
INTERIM REPORT

Q3 2019



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Highlights

DKK 1,000	Q3 2019	Q3 2018	YTD 2019	YTD 2018
INCOME STATEMENT				
Group - Operating revenue	996,050	621,602	2,906,265	2,427,074
Group - Operational EBIT*	303,381	168,288	909,849	844,403
Group - EBIT	220,581	434,228	717,898	1,189,128
Group - Profit for the period	180,935	355,855	582,373	966,912
Operational EBIT* (Farming and VAP) (DKK)	257,348	142,388	791,819	735,505
Operational EBIT/kg (Farming and VAP) (DKK)	19.89	19.73	20.17	22.73
Operational EBIT/kg (Farming and VAP) (NOK)	26.25	25.34	26.39	29.25
Farming - Operating revenue	693,251	445,077	2,207,266	1,886,515
Farming - Operational EBIT*	231,498	139,628	764,680	761,259
Farming - Operational EBIT margin	33.4%	31.4%	34.6%	40.4%
Farming - Operational EBIT/kg (DKK)	17.89	19.35	19.48	23.53
Farming - Operational EBIT/kg (NOK)	23.61	24.85	25.49	30.28
VAP - Operating revenue	217,458	69,225	715,584	255,837
VAP - Operational EBIT*	25,850	2,760	27,139	-25,754
VAP - Operational EBIT margin	11.9%	4.0%	3.8%	-10.1%
VAP - Operational EBIT/kg (DKK)	7.00	1.94	2.18	-4.67
VAP - Operational EBIT/kg (NOK)	9.23	2.49	2.85	-6.01
FOF - Operating revenue	483,627	354,225	1,050,485	980,875
FOF - EBITDA	94,463	41,394	218,097	193,874
FOF - EBITDA margin	19.5%	11.7%	20.8%	19.8%
DKK/NOK (average)	75.78	77.85	76.43	77.71

DKK 1,000	Q3 2019	Q3 2018	YTD 2019	YTD 2018
FINANCIAL POSITION AND CASH FLOW				
Total Assets***	8,910,714	5,802,523	8,910,714	5,802,523
Equity***	6,038,049	4,077,029	6,038,049	4,077,029
Equity ratio***	68%	70%	68%	70%
Net interest-bearing debt***	-1,271,481	495,479	-1,271,481	495,479
Cash flow from operations	779,169	324,216	1,182,487	971,858
Cash flow from financing	2,053,216	-137,892	1,918,662	-591,313
PROFITABILITY				
Basic earnings per share (DKK)	3.67	7.32	11.82	19.88
Diluted earnings per share (DKK)	3.67	7.32	11.82	19.88
ROCE**	4.3%	3.2%	13.5%	17.0%
VOLUMES				
Harvested volumes (tgw)	12,938	7,217	39,254	32,356
VAP produced volumes (tgw)	3,694	1,425	12,471	5,510
Sold feed tonnes	33,874	23,468	69,010	53,064
Internal feed sales tonnes	26,156	20,783	55,805	48,591
Smolt released thousand (pcs)	2,365	3,316	7,665	9,225

* Aligned for fair value adjustment of biomass, onerous contracts provisions, income from associates and revenue tax - refer to Note 10

** Return on average capital employed, based on operational EBIT - refer to Note 10

*** Comparing figures from end 2018

Summary of the 3rd Quarter 2019 and the First Nine Months of 2019

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

The Bakkafrost Group delivered a total operating EBIT of DKK 303.4 million in Q3 2019. Harvested volumes were 12.9 thousand tonnes gutted weight. The combined farming and VAP segments made an operational EBIT of DKK 257.3 million. The farming segment made an operational EBIT of DKK 231.5 million. Achieved prices in this quarter decreased and thus had a negative effect on the operational EBIT. The VAP segment made an operational EBIT of DKK 25.9 million. The EBITDA for the FOF segment was DKK 94.5 million.

The Group made a profit for Q3 2019 of DKK 180.9 million (DKK 355.9 million). For the first nine months of 2019, the profit was DKK 582.4 million (DKK 966.9 million).

The total volumes harvested in Q3 2019 were 12,938 tonnes gutted weight (7,217 tgw). Total harvested volumes in the first nine months of 2019 were 39,254 tonnes gutted weight (32,356 tgw).

2.4 million (3.3 million) smolts were transferred during Q3 2019. During the first nine months of 2019, 7.7 million (9.2 million) smolts were transferred.

The combined farming and VAP segments made an operational EBIT of DKK 257.3 million (DKK 142.4 million) in Q3 2019. The operational EBIT per kg in Q3 2019 was DKK 19.89 (DKK 19.73), which corresponds to NOK 26.25 (NOK 25.34) for the combined farming

and VAP segments. For the first nine months of 2019, the combined farming and VAP segments made an operational EBIT of DKK 791.8 million (DKK 735.5 million).

The farming segment made an operational EBIT of DKK 231.5 million (DKK 139.6 million) in Q3 2019. The harvested volumes were higher, but the achieved prices were lower in Q3 2019, compared to Q3 2018. For the first nine months of 2019, the operational EBIT was DKK 764.7 million (DKK 761.3 million).

The VAP segment made an operational EBIT of DKK 25.9 million (DKK 2.8 million) for Q3 2019. For the first nine months of 2019, the operational EBIT was DKK 27.1 million (DKK -25.8 million).

The FOF segment (fishmeal, oil and feed) made an EBITDA of DKK 94.5 million (DKK 41.4 million) for Q3 2019, and the EBITDA margin was 19.5% (11.7%). The EBITDA was DKK 218.1 million for the first nine months of 2019 (DKK 193.9 million), corresponding to an EBITDA margin of 20.8% (19.8%).

During Q3 2019, Havsbrún sourced 17,845 tonnes (7,496 tonnes) of raw material, and for the first nine months of 2019, Havsbrún sourced 243,484 tonnes (255,987 tonnes) of raw material.

The net interest-bearing debt amounted to DKK -1,271.5 million, and thus positive, at the end of Q3

2019 (DKK 495.5 million at year-end 2018). Undrawn credit facilities amounted to DKK 1,481.0 million at the end of Q3 2019.

The equity ratio was 68% at 30 September 2019, compared to 70% at the end of 2018.

On 25 September 2019, Bakkafrost signed a Share Purchase Agreement to acquire 68.6% of the outstanding shares in the Scottish Salmon Company (SSC) from Northern Link Ltd. The closing date is 8 October 2019.

SSC is a fully integrated salmon farming business operating exclusively in Scotland with 60 sites across the West Coast and Hebridean Islands. The company is engaged in nearly all stages of the value chain ensuring full traceability and total supply chain integrity. The current annual production capacity is 50,000 tonnes. SSC produced 29,913 tonnes gutted weight in 2018 and exported to 26 countries with a focus on North America and the Far East. SSC has developed a range of strong flagship brands, including Native Hebridean Salmon, Tartan Salmon Label Rouge and Lochlander Salmon. The company has over 600 employees.

Bakkafrost has chosen to increase the company's share capital for the acquisition of SSC. The acquisition is therefore carried out without substantial increase in Bakkafrost's external financing.

Financial Review

Income Statement

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

The operating revenue amounted to DKK 996.1 million (DKK 621.6 million) in Q3 2019, and for the first nine months of 2019, the operating revenue amounted to DKK 2,906.3 million (DKK 2,427.1 million).

The farming segment's harvest volumes were higher, but the achieved prices were lower in Q3 2019, compared to the same quarter last year. The VAP segment had higher revenues because of higher volumes in Q3 2019, compared to Q3 2018. The FOF segment had higher external revenue in Q3 2019, mainly due to higher external sales of fishmeal, compared to Q3 2018.

Operational EBIT was DKK 303.4 million (DKK 168.3 million) in Q3 2019. The combined farming and VAP segments had higher operational EBIT in Q3 2019, compared to Q3 2018, and the FOF segment had higher operational EBIT in Q3 2019, compared to Q3 2018. For the first nine months of 2019, the operational EBIT was DKK 909.8 million (DKK 844.4 million).

The fair value adjustment of the Group's biological assets amounted to DKK -69.8 million (DKK 293.5 million) in Q3 2019. The adjustment is due to lower forward market prices for salmon at the end of the quarter, compared to the beginning of the quarter. For the first nine months of 2019, the fair value adjustment amounted to DKK -117.5 million (DKK 435.4 million).

Change in provisions for onerous contracts amounted to DKK 0 million (DKK -11.0 million) in Q3 2019. For the first nine months of 2019, the change in provisions for onerous contracts amounted to DKK 0.0 million (DKK -17.1 million).

In Q3 2019, the profit from associated companies amounted to DKK 7.6 million (DKK -2.5 million). For the first nine months of 2019, the profit from associated companies amounted to DKK 10.2 million (DKK -1.7 million).

The revenue tax amounted to DKK -20.6 million (DKK -14.1 million) in Q3 2019. The revenue tax increased marginally because of higher volumes. For the first nine months of 2019, the revenue tax was DKK -84.6 million (DKK -71.8 million). From the 1st of January 2019, the revenue tax rate increased from 4.5% to 5.0%.

Net interests in Q3 2019 were DKK 2.1 million (DKK -0.7 million). For the first nine months of 2019, net interests were DKK -6.8 million (DKK -10.2 million).

Net taxes amounted to DKK -41.7 million (DKK -77.7 million) in Q3 2019. For the first nine months of 2019, net taxes amounted to DKK -128.8 million (DKK -212.0 million).

The result for Q3 2019 was DKK 180.9 million (DKK 355.9 million) and for the first nine months of 2019, the result was DKK 582.4 million (DKK 966.9 million).

Statement of Financial Position

(Figures in parenthesis refer to end last year)

The Group's total assets amounted to DKK 8,910.7 million (DKK 5,802.5 million) at the end of Q3 2019.

Intangible assets amounted to 390.5 (DKK 389.7 million) at the end of Q3 2019.

Property, plant and equipment amounted to DKK 3,215.7 million (DKK 2,884.3 million) at the end of Q3 2019. In Q3 2019, Bakkafrøst made investments in PP&E amounting to DKK 172.6 million.

Non-current financial assets amounted to DKK 494.0 million (DKK 112.8 million) at the end of Q3 2019. After the agreement to acquire 68.6% of SSC, with closing on 8 October 2019, Bakkafrøst got an offer to acquire an additional 9.2% of SSC. Bakkafrøst accepted the offer which was closed before the end of Q3 and amounted to DKK 381 million.

The carrying amount (fair value) of biological assets amounted to DKK 1,268.9 million (DKK 1,358.5 million) at the end of Q3 2019. Biological assets have mainly decreased due to lower forward prices and thus lower fair value adjustment, compared to year end 2018. Included in the carrying amount of the biological assets is a fair value adjustment amounting to DKK 265.3 million (DKK 382.8 million) at the end of Q3 of 2019.

Inventories amounted to DKK 534.1 million (DKK 438.8 million) at the end of Q3 2019.

Total receivables, including long-term receivables, amounted to DKK 395.4 million (DKK 301.5 million) at the end of Q3 2019.

The Group's equity amounted to DKK 6,038.0 million (DKK 4,077.0 million) at the end of Q3 2019. The change in equity consists primarily of the positive result for Q3 2019, paid-out dividend and the emission of DKK 1,716.8 million.

Total non-current liabilities amounted to DKK 2,083.8 million (DKK 1,346.5 million) at the end of Q3 2019.

Deferred taxes and other taxes amounted to DKK 672.6 million (DKK 534.4 million) at the end of Q3 2019.

Long-term debt was DKK 1,340.1 million (DKK 812.1 million) at the end of Q3 2019.

At the end of Q3 2019, the Group's total current liabilities were DKK 788.3 million (DKK 379.0 million). The current liabilities consist of accounts payable and tax payable.

Derivatives amounted to DKK -0.6 million (DKK 0.3 million) at the end of Q3 2019.

Short-term interest-bearing debt amounted to DKK 0.0 million (DKK 0.0 million) at the end of Q3 2019.

The equity ratio was 68% at the end of Q3 2019, compared with 70% at the end of 2018.

Cash Flow

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

The cash flow from operations was DKK 779.2 million (DKK 324.2 million) in Q3 2019. The changes in working capital had a positive effect on the cash flow from operations. For the first nine months of 2019, the cash flow from operations was DKK 1,182.5 million (DKK 971.9 million).

The cash flow from investment activities amounted to DKK -543.5 million (DKK -164.5 million) in Q3 2019. The amount relates to investments in property, plant and equipment and investment in financial assets. For the first nine months of 2019, the cash flow from investments amounted to DKK -806.5 million (DKK -383.9 million).

The cash flow from financing activities totalled DKK 2,053.2 million (DKK -137.9 million) in Q3 2019. For the first nine months of 2019, cash flow from financing amounted to DKK 1,918.7 million (DKK -591.3 million). The amount is much affected by the share capital increase amounting to DKK 1,716.8 million.

In Q3 2019, net change in cash flow amounted to DKK 2,288.9 million (DKK 21.8 million). For the first nine months of 2019, net change in cash flow amounted to DKK 2,294.7 million (DKK -3.4 million).

At the end of Q3 2019, Bakkafrøst had unused credit facilities of DKK 1,481.0 million (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 in the Faroe Islands.

Volumes

The total volumes harvested in Q3 2019 were 12,938 tonnes gutted weight (7,217 tgw) - a change in volume of 79%. 3,651 tgw came from the North region and 9,287 tgw from the West region. Total harvested volumes for the first nine months of 2019 were 39,254 tonnes gutted weight (32,356 tgw), which is in line with the forecast for 2019.

2.4 million (3.3 million) smolts were transferred in Q3 2019. For the first nine months of 2019, 7.7 million (9.2 million) smolts were transferred. This is in line with the smolt transfer plan.

Financial Performance

In Q3 2019, the operating revenue for Bakkafrost's farming segment was DKK 693.3 million (DKK 445.1 million). The total revenue for the farming segment increased in Q3 2019, compared with Q3 2018, mainly because of higher volumes, but was also affected by lower prices. The operating revenue for the farming segment for the first nine months of 2019 was DKK 2,207.3 million (DKK 1,886.5 million).

DKK 1,000	Q3 2019	Q3 2018	Change	YTD 2019	YTD 2018	Change
Financial						
Total revenue	693,251	445,077	56%	2,207,266	1,886,515	17%
EBIT	144,636	418,995	-65%	568,667	1,124,796	-49%
Operational EBIT	231,498	139,628	66%	764,680	761,259	0%
Farming - Operational EBIT/kg (DKK)	17.89	19.35	-8%	19.48	23.53	-17%
Volumes						
Harvested volumes (tgw)	12,938	7,217	79%	39,254	32,356	21%
- Farming North	3,651	6,254	-42%	18,252	21,892	-17%
- Farming West	9,287	963	864%	21,002	10,464	101%
Smolts released (thousand)	2,365	3,316	-29%	7,665	9,225	-17%
- Farming North	131	358	-63%	2,941	620	374%
- Farming West	2,234	2,958	-24%	4,724	8,605	-45%

In Q3 2019, the farming segment's EBIT amounted to DKK 144.6 million (DKK 419.0 million). The farming segment's EBIT for the first nine months of 2019 was DKK 568.7 million (DKK 1,124.8 million).

Operational EBIT amounted to DKK 231.5 million (DKK 139.6 million) in Q3 2019, which corresponds to an operational EBIT margin of 33% (31%). For the first nine months of 2019, operational EBIT was DKK 764.7 million (DKK 761.3 million).

Operational EBIT/kg for the farming segment was DKK 17.89 (NOK 23.61) in Q3 2019, compared with DKK 19.35 (NOK 24.85) in Q3 2018. Operational EBIT/kg for the first nine months of 2019 was DKK 19.48 (NOK 25.49), compared with DKK 23.53 (NOK 30.28) for the first nine months of 2018.

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 fixed price contracts.

Volumes

29% (20%) of the total harvested volumes in Q3 2019 went to the production of VAP products, and 32% (17%) of the harvested volumes for the first nine months of 2019 went to production of VAP products.

The VAP production in Q3 2019 was 3,694 tonnes gutted weight (1,425 tgw) an increase of 159%, compared to Q3 2018. The volumes were higher, and the segment had higher contract coverage in Q3 2019, compared to Q3 2018. For the first nine months of 2019, the VAP production was 12,471 tgw (5,510 tgw).

DKK 1,000	Q3 2019	Q3 2018	Change	YTD 2019	YTD 2018	Change
Financial						
Total revenue	217,458	69,225	214%	715,584	255,837	180%
EBIT	25,850	-8,202	n/a	27,139	-42,825	n/a
Operational EBIT	25,850	2,760	837%	27,139	-25,754	n/a
VAP - Operational EBIT/kg (DKK)	7.00	1.94	261%	2.18	-4.67	n/a
Volumes						
VAP produced volumes (tgw)	3,694	1,425	159%	12,471	5,510	126%
Harvested volumes used in VAP production	29%	20%	45%	32%	17%	88%
Harvested volumes sold fresh/frozen	71%	80%	-11%	68%	83%	-18%

Financial Performance

The operating revenue for the VAP segment amounted to DKK 217.5 million (DKK 69.2 million) in Q3 2019. The increase in revenue is due to higher volumes in Q3 2019, compared with Q3 2018. For the first nine months of 2019, the VAP revenue was DKK 715.6 million (DKK 255.8 million).

The VAP segment had an EBIT amounting to DKK 25.9 million (DKK -8.2 million) in Q3 2019. Changes in onerous contracts were DKK 0.0 million (DKK -11.0 million). In the first nine months of 2019, the VAP segment's EBIT amounted to DKK 27.1 million (DKK -42.8 million).

Operational EBIT amounted to DKK 25.9 million (DKK 2.8 million) in Q3 2019, corresponding to an operational EBIT of DKK 7.00 (NOK 9.23) per kg gutted weight in Q3 2019, compared with DKK 1.94 (NOK 2.49) per kg gutted weight in Q3 2018.

For the first nine months of 2019, operational EBIT amounted to DKK 27.1 million (DKK -25.8 million), corresponding to an operational EBIT of DKK 2.18 (NOK 2.85) per kg, compared with an operational EBIT of DKK -4.67 (NOK -6.01) in the first nine months of 2018.

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, used internally in the farming segment. The quality of the fish feed is important to the quality of the salmon from Bakkafrost. Fishmeal, fish oil and fish feed are also sold externally.

Volumes

Havsbrún received 17,845 tonnes (7,496 tonnes) of raw material to produce fishmeal and fish oil in Q3 2019. The raw material intake depends on the fishery in the North Atlantic and available species of fish. In the first nine months of 2019, Havsbrún received 243,484 tonnes (255,987 tonnes) of raw material.

The production of fishmeal in Q3 2019 was 4,811 tonnes (2,634 tonnes). In the first nine months of 2019, Havsbrún produced 52,570 tonnes (54,340 tonnes) of fishmeal.

The production of fish oil in Q3 2019 was 1,945 tonnes (1,201 tonnes). The production of fish oil varies, depending on the species of fish sourced for production and the timing of catch. For the first nine months of 2019, Havsbrún produced 6,718 tonnes (6,370 tonnes) of fish oil.

Sales of feed amounted to 33,874 tonnes (23,468 tonnes) in Q3 2019, of which the farming segment internally used 26,156 tonnes (20,783 tonnes) or 77% (89%). For the first nine months of 2019, Havsbrún sold 69,010 tonnes (53,064 tonnes) of feed.

Financial Performance

The operating revenue for the FOF segment amounted to DKK 483.6 million (DKK 354.2 million) in Q3 2019, of which DKK 270.3 million (DKK 197.5 million) represented sales to Bakkafrost's farming segment, corresponding to 56% (56%). For the first nine months of 2019, the revenue amounted to DKK 1,050.5 million (DKK 980.9 million) of which DKK 568.6 million (DKK 468.4 million) represented sales to Bakkafrost's farming segment, corresponding to 54% (48%).

DKK 1,000	Q3 2019	Q3 2018	Change	YTD 2019	YTD 2018	Change
Financial						
Total revenue	483,627	354,225	37%	1,050,485	980,875	7%
EBIT	91,357	31,460	190%	200,686	170,137	18%
EBITDA	94,463	41,394	128%	218,097	193,874	12%
FOF - EBITDA margin	19.5%	11.7%	67%	20.8%	19.8%	5%
Volumes (tonnes)						
Total Feed sold	33,874	23,468	44%	69,010	53,064	30%
- Feed internal sale	26,156	20,783	26%	55,805	48,591	15%
- Feed external sale	7,718	2,685	187%	13,205	4,473	195%
Fishmeal external sale	10,288	11,648	-12%	27,646	39,453	-30%
Fish oil external sale	9	1,211	-99%	10	3,219	-100%
Received raw material	17,845	7,496	138%	243,484	255,987	-5%

Total revenue for the FOF segment in Q3 2019 increased 37%, compared to the same quarter last year. The internal revenue increased, but also the external sales have increased significantly. The increase in external revenue is due to higher volumes of feed sold in Q3 2019, compared to Q3 2018.

EBITDA was DKK 94.5 million (DKK 41.4 million) in Q3 2019, and the EBITDA margin was 19.5% (11.7%). Havsbrún sources raw pelagic fish for the fishmeal and fish oil production, which are part of the recipe to produce salmon feed. For the first nine months of 2019, the EBITDA was DKK 218.1 million (DKK 193.9 million), corresponding to an EBITDA margin of 20.8% (19.8%).

Outlook

Market

The global supply of Atlantic salmon in Q3 2019 increased around 13%, compared to Q3 2018, according to the latest estimate from Kontali Analyse.

The global harvest of Atlantic salmon in Q4 2019 is expected to increase around 3%, compared to Q4 2018. The estimated global harvest of Atlantic salmon for 2019 is an increase of around 7%, compared to 2018. In 2020, the global supply of salmon is expected to increase 4%, compared to 2019.

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.

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.

The biological performance in 2019 has been strong with good growth and low mortality rates. There are clear signs that the large smolt and non-medical delousing strategies are working successfully.

Bakkafrost's guidance for harvest in 2019 is 54,500 tonnes gutted weight. In 2020, Bakkafrost expects to harvest 57,000 tonnes gutted weight, excluding the harvest from The Scottish Salmon Company.

Bakkafrost expects to release 12.7 million smolts in 2019, compared to 12.6 million smolts in 2018 and 9.9 million smolts in 2017. This is 0.8 million smolts less than previously expected and is caused by the decision to postpone the release of 0.8 million smolts to Q1 2020 hereby reducing the risk associated with releasing smolt during the coldest weeks of the year. This is made possible by the increased smolt capacity on land from the Strond hatchery. Bakkafrost expects to release 15.0 million smolts in 2020, excluding the smolt release in The Scottish Salmon Company. The number of smolts released is a key element of predicting Bakkafrost's future production.

VAP (Value added products)

Bakkafrost has signed contracts covering around 40% for the expected harvested volumes in Q4 2019 and 26% for the harvest volume of 2020. 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. The ICES 2020 recommendation for blue whiting is 1,162 thousand tonnes.

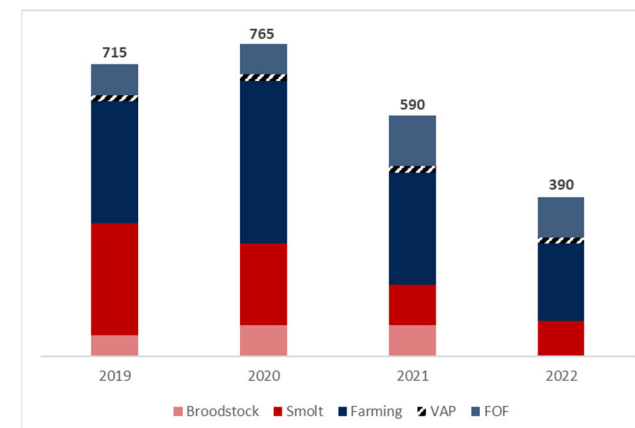
Bakkafrost expects a decrease in production volumes of fishmeal and fish oil in 2019, compared to 2018.

Havsbrún has increased the expectation for sales of fish feed in 2019 to be at 98,000 tonnes, depending on external sales. Havsbrún's sales of fish feed for 2020 is expected to be 110,000 tonnes.

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

Investments

Bakkafrost's investment program for the period from 2019 to 2022, excluding investments in The Scottish Salmon Company, will amount to DKK 2.5 billion, including maintenance capex, and will reinforce Bakkafrost's integrated business model and ensure a capacity across the value chain to be able to produce 100,000 tonnes gutted weight of salmon. The aim of the investment program is to minimize the biological risk, increase efficiency and create sustainable organic growth. Bakkafrost's focus on producing larger smolts plays a key role in achieving this goal.



Financial

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

A high equity ratio together with Bakkafrøst's bank financing, makes Bakkafrøst's financial situation strong. This enables Bakkafrøst to carry out its investment plans to further focus on strengthening the Group, M&A's, organic growth opportunities and to fulfil its dividend policy in the future, which is unchanged although a new investment program is announced.

During Q3 2019, Bakkafrøst increased the company's share capital for the acquisition of SSC. The acquisition was therefore carried out without substantial increase in Bakkafrøst's external financing.

Acquisitions

In Q3 2019, Bakkafrøst signed a binding Share Purchase Agreement to acquire 68.6% of The Scottish Salmon Company (SSC) to be closed in Q4 2019. This was followed by an acquisition of additional 9.2% of the shares in SSC in Q3 2019. Bakkafrøst intends to acquire the remaining shares of SSC during Q4 2019. Bakkafrøst will do this through a mandatory offer for the remaining shares in SSC, followed by a compulsory offer for the last 10% of the shares in case more than 90% ownership is reached by the mandatory offer.

At the time of publication of this report (5 Nov 2019), Bakkafrøst has acquired additional shares in SSC and holds a total of 80.77% of the shares.

The acquisition of SSC is financed by issuing new shares in Bakkafrøst, and Bakkafrøst intends to delist SSC from Oslo Børs if 100% ownership of the company is obtained.

More information about the acquisition of SSC, including the strategic rationale behind the acquisition, can be found in Note 9.

Risks

Biological risk has been and will be a substantial risk for Bakkafrost.

The company's risk profile has changed after the acquisition of SSC, and a new risk profile has been written. We have chosen to include the new profile in this report as Appendix 1. The change basically concerns the specific conditions that are added in connection with SSC, but the change in description is not limited to these conditions.

Bakkafrost is, as explained in the Annual Report 2018, exposed to the salmon price. Global supply of salmon is expected to increase in 2019 and will influence the salmon price.

Reference is made to the Outlook section of this report for other comments to Bakkafrost's risk exposure and to Appendix 1.

Events after the Date of the Statement of Financial Position

On 26 September 2019, Bakkafrost entered into a binding agreement regarding the purchase of 68.6% of the Scottish Salmon Company (SSC). The acquisition is financed by issuing new shares in Bakkafrost.

The issuing of new shares is made in three stages whereof the first stage was an increase of 4,800,000 shares, which was finalized on 30 September 2019.

On 8 October, the acquisition of 68.6% of SSC was closed.

An Extraordinary General Meeting was held on 18 October granting the Board of Directors authority to increase the share capital further. And on 22 October, the second stage was performed by issuing 4,615,179 new shares.

On 31 October, a mandatory offer was made to acquire the rest of SSC.

The third stage, to increase the share capital with up to 1,000,000 shares, will take place later this year.

Reference is also made to Note 9 in this report as well as to the other places in this report, where the purchase is highlighted. For further detailed information on the acquisition of SSC, please see the announcements made on Oslo Børs.

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

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

The Management and the Board of Directors have today considered and approved the interim report of P/F Bakkafrost for the period 1 January 2019 to 30 September 2019.

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

Glyvvar, November 5th, 2019

Management:

Regin Jacobsen
CEO

The Board of Directors of P/F Bakkafrost:

Rúni M. Hansen
Chairman of the Board

Johannes Jensen
Deputy Chairman of the Board

Teitur Samuelsen
Board Member

Øystein Sandvik
Board Member

Annika Frederiksberg
Board Member

Einar Wathne
Board Member

In our opinion, the accounting policies used are appropriate, and the interim report gives a true and fair view of the Group's financial positions at 30 September 2019, as well as the results of the Group activities and cash flows for the period 1 January 2019 to 30 September 2019.

In our opinion, the management's review provides a true and fair presentation of the development in the Group operations and financial circumstances of the

results for the period and of the overall financial position of the Group as well as a description of the most significant risks and elements of uncertainty facing the Group.

Over and above the disclosures in the interim report, no changes in the Group's most significant risks and uncertainties have occurred relative to the disclosures in the annual report for 2018.

Consolidated Income Statement

For the period ended 30 September 2019

DKK 1,000	Q3 2019	Q3 2018	YTD 2019	YTD 2018
Operating revenue	996,050	621,602	2,906,265	2,427,074
Purchase of goods	-274,775	-177,389	-1,003,214	-720,858
Change in inventory and biological assets (at cost)	-34,510	7,117	133,799	45,280
Salary and personnel expenses	-95,713	-71,940	-327,955	-250,238
Other operating expenses	-218,367	-158,008	-618,176	-509,404
Depreciation	-69,304	-53,094	-180,870	-147,451
Operational EBIT *	303,381	168,288	909,849	844,403
Fair value adjustments of biological assets	-69,804	293,459	-117,469	435,367
Onerous contracts	0	-10,968	0	-17,077
Income from associates	7,620	-2,459	10,159	-1,735
Revenue tax	-20,616	-14,092	-84,641	-71,830
Earnings before interest and taxes (EBIT)	220,581	434,228	717,898	1,189,128
Net interest revenue	850	467	1,599	2,089
Net interest expenses	-3,011	-2,271	-7,410	-10,215
Net currency effects	5,165	1,938	1,830	1,126
Other financial expenses	-935	-799	-2,773	-3,241
Earnings before taxes (EBT)	222,650	433,563	711,144	1,178,887
Taxes	-41,715	-77,708	-128,771	-211,975
Profit or loss for the period	180,935	355,855	582,373	966,912
Profit or loss for the year attributable to				
Non-controlling interests	0	0	0	0
Owners of P/F Bakkafrost	180,935	355,855	582,373	966,912
Earnings per share (DKK)	3.67	7.32	11.82	19.88
Diluted earnings per share (DKK)	3.67	7.32	11.82	19.88

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

Consolidated Statement of Comprehensive Income

For the period ended 30 September 2019

DKK 1,000	Q3 2019	Q3 2018	YTD 2019	YTD 2018
Profit for the period	180,935	355,855	582,373	966,912
Changes on financial derivatives	279	-450	601	126,627
Hereof income tax effect	-51	81	-109	-22,792
Reserve to share-based payment	432	570	2,566	1,710
Currency translation differences	9	-94	718	-94
Adjustment of treasury shares	15,066	146	12,706	2,457
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	15,735	253	16,482	107,908
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	0	0	0	0
Other comprehensive income	15,735	253	16,482	107,908
Total other comprehensive income for the period	196,670	356,108	598,855	1,074,820
Comprehensive income for the period attributable to				
Non- controlling interests	0	0	0	0
Owners of P/F Bakkafrost	196,670	356,108	598,855	1,074,820

Consolidated Statement of Financial Position

As at 30 September 2019

DKK 1,000	30 Sep 2019	31 Dec 2018
ASSETS		
Non-current assets		
Intangible assets	390,456	389,745
Property, plant and equipment	3,215,676	2,884,325
Financial assets	494,006	112,766
Long-term receivables	3,446	9,200
Total non-current assets	4,103,584	3,396,036
Current assets		
Biological assets (biomass)	1,268,948	1,358,462
Inventory	534,057	438,847
Total inventory	1,803,005	1,797,309
Financial derivatives	575	0
Accounts receivable	356,026	269,348
Other receivables	35,970	22,936
Total receivables	392,571	292,284
Cash and cash equivalents	2,611,554	316,894
Total current assets	4,807,130	2,406,487
TOTAL ASSETS	8,910,714	5,802,523

DKK 1,000	30 Sep 2019	31 Dec 2018
EQUITY AND LIABILITIES		
Equity		
Share capital	53,658	48,858
Other equity	5,984,391	4,028,171
Total equity	6,038,049	4,077,029
Non-current liabilities		
Deferred and other taxes	672,628	534,430
Long-term interest-bearing debt	1,340,073	812,053
Other debt	71,109	0
Total non-current liabilities	2,083,810	1,346,483
Current liabilities		
Financial derivatives	0	320
Accounts payable and other debt	788,855	378,691
Total current liabilities	788,855	379,011
Total liabilities	2,872,665	1,725,494
TOTAL EQUITY AND LIABILITIES	8,910,714	5,802,523

Consolidated Cash Flow Statement

For the period ended 30 September 2019

DKK 1,000	Q3 2019	Q3 2018	YTD 2019	YTD 2018
Earnings before interest and taxes (EBIT)	220,581	434,228	717,898	1,189,128
Adjustments for write-downs and depreciation	69,304	53,094	180,870	126,451
Adjustments for value adjustment of biomass	69,804	-293,459	117,469	-435,367
Adjustments for income from associates	-7,620	2,459	-10,159	1,735
Adjustments for currency effects	5,653	2,417	5,251	9,940
Adjustments for provision for onerous contracts	0	10,967	0	17,076
Change in inventory	55,759	-14,185	-123,165	-55,915
Change in receivables	4,424	119,472	-107,583	103,784
Change in current debts	361,264	9,223	401,906	15,026
Cash flow from operations	779,169	324,216	1,182,487	971,858
Cash flow from investments				
Acquisition goodwill	0	-12,259	0	-12,259
Proceeds from sale of fixed assets	0	0	0	25,000
Payments for purchase of fixed assets	-172,649	-127,214	-439,601	-369,774
Net investment in financial assets	-375,118	-25,013	-371,130	-26,896
Change in long-term receivables	4,242	0	4,242	0
Cash flow from investments	-543,525	-164,486	-806,489	-383,929
Cash flow from financing				
Change of interest-bearing debt (short and long)	274,587	-135,436	544,033	-71,727
Financial income	850	467	1,601	2,089
Financial expenses	-3,946	-3,068	-10,183	-13,454
Net proceeds from sale of own shares	64,927	145	67,926	2,457
Increased equity - emission	1,716,798	0	1,716,798	0
Dividend paid	0	0	-401,513	-510,678
Cash flow from financing	2,053,216	-137,892	1,918,662	-591,313
Net change in cash and cash equivalents in period	2,288,860	21,838	2,294,660	-3,384
Cash and cash equivalents - opening balance	322,694	284,329	316,894	309,551
Cash and cash equivalents - closing balance total	2,611,554	306,167	2,611,554	306,167

Consolidated Statement of Changes in Equity

As at 30 September 2019

DKK 1,000	Share Capital	Share Premium Reserve	Treasury Shares	Share-based Payment	Currency translation differences	Derivatives	Proposed Dividend	Biomass Fair value adjustments	Retained Earnings	Total Equity
Equity 01.01.2019	48,858	306,537	-15,525	6,153	6,176	-264	403,079	382,770	2,939,246	4,077,029
Consolidated profit	0	0	0	0	0	0	0	-117,469	747,779	630,310
<i>Other comprehensive income:</i>										
Changes on financial derivatives	0	0	0	0	0	877	0	0	0	877
Hereof income tax effect	0	0	0	0	0	-142	0	0	0	-142
Share-based payment	0	0	0	-1,727	0	0	0	0	0	-1,727
Currency translation differences	0	0	0	0	717	0	0	0	0	717
Total other comprehensive income	0	0	0	-1,727	717	735	0	0	0	-275
Total comprehensive income	0	0	0	-1,727	717	735	0	-117,469	747,779	630,035
<i>Transaction with owners:</i>										
Increase Share Capital	4,800	1,711,998	0	0	0	0	0	0	0	1,716,798
Treasury shares	0	0	15,699	0	0	0	0	0	0	15,699
Paid-out dividend	0	0	0	0	0	0	-403,079	0	1,566	-401,513
Proposed dividend	0	0	0	0	0	0	0	0	0	0
Total transaction with owners	4,800	1,711,998	15,699	0	0	0	-403,079	0	1,566	1,330,984
Total changes in equity	4,800	1,711,998	15,699	-1,727	717	735	-403,079	-117,469	749,345	1,961,019
Total equity 30.09.2019	53,658	2,018,535	174	4,426	6,893	471	0	265,301	3,688,591	6,038,049
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	-117,469	747,781	630,312
<i>Other comprehensive income:</i>										
Changes on financial derivatives	0	0	0	0	0	126,935	0	0	-138,748	-11,813
Hereof 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
<i>Transaction with owners:</i>										
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	2,939,246	4,077,029
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	435,367	538,850	974,217
<i>Other comprehensive income:</i>										
Changes on financial derivatives	0	0	0	0	0	-15,797	0	0	0	-15,797
Changes on financial derivatives	0	0	0	0	0	5,876	0	0	0	5,876
Share-based payment	0	0	0	1,140	0	0	0	0	0	1,140
Currency translation differences	0	0	0	0	-53	0	0	0	0	-53
Total other comprehensive income	0	0	0	1,140	-53	-9,921	0	0	0	-8,834
Total comprehensive income	0	0	0	1,140	-53	-9,921	0	435,367	538,850	965,383
<i>Transaction with owners:</i>										
Treasury shares	0	0	841	0	0	0	0	0	0	841
Paid-out dividend	0	0	0	0	0	0	-513,009	0	2,331	-510,678
Total transaction with owners	0	0	841	0	0	0	-513,009	0	2,331	-509,837
Total changes in equity	0	0	841	1,140	-53	-9,921	-513,009	435,367	541,181	455,546
Total equity 30.09.2018	48,858	306,537	-17,318	5,014	6,218	-114,272	0	622,318	3,224,620	4,081,975

Notes to the Account

Accounting Policy

General Information

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

The Group's Annual Report as at 31 December 2018 is available upon request from the company's registered office at Bakkavegur 9, FO-625 Glyvrrar, Faroe Islands, or at www.bakkafrost.com.

This Condensed Consolidated Interim Report is presented in DKK.

Note 1. Statement of Compliance

This Condensed Consolidated Interim Report has been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 Interim Financial Reporting as adopted by the EU. It does not include all the information required for the full Annual and Consolidated Report and Accounts and should be read in conjunction with the Annual and Consolidated Report and Accounts for the Group as at 31 December 2018.

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

Note 2. Significant Accounting Policies

The accounting policies applied by the Group in this Condensed Consolidated Interim Report are the same as those applied in the Annual Report as at and for the year ended 31 December 2018. The Group has, however, as mentioned in the Annual Report 2018, applied the IFRS 16 Leases standard from 1 January 2019.

Note 3. Estimates and Risk Exposures

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

The accounting estimates are described in the notes to the financial statements in the Annual Report 2018.

The company's risk profile has changed after the acquisition of SSC, and a new risk profile has been written. We have chosen to include the new profile in this report as Appendix 1. The change basically concerns the specific conditions that are added in connection with SSC, but the change in description is not limited to these conditions.

Note 4. Biomass

DKK 1,000	30 Sep 2019	30 Sep 2018	31 Dec 2018
Biological assets carrying amount 01.01.	1,358,462	1,096,665	1,096,665
Increase due to production or purchases	1,122,757	899,022	1,333,160
Reduction due to harvesting or sale (costs of goods sold)	-1,084,168	-865,520	-1,273,150
Reduction due to mortality (costs of incidents-based mortality)	0	-17,017	0
Fair value adjustment at the beginning of the period reversed	-382,775	-186,956	-186,956
Fair value adjustment at the end of the period	265,306	622,323	382,775
Reversal of elimination at the beginning of the period	53,790	59,758	59,758
Eliminations	-64,423	-45,334	-53,790
Biological assets carrying amount at the end of the period	1,268,949	1,562,941	1,358,462
Cost price biological assets	1,068,066	983,057	1,029,477
Capitalized interest	0	2,895	0
Fair value adjustment at the end of the period	265,306	622,323	382,775
Eliminations	-64,423	-45,334	-53,790
Biological assets carrying amount	1,268,949	1,562,941	1,358,462
Biomass (tonnes lw)			
< 1 kg	2,194	1,914	1,958
1 kg < 2 kg	4,544	4,781	2,959
2 kg < 3 kg	7,029	5,312	5,189
3 kg < 4 kg	5,313	5,209	6,010
4 kg <	21,533	19,850	22,962
Volume of biomass at sea	40,613	37,066	39,078

	30 Sep 2019	30 Sep 2018	31 Dec 2018
Number of fishes (thousand)			
< 1 kg	4,099	4,117	4,951
1 kg < 2 kg	3,066	3,197	2,113
2 kg < 3 kg	2,604	2,130	2,044
3 kg < 4 kg	1,567	1,490	1,782
4 kg <	3,550	3,631	4,359
Total number of fishes at sea	14,886	14,565	15,249
Number of smolts released (thousand)			
Farming North	2,941	620	3,978
Farming West	4,724	8,605	8,605
Total number of smolts released	7,665	9,225	12,583
Sensitivity in DKK 1,000			
Change in discount rate +1%	78,775	85,504	93,586
Change in discount rate -1%	-88,011	-93,753	-104,991
Change in sales price +5 DKK	-244,233	-243,028	-224,143
Change in sales price -5 DKK	244,233	243,028	224,143
Change in biomass volume +1%	-5,918	-8,457	-6,551
Change in biomass volume -1%	5,918	8,457	6,551
One year forward prices in EUR FCA Oslo*			
Period end	4.43	6.32	6.01
1 Q (forward)	5.20	6.59	6.48
2 Q (forward)	6.01	6.91	6.52
3 Q (forward)	6.17	6.96	5.94
4 Q (forward)	5.41	6.31	6.12
* Source Fish Pool			

Note 5. Segments

Farming segment	Q3	Q3	YTD	YTD
DKK 1,000	2019	2018	2019	2018
External revenue	565,292	395,691	1,708,789	1,658,805
Internal revenue	127,959	49,386	498,477	227,710
Total revenue	693,251	445,077	2,207,266	1,886,515
Operating expenses	-404,430	-264,593	-1,297,485	-1,013,004
Depreciation and amortization	-57,323	-40,856	-145,101	-112,252
Operational EBIT	231,498	139,628	764,680	761,259
Fair value adjustments of biological assets	-69,804	293,459	-117,469	435,367
Income from associates	3,557	0	6,096	0
Revenue tax	-20,615	-14,092	-84,640	-71,830
Earnings before interest and taxes (EBIT)	144,636	418,995	568,667	1,124,796
Net interest revenue	850	467	1,955	2,089
Net interest expenses	-1,918	-1,738	-15,423	-8,388
Net currency effects	9,227	2,793	13,886	-2,501
Other financial expenses	-876	-750	-2,636	-2,926
Earnings before taxes (EBT)	151,919	419,767	566,450	1,113,070
Taxes	-21,501	-73,780	-101,365	-184,693
Profit or loss for the period	130,418	345,987	465,085	928,377

Value added products	Q3	Q3	YTD	YTD
DKK 1,000	2019	2018	2019	2018
External revenue	217,458	69,225	715,584	255,837
Internal purchase of raw material	-127,959	-49,386	-498,477	-227,710
Operating expenses	-58,837	-12,316	-175,673	-40,684
Depreciation and amortization	-4,812	-4,763	-14,295	-13,197
Operational EBIT	25,850	2,760	27,139	-25,754
Provision for onerous contracts	0	-10,962	0	-17,071
Earnings before interest and taxes (EBIT)	25,850	-8,202	27,139	-42,825
Net interest expenses	-374	-70	-475	-137
Net currency effects	-6	10	-6	-298
Other financial expenses	-16	0	-16	-20
Earnings before taxes (EBT)	25,454	-8,262	26,642	-43,280
Taxes	-4,582	1,487	-4,796	3,691
Profit or loss for the period	20,872	-6,775	21,847	-39,589

In the first nine months of 2019, one customer - as defined in IFRS 8.34 - represents DKK 380 million, corresponding to 53% of the revenue in the VAP segment.

Fishmeal, Fish Oil and Fish Feed DKK 1,000	Q3 2019	Q3 2018	YTD 2019	YTD 2018
External revenue	213,301	156,685	481,894	512,432
Internal revenue	270,326	197,540	568,591	468,443
Total revenue	483,627	354,225	1,050,485	980,875
Cost of goods sold	-349,697	-273,598	-680,053	-634,993
Operating expenses	-39,467	-39,233	-152,335	-152,008
Depreciation and amortization	-7,169	-7,475	-21,474	-22,002
Operational EBIT	87,294	33,919	196,623	171,872
Income from associates	4,063	-2,459	4,063	-1,735
Earnings before interest and taxes (EBIT)	91,357	31,460	200,686	170,137
Net interest expenses	-719	-463	-1,388	-1,690
Net currency effects	-4,056	-865	-2,530	3,925
Other financial expenses	-42	-49	-120	-295
Earnings before taxes (EBT)	86,540	30,083	196,648	172,077
Taxes	-15,577	-5,415	-35,396	-30,973
Profit or loss for the period	70,963	24,668	161,251	141,104

Reconciliation of reportable segments**to Group earnings before taxes (EBT)****DKK 1,000**

	Q3	Q3	YTD	YTD
	2019	2018	2019	2018
Farming	151,919	419,767	566,450	1,113,070
VAP (Value Added Products)	25,454	-8,262	26,642	-43,280
FOF (Fishmeal, Fish oil and fish Feed)	86,540	30,083	196,648	172,077
Eliminations	-41,263	-8,025	-78,594	-62,980
Group earnings before taxes (EBT)	222,650	433,563	711,145	1,178,887

Assets and liabilities per segment**DKK 1,000**

	30 Sep	30 Sep	31 Dec
	2019	2018	2018
Farming	7,020,355	5,340,395	4,860,227
VAP (Value added products)	187,840	199,415	192,841
FOF (Fishmeal, Fish Oil and Fish Feed)	947,130	840,119	749,455
Eliminations	754,814	-589,198	0
Total assets	8,910,139	5,790,731	5,802,523
Farming	2,180,511	574,912	1,482,751
VAP (Value added products)	31,834	31,655	31,075
FOF (Fishmeal, Fish Oil and Fish Feed)	209,061	471,536	209,634
Eliminations	450,684	630,654	2,034
Total liabilities	2,872,090	1,708,757	1,725,494

Note 6. Capital Commitments

The Group had capital expenditure committed but not provided in these accounts at the date of the Statement of Financial Position of approximately DKK 248 million. DKK 151 million relate to the building of new hatchery stations. DKK 13 million relate to the building of a new biogas plant.

Furthermore, the Group has signed a binding agreement for the acquisition of 68.6% of The Scottish Salmon Company Plc (SSC) with a closing date after the date of the Statement of Financial Position. The agreed acquisition price of NOK 28.25 per share implies an Enterprise Value for SSC of DKK 4,352 million. The acquisition was financed by the issue of new shares in the Group.

Note 7. Transactions with Related Parties

Note 5.2 in Bakkafrøst's Annual Report for 2018 provides detailed information on related parties' transactions.

Transactions between P/F Bakkafrøst and its subsidiaries meet the definition of related party transactions. As these transactions are eliminated on consolidation, they are not disclosed as related party transactions.

Note 8. Fair Value Measurements

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

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

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

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

For biological assets, the fair value calculation is done using a valuation model (level 3 in the valuation hierarchy) where the value is estimated based on observable market prices per period end.

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

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

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

As at 30 September 2019, the Group held the following classes of assets/liabilities measured at fair value:

DKK 1,000	Cost				
Assets and liabilities measured at fair value	Fair value	amount	Level 1	Level 2	Level 3
Biological assets (biomass)	1,268,948	1,003,643	0	0	1,268,948
Assets measured at fair value 30/9-2019	1,268,948	1,003,643	0	0	1,268,948
Liabilities measured at fair value 30/9-2019	0	0	0	0	0
Biological assets (biomass)	1,562,941	940,618	0	0	1,562,941
Assets measured at fair value 30/9-2018	1,562,941	940,618	0	0	1,562,941
Liabilities measured at fair value 30/9-2018	0	0	0	0	0
Biological assets (biomass)	1,358,462	975,687	0	0	1,358,462
Assets measured at fair value 31/12-2018	1,358,462	975,687	0	0	1,358,462
Liabilities measured at fair value 31/12-2018	0	0	0	0	0

Note 9. Business Combinations

On 25 September 2019, Bakkafrost signed a binding Share Purchase Agreement (SPA) to acquire 68.6% of the outstanding shares in the Scottish Salmon Company (SSC) from Northern Link Ltd. The closing date is 8 October 2019. Subsequent to the SPA date, further 9.2% of the shares were acquired, which means that Bakkafrost is holding a total of 77.8% of the shares at the closing date.

SSC is a fully integrated salmon farming business operating exclusively in Scotland with 60 sites across the West Coast and Hebridean Islands. The company is engaged in nearly all stages of the value chain ensuring full traceability and total supply chain integrity. The current annual production capacity is 50,000 tonnes. SSC produced 29,913 tonnes gutted weight in 2018 and exported to 26 countries with a focus on North America and the Far East. SSC has developed a range of strong flagship brands, including Native Hebridean Salmon, Tartan Salmon Label Rouge and Lochlander Salmon. The company has over 600 employees.

SSC's main office is in Edinburgh, Scotland

Strategic Rationale

The strategic rationale for the acquisition includes the following:

- Provides Bakkafrost access to the Scottish farming region, which is a niche farming region with Scottish provenance products priced at a premium to the market.
- Creates a combined differentiated global leader in premium salmon with dual exposure to both Faroe Islands and Scottish premium salmon.
- Positive diversification of Bakkafrost's operations from a pure play Faroe Islands company to a presence in two attractive salmon farming markets while remaining both developed markets and premium product focused.

- Potential for material improvement in The Scottish Salmon Company's profitability over a five-year horizon through realization of identified synergies, transfer of best practices and a targeted investment programme.

Bakkafrost expects to generate synergies in three key areas mainly related to Feed and Procurement, Sales Cooperation and SG&A and Overhead savings.

- Feed & Procurement: Bakkafrost produces fish feed with a significantly higher marine index, compared to industry feed. Supplying feed to SSC would result in fixed cost efficiency at Bakkafrost's feed facilities through intercompany sales of higher quality feed to SSC. Net synergy estimated at DKK 1.2 per kg feed, equating to annual synergies of approximately DKK 70 million from 2022 onwards (~NOK 2.6 / kg of SSC harvested salmon)

- Sales Cooperation: Both SSC and Bakkafrost market premium salmon and brands that obtain a significantly higher price due to provenance and product differentiation. Both companies plan to drive efficiencies by coordinating sales efforts going forward taking advantage of relative distribution strengths in global markets.

- SG&A & Overheads: Leaner head office structure in Scotland (through discontinuing the listed functions of SSC).

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

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

to be directed towards replacing SSC's existing seawater equipment.

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

Net assets acquired

As SSC is listed on the Oslo Stock Exchange and does not publish quarterly figures, the account figures used here will be from 30 June 2019. Bakkafrost is unable to obtain comprehensive information on fair values etc., and the initial accounting for the acquisition is therefore incomplete at this point Bakkafrost has conducted an analysis to find the fair value of SSC as per 30 June 2019 and found that licenses and brands have at higher fair value than the book value per 30 June 2019.

Note that at the time of the PPA, we have not received the necessary details to calculate the correct fair value of the biomass, information to assess additional CGU's or information to assist if there are any customer or supplier contracts that are materially off market terms. This will have to be addressed in the final PPA. Additionally, a more detailed insight into brand revenues and expenses, potential value of the workforce, and potentially a charge for the use of contributory assets (CAC) will have to be emphasized in the final PPA.

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

The majority of intangible assets of SSC is related to licenses. Licenses are viewed as perpetual in nature and are thus not amortized but made subject to an annual impairment review. According to the impairment review, the impairment test performed by SSC as of December 2018 has shown a significant headroom on farming licenses of GBP 1.2 billion.

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

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

The aggregated goodwill of DKK 485.4 million recognized, arises from the tax calculations on the fair value adjustments. The table below summarizes the consideration paid for SSC and the assessed fair value of the assets acquired and liabilities assumed, recognized at the acquisition date.

Since the acquisition closing date was after the end of the accounting period, the acquisition had no impact on the Group's Income Statement. The figures provided are subject to further scrutiny and may change, as Bakkafrost becomes able to gain access to sufficient information from SSC.

Acquisition-related costs of DKK 1.5 million were expensed to the profit or loss as incurred in Q3 and included within operating cash flows in the Statement of Cash Flow.

The assets and liabilities recognized are as follows:

DKK 1,000,000	Book Value	Fair Value	
	30/06/2019	adjustment	30/06/2019
Goodwill	50.7	485.4	536.2
Licenses	233.0	2,747.0	2,980.0
Brands	-	74.9	74.9
Property, plant and equipment	661.1	-	661.1
Accounts receivables	187.5	-	187.5
Inventories	30.7	-	30.7
Biological assets	915.5	-	915.5
Other current assets, excluding cash and bank	23.3	-	23.3
Cash, bank and marketable securities	59.9	-	59.9
Total assets	2,161.6	3,307.3	5,468.9
Deferred taxes	65.0	536.2	601.2
Other long-term liabilities	115.7	-	115.7
Long-term liabilities, interest-bearing	187.3	-	187.3
Current liabilities, interest-bearing	109.1	-	109.1
Accounts payable	161.9	-	161.9
Other current liabilities	165.1	-	165.1
Current taxes	47.1	-	47.1
Total liabilities	851.2	536.2	1,387.3
Net assets acquired			4,081.5
Purchase price allocation:			
Purchase price for shares (68.6%)			2,800.4
Purchase price for shares (100%)			4,081.5
Transaction value (market value of equity)			4,081.5

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 DKK -8.5 million to the Group's result.

Identifiable assets assumed:**DKK 1,000**

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

Note 10. APM**- Alternative Performance Measures**

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

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

NIBD

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

	30 Sep	31 Dec
DKK 1,000	2019	2018
Cash and cash equivalents	2,611,554	316,894
Deposit for interest- and currency swap	0	0
Derivatives	0	-320
Long- and short-term interest-bearing debt	-1,340,073	-812,053
Net interest-bearing debt	1,271,481	-495,479

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.

	Q3	Q3	YTD	YTD
DKK 1,000	2019	2018	2019	2018
EBIT	220,581	434,228	717,898	1,189,128
Fair value adjustments of biological assets	69,804	-293,459	117,469	-435,367
Onerous contracts	0	10,968	0	17,077
Income from associates	-7,620	2,459	-10,159	1,735
Revenue tax	20,616	14,092	84,641	71,830
Operational EBIT	303,381	168,288	909,849	844,403

Operational EBIT per kg

Farming segment:	<u>Operational EBIT Farming segment</u> Total harvested volumes (gw)
VAP segment:	<u>Operational EBIT VAP segment</u> Total volumes produced (raw material gw)
Farming and VAP:	<u>Operational EBIT Farming and VAP segment</u> Total harvested volumes (gw)

EBITDA

Earnings before interest, tax, depreciations and amortizations (EBITDA) is a key financial parameter for Bakkafrost's FOF segment. EBITDA before other income and other expenses is defined as EBITDA less gains and losses on disposals of fixed assets and operations and is reconciled in the section Group overview. This measure is useful to users of Bakkafrost's financial information in evaluating operating profitability on a more variable cost basis as it excludes depreciations and amortization expenses related primarily to capital expenditures and acquisitions, which occurred in the past, nonrecurring items, as well as evaluating operating performance in relation to Bakkafrost's FOF segments competitors. The EBITDA margin presented is defined as EBITDA before other income and other expenses divided by total revenues.

Adjusted EPS

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

	Q3	Q3	YTD	YTD
DKK 1,000	2019	2018	2019	2018
Profit for the year to the shareholders of P/F Bakkafrost	180,935	355,855	582,373	966,912
Fair value adjustment of biomass	69,804	-293,459	117,469	-435,367
Onerous contracts provisions	0	10,967	0	17,076
Tax on fair value adjustment and onerous contracts provisions	-12,565	50,848	-21,144	75,292
Adjusted profit for the year to shareholders of P/f Bakkafrost	238,174	124,211	678,698	623,913
Time-weighted average number of shares outstanding through the year	49,289,675	48,641,872	49,289,675	48,641,872
Adjusted earnings per share (before fair value adjustment of biomass and provisions for onerous contracts) (adjusted EPS)	4.83	2.55	13.77	12.83

ROCE

Return on average capital employed (ROCE) is defined as the period's operational EBIT divided by the average capital employed, which is total assets adjusted for total current liabilities. The performance measure is expressed as a percentage and is useful for evaluating Bakkafrost's profitability.

	Q3	Q3	YTD	YTD
DKK 1,000	2019	2018	2019	2018
Group -Operational EBIT	303,381	168,288	909,849	844,403
Average capital employed	6,982,965	5,215,318	6,743,209	4,971,772
ROCE	4.3%	3.2%	13.5%	17.0%

Appendix 1 – Risk Factors

1.1 Risks related to the Group's business and the industries in which it operates

1.1.1 General risks related to farming

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

Although such operational risks are, to a certain extent, reflected in budgets by means of estimates for the key performance indicators, such risks might, if occurring, materially affect the Company's results and financial condition. The Company'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 the Company aims at reducing that risk through the entire production cycle by means of systematic group-wide biosecurity auditing.

1.1.2 Risks related to storms and bad weather conditions

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, even if Bakkafrost is continually working on reducing risks using experience with equipment, location and operational organization.

1.1.3 Risks related to sea lice

The number of sea lice involve risks and challenges in the farming industry globally. Increased number of sea lice may cause stress, which can lead to diseases. In the case of an outbreak of disease, Bakkafrost will, in addition to negative publicity and direct loss of fish, incur substantial costs in the form of loss of quality of harvested fish and subsequent periodic reduced production capacity.

1.1.4 Risk related to diseases

Operation of fish farming facilities involves considerable risk with regard to diseases. 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. Examples of diseases being prevalent in the Faroe Islands in recent years are Amoebic gill disease (AGD), Bacterial kidney disease (BKD), Infectious salmon anaemia (ISA), Cardiomyopathy syndrome (CMS) and Heart and skeletal muscle inflammation (HSMI). Corresponding diseases prevalent in Scotland are in addition to above Pancreas disease (PD) as an example.

The Company 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, the Company is heading for the 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 a preventive measure against sea lice. The Company will increase the use of lumpfish in its farming sites. The Company uses both freshwater bath on-board a live fish carrier, and lukewarm seawater treatment in two farming service vessels as sea lice treatment.

1.1.5 Risks related to escapes

Bakkafrost has a zero tolerate for escape of farmed salmon. However, the Company operate a large number of sea water sites, each of which are exposed to risks linked to bad weather, handling of fish, changing of nets, operations of workboats and well boats, predators etc. Escapes normally occur as a result of equipment failure or mistakes made by the personnel. The direct financial exposure to escapes is moderate due to the geographic diversification of the sites. The indirect effects such as spread of diseases, negative impact on wild salmon, governmental penalties and negative publicity are hard to quantify for the accounts of Bakkafrost and for the society as a whole. Procedures, quality assurance systems and new technological solutions are important elements to mitigate the risk of escapes.

1.1.6 Cyber security risk

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

In recent periods examples have shown that large industrial groups can be subject to complete shutdowns as result of cyber-attacks. For Bakkafrost, such incident would require personnel to apply manual back-up systems to the extent possible. The most exposed area of the Company's value chain in case of cyber-attacks is processing and sales. For shorter periods of time, harvestable fish can be held in seawater sites pending a solution to such negative event, which would imply a delay in profits and cash flows.

1.1.7 Risks related to fishmeal, fish oil and fish feed

The production of fishmeal, fish oil and fish feed follow established methods with automated and controlled processes. As self-sufficient operator of fish meal, fish oil and fish feed, Bakkafrost is exposed to certain risks which may require purchase of fish feed from a third party. For example, Bakkafrost is vulnerable to food safety incidents, downtime and possible insufficient supply of raw material input. Unexpected shortfalls in raw material due to limited catch volumes or limited delivery or purchase of fish or supply of substitutes, could affect the volumes produced in the factory. This may result in incidents or necessary measures that may have significant cost implications. Bakkafrost is continually working on reducing risks. The Company's fishmeal, fish oil and fish feed department at Havsbun's facilities is located in the Faroe Islands, in which case the Company's business could be materially adversely affected directly from any trade restrictions, or indirectly through restrictions on ocean harvests or quotas

Although any salmon farmer being a net buyer of fish feed is also indirectly exposed to the same risk factors, this risk is normally mitigated contractually through replacement obligations from third party.

1.1.8 Regulatory risks

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

The Group have good dialogue with the Faroese and Scottish authorities regarding the prerequisites and restrictions that are connected to a farming licence. In Scotland, all licences and consents, policies and regulations as overseen by the Scottish Environment Protection Agency (SEPA). The Faroese authorities may withdraw licences for fish farming operations if substantial preconditions have been changed since the licence was issued, or if the licence goes against overall development plans and protective measures, or if the licensee breaches the conditions set in connection with the issuance of the licence. The licence may also be withdrawn, if the company breaches the rule on maximum ownership of licenses, or if the company does not use the licence. The licence may also be withdrawn, if the environmental licence of the company is repealed.

In the Faroese Islands, a salmon farming licence is issued for a period of 12 years from the date of issue. The Faroese government may prolong the licence period. If the company fulfils the conditions in the licence and if a continuation of the activities is not contrary to overall development plans, which have been adopted, it must be assumed (but there can be no assurance) that the company has a legal claim to have the licence period prolonged.

Under the Act on Environmental Protection and under existing practice, the relevant environmental authorities may demand a reduction in the stocking of fry compared to the last stocking, in case examinations of the seabed or other environmental studies show, that pollution of the environment exceeds certain specified limits.

The Faroese environment has become the subject of increasing attention and publicity in relation to aquafarming, and therefore it can be expected that the rules on this area may become stricter or that existing practice will become stricter.

1.1.9 Risks related to IT

IT-related risks have increased in recent years, as IT has become more integrated in the Company's operations. Therefore, breakdown of the Company's control systems and administrative systems will have negative effect on the Company's operations. Examples of critical processes exposed to such IT risks are dynamic positioning systems on vessels, power management of recirculation hatcheries, IT management systems in primary and secondary processing and customer order systems. The IT risks are assessed continuously, based on the importance of a potential event for Bakkafrost operations and the likelihood that the event may occur.

1.1.10 Risks related to feed contaminants

Feed may, through its use of different types of raw materials and ingredients and through its production processes, be exposed to contamination by a number of undesirable substances. Most contaminants are accumulated in organisms, such as marine wild catch used to produce fishmeal and fish oil. These contaminants are deposited into the organism's fat, and the concentration is greater the higher up the food chain. Authorities set maximum allowable levels for the most important contaminants. These limits are continuously monitored by the authorities and may be altered. There is also the possibility of "new" contaminants being added periodically to the list.

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

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

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

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.

1.1.11 The Group may become subject to litigation for current and historic operations

The Group's previous and current business and operations entails exposure to litigation, which may involve, among other things, contract disputes, personal injury, environmental, employment, intellectual property litigation, tax and securities litigation, and litigation that arises in the ordinary course of business. Any litigation may have a material adverse effect on the Group because of potential negative outcomes, the costs associated with defending the lawsuits, the diversion of the Group's management's resources and other factors.

1.1.12 Risks related to 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.

1.1.13 Regulatory restrictions on ownership of licenses within the Faroe Islands

In the Faroe Islands there are currently regulations limiting the number of licenses owned by one company to 50% of the total licenses. At the time of allocation of licenses, Bakkafrost group has never owned more than 50% of the total number of licenses. Due to historic cancellation of other inactive licenses not belonging to The Company, The Company now owns approx. 70 % of the licenses.

Moreover, there are ownership restrictions on foreign ownership, according to which no single physical or legal foreign (non-Faroese) person may directly or indirectly own more than 20 per cent of the shares of the fish farming company or its parent company. Companies, that do not comply with the 20 per cent maximum, cannot obtain new licences.

1.2 Financial risks

1.2.1 Risks related to the price on farmed salmon

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

1.2.2 Risks related to the price on fishmeal and fish oil

The Company'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.

1.2.3 Risks related to the 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 the Company's value chain and thus reducing this risk.

1.2.4 Geopolitical risks (Brexit)

United Kingdom has voted to leave the European Union (Brexit) and in March 2017 the formal process was triggered by the UK Government followed by a 2-year period of negotiation with the EU on the terms of exit. As a Group whose operations partly are based in Scotland, the Group has assessed the potential impact on the Group's business and is prepared for a period of trade instability subsequent to Brexit which may materially reduce price realisation for the operations in Scotland and to some extent for the operations in the Faroe Islands. The Group continues to closely monitor the negotiations and will take steps to address risks and opportunities as and when they arise. Given the continued uncertainty, as to the way in which Brexit will ultimately be delivered, there is a risk of supply chain disruption which could impact on the Group.

1.2.5 Geography risks

Bakkafrost sells its salmon products to more than 30 different countries. A minor portion of the produced fishmeal, fish oil and feed are also sold to third parties in a limited number of countries. In recent years the salmon farming industry has been exposed to trade restrictions (e.g. Russia) and significant price differentials between regional markets. Due to the Company's flexibility through a medium sized production and the large geographic diversification of sales, the exposure to such threats is limited, especially when seen in the context of overall market price risk. 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.

1.2.6 Global economic developments

Trade wars can disrupt the Group's sale of fish to certain markets for a shorter or longer period. Such disruption may alter the market balance in the wider market and hence negatively impact price realisation. This risk is most severe with respect to the Company's sale of salmon products if the Group would be affected by any trade war. The Group mitigates this risk through geographic diversification but cannot guarantee maintaining a balanced distribution of sale across all major markets (EU, US, Asia, Eastern Europe and other markets).

Further, the general development of and prospective future of the global economy may affect the profitability of the companies within the Group. Negative economic developments may lead to a downturn in the future prospects of the farming market and may also make it difficult to raise equity or loan capital which may affect the operations of the Group. The global economy is currently showing signs of slower growth. The central banks may now cut interest rates and increase their asset purchases (quantitative easing) due to the slowdown in economic growth. The ongoing trade dispute between the United States and China could have a negative impact on global trade, causing a negative effect on the economies of the United States, China as well as on the global economy overall. Limitations on the availability of capital, higher costs of capital for financing expenditures or the desire to preserve liquidity, may cause the Group's current or prospective customers to make reductions in future capital budgets and spending. Such adjustments could reduce demand for the Group's services. A tightening of the credit markets may also affect the solvency of the Group's counterparties.

1.2.7 Foreign exchange risk

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

SSCs main transaction currency is GBP, which is also the main currency for the majority of contracted revenues. Traded and export sales can be denominated in other currencies, the most significant of which is EUR. SSC uses forward currency contracts to manage its exposure to currency fluctuations arising from these transactions. The SSC is financed exclusively in sterling. As exports continue to become an increasingly significant source of revenue for the Group, the Board will continue to adapt its currency hedging strategy.

1.2.8 Risks related to the capital structure and equity

The prime objective of the Company's capital management is to maintain an adequate liquidity and ensure that it maintains a good credit rating to achieve favourable borrowing terms. 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. Relative to its peers, Bakkafrost currently has availability of cheap funding in the credit and equity markets.

1.2.9 Risks related to power cuts

Power cuts may cause losses in the Company's hatcheries. To mitigate and handle the risk of power cuts, all hatcheries are provided with stand-by power units with a high safety margin. All technical installations in connection with the stand-by power units, have twice the safety margin and systems to secure that power cuts do not cause fish losses. Alarm systems for all important parameters secures automatic surveillance, alarms and logging. In addition, the alarm systems are secured with at least to different and independent systems.

1.2.10 Risks related to fire

Fire may cause major losses for the Company. To handle and mitigate the risk of fires, the Company has installed fire alarm systems and makes sure annually fire inspections in most of the Company's facilities. If the infrastructure, or parts of the infrastructure, is put out of operations because of fire, this may have a material adverse effect on the Company's business and financial condition.

1.2.11 Risks related to food safety

As the Company is operating within the food industry, there is a risk for the food safety of the final products. The risks of food safety may have a material adverse effect on the Company's business and financial condition. To handle and mitigate this risk, the Company has personnel who follows up the quality and safety of the products and documents the Company's operations and procedures in this regard. Quality manuals, general manuals and risk assessments are important tools to secure the Company's aim to control all food safety risks relevant for the Company.

1.2.1 Credit risk

The risk that counterparties do not have the financial strength to meet their obligations is considered relatively low, since losses due to bad debts historically have been small. Bakkafrøst has guidelines to ensure that sales are made only to customers that have not previously had payment problems and that outstanding balances do not exceed fixed credit limits. The majority part of the total accounts receivables is insured. As not all receivables are insured, Bakkafrøst must accept a certain risk element in accounts receivables. The main credit risk on the date of the statement of financial position regards the Company's receivables portfolio.

1.2.2 Liquidity risk

Liquidity risk is the risk that Bakkafrøst will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by maintaining a flexible financial structure, which is secured by means of established borrowing facilities. The Company's objective is to have sufficient cash, cash equivalents or medium-term credit facilities to meet its borrowing requirement in the short term. Failure to access necessary liquidity could require the Company to scale back its CAPEX, postpone or cancel plans to acquire PP&E or could have other materially adverse consequences for its business and its ability to meet its obligations.

1.3 Risks related to the shares of the Company

1.3.1 Risks related to the fluctuation of market value of shares

The price and the performance of the shares of the Company could fluctuate significantly, inter alia, in response to quarterly variations in operating results, general economic outlook, adverse business developments, interest rate changes, changes in financial estimates by securities analysts, matters announced in respect of competitors or changes to the regulatory environment in which the Company operates. Market conditions may affect the shares regardless of the Group's performance or the overall performance in the industry. Accordingly, the market price of the shares may not reflect the underlying value of the Group's net assets, and the price at which investors may dispose of their Shares at any point in time may be influenced by a number of factors, only some of which may pertain to the Company, while others of which may be outside the Company's control.

1.3.2 Risks related to the additional capital requirements

The Company may require additional capital in the future to finance its business activities or to take advantage of business opportunities. Upon the Company issuing shares to raise additional capital, such issuance may have a dilutive effect on the ownership interest of the then existing shareholders that choose not to participate in such issues. Furthermore, shareholders may be unable to participate in future offerings, where the shareholder's pre-emptive rights have been deviated from in order to raise equity on short notice in the investor market, or for reasons relating to foreign securities laws or other factors, and as such have their shareholdings diluted.

1.3.3 Risks related to the future share issues and sales of shares by major shareholders

Future share issues and major sales of shares by major shareholders could have an adverse effect on the market price of the Company's outstanding shares. Such sales could also make it more difficult for the Company to offer equity securities in the future at a time and at a price that are deemed appropriate.

1.3.4 There may not be a liquid market for the Shares

Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If there proves to be no active trading market for the shares, the price of the shares may be more volatile, and it may be more difficult to complete a buy or sell order for shares. Even if there is an active public trading market, there may be little or no market demand for the shares, making it difficult or impossible to resell the shares, which would have an adverse effect on the resale price, if any, of the shares. Furthermore, there can be no assurance that the Company will maintain its listing on Oslo Børs. A delisting from Oslo Børs would make it more difficult for shareholders to sell their shares and could have a negative impact on the market value of the shares.

1.3.5 Risks related to 20% ownership threshold

Pursuant to the Aquaculture Act, no single physical or legal foreign (non-Faroese) person may directly or indirectly own or control more than 20 per cent of the shares of the fish farming company or its parent company. The limitation is related to the individual physical or legal person. This restriction on foreign ownership does not apply to share capital, issued before May 2009. These provisions of the Aquaculture Act may affect investments by non-Faroese investors and may also hinder or frustrate a takeover bid from a single non-Faroese company.

1.3.6 Pre-emptive rights may not be available to U.S. holders and certain other foreign holders of the shares

U.S. holders of the shares may not be able to trade or exercise pre-emptive rights for new shares unless a registration statement under the U.S. Securities Act is effective with respect to such rights or an exemption from the registration requirements of the U.S. Securities Act is available. The Company is not a registrant under the U.S. securities laws. If U.S. holders of the shares are not able to trade or exercise pre-emptive rights granted in respect of their shares in any rights offering by the Company, then they may not receive the economic benefit of such rights. In addition, their proportional ownership interests in the Company will be diluted. Similar restrictions may apply to other foreign holders of shares, including, but not limited to shareholders in Australia, Canada, Hong Kong, Japan and Switzerland.

1.3.7 Holders of shares that are registered in a nominee account may not be able to exercise voting rights as readily as shareholders whose shares are registered in their own names with the Norwegian Central Securities Depository

Beneficial owners of the Company's shares that are registered in a nominee account (e.g., through brokers, dealers or other third parties) may not be able to vote for such shares unless their ownership is re-registered in their names with the VPS prior to the Company's general meetings. The Company cannot guarantee that beneficial owners of the Company's shares will receive the notice for a general meeting in time to instruct their nominees to either effect a re-registration of their shares or otherwise vote for their shares in the manner desired by such beneficial owners.

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