



ANNUAL REPORT

2019

Faroese Company Registration No. 1724



Contents

Chairman's Statement	4	■ RISKS	62
Statement by the Management and the Board of Directors	6	Risks and Risk Management	63
Outlook	8		
Bakkafrost at a Glance	10	■ GOVERNANCE	68
Key Figures	13	Corporate Governance	69
Main Events	14	Corporate Responsibility and Sustainability	71
		Shareholder Information	73
■ STRATEGY	15	Directors and Management	74
Business Objectives and Strategy	16	Directors' Profiles	75
Business Model	18	Group Management's Profiles	77
Outline of Bakkafrost's History	19		
The Value Chain	20	Statement by the Management and the Board of Directors on the Annual Report	78
		Independent Auditor's Report	79
■ PERFORMANCE	31		
Operational Review	32		
Financial Review	37		
Farming Segment - Faroe Islands (FO)	40		
Farming Segment - Scotland (STC)	42		
VAP Segment	44		
FOF Segment	46		
Market Review	49		

Contents

FINANCIAL STATEMENTS AND NOTES - BAKKAFROST GROUP 82

Consolidated Income Statement	86
Consolidated Statement of Comprehensive Income	87
Consolidated Statement of Financial Position	88
Consolidated Cash Flow Statement	90
Consolidated Statement of Changes in Equity	91

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - BAKKAFROST GROUP 92

■ NOTES - SECTION 1 BASIS OF PREPARATION	93
■ NOTES - SECTION 2 RESULTS FOR THE YEAR	96
■ NOTES - SECTION 3 ASSETS AND LIABILITIES	107
■ NOTES - SECTION 4 CAPITAL STRUCTURE AND FINANCING ITEMS	132
■ NOTES - SECTION 5 OTHER DISCLOSURES	139

FINANCIAL STATEMENTS - P/F BAKKAFROST 147

P/F BAKKAFROST - Income Statement	149
P/F BAKKAFROST - Statement of Financial Position	150
P/F BAKKAFROST - Cash Flow Statement	152
P/F BAKKAFROST - Statement of Changes in Equity	153

P/F BAKKAFROST - NOTES TO THE FINANCIAL STATEMENTS 154

APPENDIX 162

Quarterly Financial Figures 2017-2019	162
Market Announcements Published in 2019	165
Financial Calendar for 2020	166
Glossary	167

Chairman's Statement



RÚNI M. HANSEN
Chairman of the Board

REACHING FOR NEW HORIZONS

2019 has been an extraordinary year for Bakkafróst in several ways. Most predominant was the giant leap we took, when we decided to acquire The Scottish Salmon Company (SSC) and hereby diversify our farming operation into a new geography. The acquisition has increased the scope of Bakkafróst's operation significantly and brings new growth and development opportunities to the Group.

2019 was also the first time since the listing of Bakkafróst on Oslo Børs in 2010 that we raised new share capital. Existing share owners and new investors were very supportive to our plans to acquire SSC and we were able to raise over 5.1 billion NOK for the acquisition.

2019 was also a year with exceptionally high price volatility in the salmon market. Even though the salmon price fell by around 40% during the 3rd quarter of 2019, Bakkafróst managed to navigate safely through this with only small effect on our financial results. This was in part due to our effective sales strategy and to the unique veterinary system in the Faroe Islands, allowing us to let the fish grow longer in the fjords when feasible and sustainable to the environment.

We care about the environment, which is the precondition for a healthy operation in the long run. Preserving and respecting our heritage, operating in a society so dependent on nature, – it is essential that the balance with nature is right and sustainable. We are very much aware of the current and future challenge we face, to be able to feed the world's growing population with safe and healthy food but without compromising our planet. We strongly believe that salmon farming has an important role to play in achieving this due to the very low feed-to-food conversion factor and low carbon footprint. But the salmon farming must be sustainable.

We are more committed than ever to ensure that our operation

is sustainable and responsible in any way. As an example of this commitment, we are proud that our new Biogas plant is about to be finished and will begin operation in Q1 2020. This innovative and circular way of thinking resources will convert biological waste from our operation into clean energy, heating and natural fertilizer to the local farmers. For us this is about creating profit for the environment, and the biogas plant will save the environment for 11,000 m³ of CO₂ per year.

Sustainable sourcing of raw materials and sustainable farming is also key to us. For our feed production, we only use sustainably certified raw materials. In regard to our farming operation, we are pleased to be well on our way to reach our 2020-goal of having 100% of our farming sites in the Faroe Islands ASC-certified.

2016 marked the beginning of our large smolt strategy, which will enable sustainable organic growth, improve efficiency and reduce the biological risk. Therefore, we decided to upscale our smolt production by building a new hatchery at Strond, later to be followed by the announcement of expansion plans for 3 other hatcheries. The Strond facility is now operational, and during 2019, we have released several batches of large smolts from the hatchery. Gradually into 2022, we will be able to produce 500g smolts for all our sites in the Faroese operation.

Since Bakkafróst took over the farming operation in Suðuroy in 2016, we have made large investments in our farming sites and harvest facility in Suðuroy. The operation is performing well and contributing significantly to our harvest volume in 2019. Alongside our large smolt strategy, the farming sites in Suðuroy play an important role in our organic growth strategy in the Faroe Islands.

Following the agreement with the Faroese Government to take over the responsibility of the Faroese broodstock programme, we have made commitments in order to save and preserve the Faroese strain of the North Atlantic Salmon. Having been



farmed for over 40 years in the Faroe Islands, this unique strain was facing extinction. Bakkafrost has the option to obtain the genome rights in 2021, and we are building a new state of the art broodstock facility to secure future broodstock operation based on this strain. In the meantime, we are pleased to have been able to deliver roe for this unique strain to our hatcheries and looking forward to being self-sufficient. The investment in

the broodstock operation is a long-term investment, which we are convinced will create value for Bakkafrost.

Looking ahead, we believe that offshore farming will be feasible and also a natural next step in the Faroe Islands for Bakkafrost. We see it as a growth potential, where we can capitalize on synergy effects with our existing value chain. In 2019, the

legislation allowing offshore farming on the east side of the Faroe Islands was passed by the Faroese parliament and we have used the past couple of years to evaluate this opportunity to be prepared for the release of licenses.

Our investments in the Faroe Islands as well as the investments we will make in Scotland will play a significant role in Bakkafrost's future business model and give opportunities for sustainable production growth, reduced biological risk and create value for our customers and shareholders.

RETURN TO SHAREHOLDERS

Based on the good performance in 2019, the Board of Directors will propose a dividend of DKK 8.31 per share at the Annual General Meeting convened in April 2020. This corresponds to a total dividend of DKK 491.5 million.

THANK YOU TO OUR EMPLOYEES

On behalf of the Board of Directors, I express our appreciation to all Bakkafrost employees for the commitment and hard work in 2019.

Statement by the Management and the Board of Directors

A YEAR MARKED BY DISRUPTIONS, VOLATILITY AND NEW OPPORTUNITIES

The first quarter of 2019, was very much affected by restricted access to the Russian market. In November 2018, Bakkafrøst's access to the Russian market was suddenly closed, and we were not allowed into the Russian market again until late February 2019. The timing of the market ban was very unfortunate for Bakkafrøst, as we had decided to be low on VAP contracts in 2018 and had around one third of the volume set aside for the Russian market. When the Russian market then was closed for Bakkafrøst in November 2018 we, were suddenly forced to find new customers and channels for the volume that otherwise would have been sold to Russian customers. This had a significant negative effect on our achieved prices in both the fourth quarter of 2018 and in the first quarter of 2019.

During 2019, Bakkafrøst increased the contract levels, compared to the exceptionally low contract shares in 2018. Hence the VAP segment's production increased in 2019 to 16,690 tgv, compared to 8,355 tgv in 2018. The percentage of total harvest used in the VAP production was 29% in 2019, compared to 19% in 2018. The contract prices also increased, and the margin for the VAP segment was significantly improved, compared to 2018: The operational EBIT/kg for the VAP segment was 3.82 DKK/kg in 2019, compared to -2,68 DKK/kg in 2018.

The average salmon spot price for 2019 was slightly higher than in 2018. However, the price was very volatile during the year. The spot price in the beginning of 2019 was strong, compared to the beginning of 2018. January 2019 was 9,5% up, compared to January 2018, and the first quarter of 2019 was 4% up, compared to Q1 2018.

In the middle of the second quarter, the prices suddenly dropped and remained low (-5%), compared to the second quarter of 2018.

At the end of the third quarter, the spot price fell to the lowest level since 2015. The monthly average prices in September were as low as 49.89 NOK/kg. This price drop was partly driven by an oversupply of smaller sized salmon into the market. This oversupply was mainly caused by a combination of strong biological growth in Norway during the summer and increasing biological issues in several regions in the third quarter.

The low salmon prices remained into the fourth quarter, where the consequences of 40-45,000 tgv lost salmon in Norway in May, which was caused by an algae bloom, drove prices upwards again. By the end of 2019, the spot price (weekly average) was the highest since 2016 and December 2019 was 18% up, compared to December 2018. In 2019, the spread between the highest and lowest monthly average spot price during the year was 20.53 NOK per kg.

2019 was an eventful year for Bakkafrøst – the main event being the acquisition of around 96% of the shares in The Scottish Salmon Company (SSC). We are very excited about the future possibilities this will bring to Bakkafrøst. We know this will require effort to improve the operational performance of SSC and bring all the potential synergies into play but are confident that we will succeed together with our committed and highly competent employees in the Faroe Islands and Scotland. From Q4 2019 and onwards, the results from SSC are consolidated into the Bakkafrøst Group's accounts.

Bakkafrøst's DKK 3 billion investment programme for the period 2018-2022 targeting the Faroese operation is unchanged by the acquisition and well underway. The overall purpose with the programme, to reduce biological risk, increase efficiency and to build capacity for 100,000 tonnes in the Faroe Islands, is still the goal. One of the milestones of the investment programme was the construction of the new hatchery at Strønd, which released the first batch of smolts in August 2019. During H2 2019, the production has been

ramped up and by year end the hatchery was contributing significantly to Bakkafróst's large-smolt strategy.

Investments will also be needed in the newly acquired Scottish operation, and we have announced our expectation to make investments in SSC of around DKK 350 million per year for the next 5 years.

The Group's operational EBIT was DKK 1,325 million for 2019, compared to DKK 1,075 million for 2018. The increased operational EBIT was mainly due to higher harvested volumes in the farming segment and SSC contributed DKK 18 million to the Group's operational EBIT.

In 2019, the farming segment harvested 57,184 t_{gw} in the Faroe Islands and 7,925 t_{gw} in Scotland, compared to 44,591 t_{gw} in 2018. This corresponds to an increase of 28% excluding the harvest volume in Scotland. 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 biological performance in the Faroe Islands has been very strong in 2019 with strong growth and low mortality.

The raw material intake in the FOF segment was 278,664 tonnes in 2019, compared to 302,465 tonnes in 2018. The production of fishmeal and fish oil was consequently lower in 2019, compared to 2018. The feed sale increased 25% and amounted to 97,408 tonnes in 2019, compared to 77,775 tonnes in 2018. The EBITDA margin in 2019 was 19,9%, compared to 20,0% in 2018.

Havsbrún started production of salmon-meal and salmon oil in its new production facility at the end of 2018. This production is expected to increase the value of the offcuts in our salmon production.

Feed costs – representing around 50-60% of the costs in a kilo of salmon – have increased slightly in 2019, compared



to 2018. Fish oil prices were still lower than the price level in 2015 and 2016.

In our farming operation, the mechanical treatment strategy has shown good results. Since 2017, we have not used chemical bath treatments to combat sea lice, and the investment in well-equipped farming supply vessels with specialized and dedicated crews for doing treatments provides good results. In 2019, we have had very low sea lice levels and good biological performance. Together with the use of cleaner fish, the arsenal of mechanical treatment methods available on-board the farming supply vessels have been sufficient to keep sea lice levels under control and with even lower mortality rates than before.

In 2019, Bakkafróst acquired a new building for the operation in New Jersey, USA. This will allow for increased activity in the US operation and make it possible to develop new products and services to our customers in the target area around New Jersey

In 2019, Bakkafróst refinanced the bank facilities for the entire Group, including SSC. The 5-year facilities include a EUR 352 million facility (plus a EUR 150 million accordion option) and a GBP 100 million facility for SSC. The Bakkafróst Group's interest-bearing debt amounted to DKK 1,019 million at the end of 2019, compared with DKK 495 million at year-end 2018. The Group had undrawn credit facilities of DKK 2,470 million at the end of 2019.

The Bakkafróst Group made a profit of DKK 802 million for 2019, compared with DKK 960 million for 2018. Bakkafróst's equity ratio was 65% at the end of 2019, compared to 70% at the end of 2018. Bakkafróst paid out DKK 403.1 million in dividends in the second quarter of 2019, corresponding to DKK 8.25 per share.

The management of Bakkafróst and our dedicated and talented employees look forward to an exciting year ahead of us.

Outlook

MARKET

The global supply of Atlantic salmon increased around 3% in Q4 2019, compared to Q4 2018, according to the latest estimate from Kontali Analyse.

In Q1 2020, the global harvest of Atlantic salmon is expected to increase around 1%, compared to Q1 2019. The estimated global harvest of Atlantic salmon for 2020 is an increase of around 4%, compared to 2019.

Bakkafrost operates in the main salmon markets, Europe, USA, the Far East and Russia. During 2019, variation in sales distribution between the different markets is 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.

It is worth noting, that the disturbance caused by the Corona virus (COVID-19), could impact our operations, as well as our customers and suppliers, with significant financial and other consequences. As an example, the COVID-19 has caused disturbance to our sales into China, and any further disturbances can grow to have a significant impact for the Group.

FARMING

The outlook for the farming segment in the Faroe Islands is good, and the overall operational performance is very good. There are many possibilities in the Scottish operation, it will, however, take time to transform its operational performance. The estimates for harvest volumes and smolt releases in both geographies 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 follow this strategy, including farming



supply vessels for mechanical delousing and mechanical cleaning of nets in the pens. During 2019, Bakkafrost's specialized crews onboard these vessels have further refined their skills and methods resulting in improved fish welfare.

The quality and performance of the smolts have also increased significantly, and there are clear signs that the large smolt and non-medical delousing strategies are working successfully in the Faroe Islands. Looking ahead, Bakkafrost will extend these strategies into the farming operation in The Scottish Salmon Company.

Overall, the biological performance in the Faroese operation has been strong during 2019 with good growth and low mortality rates.

Bakkafrost has in the Q4 2019 report guided on an expected harvest for 2020 of 57,000 tonnes gutted weight in the Faroe Islands. But on 28 February 2020, a severe storm hit the Faroe Islands. The four-day storm caused damage on two of Bakkafrost's farming sites in the South Island (Suðuroy); A23 Hvalba and A15 Froðba. In total, Bakkafrost lost around 1 million fish with an average weight of 2.1 kg. This incident is expected to reduce the harvest in 2020 in the Faroe Islands by 5-6,000 tonnes gutted weight, reducing the ex-

pected harvest in 2020 to 51-52,000 tonnes gutted weight. In Scotland the expected harvest in 2020 is 35,000 tonnes gutted weight.

Farming SCT has signed contracts for around 32% of the expected harvest volumes in Farming SCT in 2020. These contracts usually last for 12 months.

Bakkafrost expects to release 15.0 million smolts in 2020 in the Faroe Islands, compared to 12.7 million smolts in 2019 and 12.6 million smolts in 2018. The smolt release in Scotland is expected to be 10.7 million smolts in 2020, compared to 12.4 million smolts in 2019 and 8.6 million smolts in 2018. The number of smolts released is a key element of predicting Bakkafrost's future production.

VAP (VALUE ADDED PRODUCTS)

Bakkafrost has signed contracts covering around 40% of the expected Faroese harvest volumes in Q1 2020 and 30% of the harvest volume for 2020. Bakkafrost's long-term strategy is to sell around 40-50% of the Faroese 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 price 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 2020 recommendation for blue whiting is 1,162 thousand tonnes, which corresponds to an increase of 2%, compared to ICES's recommendation for 2019.

Bakkafrost expects a decrease in production volumes of fishmeal and fish oil in 2020, compared to 2019.

Havsbrún has increased the expectation for sales of fish feed in 2020 to be at 110,000 tonnes, depending on external sales.

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

BIOGAS

Bakkafrost's new biogas plant is about to be finished and will begin operation in Q1 2020. This innovative and circular way of thinking resources will convert biological waste from the farming operation into clean energy, heating and natural fertilizer to the local farmers. Annual capacity will be 90-100,000 tonnes of waste conversion, corresponding to an annual production of 45-50,000 tonnes of natural liquid fertilizer, providing heat for 400 homes and electricity for 1,900 homes with the current input predicted. The biogas plant is estimated to save the environment for 11,000 m³ CO₂ per year.

INVESTMENTS

Bakkafrost's investment programme for the period from 2020 to 2022, excluding investments in The Scottish Salmon Company, will amount to around DKK 1.8 billion, including maintenance capex, and will reinforce Bakkafrost's integrated business model and ensure a capacity across the value chain to be able to produce 100,000 tonnes gutted weight of salmon in the Faroe Islands. The aim of the investment programme is to minimize the biological risk, increase efficiency and create sustainable organic growth. Bakkafrost's focus on producing larger smolts plays a key role in achieving this goal.

In addition to the planned investments in the value chain in the Faroe Islands, Bakkafrost expects to make investments of around DKK 350 million per year for 2020-2024 in The Scottish Salmon Company.

FINANCIAL

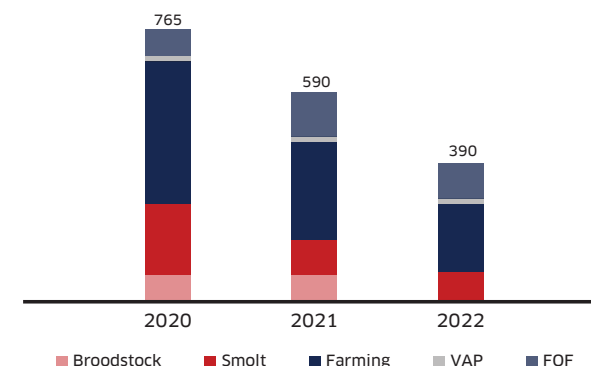
Favourable market balances in the world market for salmon products and cost-conscious production will likely maintain the financial flexibility going forward.

During Q4 2019, Bakkafrost refinanced its bank facilities amounting to EUR 352 million with a further accordion option of EUR 150 million. In addition, bank facilities amounting to GBP 100 million were ensured to refinance The Scottish Salmon Company. Bakkafrost also issued shares in Q3 and Q4 2019 amounting to NOK 5,142 million to finance the acquisition of The Scottish Salmon Company.

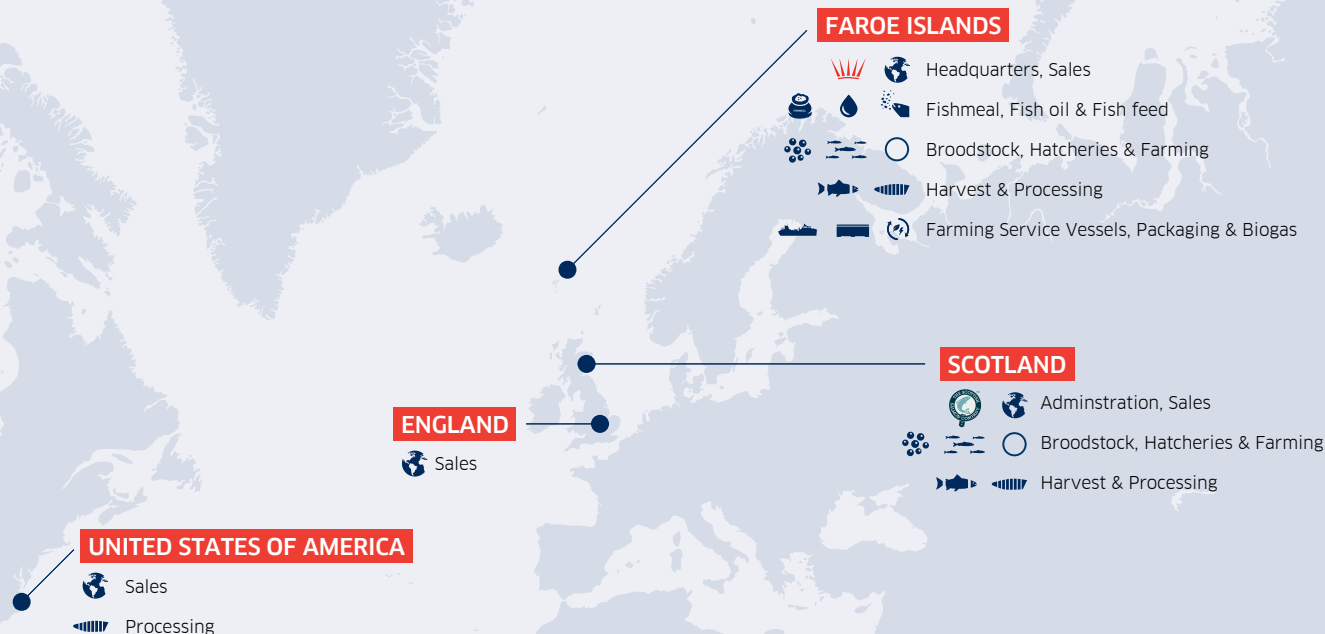
A high equity ratio together with Bakkafrost's bank financing, makes Bakkafrost's financial situation strong. This enables Bakkafrost to carry out its investment plans in the Faroe Islands as well as in Scotland, hereby strengthening the Group, enabling M&A's and organic growth opportunities as well as to fulfil its unchanged dividend policy in the future.

Fig. 1

INVESTMENT PLAN (mDKK)



Bakkafrost at a Glance



LEGEND TO MAP SYMBOLS

	FISHMEAL		BROODSTOCK		HARVESTING		FSV (FARMING SERVICE VESSELS)
	FISH OIL		HATCHERIES		PROCESSING		PACKAGING
	FISH FEED		FARMING		SALES		BIOGAS



BAKKAFROST

Salmon, packaging, fishmeal, fish oil and fish feed producer

Location: Faroe Islands

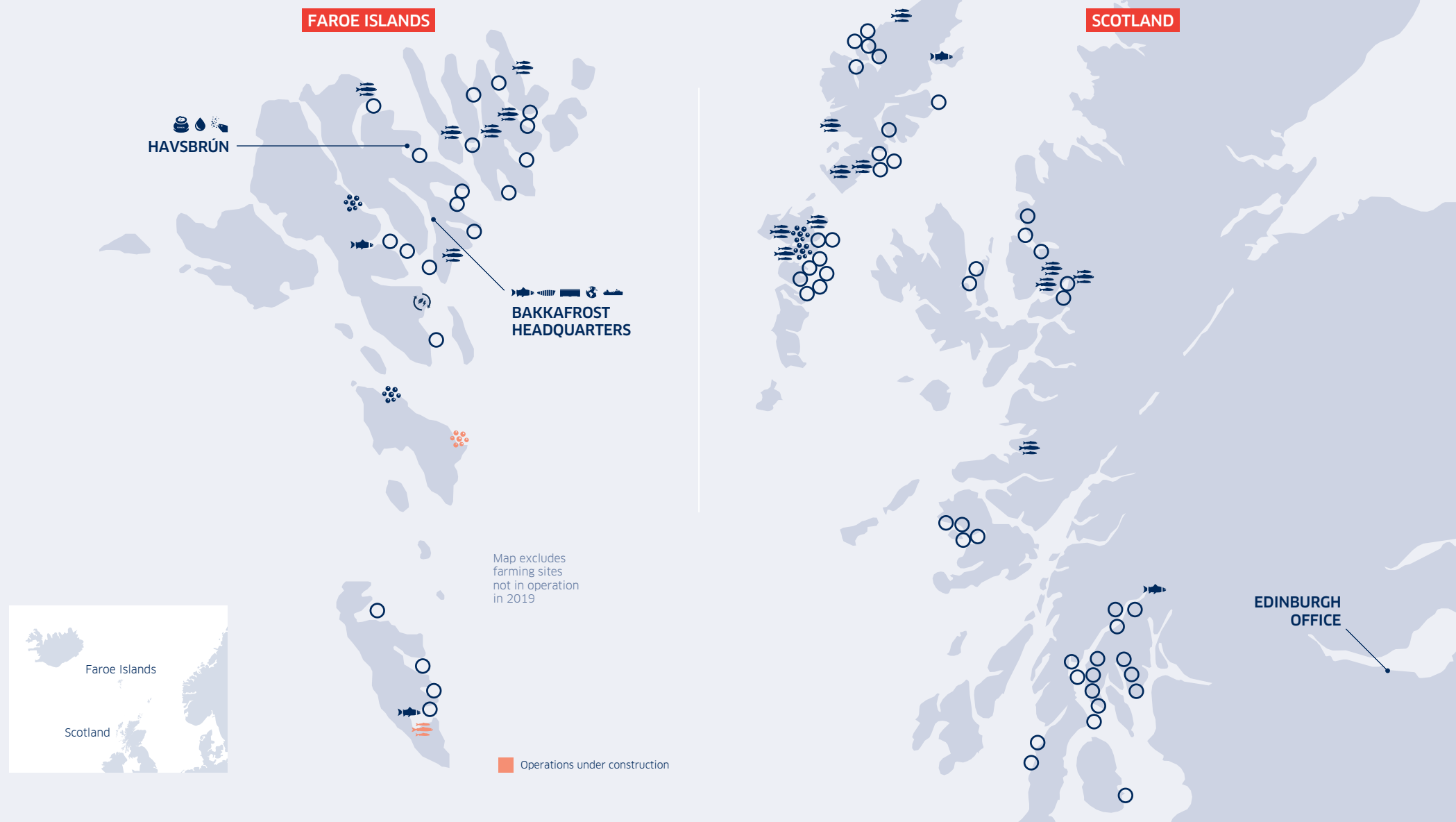
Headquarters: Glyvrrar, Eysturoy

Production and business-to-business sale: salmon, fishmeal, fish oil and fish feed

Longest integrated value chain in the industry

Listed on: Oslo Børs with ticker code BAKKA

Facilities and locations





Key Figures

Fig. 2

(DKK 1,000)					
Income Statement	2019	2018	2017	2016	2015
Operating revenues	4,511,107	3,177,422	3,770,049	3,202,686	2,850,363
Operational EBIT *	1,325,100	1,074,912	1,377,647	1,164,953	1,000,583
Operational EBITDA *	1,635,215	1,273,810	1,561,237	1,298,214	1,108,681
Earnings before interest and taxes (EBIT)	1,019,217	1,184,233	649,104	1,673,587	928,758
Earnings before taxes (EBT)	981,916	1,172,066	623,884	1,632,614	924,471
Net earnings	801,885	960,292	511,402	1,338,887	810,175
Earnings per share before fair value adjustments of biomass and provision for onerous contracts (DKK)	19.04	16.44	21.08	17.57	17.16
Earnings per share after fair value adjustments of biomass and provision for onerous contracts (DKK)	15.53	19.74	10.52	27.56	16.69
Statement of Financial Position					
Total non-current assets	8,632,516	3,396,036	3,023,807	2,567,212	1,957,061
Total current assets	4,468,889	2,406,487	2,131,709	2,850,904	1,963,325
TOTAL ASSETS	13,101,405	5,802,523	5,155,516	5,418,116	3,920,386
Total equity	8,496,875	4,077,029	3,626,429	3,549,035	2,580,482
Total liabilities	4,604,530	1,725,494	1,529,087	1,869,081	1,339,904
TOTAL EQUITY AND LIABILITIES	13,101,405	5,802,523	5,155,516	5,418,116	3,920,386
Net interest-bearing debt	1,018,685	495,479	258,070	635,266	391,743
Equity share	65%	70%	70%	66%	66%

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

Main Events



March

- Bakkafrost launches its second sustainability report.

May

- Two of Bakkafrost's farming sites, A-21 Hvannasund Suður and A-73 Hvannasund Norð, are ASC certified so far this year.
- Bakkafrost signs the first ASC-only contract in China with retailer Hema.



July

- Contract is signed to acquire a new production facility in New Jersey, US, to host Bakkafrost US' growing activity.
- The farming site A-06 Gulín is ASC certified.

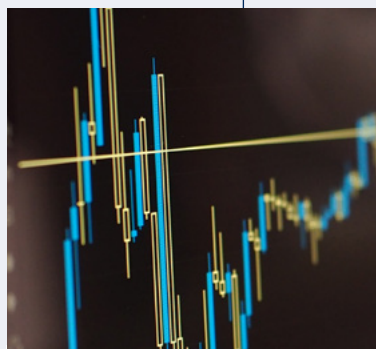


September

- Bakkafrost signs a share purchase agreement for 68.6% of the shares in The Scottish Salmon Company.
- The share capital is increased with 4,800,000 issued shares.
- The farming site A-19 Vágur is ASC certified.

November

- Bakkafrost is announced as a finalist at Edie's Sustainability Leaders Awards 2020 in the Sustainability Reporting & Communications category.
- Bakkafrost puts forward a Mandatory Offer for the remaining shares in The Scottish Salmon Company.
- Bakkafrost's farming sites A-05 Undir Síðu and A-81 Kolbanagiógv become ASC certified.
- Bakkafrost wins the 2019 Faroese Business Initiative award for the Biogas plant, Fórka.



April

- The annual general meeting approves a dividend of DKK 8.25 per share.
- Bakkafrost appoints a new CFO.



June

- The second Capital Markets Day is held in the Faroe Islands.
- First release of smolt to the new farming site A23 Hvalba.



August

- The new hatchery at Strond delivers its first batch of smolts.



October

- Bakkafrost acquires the majority of the shares in the Scottish Salmon Company.
- Extraordinary General Meeting approves further share issue.
- Share capital is increased with 4,615,179 issued shares.

December

- Two of Bakkafrost's farming sites, A-18 Hov and A-85 Nes, are ASC certified.
- Bakkafrost refinances the entire Group with a EUR 352 million facility and a EUR 150 million accordion option for the Group, plus a GBP 100 million facility for The Scottish Salmon Company.
- The share capital is increased with 869,756 issued shares.

STRATEGY



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.

• 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.

• SUSTAINABILITY

We are committed to securing a long-term sustainable increase in production, while balancing animal welfare and a cost-conscious production. See our sustainability report www.bakkafrost.com/sustainability for more information on our progress in 2019.

• 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 wellbeing of the salmon. See our sustainability report www.bakkafrost.com/sustainability for more information on our progress in 2019.

• 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.

Our core values, which support our performance and guide our behaviour, 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.

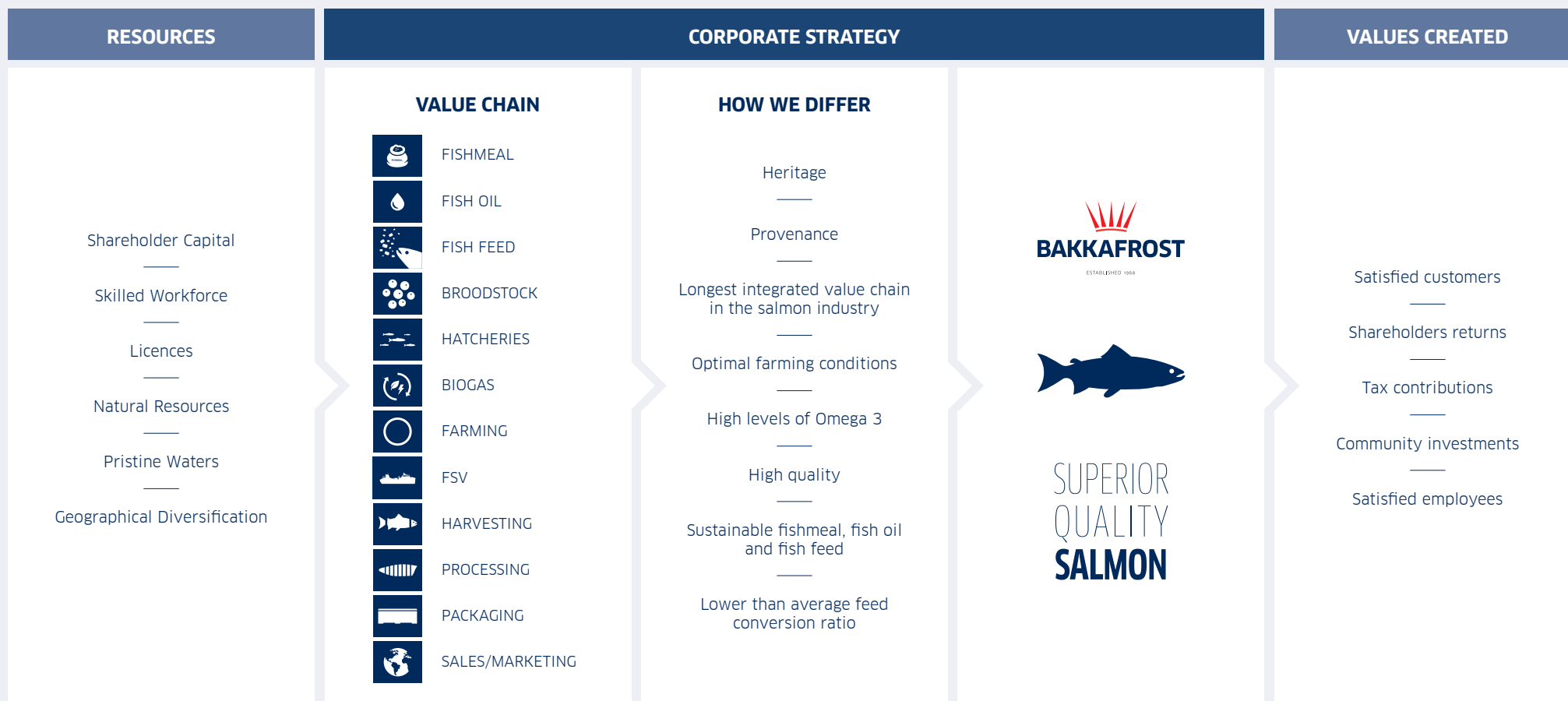
In 2020, we will review our corporate strategy and align our strategic objectives with our Healthy Living Plan, outlined in our sustainability report.



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 Bakkafrøst's History

For more details on Bakkafrøst's history, please visit www.bakkafrøst.com/about/history

1968

The Bakkafrøst 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

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

1995

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

2006

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

2010

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

Bakkafrøst 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

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

2013

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

2016

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

2017

Bakkafrøst's new harvest/VAP factory and the headquarters in Glyvvar are finished. The public is invited to visit the facilities in September.

FSVs Martin and Róland start operation.

2018

Bakkafrøst starts the integration of the Faroese broodstock programme. Bakkafrøst's new hatchery at Strond starts operation. Bakkafrøst closes the acquisition of the business and assets in the US salmon importer North Landing.

The Value Chain

The Bakkafrost Group 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 daily. 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 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 deliv-

eries. It further enables better utilization of the facilities throughout the value chain and prevents sub-optimization between cost centres.

Bakkafrost continues to improve, adjust and extend the value chain on an ongoing basis. In 2018, broodstock and biogas were added to the value chain. And in 2019, Bakkafrost acquired The Scottish Salmon Company, which is a good fit to and a considerable addition to the following parts of our value chain; Broodstock, Hatcheries, Farming, FSV, Harvesting, Processing and Sales.

Fig. 4

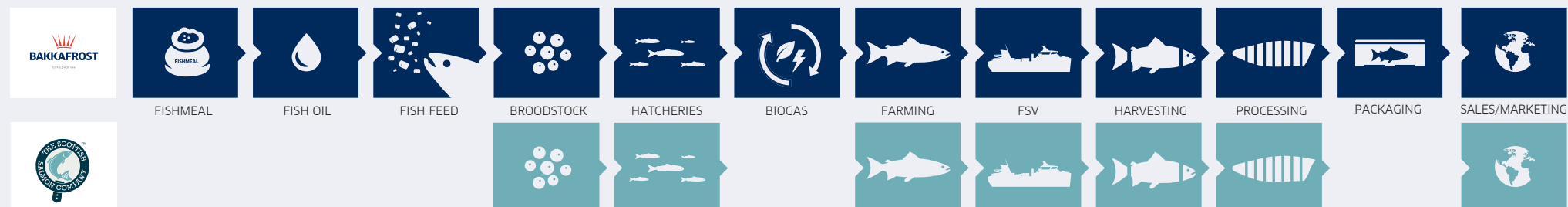
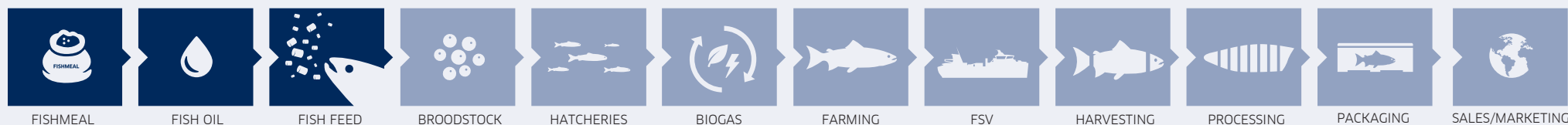


Fig. 5



FISHMEAL, FISH OIL AND FISH FEED

Bakkafrost sources fish materials for the production of fishmeal and fish oil. This is mainly based on various pelagic species. In addition to whole fish, we also utilize co-products of fish destined for direct human consumption such as fish trimmings and fish silage. The combination of our processing technology together with our standard and demands to high quality fish material enables us to manufacture top-quality fishmeal, fish oil and fish feed. Fishmeal is rich in protein with a balanced amino acid profile which makes it an ideal ingredient in fish feed. Fish oil is a great source of energy and contains the essential long-chain omega-3 fatty acids. The fish material origin is mainly from Faroese vessels and fish processing factories as well as foreign vessels operating in the North Atlantic.

As producers of our own high-quality fish feed raw materials, Havsbrún is uniquely situated to select the very best fishmeal and fish oil for our feed production. Moreover, the fishmeal and fish oil in our feed comes from the very same species of fish on which wild salmon feed. The dietary composition in our feed provides a foundation for good growth conditions for the salmon in our farming operations.

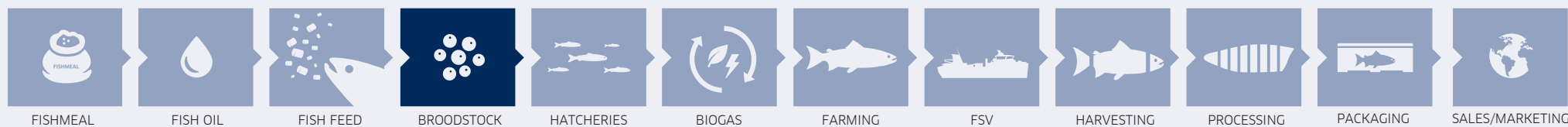
All the fish oil used in our dietary composition undergoes a

carbon cleansing filtration to minimize the content of Dioxin and Dioxin-Like-PCBs (DL-PCBs). Dioxin and DL-PCBs 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.

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.

- **450 tonnes of fishmeal daily capacity**
- **300 tonnes of fish oil daily capacity**
- **700 tonnes of fish feed daily capacity**

Fig. 6



BROODSTOCK

Native Faroese broodstock programme

In April 2018, Bakkafrost took full ownership and responsibility of the Faroese broodstock programme. Bakkafrost has the option to obtain the genome rights in 2021.

The broodstock programme is part of our strategy to maximize biosecurity, breeding and genetics, and to have the longest integrated value chain in the industry.

The programme will enable accelerated development of more resilient roe – reducing risks of disease in farmed salmon – but also protect the intellectual capital in the Faroe Islands, which has been built up over the years with the programme. The investment into new infrastructure at a new site on the island of Sandoy, will provide the necessary conditions for the programme to be fully developed with a highly-skilled team of employees.

The breeding programme was resurrected in 2016 with support from the Government of the Faroe Islands, using the remaining Faroese salmon. 1,200 families were created, 300 families for each year in a 4-year generation interval.

The selective breeding programme is using targeted mating

to concentrate the following important traits: growth, quality and disease resistance.

Native Hebridean broodstock programme

In Scotland, the Group operates a unique Native Hebridean broodstock programme producing pure Scottish Island salmon, originally bred from wild stock and farmed only in Hebridean waters which results in a strong, lean and noticeably firmer salmon than other Atlantic salmon.

The broodstock programme is managed from our Langass facility in North Uist with broodstock reared under an out-sourced arrangement with a third party.

The Native Hebridean broodstock programme has the capacity to produce 6 million eggs with proposed investment to increase to 10 million eggs per year.

- **Native Faroese broodstock programme taken over in 2018**
- **Native Faroese genome rights in 2021**
- **New Native Faroese broodstock facility in Skálavík in 2022**
- **Native Hebridean broodstock annual capacity to produce 6 million eggs**

Fig. 7



HATCHERIES

Hatcheries in the Faroe Islands

The Bakkafrøst Group operates six hatcheries with a total production capacity of 12 million smolts at an average weight of 220g for annual release. This will increase during 2020 to 15 million smolts at 260g per year.

Bakkafrøst purchases salmon eggs externally. The capacity of the suppliers is sufficient to meet the current and future need of eggs.

In 2018, Bakkafrøst started implementing part of our own broodstock production. This will increase going forward. Bakkafrøst's capability to produce eggs will increase significantly when the new broodstock facility will be fully operational in 2023.

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

Bakkafrøst's hatcheries are located in environments with large quantities of clean fresh water, where no villages or industries are competing for the water. This is important, as there is no ground water available in the Faroe Islands. The

hatcheries are equipped with closed water circulation systems with 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, and there are several biologists working on and with the hatcheries.

The average weight of released smolt was around 205g in 2019 and will be somewhat higher in 2020, around 260g. Bakkafrøst aims at producing all smolts for release at an average weight of 400 grams by 2021. The benefits are a shorter production time at sea as well as reduced biological risk. The new hatchery at Strønd, Klaksvík, and the extended building on the other hatcheries, is an important part of this plan. The hatchery at Strønd started operation in June 2018 and has started a new batch every 3 months since then and will be in full operation from 2020. The capacity growth from this investment programme will gradually appear in harvested volumes from 2020/2021.

In January 2019, Bakkafrøst announced the plan to increase the capacity of the hatcheries by a total of 30,000m³. This will be achieved by building a new hatchery at Ónavík in Suðuroy, and by increasing the capacity of our current hatchery sites in Norðtoftir and Glyvradalur to begin operation in 2022/2023.

The new hatchery at Ónavík in Suðuroy has an expected annual production capacity of around 3 million smolts and is expected to begin operation in 2023.

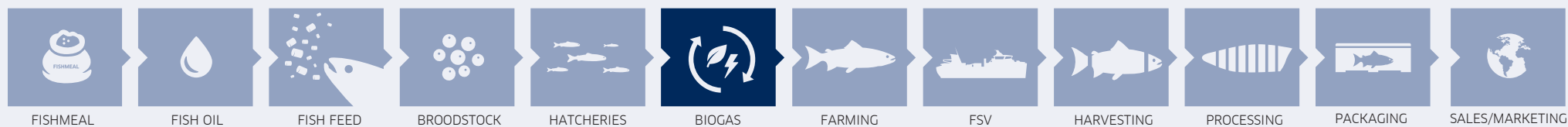
Hatcheries in Scotland

In Scotland, the Bakkafrøst Group operates 11 freshwater hatcheries with an investment of DKK 45 million planned during 2020 to expand in-house smolt production.

The annual capacity of our hatcheries in Scotland is circa 8 million smolts with an average size of just over 90g.

- **The new hatchery at Strønd in the Faroe Islands fully operational by year-end 2020**
- **Increased capacity at Norðtoftir and Glyvradalur in the Faroe Islands from 2022/2023**
- **New hatchery at Ónavík in the Faroe Islands with additional 3 million smolts annual capacity to begin operation in 2023**

Fig. 8



BIOGAS

The new biogas plant will use waste products from our farms and other fish and dairy farmers to produce renewable energy and fertilizer. The process works by breaking down the organic matter in the biomass into smaller molecules through anaerobic digestion. Upon completion of this process, the biomass is converted into biogas, namely carbon dioxide and methane (the latter which is used for renewable energy production), and digestate (which is used as fertilizer).

When in operation, the plant has the capacity to convert up to 90-100,000 tonnes annually of all waste from farms, providing enough renewable heat for 400 homes and electricity for 1,900 homes with the current input predicted.

This is projected to save 11,000 tonnes of CO₂ emissions (based on the equivalent fossil fuel replacement) annually.

As well as producing renewable energy, it will produce 45-50,000 tonnes of natural liquid fertilizer annually, which will be redistributed to farmers across the islands, free of charge. The fertilizer's higher absorption potential is expected to decrease runoff into fjords.

The renewable energy produced, will feed into the national grid,

contributing to the Faroe Island's national target to have 100% electricity from renewable sources by 2030, which in 2018 was 49%.

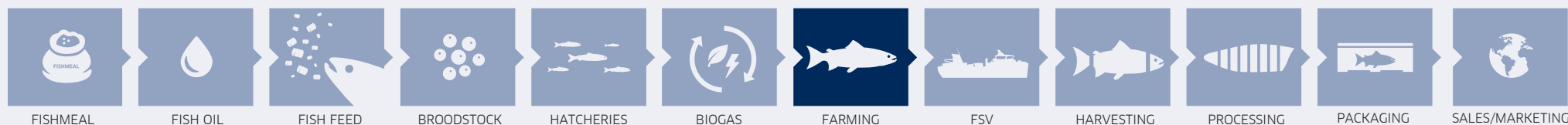
Construction of the biogas plant started in 2019 and the plant is expected to be operational in Q1 2020.

Our ambitious investment strategy focusses on efficient growth to meet the growing demand for sustainably produced protein. This includes advancing circular solutions such as this one, which reduce waste, reduce and avoid CO₂ emissions, and stimulate sustainability through other industries.

- **New biogas plant operational in Q1 2020**
- **90-100,000 tonnes of waste conversion annual capacity**
- **45-50,000 tonnes of natural liquid fertilizer annual estimated production**



Fig. 9



FARMING

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, Bakkafrøst 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 and sustainable farming results possible.

Farming in the Faroe Islands

Bakkafrøst's 19 salmon farming sites in operation in 2019 extend across 17 of the islands' fjords and benefit from excellent water quality and circulation due to strong currents and cool steady sea temperatures. The new farming site in Hvalba in Suðuroy started operation in 2019.

The fish is kept, fed and nurtured in large sea pens, providing the fish with abundant space to grow for a period of 16–18 months. During this period, the fish grows from around 200g+ up to 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.

During the entire production period, each 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.

Farming in Scotland

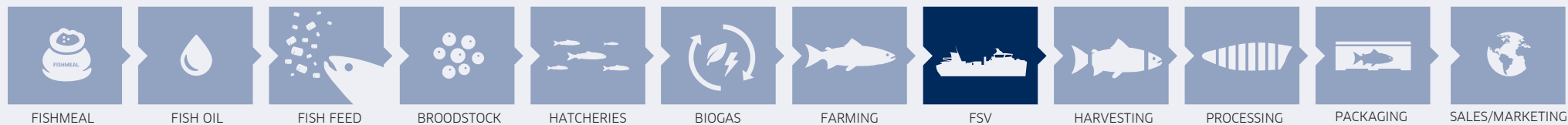
The Bakkafrøst Group operates 42 marine sites in the unique natural environment of the West Coast of Scotland and the Hebridean Islands with 66,500 tonnes of current permitted licence volume.

The fish is kept, fed and nurtured in large sea pens, providing the fish with abundant space to grow for a period of around 18–24 months. During this period, the fish grows from around 90g up to average target weight of about 5.0 kg wfe.

After total harvest the site is set aside for 2+ months before a new generation is released

- **19 farming sites in operation across 17 fjords in the Faroe Islands**
- **42 farming sites in operation across the West Coast of Scotland and the Hebridean Islands**
- **New farming site in Hvalba in the Faroe Islands started operation in 2019**

Fig. 10



FARMING SERVICE VESSELS (FSV)

FSV in the Faroe Islands

Bakkafrost's FSV fleet in the Faroe Islands consist of six vessels: Four live fish carriers and two service vessels.

The live fish carrier fleet again consists of two vessels for smolt transport and two vessels for transportation of fish to harvest: One medium size live fish carrier (660m³/110 tonnes wfe) and one large live fish carrier (3,500m³/450 tonnes wfe), equipped with the latest technology and both with closed

- **6 farming service vessels (including 4 live fish carriers), 53 boats and 23 feed barges in the Faroe Islands**
- **7 farming service vessels (including 3 live fish carriers, 2 large workboats and 2 treatment vessels) in Scotland**
- **New farming service vessel to support biosecurity strategy in 2022**



systems. In addition to transporting fish to harvest, the largest live fish carrier has equipment for treatment of the fish in fresh water. The two remaining FSV's are equipped with various non-medical systems for lice-treatment, systems for net-cleaning and are also equipped to do other operations.

Bakkafrost is continually seeking to improve methods for de-lousing without using any chemicals and creating lowest possible stress on the salmon.

FSV in Scotland

In Scotland the Bakkafrost Group operates a fleet of seven vessels, three wellboats, two large workboats and two treatment vessels all under long term charter agreements along with a fleet of smaller vessels for site operations which are largely owned.

Fig. 11



HARVESTING

Harvesting in the Faroe Islands

In the Faroe Islands, all Bakkafrost's fish is harvested at the harvest factories in Glyvvar and Vágur. The harvest factory in Glyvvar has a 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 harvest factory in Vágur has a daily capacity of 100 tonnes wfe.

The fish is transported from the farming sites to the harvest factory in live fish carriers with closed water systems.

Harvesting in Scotland

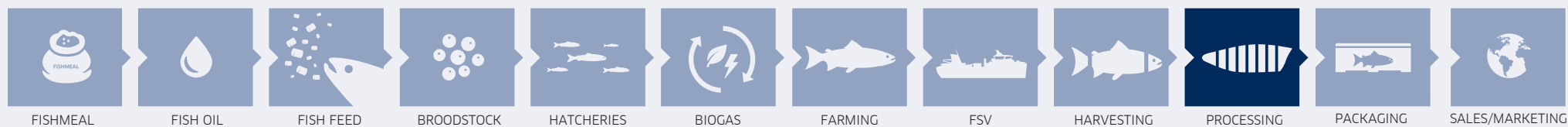
The Bakkafrost Group operates two harvest stations, Arnish Point in the North of Scotland and Ardyne in the South. Arnish Point has a capacity of 114 tonnes per day and Ardyne has a capacity of 152 tonnes per day.

Fish are transported from the farming sites to the harvest sites in live fish carriers.

- **57,184 tonnes gw of salmon harvested in 2019 in the Faroe Islands, and 33,799 tonnes in Scotland**
- **Total daily harvesting capacity of 450 tonnes wfe in the Faroe Islands, and 266 tonnes in Scotland**



Fig. 12



PROCESSING

Processing in the Faroe Islands

The 4,000m² VAP factory at Glyvvar has a production capacity of 100 tons of value-added products a day. The primary customers for these products are the supermarket chains and the Horeca segment.

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 decade. The customers in this segment are mainly European or from the Far East.

Processing in Scotland

The Bakkafrøst Group operates two processing factories, Marybank in the North of Scotland and Cairndow in the South, as well as a Smokehouse in Stornoway. Both processing plants are equipped with pre-rigour filleting, portioning and packaging facilities. Significant investment is planned during 2020 in both processing factories which will result in a combined annual capacity of around 50,000 tonnes.

- **40,000 tonnes annual secondary processing capacity in the Faroe Islands**
- **Combined annual capacity in Scotland increases to 50,000 tonnes during 2020**

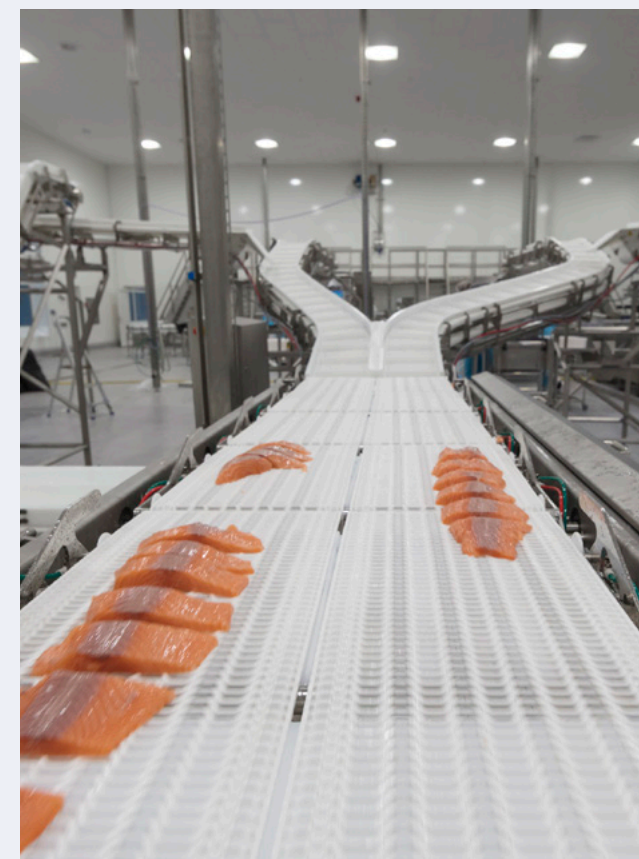
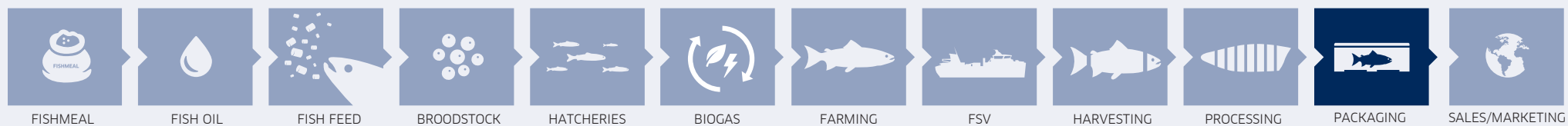


Fig. 13



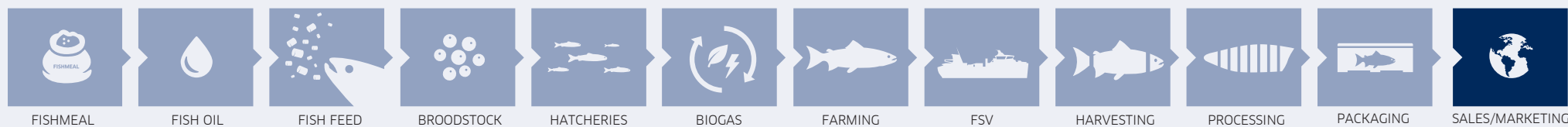
PACKAGING

Bakkafrost has a packaging factory, which is located and integrated into the Glyvrrar processing facility. The packaging factory produces styropor boxes for the fresh salmon, both for sea and air freight. The packaging factory at Glyvrrar meets all Bakkafrost's need for styropor boxes and has equipment to customize the boxes with logo etc.



- **70,000 tonnes of salmon, annual packaging capacity**

Fig. 14



SALES AND DISTRIBUTION

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 from the Faroe Islands 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 from the Faroe Islands

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

With the existing distribution network, Bakkafrost can ship products from the Faroe Islands to the UK within 20 hours by ship and to Denmark within 36 hours. From the UK and Denmark, 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.

Distribution from Scotland

The distribution network from Scotland is based on transportation by Eurotunnel to Europe and by plane to North America, Asia and other export markets from the UK.

Sales to 37 countries

- **Markets served:**
 - Western Europe (59%)
 - North America (17%)
 - Asia (15%)
 - Eastern Europe (8%)

PERFORMANCE



Operational Review

FARMING

Bakkafrost holds sea farming licenses in the north-east and south parts of the Faroe Islands as well as newly acquired licenses in the north-west of Scotland. The licenses give the right to utilize a given area of a fjords for farming fish. Farming authorities focus on veterinary and environmental key performing indicators. Yearly reports and plans, approved by the authorities, are requested in order to certify the operation.

The Gulf Stream provides stable farming conditions in the Faroe Islands and Scotland throughout the year as well as excellent water quality. The water temperature in the regions is steady, with a fluctuation of only 6-8 °C during the year. The lowest temperatures, approximately 6 °C, are usually reached in February, and the highest temperatures, approximately 10.5 °C in the Faroe Islands and 14.5 °C in Scotland, are reached in the late summer months.

All farm sites in the Faroe Islands and Scotland are environmentally certified and yearly audited by agencies. Salmon farming in Scotland is one of the most transparent and highly regulated farming sectors in the UK and our sites are regularly audited by a range of bodies, including Marine Scotland, Scottish Environmental Protection Agency (SEPA), Fish Health Inspectorate and Scottish Natural Heritage. SSC are committed to operating transparently and share data on both a compulsory and voluntary basis through a variety of channels including the Scottish Salmon Producers' Organisation (SSPO) and Marine Scotland.

Production plans in the Faroe Islands are approved on a yearly basis by both veterinary and environmental authorities. The biological situation in the Faroe Islands provides the opportunity to utilize a higher than average weight of the fish, which minimizes unit costs, biological feed conversion rate and gives best in class performance. The excellent biological situation is crucial to maintain production costs at current levels and to maximize returns on the invested capital.

VALUE ORIENTED PRODUCER AND VETERINARY MODEL

In terms of production costs, our farming operation has delivered strong results, compared to peers.

The objective of the Bakkafrost farming method in the Faroe Islands is to increase biological and veterinary security and to support a sustainable and healthy operation, by total separation of salmon generations, vaccination against different diseases (ISA among others), strict regulation of movement of equipment and fish and other regulations. This method continuous to improve fish health and reduce costs. Thus, Bakkafrost's EBIT per kg in the Faroe Islands is among the highest, compared to peers.

The farming in Scotland differs in biology and legislation from the farming in the Faroe Islands. It will therefore take time to refine and improve the farming method in Scotland.

The farming costs have increased in recent years, especially because of increased feed costs and health costs. In the Faroe Islands, farming sites have been moved further out the fjords to more exposed areas, where more expensive equipment is needed. The plan is also to do so in Scotland where possible.

Salmon feed with a high marine content, similar to the diet in the wild, is used in both the Faroes and Scotland, this results in relatively high feed costs. However, benefits are evident in higher production efficiency, this is also impacted by the high standards of animal welfare which have a positive impact on non-feed cost elements.

The health costs mainly relate to treatments against sea lice. From 2015, Bakkafrost has mainly used non-medical treatments, including freshwater, lukewarm sea water and flushing with clean sea water with ambient temperature. These new mechanical treatments resulted in elevated mortality, but after a start-up phase and more experience and better knowledge of the equipment and the treatment methods, the

mortality level has improved, but Bakkafrøst is still working on improving the negative side effects of these mechanical treatments.

In addition to this, Bakkafrøst has used lumpfish at some farming sites to reduce the number of sea lice. The purpose of these initiatives is to maintain a sustainable, cost-conscious farming operation.

INVESTMENTS TO REDUCE BIOLOGICAL RISK

Bakkafrøst has invested nearly DKK 3 billion since 2013 in all parts of its value chain. The five-year investment plan from August 2018 amounted to around DKK 3 billion. Around DKK 1.2 billion has been invested in the last two years. In addition to the planned investments in the value chain in the Faroe Islands, Bakkafrøst expects to make investments of around DKK 350 million per year for 2020- 2024 in Scotland. These investments are still at a planning stage and have not been further allocated to the Scottish value chain.

The goals for the investment plan are; reducing the biological risk, increasing efficiency and giving organic growth.

Around DKK 1 billion will be invested in the smolt operation in the Faroe Islands. The operation in the Faroes is self-supplied with smolt but aims to have an average weight of 500g for all smolts released into the sea. The hatcheries at Norðtoftir and Viðareidí have been expanded and the new hatchery at Strond will be fully operating in 2020. This will increase the Faroese smolt capacity substantially.

At present, the Faroese smolt production has a yearly capacity of around 12 million smolts for release at an average weight of 200g. When the capacity at Strond is in full operation this capacity will be around 12 million smolts with an average weight of 500g.

Bakkafrøst plans building a new hatchery in Suðuroy and expanding two of its existing hatcheries, enabling further growth in Bakkafrøst's smolt production. The construction of the hatchery in Suðuroy is expected to commence late 2020.

The average release size of smolt in the Faroe Islands has increased from around 120g in 2014 to around 205g in 2019, corresponding to a 70% increase in size.

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. The plan is also to increase the sizes of smolts in Scotland.

SMOLT RELEASE, NUMBER AND AVERAGE SIZE

Bakkafrøst has invested in new equipment in the farming operation. Since 2015, Bakkafrøst has acquired three ships, one live fish carrier and two service vessels. Significant amount has also been invested in new equipment at Bakkafrøst's farming sites, e.g. new feeding barges, catamarans and larger pens.

CERTIFICATES

To ensure prime quality, Bakkafrøst 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 Faroese production chain are Global G.A.P. compliant. Other certifications include ASC, HACCP, IFS, GMP+, MSC, ISO9001:2008 and BRC. Bakkafrøst 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.

Fig. 15

MORTALITY % OF OUTPUT FARMING FO

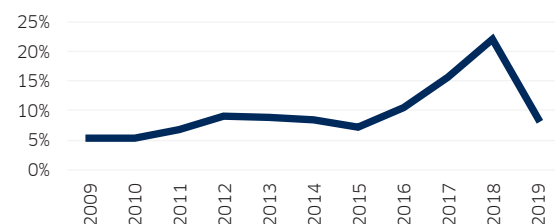


Fig. 16

BIOLOGICAL FEED FACTOR FARMING FO

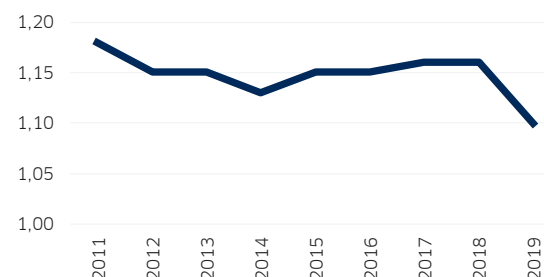


Fig. 17

AVERAGE HARVEST WEIGHT FARMING FO (KG LW)

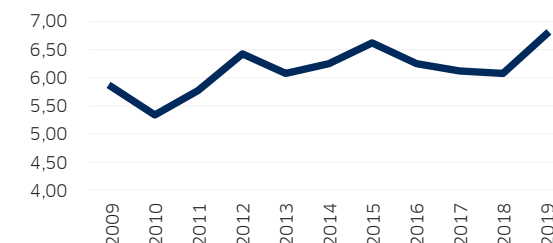
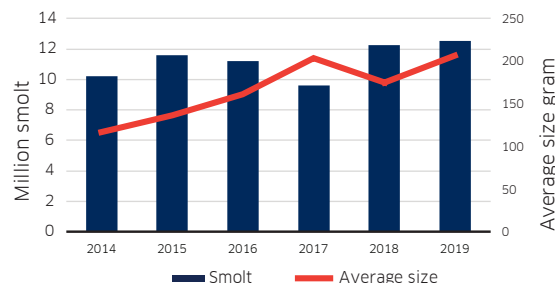


Fig. 18

SMOLT RELEASE, NUMBER AND AVERAGE SIZE



Bakkafrost's goal is to have all its farming sites in the Faroe Islands 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 the period from 2016 to 2018, Bakkafrost had six additional farming sites ASC certified. In 2019, Bakkafrost included eight more sites to its list of ASC certified sites, and do now have 15 sites holding ASC certifications. Bakkafrost is still working on getting more farming sites ASC certified.

Farming Scotland holds national and international accreditations and certifications across the value chain, including Global G.A.P. Farming Scotland was the first salmon producer in the UK to be awarded 3-star Best Aquaculture Practice (BAP) certification for all its marine and processing sites, as well as the feed suppliers. The processing facilities have been awarded the highest level

of British Retail Consortium (BRC) Accreditation for food safety, processing and supply chain management.

GEOGRAPHICAL LOCATION

Salmon farms in the Faroe Islands and Scotland 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.

STRONG CUSTOMER BASE IN ALL MAJOR MARKETS

By focusing on meeting existing customers' demands, Bakkafrost benefits from its long-term relationships with many customers. The relationships with customers have proven to give a competitive advantage through product development and marketing.

Over the past many years Bakkafrost has developed a differentiated market strategy. This has ensured Bakkafrost a good market position in the main markets: EU, Asia, US and Eastern Europe.

VAP

Bakkafrost has a long-term experience in producing and selling value added products (VAP). Bakkafrost's long-term strategy is that VAP products shall represent 40–50% of the Faroese harvested volumes. The sales of VAP products stabilize the Group's earnings, as the sales are based on fixed-price contracts. The contract prices are not as volatile as the spot market prices for fresh salmon. There is a time lag between the increase in the spot prices and a subsequent increase in the contract prices for VAP products. On the other hand, when the spot prices decrease, there is a time lag until the contract prices decrease.

Going into 2019, the VAP volumes were again at the long-term strategic level and are expected to be on this level going for-

ward. The VAP segment struggled in 2016 and in 2017 because of the steep increase of the spot prices. In 2018, Bakkafrost decided to lower the VAP volumes, as price indications for 2018 were uncertain at this period.

The VAP segment produced 16,690 tonnes in 2019, compared to 8,355 tonnes in 2018. The higher volumes and prices in the VAP segment for 2019 had a positive effect on the margins in the VAP segment.

PRODUCTION OF FISHMEAL, OIL AND FEED

Havsbrún - FOF segment - performed again very well in 2019 and had good access to raw material. Havsbrún received 278,664 tonnes of raw materials in 2019, a decrease of 8%, compared with 2018. 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, however, have increased over the last years. This has improved Havsbrún's possibilities of sourcing raw material to its production of fishmeal and fish oil.

Beside sourcing wild caught pelagic fish, Havsbrún also sourced offcuts from pelagic 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.

Havsbrún sold 31,769 tonnes of fishmeal externally in 2019, compared with 43,235 tonnes in 2018, a decrease of 27%. All the production of fish oil is used for feed production.

Havsbrún sold 97,408 tonnes of feed in 2019, of which 79% were used internally. In 2018, Havsbrún sold 77,775 tonnes of feed.

In 2019, the fish oil market was more stable coming from a volatile period in 2016 to 2018. 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. Bakkafróst'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 Havsbrún's fish oil are well within the safety limits imposed by e.g.

the European Union, Havsbrún has cleaned the fish oil used for Bakkafróst's salmon feed for dioxin and DL-PCBs from early 2015.

The fishmeal market was stable during 2019.

PEOPLE

Our most important resource is our employees, and for Bakkafróst to remain a high-performing organization and expand our leading market position, it is vital to attract and retain employ-

ees with the right competences and knowledge. Therefore, we shall maintain and further strengthen the focus on HR, work satisfaction and developing the competences of the employees.

The foundations of our human resource development are the company culture and the fundamental values of Bakkafróst to be a reliable and responsible partner. Many great results have been achieved during the past years and we strive continuously to nurture 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 Bakkafróst'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.

Bakkafróst'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 2019, the number of full-time equivalent employees in the Bakkafróst Group was 1,553 employees (FO: 926 and SCT: 627), compared to 824 employees in 2018. 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 2019.



Financial Review

The supply of salmon to the world market increased by around 6% in 2019 (2018: 6% increase). The average salmon spot price in 2019 was DKK 44.20, compared to DKK 47.18 in 2018 a decrease of 6%.

The prices for value added products (VAP) have flatten out in 2019 and are on the same level as in 2018. 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. Although the raw material prices experienced some volatility in 2019, the average price was somewhat lower, compared to 2018. The margins of Bakka-frost's value added production were positively affected by higher volumes in 2019, as overhead costs were the same. Therefore, the VAP segment made a profit in 2019. The value added products are typically sold on fixed price contracts with duration of 6-12 months, where the prices for value added products follow the trend on the spot market with a time lag.

The feed prices have been fairly flat in 2019, and the average feed price was lower than the average feed price in 2018. The reason for the fluctuations in the feed price is the market situation for fish oil and fishmeal, which are the main ingredients in Bakka-frost's salmon feed. The fluctuations in the feed prices will be reflected in the production costs for salmon.

INCOME STATEMENT

DKK 1,000	2019	2018
Operating revenue	4,511,107	3,177,422
Purchase of goods	-1,354,921	-1,074,645
Change in inventory and biological assets (at cost)	-29,423	199,696
Salary and personnel expenses	-512,761	-353,756
Other operation expenses	-978,787	-674,907
Depreciation	-310,115	-198,898
Operational EBIT	1,325,100	1,074,912
Fair value adjustments of biological assets	-220,567	195,819
Income from associates	13,812	9,369
Revenue tax	-99,128	-95,867
EBIT	1,019,217	1,184,233
EBT	981,916	1,172,066
Taxes	-180,031	-211,774
Profit or loss for the period	801,885	960,292

The Bakka-frost Group generated gross operating revenues of DKK 4,511.1 million in 2019, compared to DKK 3,177.4 million in 2018. The increase in the revenue is mainly due to higher volumes of both fresh/frozen salmon and value added products in 2019. Harvested volumes of salmon increased 46% in 2019, compared to 2018, and the volumes sold as value added products increased 100% in 2019. The external revenue from sales of fishmeal decreased in 2019, compared to 2018. The external sales of fish feed increased 176%.

The operations harvested a total of 65,109 tonnes gutted weight, compared to 44,591 tonnes in 2018.

Operational EBIT was DKK 1,325.1 million, compared to DKK 1,074.9 million in 2018. A negative fair value adjustment of the Group's biological assets has been recognized in 2019 amounting to DKK -220.6 million, compared to an adjustment of DKK 195.8 million in 2018. The negative fair value adjustment relates to negative fair value adjustment in the Scottish operation, which relates to higher expected costs and longer farming period at year-end, compared with the acquisition date.

In 2019, the Group's associated companies made a net result to Bakkafrost of DKK 13.8 million, compared to DKK 9.4 million in 2018.

Financial income in 2019 amounted to DKK 5.0 million, compared to DKK 2.7 million in 2018. Net interest expenses amounted to DKK -17.1 million, compared to DKK -12.5 million in 2018. Net currency effects amounted to DKK -12.7 million, compared to DKK 1.4 million in 2018. Other financial expenses amounted to DKK -12.5 million, compared to DKK 3.8 million in 2018.

Net taxes amounted to DKK -180.0 million, compared to DKK -211.8 million in 2018.

The consolidated net profit totalled DKK 801.9 million in 2019, compared to DKK 960.3 million in 2018. Earnings per share totalled DKK 15.53 in 2019, compared to DKK 19.74 in 2018.

STATEMENT OF FINANCIAL POSITION

The Group's total assets as at end 2019 amounted to DKK 13,101.4 million, compared to DKK 5,802.5 million at the end of 2018.

The Group's intangible assets amounted to DKK 4,395.7 million at the end of 2019, compared to DKK 389.7 million at the end of 2018. The change relates to intangible assets from the acquisition of The Scottish Salmon Company Plc. Intangi-

ble assets comprise primarily the fair value of acquired farming licences, and goodwill relating to the deferred tax hereof.

Property, plant and equipment amounted to DKK 3,780.5 million at the end of 2019, compared to DKK 2,884.3 million at the end of 2018. In 2019, Bakkafrost made investments in PP&E amounting to DKK 1,167.8 million, compared to DKK 526.0 million in 2018. The most significant investments, Bakkafrost carried out in 2019, were in the new hatchery at Strond. Other investments relate mainly to maintenance investments.

Right of use assets amounted to DKK 332.8 million at the end of 2019, compared to DKK 0 at the end of 2018. The amount relates to IFRS 16.

Investments in associated companies and stocks and shares amounted to DKK 119.1 million at the end of 2019, compared to DKK 112.8 million at the end of 2018. The increase in financial assets relates to the result from the associated companies.

Deferred tax assets amounted to DKK 37.6 million, compared to DKK 0 million at the end of 2018. The amount is related to SSC.

Bakkafrost had DKK 4.4 million in long-term receivables at the end of 2019, compared to DKK 9.2 million at the end of 2018.

The Group's carrying amount (fair value) of biological assets amounted to DKK 1,901.7 million at the end of 2019, compared to DKK 1,358.5 million at the end of 2018. Included in the carrying amount of the biological assets is a fair value adjustment amounting to DKK 27.7 million, compared to DKK 382.8 million at the end of 2018. The most significant change relates to the operations in Scotland. The decrease is due to higher expected costs, lower salmon prices and longer period at sea at the end of 2019, compared to when the operations in Scotland was acquired.

The Group's total inventories amounted to DKK 548.5 million as at the end of 2019, compared to DKK 438.8 million at year-end 2018. 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 671.5 million as at the end of 2019, compared to DKK 292.3 million at the end of 2018.

Cash and cash equivalents at the end of 2019 amounted to DKK 1,309.5 million, compared to DKK 316.9 million at the end of 2018.

The Group's equity at the end of 2019 was DKK 8,496.9 million, compared to DKK 4,077.0 million at the end of 2018. The increase in equity is primarily due to the increase of the share capital and of the positive result for 2019, reduced by the dividend paid out in April 2019.

The Group's total non-current liabilities amounted to DKK 3,679.6 million at the end of 2019, compared to DKK 1,346.5 million at the end of 2018. Deferred taxes amounted to DKK 1,123.8 million, compared to DKK 534.4 million at the end of 2018. The main reason for the increase is related to the acquisition of SSC.

Long-term debt was DKK 2,328.2 million at the end of 2019, compared to DKK 812.1 million at the end of 2018.

Derivatives amounted to DKK 13.5 million at the end of 2019, compared to DKK 0.3 million at the end of 2018 due to volatility in NOK, compared to DKK.

At the end of 2019, the Group's total current liabilities were DKK 925.0 million, compared to DKK 379.0 million at the end of 2018.

Trade payable amounted to DKK 584.4 million, compared to DKK 204.5 million at the beginning of the year.

Bakkafrost's equity ratio was 65% at the end of 2019, compared to 70% at the end of 2018.

DKK 1,000	2019	2018
ASSETS		
Non-current assets		
Intangible assets	4,395,687	389,745
Property, plant and equipment	4,113,323	2,884,325
Financial assets	161,099	121,966
NON-CURRENT ASSETS	8,670,109	3,396,036
Current assets		
Inventory	2,450,237	1,797,309
Receivables	671,513	292,284
Cash and cash equivalents	1,309,546	316,894
CURRENT ASSETS	4,431,296	2,406,487
ASSETS	13,101,405	5,802,523
Equity	8,496,875	4,077,029
Deferred taxes	1,123,796	534,430
Long-term interest-bearing debt	2,328,231	812,053
Long-term leasing debt	225,585	0
Derivatives	1,966	0
Non-current liabilities	3,679,578	1,346,483
Current liabilities		
Derivatives	13,493	320
Trade payables	584,435	204,500
Current tax liabilities	195,484	152,655
Short-term leasing debt	107,808	0
Other current liabilities	23,732	21,536
Current liabilities	924,952	379,011
Total liabilities	4,604,530	1,725,494
EQUITY AND LIABILITIES	13,101,405	5,802,523

CASH FLOW

The total cash flow from operations in 2019 was DKK 1,036.4 million, compared to DKK 912.9 million in 2018. The cash flow from operations in 2019 is primarily due to strong results. Paid taxes and change in working capital had a negative effect on the cash flow from operations in 2019. Cash flow from investment activities amounted to DKK -4,601.2 million, compared to DKK -530.7 million in 2018. DKK -3,9 billion relates to acquiring SSC.

For 2019, cash flow from financing amounted to DKK 4,557.5 million, compared to DKK -374.8 million for 2018. The change in long-term interest-bearing debt of DKK 1,217.6 million had a positive effect on the cash flow from financing in 2019. Other 2019 figures include financial expenses of DKK -20.8 million, sales of treasury shares of DKK 68.4 million and net dividend payment of DKK -401.5 million.

With the established credit facilities, the Group's liquidity and financial strength is considered good. Bakkafrost had undrawn credit facilities of approximately DKK 2,470.0 million at the end of 2019.

DKK 1,000	2019	2018
Cash flow from operations		
Operating profit (EBIT)	1,019,217	1,184,233
Cash flow from operations	1,036,407	912,937
Cash flow from investments	-4,601,246	-530,746
Cash flow from financing	4,557,491	-374,848
Cash and cash equivalents - opening balance	316,894	309,551
Cash and cash equivalents - closing balance	1,309,546	316,894

Farming Segment - Faroe Islands (FO)

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	2019	2018	Change
Total revenue	3,152,462	2,568,366	23%
EBIT	1,028,840	1,065,923	-3%
Operational EBIT	1,103,001	965,659	14%
Farming - Operational EBIT/kg (DKK)	19.29	21.66	-11%
Harvested volume (tgw)	57,184	44,591	28%

VOLUMES

The Group's farming segment harvested 57,184 tonnes gutted weight in 2019, compared to 44,591 tonnes gutted weight in 2018. Farming North harvested 18,252 tonnes gutted weight in 2019, compared to 25,888 tonnes gutted weight in 2018. Farming West harvested 32,210 tonnes gutted weight in 2019, compared to 14,088 tonnes in 2018. Farming South harvested 6,722 tonnes gutted weight in 2019, compared to 4,614 tonnes in 2018.

The Group released 12.7 million smolts into the sea in 2019. The smolt release in 2018 was 12.5 million smolts.

FINANCIAL PERFORMANCE

The market in 2019 was in line with 2018, with slightly lower prices. The good financial performance in the farming segment is also due to good and stable farming operations and only minor biological issues in 2019.

Total revenues for Bakkafrøst's farming segment in 2019 amounted to DKK 3,152.5 million, compared to DKK 2,568.4 million in 2018, a change of 23%. Gross external operating revenues for Bakkafrøst's farming segment increased to DKK 2,501.6 million in 2019, up from DKK 2,226.1 million in 2018. The volumes sold externally increased in 2019, compared to 2018. The internal revenue increased in 2019 from DKK 342.2 million in 2018 to DKK 650.8 million in 2019. The volumes sold to the VAP segment were 100% higher in 2019 than in 2018.

In 2019, operational EBIT totalled DKK 1,103 million, compared to DKK 965.7 million in 2018. This corresponds to an operational EBIT of DKK 19.29 (NOK 25.44) per kg gutted weight, compared to DKK 21.66 (NOK 27.89) per kg gutted weight in 2018.

Fig. 19

TOTAL REVENUE (DKK 1,000)

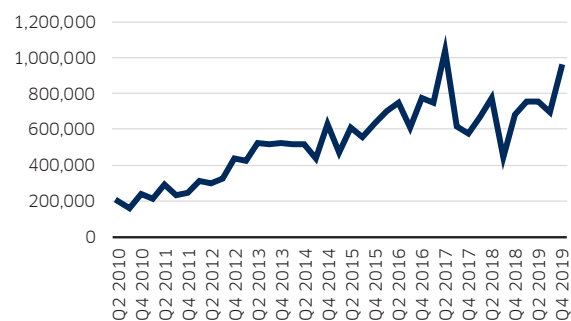


Fig. 20

OPERATIONEL EBIT/KG (DKK)

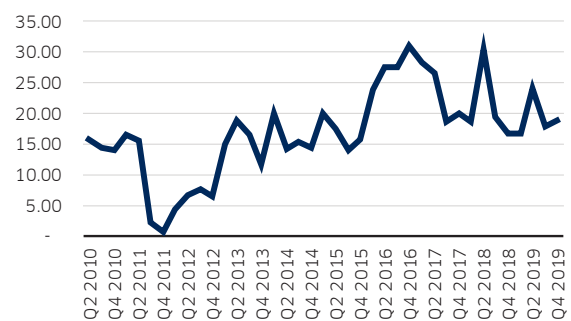


Fig. 21

HARVESTED VOLUME (TGW)

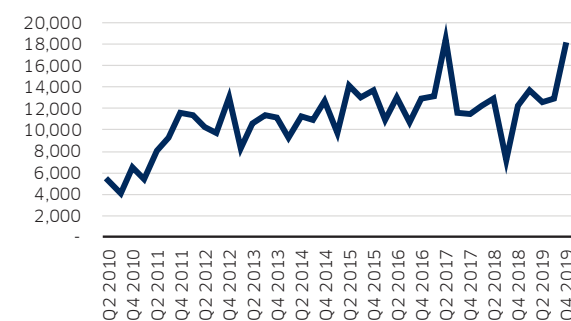


Fig. 22

SMOLT RELEASE - THOUSAND SMOLTS

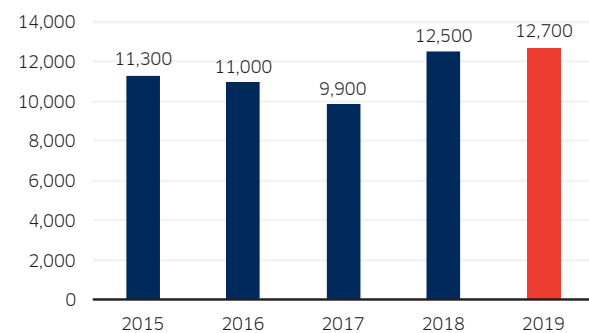
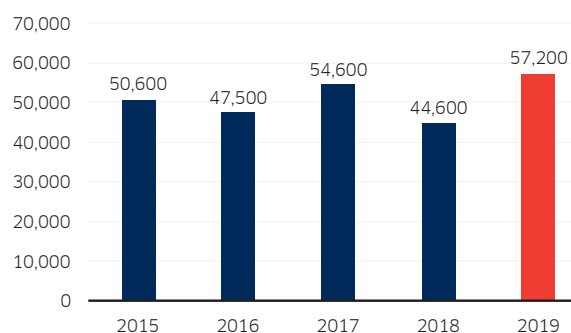


Fig. 23

HARVEST VOLUMES (TGW)



Farming Segment - Scotland (SCT)

Please note that the comparable figures and narrative in this section are proforma and are not part of the consolidated Bakkafrøst accounts.

The Scottish farming segment represents the operating business of The Scottish Salmon Company PLC (SSC) which was consolidated from 8 October 2019, when Bakkafrøst gained control. The Scottish Salmon Company is committed to producing the finest quality Scottish Salmon with Scottish Provenance and full traceability. SSC has sites across the West Coast of Scotland and Hebridean Islands and exports globally, with a focus on developing sales into North America and the Far East.

DKK 1,000	2019
Financial	
Total revenue	437,171
EBIT	-224,285
Operational EBIT	18,129
Farming - Operational EBIT/kg (DKK)	2.29
Volumes	
Harvested volumes (t _{gw})	7,925
Smolts released (thousand)	5,696

VOLUMES

The total volumes harvested in Q4 2019 were 7,925 tonnes gutted weight. Total harvested volumes for the full year 2019 were 33,799 tonnes gutted weight, reflecting a slightly higher performance against the guidance of 33,000 tonnes provided by SSC in their first half update.

5.7 million smolts were transferred in Q4 2019. For the full year 2019, 12.4 million smolts were transferred.

FINANCIAL PERFORMANCE

In 2019, the operating revenue for the SCT farming segment was DKK 437.2 million.

Operational EBIT amounted to DKK 18.1 million.

The drive in export sales and strong demand in Q4 2019 resulted in an improved operational EBIT/kg. Farming costs per kilo were impacted by mortality events in the First Half of 2019.



VAP Segment

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

DKK 1,000	2019	2018	Change
Total revenue	964,484	364,827	164%
EBIT	63,727	-22,424	384%
Operational EBIT	63,727	-22,424	384%
VAP - Operational EBIT/kg (DKK)	3,82	-2.68	242%
VAP produced volume (tgv)	16,690	8,355	100%

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.

For 2019, 29% of the total harvested volumes went to the production of VAP products, compared to 19% in 2018.

The VAP production in 2019 was 16,690 tonnes gutted weight, compared to 8,355 tonnes gutted weight in 2018.

FINANCIAL PERFORMANCE

The contract prices in 2019 have not increased at the same rate as the spot prices, but the contract prices were on a higher level than in 2018. The VAP segment's operating revenue amounted to DKK 964.5 million in 2019, compared to DKK 364.8 million in 2018, a increase of 164%.

Operational EBIT in 2019, which is EBIT adjusted for provision for onerous contracts etc., totalled DKK 63.7 million, compared to DKK -22.4 million in 2018. This corresponds to an operational EBIT of DKK 3.82 (NOK 5.04) per kg gutted weight, compared to DKK -2.68 (NOK -3.46) per kg gutted weight in 2018.

The VAP segment had no onerous contracts at the end of 2019, and therefore a change in provision amounting to DKK 0.0 million was made, compared to a change of DKK 0.0 million in 2018.

Fig. 24

TOTAL REVENUE (DKK 1,000)

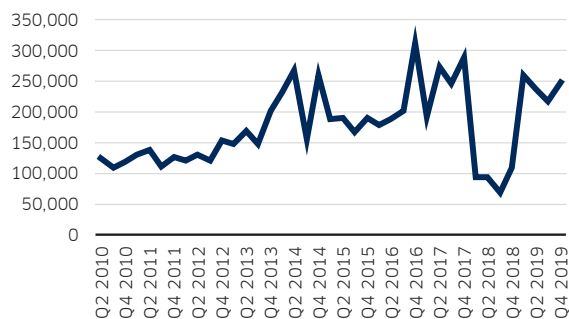


Fig. 25

OPERATIONEL EBIT/KG (DKK)

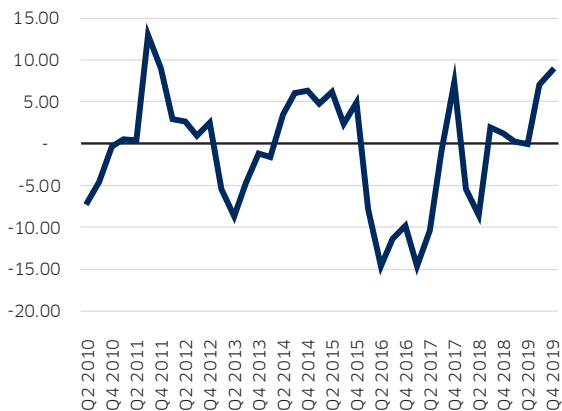


Fig. 26

VAP VOLUME (TGW)

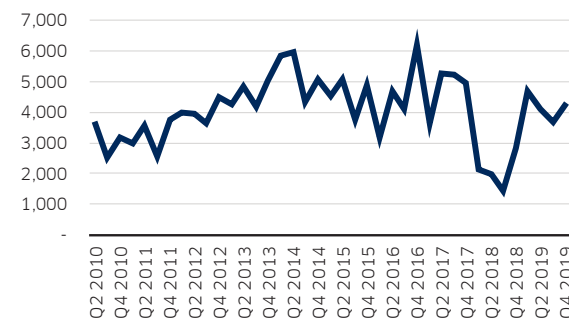


Fig. 27

PRODUCT WEIGHT OF VAP (TGW)

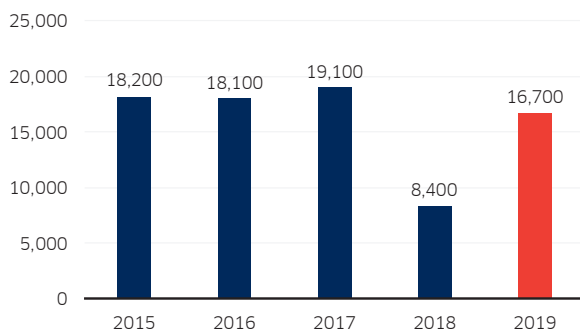
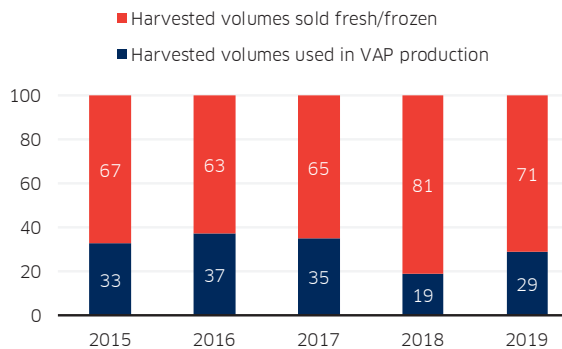


Fig. 28

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 Bakkafrost. Fishmeal, fish oil and fish feed are also sold externally.

DKK 1,000	2019	2018	Change
Total revenue	1,388,461	1,268,564	9%
EBIT	257,870	233,981	10%
EBITDA	275,796	254,281	8%
FOF - EBITDA margin	19.9%	20.0%	-1%
Sold feed tonnes	97,408	77,775	25%

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 2019, Havsbrún sourced 278,664 tonnes of raw material, compared to 302,465 tonnes in 2018, which corresponds to a decrease of 8%. The raw material intake depends on the fishery in the North Atlantic and available species of fish.

The production of fishmeal in 2019 was 60,646 tonnes, compared to 65,141 tonnes in 2018. The production of fish oil in 2019 was 9,633 tonnes, compared to 10,257 tonnes in 2018. The production of fish oil varies, depending on the species of fish for production and the timing of catch.

Havsbrún sold 97,408 tonnes of feed in 2019, compared to 77,775 tonnes in 2018. Bakkafrost used 76,583 tonnes of the sold feed in 2019 internally, corresponding to 79%. The internal use in 2018 was 70,240 tonnes, corresponding to 90%.

FINANCIAL PERFORMANCE

Total revenues for Bakkafrost's FOF segment in 2019 amounted to DKK 1,388.5 million, compared to DKK 1,268.6 million in 2018, an increase of 9%.

The external operating revenue for the FOF segment amounted to DKK 607.8 million in 2019, compared to DKK 586.5 million in 2018. The increase in the external revenue from 2018 to 2019 is mainly due to higher external sale of fish feed.

The internal revenue in 2019 amounted to DKK 780.7 million, compared to DKK 682.1 million in 2018. The internal revenue comprises the sales of feed to Bakkafrost's farming activities.

EBITDA was DKK 275.8 million in 2019, compared to DKK 254.3 million in 2018, and the EBITDA margin was 19.9% in 2019, compared to 20.0% in 2018.

Fig. 29

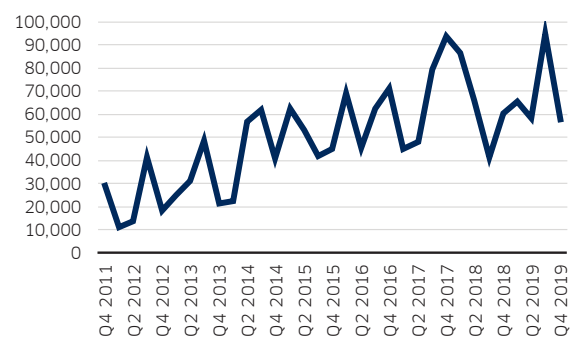
TOTAL EBITDA (DKK 1,000)

Fig. 30

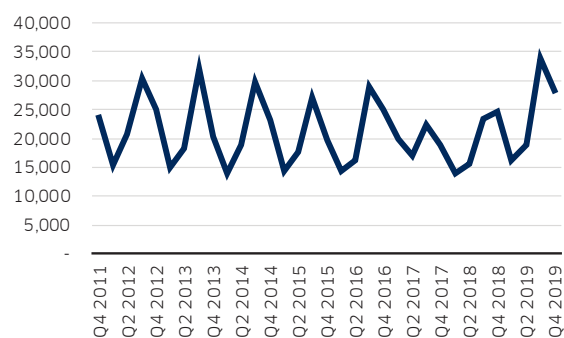
SOLD FEED TONNES

Fig. 31

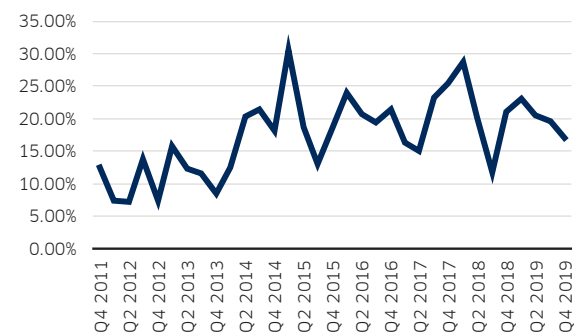
EBITDA MARGIN (%)

Fig. 32

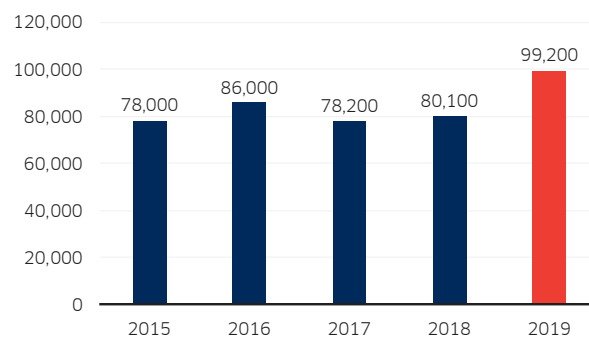
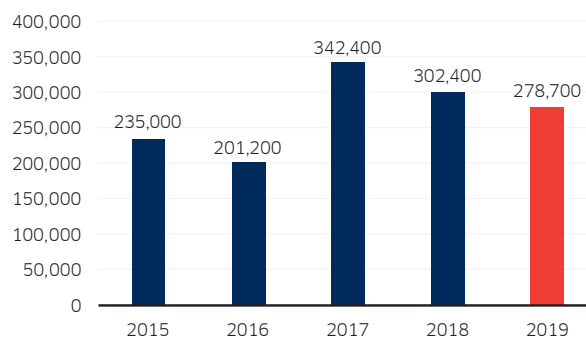
FISH FEED PRODUCTION VOLUMES (TONNES)

Fig. 33

SOURCING OF RAW MATERIAL (TONNES)



Market Review

Bakkafrost is committed to producing; tasty, healthy, sustainable and quality salmon, truly creating value for customers. This ensures a price premium can be achieved which in turn reflects positively in the Group's results.

The Bakkafrost Group plans to further strengthen this position by investing in differentiation and the following USPs (unique selling points).

FAROE ISLANDS ORIGIN

The natural conditions and cold waters in the North Atlantic around the Faroe Islands are perfect for raising salmon. Bakkafrost will further promote this unique provenance as producing exceptional quality salmon.

LIMITED VOLUMES

Salmon from The Faroe Islands is recognized globally as top quality, but as the Faroe Islands only produce about 2.7% of the world's salmon, the salmon from the Faroe Islands is in high demand. Bakkafrost salmon is sought after around the world with accepted premium positioning and is preferred by select customers.

LARGE SALMON

The Faroe Islands aquaculture industry is recognized as producing the largest Atlantic salmon in the world. In 2019, the average weight of Bakkafrost salmon was 5.55 kg (gutted weight). In recent years, a significant price difference has been evident between the different sizes of salmon, this was particularly the case last year. Due to lack of supply, salmon over 6 kg achieved a considerable price premium. With good supply of larger sizes, Bakkafrost was well placed to capitalize on this position. Farming large salmon demands good biology. The longer the salmon is at sea, the more it is exposed to different risks as in any natural environment.

Our aim at Bakkafrost is to produce salmon with an average weight of around 5.3 kg (gutted weight).

SALES AND GEOGRAPHICAL DIVERSIFICATION

The Sales and Marketing Department at Bakkafrost is responsible for the worldwide sales of Bakkafrost Salmon. The Group focusses on direct sales into channels where the quality attributes of Bakkafrost Salmon are recognized and a price premium is achieved. The strategy continues to ensure geographical sales diversification thereby minimizing the risk of market fluctuations.

WORLDWIDE REACH

Fast reliable logistics with global reach is vital for the distribution of fresh perishable produce which is sought after around the world. To maintain the leading position, Bakkafrost works closely with key freight forwarders to ensure effective logistics and first class customer service worldwide, ensuring that Bakkafrost's salmon is always delivered as fresh as possible by freight carriers to major airports and then linking with further passenger airlines to diverse worldwide locations.

This effective logistics network is evident, when looking at Bakkafrost's sales in 2019:

SEGMENTATION

The Bakkafrost brand is particularly strong in USA, where demand for salmon over 6 kg is strong, predominantly in the sushi segment, market share in China is also strong.

The strong sustainability profile of Bakkafrost Salmon is particularly important to clients in the premium sushi segment. Bakkafrost does not use any antibiotics and uses only non-GMO ingredients in feed.

Fig. 34



VAP

Bakkafrost holds a leading position in frozen salmon portions, the main markets are leading European and US retailers. Bakkafrost adds value to VAP production by producing the highest quality product and being recognized as a reliable and responsible supplier.

The diversification of the Bakkafrost product mix brings additional benefits for the Group; it ensures increased revenue stability with 6 and 12 months contracts being negotiated and offers an outlet for whole fresh fish in adverse market conditions.

FEED

Feed is recognized as one of the most important aspects in salmon production with regard to the quality of salmon and cost.

Vertical integration

Bakkafrost is one of the most vertically integrated salmon farming companies in the world and uniquely produces its own fishmeal and fish oil. This ensures that Bakkafrost has full control and responsibility over all aspects of production and gives clients unparalleled traceability.

Feed rich in marine content

Vertical integration means that Bakkafrost has the expertise to decide to invest in salmon feed with substantially higher marine content. The natural diet for wild salmon is rich in marine resource. By keeping the Bakkafrost diet close to this, the Group is able to have one of the industry's best Feed Conversion Ratios (FCR) which is a key indicator of fish welfare and low production costs.

The diet rich in marine content is the most important factor for the quality of Bakkafrost Salmon, the marine content ensures the optimum fat content, rich in healthy Omega 3 fatty acids DHA and EPA. The natural diet also ensures enjoyment in the exceptional taste of Bakkafrost Salmon.

ASC

Bakkafrost is committed to sustainability and care for the environment in which it operates, this is fundamental for discerning customers. Bakkafrost was one of the first companies to achieve ASC certification, which underpins the Bakkafrost commitment, and is rigorously pursuing ASC certification across all sites by 2021.

SEAFOOD CONSUMPTION

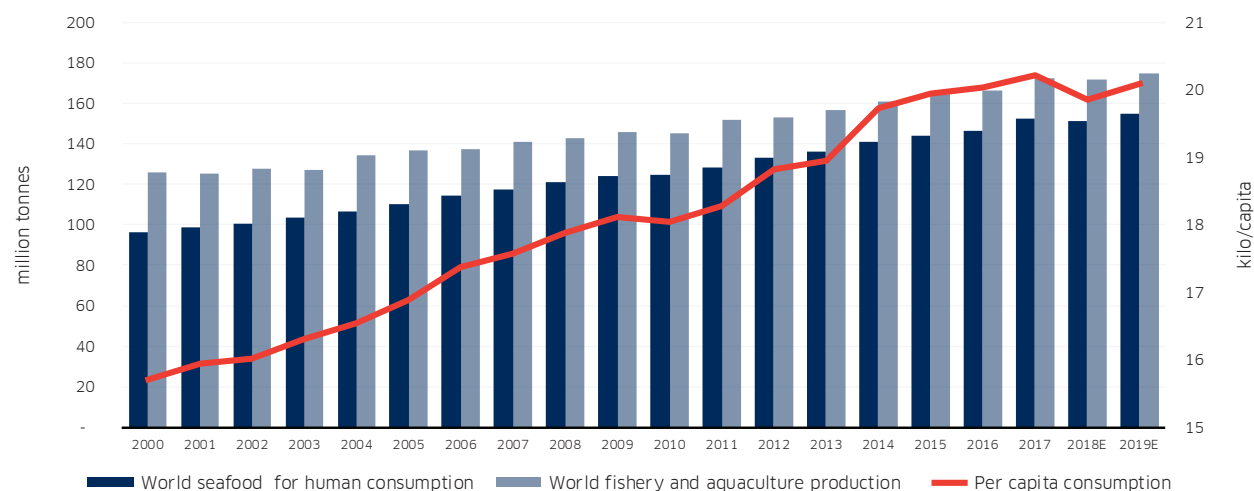
Capture fisheries and aquaculture is estimated to about 173 million tonnes of fish in 2017, of which about 153 million tonnes were utilized as food. This corresponds to seafood consumption per capita of 20 kg (live weight equivalent).

Overall, global capture fisheries production continues to remain stable 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 remains stable. Consequently, aquaculture has covered the increasing demand for seafood. This trend is most likely to continue also in the upcoming years.

Fig. 35

WORLD SEAFOOD PRODUCTION FOR HUMAN CONSUMPTION AND CONSUMPTION PER CAPITA



MAIN MARKETS FOR SALMON AND CONSUMPTION TRENDS

In 2019, worldwide supply of farmed Atlantic salmon increased by 6% and exceeded 2.5 million tonnes wfe. The supply volume corresponds to a per capita consumption of approx. 300 grams wfe or approx. 150 grams of edible product, which is about one meal per capita per year.

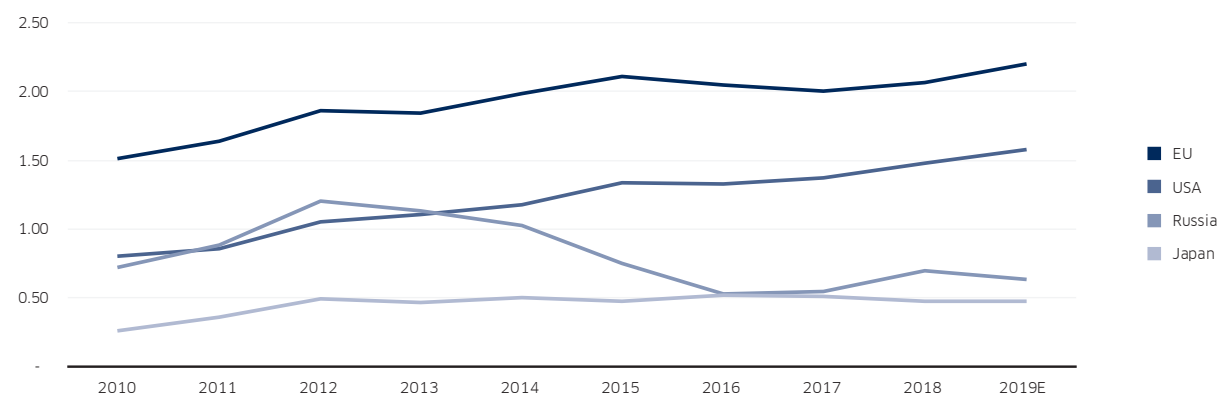
The world's largest consumer market of Atlantic salmon, however, is the European Union (EU-28), where 1.1 million tonnes wfe were consumed in 2019 (+6%). With a population of approx. 512 million, this corresponds to a per capita consumption of 2.2 kg wfe per year – equal to approx. 7-8 meals per capita per year on average.

Supply increase was most notable from Europe in 2019 (+9%). This is a result of supply growth from Norway (+6%) and strong performance and growth from other European producing regions (+24%). A slight supply growth was observed from Chile (+2%), while Canadian salmon lost market shares as supply fell by 2% from 2018.

European spot prices for Atlantic salmon in 2019 ended below 60 NOK per kg on average – somewhat lower than 2018. Particularly higher supply in second half (July-September) on the European market led to downwards price pressure. As normal, spot prices increased again towards Christmas.

Fig. 36

PER CAPITA CONSUMPTION OF ATLANTIC SALMON (KG/CAPITA)



THE US MARKET

In 2019, the US market for farmed Atlantic salmon grew by 37 200 tonnes wfe – to a total supply of 519 700 tonnes. With a population of 329 million, this corresponds to a per capita consumption of approx. 1.6 kg wfe per year – indicating 5-6 meals per capita per year.

Increase in supply from Chile (+6%) was the main driver behind the volume growth, but also increased supply from Europe was notable (+17%). Both Faroe Islands and United Kingdom increased supply by approx. 5 000 tonnes in 2019, compared to the previous year. Supply from Canada was stable around 90 000 tonnes wfe.

During the past decade (since 2010) the US market for Atlantic salmon has increased by almost 270 000 tonnes wfe. While the US industry (both HORECA and retail segment) is partly build-up around the frozen category, there is a clear increasing trend towards the fresh category. Also, compared to the EU market there is larger difference in segments and type of retailers.

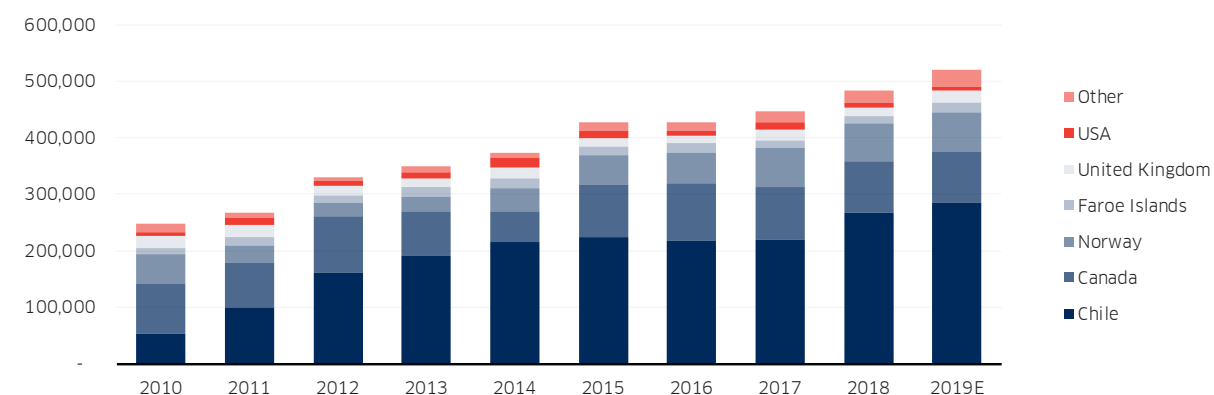
Fig. 37

SUPPLY OF ATLANTIC SALMON TO THE US MARKET (TONNES WFE)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E
Chile	53,200	99,100	162,200	191,600	214,700	224,100	217,300	220,400	267,200	284,300
Canada	87,600	80,400	98,200	77,400	55,000	92,900	100,900	92,100	90,500	91,600
Norway	53,800	28,700	23,700	27,000	39,900	51,200	55,700	68,400	67,300	68,300
Faroe Islands	10,000	16,600	13,100	16,400	17,100	14,700	16,900	14,800	12,800	18,200
United Kingdom	20,600	21,500	17,700	16,100	20,400	16,300	12,700	18,000	16,100	20,300
USA	6,900	13,200	9,400	10,100	16,200	13,800	7,700	13,100	7,300	7,800
Other	15,600	7,100	5,700	11,400	10,600	14,600	16,300	19,600	21,300	29,200
Total	247,700	266,600	330,000	350,000	373,900	427,600	427,500	446,400	482,500	519,700

Fig. 38

SUPPLY OF ATLANTIC SALMON TO THE US MARKET (TONNES WFE)



Source: Kontali

THE EU MARKET

In 2019, the EU market for farmed Atlantic salmon increased by 67 400 tonnes wfe or 6% – to a total supply of 1.12 million tonnes wfe. With a combined population of 512 million, this corresponds to a per capita consumption of 2.2 kg wfe per year – indicating 7-8 meals per capita per year.

Germany, France and the United Kingdom are the largest salmon consuming markets within the European Union accounting for approx. 50% of the total consumption.

Norwegian supply to the union increased by 33 700 tonnes wfe or by 4% in 2019. There was also a notable increase from the Faroe Islands (+47%) and United Kingdom (+24%) last year, while supply from Chile was somewhat lower volumes.

During the past decade (since 2010) the EU market for Atlantic salmon has increase by more than 365 000 tonnes wfe.

EU has a large secondary processing industry which uses fresh whole salmon as raw material. The largest product category is fresh fillets followed by smoked salmon and other value-added products. Around 70% of Atlantic salmon supply was sold through retail chains, while the remainder went to food service industry (Hotels, restaurants, catering).

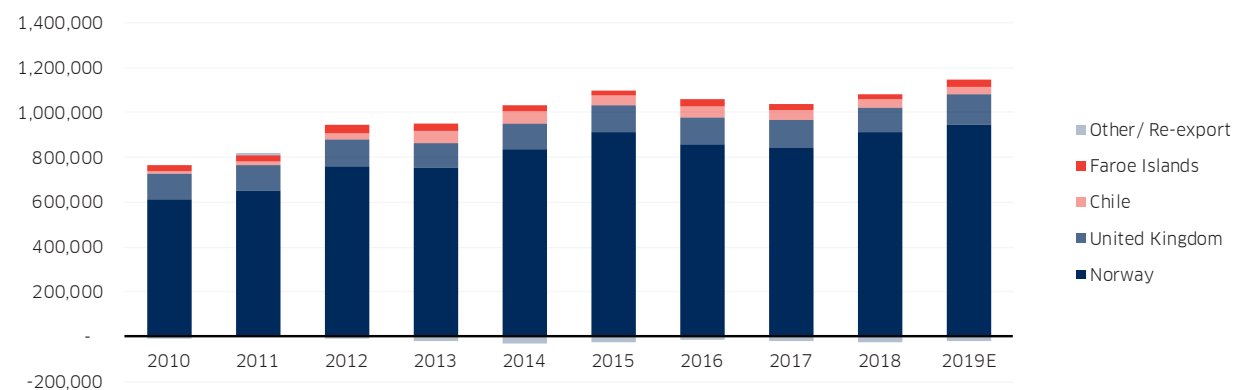
Fig. 39

SUPPLY OF ATLANTIC SALMON TO THE EU MARKET (TONNES WFE)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E
Norway	615,300	648,400	761,900	755,500	834,600	912,200	860,200	841,400	910,800	944,500
United Kingdom	112,800	117,500	117,000	110,300	117,800	121,100	115,400	124,900	109,500	135,400
Chile	10,600	17,200	27,000	50,200	50,500	44,900	53,900	42,500	40,700	36,200
Faroe Islands	25,400	28,700	36,800	34,300	32,300	20,400	28,400	27,800	20,600	30,200
Other/ Re-export	-6,600	8,700	-9,500	-19,100	-30,100	-27,700	-16,800	-17,100	-24,300	-21,600
Total	757,500	820,500	933,200	931,200	1,005,100	1,070,900	1,041,100	1,019,500	1,057,300	1,124,700

Fig. 40

SUPPLY OF ATLANTIC SALMON TO THE EU MARKET (TONNES WFE)



Source: Kontali

CHINA / HONG KONG

Supply of Atlantic salmon to China and Hong Kong have seen significant growth over the past decade. In 2019, supply continued to increase by 12% and exceeded 125 000 tonnes wfe.

The growth was most notable from Norway and the Faroe Islands last year. In fact, 2019 showed record high supply volumes from both these regions. 96% of this volume was fresh whole salmon.

Chile remained the largest supplier to China with export of 45 000 tonnes wfe of Atlantic salmon – of which 60% fresh whole and 40% frozen whole salmon.

Supply to China is mainly fresh whole salmon and large sizes (6+ kg). Increase in supply last year must be seen in relation to better availability of large sized salmon in Europe.

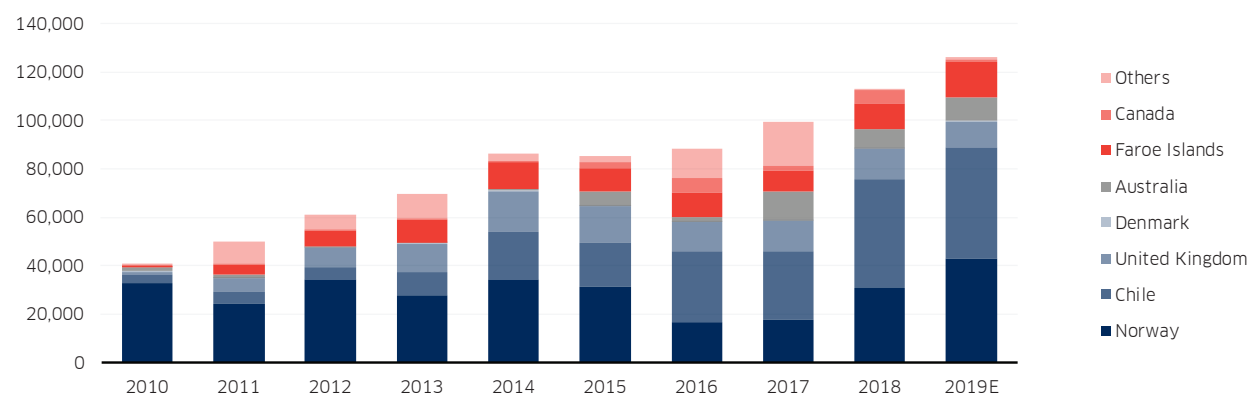
Fig. 41

SUPPLY OF ATLANTIC SALMON TO CHINA AND HONG KONG (TONNES WFE)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E
Norway	32,970	24,260	34,450	27,770	34,140	31,110	16,480	17,860	30,920	42,990
Chile	3,380	5,180	4,920	9,630	19,960	18,270	29,280	27,790	44,770	45,540
United Kingdom	770	5,400	8,020	11,540	16,430	14,920	12,250	12,660	12,710	10,900
Denmark	720	110	100	310	350	130	80	340	10	250
Australia	1,550	1,500	290	150	940	6,420	1,670	11,800	8,000	9,650
Faroe Islands	160	3,710	6,800	9,640	11,050	9,520	10,410	8,730	10,700	14,970
Canada	550	690	580	320	280	2,430	5,790	2,120	5,300	870
Others	620	9,040	6,000	10,070	3,200	2,510	12,090	18,240	610	1,130
Total	40,720	49,890	61,160	69,430	86,350	85,310	88,050	99,540	113,020	126,300

Fig. 42

SUPPLY OF ATLANTIC SALMON TO CHINA AND HONG KONG (TONNES WFE)



Source: Kontali

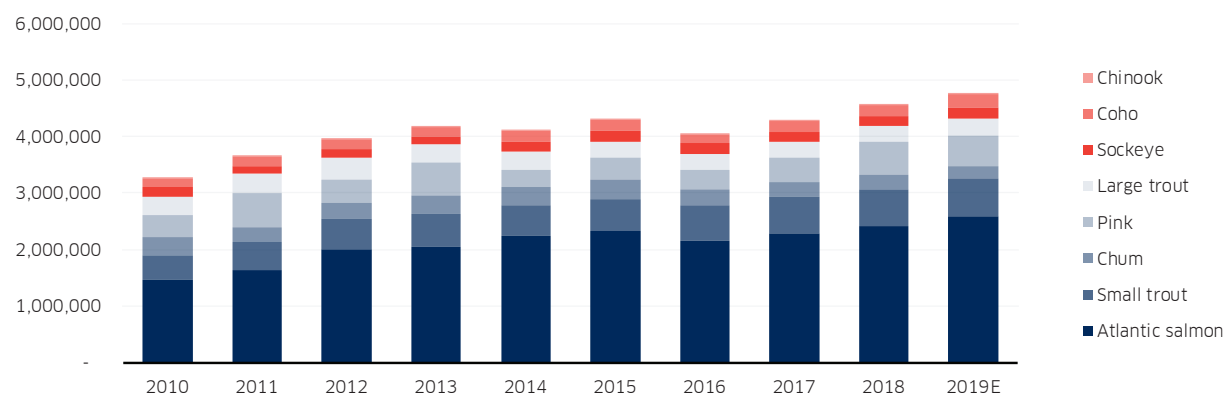
Fig. 43

HISTORICAL SUPPLY OF ALL SALMONIDS (TONNES WFE)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E
Atlantic salmon	1,455,302	1,633,400	1,998,550	2,041,250	2,229,300	2,319,100	2,161,950	2,290,500	2,405,100	2,581,200
Small trout	446,600	490,600	534,100	577,500	555,700	573,400	612,700	630,800	648,300	666,300
Chum	309,300	274,600	294,700	338,300	321,900	338,100	280,900	261,100	268,600	225,400
Pink	399,100	587,500	410,300	580,600	307,900	398,900	354,300	448,400	591,300	547,300
Large trout	326,600	344,500	385,700	320,800	307,000	280,500	279,100	262,400	267,200	303,100
Sockeye	167,600	148,800	142,300	133,200	173,700	190,300	183,000	173,700	167,900	178,700
Coho	160,700	174,400	191,000	176,800	200,400	189,900	151,800	194,900	211,100	234,100
Chinook	19,700	22,000	18,800	21,500	22,300	23,900	22,200	22,900	23,300	26,000
Total	3,284,902	3,675,800	3,975,450	4,189,950	4,118,200	4,314,100	4,045,950	4,284,700	4,582,800	4,762,100

Fig. 44

GLOBAL SUPPLY OF ALL FARMED AND WILD SALMONIDS (TONNES WFE)



GLOBAL HARVEST OF FARMED ATLANTIC SALMON

Norway is the largest producing country of Atlantic salmon and account for 52% of the global production in 2019. Despite increasing smolt stocking, harvest growth in Norway has been limited since 2012 due to lower yields driven by a decrease in average harvest weights. This is particularly linked to sealice regulation and treatment to combat lice and capacity constraints.

The second largest producing country of Atlantic salmon, Chile, accounted for 27% of the global production in 2019. Since ISA-crisis in 2008-2009, Chile has experienced recovery biology-wise and seen improved productivity year after year. Key production parameters showed good results also in 2019.

Production in North America (Canada) and Australia was stable last year, while both United Kingdom (Scotland) and the Faroe Islands saw vast increased production - following a year with biological challenges and sealice related issues. Investments and efforts on Iceland are showing results and production around 24 000 in 2019.

Other regions with conventional farming include Ireland, Russia with marginal production below 20 000 tonnes WFE. Also, land-based RAS plants (global) harvested approx. 6 000 tonnes wfe in 2019.

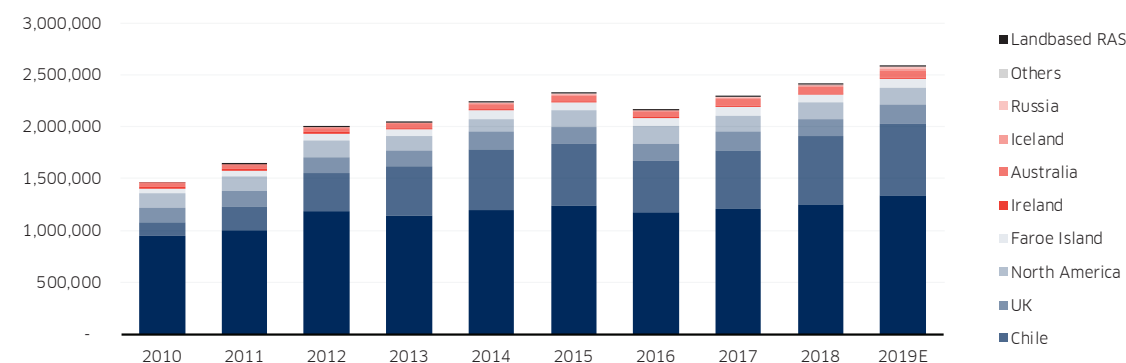
Fig. 45

GLOBAL HARVEST OF ATLANTIC SALMON (TONNES WFE)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E
Norway	944,600	1,005,600	1,183,100	1,143,600	1,199,000	1,234,200	1,171,100	1,207,800	1,253,400	1,333,400
Chile	129,600	221,000	364,000	468,100	582,900	598,200	504,400	564,200	660,100	690,200
UK	142,900	154,700	159,400	157,800	170,500	166,300	157,400	177,200	153,600	183,600
North America	140,000	137,800	156,100	135,400	119,000	155,400	168,500	158,700	165,400	164,000
Faroe Island	41,800	56,300	70,300	72,600	82,700	75,600	77,300	80,300	71,700	86,600
Ireland	17,800	16,000	15,600	10,600	12,300	15,700	15,800	17,000	14,300	17,100
Australia	33,000	36,000	40,000	39,000	42,000	54,400	50,900	61,200	62,600	62,600
Iceland	1,200	1,200	3,250	3,350	4,400	3,600	8,100	11,500	13,600	24,000
Russia	3,500	4,000	6,000	10,000	14,500	13,600	5,000	8,600	5,400	14,500
Others	802	700	300	300	300	300	450	500	500	500
Landbased RAS	-	100	100	300	1,800	1,800	2,900	3,400	4,500	6,400
*Total	1,455,202	1,633,400	1,998,150	2,041,050	2,229,400	2,319,100	2,161,850	2,290,400	2,405,100	2,582,900

Fig. 46

GLOBAL HARVEST OF ATLANTIC SALMON (TONNES WFE)



Source: Kontali

SUPPLY OF FARMED ATLANTIC SALMON FROM THE FAROE ISLANDS

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

However, in late 2017 the industry was faced with health issues like gill disease but also by higher levels of sealice. The losses rose significantly in the last months of 2017 and contributed to lower production in 2018. Last year, 2019, recovery came as expected and supply was record strong of 86 900 tonnes wfe (+21%).

With continued Russian import embargo for Norwegian salmon - the Faroe Islands have remained the largest salmon supplier of fresh whole salmon to Russia, with exports of 15 - 25 000 tonnes WFE annually since the import ban was implemented in 2014.

Another factor which allows the Faroe Islands to have good market diversification is a high share of production being large sized salmon. Top 3 markets are Russia, USA and China (3 continents) and so far in 2019 (Jan-Nov) accounted for 20% share of supply each. European market accounted for approx. 35%.

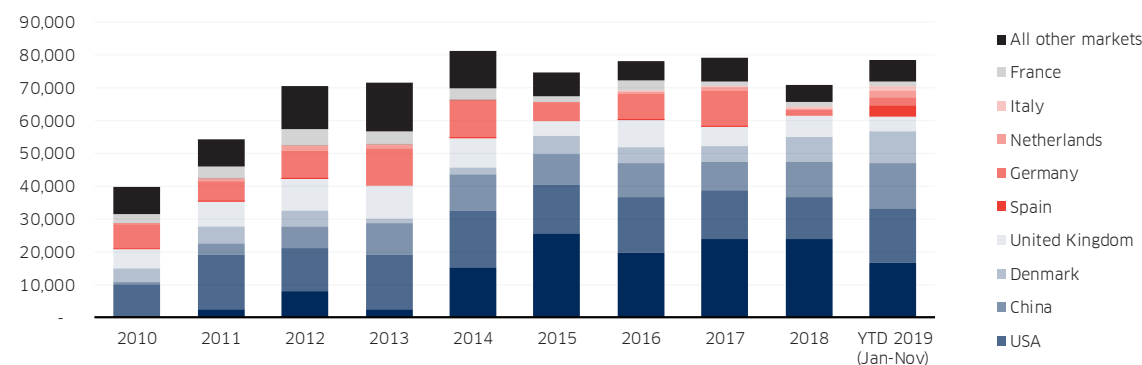
Fig. 47

SUPPLY OF ATLANTIC SALMON FROM THE FAROE ISLANDS (TONNES WFE)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD 2019 (Jan-Nov)
Russia	208	2,373	7,997	2,613	15,465	25,660	19,798	24,096	23,812	16,758
USA	9,994	16,579	13,085	16,394	17,105	14,671	16,908	14,820	12,829	16,641
China	465	3,648	6,738	9,603	10,945	9,505	10,305	8,556	10,615	13,616
Denmark	4,385	5,195	4,806	1,447	2,122	5,489	5,010	4,920	7,654	9,879
United Kingdom	5,940	7,631	9,466	10,199	9,050	4,633	8,024	5,621	6,538	4,418
Spain	36	3	33	0	0	-	19	92	306	3,348
Germany	7,251	6,265	8,637	11,439	11,256	5,404	8,156	10,916	1,421	2,427
Netherlands	283	637	1,466	906	176	138	651	1,056	460	1,955
Italy	177	43	25	75	0	253	363	404	599	1,484
France	2,682	3,636	5,304	3,938	3,663	1,740	3,061	1,557	1,375	1,274
All other markets	8,349	8,158	13,056	15,071	11,557	7,266	5,780	7,273	5,183	6,763

Fig. 48

SUPPLY OF ATLANTIC SALMON FROM THE FAROE ISLANDS TO DIFFERENT MARKETS (TONNES WFE) (ILLUSTRATES THE MARKET DIVERSIFICATION)



Source: Kontali

CHANGE IN MARKET SUPPLY AND MARKET PRICES

Supply volume in January 2019 was record strong, and for the first time in history exceeded 200 000 tonnes wfe. Despite 5% better availability or volume growth, market prices were strong with spot prices averaging around 60 NOK per kilo. This was an early indicator of a strong underlying market (demand) for Atlantic salmon, particularly in Europe.

In Europe, a warm winter period allowed for good growth towards Easter. April supply volumes showed 11% growth. Market demand remained strong and allowed for prices in NOK 70-ties.

In May, salmon farmers in Northern Norway suffered heavy losses (9.6 million fish) due to an algae bloom. Majority of losses would lead lower harvest potential in Q4 and into 2020. Lost potential could have corresponded to approx. 46 000 tonnes wfe.

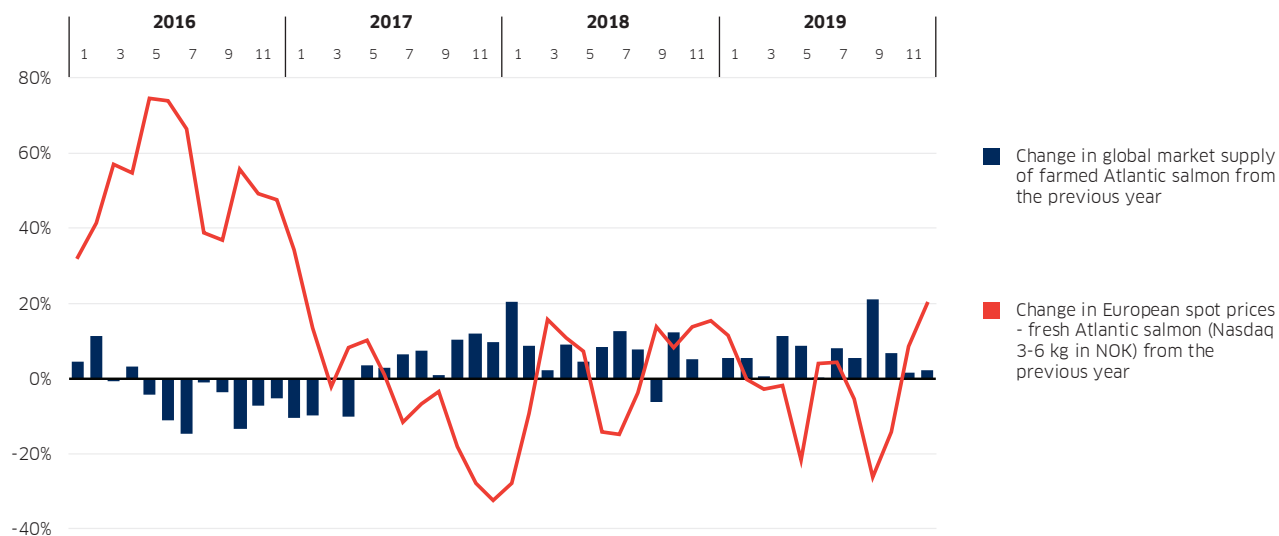
Global supply in the first half of 2019 ended with a growth rate of 5%. At the same time production in Europe continued to show good growth and facilitated volume growth potential for the second half.

Most of the volume growth took place in Q3 (+11%) where September showed a global supply increase above 20%. In Norway, particularly sealice related issues and fish health challenges were contributing factors to high harvest pace this month. Also, Scotland and the Faroe Islands had high harvest activity - with significant growth compared to 2018. The industry and market were surprised by strong increase in availability. Furthermore, with European processing industry on holiday and global demand on seasonal low market prices fell to the low NOK 40-ties.

In the last quarter of 2019, global supply rate was somewhat lower (+3-4%) and in November and December Euro-

Fig. 49

SUPPLY AND MARKET PRICES



Source: Kontali

pean spot prices picked up towards Christmas with more limited volume available. From week 40 to week 52 average spot price increased by almost 100% - from just above 40 NOK to almost 80 NOK per kilo.

TOP 15 - FARMING COMPANIES (SALMONIDS)

In 2018, the world's fifteen largest salmon farming companies harvested approx. 1.7 million tonnes wfe of salmonids (Atlantic Salmon, Coho Salmon, Chinook, Big Trout), representing 61% of the total harvest quantity. In Norway, these companies made up 63% of the total harvest and 67% in Chile. See table below for more details:

Fig. 50

TOP 15 SALMON FARMING COMPANIES 2018 - HARVEST VOLUME, ALL FARMED SALMONIDS SPECIES (TONNES WFE)

Group	Head-office	Total	Norway	United K,	Chile	North Am,	Faroe Isl,	Ireland	Other
Mowi **	NO	416,900	256,000	42,700	59,100	43,600	8,600	6,900	
Cermaq Group	NO	192,000	63,800		104,000	24,200			
New AquaChile / Agrosuper ***	CL	188,000			188,000				
Lerøy Seafood Group ****	NO	180,000	180,000						
Salmar ****	NO	158,300	158,300						
Cooke Aquaculture	CA	115,500		24,000	20,000	71,500			
Grieg Seafood	NO	82,900	51,200	13,200		18,500			
Multiexport Foods	CL	81,800			81,800				
Australis Seafood	CL	58,800			58,800				
Blumar	CL	55,500			55,500				
Bakkafrost	FO	49,500					49,500		
Salmones Camanchaca	CL	48,500			48,500				
Nordlaks	NO	44,600	44,600						
Nova Sea **	NO	42,100	42,100						
Norway Royal Salmon	NO	40,000	40,000						
Top 15		1,754,400	836,000	79,900	615,700	157,800	58,100	6,900	-
Farmed Salmonids		2,880,400	1,317,400	157,800	912,900	169,850	71,700	15,000	235,750
Share		61%	63%	51%	67%	93%	81%	46%	0%

* All farmed salmonids (Atlantic salmon, Large Trout, Coho and Chinook). Figures rounded to nearest 100 tonnes WFE (round bled weight)

**Mowi has 48% ownership in Nova Sea. Acquired Northern Harvest in 2018.

***Aqua Chile, Salmones Magellanes, Los Fiordos and Friosur merged in 2018

**** Scottish Sea Farms not included. Owned 50/50 by Lerøy Seafood and Salmar

Source: Kontali

BUSINESS REVIEW – FISH FEED

Feed consumption to ocean-farmed salmonids saw double digit growth in both 2011 and 2012, and in 2012 consumption exceeded 3.7 million tonnes of fish feed. While harvest volume growth has been limited since then, fish feed consumption has increased and exceeded 4 million tonnes in 2017. While the biological fcr has been stable, higher biomass losses due to e.g. sealice treatments and other fish health related issues have increased the economic fcr.

In 2018, the global feed consumption increased by 3% to 4.16 million tonnes. Most of the growth was seen in Chile and other regions (increasing large trout production). Fish feed consumption in Norway showed a modest increase last year of 1%.

Last year (2019) global feed market grew by 10% or 400 thousand tonnes. Approx. 60% of this growth was in Norway or 80% if Chile is included.

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

Due to a decrease in Peruvian Anchoveta fisheries in 2019, global fishmeal and fish oil production decreased notably from the peak year in 2018. World fishmeal production is estimated to decrease around 20% to 4.6 million tonnes and fish oil production is estimated to decrease around 25% to 960,000 tonnes. In 2019, around 1.35 million tonnes fishmeal was imported to China, a 5% decrease from the year before but well above the last 10 years average of 1.2 million tonnes. 54% of the volumes were sourced from Peru, while 15% came from other Asiatic suppliers mainly Vietnam and Thailand.

Due to the drop in production, we expect pressure on prices, but different uncertain elements in the Chinese demand like the continued effects of the swine disease and economic uncertainties after the corona virus outbreak might affect the

Chinese fishmeal demand and keep prices firm. Fish oil prices are on rise both in Peru and in Europe and are expected to remain high the coming months.

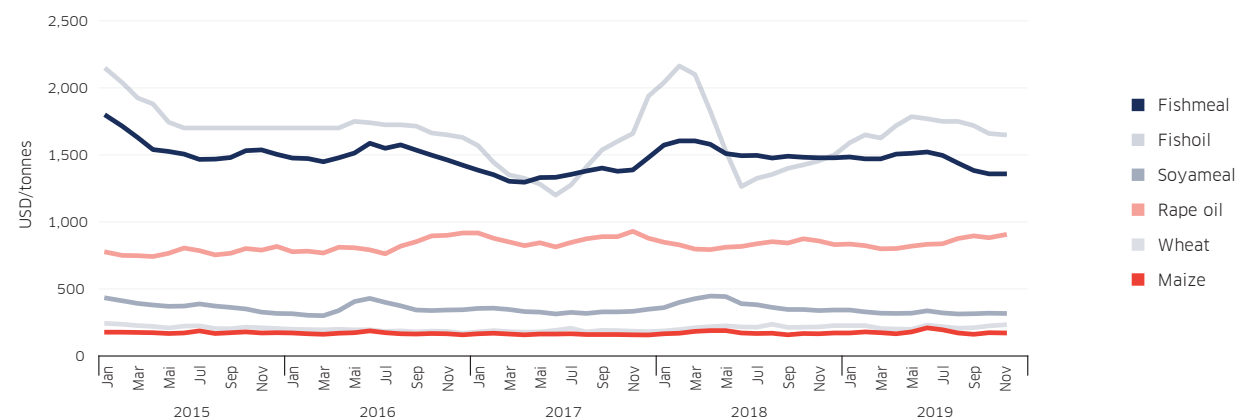
Fig. 51

ESTIMATED FEED CONSUMPTION/SALE TO SALMONIDS FOR SELECTED SALMONID PRODUCING REGIONS (ATLANTIC SALMON, LARGE TROUT, COHO, CHINOOK) (1,000 TONNES)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E
Norway	1,337	1,494	1,652	1,618	1,738	1,743	1,704	1,822	1,837	2,089
Chile	720	1,037	1,254	1,209	1,263	1,239	1,036	1,191	1,269	1,341
UK	216	227	210	223	231	245	244	245	246	272
North America	221	225	235	202	235	258	266	285	290	291
Faroe Islands	61	85	89	96	98	103	107	101	102	111
Others	235	273	290	301	334	353	362	396	427	476
Total	2,790	3,340	3,730	3,650	3,900	3,940	3,720	4,040	4,170	4,580

Fig. 52

RAW MATERIAL PRICES 2011-2018 (USD/TONNES)



Source: Kontali

RISKS



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, and the potential financial impact of these, 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.

RISK MANAGEMENT STRUCTURE AND PROCESS

The Board of Directors has the final responsibility for the risk management of the Group. The Board of Directors determines the framework for identifying and mitigating risks. The Audit Committee supervises the risk management.

The Group Management is responsible for the daily compliance with the risk management framework and the Group's daily risk management. The Group Management assesses the Group's main risks on an ongoing basis, based on weekly or monthly reporting from the organization on business activities, market development, technology etc. The ongoing risk assessment is followed up yearly with an extensive risk analysis for the whole Group. The risks are assessed and quantified and reported to the Group Management. The latest analysis of the Group's risks was in December 2018.

At year-end, status on main risks are reported to the Audit Committee and is approved by both the Audit Committee and the Board of Directors.

OPERATIONAL RISKS

Farming

One of the largest risk factors, Bakkafrøst is exposed to, is the biological risk in the sea water grow-out stage. Examples of such risks are direct threats to the fish such as diseases, sea lice and algae blooms. Although comprehensive measures are put in place to mitigate negative impact arising from exposure to such threats, there is always a variation in key performance indicators such as mortality, growth, yield per smolt, price achievement versus reference prices, feed conversion ratio, costs of mechanical and medicinal treatment and required following time between generations for sites or larger geographic areas. The impact from being exposed to such risks can vary from minor cost variations to a complete wipe-out of the biomass in a vast geographic area. Due to exceptionally good mitigating measures in the Faroe Islands, outcome on key performance indicators has been attractive in recent years. In Scotland, however, the corresponding scores have generally been less attractive and have had a significantly higher volatility.

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.

Mortality

The farming industry in the Faroe Islands has in the last decade experienced a lower mortality rate than the rest of the farming industry. However, in 2017, 2018 and part of 2019,

Bakkafrøst experienced an increase in the mortality rate mainly due to a shift from medical to mechanical lice treatment. In Q4 2019, however, the mortality rate has decreased and is now back to the level prior to 2017. The increase in mortality in 2017, 2018 and part of 2019 demonstrates that changes in farming methods can have a significant impact on the mortality.

Price premium

In recent years, Bakkafrøst and SSC have had a higher price achievement, comparing to reference prices. This price premium is based on, amongst other things, brand, salmon quality and size. This price premium can only be obtained if Bakkafrøst as a Group also in the future will be able to differentiate from the rest of the farming industry. Bakkafrøst Group strives to maintain this position in the market.

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, even if Bakkafrøst is continually working on reducing risks using experience with equipment, location and operational organization. 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 diseases. 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. Examples of diseases being prevalent in the Faroe Islands in recent years are Amoebic gill disease (AGD), Bacterial kidney disease (BKD), Infectious salmon anemia (ISA), Cardiomyopathy syndrome (CMS) and Heart and skeletal muscle inflammation (HSMI). Corresponding diseases prevalent in Scotland are in addition to the above Pancreas disease (PD) as an example.

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. Bakkafrøst uses both freshwater bath on-board a live fish carrier, and lukewarm seawater treatment in two farming service vessels as sea lice treatment. Additionally, Bakkafrøst strives to improve delousing methods continuously.

Escapes

Bakkafrøst has a zero tolerance for escape of farmed salmon. The company operates, however a large number of sea water sites, each of which are exposed to risks linked to bad weather, handling of fish, changing of nets, operations of workboats and well boats, predators etc. Escapes normally occur as a result of equipment failure or mistakes made by the personnel. The direct financial exposure to escapes is moderate

due to the geographic diversification of the sites. The indirect effects such as spread of diseases, negative impact on wild salmon, governmental penalties and negative publicity are hard to quantify for the accounts of Bakkafrøst and for the society as a whole. Procedures, quality assurance systems and new technological solutions are important elements to mitigate the risk of escapes.

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.

Cyber security

With the increased use of technologies such as the internet to conduct business, the Group, service providers to the Group and Oslo Børs are susceptible to operational, information security and related "cyber" risks both directly and indirectly, which could result in material adverse consequences for the Group and the shareholders, such as causing disruptions and impacting business operations, potentially resulting in financial losses. Unlike many other types of risks faced by the Group, these risks are typically not covered by any insurance. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber incidents include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption.

Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). In recent periods, examples have shown that large industrial groups can be subject to complete shutdowns as a result of cyber-attacks. For Bakkafrøst, such an incident would require personnel to apply manual back-up systems to the extent possible. The most exposed area of the Company's value chain in case of cyber-attacks is processing and sales. For shorter periods of time, harvestable fish can be held in sea water sites pending a solution to such negative event, which would imply a delay in profits and cash flows.

Fishmeal, fish oil and fish feed

The production of fishmeal, fish oil and fish feed follow established methods with automated and controlled processes. As self-sufficient operator of fish meal, fish oil and fish feed, Bakkafrøst is exposed to certain risks which may require purchase of fish feed from a third party. For example, Bakkafrøst is vulnerable to food safety incidents, downtime and possible insufficient supply of raw material input. Unexpected shortfalls in raw material due to limited catch volumes or limited delivery or purchase of fish or supply of substitutes, could affect the volumes produced in the factory. This may result in incidents or necessary measures that may have significant cost implications. Bakkafrøst is continually working on reducing risks. The Company's fishmeal, fish oil and fish feed department at Havsbrún's facilities is 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 any salmon farmer being a net buyer of fish feed is also indirectly exposed to the same risk factors, this risk is normally mitigated contractually through replacement obligations from third party.



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.

The Company'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 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, and since early 2018, the antioxidant, Ethoxyquin, has been replaced with natural antioxidant.

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.

Regulatory

Regulatory impositions due to environmental or animal welfare concerns, may materially impact the Company's operations and financial condition. The Company emphasizes organizing its operations so that the risk for unexpected measures is reduced, but there will always be a latent risk that the regulatory authorities will impose restrictions and/or sudden changes in the industry framework.

Salmon farming is regulated by licenses. The Group has good dialogue with the Faroese and Scottish authorities regarding the prerequisites and restrictions that are connected to a farming license.

In Scotland, all licenses and consents, policies and regulations are overseen by the Scottish Environment Protection Agency (SEPA).

The Faroese authorities may withdraw licenses for fish farming operations if substantial preconditions have been changed since the license was issued, or if the license goes against overall development plans and protective measures, or if the licensee breaches the conditions set in connection with the issuance of the license. The license may also be withdrawn if the company breaches the rule on maximum ownership of licenses, or if the company does not use the license. The license may also be withdrawn, if the environmental license of the company is repealed.

In the Faroese Islands, a salmon farming license is issued for a period of 12 years from the date of issue. The Faroese government may prolong the license period. If the company fulfils the conditions in the license and if a continuation of the activities is not contrary to overall development plans, which have been adopted, it must be assumed (but there can

be no assurance) that the company has a legal claim to have the license period prolonged.

Under the Act on Environmental Protection and under existing practice, the relevant environmental authorities may demand a reduction in the stocking of fry, compared to the last stocking, in case examinations of the seabed or other environmental studies show that pollution of the environment exceeds certain specified limits. The Faroese environment has become the subject of increasing attention and publicity in relation to aquafarming, and therefore it can be expected that the rules on this area may become stricter or that existing practice will become stricter.

IT

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

MARKET RISKS

Price on farmed salmon

The Company'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.

Price on fishmeal and fish oil

Bakkafróst'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 there-

fore 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 Bakkafróst's value chain and thus reducing this risk.

FINANCIAL RISKS

Bakkafróst 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

Bakkafróst trades in the world market for farmed salmonids.

The revenues and accounts receivables are predominantly denominated in DKK, EUR, USD and GBP, but to some small extent also in other foreign currencies. On the other hand, purchases of raw materials etc. are predominantly denominated in DKK, which has a relatively stable rate compared to EUR. Therefore, Bakkafrøst has some natural hedging. For those currencies not fully hedged, fluctuations in foreign exchange rates present a financial risk to Bakkafrøst. The Company's financing is bank financing and is in DKK, EUR and GBP, but Bakkafrøst has the possibility to finance in other currencies. In connection with some material investments, Bakkafrøst is in some degree exposed to NOK, GBP, USD and EUR. SSCs main transaction currency is GBP, which is also the main currency for the majority of contracted revenues. Traded and export sales can be denominated in other currencies, the most significant of which is EUR. SSC uses forward currency contracts to manage its exposure to currency fluctuations arising from these transactions. The SSC is financed exclusively in GBP. As exports continue to become an increasingly significant source of revenue for the Group, the Board will continue to adapt its currency hedging strategy.

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.

Liquidity risk

Liquidity risk is the risk that Bakkafrøst will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by maintaining a flexible financial structure, which

is secured by means of established borrowing facilities. Bakkafrøst's objective is to have sufficient cash, cash equivalents or medium-term credit facilities to meet its borrowing requirement in the short term. Unused credit facilities and terms are described in Note 4.1.

Capital structure and equity

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

GOVERNANCE



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 17 October 2018 by the Norwegian Corporate Governance Board (the "Code of Practice"). The recommendation may be found at www.nves.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 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 2019, 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 sixteen meetings in 2019. Below under each Director's profile is disclosed each Director's participation in the Board meetings held during 2019.

The members of the Board of Directors receive a fixed remuneration, which is approved by the general meeting. The

members of the Board of Directors are not part of Bakkafrost's share savings plan for employees.

Audit Committee

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

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

The company's audit committee met five times during 2019 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 Hogni D. Jakobsen and managing director of Havsbrún and CEO in SSC, 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.

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 continue to be integrated into these in 2020, through the Healthy Living Plan.

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 behaviour 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 is 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.

In 2018, Bakkafrost strengthened its commitment in this area by signing up to the ten principles of the UN Global Compact to pledge to protect human rights; respect the freedom of association and the right to collective bargaining; and to have a workforce free from forced/compulsory/child labour, and discrimination. The company communicates its progress against these principles annually in the Healthy Living Sustainability Report.

Human capital

Bakkafrost employs 1,553 employees in the Faroe Islands, UK, Scotland and USA. 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. The 2023 Healthy Living Plan will outline areas

in which the company will increase focus, to strengthen its human capital.

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, 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 high fish survival rates, to maintain an industry-leading approach to animal 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 meeting a third-party environmental standard, reducing the impact from packaging on the environment, and reducing its GHG emissions.

Collaboration and certification

As well as collaborating with the salmon industry through the Faroese Aquaculture 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 in the Faroe Islands – feed production, broodstock, hatcheries, farming sites, and harvesting and processing plant – is certified according to the international GLOBAL G.A.P. standard, which focuses on food safety throughout the production, fish welfare, health and safety, and environmental management. Our value chain also has the Ohne Gentechnik Non-GMO add on.

The operation in Scotland is accredited according to BAP (3-star) and BRC for the processing plants and the smokehouse.

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 fishmeal, oil and feed production at Havsbrún, hold multiple certifications; all units are certified to ISO9001:2015, and the

fishmeal and fish oil division is certified according to the GMP+ standards, the IFFO RS certification and the MSC Chain of Custody standard. Our salmon meal and oil also have GMP+.

Bakkafrøst has made a commitment to have all farming sites in the Faroe Islands ASC certified.

Responsible leadership and value generation

The considerable value generated by Bakkafrøst to 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 2019 performance against them, can be found in Bakkafrøst's 2019 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 subsidiaries

- Havsbrún Norge ASA is Bruli Revisjon AS, Flekkefjord
- Havsbrún Shetland Plc. is A9 Partnership Ltd. Lerwick
- Bakkafrøst UK Ltd is Forrester Boyd Chartered Accountants, Grimsby
- Bakkafrøst USA LLC is EisnerAmper LLC. New Jersey.
- The Scottish Salmon Company Plc is Campell Dallas, Glasgow.

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 decid-

ed to propose to the Annual General Meeting that DKK 8.31 (NOK 11.23*) per share shall be paid out as dividends. This corresponds to DKK 491.5 million (NOK 664.2* 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 800.8 million for 2019. The Board of Directors has decided to propose to the Annual General Meeting that DKK 8.31 (approximately NOK 11.23*) per share shall be paid out as dividends. This corresponds to DKK 491.5 million (NOK 664.2* million).

The Board thereby proposes the following allocation of funds:

- Result for 2019: DKK 800.8 million
- Transferred to other equity: DKK 309.4 million
- Total provision for dividends: DKK 491.5 million

After payment of dividends, the distributable equity totals DKK 7,601.5 million.

SHAREHOLDERS, CAPITAL AND VOTES

P/F Bakkafrøst had, on 31 December 2019, a total of 59,143,000 shares outstanding, each with a nominal value of DKK 1. Of the 59,143,000 shares outstanding, P/F Bakkafrøst holds 892 treasury shares as at 31 December 2019.

Ticker code: BAKKA

LARGEST SHAREHOLDERS

These shareholders held directly or indirectly more than 5% of the shares in the company as at 31 December 2019: 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



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 2020. Is considered to be independent. Executive chairman of the industry holding company Tjaldur.

Education:

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

Board meetings in 2019:

Participated in all 16 Board meetings in 2019.

Number of shares held in Bakkafrost:

Holds 10,761 shares at year-end 2019 – purchased 761 shares in December 2019 during the Subsequent Offer to shareholders to subscribe for shares. Mr. Hansen is member of The UN Global Compact's Platform for Sustainable Ocean Business. He was a member of the World Economic Forum's Agenda Council on the Arctic in the Period 2012-2016. Mr. Hansen has extensive experience in the international oil and gas industry. He was among other member of Equinor's Exploration Executive team. During his time in Equinor (former Statoil) he has been based in London, Copenhagen, Oslo and The Faroe Islands. Prior to Equinor (Statoil) he was in the seafood and shipping industry.



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 2020. Is considered to be independent. Managing Director at P/F Gist & Vist.

Education:

MBA, Lancaster University Management School.

Board meetings in 2019:

Participated in all 16 Board meetings in 2019.

Number of shares held in Bakkafrost:

Holds no shares at year-end 2019 – no change in portfolio in 2019.

Mr. Jensen has extensive experience in seafood and marketing. He had a long career at Faroe Seafood, where he 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 2020. 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 2019:

Participated in all 16 Board meetings in 2019.

Number of shares in Bakkafrost:

Holds 100 shares – no change in portfolio in 2019.

Mr. Samuelsen has an extensive experience from accounting and finance. He has worked at KMPG and Dong E/P in Denmark and has been CFO at Atlantic Petroleum (2005-2009) and Bakkafrost (2009-2014). Mr. Samuelsen is presently a member of the Board of Directors at P/F 6. September and Betri Trygging.



ANNIKA FREDERIKSBERG

Board member

Born 1971. Faroese citizen. Joined the Board in 2008. Term of office expires in 2020. Is not considered to be independent. Sales Manager at Bakkafrost.

Education:

Basic Vocational Course, Commercial Line, Faroese Business School.

Board meetings in 2019:

Participated in 15 Board meetings in 2019.

Number of shares in Bakkafrost:

Holds directly and indirectly 15,810 shares at year-end 2019 – change in portfolio in 2019: +254 shares.

Mrs. Frederiksberg has extensive experience in the salmon industry and sales. She 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 2020. Is considered to be independent.

Education:

Bank Economist.

Board meetings in 2019:

Participated in all 16 Board meetings in 2019.

Number of shares in Bakkafrost:

Holds no shares at year-end 2019 – no change in portfolio in 2019.

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



EINAR WATHNE

Board member

Born 1961. Norwegian citizen. Joined the Board in 2019. Term of office expires in 2020. Is considered to be independent.

Education:

Master in Animal Nutrition at NMBU.
Ph.D. in Aquaculture, NMBU.
MBA, Handelshøyskolen BI.

Board meetings in 2019:

Participated in 14 Board meetings in 2019.

Number of shares in Bakkafrost:

Holds no shares at year-end 2019 – no change in portfolio in 2019.

Mr. Wathne has extensive experience from seafood business and has held positions as CEO in Cargill and EWOS.

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 4,615,963 shares at year-end 2019.

Change in portfolio in 2019: +120,765 shares.

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



HØGNI DAHL JAKOBSEN Chief Financial Officer

Born 1972. Faroese & Swedish citizen. Mr. Jakobsen has been Chief Financial Officer of Bakkafrost since 2019.

Education:

Business Design, Henley Business School.
MSc in Business Administration and Computer Science (cand. merc.dat), Copenhagen Business School.

Number of shares held in Bakkafrost:

Holds 140 shares at year-end 2019.

Change in portfolio in 2019: +140 shares.

Mr. Jakobsen has extensive experience from the management consulting sector. Before joining Bakkafrost, he has held positions as Senior Partner in Quorum Consulting and been Management Consultant at PA Consulting Group.



ODD ELIASSEN Managing Director of Havsbrún Chief Executive Officer in The Scottish Salmon Company Plc

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 183,870 shares at year-end 2019.

Change in portfolio in 2019: +10,804 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. He 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.

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

The Management and the Board of Directors have today considered and approved the Annual and Consolidated Report and Accounts of P/F Bakkafrøst for the financial year 1 January 2019 to 31 December 2019.

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 2019, as well as the results of the Group's and the parent company's activities and cash

flows for the financial year 1 January 2019 to 31 December 2019.

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.

Glyvvar, 10 March 2020

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

Annika Frederiksberg
Board Member

Teitur Samuelsen
Board Member

Einar Wathne
Board Member

Independent Auditor's Report

To the shareholders of P/F Bakkafrost

Opinion

In our opinion, the consolidated annual accounts and the annual accounts give a true and fair view of the assets and liabilities, of the financial position of the Group and the Company as at 31 December 2019, 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 2019 in accordance with International Financial Reporting Standards at 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 2019, 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 at 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 the 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 the auditors consider central to their audit of the annual and consolidated accounts for 2019. 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 at cost

Biomass at marine sites is not accurately ascertainable prior to harvest, and material accounting estimates are applied at the balance sheet date, regarding existence and valuation. Estimates are based on information on number at launch, feeding, sea temperature, exposure to daylight and treatment for lice and other health issues and knowledge about how salmon responds to these factors in terms of growth rate, mortality, feed consumption ratio, and liability to stress and decease. Material inherent risk is related to biomass at sea.

Biomass at Fair Value according to IAS41

Measuring biomass at fair value includes present value calculations based on complex inputs regarding the properties of existing biomass and forecast regarding growth and mortality rates from balance sheet date to harvest, quality distributions as well as market conditions at expected harvest date.

Valuation of licenses and goodwill

The Group has acquired production licenses at significant amounts as part of business combinations where the Group is identified as acquiree according to IFRS 3, and fair values are calculated using generally accepted valuation models, based on unobservable inputs according to level 3 inputs in IFRS13.

Accounting for business combinations

The Group has completed material subsidiary acquisition during the year, which is accounted for according to IFRS 3 Business Combinations. There are material risks related to the PPA, and the values attributed to individually identifiable assets and liabilities, and the measurement of goodwill.

Our response to the matter during our audit

Summary of audit approach

During our audit, we:

- Applied our experience and knowledge about the characteristics of salmon production process when considering the accounting estimates.
- Assured ourselves, that the estimates are based on factual data, and data which can be supported empirically.
- Assured ourselves, that management is applying estimates in a way consistent with knowledge of the production process, and that the estimates are performed consistently and that the estimates are free from bias.
- Assured ourselves of the ability of management to perform these estimates by examining estimates made by management at prior balance sheet dates on a back-end basis.

Summary of audit approach

During our audit, we:

- Reviewed and reconciled the company specific characteristics of inputs into the valuation models
- Reconciled inputs into the calculations model to observable market conditions at the balance sheet date.
- Reviewed the calculation model and ascertained that it was comparable to industry standards.
- On a sample bases reperformed net present value calculations.

Summary of audit approach

During our audit, we:

- Reviewed the purchase price allocation, and assessed adherence to recognition criteria stipulated in IAS38.
- Reviewed valuation models for mathematical coherence and reperformed calculations on a test basis .
- Aligned inputs to board approved plans and budgets.
- Reviewed and challenged the useful life assumptions.
- Reviewed impairment model, and ascertained that it is built on supportable inputs.

Summary of audit approach

During our audit, we:

- Reviewed the SPA and related documentation.
- Reviewed and challenged the Purchase Price Allocation, including identification of individual assets and liabilities.
- Reviewed and challenged value measurement of identified assets and liabilities.

Statement on the management's review

The management is responsible for the management's review.

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

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

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

Based on the work we have performed, we believe that the management's review is in accordance with the consolidated annual accounts and the annual accounts and that it has been prepared in accordance with the requirements of the International Financial Reporting Standards as adopted by EU. We did not find any material misstatement in the management's review.

Responsibilities for the accounts and the audit

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

The management is responsible for the preparation of consolidated annual accounts and annual accounts that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by EU. The management is also responsible for such internal control as the management determines is necessary to enable the preparation of con-

solidated annual accounts and annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts and the annual accounts, the management is responsible for evaluating the Group's and the Company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the consolidated annual accounts and the annual accounts, unless the management either intends to liquidate the Group or the Company or to cease operations, or if it has no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement in the consolidated annual accounts and the annual accounts, whether due to fraud or error, design and perform audit

procedures in response to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or overriding of internal control.

- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal controls.
- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of 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 on 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, 10. March 2020

Januar P/F

løggit grannskoðanarvirki
State authorized Public Accountants
Company reg.no. 5821

Heini Thomsen
State Authorised Public Accountant

Fróði Sivertsen
State Authorised Public Accountant

Financial Statements and Notes

BAKKAFROST GROUP

BAKKAFROST GROUP

Table of Contents

Consolidated Income Statement for the year ended 31 December	86
Consolidated Statement of Comprehensive Income for the year ended 31 December	87
Consolidated Statement of Financial Position as at 31 December	88
Consolidated Cash Flow Statement for the year ended 31 December	90
Consolidated Statement of Changes in Equity as at 31 December	91

NOTES - SECTION 1 – BASIS OF PREPARATION	93
---	-----------

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

Note 1. General Information	93
Note 1.1 Summary of Significant Accounting Policies	93
Note 1.2 Basis of Presentation	93
Note 1.3 Consolidation Principles	93
Note 1.4 Translation of Foreign Currencies	94
Note 1.5 Classification Principles	94
Note 1.6 Functional Currency	94
Note 1.7 New standards effective from 1 January 2019	94
Note 1.8 Standards Issued, but not yet Effective	95
Note 1.9 Accounting Estimates	95

NOTES - SECTION 2 – RESULTS FOR THE YEAR 96

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

Note 2.1 Revenues	96
Note 2.2 Major Customers	96
Note 2.3 Operating Segment Information	97
Note 2.4 Salaries and other Personnel Expenses	101
Note 2.5 Other Operating Expenses	103
Note 2.6 Research and Development Expenses	103
Note 2.7 Net Financial Items	104
Note 2.8 Tax	105

NOTES - SECTION 3 – ASSETS AND LIABILITIES 107

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

Note 3.1 Intangible Assets	107
Note 3.2 Property, Plant and Equipment	111
Note 3.3 Leasing	113
Note 3.4 Companies in the Group	114
Note 3.5 Shares and Holdings in other Companies	117
Note 3.6 Inventory	118
Note 3.7 Biological Assets	119
Note 3.8 Accounts Receivables and other Receivables	122
Note 3.9 Cash and Cash Equivalents	123
Note 3.10 Share Capital and Major Shareholders	124
Note 3.11 Interest-bearing Debt	126
Note 3.12 Mortgages and Guarantees	129
Note 3.13 Derivatives	130
Note 3.14 Provisions	131

NOTES - SECTION 4 - CAPITAL STRUCTURE AND FINANCING ITEMS 132

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

Note 4.1 Financial Risk Management 132

Note 4.2 Categories and Fair Value of Financial Instruments 137

Note 4.3 Earnings per Share 138

NOTES - SECTION 5 - OTHER DISCLOSURES 139

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

Note 5.1 Capital Commitments 139

Note 5.2 Related-Party Transactions 140

Note 5.3 Business Combinations 141

Note 5.4 Events after the Date of the Statement of Financial Position 144

Note 5.5 Auditor's Fees 144

Note 5.6 Going Concern 144

Note 5.7 Alternative Performance Measures 144

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000		2019	2018
Operating revenue		4,511,107	3,177,422
Purchase of goods		-1,354,921	-1,074,645
Change in inventory and biological assets (at cost)		-29,423	199,696
Salary and personnel expenses	2.4	-512,761	-353,756
Other operating expenses	2.5	-978,787	-674,907
Depreciation	3.1/3.2/3.3	-310,115	-198,898
Operational EBIT*		1,325,100	1,074,912
Fair value adjustments of biological assets	3.7	-220,567	195,819
Income from associates		13,812	9,369
Revenue tax - FO		-99,128	-95,867
Earnings before interest and taxes (EBIT)		1,019,217	1,184,233
Financial income	2.7	4,996	2,651
Net interest expenses	2.7	-17,114	-12,477
Net currency effects	2.7	-12,670	1,419
Other financial expenses	2.7	-12,513	-3,760
Earnings before taxes (EBT)		981,916	1,172,066
Taxes	2.8	-180,031	-211,774
Profit or loss for the period continuing operations		801,885	960,292
Profit or loss for the year attributable to:			
Non-controlling interests		-8,382	0
Owners of P/F Bakkafrøst		810,267	960,292
		801,885	960,292
Earnings/Diluted earnings per share (DKK)	4.3	15.53	19.74

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

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	2019	2018
Profit for the year	810,267	960,292
Changes on financial derivatives	-17,789	126,935
Hereof income tax effect	2,705	-22,848
Currency translation differences	72,673	-95
Reserve to share based payment	-1,094	2,279
Adjustment treasury shares	15,457	2,634
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	71,952	108,905
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	0	0
Other comprehensive income	71,952	108,905
Total comprehensive income for the year net tax	882,219	1,069,197
Total comprehensive income attributable to:		
Non-controlling interests	-8,382	0
Owners of P/F Bakkafrost	890,601	1,069,197
	882,219	1,069,197

Consolidated Statement of Financial Position

AS AT 31 DECEMBER

DKK 1,000	Note	2019	2018
ASSETS			
Non-current assets			
Intangible assets		4,395,687	389,745
Total intangible assets	3.1	4,395,687	389,745
Land buildings and other real estate	3.2	1,174,427	994,354
Plant machinery and other operating equipment	3.2	1,420,379	926,335
Other operating equipment	3.2	210,750	160,064
Vessels	3.2	341,259	356,514
Prepayments for purchase of PP&E	3.2	633,683	447,059
Right of use assets	3.3	332,824	0
Total property, plant and equipment		4,113,323	2,884,325
Investments in associated companies	3.4	63,766	57,497
Investments in stocks and shares	3.5	55,318	55,268
Deferred tax assets	2.8	37,593	0
Long-term receivables	3.8	4,422	9,200
Total non-current financial assets		161,099	121,966
TOTAL NON-CURRENT ASSETS		8,670,109	3,396,036
Current assets			
Biological assets (biomass)	3.7	1,901,729	1,358,462
Inventory	3.6	548,508	438,847
Total inventory		2,450,237	1,797,309
Accounts receivables	3.8	625,993	269,348
Other receivables	3.8	45,520	22,936
Total receivables		671,513	292,284
Cash and cash equivalents	3.9	1,309,546	316,894
TOTAL CURRENT ASSETS		4,431,296	2,406,487
TOTAL ASSETS		13,101,405	5,802,523

DKK 1,000	Note	2019	2018
EQUITY AND LIABILITIES			
Equity			
Share capital	3.10	59,143	48,858
Other equity		8,270,112	4,028,171
Non-controlling interest		167,620	0
TOTAL EQUITY		8,496,875	4,077,029
Non-current liabilities			
Deferred taxes	2.8	1,123,796	534,430
Long-term interest-bearing debt	3.11	2,328,231	812,053
Long-term leasing debt	3.3	225,585	0
Derivatives	3.13	1,966	0
Total non-current liabilities		3,679,578	1,346,483
Current liabilities			
Derivatives	3.13	13,493	320
Trade payables		584,435	204,500
Current tax liabilities	2.8	195,484	152,655
Short-term leasing debt	3.3	107,808	0
Other current liabilities		23,732	21,536
Total current liabilities		924,952	379,011
TOTAL LIABILITIES		4,604,530	1,725,494
TOTAL EQUITY AND LIABILITIES		13,101,405	5,802,523

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	2019	2018
Cash flow from operations			
Operating profit (EBIT)		1,019,217	1,184,233
Adjustments for write-downs and depreciation	3.1/3.2/3.3	313,844	177,898
Adjustments for value adjustments on biomass	3.7	220,567	-195,819
Adjustments for income from associates		-13,812	-9,369
Adjustments for currency effects		-65,556	11,059
Taxes paid		-152,000	-201,678
Change in inventory		-181,295	-198,981
Change in receivables		-261,369	103,437
Change in current debts		156,811	42,157
Cash flow from operations		1,036,407	912,937
Cash flow from investments			
Acquisition/sale of subsidiaries and activities, etc., net		-3,907,972	-12,057
Proceeds from sale of fixed assets		669	34,214
Payments made for purchase of fixed assets	3.2	-702,173	-526,007
Purchase of shares and other investments		3,988	-26,896
Change in long-term receivables		4,242	0
Cash flow from investments		-4,601,246	-530,746
Cash flow from financing			
Change in revolving credit facilities		1,217,600	146,783
Financial income		4,998	2,650
Financial expenses		-20,807	-16,237
Lease payment		-42,274	0
Proceeds/Acquisition of treasury shares		68,358	2,634
Proceeds from share capital increases		3,731,129	0
Dividend paid		-401,513	-510,678
Cash flow from financing		4,557,491	-374,848
Net change in cash and cash equivalents in period		992,652	7,343
Cash and cash equivalents - opening balance		316,894	309,551
Cash and cash equivalents - closing balance total		1,309,546	316,894

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:

	Share Capital	Share Premium Reserve	Treasury Shares	Share-Based Payment	Currency translation differences	Derivatives	Dividend	Biomass Fair value adjustments	Retained Earnings	Total Equity
DKK 1,000										
Equity 01.01.2019	48,858	306,537	-15,525	6,153	6,176	-264	403,079	382,770	2,939,245	4,077,029
Consolidated profit	0	0	0	0	0	0	0	-220,567	1,071,230	850,663
Other comprehensive income:										
Fair value adjustment on financial derivatives	0	0	0	0	0	-17,789	0	0	0	-17,789
Hereof tax effect	0	0	0	0	0	2,705	0	0	0	2,705
Share-based payment	0	0	0	-1,094	0	0	0	0	0	-1,094
Currency translation differences	0	0	0	0	72,674	0	0	0	0	72,674
Total other comprehensive income	0	0	0	-1,094	72,674	-15,084	0	0	0	56,496
Total comprehensive income	0	0	0	-1,094	72,674	-15,084	0	-220,567	1,071,230	907,159
Transaction with owners:										
Share capital increase*	10,285	3,720,838	0	0	0	0	0	0	0	3,731,123
Treasury shares	0	0	15,457	0	0	0	0	0	0	15,457
Paid-out dividend	0	0	0	0	0	0	-403,079	0	1,566	-401,513
Proposed dividend	0	0	0	0	0	0	491,478	0	-491,478	0
Total transaction with owners	10,285	3,720,838	15,457	0	0	0	88,399	0	-489,912	3,345,067
Total changes in equity	10,285	3,720,838	15,457	-1,094	72,674	-15,084	88,399	-220,567	581,318	4,252,226
Non-controlling interest									167,620	167,620
Total equity 31.12.2019	59,143	4,027,375	-68	5,059	78,850	-15,348	491,478	162,203	3,688,183	8,496,875
*Whereof transactions cost amounts to DKK 99.4 million.										
Equity 01.01.2018	48,858	306,537	-18,159	3,874	6,271	-104,351	513,009	186,951	2,683,439	3,626,429
Consolidated profit	0	0	0	0	0	0	0	195,819	772,455	968,274
Other comprehensive income:										
Fair value adjustment on financial derivatives	0	0	0	0	0	126,935	0	0	-138,748	-11,813
Hereof tax effect	0	0	0	0	0	-22,848	0	0	22,848	0
Share-based payment	0	0	0	2,279	0	0	0	0	0	2,279
Currency translation differences	0	0	0	0	-95	0	0	0	0	-95
Total other comprehensive income	0	0	0	2,279	-95	104,087	0	0	-115,900	-9,629
Total comprehensive income	0	0	0	2,279	-95	104,087	0	195,819	656,555	958,645
Transaction with owners:										
Treasury shares	0	0	2,634	0	0	0	0	0	0	2,634
Paid-out dividend	0	0	0	0	0	0	-513,009	0	2,331	-510,678
Proposed dividend	0	0	0	0	0	0	403,079	0	-403,079	0
Total transaction with owners	0	0	2,634	0	0	0	-109,930	0	-400,748	-508,044
Total changes in equity	0	0	2,634	2,279	-95	104,087	-109,930	195,819	255,807	450,601
Total equity 31.12.2018	48,858	306,537	-15,525	6,153	6,176	-264	403,079	382,770	2,939,245	4,077,029

Notes to the Consolidated Financial Statements

BAKKAFROST GROUP

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 9, Glyvvar.

P/F Bakkafrost was listed on Oslo Stock Exchange in 2010 with the 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 2019 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 10 March 2020.

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.

Apart from IFRS 16, there are no new or amended IFRSs or IFRIC interpretations that are effective for the financial year beginning on or after 1 January 2019 that are assumed to have a material impact on the Group.

NOTE 1.3 CONSOLIDATION PRINCIPLES

The consolidated financial statements include P/F Bakkafrost and the subsidiaries over which P/F Bakkafrost has controlling influence either by shareholding or by agreement. A controlling interest is normally deemed to exist when ownership directly or indirectly exceeds 50 percent of the voting rights. Controlling interest may also exist by nature of agreement. Similarly, limitations in voting rights by agreement may impede exercise of control, and the investment concerned will be considered an associate.

Newly acquired subsidiaries are included from the date on which a controlling interest is secured, and divested subsidiaries are included up until the date of divestment. The consolidated accounts have been prepared in accordance with uniform accounting principles for similar transactions in all companies included in the consolidated accounts.

All material transactions and balances between Group Companies have been eliminated.

Shares in subsidiaries have been eliminated in the consolidated financial statements in accordance with the acquisition method. This means that the acquired company's assets and liabilities are reported at fair value at the date of acquisition, with any excess value being classified as goodwill. Where the fair value of the assets acquired exceeds

the payment made, the difference is treated as goodwill in the Income Statement.

When shares are acquired in stages, the value basis of the assets and liabilities is the date the Group was formed. Later acquisition of assets in existing subsidiaries will not affect the value of assets or liabilities, except for goodwill, which is calculated with each acquisition.

Investments in companies in which the Group has a significant influence (associated companies) are treated in accordance with the equity method in the consolidated accounts. A considerable influence is normally deemed to exist when the Group owns 20–50 percent of the voting capital. The Group's share of the profits in such companies is based on profit after tax, less internal gains and depreciation on excess value due to the cost price of the shares being higher than the acquired portion of book equity. In the Income Statement, the profit share is presented on a separate line, while the assets are presented in the statement of financial position as non-current financial assets. The accounting principles used by associated companies have been changed where necessary to achieve consistency with the principles used by the Group.

NOTE 1.4 TRANSLATION OF FOREIGN CURRENCIES

For each individual entity, which is recognized in the consolidated accounts, a functional currency is determined in which the entity measures its results and financial position. The functional currency is the currency of the primary economic environment in which the entity operates. Transactions in other currencies 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. The biomass is then adjusted to fair value, i.e. market value less finishing costs, by adding or in rare cases subtracting 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 NEW STANDARDS EFFECTIVE FROM 1 JANUARY 2019

The Bakka Frost Group has implemented all new and amended standards and interpretations (IFRIC) which are effective for the financial year 2019. Apart from the below, such implementation has not had any impact on the Bakka Frost Group.

IFRS 16 Leases

The Bakkafrøst Group has applied IFRS 16 Leases from 1 January 2019 in accordance with the modified retrospective method. As a result, the prior-year figures were not adjusted.

Bakkafrøst has applied the lease recognition exemptions for short term lease contracts and low-value assets. Leases with terms ending within twelve months of the date of initial application are accounted for as short-term leases.

Newly recognized lease liabilities have been measured at the present value of the remaining lease payments at 1 January 2019 and discounted using the incremental borrowing rate. Right-of-use assets have been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, and are depreciated over the right of use period.

Due to the application of IFRS 16, right-of-use assets of DKK 94 million and lease liabilities of DKK 94 million have been recognized in the balance sheet at 1 January 2019. See Note 3.3 for further information on initial impact.

The application of IFRS 16 has the following impact in the income statement for the year:

- Increase in depreciation of DKK 41.4 million.
- Increase in interest expenses of DKK 3.2 million.
- Decrease in rental costs of DKK 42.3 million.

NOTE 1.8 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 dis-

closures 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 or with insignificant impact on the Group, are omitted from this narrative.

New standards effective after 1 January 2020

Several IFRS standards, amended standards and IFRIC interpretations, which are effective on or after 1 January 2020, have not been implemented. Based on a preliminary assessment it is estimated that these standards and interpretations will have no material impact on the consolidated financial statements for 2019 and in the coming years.

NOTE 1.9 ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires the management to make judgement estimates and assumptions that affect the application of accounting principles and carrying amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are based on experience and other factors perceived to be relevant and probable when the judgements were made.

Estimates are reviewed on an on-going basis, and actual values and results may deviate from the initial estimates. Revision to accounting estimates are recognized in the period in which the estimates are revised. The evaluations and estimates, deemed to be of greatest significance for Bakkafrøst Group's Financial Statements, are described in the notes.

NOTES - SECTION 2

Results for the Year

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

NOTE 2.1 REVENUES

Revenue is measured at the fair value of the consideration received or receivables for the sale of goods and services in the ordinary course of business. Revenue is recognized net of discounts, VAT and other sales related taxes.

The revenue of the Group is mainly for sales of salmon, fish-meal, fish oil and fish 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

In 2019, there was one major customer - as defined in IFRS 8.34, representing DKK 510 million of the revenue in the VAP segment. This is 53% of the total revenue in the VAP segment, compared to no major customers in 2018.

NOTE 2.3 OPERATING SEGMENT INFORMATION

2019 – DKK 1,000	Farming FO	Value Added Products	Fishmeal, oil and feed	Farming SCT*	Eliminations	Bakkafrost Group
External operating revenues	2,501,646	964,484	607,807	437,171	0	4,511,107
Internal operating revenues	650,816	0	780,654	0	-1,431,470	0
Total operating revenues	3,152,462	964,484	1,388,461	437,171	-1,431,470	4,511,107
Depreciation and amortization	-207,344	-17,482	-28,619	-56,670	0	-310,115
Operating expenses	-1,061,463	-232,458	-1,112,665	-362,372	-106,934	-2,875,892
Internal operating expenses	-780,654	-650,816	0	0	1,431,470	0
Operating EBIT	1,103,001	63,728	247,177	18,129	-106,934	1,325,100
Fair value adjustments on biological assets	21,847	0	0	-242,414	0	-220,567
Income from associates	3,119	0	10,693	0	0	13,812
Revenue tax - FO	-99,127	0	0	0	0	-99,128
EBIT	1,028,840	63,728	257,870	-224,285	-106,934	1,019,217
Net financial items	-25,922	-541	-5,863	-4,977	0	-37,303
Earnings before taxes	1,002,918	63,187	252,007	-229,262	-106,934	981,916
Taxes	-161,566	-11,375	-44,976	37,886	0	-180,031
Net earnings	841,352	51,812	207,031	-191,376	-106,934	801,885
Operating EBITDA	1,310,345	81,210	275,796	74,799	-106,934	1,635,216
ASSETS	6,520,228	170,158	814,673	5,640,009	-43,663	13,101,405
Whereof intangible assets	389,745	0	0	4,005,942	0	4,395,687
LIABILITIES	2,700,710	52,772	164,689	1,696,465	-10,106	4,604,530
INVESTMENTS						
Property, plant and equipment	666,776	15,212	20,185	521	0	702,694
Depreciation	-207,344	-17,482	-28,619	-56,670	0	-310,115

* Farming SCT is consolidated from 8 October 2019

2018 - DKK 1,000	Farming FO	Value Added Products	Fishmeal, oil and feed	Farming SCT*	Eliminations	Bakkafrost Group
External operating revenues	2,226,118	364,827	586,477	0	0	3,177,422
Internal operating revenues	342,248	0	682,087	0	-1,024,335	0
Total operating revenues	2,568,366	364,827	1,268,564	0	-1,024,335	3,177,422
Depreciation and amortization	-154,456	-15,085	-29,357	0	0	-198,898
Operating expenses	-766,164	-29,918	-1,014,283	0	-93,247	-1,903,612
Internal operating expenses	-682,087	-342,248	0	0	1,024,335	0
Operating EBIT	965,659	-22,424	224,924	0	-93,247	1,074,912
Fair value adjustments on biological assets	195,819	0	0	0	0	195,819
Income from associates	311	0	9,057	0	0	9,368
Revenue tax - FO	-95,866	0	0	0	0	-95,866
EBIT	1,065,923	-22,424	233,981	0	-93,247	1,184,233
Net financial items	-10,007	-519	-1,641	0	0	-12,167
Earnings before taxes	1,055,916	-22,943	232,340	0	-93,247	1,172,066
Taxes	-170,527	31	-41,278	0	0	-211,774
Net earnings	885,389	-22,912	191,062	0	-93,247	960,292
Operating EBITDA	1,120,115	-7,339	254,281	0	-93,247	1,273,810
ASSETS	4,860,227	192,841	749,455	0	0	5,802,523
Whereof intangible assets	389,745	0	0	0	0	389,745
LIABILITIES	1,482,751	31,075	209,634	0	2,034	1,725,494
INVESTMENTS						
Property, plant and equipment	490,133	17,400	18,474	0	0	526,007
Depreciation	-154,456	-15,085	-29,357	0	0	-198,898

* Farming SCT is consolidated from 8 October 2019

	2019		2018	
FARMING FO - DISTRIBUTION OF HARVESTED VOLUMES	tgw	%	tgw	%
Harvested FO volume used in the VAP production	16,690	29.2%	8,355	18.7%
Harvested FO volume sold fresh/frozen	40,494	70.8%	36,236	81.3%
Total harvested volumes	57,184	100.0%	44,591	100.0%

FARMING SCT - DISTRIBUTION OF HARVESTED VOLUMES	tgw	%	tgw	%
Harvested volume used in VAP production	0	0.0%	N/A	0.0%
Harvested volume sold fresh/frozen	7,925	100.0%	NA	0.0%
Total harvested volumes	7,925	100.0%	N/A	0.0%

FOF SEGMENT - DISTRIBUTION OF FEED	tonnes	%	tonnes	%
Volumes used internally	76,583	78.6%	70,240	90.3%
Volumes sold externally	20,825	21.4%	7,534	9.7%
Total volumes sold	97,408	100.0%	77,774	100.0%

PRODUCTION OF FISHMEAL AND FISH OIL	tonnes	%	tonnes	%
Fishmeal	60,646	86.3%	65,141	86.4%
Fish oil	9,633	13.7%	10,257	13.6%
Total production	70,279	100.0%	75,398	100.0%

GEOGRAPHIC BREAKDOWN OF SALES REVENUES BASED ON SEGMENTS AND CUSTOMER LOCATION

2019 - DKK 1,000	Farming FO	VAP	FOF	Farming SCT	Total
Europe	632,916	771,587	607,807	408,318	2,420,628
Eastern Europe	307,702	127,312	0	16,612	451,627
USA	727,979	41,473	0	8,743	778,195
China	833,048	24,112	0	3,497	778,195
Total	2,501,646	964,484	607,807	437,171	4,511,107

2018 - DKK 1,000	Farming FO	VAP	FOF	Farming SCT	Total
Europe	512,007	269,972	586,379	N/A	1,368,358
Eastern Europe	645,574	51,076	97	N/A	696,747
USA	467,485	25,538	0	N/A	493,023
China	601,052	18,241	0	N/A	619,293
Total	2,226,118	364,827	586,476	N/A	3,177,422

The Group has four reportable segments in accordance with IFRS 8 Operating Segments. The Group's main strategic business area is aquaculture, which consists of four segments: fish farming FO, fish farming SCT, 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 FO segments is based on market reference prices for spot sale, and the pricing principle between the FOF and the farming FO segments is based on quarterly contracts.

ACCOUNTING POLICIES SEGMENT REPORTING

Farming FO 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.

Farming SCT

The Farming SCT segment comprises the total operation in The Scottish Salmon Company Plc, which Bakkafrost gained control over on the 8 October 2019. The operation is located

in Scotland and includes salmon farming, harvest, filleting sales and administration.

Value added products (VAP)

A significant share of the farmed products is value added at the factory in Glyvvar. The outputs of the factory 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 are operated by Bakkafrost's subsidiary Havsbrún, located in Fuglafjörður.

NOTE 2.4 SALARIES AND OTHER PERSONNEL EXPENSES

DKK 1,000	2019	2018
Wages and salaries	-432,550	-304,557
Share based payment	-2,529	-2,237
Social security taxes	-32,782	-13,767
Pension expenses	-33,214	-23,996
Other benefits	-11,687	-9,199
Total payroll expenses	-512,761	-353,756
Average number of full-time employees	1,553	824

REMUNERATION TO CORPORATE MANAGEMENT

DKK 1,000					Total
Salary and other benefits paid	Salary	Bonus	Pension	Other	2019
Chief Executive Officer	2,164	300	137	88	2,689
Managing Director	1,493	115	89	0	1,697
Chief Financial Officer*	1,755	115	91	88	2,049
Total remuneration	5,412	530	317	176	6,435

DKK 1,000					Total
Salary and other benefits paid	Salary	Bonus	Pension	Other	2018
Chief Executive Officer	1,683	39	73	88	1,883
Managing Director	1,344	145	66	0	1,555
Chief Financial Officer	1,281	144	66	88	1,579
Total remuneration	4,308	328	204	176	5,017

* In 2019, the company has paid wages to both the resigned and the new CFO

FEES PAID TO THE BOARD OF DIRECTORS

DKK 1,000		2019	2018
Rúni M. Hansen**	Chairman of the Board	461	455
Johannes Jensen	Deputy Chairman of the Board	261	258
Annika Frederiksberg*	Member of the Board	209	206
Einar Wathne****	Member of the Board	161	0
Teitur Samuelsen **	Member of the Board	252	248
Øystein Sandvik**	Member of the Board	265	259
Virgar Dahl***	Member of the Board	0	55
Total remuneration		1,609	1,481

* Annika Frederiksberg is also an employee in the Bakkafrost Group. For this, she received DKK 641 thousand (2018: DKK 628 thousand).

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

*** Member of the Board of Directors until April 2018

**** Member of the Board of Directors from April 2019

Remuneration to corporate management

The total remuneration to the corporate management consists of basic salary (main element), benefits in-kind and pension schemes, but varies from person to person. The Group's Chief Executive Officer determines the remunerations to other management in agreement with the Chairman of the Board of Directors. The total remuneration is determined based on the need to offer competitive terms in the various business areas. The remunerations should promote the Group's competitiveness in the relevant labour market.

The total remuneration must neither pose a threat to Bakkafrost's reputation nor be market leading but should ensure that Bakkafrost attracts and retains senior executives with the desired skills and experience. The basic salary is subject to an annual evaluation and is determined based on general salary levels in the labour market.

Notice of Termination and Severance Payment

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

SHARE-BASED PAYMENT

Bakkafrost has established a share saving plan for its employees. It is the Board's intention that the plan shall be a continuing part of the company's employee incentive scheme. The Board shall, however, have the right to decide, in its sole discretion, whether the plan will be extended in the future, and the terms of the plan.

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

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

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

LOANS TO EMPLOYEES

As at 31.12.2019, 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

DKK 1,000	2019	2018
Maintenance	-131,118	-150,315
Operating expenses	-152,442	-19,261
Health	-102,884	-90,481
Freight	-364,288	-249,577
Energy	-156,697	-128,527
Other costs	-71,360	-36,746
Other operating expenses total	-978,787	-674,907

NOTE 2.6 RESEARCH AND DEVELOPMENT EXPENSES

DKK 1,000	2019	2018
R&D expenditure	-27,742	-25.769*)

*) The amount for 2018 has been corrected from DKK -5,533 thousand to DKK -25,769 thousand, as expenses to the Native Faroese Broodstock Programme were not included in the amount for 2018.

R&D expenditure in this note is only costs and salaries directly attributable to R&D.

Bakkafrost has a continual 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.

The focus on Bakkafrost's R&D efforts has been evaluated and slightly improved during the latest years. Lice abatement, biomass control and smolt quality remain high priorities, and the development and improvement of vaccines, nutrition and feeding, as well as operating technologies, are equally topical. In addition, Bakkafrost continuously performs assessments of its own operating practices.

Bakkafrost aims to expand its R&D activities in the area of feed and feeding and sees a substantial need for greater focus on basic knowledge of how the fish are fed and how we can maintain a healthy salmon. The past year has proven to be above our expectations in terms of production improvements in farming. We are convinced that our adaption of the mix of raw material has resulted in better nutritional quality in the feed. It is Bakkafrost's clearly expressed goal to initiate better and more comprehensive research into these issues under large-scale conditions.

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 follow this strategy.

Bakkafrost aims at increasing the smolt size to 500 grams smolts in 2023. The benefits are a shorter production time at sea as well as reduced biological risk. The new hatchery at Strond, Klaksvík, is an important part of this plan. The hatchery is expected to be in full operation from 2020. The capacity growth from this investment programme will gradually appear in harvested volumes from 2021.

In 2019, Bakkafrost has expensed DKK 27.7 million in total through the income statement, mainly attributed to the Native Faroese Broodstock Programme, Native Hebridean Broodstock Programme, optimizing nutritional quality, farming on open sea and other minor projects.

NOTE 2.7 NET FINANCIAL ITEMS

DKK 1,000	2019	2018
Other financial income	4,996	2,651
Financial income	4,996	2,651
Interest expenses on long-term loans	-14,437	-11,139
Interest expenses on credit lines	-2,085	-875
Interest expenses on accounts payable	-592	-463
Financial expenses	-17,114	-12,477
Exchange gain on bond	0	-10,850
Other exchange differences	-12,670	12,269
Net currency effects	-12,670	1,419
Other financial expenses	-12,513	-3,760
Other financial items	-12,513	-3,760
Net financial items	-37,301	-12,167

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	2019	2018
Tax payable	195,484	151,966
Change in deferred tax	-4,748	59,808
Tax on treasury shares	-10,705	0
Tax expense on ordinary profit	180,031	211,774
Tax payable	195,484	151,966
Tax payable in the statement of financial position	195,484	151,966

Specifications of temporary differences and deferred tax

DKK 1,000		2019		2018
Deferred tax assets	Temporary Differences	Deferred tax	Temporary Differences	Deferred tax
Licences	190,181	36,134	0	0
Property, plant and equipment	-35,946	-6,830	0	0
Financial assets	-8,860	-1,683	0	0
Biomass	-337,250	-64,078	0	0
Receivables	-1,089	-207	0	0
Derivatives (Equity posted)	-4,406	-837	0	0
Losses carried forward	-486	-92	0	0
Total temporary differences		-37,593		0

DKK 1,000		2019		2018
Deferred tax liabilities	Temporary Differences	Deferred tax	Temporary Differences	Deferred tax
Licences	3,438,453	618,922	375,678	67,622
Property, plant and equipment	1,358,688	244,564	1,187,172	213,691
Financial assets	59,067	10,632	50,556	9,100
Biomass	1,390,953	250,371	1,358,472	244,525
Receivables	-1,245	-224	-2,644	-476
Currency effects	-1,534	-276	583	105
Derivatives (Equity posted)	-633	-114	-317	-57
Losses carried forward	-437	-79	-444	-80
Total temporary differences		1,123,796		534,430
Deferred tax assets		-37,593		0
Deferred tax liabilities		1,123,796		534,430
Deferred tax liabilities (+) / assets (-)		1,086,203		534,430

Reconciliation from nominal to actual tax rate

DKK 1,000	2019	2018
Profit before tax	981,916	1,172,066
Expected tax at nominal tax rate	176,745	210,972
Permanent differences	3,286	802
Calculated tax expense	180,031	211,774
Effective tax rate excl. equity entries	18.33%	18.07%

Normal tax rate for countries in the Group:

- Faroe Islands 18%
- UK/Scotland 19%
- Norway 23%
- USA 28%

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 based on 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 TAX LIABILITIES

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.

SIGNIFICANT ASSUMPTION ACCOUNTING FOR DEFERRED TAX ASSETS

Deferred tax assets, including tax loss carry forwards, are assessed once a year. Losses are recognized if it is likely that they will be utilized in the foreseeable future.

NOTES - SECTION 3

Assets and Liabilities

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

NOTE 3.1 INTANGIBLE ASSETS

DKK 1,000	Goodwill	Licences	Brands	Total 2019
Acquisitions costs as at 01.01.19	18,485	372,138	0	390,623
Additions in the year as a result of acquisitions	550,400	3,348,020	108,400	4,006,820
Acquisitions costs as at 31.12.19	568,885	3,720,158	108,400	4,397,443
Impairments 01.01.19	-878	0	0	-878
Depreciation during the year	-878	0	0	-878
Accumulated impairments/depreciation and write-downs as at 31.12.19	-1,756	0	0	-1,756
Net book value as at 31.12.19	567,129	3,720,158	108,400	4,395,687

DKK 1,000	Goodwill	Licences	Brands	Total 2018
Acquisitions costs as at 01.01.18	4,537	372,138	0	376,675
Additions in the year as a result of acquisitions	13,948	0	0	13,948
Acquisitions costs as at 31.12.18	18,485	372,138	0	390,623
Impairments 01.01.18	0	0	0	0
Depreciation during the year	-878	0	0	-878
Accumulated impairments/depreciation and write-downs as at 31.12.18	-878	0	0	-878
Net book value as at 31.12.18	17,607	372,138	0	389,745

In the Faroe Islands, Bakkafrost 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. These are considered as significant in comparison to the total carrying amount of goodwill and intangible assets with indefinite useful lives.

In Scotland, Bakkafrost has chosen to include all the farming in Scotland into one CGU.

Impairment testing

The Group tests intangible assets annually for impairment or more frequently if there are indications that the assets are impaired. The annual impairment test is performed at year-end. Bakkafrost has substantial assets with indefinite lives in the form of licenses. The licenses are subject to impairment testing in combination with goodwill in the annual test. The Group 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. Bakkafrost 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 Bakkafrost'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 7.4% (2018: 8.8%) 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 programmes 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 6,535 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 and Scotland 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 to 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

Sensitivity analyses and booked value per CGU:

CGUs 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%
31.12.2019								
The Scottish Salmon Company acquisition	4,006,820	695,706	4,702,526	7.4%	23,083	142,248	321,873	-91,078
Vestlax acquisition*	132,708	1,591,827	1,724,535	7.4%	7,670	48,201	195,123	-134,045
Havsbrún acquisition**	157,430	422,603	580,033	7.4%	2,250	163,560	662,102	-454,849
Faroe Farming acquisition***	82,000	890,295	972,295	7.4%	3,500	83,946	339,820	-233,449
TOTAL	4,378,958	3,600,431	7,979,389	7.4%	36,503	437,955	1,518,918	-913,421
31.12.2018								
Vestlax acquisition*	132,708	1,101,306	1,234,014	8.8%	7,670	43,751	216,296	-150,593
Havsbrún acquisition**	157,430	283,311	440,741	8.8%	2,250	149,143	737,328	-513,356
Faroe Farming acquisition***	82,000	592,960	674,960	8.8%	3,500	68,058	336,460	-234,256
TOTAL	372,138	1,977,577	2,349,715	8.8%	13,420	260,952	1,290,084	-898,205

* 4 CGUs in license numbers A-03, A-05, A-06, A-25, A-57, A-80 and A-81. Acquired in 2010.

** 2 CGUs in license numbers A-71 and A-82. Acquired in 2011.

*** 1 CGU in license numbers A-15 and A-92. Acquired in 2016.

**** Other assets consist of goodwill, PP&E, inventory, receivables, etc. which 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	Assets under construction	Total
Acquisition costs as at 01.01.19	1,248,933	1,688,862	271,661	416,440	447,059	4,072,955
Reclassification	23,910	121,847	-44,002	96	-101,851	0
Acquisition of subsidiary	28,210	271,092	41,982	3,594	120,698	465,568
Acquisitions during the year	191,506	259,463	76,333	7,093	167,778	702,173
Disposals and scrapping during the year	-865	-14,965	-2,242	-210	0	-18,282
Acquisition costs as at 31.12.19	1,491,693	2,326,299	343,733	427,014	633,683	5,222,422
Accumulated depreciations and write-downs as at 01.01.19	-254,579	-762,528	-111,598	-59,925	0	-1,188,630
Depreciations during the year	-63,400	-154,685	-22,974	-25,835	0	-266,894
Accumulated depreciations and write-downs on disposals and scrapping	714	11,318	1,590	9	0	13,631
Currency translation differences	-1	-25	-1	-3	0	-30
Accumulated depreciations and write-downs as at 31.12.19	-317,266	-905,920	-132,983	-85,755	0	-1,441,924
Net book value as at 31.12.19	1,174,427	1,420,379	210,750	341,259	633,683	3,780,499
Acquisition costs as at 01.01.18	1,365,469	1,628,881	193,053	402,577	0	3,589,980
Reclassification	-285,078	-148,815	0	0	433,893	0
Acquisitions during the year	189,515	228,844	80,619	13,863	13,166	526,007
Disposals and scrapping during the year	-20,974	-20,047	-2,011	0	0	-43,033
Acquisition costs as at 31.12.18	1,248,933	1,688,862	271,661	416,440	447,059	4,072,955
Accumulated depreciations and write-downs as at 01.01.18	-216,897	-671,024	-95,399	-36,230	0	-1,019,550
Depreciations during the year	-46,630	-110,851	-17,722	-23,696	0	-198,898
Accumulated depreciations and write-downs on disposals and scrapping	8,948	19,347	1,523	0	0	29,819
Accumulated depreciations and write-downs as at 31.12.18	-254,579	-762,528	-111,598	-59,925	0	-1,188,630
Net book value as at 31.12.18	994,354	926,335	160,064	356,514	447,059	2,884,325

Description of depreciations	Estimated lifetime	Depreciation method	Scrap value
Land and buildings	10-25 years	linear	10%
Plant, machinery, operating equipment, fixtures etc.	3-20 years	linear	0%-10%
Other operating equipment	3-8 years	linear	0%
Ships	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 LEASING

Right of use assets

DKK 1,000	Land, buildings & property	Motor vehicles	Ships, boats and plant & equipment	Total
Opening Cost at 01.01.19	94,106	0	0	94,106
Acquisition costs from merged company	46,703	7,526	214,058	268,287
Additions	0	2,590	9,246	11,836
Closing cost at 31.12.19	140,809	10,116	223,304	374,230
Opening Depreciation at 01.01.19	0	0	0	0
Charge for the year	7,090	880	33,391	41,361
Currency translation differences	2	1	42	45
Closing Depreciation at 31.12.19	7,092	881	33,433	41,405
Closing NBV at 31.12.19	133,718	9,235	189,872	332,824

Lease liability

	Land, buildings & property	Motor vehicles	Ships, boats and plant & equipment	Total
Opening Liability at 01.01.2019	94,106	0	0	94,106
Opening Liability from merged company	47,061	7,598	214,783	269,442
Additions/remeasurements	0	2,595	9,264	11,858
Paid during the year	-7,319	-929	-34,027	-42,274
Interest charge	1,292	63	1,819	3,174
Currency translation differences	0	0	-2,913	-2,913
Closing Liability at 31.12.2019	135,140	9,327	188,926	333,393
Due < 1 year	11,972	3,502	92,335	107,808
Due > 1 year	123,168	5,826	96,591	225,585
Short-term and low value leases	754	-	-	754

Bakkafrost has applied the rules for short-term leases and leases with low value leasing assets and has expensed these in the income statement.

In 2019, we implemented IFRS 16, which resulted in the recognition of lease assets of DKK 94,106 thousand as of the implementation date (1 January 2019). Please see Note 1.7 for further information on the implementation of IFRS 16.

Accounting policies

Based on the accounting policy applied, Bakkafrost recognizes a right-of-use asset and a lease liability at the commencement date of the contract for all leases, conveying the right to control the use of an identified asset for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right of use assets is recognized at cost. The cost of the asset consists of the total discounted lease payments (the

lease obligation), plus lease payments paid at contract of the agreement (e.g. upfront payments) less any lease incentives received, plus any costs directly related to the conclusion of the agreement and the obligation to demolish or restore the asset after use.

Subsequent measurement of the leasing asset is done according to the same practice as for similar assets, that is owned by the company. This means that leased assets are classified as tangible fixed assets, even if it is legally a right of use asset.

The lease obligation is recognized at the present value of the lease payments obtained by discounting the lease payments, using the company's marginal borrowing rate, since the internal rate cannot be reasonably defined.

The lease payments consist of the fixed lease payments, guaranteed residual values and payment for exercise of purchase option or payment for cancellation of lease when considered

reasonably certain that the options are exercised. In addition, variable lease payments which are adjusted, based on an index, whereas consumption-based leasing payments are not recognized as part of the cost of the lease asset and liability.

The lease payments are distributed between an instalment portion and an interest portion. The lease obligation is recalculated at a constant interest rate, corresponding to the discount rate used. At initial recognition, the value of the leased asset corresponds to the value of the lease obligation, unless upfront payments and/or there are recovery obligations regarding the asset.

Bakkafrost chose to apply the two practical exceptions in IFRS 16 regarding short term leases and low value assets. Short term leases represent lease agreements shorter than 12 months from the date of the contract, and low value assets represent lease agreements that are lower than DKK 35,000 each.

NOTE 3.4 COMPANIES IN THE GROUP

The consolidated accounts for 2019 include the following subsidiaries and associates:

Subsidiary Companies					Nominal
1,000	Currency	Nature of Business	Head Office	Ownership	share capital
P/F Bakkafrost Farming	DKK	Salmon farming	Glyvrrar	100%	19,762
P/F Bakkafrost Processing	DKK	Value adding of salmon (VAP)	Glyvrrar	100%	50,000
P/F Bakkafrost Sales	DKK	Sales of salmon and VAP products	Glyvrrar	100%	667
P/F Bakkafrost Packaging	DKK	Production of styrofoam boxes	Glyvrrar	100%	8,022
P/F Havsbrún	DKK	Production and sales of fishmeal, fish oil and fish feed	Fuglafjörður	100%	2,000
Havsbrún Shetland Ltd.	GBP	Dormant	Lerwick	100%	17
Havsbrún Norge ASA	NOK	Dormant	Flekkefjord	100%	105
Bakkafrost UK Ltd.	GBP	Sales of salmon	Grimsby	100%	2£
Bakkafrost USA LLC	USD	Sales of salmon	Clifton, New Jersey	100%	2,000
P/F Förka	DKK	Production of biogas and fertilizer	Glyvrrar	100%	5,000

Subsidiary Companies

1,000	Currency	Nature of Business	Head Office	Ownership	Nominal share capital
The Scottish Salmon Company Limited	GBP	Salmon Farming	Edinburgh	95.6%	20,000,000
Salmon Finance (Scotland) Ltd	GBP	Group Finance	Edinburgh	100%	1
Harris & Lewis Smokers Trading Ltd	GBP	Dormant	Edinburgh	100%	100
Bradán Cuan Siar Ltd	GBP	Dormant	Edinburgh	100%	5,000
Lighthouse Caledonia Ltd	GBP	Dormant	Edinburgh	100%	2
West Minch Salmon Ltd	GBP	Dormant	Edinburgh	100%	7,000
Atlantic West Salmon Company Ltd	GBP	Dormant	Edinburgh	100%	12,505
Sidinish Salmon Ltd	GBP	Dormant	Edinburgh	100%	50,000
Hebridean Salmon (Scotland) Ltd	GBP	Dormant	Edinburgh	100%	100
Scottish Smoked Salmon Ltd	GBP	Dormant	Edinburgh	100%	100
Hebridean Smoked Salmon Ltd	GBP	Dormant	Edinburgh	100%	100
Loch Fyne Salmon (Scotland) Ltd	GBP	Dormant	Edinburgh	100%	100
Loch Fyne Salmon Ltd	GBP	Dormant	Edinburgh	100%	100
Loch Fyne Smoked Salmon Ltd	GBP	Dormant	Edinburgh	100%	100
Murray Seafoods Ltd	GBP	Dormant	Edinburgh	100%	130,000
Corrie Mhor Salmon Ltd	GBP	Dormant	Edinburgh	100%	20,000
Minnamurra Ltd	GBP	Holding	Edinburgh	100%	5,408,023
Fjord Seafood Scotland Farming Ltd	GBP	Dormant	Edinburgh	100%	5,928,594
Pieters UK Ltd	GBP	Dormant	Edinburgh	100%	2
Fjord Seafoods Scotland Ltd	GBP	Dormant	Edinburgh	100%	300,000
Highland Fish Farmers Ltd	GBP	Dormant	Edinburgh	100%	3,190,001
Mull Salmon Ltd	GBP	Dormant	Edinburgh	100%	340
Kenmore Salmon Farms Ltd	GBP	Dormant	Edinburgh	100%	39,750
Portree Salmon Farmers Ltd	GBP	Dormant	Edinburgh	100%	2,500
Pulford (Scotland) Ltd	GBP	Dormant	Edinburgh	100%	100
Scotfish Farms Ltd	GBP	Dormant	Edinburgh	100%	2,200
Sea Catch PLC	GBP	Dormant	Edinburgh	100%	934,558
Tobson Fish Farms Ltd	GBP	Dormant	Edinburgh	100%	10,000

Associated Companies DKK 1,000	Head Office	Ownership	Net Additions	Share of the result	Carrying value 2019	Carrying value 2018
P/F Pelagos	Fuglafjörður	30%	0	8,481	56,778	48,296
P/F Salmon Proteins*	Eiði	79%	0	201	6,254	9,201
Svínoyar Rognkelsisstøð	Svínoy	42%		N/A	733	0
Total					63,766	57,497

	Total assets 2019	Total assets 2018	Equity 2019	Equity 2018	Result 2019	Result 2018
P/F Pelagos	360,039	407,882	187,385	159,394	35,190	35,892
P/F Salmon Proteins*	11,128	16,035	7,936	11,691	255	164
Svínoyar Rognkelsisstøð	N/A	994	N/A	-277	N/A	-269

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

NOTE 3.5 SHARES AND HOLDINGS IN OTHER COMPANIES

DKK 1,000	Carrying amount	Carrying amount
Companies	2019	2018
Others	55,318	55,268
Total	55,318	55,268

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 3.6 INVENTORY

DKK 1,000	2019	2018
Raw materials and goods in-progress	422,765	292,286
Finished goods	125,744	146,561
Total inventory	548,508	438,847

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 full cost price.

ACCOUNTING POLICIES

Inventories consist of inventories in the Farming FO unit, Farming SCT unit, VAP unit and the FOF unit.

Farming FO

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.

Farming SCT

Raw materials include roe, feed, packaging materials and finished goods. Inventories of goods are stated at the lower of cost and net realizable value.

The cost of processed goods is a full production cost that includes direct material and personnel costs, and a percentage of indirect processing costs. Interest costs are not included in the value of inventory.

The cost price of purchased goods is the acquisition price. Cost is based on the first-in first-out principle.

Net realizable value is estimated sales price less selling expenses.

VAP

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

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 3.7 BIOLOGICAL ASSETS

DKK 1,000	2019	2018
Biological assets carrying amount 01.01.	1,358,462	1,096,665
Increase due to production or purchases	2,021,601	1,333,160
Increase due to acquisitions	667,482	0
Reduction due to harvesting or sale (costs of goods sold)	-1,921,456	-1,273,150
Fair value adjustment at the beginning of the period reversed	-248,262	-186,956
Fair value adjustments at the end of the period	27,695	382,775
Reversal of elimination at the beginning of the period	53,790	59,758
Eliminations	-59,121	-53,790
Currency translation differences	1,538	0
Biological assets carrying amount 31.12.	1,901,729	1,358,462
Cost price biological assets	1,931,617	1,029,477
Fair value adjustments at the end of the period	27,695	382,775
Eliminations	-59,121	-53,790
Currency translation differences	1,538	0
Biological assets carrying amount	1,901,729	1,358,462
Biomass on average (tonnes)		
1 kg	5,210	1,958
1 kg < 2 kg	8,649	2,959
2 kg < 3 kg	10,334	5,189
3 kg < 4 kg	14,146	6,010
4 kg <	22,980	22,962
Volume of biomass at sea	61,319	39,078
Number of fish (thousand)		
< 1 kg	12,801	4,951
1 kg < 2 kg	5,481	2,113
2 kg < 3 kg	4,271	2,044
3 kg < 4 kg	4,148	1,782
4 kg <	4,633	4,359
Total number of fish at sea	31,334	15,249

	2019	2018
Harvested volumes	65,109	44,591
Number of smolts released (thousand)		
Q1	1,721	3,134
Q2	3,580	2,776
Q3	2,365	3,315
Q4	10,682	3,358
Total number of smolts released	18,348	12,583

*SSC released 6.7 thousand smolts from Q1-Q3 2019

Sensitivity analysis of biomass DKK 1,000

Change in discount rate +1%	-101,607	-93,586
Change in discount rate -1%	115,364	104,991
Change in sales price +5 DKK	251,416	224,143
Change in sales price -5 DKK	-251,416	-224,143
Change in biomass volume +1%	5,836	6,551
Change in biomass volume -1%	-5,836	-6,551

One year forward prices in EUR FCA Oslo*

At year end	7.24	6.01
Q1 (forward)	6.72	6.48
Q2 (forward)	6.75	6.52
Q3 (forward)	5.51	5.94
Q4 (forward)	5.62	6.12

* 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 land in fresh water. 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 for Farming FO 5.2 kg gutted weight (6.3 kg live weight) and for Farming SCT 4.8 kg gutted weight (5.9 kg live weight).

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 fishes 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 for Farming FO 0.6% and for Farming SCT 0.9% of the number of incoming fish per month.

Cost

Estimated future costs are based on the Group's prognoses per locality. Cost comprises mainly feed-, production-, harvest- and transport costs.

Price

Estimated sales prices are based on:

FO: Externally quoted prices from Fish Pool

SCT: A mixture of externally quoted prices from Fish Pool and already contracted prices.

Fish Pool is a marketplace 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, Bakka Frost's opinion is that the observable forward prices must be seen as the best approach to a price for the sale of salmon, together with any already contracted prices.

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

Discounts

The estimated future cash flow is discounted monthly. The monthly discount rate at 31 December 2019 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.

Bakkafrost uses a common indicator and threshold for all farming sites to assess normal and abnormal mortality. Indication of abnormal mortality is when a farming site in a month registers mortality exceeding 1.5% for Farming FO and 4% for Farming SCT 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 3.8. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES

DKK 1,000	2019	2018
Accounts receivables	625,993	269,348
Net accounts receivables	625,993	269,348
VAT	24,782	12,336
Other	20,738	10,599
Other receivables	45,520	22,936
Total short-term receivables	650,775	292,284
Long-term receivables	4,422	9,200
Total accounts receivables and other receivables	655,197	301,484
AGE DISTRIBUTION OF ACCOUNTS RECEIVABLES		
DKK 1,000	2019	2018
Receivables not overdue	515,125	205,064
Overdue 0–6 months	107,945	63,594
Overdue more than 6 months	2,923	690
Total	625,993	269,348

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

CURRENCY EXPOSURE TO ACCOUNTS RECEIVABLE

The Group holds accounts receivables in foreign currencies amounting to DKK 576.0 million at year-end 2019. (2018: DKK 209.6 million).

Below is presented the book value of receivables specified in currency, translated into

DKK employing the currency value at 31.12.

CURRENCY DISTRIBUTION OF RECEIVABLES

DKK 1,000	2019	2018
DKK	49,953	59,721
EUR	294,621	72,296
USD	109,054	96,217
GBP	115,605	10,639
NOK	36,025	26,636
Others	20,736	3,839
Total	625,993	269,348

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 3.9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of short-term bank deposits and were DKK 1,309 million at year-end 2019, compared to DKK 317 million at year-end 2018.

NOTE 3.10 SHARE CAPITAL AND MAJOR SHAREHOLDERS

Share capital:

DKK 1,000	2019	2018
Share capital at 01.01	59,143	48,858
Share capital at 31.12	59,143	48,858

The parent company's share capital comprises:

DKK	No. of Shares	Face Value	Share Capital
Ordinary shares	59,143,000	1	59,143,000
Total share capital			59,143,000

Reconciliation of outstanding shares:

	2019	2018
Outstanding shares at 01.01	48,655,500	48,621,140
Purchase of treasury shares	0	0
Sale of own shares to cover the employee bonus program	201,673	34,360
Issuing new shares	10,284,935	0
Outstanding shares at 31.12	59,142,108	48,655,500
Treasury shares at 31.12	892	202,565

All full-time employees from 2018, still employed in Bakka-frost, have received bonus shares in 2019 with a total value of 2% of paid out salary in 2018. In total, Bakka-frost has allocated 14,348 shares to its employees at a fair value of DKK 5.1 million. The grant date was 6 June 2019, and the share price was DKK 357.45 (NOK 469.40) per share.

SHAREHOLDERS

These shareholders held directly or indirectly more than 5% of the shares in the company as at 31 December 2019: 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	10,651	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	15,810	0.03%
Øystein Sandvik	Member of the Board	0	0.00%
Einar Wathne	Member of the Board	0	0.00%
Regin Jacobsen	Chief Executive Officer	4,615,963	7.80%
Odd Eliassen	Managing Director	183,870	0.31%
Høgne D. Jakobsen	Chief Financial Officer	140	0.00%

Dividend

The Board has proposed a dividend per share of DKK 8.31 for 2019. Dividends in 2018 were DKK 8.25 per share. The dividends proposed are to be approved at the Annual General Meeting and if approved, the total dividend payment will amount to DKK 491.5 million. The dividend proposal has not been recognized as a liability at 31 December 2019 but is presented as an item within equity.

NOTE 3.11 INTEREST-BEARING DEBT

DKK 1,000	2019	2018
Long-term interest-bearing debt	2,328,231	812,053
Derivatives	0	320
Total interest-bearing debt	2,328,231	812,373
Cash and cash equivalents	-1,309,546	-316,894
Net interest-bearing debt	1,018,685	495,479

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.

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

DKK 1,000	2019		2018	
	Carrying amount	Contractual payments	Carrying amount	Contractual payments
Credit facilities	2,328,231	2,348,488	804,131	812,053
Gross interest-bearing debt	2,328,231	2,348,488	804,131	812,053
Credit line		3,505,974		1,493,460
Available credit lines		1,177,742		680,806
Cash and cash equivalents		1,309,546		316,894
Total available credit lines		2,487,288		997,700

REMAINING PERIOD

31.12.2019	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest-bearing bank loans	0	0	2,328,231	0	2,328,231
Accounts payable and other debt	608,167	195,484	0	0	803,651

REMAINING PERIOD

31.12.2018	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest-bearing bank loans	0	0	812,053	0	812,053
Accounts payable and other debt	226,036	152,655	0	0	378,691

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

Financing of the Bakkafrøst Group is mainly executed by the parent company. Subsidiaries can only enter into external financing if it is seen favourable for the whole Bakkafrøst Group. The Group entered two financing agreements in 2019 – one through the parent company and one through its subsidiary The Scottish Salmon Company Limited.

Bakkafrøst P/F

In December 2019, Bakkafrøst signed fully secured five-year credit facilities of in aggregate EUR 352 million (the “New Agreement”) with Coöperatieve Rabobank U.A, DNB Bank ASA and Nordea Bank ABP (Filial i Norge). This New Facility comprised of a EUR 95 million multicurrency term loan facility and a EUR 257 million multicurrency revolving loan facility and allows for a future increase of the facilities of up to EUR 150 million subject to agreement with lenders.

Regarding the New Agreement, the covenant stipulates that the equity ratio of the Group must be at least 35%. Furthermore, the interest cover shall not be less than 3.00.

The Scottish Salmon Company Limited

Also, in December 2019, The Scottish Salmon Company Ltd (SSC). signed a fully secured five-year GBP 100 million multicurrency revolving credit facility with Coöperatieve Rabobank U.A, DNB (UK) Limited and Nordea Bank ABP (Filial i Norge). The financial covenants of the agreement states that

Maturity analysis - contractual payments

DKK 1,000	2020	2021	2022	2023	2024
Long-term credit facilities	0	0	0	0	2,328,231
Gross interest-bearing debt	0	0	0	0	2,328,231

Reconciliation of development in interest-bearing debt

	2018	Cash flows	Acquisition	Reclassification	FX movements	2019
Long term interest-bearing debt	812,053	1,211,347	304,832	0	0	2,328,231
Total interest-bearing debt	812,053	1,211,347	304,832	0	0	2,328,231

Reconciliation of development in interest-bearing debt

	2017	Cash flows	Acquisition	Reclassification	FX movements	2018
Long term interest-bearing debt	146,696	665,357	0	0	0	812,053
Short term interest-bearing debt	378,300	-367,450	0	0	-10,850	0
Total interest-bearing debt	524,996	297,907	0	0	-10,850	812,053

the SSC equity ratio must be at least 35%, and the interest cover shall not be less 3.00. In addition, if a margin step-up event occurs, the SSC shall ensure that the leverage ratio shall not at any time exceed 6.00.

Both Bakkafrøst P/F and The Scottish Salmon Company Plc complied with its covenants at the end of 2019.

The Bakkafrøst Group had total available bank finances of EUR 352 million and GBP 100 million. The undrawn amount at 31 December 2019 was DKK 2,470.0 million.

NOTE 3.12 MORTGAGES AND GUARANTEES

Carrying amount of debt secured by mortgages and pledges

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

As part of the guarantees are also any insurance refunds.

DKK 1,000	2019	2018
Long-term debt to financial institutions	2,328,231	812,053
Carrying amount of assets pledged as security for recognized debt		
Licences	4,277,587	372,138
Property, plant and equipment	3,051,180	2,162,917
Financial assets	1,428,628	57,497
Biological assets (biomass)	1,901,728	1,358,462
Inventory	548,509	435,218
Total	11,207,632	4,386,232

NOTE 3.13 DERIVATIVES

DKK 1,000	2019	2018
Currency swaps regarding forward contracts	14,452	320
Interest and currency swaps regarding bonds	1,007	0
Derivatives total	15,459	320

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

DKK 1,000	Fair Value 2019	Recognized in the Income Statement 2019	Recognized in equity 2019	Fair Value 2018	Recognized in the Income Statement 2018	Recognized in equity 2018
Currency derivatives	14.452	0	14.452	320	0	320
Interest and currency derivatives	1.007	0	1.007	0	0	0
Total	15.459	0	15.459	320	0	320

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

	Currency derivatives	Interest and currency derivatives	Total 2019	Currency derivatives	Interest and currency derivatives	Total 2018
Within one year	11.483	2.010	13.493	320	0	320
Between one and five years	2.969	-1.003	1.966	0	0	0
After five years	0	0	0	0	0	0
Total	14.452	1.007	15.459	320	0	320

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, held 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, remain in other comprehensive income until firm commitment affects profit or loss, or settlement payments are made.

NOTE 3.14 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. The Group has no provisions as per 31 December 2019.

PROVISIONS FOR ONEROUS CONTRACTS ACCOUNTING POLICIES

The Group enters into sales contracts for value added salmon products (VAP) on an on-going basis. The contracts involve physical settlement, and deliveries associated with the contracts, form part of the Group's normal business activities. The contracts contain no built-in derivative elements.

With respect to fixed-price contracts, which result in the Group being obligated to sell salmon products at a price less than production cost (including fair value adjustment of raw materials at the point of harvesting), the contracts are considered onerous, and provisions are calculated and entered to the statement of financial position. The provision is charged to the Income Statement.

SIGNIFICANT ASSUMPTION

The company holds long-term sale contracts related to salmon products. These contracts do not contain any elements of embedded derivatives and are therefore not treated as financial instruments. The contracts are settled, based exclusively on the assumption that delivery of salmon products should take place. The contracts are not tradable, nor do they contain a clause for settlement in cash or cash equivalents.

Provisions are made for estimated onerous contracts that oblige the Group to sell fish at a price less than calculated production costs including raw materials, biomass, measured at fair value.

NOTES - SECTION 4

Capital Structure and Financing Items

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

NOTE 4.1 FINANCIAL RISK MANAGEMENT

CAPITAL MANAGEMENT

The Group's objective, when managing capital, is to maintain a capital structure able to support the operations and maximize shareholder value. The farming business is characterized by price volatility and challenging production dynamics. The Group must be financially solid in order to be able to cope with fluctuations in profits and financial position, and the consolidated equity ratio shall at no time be lower than 35 percent. At 31 December 2019, the Group's equity ratio was 65 percent.

According to the Group's dividend policy, under normal circumstances, average dividends over several years should be 30 to 50 percent of the adjusted net profit. The Board has proposed a dividend of DKK 8.31 per share for the financial year 2019, corresponding to a distribution to shareholders of DKK 491.5 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. At 31 December 2019, net interest-bearing debt amounted to DKK 1,018.7 million. Note 3.10 provides an overview of the debt's maturity profile and information on the debt's financial covenants. Bakkafrøst complied with the covenants loan agreements at the end of 2019.

During Q4 2019, Bakkafrøst refinanced its bank facilities amounting to EUR 352 million with a further accordion option of EUR 150 million. In addition, bank facilities amounting to GBP 100 million were ensured to refinance The Scottish Salmon Company. Bakkafrøst also issued shares in Q3 and Q4 2019 amounting to NOK 5,142 million to finance the acquisition of The Scottish Salmon Company.

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 risks.

Further quantitative disclosures are included throughout these consolidated financial statements.

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

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

The Board of Directors believe that the most important measure against any risk is to have a strong financial position. At 31 December 2019, the Group's equity ratio was 65%.

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, the Group has financial instruments such as accounts receivables, cash, shares, accounts

payables, etc., which are ascribable directly to day-to-day business operations.

The Group uses financial derivatives, mainly currency forward contracts. The purpose of these instruments is to manage the currency risks arising from the Group's operations.

The Group does not employ financial instruments, including financial derivatives, for the purpose of arbitrage.

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 ex-

posure have been identified: Translational exposure, Transactional exposure and Economic currency exposure:

Translational exposure

Bakkafrost has subsidiaries abroad in Scotland, England, Shetland, USA 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

	Currency				
2019	EUR/DKK	GBP/DKK	USD/DKK	NOK/DKK	JPY/DKK
Cash and cash equivalents	478,875	88,869	309,152	288,238	8,585
Accounts receivables	304,021	115,608	109,840	36,025	10,618
Trade payables	-6,565	-211,901	-38,746	-12,262	0
Interest-bearing debt	-373,485	-517,124	0	0	0
Forward contracts	0	0	-25	-192,768	0
Net exposure	402,845	-524,548	380,221	119,232	19,202
2018	EUR/DKK	GBP/DKK	USD/DKK	NOK/DKK	JPY/DKK
Cash and cash equivalents	21,978	67,195	89,700	21,338	2,543
Accounts receivables	59,720	10,639	96,217	26,636	3,839
Trade payables	-7,184	-414	-6,631	-15,237	0
Interest-bearing debt	-373,365	0	0	0	0
Forward contracts	0	0	-320	0	0
Net exposure	-298,851	77,420	178,966	32,737	6,382

Sensitivity analysis

DKK 1,000

	Currency					
2019	EUR/DKK	GBP/DKK	USD/DKK	NOK/DKK	JPY/DKK	Result
Net exposure	402,845	-524,548	380,221	119,232	19,202	
Historical volatility for the last 5 years	0.33%	8.83%	8.12%	7.42%	8.99%	
Total effect on Profit of +movements	1,329	-46,318	30,874	8,847	1,726	-3,541
Total effect on Profit of -movements	-1,329	46,318	-30,874	-8,847	-1,726	3,541
2018	EUR/DKK	GBP/DKK	USD/DKK	NOK/DKK	JPY/DKK	Result
Net exposure	-298,851	77,420	178,966	32,737	6,382	
Historical volatility for the last 5 years	0.34%	8.66%	8.50%	7.91%	9.46%	
Total effect on Profit of +movements	-1,016	6,705	15,212	2,589	604	24,094
Total effect on Profit of -movements	1,016	-6,705	-15,212	-2,589	-604	-24,094

The analysis is based on the currencies that the Group is most exposed to at the end of 2019. 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 -3.5 million (2018: DKK 24.1 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 2019

Bakkafrost Group buys		Bakkafrost Group sells	
DKK 1,000			
DKK	26,742	USD	4,002
DKK	30,000	NOK	40,840
NOK	253,423	GBP	23,185

Currency forward contracts as at 31 December 2018

Bakkafrost Group buys		Bakkafrost Group sells	
DKK 1,000			
DKK	15,700	USD	2,475
NOK	0	DKK	0

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
2019	746.60	850.93	667.03	75.80	6.12
2018	745.32	842.44	631.74	77.69	5.72

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.

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 10.2 million (2018: DKK 5.0 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, and through maintaining sufficient liquid assets with the same relationship bank.

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

3.11 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 2019 included DKK 1,310 million (2018: DKK 317 million) (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, 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 1,981.1 million as at 31 December 2019 (2018: DKK 609.2 million). For age distribution of accounts receivables, please refer to Note 3.8.

Credit Risk	2019	2018
Accounts receivables	625,993	269,348
Other receivables	45,520	22,936
Cash and Cash equivalents	1,309,546	316,894
Total	1,981,059	609,178

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 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 and sensitivity refer to Note 3.7.

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 31st 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
Biological assets (biomass)	1,901,729	1,874,034	0	0	1,901,729
Assets measured at fair value 31.12.19	1,901,729	1,874,034	0	0	1,901,729
Liabilities measured at fair value 31.12.19	0	0	0	0	0
Biological assets (biomass)	1,358,462	975,687	0	0	1,358,462
Assets measured at fair value 31.12.18	1,358,462	975,687	0	0	1,358,462
Liabilities measured at fair value 31.12.18	0	0	0	0	0

NOTE 4.3 EARNINGS PER SHARE

DKK 1,000	2019	2018
Profit for the year to the shareholders of P/F Bakkafrøst	801,885	960,292
Fair value adjustment of biomass (IAS 41)	220,567	-195,819
Tax on fair value adjustment	-39,702	35,247
Adjusted profit for the year to shareholders of P/F Bakkafrøst	982,750	799,720
Ordinary shares as at 01.01.	59,143,000	48,858,065
Ordinary shares as at 31.12.	59,143,000	48,858,065
Time-weighted average number of shares outstanding through the year	51,624,366	48,645,774
	2019	2018
Earnings per share		
Basic (DKK)	15.53	19.74
Diluted (DKK)	15.53	19.74
Adjusted earnings per share (before fair value adjustments of biomass and provision for onerous contracts (adjusted EPS))		
Basic (DKK)	19.04	16.44
Diluted (DKK)	19.04	16.44

Bakkafrøst Group has no stock option programme running at present.

Earnings per share (EPS)

Basic earnings per share

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

Diluted earnings per share

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

Adjusted earnings per share

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

NOTES - SECTION 5

Other Disclosures

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

NOTE 5.1. CAPITAL COMMITMENTS

2019	2020	2021
Total contractual new hatchery stations in the Faroe Islands	53,600	53,600
Total contractual new marine sites and development of an existing freshwater site in Scotland.	121,000	0
Total contractual new biogas plant	7,100	0
Total contractual other PPE investments	89,700	0
Total	271,400	53,600

2018	2019	2020
Total contractual new hatchery stations	109,170	0
Total contractual new biogas plant	57,180	0
Total contractual other PPE investments	14,380	0
Total	180,730	0

The Group had capital expenditure committed but not provided in these accounts at the date of the Statement of Financial Position of approximately DKK 325 million. DKK 107 million relate to the building of new hatchery stations in the Faroe Islands. DKK 121 relate to new marine sites and development of an existing freshwater site in Scotland. DKK 7 million relate to the building of a new biogas plant.

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	2019	2018
Based on key personnel		
Revenues - Betri Trygging P/F	17,189	18,140
Purchase - Betri Trygging P/F	32,490	28,729
Accounts payable - Betri Trygging P/F	1,332	445
Revenues - Gist & Vist P/F	1,017	772
Purchase - Gist & Vist P/F	676	583
Accounts receivable - Gist & Vist P/F	166	0
Accounts payable - Gist & Vist P/F	4	0
Purchase - Frost P/F	1,425	4,794
Accounts payable - Frost P/F	248	26
Purchase - Tjaldur P/F	86,118	0
Accounts payable - Tjaldur P/F	6,246	0
Purchase - Advokatskrivstovan Í/F	203	0
Accounts payable - Advokatskrivstovan Í/F	203	0
Purchase - Petronavit AS	125	0
Accounts payable - Petronavit AS	125	0
Purchase - Ro Sommernes advokatfirma DA	619	0
Accounts payable - Ro Sommernes advokatfirma DA	619	0
Based on association		
Purchase - FF Skagen A/S	10,647	421
Accounts payable - FF Skagen A/S	189	38
Purchase - Pelagos P/F	32,239	26,208
Revenues - Salmon Proteins P/F	4,350	1,937
Accounts receivables - Salmon Proteins P/F	0	576
Accounts payable - Salmon Proteins P/F	671	0

NOTE 5.3 BUSINESS COMBINATIONS

On 25 September 2019, Bakkafrøst signed a binding Share Purchase Agreement (SPA) to acquire 68.6% of the outstanding shares in The Scottish Salmon Company Plc (SSC) from Northern Link Ltd. The closing date was 8 October 2019. Further acquisition has been made in Q4, and at 31 December 2019, Bakkafrøst held 95.6% of the shares in SSC.

SSC is an integrated salmon farming business operating exclusively in Scotland with 60 sites across the West Coast and Hebridean Islands. The company is engaged in nearly all stages of the value chain ensuring full traceability and total supply chain integrity. The current annual production capacity is 50,000 tonnes. SSC produced 33,798 tonnes gutted weight in 2019 and exported to 21 countries with a focus on North America and the Far East. SSC has developed a range of strong flagship brands, including Native Hebridean Salmon, Tartan Salmon Label Rouge and Lochlander Salmon. The company has 651 employees.

SSC's main office is in Edinburgh, Scotland.

Strategic Rationale

The strategic rationale for the acquisition includes the following:

- Increases the scope of Bakkafrøst's operation significantly and brings new growth and development opportunities to the Group.
- Provides Bakkafrøst access to the Scottish farming region, diversifying our farming operation into a new geography, which is a niche farming region with Scottish provenance products priced at a premium to the market.
- Creates a combined differentiated global leader in premi-

um salmon with dual exposure to both Faroe Islands and Scottish premium salmon.

- Positive diversification of Bakkafrøst's operations from a pure play Faroe Islands company to a presence in two attractive salmon farming markets, while remaining both focused on developed markets and markets for premium products.
- Potential for material improvement in The Scottish Salmon Company's profitability over a five-year horizon through realization of identified synergies, transfer of best practices and a targeted investment programme. Bakkafrøst expects to generate synergies in three key areas mainly related to Feed and Procurement, Sales Cooperation and SG&A and Overhead savings.
- Feed & Procurement: Bakkafrøst produces fish feed with a significantly higher marine index, compared to industry feed. Supplying feed to SSC would result in fixed cost efficiency at Bakkafrøst's feed facilities through inter-company sales of higher quality feed to SSC. Net synergy estimated at DKK 1.2 per kg feed, equating to annual synergies of approximately DKK 70 million from 2022 onwards (~NOK 2.6 / kg of SSC harvested salmon).
- Sales Cooperation: Both SSC and Bakkafrøst market premium salmon and brands that obtain a significantly higher price due to provenance and product differentiation. Both companies plan to drive efficiencies by coordinating sales efforts going forward, taking advantage of relative distribution strengths in global markets.
- SG&A & Overheads: Leaner head office structure in Scotland (through discontinuing the listed functions of SSC).

Bakkafrøst also believes that there is the potential for transfer of best practices including (i) secondments to stimulate identification and transfer of best practices, (ii) implementation of better farming procedures for improved cost performance, (iii) gradual consolidation of sites, (iv) mitigation of biological threats through delousing expertise. The overall result of these actions is expected to result in larger fish, improving price achievement and profitability.

Bakkafrøst also plans to make targeted investments to achieve the efficiencies outlined above. These include investment in a new modern recirculation plant for smolt production, replacing SSC's large number of small smolt facilities. Additionally, investments are planned to be directed towards replacing SSC's existing sea water equipment.

Bakkafrøst is committed to strong cooperation with local communities and authorities and hopes to stimulate employment through significant investment in the business. Additionally, Bakkafrøst is committed to ongoing work to strengthen the Scottish regulatory framework.

Net assets acquired

Most of SSC's intangible assets is related to licenses. Licenses are viewed as perpetual in nature and are thus not amortized but made subject to an annual impairment review.

We have identified three significant brand names in SSC, namely Tartan Salmon, Lochlander Salmon and Native Hebridean. The remaining volumes are sold under the general Scottish Salmon Company brand, to a large extent to wholesalers and directly to customers. Brand is valued by the income approach by calculating the net present value (NPV).

We expect that most of the excess value from the transaction is related to licenses, and the question will be, where to draw the line between goodwill and licenses. In the PPA, we have allocated value to all other identified assets including brand value, and the remaining excess value is subsequently allocated to licenses. We have then assessed this value by utilizing a top-down market approach. Please refer to present page regarding strategic rationale.

We have not seen any indicators that the respective trade names have a definite expected life.

The aggregated goodwill of DKK 550.4 million recognized, arises from the tax calculations on the fair value adjustments. The table below summarizes the consideration paid for SSC and the assessed fair value of the assets acquired and liabilities assumed, recognized at the acquisition date.

The figures provided are subject to further scrutiny and may change as Bakkafrøst becomes able to gain access to more information from SSC, within the 12-month period stipulated by IFRS 3.

Acquisition-related costs were expensed to the profit or loss as incurred and included within operating cash flows in the Statement of Cash Flow. Total cost for Bakkafrøst is DKK 10.8 million, and costs held by SSC are DKK 57.0 million.

DKK 1,000,000	Book Value 8.10.2019	Fair Value adjustment	8/10/2019
Goodwill	50.9	499.6	550.4
Licenses	201.8	3,131.6	3,333.5
Brands	0	108.4	108.4
Property, plant and equipment	702.2	0	702.2
Accounts receivables	123.4	0	123.4
Inventories	31.7	0	31.7
Biological assets	660.5	0	660.5
Other current assets, excluding cash and bank	40.9	0	40.9
Cash, bank and marketable securities	32.5	0	32.5
Total assets	1,844.0	3,739.6	5,583.6
Deferred taxes	1.7	551.3	552.9
Other long-term liabilities	198.5	0	198.5
Long-term liabilities, interest-bearing	192.7	0	192.7
Current liabilities, interest-bearing	108.4	0	108.4
Accounts payable	201.8	0	201.8
Other current liabilities	239.4	0	239.4
Current taxes	8.3	0	8.3
Total liabilities	950.7	551.3	1,502.0
Net assets acquired			4,081.5
Purchase price allocation:			
Purchase price for shares (68.6%)			2,800.4
Purchase price for shares (100%)			4,081.5
Transaction value (market value of equity)			4,081.5

Proforma figures

On 8 October 2019, Bakkafrøst acquired 68.6% of the share capital in The Scottish Salmon Company Plc. Consequently, the comparison figures for 2019 do not provide an adequate basis for comparison, as The Scottish Salmon Company is incorporated into the Profit & Loss statement from 8 October 2019.

In order to give an adequate basis for comparison, the following pro forma financial information, which presents the Profit & Loss statement as if the merger took place on 1 January 2019, is provided. The pro forma financials present the joint activity as one reporting entity for the period. The pro forma figures are based on the actual financial figures of the Groups.

DKK 1,000	Proforma 2019
Operating revenue	5,779,903
Operating costs	-3,859,827
Depreciation	-503,474
Operational EBIT *	1,416,602
Fair value adjustments of biological assets	-670,764
Income from associates	13,812
Revenue tax	-99,128
Earnings before interest and taxes (EBIT)	660,522
Net financial items	-58,361
Earnings before taxes (EBT)	602,161
Taxes	-118,876
Profit or loss for the period	483,285

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

2018:

On 1 July 2018, Bakkafrøst purchased the business and assets in North Landing via Bakkafrøst USA LLC.

The purchase is paid in cash and financed by existing facilities. The key employees of North Landing will continue in Bakkafrøst USA LLC.

The fair value of intangible assets has been determined on an estimated fair value. Fair value has been identified in cus-

tomers relationship employing generally accepted valuation techniques. The market value of the customer relationship is measured to DKK 6.2 million.

The fair value of property, plant and equipment has been determined based on a 3rd party valuation.

From 1 July to 31 December 2018, the acquired business contributed with a result of -8.5 mDKK to the Group's result.

Identifiable assets assumed:

DKK 1,000	2018
Intangible assets	13,948
Property, plant and equipment	13,372
Inventory	1,590
Total net identifiable assets	28,910

NOTE 5.4 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 and has not 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.

On 28 February 2020, a severe storm hit the Faroe Islands. The four-day storm caused damage on two of Bakkafrost's farming sites in the South Island (Suðuroy); A23 Hvalba and A15 Froðba. In total, Bakkafrost lost around 1 million fish with an average weight of 2.1 kg.

Bakkafrost has previously guided on an expected harvest for 2020 of 57,000 tonnes gw in the Faroe Islands. This incident is expected to reduce the harvest in 2020 in the Faroe Islands by 5-6,000 tonnes gw.

Apart from this incident, no events from the date of the statement of financial position until today materially influence the information provided by this report.

NOTE 5.5 AUDITOR'S FEES

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

DKK 1,000	2019	2018
Statutory auditing	947	898
Tax advisory services	12	8
Other services	309	175
Total auditor's fees	1,268	1,081

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 2019 are based on the assumption that Bakkafrost is a going concern. In the opinion of the Board, the Group's financial position is good.

NOTE 5.7 ALTERNATIVE PERFORMANCE MEASURES

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

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

NIBD

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

	31.12.2019	31.12.2018
DKK 1,000		
Cash and cash equivalents	1,309,546	316,894
Derivatives	0	-320
Long- and short-term interest-bearing debt	-2,328,231	-812,053
Net interest-bearing debt	-1,018,685	-495,479

Operational EBIT

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

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

	2019	2018
DKK 1,000		
EBIT	1,019,217	1,184,233
Fair value adjustments of biological assets	220,567	-195,819
Income from associates	-13,812	-9,369
Revenue tax - FO	99,128	95,867
Operational EBIT	1,325,100	1,074,912

Operational EBIT per kg:

Farming segment:

Operational EBIT Farming segment

Total harvested volumes (gw)

VAP segment:

Operational EBIT VAP segment

Total volumes produced (raw material gw)

Farming and VAP:

Operational EBIT Farming and VAP segment

Total harvested volumes (gw)

EBITDA

Earnings before interest, tax, depreciations and amortizations (EBITDA) is a key financial parameter for Bakkafrost'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 Bakkafrost'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 Bakkafrost's FOF segments competitors. The EBITDA margin presented is defined as EBITDA before other income and other expenses divided by total revenues.

DKK 1,000	2019	2018
Profit for the year to the shareholders of P/F Bakkafrøst	801,885	960,292
Fair value adjustment of biomass	220,567	-195,819
Tax on fair value adjustment and onerous contracts provisions	-39,702	35,247
Adjusted profit for the year to shareholders of P/F Bakkafrøst	982,750	799,720
Time-weighted average number of shares outstanding through the year	51,624,366	48,645,774
Adjusted earnings per share (before fair value adjustment of biomass and provisions for onerous contracts) (adjusted EPS)	19.04	16.44

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.

Financial Statements

P/F BAKKAFROST



P/F BAKKAFROST

Table of Contents

P/F BAKKAFROST – Income Statement for the year ended 31 December	149
P/F BAKKAFROST – Statement of Financial Position as at 31 December	150
P/F BAKKAFROST – Cash Flow Statement for the year ended 31 December	152
P/F BAKKAFROST – Statement of Changes in Equity as at 31 December	153
<hr/>	
Note 1 - Accounting Policies	154
Note 2 - Salaries and other Personnel Expenses	154
Note 3 - Net Financial Items	155
Note 4 - Property, Plant and Equipment	156
Note 5 - Subsidiaries and Associates	157
Note 6 - Investments in Stocks and Shares	159
Note 7 - Share Capital and Major Shareholders	159
Note 8 - Tax	160
Note 9 - Security Pledges and Contingent Liabilities	161
Note 10 - Related-Party Transactions	161

P/F BAKKAFROST

Income Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2019	2018
Operating revenue		147,843	116,855
Salary and personnel expenses	2	-37,271	-29,793
Other operating expenses		-94,188	-61,044
Depreciation	4	-30,729	-29,066
Earnings before interest and taxes (EBIT)		-14,345	-3,048
Dividends from subsidiaries	5	841,190	1,013,205
Income from other investments in shares	6	36	9,538
Financial income	3	12,265	10,592
Net interest expenses	3	-9,985	-10,338
Net currency effects	3	-10,842	-4,838
Other financial expenses	3	-13,124	-3,339
Earnings before taxes (EBT)		805,195	1,011,772
Taxes	8	-4,365	190
Profit to shareholders of P/F Bakkafrøst		800,830	1,011,962
Distribution of profit			
Dividends		491,478	403,079
Retained earnings		309,352	608,883
Distribution in total		800,830	1,011,962

P/F BAKKAFROST

Statement of Financial Position

AS AT 31 DECEMBER

DKK 1,000	Note	2019	2018
ASSETS			
Non-current assets			
Intangible assets		1,000	1,000
Total intangible assets		1,000	1,000
Property, plant and equipment			
Land, buildings and other real estate	4	348,319	358,864
Plant, machinery and other operating equipment	4	15,196	32,868
Total property plant and equipment		363,515	391,732
Non-current financial assets			
Investments in subsidiaries	5	5,408,693	1,400,671
Investments in stocks and shares	6	1,236	1,764
Receivables from Group companies		100,599	0
Total non-current financial assets		5,510,528	1,402,435
TOTAL NON-CURRENT ASSETS		5,875,043	1,795,167
Inventory		18,448	16,087
Total inventory		18,448	16,087
Receivables from Group companies		3,688,612	2,789,791
Accounts receivables		2,461	12,257
Other receivables		236	14,276
Total receivables		3,691,309	2,816,324
Cash and cash equivalents		589,264	135,168
TOTAL CURRENT ASSETS		4,299,021	2,967,579
TOTAL ASSETS		10,174,064	4,762,746

DKK 1,000	Note	2019	2018
EQUITY AND LIABILITIES			
Equity			
Share capital	7	59,143	48,858
Other equity		8,093,403	3,898,368
Total equity		8,152,546	3,947,226
Non-current liabilities			
Long-term interest-bearing debt	9	1,710,672	765,564
Deferred taxes	8	11,372	11,347
Total non-current liabilities		1,722,044	776,911
Current liabilities			
Derivatives	3.13	633	320
Payables to Group companies		274,878	0
Accounts payable		13,741	14,623
Other short-term liabilities		10,222	23,666
Total current liabilities		299,474	38,609
Total liabilities		2,021,518	815,520
TOTAL EQUITY AND LIABILITIES		10,174,064	4,762,746

P/F BAKKAFROST

Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2019	2018
Cash flow from operations			
Operating profit (EBIT)		-14,345	-3,048
Adjustments for write-downs and depreciation	4	30,729	29,066
Adjustments for net currency effects		-10,842	-4,838
Adjustments for share-based payment	2	503	455
Taxes paid	8	-21,970	292
Change in inventory		-2,361	-4,697
Change in receivables		23,836	59,327
Change in current debts		2,895	25,324
Cash flow from operations		8,445	101,881
Cash flow from investments			
Increase of share capital in subsidiaries, etc., net	5	-4,008,022	-5,000
Proceeds from sales of purchase of fixed assets		522	0
Payments made for purchase of fixed assets	4	-3,034	3,627
Cash flow from investments		-4,010,632	-1,373
Cash flow from financing			
Changes in interest-bearing debt (short and long)		945,421	111,760
Financial income		12,265	10,592
Financial expenses		-23,109	-13,677
Financing of associates/subsidiaries		-724,542	-728,173
Acquisition/sale treasury shares		75,349	1,229
Dividend from subsidiaries	5	841,190	1,013,205
Emission – increase of share capital		3,731,123	0
Dividend paid		-401,512	-510,693
Cash flow from financing		4,456,185	-115,757
Net change in cash and cash equivalents		454,096	-15,249
Cash and cash equivalents – opening balance		135,168	150,417
Cash and cash equivalents – closing balance total		589,264	135,168

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
1 January 2019	48,858	117,368	-15,525	1,219	-265	403,079	3,392,492	3,947,226
Net annual profit	0	0	0	0	0	0	860,725	860,725
Other comprehensive income:								
Fair value adjustment on financial derivatives	0	0	0	0	-311	0	0	-311
Income tax effect	0	0	0	0	56	0	0	56
Total other comprehensive income	0	0	0	0	-255	0	0	-255
Total comprehensive income	0	0	0	0	-255	0	860,725	860,470
Transaction with owners:								
Emission - increase share capital	10,285	3,720,838	0	0	0	0	0	3,731,123
Treasury shares	0	0	15,457	0	0	0	0	15,457
Share-based payment	0	0	0	-218	0	0	0	-218
Dividend treasury shares	0	0	0	0	0	0	1,567	1,567
Paid-out dividends	0	0	0	0	0	-403,079	0	-403,079
Proposed dividends	0	0	0	0	0	491,478	-491,478	0
Total transaction with owners	10,285	3,720,838	15,457	-218	0	88,399	-489,911	3,344,850
Total changes in equity	10,285	3,720,838	15,457	-218	-255	88,399	370,814	4,205,320
31 December 2019	59,143	3,838,206	-68	1,001	-520	491,478	3,763,306	8,152,546
1 January 2018	48,858	117,368	-18,159	764	-104,352	513,009	2,897,179	3,454,667
Net annual profit	0	0	0	0	0	0	1,011,962	1,011,962
Other comprehensive income:								
Fair value adjustment on financial derivatives	0	0	0	0	126,935	0	-138,748	-11,813
Income tax effect	0	0	0	0	-22,848	0	22,848	0
Total other comprehensive income	0	0	0	0	104,087	0	-115,900	-11,813
Total comprehensive income	0	0	0	0	104,087	0	896,062	1,000,149
Transaction with owners:								
Treasury shares	0	0	2,634	0	0	0	-2,634	0
Share-based payment	0	0	0	455	0	0	0	455
Dividend treasury shares	0	0	0	0	0	0	2,648	2,648
Proceeds/acquisition treasury shares	0	0	0	0	0	0	2,316	2,316
Paid-out dividends	0	0	0	0	0	-513,009	0	-513,009
Proposed dividends	0	0	0	0	0	403,079	-403,079	0
Total transaction with owners	0	0	2,634	455	0	-109,930	-400,749	-507,590
Total changes in equity	0	0	2,634	455	104,087	-109,930	495,313	492,559
31 December 2018	48,858	117,368	-15,525	1,219	-265	403,079	3,392,492	3,947,226

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

DKK 1,000	2019	2018
Wages and salaries	-28,426	-23,966
Share based payments	-503	-455
Social security taxes	-1,137	-891
Pension expenses	-1,301	-1,133
Other benefits	-5,904	-3,349
Total payroll expenses	-37,271	-29,793
Average number of full-time employees	35	38

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	2019	2018
Interests received from Group companies	7,378	8,465
Other financial income	4,887	2,127
Financial income	12,265	10,592
Interest expenses on long- and short-term loans	-9,985	-10,334
Interest expenses on accounts payable	0	-4
Financial expenses	-9,985	-10,338
Exchange gain on bond	0	-10,850
Other exchange differences	-10,842	6,012
Net currency effects	-10,842	-4,838
Other financial expenses	-13,124	-3,339
Other financial items	-13,124	-3,339
Net financial items	-21,686	-7,922

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

DKK 1,000	Land and buildings	Other equipment	Total
Acquisition cost as at 01.01.19	415,081	50,735	465,816
Disposals and scrapping during the year - reclass	0	-597	-597
Acquisitions during the year	859	2,175	3,034
Acquisition cost as at 31.12.19	415,940	52,313	468,253
Accumulated depreciation and write-down as at 01.01.19	-56,218	-17,867	-74,085
Depreciations during the year related to disposals	0	75	75
Depreciations during the year	-11,404	-19,325	-30,729
Accumulated depreciation and write-down as at 31.12.19	-67,622	-37,117	-104,739
Net book value as at 31.12.19	348,319	15,196	363,515
Acquisition cost as at 01.01.18	420,460	49,522	469,982
Disposals and scrapping during the year - reclass	-9,006	-998	-10,004
Acquisitions during the year	3,627	2,211	5,838
Acquisition cost as at 31.12.18	415,081	50,735	465,816
Accumulated depreciation and write-down as at 01.01.18	-33,209	-12,348	-45,557
Depreciations during the year related to disposals	0	538	538
Depreciations during the year	-23,009	-6,058	-29,066
Accumulated depreciation and write-down as at 31.12.18	-56,218	-17,867	-74,085
Net book value as at 31.12.18	358,864	32,868	391,732

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

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

NOTE 5. SUBSIDIARIES AND ASSOCIATES

DKK 1,000	2019	2018
Acquisition cost as at 01.01.	1,403,437	1,398,437
Additions during the year	4,008,022	5,000
Acquisition cost as at 31.12.	5,411,459	1,403,437
Re-evaluations as at 01.01.	-2,766	-2,766
Re-evaluations as at 31.12.	-2,766	-2,766
Net book value as at 31.12.	5,408,693	1,400,671

DKK 1,000 Company	Cost Method Yes/No	Head Office	Ownership	Voting share	Carrying amount in P/F Bakkafrøst 2019	Carrying amount in P/F Bakkafrøst 2018
P/F Bakkafrøst Processing	Yes	Glyvvar	100%	100%	258,591	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 Farming	Yes	Glyvvar	100%	100%	314,887	314,887
P/F Havsbrún	Yes	Glyvvar	100%	100%	908,884	908,884
Bakkafrøst UK Ltd	Yes	Grimsby	100%	100%	4,649	4,649
Bakkafrøst Danmark ApS	Yes	Glyvvar	100%	100%	50	0
The Scottish Salmon Company Plc	Yes	Edinburgh	95.6%	95.6%	3,907,972	0
P/F Förka	Yes	Glyvvar	100%	100%	5,000	5,000
Total subsidiaries					5,408,693	1,400,671

DKK 1,000	Dividends*	Excess dividends on result	Result 2019	Result 2018
P/F Bakkafrøst Farming	486,391	130,506	616,897	486,461
P/F Bakkafrøst Sales	165,586	-29,334	136,252	165,590
P/F Bakkafrøst Packaging	7,167	6,011	13,178	7,175
P/F Bakkafrøst Processing	0	30,723	30,723	-44,595
P/F Havsbrún	182,046	25,029	207,075	191,104
Bakkafrøst UK Ltd.	0	12,059	12,059	6,842
The Scottish Salmon Company Plc**	0	-191,377	-191,377	0
P/F Förka	0	-166	-166	8
Total revenue Group contribution	841,190	-16,549	824,641	812,585

* Dividends from subsidiaries paid out in 2019

** Since acquisition 8/10-19

NOTE 6. INVESTMENTS IN STOCKS AND SHARES

DKK 1,000	2019	2018
Acquisition cost as at 01.01.	183	183
Acquisition cost as at 31.12.	183	183
Re-evaluations as at 01.01.	1,581	1,558
Re-evaluations during the year	-528	23
Re-evaluations as at 31.12.	1,053	1,581
Net book value as at 31.12.	1,236	1,764

Shares and holdings, in which the Group does not have significant influence. These are valued at cost, since fair value cannot be measured reliably.

NOTE 7. SHARE CAPITAL AND MAJOR SHAREHOLDERS

DKK 1,000	2019	2018
Share capital at 31.12.	48,858	48,858
Emission - increase of share capital	10,285	0
Share capital at 31.12.	59,143	48,858

The share capital is distributed into shares of DKK 1 and multiples thereof. For shareholders holding more than 5% in the Company as at 31 December 2019, see Group Accounts.

NOTE 8. TAX

The tax expense for the year breaks down as follows:

DKK 1,000	2019	2018
Tax payable	-4,284	-21,970
Change in deferred tax	-81	22,160
Tax expense on ordinary profit	-4,365	190
Tax in the statement of financial position		
Deferred tax	11,372	11,347
Tax in the statement of financial position	11,372	11,347
Specification of temporary differences		
Property, plant and equipment	63,811	63,360
Swaps	-633	-320
Total temporary differences	63,178	63,040
Deferred tax liabilities (+) / assets (-)	11,372	11,347
Reconciliation from nominal to actual tax rate		
Profit before tax	805,195	1,011,772
Expected tax at nominal tax rate (18%)	-144,935	-182,119
Permanent differences, including Group contribution without tax effect (18%)	151,414	182,377
Other permanent differences (18%)	-10,844	-68
Calculated tax expense	-4,365	190
Effective tax rate	-0.54%	0.02%

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	2019	2018
Long-term debt to financial institutions	1,710,672	765,564
Total	1,710,672	765,564

Carrying amount of assets pledged as security for recognized debt

Property, plant and equipment	363,515	391,732
Non-current financial assets	5,510,528	1,402,435
Receivables	3,691,309	2,816,324
Total	9,565,352	4,610,491

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 Bakka-frost Group, Bakka-frost 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 21.2 million (2018: DKK 19.7 million), allocation of administration etc. DKK 73.6 million (2018: DKK 64.9 million), financial incomes of DKK 7.4 million (2018: DKK 8.5 million) and financial expenses amounting to DKK 0.0 million (2018: DKK 0.0 million). The principle of arm's length is used in all transactions with related parties.

APPENDIX

Quarterly financial figures 2017-2019

DKK 1,000	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Operating revenue	853,681	1,206,148	804,150	906,070	851,156	954,316	621,602	750,348	963,709	946,506	996,050	1,604,842
Purchase of goods	-273,978	-240,697	-159,166	-210,030	-289,145	-254,324	-177,389	-332,721	-361,540	-366,899	-274,775	-351,707
Change in inventory and biological assets (at cost)	82,501	-137,750	-72,885	-13,272	31,393	6,770	7,117	154,416	34,013	134,296	-34,510	-163,222
Salary and personnel expenses	-95,433	-112,729	-85,361	-106,744	-91,183	-87,115	-71,940	-103,518	-114,552	-117,690	-95,713	-184,806
Other operating expenses	-189,700	-210,361	-184,755	-198,452	-188,224	-163,172	-158,008	-186,569	-200,153	-199,656	-218,367	-360,611
Depreciation	-41,617	-45,454	-50,187	-46,332	-45,775	-48,582	-53,094	-51,447	-53,773	-57,793	-69,304	-129,245
Operational EBIT	335,454	459,157	251,796	331,240	268,222	407,893	168,288	230,509	267,704	338,764	303,381	415,251
Fair value adjustments on biological assets	-234,577	54,853	-155,122	-358,694	107,131	34,777	293,459	-239,548	17,871	-65,536	-69,804	-103,098
Onerous contracts	30,132	25,087	12,157	0	0	-6,109	-10,968	17,076	0	0	0	0
Income from associates	2,252	-2,312	-1,037	18,399	2,419	-1,695	-2,459	11,104	6,947	-4,408	7,620	3,653
Revenue tax - FO	-30,212	-45,468	-23,712	-20,289	-26,327	-31,411	-14,092	-24,036	-31,994	-32,031	-20,616	-14,487
Earnings before interest and taxes (EBIT)	103,049	491,317	84,082	-29,344	351,445	403,455	434,228	-4,895	260,528	236,789	220,581	301,319
Net interest revenue	190	364	456	385	1,001	621	467	562	111	638	850	3,397
Net interest expenses	-7,198	-6,349	-6,814	-6,004	-4,925	-3,019	-2,271	-2,262	-1,865	-2,534	-3,011	-9,704
Net currency effects	1,841	2,277	-8,728	9,260	-13,159	12,347	1,938	293	1,425	-4,760	5,165	-14,500
Other financial expenses	-1,162	-1,165	-1,035	-1,538	-1,627	-815	-799	-519	-864	-974	-935	-9,740
Earnings before taxes (EBT)	96,720	486,444	67,961	-27,241	332,735	412,589	433,563	-6,821	259,335	229,159	222,650	270,772
Taxes	-17,690	-88,378	-11,746	5,332	-60,434	-73,833	-77,708	201	-46,499	-40,557	-41,715	-51,260
Profit or loss for the period	79,030	398,066	56,215	-21,909	272,301	338,756	355,855	-6,620	212,836	188,602	180,935	219,512
Earnings per share (DKK)	1.63	8.19	1.16	-0.45	5.60	6.96	7.32	-0.14	4.37	3.88	3.67	4.25
Diluted earnings per share (DKK)	1.63	8.19	1.16	-0.45	5.60	6.96	7.32	-0.14	4.37	3.88	3.67	4.25

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

DKK 1,000	31.3	30.6	30.9	31.12	31.3	30.6	30.9	31.12	31.3	30.6	30.9	31.12
	2017	2017	2017	2017	2018	2018	2018	2018	2019	2019	2019	2019
ASSETS												
Non-current assets												
Intangible assets	376,675	376,675	376,675	376,675	376,675	376,675	388,934	389,745	391,042	390,456	390,456	4,277,587
Property, plant and equipment	2,256,205	2,380,348	2,447,998	2,570,430	2,636,126	2,714,633	2,788,753	2,884,325	3,004,587	3,112,331	3,215,676	4,113,323
Financial assets	61,652	59,340	58,303	76,702	79,121	79,310	101,864	112,766	115,725	111,268	494,006	119,084
Long-term receivables	0	0	0	0	9,200	9,200	9,200	9,200	7,688	3,446	3,446	4,422
Total non-current assets	2,694,532	2,816,363	2,882,976	3,023,807	3,101,122	3,179,818	3,288,751	3,396,036	3,519,042	3,617,501	4,103,584	8,514,416
Current assets												
Biological assets (biomass)	1,645,053	1,543,687	1,416,990	1,096,664	1,114,678	1,107,275	1,562,940	1,358,462	1,290,944	1,231,495	1,268,948	1,901,729
Inventory	422,203	459,955	352,858	305,845	428,639	478,872	330,851	438,847	562,817	697,073	534,057	548,508
Total inventory	2,067,256	2,003,642	1,769,848	1,402,509	1,543,317	1,586,147	1,893,791	1,797,309	1,853,761	1,928,568	1,803,005	2,450,237
Financial derivatives	0	0	0	0	0	0	0	0	0	0	575	0
Accounts receivable	253,487	325,358	333,423	262,493	244,231	352,437	247,657	269,348	429,608	371,960	356,026	625,993
Other receivables	108,860	134,364	31,845	157,156	75,008	67,591	54,365	22,936	22,444	28,884	35,970	83,113
Total receivables	362,347	459,722	365,268	419,649	319,239	420,028	302,022	292,284	452,052	400,844	392,571	709,106
Cash and cash equivalents	499,174	353,349	347,394	309,551	668,361	284,329	306,167	316,894	341,574	322,694	2,611,554	1,309,546
Total current assets	2,928,777	2,816,713	2,482,510	2,131,709	2,530,917	2,290,504	2,501,980	2,406,487	2,647,387	2,652,106	4,807,130	4,468,889
TOTAL ASSETS	5,623,309	5,633,076	5,365,486	5,155,516	5,632,039	5,470,322	5,790,731	5,802,523	6,166,429	6,269,608	8,910,714	12,983,305

DKK 1,000	31.3	30.6	30.9	31.12	31.3	30.6	30.9	31.12	31.3	30.6	30.9	31.12
	2017	2017	2017	2017	2018	2018	2018	2018	2019	2019	2019	2019
EQUITY AND LIABILITIES												
Equity												
Share capital	48,858	48,858	48,858	48,858	48,858	48,858	48,858	48,858	48,858	48,859	53,658	59,294
Other equity	3,578,804	3,549,785	3,612,988	3,577,571	3,842,919	3,676,540	4,033,116	4,028,171	4,240,869	4,035,000	5,984,391	8,153,361
Non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	167,620
Total equity	3,627,662	3,598,643	3,661,846	3,626,429	3,891,777	3,725,398	4,081,974	4,077,029	4,289,727	4,083,859	6,038,049	8,380,275
Non-current liabilities												
Deferred and other taxes	562,299	647,842	660,664	455,449	538,840	613,025	690,629	534,430	581,371	622,500	672,628	1,122,296
Long-term interest-bearing debt	507,096	476,566	256,475	146,696	770,383	727,474	591,956	812,053	862,944	1,066,266	1,340,073	2,328,231
Long-term leasing debt	0	0	0	0	0	0	0	0	60,816	71,445	71,109	226,479
Total non-current liabilities	1,069,395	1,124,408	917,139	602,145	1,309,223	1,340,678	1,282,585	1,346,483	1,505,131	1,760,211	2,083,810	3,677,006
Current liabilities												
Financial derivatives	104,899	117,858	110,798	127,255	0	0	630	320	613	0	0	633
Short-term interest-bearing debt	405,650	388,500	395,350	378,300	0	0	0	0	0	0	0	0
Short-term leasing debt	0	0	0	0	0	0	0	0	0	0	0	106,914
Accounts payable and other debt	415,703	403,667	280,353	421,387	431,039	404,246	425,542	378,691	370,958	425,538	788,855	818,477
Total current liabilities	926,252	910,025	786,501	926,942	431,039	404,246	426,172	379,011	371,571	425,538	788,855	926,024
Total liabilities	1,995,647	2,034,433	1,703,640	1,529,087	1,740,262	1,744,924	1,708,757	1,725,494	1,876,702	2,185,749	2,872,665	4,603,030
TOTAL EQUITY AND LIABILITIES	5,623,309	5,633,076	5,365,486	5,155,516	5,632,039	5,470,322	5,790,731	5,802,523	6,166,429	6,269,608	8,910,714	12,983,305

Market Announcements Published in 2019

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

Q1 2019

3 January 2019: Q4 2018 Trading Update
 13 January 2019: CFO Resigns
 15 February 2019: New CFO Appointed
 19 February 2019: Q4 2018 Interim Results and Full Year 2018
 19 February 2019: Key Information Regarding Cash Dividend for Bakkafrøst
 22 February 2019: Aut. no. FO 125 Glyvrrar Open for Export to Russia
 12 March 2019: Annual Report 2018 and Sustainability Report 2018
 12 March 2019: Notice to the Annual General Meeting

Q2 2019

2 April 2019: Q1 2019 Trading Update
 5 April 2019: Protocol from Annual General Meeting
 8 April 2019: Ex Dividend DKK 8.25
 8 April 2019: Payment of Dividend in NOK on 26 April 2019
 6 May 2019: Q1 2019 Interim Results

Q3 2019

2 July 2019: Q2 2019 Trading Update
 20 August 2019: Q2 2019 Interim Results
 26 September 2019: Notice of an Extraordinary General Meeting
 27 September 2019: Subsequent Offering of New Shares
 27 September 2019: Key Information Relating to a Contemplated Subsequent Offering
 27 September 2019: Flagging in The Scottish Salmon Company Plc
 30 September 2019: Completion of Capital Increase

Q4 2019

2 October 2019: Q3 2019 Trading Update
 8 October 2019: Closing of the Acquisition of a Majority of the Shares in The Scottish Salmon Company
 10 October 2019: Financial Calendar
 18 October 2019: Extraordinary General Meeting
 22 October 2019: Capital Increase Completed - Primary Insider Holding Updated
 4 November 2019: Update on Mandatory Offer for The Scottish Salmon Company
 5 November 2019: Q3 2019 Interim Results
 8 November 2019: Mandatory Bid for the Depositary Receipts and Outstanding Common Shares in The Scottish Company Plc (the "Company")
 20 November 2019: Approved Prospectus and Subsequent Offering
 5 December 2019: Preliminary Results of the Subsequent Offering
 6 December 2019: Final Results of the Subsequent Offering
 9 December 2019: Refinancing of Bank Facilities
 10 December 2019: Update on the Mandatory Offer for the Depositary Receipts and Outstanding Common Shares in The Scottish Salmon Company Plc
 11 December 2019: Settlement Date for the Mandatory Offer for the Depositary Receipts and Common Shares in The Scottish Salmon Company Plc
 12 December 2019: Capital Increase Completed, Update on the Number of Shares Listed
 16 December 2019: Allocation of Shares from the Subsequent Offer to Primary Insiders
 17 December 2019 Settlement Completed for the Mandatory Offer for the Depositary Receipts and Outstanding Common Shares in SSC
 3 January 2020: Q4 2019 Trading Update
 13 January 2020: Compulsory Acquisition of Remaining Shares in The Scottish Salmon Company Plc

Financial Calendar for 2020

■ 3 April 2020	Annual General Meeting
■ 5 May 2020	Presentation of Q1 2020
■ 25 August 2020	Presentation of Q2 2020
■ 10 November 2020	Presentation of Q3 2020

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

Annual General Meeting will take place at Bakkavegur 9, Glyvrrar, 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, will be updated accordingly.

Glossary

AGM: Annual General Meeting
ASC: Aquaculture Stewardship Council

CGU: Cash-generating Unit

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

FOF: Fishmeal, Oil and Feed

FO: Faroe Islands

HACCP: Hazard Analyses Critical Control Point

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

LW: Live Weight

NIBD: Net Interesting Bearing Debt

PP&E: Property, Plant and Equipment

R&D: Research and Development Costs

SCT: Scotland

SSC: The Scottish Salmon Company Plc

TGW: Tonnes Gutted Weight

USP: Unique Selling Points

VAT: Value Added Tax

VAP: Value Added Products; Value Added Production

WACC: Weighted Average Cost of Capital

WFE: Whole Fish Equivalent

