



INTERIM REPORT

Q2 2018
and
H1 2018

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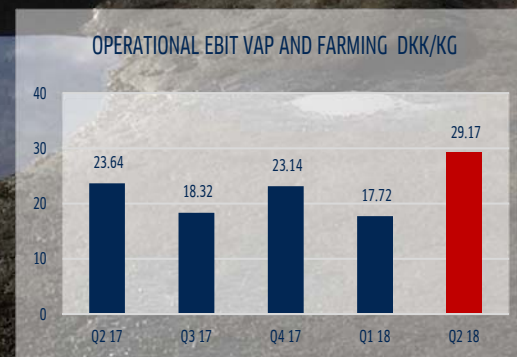
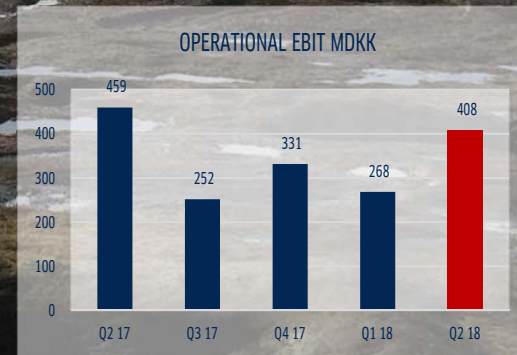
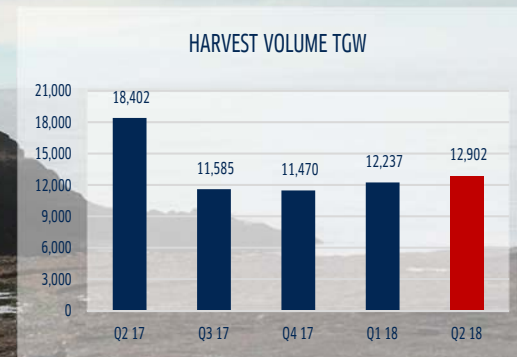


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Highlights

DKK 1,000	Q2 2018	Q2 2017	H1 2018	H1 2017
INCOME STATEMENT				
Group - Operating revenue	954,316	1,206,148	1,805,472	2,059,829
Group - Operational EBIT*	407,893	459,157	676,115	794,611
Group - EBIT	403,455	491,317	754,900	594,366
Group - Profit for the period	338,756	398,066	611,057	477,096
Operational EBIT* (Farming and VAP) (DKK)	376,290	434,972	593,117	755,164
Operational EBIT*/kg (Farming and VAP) (DKK)	29.17	23.64	23.59	23.93
Operational EBIT*/kg (Farming and VAP) (NOK)	37.41	29.77	30.39	29.51
Farming - Operating revenue	774,783	1,038,605	1,441,438	1,789,989
Farming - Operational EBIT*	393,188	489,450	621,631	862,682
Farming - Operational EBIT margin	50.7%	47.1%	43.1%	48.2%
Farming - Operational EBIT/kg (DKK)	30.47	26.60	24.73	27.33
Farming - Operational EBIT/kg (NOK)	39.09	33.50	31.85	33.71
VAP - Operating revenue	93,618	272,582	186,612	464,125
VAP - Operational EBIT*	-16,898	-54,478	-28,514	-107,518
VAP - Operational EBIT margin	-18.0%	-20.0%	-15.3%	-23.2%
VAP - Operational EBIT/kg (DKK)	-8.58	-10.33	-6.98	-12.07
VAP - Operational EBIT/kg (NOK)	-11.00	-13.01	-8.99	-14.88
FOF - Operating revenue	326,291	317,033	626,650	594,174
FOF - EBITDA	66,047	47,827	152,480	92,974
FOF - EBITDA margin	20.2%	15.1%	24.3%	15.6%
DKK/NOK (average)	77.97	79.40	77.64	81.09

DKK 1,000	Q2 2018	Q2 2017	H1 2018	H1 2017
FINANCIAL POSITION AND CASH FLOW				
Total Assets***	5,470,322	5,155,516	5,470,322	5,155,516
Equity***	3,725,398	3,626,429	3,725,398	3,626,429
Equity ratio***	68%	70%	68%	70%
Net interest-bearing debt***	443,324	258,070	443,324	258,070
Cash flow from operations	279,467	497,997	647,642	863,301
Cash flow from financing	-555,527	-474,226	-453,421	-396,007
PROFITABILITY				
Basic earnings per share (DKK)	6.96	8.19	12.56	9.82
Diluted earnings per share (DKK)	6.96	8.19	12.56	9.82
ROCE**	7.9%	9.7%	15.4%	16.9%
VOLUMES				
Harvested volumes (tgw)	12,902	18,402	25,139	31,560
VAP produced volumes (tgw)	1,970	5,273	4,085	8,909
Sold feed tonnes	15,673	17,032	29,596	36,859
Internal feed sales tonnes	14,656	16,012	27,808	34,965
Smolt released thousand (pcs)	2,775	1,918	5,909	3,313

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

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

*** Comparing figures with figures from end 2017

Summary Q2 2018 and H1 2018

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

The Bakkafrost Group delivered a total operating EBIT of DKK 407.9 million in Q2 2018. Harvested volumes were 12.9 thousand tonnes gutted weight. The combined farming and VAP segments made an operational EBIT of DKK 376.3 million. The farming segment made an operational EBIT of DKK 393.2 million. The salmon spot prices increased in Q2 2018, compared to the previous quarter. The price increase had a positive effect on the operational EBIT in the farming segment. The VAP segment made an operational EBIT of DKK -16.9 million. The EBITDA for the FOF segment was DKK 66.0 million.

The Group made a profit for Q2 2018 of DKK 338.8 million (DKK 398.1 million). For H1 2018, the profit was DKK 611.1 million (DKK 477.1 million).

The total volumes harvested in Q2 2018 were 12,902 tonnes gutted weight (18,402 t_{gw}). Total harvested volumes in H1 2018 were 25,139 tonnes gutted weight (31,560 t_{gw}). Bakkafrost has reduced its guidance for volumes for 2018 by 2,000 tonnes gutted weight, from 51,000 tonnes to 49,000 tonnes gutted weight.

2.8 million (1.9 million) smolts were transferred during Q2 2018. In H1 2018 5.9 million (3.3 million) smolts were transferred.

The combined farming and VAP segments made an operational EBIT of DKK 376.3 million (DKK 435.0 million) in Q2 2018. The operational EBIT per kg in Q2 2018 was DKK 29.17 (DKK 23.64), which corresponds to NOK 37.41 (NOK 29.77) for the combined farming and VAP segments. For H1 2018, the combined farming and VAP segments made an operational EBIT of DKK 593.1 million (DKK 755.2 million).

The farming segment made an operational EBIT of DKK 393.2 million (DKK 489.5 million) in Q2 2018. The harvested volumes were lower, and the average spot price was higher in Q2 2018, compared to Q2 2017. For H1 2018, the operational EBIT was DKK 621.6 million (DKK 862.7 million).

The VAP segment made an operational EBIT of DKK -16.9 million (DKK -54.5 million) for Q2 2018. The VAP segment has had negative results from Q2 2016 until Q3 2017, when it turned to a surplus, but the salmon spot prices increased again in Q1 2018, resulting in negative margins. For H1 2018, the operational EBIT was DKK -28.5 million (DKK -107.5 million).

The FOF segment (fishmeal, oil and feed) made an EBITDA of DKK 66.0 million (DKK 47.8 million) for Q2 2018, and the EBITDA margin was 20.2% (15.1%). The EBITDA was DKK 152.5 million in H1 2018 (DKK 93.0 million), corresponding to an EBITDA margin of 24.3% (15.6%).

During Q2 2018, Havsbrún sourced 118,387 tonnes (163,100 tonnes) of raw material, and in H1 2018, Havsbrún sourced 248,491 tonnes (269,667 tonnes) of raw material.

In accordance with Bakkafrost's dividend policy and the resolution of the Annual General Meeting 2018, Bakkafrost paid out DKK 10.50 (NOK 13.52) per share on 30 April 2018. The total dividend payment was DKK 513.0 million (NOK 660.6 million).

In Q2 2018, Bakkafrost's full-time employees from 2017, still employed in Bakkafrost, have received bonus shares with the value of 2% of their salary in 2017. In total, Bakkafrost allocated 14,206 shares to its employees. The total allocation amounted to DKK 5.2 million and was based on the closing share price on the allocation day, 14 June 2018.

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

Bakkafrost relinquished farming sites A-03 Svínáir and A-17/18 Hovsfjørður in July 2016 to comply with Faroese law, when acquiring the remaining outstanding shares in P/F Faroe Farming, which had farming operations in Suðuroy, Faroe Islands. Faroe Farming has since been merged with P/F Bakkafrost Farming. Bakkafrost has been in dialogue with the Faroese Authorities on how the farming operation in Suðuroy could be structured. In Q2 2018, the conclusion was made, which resulted in Bakkafrost relinquishing farming site A-82 Kaldbaksfjørður and getting back A-17/18 Hovsfjørður. In this restructuring Bakkafrost will have future farming opportunities in A-23 Hvalbiarfjørður, which will be part of the farming site A-15/16 Trongisvágsfjørður. Hvalbiarfjørður is a frontier farming area where preliminary research has been done. Bakkafrost will now start building up these new farming sites.

The net interest-bearing debt amounted to DKK 443.3 million at the end of Q2 2018 (DKK 258.1 million at year-end 2017). Undrawn credit facilities amounted to DKK 1,039 million at the end of Q2 2018.

The equity ratio was 68% at 30 June 2018, compared to 70% at the end of 2017.

Financial Review

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

Income Statement

The operating revenue amounted to DKK 954.3 million (DKK 1,206.1 million) in Q2 2018, and for H1 2018, the operating revenue amounted to DKK 1,805.5 million (DKK 2,059.8 million).

The farming segment's harvest volume was lower, and the achieved prices were higher in Q2 2018, compared to the same quarter last year. The VAP segment had lower revenues because of lower volumes, but higher prices in Q2 2018, compared to Q2 2017. The FOF segment had higher external revenues in Q2 2018, compared to Q2 2017.

Operational EBIT was DKK 407.9 million (DKK 459.2 million) in Q2 2018. The VAP and FOF segments had improved operational EBIT in Q2 2018, compared to Q2 2017. For H1 2018, the operational EBIT was DKK 676.1 million (DKK 794.6 million).

The fair value adjustment of the Group's biological assets amounted to DKK 34.8 million (DKK 54.9 million) in Q2 2018. The positive adjustment is due to higher forward market prices for salmon at the end of the quarter, compared to the beginning of the quarter. For H1 2018, the fair value adjustment amounted to DKK 141.9 million (DKK -179.7 million).

Change in provisions for onerous contracts amounted to DKK -6.1 million (DKK 25.1 million) in Q2 2018. For H1 2018, the change in provisions for onerous contracts amounted to DKK -6.1 million (DKK 55.2 million).

In Q2 2018, there was a profit from associated companies amounting to DKK -1.7 million (DKK -2.3 million). For H1 2018, the result from associated companies amounted to DKK 0.7 million (DKK -0.1 million).

The revenue tax amounted to DKK -31.4 million in Q2 2018 (DKK -45.5 million). The revenue tax decreased because of lower harvested volumes, compared to the same quarter last year. For H1 2018, the revenue tax was DKK -57.7 million (DKK -75.7 million).

Net interests in Q2 2018 were DKK 9.1 million (DKK -4.9 million). For H1 2018, net interests were DKK -9.6 million (DKK -11.2 million).

Net taxes amounted to DKK -73.8 million (DKK -88.4 million) in Q2 2018. For H1 2018, net taxes amounted to DKK -134.3 million (DKK -106.1 million).

The result for Q2 2018 was DKK 338.8 million (DKK 398.1 million) and for H1 2018, the result was DKK 611.1 million (DKK 477.1 million).

Statement of Financial Position

(Figures in parenthesis refer to end last year)

The Group's total assets amounted to DKK 5,470.3 million (DKK 5,155.5 million) at the end of Q2 2018.

Intangible assets are unchanged, compared to the beginning of the year, and amounted to DKK 376.7 million at the end of Q2 2018. Intangible assets primarily comprise the fair value of acquired farming licences. No licences in the North region are recorded with a value in the Bakkafrost accounts.

Property, plant and equipment amounted to DKK 2,714.6 million (DKK 2,570.4 million) at the end of Q2 2018. In Q2 2018, Bakkafrost made investments in PP&E amounting to DKK 131.1 million.

Non-current financial assets amounted to DKK 79.3 million (DKK 76.7 million) at the end of Q2 2018.

The carrying amount (fair value) of biological assets amounted to DKK 1,107.3 million (DKK 1,096.7 million) at the end of Q2 2018. Biological assets have increased due to higher fair value adjustment, compared to year end 2017. Included in the carrying amount of the biological assets is a fair value adjustment amounting to DKK 328.9 million (DKK 187.0 million) at the end Q2 of 2018.

Inventories amounted to DKK 478.9 million (DKK 305.8 million) at the end of Q2 2018. The inventories primarily represent Havsbrún's inventory of fishmeal, fish oil and fish feed.

Total receivables, including long-term receivables, amounted to DKK 429.2 million (DKK 419.6 million) at the end of Q2 2018.

The Group's equity amounted to DKK 3,725.4 million (DKK 3,626.4 million) at the end of Q2 2018. The change in equity consists primarily of the positive result for Q2 2018 and paid-out dividend.

Total non-current liabilities amounted to DKK 1,340.7 million (DKK 602.1 million) at the end of Q2 2018.

Deferred taxes and other taxes amounted to DKK 613.0 million (DKK 455.4 million) at the end of Q2 2018.

Long-term debt was DKK 727.5 million (DKK 146.7 million) at the end of Q2 2018.

At the end of Q2 2018, the Group's total current liabilities were DKK 404.2 million (DKK 926.9 million). The current liabilities consist of accounts payable and tax payable.

Derivatives amounted to DKK 0.2 million (DKK 127.3 million) at the end of Q2 2018.

Short-term interest-bearing debt amounted to DKK 0.0 million (DKK 378.3 million) at the end of Q2 2018.

The equity ratio was 68% at the end of Q2 2018, compared with 70% at the end of 2017.

Cash Flow

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

The cash flow from operations was DKK 279.5 million (DKK 498.0 million) in Q2 2018. The changes in receivables, current debts and inventory all had a negative effect on the cash flow from operations. For H1 2018, the cash flow from operations was DKK 647.6 million (DKK 863.3 million).

The cash flow from investment activities amounted to DKK -108.0 million (DKK -169.6 million) in Q2 2018. The amount relates to investments in property, plant and equipment. For H1 2018, the cash flow from investments amounted to DKK -219.4 million (DKK -348.9 million).

The cash flow from financing activities totalled DKK -555.5 million (DKK -474.2 million) in Q2 2018. For H1 2018, cash flow from financing amounted to DKK -453.4 million (DKK -396.0 million).

In Q2 2018, net change in cash flow amounted to DKK -384.0 million (DKK -145.8 million). For H1 2018, net change in cash flow amounted to DKK -25.2 million (DKK 118.4 million).

At the end of Q2 2018, Bakkafrost had unused credit facilities of DKK 1,039.1 million (DKK 826.4 million).

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 Q2 2018 were 12,902 tonnes gutted weight (18,402 t_{gw}) – a decrease in volumes of 30%. 12,902 t_{gw} came from the North region and 0 t_{gw} from the West region. Total harvested volumes for H1 2018 were 25,139 tonnes gutted weight (31,560 t_{gw}), which is in line with the forecast for 2018.

2.8 million (1.9 million) smolts were transferred in Q2 2018. In H1 2018, 5.9 million (3.3 million) smolts were transferred. This is in line with the smolt transfer plan.

Financial performance

In Q2 2018, the operating revenue for Bakkafrøst's farming segment was DKK 774.8 million (DKK 1,038.6 million). The operating revenue for the farming segment for H1 2018 was DKK 1,441.4 million (DKK 1,790.0 million).

In Q2 2018, the farming segment's EBIT amounted to DKK 396.6 million (DKK 498.8 million). The farming segment's EBIT for H1 2018 was DKK 705.8 million (DKK 607.3 million).

DKK 1,000	Q2 2018	Q2 2017	Change	H1 2018	H1 2017	Change
Financial						
Total revenue	774,783	1,038,605	-25%	1,441,438	1,789,989	-19%
EBIT	396,554	498,835	-21%	705,801	607,278	16%
Operational EBIT	393,188	489,450	-20%	621,631	862,682	-28%
Farming - Operational EBIT/kg (DKK)	30.47	26.60	15%	24.73	27.33	-10%
Volumes						
Harvested volumes (t _{gw})	12,902	18,402	-30%	25,139	31,560	-20%
- Farming North	12,902	13,581	-5%	15,638	22,705	-31%
- Farming West	0	4,821	-100%	9,501	8,855	7%
Smolts released (thousand)	2,775	1,918	45%	5,909	3,313	78%
- Farming North	0	0	0%	262	1,395	-81%
- Farming West	2,775	1,918	45%	5,647	1,918	194%

Operational EBIT amounted to DKK 393.2 million (DKK 489.4 million) in Q2 2018, which corresponds to an operational EBIT margin of 51% (47%). In H1 2018, operational EBIT was DKK 621.6 million (DKK 862.7 million).

Operational EBIT/kg for the farming segment was DKK 30.47 (NOK 39.09) in Q2 2018, compared with DKK 26.60 (NOK 33.50) in Q2 2017. Operational EBIT/kg for H1 2018 was DKK 24.73 (NOK 31.85), compared with DKK 27.33 (NOK 33.71) for H1 2017.

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

15% (29%) of the total harvested volumes in Q2 2018 went to production of VAP products and 16% (28%) of the harvested volumes in H1 2018 went to production of VAP products.

The VAP production in Q2 2018 was 1,970 tonnes gutted weight (5,273 tgw). The decrease in production in Q2 2018 was 63%, compared to Q2 2017. The contract coverage is reduced, compared to the previous year, as some contracts were not renewed in Q4 2017. In H1 2018, the VAP production was 4,085 tgw (8,909 tgw).

Financial performance

The operating revenue for the VAP segment amounted to DKK 93.6 million (DKK 272.6 million) in Q2 2018. The decrease in revenue is due to lower volumes in Q2 2018, compared with Q2 2017. In H1 2018, the VAP revenue was DKK 186.6 million (DKK 464.1 million).

The VAP segment had an EBIT amounting to DKK -23.0 million (DKK -29.4 million) in Q2 2018. Changes in onerous contracts were DKK -6.1 million (DKK 25.1 million). In H1 2018, the VAP segment's EBIT amounted to DKK -34.6 million (DKK -52.3 million).

DKK 1,000	Q2 2018	Q2 2017	Change	H1 2018	H1 2017	Change
Financial						
Total revenue	93,618	272,582	-66%	186,612	464,125	-60%
EBIT	-23,007	-29,391	22%	-34,623	-52,297	34%
Operational EBIT	-16,898	-54,478	69%	-28,514	-107,518	73%
VAP - Operational EBIT/kg (DKK)	-8.58	-10.33	17%	-6.98	-12.07	42%
Volumes						
VAP produced volumes (tgw)	1,970	5,273	-63%	4,085	8,909	-54%
Harvested volumes used in VAP production	15%	29%	-47%	16%	28%	-42%
Harvested volumes sold fresh/frozen	85%	71%	19%	84%	72%	17%

Operational EBIT amounted to DKK -16.9 million (DKK -54.5 million) in Q2 2018, corresponding to an operational EBIT of DKK -8.58 (NOK -11.00) per kg gutted weight in Q2 2018, compared with DKK -10.33 (NOK -13.01) per kg gutted weight in Q2 2017.

The higher salmon spot prices in Q2 2018 had a negative effect on the VAP segment's margin as the VAP segment buys the raw material at spot prices. For H1 2018, operational EBIT amounted to DKK -28.5 million (DKK -107.5 million), corresponding to an operational EBIT of DKK -6.98 (NOK -8.99) per kg, compared with an operational EBIT of DKK -12.07 (NOK -14.88) in H1 2017.

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 118,387 tonnes (163.100 tonnes) of raw material to produce fishmeal and fish oil in Q2 2018. The raw material intake depends on the fishery in the North Atlantic and available species of fish. In H1 2018, Havsbrún received 248,491 tonnes (269,667 tonnes) of raw material.

The production of fishmeal in Q2 2018 was 24,592 tonnes (33,654 tonnes). For H1 2018, Havsbrún produced 51,706 tonnes (56,717 tonnes) of fishmeal.

The production of fish oil in Q2 2018 was 1,305 tonnes (1,261 tonnes). The production of fish oil varies, depending on the species of fish sourced for production and the timing of catch. For H1 2018, Havsbrún produced 5,169 tonnes (4,502 tonnes) of fish oil.

Sales of feed amounted to 15,673 tonnes (17,032 tonnes) in Q2 2018, of which the farming segment internally used 14,656 tonnes (16,012 tonnes) or 93.5% (94.0%). For H1 2018, Havsbrún sold 29,596 tonnes (36,859 tonnes) of feed.

Financial performance

The operating revenue for the FOF segment amounted to DKK 326.3 million (DKK 317.0 million) in Q2 2018, of which DKK 144.3 million (DKK 149.1 million) represented sales to Bakkafrost's farming segment, corresponding to 44% (47%). For H1 2018, the revenue amounted to DKK 626.7 million (DKK 594.2 million) of which DKK 270.9 million (DKK 335.0 million) represented sales to Bakkafrost's farming segment, corresponding to 43% (56%).

DKK 1,000	Q2 2018	Q2 2017	Change	H1 2018	H1 2017	Change
Financial						
Total revenue	326,291	317,033	3%	626,650	594,174	5%
EBIT	57,032	37,239	53%	138,677	76,599	81%
EBITDA	66,047	47,827	38%	152,480	92,974	64%
FOF - EBITDA margin	20.2%	15.1%	34%	24.3%	15.6%	56%
Volumes (tonnes)						
Sold feed	15,673	17,032	-8%	29,596	36,859	-20%
- Feed internal sale	14,656	16,012	-8%	27,808	34,965	-20%
- Feed external sale	1,017	1,020	0%	1,788	1,894	-6%
Fishmeal external sale	15,539	17,941	-13%	27,805	25,504	9%
Fish oil external sale	0	0	0%	2,008	0	100%
Received raw material	118,387	163,100	-27%	248,491	269,667	-8%

Total revenue for the FOF segment in Q2 2018 increased 3%, compared to the same quarter last year. The internal revenue has decreased, but external sales have increased. The increase in external revenue is due to higher volumes of fishmeal sold in Q2 2018, compared to Q2 2017.

EBITDA was DKK 66.0 million (DKK 47.8 million) in Q2 2018, and the EBITDA margin was 20.2% (15.1%). Havsbrún sources raw pelagic fish for the fishmeal and fish oil production, which are part of the recipe to produce salmon feed. For H1 2018, the EBITDA was DKK 152.5 million (DKK 93.0 million), corresponding to an EBITDA margin of 24.3% (15.6%).

Outlook

Market

The latest update from Kontali Analyse estimates that the global supply of Atlantic salmon increased around 8% in Q2 2018, compared to Q2 2017. The growth comes from Norway and Chile, which have increased the forecast for 2018 since Q1 2018. The global harvest growth is expected to be around 6-8% in 2018.

Bakkafrost operates in the main salmon markets, Europe, USA, the Far East and Russia. Variation in sales distribution between the different markets is driven by the change in demand from quarter to quarter in the different regions. Bakkafrost, however, aims to have a balanced market diversification to reduce market risk.

Investments

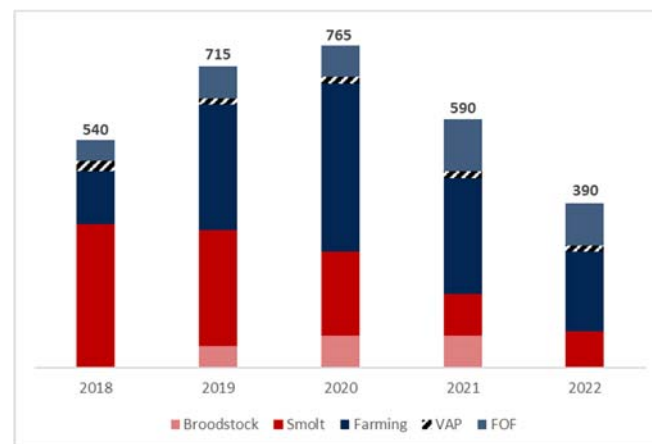
Bakkafrost has since 2013, when the first five-years investment program was announced, invested in its value chain to prepare the company for the future. The last update on the investment program was in June 2016, when investments from 2016 to 2020 were announced. The total investments for the 2016 to 2020 period was DKK 2.2 billion, including maintenance CAPEX.

Bakkafrost has updated the investment program and is pleased to announce an investment program for the period from 2018 to 2022. The new investment program builds on the same strategy set out in the investment program from June 2016, but also includes new strategic initiatives.

The planned investment program from 2018 to 2022 will amount to DKK 3 billion over 5 years and will reinforce Bakkafrost's integrated business model. The aim of the investment program is to minimize the

biological risk, increase efficiency and create sustainable organic growth.

Maintenance capex is included in the investment program.



Over the next five years Bakkafrost will use around DKK 425 million in the fishmeal, oil and feed business to increase feed capacity and feed line capabilities. Investment will also be made to increase the fish oil capacity to support marine index.

Bakkafrost has taken the full responsibility of the Faroese broodstock program and obtains the genome rights in 2021. In the new investment program, Bakkafrost expects to invest around DKK 200 million in a new site to run the broodstock program in a totally closed land-based system.

Investment in the farming operation will be around DKK 1.3 billion over the next five years. Investments in new sites in Suðuroy will together with the large

smolt strategy add a further capacity of 10 thousand tonnes. Farming site A-17/18 Hovsfjørður has already started operation, and A-23 Hvalbiarfjørður is expected to start operation in H1 2019. Investment will be in transportation of fish and selected R&D investment to cater growth beyond current horizon.

Bakkafrost's sustainability commitment is also seen in the new investment plan. Bakkafrost has – as part of Bakkafrost's 2020 Healthy Living Plan – decided to build a biogas plant. The biogas investment is included in the farming operation investment.

Bakkafrost will continue the existing smolt projects and launch new projects to support the large smolt strategy for the new farming areas. Construction of a new hatchery in Suðuroy for large smolt production is expected to commence early 2019. Bakkafrost's investments in smolt operation in the next five years will be around DKK 1 billion.

Bakkafrost has recently invested in a new state of the art VAP factory in Glyvvar. Investments in the VAP segment will be around DKK 85 million in the next five years.

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 comply with this strategy.

Bakkafrost expects to harvest 49,000 tonnes gutted weight in 2018. The reduction of the 2018 harvest forecast of 2,000 tonnes gutted weight – from 51,000 tonnes gutted weight previously – is due to earlier harvest in A-13 Borðoyavík in Q2 2018 because of precautionary action to maintain a good biological situation.

Bakkafrost expects to release 13.9 million smolts in 2018, compared with 9.9 million smolts in 2017 and 11.7 million smolts released in 2016. 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 12% of the expected harvested volumes for the rest of 2018. The contract coverage is reduced, compared to the previous year. 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 2018 recommendation for blue whiting is 1,388 thousand tonnes, compared with 1,342 thousand tonnes in 2017.

The production of fishmeal and fish oil in 2017 was record high because of good availability of raw material. Bakkafrost expects relatively high production volumes of fishmeal and fish oil in 2018.

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

Havsbrún's sales of fish feed in 2018 are expected to be at 80,000 tonnes, depending on external sales.

The new salmon meal and salmon oil plant started operation early in Q3 2018. This operation will increase the value of offcuts from salmon harvested and processed in the new harvest/VAP factory at Glyvvar.

Financial

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

A high equity ratio together with Bakkafrost's bank financing, which was renewed for five years in Q1 2018, 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 to fulfil its dividend policy in the future, which is unchanged although a new investment program is announced.

Risks

The Annual Report 2017 is available on request from Bakkafrost and on Bakkafrost's website, www.bakkafrost.com.

Bakkafrost is, as explained in the Annual Report 2017, exposed to the salmon price. Global supply of salmon will increase in 2018 and will influence the salmon price.

Biological risk has been and will be a substantial risk for Bakkafrost. The Annual Report 2017 gives more explanation on the biological risk and Bakkafrost's risk management in this regard.

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

Events after the Date of the Statement of Financial Position

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

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

The Management and the Board of Directors have today considered and approved the interim report of P/F Bakkafrost for the period 1 January 2018 to 30 June 2018.

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, August 20th, 2018

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

In our opinion, the accounting policies used are appropriate, and the interim report gives a true and fair view of the Group's financial positions at 30 June 2018, as well as the results of the Group activities and cash flows for the period 1 January 2018 to 30 June 2018.

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 2017.

Consolidated Income Statement

For the period ended 30 June 2018

DKK 1,000	Q2 2018	Q2 2017	H1 2018	H1 2017
Operating revenue	954,316	1,206,148	1,805,472	2,059,829
Purchase of goods	-254,324	-240,697	-543,469	-514,675
Change in inventory and biological assets (at cost)	6,770	-137,750	38,163	-55,249
Salary and personnel expenses	-87,115	-112,729	-178,298	-208,162
Other operating expenses	-163,172	-210,361	-351,396	-400,061
Depreciation	-48,582	-45,454	-94,357	-87,071
Operational EBIT *	407,893	459,157	676,115	794,611
Fair value adjustments of biological assets	34,777	54,853	141,908	-179,724
Onerous contracts	-6,109	25,087	-6,109	55,219
Income from associates	-1,695	-2,312	724	-60
Revenue tax	-31,411	-45,468	-57,738	-75,680
Earnings before interest and taxes (EBIT)	403,455	491,317	754,900	594,366
Net interest revenue	621	364	1,622	554
Net interest expenses	-3,019	-6,349	-7,944	-13,547
Net currency effects	12,347	2,277	-812	4,118
Other financial expenses	-815	-1,165	-2,442	-2,327
Earnings before taxes (EBT)	412,589	486,444	745,324	583,164
Taxes	-73,833	-88,378	-134,267	-106,068
Profit or loss for the period	338,756	398,066	611,057	477,096
Profit or loss for the year attributable to				
Non-controlling interests	0	0	0	0
Owners of P/F Bakkafrøst	338,756	398,066	611,057	477,096
Earnings per share (DKK)	6.96	8.19	12.56	9.82
Diluted earnings per share (DKK)	6.96	8.19	12.56	9.82

* 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 June 2018

DKK 1,000	Q2 2018	Q2 2017	H1 2018	H1 2017
Profit for the period	338,756	398,066	611,057	477,096
Fair value adjustment of financial derivatives	-144	-14,391	-16,045	-17,719
Income tax effect	22	2,195	5,914	2,703
Reserve to share-based payment	175	512	745	220
Currency translation differences	-54	417	1	413
Adjustment of treasury shares	1,663	3,298	1,140	4,058
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	1,662	-7,969	-8,245	-10,325
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	0	0	0	0
Other comprehensive income	1,662	-7,969	-8,245	-10,325
Total other comprehensive income for the period	340,418	390,097	602,812	466,771
Comprehensive income for the period attributable to				
Non- controlling interests	0	0	0	0
Owners of P/F Bakkafrøst	340,418	390,097	602,812	466,771

Consolidated Statement of Financial Position

As at 30 June 2018

DKK 1,000	30 Jun 2018	31 Dec 2017
ASSETS		
Non-current assets		
Intangible assets	376,675	376,675
Property, plant and equipment	2,714,633	2,570,430
Financial assets	79,310	76,702
Long-term receivables	9,200	0
Total non-current assets	3,179,818	3,023,807
Current assets		
Biological assets (biomass)	1,107,275	1,096,664
Inventory	478,872	305,845
Total inventory	1,586,147	1,402,509
Accounts receivable	352,437	262,493
Other receivables	67,591	157,156
Total receivables	420,028	419,649
Cash and cash equivalents	284,329	309,551
Total current assets	2,290,504	2,131,709
TOTAL ASSETS	5,470,322	5,155,516

DKK 1,000	30 Jun 2018	31 Dec 2017
EQUITY AND LIABILITIES		
Equity		
Share capital	48,858	48,858
Other equity	3,676,540	3,577,571
Total equity	3,725,398	3,626,429
Non-current liabilities		
Deferred and other taxes	613,025	455,449
Long-term interest-bearing debt	727,474	146,696
Financial derivatives	179	0
Total non-current liabilities	1,340,678	602,145
Current liabilities		
Financial derivatives	0	127,255
Short-term interest-bearing debt	0	378,300
Accounts payable and other debt	404,246	421,387
Total current liabilities	404,246	926,942
Total liabilities	1,744,924	1,529,087
TOTAL EQUITY AND LIABILITIES	5,470,322	5,155,516

Consolidated Cash Flow Statement

For the period ended 30 June 2018

DKK 1,000	Q2 2018	Q2 2017	H1 2018	H1 2017
Earnings before interest and taxes (EBIT)	403,455	491,317	754,900	594,366
Adjustments for write-downs and depreciation	27,582	45,454	73,357	87,071
Adjustments for value adjustment of biomass	-34,777	-54,853	-141,908	179,724
Adjustments for income from associates	1,695	2,312	-724	60
Adjustments for currency effects	17,078	6,372	7,523	10,166
Adjustments for provision for onerous contracts	6,109	-25,087	6,109	-55,219
Change in inventory	-8,053	118,467	-41,730	30,673
Change in receivables	-106,898	-72,925	-15,688	-2,831
Change in current debts	-26,724	-13,060	5,803	19,291
Cash flow from operations	279,467	497,997	647,642	863,301
Cash flow from investments				
Proceeds from sale of fixed assets	25,000	0	25,000	0
Payments for purchase of fixed assets	-131,089	-169,596	-242,560	-348,941
Net change from subsidiaries	-1,883	0	-1,883	0
Cash flow from investments	-107,972	-169,596	-219,443	-348,941
Cash flow from financing				
Change of interest-bearing debt (short and long)	-42,905	-46,011	63,709	39,619
Financial income	621	364	1,622	554
Financial expenses	-3,834	-7,514	-10,386	-15,874
Net proceeds from sale of own shares	1,269	1,730	2,312	2,489
Dividend paid	-510,678	-422,795	-510,678	-422,795
Cash flow from financing	-555,527	-474,226	-453,421	-396,007
Net change in cash and cash equivalents in period	-384,032	-145,825	-25,222	118,353
Cash and cash equivalents - opening balance	668,361	499,174	309,551	234,996
Cash and cash equivalents - closing balance total	284,329	353,349	284,329	353,349

Consolidated Statement of Changes in Equity

As at 30 June 2018

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 01.01.2018	48,858	306,537	-18,160	3,874	6,271	-104,351	513,009	186,951	2,683,439	3,626,428
Consolidated profit	0	0	0	0	0	0	0	141,908	475,985	617,893
<i>Other comprehensive income:</i>										
Fair value adjustment of financial derivatives	0	0	0	0	0	-16,045	0	0	0	-16,045
Income tax effect	0	0	0	0	0	5,914	0	0	0	5,914
Share-based payment	0	0	0	745	0	0	0	0	0	745
Currency translation differences	0	0	0	0	1	0	0	0	0	1
Total other comprehensive income	0	0	0	745	1	-10,131	0	0	0	-9,385
Total comprehensive income	0	0	0	745	1	-10,131	0	141,908	475,985	608,508
<i>Transaction with owners:</i>										
Treasury shares	0	0	1,140	0	0	0	0	0	0	1,140
Paid-out dividend	0	0	0	0	0	0	-513,009	0	2,331	-510,678
Total transaction with owners	0	0	1,140	0	0	0	-513,009	0	2,331	-509,538
Total changes in equity	0	0	1,140	745	1	-10,131	-513,009	141,908	478,316	98,970
Total equity 30.06.2018	48,858	306,537	-17,020	4,619	6,272	-114,482	0	328,859	3,161,755	3,725,398
Equity 01.01.2017	48,858	306,537	-21,045	2,651	5,856	-83,196	425,065	880,491	1,983,818	3,549,035
Consolidated profit	0	0	0	0	0	0	0	-693,540	1,210,359	516,819
<i>Other comprehensive income:</i>										
Fair value adjustment of financial derivatives	0	0	0	0	0	-25,799	0	0	0	-25,799
Income tax effect	0	0	0	0	0	4,644	0	0	0	4,644
Share-based payment	0	0	0	1,223	0	0	0	0	0	1,223
Currency translation differences	0	0	0	0	415	0	0	0	0	415
Total other comprehensive income	0	0	0	1,223	415	-21,155	0	0	0	-19,517
Total comprehensive income	0	0	0	1,223	415	-21,155	0	-693,540	1,210,359	497,302
<i>Transaction with owners:</i>										
Treasury shares	0	0	2,885	0	0	0	0	0	0	2,885
Paid-out dividend	0	0	0	0	0	0	-425,065	0	2,271	-422,794
Proposed dividend	0	0	0	0	0	0	513,009	0	-513,009	0
Total transaction with owners	0	0	2,885	0	0	0	87,944	0	-510,738	-419,909
Total changes in equity	0	0	2,885	1,223	415	-21,155	87,944	-693,540	699,621	77,393
Total equity 31.12.2017	48,858	306,537	-18,160	3,874	6,271	-104,351	513,009	186,951	2,683,439	3,626,428
Equity 01.01.2017	48,858	306,537	-21,045	2,651	5,856	-83,196	425,065	880,491	1,983,818	3,549,035
Consolidated profit	0	0	0	0	0	0	0	-179,724	662,450	482,726
<i>Other comprehensive income:</i>										
Fair value adjustment of financial derivatives	0	0	0	0	0	-17,719	0	0	0	-17,719
Income tax effect	0	0	0	0	0	2,703	0	0	0	2,703
Share-based payment	0	0	0	220	0	0	0	0	0	220
Currency translation differences	0	0	0	0	413	0	0	0	0	413
Total other comprehensive income	0	0	0	220	413	-15,016	0	0	0	-14,383
Total comprehensive income	0	0	0	220	413	-15,016	0	-179,724	662,450	468,343
<i>Transaction with owners:</i>										
Treasury shares	0	0	4,058	0	0	0	0	0	0	4,058
Paid-out dividend	0	0	0	0	0	0	-425,065	0	2,271	-422,794
Total transaction with owners	0	0	4,058	0	0	0	-425,065	0	2,271	-418,736
Total changes in equity	0	0	4,058	220	413	-15,016	-425,065	-179,724	664,721	49,607
Total equity 30.06.2017	48,858	306,537	-16,987	2,871	6,269	-98,212	0	700,767	2,648,539	3,598,642

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 2017 is available upon request from the company's registered office at Bakkavegur 8, FO-625 Glyvrrar, Faroe Islands, or at www.bakkafrost.com.

This Condensed Consolidated Interim Report is presented in DKK.

Note 1. Statement of Compliance

This Condensed Consolidated Interim Report has been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 Interim Financial Reporting as adopted by the EU. It does not include all the information required for the full Annual and Consolidated Report and Accounts and should be read in conjunction with the Annual and Consolidated Report and Accounts for the Group as at 31 December 2017.

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 2017.

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 2017.

For other risk exposures, reference is made to the Management's Statement in the Annual Report for 2017, where Bakkafrost's operational and financial risks are described, as well as to Note 4.1 (Financial risk management) in the same report.

The risks and uncertainties described therein are expected to remain.

Note 4. Biomass

DKK 1,000	30 June 2018	30 June 2017	31 Dec 2017
Biological assets carrying amount 01.01.	1,096,664	1,858,435	1,858,435
Increase due to production or purchases	581,783	641,889	1,368,608
Reduction due to harvesting or sale (costs of goods sold)	-720,126	-813,976	-1,475,571
Fair value adjustment at the beginning of the period reversed	-186,956	-880,492	-880,492
Fair value adjustment at the end of the period	328,864	700,768	186,956
Reversal of elimination at the beginning of the period	59,758	98,487	98,487
Eliminations	-52,714	-61,425	-59,758
Biological assets carrying amount at the end of the period	1,107,273	1,543,685	1,096,664
Cost price biological assets	827,918	894,829	962,782
Capitalized interest	3,205	9,513	6,684
Fair value adjustment at the end of the period	328,864	700,768	186,956
Eliminations	-52,714	-61,425	-59,758
Biological assets carrying amount	1,107,273	1,543,685	1,096,664
Biomass on average (tonnes)			
Biomass < 1 kg	2,615	2,009	1,775
Biomass 1 kg < 2 kg	3,200	4,260	3,605
Biomass 2 kg < 3 kg	5,010	3,884	4,562
Biomass 3 kg < 4 kg	2,820	8,172	5,810
Biomass 4 kg <	14,750	17,119	21,544
Volume of biomass at sea	28,395	35,444	37,296

	30 June 2018	30 June 2017	31 Dec 2017
Number of fish on average (thousand)			
Number of fish < 1 kg	5,638	3,832	4,390
Number of fish 1 kg < 2 kg	2,254	3,026	2,456
Number of fish 2 kg < 3 kg	1,951	1,592	1,813
Number of fish 3 kg < 4 kg	850	2,293	1,665
Number of fish 4 kg <	2,809	3,242	4,105
Total number of fish at sea	13,502	13,985	14,429
Number of smolts released (thousand)			
Number of smolts released – Farming North	262	1,395	6,370
Number of smolts released – Farming West	5,648	1,918	3,558
Total number of smolts released	5,910	3,313	9,928
Sensitivity in DKK 1,000			
Change in discount rate +1%	85,404	85,374	73,961
Change in discount rate -1%	-96,940	-94,824	-83,038
Change in sales price +5 DKK	-188,692	-225,163	-212,869
Change in sales price -5 DKK	188,692	225,163	212,869
Change in biomass volume +1%	-5,179	-8,647	-4,217
Change in biomass volume -1%	5,179	8,647	4,217
One year forward prices in EUR FCA Oslo*			
Period end	6.41	7.37	5.30
1 Q (forward)	6.19	6.46	5.48
2 Q (forward)	6.42	6.60	5.42
3 Q (forward)	6.62	6.74	5.41
4 Q (forward)	6.61	6.70	5.58

* Source Fish Pool

Note 5. Segments

Farming segment DKK 1,000	Q2 2018	Q2 2017	H1 2018	H1 2017
External revenue	679,027	760,429	1,263,114	1,331,312
Internal revenue	95,756	278,176	178,324	458,677
Total revenue	774,783	1,038,605	1,441,438	1,789,989
Operating expenses	-345,114	-516,319	-748,411	-864,414
Depreciation and amortization	-36,481	-32,836	-71,396	-62,893
Operational EBIT	393,188	489,450	621,631	862,682
Fair value adjustments of biological assets	34,777	54,853	141,908	-179,724
Revenue tax	-31,411	-45,468	-57,738	-75,680
Earnings before interest and taxes (EBIT)	396,554	498,835	705,801	607,278
Net interest revenue	621	364	1,622	554
Net interest expenses	-2,617	-5,599	-6,650	-11,321
Net currency effects	9,078	5,849	-5,294	8,397
Other financial expenses	-688	-1,105	-2,176	-2,218
Earnings before taxes (EBT)	402,948	498,344	693,303	602,690
Taxes	-67,216	-87,754	-110,913	-102,884
Profit or loss for the period	335,732	410,590	582,390	499,806

Value added products	Q2	Q2	H1	H1
DKK 1,000	2018	2017	2018	2017
External revenue	93,618	272,582	186,612	464,125
Internal purchase of raw material	-95,756	-278,175	-178,324	-458,676
Operating expenses	-9,979	-44,543	-28,368	-105,104
Depreciation and amortization	-4,781	-4,342	-8,434	-7,863
Operational EBIT	-16,898	-54,478	-28,514	-107,518
Provision for onerous contracts	-6,109	25,087	-6,109	55,221
Earnings before interest and taxes (EBIT)	-23,007	-29,391	-34,623	-52,297
Net interest expenses	-65	-154	-67	-461
Net currency effects	10	-42	-308	-325
Other financial expenses	-15	-2	-20	-4
Earnings before taxes (EBT)	-23,077	-29,589	-35,018	-53,087
Taxes	4,154	5,326	2,204	9,556
Profit or loss for the period	-18,923	-24,263	-32,814	-43,531

Fishmeal, fish oil and fish feed	Q2	Q2	H1	H1
DKK 1,000	2018	2017	2018	2017
External revenue	181,671	167,940	355,747	259,195
Internal revenue	144,620	149,093	270,903	334,979
Total revenue	326,291	317,033	626,650	594,174
Cost of goods sold	-204,431	-213,617	-361,395	-393,159
Operating expenses	-55,813	-55,589	-112,775	-108,041
Depreciation and amortization	-7,320	-8,276	-14,527	-16,315
Operational EBIT	58,727	39,551	137,953	76,659
Income from associates	-1,695	-2,312	724	-60
Earnings before interest and taxes (EBIT)	57,032	37,239	138,677	76,599
Net interest expenses	-337	-596	-1,227	-1,765
Net currency effects	3,259	-3,530	4,790	-3,954
Other financial expenses	-112	-58	-246	-105
Earnings before taxes (EBT)	59,842	33,055	141,994	70,775
Taxes	-10,771	-5,950	-25,558	-12,740
Profit or loss for the period	49,071	27,105	116,436	58,035

**Reconciliation of reportable segments
to Group earnings before taxes (EBT)**

DKK 1,000	Q2 2018	Q2 2017	H1 2018	H1 2017
Farming	402,948	498,344	693,303	602,690
VAP (Value Added Products)	-23,077	-29,589	-35,018	-53,087
FOF (Fishmeal, fish Oil and fish Feed)	59,842	33,055	141,994	70,775
Eliminations	-27,124	-15,366	-54,955	-37,214
Group earnings before taxes (EBT)	412,589	486,444	745,324	583,164

Assets and liabilities per segment

DKK 1,000	30 June 2018	30 June 2017	31 Dec 2017
Farming *	5,062,299	5,264,200	4,728,402
VAP (Value Added Products) *	207,827	326,523	302,135
FOF (Fishmeal, fish Oil and fish Feed)	982,148	804,020	803,359
Eliminations	-781,952	-757,667	-678,380
Total assets	5,470,322	5,633,076	5,155,516
* Reclassification between Farming and VAP of 116 mDKK in Q1 2018			
Farming	-529,867	-813,416	-529,931
VAP (Value Added Products)	-22,379	-12,580	-3,248
FOF (Fishmeal, fish Oil and fish Feed)	-633,168	-534,744	-562,189
Eliminations	-559,510	-673,693	-433,719
Total liabilities	-1,744,924	-2,034,433	-1,529,087

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 299 million. DKK 228 million relate to the building of the new hatchery station.

Note 7. Transactions with related parties

Note 5.2 in Bakkafrøst's Annual Report for 2017 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 June 2018, 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)	1,107,275	778,409	0	0	1,107,275
Assets measured at fair value 30/6-2018	1,107,275	778,409	0	0	1,107,275
Liabilities measured at fair value 30/6-2018	0	0	0	0	0
Biological assets (biomass)	1,096,664	909,708	0	0	1,096,664
Assets measured at fair value 31/12-2017	1,096,664	909,708	0	0	1,096,664
Liabilities measured at fair value 31/12-2017	0	0	0	0	0
Biological assets (biomass)	1,543,687	842,917	0	0	1,543,687
Assets measured at fair value 30/6-2017	1,543,687	842,917	0	0	1,543,687
Liabilities measured at fair value 30/6-2017	0	0	0	0	0

Note 9. APM**- Alternative Performance Measures**

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

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

NIBD

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

	30 June	31 Dec
DKK 1,000	2018	2017
Cash and cash equivalents	284,329	309,551
Deposit for interest- and currency swap	0	84,630
Derivatives	0	-127,255
Long- and short-term interest-bearing debt	-727,474	-524,996
Net interest-bearing debt	-443,145	-258,070

Operational EBIT

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

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

	Q2	Q2	H1	H1
DKK 1,000	2018	2017	2018	2017
EBIT	403,455	491,317	754,900	594,366
Fair value adjustments of biological assets	-34,777	-54,853	-141,908	179,724
Onerous contracts	6,109	-25,087	6,109	-55,219
Income from associates	1,695	2,312	-724	60
Revenue tax	31,411	45,468	57,738	75,680
Operational EBIT	407,893	459,157	676,115	794,611

Operational EBIT per kg

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

EBITDA

Earnings before interest, tax, depreciations and amortizations (EBITDA) is a key financial parameter for 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.

	Q2	Q2	H1	H1
DKK 1,000	2018	2017	2018	2017
Profit for the year to the shareholders of P/F Bakkafrost	338,756	398,066	611,057	477,096
Fair value adjustment of biomass	-34,777	-54,853	-141,908	179,724
Onerous contracts provisions	6,109	-25,087	6,109	-55,219
Tax on fair value adjustment	5,160	14,389	24,444	-22,411
Adjusted profit for the year to shareholders of P/f Bakkafrost	315,248	332,515	499,702	579,190
Time-weighted average number of shares outstanding through the year	48,637,707	48,600,933	48,637,707	48,600,933
Adjusted earnings per share (before fair value adjustment of biomass and provisions for onerous contracts) (adjusted EPS)	6.48	6.84	10.27	11.92

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.

	Q2	Q2	H1	H1
DKK 1,000	2018	2017	2018	2017
Group -Operational EBIT	407,893	459,157	676,115	794,611
Average Capital Employed	5,133,538	4,710,054	4,403,780	4,695,395
ROCE	7.9%	9.7%	15.4%	16.9%

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