.01.17	376,385	45,962	0	422,347
Acquisitions during the year	44,075	3,559	0	47,634
<b>Acquisition cost as at 31.12.17</b>	<b>420,460</b>	<b>49,522</b>	<b>0</b>	<b>469,982</b>
Accumulated depreciation and write-down as at 01.01.17	-19,858	-6,450	0	-26,308
Depreciations during the year	-13,351	-5,898	0	-19,249
<b>Accumulated depreciation and write-down as at 31.12.17</b>	<b>-33,209</b>	<b>-12,348</b>	<b>0</b>	<b>-45,557</b>
<b>Net book value as at 31.12.17</b>	<b>387,251</b>	<b>37,174</b>	<b>0</b>	<b>424,425</b>

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	0	92	0	92
Depreciations during the year	-3,093	-2,026	0	-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>

A significant part of Bakkafrøst'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	2017	2016
Acquisition cost as at 01.01.	1,398,437	1,323,437
Additions during the year	0	75,000
<b>Acquisition cost as at 31.12.</b>	<b>1,398,437</b>	<b>1,398,437</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>1,395,671</b>

DKK 1,000 Company	Cost Method Yes/No	Head Office	Ownership	Voting share	Carrying amount in P/F Bakkafrøst 2017	Carrying amount in P/F Bakkafrøst 2016
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 Harvest***	Yes	Glyvvar	100%	100%	0	6,059
P/F Bakkafrøst Farming	Yes	Glyvvar	100%	100%	314,887	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	100%	100%	0	75,000
<b>Total subsidiaries</b>					<b>1,395,671</b>	<b>1,395,671</b>

DKK 1,000	Dividends*	Excess dividends on result	Result 2017	Result 2016
P/F Bakkafrøst Farming	653,752	21,983	675,735	653,725
P/F Bakkafrøst Sales	115,246	-6,000	109,246	115,241
P/F Bakkafrøst Packaging	13,724	-5,975	7,749	13,737
P/F Bakkafrøst Harvest***	19,894	-19,894	0	19,906
P/F Bakkafrøst Processing	0	-29,101	-29,101	-147,211
P/F Havsbrún	163,409	30,373	193,782	173,807
Bakkafrøst UK Ltd.	0	5,573	5,573	7,161
P/F Faroe Farming**/***	76,934	-76,934	0	30,570
<b>Total revenue Group contribution</b>	<b>1,042,959</b>	<b>-3,041</b>	<b>962,984</b>	<b>836,366</b>

\* Dividends from subsidiaries paid out in 2017

\*\* In consolidation from 1 July 2016

\*\*\* Merged from 1 January 2017 with P/F Bakkafrøst Farming

P/F Bakkafrøst and subsidiaries, the Group, owns a total of 78.7% 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 14.2% 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	2017	2016
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.	1,564	1,531
Re-evaluations during the year	-6	33
<b>Re-evaluations as at 31.12.</b>	<b>1,558</b>	<b>1,564</b>
<b>Net book value as at 31.12.</b>	<b>1,741</b>	<b>1,747</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	2017	2016
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 2017, see Group Accounts.

## NOTE 8. TAX

The tax expense for the year breaks down as follows:

DKK 1,000	2017	2016
Tax payable	292	-1,661
Change in deferred tax	-8,192	-3,714
<b>Tax expense on ordinary profit</b>	<b>-7,900</b>	<b>-5,375</b>
<b>Tax in the statement of financial position</b>		
Deferred tax	10,658	7,111
<b>Tax in the statement of financial position</b>	<b>10,658</b>	<b>7,111</b>
<b>Specification of temporary differences</b>		
Property, plant and equipment	59,721	95,950
Swaps	-127,255	-101,456
Currency effects	126,750	45,011
<b>Total temporary differences</b>	<b>59,216</b>	<b>39,505</b>
<b>Deferred tax liabilities (+) / assets (-)</b>	<b>10,658</b>	<b>7,111</b>
<b>Reconciliation from nominal to actual tax rate</b>		
Profit before tax	1,086,702	751,952
Expected tax at nominal tax rate (18%)	-195,606	-135,351
Permanent differences, including Group contribution without tax effect (18%)	187,733	129,997
<b>Calculated tax expense</b>	<b>-7,874</b>	<b>-5,355</b>
Effective tax rate	-0.72%	-0.71%

As Parent company in the Bakkafrost Group, Bakkafrost P/F is the administrating company in the Group Joint Taxation, and is liable towards the Faroese Tax Authorities for taxes payable on behalf of its subsidiaries.

## NOTE 9. SECURITY PLEDGES AND CONTINGENT LIABILITIES

### Carrying amount of debt secured by mortgages and pledges:

DKK 1,000	2017	2016
Long-term debt to financial institutions	137,769	812,442
Short-term debt to financial institutions	389,100	0
<b>Total</b>	<b>526,869</b>	<b>812,442</b>

### Carrying amount of assets pledged as security for recognized debt:

Property, plant and equipment	424,425	396,039
Non-current financial assets	1,397,412	1,397,418
Receivables	2,147,478	1,911,585
<b>Total</b>	<b>3,969,315</b>	<b>3,705,042</b>

The company participates in a Group financing for the Bakka-frost 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 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 13.8 million (2016: DKK 4.6 million), allocation of administration etc. DKK 67.5 million (2016: DKK 53.0 million), financial incomes of DKK 20.0 million (2016: DKK 65.3 million) and financial expenses amounting to DKK 0.0 million (2016: DKK 6.2 million). The principle of arm's length is used in all transactions with related parties.

## APPENDIX

# Quarterly Financial Figures 2015-2017

DKK 1,000	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<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>	<b>853,681</b>	<b>1,206,148</b>	<b>804,150</b>	<b>906,070</b>
Purchase of goods	-304,084	-206,761	-139,048	-342,602	-306,427	-243,112	-159,521	-211,088	-273,978	-240,697	-159,166	-210,030
Change in inventory and biological assets (at cost)	167,919	-28,169	-73,486	149,168	-70,320	39,083	53,180	36,931	82,501	-137,750	-72,885	-13,272
Salary and personnel expenses	-64,075	-76,606	-60,201	-80,203	-72,555	-83,542	-73,632	-98,096	-95,433	-112,729	-85,361	-106,744
Other operating expenses	-151,834	-158,667	-172,254	-200,779	-173,461	-165,935	-173,046	-202,931	-189,700	-210,361	-184,755	-198,452
Depreciation	-26,252	-26,325	-26,726	-28,795	-28,217	-29,092	-32,311	-43,641	-41,617	-45,454	-50,187	-46,332
<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>	<b>335,454</b>	<b>459,157</b>	<b>251,796</b>	<b>331,240</b>
Fair value adjustments on biological assets	-54,936	-38,042	-17,652	83,052	107,646	-29,379	121,802	408,126	-234,577	54,853	-155,122	-358,694
Onerous contracts	0	0	0	-51,004	-59,959	22,778	86,411	-65,602	30,132	25,087	12,157	0
Income from associates	-2,867	-10,796	85	20,335	3,087	6,665	-4,689	9,758	2,252	-2,312	-1,037	18,399
Revenue tax	0	0	0	0	-22,575	-29,520	-23,370	-32,985	-30,212	-45,468	-23,712	-20,289
Badwill	0	0	0	0	0	0	10,440	0	0	0	0	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>	<b>103,049</b>	<b>491,317</b>	<b>84,082</b>	<b>-29,344</b>
Net interest revenue	934	479	963	1,223	553	616	214	141	190	364	456	385
Net interest expenses	-7,739	-6,187	-5,218	-5,478	-6,380	-6,609	-6,507	-6,487	-7,198	-6,349	-6,814	-6,004
Net currency effects	-2,571	-8,630	28,493	6,058	-14,490	1,163	-13,987	14,959	1,841	2,277	-8,728	9,260
Other financial expenses	-1,536	-3,040	-928	-1,110	-1,066	-1,045	-1,022	-1,026	-1,162	-1,165	-1,035	-1,538
<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>	<b>96,720</b>	<b>486,444</b>	<b>67,961</b>	<b>-27,241</b>
Taxes	-33,731	-46,134	-43,457	9,026	-47,074	-48,001	-77,611	-121,041	-17,690	-88,378	-11,746	5,332
<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>	<b>79,030</b>	<b>398,066</b>	<b>56,215</b>	<b>-21,909</b>
Earnings per share (DKK)	2.71	3.91	3.44	6.56	4.39	4.61	7.13	11.44	1.63	8.19	1.16	-0.45
Diluted earnings per share (DKK)	2.71	3.91	3.44	6.56	4.39	4.61	7.13	11.44	1.63	8.19	1.16	-0.45

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
DKK 1,000	2015	2015	2015	2015	2016	2016	2016	2016	2017	2017	2017	2017
<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	376,675	376,675	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	2,256,205	2,380,348	2,447,998	2,570,430
Financial assets	123,605	112,842	112,927	130,893	130,793	136,134	49,405	59,407	61,652	59,340	58,303	76,702
Long-term receivables	1,314	0	0	0	0	0	0	12,660	0	0	0	0
<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>2,694,532</b>	<b>2,816,363</b>	<b>2,882,976</b>	<b>3,023,807</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	1,645,053	1,543,687	1,416,990	1,096,664
Inventory	407,220	418,860	297,090	421,966	370,759	485,187	378,493	355,604	422,203	459,955	352,858	305,845
<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>	<b>2,067,256</b>	<b>2,003,642</b>	<b>1,769,848</b>	<b>1,402,509</b>
Accounts receivable	182,449	206,881	128,086	199,263	240,594	240,698	222,895	292,009	253,487	325,358	333,423	262,493
Other receivables	89,734	97,865	194,037	179,971	114,642	182,900	88,312	109,860	108,860	134,364	31,845	157,156
<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>	<b>362,347</b>	<b>459,722</b>	<b>365,268</b>	<b>419,649</b>
Cash and cash equivalents	414,851	295,843	250,215	101,852	320,624	173,730	240,856	234,996	499,174	353,349	347,394	309,551
<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>2,928,777</b>	<b>2,816,713</b>	<b>2,482,510</b>	<b>2,131,709</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>5,623,309</b>	<b>5,633,076</b>	<b>5,365,486</b>	<b>5,155,516</b>

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
DKK 1,000	2015	2015	2015	2015	2016	2016	2016	2016	2017	2017	2017	2017
<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	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	3,578,804	3,549,785	3,612,988	3,577,571
<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>3,627,662</b>	<b>3,598,643</b>	<b>3,661,846</b>	<b>3,626,429</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	562,299	647,842	660,664	455,449
Long-term interest-bearing debt	501,131	549,048	389,430	447,559	492,697	736,572	708,084	827,146	507,096	476,566	256,475	146,696
Financial derivatives	91,069	91,775	127,255	128,804	119,780	114,425	94,222	101,456	0	0	0	0
<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>1,069,395</b>	<b>1,124,408</b>	<b>917,139</b>	<b>602,145</b>
<b>Current liabilities</b>												
Financial derivatives	0	0	0	0	0	0	0	0	104,899	117,858	110,798	127,255
Short-term interest-bearing debt	100,000	0	0	0	0	0	0	0	405,650	388,500	395,350	378,300
Accounts payable and other debt	248,610	240,430	263,127	413,995	411,883	412,706	373,083	394,780	415,703	403,667	280,353	421,387
<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>926,252</b>	<b>910,025</b>	<b>786,501</b>	<b>926,942</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>1,995,647</b>	<b>2,034,433</b>	<b>1,703,640</b>	<b>1,529,087</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>	<b>5,623,309</b>	<b>5,633,076</b>	<b>5,365,486</b>	<b>5,155,516</b>



# Market Announcements Published in 2017

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

## Q1 2017

3 January 2017	Q4 2016 Trading Update
10 January 2017	Presentation Held at SEB Nordic Seminar
20 January 2017	Suspicion of Pathogenic ISA-virus at A-73 Hvannasund Norður arises again
27 February 2017	Q4 2016 Interim Results and Full Year 2016
28 February 2017	Key Information Regarding Cash Dividend for Bakkafróst
13 March 2017	Notice to Annual General Meeting
13 March 2017	Annual Report 2016
16 March 2017	Decision to Harvest the Remaining Fish at A-73 Hvannasund Norður
27 March 2017	Confirmation of Pathogenic ISA-virus at A-73 Hvannasund Norður

## Q2 2017

4 April 2017	Q1 2017 Trading Update
7 April 2017	Protocol from Annual General Meeting
10 April 2017	Ex Dividend DKK 8.70
10 April 2017	Payment of Dividend in NOK on 21 April 2017
18 May 2017	Financial Calendar 2017
23 May 2017	Q1 2017 Interim Results

## Q3 2017

4 July 2017	Q2 2017 Trading Update
22 August 2017	Q2 2017 Interim Results
13 September 2017	Financial Calendar 2018

## Q4 2017

4 October 2017	Q3 2017 Trading Update
14 November 2017	Q3 2017 Interim Results
3 January 2018	Q4 2017 Trading Update
25 January 2018	Refinancing
20 February 2018	Q4 2017 Interim Results and Full Year 2017

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

# Financial Calendar for 2018

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20 February 2018	Presentation of Q4 2017 and full year 2017
13 April 2018	Annual General Meeting
7 May 2018	Presentation of Q1 2018
21 August 2018	Presentation of Q2 2018
6 November 2018	Presentation of Q3 2018

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

Annual General Meeting will take place at Bakkavegur 8, Glyvrar, 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

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**AGM:** Annual General Meeting  
**ASC:** Aquaculture Stewardship Council

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**CGU:** Cash-generating Unit

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**EBT:** Earnings Before Tax  
**EBIT:** Earnings Before Interest and Tax  
**EBITA:** Earnings Before Interest, Amortization and Tax  
**EBITDA:** Earnings Before Interest, Tax, Depreciation and Amortization  
**EPS:** Earnings Per Share

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**FOF:** Fishmeal, Oil and Feed

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**HACCP:** Hazard Analyses Critical Control Point

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**IAS:** International Accounting Standards  
**IFRS:** International Financial Reporting Standards  
**ISO:** International Organization for Standardization

**LW:** Live Weight

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**NIBD:** Net Interesting Bearing Debt

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**PP&E:** Property, Plant and Equipment

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**R&D:** Research and Development Costs

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**TGW:** Tonnes Gutted Weight

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**USP:** Unique Selling Points

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**VAT:** Value Added Tax

**VAP:** Value Added Products; Value Added Production

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**WACC:** Weighted Average Cost of Capital

**WFE:** Whole Fish Equivalent

