

AGD AND ISA – INCREASED RISK OR IMPROVED CONTROL ON THE FAROE ISLANDS

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Bergen 6th March 2014

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- **SUMMARY OF Q4 2013**

- FINANCIAL HIGHLIGHTS

- INCREASED RISK OR IMPROVED CONTROL ON THE FAROE ISLANDS

- GROUP FINANCIALS

- INVESTMENTS 2013-2017

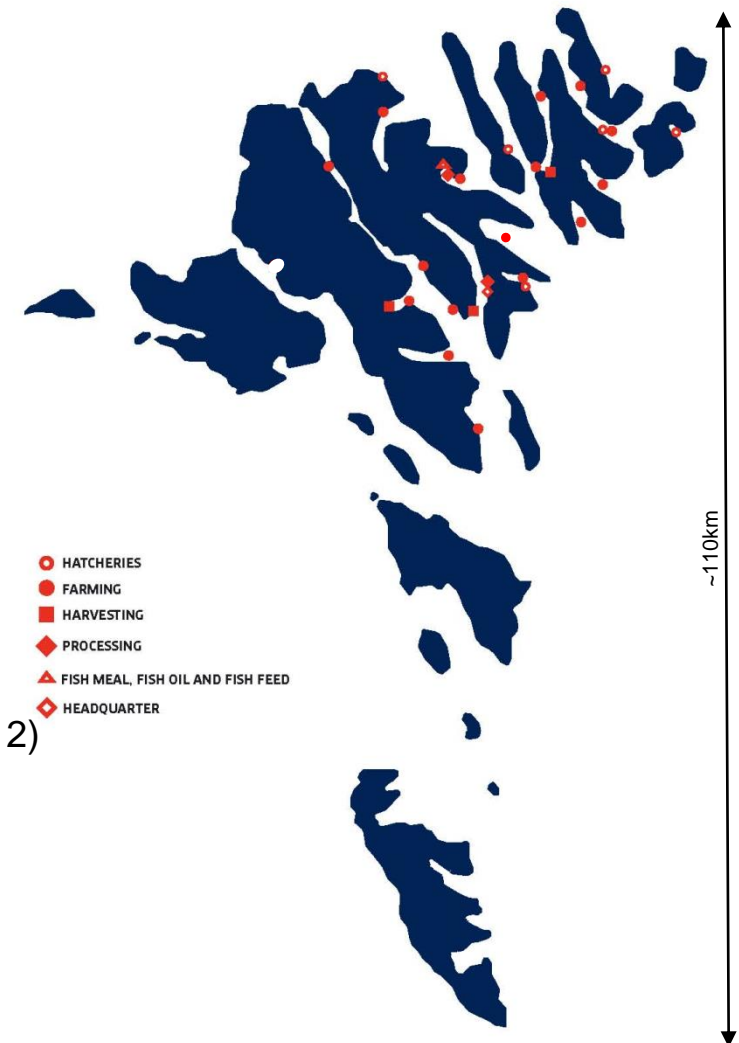


BAKKAFROST

– THE LARGEST FISH FARMING COMPANY IN THE FAROE ISLANDS



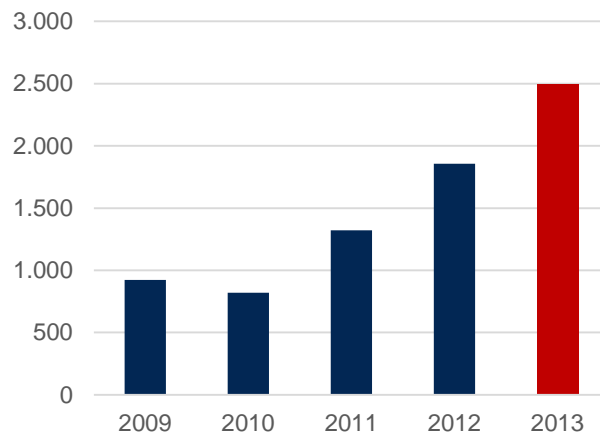
- **Largest salmon farming company in the Faroe Islands**
 - ~65% of harvest volumes in Q4 2013
 - 50% of farming licenses
- **Harvested** 11,097 t_{gw} in Q4 2013 (13,044 t_{gw} in Q4 2012)
- **Feed sale** of 20,270 tonnes in Q4 2013* (25,047 tonnes in Q4 2012*)
- **Revenues** of DKK 667 million in Q4 2013 (DKK 582 million in Q4 2012)
- **Operational EBIT** of DKK 126 million in Q4 2013 (DKK 99 million in Q4 2012)
Positive results from Farming and Feed, loss on VAP
- **Equity ratio** of 54%



*) Including internal sale of 14,736 tonnes in Q4 2013 (16,210 tonnes in Q4 2012)

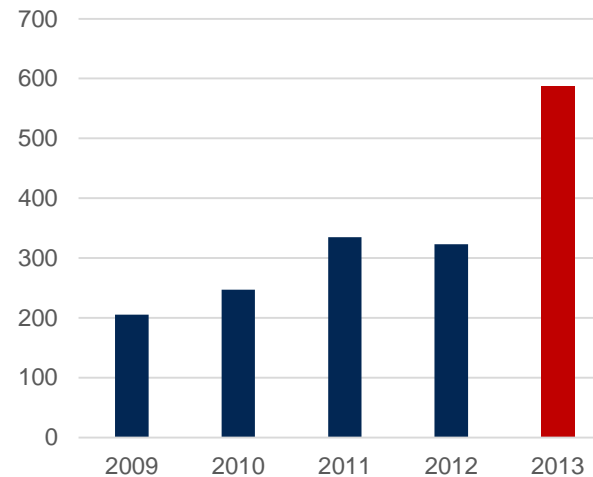
GOOD DEVELOPMENT SINCE LISTING IN 2010

Turnover (mio DKK)



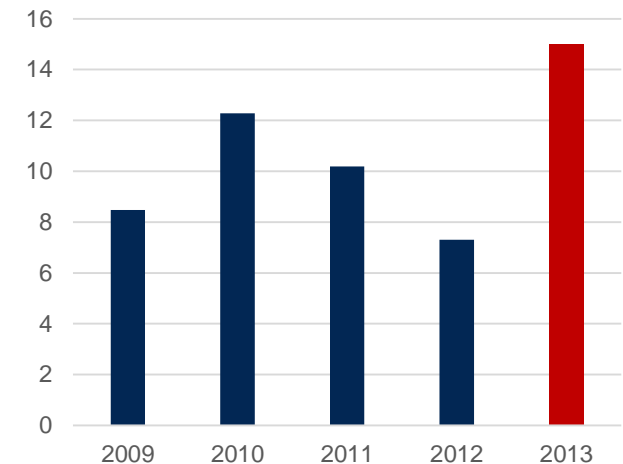
Turnover for Bakkafrost group has increased from 820 mdkk in 2010 to 2.5 bdkk in 2013

Operational EBIT (mio DKK)



Operational EBIT for Bakkafrost group has increased from 247 mdkk in 2010 to 587 mdkk in 2013

Farming margin Op. EBIT (NOK/kg)

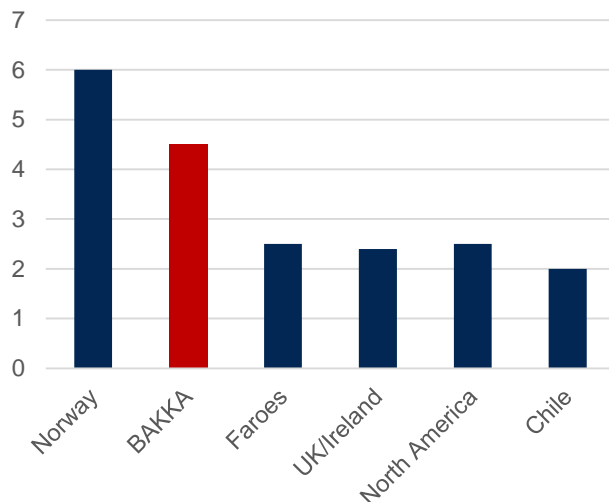


The margin in Farming was 15 NOK in 2013 – the highest ever. Even in 2012 when global supply increased 22% the company had a margin of 7.3 NOK/kg

The company have grown both in size and profitability during the period since the listing

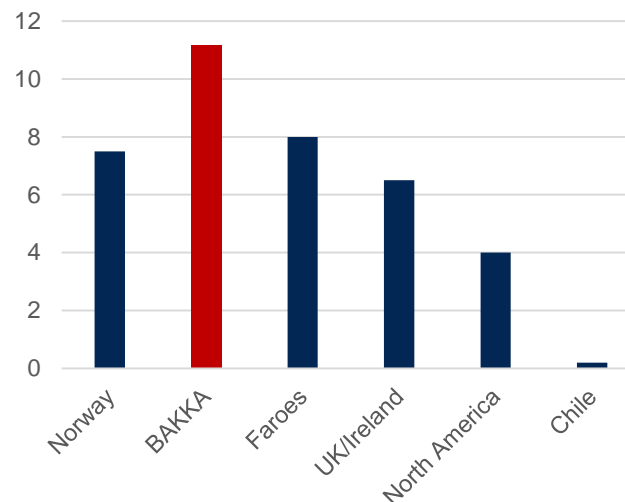
INDUSTRY STRUCTURE HAS INFLUENCE ON THE COMPETITIVENESS

Margin EBIT/kg last 15yrs (NOK/kg)



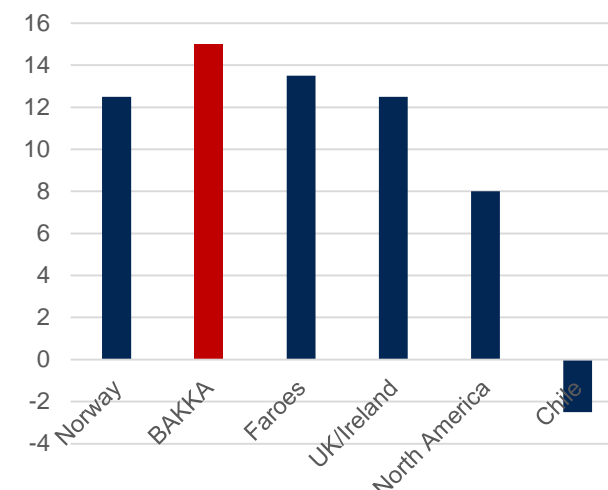
During the last 15 years, Norway had far the highest margin of the farming contries with 6 NOK/kg in average, while BAKKA had 4.5 NOK/kg.

Margin EBIT/kg last 5yrs (NOK/kg)



The last five years BAKKA had a strong average margin of 11.18 NOK/kg

Margin EBIT/kg 2013E (NOK/kg)



In 2013 BAKKA had a Farming margin of 15 NOK/kg

Reorganizing the industry in Faroe Islands and company specific strategy has paid off

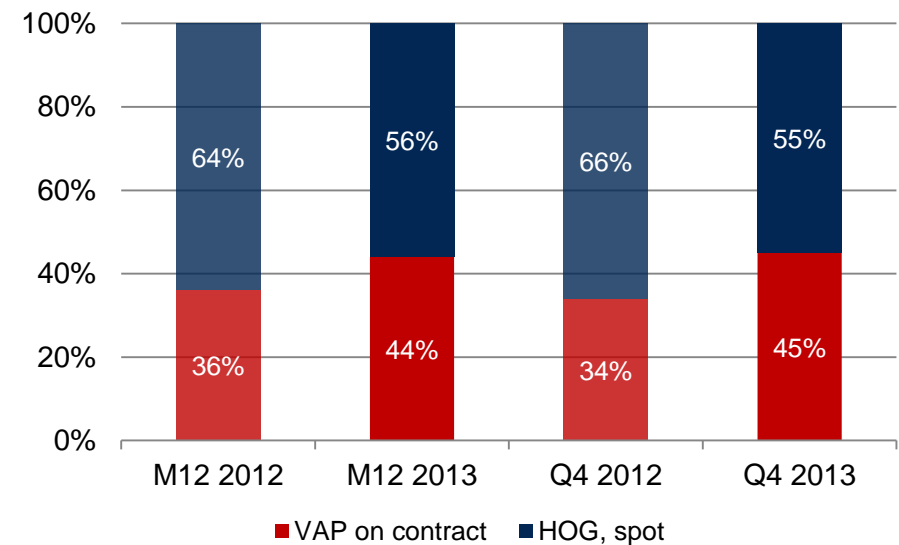
Source: Kontali and Bakkafrøst

Overseas High-End markets also dominated Q4 2013

- Asian market becoming more and more important
- Eastern European market reduced from 18% in Q4 2012 to 11% in Q4 2013 of total sales
- EU market most important market for VAP products, but not for fresh whole salmon
- VAP/contract share 45% of total volume in Q4 2013 - in line with strategy

Sales by markets	Q4 2013	Q4 2012	2013	2012
EU	50%	41%	47%	50%
USA	17%	20%	19%	16%
Asia	22%	21%	27%	19%
Eastern Europe	11%	18%	6%	15%

Contract share, VAP products [% of qty]



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- INVESTMENTS 2013-2017



KEY FINANCIALS, GROUP

- Improved cash flow from operations in Q4 2013 – mainly due to decrease in inventory since Q3 2013
- Increase in total assets relates to investments in PPE, higher fair value of biomass and debtors due to the increase in salmon prices
- NIBD reduced by DKK 130 million from end 2012 despite investments and increase in working capital
- The Group has undrawn loan facilities of DKK 684.0 million, of which DKK 15.6 million is restricted

(DKK million)	Q4 2013	Q4 2012	2013	2012
Cash flow from operations	187.1	103.8	517.5	285.6
Total assets*	3,112.2	2,570.9	3,112.2	2,570.9
NIBD*	678.0	806.9	678.0	806.9
Equity ratio*	54%	49%	54%	49%

* Comparing figure are at year-end 2012

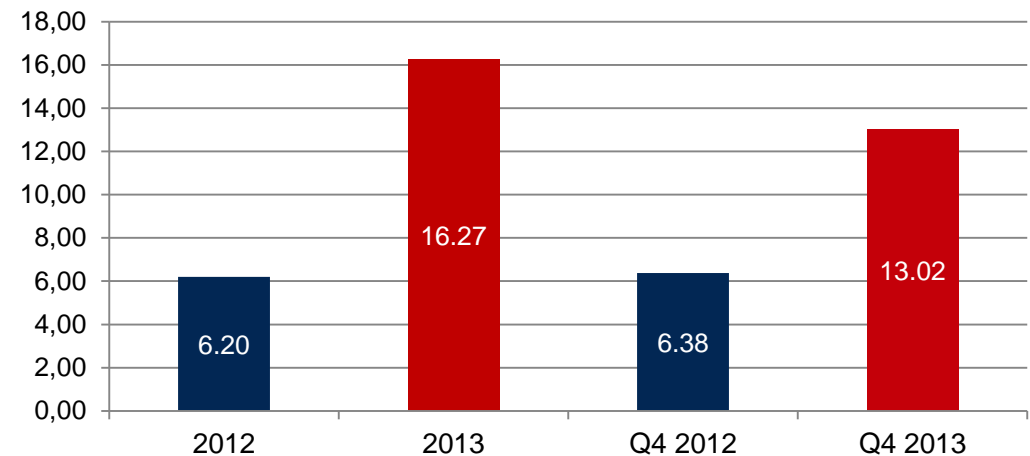
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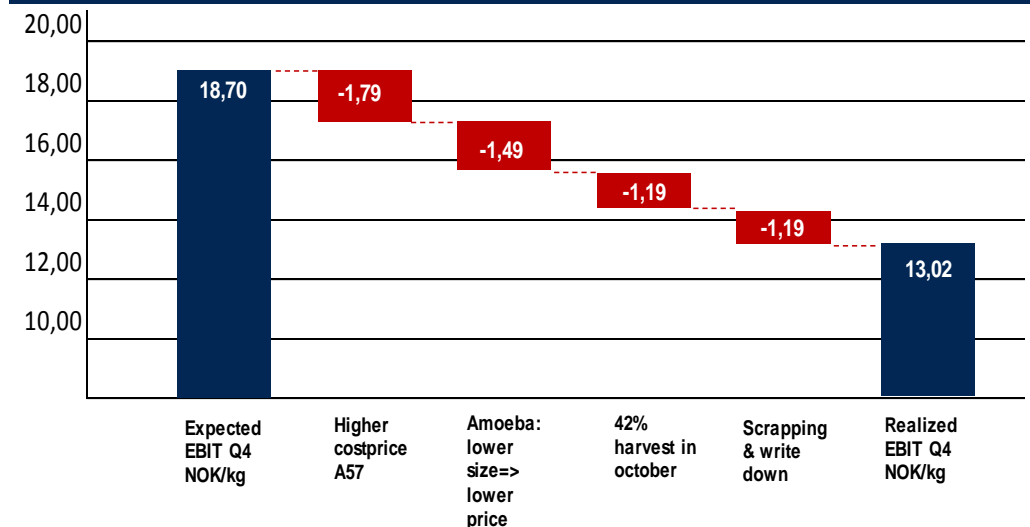
Operation

- Margin more than doubled in Q4 2013 compared with Q4 2012, and increased 162% for the full year 2013 compared with 2012, from 6.20 NOK/kg up to 16.27 NOK/kg
- Margin in Q4 2013 hampered by higher costs in A-57 and unfortunate harvest profile (42% in Oct.)
- Surveillance tests detected Neoparamoeba perurans in Oct-13. Sites treated with Hydrogen Peroxide and harvested, lower average weight
- Harvest below guidance due to harvest in Fuglafjørður at a lower than expected weight

Margin - EBIT per kg total harvested quantity [NOK/kg]

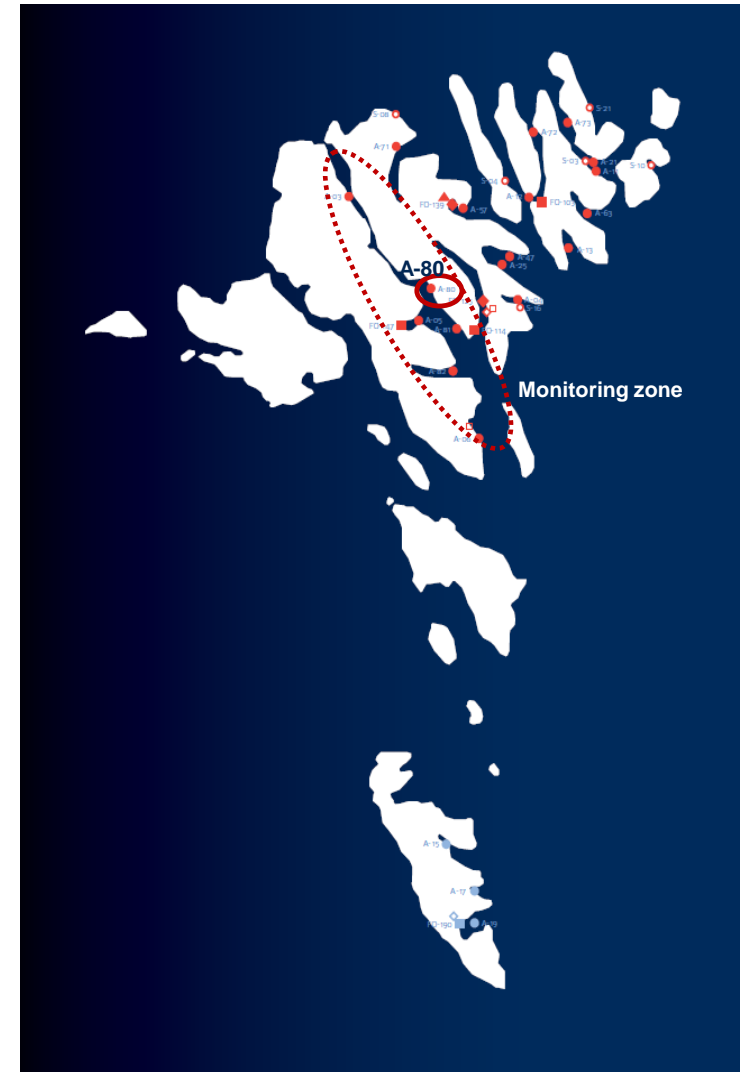


Margin – negative impacted [NOK/kg]



Suspicion of a possible pathogenic ISA-virus at Bakkafrost farming site A-80 announced the 9th of February this year

- The announcement referred to farming site A-80, where only one cage of fish was left for harvesting
- No clinical signs have been found in any fish, not from A-80 and not from other sites
- Bakkafrost decided to activate the ISA-contingency plan immediately and hence enforced slaughtering of the last cage at the farming site A-80 Selatrað. The farm was emptied within five days
- A-80 results:
 - Originally released 711,731 pcs in Aug. 2012
 - Harvested a total of 662,744 pcs (93%) - 3,397 tonnes HOG,
 - Average weight was 5.13 kg HOG, and
 - FCR was 1.08
- Tests of all farms in monitoring zone have not detected further *HPR-del* virus
- The Faroese Veterinary System proved its Early warning abilities

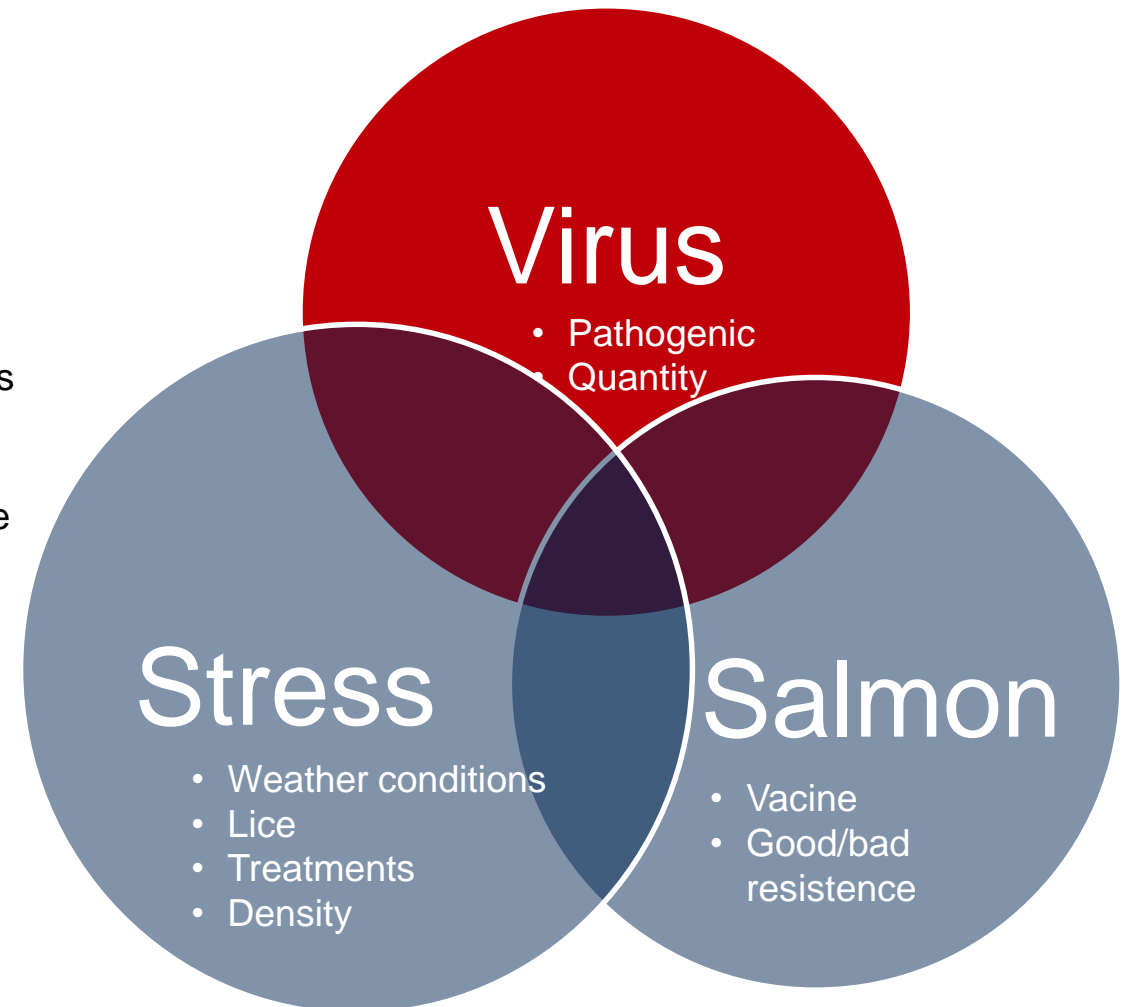


- Market risk
- Farming operational risk
- Disease

Operation of fish farming facilities involves considerable risk with regard to disease

- Faroese Veterinary system:
 - Early warning system => supposed to give warnings
 - Oct 2013: suspicion of Neoparamoeba perurans
 - Immediate action, enforced harvesting of whole site, affected Q4 result, no disease
 - Feb 2014: suspicion of a possible pathogenic ISA-virus
 - Immediate action, enforced harvesting of one cage, minimal affects on cost, no disease

Three different components needed to develop salmon disease



OPERATIONAL RISK AND RISK MANAGEMENT

- The thesis is that pathogenic ISA-virus will mutate from the HPR-0 virus, that quite normal in wild fish
- A part of the HPR-0 “HPR” will be deleted during the endless series of replications, depending of what part is deleted will decide how much mortality the actual variant will cause to the salmon
- The recently found variant in Feb-2014 was HPR9. This variant was not found before in the Faroe Islands

HE

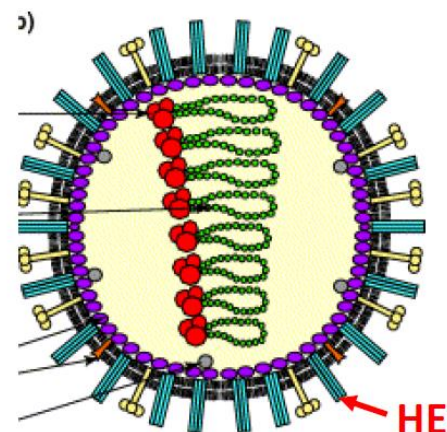
HPR

HE

1

35

NO-HPR0	KIRVDAIPPQLNQTFTNTNQVEQPATSVLSNIFISM
FO-HPR0	KIRVDAIPPQLNQTFTNTNQVEQPANSVLSNIFISM
FO-HPR00	KIRVDAIPPQLNQTFTNTNQVEQPSNSVLSNIFISM
HPR1	K-----PATSVLSNIFISM
HPR2	KIRVDAIPPQLNQT-----M
HPR3	KIRVDAIPPQLNQT-----FISM
HPR4a	KIRVDAIPPQL-----SNIFISM
HPR4b	KIRVDAIPPQL-----SNTFISM
HPR5	KIRVDAIPPQL-----ISM
HPR6a	KIRVDAI-----QVEQPATSVLSNIFISM
HPR6b	KIRVDAI-----QVEQPANSVLSNIFISM
HPR7a	K-----TSVLSNTFISM
HPR7b	K-----TSVLSNIFISM
HPR8	KIRVDAIPPQL-----
HPR9	KIRVDAIPPQLNQTFTNT-----M
HPR10	KIRQPA-----TSVLSNIFISM
HPR11a	KIRVDAIPP-----RNIFISM
HPR11b	KIRVDAIPP-----RNIFVSM
HPR12	GIGVDAIPPQLN-----IFISM
HPR13	K-----EQPANSVLSNIFISM
HPR14	KIRVDA-----NQVEQPATSVLSNIFISM
HPR15	-----ETSVLSNIFISM
HPR16	KIRVDAIPPQLNQTFT-----M
HPR17	KIR-----LEVEQPATSVLSNIFISM
HPR18	KIRV-----PATSVLSNIFISM
HPR19	KIRVDAIPPQLNQT-----
HPR20	NNRVDAI-----LNTNQVEQPATSVLSNIFISM
HPR21	NNRVDAIIPPQL-----SNIFISM
HPR30	KIRVDAIPPQLNQ-----ISM



Regular inspection and testing

- Daily, every two weeks, monthly and quarterly
- Inspection check, lice and gill test, veterinary inspection and sampling, authority inspection and sampling

Four farming companies operate in the Faroes

- Easier to coordinate biological improvement
- Knowledge sharing
- Good cooperation with authorities

Bakkafrost's fish health team

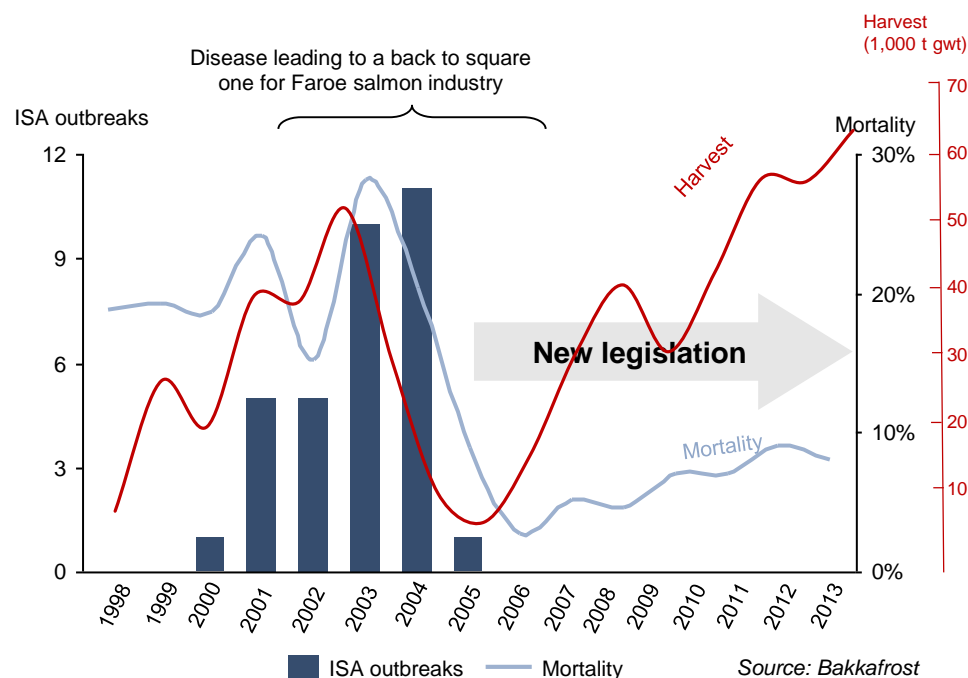
- A strong team with proved track record, certified veterinarians, biologists, and assistants

- During the period 2001-2004 the Faroe Islands were severely struck by ISA outbreaks

- New legislation and regulation was introduced in 2003 known as “The Faroese Veterinary Model”:
 - Fallow periods between generations in farming and hatcheries
 - Immunisation and vaccination programs
 - Restricting movement of equipment
 - Restricting movement of fish
 - Density limits introduced
 - Brood stock facilities allowed on land only
 - Minimum distances between farms, hatcheries etc introduced
 - Rules to fight and control lice

- The model has resulted in one of the most predictable fish production environments in the world with low mortality levels

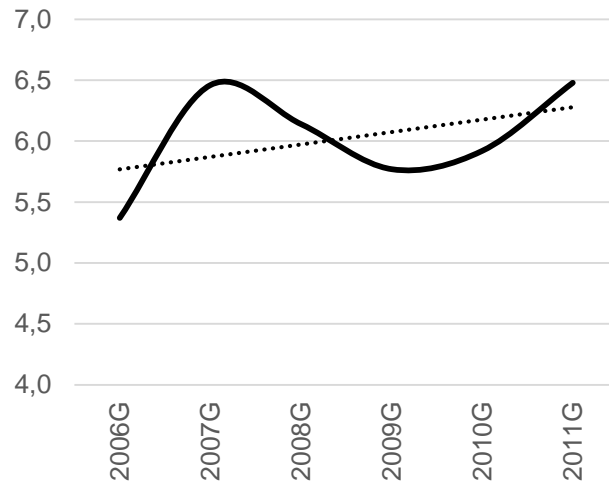
Mortality rates totally changed and no clinical ISA since 2005



The mortality rate with the Faroese Veterinary Model has been between 5 and 9% compared to 20 to 25% before – despite the annual production has never been higher than now

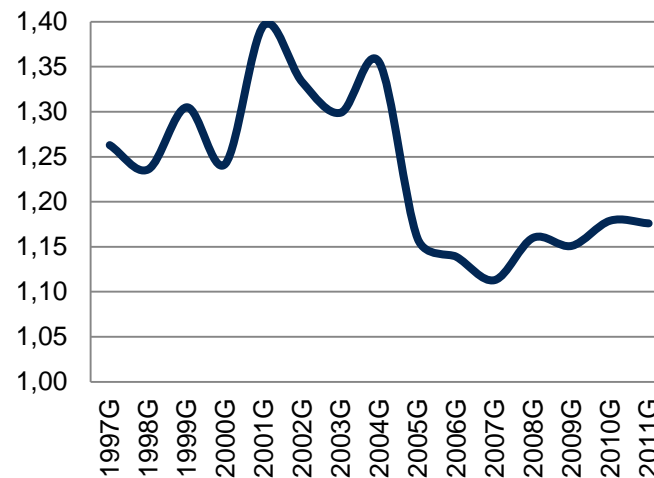
KPI - DEVELOPMENT IN FAROESE SALMON FARMING

Harvest size (kg wfe)



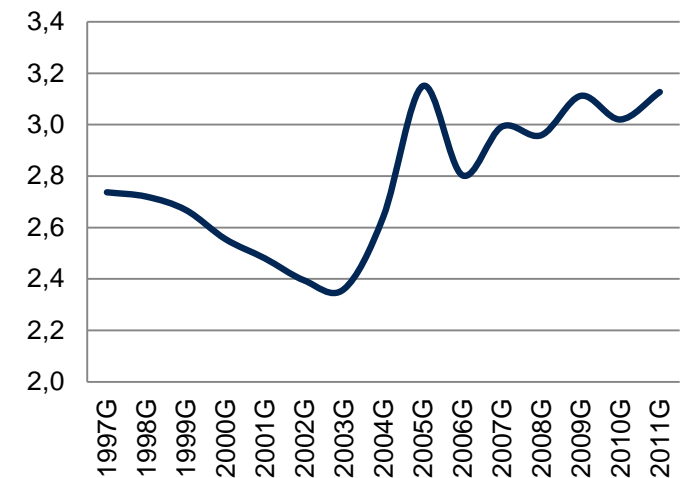
Harvesting size of salmon in the Faroe Islands has during the last years been between 5.5 and 6.5 kg

Feed conversion rate FCR



The feed conversion rate dropped from around 1.30 to around 1.15 with Faroese veterinary system

Growth rate TGC 1993-2011G



The growth rate increased from around 2.5 to 3.0 with the Faroese veterinary system

Important KPI for Faroese salmon farming developed very positively after the Faroese Veterinary Model was introduced back in 2003 and have a significant part of the success and competitiveness in the industry

FAROE ISLANDS

– EXCELLENT CONDITIONS FOR COST EFFECTIVE FARMING

GEOGRAPHY

- Faroese fjords provide separation between locations
- Improves biological control and area management

WATER

- Stable seawater temperatures throughout the year between 6-12 degrees Celsius
- Excellent water quality and circulation conditions

LOCATION

- Efficient distribution to both the European, US and Far East markets

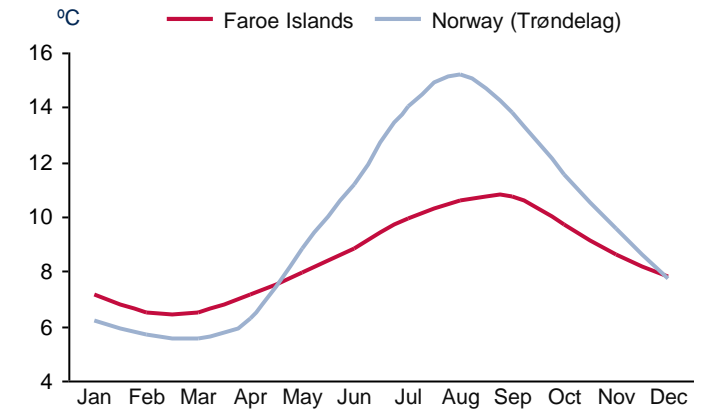
BIOMASS

- Biological sustainability setting the smolt release target depending on veterinary, biological and environmental results on previous generations

FEED

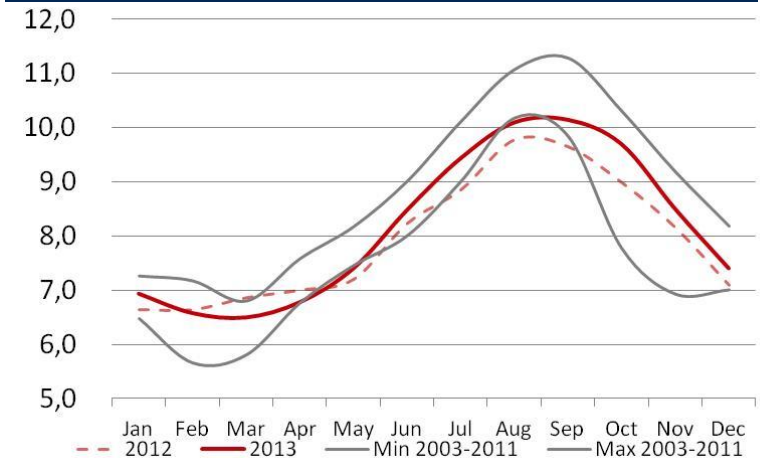
- Sustainable feed, based on local marine raw materials. High on Omega-3, proved track record with best performance on high SGR and low FCR

Average Seawater Temperatures 2003-2009



Source: Company material, Havforskningsinstituttet

Average Seawater Temperatures 2003-2012

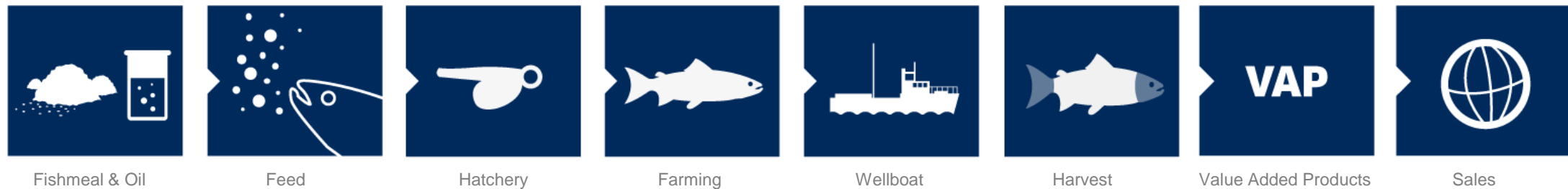




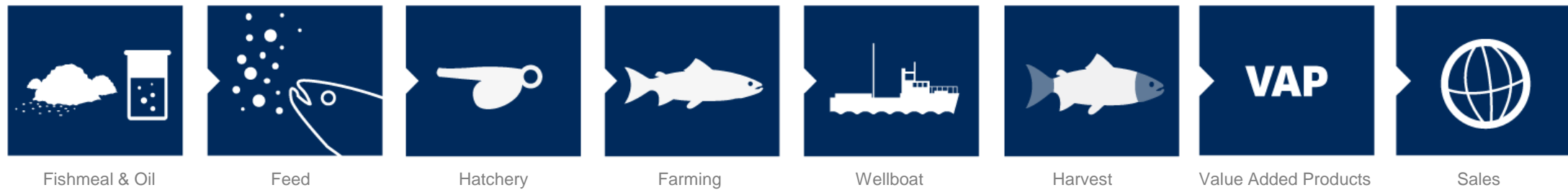
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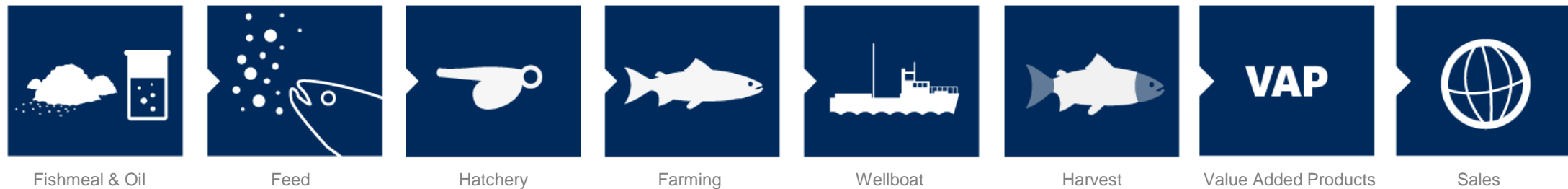


- One of the most vertical integrated salmon farming companies in the world
- Full traceability to the benefit of our customers
- 45 years of experience
- Focus on cost centres
- Vertical integration reduces operational and financial risk
- A market focused company with own sale and marketing department



The investments will be made step by step in the relevant parts in the value chain to secure:

- Efficiency
- Biological risk
- Organic growth

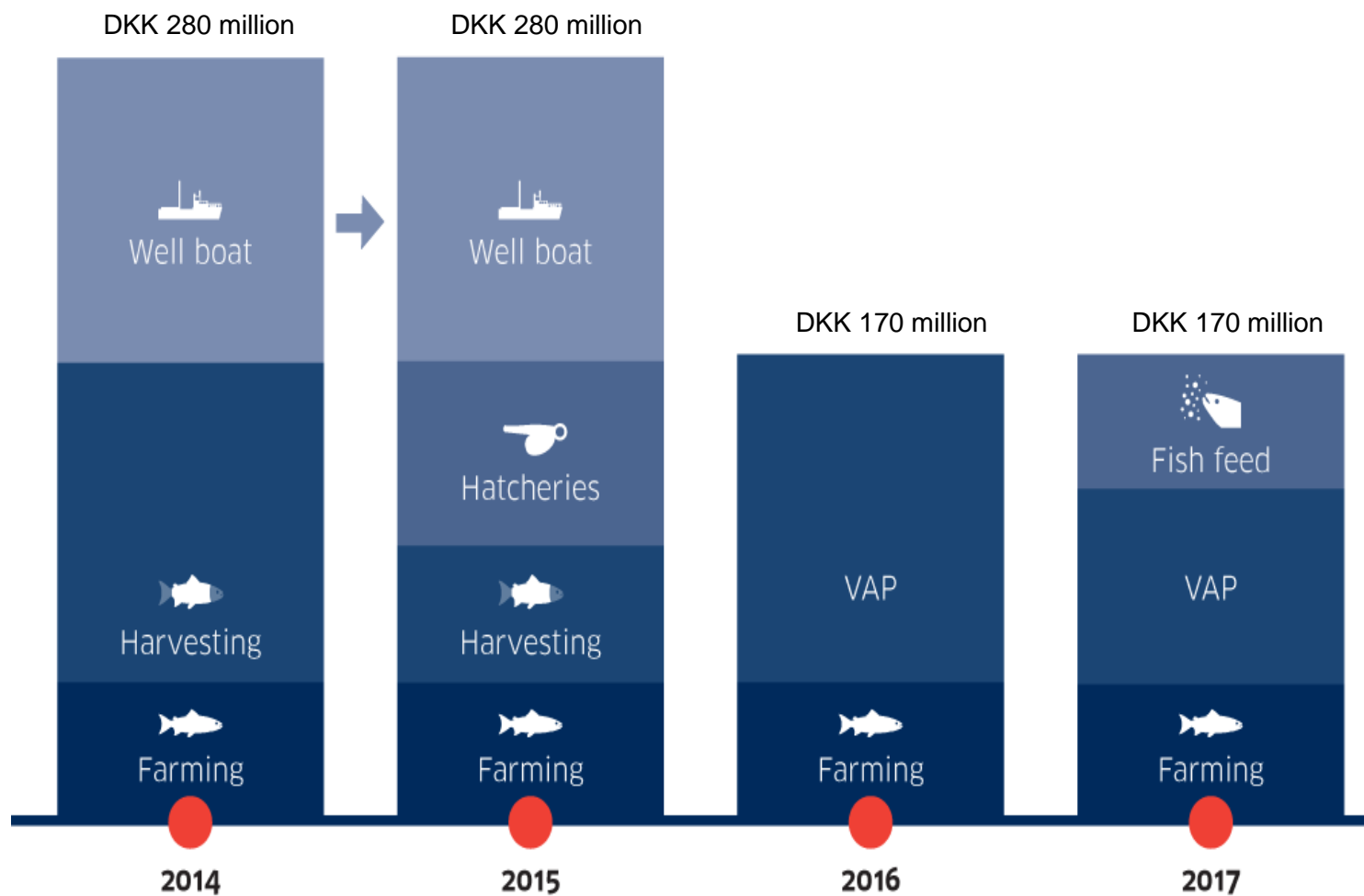


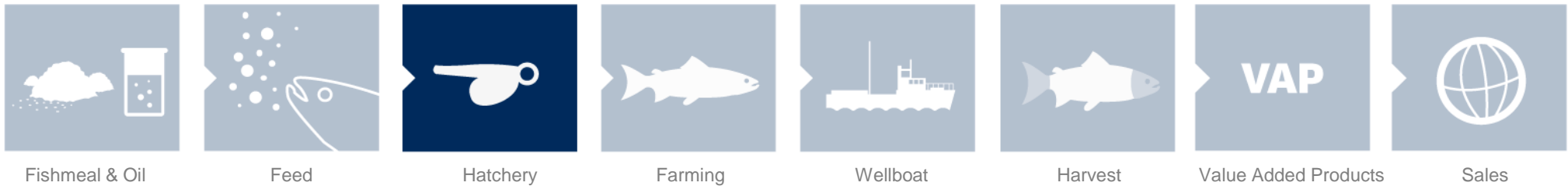
Investment plan 2013-2017:

- Seven plants into one integrated plant (Packaging, Harvest and VAP) at Glyvrrar to take out synergies, reduce costs and meet future market trends
- New well boat to increase capacity, improve quality and reduce biological risk
- Increase smolt capacity to increase farming capacity and reduce biological risk
- Increase feed capacity to meet future demands

INVESTMENTS - PREPARING FOR THE FUTURE

INVESTMENTS 2014 - 2017





Hatchery at Norðtoftir

- Finalised spring 2014
- Investment of DKK 53 million
- Recirculation of 99% of water
 - saving water and heating
- Capacity of 2 million 100g smolts per year
- Increased Bakka Frost total capacity by 30%



Building a new well boat

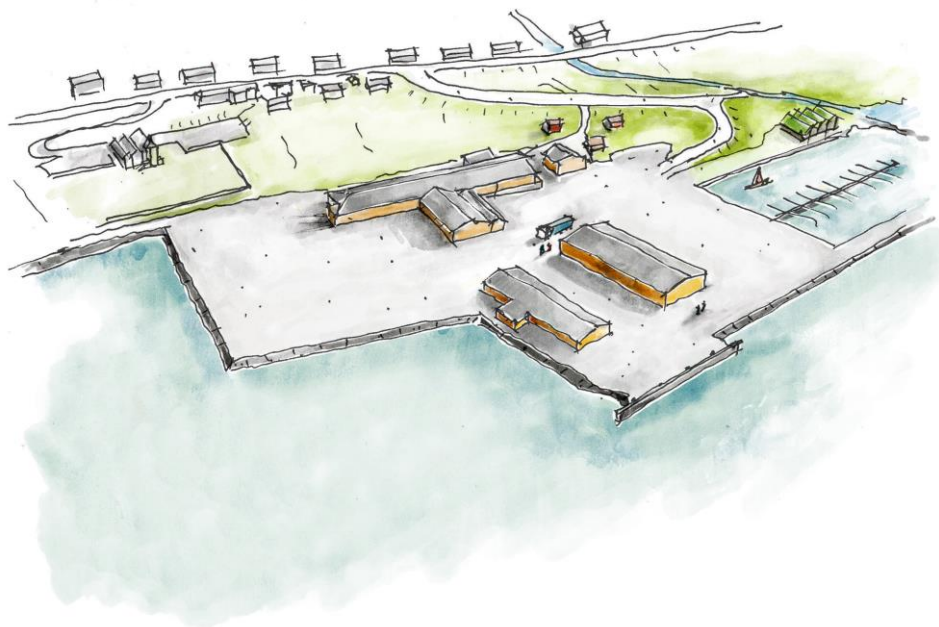
- Owned and operated by Bakkafrost
- Rolls Royce design
- Contract signed with the shipyard Tersan in Yalova, Turkey
- Planned to be delivered mid 2015
- Estimated total costs DKK 230 million



Specifications

- Length overall 75.8 meters
- Width mid 16 meters
- Fish hold 3,000 CUM
- 450 tonnes of salmon live fish carrier

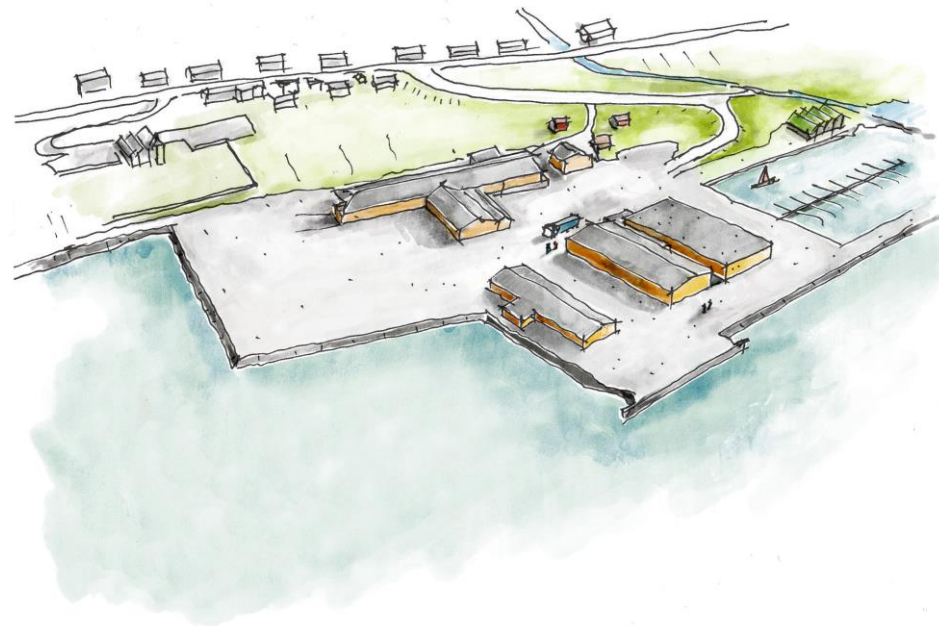
Present Packaging plant at Glyvrrar



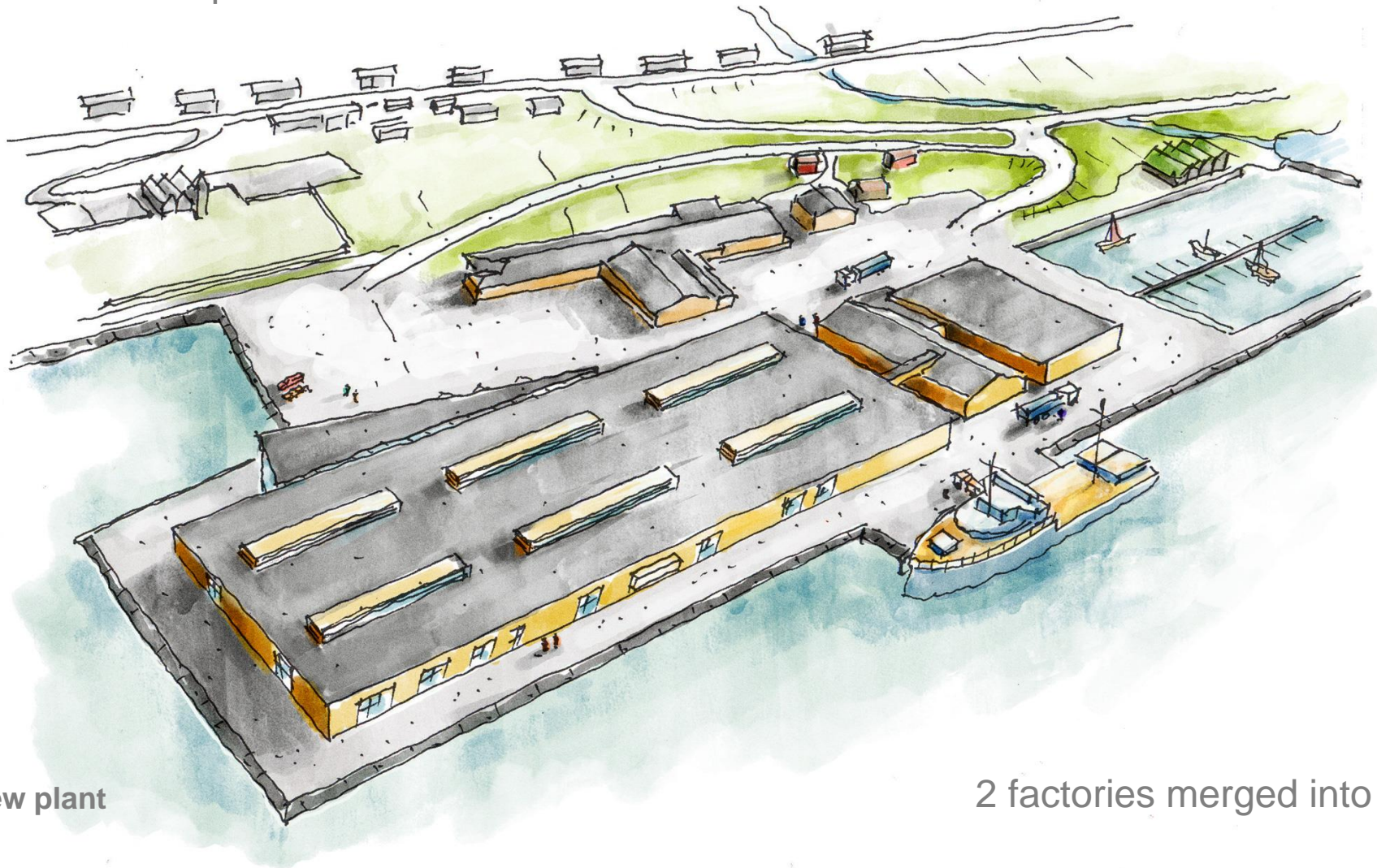
New Packaging plant at Glyvrrar

Phase 1: Integration with Harvest

- Construction in process
- Estimated costs DKK 26 million
- Start up during summer 2014
- 3,500 m² including existing 1,300 m² storage



Phase 3: New VAP operation



Draft of new plant

2 factories merged into one

FINANCING OF THE INVESTMENTS



FINANCING OF THE INVESTMENTS

Financing of the investments 2014-2017

- Use free cash flow from operation
- Unused financing of DKK 684 million
- Partly new financing if advantageous

Unchanged dividend policy

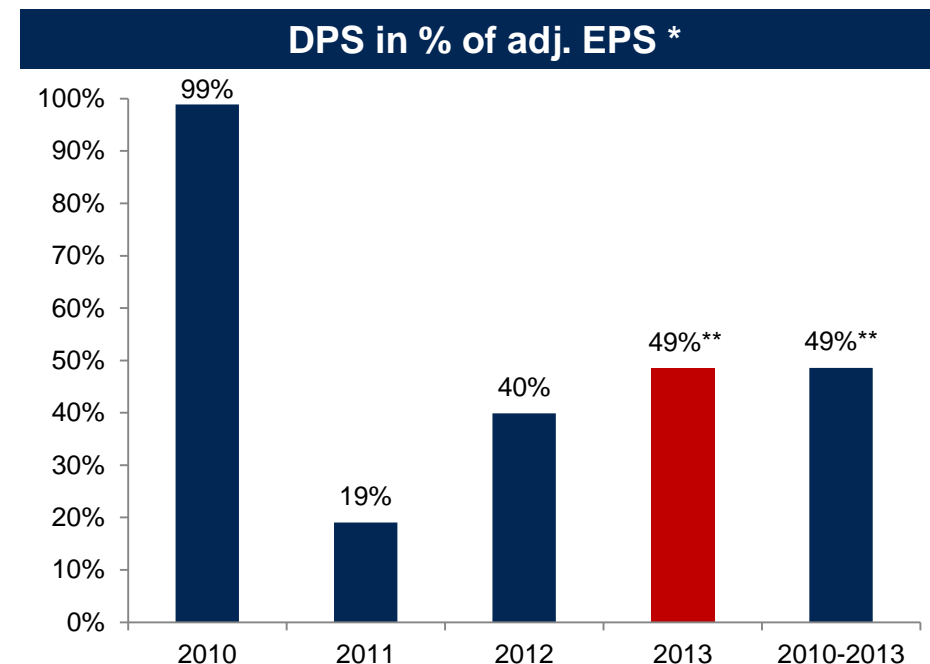


Dividend

- Proposed dividend of DKK 4.50 (NOK ~5.03) per share to be paid out in Q2 2014
- Bakkafrost purchased treasury shares in 2013, equivalent to DKK 0.59 (NOK 0.66) per share.
- Dividend incl. an acquisition of treasury shares is DKK 5.09 (NOK ~5.69)

Dividend policy

- Competitive return through:
 - Dividends
 - Increase in the value of the equity
- Generally the company shall pay dividends to its shareholders
- A long-term goal for the Board of Directors is that 30–50% of EPS shall be paid out as dividend



* Operational EBIT is EBIT adjusted for fair value adjustment of biomass, onerous contracts, income/loss from associates, acquisition costs and goodwill

** Proposed dividend including acquisition of treasury shares



BAKKAFROST

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THANK YOU!