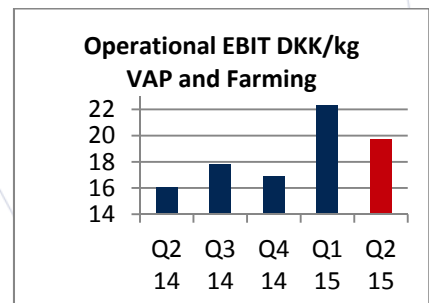
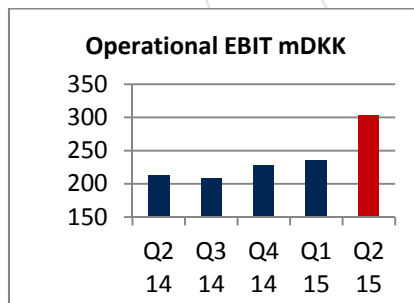
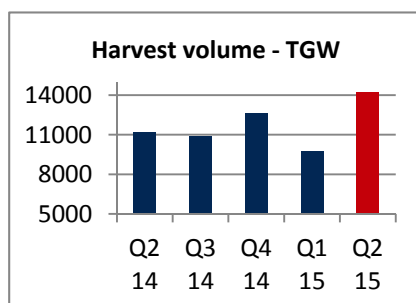


# P/F Bakkafrost

## Condensed Consolidated Interim Report for Q2 2015 and H1 2015



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## Highlights

DKK 1,000	Q2 2015	Q2 2014	YTD 2015	YTD 2014
<b>INCOME STATEMENT, SEGMENTS AND CASH FLOW</b>				
Group - Operating revenue	799,947	710,602	1,413,144	1,341,913
Group - Operational EBIT*	303,419	212,114	538,290	397,617
Group - Profit for the period	191,069	126,210	323,494	213,390
Operational EBIT (Farming and VAP)(DKK)	279,893	179,985	496,741	356,706
Operational EBIT*/kg (Farming and VAP)(DKK)	19.74	16.05	20.78	17.42
Operational EBIT*/kg (Farming and VAP) (NOK)	22.62	17.66	24.07	19.35
Farming - Operating revenue	608,993	515,578	1,080,291	1,033,690
Farming - Operational EBIT*	248,402	159,524	443,386	345,708
Farming - Operational EBIT margin	41%	31%	41%	33%
Farming - Operational EBIT/kg (DKK)	17.52	14.23	18.55	16.88
Farming - Operational EBIT/kg (NOK)	20.07	15.65	21.49	18.75
VAP - Operating revenue	190,752	266,951	379,847	499,203
VAP - Operational EBIT*	31,491	20,461	53,355	10,998
VAP - Operational EBIT margin	17%	8%	14%	2%
VAP - Operational EBIT/kg (DKK)	6.22	3.44	5.56	0.93
VAP - Operational EBIT/kg (NOK)	7.13	3.79	6.45	1.04
FOF - Operating revenue	283,521	280,117	488,449	458,169
FOF - EBITDA	53,004	56,951	115,568	79,115
FOF - EBITDA margin	18.69%	20.33%	23.66%	17.27%
Cash flow from operations	325,551	307,794	406,553	416,133
DKK/NOK (average)	87.26	90.89	86.31	90.02
<b>FINANCIAL POSITION</b>				
Total Assets**	3,497,700	3,462,933	3,497,700	3,462,933
Equity**	2,121,263	2,063,653	2,121,263	2,063,653
Equity ratio**	61%	60%	61%	60%
Net interest bearing debt (incl. fin. derivatives)**	301,900	232,711	301,900	232,711
<b>PROFITABILITY</b>				
Basic earnings per share (DKK)	3.91	2.60	6.67	4.40
Diluted earnings per share (DKK)	3.91	2.60	6.67	4.40
ROE***	8.8%	7.4%	14.9%	12.8%
ROCE (for the last quarter)****	9.3%	9.0%	16.5%	17.0%
ROCE (for the last 4 quarters)	32.3%	31.9%	32.3%	32.8%
ROIC (for the last quarter)*****	11.5%	10.5%	19.9%	17.3%
ROIC (for the last 4 quarters)	46.1%	41.6%	46.1%	36.6%
<b>VOLUMES</b>				
Harvested volume (tonnes gutted weight)	14,182	11,212	23,908	20,481
VAP produced volume (tonnes gutted weight)	5,064	5,941	9,589	11,772
Sold feed tonnes	17,657	18,827	32,057	32,783

\* Aligned for fair value adjustment of biomass, onerous contracts provisions and income from associates

\*\* Comparing figures from end 2014

\*\*\* Return on average equity based on profit or loss for the period

\*\*\*\* Return on average invested capital based on operational EBIT

\*\*\*\*\* Return on average invested capital based on EBITA

## Summary of the 2<sup>nd</sup> Quarter 2015 and H1 2015

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

**The Bakkafrost Group delivered a total operating EBIT of DKK 303.4 million in Q2 2015. Harvested volumes were record high at 14.2 thousand tonnes gutted weight in Q2 2015. The combined farming and VAP segments made an operational EBIT of DKK 279.9 million in Q2 2015. The Farming segment made an operational EBIT of DKK 248.4 million. The global salmon spot prices continued to decrease in Q2 2015. The decrease in spot prices had a positive effect on Bakkafrost's VAP segment, which had stable market conditions and made an operational EBIT of DKK 31.5 million in Q2 2015. The EBITDA for the FOF segment was DKK 53.0 million in Q2 2015.**

The Group made a profit for the quarter of DKK 191.1 million (DKK 126.2 million). For H1 2015, the profit was DKK 323.5 million (DKK 213.4 million).

The total volumes harvested in Q2 2015 were 14,182 tonnes gutted weight (11,212 tgw), which is record high harvest in a quarter for Bakkafrost. Total harvested volumes in H1 2015 were 23,908 tonnes gutted weight (20,481 tgw). The guidance for volumes for 2015 is unchanged.

Bakkafrost transferred 1.4 million smolts in Q2 2015 (1.9 million), which is in line with the company's plans. Transferred smolts in H1 2015 were 3.6 million smolts (4.9 million).

In accordance with the Group's dividend policy and the resolution of the Annual General Meeting 2015, Bakkafrost paid out DKK 6.00 (NOK 6.78) per share in April 2015 as dividend for 2014. This corresponds to DKK 293.1 million (NOK 331.1 million).

The combined farming and VAP segments made an operational EBIT of DKK 279.9 million (DKK 180.0 million) in Q2 2015. For H1 2015, the combined farming and VAP segment made an operational EBIT of DKK 496.7 million (DKK 356.7 million).

The farming segment made an operational EBIT of DKK 248.4 million (DKK 159.5 million) in Q2 2015. The harvested volumes are higher, while the average spot price is lower in Q2 2015, compared with Q2 2014. For H1 2015, the operational EBIT was DKK 443.4 million (DKK 345.7 million).

The VAP segment made an operational EBIT of DKK 31.5 million (DKK 20.5 million) for Q2 2015. There is normally a time lag between the changes in the spot prices and the changes in the contract prices. The contract prices have increased significantly from the level in Q2 2014. Therefore, the VAP result for Q2 2015 has improved, compared to last year. For H1 2015, the operational EBIT was DKK 53.4 (DKK 11.0 million).

The FOF segment (fishmeal, oil and feed) made an operational EBITDA of DKK 53.0 million (DKK 57.0 million) in Q2 2015. The record high EBITDA margin of 30.5% in Q1 2015 decreased to 18.7% in Q2 2015, as expected. The high margin in Q1 2015 was primarily due to low purchase prices during the autumn last year, and this effect diminished in Q2 2015. The operational EBITDA was 115.6 million in H1 2015 (DKK 79.1 million), corresponding to an EBITDA margin of 23.7% for H1 2015.

In Q2 2015, Havsbrún sourced 86,012 tonnes of raw material (107,372 tonnes) and in H1 2015, Havsbrún sourced 161,015 tonnes of raw material (151,531 tonnes).

The Bakkafrost Group's net interest bearing debt amounted to DKK 301.9 million at the end of Q2 2015 (DKK 232.7 million at year-end 2014) including deposits and losses on financial derivatives relating to the interest bearing debt. Bakkafrost had undrawn credit facilities of approximately DKK 720.7 million, of which DKK 17.8 million were restricted at the end of Q2 2015.

Bakkafrost's equity ratio at 30 June 2015 is 61%, compared with 60% at the end of 2014.

## Farming and VAP performance per kg

	Q2	Q2	YTD	YTD
Operational EBIT/kg	2015	2014	2015	2014
Farming EBIT/kg (DKK)	17.52	14.23	18.55	16.88
Farming EBIT/kg (NOK)	20.07	15.65	21.49	18.75
VAP EBIT/kg (DKK)	6.22	3.44	5.56	0.93
VAP EBIT/kg (NOK)	7.13	3.79	6.45	1.04

## Smolt transfer

Bakkafrost Group					
1,000 pieces	2011	2012	2013	2014	2015E
Farming North	5,000	6,500	7,200	3,000	6,600
Farming West	2,600	4,200	2,300	7,400	3,800
Viking	1,000	0	0	0	0
<b>Total</b>	<b>8,600</b>	<b>10,700</b>	<b>9,500</b>	<b>10,400</b>	<b>10,400</b>

## Financial Review

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

### Income Statement

The operating revenues amounted to DKK 799.9 million in Q2 2015 (DKK 710.6 million) and for H1 2015, the operating revenues amounted to DKK 1,413.1 million (DKK 1,341.9 million). The increase in revenue is due to higher volumes in the Farming segment and higher prices in the FOF segment.

Operational EBIT in Q2 2015 was DKK 303.4 million (DKK 212.1 million). Improved margins in the Farming and VAP segments in Q2 2015, compared with Q2 2014, resulted in an improved overall operational EBIT margin. The margin in the FOF segment was slightly lower in Q2 2015, compared with Q2 2014. For H1 2015, the operational EBIT was DKK 538.3 million (DKK 397.6 million).

A fair value adjustment of the Group's biological assets has been recognised in Q2 2015 amounting to DKK -38.0 million (DKK -9.8 million). The negative adjustment is due to lower salmon spot prices at the end of Q2 2015, compared with the beginning of the quarter. For H1 2015, the fair value adjustment amounted to DKK -93.0 million (DKK -123.6 million).

No changes were made to the provisions of onerous contracts in Q2 2015, similar to Q2 2014, as no contracts were onerous at the beginning and at the end of the quarter.

For H1 2015, no changes were made to the provisions of onerous contracts (DKK 70.9 million).

In Q2 2015, there was a loss from associated companies amounting to DKK -10.8 million (DKK 10.1 million). For H1 2015, the loss from associated companies amounted to DKK -13.7 million (DKK 3.0 million).

Net interests in Q2 2015 were DKK -17.4 million (DKK -0.5 million), whereof a positive unrealised exchange rate adjustment of DKK 4.8 million relating to the bond loan of NOK 500 million is posted in Q2 2015. For H1 2015, net interests were DKK -28.3 million (DKK -18.0 million).

Net taxes in Q2 2015 amounted to DKK -46.1 million (DKK -85.7 million). For H1 2015, net taxes amounted to DKK -79.9 million (DKK -116.5 million).

The result for Q2 2015 was DKK 191.1 million (DKK 126.2 million) and for H1 2015, the result was DKK 323.5 million (DKK 213.4).

### Harvested volumes

	Q2	Q2	YTD	YTD
Harvested volumes (tgv)	2015	2014	2015	2014
Farming North	11,681	7,874	18,866	8,195
Farming West	2,501	3,338	5,042	12,286
<b>Total harvested volumes (tgv)</b>	<b>14,182</b>	<b>11,212</b>	<b>23,908</b>	<b>20,481</b>

## Segments

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

Bakkafrost has three operating segments: Farming, VAP (value added products) and FOF (fishmeal, fish oil and fish feed). The fresh/frozen

salmon is sold in the spot market, while VAP products are sold on long-term contracts.

Distribution of harvested volumes (tgv)	Q2 2015	Q2 2014	YTD 2015	YTD 2014
Harvested volume used in VAP production	30%	53%	36%	53%
Harvested volume sold fresh/frozen	70%	47%	64%	47%
<b>Harvested and purchased volumes (tgv)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Of the total harvested volumes in Q2 2015, 30% (53%) went for the production of VAP products, and 70% (47%) were sold as whole gutted salmon. In H1 2015, 36% (53%) went for the production of VAP products, and 64% (47%) were sold as whole gutted salmon. In addition to the harvested volumes that went for the VAP production, Bakkafrost also sourced some salmon from a third party.

### Farming:

In Q2 2015, the operating revenue for Bakkafrost's farming segment was DKK 609.0 million (DKK 515.6 million). For H1 2015, the operating revenue for the farming segment was DKK 1,080.3 million (DKK 1,033.7 million).

Operational EBIT, which is EBIT before fair value adjustments on biological assets, provisions for onerous contracts and income from associates, amounted to DKK 248.4 million in Q2 2015 (DKK 159.5 million). For H1 2015, operational EBIT was DKK 443.4 million (DKK 345.7 million).

Operational EBIT/kg for the farming segment was DKK 17.52 (NOK 20.07) in Q2 2015, compared with DKK 14.23 (NOK 15.65) in Q2 2014. In general, the average salmon NOS prices have been lower in Q2 2015, than during the same period in 2014. Prices achieved by Bakkafrost, however, have been higher in Q2 2015, than in Q2 2014. Operational EBIT/kg for H1 2015 was DKK 18.55 (NOK 21.49), compared with DKK 16.88 (NOK 18.75) for H1 2014.

### Value Added Products (VAP):

The operating revenue for the VAP segment amounted to DKK 190.8 million (DKK 267.0 million) in Q2 2015. The decrease in revenue is because of lower volumes produced and sold in Q2 2015,

compared with Q2 2014. The contract prices were higher in Q2 2015, compared with Q2 2014. For H1 2015, operating revenue was DKK 379.8 million (DKK 499.2 million).

Operational EBIT amounted to DKK 31.5 million (DKK 20.5 million) in Q2 2015, corresponding to an operational EBIT of DKK 6.22 (NOK 7.13) per kg gutted weight in Q2 2015, compared with DKK 3.44 (NOK 3.79) per kg gutted weight in Q2 2014. The increase in the operational EBIT margins is due to higher contract prices and lower salmon spot prices. The VAP segment purchases its raw material (fresh salmon) at spot prices each week. For H1 2015, operational EBIT amounted to DKK 53.4 million (DKK 11.0 million), corresponding to an operational EBIT of DKK 5.56 (NOK 6.45) per kg gutted weight in H1 2015, compared with an operational EBIT of DKK 0.93 (NOK 1.04) per kg gutted weight in H1 2014.

### FOF (Fishmeal, Fish Oil and Fish Feed):

The operating revenue for the FOF segment amounted to DKK 283.5 million (DKK 280.1 million) in Q2 2015, of which DKK 158.7 million (DKK 146.7 million) represents sales to Bakkafrost's farming segment, corresponding to 56.0% (52.4%). For H1 2015, the revenue amounted to DKK 488.4 million (DKK 458.2), of which DKK 280.7 million (DKK 239.7 million) represents sales to Bakkafrost's farming segment and corresponds to 57.4% (52.3%).

Operational EBITDA was DKK 53.0 million (DKK 57.0 million) in Q2 2015, and the operational EBITDA margin was 18.7% (20.3%). Havsbrún sources raw pelagic fish for the fishmeal and fish oil production, which are part of the recipe for the production of salmon feed. The raw fish, which was purchased in Q3 and Q4 in 2014 at favourable prices, was mainly used in the salmon feed pro-



duction in Q1 2015. This had a positive effect on the margins in Q1 2015. This effect diminished in Q2 2015. For H1 2015, the operational EBITDA was DKK 115.6 million (DKK 79.1 million), corresponding to an EBITDA margin of 23.7% (17.3%).

Sales of feed amounted to 17,657 tonnes (18,827 tonnes) in Q2 2015, of which the farming segment internally used 15,551 tonnes (14,784 tonnes) or 88.1% (78.5%). In H1 2015, the feed sale was 32,057 tonnes (32,783 tonnes). The internal sale to the farming segment was 27,961 tonnes (25,382 tonnes) in H1 2015, corresponding to 87.2% (77.4%).

In Q2 2015, Havsbrún received 86,012 tonnes (107,372 tonnes) of raw material for the production of fishmeal and fish oil. In general, the raw material

intake depends on the available quotas and catch of pelagic fish species in the North Atlantic. In H1 2015, Havsbrún received 161,015 tonnes (151,531 tonnes) of raw material.

The production of fishmeal in Q2 2015 was 17,600 tonnes (21,925 tonnes). In H1 2015, Havsbrún's fishmeal production was 32,888 tonnes (31,939 tonnes).

The production of fish oil in Q2 2015 was 489 tonnes (391 tonnes). In H1 2015, Havsbrún produced 2,637 tonnes (1,659 tonnes) of fish oil. The production of fishmeal and fish oil varies, depending on the species of fish sourced for production and timing of catch. The main raw material intake of Havsbrún in H1 2015 is blue whiting, similar to H1 2014. The content of fish oil in blue whiting is normally lower in Q2, than in Q1.

## Statement of Financial Position

*(Figures in parenthesis refer to end last year)*

The Group's total assets as at end Q2 2015 amounted to DKK 3,497.7 million, compared with DKK 3,462.9 million at the end of 2014.

The Group's intangible assets are unchanged, compared to the beginning of the year, and amounted to DKK 294.7 million. Intangible assets comprise primarily the fair value of acquired farming licences. No licences in the North region are recorded with a value in the Bakkafrost accounts.

Property, plant and equipment amounted to DKK 1,168.2 million at the end of Q2 2015, compared with DKK 1,041.2 million at the end of 2014. In Q2 2015, Bakkafrost made investments in PP&E amounting to DKK 73.0 million and in H1 2015, investments were made for DKK 179.5 million.

Non-current financial assets amounted to DKK 112.8 million at the end of Q2 2015, compared with DKK 125.4 million at the end of 2014.

Bakkafrost has no long-term receivables at the end of Q2 2015, coming down from DKK 1.3 million at end 2014.

The Group's carrying amount (fair value) of biological assets amounted to DKK 902.5 million at the end of Q2 2015, compared with DKK 1,014.0 million at the end of 2014. Included in the carrying amount of the biological assets is a fair value adjustment amounting to DKK 191.9 million, compared with DKK 284.9 million at the end of 2014. The decrease is due to lower salmon prices at the

end of Q2 2015, compared to end 2014, but also due to seasonal lower biomass at sea.

The Group's total inventories amounted to DKK 418.9 million as at end Q2 2015, compared with DKK 267.0 million at year-end 2014. The inventory primarily represents Havsbrún's inventory of fishmeal, fish oil and fish feed in addition to feed at the feed stations, finished products, packing materials and other raw materials.

The Group's total receivables amounted to DKK 206.9 million as at end Q2 2015, compared with DKK 172.4 million at the end of 2014.

The Group's equity at the end of Q2 2015 is DKK 2,121.3 million, compared with DKK 2,063.7 million at the end of 2014. The change in equity consists primarily of the positive result for the period, a fair value adjustment to a currency-/interest rate swap related to the bond financing and the gross dividend of DKK 293.1 million paid out in April 2015.

The Group's total non-current liabilities amounted to DKK 1,136.0 million at the end of Q2 2015, compared with DKK 1,036.3 million at the end of 2014.

Deferred and other taxes at the end of Q2 2015 amounted to DKK 495.2 million, compared with DKK 414.0 million at the end of 2014.

Long-term debt was DKK 549.0 million at the end of Q2 2015, compared with DKK 505.4 million at the end of 2014. Derivatives amounted to DKK



91.8 million at the end of Q2 2015, compared with DKK 116.9 million at the end of 2014.

Bakkafrost's interests bearing debt consists of one bank loan and a bond loan. Bakkafrost decided to prepay the instalment loan of DKK 175 million in Q2 2015. The instalment loan was payable with DKK 25 million each quarter until year end 2016. Bakkafrost's remaining bank loan is an overdraft facility, payable in 2016 with the full amount of DKK 553 million. The bond loan of NOK 500 million has a five-year maturity and is payable 14 February 2018. The interest rate of the bonds is NIBOR 3m + 4.15%. Following the issuance of the bonds, Bakkafrost has entered into a currency/-interest rate swap, hedging the exchange rate, and has switched the interest rate from NIBOR 3m to CIBOR 3m. Bakkafrost has entered the swap due

to its exposure to DKK, as a large part of the income and costs are in DKK and EUR.

At the end of Q2 2015, the Group's total current liabilities are DKK 240.4 million, compared with DKK 362.9 million at the end of 2014. The main change in total current liabilities in Q2 is that Bakkafrost has no short-term interest bearing debt at the end of Q2 2015, because of Bakkafrost's prepayment of the bank instalment loan debt as described above. Accounts payable amount to DKK 240.4 million, compared with DKK 262.9 million at the end of 2014.

Bakkafrost's equity ratio is 61% at the end of Q2 2015, compared with 60% at the end of 2014.

## Cash Flow

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

The cash flow from operations in Q2 2015 was DKK 325.6 million (DKK 307.8 million). The working capital is nearly unchanged in Q2 2015. For H1 2015, the cash flow from operations was DKK 406.6 million (DKK 416.1 million).

The cash flow from investment activities in Q2 2015 amounted to DKK -71.7 million (DKK -71.5 million). The amount relates mainly to investments in fixed assets. For H1 2015, the cash flow from investments amounted to DKK -178.2 million (DKK -105.7 million).

Cash flow from financing activities totalled DKK -372.8 million in Q2 2015 (DKK -217.0 million). The interest bearing debt decreased by DKK 52.1 million and had a negative effect on cash flow from

financing. Likewise, financing of an associated company contributed negatively with DKK 23.1 million and the net payment of dividend of DKK 291.0 million in April 2015. For H1 2015, cash flow from financing amounted to DKK -337.6 million (DKK -229.7 million).

Net change in cash flow in Q2 2015 amounted to DKK -119.0 million (DKK 19.3 million) and for H1 2015, DKK -109.3 million (DKK 80.7 million).

At the end of Q2 2015, Bakkafrost had unused credit facilities of approximately DKK 720.7 million of which DKK 17.8 million are restricted.

## Outlook

### MARKET

The global demand growth in the salmon market has increased during the last years due to high growth rate in emerging markets and a stable growth in other markets. Expected global supply growth in 2015 is around 4-5% and 2-3% in 2016. Production capacity is close to full utilization and further expansion relates to high investments.

The Russian ban on Norwegian salmon implemented in August 2014 gave temporary challenges to move volumes between different markets. Going forward we expect the global market to adapt better to the new market balance.

The market place is one of Bakkafrost's most significant risk areas. Bakkafrost has a geographical and a market price approach. These approaches reduce the exposure to the market risk. To diversify the geographical market risk, Bakkafrost sells its products to some of the largest salmon markets in the world, the US, the Far East, Europe and Russia.

### Farming

The outlook for the farming segment is good. Biology and veterinary situation is the most important risk area for Bakkafrost. The company is focusing on this risk with new investments and procedures to minimise the risk. The biological situation is good, and the price outlook in the spot market continues to be positive.

Bakkafrost's expected harvest is unchanged at 49,000-51,000 tonnes gutted weight in 2015. Faroe Farming, a company in which Bakkafrost holds 49%, expects to harvest around 4,500 tonnes in 2015.

The number of smolts released is one key element of predicting the future production for the Group. Bakkafrost forecasts a release of 10.4 million smolts in 2015, compared with the 9.5 million smolts released in 2013, as the same sites are available for smolt release.

The estimates for harvesting volumes and smolt releases are as always dependent on the biological situation. Bakkafrost's new wellboat, *Hans á Bakka*, was delivered in July and started operating in August 2015. *Hans á Bakka* has fresh water treatment systems installed, which can be used in treatment against sea lice and other diseases.

### VAP (Value added products)

The outlook for sales of value added products is good. Bakkafrost has signed contracts covering around 75% of the VAP capacity for the rest of 2015. This corresponds to around 28% of the expected harvested volumes for the rest of 2015. The remaining 25% of the VAP capacity is expected to be committed during the year. 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. The long-term strategy is to sell around 40-50% of the harvested volumes of salmon as VAP products on fixed price contracts. Selling the products at fixed prices reduces the financial risk with fluctuating salmon prices. The market price for contracted VAP products follows a more stable pattern with trends instead of short-term fluctuations as in the spot market.

### FOF (Fish oil, -meal and feed)

The outlook for the production of fishmeal and fish oil has improved as the available raw material for the production has increased. The quotas for catching blue whiting in the North Atlantic have increased.

With increased quotas, Bakkafrost is optimistic that the raw materials needed for our production of high quality salmon feed will be available.

Depending on supply, demand and the price level, however, the sourcing of raw material for the production of fishmeal and fish oil may be uncertain. An alternative to Havsbrún's production of fishmeal and fish oil is purchasing these raw materials from other producers. Fishmeal and fish oil are the most important raw materials in the production of a high quality fish feed for the Bakkafrost salmon.

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

Havsbrún's sales of fish feed in 2015 is expected to be at 73,000 – 77,000 tonnes. This is a reduction from the previous outlook at 83,000 – 87,000 tonnes, as the sale of fish feed to external customers has been reduced. The expected feed purchase from Bakkafrost's farming segment in 2015 is unchanged.

## Investments

Bakkafrost has announced an investment plan for the period until 2017, latest updated in August 2014. The purpose of the investment plan is to continue to have one of the most costs efficient value chains in the farming industry, carry out organic growth, increase flexibility and reduce the biological risk to meet the future consumers' trends and to be more end-customer orientated.

The total investments for the period 2014-2017 were announced to be DKK 1,370 million including maintenance CAPEX. The future investments over the next three years will be DKK 1,120 million. Included in the investment plan is a new harvest/VAP factory estimated to DKK 450 million, resulting in operational savings of DKK 70-90 million per year from 2017. The plant will be up running in 2016.

Bakkafrost plans to increase the smolt capacity, making Bakkafrost self-supplied with smolts at a size of 200-300g each before end 2017. The benefits are shorter production time at sea as well as reduced biological risk. As part of this plan, the ex-

pansion of one existing hatchery started early 2015. The expansion will fourfold the capacity of this hatchery, which will be finished within one year.

Free cash flow from operations, existing financing facilities and partly new financing if advantageous will finance the investments. In addition, Bakkafrost has the possibility to postpone investments in case of adverse events. The dividend policy will be unchanged.

## Financial

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

## Risks

Bakkafrost has not identified any additional risk exposure beyond the risks described in the 2014 Annual Report.

The 2014 Annual Report is available on request from Bakkafrost and on Bakkafrost's website, [www.bakkafrost.com](http://www.bakkafrost.com).

Bakkafrost is, as explained in the 2014 Annual Report, exposed to the salmon price. A limited increase in supply is expected in 2015 and therefore a balanced salmon market.

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

## Events after the Date of the Statement of Financial Position

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

## Confirmation from the Board of Directors and the CEO

We confirm, to the best of our knowledge, that the interim financial report for the first half of 2015 has been prepared in accordance with IFRS, as adopted by EU, and gives a true and fair view of the Group's consolidated assets, liabilities, financial position and results for the period. Furthermore, we

confirm that the interim management report includes a fair review of the information required under the Norwegian Securities Trading Act § 5–6, fourth paragraph.

Glyvrar, August 25<sup>th</sup> 2015

The Board of Directors and the CEO of P/F Bakkafrost

Rúni M. Hansen  
Chairman of the Board

Johannes Jensen  
Deputy Chairman of the Board

Øystein Sandvik  
Board Member

Virgar Dahl  
Board Member

Annika Frederiksberg  
Board Member

Tor Magne Lønnum  
Board Member

Regin Jacobsen  
CEO

## Consolidated Income Statement

For the period ended 30 June 2015

DKK 1,000	Q2 2015	Q2 2014	YTD 2015	YTD 2014
<b>Operating revenue</b>	<b>799,947</b>	<b>710,602</b>	<b>1,413,144</b>	<b>1,341,913</b>
Purchase of goods	-263,099	-252,610	-567,183	-483,503
Change in inventory and biological assets (at cost)	28,169	13,128	196,088	28,351
Salary and personnel expenses	-76,606	-71,970	-140,681	-133,648
Other operating expenses	-158,667	-163,685	-310,501	-309,571
Depreciation	-26,325	-23,351	-52,577	-45,925
<b>Operational EBIT *</b>	<b>303,419</b>	<b>212,114</b>	<b>538,290</b>	<b>397,617</b>
Fair value adjustments on biological assets	-38,042	-9,838	-92,978	-123,618
Onerous contracts	0	22	0	70,908
Income from associates	-10,796	10,075	-13,663	2,978
<b>Earnings before interest and taxes (EBIT)</b>	<b>254,581</b>	<b>212,373</b>	<b>431,649</b>	<b>347,885</b>
Net interest revenue	479	690	1,413	1,289
Net interest expenses	-6,187	-7,971	-13,926	-16,508
Net currency effects	-8,630	8,425	-11,201	-26
Other financial expenses	-3,040	-1,597	-4,576	-2,720
<b>Earnings before taxes (EBT)</b>	<b>237,203</b>	<b>211,920</b>	<b>403,359</b>	<b>329,920</b>
Taxes	-46,134	-85,710	-79,865	-116,530
<b>Profit or loss for the period</b>	<b>191,069</b>	<b>126,210</b>	<b>323,494</b>	<b>213,390</b>
<b>Profit or loss for the year attributable to</b>				
Non-controlling interests	0	0	0	0
<b>Owners of P/F Bakkafrost</b>	<b>191,069</b>	<b>126,210</b>	<b>323,494</b>	<b>213,390</b>
Earnings per share (DKK)	3.91	2.60	6.67	4.04
Diluted earnings per share (DKK)	3.91	2.60	6.67	4.04

\*EBIT before fair value on biomass, onerous contracts and income from associates

## Consolidated Statement of Comprehensive Income

For the period ended 30 June 2015

DKK 1,000	Q2 2015	Q2 2014	YTD 2015	YTD 2014
<b>Profit for the period</b>	<b>191,069</b>	<b>126,210</b>	<b>323,494</b>	<b>213,390</b>
Fair value adjustment on financial derivatives	-683	-11,247	24,339	-893
Income tax effect	104	1,715	-3,713	136
Reserve to share-based payment	276	0	462	0
Currency translation differences	2	312	-128	-81
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>-301</b>	<b>-9,220</b>	<b>20,960</b>	<b>-838</b>
Proceeds/Acquisition of treasury shares	4,050	2,693	4,141	2,693
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>	<b>4,050</b>	<b>2,693</b>	<b>4,141</b>	<b>2,693</b>
<b>Other comprehensive income</b>	<b>3,749</b>	<b>-6,527</b>	<b>25,101</b>	<b>1,855</b>
<b>Total other comprehensive income for the period</b>	<b>194,818</b>	<b>119,683</b>	<b>348,595</b>	<b>215,245</b>
<b>Comprehensive income for the period attributable to</b>				
Non- controlling interests	0	0	0	0
Owners of P/F Bakkafrost	194,818	119,683	348,595	215,245

## Consolidated Statement of Financial Position

As at 30 June 2015

DKK 1,000	30 June 2015	30 June 2014	31 Dec 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	294,675	294,675	294,675
Property, plant and equipment	1,168,209	949,481	1,041,248
Financial assets	112,842	131,693	125,419
Long term receivables	0	15,035	1,291
<b>Total non-current assets</b>	<b>1,575,726</b>	<b>1,390,884</b>	<b>1,462,633</b>
<b>Current assets</b>			
Biological assets (biomass)	902,525	812,782	1,013,959
Inventory	418,860	284,056	266,960
<b>Total inventory</b>	<b>1,321,385</b>	<b>1,096,838</b>	<b>1,280,919</b>
Accounts receivable	206,881	311,474	172,360
Other receivables	97,865	78,276	141,912
<b>Total receivables</b>	<b>304,746</b>	<b>389,750</b>	<b>314,272</b>
<b>Cash and cash equivalents</b>	<b>295,843</b>	<b>262,807</b>	<b>405,109</b>
<b>Total current assets</b>	<b>1,921,974</b>	<b>1,749,395</b>	<b>2,000,300</b>
<b>TOTAL ASSETS</b>	<b>3,497,700</b>	<b>3,140,279</b>	<b>3,462,933</b>



## Consolidated Statement of Financial Position

As at 30 June 2015

DKK 1,000	30 June 2015	30 June 2014	31 Dec 2014
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	48,858	48,858	48,858
Other equity	2,072,405	1,613,879	2,014,795
<b>Total equity</b>	<b>2,121,263</b>	<b>1,662,737</b>	<b>2,063,653</b>
<b>Non-current liabilities</b>			
Deferred and other taxes	495,184	417,277	414,014
Long-term interest bearing debts	549,048	671,376	505,393
Financial derivatives	91,775	72,969	116,928
<b>Total non-current liabilities</b>	<b>1,136,007</b>	<b>1,161,622</b>	<b>1,036,335</b>
<b>Current liabilities</b>			
Short-term interest bearing debt	0	100,000	100,000
Accounts payable and other debt	240,430	215,920	262,945
<b>Total current liabilities</b>	<b>240,430</b>	<b>315,920</b>	<b>362,945</b>
<b>Total liabilities</b>	<b>1,376,437</b>	<b>1,477,542</b>	<b>1,399,280</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,497,700</b>	<b>3,140,279</b>	<b>3,462,933</b>

## Consolidated Cash Flow Statement

For the period ended 30 June 2015

DKK 1,000	Q2 2015	Q2 2014	YTD 2015	YTD 2014
<b>Earnings before interest and taxes (EBIT)</b>	<b>254,581</b>	<b>212,373</b>	<b>431,649</b>	<b>347,885</b>
Adjustments for write-downs and depreciation	26,325	23,351	52,577	45,925
Adjustments for value adjustments on biomass	38,042	9,838	92,978	123,618
Adjustments for income from associates	10,796	-10,075	13,663	-2,978
Adjustments for currency effects	-6,190	8,425	-8,761	-26
Taxes paid	-3,953	0	-3,953	0
Provision for onerous contracts	0	-22	0	-70,908
Change in inventory	22,144	-13,128	-133,444	-19,071
Change in receivables	-9,498	50,422	-15,870	64,736
Change in current debts	-6,696	26,610	-22,286	-73,048
<b>Cash flow from operations</b>	<b>325,551</b>	<b>307,794</b>	<b>406,553</b>	<b>416,133</b>
<b>Cash flow from investments</b>				
Payments made for purchase of fixed assets	-73,041	-61,030	-179,538	-78,710
Sale/Purchase of shares	0	3,140	0	-13,409
Change in long-term receivables	1,314	-13,563	1,314	-13,563
<b>Cash flow from investments</b>	<b>-71,727</b>	<b>-71,453</b>	<b>-178,224</b>	<b>-105,682</b>
<b>Cash flow from financing</b>				
Change of interest bearing debt (short and long)	-52,083	51,943	-56,345	-14,139
Financial income	479	690	1,413	1,289
Financial expenses	-9,227	-9,568	-18,502	-19,228
Acquisition of treasury shares	2,049	3,437	2,742	3,437
Financing of associate	-23,065	-45,378	24,081	17,080
Dividend paid	-290,985	-218,160	-290,985	-218,160
<b>Cash flow from financing</b>	<b>-372,832</b>	<b>-217,036</b>	<b>-337,596</b>	<b>-229,721</b>
<b>Net change in cash and cash equivalents in period</b>	<b>-119,008</b>	<b>19,305</b>	<b>-109,267</b>	<b>80,730</b>
Cash and cash equivalents – opening balance	414,851	243,502	405,110	182,077
<b>Cash and cash equivalents – closing balance total</b>	<b>295,843</b>	<b>262,807</b>	<b>295,843</b>	<b>262,807</b>

## Consolidated Statement of Changes in Equity

As at 30 June 2015

DKK 1,000	Share Capital	Share Premium Reserve	Treasury Shares	Share- based Payment	Currency translation differences	Derivatives	Proposed Dividend	Biomass Fair value adjust- ments	Retained Earnings	Total Equity
Equity 01.01.2015	48,858	306,537	-25,557	161	1,458	-95,882	293,148	284,855	1,250,075	2,063,653
Consolidated profit	0	0	0	0	0	0	0	92,978	230,516	323,494
<i>Other comprehensive income:</i>										
Fair value adjustment on financial derivatives	0	0	0	0	0	24,339	0	0	0	24,339
Income tax effect	0	0	0	0	0	-3,713	0	0	0	-3,713
Share-based payment	0	0	0	462	0	0	0	0	0	462
Currency translation differences	0	0	0	0	-128	0	0	0	0	-128
Total other comprehensive income	0	0	0	462	-128	20,626	0	0	0	20,960
Total comprehensive income	0	0	0	462	-128	20,626	0	92,978	230,516	344,454
<i>Transaction with owners:</i>										
Treasury shares	0	0	4,141	0	0	0	0	0	0	4,141
Paid-out dividend	0	0	0	0	0	0	-293,148	0	2,163	-290,985
Total transaction with owners	0	0	4,141	0	0	0	-293,148	0	2,163	-286,844
Total changes in equity	0	0	4,141	462	-128	20,626	-293,148	92,978	232,679	57,610
Total equity 30.06.2015	48,858	306,537	-21,416	623	1,330	-75,256	0	377,833	1,482,754	2,121,263
Equity 01.01.2014	48,858	306,537	-28,949	0	1,109	-61,409	219,862	296,402	882,867	1,665,277
Consolidated profit	0	0	0	0	0	0	0	123,618	89,772	213,390
<i>Other comprehensive income:</i>										
Fair value adjustment on financial derivatives	0	0	0	0	0	-892	0	0	0	-892
Income tax effect	0	0	0	0	0	136	0	0	0	136
Currency translation differences	0	0	0	0	293	0	0	0	0	293
Total other comprehensive income	0	0	0	0	293	-756	0	0	0	-463
Total comprehensive income	0	0	0	0	293	-756	0	123,618	89,772	212,927
<i>Transaction with owners:</i>										
Treasury shares	0	0	0	2,693	0	0	0	0	0	2,693
Paid-out dividend	0	0	0	0	0	0	-219,862	0	1,702	-218,160
Total transaction with owners	0	0	0	2,693	0	0	-219,862	0	1,702	-215,467
Total changes in equity	0	0	0	2,693	293	-756	-219,862	123,618	91,474	-2,540
Total equity 30.06.2014	48,858	306,537	-28,949	2,693	1,402	-62,165	0	420,020	974,341	1,662,737

## 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<sup>st</sup> December 2014 is available upon request from the company's

registered office at Bakkavegur 9, FO-625 Glyvrrar, Faroe Islands, or at [www.bakkafrost.com](http://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 of 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<sup>st</sup> December 2014.

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<sup>st</sup> December 2014.

The company has, nevertheless, chosen to reproduce the note on intangible assets from the Annual Report 2014. The information in the note is enlarged.

#### Note 3. Estimates and risk exposure

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 recognised amounts of assets, liabilities, income and expenses. The most significant estimates relate to the valuation of biological assets and some financial instruments, which are measured at fair value. Estimates and underlying assumptions are reviewed on an on-going 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 Note 3 to the financial statements in the Annual Report 2014.

For other risk exposures, reference is made to the Management Statement in the Annual Report for 2014, where Bakkafrost's operational and financial risks are described, as well as to Note 22 (Financial risk management) in the same report.

The risks and uncertainties described therein are expected to remain.

#### Note 4. Biomass

DKK 1,000	30 June 2015	30 June 2014	31 Dec 2014
Biological assets carrying amount 01.01.	1,013,959	965,895	965,895
Increase due to production or purchases	525,891	382,679	1,106,337
Reduction due to harvesting or sale (costs of goods sold)	-538,942	-413,192	-1,029,122
Fair value adjustment at the beginning of the period reversed	-284,855	-296,402	-296,402
Fair value adjustments at the end of the period	191,878	172,784	284,855
Reversal of elimination at the beginning of the period	51,342	33,738	33,738
Eliminations	-56,749	-32,720	-51,342
<b>Biological assets carrying amount at the end of the period</b>	<b>902,524</b>	<b>812,782</b>	<b>1,013,959</b>
Cost price biological assets	752,525	656,846	764,675
Capitalised interest	14,870	15,872	15,771
Fair value adjustments at the end of the period	191,878	172,784	284,855
Eliminations	-56,749	-32,720	-51,342
<b>Biological assets carrying amount</b>	<b>902,524</b>	<b>812,782</b>	<b>1,013,959</b>
Biomass < 1 kg on average (tonnes live weight)	3,003	2,159	1,834
Biomass 1 kg < 4 kg on average (tonnes live weight)	12,805	12,257	11,194
Biomass > 4 kg on average (tonnes live weight)	16,066	14,202	22,463
<b>Volume of biomass at sea (tonnes live weight)</b>	<b>31,874</b>	<b>28,618</b>	<b>35,491</b>
Numbers of fish < 1 kg on average (thousand)	5,549	5,439	5,055
Numbers of fish 1 kg < 4 kg on average (thousand)	5,077	5,988	4,948
Numbers of fish > 4 kg on average (thousand)	2,679	2,700	4,537
<b>Total numbers of fish (thousand)</b>	<b>13,305</b>	<b>14,127</b>	<b>14,540</b>

## Note 5. Intangible assets & impairment test

### ACCOUNTING POLICIES

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

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

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

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

**Sea farming licences**, which are purchased either as part of an acquisition or business combination according to IFRS 3, are capitalised at cost less accumulated write-downs. Sea farming licences in the Faroe Islands are considered perpetual, given that certain preconditions regarding environmental protection and animal welfare are met. Consequently, sea farming licences are not depreciated systematically, but are subject to an annual impairment test. If the carrying amount exceeds the recoverable amount, licences are considered impaired, and write-downs are entered and charged to the Income Statement.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be appropriate. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Bakkafrost operates its sea farming activity in 13 identifiable CGUs based on single or groups of sea farming licenses.

Seven out of these licenses are issued by the government without consideration, and hence are not capitalised. These belong to the North region.

The other six CGUs are acquired as part of business combinations. Respectively, when acquiring the Vestlax Group and the Havsbrún Group, hence two groups of CGUs. These are belonging to the West region. Bakkafrost considers these as significant in comparison to Bakkafrost's total carrying amount of goodwill and intangible assets with indefinite useful lives. Bakkafrost has decided to disclose specific information concerning these two groups of CGUs.

### Licenses with indefinite useful lives

The sea farming licenses in the Faroe Islands are defined as the right to utilise a given area of fjords for farming fish. There are no provisions as to the maximum allowed biomass at the given site, but the legislation has imposed strict measures to regulate the farming activity in order to be environmentally sustainable.

The sea farming licenses are issued with a nominal lifespan of 12 years. Licenses are renewed, unless there is a specific reason against renewal, based on failure to fulfil the veterinary conditions set by the authorities. In connection with renewal of licenses, authorities may only decline renewal if specific legislation on area planning, animal welfare or environmental protection is in conflict with renewal of the licenses. Special emphasis is to be placed on the fact, that it is renewals of existing licenses.

This actually means that sea farming licenses are operated in a 12-year rolling lifespan system, where the licenses are renewed every 12<sup>th</sup> year. In the very rare cases, where the authorities have declined to renew licenses in order the use locations for other purposes, the farmers have obtained licenses from the authorities at other locations.

Bakkafrost has therefore decided to account for sea farming licenses, which are capitalised, following the provisions for intangible rights with indefinite useful lives.

### GOODWILL

When the company assumes control over a separate business entity for a consideration that exceeds the fair value of the individual assets, the difference is entered as goodwill in the statement of financial position.

Goodwill deriving from purchases of subsidiaries and associates is presented under intangible assets.

Goodwill is not depreciated, but is tested for impairment annually or more often if there are indications that its value is lower than the carrying amount. When assessing the need to write-down goodwill, this is assigned to relevant cash flow generating units or groups, which are expected to benefit from the acquisition.

Write-downs are performed in accordance with an assessment of the recoverable value of each of the cash-flow generating units to which the goodwill is assigned. To identify the Group's cash-flow gener-

ating units, the assets are grouped according to the lowest level to which separate and independent cash flows may be ascribed. Recoverable value is calculated on the basis of value in use. This is arrived at by estimating future cash flows. Please refer to Note 9 for further description.

If the calculated value in use is less than the carrying amount of the cash-flow generating unit, goodwill is written down first, and then other assets as required.

## Intangible assets

DKK 1,000	Goodwill	Licences	TOTAL
Acquisition costs as at 01.01.15	4,537	290,138	294,675
<b>Acquisition costs as at 30.06.15</b>	<b>4,537</b>	<b>290,138</b>	<b>294,675</b>
Impairment 01.01.15	0	0	0
<b>Accumulated depreciation and write-downs as at 30.06.15</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net book value as at 30.06.15</b>	<b>4,537</b>	<b>290,138</b>	<b>294,675</b>
Acquisition costs as at 01.01.14	4,537	290,138	294,675
<b>Acquisition costs as at 31.12.14</b>	<b>4,537</b>	<b>290,138</b>	<b>294,675</b>
Impairment 01.01.14	0	0	0
<b>Accumulated depreciation and write-downs as at 31.12.14</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net book value as at 31.12.14</b>	<b>4,537</b>	<b>290,138</b>	<b>294,675</b>

## IMPAIRMENT TEST

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

### The procedure of impairment testing

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

of continued operation. The basis for the estimated cash flow is the strategic plan for the following years. The strategic plans have been reviewed and the targets approved by the Group management.

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

### Indications of impairment

The impairment testing at year-end did not result in identification of impairment losses. Intangible assets were tested for impairment to evaluate if the cash



flow from a conservative estimate was sufficient to support the carrying amount of net assets. The test confirmed the asset values.

### The key assumptions

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

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

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

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

- Harvested volume is based on the current stocking plans for each unit, and forecasted figures for growth, assumed harvest weight and mortality, based on historical figures.
- The costs are based on Bakkafrost's own assumptions based on historical costs and expectations. The costs are expected to remain stable, but are calculated to increase with an inflation rate of 2%.
- The forward prices are based on the Fish Pool index, which is a part of Oslo Børs ASA, at the day of the calculation. The long-term forward prices are based on third-parties sources.
- The WACC is 10.8% pre-tax and calculated in accordance with IAS 36. The WACC model is used for estimating the discount rate. The input data for the model is updated every year for the annual impairment test. The choice of input data for the model significantly influences the outcome of the model, and to ensure that there is as little uncertainty as possible with regards to the calcu-

lation of the WACC, third-party sources are used where available (interest, inflation, beta). The discount rate is based on a five-year average for ten-year bonds issued by the Danish government, with an adjustment margin for the food industry in the EU.

- The inflation is set to 2% for the budget period. This is done based on third-parties sources.
- The terminal growth is set to 0%. The terminal growth – growth after the 5<sup>th</sup> year – is set lower than the expected growth rates in the first 5 years and also lower than the historic growth rate in salmon demand.
- Capital expenditure (CAPEX). In the 5-year forecast period, the capital expenditure necessary to meet the expected growth in revenue and profit is taken into consideration. Capital expenditures are aligned with the growth and replacement plans. Capital expenditure to comply with current laws and regulations has been included. Capex related to committed and approved efficiency improvement programs has also been included to support the inclusion of the benefits in the applied margin. Changes in applicable laws and regulations may affect future estimated capital expenditure needs; this is not reflected in the figures used in the impairment test. Beyond the forecast period, capital expenditure will in general equal depreciation and relate to maintenance investments.

### Sensitivity

In connection with the impairment testing of intangible assets, a sensitivity analysis has been carried out. Sensitivity analysis has been performed for each of the defined cash generating units. With the assumptions used, the headroom is DKK 511 million.

- A change of +4% on the total costs, or fall in long-term sales prices of -4% would cause the first impairment.
- A change in the EBITDA margin of +/- 1% would affect the headroom with +/- DKK 94 million.
- A change in WACC of +1% would affect the headroom with DKK -175 million, and a change in WACC of -1% would affect the headroom with DKK 237 million.

## Specification of CGUs - Booked value tested and sensitivity

The CGUs tested are in the West region.

### Sensitivity analyses and booked value per CGU as per 31-12-14

<b>CGUs (1,000)</b>	<b>Licenses</b>	<b>Other assets***</b>	<b>Total booked value tested</b>	<b>WACC</b>	<b>Number of smolts</b>	<b>EBITDA change of +/-1%</b>	<b>WACC change of -1%</b>	<b>WACC change of + 1%</b>
Vestlax acquisition*	132,706	526,116	658,822	10.8%	6,400	65,564	181,995	-102,513
Havsbrún acquisition**	157,430	231,021	388,451	10.8%	2,800	28,685	55,106	-72,189
<b>TOTAL</b>	<b>290,136</b>	<b>757,137</b>	<b>1,047,273</b>	<b>10.8%</b>	<b>9,200</b>	<b>94,249</b>	<b>237,101</b>	<b>-174,702</b>

### Sensitivity analyses and booked value per CGU as per 31-12-13

<b>CGUs (1,000)</b>	<b>Licenses</b>	<b>Other assets***</b>	<b>Total booked value tested</b>	<b>WACC</b>	<b>Number of smolts</b>	<b>EBITDA change of +/-1%</b>	<b>WACC change of -1%</b>	<b>WACC change of + 1%</b>
Vestlax acquisition*	132,706	519,379	652,085	9.8%	6,300	71,368	249,576	-181,175
Havsbrún acquisition**	157,430	176,818	334,248	9.8%	2,100	23,790	83,207	-60,406
<b>TOTAL</b>	<b>290,136</b>	<b>696,197</b>	<b>986,333</b>	<b>9.8%</b>	<b>8,400</b>	<b>95,158</b>	<b>332,783</b>	<b>-241,581</b>

\* 4 CGUs in license numbers A03, A05, A06, A25, A80 and A81. Acquired in 2010.

\*\* 2 CGUs in license numbers A71 and A82. Acquired in 2011.

\*\*\* Other assets consist of goodwill, PP&E, inventory, receivables, etc. that can be allocated to CGUs or are directly attributable to CGUs.

## Note 6. Segments

Farming segment	Q2	Q2	YTD	YTD
DKK 1,000	2015	2014	2015	2014
External revenue	484,361	310,274	825,551	624,229
Internal revenue	124,632	205,304	254,740	409,461
<b>Total revenue</b>	<b>608,993</b>	<b>515,578</b>	<b>1,080,291</b>	<b>1,033,690</b>
Operating expenses	-343,476	-340,986	-602,678	-658,383
Depreciation and amortisation	-17,115	-15,068	-34,227	-29,599
<b>Operational EBIT</b>	<b>248,402</b>	<b>159,524</b>	<b>443,386</b>	<b>345,708</b>
Fair value adjustments on biological assets	-38,042	-9,838	-92,978	-123,618
Income from associates	-147	5,974	-4,856	-5,242
<b>Earnings before interest and taxes (EBIT)</b>	<b>210,213</b>	<b>155,660</b>	<b>345,552</b>	<b>216,848</b>
Net interest revenue	-1,070	21	-1,868	410
Net interest expenses	914	-1,032	-511	-2,876
Net currency effects	-7,240	10,242	-12,214	1,715
Other financial expenses	-2,980	-1,524	-4,442	-2,551
<b>Earnings before taxes (EBT)</b>	<b>199,837</b>	<b>163,367</b>	<b>326,517</b>	<b>213,546</b>
Taxes	-35,426	-73,643	-55,355	-90,948
<b>Profit or loss for the period</b>	<b>164,411</b>	<b>89,724</b>	<b>271,162</b>	<b>122,598</b>

VAP segment (Value added products)	Q2	Q2	YTD	YTD
DKK 1,000	2015	2014	2015	2014
<b>External revenue</b>	<b>190,752</b>	<b>266,951</b>	<b>379,847</b>	<b>499,203</b>
Internal purchase of raw material	-124,632	-205,304	-254,740	-409,461
Operating expenses	-32,776	-39,238	-68,097	-74,876
Depreciation and amortisation	-1,853	-1,948	-3,655	-3,868
<b>Operational EBIT</b>	<b>31,491</b>	<b>20,461</b>	<b>53,355</b>	<b>10,998</b>
Provision for onerous contracts	0	21	0	70,908
<b>Earnings before interest and taxes (EBIT)</b>	<b>31,491</b>	<b>20,482</b>	<b>53,355</b>	<b>81,906</b>
Net interest revenue	1,432	247	3,007	248
Net interest expenses	0	-3	-2	-878
Net currency effects	0	0	-3	0
Other financial expenses	-4	-5	-8	-13
<b>Earnings before taxes (EBT)</b>	<b>32,919</b>	<b>20,721</b>	<b>56,349</b>	<b>81,263</b>
Taxes	-5,926	-3,730	-10,143	-14,628
<b>Profit or loss for the period</b>	<b>26,993</b>	<b>16,991</b>	<b>46,206</b>	<b>66,635</b>

FOF segment (Fishmeal, Fish Oil and Fish Feed) DKK 1,000	Q2 2015	Q2 2014	YTD 2015	YTD 2014
External revenue	124,834	133,377	207,746	218,481
Internal revenue	158,687	146,740	280,703	239,688
<b>Total revenue</b>	<b>283,521</b>	<b>280,117</b>	<b>488,449</b>	<b>458,169</b>
Purchase of goods	-181,231	-163,643	-281,499	-283,476
Operating expenses	-49,286	-59,523	-91,382	-95,578
Depreciation and amortisation	-7,357	-6,335	-14,695	-12,458
<b>Operational EBIT</b>	<b>45,647</b>	<b>50,616</b>	<b>100,873</b>	<b>66,657</b>
Income from associates	-10,649	4,101	-8,807	8,220
<b>Earnings before interest and taxes (EBIT)</b>	<b>34,998</b>	<b>54,717</b>	<b>92,066</b>	<b>74,877</b>
Net interest revenue	117	422	274	631
Net interest expenses	-7,101	-6,936	-13,413	-12,754
Net currency effects	-1,390	-1,817	1,016	-1,741
Other financial expenses	-56	-68	-126	-156
<b>Earnings before taxes (EBT)</b>	<b>26,568</b>	<b>46,318</b>	<b>79,817</b>	<b>60,857</b>
Taxes	-4,782	-8,337	-14,367	-10,954
<b>Profit or loss for the period</b>	<b>21,786</b>	<b>37,981</b>	<b>65,450</b>	<b>49,903</b>

Reconciliation of reportable segments to Group earnings before taxes (EBT) DKK 1,000	Q2 2015	Q2 2014	YTD 2015	YTD 2014
Farming	199,837	163,367	326,517	213,546
VAP (Value added products)	32,919	20,721	56,349	81,263
FOF (Fishmeal, Fish Oil and Fish Feed)	26,568	46,318	79,817	60,857
Eliminations	-22,121	-18,487	-79,958	-25,747
<b>Group earnings before taxes (EBT)</b>	<b>237,203</b>	<b>211,919</b>	<b>382,725</b>	<b>329,919</b>

Assets and liabilities per segment DKK 1,000	30 June 2015	30 June 2014	31 Dec 2014
Farming	3,438,096	3,163,710	3,305,566
VAP (Value added products)	239,900	113,131	187,328
FOF (Fishmeal, Fish Oil and Fish Feed)	821,556	849,434	754,904
Eliminations	-1,001,852	-985,996	-784,865
<b>Total assets</b>	<b>3,497,700</b>	<b>3,140,279</b>	<b>3,462,933</b>
Farming	-988,033	-981,867	-753,064
VAP (Value added products)	-17,504	-9,460	-7,949
FOF (Fishmeal, Fish Oil and Fish Feed)	-650,761	-695,004	-545,308
Eliminations	279,861	208,789	-92,959
<b>Total liabilities</b>	<b>-1,376,437</b>	<b>-1,477,542</b>	<b>-1,399,280</b>

## Note 7. Harvest and Sales FOF

Distribution of harvested volumes (tgw)	Q2 2015	Q2 2014	YTD 2015	YTD 2014
Harvested volume used in VAP production	4,249	5,895	8,681	10,947
Harvested volume sold fresh/frozen	9,933	5,317	15,227	9,534
<b>Harvested and purchased volume (tgw)</b>	<b>14,182</b>	<b>11,212</b>	<b>23,908</b>	<b>20,481</b>

Harvested volumes (tgw)	Q2 2015	Q2 2014	YTD 2015	YTD 2014
Farming North	11,681	7,874	18,866	8,195
Farming West	2,501	3,338	5,042	12,286
<b>Total harvested volumes (tgw)</b>	<b>14,182</b>	<b>11,212</b>	<b>23,908</b>	<b>20,481</b>

Distribution of harvested volumes (tgw)	Q2 2015	Q2 2014	YTD 2015	YTD 2014
Harvested volume used in VAP production	30%	53%	36%	53%
Harvested volume sold fresh/frozen	70%	47%	64%	47%
<b>Harvested and purchased volumes (tgw)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Sales FOF volumes (tonnes)	Q2 2015	Q2 2014	YTD 2015	YTD 2014
Feed internal	15,551	14,784	27,961	25,382
Feed external	2,106	4,043	4,096	7,401
<b>Feed total</b>	<b>17,657</b>	<b>18,827</b>	<b>32,057</b>	<b>32,783</b>
<b>Fishmeal external</b>	<b>9,900</b>	<b>11,046</b>	<b>15,251</b>	<b>14,683</b>
<b>Fish oil external</b>	<b>4</b>	<b>15</b>	<b>5</b>	<b>3,330</b>

### **Note 8. 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 520 million. DKK 116 million relate to the

building of the new wellboat. DKK 242 million relate to the building of the new harvest and VAP factory, and DKK 121 million relate to the building of the new hatchery station.

### **Note 9. Transactions with related parties**

Note 27 in Bakkafrost's Annual Report for 2014 provides detailed information on related parties' transactions.

Faroe Farming, an associated company of Bakkafrost, purchased for DKK 17.8 million from Bakkafrost in Q2 2015 and DKK 28.3 million in H1 2015. Bakkafrost purchased raw material amounting to DKK 20.0 million from Faroe Farming in Q2 2015

and DKK 91.8 million in H1 2015. At the end of Q2 2015, Faroe Farming owed DKK 40.0 million to the Bakkafrost Group.

Transactions between P/F Bakkafrost 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 10. Fair value measurements

All assets/liabilities, for which fair value is recognised or disclosed, are categorised 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 valu-

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

For more information on these calculations, please refer to Note 2.13 and Note 14 in the Annual Report 2014.

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

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

As at 30 June 2015, the Group held the following classes of assets/liabilities measured at fair value:

DKK 1,000		Carrying			
Assets and liabilities measured at fair value	Fair value	amount	Level 1	Level 2	Level 3
Financial assets	197	500	197	0	0
Biological assets (biomass)	902,525	752,525	0	0	902,525
<b>Assets measured at fair value 30/6- 2015</b>	<b>902,722</b>	<b>753,025</b>	<b>197</b>	<b>0</b>	<b>902,525</b>
<b>Liabilities measured at fair value 30/6-2015</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Financial assets	233	500	233	0	0
Biological assets (biomass)	1,013,959	729,104	0	0	1,013,959
<b>Assets measured at fair value 31/12- 2014</b>	<b>1,014,192</b>	<b>729,604</b>	<b>233</b>	<b>0</b>	<b>1,013,959</b>
<b>Liabilities measured at fair value 31/12-2014</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



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