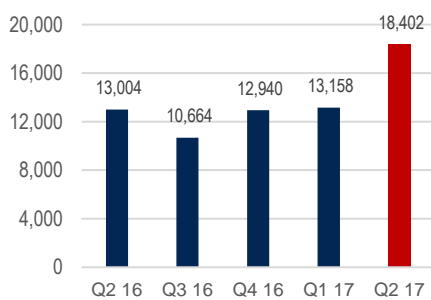


**Q2 – 2017
INTERIM REPORT**

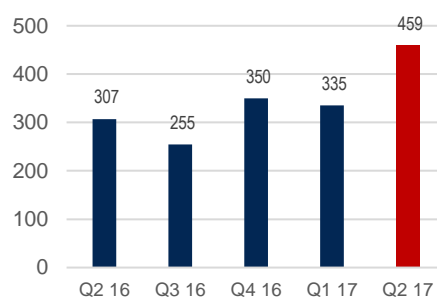
Salmon from the
FAROE ISLANDS



HARVEST VOLUME TGW



OPERATIONAL EBIT M DKK



**OPERATIONAL EBIT DKK/KG
VAP & FARMING**

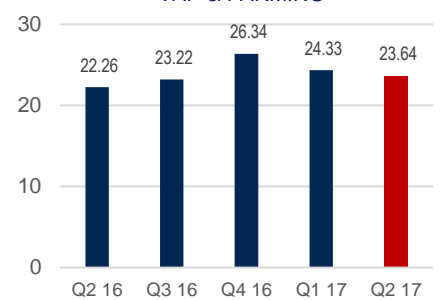


Table of Contents

Highlights	2
Summary of the 2 nd Quarter 2017 and H1 2017	3
Financial Review.....	4
Statement of Financial Position	5
Cash Flow	6
Farming Segment	7
VAP Segment	8
FOF Segment	9
Outlook.....	10
Risks	12
Events after the Date of the Statement of Financial Position	13
Statement by the Management and the Board of Directors on the Interim Report	13
Consolidated Income Statement	14
Consolidated Statement of Comprehensive Income	15
Consolidated Statement of Financial Position	16
Consolidated Cash Flow Statement	18
Consolidated Statement of Changes in Equity	19
Notes to the Account	20
Contacts.....	30

Highlights

DKK 1,000	Q2 2017	Q2 2016	H1 2017	H1 2016
INCOME STATEMENT				
Group - Operating revenue	1,206,148	789,690	2,059,829	1,694,240
Group - Operational EBIT*	459,157	307,092	794,611	560,662
Group - EBIT	491,317	277,636	594,366	559,405
Group - Profit for the period	398,066	223,760	477,096	437,072
Operational EBIT (Farming and VAP) (DKK)*	434,972	289,458	755,164	525,425
Operational EBIT*/kg (Farming and VAP) (DKK)	23.64	22.26	23.93	21.95
Operational EBIT*/kg (Farming and VAP) (NOK)	29.77	27.88	29.51	27.76
Farming - Operating revenue	1,038,605	751,616	1,789,989	1,453,476
Farming - Operational EBIT*	489,450	357,852	862,682	618,635
Farming - Operational EBIT margin	47%	48%	48%	43%
Farming - Operational EBIT/kg (DKK)	26.60	27.52	27.33	25.84
Farming - Operational EBIT/kg (NOK)	33.50	34.47	33.71	32.68
VAP - Operating revenue	272,582	187,446	464,125	366,950
VAP - Operational EBIT*	-54,478	-68,394	-107,518	-93,210
VAP - Operational EBIT margin	-20%	-36%	-23%	-25%
VAP - Operational EBIT/kg (DKK)	-10.33	-14.66	-12.07	-11.91
VAP - Operational EBIT/kg (NOK)	-13.01	-18.37	-14.88	-15.07
FOF - Operating revenue	317,033	219,543	594,174	507,551
FOF - EBITDA	47,827	45,409	92,974	114,431
FOF - EBITDA margin	15.09%	20.68%	15.65%	22.55%
DKK/NOK (average)	79.40	79.83	81.09	79.08
FINANCIAL POSITION AND CASH FLOW				
Total Assets***	5,633,076	5,418,116	5,633,076	5,418,116
Equity***	3,598,643	3,549,035	3,598,643	3,549,035
Equity ratio***	64%	66%	64%	66%
Net interest bearing debt***	559,705	635,266	559,705	635,266
Cash flow from operations	497,997	248,463	863,301	492,639
Cash flow from financing	-474,226	-197,204	-396,007	-103,415
PROFITABILITY				
Basic earnings per share (DKK)	8.19	4.61	9.82	9.00
Diluted earnings per share (DKK)	8.19	4.61	9.82	9.00
ROCE**	9.7%	7.9%	16.9%	14.5%
VOLUMES				
Harvested volumes (tgw)	18,402	13,004	31,560	23,938
VAP produced volumes (tgw)	5,273	4,664	8,909	7,824
Sold feed tonnes	17,032	16,295	36,859	30,749
Internal feed sale tonnes	16,012	14,260	34,965	27,509
Number of smolt released (thousand)	1,918	1,946	3,313	3,872

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

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

*** Comparing figures from end 2016

Summary of the 2nd Quarter 2017 and H1 2017

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

The Bakkafrost Group delivered a total operating EBIT of DKK 459.2 million in Q2 2017. Harvested volumes were 18.4 thousand tonnes gutted weight. The combined farming and VAP segments made an operational EBIT of DKK 435.0 million. The farming segment made an operational EBIT of DKK 489.5 million. The salmon spot prices have been on record high levels since 2016 and this continued in Q2 2017. The high salmon spot price is positive for the farming segment. As in previous quarters, when the salmon spot prices are high, the VAP segment had negative margins in Q2 2017. The VAP segment made an operational EBIT of DKK -54.5 million. The EBITDA for the FOF segment was DKK 47.8 million.

The Group made a profit for the second quarter 2017 of DKK 398.1 million (DKK 223.8 million). For H1 2017, the profit was DKK 477.1 million (DKK 437.1 million).

The total volumes harvested in Q2 2017 were 18,402 tonnes gutted weight (13,004 t_{gw}). Total harvested volumes in H1 2017 were 31,560 tonnes gutted weight (23,938 t_{gw}). The guidance for volumes for 2017 is unchanged.

Bakkafrost transferred 1.9 million smolts (1.9 million) during Q2 2017, which is in line with the company's plans. Transferred smolts in H1 2017 were 3.3 million smolts (3.9 million).

The combined farming and VAP segments made an operational EBIT of DKK 435.0 million (DKK 289.5 million) in Q2 2017. The operational EBIT per kg in Q2 2017 was DKK 23.64 (DKK 22.26), which corresponds to NOK 29.77 (NOK 27.88) for the combined farming and VAP segments. For H1 2017, the combined farming and VAP segment made an operational EBIT of DKK 755.2 million (DKK 525.4 million).

The farming segment made an operational EBIT of DKK 489.5 million (DKK 357.9 million) in Q2 2017. The harvested volumes were higher, and the average spot price was higher in Q2 2017, compared to Q2 2016. For H1 2017, the operational EBIT was DKK 862.7 million (DKK 618.6 million).

The harvest of farming site A-73 Hvannasund Norður, which was infected by pathogenic ISA-virus, was finished on 12 April 2017. The total harvest of the farming site was 3.1 thousand tonnes gutted weight, whereof 1.4 thousand t_{gw} were harvested in Q1 2017 and 1.7 thousand t_{gw} were harvested in Q2 2017. The

average size of the harvested fish was just below 3 kg gutted weight.

The farming site A-71 Funningsfjørður received ASC certification in June 2017 and became Bakkafrost's third farming site to be ASC certified, together with farming site A-25 Gøtuvík and A-06 Gulin. Bakkafrost aims to have all its farming sites ASC certified by 2020 and is working on getting more farming sites ASC certified.

The VAP segment made an operational EBIT of DKK -54.5 million (DKK -68.4 million) for Q2 2017. Although the sales prices in the VAP segment have increased, the VAP segment continued to have negative results, primarily due to the high salmon spot prices. For H1 2017, the operational EBIT was DKK -107.5 million (DKK -93.2 million).

The FOF segment (fishmeal, oil and feed) made an EBITDA of DKK 47.8 million (DKK 45.4 million) for Q2 2017, and the EBITDA margin was 15.1% (20.7%). The EBITDA was DKK 93.0 million in H1 2017 (DKK 114.4 million), corresponding to an EBITDA margin of 15.7% (22.6%).

Havsbrún sourced 163,100 tonnes (83,971 tonnes) of raw material during Q2 2017, and in H1 2017, Havsbrún sourced 269,667 tonnes (155,539 tonnes) of raw material.

In accordance with Bakkafrost's dividend policy and the resolution of the Annual General Meeting 2017, Bakkafrost paid out DKK 8.70 (NOK 10.69) per share in April 2017. The total dividend payment was DKK 425.1 million (NOK 522.5 million).

In Q2 2017, Bakkafrost's full-time employees from 2016, still employed in Bakkafrost, have received

bonus shares with a total value of 2% of their salary in 2016. In total, Bakkafrost has allocated 19,631 shares to its employees. The total allocation amounted to 4.7 million and was based on the closing share price on the allocation day, 29 May 2017.

The Bakkafrost Group's net interest bearing debt amounted to DKK 559.7 million at the end of Q2 2017

(DKK 635.3 million at year-end 2016) including deposits and losses on financial derivatives relating to the interest-bearing debt. Bakkafrost had undrawn credit facilities of approximately DKK 718.5 million at the end of Q2 2017.

Bakkafrost's equity ratio was 64% at 30 June 2017, compared to 66% at the end of 2016.

18,402 t_{gw}

Harvested in Q2 2017

Financial Review

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

Income Statement

The operating revenues amounted to DKK 1,206.1 million (DKK 789.7 million) in Q2 2017 and for H1 2017, the operating revenues amounted to DKK 2,059.8 million (DKK 1,694.2 million).

The revenue increased because of higher activity and volumes in all segments in Q2 2017, compared to Q2 2016. The farming segment's harvest in Q2 2017 was significantly higher, compared to same quarter last year and is a record high harvest in one quarter for Bakkafrost. The VAP and FOF segments had likewise high production in Q2 2017, compared to Q2 2016.

Operational EBIT was DKK 459.2 million (DKK 307.1 million) in Q2 2017. All segments had improved operational EBIT in Q2 2017, compared to Q2 2016. The farming segment had significantly higher operational EBIT, due to the high harvested volumes. For H1 2017, the operational EBIT was DKK 794.6 million (DKK 560.7 million).

The fair value adjustment of the Group's biological assets amounted to DKK 54.9 million (DKK -29.4 million) in Q2 2017. The positive adjustment is due to higher market prices for salmon at the end of the quarter, compared to the beginning of the quarter. For H1 2017, the fair value adjustment amounted to DKK -179.7 million (DKK 78.3 million).

Change in provisions for onerous contracts amounted to DKK 25.1 million (DKK 22.8 million) in Q2 2017.

For H1 2017, the change in provisions for onerous contracts amounted to DKK 55.2 million (DKK -37.2 million).

In Q2 2017, there was a profit from associated companies amounting to DKK -2.3 million (DKK 6.7 million). For H1 2017, the result from associated companies amounted to DKK -0.1 million (DKK 9.8 million).

The revenue tax in Q2 2017 amounted to DKK -45.5 million (DKK -29.5 million). The revenue tax increased because of higher harvested volumes, compared to the same quarter last year. For H1 2017, the revenue tax was DKK -75.7 million (DKK -52.1 million).

Net interests in Q2 2017 were DKK -4.9 million (DKK -5.9 million), whereof an unrealized exchange rate adjustment of DKK 17.2 million (DKK -4.2 million), relating to the bond loan of NOK 500 million, is posted in Q2 2017. For H1 2017, net interests were DKK -11.2 million (DKK -27.3 million).

Net taxes amounted to DKK -88.4 million (DKK -48.0 million) in Q2 2017. For H1 2017, net taxes amounted to DKK -106.1 million (DKK -95.1 million).

The result for Q2 2017 was DKK 398.1 million (DKK 223.8 million) and for H1 2017, the result was DKK 477.1 million (DKK 437.1 million).

398 million DKK

Result for Q2 2017

Statement of Financial Position

(Figures in parenthesis refer to end last year)

The Group's total assets amounted to DKK 5,633.1 million (DKK 5,418.1 million) at the end of Q2 2017.

The Group's intangible assets are unchanged, compared to the beginning of the year, and amounted to DKK 376.7 million at the end of Q2 2017. Intangible assets are primarily comprised of the fair value of acquired farming licences. No licences in the North region are recorded with a value in the Bakkafrost accounts.

Property, plant and equipment amounted to DKK 2,380.3 million (DKK 2,118.5 million) at the end of Q2 2017. In Q2 2017, Bakkafrost made investments in PP&E amounting to DKK 169.6 million.

Non-current financial assets amounted to DKK 59.3 million (DKK 59.4 million) at the end of Q2 2017.

The Group's carrying amount (fair value) of biological assets amounted to DKK 1,543.7 million (DKK 1,858.4 million) at the end of Q2 2017. Biological assets have decreased due to lower fair value adjustment and lower volume of biomass at the end of Q2 2017, compared to year end 2016. Included in the carrying amount of the biological assets is a fair value adjustment amounting to DKK 700.8 million (DKK 880.5 million) at the end of Q2 2017.

The Group's inventories amounted to DKK 460.0 million (DKK 355.6 million) at the end of Q2 2017. The inventory primarily represents Havsbrún's inventory of fishmeal, fish oil and fish feed.

The Group's total receivables amounted to DKK 459.7 million (DKK 401.9 million) at end of Q2 2017.

The Group's equity amounted to DKK 3,598.6 million (DKK 3,549.0 million) at the end of Q2 2017. The change in equity consists primarily of the positive result for H1 2017 and the dividend payment of gross DKK 425.1 million in Q2 2017.

The Group's total non-current liabilities amounted to DKK 1,124.4 million (DKK 1,474.3 million) at the end of Q2 2017. The reduction in total non-current liabilities is due to reclassification of the bond loan, which is payable 14 February 2018, to current liabilities.

Deferred taxes amounted to DKK 647.8 million (DKK 545.7 million) at the end of Q2 2017.

Long-term debt was DKK 476.6 million (DKK 827.1 million) at the end of Q2 2017.

Bakkafrost's interests bearing debt consists of a bank loan and a bond loan. The bank loan is a multicurrency revolving credit facility totalling DKK 850 million for a five-year period and is payable in December 2020. The bond loan of NOK 500 million has a five-year maturity and is payable 14 February 2018. The interest rate of the bonds is NIBOR 3m + 4.15%. Following the issuance of the bonds, Bakkafrost has entered into a currency/-interest rate swap, hedging the exchange rate, and has switched the interest rate from NIBOR 3m to CIBOR 3m.

At the end of Q2 2017, the Group's total current liabilities were DKK 910.0 million (DKK 394.8 million). The current liabilities consist of derivatives, short-term interest bearing debt, accounts payable and tax payable.

Derivatives under current liabilities amounted to DKK 117.9 million (DKK 0 million) at the end of Q2 2017. The derivatives are payable similar to the bond loan on 14 February 2018 and are therefore classified as current liabilities.

Short-term interest bearing debt amounted to DKK 388.5 million (DKK 0 million) at the end of Q2 2017.

Bakkafrost's equity ratio was 64% at the end of Q2 2017, compared with 66% at the end of 2016.

64%

Equity ratio at the end of Q2 2017

Cash Flow

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

The cash flow from operations was DKK 498.0 million (DKK 248.5 million) in Q2 2017. The decrease in total inventory had a positive effect on the cash flow from operations, while higher receivables and lower current non-interest bearing debts affected the cash flow from operations negatively in Q2 2017. For H1 2017, the cash flow from operations was DKK 863.3 million (DKK 492.6 million).

The cash flow from investment activities amounted to DKK -169.6 million (DKK -198.2 million) in Q2 2017. The amount relates to investments in property, plant and equipment. For H1 2017, the cash flow from investments amounted to DKK -348.9 million (DKK -317.3 million).

Cash flow from financing activities totalled DKK -474.2 million (DKK -197.2 million) in Q2 2017. For H1 2017, cash flow from financing amounted to DKK -396.0 million (DKK -103.4 million).

In Q2 2017, net change in cash flow amounted to DKK -145.8 million (DKK -146.9 million). For H1 2017, net change in cash flow amounted to DKK 118.4 million (DKK 71.9 million).

At the end of Q2 2017, Bakkafrost had unused credit facilities of DKK 718.5 million (DKK 642.8 million).

Farming Segment

Harvested Volumes Q2 2017	18,402 tgw
EBIT Q2 2017	498.8 mDKK
Operational EBIT Q2 2017	489.5 mDKK

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

Farming segment 1,000 DKK	Q2 2017	Q2 2016	Change	H1 2017	H1 2016	Change
Total revenue	1,038,605	751,616	38%	1,789,989	1,453,476	23%
EBIT	498,835	306,591	63%	607,278	644,764	-6%
Operational EBIT	489,450	357,852	37%	862,682	618,635	39%
Farming - Operational EBIT/kg (DKK)	26.60	27.52	-3%	27.33	25.84	6%
Harvested volumes (tgw)	18,402	13,004	42%	31,560	23,938	32%

Volumes

The total volumes harvested in Q2 2017 were 18,402 tonnes gutted weight (13,004 tgw) – an increase in volumes of 42%. Total harvested volumes for H1 2017 were 31,560 tonnes gutted weight (23,938 tgw), which is in line with the forecast for 2017.

As in the previous quarter, Bakkafrost's harvest was affected by the earlier than anticipated harvest of A-73 Hvannasund Norður because of pathogenic ISA-virus at the farming site. A-73 Hvannasund Norður was empty for fish on 12 April 2017. The total harvest of A-73 Hvannasund Norður was 3,137 tonnes gutted weight whereof 1,763 tonnes gutted weight were harvested in Q2 2017.

Bakkafrost transferred 1.9 million smolts (1.9 million smolts) in Q2 2017. In H1 2017, 3.3 million smolts (3.9 million smolts) were transferred. This is in line with Bakkafrost's smolt transfer plan for 2017.

Financial performance

In Q2 2017, the operating revenue for Bakkafrost's farming segment was DKK 1,038.6 million (DKK 751.6 million). The operating revenue for the farming

segment for H1 2017 was DKK 1,790.0 million (DKK 1,453.5 million).

In Q2 2017, the farming segment's EBIT amounted to DKK 498.8 million (DKK 306.6 million). The farming segment's EBIT for H1 2017 was DKK 607.3 million (DKK 644.8 million).

Operational EBIT amounted to DKK 489.5 million (DKK 357.9 million) in Q2 2017, which corresponds to an operational EBIT margin of 47% (48%). In H1 2017, operational EBIT was DKK 862.7 million (DKK 618.6 million).

Operational EBIT/kg for the farming segment was DKK 26.60 (NOK 33.50) in Q2 2017, compared with DKK 27.52 (NOK 34.47) in Q2 2016. Similar to Q1 2017, the harvest of A-73 Hvannasund Norður, which continued into Q2 2017, had a negative impact on the operational EBIT/kg in Q2 2017, as the average harvest weight was not optimal and thus affected both achieved sales price and production cost negatively.

Operational EBIT/kg for H1 2017 was DKK 27.33 (NOK 33.71), compared with DKK 25.84 (NOK 32.68) for H1 2016.

Harvested volumes	Q2 2017	Q2 2016	H1 2017	H1 2016
Farming North	13,581	8,904	22,705	10,413
Farming West	4,821	4,100	8,855	13,525
Total harvested volumes (tgw)	18,402	13,004	31,560	23,938

Smolt transfer 1,000 pieces	2012	2013	2014	2015	2016
Farming North	6,500	7,200	3,000	7,100	5,600
Farming West	4,200	2,300	7,400	4,200	*6,100
Total	10,700	9,500	10,400	11,300	11,700

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

VAP Segment

Produced Volumes Q2 2017	5,273 tgw
EBIT Q2 2017	-29.4 mDKK
Operational EBIT Q2 2017	-54.5 mDKK

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

Value added products 1,000 DKK	Q2 2017	Q2 2016	Change	H1 2017	H1 2016	Change
Total revenue	272,582	187,446	45%	464,125	366,950	26%
EBIT	-29,391	-45,616	36%	-52,297	-130,391	60%
Operational EBIT	-54,478	-68,394	20%	-107,518	-93,210	-15%
VAP - Operational EBIT/kg (DKK)	-10.33	-14.66	30%	-12.07	-11.91	-1%
VAP produced volumes (tgw)	5,273	4,664	13%	8,909	7,824	14%

Volumes

29% (36%) of the total harvested volumes in Q2 2017 went to production of VAP products. 28% (30%) of the harvested volumes in H1 2017 went to production of VAP products.

The VAP production in Q2 2017 was 5,273 tonnes gutted weight (4,664 tgw). The increase in production in Q2 2017 was 13%, compared to Q2 2016. In H1 2017, the VAP production was 8,909 tgw (7,824 tgw).

Financial performance

The operating revenue for the VAP segment amounted to DKK 272.6 million (DKK 187.4 million) in Q2 2017. The increase in revenue is due to higher volumes and higher prices in Q2 2017, compared with Q2 2016. In H1 2017, the VAP revenue was DKK 464.1 million (DKK 367.0 million).

The VAP segment had an EBIT amounting to DKK -29.4 million (DKK -45.6 million) in Q2 2017. Changes in onerous contracts of DKK 25.1 million (DKK 22.8 million) had an effect on the segment's EBIT in Q2 2017. In H1 2017, the VAP segment's

EBIT amounted to DKK -52.3 million (DKK -130.4 million)

Operational EBIT amounted to DKK -54.5 million (DKK -68.4 million) in Q2 2017, corresponding to an operational EBIT of DKK -10.33 (NOK 13.01) per kg gutted weight in Q2 2017, compared with DKK -14.66 (NOK -18.37) per kg gutted weight in Q2 2016. The deficit in the VAP segment's margin is due to the high raw material prices, combined with costs related to the start-up of the new VAP factory at Glyvrrar. The start-up costs have improved in Q2 2017, compared to Q1 2017, and Bakkafrøst expects reduced operational costs later in 2017 after start up issues have been solved.

For H1 2017, operational EBIT amounted to DKK -107.5 million (DKK -93.2 million), corresponding to an operational EBIT of DKK -12.07 (NOK -14.88) per kg, compared with an operational EBIT of DKK -11.91 (NOK -15.07) in H1 2016.

Distribution of harvested volumes	Q2 2017	Q2 2016	H1 2017	H1 2016
Harvested volume used in VAP production	29%	36%	28%	30%
Harvested volume sold fresh/frozen	71%	64%	72%	70%
Harvested and purchased volumes	100%	100%	100%	100%

FOF Segment

Sold Feed Q2 2017	17,032 tonnes
EBIT Q2 2017	37.2 mDKK
EBITDA Q2 2017	47.8 mDKK

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

Fishmeal, Fish Oil and Fish Feed 1,000 DKK	Q2 2017	Q2 2016	Change	H1 2017	H1 2016	Change
Total revenue	317,033	219,543	44%	594,174	507,551	17%
EBIT	37,239	36,729	1%	76,599	108,925	-30%
EBITDA	47,827	45,409	5%	92,974	114,431	-19%
FOF - EBITDA margin	15.1%	20.7%	-27%	15.6%	22.5%	-31%
Sold feed tonnes	17,032	16,295	5%	36,859	30,749	20%

Volumes

During Q2 2017, Havsbrún received 163,100 tonnes (83,970 tonnes) of raw material for the production of fishmeal and fish oil. The raw material intake depends on the fishery in the North Atlantic and available species of fish. In H1 2017, Havsbrún received 269,667 tonnes (155,539 tonnes) of raw material.

The production of fishmeal in Q2 2017 was 33,654 tonnes (17,839 tonnes). For H1 2017, Havsbrún produced 56,717 tonnes (33,745 tonnes) of fishmeal.

The production of fish oil in Q2 2017 was 1,261 tonnes (1,087 tonnes). The production of fish oil varies, depending on the species of fish sourced for production and the timing of catch. For H1 2017, Havsbrún produced 4,502 tonnes (3,682 tonnes) of fish oil.

Sales of feed amounted to 17,032 tonnes (16,295 tonnes) in Q2 2017, of which the farming segment internally used 16,012 tonnes (14,260 tonnes) or 94% (92%). For H1 2017, Havsbrún sold 36,859 tonnes (30,749 tonnes) of feed.

Financial performance

Sales FOF volume (tonnes)	Q2 2017	Q2 2016	H1 2017	H1 2016
Feed internal sale (tonnes)	16,012	14,260	34,965	27,509
Feed external sale (tonnes)	1,020	2,035	1,894	3,240
Total Feed sold (tonnes)	17,032	16,295	36,859	30,749
Fishmeal external sale (tonnes)	17,941	4,063	25,504	15,779
Fish oil external sale (tonnes)	0	0	0	5

The operating revenue for the FOF segment amounted to DKK 317.0 million (DKK 219.5 million) in Q2 2017, of which DKK 149.1 million (DKK 149.3 million) represented sales to Bakkafrost's farming segment, corresponding to 47% (68%). For H1 2017, the revenue amounted to DKK 594.2 million (DKK 507.6 million) of which DKK 335.0 million (DKK 287.8 million) represented sales to Bakkafrost's farming segment, corresponding to 56% (57%).

Total revenue for the FOF segment in Q2 2017 increased 44%, compared to the same quarter last year. The internal revenue was nearly unchanged, and thus the increase was due to higher external sales. The increase in external revenue is due to higher volumes of fishmeal sold in Q2 2017, compared to Q2 2016.

EBITDA was DKK 47.8 million (DKK 45.4 million) in Q2 2017, and the EBITDA margin was 15.1% (20.7%). Havsbrún sources raw pelagic fish for the fishmeal and fish oil production, which are part of the recipe to produce salmon feed. For H1 2017, the EBITDA was DKK 93.0 million (DKK 114.4 million), corresponding to an EBITDA margin of 15.6% (22.5%).

Outlook

Market

For the last year or so, the salmon market has been affected by a decline in supply. The main factors behind this are the harmful algal bloom in Chile in February 2016 and the biological issues in Norway. The negative effect of the Chilean algal bloom on supply of salmon continued into H1 2017. Expectations are that global supply of Atlantic salmon will rebound from decline in H1 2017 to an increase of around 8-10% in H2 2017. The latest update from Kontali Analyse estimates a global supply of Atlantic salmon to increase around 2% in 2017, compared to -6% in 2016.

The market place is one of Bakkafrost's most significant risk areas. To diversify the geographical market risk, Bakkafrost sells its products to all the largest salmon markets in the world, USA, the Far East, Europe and Russia.

Farming

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

The biological situation is Bakkafrost's most important risk area. The confirmed presence of pathogenic ISA-virus at farming site A-73 in March, draws attention to the importance of a high quality veterinary system to reduce the biological risk. Harvest of the fish at farming site A-73 was finished on 12th April 2017, and the site is now in fallow for a period of minimum 6 months. Bakkafrost focuses on biological risk continuously and has made several new investments and procedures to diminish this risk.

The investments in producing larger smolts will gradually reduce the time needed in the fjords to farm the salmon. This is expected to reduce biological risk and increase the capacity. The capacity growth from this investment program will appear in harvested volumes gradually until 2021.

Bakkafrost expects to harvest 53,500 tonnes gutted weight in 2017.

Bakkafrost expects to release 11.5 million smolts in 2017, compared with 11.7 million smolts in 2016 and 11.3 million smolts released in 2015 – smolts released by Faroe Farming before becoming part of the

Bakkafrost Group are included. The number of smolts released is a key element of predicting Bakkafrost's future production.

Sea lice is an area, which has demanded much effort and is a part of the biological risk. Bakkafrost focuses on using non-chemical methods in treatments against sea lice. In Q4 2016, Bakkafrost invested in a service vessel, M/S Martin, which uses lukewarm seawater treatment against sea lice. M/S Martin started operation in Q1 2017. In addition to M/S Martin, Bakkafrost invested in another service vessel, M/S Róland, in Q1 2017. M/S Róland is equipped with the same system as M/S Martin and is expected to start operation in September 2017. Furthermore, Bakkafrost will increase the use of lumpfish in farming in 2017.

VAP (Value added products)

Bakkafrost has signed contracts covering around 58% of the expected harvested volumes for the rest of 2017. This corresponds to an expected contract coverage of around 40% for the full year 2017.

VAP contracts are at fixed prices, based on the salmon forward prices at the time they are agreed and the expectations for the salmon spot price for the contract period.

The contracts last for 6 to 12 months. The long-term strategy is selling around 40-50% of the harvested volumes of salmon as VAP products at fixed price contracts. Selling the products at fixed prices reduces the financial risk with fluctuating salmon prices. The market price for contracted VAP products follows a more stable pattern instead of short-term fluctuations as in the spot market.

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

FOF (Fishmeal, oil and feed)

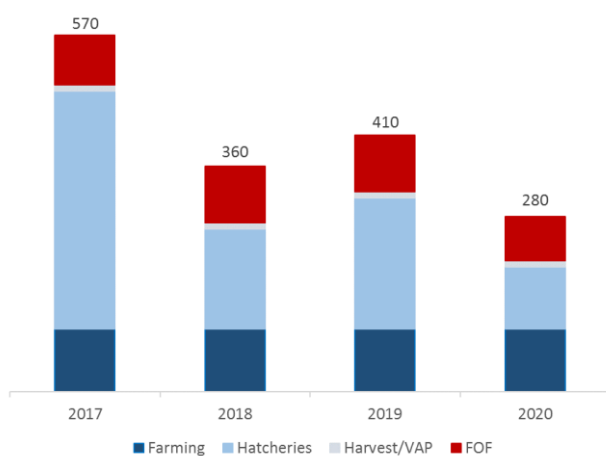
The outlook for the production of fishmeal and fish oil is dependent on the availability of raw material. The ICES 2017 recommendation for blue whiting is 1,342 thousand tonnes, compared with 776 thousand tonnes in 2016. Recommendations for herring and mackerel quotas have increased as well. The production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

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

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

Investments

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



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

Bakkafrost aims at being self-supplied with smolts at a size of 500g each. The benefits are a shorter production time at sea as well as reduced biological risk. To reach this goal, approximately half of Bakkafrost's total investments over from 2016 to 2020 will be in hatcheries.

Both the harvest operation and the VAP production in the new harvest/VAP factory at Glyvrar have started operation. The harvest operation started in the summer of 2016, and the VAP production started in Q1 2017. The old harvest factories in Klaksvík and Strendur are closed, as well as the old VAP factories in Fuglafjørður and Glyvrar. There are some extra costs during the start-up period, but the investment is expected to result in operational savings of DKK 70-90 million per year with gradual effect from 2017.

Bakkafrost has started upgrading the harvest operation in Vágur, Suðuroy. The upgrading cost is expected to be around DKK 35 million.

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

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

Financial

Favourable market balances in the world market for salmon products and cost conscious production will likely maintain the financial flexibility going forward. A high equity ratio together with Bakkafrost's bank and bond financing makes Bakkafrost's financial situation strong. This enables Bakkafrost to carry out its investment plans to further focus on strengthening the Group, M&A's, organic growth opportunities and fulfil its dividend policy in the future.

Risks

The Annual Report 2016 is available on request from Bakkafrost and on Bakkafrost's website, www.bakkafrost.com.

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

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

In addition to the risks described in the 2016 Annual and Consolidated Report and Accounts, pathogenic ISA-virus at Bakkafrost's farming site A-73 Hvannasund Norður was confirmed in March 2017.

Bakkafrost took immediate action and harvested all the fish in farming site A-73 Hvannasund Norður. The

confirmation of pathogenic ISA-virus resulted in a prolonged following period of minimum 6 months for farming site A-73 Hvannasund Norður, after the farming site was emptied for fish. The farming site A-73 Hvannasund Norður was emptied for fish on 12 April 2017.

According to normal procedures, neighbouring farming sites A-72 Haraldssund and A-21/A-11 Hvannasund Suður are under increased surveillance for 6 months. The purpose of the increased surveillance is to detect the ISA-virus as early as possible in case the virus from A-73 Hvannasund Norður has spread to other farming sites. According to Bakkafrost's harvest plan, the fish in farming sites A-21/A-11 Hvannasund Suður was harvested in Q2 2017 and the farming sites were emptied for fish respectively on 13 July 2017 and 7 June 2017.

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

Events after the Date of the Statement of Financial Position

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

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

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

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

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

cash flows for the period 1 January 2017 to 30 June 2017.

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

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

Glyvrrar, August 21st 2017

Management:

Regin Jacobsen
CEO

The Board of Directors of P/F Bakkafrost

Rúni M. Hansen
Chairman of the Board

Johannes Jensen
Deputy Chairman of the Board

Øystein Sandvik
Board Member

Virgar Dahl
Board Member

Annika Frederiksberg
Board Member

Teitur Samuelsen
Board Member

Consolidated Income Statement

For the period ended 30 June 2017

DKK 1,000	Q2 2017	Q2 2016	H1 2017	H1 2016
Operating revenue	1,206,148	789,690	2,059,829	1,694,240
Purchase of goods	-240,697	-243,112	-600,641	-549,539
Change in inventory and biological assets (at cost)	-137,750	39,083	-55,249	-31,237
Salary and personnel expenses	-112,729	-83,542	-208,162	-156,097
Other operating expenses	-210,361	-165,935	-314,095	-339,396
Depreciation	-45,454	-29,092	-87,071	-57,309
Operational EBIT*	459,157	307,092	794,611	560,662
Fair value adjustments of biological assets	54,853	-29,379	-179,724	78,267
Onerous contracts	25,087	22,778	55,219	-37,181
Income from associates	-2,312	6,665	-60	9,752
Revenue tax	-45,468	-29,520	-75,680	-52,095
Earnings before interest and taxes (EBIT)	491,317	277,636	594,366	559,405
Net interest revenue	364	616	554	1,169
Net interest expenses	-6,349	-6,609	-13,547	-12,989
Net currency effects	2,277	1,163	4,118	-13,327
Other financial expenses	-1,165	-1,045	-2,327	-2,111
Earnings before taxes (EBT)	486,444	271,761	583,164	532,147
Taxes	-88,378	-48,001	-106,068	-95,075
Profit or loss for the period	398,066	223,760	477,096	437,072
Profit or loss for the year attributable to				
Non-controlling interests	0	0	0	0
Owners of P/F Bakkafrøst	398,066	223,760	477,096	437,072
Earnings per share (DKK)	8.19	4.61	9.82	9.00
Diluted earnings per share (DKK)	8.19	4.61	9.82	9.00

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

Consolidated Statement of Comprehensive Income

For the period ended 30 June 2017

DKK 1,000	Q2 2017	Q2 2016	H1 2017	H1 2016
Profit for the period	398,066	223,760	477,096	437,072
Fair value adjustment on financial derivatives	-14,391	5,182	-17,719	13,913
Income tax effect	2,195	-790	2,703	-2,122
Reserve to share based payment	512	593	220	783
Currency translation differences	417	2,848	413	2,358
Adjustment on treasury shares	3,298	-2,094	4,058	-1,703
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	-7,969	5,739	-10,325	13,229
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	0	0	0	0
Other comprehensive income	-7,969	5,739	-10,325	13,229
Total other comprehensive income for the period	390,097	229,499	466,771	450,301
Comprehensive income for the period attributable to				
Non- controlling interests	0	0	0	0
Owners of P/F Bakkafrøst	390,097	229,499	466,771	450,301

Consolidated Statement of Financial Position

As at 30 June 2017

DKK 1,000	30 June 2017	31 Dec 2016
ASSETS		
Non-current assets		
Intangible assets	376,675	376,675
Property, plant and equipment	2,380,348	2,118,470
Financial assets	59,340	59,407
Long term receivables	0	12,660
Total non-current assets	2,816,363	2,567,212
Current assets		
Biological assets (biomass)	1,543,687	1,858,435
Inventory	459,955	355,604
Total inventory	2,003,642	2,214,039
Accounts receivables	325,358	292,009
Other receivables	134,364	109,860
Total receivables	459,722	401,869
Cash and cash equivalents	353,349	234,996
Total current assets	2,816,713	2,850,904
TOTAL ASSETS	5,633,076	5,418,116

Consolidated Statement of Financial Position

As at 30 June 2017

DKK 1,000	30 June 2017	31 Dec 2016
EQUITY AND LIABILITIES		
Equity		
Share capital	48,858	48,858
Other equity	3,549,785	3,500,177
Total equity	3,598,643	3,549,035
Non-current liabilities		
Deferred and other taxes	647,842	545,699
Long-term interest bearing debt	476,566	827,146
Financial derivatives	0	101,456
Total non-current liabilities	1,124,408	1,474,301
Current liabilities		
Financial derivatives	117,858	0
Short-term interest bearing debt	388,500	0
Accounts payable and other debt	403,667	394,780
Total current liabilities	910,025	394,780
Total liabilities	2,034,433	1,869,081
TOTAL EQUITY AND LIABILITIES	5,633,076	5,418,116

Consolidated Cash Flow Statement

For the period ended 30 June 2017

DKK 1,000	Q2 2017	Q2 2016	H1 2017	H1 2016
Earnings before interest and taxes (EBIT)	491,317	277,636	594,366	559,405
Adjustments for write-downs and depreciation	45,454	29,092	87,071	57,309
Adjustments for value adjustments on biomass	-54,853	29,379	179,724	-78,267
Adjustments for income from associates	2,312	-6,665	60	-9,750
Adjustments for currency effects	6,372	2,130	10,166	-11,946
Adjustments for provision for onerous contracts	-25,087	-22,778	-55,219	37,181
Received dividend	0	0	0	3,186
Change in inventory	118,467	-50,617	30,673	38,765
Change in receivables	-72,925	-8,509	-2,831	-40,347
Change in current debts	-13,060	-1,205	19,291	-62,897
Cash flow from operations	497,997	248,463	863,301	492,639
Cash flow from investments				
Payments made for purchase of fixed assets	-169,596	-199,478	-348,941	-318,671
Dividends received from associates	0	1,325	0	1,325
Cash flow from investments	-169,596	-198,153	-348,941	-317,346
Cash flow from financing				
Change of interest bearing debt (short and long)	-46,011	244,327	39,619	289,465
Financial income	364	616	554	1,168
Financial expenses	-7,514	-7,972	-15,874	-15,417
Net proceeds from sale of own shares	1,730	3,523	2,489	3,231
Financing of associate	0	-37,075	0	18,761
Dividend paid	-422,795	-400,623	-422,795	-400,623
Cash flow from financing	-474,226	-197,204	-396,007	-103,415
Net change in cash and cash equivalents in period	-145,825	-146,894	118,353	71,878
Cash and cash equivalents – opening balance	499,174	320,624	234,996	101,852
Cash and cash equivalents – closing balance total	353,349	173,730	353,349	173,730

Consolidated Statement of Changes in Equity

As at 30 June 2017

DKK 1,000	Share Capital	Share Premium Reserve	Treasury Shares	Share-based Payment	Currency translation differences	Derivatives	Proposed Dividend	Biomass Fair value adjustments	Retained Earnings	Total Equity
Equity 01.01.2017	48,858	306,537	-21,045	2,651	5,856	-83,196	425,065	880,491	1,983,818	3,549,035
Consolidated profit	0	0	0	0	0	0	0	-179,724	662,450	482,726
<i>Other comprehensive income:</i>										
Fair value adjustment on financial derivatives	0	0	0	0	0	-17,719	0	0	0	-17,719
Income tax effect	0	0	0	0	0	2,703	0	0	0	2,703
Share-based payment	0	0	0	220	0	0	0	0	0	220
Currency translation differences	0	0	0	0	413	0	0	0	0	413
Total other comprehensive income	0	0	0	220	413	-15,016	0	0	0	-14,383
Total comprehensive income	0	0	0	220	413	-15,016	0	-179,724	662,450	468,343
<i>Transaction with owners:</i>										
Treasury shares	0	0	4,058	0	0	0	0	0	0	4,058
Paid-out dividend	0	0	0	0	0	0	-425,065	0	2,271	-422,794
Total transaction with owners	0	0	4,058	0	0	0	-425,065	0	2,271	-418,736
Total changes in equity	0	0	4,058	220	413	-15,016	-425,065	-179,724	664,721	49,607
Total equity 30.06.2017	48,858	306,537	-16,987	2,871	6,269	-98,212	0	700,767	2,648,539	3,598,642
Equity 01.01.2016	48,858	306,537	-19,679	1,085	2,034	-105,621	403,079	257,277	1,686,912	2,580,482
Consolidated profit	0	0	0	0	0	0	0	623,214	719,514	1,342,728
<i>Other comprehensive income:</i>										
Fair value adjustment on financial derivatives	0	0	0	0	0	26,789	0	0	0	26,789
Income tax effect	0	0	0	0	0	-4,364	0	0	0	-4,364
Share-based payment	0	0	0	1,566	0	0	0	0	0	1,566
Currency translation differences	0	0	0	0	3,822	0	0	0	0	3,822
Total other comprehensive income	0	0	0	1,566	3,822	22,425	0	0	0	27,813
Total comprehensive income	0	0	0	1,566	3,822	22,425	0	623,214	719,514	1,370,541
<i>Transaction with owners:</i>										
Treasury shares	0	0	-1,366	0	0	0	0	0	0	-1,366
Paid-out dividend	0	0	0	0	0	0	-403,079	0	2,457	-400,622
Proposed dividend	0	0	0	0	0	0	425,065	0	-425,065	0
Total transaction with owners	0	0	-1,366	0	0	0	21,986	0	-422,608	-401,988
Total changes in equity	0	0	-1,366	1,566	3,822	22,425	21,986	623,214	296,906	968,553
Total equity 31.12.2016	48,858	306,537	-21,045	2,651	5,856	-83,196	425,065	880,491	1,983,818	3,549,035
Equity 01.01.2016	48,858	306,537	-19,679	1,085	2,034	-105,621	403,079	257,277	1,686,912	2,580,482
Consolidated profit	0	0	0	0	0	0	0	-78,267	519,174	440,907
<i>Other comprehensive income:</i>										
Fair value adjustment of financial derivatives	0	0	0	0	0	13,913	0	0	0	13,913
Income tax effect	0	0	0	0	0	-2,122	0	0	0	-2,122
Share-based payment	0	0	0	783	0	0	0	0	0	783
Currency translation differences	0	0	0	0	2,358	0	0	0	0	2,358
Total other comprehensive income	0	0	0	783	2,358	11,791	0	0	0	14,932
Total comprehensive income	0	0	0	783	2,358	11,791	0	-78,267	519,174	455,839
<i>Transaction with owners:</i>										
Treasury shares	0	0	-1,703	0	0	0	0	0	0	-1,703
Paid-out dividend	0	0	0	0	0	0	-403,079	0	2,457	-400,622
Total transaction with owners	0	0	-1,703	0	0	0	-403,079	0	2,457	-402,325
Total changes in equity	0	0	-1,703	783	2,358	11,791	-403,079	-78,267	521,631	53,514
Total equity 30.06.2016	48,858	306,537	-21,382	1,868	4,392	-93,830	0	179,010	2,208,543	2,633,996

Notes to the Account

Accounting Policy

General Information

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

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

ered office at Bakkavegur 8, FO-625 Glyvrrar, Faroe Islands, or at www.bakkafrost.com.

This Condensed Consolidated Interim Report is presented in DKK.

Note 1. Statement of Compliance

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

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

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

Note 2. Significant Accounting Policies

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

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

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

Please refer to Note 4 for further information.

Note 3. Estimates and Risk Exposures

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

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

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

The risks and uncertainties described therein are expected to remain.

Note 4. Biomass

DKK 1,000	30 June 2017	30 June 2016	31 Dec 2016
Biological assets carrying amount 01.01.	1,858,434	1,060,274	1,060,274
Increase due to production or purchases	641,889	538,285	1,408,220
Increase due to acquisitions - fair value included	0	0	118,233
Reduction due to harvesting or sale (costs of goods sold)	-813,976	-630,691	-1,296,244
Fair value adjustment at the beginning of the period reversed	-880,492	-257,278	-257,278
Fair value adjustment at the end of the period	700,768	335,544	880,492
Reversal of elimination at the beginning of the period	98,487	43,224	43,224
Eliminations	-61,425	-52,805	-98,487
Biological assets carrying amount at the end of the period	1,543,685	1,036,553	1,858,434
Cost price biological assets	894,829	730,643	1,054,429
Capitalized interest	9,513	23,171	22,000
Fair value adjustment at the end of the period	700,768	335,544	880,492
Eliminations	-61,425	-52,805	-98,487
Biological assets carrying amount	1,543,685	1,036,553	1,858,434
Biomass < 1 kg on average (tonnes)	2,009	2,391	2,039
Biomass 1 kg < 2 kg on average (tonnes)	4,260	6,354	5,866
Biomass 2 kg < 3 kg on average (tonnes)	3,884	2,789	6,523
Biomass 3 kg < 4 kg on average (tonnes)	8,172	2,570	5,168
Biomass 4 kg < on average (tonnes)	17,119	13,488	25,513
Volume of biomass at sea (tonnes)	35,444	27,592	45,109
Number of fish < 1 kg on average (thousand)	3,832	5,005	4,884
Number of fish 1 kg < 2 kg on average (thousand)	3,026	4,096	3,650
Number of fish 2 kg < 3 kg on average (thousand)	1,592	1,457	2,730
Number of fish 3 kg < 4 kg on average (thousand)	2,293	850	1,462
Number of fish 4 kg < on average (thousand)	3,242	2,622	5,123
Total number of fish at sea (thousand)	13,985	14,030	17,849
Number of smolts released YTD in Farming North (thousand)	1,395	1,358	5,590
Number of smolts released YTD in Farming West (thousand)	1,918	2,515	5,353
Total number of smolts YTD released (thousand)	3,313	3,873	10,943

§ ACCOUNTING POLICIES

BIOLOGICAL ASSETS

IAS 41 requires biomass to be accounted for at the estimated fair value net of sales-costs and harvesting costs. The calculation of the estimated fair value is based on market prices for harvested fish. In the accounts, the change in estimated fair value is entered to the Income Statement on a continuous basis.

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

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

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

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

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

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

Changes to the model involve calculation techniques and do not represent a change in accounting policies. The impact of the change has therefore been recorded through profit or loss in 2016. The impact of the transition on the financial statements is presented in the note on biological assets.

The change between the old and the new calculation has an effect on the profit and loss accounts for H1 2017 of +228.2 million DKK.

The valuation model

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

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

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

Main components in the model are:

- Volume
- Production costs
- Sales price
- Discount rate

Volume

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

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

Cost

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

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

Price

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

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

Fish Pool forward prices in EUR FCA Oslo

Q3 17	6.03
Q4 17	6.61
Q1-18	6.76
Q2-18	6.72
Q3-18	6.52
Q4-18	6.52

Discounts

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

Mortality

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

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

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

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

Bakkafrost has not had abnormal mortality in the period.



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

Sensitivity	
Change in discount rate +1%	85,374
Change in discount rate -1%	-94,824
Change in sales price +5 DKK	-225,163
Change in sales price -5 DKK	225,163
Change in biomass volume +1%	-8,647
Change in biomass volume -1%	8,647

Note 5. Segments

Farming segment DKK 1,000	Q2 2017	Q2 2016	H1 2017	H1 2016
External revenue	760,429	527,530	1,331,312	1,098,530
Internal revenue	278,176	224,086	458,677	354,946
Total revenue	1,038,605	751,616	1,789,989	1,453,476
Operating expenses	-516,319	-374,016	-864,414	-796,102
Depreciation and amortization	-32,836	-19,748	-62,893	-38,739
Operational EBIT	489,450	357,852	862,682	618,635
Fair value adjustments on biological assets	54,853	-29,379	-179,724	78,267
Income from associates	0	7,638	0	-43
Revenue tax	-45,468	-29,520	-75,680	-52,095
Earnings before interest and taxes (EBIT)	498,835	306,591	607,278	644,764
Net interest revenue	364	-1,238	554	-2,777
Net interest expenses	-5,599	446	-11,321	286
Net currency effects	5,849	503	8,397	-14,898
Other financial expenses	-1,105	-993	-2,218	-2,006
Earnings before taxes (EBT)	498,344	305,309	602,690	625,369
Taxes	-87,754	-50,427	-102,884	-100,353
Profit or loss for the period	410,590	254,882	499,806	525,016

Value added products DKK 1,000	Q2 2017	Q2 2016	H1 2017	H1 2016
External revenue	272,582	187,446	464,125	366,950
Internal purchase of raw material	-278,175	-224,086	-458,676	-354,946
Operating expenses	-44,543	-30,117	-105,104	-101,945
Depreciation and amortization	-4,342	-1,637	-7,863	-3,269
Operational EBIT	-54,478	-68,394	-107,518	-93,210
Provision for onerous contracts	25,087	22,778	55,221	-37,181
Earnings before interest and taxes (EBIT)	-29,391	-45,616	-52,297	-130,391
Net interest revenue	0	1,748	0	3,720
Net interest expenses	-154	0	-461	-5
Net currency effects	-42	-1	-325	-2
Other financial expenses	-2	-4	-4	-8
Earnings before taxes (EBT)	-29,589	-43,873	-53,087	-126,686
Taxes	5,326	7,897	9,556	22,803
Profit or loss for the period	-24,263	-35,976	-43,531	-103,883

Fishmeal, Fish Oil and Fish Feed DKK 1,000	Q2 2017	Q2 2016	H1 2017	H1 2016
External revenue	167,940	70,226	259,195	219,777
Internal revenue	149,093	149,317	334,979	287,774
Total revenue	317,033	219,543	594,174	507,551
Cost of goods sold	-213,617	-129,988	-393,159	-307,229
Operating expenses	-55,589	-44,146	-108,041	-85,891
Depreciation and amortization	-8,276	-7,707	-16,315	-15,301
Operational EBIT	39,551	37,702	76,659	99,130
Income from associates	-2,312	-973	-60	9,795
Earnings before interest and taxes (EBIT)	37,239	36,729	76,599	108,925
Net interest revenue	0	106	0	226
Net interest expenses	-596	-7,055	-1,765	-13,270
Net currency effects	-3,530	661	-3,954	1,573
Other financial expenses	-58	-48	-105	-97
Earnings before taxes (EBT)	33,055	30,393	70,775	97,357
Taxes	-5,950	-5,471	-12,740	-17,525
Profit or loss for the period	27,105	24,922	58,035	79,832

Reconciliation of reportable segments to Group earnings before taxes (EBT) DKK 1,000	Q2 2017	Q2 2016	H1 2017	H1 2016
Farming	498,344	305,309	602,690	625,369
VAP (Value Added Products)	-29,589	-43,873	-53,087	-126,686
FOF (Fishmeal, Fish Oil and Fish Feed)	33,055	30,393	70,775	97,357
Eliminations	-15,366	-20,067	-37,214	-63,892
Group earnings before taxes (EBT)	486,444	271,762	583,164	532,148

Assets and liabilities per segment DKK 1,000	30 June 2017	30 June 2016	31 Dec 2016
Farming	5,264,200	3,961,242	5,060,263
VAP (Value Added Products)	326,523	169,874	375,538
FOF (Fishmeal, Fish Oil and Fish Feed)	804,020	917,667	703,222
Eliminations	-757,667	-706,051	-720,907
Total assets	5,633,076	4,342,732	5,418,116
Farming	-813,416	-593,673	-710,184
VAP (Value Added Products)	-12,580	-60,192	-25,895
FOF (Fishmeal, Fish Oil and Fish Feed)	-534,744	-722,143	-495,784
Eliminations	-673,693	-332,728	-637,218
Total liabilities	-2,034,433	-1,708,736	-1,869,081

Note 6. Capital commitments

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

369 million. DKK 298 million relate to the building of new hatchery stations.

Note 7. Transactions with related parties

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

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

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

Note 8. Fair value measurements

All assets/liabilities, for which fair value is recognized or disclosed, are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.

Level 2: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).

Level 3: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

For biological assets, the fair value calculation is done using a valuation model (level 3 in the valuation hier-

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

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

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

There have been no transfers into or out of Level 3 fair value measurements.

As at 30 June 2017, 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)	1,543,687	842,917	0	0	1,543,687
Assets measured at fair value 30/6-2017	1,543,687	842,917	0	0	1,543,687
Liabilities measured at fair value 30/6-2017	0	0	0	0	0
Biological assets (biomass)	1,858,434	977,942	0	0	1,858,434
Assets measured at fair value 31/12-2016	1,858,434	977,942	0	0	1,858,434
Liabilities measured at fair value 31/12-2016	0	0	0	0	0

Note 9. APM

- Alternative Performance Measures

Bakkafrost's financial information is prepared in accordance with international financial reporting standards (IFRS). In addition, the management's intention is to provide alternative performance measures, which are regularly reviewed by the management to enhance the understanding of the company's performance, but not replacing the financial statements prepared in accordance with IFRS. The alternative performance measures presented may

be determined or calculated differently by other companies. Bakkafrost's experience is that these APM's are frequently used by analysts, investors and other parties.

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

NIBD

Net interest bearing debt consists of both current and non-current interest-bearing liabilities, less related current and non-current hedging instruments, financial instruments, such as debt instruments and derivatives and cash and cash equivalents. The net interest bearing debt is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess both the Group's cash position and its indebtedness. The

use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure. Net debt is an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate interest-bearing liabilities (both current and non-current), derivatives and cash and cash equivalents. A reconciliation is provided below.

DKK 1,000	30 June 2017	31 Dec 2016
Cash and cash equivalents	353,349	234,996
Deposit for interest- and currency swap	69,870	58,340
Derivatives	-117,858	-101,456
Long- and short term interest bearing debt	-865,066	-827,146
Net interest bearing debt	-559,705	-635,266

Operational EBIT

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

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

DKK 1,000	Q2 2017	Q2 2016	H1 2017	H1 2016
EBIT	491,317	277,636	594,366	559,405
Fair value adjustments on biological assets	-54,853	29,379	179,724	-78,267
Onerous contracts	-25,087	-22,778	-55,219	37,181
Income from associates	2,312	-6,665	60	-9,752
Revenue tax	45,468	29,520	75,680	52,095
Operational EBIT	459,157	307,092	794,611	560,662

Operational EBIT per kg

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

EBITDA

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

it excludes depreciations and amortization expenses related primarily to capital expenditures and acquisitions, which occurred in the past, nonrecurring items, as well as evaluating operating performance in relation to Bakkafrøst's FOF segments competitors. The EBITDA margin presented is defined as EBITDA before other income and other expenses divided by total revenues.

Adjusted EPS

Adjusted EPS is based on the reversal of certain fair value adjustments shown in the table below, as it is

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

DKK 1,000	Q2 2017	Q2 2016	H1 2017	H1 2016
Profit for the year to the shareholders of P/F Bakkafrøst	398,066	223,760	477,096	437,072
Fair value adjustment of biomass	-54,853	29,379	179,724	-78,267
Onerous contracts provisions	-25,087	-22,778	-55,219	37,181
Tax on fair value adjustment	14,389	-1,188	-22,411	7,395
Adjusted profit for the year to shareholders of P/F Bakkafrøst	332,515	229,173	579,190	403,381
Time-weighted average number of shares outstanding through the year	48,600,933	48,566,496	48,600,933	48,566,496
Adjusted earnings per share (before fair value adjustment of biomass and provisions for onerous contracts (adjusted EPS))	6.84	4.72	11.92	8.31

ROCE

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

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

DKK 1,000	Q2 2017	Q2 2016	H1 2017	H1 2016
Group-Operational EBIT	459,157	307,092	794,611	560,662
Average Capital Employed	4,710,054	3,871,222	4,710,054	3,871,222
ROCE	9.7%	7.9%	16.9%	14.5%

