



ESTABLISHED 1968

ANNUAL REPORT

2018

Faroese Company Registration No. 1724



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Chairman's Statement



RÚNI M. HANSEN
Chairman of the Board

Improving our Company's settings to meet growing global demand for protein with healthy and efficiently-produced salmon products

Bakkafrost has been on an exciting journey for the last couple of years. High focus has been on improving company procedures and facilities to create more value in a sustainable way. Investments in farming sites, ships, factories and smolt facilities have had high priorities. The aim is moving Bakkafrost into a position to be much more capable to meet future opportunities and meet growing global demand for protein with healthy and efficiently-produced salmon products and at the same time create value for our company, shareholders and society.

An important occasion in this direction was the publication of Bakkafrost's first sustainability report last year, which shows our commitment to keep putting a sustainable and responsible approach to our salmon farming operation at the top of our agenda.

The journey continued in 2018. Having agreed with the Faroese Government that Bakkafrost would take over the responsibility of the Faroese broodstock programme, Bakkafrost has integrated the organization behind the programme into Bakkafrost. We are very excited about the prospect of adding the broodstock into our already long value chain. In the updated investment programme, announced in August 2018, we plan to build a new state of the art facility for the broodstock operation. The investment in the broodstock operation should be seen as a long-term investment, which we are convinced will create value for Bakkafrost.

In 2018, Bakkafrost decided in agreement with the Faroese authorities to restructure some farming activities, resulting in a more complete structure for the farming activity in Suðuroy. Bakkafrost now has four farming sites in Suðuroy, whereof the last farming site will start production in 2019. We have updated the harvesting facility in Suðuroy in 2018, so the infrastructure is ready for the new production setup in Suðuroy. Bakkafrost

took over the farming operation in Suðuroy in 2016, and the results so far have been promising. With investments and good management, the farming activity in Suðuroy has potential for future growth in harvested volumes.

To continue to deliver return from our operations, we have focus on our business sustainability. In 2018, we decided to invest in the first biogas plant in the Faroe Islands. The biogas investment will make our business more sustainable as waist from our increasing smolt production on land will produce energy and at the same time produce good fertilizer to local farmers. 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.

In 2016, we decided to upscale our smolt production significantly by building a new hatchery at Strond. This facility will be finished in 2019. In August 2018, we announced expansions on two existing hatcheries and the building of one new hatchery, resulting in a significant lift in our production capacity of smolt.

Our investments 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 2018, the Board of Directors will propose a dividend of DKK 8.25 per share at the Annual General Meeting convened in April 2019. This corresponds to a total dividend of DKK 403.1 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 2018.

Statement by the Management and the Board of Directors

FIRST HALF OF 2018 WAS SATISFYING, WHILE THE SECOND HALF WAS CHALLENGING

Bakkafrost had to adapt to some changes in strategy in 2018, as we were not able to pursue the planned strategy in the VAP segment of having around 40-50% sold on long-term contracts. The volumes sold through the VAP segment were at a much lower level, compared to recent years.

At the end of 2017 and coming into 2018, we decided to decrease the contract coverage in our VAP segment. This resulted in much lower activity in the VAP production, compared to recent years, and the low production had a negative effect on the VAP segment's result in 2018. The VAP segment's production decreased in 2018 to 8,355 tgv, compared to 19,067 tgv in 2017. The percentage of total harvest used in the VAP production was 19% in 2018, compared to 35% in 2017. The VAP segment had a positive margin in the second half of 2018. The VAP segment sells on long-term contracts and typically the prices in the long-term contracts have a time lag, compared with the spot price for fresh salmon. The contract coverage in 2019 will be higher than in 2018.

The average salmon spot price in 2018 was nearly flat, compared to 2017. During the year, the salmon price had quite a volatile development. The highest monthly average price in May 2018 was nearly EUR 8 per kilo, compared to the lowest monthly average price around EUR 5.5 per kg, corresponding to a spread of EUR 2.5 per kg. This is not uncommon for the salmon spot price. In 2017, the spread between the highest and lowest monthly average spot price during the year was EUR 3.4 per kg, and in 2016, the spread was EUR 2.5 per kg.

The Group's operational EBIT was DKK 1,075 for 2018, compared to DKK 1,378 million for 2017. The decrease in operational EBIT was mainly due to higher costs on two sites and lower harvested volumes in the farming segment.

2018 was mixed with different events, but the highlight was the celebration of Bakkafrost's 50th anniversary since the establishment of the company in 1968. The salmon farming industry has developed dramatically since it started in the Faroe Islands. We foresee great opportunities for development in the future, and to be able to transform these opportunities into realities, large investments are needed. Bakkafrost has in recent years made large investments to develop the company, and in 2018, we announced a new investment plan for the next five years. Bakkafrost expects to make investments of around DKK 3 billion during the period from 2018 to 2022.

The farming segment harvested 44,591 tgv in 2018, compared to 54,615 tgv in 2017. This corresponds to a decrease of 18%. The harvest in the farming segment is dependent on available farming sites with fish at the aimed harvest weight and the general biological situation. Although not affecting the harvest in 2018, the farming segment was hit by an algae bloom incident at one of our farming sites, A-81 Kolbanagjógv, in September 2018. The incident resulted in higher costs in 2018 and will have a negative effect on the 2019 harvest volumes, as nearly half of the fish at the farming site died of the algae bloom.

Bakkafrost signed an agreement with P/F Fiskaaling and the Faroese Ministry of Foreign Affairs and Trade concerning the Faroese broodstock programme at the end of 2017. In 2018, Bakkafrost has taken over the responsibility of the broodstock programme with the goal to examine the feasibility of the programme. At present, Bakkafrost is renting the old broodstock facilities from P/F Fiskaaling, but a new broodstock facility has been included in our new investment programme. According to the agreement, the genome rights in the Faroese broodstock programme will be transferred to Bakkafrost in 2021. This will require investments and demand effort and resources from Bakkafrost, but we believe this is an exciting project, which will benefit us in the long run.



The raw material intake in the FOF segment was 302,465 tonnes in 2018, compared to 342,456 tonnes in 2017. This is a decrease of 12%, but 2017 was record high in raw material intake in Havsbrún's history going back to 1966. The production of fishmeal and fish oil was consequently lower in 2018, compared to 2017. The feed sale was 77,775 tonnes in 2018, compared to 78,134 tonnes in 2017. The EBITDA margin in 2018 was 20%, marginally lower than in 2017.

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 in 2018, compared to 2017, but did not reach the same level as in 2015 and 2016.

In our farming operation, we have had high focus on improving our treatment method against sea lice. In 2018, medical bath treatments were not used against sea lice. The preferred treatments were using freshwater and lukewarm sea water, and in addition lumpfish – the only cleaner fish in the Faroe Islands – was used as an important preventive measure against sea lice.

With the new mechanical treatment, we experienced some downturns, especially during the run-in period, resulting in

a higher mortality rate. We are still adjusting the treatment, equipment and procedures to reduce the negative effects of the new treatments. The reason for the increasing mortality rate over the last two years is mainly because of the new sea lice treatments.

In 2018, Bakkafrøst acquired the business and assets in US salmon importer North Landing, based in New Jersey, USA. North Landing was focusing on the East Coast with a sales office and handling and processing facilities in Clifton, New Jersey, USA. We are excited about the opportunities and improved market access by having a new Bakkafrøst sales office in the USA. The intention is to improve our abilities to serve our customers in one of the largest salmon markets with a wider range of services.

Bakkafrøst paid its outstanding NOK 500 million bond loan at maturity in February 2018. In connection with the payment of the bond loan, Bakkafrøst refinanced its bank facility, with a senior secured five-year EUR 200 million credit facility. The Bakkafrøst Group's interest-bearing debt amounted to DKK 495.5 million at the end of 2018, compared with DKK 258.1 million at year-end 2017. The Group had undrawn credit facilities of DKK 997.7 million at the end of 2018.

The Bakkafrøst Group made a profit of DKK 960.3 million for 2018, compared with DKK 511.4 million for 2017. Bakkafrøst's equity ratio was 70% at the end of 2018, compared to 70% at the end of 2017. Bakkafrøst paid out DKK 513.0 million in dividends in the second quarter of 2018, corresponding to DKK 10.50 per share.

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

Outlook

MARKET

The global supply of Atlantic salmon in Q4 2018 increased around 5%, compared to Q4 2017, according to the latest estimate from Kontali Analyse. The global supply for 2018 increased by 6%, compared to 2017.

The global harvest of Atlantic salmon in Q1 2019 is expected to increase around 5%, compared to Q1 2018. The estimated global harvest of Atlantic salmon for 2019 is an increase of around 4-6%, compared to 2018.

Bakkafrost operates in the main salmon markets, Europe, USA, the Far East and Russia. 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.

FARMING

The outlook for the farming segment is good. The estimates for harvest volumes and smolt releases are dependent on the biological development. Larger smolts and high focus on improving procedures for mechanical treatments of salmon is expected to reduce mortality rates in 2019.

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's guidance for harvest in 2019 is 54,500 tonnes gutted weight.

Bakkafrost expects to release 13.5 million smolts in 2019, compared with 12.6 million smolts in 2018 and 9.9 million smolts in 2017. 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 33% of the expected harvested volumes for 2019. Bakkafrost's long-term strategy is to sell around 40-50% of the harvested volumes of salmon as VAP products at fixed price contracts.

The VAP contracts are at fixed prices, based on the salmon forward prices at the time they are agreed and the expectations for the salmon spot 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 2019 recommendation for blue whiting is 1,143 thousand tonnes, which corresponds to a decrease of 18%, compared to ICES's recommendation for 2018.

Bakkafrost expects a decrease in production volumes of fishmeal and fish oil in 2019, compared to 2018.

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 2019 are expected to be at 85,000 tonnes, depending on external sales.

INVESTMENTS

Bakkafrost's investment programme for the period from 2018 to 2022 will amount to DKK 3 billion, including maintenance capex, and will reinforce Bakkafrost's integrated business model. The aim of the investment programme is to minimize the biological risk, increase efficiency and create sustainable organic growth.

Bakkafrost's strategy and investment programme will be presented at Bakkafrost's Capital Markets Day on 12 June 2019 in the Faroe Islands.

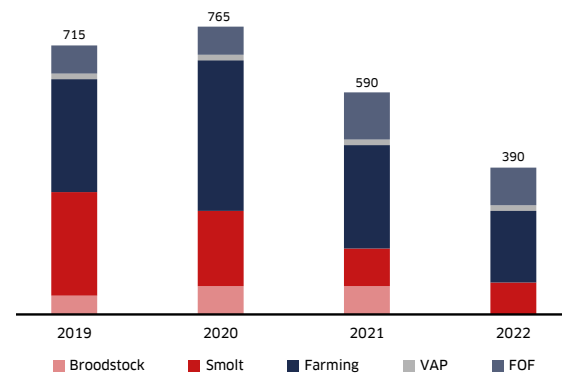
FINANCIAL

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 financing, makes Bakkafrost's financial situation strong. This enables Bakkafrost to carry out its investment plans to further focus on strengthening the Group, M&As, organic growth opportunities and to fulfil its unchanged dividend policy in the future, although a new investment programme is announced.

Fig. 1

INVESTMENT PLAN (mDKK)



Bakkafrost at a Glance



BAKKAFROST

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

Location: Faroe Islands

Headquarters: Glyvvar, 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

Employees: 1,073 (824 full time equivalent)

Markets served: Western Europe (31%), North America (20%), Asia (24%), Eastern Europe (25%)

LEGEND TO MAP SYMBOLS



FISHMEAL



BROODSTOCK



HARVESTING



FSV (FARMING SERVICE VESSELS)



FISH OIL



HATCHERIES



PROCESSING



PACKAGING



FISH FEED



FARMING



SALES



BIOGAS

HAVSBRUN

BAKKAFROST HEADQUARTERS

FAROE ISLANDS

BAKKAFROST UK

BAKKAFROST US

Map excludes farming sites not in operation in 2018

Key Figures

Fig. 2

DKK 1,000

Income Statement

	2018	2017	2016	2015	2014
Operating revenues	3,177,422	3,770,049	3,202,686	2,850,363	2,683,319
Operational EBIT*	1,074,912	1,377,647	1,164,953	1,000,583	833,775
Operational EBITDA*	1,273,810	1,561,237	1,298,214	1,108,681	930,944
Earnings before interest and taxes (EBIT)	1,184,233	649,104	1,673,587	928,758	892,291
Earnings before taxes (EBT)	1,172,066	623,884	1,632,614	924,471	899,191
Net earnings	960,292	511,402	1,338,887	810,175	647,105

Earnings per share before fair value adjustments of biomass and provision for onerous contracts (DKK)	16.44	21.08	17.57	17.16	12.33
Earnings per share after fair value adjustments of biomass and provision for onerous contracts (DKK)	19.74	10.52	27.56	16.69	13.34

Statement of Financial Position

Total non-current assets	3,396,036	3,023,807	2,567,212	1,957,061	1,462,633
Total current assets	2,406,487	2,131,709	2,850,904	1,963,325	2,000,300
TOTAL ASSETS	5,802,523	5,155,516	5,418,116	3,920,386	3,462,933
Total equity	4,077,029	3,626,429	3,549,035	2,580,482	2,063,653
Total liabilities	1,725,494	1,529,087	1,869,081	1,339,904	1,399,280
TOTAL EQUITY AND LIABILITIES	5,802,523	5,155,516	5,418,116	3,920,386	3,462,933
Net interest-bearing debt	495,479	258,070	635,266	391,743	232,711
Equity share	70%	70%	66%	66%	60%

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

Main Events

January

Bakkafrost makes an agreement with its existing lender, Nordea Bank, to refinance its existing bank facility and its outstanding NOK 500 million bond loan, with a senior secured five-year EUR 200 million bank facility. The facility includes an accordion increase option by further EUR 200 million during the term of the facility.

March

Bakkafrost's farming site A-12 Kunoyarnes is ASC certified. And Bakkafrost's farming site A-25 Gøtuvík, which was the first farming site in the Faroe Islands to receive an ASC certification back in March 2015, gets its certification renewed.

Bakkafrost launches its first sustainability report.



July

Bakkafrost closes the acquisition of the business and assets in the US salmon importer North Landing.



August

Bakkafrost announces a new ambitious five-year investment plan for the period from 2018 to 2022. Total investment in the period will be DKK 3 billion.



April

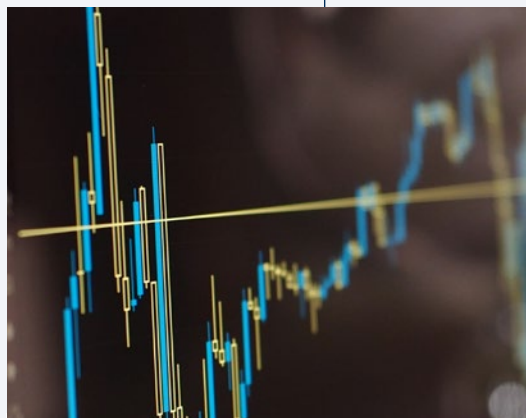
The annual general meeting approves a dividend of DKK 10.50 per share.

Bakkafrost starts the integration of the Faroese broodstock programme previously run by Fiskaaling P/F.



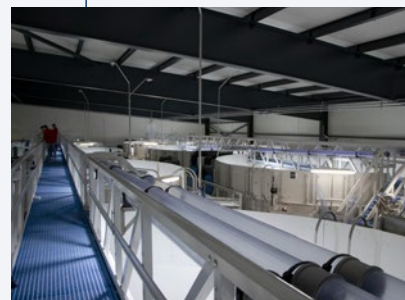
February

Bakkafrost settles the NOK 500 million bond loan on maturity date 14 February 2018. The bond loan was raised in February 2013.



June

New Hatchery at Strond starts operation. When in full operation the hatchery will produce 7 million smolts at 500 gram each.



November

Bakkafrost's farming sites A-04 Lambavík and A-13 Borðoyarvík become ASC certified.



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 2018.

• 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 2018.

• 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 2019, 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 Bakka Frost's History

For more details on Bakka Frost's history, please visit www.bakkafrost.com/about/history

1968

The Bakka Frost business is established by the two brothers Hans and Róland Jacobsen. The first processing plant is built the same year. The third brother, Martin Jakobsen, joins the company in 1971.

1979

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

1995

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

2006

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

2010

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

Bakka Frost is listed on Oslo Børs and broadens its shareholder base. In addition to local Faroese investors, the company is now owned by International investors from all over Europe and the USA.

2011

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

2013

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

2016

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

2017

Bakka Frost's new harvest/VAP factory and the headquarters in Glyv-rar are finished. The public is invited to visit the facilities in September.

FSVs Martin and Róland start operation.

The Value Chain

Bakkafrost controls the entire value chain from own production of fishmeal, fish oil and fish feed to sales and marketing of finished VAP products. Control of the entire value chain is considered important to ensure availability, traceability and to be able to control the product flow on a daily basis. Both customers and processing facilities depend on a daily availability of salmon and depend entirely on a steady flow of harvested fish.

The quality of the salmon is the final result of the whole operation, from production of fishmeal and fish oil to the processing of the salmon. The documentation and traceability from the finished product back to the raw material in the feed and the salmon eggs is important for the customers and therefore important to Bakkafrost.

The control of the entire value chain enables Bakkafrost to enter into long-term delivery contracts and long-term customer relationships without being dependent on any third party to ensure the quality and predictability of the 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. The broodstock will widen the value chain even more vertically and increase the traceability back to the production of the salmon eggs.

Fig. 4

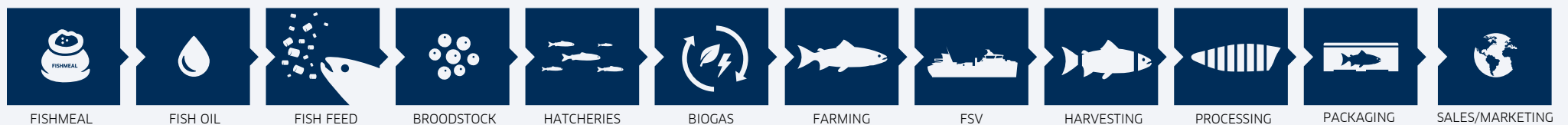
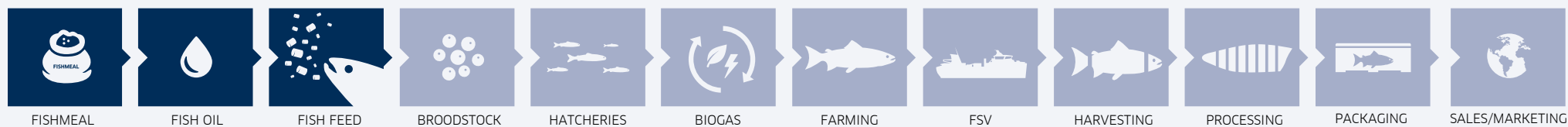


Fig. 5



FISHMEAL, FISH OIL AND FISH FEED

Bakkafrost sources raw material for the production of fishmeal and fish oil. Various pelagic species are used in this production. Bakkafrost maintains exceptionally high standards with regard to the raw material used, and thus secures, a first-class fishmeal, fish oil and fish feed product. The fish, utilized in the production, is purchased from Faroese as well as from foreign vessels operating in the North Atlantic.

Fishmeal has a very high protein content, which makes it an ideal ingredient in the feed blends for fish. The fish oil produced is mainly used in fish feed but is also used in a variety of health supplements and other products.

As producers of our own high-quality fish feed raw material, Bakkafrost is uniquely situated to select the very best fishmeal and fish oil for our fish feed production. Moreover, the produced fishmeal and oil in our fish feed comes from the very same species of fish on which wild ocean salmon feed. This fact alone dramatically enhances and assures the best possible growth conditions for our farming.

Bakkafrost feeds the salmon with fish feed produced from fish oil, which is cleaned for environmental pollutants like DL-PCBs and Dioxin. DL-PCBs and Dioxin can be detected

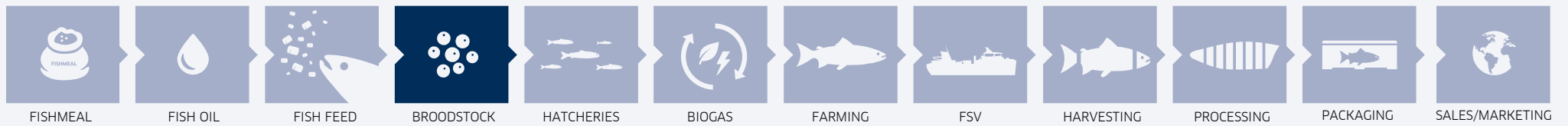
in a variety of foods. Limits for the content of these environmental pollutants are strictly regulated. Routine tests made by the Faroese Food and Veterinary Authority – prior to cleaning the fish oil for environmental pollutants – show that the levels of these environmental pollutants in the salmon from the Faroe Islands are far below all assigned limits. Bakkafrost wants, however, to differentiate its salmon even more by cleaning the fish oil, and thus strengthening Bakkafrost salmon's position as one of the healthiest farmed salmon in the marketplace.

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

Bakkafrost has invested in a high marine profile in the fish feed, aiming at keeping the salmon's diet as close as possible to the natural diet of the wild salmon. Bakkafrost's fish feed profile has measurable benefits. The salmon has a healthier nutritional profile, which gives the salmon a better meat structure, supplying the end customers with a superior product.

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

Fig. 6



BROODSTOCK

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

The acquisition of the programme from Fiskaaling (Aquaculture Research Station of the Faroes), forms part of our strategy to maximize biosecurity, breeding and genetics, and to have the longest integrated value chain in the industry.

The private ownership of the programme will not only 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 sizeable DKK 200 million 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.

Roe from up to 400 Faroese salmon families across four generations will be bred in a controlled environment to find the optimal genetic diversity for example to identify hereditary characteristics for growth and quality, and to

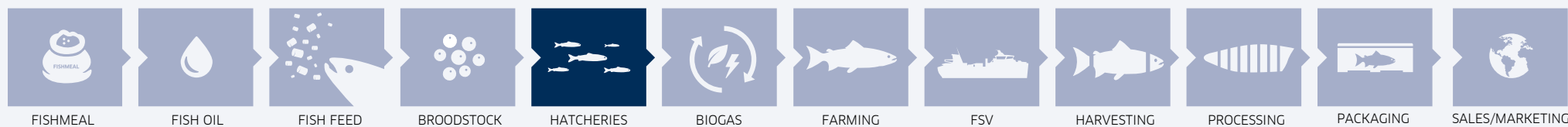
increase resistance against sea lice and breed out common pathogens which can cause disease. Early results in a new generation have indicated great progress with the PMCV pathogen.

The breeding programme was resurrected in 2016 by Fiskaaling with support from the Government of the Faroe Islands, using the few remaining Faroese salmon.

Bakkafrøst expects to start breeding salmon based on Faroese roe in 2021.

- **Faroese broodstock programme taken over in 2018**
- **Option to get the genome rights in 2021**
- **New broodstock facility in Skálavík to begin operation in 2022**

Fig. 7



HATCHERIES

The Bakkafrost Group operates six hatcheries with a total production capacity of 12 million smolts at an average weight of 200g for annual release. This will increase during 2019 to 15 million smolts at 400g per year.

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

In 2018 Bakkafrost started implementing part of our own broodstock production. This will increase going forward. Bakkafrost's capability to produce eggs will increase significantly when the new broodstock facility will be fully operational in 2022.

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

Bakkafrost's hatcheries are located in environments with large quantities of clean fresh water, where no villages or

industries are competing for the water. This is important, as there is no ground water available in the Faroe Islands. The hatcheries are equipped with closed water circulation systems with biofilters, and the fish tanks are inside buildings in order to limit the effect of external factors, such as weather, birds and other pollution. The workforce in the hatcheries is very experienced; many of the employees have been working at the hatcheries for a long time.

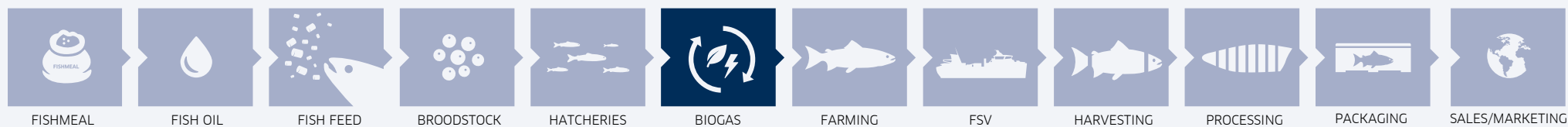
The average weight of released smolt was around 180g in 2018 and will be somewhat higher in 2019. Bakkafrost aims at producing all smolts for release at an average weight of 500 grams by 2021. The benefits are a shorter production time at sea as well as reduced biological risk. The new hatchery at Strond, Klaksvík, is an important part of this plan. The hatchery 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 2021.

In January 2019, Bakkafrost 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 2021.

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 2022.

- **12 million smolts for release annual capacity**
- **The new hatchery at Strond fully operational by year-end 2020**
- **Increased capacity at Norðtoftir and Glyvradalur from 2021**
- **New hatchery at Ónavík with additional 3 million annual smolts capacity to begin operation in 2022**

Fig. 8



BIOGAS

One man's trash is another man's treasure. Employing a resourceful mentality has been at the heart of our efficient growth over the years, and in 2018 we cemented this into our ambitious investment strategy, announcing a DKK 100 million investment to build a new biogas plant in the Faroes.

The 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 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%.

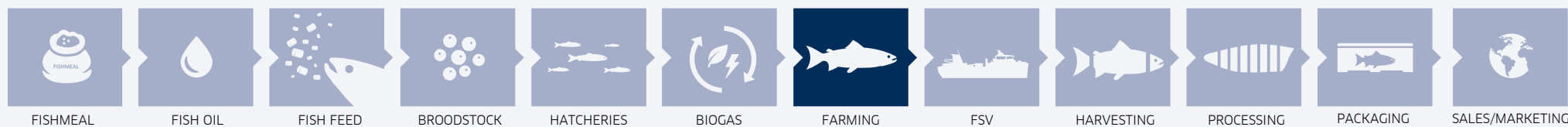
The biogas plant will be constructed during 2019 and is planned to be in operation during the first quarter of 2020.

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. Our approach to date has received recognition at Edie's International Sustainability Leader Awards.

- **New biogas plant operational in 2020**
- **90-100,000 tonnes of waste conversion annual capacity**



Fig. 9



FARMING

Bakkafrost's 19 salmon farming sites in operation in 2018 extend across 17 of the islands' fjords and benefit from excellent water quality and circulation due to strong currents and cool steady sea temperatures. A new farming site in Hvalba in Suðuroy is expected to start 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 Bakkafrost's average target weight of about 6.0–6.5 kg wfe. This target weight is considered to provide an optimal breakdown/mix of sizes in order to serve both the fresh fish market and the internal VAP production.

As a rule, the larger fish are distributed as fresh fish and the smaller fish are used as raw material in the VAP production. The fish are fed several times a day, and the feed consumption is monitored continuously.

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.

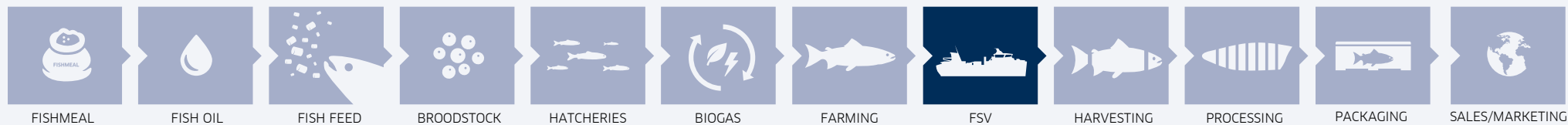
In 2017 and 2018, we have observed increased mortality rates as a result of the strategy to avoid using chemical treatment against sea lice. High focus is kept on improving procedures and equipment in order to reduce mortality level to previous levels.

The main goal of the farming operation is to produce salmon at a low feed conversion rate and with low mortality. To reach this goal, Bakkafrost believes the environment is important, and therefore does its utmost to create and maintain a healthy environment for the fish. Following national regulations, environmental investigations are undertaken each year by external agencies at each farming location. The result of each survey becomes input data used in the tactical planning to achieve the best environmental and sustainable farming results possible.

The environmental authorities also have to approve a 3-year production plan for the Faroese salmon companies on a yearly basis.

- **19 farming sites in operation across 17 fjords**
- **New farming site in Hvalba expected to start operation in 2019**

Fig. 10



FARMING SERVICE VESSELS (FSV)

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

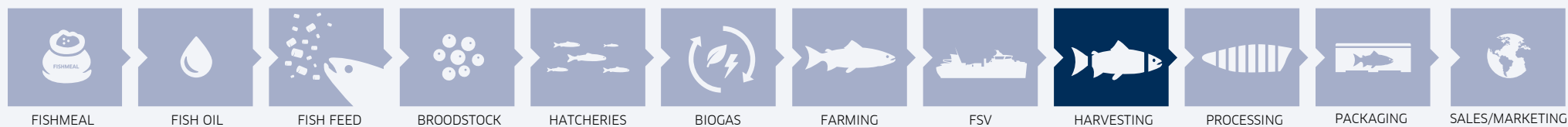
The live fish carrier fleet again consists of two vessels for smolt transport and two vessels for transportation of fish to harvest: One medium size live fish carrier (660m³/110 tonnes wfe) and one large live fish carrier (3,500m³/450 tonnes wfe), equipped with the latest technology and both with closed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

- **6 farming service vessels (including 4 live fish carriers) and 74 smaller boats**
- **New farming service vessel to support biosecurity strategy in 2021**



Fig. 11



HARVESTING

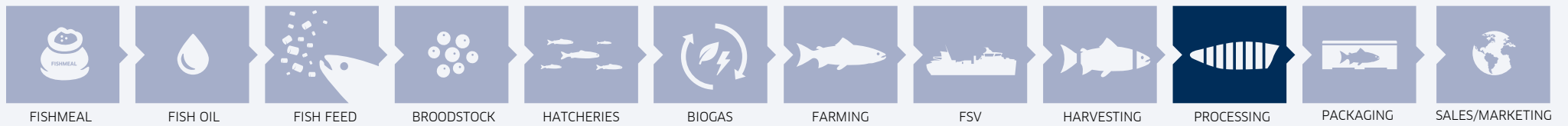
All Bakkafrost's fish is harvested at the harvest factories in Glyvrrar and Vágur. The harvest factory in Glyvrrar has a daily capacity of around 350 tonnes wfe at the current run rate with one shift on average but can increase the daily capacity by 100-150 tonnes wfe. The reconstruction of the harvest factory in Vágur was completed in 2018, increasing its daily capacity to 100 tonnes wfe.

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

- **44,600 tonnes of salmon harvested in 2018**
- **Reconstruction of harvest plant in Vágur completed in 2018, increasing daily capacity to 100 tonnes wfe**



Fig. 12



PROCESSING

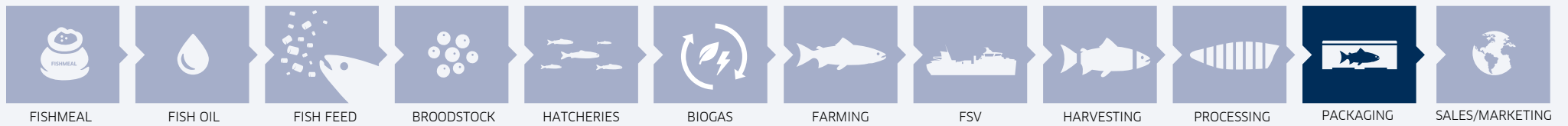
The 4,000 m² VAP factory at Glyvvar has a production capacity of 100 tons of value added products a day. The primary customers for these products are the supermarket chains and the Horeca segment.

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 from Europe and the Far East.

- **40,000 tonnes annual secondary processing capacity**



Fig. 13



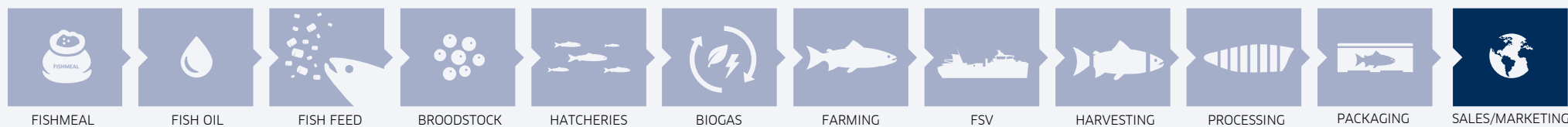
PACKAGING

Bakkafrost has a packaging factory, which is located and integrated into the Glyvvar processing facility. The packaging factory produces styropor boxes for the fresh salmon, both for sea and air freight. The packaging factory at Glyvvar 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

Bakkafrost has three sales offices. The Glyvvar International Sales department in the Faroe Islands serves the global market. The UK sales office is in Grimsby, serving the UK market, and the US sales office is in Clifton, New Jersey, serving the US market.

Bakkafrost has through its recently established subsidiary, Bakkafrost US, signed an agreement in Q2 2018 to acquire the business and assets in North Landing, which was a US salmon importer focusing on the East Coast with a sales office and handling and processing facilities in Clifton, New Jersey, USA. Through the acquisition, Bakkafrost will have a better market access and better abilities to serve Bakkafrost's customers in the US market. The acquisition of North Landing was closed in Q3 2018.

Sales strategy

The Group's strategy is to balance the sales mix between different geographical markets and different product segments. The most important markets are the European, US, Chinese and Russian market. As a rule, the VAP products are sold on long-term contracts and the whole fish is sold on the spot market.

Bakkafrost believes that its capability to serve these geographical markets with the two categories of products efficiently reduces cross-cycle fluctuations in both revenues and profitability.

The strategy is to offer advantages to the larger supermarket chains by securing product availability and stable high quality and preferred products.

Distribution

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

With the existing distribution network, Bakkafrost can ship products to the UK within 20 hours by ship. From the UK, the products are distributed by plane to major airports in the US and China within 24 hours, with a total cost of DKK 10-14 per kg from factory to customer.

Products planned for the European and Russian markets are transported by ship to Denmark or the UK within two days for further distribution on trucks.

Sales to 29 countries

- Markets served:
 - Western Europe (31%)
 - North America (20%)
 - Asia (24%)
 - Eastern Europe (25%)

PERFORMANCE



Operational Review

Bakkafrost holds sea farming licenses in the north-eastern and southern parts of the Faroe Islands. 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 Faroese farming legislation has imposed strict measures to regulate the operation into being sustainable. Bakkafrost farming sites are located in 17 different fjords.

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

The farming sites are both environmentally certified and yearly audited by environmental agencies. The production plans 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, minimizing unit costs, biological feed conversion rate and giving a best-in-class performance. The excellent biological situation is crucial to maintain production costs at current levels and to maximize the return on the invested capital.

In addition to the sea farming licenses, Bakkafrost holds six licenses for smolt production on land. These licenses give a smolt facility, also called hatchery, the right to farm salmon, from roe to smolt. Bakkafrost operated five hatcheries until June 2018, when the new smolt facility at Strond, Klaksvík, started operation, making it six hatcheries.

COST-CONSCIOUS PRODUCER AND VETERINARY MODEL

In terms of production costs, our farming operation has delivered strong results following the implementation of the

veterinary regime in the Faroe Islands – a set of laws implemented since 2003, stating quite strictly, how salmon farmers must operate.

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

The farming costs have increased in recent years, especially because of increased feed costs and health costs. Another factor is that the farming sites have been moved further out the fjords to more exposed areas, where more expensive equipment is needed. Bakkafrost uses salmon feed with a high marine profile, which is relatively costly, because of the high level of marine ingredients. Bakkafrost gets other benefits from this diet, which is similar to the diet of the wild salmon. Good animal welfare has positive impact on non-feed cost elements and results in higher production efficiency.

The health costs mainly relate to treatments against sea lice. The treatment against sea lice used to be medical bath treatment, but since 2015, when Bakkafrost began using fresh water treatment against sea lice and in 2017, when Bakkafrost began using lukewarm seawater against sea lice, Bakkafrost has not used medical bath treatment. Initially, 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 Bakkafrost 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. In August 2018, Bakkafrøst announced a new five-year investment plan amounting to around DKK 3 billion from 2018 to 2022. Around DKK 0.5 billion has been invested in 2018, so for the next four years, Bakkafrøst will invest around DKK 2.5 billion. The goals for the investment plan are; reducing the biological risk, increasing efficiency and giving organic growth.

In the period from 2018 to 2022, Bakkafrøst will invest around DKK 1 billion in its smolt operation. Bakkafrøst is self-supplied with smolt but aims to have an average weight of 500g for all smolts release into the sea. Bakkafrøst has expanded both the hatcheries at Norðtoftir and Viðareiði, but when the new hatchery at Strond is fully operating at the end of 2020, Bakkafrøst's smolt capacity will increase substantially.

At present Bakkafrøst's smolts for release 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 2019.

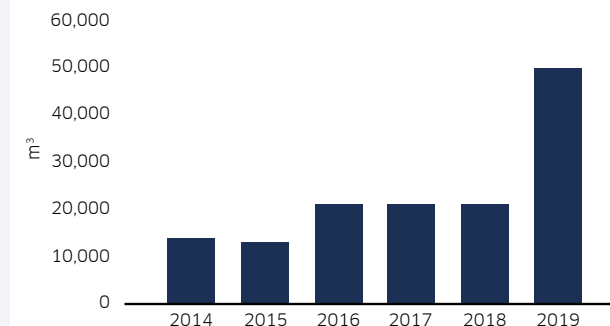
The average release size of smolt has increased from around 120g in 2014 to around 180g in 2018, corresponding to a 50% increase in size. The average release size was around 200g in 2017, but considering the number of smolts released during the year, the production output was higher in 2018, compared to 2017.

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.

Bakkafrøst has invested in new equipment in the farming operation. Since 2015, Bakkafrøst has acquired three ships, one

Fig. 15

HATCHERY CAPACITY (M³)



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.

Fig. 16

MORTALITY % OF OUTPUT*

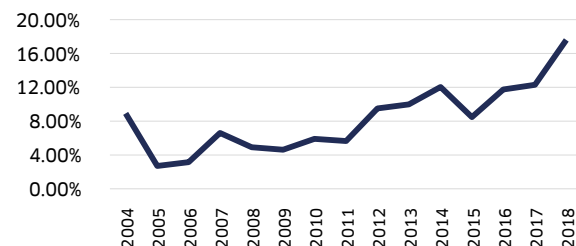


Fig. 17

BIOLOGICAL FEED FACTOR*

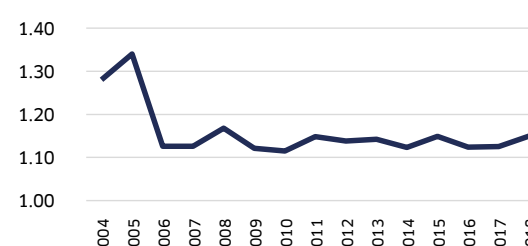


Fig. 18

AVERAGE HARVEST WEIGHT (KG LW)*

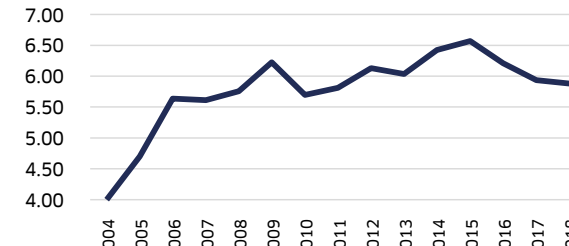
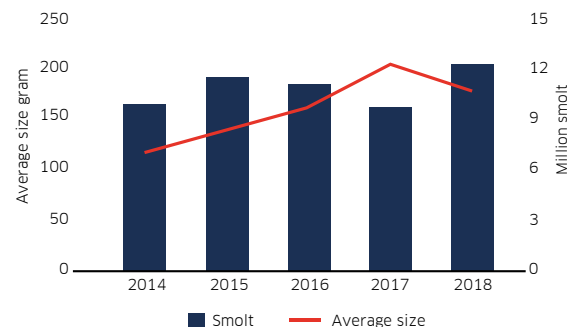


Fig. 19

SMOLT RELEASE, NUMBER AND AVERAGE SIZE



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 production chain are Global G.A.P compliant. Other certifications include ASC, HACCP, IFS, GMP+, MSC, ISO9001:2015 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.

Bakkafrøst's goal is to have all its farming sites ASC certified by 2020. The ASC standard was developed in cooperation with WWF and is seen as the most stringent standard in the aquaculture industry with requirements regarding fish welfare, sea lice, smolt production, feed production and the environment.

Bakkafrøst'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, Bakkafrøst had six additional farming sites ASC certified. In January 2019, Bakka-

frost included two more sites to its list of ACS certified sites. Bakkafrøst is still working on getting more farming sites ASC certified.

GEOGRAPHICAL LOCATION

Bakkafrøst's salmon farms are located in areas with attractive qualities for salmon farming in terms of water quality, water temperature and circulation. The Faroese fjords provide separation between locations, which improves biological control and area management. Relatively short distances between farming areas and processing facilities and well-developed infrastructure offer cost-efficient transportation of both feed and fish on land and at sea. Transportation opportunities from Faroe Islands to the different markets are good.

STRONG CUSTOMER BASE

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

WELL PLACED TO ACCESS THE US, CHINA AND RUSSIA

Bakkafrøst and the other Faroese salmon producers are in a favourable competitive position in the US market. Therefore, Bakkafrøst has established an experienced sales force with long-term relations with customers in the US. The company has a running operation and on-going sales of large salmon, supported by efficient logistical systems for the distribution of the products (both fresh and frozen) from the Faroe Islands to the US.

The US market prefers the higher-than-average size and weight and the high level of Omega-3 offered in the salmon produced in the Faroe Islands by Bakkafrøst. As a result, the US market has become an important market for Bakkafrøst. The sales to the US market accounted for 21% of Bakkafrøst's total sales of fresh whole salmon in 2018, compared to 24% in 2017.

In 2018, Bakkafrøst acquired the business and assets of a salmon importer on the east coast of USA. The purpose of the acquisition is to improve Bakkafrøst's abilities to serve its customers in USA. With a sales office, handling and processing facilities in New Jersey, USA, Bakkafrøst will have better market access.

Since 2011, the export of large fresh salmon to China has increased significantly. The logistics from the Faroe Islands to China are also efficient. Over the last three years, the sales to China of fresh salmon has been stable. The sales to Asia, mainly China, accounted for 27% in 2018, compared to 23% of total sales of fresh whole salmon in 2017.

The sales to Russia increased significantly following the import ban of Norwegian salmon to Russia in Q3 2014. The ban resulted in a favourable market position and access for Faroese salmon on the Russian market from second half of 2014. It is uncertain how long the import ban for Norwegian salmon will last. Of the total sales of fresh whole salmon, the Eastern Europe market, where Russia is the main market, accounted for 29% in 2018, compared to 30% in 2017.

In Q4 2018, Bakkafrøst's processing plant in Glyvvar, Faroe Islands was banned exporting to the Russian market. This resulted in lower sales to Russia in Q4 2018, which accounted for 7% of the total sales of fresh whole salmon, compared to 40% in Q4 2017. The export ban against the processing plant in Glyvvar was lifted in Q1 2019.

VAP

Bakkafrøst has long-term experience in producing and selling value added products (VAP). Bakkafrøst's long-term strategy is that VAP products shall represent 40-50% of the Group's 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.

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

The VAP segment produced 8,355 tonnes in 2018, compared to 19,067 tonnes in 2017. The lower volumes in the VAP segment for 2018, had a negative effect on the margins in the VAP segment for 2018. For 2019, Bakkafrøst has again increased the share of VAP on contract.

PRODUCTION OF FISHMEAL, OIL AND FEED

Havsbrún – FOF segment – performed very well in 2018 and had good access to raw material. Havsbrún received 302,465 tonnes raw materials in 2018 which is a decrease of 12%, compared with 2017 which was record high, but at the same time an increase of 50%, compared with 2016 when 201,222 tonnes were received. 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 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 43,235 tonnes of fishmeal externally in 2018, compared with 59,006 tonnes in 2017, a decrease of 27%. Nearly all the production of fish oil is used for feed production – but in 2018 3,225 tonnes were sold external due to good market situation and a large storage.

Havsbrún sold 77,775 tonnes of feed in 2018, of which 90% were used internally. In 2017, Havsbrún sold 78,134 tonnes of feed.

The fish oil market has been volatile for the last three years. The price increased significantly at the end of 2014 and has been on a high level until first half of 2017, when the fish oil price fell. This drop only lasted half a year, because the prices rose again in the second half of 2017. In the first half of 2018, the fish oil price again fell to the same level as in the first half of 2017. 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. Bakkafrøst'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 Bakkafrøst's salmon feed for dioxin and dl PCB from early 2015.

The fishmeal market did experience the same price development as fish oil in 2017, but during 2018 the price has been stable.

Havsbrún built two new tunnels for storing fishmeal in the summer of 2016. The tunnels enable Havsbrún to store large volumes of fishmeal and to adapt to the marked situations.

PEOPLE

Our most important asset is our employees, and for Bakkafrøst to remain a high-performing organization and expand our leading market position, it is vital to attract and retain employees with the right competences and knowledge. Therefore, we

shall maintain and further strengthen the focus on HR, work satisfaction and developing the competences of the employees.

The foundations of our human resource development are the company culture and the fundamental values of Bakkafrøst to be a reliable and responsible partner. Many great results have been achieved during the past years, but there is still room for improvement. Thus, striving continuously to improve our business is embedded in our company culture.

We aim at strengthening the competences of our employees on all levels in the Group on a continuous basis by implementing relevant training schemes to meet current and future demands for a qualified workforce. Supporting Bakkafrøst'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.

Bakkafrøst'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 2018, the number of full-time equivalent employees in the Bakkafrøst Group was 824 employees, compared to 960 employees in 2017.

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 2018.



Financial Review

The supply of salmon to the world market increased by around 6% in 2018 (2017: 2% increase). The increase was due to a comeback in Chile after a decrease in 2016, because of an algae bloom. The improved biological performance in Norway in 2017 also had a positive effect on the supply. The average salmon spot price in 2018 was DKK 47.18, compared to DKK 48.65 in 2017.

In Norwegian krone, the average salmon spot price was almost flat in 2018, compared to 2017. In Danish krone and EURO, the average salmon spot price decreased 3% in 2018, compared to 2017, and therefore Bakkafrøst did not experience the small protection from the currency development as its Norwegian peers in 2018. The supply of salmon to the world market increased by around 6% in 2018, compared to 2017. Almost all the supply increase came outside Europe, mainly from Chile..

The prices for value added products (VAP) have increased in 2018 and are now on a level not experienced before. Important for the result for the VAP segment are also the raw material prices, as the VAP segment purchases its raw material on the salmon spot market every week. Although the raw material prices experienced some volatility in 2018, the average price was almost the same as in 2017. Bakkafrøst's value added production margins were negatively affected by lower volumes in 2018, as overhead costs were the same. Therefore, the VAP segment made a loss in 2018, although the sales prices achieved in 2018 had never been higher. The value added products are typically sold on fixed price contracts with duration of 6-12 months, where the prices for VAP products follow the trend on the spot market with a time lag.

The feed prices have been fairly flat in 2018, and the average feed price was lower than the average feed price in 2017. The reason for the fluctuations in the feed price is the market situation for fish oil and fishmeal, which are the main

ingredients in Bakkafrøst's salmon feed. The fluctuations in the feed prices will be reflected in the production costs for salmon.

INCOME STATEMENT

DKK 1,000	2018	2017
Operating revenue	3,177,422	3,770,049
Purchase of goods	-1,074,645	-883,871
Change in inventory and biological assets (at cost)	199,696	-141,406
Salary and personnel expenses	-353,756	-400,267
Other operating expenses	-674,907	-783,268
Depreciation	-198,898	-183,590
Operational EBIT	1,074,912	1,377,647
Fair value adjustments of biological assets	195,819	-693,540
Onerous contracts	0	67,376
Income from associates	9,369	17,302
Revenue tax	-95,867	-119,681
EBIT	1,184,233	649,104
EBT	1,172,066	623,884
Taxes	-211,774	-112,482
Profit or loss for the period	960,292	511,402

The Bakkafrøst Group generated gross operating revenues of DKK 3,177.4 million in 2018, compared to DKK 3,770.0 million in 2017. The decrease in the revenue is mainly due to lower volumes of both fresh/frozen salmon and value added products in 2018. Harvested volumes of salmon decreased 18% in 2018, compared to 2017, and the volumes sold as value added products decreased 56% in 2018. The external

revenue from sales of fishmeal decreased in 2018, compared to 2017. The external sales of fish oil were higher in 2018, compared to 2017.

The operations harvested a total of 44,591 tonnes gutted weight, compared to 54,615 tonnes in 2017.

Operational EBIT was DKK 1,074.9 million, compared to DKK 1,377.6 million in 2017. A positive fair value adjustment of the Group's biological assets has been recognized in 2018 amounting to DKK 195.8 million, compared to an adjustment of DKK -693.5 million in 2017. The positive fair value adjustment is due to higher prices at year-end 2018, compared to the previous year. In 2018, Bakkafrøst made a change in provisions for onerous contracts of DKK 0.0 million, compared to a change in provisions for onerous contracts amounting to DKK 67.4 million in 2017. No provisions are made, as Bakkafrøst has no long-term contracts to deliver value added products at a fixed price in the future with a negative margin. The reason is low raw material costs at the end of 2018, compared to the contract prices.

In 2018, the Group's associated companies made a net result to Bakkafrøst of DKK 9.4 million, compared to DKK 17.3 million in 2017.

Financial income in 2018 amounted to DKK 2.7 million, compared to DKK 1.4 million in 2017. Net interest expenses amounted to DKK -12.5 million, compared to DKK -26.4 million in 2017. Net currency effects amounted to DKK 1.4 million, compared to DKK 4.7 million in 2017. Included in the net currency is a realized exchange rate adjustment relating to the bond loan of NOK 500 million amounting to DKK -10.9 million, compared to DKK 30.8 million in 2017.

Net taxes amounted to DKK -211.8 million, compared to DKK -112.5 million in 2017.

The consolidated net profit totalled DKK 960.3 million in 2018, compared to DKK 511.4 million in 2017. Earnings per share totalled DKK 19.74 in 2018, compared to DKK 10.52 in 2017.

STATEMENT OF FINANCIAL POSITION

The Group's total assets as at end 2018 amounted to DKK 5,802.5 million, compared to DKK 5,155.5 million at the end of 2017.

The Group's intangible assets amounted to DKK 389.7 million at the end of 2018, compared to DKK 376.7 million at the end of 2017. The change relates to goodwill from the acquisition of Bakkafrøst USA. Intangible assets comprise primarily the fair value of acquired farming licences. No licences in the North region are recorded with a value in the Bakkafrøst accounts.

Property, plant and equipment amounted to DKK 2,884.3 million at the end of 2018, compared to DKK 2,570.4 million at the end of 2017. In 2018, Bakkafrøst made investments in PP&E amounting to DKK 526.0 million, compared to 640.6 million in 2017. The most significant investments, Bakkafrøst carried out in 2018, were in the new hatchery at Strønd. Other investments relate mainly to maintenance investments.

Investments in associated companies and stocks and shares amounted to DKK 112.8 million at the end of 2018, compared to DKK 76.7 million at the end of 2017. The increase in financial assets relates to the result from the associated companies and an increase of shares in one of the companies.

Bakkafrøst had DKK 9.2 million in long-term receivables at the end of 2018, compared to DKK 0.0 million at the end of 2017.

The Group's carrying amount (fair value) of biological assets amounted to DKK 1,358.5 million at the end of 2018, compared to DKK 1,096.7 million at the end of 2017. Included in the carrying amount of the biological assets is a fair value

adjustment amounting to DKK 382.8 million, compared to DKK 187.0 million at the end of 2017. The increase is due to higher salmon prices at the end of 2018, compared to end 2017.

The Group's total inventories amounted to DKK 438.8 million as at the end of 2018, compared to DKK 305.8 million at year-end 2017. The inventory primarily represents Havsbrøst'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 292.3 million as at the end of 2018, compared to DKK 419.6 million at the end of 2017.

Cash and cash equivalents at the end of 2018 amounted to DKK 316.9 million, compared to DKK 309.6 million at the end of 2017.

The Group's equity at the end of 2018 was DKK 4,077.0 million, compared to DKK 3,626.4 million at the end of 2017. The increase in equity consists primarily of the positive result for 2018, reduced by the dividend paid out in April 2018.

The Group's total non-current liabilities amounted to DKK 1,346.5 million at the end of 2018, compared to DKK 602.1 million at the end of 2017. Deferred taxes amounted to DKK 534.4 million, compared to DKK 455.5 million at the end of 2017. The main reason for the increase is the increase in the fair value adjustment of the biomass.

Long-term debt was DKK 812.1 million at the end of 2018, compared to DKK 146.7 million at the end of 2017.

Derivatives amounted to DKK 0.3 million at the end of 2018, compared to DKK 127.3 million at the end of 2017 due to volatility in NOK, compared to DKK.

DKK 1,000	2018	2017
ASSETS		
Non-current assets		
Intangible assets	389,745	376,675
Property, plant and equipment	2,884,325	2,570,430
Financial assets	121,966	76,702
NON-CURRENT ASSETS	3,396,036	3,023,807
Current assets		
Inventory	1,797,309	1,402,509
Receivables	292,284	419,649
Cash and cash equivalents	316,894	309,551
CURRENT ASSETS	2,406,487	2,131,709
ASSETS	5,802,523	5,155,516
Equity	4,077,029	3,626,429
Deferred taxes	534,430	455,448
Long-term interest-bearing debt	812,053	146,696
Non-current liabilities	1,346,483	602,144
Current liabilities		
Derivatives	320	127,255
Short-term interest-bearing debt	0	378,300
Trade payables	204,500	189,548
Current tax liabilities	152,655	198,141
Other current liabilities	21,536	33,699
Current liabilities	379,011	926,943
Total liabilities	1,725,494	1,529,087
EQUITY AND LIABILITIES	5,802,523	5,155,516

At the end of 2018, the Group's total current liabilities were DKK 379.0 million, compared to DKK 926.9 million at the end of 2017.

Trade payable amounted to DKK 204.5 million, compared to DKK 189.5 million at the beginning of the year. Provision for onerous contracts at year-end 2018 amounted to DKK 0.0 million, compared to DKK 0.0 million in 2017.

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

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

Bakkafrøst's equity ratio was 70% at the end of 2018, compared to 70% at the end of 2017.

CASH FLOW

DKK 1,000	2018	2017
Cash flow from operations		
Operating profit (EBIT)	1,184,233	649,104
Cash flow from operations	912,937	1,458,162
Cash flow from investments	-530,746	-635,542
Cash flow from financing	-374,848	-748,065
Cash and cash equivalents - opening balance	309,551	234,996
Cash and cash equivalents - closing balance total	316,894	309,551

The total cash flow from operations in 2018 was DKK 912.9 million, compared to DKK 1,458.2 million in 2017. The cash flow from operations in 2018 is primarily due to strong results, but also due to a decrease in receivables. Paid taxes had a negative effect on the cash flow from operations in 2018. Cash flow from investment activities amounted to DKK -530.7 million, compared to DKK -635.5 million in 2017.

For 2018, cash flow from financing amounted to DKK -374.8 million, compared to DKK -748.1 million for 2017. The change in long-term interest-bearing debt of DKK 146.8 million had a positive effect on the cash flow from financing in 2018. Other 2018 figures include financial expenses of DKK -16.2 million, sales of treasury shares of DKK 2.6 million and net dividend payment of DKK -510.7 million.

With the established credit facilities, the Group's liquidity and financial strength is considered good. Bakkafrøst had undrawn credit facilities of approximately DKK 997.7 million at the end of 2018.

Farming Segment

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

DKK 1,000	2018	2017	Change
Total revenue	2,568,366	2,986,561	-14%
EBIT	1,065,923	495,116	115%
Operational EBIT	965,659	1,308,194	-26%
Farming - Operational EBIT/kg (DKK)	21.66	23.95	-10%
Harvested volume (tgv)	44,591	54,615	-18%

VOLUMES

The Group's farming segment harvested 44,591 tonnes gutted weight in 2018, compared to 54,615 tonnes gutted weight in 2017. Farming North harvested 25,889 tonnes gutted weight in 2018, compared to 24,365 tonnes gutted weight in 2017. Farming West harvested 18,702 tonnes gutted weight in 2018, compared to 30,251 tonnes in 2017.

The Group released 12.6 million smolts into the sea in 2018. The smolt release in 2017 was 9.9 million smolts.

FINANCIAL PERFORMANCE

The market in 2018 was in line with 2017, although we had some challenges in Q4 2018. The good financial performance in the farming segment is also due to good and stable farming operations and only minor biological issues in 2018.

Total revenues for Bakkafrøst's farming segment in 2018 amounted to DKK 2,568.4 million, compared to DKK 2,986.6

million in 2017, a change of -14%. Gross external operating revenues for Bakkafrøst's farming segment increased to DKK 2,226.1 million in 2018, up from DKK 2,150.9 million in 2017. The volumes sold externally increased in 2018, compared to 2017. The internal revenue decreased in 2018 from DKK 835.6 million in 2017 to DKK 342.2 million in 2018. The volumes sold to the VAP segment were lower in 2018 than in 2017.

In 2018, operational EBIT totalled DKK 965.7 million, compared to DKK 1,308.2 million in 2017. This corresponds to an operational EBIT of DKK 21.66 (NOK 27.89) per kg gutted weight, compared to DKK 23.95 (NOK 30.02) per kg gutted weight in 2017.

Fig. 20

TOTAL REVENUE (DKK 1,000)

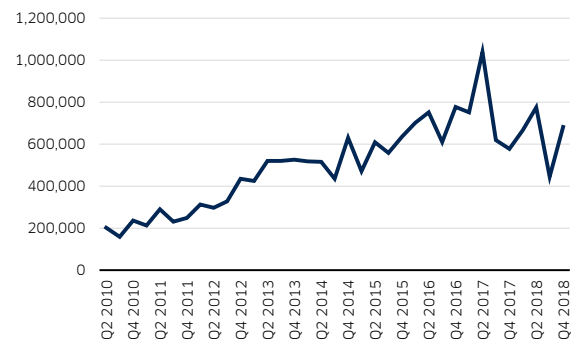


Fig. 21

OPERATIONEL EBIT/KG (DKK)

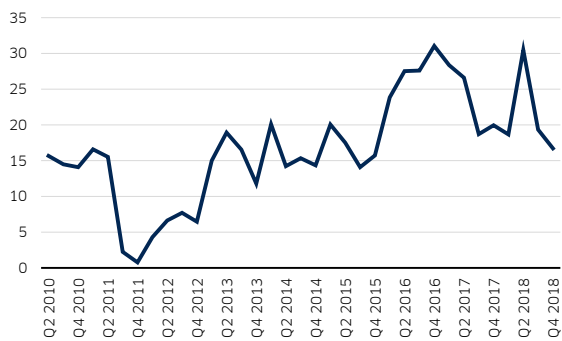


Fig. 22

HARVESTED VOLUME (TGW)

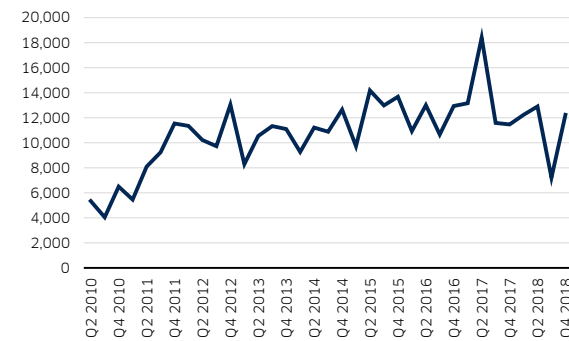


Fig. 23

SMOLT RELEASE - THOUSAND SMOLTS

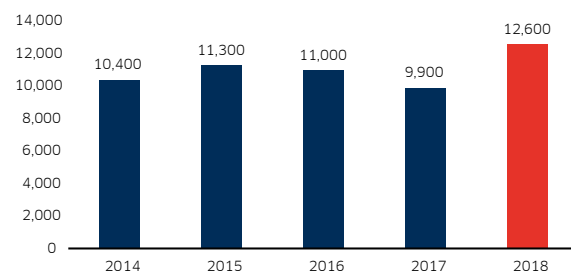
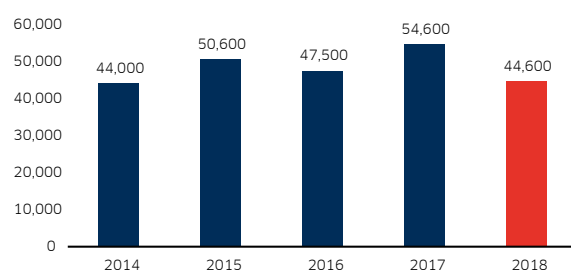


Fig. 24

HARVEST VOLUMES (TGW)



VAP Segment

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

DKK 1,000	2018	2017	Change
Total revenue	364,827	998,778	-63%
EBIT	-22,424	-8,063	-178%
Operational EBIT	-22,424	-75,441	70%
VAP - Operational EBIT/kg (DKK)	-2.68	-3.96	32%
VAP produced volume (tgw)	8,355	19,067	-56%

VOLUMES

Bakkafrost has a long-term strategy of producing 40-50% of its harvested salmon as value added products. The output is predominantly portions for the retail market in Europe, but some sales are also to the US retail market. The strategy with the value added products is – in addition to increasing the Group's earnings – to reduce the volatility in the Bakkafrost Group's net earnings, as these products are sold at different fixed-price contracts for a period of up to 12 months. As there is a time lag between the movement in the fresh salmon prices and the contract prices, Bakkafrost normally makes a profit in the VAP segment, when the spot prices are decreasing and vice versa, when the spot prices increase during a period. Therefore, the VAP segment has struggled in 2018 even though the contract prices for the value added products have increased in 2018.

For 2018, 19% of the total harvested volumes went to the production of VAP products, compared to 35% in 2017.

The VAP production in 2018 was 8,355 tonnes gutted weight, compared to 19,067 tonnes gutted weight in 2017.

FINANCIAL PERFORMANCE

The contract prices in 2018 have not increased at the same rate as the spot prices, but the contract prices were on a higher level than in 2017. The VAP segment's operating revenue amounted to DKK 364.8 million in 2018, compared to DKK 998.8 million in 2017, a decrease of 63%.

Operational EBIT in 2018, which is EBIT adjusted for provision for onerous contracts etc., totalled DKK -22.4 million, compared to DKK -75.4 million in 2017. This corresponds to an operational EBIT of DKK -2.68 (NOK -3.46) per kg gutted weight, compared to DKK -3.96 (NOK -4.96) per kg gutted weight in 2017. The main reason for the loss in the VAP segment in 2017 was the high salmon spot prices affecting the raw material cost heavily.

The VAP segment had no onerous contracts at the end of 2018, and therefore a change in provision amounting to DKK 0.0 million was made, compared to a change of DKK 67.4 million in 2017.

Fig. 25

TOTAL REVENUE (DKK 1,000)

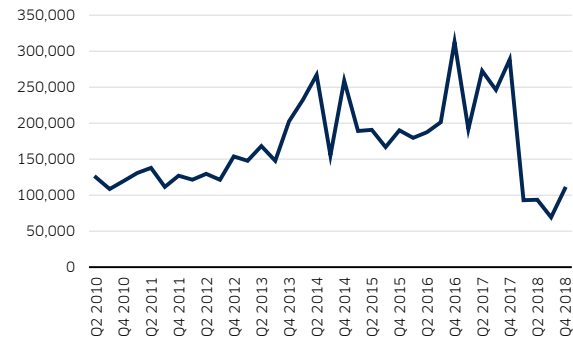


Fig. 26

OPERATIONEL EBIT/KG (DKK)

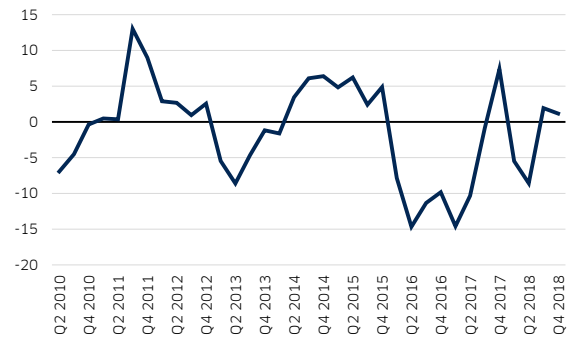


Fig. 27

VAP VOLUME (TGW)

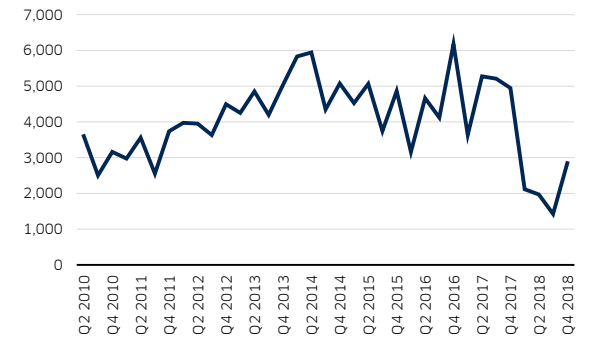


Fig. 28

PRODUCT WEIGHT OF VAP (TGW)

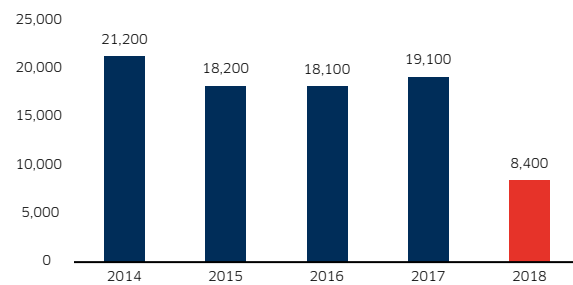
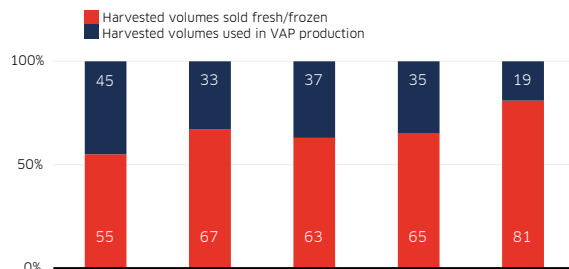


Fig. 29

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 is also sold externally.

DKK 1,000	2018	2017	Change
Total revenue	1,268,564	1,303,161	-2,7%
EBIT	233,981	252,556	-7,4%
EBITDA	254,281	266,093	-4,4%
FOF - EBITDA margin	20.0%	20.4%	-1,8%
Sold feed tonnes	77,774	78,134	-0,5%

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 2018, Havsbrún sourced 302,465 tonnes of raw material, compared to 342,456 tonnes in 2017, which corresponds to a decrease of 11,7%. The raw material intake depends on the fishery in the North Atlantic and available species of fish.

The production of fishmeal in 2018 was 65,141 tonnes, compared to 74,089 tonnes in 2017. The production of fish oil in 2018 was 10,257 tonnes, compared to 10,387 tonnes in 2017. The production of fish oil varies, depending on the species of fish for production and the timing of catch.

Havsbrún sold 77,774 tonnes of feed in 2018, compared to 78,134 tonnes in 2017. Bakkafrost used 70,240 tonnes of the sold feed in 2018 internally, corresponding to 90%. The internal use in 2017 was 72,960 tonnes, corresponding to 93%.

FINANCIAL PERFORMANCE

Total revenues for Bakkafrost's FOF segment in 2018 amounted to DKK 1,268.6 million, compared to DKK 1,303.2 million in 2017, a decrease of 2.7%.

The external operating revenue for the FOF segment amounted to DKK 586,5 million in 2018, compared to DKK 620.3 million in 2017. The decrease in the external revenue from 2017 to 2018 is mainly due to lower external sale of fishmeal and fish oil.

The internal revenue in 2018 amounted to DKK 682.1 million, compared to DKK 682.8 million in 2017. The internal revenue comprises the sales of feed to Bakkafrost's farming activities.

EBITDA was DKK 254.3 million in 2018, compared to DKK 266.1 million in 2017, and the EBITDA margin was 20.0% in 2018, compared to 20.4% in 2017.

Fig. 30

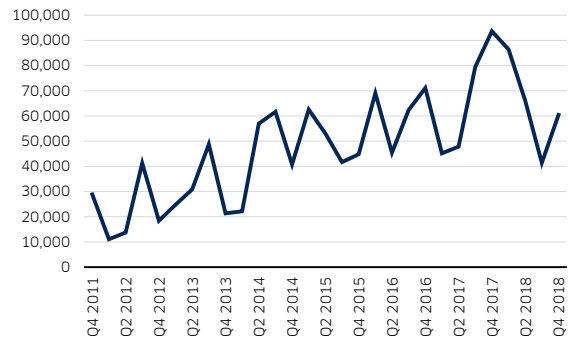
TOTAL EBITDA (DKK 1,000)

Fig. 31

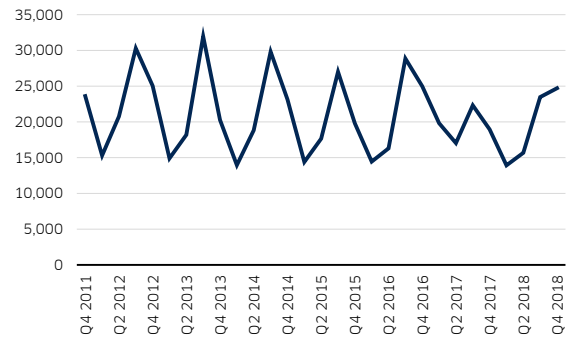
SOLD FEED TONNES (TGW)

Fig. 32

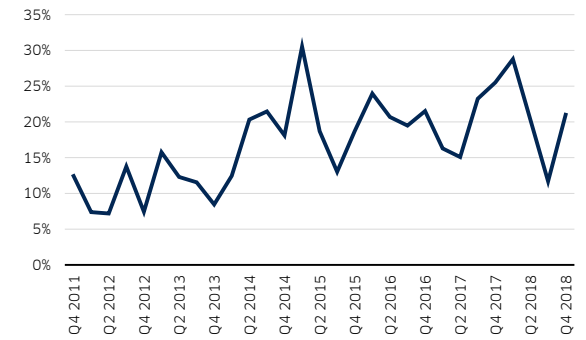
EBITDA MARGIN (%)

Fig. 33

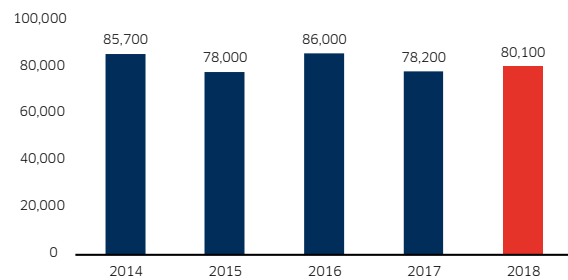
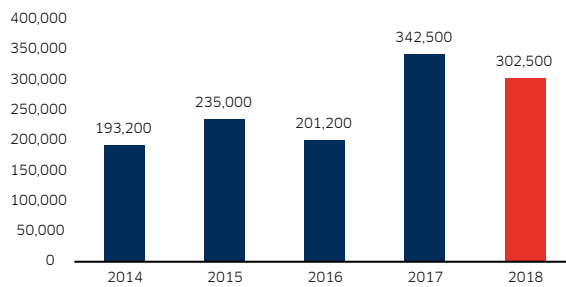
FISH FEED PRODUCTION VOLUMES (TONNES)

Fig. 34

SOURCING OF RAW MATERIAL (TONNES)



Market Review

MARKETING STRATEGY

Bakkafrost is committed to produce tasty, healthy and sustainable, superior quality salmon with the properties that create value for the customers and thereby maximize the Group's result. Hence, Bakkafrost has received a price premium for its salmon in recent years.

The Bakkafrost Group is determined to further strengthen its position in the marketplace by investing in the implementation and marketing of the below USPs (unique selling points).

THE FAROE ISLANDS ORIGIN

The natural conditions in and around the Faroe Islands are perfect for raising salmon, and Bakkafrost is committed to promote the Faroe Islands origin as a boutique origin for superior quality salmon. The North Atlantic Current engulfs the Faroe Islands with cool and steady sea temperatures.

SCARCITY

As the Faroe Islands produce only about 3% of the world's salmon and demand is high for the origin, the customers, who prefer the Faroe Islands origin, must pay a premium to get their share of Faroe Islands salmon.

LARGE SALMON

The Faroe Islands aquaculture industry produces the largest Atlantic salmon in the world. The average weight of Faroese salmon in 2018 was 4.82 kg, gutted weight. The price difference between the different sizes of salmon has been historically big during the last years, where especially the 6+ kg salmon sizes have received a considerable price premium. This is due to a lack of supply of larger size salmon as it requires good biology to produce large salmon. The longer the salmon is at sea, the more it is exposed to different risks.

Bakkafrost aims at producing salmon with an average weight of around 5.2 kg, gutted.

SALES AND GEOGRAPHICAL DIVERSIFICATION

Bakkafrost has its own Sales and Marketing Department, which is responsible for selling Bakkafrost's salmon worldwide. The Group aims at selling its salmon as directly as possible to the best paying segments worldwide. Bakkafrost's strategy is to have a healthy geographical sales diversification to minimize the risk of any individual market fluctuations.

Worldwide reach

Bakkafrost wants to have as many options as possible when it comes to markets and global reach. By working closely with key freight forwarders, Bakkafrost has developed an industry leading logistics setup, which ensures that Bakkafrost's salmon is delivered as fresh as possible by airfreight worldwide at the most competitive transport prices. Bakkafrost's salmon is shipped to major airports, where the salmon is transported with passenger airlines to markets worldwide.

This effective logistics network is evident, when looking at Bakkafrost's sales in 2018.

SEGMENTATION

The brand preference for Bakkafrost's salmon is especially strong in the US, where demand from the Group's customers for salmon above 6 kg is particularly strong. Bakkafrost has a strong market share in China as well. A large share of the salmon, which Bakkafrost exports to the US and China, is used for sushi.

Bakkafrost's salmon appeals especially to the premium sushi segment, as it has a strong sustainability profile. Bakkafrost does not use any antibiotics and only uses non-GMO raw ingredients in the feed.

Fig. 35



VAP

Bakkafrost is one of the leading processors of frozen salmon portions, which are sold by leading European and US retailers. Bakkafrost aims to add value to its VAP production through focusing on producing high quality products and being a reliable and responsible supplier.

The strategy of diversifying Bakkafrost's product mix has other clear benefits for the Group. It increases the revenue stability as salmon portions are sold on 6-12 months contract prices and whole fresh salmon on spot prices. Bakkafrost does not need to push fresh whole fish sales in adverse market conditions.

FEED

Feed is one of the most important aspects in the production of salmon, both in regard to costs and quality of the salmon.

Full vertical integration

Bakkafrost is one of the most vertically integrated salmon farming companies in the world. Uniquely, Bakkafrost even produces its own fishmeal and fish oil, which is used for the company's salmon feed. This gives Bakkafrost full control and responsibility over all aspects of the production, and it gives our clients unparalleled traceability.

Feed rich in marine content

The vertical integration gives Bakkafrost the knowhow and ability to make the decision to invest in salmon feed with a substantially higher percentage of marine content.

The marine content gives Bakkafrost salmon a better fat content, rich in the healthy Omega 3 fatty acids DHA and EPA. This natural diet is also evident in the good taste of Bakkafrost's salmon.

The natural diet for wild salmon is rich in marine resources, and by keeping the diet of Bakkafrost salmon as natural as possible, the Group is able to have one of the industry's best Feed Conversion Ratios (FCR), which is a key indicator of fish welfare and low production costs.

ASC

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

Being one of the first companies certified by ASC underlines Bakkafrost's commitment to sustainability and care for the environment – values, which Bakkafrost's discerning customers appreciate.

SEAFOOD CONSUMPTION

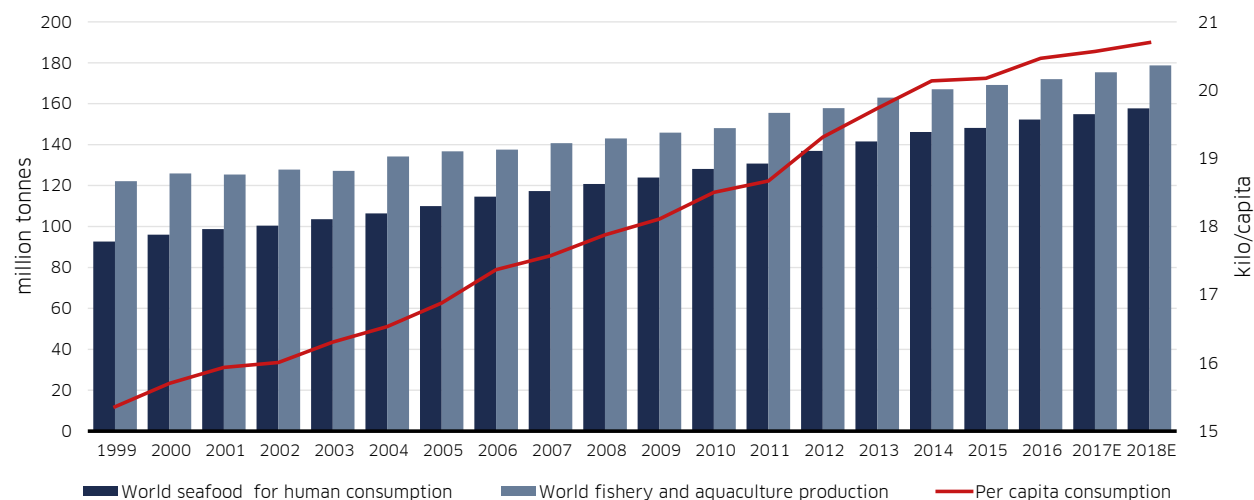
Capture fisheries and aquaculture is estimated to about 172 million tonnes of fish in 2016, of which about 152 million tonnes were utilized as food. This corresponds to seafood consumption per capita of 20.5 kg (live weight equivalent). Preliminary estimates indicate a growth rate of 2% in 2017 for global fisheries and aquaculture.

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 fishoil. The share of non-food uses has remained at a steady level over the last couple of years.

Aquaculture production continues to increase its share of the world seafood consumption, as capture fisheries production has remained stable for a long period. Consequently, aquaculture has covered the increasing demand for seafood. This trend is most likely to continue also in the upcoming years.

Fig. 36

WORLD SEAFOOD PRODUCTION FOR HUMAN CONSUMPTION AND CONSUMPTION PER CAPITA



MAIN MARKETS FOR SALMON AND CONSUMPTION TRENDS

In 2018, worldwide supply of farmed Atlantic salmon increased by 6.5% and ended just above 2.4 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.

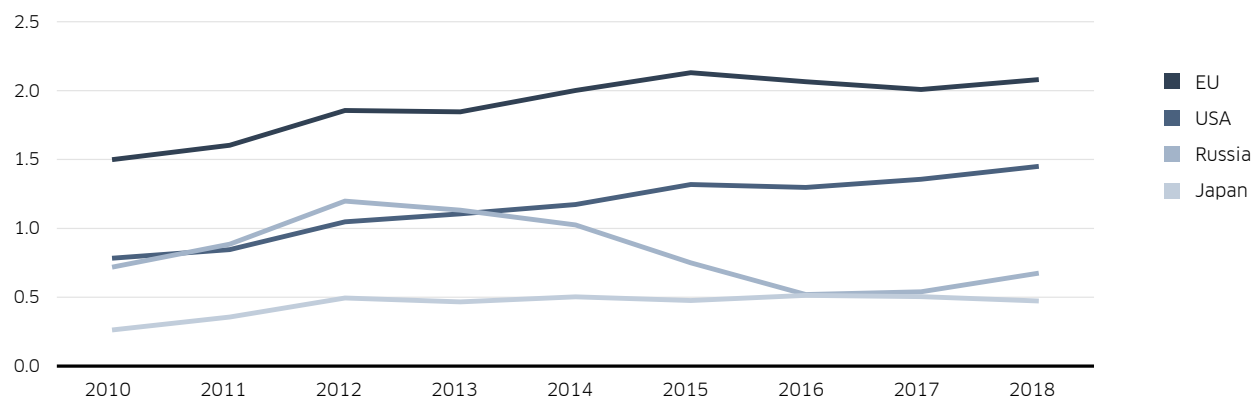
The world's largest consumer market of Atlantic salmon, however, is the European Union (EU-28), where 1.06 million tonnes wfe were consumed in 2018 (+4%). With a population of approx. 511 million, this corresponds to a per capita consumption of 2.1 kg wfe per year. This indicates approx. 7 meals per capita per year on average.

In 2018, production growth was very limited in Europe (+1%) – whereas Chile grew its supply by 20% or 113 000 tonnes wfe. In a market perspective, growth was also most noticeable for the core Chilean markets – namely, USA, Russia, Latin America and China/Asia.

European spot prices for Atlantic salmon in 2018 were just above 60 NOK per kg on average – like 2016 and 2017. First half saw higher prices due to limited supply as result of a cold winter period in Norway but trended on a lower level in the second half due to improved productivity and production both in Chile and Europe.

Fig. 37

PER CAPITA CONSUMPTION OF ATLANTIC SALMON (KG/CAPITA)



THE US MARKET

In 2018, the US market for farmed Atlantic salmon grew by 33 500 tonnes wfe – to a total supply of 475 400 tonnes. With a population of 328 million, this corresponds to a per capita consumption of approx. 1.5 kg wfe per year – indicating 4-5 meals per capita per year.

Chile was the only producing country which increased sales to the US in 2018, with sales rising from 220 000 tonnes wfe in 2017 to almost 270 000 tonnes wfe last year. All other major supplying countries saw a decline in supply.

During the past decade (since 2009), the US market for Atlantic salmon has increased by 200 000 tonnes wfe. While the US industry (both HORECA and Retail) is partly built up around the frozen category, there is a clear increasing trend towards the fresh category. Also, compared to European industry, there is larger difference in segments and type of retailers.

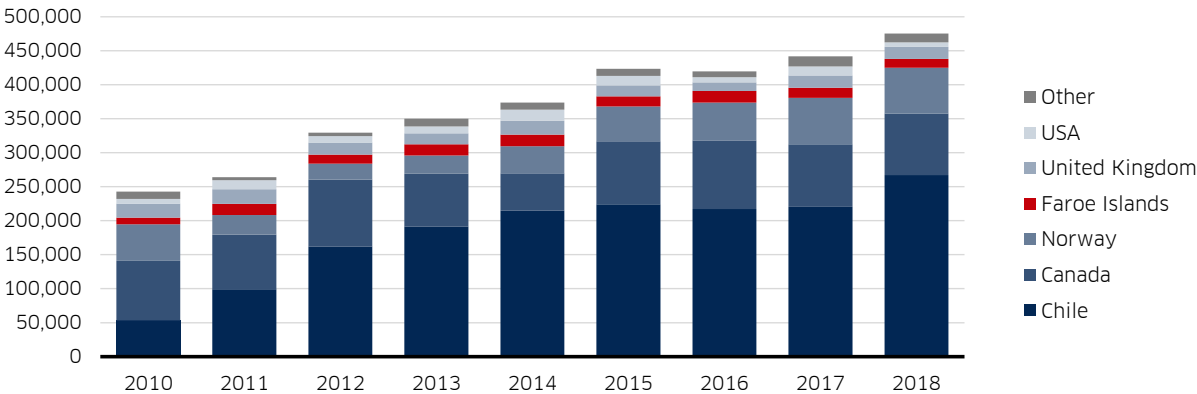
Fig. 38

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

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018
Chile	53,200	99,100	162,200	191,600	214,700	224,100	217,300	220,400	267,200
Canada	87,600	80,400	98,200	77,400	55,000	92,900	100,900	92,100	90,500
Norway	53,800	28,700	23,700	27,000	39,900	51,200	55,700	68,400	67,300
Faroe Islands	10,000	16,600	13,100	16,400	17,100	14,700	16,900	14,800	13,000
United Kingdom	20,600	21,500	17,700	16,100	20,400	16,300	12,700	18,000	17,600
USA	6,900	13,200	9,400	10,100	16,200	13,800	7,700	13,100	6,800
Other	10,800	4,500	5,200	11,400	10,600	10,400	8,400	15,100	13,000
Total	242,900	264,000	329,500	350,000	373,900	423,400	419,600	441,900	475,400

Fig. 39

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



Source: Kontali

THE EUROPEAN MARKET

In 2018, the EU market for farmed Atlantic salmon increased by 38 400 tonnes wfe – to a total supply of 1.06 million tonnes wfe. With a combined population of 511 million, this corresponds to a per capita consumption of 2 kg wfe per year – indicating approx. 7 meals per capita per year.

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

Norway was the only large producing country with increased sales to the EU in 2018, increasing supply from 840 000 tonnes wfe in 2017 to almost 910 000 tonnes wfe last year. Both Scotland and the Faroe Islands saw lower supply last year.

During the past decade (since 2009), the EU market for Atlantic salmon has increased by more than 300 000 tonnes wfe.

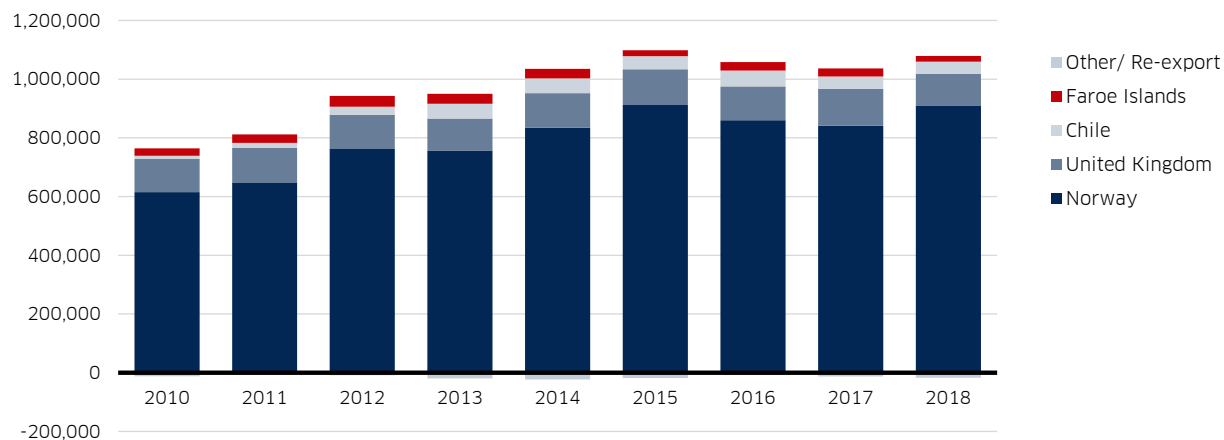
Fig. 40

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

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018
Norway	615,300	648,400	761,900	755,500	834,600	912,200	860,200	841,400	910,800
United Kingdom	112,800	117,500	117,000	110,300	117,800	121,100	115,400	124,900	107,900
Chile	10,600	17,200	27,000	50,200	50,500	44,900	53,900	42,500	40,700
Faroe Islands	25,400	28,700	36,800	34,300	32,300	20,400	28,400	27,800	19,800
Other/ Re-export	(12,500)	(6,800)	(8,900)	(19,100)	(23,300)	(18,100)	(7,800)	(13,100)	(17,300)
Total	751,600	805,000	933,800	931,200	1,011,900	1,080,500	1,050,100	1,023,500	1,061,900

Fig. 41

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



Source: Kontali

CHINA / HONG KONG

The rapid supply growth of Atlantic salmon to China and Hong Kong continued in 2018, and for the first time supply exceeded 100 000 tonnes wfe. The growth was most notable from Chile direct to China – with shipments close to 45 000 tonnes wfe.

Net change in supply from all other suppliers was negative (-3 500 tonnes). A vast increase in direct supply from Norway was equalized by lower supply through 3rd countries (Vietnam). Supply from the Faroe Islands and Canada increased somewhat, while supply from Australia was marginally lower than in 2017.

The vast increase of fresh whole salmon to China from Chile must be seen in relation to higher average harvest weights and better availability of large sized salmon (+5kg) – also, vs. lower availability in Europe.

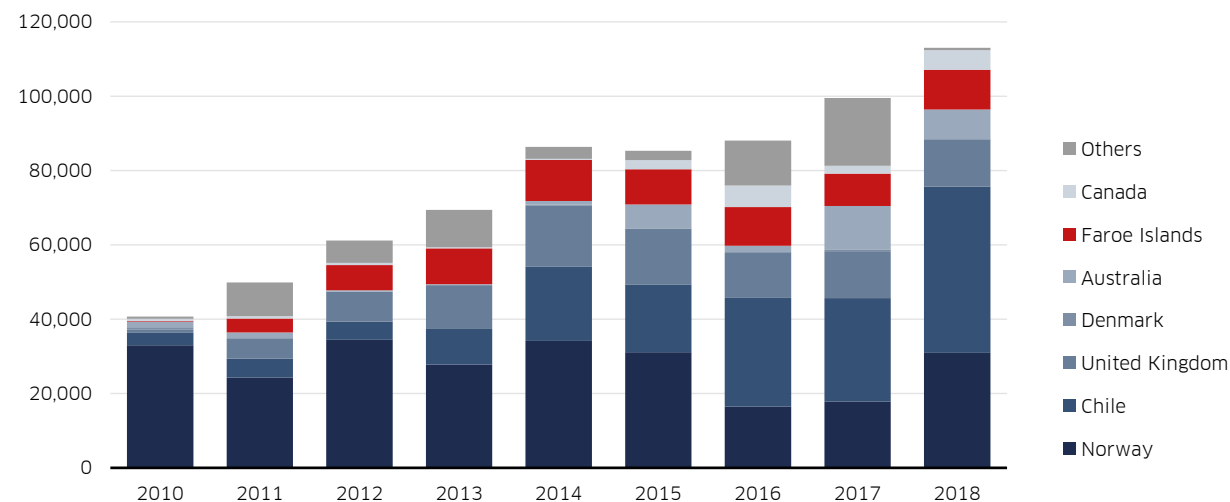
Fig. 42

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

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

Fig. 43

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



Source: Kontali

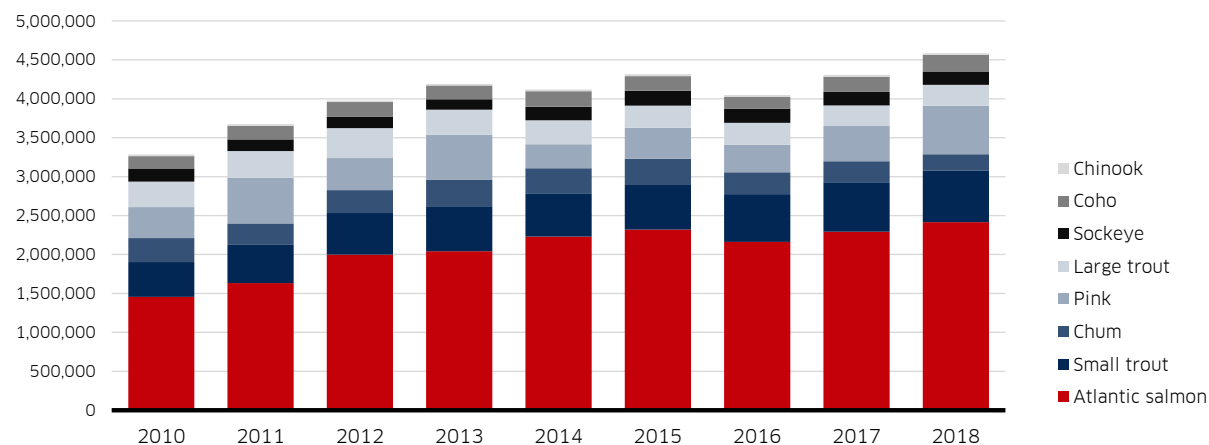
Fig. 44

HISTORICAL SUPPLY OF ALL SALMONIDS (TONNES WFE)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Atlantic salmon	1,455,302	1,633,400	1,998,550	2,041,250	2,229,300	2,319,100	2,161,950	2,294,100	2,416,800
Small trout	446,600	490,600	534,100	577,500	555,700	573,400	613,400	634,000	659,000
Chum	309,300	274,600	294,700	338,300	321,900	338,100	280,900	270,500	211,500
Pink	399,100	587,500	410,300	580,600	307,900	398,900	354,300	452,700	622,500
Large trout	325,800	343,500	386,200	321,700	308,300	282,200	280,200	263,100	268,300
Sockeye	167,600	148,800	142,300	133,200	173,700	190,300	183,000	173,600	172,000
Coho	160,700	174,400	191,000	176,800	200,400	189,900	151,800	195,000	212,000
Chinook	19,700	22,000	18,800	21,500	22,300	23,900	22,200	23,100	23,600
Total	3,284,102	3,674,800	3,975,950	4,190,850	4,119,500	4,315,800	4,047,750	4,306,100	4,585,700

Fig. 45

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 accounts for 52% of the global production. Despite increasing smolt stocking, harvest growth in Norway has been limited since 2012 due to lower productivity and lower average harvest weights. This is particularly linked to sea lice regulation and treatment to combat lice – resulting in poor growth (treatment leading to lost feeding days) and lower utilization of biomass capacity. In 2018, harvest volume in Norway rose by 4% and was driven almost 100% by more individuals harvested.

The second largest producing country of Atlantic salmon, Chile, accounted for 28% of the global production in 2018. Since the ISA-crisis in 2008-2009, Chile has experienced recovery biology-wise and seen improved productivity year after year. New all-time high records were also set last year for smolt yield and harvest weights.

Other major farming regions include North America (Canada), United Kingdom (Scotland), the Faroe Islands and Australia. In 2018, these farming countries saw lower production due to biological challenges and sea lice related issues. A comeback is expected this year.

Other regions with conventional farming include Ireland, Russia, Iceland with marginal production below 20 000 tonnes wfe. Also, land-based RAS plants (global) harvested approx. 5,000 tonnes wfe in 2018.

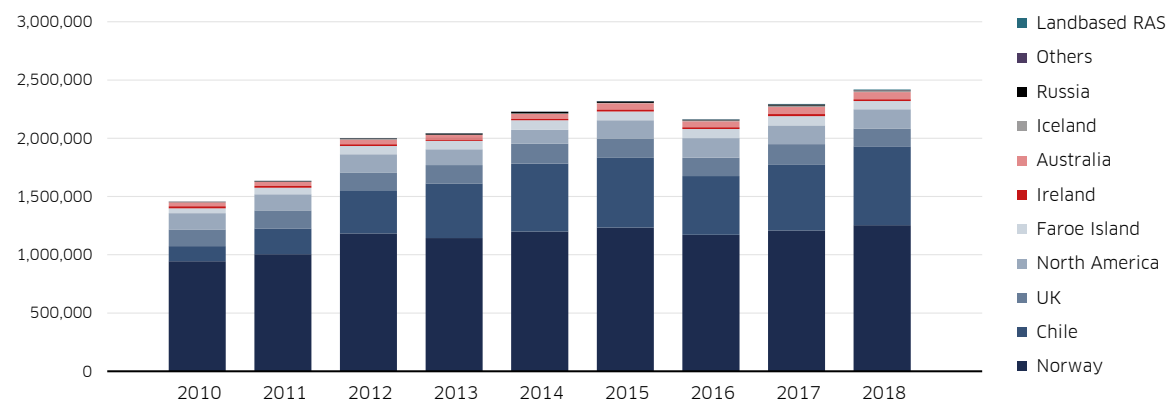
Fig. 46

GLOBAL HARVEST OF ATLANTIC SALMON (TONNES WFE)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018
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
Chile	129,600	221,000	364,000	468,100	582,900	598,200	504,400	564,200	677,400
UK	142,900	154,700	159,400	157,800	170,500	166,300	157,400	177,200	153,600
North America	140,000	137,800	156,100	135,400	119,000	155,400	168,500	160,700	163,900
Faroe Island	41,800	56,300	70,300	72,600	82,700	75,600	77,300	80,300	71,700
Ireland	17,800	16,000	15,600	10,600	12,300	15,700	15,800	17,000	14,300
Australia	33,000	36,000	40,000	39,000	42,000	54,400	50,900	61,200	61,300
Iceland	1,200	1,200	3,250	3,350	4,400	3,600	8,100	11,500	13,600
Russia	3,500	4,000	6,000	10,000	14,500	13,600	5,000	10,200	4,000
Others	802	700	300	300	300	300	450	500	500
Landbased RAS	-	100	100	300	1,800	1,800	2,900	3,400	4,600
Total	1,455,202	1,633,400	1,998,150	2,041,050	2,229,400	2,319,100	2,161,850	2,294,000	2,418,300

Fig. 47

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 sea lice. The losses rose significantly in the last months of 2017 and contributed to lower production in 2018.

With continued Russian import embargo - the Faroe Islands have remained the largest salmon supplier of fresh whole salmon to Russia, with exports of 20 - 25 000 tonnes wfe annually since the import ban was implemented in 2014. A weak Russian rouble and high salmon prices have to a degree limited the market potential.

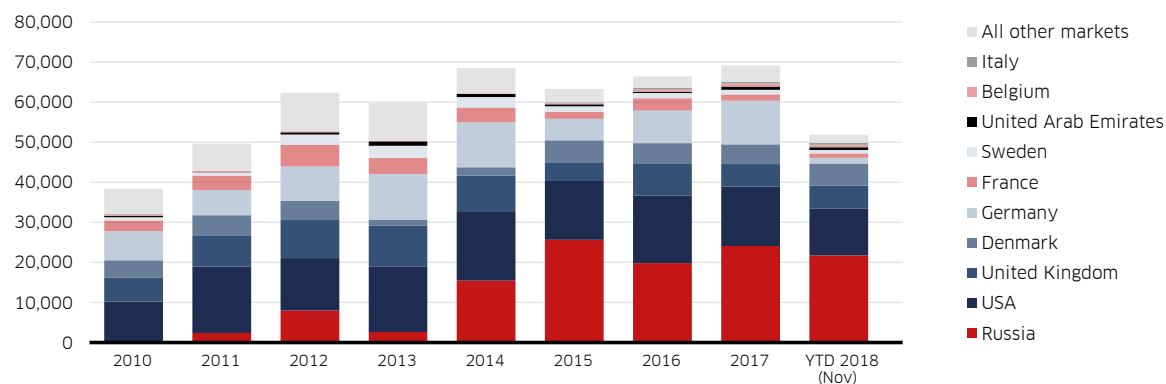
Fig. 48

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

Country	2010	2011	2012	2013	2014	2015	2016	2017	YTD 2018(Nov)
Russia	208	2,373	7,997	2,613	15,465	25,660	19,798	24,096	21,745
USA	9,994	16,579	13,085	16,394	17,105	14,671	16,908	14,820	11,622
United Kingdom	5,940	7,631	9,466	10,199	9,050	4,633	8,024	5,621	5,802
Denmark	4,385	5,195	4,806	1,447	2,122	5,489	5,010	4,920	5,527
Germany	7,251	6,265	8,637	11,439	11,256	5,404	8,156	10,916	1,390
France	2,682	3,636	5,304	3,938	3,663	1,740	3,061	1,557	1,118
Sweden	817	749	2,638	3,074	2,585	1,334	1,289	1,134	836
United Arab Emirates	317	44	499	1,037	772	455	277	761	678
Belgium	313	377	251	144	171	303	617	824	613
Italy	177	43	25	75	0	253	363	404	545
All other markets	6,266	6,737	9,538	9,497	6,350	3,342	2,925	4,113	1,973

Fig. 49

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

2018 started with high supply volumes (20% global growth in January) and market prices trending in the mid NOK-fifties. This was an early indicator of a strong underlying market (demand) for Atlantic salmon, particularly in Europe.

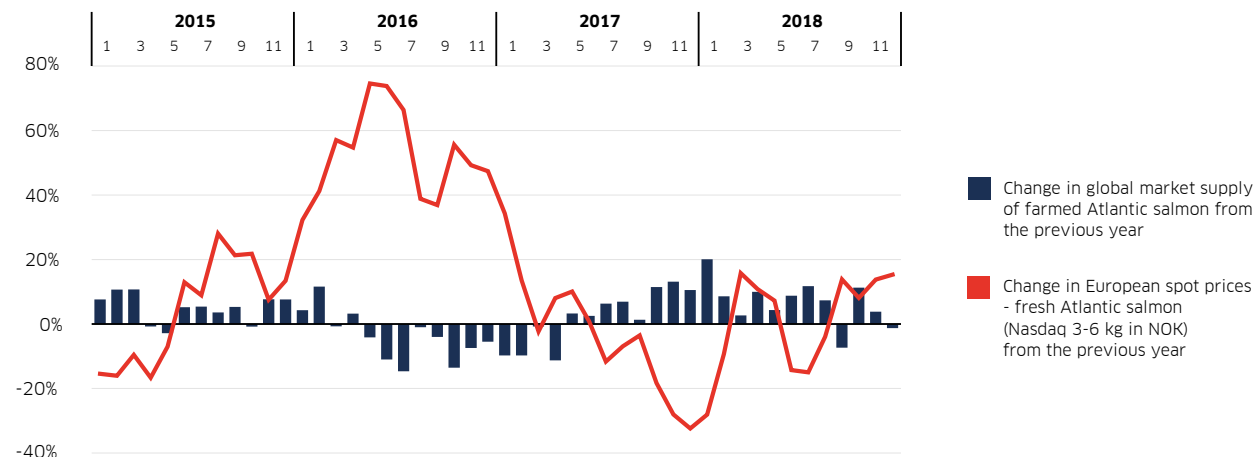
Medio February, sea temperatures were trending downwards – and all likelihood was pointing towards a cold winter period in Norway. This combined with weak feed sales for January made both the short and medium terms outlook on production look gloomier – and spot prices for fresh Atlantic salmon quickly rose to above NOK seventies.

From June, global productivity increased with strong growth for Norway following a cold winter period, and less biological challenges in Chile increased availability of salmon in the second half of 2018. As a result, spot prices fell back to the mid NOK fifties level and have since trended between 50-60 NOK per kg.

While Chilean harvest volume and supply rose by 20% in 2018 – most of this increase was shipped and sold to core Chilean markets, namely the US market, Russia, China and other Asia. Thus, not increasing pressure on the European market and increasing the global market diversification for Atlantic salmon.

Fig. 50

SUPPLY AND MARKET PRICES



Source: Kontali

TOP 15 - FARMING COMPANIES (SALMONIDS)

In 2017, the world's fifteen largest salmon farming companies harvested approx. 1.6 million tonnes wfe of salmonids (Atlantic Salmon, Coho Salmon, Chinook, Big Trout), representing 58% of the total harvest quantity. In Norway, these companies made up 62% of the total harvest and 76% in Chile.

Fig. 51

TOP 15 SALMON FARMING COMPANIES 2017 - HARVEST VOLUME, ALL FARMED SALMONIDS SPECIES (TONNES WFE)

Group	Head-office	Total	Norway	United K.	Chile	North Am.	Faroe Islands	Ireland	Others
Marine Harvest Group	Norway	411,500	233,500	66,900	49,900	43,800	6,600	10,800	-
Lerøy Seafood Group	Norway	175,300	175,300	-	-	-	-	-	-
Salmar	Norway	161,000	150,200	-	-	-	-	-	10,800
Mitsubishi / Cermaq	Norway	156,000	53,000	-	79,000	24,000	-	-	-
Cooke Aquaculture	Canada	102,000	-	22,000	17,000	63,000	-	-	-
AquaChile	Chile	82,400	-	-	82,400	-	-	-	-
Multiexport Foods	Chile	75,700	-	-	75,700	-	-	-	-
Grieg Seafood	Norway	69,600	45,500	13,400	-	10,700	-	-	-
Australis Seafood	Chile	64,800	-	-	64,800	-	-	-	-
Bakkafrost	Faroe Islands	60,700	-	-	-	-	60,700	-	-
Los Fiordos	Chile	60,000	-	-	60,000	-	-	-	-
Nova Sea	Norway	45,200	45,200	-	-	-	-	-	-
Nordlaks	Norway	45,000	45,000	-	-	-	-	-	-
Norway Royal Salmon	Norway	35,500	35,500	-	-	-	-	-	-
Scottish Seafarms	UK	34,400	-	34,400	-	-	-	-	-
Top 15		1,579,100	783,200	136,700	428,800	141,500	67,300	10,800	10,800
Farmed Salmonids		2,742,400	1,267,900	179,300	815,600	164,800	80,300	18,000	216,500
Share		58%	62%	76%	53%	86%	84%	60%	5%

Source: Kontali

COST OF PRODUCTION

The cost of producing 1 kg of Atlantic salmon is highly influenced by the feed cost, which comprises between 45 and 60 percent of the production cost. This expense depends mainly on two factors: the price of the fish feed, and how much feed is needed to produce 1 kg fish at the point of harvest/sale. The latter is also known as the Economic Feed Conversion Rate (EFCR), and considers mortality, escapes, harvest weight and other factors.

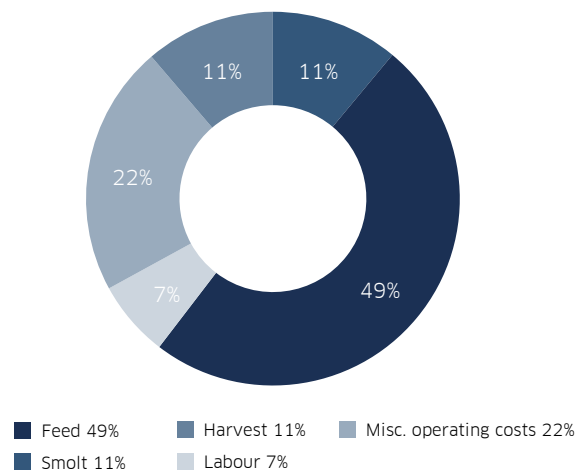
During the past decade it's mainly higher feed prices which have driven the total cost upwards – as commodity prices for the ingredients used in the salmon feed have increased and markup for the feed producers have remained fairly stable. During the last years, biological challenges and efforts to combat the levels of sea lice have increased labour and other operational costs.

Compared to Norwegian farmers, the average cost of production is somewhat lower for Faroese farmers - a result of better biological performance; lower feed conversion ratio and higher smolt yield (higher average harvest weights and lower loss-rates), but also due to what has become a generally higher cost level in Norway.

COST SPLIT FOR ATLANTIC SALMON - 2018E

Fig. 52

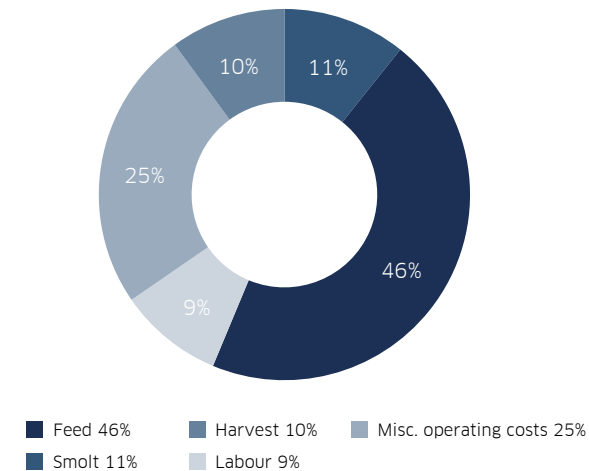
FAROE ISLANDS DKK/KG



Source: Kontali

Fig. 53

NORWAY NOK/KG



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 have been stable, higher biomass losses due to e.g. sea lice 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%.

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.

Global fishmeal and fish oil production recovered in 2018 and is estimated to exceed 5.5 million tonnes of fishmeal and above 1 million tonnes of fish oil. This is a result of a 90% increase in Peruvian Anchovy catches last year followed by a growth in fishmeal and fish oil production. Peruvian fishmeal production will exceed 1.4 million tonnes in 2018, a 90% increase from 2017, while Peruvian fish oil production, due to high oil yield, shows 126% increase to 230 000 tonnes from 2017.

In 2018, about 1.46 million tonnes of fishmeal were imported to China down from 1.56 million tonnes in 2017, but still well above the 10-year average and the second highest amount in the decade after the 2017 record. 53% of the fishmeal amount was sourced from Peru with Vietnam and Chile on second and third place.

Fishmeal prices are expected to remain stable the coming months due to well covered consumers (China) and a good chunk of fishmeal left in Peru as we enter 2019. Fish oil

prices have come down from the peak seen in the beginning of 2018, and the outlook for the coming months is prices on today's level.

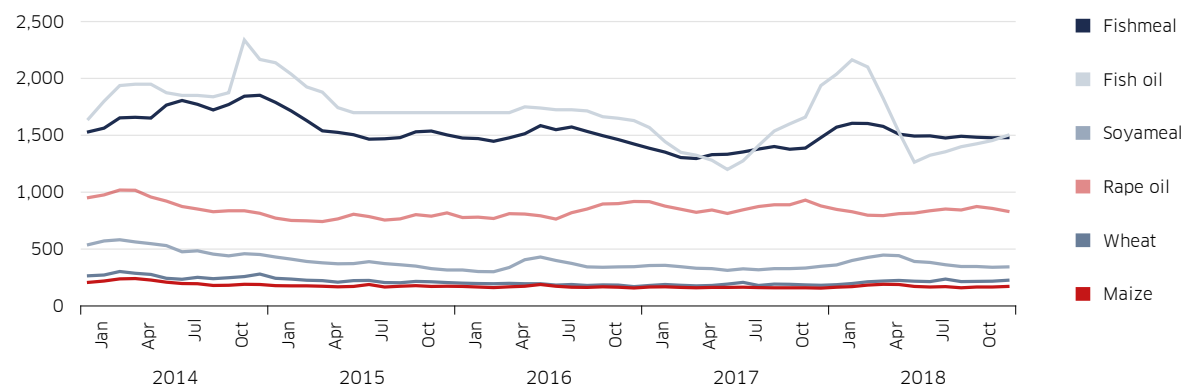
Fig. 54

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
Norway	1,340	1,496	1,664	1,624	1,742	1,746	1,709	1,827	1,838
Chile	720	1,037	1,254	1,209	1,258	1,239	1,046	1,196	1,274
UK	216	227	210	223	231	245	244	244	247
North America	221	225	235	202	235	258	266	285	289
Faroe Islands	61	85	89	96	98	103	107	101	102
Others	232	271	288	304	335	359	368	397	411
Total	2,790	3,340	3,740	3,660	3,900	3,950	3,740	4,050	4,160

Fig. 55

RAW MATERIAL PRICES 2011-2018 (USD/TONNES)



Source: Kontali

RISKS



Risk Management

The Bakkafrost 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 Bakkafrost is exposed to, and the potential financial impact of these are reduced to an acceptable level.

Bakkafrost has general operational and business risks arising from the normal business activities in the value chain. In addition to the operational risks, Bakkafrost 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

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 Bakkafrost's results and financial condition. Bakkafrost'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 Bakkafrost aims at reducing that risk through the entire production cycle by means of systematic group-wide biosecurity auditing.

Bakkafrost's production facilities are located within a relatively small geographical area, limited to the Faroe Islands; accordingly, some operational risks, if occurring, can affect Bakkafrost strongly (e.g. weather conditions, some diseases, etc.).

Storms

The growth rate of farmed salmon depends, among other things, on weather conditions. Unexpected warm or cold temperatures can have a significant negative impact on growth rates and feed consumption. Bakkafrost 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. Bakkafrost is continually working on reducing risks using experience with equipment, location and

operational organization. Bakkafrost's facilities are located in areas, where the weather conditions are well known and the facilities well secured, though other weather conditions, such as storms or floods, could also lead to unexpected losses at facilities.

Disease

Operation of fish farming facilities involves considerable risk with regard to disease. In the case of an outbreak of disease, Bakkafrost will, in addition to the direct loss of fish, incur substantial costs in the form of premature harvesting, loss of quality of harvested fish and subsequent periodic reduced production capacity.

Sea lice

The increasing number of sea lice is one of the largest risks and challenges in the farming industry globally and in the Faroe Islands today. Increased number of sea lice may cause stress, which can lead to diseases. Bakkafrost 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, Bakkafrost is looking into non-medicinal treatment options. The future goal is that medicinal treatments will be exchanged with non-medicinal treatment options.

Bakkafrost 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. Bakkafrost will increase the use of lumpfish in its farming sites. Bakkafrost uses both freshwater bath on-board a live fish carrier, and lukewarm seawater treatment in two farming service vessels as sea lice treatment. Additionally, Bakkafrost strives to improve delousing methods continuously.

Escapes

Although Bakkafrost does not tolerate the escape of farmed salmon, there is a risk that escapes will occur, in which case

Bakkafrost's business could be materially adversely affected, directly through loss of farmed salmon, and indirectly through the spread of diseases, governmental sanctions, negative publicity or other indirect effects. Procedures and new technological solutions in this respect are constantly monitored.

Deformities

As the aquaculture industry has evolved and developed, the biological limits for how fast fish can grow have also been challenged. As with all other forms of intensive food production, a number of production-related disorders arise, i.e. disorders caused by intensive farming methods.

As a rule, such disorders appear infrequently, but certain populations can be severely affected. The most important production-related disorders relate to physical deformities and cataracts. These invariably cause financial loss by way of reduced growth and inferior health, reduced quality on harvesting and damage to the industry's reputation.

Fishmeal, fish oil and fish feed

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

Bakkafrost's fishmeal, fish oil and fish feed department at Havsbrún's facilities are located in the Faroe Islands, in which case the company's business could be materially adversely affected directly from any trade restrictions, or indirectly through restrictions on ocean harvests or quotas.



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 sub-

stances. Most contaminants are accumulated in organisms, such as marine wild catch used to produce fishmeal and fish oil. These contaminants are deposited into the organism's fat, and the concentration is greater the higher up the food

chain. Authorities set maximum allowable levels for the most important contaminants. These limits are continuously monitored by the authorities and may be altered. There is also the possibility of “new” contaminants being added periodically to the list.

Generally, contamination may occur either accidentally or deliberately through malicious product tampering. Such contamination has the potential to affect the environment, fish health and/or food safety, with a potential negative impact on the public's confidence in eating salmon. Any of these events could have a negative impact on Bakkafrøst's operating result and financial condition. Future legislation may increase the risk of non-compliance and the cost of ensuring compliance. The reputation risk associated with non-compliance may be significant even if there is no impact on the environment, fish health or food safety.

Bakkafrøst's feed department, Havsbrún, operates a number of controls to reduce the risk of contamination. Examples of measures and controls, included in HACCP and ISO procedures, include supplier audits and supplier specifications of raw materials, targeted sourcing of raw materials, regular raw material and finished feed quality control analyses, procedures for cleaning of fish oils, etc. and strict plant security procedures. The risks, however, can never be completely eliminated.

Contaminants that may be a risk for fish feed include, but are not limited to, organic contaminants such as dioxins and DL-PCBs, myco toxins, 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.

IT

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

MARKET RISKS

Price on farmed salmon

Bakkafrøst's financial position and future development depend to a considerable extent on the price of farmed salmon, which has historically been subject to substantial fluctuations. Farmed salmon is a commodity, and it is therefore reasonable to assume that the market price will continue to follow a cyclical pattern. The balance between the total supply and demand for farmed salmon is a key parameter.

Price on fishmeal and fish oil

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

could in turn have an impact on the company's profitability and cash position.

Price on fish feed

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

Natural limitations in the marine resource base could lead to global shortages of fishmeal and fish oil for the fish feed production. The feed producers have come a long way, however, in their efforts to replace some of the marine based input factors with vegetable raw materials. Furthermore, the production of fish feed is an integrated part in Bakkafrøst's value chain and thus reducing this risk.

Geography

Bakkafrøst sells its salmon products to more than 20 different countries. Fishmeal, fish oil and feed are sold to a limited number of countries. From time to time, due to different reasons, the company might suffer export restrictions to countries or regions. This could, in turn, have a significant impact on the company's profitability and cash position.

FINANCIAL RISKS

Bakkafrøst seeks to manage financial risks through operational measures or (where such measures are not available) through the use of financial derivatives. A policy on the management of these risks has been approved by the Board of Directors.

The follow-up of internal procedures associated with financial reporting is undertaken as part of the management's day-to-day supervision and the process owners'

follow-up. Please refer to Note 4.1 for additional information.

Foreign exchange risk

Bakkafrost trades in the world market for farmed salmonids. The revenues and accounts receivables are predominantly denominated in DKK, EUR and USD, but to some extent also in other foreign currencies. On the other hand, purchases of raw materials etc. are predominantly denominated in DKK, but linked to the USD. Therefore, Bakkafrost has some natural hedging. For those currencies not fully hedged, fluctuations in foreign exchange rates present a financial risk to Bakkafrost.

Bakkafrost's financing is bank financing and is in DKK and EUR, but Bakkafrost has the possibility to finance in other currencies.

In connection with some material investments, Bakkafrost is in some degree exposed to NOK, USD and EUR.

Credit risk

The risk that counterparties do not have the financial strength to meet their obligations is considered relatively low, since losses due to bad debts historically have been small. Bakkafrost 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, Bakkafrost must accept a certain risk element in accounts receivables.

The main credit risk on the date of the statement of financial position regards Bakkafrost's receivables portfolio.

Liquidity risk

Liquidity risk is the risk that Bakkafrost will not be able to meet its financial obligations as they fall due. Liquidity risk is

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

Capital structure and equity

The prime objective of Bakkafrost's capital management is to ensure that it maintains a good credit rating to achieve favourable borrowing terms. By ensuring a good debt-to-equity ratio, Bakkafrost will support its business operations. Bakkafrost manages and makes changes to its capital structure in response to an ongoing assessment of financial conditions under which the business operates and its short- and medium-term outlook, including any adjustment in dividend 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 second year. The Board of Directors is responsible for the overall management of Bakkafrøst.

AUDIT COMMITTEE

Consists of three members from the Board of Directors and is chaired by the Board of Directors' Chairman.

GROUP EXECUTIVE MANAGEMENT

The Group Executive Management is responsible for the day-to-day management of Bakkafrøst.

Bakkafrost's Governance Model

To ensure adherence to the principles, the company has elaborated specific instructions regarding rules of procedure for the Board of Directors, instructions for the Nomination Committee, instructions for the Chief Executive Officer and other management, guidelines with regards to values and ethics, instructions for the Audit Committee, an investor relations policy, guidelines relating to takeover bids and guidelines for related-party transactions.

Shareholders and General Meeting

Shareholders exercise their rights at Bakkafrost's general meeting – such as appointing Bakkafrost's Nomination Committee, Board of Directors and auditor.

The procedures at Bakkafrost's general meeting follow the standard rules stipulated in the Faroese company law and Bakkafrost's Articles of Association.

Nomination Committee

The Nomination Committee recommends candidates for election to the Board of Directors and the Directors' fees. The deadlines for submitting proposals to the Nomination Committee is 31 January.

Bakkafrost's General Meeting elects the members, hereunder its chairman, for the Nomination Committee for a period of two years, unless the General Meeting decides otherwise. The remuneration payable to the Nomination Committee's members is also determined by the General Meeting.

The regulations governing the work of the Nomination Committee are incorporated in Bakkafrost's Articles of Association.

At the end of 2018, the members of the Nomination Committee were:

- Gunnar í Liðá (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 eight meetings in 2018. Below under each Director's profile is disclosed each Director's participation in the Board meetings held during 2018.

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 2018 to review accounting and operational issues in detail. The committee consists of Rúni M. Hansen (Chairman), Øystein Sandvik and Teitur Samuelsen.

Group Executive Management

The Group Executive Management manages Bakkafrost's daily business and shall adhere to any decisions made by the Board of Directors as well as to any rules and requests from the Board of Directors.

The Board of Directors has in executive instructions laid down specific rules regarding the authority and duties of the Group Executive Management. The Board of Directors also decides the employment conditions of the Group Executive Management and gives more specific rules regarding its work.

The Group Executive Management consist of CEO Regin Jacobsen, CFO Gunnar Nielsen and MD Odd Eliassen. Information about the Group Executive Management may be found in "Group Managements' Profiles" in the Annual Report.

Corporate Responsibility and Sustainability

Governance and management

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

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 2019.

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 ap-

proach 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.

Human capital

Bakkafrost employs 1,073 employees (824 full time equivalent). It acknowledges that in order to achieve its mission and meet its strategic objectives, it must have a capable and engaged workforce, which is committed to its core values.

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

Health, safety and wellbeing

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

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

Product quality and safety

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

Biosecurity and fish health and welfare

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

Environmental management and sustainable feed

Bakkafrøst is committed to minimizing pollution of the environment from each stage of the value chain. The com-

pany's Code outlines an intention to strive to be market leading in environmental protection. All employees will be required to bear in mind the environmental effects work-related activities have on nature and the environment and apply environmentally friendly solutions to the extent reasonably possible.

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

Collaboration and certification

As well as collaborating with the salmon industry through the Faroe Fish Farmer's Association and the Global Salmon Initiative (GSI). Bakkafrøst subscribes to a number of external standards and certification programmes to ensure product sustainability, quality and safety. The entire value chain – feed production, 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.

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.

Bakkafrøst has made a commitment to have all farming sites 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 2018 performance against them, can be found in Bakkafrøst's 2018 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, l ggilt grannsko anarvirki (State Authorized Public Accountants), which is also the auditor of the parent company and all its subsidiaries, registered in the Faroe Islands. Auditor for Havsbr n Norge ASA is Br li Revisjon AS, and auditor for Havsbr n Shetland Plc. is A9 Partnership Ltd. Auditors for Bakkafr st UK Ltd is Forrester Boyd Chartered Accountants. Auditor for Bakkafr st USA LLC is EisnerAmper LLC.

DIVIDEND POLICY

Bakkafr st 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.

Bakkafr st's financial position is strong with a healthy balance sheet, a competitive operation and undrawn available credit facilities. The Board of Directors has therefore decided to propose to the Annual General Meeting that DKK 8.25 (NOK 10.70*) per share shall be paid out as dividends. This corresponds to DKK 403.1 million (NOK 523.5* million).

PARENT COMPANY'S FINANCIAL STATEMENTS AND ALLOCATION OF PROFIT FOR THE YEAR

The parent company P/F Bakkafr st had a net profit of DKK 1,012.0 million for 2018. The Board of Directors has decided to propose to the Annual General Meeting that DKK 8.25 (approximately NOK 10.70*) per share shall be paid out as dividends. This corresponds to DKK 403.1 million (NOK 523.5* million).

The Board thereby proposes the following allocation of funds:

- Result for 2018: DKK 1,012.0 million
- Transferred to other equity: DKK 608.9 million
- Total provision for dividends: DKK 403.1 million

After payment of dividends, the distributable equity totals DKK 3,544.1 million.

SHAREHOLDERS, CAPITAL AND VOTES

P/F Bakkafr st had, on 31 December 2018, a total of 48,858,065 shares outstanding, each with a nominal value of DKK 1. Of the 48,858,065 shares outstanding, P/F Bakkafr st holds 202,565 treasury shares as at 31 December 2018.

Ticker code: BAKKA

LARGEST SHAREHOLDERS

These shareholders held directly or indirectly more than 5% of the shares in the company as at 31 December 2018: Oddv r 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



Øysten Sandvik
Board member

Gunnar Nielsen
Chief Financial Officer

Odd Eliassen
Managing Director
of Havsbrún

Regin Jacobsen
Chief Executive Officer

Rúni M. Hansen
Chairman of the Board

Annika Frederiksberg
Board Member

Teitur Samuelsen
Board Member

Johannes Jensen
Deputy Chairman
of the Board

Directors' Profiles

RÚNI M. HANSEN Chairman of the Board

Born 1967. Faroese citizen. Joined the Board in 2009 and has been Chairman since. Term of office expires in 2019. Is considered to be independent. Executive chairman of the industry holding company Tjaldur.

Education:

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

Board meetings in 2018:

Participated in all 8 Board meetings in 2018.

Number of shares held in Bakkafrost:

Holds 10,000 shares at year-end 2018 – no change in portfolio in 2018.

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

Rúni M. Hansen was a member of the World Economic Forum's Global Agenda Council on the Arctic in the period 2012-2016.

JOHANNES JENSEN Deputy Chairman of the Board

Born 1962. Faroese citizen. Joined the Board in 2009 and has been Deputy Chairman since. Term of office expires in 2020. Is considered to be independent. Managing Director at P/F Gist & Vist.

Education:

MBA, Lancaster University Management School.

Board meetings in 2018:

Participated in all 8 Board meetings in 2018.

Number of shares held in Bakkafrost:

Holds no shares at year-end 2018 – no change in portfolio in 2018.

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 2018:

Participated in all 8 Board meetings in 2018.

Number of shares in Bakkafrost:

Holds 100 shares – no change in portfolio in 2018.

Mr. Samuelson 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. Samuelson is presently a member of the Board of Directors at P/F 6. September, Vest Pack and Betri Trygging.

ANNIKA FREDERIKSBERG**Board member**

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

Education:

Basic Vocational Course, Commercial Line, Faroese Business School.

Board meetings in 2018:

Participated in all 8 Board meetings in 2018.

Number of shares in Bakkafrost:

Holds directly and indirectly 15,556 shares at year-end 2018 – change in portfolio in 2018: +301 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 2019. Is considered to be independent.

Education:

Bank Economist.

Board meetings in 2018:

Participated in all 8 Board meetings in 2018.

Number of shares in Bakkafrost:

Holds no shares at year-end 2018 – no change in portfolio in 2018.

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.

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 4,495,198 shares at year-end 2018.

Changes in portfolio in 2018: +884 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.

GUNNAR NIELSEN Chief Financial Officer

Born 1977. Faroese citizen. Mr. Nielsen has been Chief Financial Officer of Bakkafrost since 2014.

Education:

Graduate Diploma in Business Administration and Accounting (HD-R), Aarhus School of Business. MSc. in Business Economics & Auditing, Copenhagen Business School.

Number of shares held in Bakkafrost:

Holds 1,651 shares at year-end 2018.

Changes in portfolio in 2018: +608 shares.

Mr. Nielsen has extensive experience in the finance sector. He has held positions as corporate finance advisor and auditor. Before joining Bakkafrost, Mr. Nielsen held different positions at the Betri Group, including being advisor and CEO of TF Íløgur.

ODD ELIASSEN Managing Director of Havsbrún

Born 1965. Faroese citizen. Mr. Eliassen has been Managing Director of Havsbrún since 2012.

Education:

Teacher Certificate Exam, University of the Faroe Islands.

Number of shares held in Bakkafrost:

Holds 173,066 shares at year-end 2018. Changes in portfolio in 2018: +697 shares.

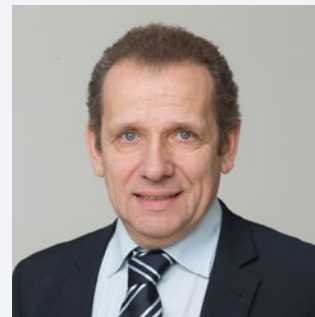
Mr. Eliassen has broad experience from the fish farming industry and has been an active player in restructuring the fish farming industry in the Faroe Islands. He has been responsible for Havsbrún's farming activities and has held various board positions in the industry. Mr. Eliassen was a board member of Bakkafrost from 2006 to 2012.

Other Managers' Profiles



SÍMUN P. JACOBSEN, Senior Sales Manager

Símun P. Jacobsen (born 1963) was appointed Senior Sales Manager at Bakkafrost in 2012. Mr. Jacobsen holds a Graduate Diploma in Business Administration and Accounting (HD-R) from Handelshøjskolen Syd in Denmark. Mr. Jacobsen held the position as sales manager at United Seafood from 1998 and at Faroe Seafood from 2005.



JÓN PURKHÚS, Farming Manager (North region)

Jón Purkhús (born 1958) was appointed Farming Manager at Bakkafrost in 2006, following the merger of Faroe Salmon with Bakkafrost. Mr. Purkhús has held positions in the Faroese salmon farming industry and was the founder of Faroe Salmon, where he held the position as Managing Director from 1985.



KÁRI JACOBSEN, VAP Manager

Kári Jacobsen (born 1963) was appointed VAP Manager at Bakkafrost in 2008. Mr. Jacobsen was educated at Statens Fagskole for Fiskeindustri in Vardø and held the position as production manager at Tavan from 1984 to 1994, and from 1999 to 2008. Mr. Jacobsen held the position as production manager at United Seafood from 1994 to 1998.



ODDVALD OLSEN, Farming Manager (West region)

Oddvald Olsen (born 1964) was appointed Farming Manager at Bakkafrost in 2011. Mr. Olsen has held positions in the Faroese salmon farming industry, and from 1993 to 2004, he held the position as Managing Director in Sjólakstur. Mr. Olsen joined Bakkafrost in 2010.



ANDRIAS PETERSEN, Harvest Manager

Andrias Petersen (born 1973) was appointed Harvest Manager at Bakkafrost in 2010, following the merger of Vestlax Group with Bakkafrost. Mr. Petersen holds a BSc in Chemical Engineering from the Technical University of Denmark. From 2002 to 2008, he joined the Faroese Food, Veterinary and Environmental Agency, and from 2008 to 2010, Mr. Petersen held the position as production manager at Vestlax.



HARTVIG JOENSEN, Manager, Fishmeal and Fish Oil

Hartvig Joensen (born 1967) was appointed Manager at Havsbrún's Fishmeal and Fish Oil Department in 2005. Mr. Joensen was educated at Copenhagen University College of Engineering as a Technical Assistant and holds a Diploma in Leadership from the Faroese Business School.



RÚNI WEIHE, Manager, Fish Feed

Rúni Weihe (born 1980) holds a MSc in Fisheries from the University in Tromsø and a PhD in dietary salmon farming from the Norwegian University of Life Sciences. From 2008, Mr. Weihe held the position as Research & Development Manager of Havsbrún's Feed Department and in 2014, he was appointed Feed Department Manager.



HEINI KRISTIANSEN, Group HR Manager

Heini Kristiansen (born 1986) was appointed Group HR Manager at Bakkafrost in November 2018. Mr. Kristiansen holds a BSc in International Business and Politics and a cand.merc.HRM from Copenhagen Business School. Mr. Kristiansen has previous experience as HR Manager at Smyril Line and as a professional within individual and collective labor market negotiations in Denmark.



ANNA JOHANSEN, Group Quality Manager

Anna Johansen (born 1974) was appointed Quality Manager at Bakkafrost in 2010, following the merger of Vestlax Group with Bakkafrost. Mrs. Johansen holds a cand.scient in biology from the University of Copenhagen, Denmark. From 2003 to 2007, she joined the Faroese Food, Veterinary and Environmental Agency, and from 2007 to 2010, she held the position as quality manager at Vestlax. In 2015, Mrs. Johansen was appointed Group Quality Manager.



SVERRI KJÆRBÆK, Operations Manager

Sverri Kjærbæk (born 1964) was appointed Operations Manager at Bakkafrost in 2016. Mr. Kjærbæk holds a Master's Certificate from Føroya Sjómansskúli in Tórshavn, Faroe Islands, and from 1989 to 2007, he held positions as Captain in Mærsk Line. From 2007, Mr. Kjærbæk has served as captain on board passenger as well as offshore vessels.



RÚNI OLSEN, Fresh Water Manager

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

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 2018 to 31 December 2018.

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 2018, as well as the results of the Group's and the parent company's activities and cash

flows for the financial year 1 January 2018 to 31 December 2018.

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.

Glyvrrar, 12 March 2019

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

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 2018, 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 2018 in accordance with International Financial Reporting Standards as adopted by the EU.

Identification

We have audited the consolidated annual accounts and the annual accounts of P/F Bakkafrost for the financial year 1 January - 31 December 2018, which comprise Income Statement, Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, and notes, including a summary of accounting policies used, for both the Group and the Company, as well as consolidated statement of cash flows. The consolidated annual accounts and the annual accounts are prepared in accordance with the International Financial Reporting Standards as adopted by the EU.

Basis of opinion

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the consolidated annual accounts and the annual accounts".

Independence

We are independent of the Group in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in the Faroe Islands, and we have fulfilled our additional ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit matters

Key audit matters are the matters, which we consider central to our audit of the annual and consolidated accounts for 2018. The matters are considered during our audit of the accounts in their entirety and when forming our opinion. We do not provide separate opinions on these matters.

Key Audit matter

Biomass

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

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

Our response to the matter during our audit

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

We assure ourselves, that estimates are based on ascertainable information in line with company specific data as that estimates on future conditions are based on the best information available. We also ascertain that estimates on future market conditions are based on public market analyses, and that valuation techniques are in line with generally accepted valuation principles and are consistently applied.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts and the annual accounts as a whole are free from material misstatement, 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 stat-

ing, 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 are 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, 12 March 2019

Januar P/F

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

Fróði Sivertsen
State Authorized Public Accountant

Statements and Notes

BAKKAFROST GROUP

BAKKAFROST GROUP

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Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2018	2017
Operating revenue		3,177,422	3,770,049
Purchase of goods		-1,074,645	-883,871
Change in inventory and biological assets (at cost)		199,696	-141,406
Salary and personnel expenses	2.4	-353,756	-400,267
Other operating expenses	2.5	-674,907	-783,268
Depreciation	3.2	-198,898	-183,590
Operational EBIT*		1,074,912	1,377,647
Fair value adjustments of biological assets	3.6	195,819	-693,540
Onerous contracts	3.13	0	67,376
Income from associates		9,369	17,302
Revenue tax		-95,867	-119,681
Earnings before interest and taxes (EBIT)		1,184,233	649,104
Financial income	2.7	2,651	1,395
Net interest expenses	2.7	-12,477	-26,365
Net currency effects	2.7	1,419	4,173
Other financial expenses	2.7	-3,760	-4,423
Earnings before taxes (EBT)		1,172,066	623,884
Taxes	2.8	-211,774	-112,482
Profit or loss for the period continuing operations		960,292	511,402
Profit or loss for the year attributable to			
Non-controlling interests		0	0
Owners of P/F Bakkafrøst		960,292	511,402
Earnings per share (DKK)	4.3	19.74	10.52

*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	2018	2017
Profit for the year	960,292	511,402
Fair value adjustment on financial instruments	126,935	-25,799
Income tax effect	-22,848	4,644
Currency translation differences	-95	415
Reserve to share-based payment	2,279	1,223
Adjustment treasury shares	2,634	2,885
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	108,905	-16,632
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	0	0
Other comprehensive income	108,905	-16,632
Total comprehensive income for the year net tax	1,069,197	494,770

Consolidated Statement of Financial Position

AS AT 31 DECEMBER

DKK 1,000	Note	2018	2017
ASSETS			
Non-current assets			
Intangible assets		389,745	376,675
Total intangible assets	3.1	389,745	376,675
Land buildings and other real estate		994,353	1,148,572
Plant machinery and other operating equipment		926,335	957,857
Other operating equipment		160,064	97,654
Vessels		356,514	366,347
Prepayments for purchase of PP&E		447,059	0
Total property, plant and equipment	3.2	2,884,325	2,570,430
Non-current financial assets			
Investments in associated companies	3.3	57,497	51,406
Investments in stocks and shares	3.4	55,269	25,296
Long-term receivables	3.7	9,200	0
Total non-current financial assets		121,966	76,702
TOTAL NON-CURRENT ASSETS		3,396,036	3,023,807
Current assets			
Biological assets (biomass)	3.6	1,358,462	1,096,664
Inventory	3.5	438,847	305,845
Total inventory		1,797,309	1,402,509
Accounts receivables	3.7	269,348	262,493
Other receivables	3.7	22,936	157,156
Total receivables		292,284	419,649
Cash and cash equivalents	3.8	316,894	309,551
TOTAL CURRENT ASSETS		2,406,487	2,131,709
TOTAL ASSETS		5,802,523	5,155,516

DKK 1,000	Note	2018	2017
EQUITY AND LIABILITIES			
Equity			
Share capital	3.9	48,858	48,858
Other equity		4,028,171	3,577,571
TOTAL EQUITY		4,077,029	3,626,429
Non-current liabilities			
Deferred taxes	2.8	534,430	455,448
Long-term interest-bearing debt	3.10	812,053	146,696
Total non-current liabilities		1,346,483	602,144
Current liabilities			
Financial derivatives	3.12	320	127,255
Short-term interest-bearing debt	3.10	0	378,300
Trade payables		204,500	189,548
Current tax liabilities	2.8	152,655	198,141
Provisions for onerous contracts	3.13	0	0
Other current liabilities		21,536	33,699
Total current liabilities		379,011	926,943
TOTAL LIABILITIES		1,725,494	1,529,087
TOTAL EQUITY AND LIABILITIES		5,802,523	5,155,516

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	2018	2017
Cash flow from operations			
Operating profit (EBIT)		1,184,233	649,104
Adjustments for write-downs/profit and depreciation	3.2	177,898	183,590
Adjustments for value adjustments on biomass	3.6	-195,819	693,540
Adjustments for income from associates		-9,369	-17,301
Adjustments for currency effects		11,059	11,198
Provision for onerous contracts		0	-67,376
Taxes paid		-201,678	-140,337
Change in inventory		-198,981	117,990
Change in receivables		103,437	-2,073
Change in current debts		42,157	29,827
Cash flow from operations		912,937	1,458,162
Cash flow from investments			
Acquisition/sale of subsidiaries and activities, etc., net		-12,057	0
Proceeds from sale of fixed assets		34,214	2,954
Payments made for purchase of fixed assets	3.2	-526,007	-638,496
Purchase of shares and other investments		-26,896	0
Cash flow from investments		-530,746	-635,542
Cash flow from financing			
Change in revolving credit facilities		146,783	-298,757
Financial income		2,650	1,393
Financial expenses		-16,237	-30,789
Proceeds/Acquisition of treasury shares		2,634	2,883
Dividend paid		-510,678	-422,795
Cash flow from financing		-374,848	-748,065
Net change in cash and cash equivalents in period		7,343	74,555
Cash and cash equivalents - opening balance		309,551	234,996
Cash and cash equivalents - closing balance total		316,894	309,551

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	Proposed Dividend	Biomass Fair value adjustments	Retained Earnings	Total Equity
DKK 1,000										
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
Income 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
Equity 01.01.2017	48,858	306,537	-21,045	2,651	5,856	-83,196	425,065	880,491	1,983,818	3,549,035
Consolidated profit	0	0	0	0	0	0	0	-693,540	1,210,359	516,819
Other comprehensive income:										
Fair value adjustment on financial derivatives	0	0	0	0	0	-25,799	0	0	0	-25,799
Income tax effect	0	0	0	0	0	4,644	0	0	0	4,644
Share-based payment	0	0	0	1,223	0	0	0	0	0	1,223
Currency translation differences	0	0	0	0	415	0	0	0	0	415
Total other comprehensive income	0	0	0	1,223	415	-21,155	0	0	0	-19,517
Total comprehensive income	0	0	0	1,223	415	-21,155	0	-693,540	1,210,359	497,302
Transaction with owners:										
Treasury shares	0	0	2,886	0	0	0	0	0	0	2,886
Paid-out dividend	0	0	0	0	0	0	-425,065	0	2,271	-422,794
Proposed dividend	0	0	0	0	0	0	513,109	0	-513,109	0
Total transaction with owners	0	0	2,886	0	0	0	88,044	0	-510,838	-419,908
Total changes in equity	0	0	2,886	1,223	415	-21,155	88,044	-693,540	699,521	77,394
Total equity 31.12.2017	48,858	306,537	-18,159	3,874	6,271	-104,351	513,109	186,951	2,683,339	3,626,429

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, Glyvur.

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 2018 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 12 March 2019.

The Annual Report has been prepared on a historical cost basis except for where IFRS require recognition at fair value,

mainly valuation of licences, which are acquired by business combinations, and of biomass.

Preparation of the financial statements involves the use of estimates and assumptions. Changes in estimates and estimated assumptions are accounted for when they occur. Descriptions about the various estimates applied are given in the notes to the accounts where relevant.

There are no new or amended IFRSs or IFRIC interpretations that are effective for the financial year beginning on or after 1 January 2018 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 an IFRS adjustment. The IFRS adjustment is the difference between biomass measured at cost and measured at fair value.

From 2018, the interest costs are no longer capitalized in biological assets. This change has an effect of 2.9 million DKK in accrued capitalized interest and is recognized in the income statement for 2018. The change is not considered material and is in line with the process of aligning the accounting policy in the industry.

Cash and cash equivalents consist of cash in hand and bank deposits. Assets, which form part of the production cycle and fall due for payment within 12 months, are classified as current assets. Other assets are classified as non-current assets. Liabilities, which form part of the production cycle or fall due for payment within 12 months, are classified as current liabilities. Other liabilities are classified as noncurrent liabilities.

Dividend proposals are not classified as liabilities until the parent company has assumed an irrevocable obligation to pay the dividend, normally when dividend proposals have been approved by the Annual General Meeting.

Next year's instalments on long-term debts are classified as current liabilities.

Changes in the fair value of biological assets are presented on a line item separately from biomass changes measured at cost under operating profit/loss. This allows the reader of the Financial Report to determine both production efficiency and biomass at fair value.

NOTE 1.6 FUNCTIONAL CURRENCY

The consolidated accounts are presented in Danish Kroner (DKK), which is the Group's functional and presentation currency. All transactions in foreign currencies are translated

into DKK at the time of transaction. In the statement of financial position, monetary items in foreign currencies are translated at the exchange rate in effect on the statement of financial position date.

NOTE 1.7 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards and interpretations, which are issued at the date of the Groups Financial statements, but will become effective later, are disclosed below. The disclosures contain standards including amendments, which may influence recognition or measurements in the Financial statements, alter existing disclosures or require additional disclosures when effective at a future date. The standards are implemented as they become effective.

New standards, regulating issues not relevant to the Group, or with insignificant impact on the Group, are omitted from this narrative.

IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The Group has set up a project team which has reviewed all the Group's leasing arrangements over the last year considering the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of tDKK 7,590. Of these commitments, approximately tDKK 3,262 relate to short-term

leases and to low value leases which will both be recognized on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognize right-of-use assets of approximately tDKK 64,078 on 1 January 2019, lease liabilities of tDKK 64,078.

Operational EBIT used to measure segment results is expected to increase by approximately tDKK 481, as the operating lease payments were included in EBIT, but the amortization of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase, and financing cash flows decrease by approximately tDKK 481 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

NOTE 1.8 ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires the management to make judgement estimates and assumptions that affect the application of accounting principles and carrying amounts of assets and liabilities,

income and expenses. The estimates and underlying assumptions are based on experience and other factors perceived to be relevant and probable when the judgements were made.

Estimates are reviewed on an on-going basis, and actual values and results may deviate from the initial estimates. Revision to accounting estimates are recognized in the period in which the estimates are revised. The evaluations and estimates, deemed to be of greatest significance for Bakkafrost 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 2018, there were no major customers - as defined in IFRS 8.34, compared to one major customer in 2017 of DKK 583 million, corresponding to 59% of the VAP operating revenue.

NOTE 2.3 OPERATING SEGMENT INFORMATION

2018 – DKK 1,000	Farming	Value Added Products	Fishmeal, oil and feed	Eliminations	Bakkafrost Group
External operating revenues	2,226,118	364,827	586,477	0	3,177,422
Internal operating revenues	342,248	0	682,087	-1,024,335	0
Total operating revenues	2,568,366	364,827	1,268,564	-1,024,335	3,177,422
Depreciation and amortization	-154,456	-15,085	-29,357	0	-198,898
Operating expenses	-766,164	-29,918	-1,014,283	-93,247	-1,903,612
Internal operating expenses	-682,087	-342,248	0	1,024,335	0
Operating EBIT	965,659	-22,424	224,924	-93,247	1,074,912
Provision for onerous contracts	195,819	0	0	0	195,819
Fair value adjustments on biological assets	311	0	9,057	0	9,368
Revenue tax	-95,866	0	0	0	-95,866
EBIT	1,065,923	-22,424	233,981	-93,247	1,184,233
Net interest revenue	2,651	-179	0	0	2,472
Net interest expenses	-10,420	0	-1,878	0	-12,298
Net currency effects	995	-316	740	0	1,419
Other financial expenses	-3,233	-24	-503	0	-3,760
Earnings before taxes	1,055,916	-22,943	232,340	-93,247	1,172,066
Taxes	-170,527	31	-41,278	0	-211,774
Net earnings	885,389	-22,912	191,062	-93,247	960,292
Operating EBITDA	1,120,115	-7,339	254,281	-93,247	1,273,810
ASSETS	4,860,227	192,841	749,455	0	5,802,523
Whereof intangible assets	376,675	0	0	0	376,675
LIABILITIES	1,482,751	31,075	209,634	2,034	1,725,494
INVESTMENTS					
Property, plant and equipment	490,133	17,400	18,474	0	526,007
Depreciation	-154,456	-15,085	-29,357	0	-198,898

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

SALMON - DISTRIBUTION OF HARVESTED AND PURCHASED VOLUME

	2018		2017	
	tgw	%	tgw	%
Harvested volume used in VAP production	8,355	18.7%	19,067	34.9%
Harvested volume sold fresh/frozen	36,236	81.3%	35,548	65.1%
Harvested and purchased volumes	44,591	100.0%	54,615	100.0%

FISHMEAL, OIL AND FEED (FOF)				
	2018		2017	
	tonnes	%	tonnes	%
DISTRIBUTION FEED				
Volumes used internally	70,240	90.3%	72,960	93.4%
External purchase	7,534	9.7%	5,175	6.6%
Sold volumes	77,774	100.0%	78,135	100.0%

PRODUCTION OF FISHMEAL AND FISH OIL				
	2018		2017	
	tonnes	%	tonnes	%
Fishmeal	65,141	86.4%	74,089	87.7%
Fish oil	10,257	13.6%	10,387	12.3%
Sold volumes	75,398	100.0%	84,476	100.0%

GEOGRAPHIC BREAKDOWN OF SALES REVENUES BASED ON SEGMENTS AND CUSTOMER LOCATION

2018 - DKK 1,000	Farming	VAP	FOF
Europe	512,007	269,972	586,379
Eastern Europe	645,574	51,076	97
USA	467,485	25,538	0
China	601,052	18,241	0
Total	2,226,118	364,827	586,476

2017 - DKK 1,000	Farming	VAP	FOF
Europe	489,617	886,010	620,332
Eastern Europe	644,233	21,048	0
USA	519,681	58,132	0
China	491,765	37,084	0
Other	2,148	0	0
Total	2,147,444	1,002,273	620,332

The Group has three reportable segments in accordance with IFRS 8 Operating Segments. The Group's main strategic business area is aquaculture, which consists of three segments: fish farming, value added products (VAP) and production and sales of fishmeal, fish oil and fish feed (FOF).

The same accounting principles, as described for the consolidated financial statements, have been applied for the segment reporting. Intersegment transfers or transactions are entered into under normal commercial terms and conditions, and the measurement used in the segment reporting, is the same as used for the third party's transactions. The pricing principle between the VAP and Farming segment is based on market reference prices for spot sale, and the pricing principle between the FOF and the farming segment is based on quarterly contracts.

ACCOUNTING POLICIES SEGMENT REPORTING

Realization of excess values on tangible and intangible assets deriving from acquisitions is not allocated to the segments.

Farming including sales of fresh fish

Fish farming involves the breeding and on-growing of salmon as well as the harvesting, sales and distribution of salmon. The Group has production facilities around the Faroe Islands. There are no significant differences in the production properties of the licences, and the Group therefore reports the farmed salmonids, including the sale of fresh salmon, as one segment. The salmon is sold on the spot market for salmon products and to foreign seafood processing companies.

Value added products (VAP)

A significant share of the farmed products is value added at the factory in Glyvvar. The outputs of the factory is predominantly portions for the retail market. The business segment definition is based on the distinction between output sold to the industrial market and the value-added products for the end-consumers in the retail market.

Fishmeal, fish oil and fish feed (FOF)

Fishmeal, fish oil and fish feed involve the production and sale of fishmeal, fish oil and fish feed. The production of fishmeal, fish oil and fish feed is operated by Bakkafrost's subsidiary Havsbrún, located in Fuglafjørður.

NOTE 2.4 SALARIES AND OTHER PERSONNEL EXPENSES

DKK 1,000	2018	2017
Wages and salaries	306,794	354,432
Social security taxes	13,767	14,625
Pension expenses	23,996	26,541
Other benefits	9,199	4,669
Total payroll expenses	353,756	400,267
Average number of full-time employees	824	960

REMUNERATION TO CORPORATE MANAGEMENT

DKK 1,000					Total
Salary and other benefits paid	Salary	Bonus	Pension	Other	2018
Chief Executive Officer	1,756	39	0	88	1,883
Managing Director	1,410	145	0	0	1,555
Chief Financial Officer	1,347	144	0	88	1,579
Total remuneration	4,513	328	0	176	5,105

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

FEES PAID TO THE BOARD OF DIRECTORS

DKK 1,000		2018	2017
Rúni M. Hansen**	Chairman of the Board	455	440
Johannes Jensen	Deputy Chairman of the Board	258	250
Annika Frederiksberg*	Member of the Board	206	200
Virgar Dahl***	Member of the Board	55	200
Teitur Samuelsen**	Member of the Board	248	240
Øystein Sandvik**	Member of the Board	259	240
Total remuneration		1,481	1,570

* Annika Frederiksberg is also an employee in the Bakkafrøst Group. For this, she received DKK 628 thousand (2017: DKK 613 thousand).

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

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

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 Bakkafrøst's reputation nor be market leading but should ensure that Bakkafrøst 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

Bakkafrøst 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

Bakkafrøst 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 Bakkafrøst shares. The saved amount is deducted from the monthly net salary and used to purchase Bakkafrøst shares in behalf of the employees. The purchase will be made from Bakkafrøst'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 31.12.2018, 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	2018	2017
Maintenance	-150,315	-171,486
Operating expenses	-19,261	-62,396
Health	-90,481	-113,702
Freight	-249,577	-237,845
Energy	-128,527	-124,169
Other costs	-36,746	-73,670
Other operating expenses total	-674,907	-783,268

NOTE 2.6 RESEARCH AND DEVELOPMENT EXPENSES

DKK 1,000	2018	2017
R&D expenditure consist of other operating expenses and of salaries in total	-5,533	-587

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. 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 being self-supplied with 500 grams smolts in 2021. 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.

NOTE 2.7 NET FINANCIAL ITEMS

DKK 1,000	2018	2017
Other financial income	2,651	1,395
Financial income	2,651	1,395
Interest expenses on long-term loans	-11,139	-21,118
Interest expenses on credit lines	-875	-4,831
Interest expenses on accounts payable	-463	-416
Financial expenses	-12,477	-26,365
Unrealized exchange gain on bond	-10,850	30,800
Other exchange differences	12,269	-26,627
Net currency effects	1,419	4,173
Other financial expenses	-3,760	-4,423
Other financial items	-3,760	-4,423
Net financial items	-12,167	-25,220

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	2018	2017
Tax payable	151,966	198,093
Change in deferred tax	59,808	-85,611
Tax expense on ordinary profit	211,774	112,482
Tax payable	151,966	198,093
Tax payable in the statement of financial position	151,966	198,093

Specifications of temporary differences and deferred tax

	2018			2017		
	Tax rate	Temporary Differences	Deferred tax	Tax rate	Temporary Differences	Deferred tax
Licences	18.0%	375,678	67,622	18.0%	375,678	67,622
Property, plant and equipment	18.0%	1,187,172	213,691	18.0%	1,021,867	183,936
Financial assets	18.0%	50,556	9,100	18.0%	44,572	8,023
Biomass	18.0%	1,358,472	244,525	18.0%	1,096,667	197,400
Receivables	18.0%	-2,644	-476	18.0%	-2,644	-476
Currency effects	18.0%	583	105	18.0%	121,833	21,930
Derivatives (Equity posted)	18.0%	-317	-57	18.0%	-127,256	-22,906
Losses carried forward	18.0%	-444	-80	18.0%	-450	-81
Total temporary differences			2,969,056			2,530,267
Deferred tax liabilities (+) / assets (-)			534,430			455,448

Reconciliation from nominal to actual tax rate

DKK 1,000	2018	2017
Profit before tax	1,172,066	623,884
Expected tax at nominal tax rate (18%)	210,972	112,299
Permanent differences	802	183
Calculated tax expense	211,774	112,482
Effective tax rate excl. equity entries	18.07%	18.03%

Normal tax rate for countries in the Group:

- Faroe Islands 18%
- UK 20%
- Norway 23%
- USA 28%

Under the Faroese tax regime, growth of live biomass is not tax relevant before harvesting. Tax losses to be carried forward are infinite. Deferred taxes on temporary differences, deriving from shares in associated companies, are not entered, as intercompany dividends are not tax relevant in the Faroese tax regime.

ACCOUNTING POLICIES

The tax expense is matched against the profit or loss before tax, as it appears in the accounts. Tax ascribable to equity transactions is taken to equity. The tax expense comprises tax payable (tax on the year's direct taxable income) and

changes in net deferred taxes. Deferred tax liabilities and deferred tax assets are presented net in the statement of financial position to the extent that tax assets and liabilities can be netted against each other.

Deferred tax in the statement of financial position is a nominal amount calculated 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. Management's estimates depend on whether a final investment decision has been made, and the long-term outlook for Bakkafröst's development.

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

DKK 1,000	Goodwill	Licences	Total 2017
Acquisitions costs as at 01.01.17	4,537	372,138	376,675
Acquisitions costs as at 31.12.17	4,537	372,138	376,675
Impairments 01.01.17	0	0	0
Accumulated depreciation and write-downs as at 31.12.17	0	0	0
Net book value as at 31.12.17	4,537	372,138	376,675

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. Bakkafrost considers these as significant in comparison to Bakkafrost's total carrying amount of goodwill and intangible assets with indefinite useful lives. Bakkafrost has decided to disclose specific information concerning these three groups of CGUs.

Impairment testing

The Group tests intangible assets annually for impairment or more frequently if there are indications that the assets are impaired. The annual impairment test is performed at year-end. Bakkafrøst has substantial assets with indefinite lives in the form of licenses. The licenses are subject to impairment testing in combination with goodwill in the annual test. Bakkafrøst identifies each farming zone, which may contain one or several licences or farming sites, as one cash-generating unit.

The procedure of impairment testing

Impairment testing is carried out by calculating the net present value of estimated future cash flows (value in use) for the cash-generating unit in line with IAS 36 and comparing the net present value of the cash flow towards the carrying amount of net assets held by the cash-generating unit (CGU). The cash flow used in the calculations represents the management's best estimate at the time of reporting. If the carrying amount is higher than the calculated value in use, the assets are considered impaired. The estimated cash flow is based on the assumption of continued operation. The basis for the estimated cash flow is the strategic plan for the following years. The strategic plans have been reviewed and the targets approved by the Group management.

All CGUs have the same operating assumptions since the operating conditions are predominantly the same all over the Faroe Islands. The considered operating conditions are costs of feed, smolt, harvest, packaging, transport and other costs. Other operating conditions considered the same are mortality, production time, fallowing and harvest weight. CAPEX is also assumed to be the same for all CGUs over the calculated period. All CGUs are calculated with the same WACC. If there will be variances between the assumptions for the different CGUs in the future, this will be incorporated into the impairment test.

Indications of impairment

The impairment testing at year-end did not result in identification of impairment losses. Intangible assets were tested for impairment to evaluate if the cash flow from a conservative estimate was sufficient to support the carrying amount of net assets. The test confirmed the asset values.

The key assumptions

The key assumptions in the calculations of value in use are harvest volume, prices and costs, hence EBIDTA and WACC. Amongst other assumptions are inflation, CAPEX and terminal growth.

In general, the value in use has been determined based on future strategic plans considering the expected development in both macroeconomic and company-related conditions.

The assumptions used rest on uncertainty regarding product prices, input prices, biological performance and future regulatory frameworks. Costs can normally be estimated with more accuracy than income. As profitability in the salmon farming industry historically has been very volatile, depending on developments in the prices of salmon. Bakkafrøst uses budgets and long-term plans for the first five years of the analysis but returns to long-term historic averages for profitability in the sixth year and terminal period.

The key assumptions used in determining the value in use are:

- Harvested volume is based on the current stocking plans for each unit, and forecasted figures for growth, assumed harvest weight and mortality, based on historical figures.
- The costs are based on Bakkafrøst's own assumptions, based on historical costs and expectations. The costs are expected to remain stable but are calculated to increase with an inflation rate of 2%.
- The forward prices are based on the Fish Pool index - which is a part of Oslo Børs ASA - at the day of the calculation.

The long-term forward prices are based on third-parties' sources.

- The WACC is 8.8% (2017: 9.1%) pre-tax and calculated in accordance with IAS 36. The WACC model is used for estimating the discount rate. The input data for the model is updated each year for the annual impairment test. The choice of input data for the model significantly influences the outcome of the model, and to ensure that there is as little uncertainty as possible with regards to the calculation of the WACC, third-party sources are used where available (interest, inflation, beta). The discount rate is based on a five-year average for ten-year bonds issued by the Danish government, with an adjustment margin for the food industry in the EU.
- The inflation is set to 2% for the budget period. This is done based on third-parties sources. The terminal growth is set to 0%.
- Capital expenditure (CAPEX). In the 5-year forecast period, the capital expenditure necessary to meet the expected growth in revenue and profit is taken into consideration. Capital expenditures are aligned with the growth and replacement plans. Capital expenditure to comply with current laws and regulations has been included. Capex related to committed and approved efficiency improvement 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 3,505 million.

- A change in the EBITDA margin of +/- 1% would affect the headroom with +/- DKK 261 million.
- A change in WACC of +1% would affect the headroom with DKK -898 million.
- A change in WACC of -1% would affect the headroom with DKK +1,291 million.

ACCOUNTING POLICIES

Intangible assets, that are purchased individually, are capitalized at acquisition cost. Intangible assets acquired in connection with the purchase of a business entity are capitalized at acquisition cost when the criteria for separate recognition are met.

Intangible assets with a limited economic lifespan are depreciated systematically. Intangible assets are written down to the recoverable amount if the expected financial benefits do not cover their carrying amount.

Costs relating to research and development are charged as expenses as they accrue. R&D costs are capitalized in the statement of financial position, when it can be demonstrated that the relevant R&D projects carry economic benefits, that they can be technically finalized, and that the company intends to and is financially able to reap the economic benefits.

Capitalized R&D costs are recognized at acquisition cost less accumulated depreciation and write-downs. Capitalized R&D costs are depreciated in a straight line over the asset's estimated period of use.

Sea farming licences, which are purchased either as part of an acquisition or business combination according to IFRS 3, are capitalized at cost less accumulated write-downs according to a PPA analysis. Sea farming licences in the Faroe Islands are considered perpetual, given that certain pre-conditions 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

The CGUs tested are in the West region

Sensitivity analyses and booked value per CGU:

CGUs DKK 1,000	Licenses	Other assets****	Time booked value tested	WACC	Number of smolts (1,000)	EBITDA change of +/-1%	WACC change of +1%	WACC change of +1%
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
31.12.2017								
Vestlax acquisition*	132,708	1,096,040	1,228,748	9.1%	7,220	55,417	169,942	-239,347
Havsbrún acquisition**	157,430	494,419	651,849	9.1%	3,250	123,111	377,532	-531,719
Faroe Farming acquisition***	82,000	269,476	351,476	9.1%	1,660	28,305	86,801	-122,251
TOTAL	372,138	1,859,935	2,232,073	9.1%	12,130	206,833	634,275	-893,317

* 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	Prepayments for purchase of PP&E	Total
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
Acquisition costs as at 01.01.17	1,072,042	1,456,737	143,660	298,855	0	2,971,294
Reclassification	6,952	-6,952	0	0	0	0
Acquisitions during the year	306,607	180,867	49,393	103,722	0	640,589
Disposals and scrapping during the year	-20,132	-1,771	0	0	0	-21,903
Acquisition costs as at 31.12.17	1,365,469	1,628,881	193,053	402,577	0	3,589,980
Accumulated depreciations and write-downs as at 01.01.17	-197,135	-550,691	-84,660	-20,337	0	-852,823
Reclassification	6,952	-6,952	0	0	0	0
Depreciations during the year	-42,507	-114,452	-10,739	-15,893	0	-183,590
Accumulated depreciations and write-downs on disposals and scrapping	15,792	1,071	0	0	0	16,863
Accumulated depreciations and write-downs as at 31.12.17	-216,897	-671,024	-95,399	-36,230	0	-1,019,550
Net book value as at 31.12.17	1,148,572	957,857	97,654	366,347	0	2,570,430

Description of depreciations	Estimated lifetime	Depreciation method	Scrap value
Land and buildings	15-25 years	linear	10%
Plant, machinery, operating equipment, fixtures etc.	8-15 years	linear	0%-10%
Other operating equipment	3-8 years	linear	0%
Vessels	15-25 years	linear	10%

ACCOUNTING POLICIES

Property, plant and equipment are capitalized at acquisition cost, less accumulated depreciation and write downs. When assets are sold, or divested, the book value is deducted and any loss or gain entered to the Income Statement. Ordinary depreciation commences from the date on which the asset goes into normal operation and is calculated based on its economic lifespan. Depreciation is assigned in a straight line over the expected economic lifespan of the assets, taking into consideration the estimated residual value.

If an asset comprises significant components with varying lifespan, these components are depreciated separately. The scrap value of the property, plant and equipment as well as the depreciation period and depreciation method employed are reassessed annually.

Facilities under construction are not depreciated. Depreciation is charged to expenses, when the facilities are ready for use. If the situation or circumstances indicate that the carrying amount of an asset cannot be recovered, an assessment is made about whether to write-down its value. If the recoverable value of the assets is less than the carrying amount and the impairment is not expected to be temporary, the assets are written-down to the recoverable value. The recoverable value is the greater of net sales price or value in use. Value in use is the present value of the future cash flows, which the asset will generate.

NOTE 3.3 COMPANIES IN THE GROUP

The consolidated accounts for 2018 include the following subsidiaries and associates:

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

Associated Companies DKK 1,000	Head Office	Ownership	Net Additions	Share of the result	Carrying value 2018	Carrying value 2017
P/F Pelagos	Fuglafjörður	30%	0	10,875	48,296	42,334
P/F Salmon Proteins*	Eiði	79%	0	124	9,201	9,072
Total					57,497	51,406

	Total assets 2018	Total assets 2017	Equity 2018	Equity 2017	Result 2018	Result 2017
P/F Pelagos	407,882	444,253	159,394	139,717	35,892	56,621
P/F Salmon Proteins*	16,035	17,355	11,691	11,527	164	-40

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

NOTE 3.4 SHARES AND HOLDINGS IN OTHER COMPANIES

DKK 1,000	Carrying amount 2018	Carrying amount 2017
Companies		
Others	55,268	25,296
Total	55,268	25,296

ACCOUNTING POLICIES

Investments in other companies are classified as available for sale. Shares and holdings in which the Group does not have significant influence are valued at cost as fair value cannot be measured reliably.

NOTE 3.5 INVENTORY

DKK 1,000	2018	2017
Raw materials and goods in-progress	292,286	262,131
Finished goods	146,561	43,714
Total inventory	438,847	305,845

Raw materials primarily consist of raw material for the production of fishmeal, fish oil and fish feed and packaging materials used in processing.

Goods in-progress include semi-finished products and spare parts.

Finished products include all products ready for sale, such as fish feed, fresh and frozen whole salmon, as well as processed salmon products.

Inventories are measured at cost price.

ACCOUNTING POLICIES

Inventories consist of inventories in the farming unit, the VAP unit and the FOF unit.

Farming unit

Inventories consist of feed and additives. Inventories are measured at the lesser of cost or expected sales price less sales costs. The FIFO principle is used concerning the periodic assignment of inventory costs.

VAP unit

Inventories consist of raw material, additives, packaging material and finished goods. Raw material in the VAP unit

consist basically of processed salmonids. Raw material is measured at fair value at the time of harvesting.

Packaging material and additives are valued at the lesser of cost or expected sales price less sales costs. The FIFO principle is used concerning the periodic assignment of inventory costs.

Finished goods in inventory, fresh or frozen, are measured at the lesser of cost or the expected sales price less sales costs. In a case, where the cost price exceeds the sales price less sales cost, impairment is entered and charged to the Income Statement.

The cost price of goods produced in-house is the full production cost, including production costs, which can be only indirectly allocated to produce goods, less general administration costs.

FOF unit

Raw materials and purchased commodities are valued at the lower of historical cost and net realizable value in accordance with the FIFO principle.

Finished goods are fishmeal, oil and feed ready for delivery to customer, valued at the lower of cost and net realizable value. The cost of finished goods includes any processing costs that have incurred. Processing costs consist of logistics, handling and storage costs.

The cost price of goods produced in-house is the full production cost, including production costs, which can be only indirectly allocated to produce goods, less general administration costs.

NOTE 3.6 BIOLOGICAL ASSETS

DKK 1,000	2018	2017
Biological assets carrying amount 01.01.	1,096,665	1,858,434
Increase due to production or purchases	1,333,160	1,368,608
Reduction due to harvesting or sale (costs of goods sold)	-1,273,150	-1,475,571
Fair value adjustment at the beginning of the period reversed	-186,956	-880,492
Fair value adjustments at the end of the period	382,775	186,956
Reversal of elimination at the beginning of the period	59,758	98,487
Eliminations	-53,790	-59,758
Biological assets carrying amount 31.12.	1,358,462	1,096,664
Cost price biological assets	1,029,477	969,466
Fair value adjustments at the end of the period	382,775	186,956
Eliminations	-53,790	-59,758
Biological assets carrying amount	1,358,462	1,096,664
Whereof capitalized interests in biological assets*	0	6,684
Biomass on average (tonnes lw)		
< 1 kg	1,958	1,775
1 kg < 2 kg	2,959	3,605
2 kg < 3 kg	5,189	4,562
3 kg < 4 kg	6,010	5,810
4 kg <	22,962	21,544
Volume of biomass at sea	39,078	37,296
Number of fish on average (thousand)		
< 1 kg	4,951	4,390
1 kg < 2 kg	2,113	2,456
2 kg < 3 kg	2,044	1,813
3 kg < 4 kg	1,782	1,665
4 kg <	4,359	4,105
Total number of fish at sea	15,249	14,429

*No interest is capitalized from 2018, please refer to Note 1.5

	2018	2017
Harvested volumes (tgw)	44,591	54,615
Number of smolts released (thousand)		
Q1	3,134	1,395
Q2	2,776	1,918
Q3	3,315	3,204
Q4	3,358	3,411
Total number of smolts released	12,583	9,928
Sensitivity analysis of biomass in DKK 1,000		
Change in discount rate +1%	93,586	73,961
Change in discount rate -1%	-104,991	-83,038
Change in sales price +5 DKK	-224,143	-212,869
Change in sales price -5 DKK	224,143	212,869
Change in biomass volume +1%	-6,551	-4,217
Change in biomass volume -1%	6,551	4,217
One year forward prices in EUR FCA Oslo*		
At year-end	6.01	5.30
Q1 (forward)	6.48	5.48
Q2 (forward)	6.52	5.42
Q3 (forward)	5.94	5.41
Q4 (forward)	6.12	5.58

* Source Fish Pool

VALUATION OF BIOLOGICAL ASSETS

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

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

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

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

The valuation model

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

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

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

Main components in the model are:

- Volume
- Production costs
- Sales price
- Discount rate

Volume

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

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

Cost

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

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

Price

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

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

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

Discounts

The estimated future cash flow is discounted monthly. The monthly discount rate at 31 December 2018 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% of the incoming number of fish. A more detailed assessment is then carried out to evaluate, whether mortality is abnormal. These assessments take into account the cause of mortality and the size of the fish.

SIGNIFICANT ASSUMPTIONS SENSITIVITY

The estimate of fair value of biomass will always be based on uncertain assumptions, even though the company has built substantial expertise in assessing these factors.

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

NOTE 3.7. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES

DKK 1,000	2018	2017
Accounts receivables	269,348	262,493
Provisions for bad debts	0	0
Net accounts receivables	269,348	262,493
Prepayments	0	4,322
Deposit for interest- and currency swap	0	84,630
VAT	12,336	68,201
Other	10,599	3
Other receivables	22,936	157,156
Total short-term receivables	292,284	419,649
Long-term receivables	9,200	0
Total accounts receivables and other receivables	301,484	419,649
AGE DISTRIBUTION OF ACCOUNTS RECEIVABLES		
DKK 1,000	2018	2017
Receivables not overdue	205,064	237,661
Overdue 0-6 months	63,594	24,809
Overdue more than 6 months	690	23
Total	269,348	262,493

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

CURRENCY EXPOSURE TO ACCOUNTS RECEIVABLES

The Group holds accounts receivables in foreign currencies amounting to DKK 209.6 million at year-end 2018. (2017: DKK 230.5 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	2018	2017
DKK	59,721	32,013
EUR	72,296	59,724
USD	96,217	62,630
GBP	10,639	5,952
NOK	26,636	95,134
Others	3,839	7,039
Total	269,348	262,493

ACCOUNTING POLICIES

Accounts receivables and other receivables are presented at face value less provisions for bad debts. Provisions for bad debts are made on the basis of an individual assessment of the receivables concerned. Due to insignificant cost and the short credit period, amortized cost is equivalent to face value less foreseeable losses.

NOTE 3.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of short-term bank deposits and were DKK 317 million at year-end 2018, compared to DKK 310 million at year-end 2017.

NOTE 3.9 SHARE CAPITAL AND MAJOR SHAREHOLDERS

Share capital:

DKK 1,000	2018	2017
Share capital at 1 January	48,858	48,858
Share capital at 31 December	48,858	48,858

The parent company's share capital comprises:

DKK	No. of Shares	Face Value	Share Capital
Ordinary shares	48,858,065	1	48,858,065
Total share capital			48,858,065

Reconciliation of outstanding shares:

	2018	2017
Outstanding shares at 1 January	48,621,140	48,583,490
Purchase of treasury shares	0	0
Sale of own shares to cover the employee bonus programme	34,360	37,650
Outstanding shares at 31 December	48,655,500	48,621,140
Treasury shares at 31 December	202,565	236,925

All full-time employees from 2017, still employed in Bakka-frost, have received bonus shares in 2018 with a total value of 2% of paid out salary in 2017. In total, Bakka-frost has allocated 14,206 shares to its employees at a fair value of DKK 5.2 million. The grant date was 14 June 2018, and the share price was DKK 366.54 (NOK 463.80) per share.

SHAREHOLDERS

These shareholders held directly or indirectly more than 5% of the shares in the company as at 31 December 2018: Oddvør Jacobsen, Regin Jacobsen and Folketrygdfondet.

Shares owned directly and indirectly by the members of the Board of Directors and Group Management:

Name	Position	No. of shares	Shareholding
Rúni M. Hansen	Chairman of the Board	10,000	0.02%
Johannes Jensen	Deputy Chairman of the Board	0	0.00%
Teitur Samuelsen	Member of the Board	100	0.00%
Annika Frederiksberg	Member of the Board	15,556	0.03%
Øystein Sandvik	Member of the Board	0	0.00%
Regin Jacobsen	Chief Executive Officer	4,495,198	9.20%
Odd Eliassen	Managing Director	173,066	0.35%
Gunnar Nielsen	Chief Financial Officer	1,651	0.00%

Dividend

The Board has proposed a dividend per share of DKK 8.25 for 2018. Dividends in 2017 were DKK 10.50 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 403.1 million. The dividend proposal has not been recognized as a liability at 31 December 2018, but is presented as an item within equity.

NOTE 3.10 INTEREST-BEARING DEBT

DKK 1,000	2018	2017
Long-term interest-bearing debt	812,053	146,696
Next year instalments on long-term interest-bearing debt	0	0
Total long-term interest-bearing debt 31.12.	812,053	146,696
Bonds	0	378,300
Next year's instalments on long-term interest-bearing debt	0	0
Total short-term interest-bearing debt 31.12.	0	378,300
Derivatives	320	127,255
Security account derivatives	0	-84,630
Total interest-bearing debt	812,373	567,621
Cash and cash equivalents	-316,894	-309,551
Net interest-bearing debt	495,479	258,070

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	2018		2017	
	Carrying amount	Contractual payments	Carrying amount	Contractual payments
Credit facilities	804,131	812,053	146,696	146,696
Bonds	0	0	378,300	378,300
Gross interest-bearing debt	804,131	812,053	524,996	524,996
Credit line		1,493,460		1,228,300
Available credit lines		680,807		703,304
Cash and cash equivalents		316,894		309,551
Total available credit lines		997,701		1,012,855

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

REMAINING PERIOD

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

The difference between the carrying amount and the total expected payments in the table above is due to upfront arrangement and legal fees incurred in connection with the refinancing of the credit facilities and the bond issue. One long-term bank borrowing is drawn from a revolving credit facility, under which the Group may draw and pay down any amount. The contractual payments illustrated in the table above do not reflect rollover dates of loans drawn but are based on the maturity date of the credit facilities.

INTEREST-BEARING DEBT IN MORE DETAIL

Bakkafrost's bank loan is a senior secured five-year EUR 200 million credit facility. The facility includes an accordion increase option, which provides flexibility for the parties to agree an increased size of the facility by further up to EUR 200 million during the term of the facility. The new loan was effectuated in January 2018.

The loan facility is secured in both the Group's property, plants and other tangible and fixed assets as well as stock, farming licences and insurance policies. The interest payable is the reference interest rate for the respective currencies (IBOR) plus a margin, which is calculated based on the Group's leverage ratio.

FINANCIAL COVENANTS

Regarding the loan facility amounting to EUR 200 million, the covenant stipulates that the equity ratio of the Group must be at least 35% from the first quarter of 2018. Furthermore, the interest cover shall not be less than 3.00. Bakkafrost complied with the covenant in its loan agreement during 2018 and at year-end.

The Bakkafrost Group had total available bank finances of EUR 200 million. The undrawn amount at 31 December 2018 was DKK 997.7 million.

Maturity analysis - contractual payments

DKK 1,000	2019	2020	2021	2022	2023
Long-term credit facilities	0	0	0	0	812,053
Gross interest-bearing debt	0	0	0	0	812,053

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

Reconciliation of development in interest-bearing debt

	2016	Cash flows	Acquisition	Reclassification	FX movements	2017
Long-term interest-bearing debt	827,146	-302,150	0	-378,300	0	146,696
Short-term interest-bearing debt	0	0	0	347,500	30,800	378,300
Total interest-bearing debt	827,146	-302,150	0	-30,800	30,800	524,996

NOTE 3.11 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	2018	2017
Long-term debt to financial institutions	812,053	146,696
Derivatives	320	127,255
Total	812,373	273,951
Carrying amount of assets pledged as security for recognized debt		
Licences	372,138	294,675
Property, plant and equipment	2,162,917	1,719,430
Financial assets	57,497	51,406
Biological assets (biomass)	1,358,462	993,037
Inventory	435,218	305,845
Total	4,386,232	3,364,393

NOTE 3.12 DERIVATIVES

DKK 1,000	2018	2017
Currency swaps regarding forward contracts	320	-148
Interest and currency swaps regarding bonds	0	127,403
Derivatives total	320	127,255

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

DKK 1,000	Fair Value 2018	Recognized in the Income Statement 2018	Recognized in equity 2018	Fair Value 2017	Recognized in the Income Statement 2017	Recognized in equity 2017
Currency derivatives	320	0	320	-148	0	-148
Interest and currency derivatives	0	0	0	127,403	0	127,403
Total	320	0	320	127,255	0	127,255

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

	Currency derivatives	Interest and currency derivatives	Total 2018	Currency derivatives	Interest and currency derivatives	Total 2017
Within one year	320	0	320	-148	127,403	127,255
Between one and five years	0	0	0	0	0	0
After five years	0	0	0	0	0	0
Total	320	0	320	-148	127,403	127,255

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 3.13 PROVISIONS

A provision is recognized when, and only when, the company has a valid liability (legal or self-imposed) deriving from an event which has occurred, and when it is probable (more likely than not) that a financial settlement will take place because of that liability, and when the amount in question can be reliably quantified. Provisions are reviewed on each closing date, and the level reflects the best estimate for the liability.

ACCOUNTING POLICIES

The Group enters into sales contracts for value added salmon products (VAP) on an on-going basis. The contracts involve physical settlement, and deliveries associated with the 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

PROVISIONS FOR ONEROUS CONTRACTS

DKK 1,000	2018	2017
Provisions for onerous contracts 01.01.	0	67,378
Change in provisions for onerous contracts for the year	0	-67,378
Provisions for onerous contracts 31.12.	0	0

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 2018, the Group's equity ratio was 70 percent.

According to the Group's dividend policy, under normal circumstances, average dividends over several years should be 30 to 50 percent of the adjusted net profit. The Board has proposed a dividend of DKK 8.25 per share for the financial year 2018, corresponding to a distribution to shareholders of DKK 403.1 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 2018, net interest-bearing debt amounted to DKK 495.5 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 2018.

There were no changes in the Group's approach to capital management during the year. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: market risk, liquidity risk and credit

risk. This note presents information about the Group's exposure to each of these risks, the Group's objectives, policies and procedures for measuring and managing risk.

Further quantitative disclosures are included throughout these consolidated financial statements.

The main objective of 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 2018, the Group's equity ratio was 70%.

Risk management policies and procedures are reviewed regularly to reflect changes in market conditions and the Group's activities.

FINANCIAL RISK

Financial risk can be defined as the risk that the Group will not be able to meet its financial obligations.

In addition to bank loans, 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 speculation.

The most important financial risks, to which the company is exposed, are interest rate risk, foreign exchange risk, liquidity risk and credit risk. The management monitors these risks on an on-going basis and draws up guidelines, for how these should be managed.

MARKET RISK

Market risk can be defined as the risk that the Group's income and expenses, future cash flows or fair value of financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rates risk and other price risk (such as commodity prices and salmon spot prices).

Market risk is monitored and actively managed by the Group. Exposure to these risks is reduced by diversification, suitable controls and business tactics. In some cases, market risks are transferred to third parties via contractual price adjustment clauses, but rarely by means of financial derivatives. As hedging activities normally result in lower average expected return, the Group only uses external hedging, where there is a significant risk of breach of financial covenants.

Foreign exchange risk

Because of the international nature of its operations, the

Group is exposed to fluctuations of foreign currency rates. For risk management purposes, three types of currency exposure have been identified: Translational exposure, Transactional exposure and Economic currency exposure:

Translational exposure

Bakkafrost has subsidiaries abroad in the UK, Shetland, 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

Currency

DKK 1,000

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

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

Sensitivity analysis

DKK 1,000

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

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

The analysis is based on the currencies that the Group is most exposed to at the end of 2018. 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 24.1 million (2017: DKK 3.7 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 2018

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

Currency forward contracts as at 31 December 2017

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

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
2018	745.32	842.44	631.74	77.69	5.72
2017	743.86	848.63	659.53	79.82	5.88

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 5.0 million (2017: DKK 2.6 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

3.10 for information on committed credit facilities, available credit lines, and maturity of interest-bearing debt.

In addition to the above described sources of liquidity, Bakkafrøst monitors funding options available in the capital markets as well as trends in the availability and cost of such funding with a view to maintain financial flexibility and limiting refinancing risk. Bakkafrøst's overall liquidity as at 31 December 2018 included DKK 316.9 million, and DKK 309.5 million as at 31 December 2017 (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 609.2 million as at 31 December 2018 (2017: DKK 729.2 million). For age distribution of accounts receivables, please refer to Note 3.7.

Credit Risk	2018	2017
Accounts receivables	269,348	262,493
Other receivables	22,936	157,156
Cash and Cash equivalents	316,894	309,551
Total	609,178	729,200

Bakkafrøst has implemented a Group-wide cash management policy with the overall objective of minimizing cash holdings, while ensuring sufficient liquidity to meet business needs, avoid shortage of cash and limit the need for borrowing. The cash management is carried out from the Group's head office.

The Group does not make extensive use of financial derivatives, and in those cases, where it is deemed appropriate to hedge an existing exposure on the financial markets, agreements are entered into with one of the Group's relationship banks.

NOTE 4.2 CATEGORIES AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments

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

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

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

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

For biological assets, the fair value calculation is done using a valuation model (level 3 in the valuation hierarchy), where the value is estimated based on observable market prices per period end. For more information on these calculations, refer to Note 3.6.

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

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

As at December 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)	1,358,462	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
Biological assets (biomass)	1,096,664	909,708	0	0	1,096,664
Assets measured at fair value 31-12-17	1,096,664	909,708	0	0	1,096,664
Liabilities measured at fair value 31-12-17	0	0	0	0	0

NOTE 4.3 EARNINGS PER SHARE

DKK 1,000	2018	2017
Profit for the year to the shareholders of P/F Bakkafrøst	960,292	511,402
Fair value adjustment of biomass (IAS 41)	-195,819	693,540
Onerous contracts provision	0	-67,376
Tax on fair value adjustment	35,247	-112,710
Adjusted profit for the year to shareholders of P/F Bakkafrøst	799,720	1,024,856
Ordinary shares as at 01.01.	48,858,065	48,858,065
Ordinary shares as at 31.12.	48,858,065	48,858,065
Time-weighted average number of shares outstanding through the year	48,645,774	48,609,644
	2018	2017
Earnings per share		
Basic (DKK)	19.74	10.52
Diluted (DKK)	19.74	10.52
Adjusted earnings per share (before fair value adjustments of biomass and provision for onerous contracts (adjusted EPS))		
Basic (DKK)	16.44	21.08
Diluted (DKK)	16.44	21.08

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

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

2017	2018	2019
Total contractual new Hatchery stations	299,510	0
Total contractual other PPE investments	37,960	0
Total	337,470	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 181 million. DKK 109 million relate to the building of new hatchery stations. DKK 57 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	2018	2017
Based on key personnel		
Revenues - Betri Trygging P/F	683	2,804
Purchase - Betri Trygging P/F	7,373	15,204
Accounts payable - Betri Trygging P/F	445	5,329
Revenues - Gist & Vist P/F	772	329
Purchase - Gist & Vist P/F	583	768
Purchase - Frost P/F	4,794	0
Accounts payable - Frost P/F	26	0
Purchase - Vest Pack P/F	9,765	12,557
Accounts payable - Vest Pack P/F	1,188	2047
Based on association		
Revenues - FF Skagen A/S	0	35,049
Purchase - FF Skagen A/S	421	328
Accounts payable - FF Skagen A/S	38	0
Revenues - Pelagos P/F	0	92
Purchase - Pelagos P/F	26,208	36,504
Accounts payable - Pelagos P/F	0	1,860
Revenues - Salmon Proteins P/F	1,937	13,361
Accounts receivables - Salmon Proteins P/F	576	2,253

NOTE 5.3 BUSINESS COMBINATIONS

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 customer 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 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.

2017:

There were no business combinations in 2017.

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, has been recognized in the annual accounts. Events after the date of the statement of financial position, which do not affect the company's financial position on the statement of financial position date, but which will affect the company's future financial position, are disclosed if material. From the date 31-12-2018 until today, no events have occurred, which materially affect the information provided by the accounts.

Identifiable assets assumed:

DKK 1,000

1 July 2018

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

NOTE 5.5 AUDITOR'S FEES

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

DKK 1,000	2018	2017
Statutory auditing	898	950
Tax advisory services	8	75
Other services	175	210
Total auditor's fees	1,081	1,235

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 2018 are based on the assumption that Bakkafrøst is a going concern. In the opinion of the Board, the Group's financial position is good.

NOTE 5.7 ALTERNATIVE PERFORMANCE MEASURES

Bakkafrøst'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. Bakkafrøst'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.

	31.12.18	31.12.17
DKK 1,000		
Cash and cash equivalents	316,894	309,551
Deposit for interest- and currency swap	0	84,630
Derivatives	-320	-127,255
Long- and short-term interest-bearing debt	-812,053	-524,996
Net interest-bearing debt	-495,479	-258,070

Operational EBIT

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

	2018	2017
DKK 1,000		
EBIT	1,184,233	649,104
Fair value adjustments on biological assets	-195,819	693,540
Onerous contracts	0	-67,376
Income from associates	-9,369	-17,302
Revenue tax	95,867	119,681
Operational EBIT	1,074,912	1,377,647

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 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.

DKK 1,000	2018	2017
Profit for the year to the shareholders of P/F Bakkafrost	960,292	511,402
Fair value adjustment of biomass	-195,819	693,540
Onerous contracts provision	0	-67,376
Tax on fair value adjustment	35,247	-112,710
Adjusted profit for the year to shareholders of P/F Bakkafrost	799,720	1,024,856
Time-weighted average number of shares outstanding through the year	48,645,774	48,609,644
Adjusted earnings per share (before fair value adjustments of biomass and provision for onerous contracts (adjusted EPS))	16.44	21.08

Adjusted EPS

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

Financial Statements

P/F BAKKAFROST



P/F BAKKAFROST

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P/F BAKKAFROST

Income Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2018	2017
Operating revenue		116,855	114,914
Salary and personnel expenses	2	-29,793	-27,466
Other operating expenses		-61,044	-61,584
Depreciation	4	-29,066	-19,249
Earnings before interest and taxes (EBIT)		-3,048	6,615
Dividends from subsidiaries	5	1,013,205	1,042,959
Income from other investments in shares	6	9,538	-6
Financial income	3	10,592	20,741
Net interest expenses	3	-10,338	-23,113
Net currency effects	3	-4,838	36,544
Other financial expenses	3	-3,339	-3,644
Earnings before taxes (EBT)		1,011,772	1,080,096
Taxes	8	190	-7,900
Profit to shareholders of P/F Bakkafrøst		1,011,962	1,072,196
Distribution of profit			
Dividends		403,079	513,009
Retained earnings		608,883	559,187
Distribution in total		1,011,962	1,072,196

P/F BAKKAFROST

Statement of Financial Position

AS AT 31 DECEMBER

DKK 1,000	Note	2018	2017
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	358,864	387,251
Plant, machinery and other operating equipment	4	32,868	37,174
Total property plant and equipment		391,732	424,425
Non-current financial assets			
Investments in subsidiaries	5	1,400,671	1,395,671
Investments in stocks and shares	6	1,764	1,741
Total non-current financial assets		1,402,435	1,397,412
TOTAL NON-CURRENT ASSETS		1,795,167	1,822,837
Inventory		16,087	11,390
Total inventory		16,087	11,390
Receivables from Group companies		2,789,791	2,061,618
Accounts receivables		12,257	1,230
Other receivables		14,276	84,630
Total receivables		2,816,324	2,147,478
Cash and cash equivalents		135,168	150,417
TOTAL CURRENT ASSETS		2,967,579	2,309,285
TOTAL ASSETS		4,762,746	4,132,122

DKK 1,000	Note	2018	2017
EQUITY AND LIABILITIES			
Equity			
Share capital	7	48,858	48,858
Other equity		3,898,368	3,405,809
Total equity		3,947,226	3,454,667
Non-current liabilities			
Long-term interest-bearing debt	9	765,564	137,769
Deferred taxes	8	11,347	10,658
Total non-current liabilities		776,911	148,427
Current liabilities			
Derivatives	3.12	320	127,255
Short-term interest-bearing debt	9	0	389,100
Accounts payable		14,623	10,312
Other short-term liabilities		23,666	2,361
Total current liabilities		38,609	529,028
Total liabilities		815,520	677,455
TOTAL EQUITY AND LIABILITIES		4,762,746	4,132,122

P/F BAKKAFROST

Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER

DKK 1,000	Note	2018	2017
Cash flow from operations			
Operating profit (EBIT)		-3,048	6,615
Adjustments for write-downs and depreciation	4	29,066	19,249
Adjustments for net currency effects		-4,838	43,150
Adjustments for share-based payment	2	455	270
Taxes paid	8	292	-1,661
Change in inventory		-4,697	-8,784
Change in receivables		59,327	-14,431
Change in current debts		25,324	-41,957
Cash flow from operations		101,881	2,451
Cash flow from investments			
Increase of share capital in subsidiaries, etc., net	5	-5,000	0
Payments made for purchase of fixed assets	4	3,627	-47,635
Cash flow from investments		-1,373	-47,635
Cash flow from financing			
Changes in interest-bearing debt (short and long)		111,760	-285,573
Financial income		10,592	20,741
Financial expenses		-13,677	-26,757
Financing of associates/subsidiaries		-728,173	-226,157
Acquisition/sale treasury shares		1,229	3,177
Dividend from subsidiaries	5	1,013,205	1,042,959
Dividend paid		-510,693	-422,794
Cash flow from financing		-115,757	105,596
Net change in cash and cash equivalents		-15,249	60,412
Cash and cash equivalents – opening balance		150,417	90,005
Cash and cash equivalents – closing balance total		135,168	150,417

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 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
1 January 2017	48,858	117,368	-21,045	494	-83,196	425,065	2,329,115	2,816,659
Net annual profit	0	0	0	0	0	0	1,078,802	1,078,802
Other comprehensive income:								
Fair value adjustment on financial derivatives	0	0	0	0	-25,800	0	0	-25,800
Income tax effect	0	0	0	0	4,644	0	0	4,644
Total other comprehensive income	0	0	0	0	-21,156	0	0	-21,156
Total comprehensive income	0	0	0	0	-21,156	0	1,078,802	1,057,646
Transaction with owners:								
Treasury shares	0	0	2,886	0	0	0	-2,886	0
Share-based payment	0	0	0	270	0	0	0	270
Dividend treasury shares	0	0	0	0	0	0	2,271	2,271
Proceeds/acquisition treasury shares	0	0	0	0	0	0	2,886	2,886
Paid-out dividends	0	0	0	0	0	-425,065	0	-425,065
Proposed dividends	0	0	0	0	0	513,009	-513,009	0
Total transaction with owners	0	0	2,886	270	0	87,944	-510,738	-419,638
Total changes in equity	0	0	2,886	270	-21,156	87,944	568,064	638,008
31 December 2017	48,858	117,368	-18,159	764	-104,352	513,009	2,897,179	3,454,667

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	2018	2017
Wages and salaries	23,966	22,174
Share-based payments	455	400
Social security taxes	891	853
Pension expenses	1,133	906
Other benefits	3,349	3,133
Total payroll expenses	29,793	27,466
Average number of full-time employees	38	36

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	2018	2017
Interests received from Group companies	8,465	20,010
Other financial income	2,127	731
Financial income	10,592	20,741
Interest expenses on long- and short-term loans	-10,334	-23,052
Interest expenses on accounts payable	-4	-61
Financial expenses	-10,338	-23,113
Exchange gain on bond	-10,850	30,800
Other exchange differences	6,012	5,744
Net currency effects	-4,838	36,544
Other financial expenses	-3,338	-3,644
Other financial items	-3,338	-3,644
Net financial items	-7,922	30,528

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

DKK 1,000	Land and buildings	Other equipment	Total
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
Acquisition cost as at 01.01.17	376,385	45,962	422,347
Acquisitions during the year	44,075	3,560	47,635
Acquisition cost as at 31.12.17	420,460	49,522	469,982
Accumulated depreciation and write-down as at 01.01.17	-19,858	-6,450	-26,308
Depreciations during the year	-13,351	-5,898	-19,249
Accumulated depreciation and write-down as at 31.12.17	-33,209	-12,348	-45,557
Net book value as at 31.12.17	387,251	37,174	424,425

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	2018	2017
Acquisition cost as at 01.01.	1,398,437	1,398,437
Additions during the year	5,000	0
Acquisition cost as at 31.12.	1,403,437	1,398,437
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.	1,400,671	1,395,671

DKK 1,000 Company	Cost Method Yes/No	Head Office	Ownership	Voting share	Carrying amount in P/F Bakkafrøst 2018	Carrying amount in P/F Bakkafrøst 2017
P/F Bakkafrøst Processing	Yes	Glyvvar	100%	100%	158,591	158,591
P/F Bakkafrøst Sales	Yes	Glyvvar	100%	100%	879	879
P/F Bakkafrøst Packaging	Yes	Glyvvar	100%	100%	7,781	7,781
P/F Bakkafrøst 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
P/F Förka	Yes	Glyvvar	100%	100%	5,000	0
Total subsidiaries					1,400,671	1,395,671

DKK 1,000	Dividends*	Excess dividends on result	Result 2018	Result 2017
P/F Bakkafrøst Farming	719,577	-233,116	486,461	675,735
P/F Bakkafrøst Sales	109,247	56,343	165,590	109,246
P/F Bakkafrøst Packaging	7,751	-576	7,175	7,749
P/F Bakkafrøst Processing	0	-44,595	-44,595	-29,101
P/F Havsbrún	176,630	14,474	191,104	193,782
Bakkafrøst UK Ltd.	0	6,842	6,842	5,573
P/F Förka	0	8	8	0
Total revenue Group contribution	1,013,205	-200,620	812,585	962,984

* Dividends from subsidiaries paid out in 2018

P/F Bakkafrøst and subsidiaries, the Group, owns a total of 78.7% in P/F Salmon Proteins, which is an associated company on the Group level due to restrictions in exercising majority-voting rights. P/F Bakkafrøst owns 14.2% in P/F Salmon Proteins and is included in the item Investment in stocks and shares.

NOTE 6. INVESTMENTS IN STOCKS AND SHARES

DKK 1,000	2018	2017
Acquisition cost as at 01.01.	183	183
Acquisition cost as at 31.12.	183	183
Re-evaluations as at 01.01.	1,558	1,564
Re-evaluations during the year	23	-6
Re-evaluations as at 31.12.	1,581	1,558
Net book value as at 31.12.	1,764	1,741

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	2018	2017
Share capital at 31.12.	48,858	48,858
Share capital at 31.12.	48,858	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 2018, see Group Accounts.

NOTE 8. TAX**The tax expense for the year breaks down as follows:**

DKK 1,000	2018	2017
Tax payable	-21,970	292
Change in deferred tax	22,160	-8,192
Tax expense on ordinary profit	190	-7,900
Tax in the statement of financial position		
Deferred tax	11,347	10,658
Tax in the statement of financial position	11,347	10,658
Specification of temporary differences		
Property, plant and equipment	63,360	59,721
Swaps	-320	-127,255
Currency effects	0	126,750
Total temporary differences	63,040	59,216
Deferred tax liabilities (+) / assets (-)	11,347	10,658
Reconciliation from nominal to actual tax rate		
Profit before tax	1,011,772	1,080,096
Expected tax at nominal tax rate (18%)	-182,119	-194,417
Permanent differences, including Group contribution without tax effect (18%)	182,377	187,733
Calculated tax expense	258	-6,685
Effective tax rate	0.03%	-0.62%

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	2018	2017
Long-term debt to financial institutions	765,564	137,769
Short-term debt to financial institutions	0	389,100
Total	765,564	526,869

Carrying amount of assets pledged as security for recognized debt:

Property, plant and equipment	391,732	424,425
Non-current financial assets	1,402,435	1,397,406
Receivables	2,816,324	2,147,478
Total	4,610,491	3,969,309

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 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 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 19.7 million (2017: DKK 13.8 million), allocation of administration etc. DKK 64.9 million (2017: DKK 67.5 million), financial incomes of DKK 8.5 million (2017: DKK 20.0 million) and financial expenses amounting to DKK 0.0 million (2017: DKK 0.0 million). The principle of arm's length is used in all transactions with related parties.

APPENDIX

Quarterly financial figures 2016-2018

DKK 1,000	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Operating revenue	904,550	789,690	639,999	868,447	853,681	1,206,148	804,150	906,070	851,156	954,316	621,602	750,348
Purchase of goods	-306,427	-243,112	-159,521	-211,088	-273,978	-240,697	-159,166	-210,030	-289,145	-254,324	-177,389	-332,721
Change in inventory and biological assets (at cost)	-70,320	39,083	53,180	36,931	82,501	-137,750	-72,885	-13,272	31,393	6,770	7,117	154,416
Salary and personnel expenses	-72,555	-83,542	-73,632	-98,096	-95,433	-112,729	-85,361	-106,744	-91,183	-87,115	-71,940	-103,518
Other operating expenses	-173,461	-165,935	-173,046	-202,931	-189,700	-210,361	-184,755	-198,452	-188,224	-163,172	-158,008	-186,569
Depreciation	-28,217	-29,092	-32,311	-43,641	-41,617	-45,454	-50,187	-46,332	-45,775	-48,582	-53,094	-51,447
Operational EBIT	253,570	307,092	254,669	349,622	335,454	459,157	251,796	331,240	268,222	407,893	168,288	230,509
Fair value adjustments on biological assets	107,646	-29,379	121,802	408,126	-234,577	54,853	-155,122	-358,694	107,131	34,777	293,459	-239,548
Onerous contracts	-59,959	22,778	86,411	-65,602	30,132	25,087	12,157	0	0	-6,109	-10,968	17,076
Income from associates	3,087	6,665	-4,689	9,758	2,252	-2,312	-1,037	18,399	2,419	-1,695	-2,459	11,104
Revenue tax	-22,575	-29,520	-23,370	-32,985	-30,212	-45,468	-23,712	-20,289	-26,327	-31,411	-14,092	-24,036
Badwill	0	0	10,440	0	0	0	0	0	0	0	0	0
Earnings before interest and taxes (EBIT)	281,769	277,636	445,263	668,919	103,049	491,317	84,082	-29,344	351,445	403,455	434,228	-4,895
Net interest revenue	553	616	214	141	190	364	456	385	1,001	621	467	562
Net interest expenses	-6,380	-6,609	-6,507	-6,487	-7,198	-6,349	-6,814	-6,004	-4,925	-3,019	-2,271	-2,262
Net currency effects	-14,490	1,163	-13,987	14,959	1,841	2,277	-8,728	9,260	-13,159	12,347	1,938	293
Other financial expenses	-1,066	-1,045	-1,022	-1,026	-1,162	-1,165	-1,035	-1,538	-1,627	-815	-799	-519
Earnings before taxes (EBT)	260,386	271,761	423,961	676,506	96,720	486,444	67,961	-27,241	332,735	412,589	433,563	-6,821
Taxes	-47,074	-48,001	-77,611	-121,041	-17,690	-88,378	-11,746	5,332	-60,434	-73,833	-77,708	201
Profit or loss for the period	213,312	223,760	346,350	555,465	79,030	398,066	56,215	-21,909	272,301	338,756	355,855	-6,620
Earnings per share (DKK)	4.39	4.61	7.13	11.44	1.63	8.19	1.16	-0.45	5.60	6.96	7.32	-0.14
Diluted earnings per share (DKK)	4.39	4.61	7.13	11.44	1.63	8.19	1.16	-0.45	5.60	6.96	7.32	-0.14

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
	2016	2016	2016	2016	2017	2017	2017	2017	2018	2018	2018	2018
ASSETS												
Non-current assets												
Intangible assets	294,675	294,675	376,675	376,675	376,675	376,675	376,675	376,675	376,675	376,675	388,934	389,745
Property, plant and equipment	1,622,469	1,792,855	1,971,356	2,118,470	2,256,205	2,380,348	2,447,998	2,570,430	2,636,126	2,714,633	2,788,753	2,884,325
Financial assets	130,793	136,134	49,405	59,407	61,652	59,340	58,303	76,702	79,121	79,310	101,864	112,766
Long-term receivables	0	0	0	12,660	0	0	0	0	9,200	9,200	9,200	9,200
Total non-current assets	2,047,937	2,223,664	2,397,436	2,567,212	2,694,532	2,816,363	2,882,976	3,023,807	3,101,122	3,179,818	3,288,751	3,396,036
Current assets												
Biological assets (biomass)	1,129,744	1,036,553	1,412,544	1,858,435	1,645,053	1,543,687	1,416,990	1,096,664	1,114,678	1,107,275	1,562,940	1,358,462
Inventory	370,759	485,187	378,493	355,604	422,203	459,955	352,858	305,845	428,639	478,872	330,851	438,847
Total inventory	1,500,503	1,521,740	1,791,037	2,214,039	2,067,256	2,003,642	1,769,848	1,402,509	1,543,317	1,586,147	1,893,791	1,797,309
Accounts receivables	240,594	240,698	222,895	292,009	253,487	325,358	333,423	262,493	244,231	352,437	247,657	269,348
Other receivables	114,642	182,900	88,312	109,860	108,860	134,364	31,845	157,156	75,008	67,591	54,365	22,936
Total receivables	355,236	423,598	311,207	401,869	362,347	459,722	365,268	419,649	319,239	420,028	302,022	292,284
Cash and cash equivalents	320,624	173,730	240,856	234,996	499,174	353,349	347,394	309,551	668,361	284,329	306,167	316,894
Total current assets	2,176,363	2,119,068	2,343,100	2,850,904	2,928,777	2,816,713	2,482,510	2,131,709	2,530,917	2,290,504	2,501,980	2,406,487
TOTAL ASSETS	4,224,300	4,342,732	4,740,536	5,418,116	5,623,309	5,633,076	5,365,486	5,155,516	5,632,039	5,470,322	5,790,731	5,802,523

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
	2016	2016	2016	2016	2017	2017	2017	2017	2018	2018	2018	2018
EQUITY AND LIABILITIES												
Equity												
Share capital	48,858	48,858	48,858	48,858	48,858	48,858	48,858	48,858	48,858	48,858	48,858	48,858
Other equity	2,752,840	2,585,138	2,948,297	3,500,177	3,578,804	3,549,785	3,612,988	3,577,571	3,842,919	3,676,540	4,033,116	4,028,171
Total equity	2,801,698	2,633,996	2,997,155	3,549,035	3,627,662	3,598,643	3,661,846	3,626,429	3,891,777	3,725,398	4,081,974	4,077,029
Non-current liabilities												
Deferred and other taxes	398,242	445,033	567,992	545,699	562,299	647,842	660,664	455,449	538,840	613,025	690,629	534,430
Long-term interest-bearing debt	492,697	736,572	708,084	827,146	507,096	476,566	256,475	146,696	770,383	727,474	591,956	812,053
Financial derivatives	119,780	114,425	94,222	101,456	0	0	0	0	0	0	0	0
Total non-current liabilities	1,010,719	1,296,030	1,370,298	1,474,301	1,069,395	1,124,408	917,139	602,145	1,309,223	1,340,678	1,282,585	1,346,483
Current liabilities												
Financial derivatives	0	0	0	0	104,899	117,858	110,798	127,255	0	0	630	320
Short-term interest-bearing debt	0	0	0	0	405,650	388,500	395,350	378,300	0	0	0	0
Accounts payable and other debt	411,883	412,706	373,083	394,780	415,703	403,667	280,353	421,387	431,039	404,246	425,542	378,691
Total current liabilities	411,883	412,706	373,083	394,780	926,252	910,025	786,501	926,942	431,039	404,246	426,172	379,011
Total liabilities	1,422,602	1,708,736	1,743,381	1,869,081	1,995,647	2,034,433	1,703,640	1,529,087	1,740,262	1,744,924	1,708,757	1,725,494
TOTAL EQUITY AND LIABILITIES	4,224,300	4,342,732	4,740,536	5,418,116	5,623,309	5,633,076	5,365,486	5,155,516	5,632,039	5,470,322	5,790,731	5,802,523

Market Announcements Published in 2018

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

Q1 2018

3 January 2018: Q4 2017 Trading Update
25 January 2018: Refinancing
20 February 2018: Q4 Interim Results and Full Year 2017
20 February 2018: Key Information Regarding Cash Dividend for Bakkafrost
19 March 2018: Financial Calendar 2018 - Amendment
19 March 2018: Annual Report 2017 and Sustainability Report 2017
19 March 2018: Notice to the Annual General Meeting

Q2 2018

3 April 2018: Q1 2018 Trading Update
13 April 2018: Protocol from Annual General Meeting
16 April 2018: Ex Dividend DKK 10.50
16 April 2018: Payment of Dividend in NOK on 30 April 2018
7 May 2018: Q1 2018 Interim Results

Q3 2018

3 July 2018: Q2 2018 Trading Update
21 August 2018: Q2 2018 Interim Results
23 September 2018: High Mortality at Farming Site A-81 Kolbanagiógv
28 September 2018: Financial Calendar 2019

Q4 2018

2 October 2018: Q3 2018 Trading Update
6 November 2018: Q3 2018 Interim Results
16 November 2018: Temporary Closure of FO-125 Glyvvar to Export to Russia
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 Bakkafrost
22 February 2019: Aut. no. FO 125 Glyvvar Open for Export to Russia

All market announcements are available on www.bakkafrost.com and www.newsweb.no.

Financial Calendar for 2019

■ 5 April 2019	Annual General Meeting
■ 6 May 2019	Presentation of Q1 2019
■ 12 June 2019	Capital Markets Day 2019
■ 20 August 2019	Presentation of Q2 2019
■ 5 November 2019	Presentation of Q3 2019

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

Annual General Meeting will take place at Bakkavegur 9, Glyvrar, Faroe Islands.
Please note that the financial calendar is subject to change.

Any changes will be announced via Oslo Børs, and the Group's website, www.bakkafrost.com, 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

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

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
