



Annual Report

**2016**







Layout and print: Skipnes Kommunikasjon AS

Photos: Berre, Jacob Buchard, Ingar Næss, Jørn Adde, Øyvind Sætre, Frank Rune Isaksen  
Map page 21: Prokart/Kartverket



COMMITTED  
BY NAME

Retrospective



# Contents

---

06 Message from the CEO

---

08 Values

---

10 Important Strategic milestones

---

12 Key figures

---

14 Highlights 2016

---

16 Strategy

---

18 Our business

---

28 Organisation

---

30 Management

---

31 The Board of Directors

---

---

32 Shareholder information

---

34 Corporate Governance

---

40 The Board's statement

---

43 Board of Directors report

---

55 Consolidated financial statements

---

111 Parent company accounts

---

136 Responsibility statement

---

138 Auditor's Report

---

144 Sitemap NRS

---





# Message from the CEO

*We have left behind a fantastic year both for the Norwegian salmon industry and for Norway Royal Salmon (NRS). In 2016, the export value of salmon was a record high NOK 61.4 billion, an increase of 29 percent from the record year of 2015. This even though export volumes from Norway decreased by 5 percent.*

Throughout the year 2016 we saw historically high salmon prices in a market with strong demand for Norwegian salmon. Also NRS delivered better results than ever before, and in every quarter we set new records. For the fiscal year 2016, we reached two milestones. One was that the profit after tax was over NOK 1 billion and the other was that the book value passed NOK 2 billion. Revenues were NOK 4.2 billion and we achieved an operational EBIT of NOK 641 million, both higher than ever before.

Three years ago, we stated in our strategic plan that we, within five years, should develop into Norway's most profitable salmon company and grow from a medium-sized to a large salmon company. Measured in operational EBIT per kg, we have performed well against other listed companies in all quarters. A fantastic effort has been laid down in all parts of the organisation to achieve these results. 2016 was also a good year on the road to utilising the Group's growth potential. We have put in place a clearly improved operational structure with new sites in new areas in both Troms and Finnmark. We believe that the improved operational structure is one of the key reasons for NRS's good control over the sea lice in 2016. A year where, unfortunately, the Norwegian salmon farming industry continued to experience that sea lice created too many negative headlines in the media. Sea lice are still the industry's biggest challenge. Nevertheless, it is good to see that the whole industry works diligently to gain control over the sea lice situation along the coast.

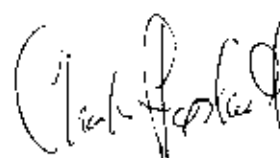
## The potential for growth outside Norway

We have started to utilise the new licenses we were awarded in 2014 and work every day to achieve our first capacity target of 45 000 tonnes. In addition to the

improved operational structure, both in terms of equipment and premises, we have also decided that we wish to establish a new hatchery on Karlsøy in Troms. There will still be some years before the plant is realized, but it is an important milestone for the continued improved production of NRS. We also see other growth possibilities for the Group. In 2015, we applied, together with Aker ASA, for 15 development licenses. Together, we have developed an offshore farm to facilitate sustainable growth in areas the aquaculture technology of today has not been able to exploit. We have not received a final approval of this project, but have come through the first hurdle by receiving positive signals that the project meets the criteria for development licenses. Another new milestone for NRS in 2016 is our involvement on Iceland through our ownership of 50 percent of the company Arctic Fish ehf. Through this initiative we step outside Norway, and we strongly believe that Iceland will have the opportunity to increase its salmon production significantly over the next five years.

## 25-year anniversary

Both our farming and sales business have achieved very good results in 2016 and all employees have laid down a substantial effort to create the record results. The prospect for a strong salmon market also in 2017 is good, but this does not alter our intention to work for continuous improvements in production and to focus on costs. Our objective is to create record results in 2017 as well, and an extra motivation is that these will be created in the year in which it is 25 years since NRS was established. 25 years ago, 34 farming companies joined forces to establish NRS. During these years, NRS has developed to a major part of the Norwegian aquaculture industry. During the year we will mark the 25th anniversary through our values Safe, Engaged, Innovative and Credible.



Charles Høstlund  
CEO



*Central to our business is our corporate values.  
Our employees show great commitment in their work  
and they are known for their positive attitude to both  
products and customers.*

Safe

Engaged

Credible

Innovative



# Committed by name



Norway Royal Salmon is a name we are proud of and a name we work hard every day to live up to. Having ROYAL in our company name allows us both locally and around the world to be associated with quality. Norway Royal Salmon is a name that obliges and we therefore say that we are COMMITTED BY NAME

# Important strategic milestones in

Purchase of major shareholdings in various aquaculture companies

Acquisition resulting in 100 % ownership of Feøy Fiskeoppdrett AS and Åmøy Fiskeoppdrett AS (companies merged into NRS Feøy AS in 2009)

Acquisition resulting in 82.5 % ownership of Nor Seafood AS

Acquisition resulting in 100 % ownership of AS Brilliant Fiskeoppdrett (merged into NRS Feøy AS in 2010)

Awarded 4 new licenses

92 96-04 07 09  
06 08

Norway Royal Salmon AS was founded by 34 fish farming companies as a sales and marketing company for farmed salmon

Private placement in which the company raised gross proceeds of NOK 50 million

Private placement in which the company raised gross proceeds of NOK 100 million

Acquisition resulting in 100 % ownership of Altafjord Laks AS

Acquisition resulting in 76.24 % ownership of AS Tri and Salmo Arctica AS (merged into AS Tri in 2009)

Acquisition resulting in 37.5 % ownership of Wilsgård Fiskeoppdrett AS



# the Group's 25-year history

Public offering in  
which the company  
raised gross  
proceeds of  
NOK 46.1 million

Norway Royal  
Salmon ASA listed on  
Oslo Stock exchange

Awarded 10 new  
green licenses



Acquisition resulting in  
66.67% ownership of  
Nord Senja Laks AS

Acquired remaining  
minority interests in  
AS Tri. AS Tri simulta-  
neously merged with  
Altafjord Laks AS  
under the name  
NRS Finnmark AS

Acquisition resulting  
in 27.65% ownership  
of Ranfjord Fiske-  
produkter AS

The company converted  
from a private to a public  
limited liability company.  
The new company name  
is Norway Royal Salmon  
ASA

Private placement and  
sale of treasury shares  
in which the company  
raised gross proceeds  
of NOK 43.4 million

Acquisition resulting  
in 37.75% ownership  
of Ranfjord Fiske-  
produkter AS

**Acquisition resulting  
in 100 % ownership of  
Nord Senja Laks AS**

**Acquisition resulting  
in 50 % ownership  
of Arctic Fish ehf.  
(Iceland) through  
private placement**

**Foundation of the  
wholly-owned  
subsidiary NRS  
Settefisk AS.**

# Key figures

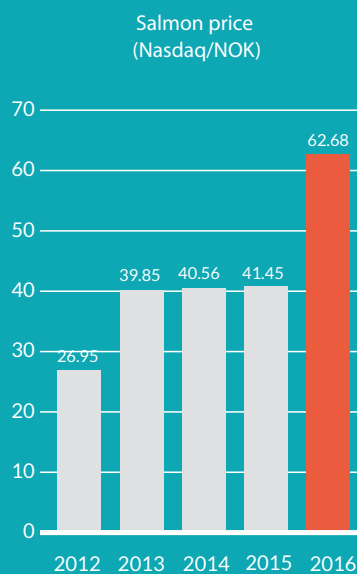
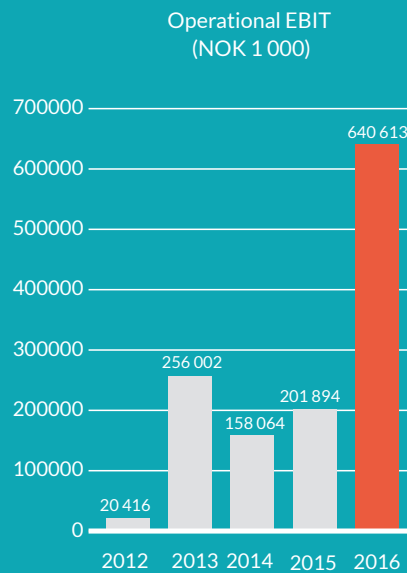
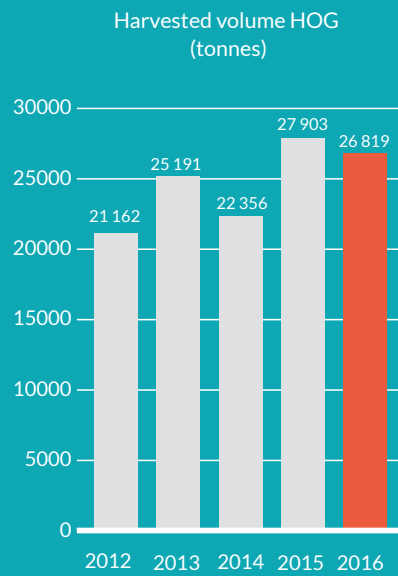
(NOK 1 000)	2016	2015	2014
Operating revenue	4 224 340	3 210 548	2 599 799
Volume sold (tonnes)	66 808	69 971	59 110
Volume of own fish harvested (tonnes gutted weight)	26 819	27 903	22 356
Operational EBITDA <sup>1)</sup>	701 676	255 591	199 475
Operational EBIT <sup>1)</sup>	640 613	201 894	158 064
EBIT	876 628	249 065	242 656
EBT	1 172 421	270 081	320 706
Result for the year	1 004 713	237 582	268 283
EBITDA margin <sup>1)</sup>	16.6 %	8.0 %	7.7 %
Operational EBIT margin <sup>1)</sup>	15.2 %	6.3 %	6.1 %
ROCE <sup>2)</sup>	49.6 %	15.4 %	13.7 %
Operational EBIT per kg <sup>3)</sup>	27.06	9.64	9.98
Book value of biological assets	1 205 399	829 928	808 674
Total capital	3 713 382	2 870 245	2 599 462
Net interest bearing debt	282 160	498 541	639 383
Book equity	2 047 017	1 186 519	1 013 907
Equity ratio %	55.1 %	41.3 %	39.0 %
Net cash flow from operating activities	628 302	340 196	95 455
Net cash flow from investing activities	-282 311	-107 435	-162 363
Earnings per share	22.72	5.28	5.85
Number of shares as at 31 December	43 572 191	43 572 191	43 572 191
Number of employees (full-time equivalents)	149	132	129

1) Before fair value adjustments, income from associates and gain on financial instruments

2) Return on capital employed based on 4 quarters rolling EBIT aligned for fair value adjustments / average (NIBD + Equity - Financial assets)

3) Operational EBIT for segments farming and sales





## Historical milestones

Norway Royal Salmon reached several historical milestones in 2016. Net profit after tax was over NOK 1 billion, equity over NOK 2 billion, and the operational EBIT of NOK 640.3 million is the highest operational EBIT in the history of Norway Royal Salmon.

## Global Gap Certification

All sites at the farming companies of Norway Royal Salmon are Global Gap Certified.

## ASC-certification

Norway Royal Salmon had its two first sites certified after the Aquaculture Stewardship Council (ASC) standard in 2015. Another 5 sites were certified in February 2016. 7 out of 14 sites in NRS Finnmark are now ASC-certified.



## Approval of four new sites

The farming operations had four new sites approved in 2016. In Måsøy in West-Finnmark, a new site with a MAB of 3 600 tonnes was approved. In Karlsøy in Troms, two new sites with MAB of 5 470 tonnes and 3 600 tonnes were approved. In Kvalsund in West-Finnmark a new site with MAB of 3 600 tonnes was approved.

## Acquisition of non-controlling interest

On the 4 March 2016, Norway Royal Salmon ASA acquired 135 shares in Nord Senja Laks AS ("NSL") from Botnhamn Fisk AS, corresponding to 33.3 % of the outstanding shares in NSL, for a cash consideration of NOK 70 million. Following the transaction, NRS owns 100 % of the shares in NSL.

## Dividend

In June, Norway Royal Salmon ASA distributed an ordinary dividend of NOK 2.60 per share.

# Highlights 2016



## Norway Royal Salmon ASA entered the salmon farming industry on Iceland

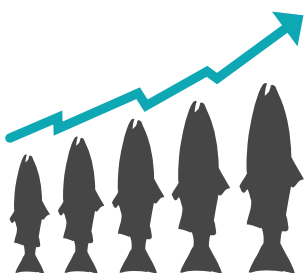
Norway Royal Salmon ASA entered into an agreement to acquire 50 per cent of Arctic Fish ehf. through a direct placement. Through the transaction, NRS entered the salmon farming industry on Iceland in 2016.

## NRS Settefisk AS

Norway Royal Salmon purchased land in Karlsøy, Troms where construction of a new hatchery will start in 1.5 to 2 years, when all necessary approvals are in place. The company has applied for permission to produce 10 million smolts in a RAS (recirculating aquaculture system) plant. In 2016, Norway Royal Salmon ASA established the company NRS Settefisk AS that will run the production.

# Strategy

In the next five years,  
Norway Royal Salmon will develop:



*...into Norway's most  
profitable salmon company*



*...from a mid-size to a  
large salmon company*



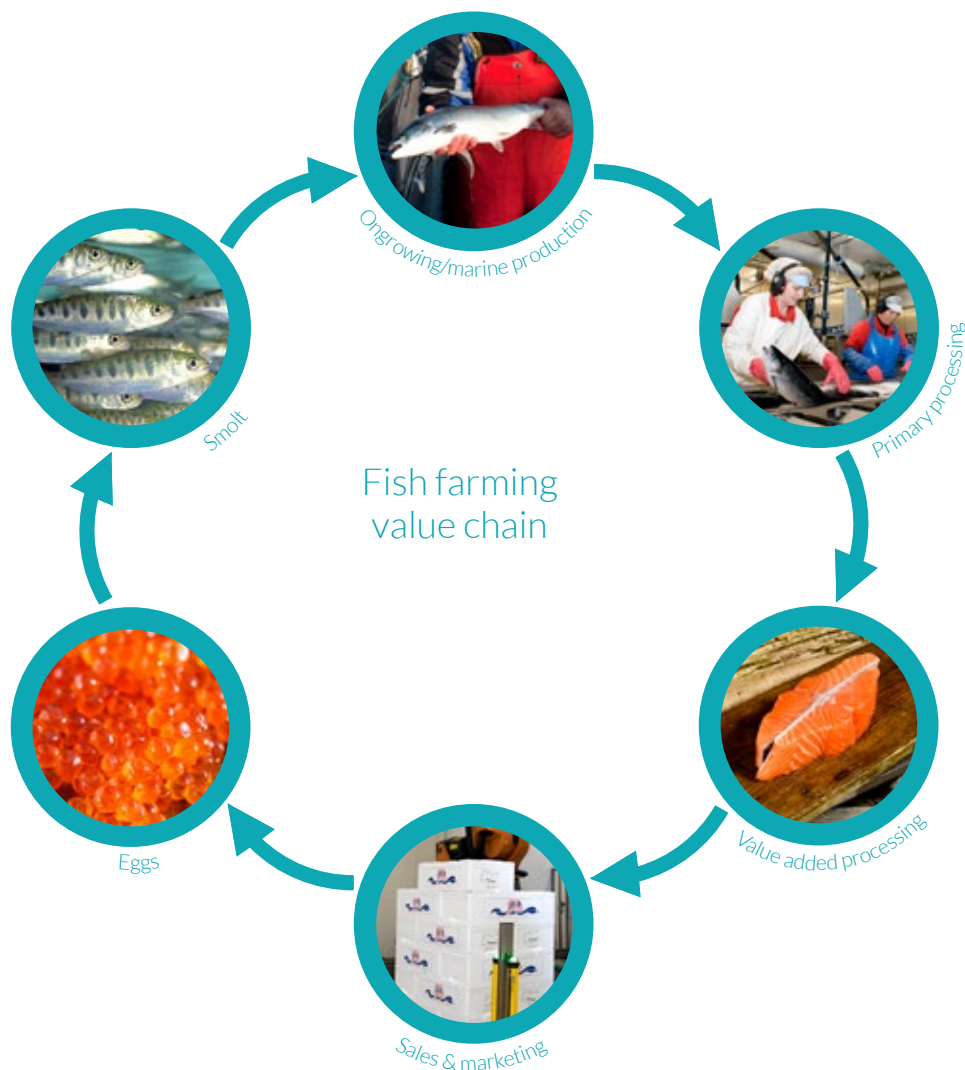


COMMITTED  
BY NAME

*...by becoming a  
preferred employer*



*...through sustainable  
growth*



#### Smolt

- Smolt supply secured through long term agreements and associated companies
- 37.75 % ownership in Ranfjorden Fiskeprodukter AS
- 30 % ownership in Skardalen Settefisk AS, co-owned with Wilsgård Fiskeoppdrett AS
- Put 10.1 million smolts to sea in 2016

#### Ongrowing/marine production

- 35 licenses, 29 in Region North, 6 in Region South
- Harvest volume 2016: 26 819 GWT
- Harvest volume 2017E ~34 000 GWT
- 10 partly owned licenses through associated companies

#### Primary processing

- 100 % secured harvesting capacity
- Harvesting agreement for the production in Finnmark
- Ownership in Wilsgård Fiskeoppdrett that harvest the production in Troms
- Ownership in Hardanger Fiskeforedling AS and in Espevær Laks AS that harvest the production in Region South

#### Sales & marketing

- Sales from external farmers, associated companies and subsidiaries
- Sale of fresh and frozen salmon and trout
- Sold 66 808 tonnes in 2016
- 90 % export to 52 countries in 2016

# Norway Royal Salmon

*– an integrated fish farming company*

Since the company was founded in 1992, Norway Royal Salmon (NRS) has developed from a sales and marketing company for farmed salmon into an integrated seafood company. The Group is now a fish farming company with activities in two main segments: salmon farming and sales. In 2016, the Group's farming operation harvested 26 819 tonnes of fish, while the sales organisation sold 68 808 tonnes of salmon.

In addition to the sales organisation, the Group currently has five subsidiaries that own a total of 35 licences, of which 10 green licenses was awarded in 2014. The Group also holds minority interests in eight companies. Of these, three are fish farming companies in Norway with ten licenses. The Group has, in addition, acquired 50 per cent of the fish farming company Arctic Fish ehf. on Iceland in 2016. Among the associated companies there are three harvesting companies and two hatcheries. The Group is thus involved in almost all links of the value chain, from smolt and salmon production, through harvesting and on to sales and marketing.

## Fish farming – situated in attractive areas

In 2006, the Group made a strategic decision to set itself up as a fish farmer, and from 2007 fish farming has been a part of the Group's activities. The fish farming operations comprise the farming of salmon and the associated harvesting activities.

The Group has 35 licences for edible fish production. 26 819 tonnes were harvested in 2016. After NRS was awarded 10 green licenses at the end of 2014, estima-



ted capacity is approximately 45 000 tonnes. The criteria for the allocation of the licenses are to establish a production that reduces the extent of sea lice, and reduce the risk of impact on wild salmon as a result of escapes. The future growth of the aquaculture industry will be through sustainable solutions. The green licenses are a game changer for Norway Royal Salmon towards a more sustainable development. After the allocation, Norway Royal Salmon has 35 licenses, resulting in an increased production capacity of 40 per cent. Around 85 per cent of the production capacity is located in Region North

that has the best conditions for farming activities, both concerning profitability and future growth.

## ASC (Aquaculture Stewardship Council)-standard

ASC (Aquaculture Stewardship Council) is an environmental standard negotiated with WWF. It sets strict standards for how fish are produced and requires documentation of laws and regulations, animal diversity, animal welfare, genetic integrity of wild populations, responsible feed, control of fish diseases, socially responsible production of fish, good relations with neighbours and that our suppliers meet critical and essential criteria in the standard. ASC certified fish are fish that are produced in an extremely responsible and sustainable way according to very strict requirements. 7 out of 14 sites in Finnmark are presently ASC-certified.

NRS aims to be one of the leading ASC certified salmon companies in the world. Our objectives are to meet the growing demand for salmon while minimizing environmental and social impacts of salmon farming. In a few years, most of Norway Royal Salmon's production will be ASC-certified.

	Region North	Region South	Total	Harvest volume growth (%)
Licenses *	29	6	35	
Harvest volume 2011 (HoG)	12 871	5 910	18 781	
Harvest volume 2012 (HoG)	13 944	7 218	21 162	13 %
Harvest volume 2013 (HoG)	20 491	4 700	25 191	19 %
Harvest volume 2014 (HoG)	17 987	4 369	22 356	-11 %
Harvest volume 2015 (HoG)	22 971	4 932	27 903	25 %
Harvest volume 2016 (HoG)	21 667	5 151	26 819	-4 %
Harvest volume 2017e (HoG)	27 300	6 700	34 000	27 %
Capacity	45 000		45 000	32 %

(\*) Maximum allowable biomass (MAB) in the Northern Region is 945 tonnes per license and 780 tonnes per license in the Southern Region.

The Group's growth from 2010 to 2017 through utilisation of capacity in the existing licences is illustrated in the table above.

## Fish farming with green focus

The Group's fish farming activities are divided between two regions with a total of 35 licences: Region North and Region South.

### Region North

Region North covers the business in West Finnmark and Troms. After being awarded 10 green licenses in 2014, the Group has 29 licences in the Region North. The region has been a priority area for growth by the Norwegian authorities in the last three allocations of new licenses. The harvest volume in this region in 2016 totalled 21 667 tonnes, compared to 22 971 tonnes in 2015. In West Finnmark, the group is represented by its subsidiary NRS Finnmark AS. NRS Finnmark has 19 licences for salmon farming. In 2016, NRS Finnmark harvested 15 172 tonnes of fish. NRS Finnmark is attractively located in an area with only limited lice problems. In addition, the area provides good conditions for fish farming on account of its water temperatures and limited algae growth on the nets, which translates

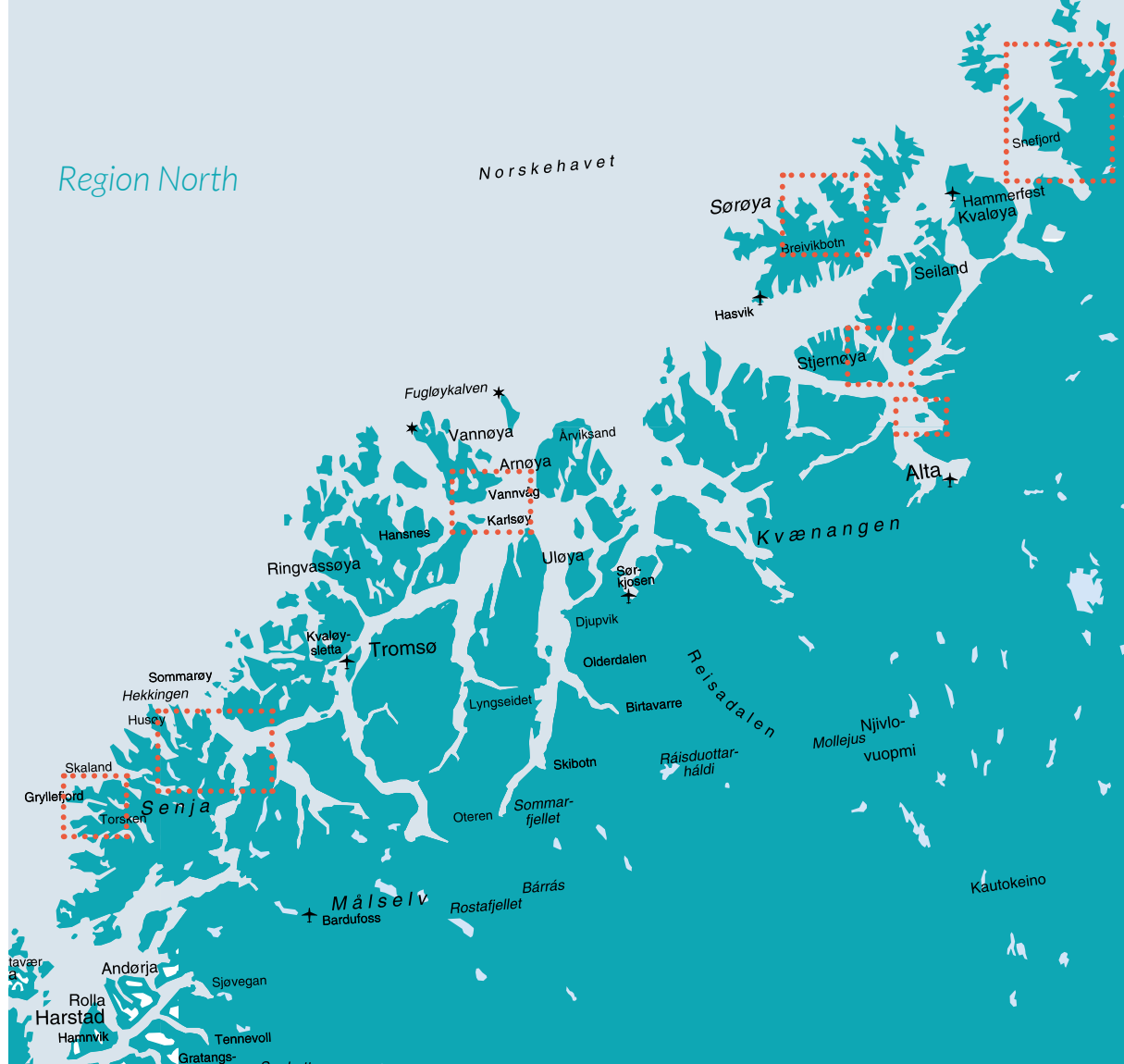
into lower costs and profitable operations. 7 out of 14 sites at NRS Finnmark are ASC-certified.

The subsidiaries Nor Seafood AS and Nord Senja Laks AS constitute the activities in Troms. The two companies hold a total of ten salmon farming licences. Together with Wilsgård Fiskeoppdrett AS – of which the Group owns 37.5 per cent – these companies form a group that operates fifteen fish farming licences. Troms is also an attractive location with good conditions for fish farming. The Group's two companies in Troms harvested 6 495 tonnes in 2016.

### Region South

Region South is represented by the wholly owned subsidiary NRS Feøy AS. The company holds six licences in this region, and its activities are located in the border region between Hordaland and Rogaland. 5 151 tonnes were harvested in the Region South in 2016. Region South has exemption from the requirement of having MAB zones based on counties. With a single MAB zone, the operations in Hordaland and Rogaland can be operated as one unit. This will result in smoother production. NRS holds a 33.5 per cent share of Hellesund Fiskeoppdrett AS which has production in Agder and owns three licences.





### Region South





## Sales with international focus

Sales activities comprise the trading of salmon and trout. NRS has its own dedicated sales and marketing organisation that buys and sells farmed fish through a comprehensive network. In a competitive market, this ensures good access to high-quality fish from a network consisting of own subsidiaries, associates, chain members and external producers. The principal products are fresh and frozen salmon, which were sold to customers in 52 countries in 2016. Around 90 per cent of all the company's sales were made to the international

market. Western Europe accounted for 72 per cent of the company's exports, while the remainder were sold to countries in Eastern Europe (6 per cent), Asia (21 per cent) and the USA (1 per cent).

Since its establishment, the sales turnover has increased steadily year after year. In 2016, the company sold 66 808 tonnes. A large share of the sales of fish come from the Group's fish farming operations (40 per cent in 2016).



52

*countries buy fresh  
and frozen salmon*

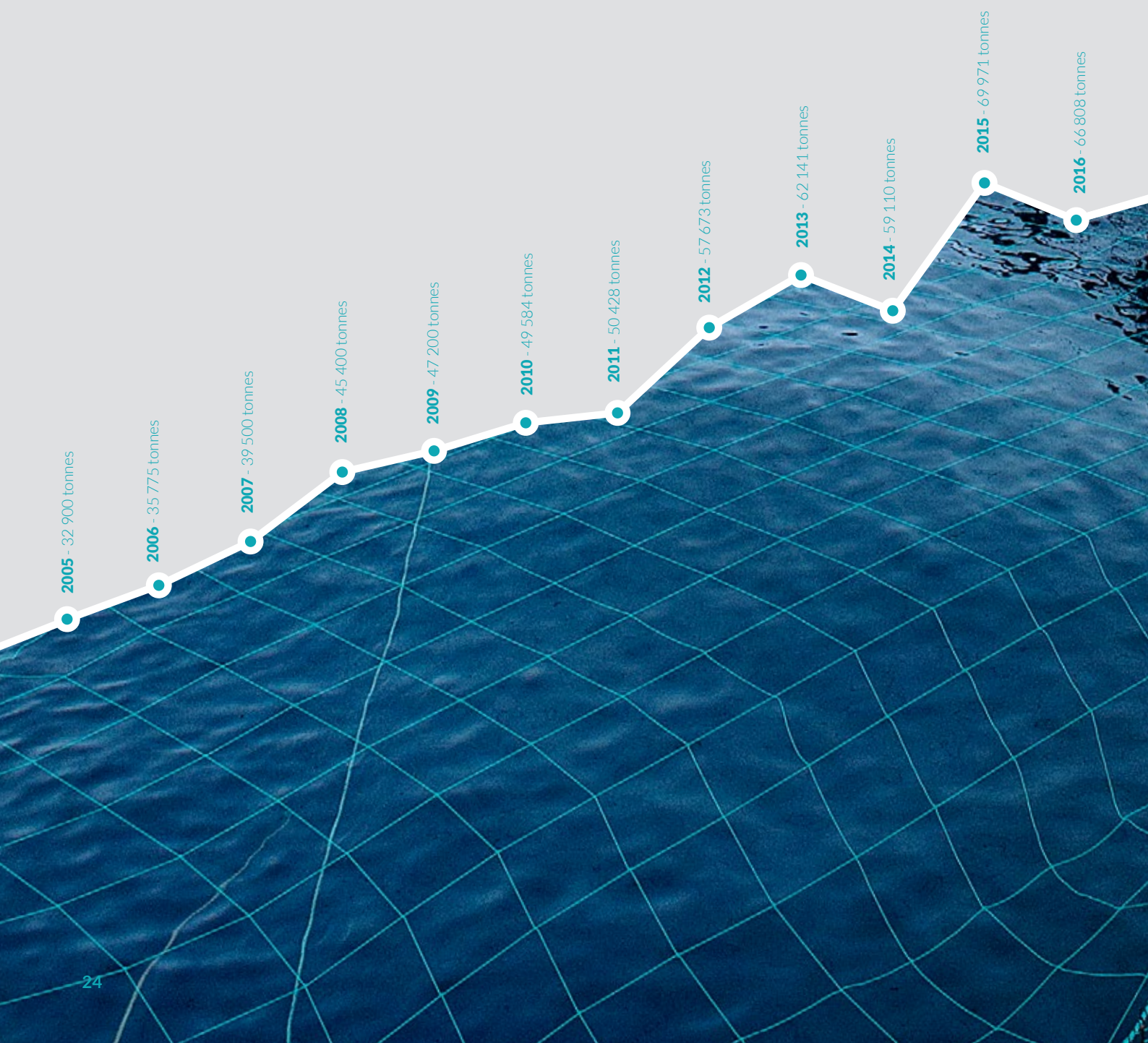
40%

*of the revenues  
come from the Group's  
farming operations*

90%

*of the sales  
were exported*

# Volume sold in the sales organisation



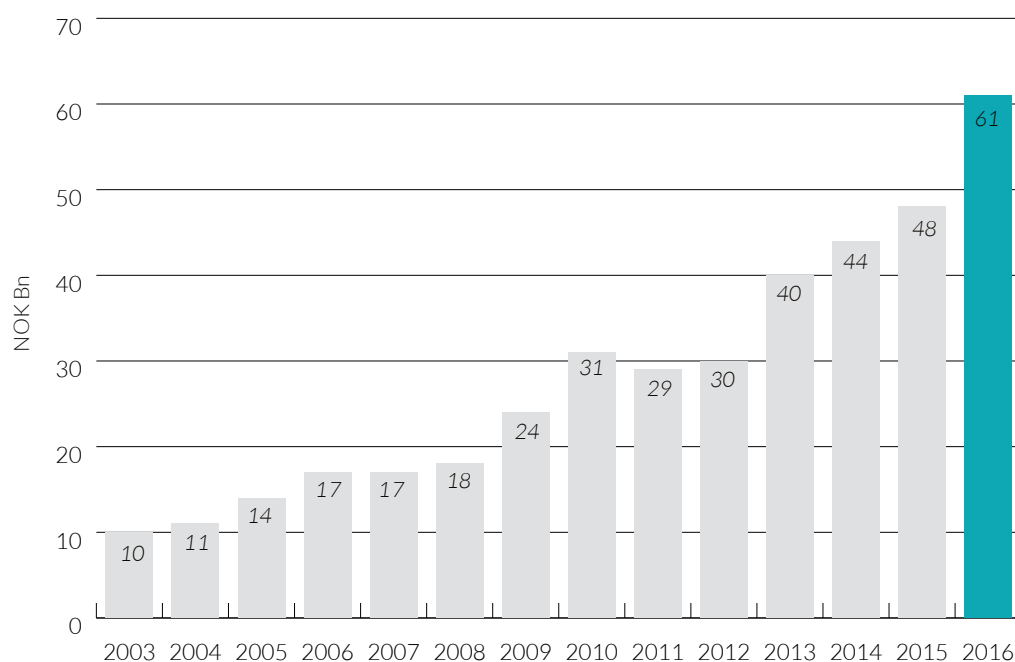


# The biggest increase in value ever

2016 was an exciting year for Norway Royal Salmon and for the Norwegian salmon industry. The value of Norwegian salmon exports totalled NOK 61.3 billion, an increase of NOK 13.7 billion from 2015. The export volume fell by 5.4 per cent to 1 126 627 tonnes (round weight). Prices rose by 36 per cent to NOK 54.50 per

kg (FCA Norway's border, gutted weight). This is the highest export value and salmon price achieved in the last 25 years. Strong demand in most markets, along with a weak Norwegian krone contributed greatly to the price and value increase in 2016.

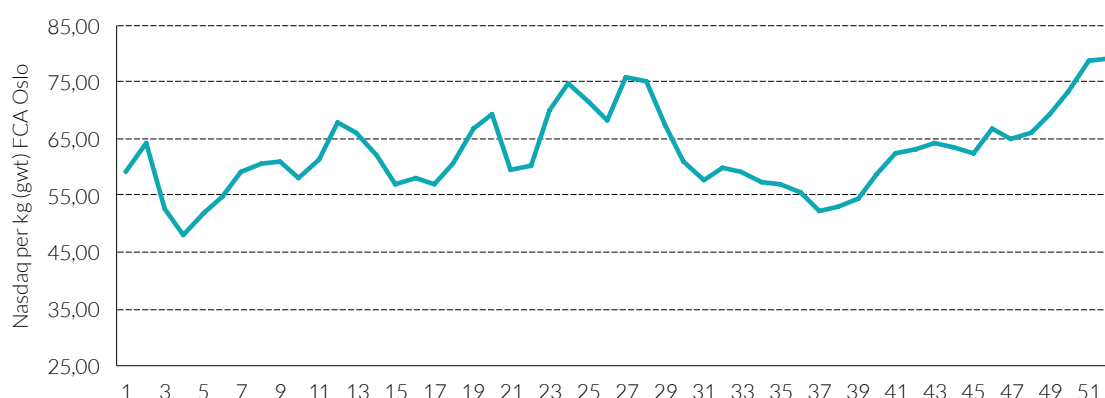
Export value of Norwegian farmed salmon



Prices fluctuated strongly in 2016. The highest prices came late in the year and in July. Prices rose steadily from the start of the year until July because of low harvesting volumes and good demand. The volume increased as usual in the third quarter due to good growth. Increased volume and accelerated harvesting caused by biological challenges in Central Norway resulted in a reduction in prices in the third quarter. The prices increased sharply towards the end of the year because of good demand in relation with Christmas and heavily reduced supply. NRS experienced strong demand from the market throughout the year. There was great

demand at prices below NOK 60 per kg and significantly less interest when the prices were over NOK 70 per kg. The average spot price (Nasdaq FCA Oslo) came to NOK 62.68 per kg (gutted weight), a substantial increase from NOK 41.45 per kg achieved in 2015. The highest spot price, NOK 79.23 per kg, was noted during the last week of the year. The lowest price came in week 4, when the spot price stood at NOK 48.05 per kg. The difference between the year's highest and lowest prices was as much as NOK 31 per kg. The average price has not been as high as it was in 2016 for 20 years.

Salmon prices in 2016



In 2016, the industry experienced the biggest volume reduction ever. Global supply declined by 6.7 per cent or 155 000 tonnes in 2016. The reduction was as big as the total global harvesting volume of around 1990. Along with strong demand, lower volumes contributed to salmon prices rising to levels the industry has not experienced for a long time. Global supply growth was 2 per cent higher in the first quarter than last year. In

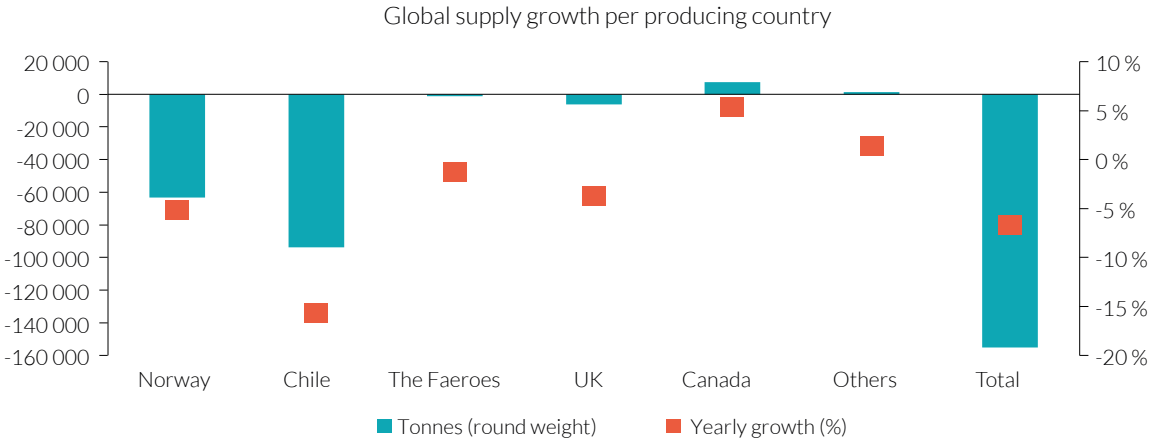
the second quarter the decline was substantial and the volume was 9 per cent lower than the year before. In the last quarter of the year, harvested volumes were 11 per cent lower than in the fourth quarter of 2015. In 2017, we believe that the globally harvest volume will grow, especially in the second half of the year. The figure below shows the development of global supply growth in tonnes and as a percentage.

Global supply growth



The 6.7 per cent decline in supply in 2016 was a consequence of a reduction of 5 per cent in Norway and a substantial decrease in Chile of 16 per cent. Harvest volumes decreased with 63 000 tonnes (5.1 per cent) in Norway mainly because of low growth, as several regions experienced great biological challenges throughout the year which led to accelerated harvesting. Sea lice and resistance in the treatment of lice were the biggest

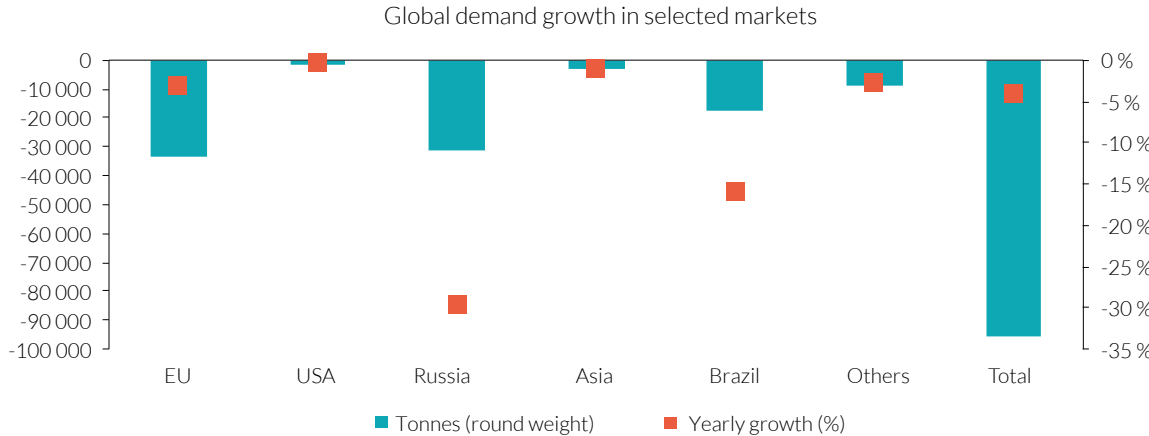
biological challenges. The decline from Chile was due to algae killing massive quantities of salmon in 2015. This salmon would normally have been harvested in 2016. The Faeroes, UK and other producing countries had limited impact on the global salmon market in 2016. For 2017, we expect a weak global growth, driven by increased harvest volumes from both Chile and Norway.



Lower supply, higher prices and currency developments in 2016 has resulted in unequal growth in demand for salmon. In per cent the decline was greatest in major markets such as Eastern Europe and Brazil. The decline in Eastern Europe is largely due to sanctions against Russia and reduced purchasing power. The decrease in Brazil is primarily due to the close proximity to Chile and the supply of fresh products from Chile. Although most markets and regions bought less salmon in 2016 compared with 2015, demand in most markets was very high in 2016. Customers in most markets have spent more money on salmon in 2016 than ever before. Although sanctions and political conditions affect trade volumes, it

is gratifying to see that the industry has many markets to work with. 2016, showed once again the industry's and market's flexibility in relation to the flow of goods when prices, volumes and exchange rates change significantly.

At the end of 2016, Norway and China agreed on a normalization of political and diplomatic relations, this gives grounds for optimism. Before trade become normal, one is dependent on clarifications on some issues, including veterinary issues. The flexibility and the strong underlying market growth gives rise to a huge market potential for fresh Norwegian salmon in the coming years.



2016 has been an eventful year for NRS, as well as for Norwegian and global salmon industry. The underlying growth in demand is significant, and our customers have never used more money on our products than in 2016.

Market width, flexibility in product flows and an underlying strong demand for Norwegian salmon will give the Norwegian salmon industry substantial opportunities in the time ahead.

# Organisation

*NRS's internal organisation reflects the Group's company structure. The organization of the group is divided into two main parts where all farming operations are gathered under one area of responsibility and all sales activities under another. This organisation clarifies the Group's main business, and enhances focus on and targeted development of these key areas.*





**CEO**  
Charles Høstlund

**CFO Finance**  
Ola Loe

**Chief HSE Officer**  
Hanne-Guri Haug

**COO Farming**  
Arve Olav Lervåg

**COO Markets and Business  
Development**  
Klaus Hatlebrekke

**NRS Finnmark AS**  
Managing Director  
Per Magne Bølgén

**NRS Feøy AS**  
Managing Director  
Stein Ove Tveiten

**NRS Trading**  
Sales Director  
Stein Martinsen

**Nor Seafood AS**  
Managing Director  
Fredd Wilsgård

**Nord Senja Laks AS**  
Managing Director  
Rune Eriksen

**NRS Settefisk AS**  
Managing Director  
Ole Christian Norvik

# Management



## **Charles Høstlund** (1975)

Chief Executive Officer

Charles Høstlund has a Master's degree in fish health from the Norwegian College of Fishery Science and an MBA in Financial control and management from the Norwegian School of Economics and Business Administration (NHH). He has previously worked as Regional Director of Marine Harvest Norway Northern Region. He joined Norway Royal Salmon in October 2014. He resides in Drøbak, Norway.

## **Ola Loe** (1966)

Chief Financial Officer

Ola Loe is a Certified Public Accountant from the Norwegian School of Economics and Business Administration (NHH). Prior to joining Norway Royal Salmon in February 2009, he worked as a senior manager at KPMG and as group auditor for Cermaq, Norway Pelagic, Fjord Seafood and Midnor Group. Mr. Loe resides in Trondheim, Norway.

## **Arve Olav Lervåg** (1971)

Chief Operating Officer Farming

Arve Olav Lervåg is educated within aquaculture and economics from Molde University College. He was previously head of aquaculture production aquaculture at Lerøy Midt AS. He joined Norway Royal Salmon in April 2017. Mr. Lervåg resides in Trondheim, Norway.

## **Klaus Hatlebrekke** (1974)

Chief Operating Officer Market and business development

Klaus Hatlebrekke holds a Master degree in Business and Economics from the Norwegian School of Management. Mr. Hatlebrekke was an analyst of the seafood sector at DnB Markets for more than 10 years. Hatlebrekke joined Norway Royal Salmon in April 2012. He resides in Trondheim, Norway.



**Helge Gåsø** (1961)  
Chair

Owner of Gåsø Næringsutvikling AS and Frøy Sjøtransport AS. Helge Gåsø has extensive experience of the build-up, operation and development of fish farming businesses. He took part in building Frøya Fiskeindustri AS, subsequently Hydro Seafood AS and Midnor Havbruk AS. He resides in Hamarvik, Frøya in Norway.



**Kristine Landmark** (1954)  
Vice Chair

Kristine Landmark holds a Master degree in Economics and Business Administration from the Norwegian School of Economics and Business Administration (NHH). She has extensive experience from among others, the Stokke Group, where she was employed in the period 1989-2010, and served as CEO in the period 2004-2010. She is the CEO of Slettvoll Møbler AS. Ms. Landmark has extensive experience from both Norwegian and international directorships. Active directorships include Hexagon Composites AS, Plantasjen AS, Glamox AS, Ratos AB and the main board of the Norwegian Central Bank. She resides in Ålesund, Norway.

## The Board of Directors



**Inge Kristoffersen** (1942)  
Board member

Inge Kristoffersen holds a Master degree in Economics and Business Administration from the Norwegian School of Management (BI). He is a board member of the fish farming business E. Kristoffersen & Sønner AS in Vesterålen, which operates six salmon farming licenses. He resides in Vesterålen, Norway.



**Marianne E. Johnsen** (1963)  
Board member

Marianne E. Johnsen is a lawyer and graduated as a jurist from University of Oslo before obtaining an MBA from Solvay Business School in Brussels. She is the founder and managing partner of Cascata AS, a management consulting and investment company. She has extensive experience from international executive positions, from among others Elkem. She holds several directorships, also in publicly listed companies, and is the Chair of the Board in many of these companies. She is, in addition, the leader of several nomination committees. She resides in Oslo, Norway.



**Trude Olafsen** (1963)  
Board member

Trude Olafsen is graduated Cand. Agric. within aquaculture from the Norwegian University of Life Sciences. She is employed in AKVA Group with the responsibility for business development. She has worked in various organizations in the seafood industry and within research/consulting, in addition to have held several elected positions in the industry. She resides in Trondheim, Norway.



**Lars Måsøval** (1979)  
Board member

Lars Måsøval is educated within aquaculture. He has extensive experience from the fish farming industry through various positions in his family-owned business. He is the Chair of the Board and one of the main shareholders of the Måsøval Group, which has its own hatchery and operate nine fish farming licenses. He resides on Frøya, Norway.



# Shareholder information

*NRS had 1 944 shareholders at 31 December 2016 (1 079). The 20 largest shareholders owned 87.11 per cent of the shares at 31 December (87.15 per cent).*

## Share capital

Norway Royal Salmon ASA had 43 572 191 ordinary shares with a nominal value of NOK 1 per share at 31 December 2016. The company has only one share class, and each share has one vote. The company's shares are freely transferable.

## Prevailing board authorities

At the company's ordinary general meeting 26 May 2016, the board was authorised to purchase treasury shares up to a total nominal value of NOK 4 357 219. The lowest and highest price that to be paid for the shares is NOK 1 and NOK 200 respectively. The authority remains valid until 30 June 2017.

At the company's ordinary general meeting 26 May 2016, the board was authorised to issue up to 4 357 219 shares with a nominal value of NOK 1.00 per share, which corresponded to 10 per cent of the share capital. The board mandate covers consideration of the acquisition of other companies and the raising of capital to strengthen the company's position. The authority remains valid until 30 June 2017.

## Option schemes

An option scheme for the senior management is established. Currently 3 employees are included in the programme. Detailed information can be found in note 18 to the group's annual accounts.

## Listing

Norway Royal Salmon ASA secured a listing on 29 March 2011. The shares are listed on the Oslo Stock Exchange under the ticker code NRS. They are registered in the Norwegian Central Security Depository, and SMN is registrar. The shares carry the securities number NO0010331838.

## Share price development and liquidity

The share had a closing price at 31 December 2016 of NOK 207.00 per share. 23 804 309 shares were traded during the year (2015: 7 491 069). The NRS share price increased by 159 per cent during 2016. The main index at the Oslo Stock Exchange increased 12.1 per cent in the same period. The company's total market value at 31 December 2016 was NOK 8 999.1 million.

### FINANCIAL CALENDAR 2017

14.02.2017 Presentation of preliminary annual results 2016  
23.05.2017 Presentation Q1 2017  
01.06.2017 Annual General Meeting 2017  
22.08.2017 Presentation Q2 2017  
07.11.2017 Presentation Q3 2017

Please note that the financial calendar may be subject to change. Changes will be communicated.

For financial year 2016, the Board proposes to the Annual General Meeting that a dividend of NOK 9.50 per share is distributed. In 2016 an ordinary dividend of NOK 2.60 per share for the financial year 2015 was distributed.

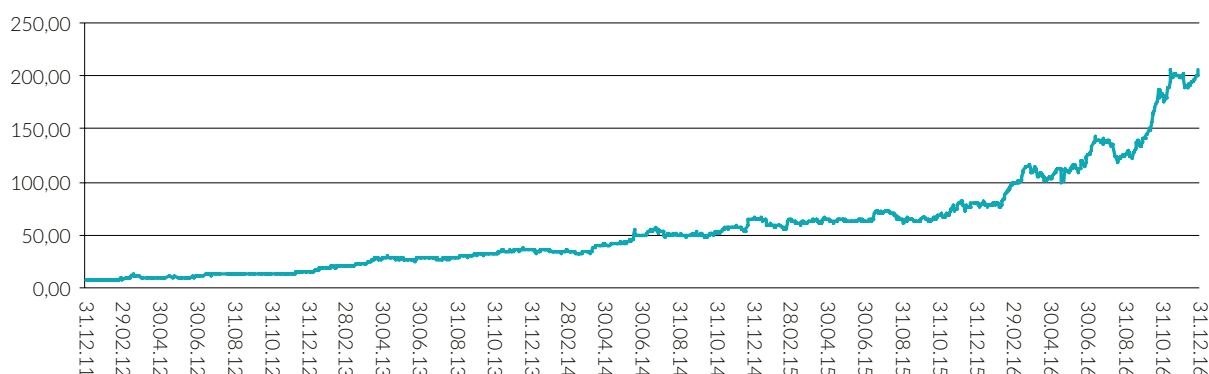
### ANALYST COVERAGE

Stockbroker	Phone
ABG Sunndal Collier	+ 47 22 01 61 16
Beringer Finance	+ 47 23 11 30 40
Carnegie	+ 47 22 00 93 57
Danske Bank	+ 47 85 40 70 74
DNB Bank Markets	+ 47 24 16 90 79
Handelsbanken Capital Markets	+ 47 22 39 72 99
Nordea Markets	+ 47 22 48 79 83
Norne Securities	+ 47 97 47 60 64
Pareto Securities	+ 47 24 13 21 15
SpareBank 1 Markets	+ 47 24 14 74 18
Swedbank	+ 47 23 23 82 78
SEB	+ 47 22 82 71 26



## Share price 2012/16

NOK



## Ownership structure – the 20 largest shareholders as of 31 December 2016:

Shareholder	No. of shares	Shareholding
Gåsø Næringsutvikling AS	6 632 835	15.22 %
Glastad Invest AS	5 347 862	12.27 %
Måsøval Eiendom AS	5 111 933	11.73 %
Egil Kristoffersen og Sønner AS	4 679 382	10.74 %
Havbruksinvest AS	3 706 873	8.51 %
DNB Nor Markets, Aksjehand/Analyse	2 365 393	5.43 %
Sparebank 1 Markets AS	1 698 009	3.90 %
Hellesund Fiskeoppdrett A/S	1 620 380	3.72 %
Lovundlaks AS	1 051 205	2.41 %
Nyhamn AS	1 012 457	2.32 %
State Street Bank And Trust Comp	626 908	1.44 %
Morgan Stanley And Co Intl Plc	510 462	1.17 %
J.P. Morgan Bank Luxembourg S.A.	437 274	1.00 %
Holta Invest AS	344 368	0.79 %
The Bank Of New York Mellon N.V.	301 389	0.69 %
J.P. Morgan Securities Llc	261 000	0.60 %
Mp Pensjon PK	254 086	0.58 %
Måsøval Fishfarm AS	252 520	0.58 %
Henden Fiskeindustri AS	233 808	0.54 %
State Street Bank And Trust Comp	201 843	0.46 %

The share in 2016		
Highest traded price	NOK	209,50
Lowest traded price	NOK	71,50
Share price at 31 December	NOK	207,00
Outstanding shares at 31 December	Number	43 473 912
Market value at 31 December	NOK	8 999 099 784



# Corporate Governance

*Norway Royal Salmon ASA (NRS) is listed on the Oslo Stock Exchange. The board and management of NRS review the company's corporate governance procedures each year in order to be able to allocate roles between shareholders, the board and general management in an optimal fashion. NRS comply with the Norwegian Code of Practice for Corporate Governance of 30 October 2014. The Code of Practice can be found on [www.nues.no](http://www.nues.no). The report below explains how NRS comply with the Code, and deviations from the Code are commented on.*

## 1 Implementation and reporting on corporate governance

Sound corporate governance is based on clear and transparent relations between shareholders, the board of directors and company management. Effective corporate governance will underpin credibility and trust between all stakeholders, and provide a sound basis for value creation and robust financial performance. Norway Royal Salmon (NRS) attaches great importance to efficient corporate governance, and the company's corporate governance guidelines have been drawn up in accordance with the Norwegian Code of Practice for Corporate Governance. This statement is in accordance with Section 3-3b and 3-3c of the Norwegian Accounting Act, and follows the guidelines of the Norwegian Code of Practice for Corporate Governance (NUES). This statement is a part of the Board of Directors report and is in accordance with the Norwegian Public Companies Act § 5-6, 4 paragraph.

A discussion of the regulations and the Group's core values and Code of Conduct are displayed on the Group's website: [www.norwayroyalsalmon.com](http://www.norwayroyalsalmon.com)

## 2 Business

The company's object is to produce, process, sell and distribute farmed fish, and to invest in other companies in the seafood business, in addition to provide quality assurance and chain activities for partner companies.

The above is established in §3 of the company's Articles of Association.

The company's corporate values are;

**Safe** – We are a safe and secure workplace, where everyone helps each other.

**Engaged** – We are committed and solution oriented.

**Innovative** – We strive to be innovative, and constantly look for futuristic and sustainable solutions.

**Credible** – We will be honest and credible in all our behaviour

Norway Royal Salmon is a name we are proud of and a name we work hard every day to live up to. Having «ROYAL» in our company name allows us both locally and

around the world to be associated with quality. Norway Royal Salmon is a name that obliges, and we therefore say that we are «Committed by name».

The board has adopted the following key strategic policies:

#### **NRS shall develop**

- To become Norway's most profitable salmon company
- From a mid-size to a big salmon farming company

#### **Through**

- Being a preferred employer
- Sustainable growth

The company's Articles of Association and core values can be viewed on the Group's website.

## **3 Equity and dividends**

### **Equity**

As of 31 December 2016, the Group's total equity amounted to NOK 2 047 017, which represented 55.1 per cent of its total assets. The board deems this satisfactory. The board shall maintain a level of equity commensurate with the company's objectives, strategy and risk profile.

### **Dividend policy**

The company aims to provide a dividend level that reflects the company's value creation in the form of dividends and increases in the company's share price. Dividends should amount to at least 60 per cent of consolidated net profit, provided the company's equity ratio is higher than 40 per cent and that the company's own capital requirements have been satisfied.

The Annual General Meeting sets the annual dividend based on a proposal from the board, which represents the maximum possible dividend. For financial year 2016, the Board proposes that a dividend of NOK 9.50 per share is distributed.

### **Capital increase**

At the Annual General Meeting of 26 May 2016, the board was authorised to issue up to 4 357 219 shares with a nominal value of NOK 1.00 per share, which corresponded to 10 per cent of the share capital at the time of authorisation. This mandate allows the board to vary the preference rights on share subscription. The board mandate covers consideration of the acquisition of other companies and the raising of capital to strengthen the company's position. The mandate runs until the date of the next Annual General Meeting; this should not, however, be later than 30 June 2017.

**Deviation from the Code:** The board's authority to implement capital increases is formulated generally and not solely regarding specific projects. The board believes it to be in the company's best interests to ensure that the board has a degree of latitude in this area.

### **Purchase of treasury shares**

At the Annual General Meeting of 26 May 2016, the board was authorised to purchase up to 4 357 219 treasury shares with a nominal value of NOK 1.00, which corresponded to 10 per cent of the share capital at the time of authorisation. For acquisitions, the purchase price per share should be no lower than a nominal value of NOK 1, and no higher than NOK 200 per share. The board may choose the exact method of acquisition or sale. The mandate runs until the date of the next Annual General Meeting; this should not, however, be later than 30 June 2017.

## **4 Equal treatment of shareholders and related-party transactions**

The company aims to ensure that all shareholders are treated equally. Shareholders shall not be subject to differential treatment unless such treatment is based on the company's or shareholders' common interest. The company's shares are freely transferable, and there are no restrictions on the purchase or sale of company shares over and above those pursuant to Norwegian law.

### **Share classes**

The Group only has one class of share and the company's Articles of Association do not impose any restrictions with regard to voting rights. All shares confer the same rights.

### **Purchase/sale of treasury shares**

The board's mandate to purchase treasury shares permits the board to choose the most appropriate acquisition method within a certain price range; however, in practice, the company sells and purchases treasury shares at market price.

### **Related-party transactions**

Services were purchased from a company owned by the Chair in 2016 and goods from companies controlled by shareholders. These were purchased on market terms and conditions. Further information on the transactions is found in Note 27 to the consolidated financial statements.

### **Guidelines for board members and senior executives on conflicts of interest**

Point 3.6 of the Group's Code of Conduct provides guidance on the conduct expected of board members and the Group's senior executives in situations involving conflicts of interest.

## **5 Freely negotiable shares**

Norway Royal Salmon ASA's shares are freely negotiable, and the company's Articles of Association do not impose any restrictions in this regard. Norway Royal Salmon ASA is listed on the Oslo Stock Exchange.

## 6 General meetings

The shareholders exercise the ultimate authority in Norway Royal Salmon ASA through the general meeting, where the company's Articles of Association are adopted. The board makes arrangements to ensure that the general meeting is an effective forum for both the shareholders and the board.

### Notice

All shareholders have the right to propose items for the agenda, and to participate, speak and vote at the general meeting, provided that their shareholding is entered in the Norwegian Central Securities Depository (VPS) no later than the fifth business day before the general meeting (the record date). Shareholders or their representatives who wish to attend and vote at the AGM must notify the company within two days before the meeting.

The Annual General Meeting is held within six months of the end of the accounting year, and in 2017 is scheduled for Thursday 1 June. The financial calendar is published as a stock market notification and on the company's website. The convening of the general meeting shall be notified in writing to all shareholders whose address is known, no later than 21 days before the meeting is due to be held. Notification, agenda documents, proposed resolutions, the Nomination Committee's justified nominations and registration and mandate forms, are made available to the shareholders on the company's website and as a stock market notification, no later than 21 days prior to the date of the meeting. In accordance with the company's Articles of Association, a shareholder may also contact the company and request despatch of documents relating to the items to be considered by the general meeting. Agenda documents shall contain all information required by shareholders to form a considered opinion on all items to be reviewed. All shareholders who are registered in the VPS) no later than the fifth business day before the general meeting (the record date) receive notice of the meeting and have the right to propose motions and to vote directly or via proxy. Shareholders or their representatives who wish to attend and vote at the AGM must notify the company within two days before the meeting. Shareholders may register for the general meeting in writing or by post or email. Shareholders who are unable to attend in person may vote by proxy. An individual proxy is required for each item that is to be considered.

### Implementation

The agenda is established by the board, where the main points are stated in § 8 of the Articles of Association. The Annual General Meeting shall approve the annual settlement and establish board members' fees. The general meeting elects a meeting chair. The Board Chair, the company's auditor and the company's management all participate in the general meeting. Minutes from the general meeting are publicised through stock exchange

announcements and displayed on the Group's website, no less than 15 days after the meeting.

**Deviation from the Code:** According to the Code, the Board should make arrangements to ensure an independent chairman. There are no such procedures, and the company thus differs from the code on this point.

## 7 Nomination Committee

The structure of the Nomination Committee is established in the company's Articles of Association. Rules of procedure have been established for the committee's work. The Nomination Committee's remit is to nominate board members to be elected by shareholders to the general meeting. The Board Chair shall be specifically nominated. The Nomination Committee also provides recommendations on fees paid to elected board members.

The members of the Nomination Committee shall be independent of the board and the administration, and the committee shall safeguard the interests of the shareholders. The Nomination Committee comprises three members: Endre Glastad (Committee Chair), Anne Breiby and Karl Olaf Jørgensen. No member of the Nomination Committee serves on the board, or performs any other honorary office with the company. All members are elected by the general meeting for a term of office of 2 years. The Nomination Committee proposes themselves new representatives to the Nomination Committee, which are elected by the general meeting.

The Nomination Committee shall report on its work and present its justified nominations to the general meeting. Nominations shall contain relevant information on the candidates, and shall justify how it safeguards the shareholders and company's interests. The Nomination Committee's proposed nominees shall be communicated to the company's administration no later than one month prior to the date of the general meeting.

Information on the Nomination Committee and deadlines for the proposing of candidates to the board are displayed on the Group's website.

## 8 The board's composition and independence

Norway Royal Salmon ASA is not obliged to have a corporate assembly.

### Election of the board and the composition of the board

The Nomination Committee proposes members to be elected to the board by shareholders at the general meeting. The general meeting elects all the board members, including the Chair. In accordance with the company's Articles of Association, the board comprises



three to nine members. At the most recent election at the Annual General Meeting a new representative was elected and two of the representatives were re-elected, after which the board comprised six representatives, all elected by the shareholders. Three of the board members are women. The board currently comprises Helge Gåsø (Chair), Kristine Landmark (Vice Chair) and board members Lars Måsøval, Inge Kristoffersen, Marianne E. Johnsen and Trude Olafsen. Board representatives are normally elected for a term of office of two years. To secure continuity of board work, the aim is to re-elect half of the board representatives each year.

### **The board's independence**

Some board members are involved in other aquaculture companies on their own behalf and on behalf of other companies. Consequently, situations could arise where these companies could be in direct competition with NRS. More than two board members are independent of all general management, material business connections and major shareholders. Thus, as a whole, the board complies with the independence requirements laid down by the Code. None of the company's board members or senior executives are related by family.

### **Board competence and shareholdings**

Board members' CVs and shareholdings in the company are discussed in the annual report and Notes to the financial statements.

## **9 The work of the board of directors**

### **The board's duties**

The board has overarching responsibility for the Group's administration and for monitoring general management and the Group's activities.

The board shall ensure that the company's operations are properly organised at all times by establishing overarching principles for the company's operation and development, including guaranteeing that the Group has sufficient funding and appropriately qualified personnel. The board shall ensure that the objectives adopted by the general meeting are implemented in practice. The board shall play a controlling as well as proactive role, and divide its work between strategic processes, control activities and providing consultancy for the CEO. The board shall keep itself informed of the company's financial position and has a duty to ensure that operations, accounting and asset management are subject to proper scrutiny.

### **Rules of procedure for the board**

The board's rules of procedure were adopted at the board meeting of 2 May 2016. The rules cover the following areas: the board's remit, convening of and matters to be reviewed at meetings, the board's decisions, duty of confidentiality and incapacity, the board's self-assessment and the CEO's obligations to the board.

The Chair is responsible for ensuring that the board's work is performed in an efficient and proper manner, in accordance with the applicable legislation and rules of procedure adopted for the board. The board works in accordance with an annual plan.

### **Board committees**

The board has resolved the establishment of a Nomination Committee. The board also established an Audit Committee and a Compensation Committee.

The Audit Committee comprises board members whose term of office is the same as that of board members elected by shareholders. The Audit Committee comprises Lars Måsøval, Marianne E. Johnsen and Inge Kristoffersen (Chair). The members of the Audit Committee satisfy the requirements of independence and competence established in the Norwegian Public Limited Liability Companies Act. Rules of procedure have been drawn up for the Audit Committee's responsibilities and remit. The Audit Committee shall prepare matters for consideration by the board, and help to secure an increased focus on efficient risk management and effective financial reporting and follow-up. The external auditor attends most of the committee's meetings.

A Compensation Committee has been established to review matters relating to senior executives' remuneration. The Compensation Committee comprises Board Chair Helge Gåsø and Vice Chair Kristine Landmark.

### **Rules of procedure for the CEO**

The CEO is responsible for the Group's operational management and management of the company's resources, and makes decisions on all items not requiring particular expertise and which naturally fall within the board's remit. The CEO shall also ensure that the consolidated financial statements comply with relevant legislation and regulations. The board appoints the CEO. The CEO's authority is established in separate rules of procedure adopted by the board.

### **Frequency of meetings**

A minimum of six board meetings shall be held each year. Where required, extra board meetings are held to consider urgent items that need to be reviewed before the next board meeting. Ten board meetings were held in 2016.

### **Financial reporting**

The board receives monthly reports on the company's financial performance and position. The administration presents and reports on the interim and annual financial statements.

### **The board's evaluation of its own work**

The board assesses its business, working practices and competence each year. An assessment report is prepared and made available to the board and the Nomination Committee.

## 10 Risk management and internal control

Effective risk management and sound internal controls are critical to the successful performance of NRS, and form an integral part of the company's business operations. The ability to plan, structure, perform and evaluate projects is a key area of the business. The management of the company's operations is based on predetermined financial targets.

Risks in Norway Royal Salmon ASA are divided into two main categories:

- Financial risks, which are trading risks based on underlying exposures, e.g. currency risks, credit risks, interest rate risks and liquidity risks.
- Operational risks mainly linked to the development of the salmon price, forces of nature, biological risks linked to the salmon farming operations and regulatory risk.

For further discussion of risk, a reference is made to the Board of Directors report included in the annual report.

Financial reporting in Norway Royal Salmon is an integrated part of the Group's corporate governance. Distinct roles, responsibilities and duties have been established. Requirements concerning content and deadlines, including accounting policies, checks and validations have been clearly defined. A key element in the financial reporting process is risk assessment.

All Group units report their financial statements monthly, based on a common chart of accounts. The accountant of the unit is responsible for the accuracy of the reported figures and that the financial reporting complies with the Group's accounting principles. In addition, general and analytical controls of the reported figures together with consolidation are performed at corporate level. The reports are analysed on group, company and project level by the group management. Reporting covers both financial and non-financial parameters. Focus is placed on profitability and risk within each business area, as well as environmental and social issues. Performance monitoring is given high priority, and measures are implemented in areas where results fall short of required levels. Disclosures are reported in connection with the quarterly and the annual reporting. Extended controls are carried out in the quarterly and the year-end reporting processes.

The Audit Committee monitors the financial reporting and the related internal control, including application of accounting principles and estimates in the financial reporting. The Group management and the Audit Committee have regular meetings with the external auditor present to discuss issues related to the financial reporting.

The purpose of risk management and internal controls is to manage risks associated with the business and to enhance the quality of financial reporting. Effective risk management and sound internal controls help to safeguard shareholders' investments and the company's assets. The board believes that NRS has a sound internal control and risk management system, which is tailored to suit the needs of the business. The board's annual plan includes an annual review of the company's risk areas and internal control systems, as well as values and ethical guidelines.

The board reviews the company's financial status in the annual report. Individual elements of the company's risk management are laid down in the Group's internal control system, with which all employees are obliged to comply. These comprise a set of documents and procedures that are continuously monitored and updated, and where minutes of important failures of compliance are noted.

### *Ethical guidelines*

The ethical guidelines describe Norway Royal Salmon ASA's commitment and requirements in connection with ethical issues. Norway Royal Salmon ASA will, in its business activities, comply with applicable laws and regulation and act in an ethical, sustainable and socially responsible manner. The ethical guidelines have been communicated to all employees.

## 11 Remuneration of the board of directors

The general meeting sets annual fees for board members based on the Nomination Committee's recommendations. Remuneration paid to the board is not performance-related, and no share options are issued to board members. The fee payable to board members shall reflect the board members' responsibilities, competence and time spent on the assignments in question, as well as the complexity of the business. Further information regarding board members' fees can be found in the Notes to the financial statements.

The Group Chair has performed services for the Group through his company Frøy Rederi AS. The board is aware of these services, which are priced on market terms and conditions. The relationship is discussed in Note 27 to the consolidated financial statements.

Other information on fees and remuneration paid to the board is disclosed in Note 18 to the consolidated financial statements. Resolutions on fees are recorded in the minutes of the Annual General Meeting each year and are displayed on the company's website.

## 12 Remuneration paid to senior executives

The Board determines the principles applicable to the Group's policy for senior executive compensation. The Board is directly responsible for the determination of the CEO's salary and other benefits. The CEO is responsible for the determination of the salary and other benefits for the Group's other senior executives. The Group's senior executives include the management team of the Group.

The following guidelines form the basis of the determination of compensation to the Group's senior executives:

- The total compensation offered to senior executives shall be competitive.
- The compensation shall be motivating, both for the individual and for the senior executives as a group.
- Variable elements in the total compensation shall be linked to the values generated by the Group for the shareholders.
- The system of compensation shall be understandable and meet general acceptance internally in the Group, among the Company's shareholders and with the public.
- The system of compensation shall be flexible and contain mechanisms which make it possible to carry out individual adjustments based on the results achieved and contributions made towards the development of the Group.

Remuneration of the Company's CEO and the executive management team is disclosed in the Annual Report note 18. The Board prepares a statement in compliance with the Public Limited Liability Companies Act regarding the remuneration of the executive management team for the consideration by the AGM.

The remuneration concept for the corporate executive staff consists of the following main elements:

- Fixed salaries
- Benefits in kind
- Pension
- Termination payment
- Bonus
- Share based option scheme

For additional information on the different elements, reference is made to the Annual Report note 18. In accordance with the Companies Act the Board prepares a statement on the establishment of salaries and other remuneration for senior executives for treatment in the AGM.

## 13 Information and communication

NRS shall ensure that all shareholders receive accurate, clear, relevant and timely information relating to all matters of financial significance to shareholders. NRS

publishes financial information on its website and in press releases. Interim and annual financial statements are published in both Norwegian and English.

The company shall provide investors and analysts with the best possible basis on which to gain an accurate picture of the company's financial position, key value drivers, risk factors and other matters that could affect future value creation. At the same time, the company's management shall endeavour to identify any guidance signals from the markets.

The company's financial calendar, providing details of the date of publication of important events like the Annual General Meeting, are publicised through stock exchange announcements and displayed on the company's website, along with a presentation of the company's interim financial reports and other important events.

The company nominates an official spokesperson for various matters. The Company's CEO and CFO are the company's spokespersons for the financial markets. An ongoing dialogue is maintained with investors and analysts. Importance is attached to identical and simultaneous information being provided to the equity market. All relevant information is presented on the company's website at the same time as it is notified to shareholders.

## 14 Take-overs

The board of directors will not seek to prevent or place obstacles in the way of any party who wishes to make an offer for the company's business or shares. If an offer is made for the company's shares, the board will issue a statement evaluating the offer and a recommendation to the shareholders on acceptance or non-acceptance. The board's statement will indicate whether the board is unanimous in its recommendation.

## 15 Auditor

Separate rules of procedure have been drawn up for the Audit Committee's work in relation to the auditor, together with guidelines on work extending beyond standard audit work performed by the external auditor.

The auditor participates in the board meetings that discuss the annual financial statements. Each year, the auditor presents the Audit Committee with an audit plan and a summary of the conducted audit, including a review of the company's internal controls.

The board informs the general meeting of the auditor's remuneration, allocated between auditing and other services.

# The Board's Statement

## *on establishment of salaries and other remuneration for senior executives at Norway Royal Salmon ASA*

The board of Norway Royal Salmon ASA has a special Compensation Committee. The Compensation Committee advises the board on all matters concerning the company's remuneration paid to the CEO. The salary and other remuneration paid to the CEO must be approved by the board. The board must also approve any forms of remuneration which involve the issue of shares, subscription rights or options to senior executives.

Salaries and other remuneration paid to senior executives are set by the CEO. The board will have the final say in approving remuneration paid to other senior executives, and may lay down more detailed guidelines over and above what follows on remuneration for senior executives below. If the CEO wishes to offer remuneration to senior executives outside the scope of such detailed guidelines, this must be submitted to the board for approval.

### 1. Senior executives remuneration policy in 2016

In addition to their fixed salary, the following benefits were paid to Group management in 2016:

#### **Yearly bonus**

The senior executives had a bonus scheme, which depended on goal achievement in several areas. Bonus did not exceed three months' salary.

#### **Share-based incentive schemes**

A bonus scheme based on synthetic options was introduced for the Group management in 2014. The bonus scheme conferred the right to a cash bonus based on the price performance of the company's shares on the Oslo Stock Exchange. As of 31 December 2016 the scheme comprises 370 000 options and runs until 20 March 2018.

#### **Pension schemes**

Norway Royal Salmon ASA has a defined-benefit pension scheme covering all the company's staff and Group management. Please see Note 19 for further information.

#### **Notice period and severance pay**

The CEO and the other senior executives are entitled under certain circumstances to one year's (CEO) and six months' severance pay respectively. Otherwise contracts that are based on the Norwegian working environment act apply.

#### **Benefits in kind**

The CEO receives a free company car. Apart from this, Group management also received benefits in kind such as free telephones, free Internet and free paper.

### 2. Principles on remuneration for the 2017 financial year

Remuneration paid to the CEO and other senior executives of the company are based on the following main principles.

#### **Basic salary**

The basic salary shall be based on job content, responsibility levels, competency and length of service. Salaries shall be competitive.

#### **Annual bonus**

The senior executives have two bonus schemes, one basic bonus scheme and one management bonus scheme which depends on goal achievement in several areas. The basic bonus scheme covers all employees in the company. The basic bonus scheme shall not exceed the sum of three months' salary for the senior executives. The management bonus scheme applies for the period 2017 and 2018 and shall not exceed a year's salary.

#### **Benefits in kind**

The company shall not offer any benefits in kind other than those stated below: Company car for the CEO. Otherwise, costs of newspapers, telephone and Internet access are covered for positions where such is normal practice.



### Share-based incentive schemes

A bonus scheme based on synthetic options was introduced for the Group management in 2014. The bonus scheme confers the right to a cash bonus based on the price performance of the company's shares on the Oslo Stock Exchange. As of 31 December 2016 the scheme comprises 370 000 options and runs until 20 March 2018.

A new bonus scheme based on synthetic options will be introduced in 2017. The bonus scheme confers the right to receive shares in the company based on the price performance of the company's shares on the Oslo Stock Exchange. This scheme will run until 20 March 2019 and shall not exceed a year's salary.

### Pension schemes

Norway Royal Salmon ASA has a defined-benefit pension scheme covering all the company's staff and senior

executives employed before 1 July 2016 and a defined contribution scheme for employees hired after 1 July 2016. The senior executives are part of this schemes and no members of the Group management have any pension scheme other than that for the other staff.

### Notice period and severance pay

The CEO and the other senior executives are entitled under certain circumstances to one year's (CEO) and six months' severance pay respectively. Otherwise contracts that are based on the Norwegian working environment act apply.

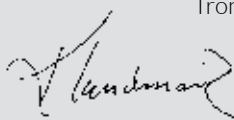
### Other variable remuneration components

Other than as stated above, the company shall not offer its senior executives any variable remuneration components or particular benefits in addition to their basic salary.

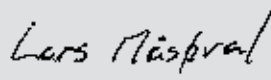
Trondheim, 4 April 2017



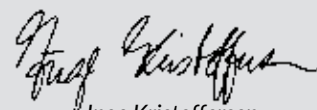
Helge Gåsø  
Chair



Kristine Landmark  
Vice Chair



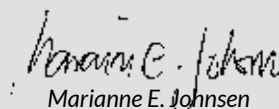
Lars Måsøval Glastad



Inge Kristoffersen



Trude Olafsen



Marianne E. Johnsen



# Board of Directors report for 2016

## Group operations and locations

Norway Royal Salmon's business is divided into two segments: Fish Farming and Sales. The head office is in Trondheim.

The Group's business idea is, through its proximity to production and a high level of professional competence, to supply the market with farmed fish products of a uniform standard and high quality. Efforts are made to sell all products under the Norway Royal Salmon brand name. The strategy of the Group is to run effective fish farming operations, as well as to sell the output of our own production and from our partners. Future growth in the Norwegian fish farming industry must be based on sustainable criteria. NRS wishes to be a leader in the effort to steer the industry in a more sustainable direction.

The Group's fish farming operations are divided into two regions. Region North comprises fish farms located in West Finnmark and on Senja in Troms and has 29 licenses. Region South comprises fish farms located in Hordaland and Rogaland and has 6 licenses. Sales operations are conducted from the company's two offices in Trondheim and Kristiansand. In addition, the Group has shares in eight associates. Of these, three are fish farming companies in Norway with ten licences. The Group has, in addition, acquired 50 per cent of the fish farming company Arctic Fish ehf. on Iceland in 2016. Among the associated companies there are three harvesting companies and two are hatcheries.

## Highlights in 2016

2016 was an eventful year for Norway Royal Salmon characterised by high salmon prices and record results.

- The Group generated operating revenues of NOK 4 222.3 million, an operational EBIT of NOK 640.6 million and a result before tax of NOK 1 172.4. All these are the highest in the Group's history.

- In addition, the group passed the following historical milestones in 2016: Net profit after tax was over NOK 1 billion and equity over of NOK 2 billion.
- The farming operations harvested 26 819 tonnes in 2016. Region North produced 81 per cent of the harvest volume for the Group, while Region South produced 19 per cent.
- The sales operations sold 66 808 tonnes in 2016.
- The farming operations had four new sites approved in 2016. In Måsøy in West-Finnmark, a new site with a MAB of 3 600 tonnes was approved. In Karlsøy in Troms, two new sites with MAB of 5 470 tonnes and 3 600 tonnes were approved. In Kvalsund in West-Finnmark a new site with MAB of 3 600 tonnes was approved.
- The Norwegian Supreme Court passed a final sentence on December 9 2016 in the criminal case against Nord Senja Laks AS. Nord Senja Laks AS is a wholly owned subsidiary of Norway Royal Salmon ASA. The matter Nord Senja Laks was convicted for concerned incorrectly reported sea lice count in the period June 2012 to February 2013. Nord Senja Laks AS was sentenced to pay a fine of NOK 6 million. Nord Senja Laks AS was not sentenced to loss of licenses. The verdict therefore has no impact on the licenses of Nord Senja Laks or its future operations.
- Five sites in Finnmark were ASC-certified in 2016. 7 of 14 sites in Finnmark are now ASC-certified.
- Norway Royal Salmon entered into an agreement to acquire 50 per cent of Arctic Fish ehf. (Iceland) through a direct placement. Through the transaction, NRS entered the salmon farming industry on Iceland in 2016.
- Norway Royal Salmon has purchased land in Karlsøy, Troms where construction of a new hatchery will start in 1.5 to 2 years, when all necessary approvals are in place. The company has applied for permission to produce 10 million smolts in a RAS (recirculating aquaculture system) plant. In 2016 Norway Royal salmon ASA established the company NRS Settefisk AS that will run the production.
- The Board proposes a dividend of NOK 9.50 per share for 2016.

## Sustainable focus and organic growth potential

### Development licenses

Norway Royal Salmon ASA and Aker ASA (Aker) submitted an application for development licenses for the farming of salmon in March 2016. The companies have developed an offshore aquaculture farming concept that facilitates sustainable growth in areas that the aquaculture technology thus far has not been able to exploit.

NRS and Aker have an industrial ambition to combine knowledge from the aquaculture industry with offshore competence. Should the Directorate of Fisheries grant the development licenses, a joint operation to develop the aquaculture farms of the future will be established.

NRS and Aker have developed a semi-submersible offshore farm designed for harsh environments. By placing the farms further away from the coast, the concept increases the area utilization of Norwegian waters and will have a smaller environmental footprint. By combining NRS' aquaculture knowledge with Aker's long industrial experience in maritime enterprises, construction of offshore installations and fisheries, the objective is to further develop a profitable aquaculture industry and help solve the environmental and area scarcity challenges facing the industry.

The project involves the development of a new type of aquaculture farm with greater capacity to withstand harsh weather conditions. NRS/Aker are applying for 15 development permits in order to realise the concept and test the facility in Troms or Finnmark. These licenses will provide the economic foundation for carrying out significant investments in a future-oriented industry. NRS believes this industrial project will contribute to a new and groundbreaking standard and sustainable growth for the Norwegian aquaculture industry.

NRS and Aker received 24 February 2017 clarification from the Directorate of Fisheries with regards to the application. The Directorate of Fisheries believes the application falls within the scheme of development licenses. NRS and Aker will continue to work together with the Directorate with the aim to implement the project.

### Green licenses

In 2014, the subsidiaries of Norway Royal Salmon ASA awarded ten green licenses.

The criteria for the award of licenses were to establish a production that reduces the extent of sea lice and reduce the risk of impact on wild salmon because of escapes. After the nomination, Norway Royal Salmon has 35 licenses, which means an increased production capacity of 40 per cent. Over 80 per cent of the licenses are in Region North, which has the best conditions for fish

farming activities. The future growth of the aquaculture industry will be through sustainable solutions. The new licenses are a game changer and significant positive change for Norway Royal Salmon towards more sustainable development. Ahead, the company will have full focus on utilising the group's organic growth potential and sustainable production. In 2016 Norway Royal Salmon put 10.1 million smolts to sea to realise the growth potential.

In this connection, all our sites have become Global Gap certified. In addition, dedicated efforts have been made towards getting the Group certified by the ASC (Aquaculture Stewardship Council) standard. It sets strict standards for how fish are produced and requires documentation of laws and regulations, animal diversity, animal welfare, genetic integrity of wild populations, responsible feed, control of fish diseases, socially responsible production of fish, good relations with neighbours and that our suppliers meet critical and essential criteria in the standard. ASC certified fish are fish that are produced in an extremely responsible and sustainable way according to very strict requirements.

In February 2016, five sites were ASC certified. Seven out of fourteen sites at NRS Finnmark are now certified. Our goal is that that most of NRS's production will be ASC-certified within a few years.

## Financial performance

### The income statement

Norway Royal Salmon generated record high consolidated operating revenues of NOK 4 224.3 million in 2016, compared with NOK 3 210.5 million in 2015. Operational EBIT totalled NOK 640.6 million (2015: NOK 201.9 million). The Group had a consolidated operating result of NOK 876.6 million (2015: NOK 249.1 million). The Group's consolidated net result for the year totalled NOK 1 004.7 million (2015: NOK 237.6 million).

The reason for the increase in operational EBIT is higher prices, while lower harvesting volumes and increased production costs had the opposite effect.

The Group recognised NOK 71.9 million in share of the result from associates in 2016 (2015: NOK 22.8 million). The Group's associates harvested 8 747 tonnes in 2016, compared with 8 945 tonnes in 2015. The Group's share of the volume was 3 204 tonnes compared with 3 221 in 2015. In 2016, the Group had net interest expenses of NOK 16.2 million (2015: NOK 24.0 million).

Gain of financial assets in 2016 was NOK 313.1 million (2015: NOK 47.4 million).

The parent company made a net result for the year of NOK 685.5 million in 2016 (2015: NOK 265.6 million).



Operating result totalled NOK -10.3 million, compared with NOK -9.3 million in 2015. The volume sold by the parent company decreased from 69 971 tonnes in 2015 to 66 808 tonnes in 2016. The decrease in operating profits is due to lower volumes and higher payroll expenses. The increase in the company's net result for the year is attributed to an increase in share of the profits from investments in subsidiaries and associates from NOK 158.0 million in 2015 to NOK 528.8 million in 2016, and that the parent company recognised a profit from realisation of TRS-agreements of NOK 164.9 million in 2016 compared with NOK 120.5 million in 2015.

#### **Fish Farming:**

The fish farming business generated operating revenues of NOK 1 622.5 million in 2016 (2015: NOK 1 086.4 million), an increase of 49.4 per cent. The increase is due to higher salmon prices, while the volume of fish harvested decreasing by 3.9 per cent in 2016 had the opposite effect. The fish farming business harvested 26 819 tonnes in 2016, compared with 27 903 tonnes in 2015. Operational EBIT totalled NOK 758.0 million (2015: NOK 242.5 million), which amounts to NOK 28.26 per kg (2015: NOK 8.69). The increase in operating result was due to higher harvest volumes, while higher production costs and lower harvested volume had the opposite effect. The fish farming business volume of biomass in the sea increased by 653 tonnes from 22 407 tonnes at the start of the year to 23 060 tonnes at the close.

Region North generated operating revenues of NOK 1 300.1 million in 2016 (2015: NOK 892.6 million). The segment harvested 21 667 tonnes in 2016, compared with 22 971 tonnes the year before, a decrease of 5.7 per cent. The Group has 29 fish farming licences in Region North, of which ten are in Senja in Troms and 19 in Western Finnmark. The segment made an operational EBIT of NOK 656.1 million (2015: NOK 222.6 million). Operational EBIT came to NOK 30.28 per kg harvested in 2016 (2015: NOK 9.69).

In 2016, Region South generated operating revenues of NOK 322.5 million (2015: NOK 193.8 million). The segment harvested 5 151 tonnes in 2016, compared with 4 932 tonnes the year before, an increase of 4.4 per cent. The Group operates six licences in Region South. The segment had an operational EBIT of NOK 101.9 million (2015: NOK 19.8 million). Operational EBIT came to NOK 19.78 per kg harvested in 2016 (2015: NOK 4.02).

#### **Sales:**

Sales' operating revenues increased from NOK 3 171.3 million in 2015 to NOK 4 219.5 million in 2016. The increase was due to increased prices which was offset by lower sales volumes. The segment sold 66 808 tonnes during the year, compared with 69 971 tonnes the year before, a decrease of 4.5 per cent. Sales had a negative operational EBIT of NOK 32.3 million in 2016 (2015: positive NOK 26.6 million), and a result before tax of

NOK -63.1 million (2015: NOK 53.0 million). The sales operations operational EBIT decreased due lower sold volume and loss on fixed price contracts of NOK 81.9 million in 2016 (2015: NOK 0).

#### **Balance sheet**

At the close of 2016, the Group had total assets of NOK 3 713 million (2015: NOK 2 870 million).

The increase in total assets is due to changes in several balance sheet items. A total of NOK 121.4 million was invested in new operating assets during the year. The fair value of the biomass rose during the year from NOK 829.9 million to NOK 1 205.4 million. The increase in the value of the biomass is due to a higher biomass at cost of NOK 181.4 million, and increased fair value adjustments of NOK 194.1 million. The Group's biomass increased by 653 tonnes to 23 060 tonnes at the end of the year. The financial assets of the Group increased by NOK 357.5 million, mainly as a result of the investment in Arctic Fish and positive results in associated companies. Accounts receivables decreased by NOK 22.5 and other receivables by NOK 144.2 million. Cash decreased by NOK 132.1 million.

The Group's net interest bearing debt as at 31 December 2016 totalled NOK 282.2 million, compared with NOK 498.5 million at the close of the previous year. The decrease in interest bearing debt is mainly due to a positive operational EBITDA of NOK 701.7 million, a realised gain on TRS-agreements of NOK 164.9 million and a change in tax payables of NOK 76.2 million. Investments in fixed assets of NOK 121.4 million, dividend of NOK 111.8, increased biomass at cost of NOK 180.9 million, acquisition of non-controlling interest for NOK 70.0 million and acquisition of Arctic Fish ehf. for NOK 269.5 had the opposite effect.

The net increase in equity of NOK 860.5 million was mainly due to a positive total comprehensive income for the period of NOK 1 037.7 million, while paid dividend of NOK 111.8 million and acquisition of the non-controlling interest in Nord Senja Laks AS for NOK 70.0 million have reduced equity. At the close of 2016, the Group had an equity ratio of 55.1 per cent, compared with 41.3 per cent at the close of 2015.

The parent company's total assets stood at NOK 2 190.6 million at the close of the year (2015: NOK 1 980.1 million). Total financial assets increased by NOK 581.1 million from the end of 2015 due to positive results in subsidiaries and associated companies. Bank deposits decreased as a result of payment of long-term debt and the investment in Arctic Fish of NOK 269.4 million, while received payments from investments in financial assets of NOK 173.8 million had the opposite effect. At 31 December 2016, the parent company's equity ratio was 43.2 per cent (2015: 34.2 per cent).

## Cash flow

The Group's cash flow from operating activities in 2016 was NOK 628.3 million (2015: NOK 340.2 million). The positive cash flow is mainly due to an EBITDA of NOK 701.7 million and change in other current assets and liabilities of NOK 47.2 million. A change in working capital of NOK 103.2 million had a negative effect on the cash flow.

Net cash outflows relating to investing activities in 2016 totalled NOK -282.34 million (2015: NOK -107.4 million). These are, for the most part, attributable to investments in operating assets of NOK 121.4 million, the investment in Arctic Fish ehf. of NOK 269.5 million and the acquisition of minority of NOK 70.0 million. Received dividends from associates of NOK 8.9 and gain on realisation of TRS agreements of NOK 164.9 million had a positive effect on the cash flow.

The Group had cash and cash equivalents at the close of the year of NOK 69.3 million (2015: NOK 201.3 million). At 31 December 2016, the Group had a net interest bearing debt of NOK 282.2 million (2015: NOK 498.5 million).

In 2016, the parent company had a positive cash flow from operating activities of NOK 15.2 million (2015: NOK 156.9 million). The positive cash flow is a result of cash received from Fish Pool contracts of NOK 32.3 million, decreased accounts receivables of NOK 13.1 and net reduction in other current assets and liabilities of NOK 97.5 million. A negative operational result of NOK 10.3 million, increased inventory of NOK 52.5 million, share based payments of NOK 10.7 million and decreased accounts payables of NOK 51.2 million had a negative effect on the cash flow.

The realised profit from exercising TRS-agreements of NOK 164.9 million and dividend from subsidiaries and associated companies of NOK 58.8 million have given a positive cash flow effect, while the investment in Arctic Fish ehf. and the acquisition of the non-controlling interest in Nord Senja Laks totalling NOK 339.5 million have resulted in a net negative cash flow from investing activities of NOK 118.0 million in 2016 (2015: positive cash flow of NOK 123.2 million).

Repayment of long-term debt of NOK 350.0 million, payment of dividend of NOK 111.7 million and interest payments of NOK 4.6 million resulted in a negative cash flow from financing activities of NOK 452.9 million (2015: positive cash flow of NOK 26.7 million).

The total negative cash flow in 2016 of NOK 555.7 million has resulted in net bank deposits totalling NOK 65.1 million (2015: NOK 620.8 million) for the parent company at the close of the year.

## Going concern

Norway Royal Salmon ASA's board of directors confirms that the year-end financial statements have been prepared on the basis that the enterprise is a going concern, in accordance with Section 3-3a of the Norwegian Accounting Act. This assessment rests on the Group's results, financial position and budgets.

## Research and development

Norway Royal Salmon has a strong focus on biological production and fish welfare and has initiated or is participating in the following projects:

- Project in collaboration with Aker ASA to develop an offshore aquaculture farming concept that facilitates sustainable growth in areas that the aquaculture technology thus far has not been able to exploit. NRS and Aker has in relation to the project applied for 15 development licenses.
- Commercial testing on sterile salmon in collaboration with MarinHelse AS and Havforskningsinstituttet
- Internal project in collaboration with LetSea AS with operational optimization of sterile salmon in Troms and Finnmark to reduce the environmental impacts of escapes.
- Internal project with ice skirts in Finnmark, in order to reduce the load on the cages and nets due to icing.
- Internal project with lice-skirts and lumpfish, in order to reduce the use of medication in connection with treatment against sea lice.
- FHF project, quality salmon.

## Operational risk and risk management

### Fish Farming

Risk will normally attach to the Group's business activities. The greatest risks for Norway Royal Salmon are associated with the production of biological assets for human consumption.

The biological challenges will be related to smolt quality, mortality, disease, sea lice, parasites, algae blooms, low oxygen levels, fluctuations in sea temperatures and the quality of the fish harvested.

Although Norway Royal Salmon develops and implements sound routines for its own operations, the industry is such that it is important to coordinate much of this effort with other stakeholders in the various geographical locations in which we operate. The fish farming operations management team is working continuously to follow up smolt and smolt suppliers to enhance smolt quality. In 2016, Norway Royal Salmon ASA employed its own Hatchery Manager to strengthen our competence in our work with smolt and smolt quality. We feel it is important to make active use of available fish health services to improve routines for the promotion of

fish health and for disease prevention measures. All employees in the fish farming segment have attended fish welfare courses. A Fish Health Manager was hired in 2016 to ensure sufficient capacity and expertise related to fish health.

An assessment of all sites is continuously carried out to ensure that sites are optimal to produce salmon.

Sites located in relatively open water have recently been put into operation, since these areas have favourable conditions for fish farming. This is demanding for both employees and equipment. The production facilities are constantly subjected to powerful natural forces, which represent a risk of damage to the equipment and subsequent risk of fish escaping. In the last years, Norway Royal Salmon has invested in new equipment of a high standard, which can meet our own and the public authorities' requirements with respect to fish escapes. In addition, the Group plans to increase the production of sterile fish in the coming years, so that if fish escapes it will not affect the genes of the wild salmon.

Risk management is a key aspect of the management team's duties. The Group has implemented routines and systems for the monitoring of risk factors in all business areas. Auditing the production facilities in accordance with the quality handbook and defined site standards will be strongly emphasised.

By the end of 2016 all sites are Global GAP certified. Norway Royal Salmon's goal is to implement the new standard Aquaculture Stewardship Council (ASC) by 2020. In 2015, two NRS sites were ASC-certified, and in February 2016, additional five sites were ASC-certified. ASC is a global standard for responsible aquaculture, which together with our green production will help to minimize the impacts on the environment and society. ASC is an environmental standard negotiated with WWF. It sets strict standards for how fish are produced and requires documentation of laws and regulations, animal diversity, animal welfare, genetic integrity of wild populations, responsible feed, control of fish diseases, socially responsible production of fish, good relations with neighbours and that our suppliers meet critical and essential criteria in the standard.

The farming operations had four new sites approved in 2016. In Måsøy in West-Finnmark, a new site with a MAB of 3 600 tonnes was approved. In Karlsøy in Troms, two new sites with MAB of 5 470 tonnes and 3 600 tonnes were approved. In Kvalsund in West-Finnmark a new site with MAB of 3 600 tonnes was approved.

There are risks related to obtain permits for new sites and permits for expansion of existing sites, as well as production requirements from public authorities. The group has risk in relation to licenses and demands from public authorities. This includes access to new sites and

expansion of existing sites. For the group to continue its growth and improve the efficiency of production, NRS is dependent on getting new sites as well as being able to expand existing sites. The Group also depends on predictable terms and permission for production. Divergent views on production criteria in various administrative agencies, may have a material impact on NRS' production. NRS seeks to reduce this risk by continuous dialogue with the various relevant administrative bodies.

The Group's financial position and future development depends significantly on the price of salmon, which has historically been subject to significant fluctuations. Farmed salmon is a raw material, and it is therefore reasonable to assume that the market will continue to follow a cyclical pattern. The balance between the total supply and demand for salmon is a key parameter. Increased supply can cause prices to decline. This may have a significant impact on the company's profitability and liquidity.

Feed costs constitute a considerable proportion of the total production cost of salmon, fluctuations in feed prices can therefore have a major impact on profitability. Feed prices are affected by the global market for fishmeal and marine-/animal-/vegetable oils and exchange rates. A small number of major global manufacturers dominates the feed industry. Natural constraints in the marine resource base can lead to global shortages of fishmeal and oil for feed production. Feed manufacturers have come a long way to replace some of the marine-based inputs with vegetable ingredients. This will reduce the risk of fluctuations in feed prices.

### **Sales**

Operational risk in the sales segment is more limited than in the farming operations and includes; trade margins, contract risk and credit risk. We believe in positive sales growth in the coming years, but we might face challenges. Although the price of salmon has been volatile, the trade margins are normally not greatly affected. Margins are more influenced by the general competitive situation between farmers, exporters and customers. Economic downturns have normally affected the sale of salmon in a relatively small degree. However, a strong weakening of the economy in our key export markets can have negative impact. It might result in lower sales and a price reduction in general, but also the risk of insolvency of some customers. The risk of the sales operations with regard to insolvency is limited, as most sales are covered by credit insurance.

The salmon industry has experienced trade barriers in several markets and over longer periods. Significant changes and aggravating conditions as we saw against Russia in 2014 involves risks for the Group. The sanctions led to several of our Russian customers going bankrupt, which led to the loss of the deductible of the credit insurance. In 2016, there were trade barriers in the trade with Russia

and China. At the end of 2016 Norway and China agreed on a normalization of political and diplomatic relations, which gives grounds for optimism. Before trading conditions will be normal, some clarification is needed, among others on the veterinary side.

The sales operations sold fish to 52 countries in 2016 and such a sales spread limits this risk.

The sales operations are responsible for fixed price sales contracts. The main objective entering sales contracts is to achieve rates that are favourable for the Group. In addition, the contracts reduce price movements for the Group. The contracts are usually entered for 3-12 months and normally constitute 0-40 per cent of the Group's own harvest in the subsequent three months. Contracts are bilateral against customers or financial against Fish Pool. The sales business enters both financial purchase and sales contracts to hedge margins. The company enters only into contracts with solid and good counterparties.

## Financial risk and risk management

The Group's financial risks include those relating to foreign exchange, interest rates, credit and liquidity. It is crucial that the Group constantly assesses its level of risk and which procedures to be implemented to reduce that risk to an acceptable level.

### **Foreign exchange risk**

Around 88 per cent of the Group's sales are in foreign currencies, with the largest exposure being to the EUR, USD and GBP. The Group's exposure to exchange rate fluctuations is a major part of the business activities affecting the Group's cash flows and profits. In accordance with the Group's guidelines, the Group employs both forward contracts and borrows in foreign currencies to reduce its exposure to foreign exchange risk.

### **Interest rate risk**

The Group's debt is in principle based on floating interest rates, which means that the Group is exposed to movements in interest rates.

### **Credit risk**

At any given time, the Group has substantial sums outstanding, with receivables distributed over several different regions. To reduce this risk, trade receivables are monitored constantly, and it is the Group's policy to hedge its trade receivables through credit insurance and other hedging instruments.

### **Liquidity risk**

Liquidity risk is a product of the Group's earnings, financial position and access to financing in the capital markets, and is defined as the risk that the Group will not be able to meet its day-to-day financial obligations. The largest single factor affecting liquidity risk is repre-

sented by fluctuations in the price of salmon. The Group has strengthened its financial position this year through a good total result of NOK 1 037.7 million. There are covenants associated with the Group's borrowings, which at the close of 2016 Norway Royal Salmon meet. Overall, the Group's liquidity risk is considered to be at an acceptable level.

## Corporate Social Responsibility

Norway Royal Salmon conducts its business in several local authority areas and local communities. In several of these, the Group is a major employer. The aquaculture industry has a substantial ripple effect, with each full-time job creating the foundation for an additional 2.5 full-time jobs in ancillary businesses.

Salmon farming depends on good cooperation with local populations and authorities. It is important that our managers maintain an open dialogue with them and that we are perceived as serious and solutions-oriented. The aquaculture industry competes with other stakeholders for the attractive coastal areas. It is also important that efforts are made to establish a dialogue with these groups and to respect their views.

As a consequence of our businesses being a part of the local communities in which we operate, Norway Royal Salmon wishes to support local sports clubs and other voluntary organisations.

Norway Royal Salmon continually focus on compliance with guidelines and standards for areas located under corporate social responsibility.

The company's corporate values are;

**Safe** – We are a safe and secure workplace, where everyone helps each other.

**Engaged** – We are committed and solution oriented.

**Innovative** – We strive to be innovative, and constantly look for futuristic and sustainable solutions.

**Credible** – We will be honest and credible in all our behaviour.

This is reflected in the Group's ethical guidelines. The guidelines describe the goals and the requirements of Norway Royal Salmon related to the ethical issues. Norway Royal Salmon shall comply with applicable laws and regulations, and in an ethical, sustainable and socially responsible manner. The guidelines have been communicated to all employees and are reviewed regularly.

Issues described below with regards to Corporate social responsibility:



- Anti-Corruption
- Employee rights and social issues
- Human rights
- The external environment

### Anti-Corruption

Norway Royal Salmon has established the following anti-corruption principles:

Norway Royal Salmon shall strive for a culture of transparency in all areas concerning customer care, relationship building, sponsorships, gifts, entertainment, travel, etc. The Group's employees shall act in accordance with the Group's guidelines for giving and receiving gifts, travel and other benefits, and clearly denounce all forms of corruption. All costs related to travel arrangements should be recognized transparent and correct, and be approved by a superior. The company always require dual approval when paying invoices.

### Employee rights and social issues

The employees' efforts and contributions have been essential for Norway Royal Salmon having an effective operation in both the farming and sales business in 2016.

Focused HSE work is necessary to achieve a safe and efficient operation. Continuous efforts are made to firmly establish the importance of safety in all parts of the organisation. There is a close relationship between systematic HSE work and good value creation. In practice, this involves several priority areas for Norway Royal Salmon. Internally, continuous efforts are done to create a corporate culture where effective and preventive HSE work is one of the pillars. The precautionary - principle must permeate all decisions and activities. It also means that there is an active dialogue on various HSE issues in the Work Environment Committees (AMU) and with the safety representatives.

Effective and comprehensive risk management is central to the entire group. Good risk culture ensures compliance with procedures and rules, and is essential if risk management should be an integral part of its daily operations. The system is based on risk assessment of all operations and equipment, procedures, instructions and records. The systems undergo annual revisions based on an audit plan for each site and followed up through internal training in first aid, safety, and chemical management, and rescue exercises. A new electronic enhancement system (deviation system) to help capture undesirable events and improvement areas in health, safety and working environment has been established.

The Group is working hard to make sure it is able to recruit qualified personnel at all levels in the organisation. Emphasis is given to provide all employees with a good working environment, meaningful job content, and competitive employment terms. Part of the company's strategy is to be a preferred employer. All employees in

Norway Royal Salmon have the right to freely choose which union they will be members of. At 31 December 2016, the Group had 149 full-time employees, 39 of whom are employed by the parent company Norway Royal Salmon ASA.

Employee rights and social issues constitute a part of Norway Royal Salmon's Global GAP certification.

The aquaculture industry has traditionally been a male-dominated workplace. At 31 December 2016, women made up 23.3 per cent of the Group's workforce. The corresponding figure for Norway Royal Salmon ASA was 40.3 per cent. The Group management is entirely made up of men. Three of the six members of the Group's board of directors are women. The Group aims to be a workplace in which women and men enjoy complete equality, and where there is no gender-based discrimination with respect to pay, promotion or recruitment. The Group aims to be a good workplace where there is no discrimination on the grounds of ethnicity, country of origin, colour, religious persuasion or reduced functional capacity.

The Group had a sickness absence rate of 5.1 per cent in 2016 (2015: 4.0 per cent). The corresponding figure for the parent company was 1.4 per cent in 2016 (2015: 2.2 per cent). Four injuries, which led to absence in 2016, have been registered, none of these were serious. Five injuries which did not lead to absence in 2016 were registered.

In Norway Royal Salmon is HSE a line responsibility. This means that managers are responsible for initiating, planning and carrying out HSE activities as part of the daily operations. Each manager is responsible for that department meets industry regulations. The HR/HSE manager has the professional responsibility and advice within all HSE activities. Work Environment Committees (AMU) are organized in the subsidiaries that have over 50 employees, today it is only NRS Finnmark which has a separate AMU.

Norway Royal Salmon cooperates with an external healthcare service, which, among other things, conducts annual safety inspections and health checks of employees based on scheduled activity plans. Norway Royal Salmon follow up employees on sick leave in accordance with public guidelines and requirements. All companies have a designated HSE-responsible employee. In the farming operations, a safety representative is also elected. All employees have been informed of the company policies for health, safety and working environment when hired. All policies are available on the company's internal control systems, both in electronic and written form. The safety systems are repeated for the employees annually.

To succeed with good HSE work it is important to build a good foundation, this is done by creating a culture where

safety comes first and focus on training is essential. The HR/HSE department plans various activities ahead and there are expectations to the effects of these activities. To clarify all matters relating to the group's employees, a new employee handbook and a new manager handbook have been prepared. The HR/HSE function is an important support for managers and employees and will provide even better support in future. The work done by the department will help enhance the sense of achievement and competence among employees and managers.

## Human Rights

Norway is currently affiliated with most relevant human rights conventions, incorporated into Norwegian law through the Human Rights Act. Norway Royal Salmon operates only in Norway and on Iceland and has not established its own guidelines regarding human rights in particular.

## External environment

Norway Royal Salmon's farming operations are based on renewable resources and are located along the coast. Norway Royal Salmon's value chain is dependent on sustainability where natural resources are not consumed. This is a prerequisite so Norway Royal Salmon can continue to farm fish in a sustainable manner. The desire and need for long-term solutions are the foundation for the company's approach to environmental issues. Improved standards of living worldwide have sharpened the focus on the production of healthy and nutritious food. Seafood – especially fatty fish such as salmon – is considered particularly healthy. In a time of increased demand for seafood, Norway Royal Salmon is committed to contributing to sustainable development, with focus on food safety, the health and welfare of the fish, and protection of the environment and surroundings – along with the well-being and occupational health and safety of the employees. Customers, consumers and the company's employees are concerned about these factors. Norway Royal Salmon has set up a range of control and steering systems to protect the environment in and around the fish farming facilities. To achieve profitability in the short and long terms, sustainable operations are crucial to both the fish and the farmers. Customer specifications, national standards, our own guidelines, and laws and regulations, provide a foundation for the fish farmers' efforts to deliver products that meet all needs and expectations in the markets in which we operate. Our suppliers' quality assurance systems are based on the philosophy of continuous improvement of both product and production process.

## Global requirements

In Norway Royal Salmon, we have two main standards that we work against. These are GlobalGAP and Aquaculture Stewardship Council (ASC).

## Global Gap

The work to maintain and develop a high, sustainable standard for the entire company is firmly based on the requirements laid down in the Global GAP standards. Global GAP, which is a non-governmental organisation, has set up a strict voluntary standard for producers and players in the fields of agriculture and aquaculture. The principal objective of the standard is to make it possible to document to consumers that the food has been generated with only minimal impact on the environment and surroundings. GlobalGAP lays down a solid base for high food safety, employee safety and the health and welfare of the fish. The main principles of the standard are risk assessment, environmental protection and good aquaculture procedures that minimize production influence on the environment, and global criteria for environment and employee health and safety. The latter, in addition to the local and national social responsibilities that exist. Finally, the standard sets the criteria for how the welfare and health of the fish shall be ensured. The group has been awarded Global Gap-certificate on all sites.



## Aquaculture Stewardship Council (ASC)

ASC (Aquaculture Stewardship Council) is an environmental standard negotiated with WWF. It sets strict standards for how fish are produced and requires documentation of laws and regulations, animal diversity, animal welfare, genetic integrity of wild populations, responsible feed, control of fish diseases, socially responsible production of fish, good relations with neighbours and that our suppliers meet critical and essential criteria in the standard. ASC certified fish are fish that are produced in an extremely responsible and sustainable way according to very strict requirements.

In addition to Global GAP and ASC standards, Norway Royal Salmon abides by the following:

- The Norwegian Industry Standard for Fish (NBS 10-01): Quality grading of farmed salmon
- Norwegian Standard (NS 9401) Atlantic Salmon: Reference sampling for quality assessment
- Norwegian Standard (NS 9402) Atlantic Salmon: Colour and fat measurement

#### **Traceability and food safety**

As Norway Royal Salmon is engaged in food production, the company is aware that significant risks may arise from any potential incidents that can affect consumer health and safety. Norway Royal Salmon considers that it has sufficient measures in place to mitigate this risk. Norway Royal Salmon provides customers with access to transparent documentation in the areas of traceability, feed and health registrations. Detailed information about the fish feed, the raw materials used in the feed, veterinary reports and other information relating to the physical and chemical aspects of the product or production process is available on request. Norway Royal Salmon uses modern traceability systems to ensure traceability. Norway Royal Salmon demands of feed suppliers that they have established systems for traceability. Norway Royal Salmon products comply with the Norwegian Industry Standard, our own internal quality standards and with our customers' specifications.

Food safety is safeguarded by using only legal and natural ingredients throughout the production process, by veterinary inspection of the production process and by keeping the production environment clean and healthy. Further protection is offered through the use of traceability information, by using only approved processing plants and by ensuring that hygiene and cleanliness are of the highest standard.

#### **Fish health and welfare**

The company focuses intently on creating good health and welfare conditions for the fish by applying established procedures and routines. This prevents illness and reduces mortality and demanding treatments in the wake of the outbreak of disease.

The farming strategy is to prevent diseases through the use of vaccination, cleaning fish, lice skirts and other natural means rather than to introduce treatments after outbreaks of diseases.

Operational routines that contribute to maintaining control of the health situation of the fish are established and implemented in cooperation with external fish health services. This includes close co-operation with veterinarians, good health care procedures, segregated fish generations, good water exchange, fallow periods, use of effective vaccines and well-qualified and skilled employees.

All farmers in the group co-operate with fish health services. If medicaments are necessary to keep up fish

health levels, only approved medicaments prescribed by veterinarians are used. In accordance with Norwegian laws and regulations, veterinarians follow up all situations where prescriptions are involved. Records are kept of all use and reports are sent to the Norwegian Food Safety Authority.

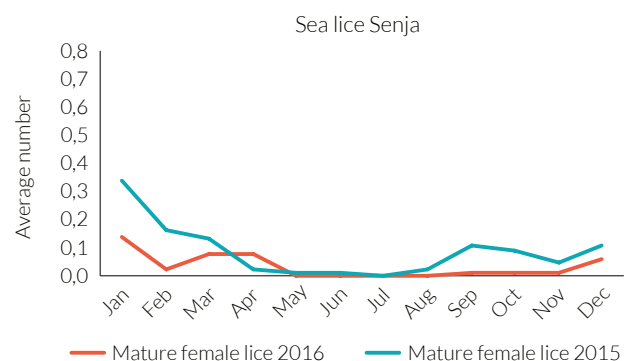
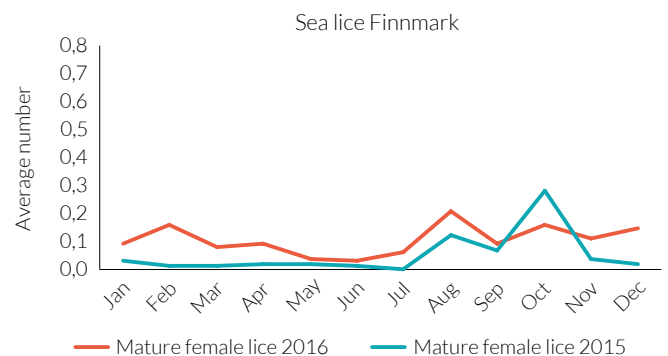
#### **Fish mortality**

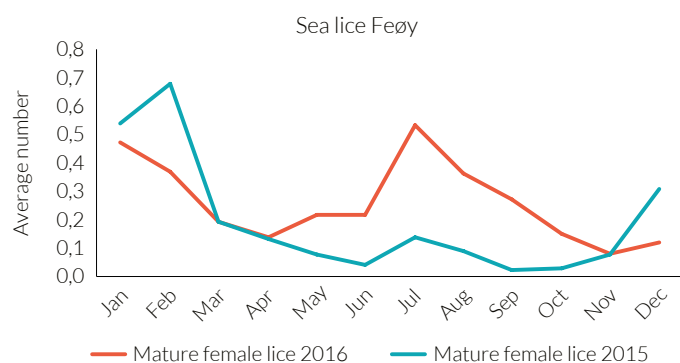
Fish mortality is a key indicator for evaluating fish health in farming. Reduced mortality is a key objective for Norway Royal Salmon. Mortality is monitored and reported weekly and monthly to the management and the board. The mortality rate amounted to 8.2 per cent of the number of fish in the sea at the beginning of the year and fish put in the sea during 2016. This is an increase of 2.4 per cent from 2015. Overall mortality in 2016 was 11.8 per cent, of this represented the destruction of fish 2.6 per cent. Total mortality in 2016 was 1.9 per cent lower than in 2015. The mortality rate in Region South was 7.9 per cent, while in Region North it was 11.5 per cent including destruction and 8.2 without.

#### **Sea lice**

As well as compliance with counting and treatment strategies initiated by the authorities, the Group has developed its own plan for combating sea lice in all subsidiaries.

Our companies in Finnmark and Troms had the same or lower levels of sea lice during 2016 compared with 2015. The remainder of the year the levels were low as they have historically always been. In Region South, were the challenges of sea lice in the first half of 2016 similar to the situation in the first half of 2015. In the latter half of 2016, the levels of sea lice were slightly over the same





period in 2015, but on or below the limit for implementing measures.

NRS has continued the practice from 2015 using lice-skirts where appropriate and possible. The use of cleaner fish increased when NRS Feøy set out lumpfish in addition to wrasse. Lumpfish is also used on Senja and in Finnmark.

NRS Feøy has used non-chemical therapies (Thermolicer and freshwater) against sea lice in greater extent and reduced the use of chemicals. In 2017, increased effort with lumpfish and the use of non-chemical methods in Finnmark and Troms are planned.

#### **Verdict against Nord Senja Laks AS**

In 2015, the Senja District court passed a sentence in a criminal case against Nord Senja Laks AS. The company was sentenced to pay a fine of NOK 5.0 million. Nord Senja Laks AS was not sentenced to loss of licenses. Økokrim (the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) filed a notice of appeal regarding the fine and the decision not to sentence Nord Senja Laks to loss of licenses.

9 December 2016, the Norwegian Supreme Court passed a final sentence in the case. The company was sentenced to pay a fine of NOK 6.0 million. Nord Senja Laks AS was not sentenced to loss of licenses. The judgment therefore has no impact on the licenses of Nord Senja Laks or its future operations. Including legal costs the verdict resulted in a non-recurring cost of NOK 1.1 million in 2016. In 2015, the verdict resulted in a non-recurring cost of NOK 6.3 million. Board look seriously at this matter, and the Group has full attention to comply with existing rules and regulations. The matter Nord Senja Laks was convicted of concerned incorrectly reported sea lice count in the period June 2012 to February 2013.

#### **Emissions**

All feeding systems are adapted to the fish's appetite. This prevents overfeeding. Emissions from farmed fish into the sea take the form of excrement and feed residues. These are biodegradable organic materials.

Norway Royal Salmon has routines for monitoring this situation. Routine environmental tests are performed in accordance with the authorities' requirements. Furthermore, we perform additional tests to ensure that the impact of our sites does not exceed acceptable levels. Good currents and sustainability is in focus when the company plans sites. After completing the production cycle, the sites are fallowed for a period so that temporary changes in the seabed are reversed, this also provides the basis for good fish health. The average fallow period between production cycles is 8 weeks; which is the statutory requirement.

#### **Medication**

Fish, like all other animals, can be exposed to pathogen infection and become sick or be exposed to natural parasites. Prevention of diseases and sea lice infestation is a high priority area. Procedures for infection control and bio-security is provided for personnel and use of equipment at all sites in the farming operations. The employees have been trained in these preventive activities. The ideal situation is that you do not have to use veterinary medications, but we are obliged to treat sick fish or fish that otherwise suffer. Any use of medication is decided and prescribed by authorised fish health personnel. The farming operations are associated with approved fish health services. Treatments, use of medication and measurement of the results of the treatments are recorded and evaluated with on-site fish health services. Norway Royal Salmon also work with screening programs to monitor the relevant pathogens, sea lice infestation, stress, sores, water quality, and work to increase the general knowledge at all levels of the organisation within these fields.

#### **Vaccinations**

Vaccination is used when it is considered effective for the particular species and in that district as an integral part of our preventive health measures. Examples of diseases that the fish is vaccinated against are IPN, PD, vibriosis and furunculosis. All salmon in Norway Royal Salmon is in good time before they are put in the sea vaccinated with at least a six-component vaccine.

#### **Escapes**

The escape of fish is unfortunate with respect to wild salmon populations. It is also unfortunate for the industry's reputation that fish escape. Neither in 2016 nor in 2015 had Norway Royal Salmon escapes.

We are working continuously with respect to staff training, and have reviewed and improved our routines to achieve the industry's zero vision. Since 2014, Norway Royal Salmon has put sterile salmon in the sea. This as a measure to reduce any environmental impacts of escapes. In addition, nets with material characteristics that will help to reduce the risk of escapes are used. As a consequence of the allocation of green permits, NRS plans to put more sterile fish in the sea and use more nets with





material characteristics that will help to reduce the risk of escape. Norway Royal Salmon also participated in a FHF project together with SINTEF and other parties to increase the quality of nets to prevent escape.

#### ***Transport, handling and slaughter***

Transport can be stressful for fish, especially smolts; Norway Royal Salmon endeavors to ensure that transport is done without the fish being unduly stressed. Good fish health throughout the production cycle reduces the need for handling fish. Norway Royal Salmon has ensured that the harvesting plants use humane, fast and effective methods to ensure that the fish are exposed to as little pain and stress as possible when it is harvested.

#### ***Feed***

Fish feed for salmon is tailored to the needs of the fish that vary throughout their lifecycle. The raw materials for fish feed are procured according to strict specification in regard to nutritional content and undesirable foreign substances. Feed manufacturers continually monitors its suppliers and carries out yearly several audits. As a fish farmer, we are constantly aware of the content of fish feed and the origins of the raw materials used to manufacture the feed.

Dependence on fish for feed is a challenge for a growing aquaculture industry. In recent years, feed producers have lowered the marine content in their feed and spent significant resources to research “marine independence”, so they can deliver feed without marine contents if the need occurs. The specific content of marine ingredients in feed varies depending on the price and availability of the different raw materials. Farmed salmon are known to be very efficient in their conversion of feed fish and by-products from seafood to healthy and nutri-

tious farmed salmon. The fish feed is produced according to Norwegian and international laws, consistent with the requirements of sustainability and environmental regulations. Our feed suppliers Skretting AS, Biomar and EWOS AS are internationally certified. For more information on feed, feed ingredients and certifications, see [www.skretting.no](http://www.skretting.no), [www.biomar.com/NO/biomar-norge](http://www.biomar.com/NO/biomar-norge) and [www.ewos.no](http://www.ewos.no).

## **The share and shareholders**

As at 31 December 2016, Norway Royal Salmon ASA had 43 572 191 shares divided between 1 944 shareholders. At the close of the year, the Group held 98 279 treasury shares. The share price at the end of the year was NOK 207.00 (2015: NOK 80.00).

## **Corporate Governance**

The board and management of Norway Royal Salmon review the company’s corporate governance policies annually in order to be able to allocate roles between shareholders, the board and general management in an optimal fashion. A presentation of these policies and how the Group stands in this respect, is included in a separate section of the annual report, in accordance with Section 3-3 b of the Norwegian Accounting Act.

The Board of Norway Royal Salmon ASA has adopted ethical guidelines for the Group. The purpose of the guidelines is to create a healthy business culture and uphold the Group’s integrity by helping employees to set high standards for good business practice. The guidelines are further intended to serve as a tool for self-evaluation and to develop the Group’s identity.

## Market conditions and future outlook

2016 was another exiting year for Norway Royal Salmon and the Norwegian salmon industry. The value of Norwegian salmon exports was NOK 61.3 billion, a new record and an increase of NOK 13.7 billion from 2015. The export volumes sank by 5 per cent and was 1 126 627 tonnes (round weight) in 2016. The spot price (FCA Oslo) was NOK 54.45 per kg in 2016 (2015: NOK 40.06). Mainly, the prices rose because of a weaker Norwegian Krone and strong demand. Even with lower harvest volumes, exporters have worked well to develop the category and the value of Norwegian salmon. This has led to that the customers never have paid more for Norwegian salmon than they did in 2016.

Norway Royal Salmon ASA sold 66 808 tonnes, a decrease of 4.5 per cent. Most of this was fresh gutted salmon. The share of in-house produced salmon sold through the sales business totaled 40 per cent. Revenues were divided on 52 countries, of which 72 per cent were sold in Western Europe. Apart from this, the export was divided between Asia (21 per cent), USA (1 per cent) and Russia/Eastern Europe (6 per cent) while the rest was sold in Norway.

Production in Norway in 2017 is expected be on the same level as in 2016. At the same time, an increase in volume of Atlantic salmon from Chile of 3 per cent and some growth from other smaller producer nations is expected, so that global volumes will increase by 2 per cent. The marginal increase in volume globally together with an underlying positive demand growth results in expectations of strong market prices for salmon. In the years after 2017 a limited growth is expected.

The demand for salmon at the start of 2017 has been strong, both prices and volumes have been good so far in 2017. Our assessment is that there is a strong demand for salmon that will enable the market to consume the supply of salmon at high prices in 2017 as well.

Despite economic challenges in some regions in the world, especially in Eastern Europe, we believe in a positive sales development in most countries. Historically it has been shown that economic downturns normally do not weaken demand for salmon significantly. Salmon is now established as a nutritious and good alternative for consumers. We believe that trade relations with China will be normalized during 2017, which could enhance market opportunities for Norwegian salmon further. The Norwegian Krone is weak against most currencies and large currency fluctuations can affect the price level of salmon in Norwegian Kroner significantly. We mean the position Norway Royal Salmon has developed will make it possible for the Group to achieve high prices and improve its market share in 2017.

## Allocation of profit for the year

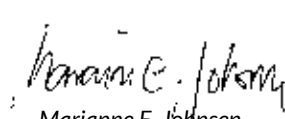
The parent company, Norway Royal Salmon ASA, made a net profit for the year of KNOK 685 466 in 2016. The Board of Directors proposes the following allocation of the net profit for the year:

Dividend	KNOK	413 936
Transferred to the reserve for valuation	KNOK	243 183
Transferred to other equity	KNOK	28 347
Total allocation of funds:		685 466

Trondheim, 4 April 2017

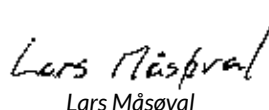
  
Helge Gåsø  
Chair

  
Kristine Landmark  
Vice Chair

  
Marianne E. Johnsen

  
Inge Kristoffersen

  
Trude Olafsen

  
Lars Måsøval

  
Charles Høstlund  
Konsernsjef



# Consolidated financial statements







## **Accounting**

Consolidated income statement .....	58
Consolidated statement of comprehensive income.....	59
Consolidated balance sheet .....	60
Consolidated statement of cash flow .....	62
Consolidated statement of changes in equity .....	63

## **Notes**

Note 1. Accounting principles.....	64
Note 2. Segment reporting.....	74
Note 3. Intangible assets.....	75
Note 4. Group companies.....	77
Note 5. Biological assets (biomass).....	78
Note 6. Accounts and other receivables.....	80
Note 7. Property, plant and equipment.....	82
Note 8. Interest bearing debt.....	83
Note 9. Pledges and guarantees etc. ....	85
Note 10. Investments in associates.....	85
Note 11. Other current liabilities.....	90
Note 12. Operating expenses .....	90
Note 13. Taxation.....	91
Note 14. Fair value adjustments.....	93
Note 15. Financial instruments by category .....	93
Note 16. Derivates.....	96
Note 17. Cash and cash equivalents .....	98
Note 18. Personnel expenses and benefits .....	99
Note 19. Pension costs and liabilities .....	101
Note 20. Financial income and financial expenses .....	104
Note 21. Share capital and shareholder information.....	104
Note 22. Earnings per share .....	106
Note 23. Inventory .....	106
Note 24. Operating leases .....	107
Note 25. Auditor's fees.....	107
Note 26. Available-for-sale financial assets.....	107
Note 27. Related parties.....	108
Alternative performance measures .....	109

# Consolidated income statement

(NOK 1 000)	Note	2016	2015
<b>Operating revenues</b>	2	<b>4 224 340</b>	<b>3 210 548</b>
Cost of materials		3 230 927	2 707 071
Personnel expenses	18,19	155 468	113 268
Depreciation	7	61 063	53 697
Other operating expenses	6,12,24,25	136 269	134 618
<b>Total operating expenses</b>		<b>3 583 727</b>	<b>3 008 653</b>
<b>Operational EBIT</b>		<b>640 613</b>	<b>201 894</b>
Fair value adjustments	14	164 151	24 416
Income from associates	10	71 865	22 754
<b>Net operating result</b>		<b>876 628</b>	<b>249 065</b>
<b>Financial items</b>			
Gain financial assets	16,20,26	313 121	47 404
Interest income	20	1 803	882
Other financial income	20	165	26
Interest expenses	20	-18 020	-24 859
Other financial expenses	20	-1 277	-2 436
<b>Net financial items</b>		<b>295 792</b>	<b>21 016</b>
<b>Result before tax</b>		<b>1 172 421</b>	<b>270 081</b>
Tax	13	-167 707	-32 498
<b>Net result for the year</b>		<b>1 004 713</b>	<b>237 582</b>
<b>Profit attributable to:</b>			
Owners of the parent company		988 007	229 633
Non-controlling interests		16 706	7 950
<b>Net result for the year</b>		<b>1 004 713</b>	<b>237 582</b>
Basic earnings per share (NOK)	22	<b>22.72</b>	<b>5.28</b>
Diluted earnings per share (NOK)	22	<b>22.72</b>	<b>5.28</b>

# Consolidated statement of comprehensive income

(NOK 1 000)	Note	2016	2015
<b>Net result for the year</b>		<b>1 004 713</b>	<b>237 582</b>
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified to profit or loss</b>			
Translation differences and OCI posts from associated companies		12 896	0
Cash flow hedges (net of tax)	16	21 429	-362
<b>Items not to be reclassified to profit or loss:</b>			
Actuarial gains/losses on defined benefit plans (net of tax)	19	-1 361	4 749
<b>Comprehensive income for the year</b>		<b>1 037 678</b>	<b>241 970</b>
<b>Comprehensive income attributable to:</b>			
Owners of the parent company		1 020 972	234 020
Non-controlling interests		16 706	7 950
<b>Comprehensive income for the year</b>		<b>1 037 678</b>	<b>241 970</b>

# Consolidated balance sheet

ASSETS (NOK 1 000)	Note	31.12 2016	31.12 2015
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Licences	3,9	648 887	648 887
<b>Total intangible assets</b>		<b>648 887</b>	<b>648 887</b>
<b>Property, plant and equipment</b>			
Land, buildings and other real estate	7,9	19 579	12 866
Machinery and equipment	7,9	182 110	168 641
Boats and floating assets	7,9	197 285	163 698
Fixtures, office equipment, etc.	7,9	18 521	12 742
<b>Total property, plant and equipment</b>		<b>417 496</b>	<b>357 948</b>
<b>Non-current financial assets</b>			
Investments in associates	10	531 504	169 991
Available-for-sale financial assets	15,26	395	395
Other long-term receivables	6,15,27	16 000	20 000
<b>Total non-current financial assets</b>		<b>547 898</b>	<b>190 385</b>
<b>Total non-current assets</b>		<b>1 614 281</b>	<b>1 197 221</b>
<b>Current assets</b>			
Inventories	23,9	101 635	40 630
Biological assets	5,9,14	1 205 399	829 928
<b>Total inventory</b>		<b>1 307 035</b>	<b>870 559</b>
<b>Receivables</b>			
Accounts receivables	6,9,15	478 214	500 689
Other short-term receivables	6,15,16	244 596	100 438
<b>Total short-term receivables</b>		<b>722 810</b>	<b>601 126</b>
Cash and cash equivalents	8,15,17	69 257	201 339
<b>Total current assets</b>		<b>2 099 101</b>	<b>1 673 024</b>
<b>Total assets</b>		<b>3 713 382</b>	<b>2 870 245</b>



<b>EQUITY AND LIABILITIES</b> (NOK 1 000)	Note	<b>31.12 2016</b>	<b>31.12 2015</b>
<b>Equity</b>			
Share capital	21,22	43 572	43 572
Treasury shares	21,22	-98	-71
Retained earnings		1 970 509	1 070 287
<b>Total equity attributable to owners of the parent company</b>		<b>2 013 983</b>	<b>1 113 788</b>
Non-controlling interests		33 034	72 730
<b>Total equity</b>		<b>2 047 017</b>	<b>1 186 519</b>
<b>Non-current liabilities</b>			
Pension liabilities	19	11 383	12 480
Deferred tax liabilities	13	394 786	303 485
Non-current interest bearing debt	8,9,15	303 781	653 361
<b>Total non-current liabilities</b>		<b>709 950</b>	<b>969 326</b>
<b>Current liabilities</b>			
Current interest bearing debt	8,9,15	47 635	46 519
Accounts payables	15	646 515	530 430
Tax payable	13	79 350	3 180
Other current liabilities	11,15,16	182 916	134 271
<b>Total current liabilities</b>		<b>956 416</b>	<b>714 400</b>
<b>Total liabilities</b>		<b>1 666 366</b>	<b>1 683 726</b>
<b>Total equity and liabilities</b>		<b>3 713 382</b>	<b>2 870 245</b>

Trondheim, 4 April 2017

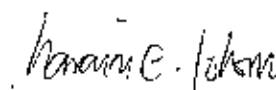
  
Helge Gåsø  
Chair

  
Kristine Landmark  
Vice Chair

  
Lars Måsøval

  
Inge Kristoffersen

  
Trude Olafsen

  
Marianne E. Johnsen

  
Charles Høstlund  
Chief Executive Officer

# Consolidated statement of cash flow

(NOK 1 000)	Note	2016	2015
<b>Operational EBIT</b>		<b>640 613</b>	<b>201 894</b>
Adjusted for:			
Taxes paid	13	-3 180	-2 031
Depreciation	7	61 063	53 697
Gains (-) / losses (+) on sale of fixed assets		10	-1
Sharebased payment		-10 703	-1 249
Pension costs with no cash effect		-2 887	78
Change in inventories/biological assets		-242 359	-24 423
Change in account receivables and accounts payables		138 560	25 101
Change in other current assets and other liabilities		47 185	87 130
<b>Net cash flow from operating activities</b>		<b>628 302</b>	<b>340 196</b>
<b>Cash flow from investing activities</b>			
Proceeds from sale of property, plant and equipment		813	157
Payments for purchase of property, plant and equipment	7	-121 423	-122 750
Payments for purchase of licences		0	-90 000
Payments for acquisition of associated company		-269 487	0
Proceeds from realisation of current financial assets (TRS)	16,20	164 916	127 999
Proceeds from investments in non-current financial assets	10	8 871	0
Payments for investments in non-current financial assets	10	0	-4 641
Payments for acquisition of minority interest		-70 000	0
Change in loans to associates and others		4 000	-18 200
<b>Net cash flow from investing activities</b>		<b>-282 311</b>	<b>-107 435</b>
<b>Cash flow from financing activities</b>			
Receipts from new non-current debt		52 212	185 259
Non-current debt repayment		-400 674	-43 681
Net change in bank overdraft		0	-142 576
Sale of treasury shares		-1 567	-2 589
Net interest payments		-16 270	-23 976
Dividend payment		-111 773	-65 353
<b>Net cash flow from financing activities</b>		<b>-478 073</b>	<b>-92 916</b>
Net increase (+)/ reduction (-) in cash and cash equivalents		-132 082	139 845
Cash and cash equivalents as of 1 January		201 339	61 494
<b>Cash and cash equivalents as of 31 December</b>		<b>69 257</b>	<b>201 339</b>

# Consolidated statement of changes in equity

		Equity attributable to owners of the parent company						
(NOK 1 000)	Note	Share capital	Treasury shares	Retained earnings	Total	Non-controlling interests	Total equity	
Equity as of 1 January 2016		43 572	-71	1 070 288	1 113 788	72 730	1 186 519	
Net result for the year		0	0	988 006	988 006	16 706	1 004 711	
Other comprehensive income		0	0	32 965	32 965	0	32 965	
Total comprehensive income		0	0	1 020 971	1 020 971	16 706	1 037 677	
Transactions with shareholders								
Dividend	21	0	0	-111 773	-111 773	0	-111 773	
Share based payment	18	0	0	-10 702	-10 702	0	-10 702	
Acquisition of minority interest		0	0	-13 598	-13 598	-56 402	-70 000	
Equity changes associated companies	10	0	0	16 862	16 862	0	16 862	
Changes in treasury shares	21	0	-27	-1 540	-1 567	0	-1 567	
Total transactions with shareholders		0	-27	-120 751	-120 778	-56 402	-177 180	
Equity as of 31 December 2016		43 572	-98	1 970 509	2 013 984	33 034	2 047 017	

		Equity attributable to owners of the parent company					
(NOK 1 000)	Note	Share capital	Treasury shares	Retained earnings	Total	Non-controlling interests	Total equity
Equity as of 1 January 2015		43 572	-34	905 587	949 125	64 781	1 013 907
Net result for the year		0	0	229 633	229 633	7 950	237 582
Other comprehensive income		0	0	4 387	4 387	0	4 387
Total comprehensive income		0	0	234 020	234 020	7 950	241 970
Transactions with shareholders							
Dividend	21	0	0	-65 353	-65 353	0	-65 353
Share based payment	18	0	0	-1 249	-1 249	0	-1 249
Equity changes associated companies	10	0	0	-165	-165	0	-165
Changes in treasury shares	21	0	-37	-2 552	-2 589	0	-2 589
Total transactions with shareholders		0	-37	-69 319	-69 356	0	-69 356
Equity as of 31 December 2015		43 572	-71	1 070 288	1 113 788	72 730	1 186 519

# Notes

## to the consolidated financial statements

### Note 1 Accounting principles

#### 1.1 General information

Norway Royal Salmon ASA is based in Norway, and has its head office in Trondheim. The company's shares are listed on the Oslo Stock Exchange, code NRS.

The consolidated financial statements for 2016 include the parent company, subsidiaries and the Group's shareholdings in associates. The Group's main business is linked to fish farming and sales.

The annual financial statements were approved by the board on 4 April 2017.

#### 1.2 Basis of preparation

The most important accounting principles applied in preparing the consolidated financial statements are described below. These principles apply in the same way in all periods presented unless indicated otherwise.

##### Statement of compliance

The consolidated financial statements of Norway Royal Salmon ASA have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and relevant interpretations that are mandatory for annual financial statements presented as of 31 December 2016.

The consolidated financial statements have been prepared on a going concern basis.

##### Basis for measurement

The consolidated financial statements have been prepared on the principle of historic cost, except for the following assets and liabilities, which are presented at fair value:

- Available-for-sale financial assets (Note 26)
- Derivatives (Note 15)
- Biological assets (Note 5)

The principles used to determine fair value are described in more detail in the following principles and relevant notes.

The accounting principles are applied consistently for all the years presented.

#### 1.3 Introduction of new and amended standards

Norway Royal Salmon has not used any new standards that have an impact on the Group accounts in 2016.

#### 1.4 Summary of important accounting principles

##### Basis of consolidation

###### Subsidiaries

Subsidiaries are entities controlled by the company. The company has control if it has the power to manage a company's financial and operational principles. Annual financial statements of subsidiaries are included in the consolidated financial statements from the date control is achieved until the date control ceases.

Business combinations are recognised using the acquisition method. The consideration paid is measured as the fair value of the assets transferred, liabilities assumed and equity instruments issued and the fair value of contingent assets or liabilities resulting from the contract. Costs in connection with business combinations are expensed as they are incurred. Identifiable assets and liabilities are recognised at fair value at the time of acquisition. Non-controlling shareholdings in acquired companies are measured on a case-by-case basis either at fair value or as the respective share of the net assets of the company acquired.

Should the total of the consideration, carrying amounts of non-controlling owners and fair value at the time of acquisition of previous shareholdings exceed the fair value of identifiable net assets of the company acquired,



the difference is recognised in the balance sheet as goodwill. Should this total be less than the company's net assets, the difference is recognised in income immediately.

#### **Eliminations**

Intra-group transactions and balances have been eliminated. Any unrealised profits or losses associated with intra-group transactions are eliminated during the preparation of the consolidated financial statements.

#### **Non-controlling interests**

Transactions with non-controlling owners of subsidiaries are treated as equity capital transactions. When acquiring shares from non-controlling owners, the difference between the price paid and the shares' pro rata share of the reported balance sheet value of the subsidiary's net assets is recognised in the equity of the parent company's owners. Profits or losses on sales to non-controlling owners are similarly recognised in equity.

If the Group no longer has control, any remaining interest is valued at fair value with changes in value being recognised through profit or loss. Fair value then represents the cost in subsequent recognition, either as an investment in associates, joint ventures or as a financial asset. Amounts previously recognised in comprehensive income relating to this company are treated as if the Group had disposed of the underlying assets and liabilities. This could mean that amounts previously recognised in comprehensive income are reclassified to the income statement.

#### **Associates**

Associates are entities over which the Group exercises considerable influence but not controlling influence. A considerable influence normally applies to investments in which the Group owns between 20% and 50% of the voting rights. The consolidated financial statements include the Group's share of profits of associates in accordance with the equity method from the time considerable influence is achieved and until such influence ceases. Should the Group's share of losses exceed the investment in an associate, the Group's carrying amount is reduced to zero and no further losses are recognised unless the Group has assumed legal or constructive obligations or made payments on the company's behalf. The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

The equity method is regarded as a consolidation method. By cross-ownership, investments in Norway Royal Salmon ASA are treated as treasury shares.

#### **Classification of accounting items**

Assets and liabilities associated to the production cycle, or which are held for sale, and items due for payment within one year of the balance sheet date are classified as current assets or short-term liabilities. Liquid funds are also classified as current assets. Other assets are classified as non-current assets. Other liabilities and provisions for long-term obligations are classified as long-term liabilities. The next year's instalments of long-term debt are classified as current liabilities.

Proposed dividends are recognised as liabilities in the balance sheet when the company is obliged irrevocably to pay dividends, normally when they have been approved at the Annual General Meeting.

NRS's key measurement is operational EBIT before fair value adjustments. Fair value adjustments are presented on separate lines within the income statement. This presentation has been chosen to clearly identify earnings on sales during the period.

#### **Statement of cash flow**

The statement of cash flow has been prepared using the indirect method. The statement of cash flow shows a breakdown of the Group's total cash flow by operating activities, investing activities and financing activities. Cash flow associated with the acquisition and divestment of businesses is presented net under investing activities after deductions for cash reserves held by the acquired company.

#### **Segment reporting**

An operating segment is part of the Group that engages in business which can generate revenues and costs, including revenues and costs deriving from transactions with other Group segments. Operating segments are identified based on the reporting used by Group management to assess performance and profitability at a strategic level. The Group management is defined as the chief operating decision-makers. The financial performance of all operating segments is reviewed monthly by group management. Performance is evaluated based on operating results (EBIT) per segment. See Note 2.

#### **Revenues**

##### ***Sale of goods***

The Group's operating revenues derive mainly from the sale of fish. Revenues from the sale of goods are recognised in income when the risk and control have been transferred to the customer. This is normally the delivery date. The timing of the transfer of risk to the customer depends on the delivery terms specified in the sales contract. Operating revenues are recognised at the fair value of the consideration received, less discounts and VAT.

### **Interest income**

Interest income is recognised when the income is earned.

### **Dividends**

Dividend income is recognised when the entitlement to receive payment arises.

### **Fish-farming licences**

Licenses acquired by the Group are capitalised at cost. Fish-farming licences are deemed to have an indefinite useful life and are not amortised, but are tested annually for impairment or more frequently if there is indication of impairment

Below is a detailed description of the Group's assessments in situations where the Group has established that an asset has an indefinite useful life, cf. IAS 38.122. Intangible assets with an indefinite useful life are not amortised, but tested for impairment once a year as a minimum.

The license scheme for production of salmon and trout in Norway is implemented by the Norwegian Parliament and adopted in the Norwegian Act relating to aquaculture (Aquaculture Act). The Ministry of Trade, Industry and Fisheries is responsible for allocation of aquaculture permits (licenses). All activities involving aquaculture require a license. It is prohibited to farm salmon without a license from the authorities, cf. section 4 of the Aquaculture Act. All licenses are governed by the same regulations (current Aquaculture Act with provisions) irrespective of when the license was allocated. NRS's aquaculture permit entitles the Group to produce salmon in a confined geographic area (sites), subject to the prevailing limitations established at any given time regarding the scope of the permit. The Ministry may prescribe detailed provisions relating to the content of the aquaculture licenses by administrative decision or regulations. The Ministry of Trade, Industry and Fisheries administer the Aquaculture Act centrally, and the Directorate of Fisheries is the supervisory authority. Regionally, there are a number of sector authorities that together represent the total administrative and supervisory authority within the area governed by the Aquaculture Act. The individual county is the regional administrative body, and the Directorate of Fisheries is the appellate body for issues involving locations and licenses.

Since January 2005, the limitations on production established for aquaculture licenses for salmon and trout have been governed according to a scheme known as Maximum Allowable Biomass (MAB). This specifies the maximum biomass in the sea that a license holder can have at any given time. The following regulations regarding production limitations apply to the different types of licenses held by the Group:

Licenses are limited in number, i.e. the enterprises are only granted new licenses (more production volume) subsequent to politically adopted allocation rounds. The current Maximum Allowable Biomass is 780 tons of salmon or trout per license. However, for Troms and Finnmark the Maximum Allowable Biomass is 945 tonnes of salmon or trout per license.

Section 5, second paragraph of the Aquaculture Act reads: «The Ministry may prescribe detailed provisions relating to the content of the aquaculture licenses, including the scope, time limitations, etc., by administrative decision or regulations.» In the legislative background to the Aquaculture Act, White Paper no. 61 2004-2005, the following statement can be found on page 59: «It will remain the case that licenses are normally allocated without any specific time limitation. Implementation of such limitations should be reserved for those issues where a time limitation, based on the specific situation, provides for a more complete fulfilment of the Act than if the license were to be allocated without a time limitation.» The duration of licenses is also specified by the Aquaculture Act, which in its most recent revision underlined ownership of licenses by allowing the licenses to be mortgaged to the benefit of the lender.

There are no time limitations specified in NRS's terms for grow out licenses, and they are therefore deemed to be time-indefinite production rights according to the prevailing regulations. As the licenses are not bound by limited period, there is no need to apply for their renewal. The licenses are deemed valid pursuant to the Aquaculture Act, unless they are revoked in accordance with the Act. Section 9 of the Aquaculture Act describes the grounds for revocation of a license. Section 9 states that licenses may be revoked due to gross contravention of the provisions of the Act. Historically, no operative licenses for salmon and trout have ever been revoked in Norway.

According to past and present legislation and the general interpretation and practice in the industry, Norwegian fish farming licenses are not a time-limited right, and licenses should therefore not be subject to amortisation.

### **Write-downs**

The Group's assets are reviewed at the end of each accounting period to assess whether there are any indications that their value has fallen below book value. If such indications exist an assessment is made of the asset's recoverable amount. If the recoverable amount is lower than book value, the asset is written down to the recoverable amount. The recoverable amount is the higher of the expected sales value and value in use (present value of expected future cash flows). Licenses are defined as having indefinite useful economic lives and are not amortised, but tested annually for impairment. This assessment is done at by calculating the estimated

present value of future cash flows (recoverable amount) from each cash-flow generating unit, which for the Group's fish-farming business is defined as Region North and Region South, and comparing these with the book value of the cash flow generating unit. If the recoverable amount is lower than book value, the asset is written down.

Previous write-downs are reversed if the estimated recoverable amount subsequently exceeds book value. The upper limit for reversal is cost less amortisation.

### Biological assets

Biological assets comprise live fish stocks. Under IAS 41, biological assets are recognized and measured at fair value. Fair value is determined in accordance with IFRS 13. There are no efficient markets for the sale of live fish, and valuing live fish involves estimating their fair value in a theoretical live fish market.

The technical model for calculating fair value changed on 31 December 2016 from a growth model to a present value model. In accordance with IFRS 13, the change of model is regarded as an estimate change. Present value is calculated for the biomass on each site/project by estimating the future sales value less remaining production costs discounted to the present value at the balance sheet date. The fair value of fish in the sea is calculated in the present value model as a function of the expected biomass at the time of harvest multiplied by the expected sales price. For fish that are not harvestable, estimated remaining costs to breed the fish to its harvestable weight are deducted. Cash flows are discounted monthly using a discount factor. The discount factor consists of three main components: 1) risk for events that affect cash flow, 2) hypothetical license and site rent and 3) the time value of money. Expected biomass (volume) is based on the estimated number of individuals in the sea, adjusted for expected mortality until harvesting and multiplied by the expected harvest weight per individual at the time of harvest. The measuring unit is the individual fish, but for practical reasons the calculation is made on site level. Live weight of fish in the sea is translated into gutted weight to get the same measurement unit as the prices are set in.

The price is calculated based on forward prices from Fish Pool. The forward price for the month in which the fish expected to be harvested, is used in the calculation of expected cash flow. The price quoted by Fish Pool adjusted for the export cost is the reference price. This rate is further adjusted for expected harvest costs (well boat, harvest and packing) and transport to Oslo. Adjustments for expected size and quality differences are also made. The adjustment in relation to the reference price is done at site level.

Estimated remaining production costs to breed the fish

to harvestable weight represents the cost estimate a rational operator would assume, if he wanted to buy the immature fish with the purpose to breed to harvestable size.

The present value model used for valuing the biological assets stipulates that compensation for license rent is deducted from the inventory value in the form of a premium in the monthly discount factor, rather than a separate cost item. In this way, rent cost will be correlated with the price and the value of the license.

The principle of highest and best use, according to IFRS 13 is the basis for the valuation and classification. In the fair value calculation, optimal harvest weight is defined as harvest weight according to harvest plans.

Changes in fair value adjustments are recognised in the income statement on a separate line for fair value adjustments. Fair value adjustments are included in the consolidated operating results.

Costs related to the non-recurring events that cause mortality are expensed in the income statement in the period it occurs. Such costs are included in the operational result. Non-recurring events that cause mortality is defined as an incident of not normal nature that has a significant economic impact. A specific assessment is made of every incident that has caused increased mortality. This assessment is done by the regional management in close dialogue with the group management to ensure consistent classification within the Group. Events defined as non-recurring are for example; outbreaks of disease, algae attack, treatment losses, extreme weather, statutory orders of destruction of salmon and escapes that amounts to a significant value for the Group. Costs related to what is considered normal mortality are included in the carrying amount of biomass in the balance sheet. Normal mortality is considered part of the production process of fish and added to the production cost.

The Group enters into contracts for future delivery of salmon. Biological assets are recognised for at fair value. The fair value adjustment in the income statement includes the change in fair value of the biological assets, expected cost for fulfilling the sales contracts and financial Fish Pool contracts. The group may have onerous contracts under IAS 37 even if the contract price for physical delivery contracts is higher than the actual production cost of the products. In that case, a provision is made for the estimated negative value. The provisions are classified as other current liabilities.

Fair value adjustment recognised in the financial accounts in the period include 1) changes in the fair value of biological assets, 2) changes in fair value (liabilities) related to onerous contracts and 3) change in unrealized

value of financial purchase and sales contracts (derivatives) at Fish Pool. Fish Pool contracts are treated as financial instruments in the balance sheet, where unrealised gains are classified as other receivables and unrealised losses are classified as other current liabilities.

### Property, plant and equipment

Property, plant and equipment are capitalised at cost, less accumulated depreciation and impairments. If material individual parts of a unit of property, plant or equipment have different useful lives, they are recognised as separate components with varying depreciation schedules. Ongoing maintenance costs are charged to expenses as they arise.

Assets are depreciated over their estimated useful economic lives. The depreciable amount is the asset's cost less its residual value. Land is not depreciated.

### Tax

Tax on the profit/loss for the year comprises tax payable and deferred tax. Tax is recognised in the income statement except for tax on items that have been recognised in comprehensive income or directly in equity. The tax impact of these latter items is recognised in comprehensive income or directly in equity.

Tax payable comprises expected tax payable on the taxable profit for the year at the tax rates in effect at the balance sheet date, and any corrections of tax payable for previous years.

Deferred tax is calculated to take account of temporary differences between the book value of assets and liabilities and their value for tax purposes. Provisions for deferred tax are based on expectations relating to the realisation or utilisation of the book value of assets and liabilities, and are calculated at the nominal tax rates applicable at the balance sheet date.

Deferred tax assets are only recognised in the balance sheet to the extent that it is probable that the asset will be utilised through future taxable profits. Deferred tax assets are reduced to the extent that it is no longer probable that the tax asset will be utilised.

### Onerous contracts

Physical fixed-price sales contracts whose price is less than the price used as the basis for adjusting the fair value of the biomass are recognised as liabilities in the financial statements. The amount recognised as a liability is the difference between the market price at the balance sheet date plus costs to sell and the contract price. The Group also enters into corresponding fixed-price purchase contracts. In such cases, provisions are recognised for losses on contracts where the contract price is higher than the market price. Changes in provisions are recognised in a separate line for fair-value adjustment.

Fair value adjustments are included in the consolidated operating results.

### Financial instruments

#### Shares

Investments in shares, which are not investments in subsidiaries or associates, are valued at fair value.

#### Derivatives

The Group uses derivatives to hedge against foreign currency fluctuations arising from operating activities. This is done using forward currency contracts. The Group can use derivatives to hedge against fluctuations on the interest rate of its long-term debt. This is done using interest-rates swaps. In addition, the Group has TRS (Total Return Swap)-agreements.

The derivatives are measured at fair value. Changes in fair value of derivatives are recognised through profit and loss as financial items, except for currency contracts and derivatives qualifying for hedge accounting. The Group's criteria for classifying a derivative as a hedging instrument for accounting purposes follows specific guidance in IAS39 and is as follows:

There is adequate documentation when the hedge is entered into that the hedge is effective. The hedge is expected to be highly effective in that it counteracts changes in cash flows from an identified object. For cash flow hedges, the forthcoming transaction must be highly probable and the effectiveness of the hedge can be reliably measured. The hedge is evaluated regularly.

For hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows caused by variances in currency rates. For cash flow hedges, which meet the conditions for hedge accounting, any unrealised gain or loss on the contract that is determined to be an effective hedge is recognised temporarily in other comprehensive income until the hedged cash flow materialises and affects the profit or loss. All financial instruments are recognised in the balance sheet at fair value when the entity becomes a party to the contractual provisions of the instrument. The instrument is derecognised when the contractual rights expire or contractual rights and obligations are transferred. Derivative financial instruments are classified as current assets or liabilities. If a cash flow hedge expires, gains and losses in the hedging reserve within equity are recycled through profit or loss in accordance with the above principle. If the hedged transaction is no longer expected to occur, accumulated unrealised gains and losses previously recognised in other comprehensive income is immediately reversed and recycled through profit or loss.

The Group also uses derivatives to hedge margins connected to deliveries in the sales department. In cases where fixed-price contracts have been entered into with-



out being hedged using physical contracts and the sales department does not wish to hedge the Group's volume from the farming operations, agreements are made to purchase financial Fish Pool contracts to hedge the margins. The derivatives are measured at fair value at the time they are entered into with subsequent changes in value recognised on a separate line for fair value adjustment. Fair value adjustments are included in the consolidated operating results. Realised gains and losses are recognised in cost of sales.

The fish farming business enters into financial Fish Pool contracts in order to hedge prices of future deliveries. Derivatives are measured at fair value at the time they are entered into with subsequent changes in value being recognised on a separate line for fair-value adjustments. Fair value adjustments are included in the consolidated operating result. Realised gains and losses are recognised in sales revenues.

#### ***Loans and receivables***

Loans and receivables, including trade receivables, are financial assets with fixed payments not listed in an active market. Financial assets of this kind are initially recognised at fair value plus directly attributable transaction costs. Following initial recognition, loans and receivables are recognised at amortised cost less any impairment. Trade receivables are valued at nominal value, less any expected losses.

#### ***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

#### ***Liabilities***

Current and non-current interest bearing debt and trade payables are initially recognised at fair value less directly attributable transaction costs. In subsequent periods, interest bearing debt is recognised at amortised cost. Trade payables do not generate interest, and are recognised at nominal value in the balance sheet.

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash in hand, bank deposits and other current investments that may immediately be converted into cash amounts without material risk of loss on the transaction.

#### ***Pensions***

##### ***Defined contribution pension schemes***

A defined contribution plan is a pension plan under which the group pays fixed contributions. The group has no legal or constructive obligations to pay further

contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. In a defined contribution scheme, the company pays what they have committed in accordance with an agreement, committed by law or voluntarily contributes. The company has no further obligations beyond this payment. Liabilities to pay contributions to defined contribution pension schemes are recognised as costs in the income statement as they accrue.

##### ***Defined benefit pension schemes***

Pension schemes that are not defined contribution schemes are defined benefit schemes. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using a linear accrual method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

##### ***Share price based bonus scheme***

The Group has a share price based bonus scheme that will be settled in cash. The fair value of the program is recognised as a payroll expense and a liability. The fair value of each allotment is measured at the end of each reporting period and accrued over the period until the employees have earned an unconditional right to receive them. Please see note 18.

#### ***Equity***

##### ***Purchase of treasury shares***

On the repurchase of treasury shares, the purchase price including directly attributable costs is recognised as a change in equity. Treasury shares are recognised as a reduction in equity. When treasury shares are sold, any consideration received is included in equity attributable to the company's equity holders.

### **Dividends**

Dividends are recognised as liabilities in the period they are adopted.

### **Inventory**

Inventory comprise raw materials of which is mainly feed for the fish farming business, finished goods in transit and stocks of finished goods, largely frozen salmon for sale.

Inventory is valued at the lower of cost and net realisable value. The net realisable value is the estimated ordinary sales price less estimated sales costs. Inventory is recognised in accordance with the FIFO principle.

Fish produced in-house and which is placed in storage awaiting sale by the sales business is recognised at the fair value of own production, which is deemed to be the acquisition cost for the sales business.

### **Leasing**

Lease agreements with terms which transfer economic rights and liabilities to the Group are classified as financial leasing. Assets acquired by means of finance leases are recognised at the start of the leasing period at a value corresponding to the lower of the fair value of the asset and the present value of the minimum leasing cost, less cumulative depreciation and impairments. Associated leasing obligations are capitalised as liabilities. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in debt. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset. All leases are signed on standard terms.

Other lease agreements defined as operating leases are charged to expenses as they accrue.

### **Foreign currency**

#### ***Presentation currency***

The consolidated financial statements are presented in Norwegian kroner (NOK), which is the Group's functional currency. All amounts are stated in thousands of kroner unless indicated otherwise.

#### ***Transactions and balance-sheet items***

Transactions in foreign currency are translated at the exchange rate in effect at the transaction date. Monetary items in foreign currency are translated to NOK at the rate in effect at the balance sheet date. The Group reduces its foreign currency risks on receivables by drawing the same amount in the same currency on its overdraft facility. Other non-monetary assets and liabilities, which are recognised at historical cost in a foreign currency, are translated at the rate in effect at the transaction

date. Foreign exchange gains and losses deriving from the settlement and translation of monetary items in foreign currencies to the exchange rate in effect on the balance sheet date are recognised and classified as operating items.

### **Exceptional items**

Exceptional items are disclosed separately in the financial statement under operational result and in notes to provide further understanding of the financial performance of the group. Exceptional items are fair value adjustment of biomass (note 5), provision for onerous contracts and changes in Fair value of Fish Pool contracts (note 17).

### **Events after the balance sheet date**

New information regarding the company's financial position on the balance sheet date which is received after the balance sheet date has been accounted for in the year-end financial statements. Events after the balance sheet date which do not affect the company's financial position on the balance sheet date, but which will affect the company's future financial position are reported if material.

### **Accounting standards and interpretations issued but not applied**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 31 December 2016, and have not been applied in preparing these consolidated financial statements. The standards concerned are as follows:

#### ***IFRS 9 Financial instruments***

Addresses the classification, measurement, and recognition of financial assets, financial liabilities, and hedge accounting. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for a financial liability, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement. IFRS 9 includes a number of changes and simplifica-

tions that increase the possibilities for employing hedge accounting. The Group has not finished its assessment of the impact of IFRS 9, but do not expect that the new standard will have a significant impact on the measurement of financial assets and liabilities. The standard is mandatory from 1 January 2018.

#### **IFRS 15 Revenue**

New common standard for the recognition of revenue, replaces all existing standards and interpretations for revenue recognition. The standard applies to all income contracts and contains a model for recognition and measurement of the sale of certain non-financial assets. The standard is not considered to have significant impact on the Group's revenue recognition policy. The standard is implemented from January 1 2017.

#### **IFRS 16 Leasing**

The standard implies that virtually all leases will be recognized in the balance sheet as the difference between operating and finance leases are removed. The new standard stipulates that it is no longer a distinction between operating and finance leases, because both types of agreements transfer the right to use a specific asset from the lessor to the lessee for a specific period. Therefore, all leases under the new standard is recognized and treated according to a model that corresponds to how finance leases were treated in IAS 17, Leases. IFRS 16 contains an option to not recognize the right of use and the related lease obligation for a lease when the lease is short term or for the lease of assets with low value. The standard is not considered to have significant impact on the Group's accounting principles. The standard is mandatory from 1 January 2019.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## **1.5 Important accounting estimates and judgments**

Preparation of annual financial statements in accordance with IFRSs involves the use of judgements, estimates and assumptions. These affects both the application of accounting principles and the recognised values of assets, liabilities, revenues and expenses. Actual figures may deviate from those estimated.

Estimates and underlying assumptions are reviewed and evaluated on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in all future periods affected. Valuations and estimates that are of most significance for the Group are as follows:

#### **Valuation of the biological assets**

Biological assets are fish in the sea. In accordance with IAS 41 and IFRS 13, the biological assets are valued at fair value. The difference between fair value of live inventory at the beginning and the end of the period is recognised as a fair value adjustment in the income statement. The technical model for calculating fair value changed on 31 December 2016 from a growth model to a present value model. In accordance with IFRS 13, the change of model is regarded as an estimate change. The inventory to be valued is in the sea and are exposed to operational risk. All harvest is in the future, normally within the next 1 to 24 months. The following factors affecting the calculation of fair value of biomass are uncertain: volume, price, cost and discount factor.

The volume of fish may be lower or higher than expected. The calculation of fair value is done for each site and specifying the biomass includes both the number of fish and the estimated average weight. This estimate includes considerable uncertainty. Estimated produced biomass is based on assumptions about growth and mortality from the date the fish is put to sea, adjusted for any controls done during the production period, until the fish is harvested. In addition to the uncertainty about the number of fish, growth, average weight and mortality, will changes in regulatory conditions, which require forced harvest or destruction required by the authorities cause uncertainty about volume when estimating the fair value of the biomass.

The prices are subject to change and this estimate contains considerable uncertainty. The forward prices used to calculate the fair value of the biomass can change. In addition, can changes in regulatory issues lead to changes to the harvest plans, which in turn results in harvesting at different times with other prices than the valuation model assumes. Achieved price is also affected by the quality distribution of the fish, which only to a limited extent can be observed and assessed before harvest. The estimate of the quality distribution will be subject to considerable uncertainty and affect the price assumption used when estimating the fair value of the biomass.

There is considerable uncertainty associated with the estimate for the remaining production costs. Biological challenges greater than expected, with respect to disease or sea lice, results in higher costs. Changes in exchange rates and the market prices of the input factors related to feed entail changed remaining production costs. Change in regulatory conditions, which can enforce higher cost, represent an uncertainty in the estimation of fair value of biomass.

The discount factor used in the model consists of several components. The valuation model implies that the license rent is deducted from the inventory value in the form of an additional premium in the discount factor.

There is uncertainty about the charge for the license rent because it will be influenced and correlated with the market price of salmon and value of the license.

The principles used for valuation are described in the section describing biological assets and in Note 5 to the financial statements.

## 1.6 Financial risk

The Group's main financial obligations comprise liabilities to financial institutions and current liabilities connected to the company's operations. These financial liabilities account for the bulk of the Group's debt capitalisation. The Group has several financial assets, such as cash, trade receivables and short-term receivables connected to the company's operations. The company also has some forward currency contracts and Fish Pool contracts for hedging purposes. The main risks to which the company is exposed are connected to interest rate risk, foreign currency risk, liquidity risk and credit risk. This note gives details of exposure to each of these risks and aims and procedures for dealing with risk. Further quantitative details can be found elsewhere in the consolidated financial statements.

### Foreign exchange risk

The bulk of the Group's transaction risk is linked to sales in currencies other than the functional currency of its sales business. The exposure is largely connected to EUR, USD and GBP. Hedging of contracted currency revenues is managed through forward currency contracts. Hedging of the currency exposure deriving from trade receivables is managed through forward currency contracts and by drawing on the overdraft facility in the same currency. Details of the Group's exposure in foreign currency can be found in Notes 6 and 8. Forward currency contracts, see Note 16. Given the financial instruments in effect on 31 December 2016, a 2 per cent reduction in the value of the NOK towards USD would decrease the Group's profit by KNOK 2 123, a 2 per cent reduction in the value of the NOK towards EUR would decrease the Group's profit by KNOK 3 989, and a 2 per cent reduction in the value of the NOK towards GBP would decrease the Group's profit by KNOK 8 746. The contractual future revenues that the instrument hedge (hedged items) are not recognized in the accounts.

### Interest rate risk

The Group's interest bearing debt is currently exposed to variable interest rates. This means that the Group is exposed to changes in interest rates. To hedge against such changes the Group entered into an interest rate swap agreement, the swap expired in 2016. The Group's interest bearing debt is capitalised at amortised cost. Details on the swap agreement can be found in Note 16. Given the financial instruments in effect on 31 December 2016, an increase of 100 basis points in the interest

rates level would decrease the Group's profit by KNOK 2 822, assuming all other variables are constant.

### Credit risk

The Group's exposure to credit risk is affected largely by circumstances related to each individual customer. The Group is not materially exposed to any single counterparty. Historically, bad debts have been small – see Note 6 for further details. Trade receivables are monitored continuously and the Group's policy is to insure all major trade receivables against non-payment. In addition to trade receivables, the Group is exposed in connection with the derivatives entered into by the Group. The counterparty in the agreements are major financial institutions and the credit risk associated with the counterparty is very low.

### Price/liquidity risk

Liquidity risk is the risk that the Group will have trouble meeting those financial obligations which must be settled in cash or with other financial assets. Liquidity management shall, as far as possible, ensure that available liquidity is sufficient to meet such obligations as they fall due.

The Group monitors its liquidity continuously and estimates expected future developments through budgets and updated forecasts. The Group's liquidity depends in large measure on developments in the price of salmon, making it significantly exposed to changes in salmon prices. Other key risks include fluctuations in production and harvested volumes.

To reduce this risk long-term fixed-price contracts are entered into for a portion of the volume. If the sales business concludes fixed-price contracts, the margin is closed at the same time by concluding financial contracts to buy fish to an equivalent volume at Fish Pool or possible physical contracts with suppliers. In addition, contracts are entered into with the aim of hedging the price of the self-produced fish in the Group. The Group had a net exposure of Fish Pool contracts for 8 172 tonnes at 31 December 2016. Given the financial instruments in effect on 31 December 2016, a NOK 1.00 reduction in the price of salmon would reduce the Group's profit by NOK 8 172.

The Group's objective is to maintain a balance between long-term funding and flexibility through the use of overdraft facilities. The maturity profile of the company's interest bearing debt is presented in Note 8.

Norway Royal Salmon entered into a TRS-agreement on own shares. The Company is therefore exposed to changes in the share price of NRS. Given the financial instruments in effect on 31 December 2016, a NOK 1.00 reduction in the share price of NRS would reduce the Group's profit by NOK 2 352.



## Capital structure and equity

The Group's objectives when managing capital are to safeguard the continued operation of the Group, have a reasonable debt ratio to ensure adequate returns for shareholders and other stakeholders, as well as maintain an optimal capital structure to reduce the cost of capital. The Group manages its capital structure and adjusts in the light of changes in underlying economic conditions. Capital structure can, in addition to organisation of the operations, be affected through dividends to shareholders, repayment of capital to shareholders, issuing of new shares or sale of assets to reduce debt.

The company's main borrowing covenants are important indicators for measuring risk of the capital structure. The Group's main borrowing covenants are based on standard ratios relating to solvency. The group's finance agreement has one financial covenant requiring an equity ratio of at least 30 per cent and another requiring that the short-term credit facility shall not exceed 75 per cent of the carrying value of inventory and accounts receivables. At the end of 2016, the company keeps covenants under the loan agreement.

The Group's principal financial liabilities apart from bank liabilities consist of trade payables and derivatives. These financial liabilities constitute the majority of the Group's debt financing. The Group has various financial assets such as cash, accounts receivable and shares. The Group also uses financial derivatives, principally forward currency contracts. The purpose is to manage currency risks arising from the operations of the Group. Derivatives of this type are not entered into for speculation purposes.

Equity not considered necessary for further growth will be returned to shareholders through dividends. At 31 December 2016, the Group had equity of NOK 2 047 million. The equity ratio, defined as equity divided by total assets, was at the same time 55.1 per cent. Net interest bearing debt, defined as total debt less cash and cash equivalents were NOK 282 million at year-end.

The Company's dividend policy is to distribute at least 60% of profit after tax, provided that the Group's equity ratio is above 40 per cent and that the Group's own capital requirements have been satisfied. The shareholders should obtain a current yield directly correlated with the results. The board has proposed a dividend of NOK 413 935 815 (NOK 9.50 per share) based on the financial statements of 2016. The resolution is passed at the Annual General Meeting on 1 June 2017.

The board of Norway Royal Salmon ASA has received the following powers from the General Meeting:

The board is authorised to purchase up to 4 357 219 treasury shares with a face value of NOK 4 357 219. For acquisitions, the purchase price per share should be no lower than a nominal value of NOK 1.00, and no higher than NOK 200.00 per share. The mandate runs until the date of the next Annual General Meeting; this should not, however, be later than 30 June 2017. The Group owns 98 279 treasury shares at the end of 2016. The group also owns TRS agreements to 2 991 424 shares with a contractual right to buy.

The board is authorised to issue up to 4 357 219 shares. The mandate runs until the date of the next Annual General Meeting; this should not, however, be later than 30 June 2017.

## Note 2. Segment reporting

Operating segments are identified based on the reporting used by Group management to assess performance and profitability at a strategic level. The Group management is defined as the chief operating decision-makers.

The Group's business areas are divided into the Sales and Fish farming. The Sales segment includes the purchase and sale of salmon. The fish farming business includes salmon farming and harvesting activities. The fish farming business is divided into two regions: Region

North, which consists of the fish farming business in Troms and West Finnmark; and Region South, which consists of the fish farming business in the border region of Hordaland and Rogaland. Transactions between the segments are made at market terms.

Group management reviews monthly reports in connection with the segments. Performance is evaluated based on operating results (EBIT) per segment.

(NOK 1 000)	Sales		Fish farming				Total	
	2016	2015	Region Nord		Region Sør		2016	2015
			2016	2015	2016	2015		
Total segment revenues	4 219 524	3 171 282	1 300 093	892 600	322 474	193 785	5 842 091	4 257 667
Revenues between segments	0	0	-1 300 093	-888 176	-322 467	-193 781	-1 622 560	-1 081 957
<b>Revenues from external customers</b>	4 219 524	3 171 282	0	4 424	6	3	4 219 531	3 175 709
Cost of materials	4 220 416	3 112 383	440 355	477 512	171 887	137 907	4 832 658	3 727 802
Depreciation	0	38	49 130	41 899	11 934	11 721	61 064	53 658
Other costs	31 375	32 299	154 497	150 555	36 739	24 310	222 611	207 164
<b>Operating result before fair value adjustments</b>	-32 267	26 562	656 112	222 635	101 914	19 846	725 758	269 043
Fair value adjustments	-29 966	27 224	138 879	6 034	55 238	-8 842	164 151	24 416
<b>Operating result</b>	-62 233	53 787	794 991	228 669	157 152	11 004	889 909	293 460
Interest income	328	178	1 417	697	5	8	1 750	883
Interest expenses	-5	0	-6 463	-12 794	-4 794	-6 549	-11 262	-19 343
Other financial items	-1 165	-940	48	-829	-2	-283	-1 119	-2 052
<b>Segment result before tax</b>	-63 075	53 025	789 993	215 743	152 362	4 180	879 278	272 948
<b>Total assets</b>	544 164	661 412	1 959 331	1 518 257	420 885	419 212	2 924 380	2 598 881

For further details of the biomass for the fish-farming business see Note 5.

### Reconciliation of reported segment result before tax with Group result before tax:

(NOK 1 000)	2016	2015
Segment result before tax for operating segments	879 278	272 948
<i>Unallocated income statement items:</i>		
Income from associates	71 865	23 369
Gain on realisation of financial assets	311 492	44 193
Unallocated non-recurring items	-20 322	-31 330
Unallocated expenses (operations)	-64 824	-35 819
Unallocated interest (finance)	-5 069	-3 280
<b>Result before tax</b>	<b>1 172 421</b>	<b>270 081</b>

**Reconciliation of reported segment assets to total assets:**

(NOK 1 000)	2016	2015
Segment assets for reportable segments:	2 924 380	2 598 881
<i>Unallocated assets:</i>		
Investments in associates	524 250	162 737
Investments in other shares	1	1
Bank deposits NRS Settefisk	1 000	0
Other long-term receivables	4 000	5 000
Unrealised gains on derivatives	183 273	36 758
Bank deposits related to TRS agreements	76 478	66 869
<b>Total assets in the balance sheet</b>	<b>3 713 382</b>	<b>2 870 245</b>

**Geographical market sales:**

(NOK 1 000)	2016	2015
Norway	420 716	284 709
Western Europe	2 735 901	2 040 771
Eastern Europe & Russia	235 575	231 536
Asia & Middle East	780 548	608 433
Other countries	51 598	45 099
<b>Total operating revenues</b>	<b>4 224 340</b>	<b>3 210 548</b>

**Note 3. Intangible assets****Cost:**

(NOK 1 000)	Fish farming licenses	
	2016	2015
Acquisition cost as of 1 January	648 887	648 887
Additions during the year	0	0
Acquisition cost as of 31 December	648 887	648 887

**Specification of fish farming licenses by region:**

(NOK 1 000)	Ordinary licenses	Green licenses	Number of licenses	Cost	Book value 31.12.2016
Region North	19	10	29	572 026	572 026
Region South	6	0	6	76 861	76 861
Total	25	10	35	648 887	648 887

**Licenses**

NRS has two types of licenses; ordinary and green. All licenses are in Norway and are managed by the Department of trade, industry and fisheries.

The main condition for ordinary licenses is that they shall be operated in accordance with current laws and regulations. Maximum allowed biomass in Region North

is 945 tonnes per license and 780 tonnes per license in Region South.

The main conditions of the green licenses are that sterile fish must be used, smolt must be over 100 grams, nets with material properties which reduces the possibility of escape must be used, lice skirts must be used, and that ice skirts should be used on locations that are parti-

## Note 3 cont.

cularly vulnerable to icing. In addition, it should not be over 0.25 adult female lice per fish and not more than 3 medical treatments per production cycle.

Serious breaches of the terms of the licenses may give rise to loss of the licenses.

### Annual impairment test

Fish farming licenses are defined as having an indefinite useful economic life and are not amortised, but are tested for impairment annually, or more frequently when there is an indication that an asset may be impaired. This is done by comparing assets' recoverable amounts with their book values. Licences are considered to have an indefinite life because ownership of licenses has no time limit as long as the owner complies with significant statutory requirements regarding the use of them. See note 1.4 for further details on the Group's assessment that the licenses have indefinite life.

Impairment testing is performed for each cash flow generating unit (CGU). Region North and Region South are defined as CGUs as production management, evaluation of harvesting plans, etc. are treated as one within these regions.

The impairment test is carried out by calculating the present value of estimated future cash flows (estimated value in use) for the cash flow generating unit and comparing this with the book value of the unit's net assets. Impairments are recognised if the book value exceeds the estimated value in use.

Estimated future cash flows are based on budgets and forecasts for the next four years. After that, a terminal value is used. The terminal value is calculated using a growth rate of 2.0 per cent, which reflects future estimated inflation.

The impairment test did not give indications for write-downs of the book value of the licenses at 31 December 2016. There are significant positive differences between estimated recoverable amounts and book values in Region North and Region South.

### Key assumptions

Calculations are based mainly on EBIT margin per kg (salmon prices and production costs per kg), investment levels, discount rates and harvesting volumes.

#### EBIT Margin per kg

EBIT per kilo is highly volatile due to the fluctuations in the price of salmon. Costs can under normal circumstances be forecasted with a relatively high level of accuracy. Due to expectations of continued high salmon prices the next four years, a lower EBIT margin per kg than achieved in 2016, but higher than the historical average margin, has been used in the calculations. After this period, the margin has been reduced to a normalized EBIT per kg of NOK 15,00. Necessary investments to meet anticipated growth has been taken into consideration. In the latter part of the forecast period the investments will equal the depreciations and represents maintenance investments.

#### Discount rate

The estimated value in use is based on a discount rate after tax of 8.0 per cent. The discount rate is an estimated average capital cost for the Group (WACC). Capital costs are calculated by considering the risk-free interest rate, the market risk premium in the equity market and the company's average interest rate on borrowing. Capital costs are adjusted to reflect conditions at individual cash flow generating units, such as particular risks and interest rate differentials.

#### Harvest volume

Future production are estimated on the basis of current production and harvest plan, adjusted for expected increases in future output given current licenses. In the calculation it is assumed that the production capacity of about 45 000 tonnes will be utilised.

### Sensitivity analysis

Sensitivity analysis have been performed by examining changes in discount rates, EBIT per kg and harvesting volume. The following table shows how much each key assumption can change before book value is lower than estimated value in use.

	Region North	Region South
EBIT margin per kg (NOK)	-13.43	-8.59
Discount rates after tax	26.9 %	18.5 %
Harvest volume	-77.0 %	-66.0 %



## Note 4. Group companies

The consolidated financial statements for 2016 include the following companies:

(NOK 1 000)	Registered Office	Nominal share capital	Share holding %
<b>Parent company</b>			
Norway Royal Salmon ASA	Trondheim	43 572	
<b>Subsidiaries</b>			
NRS Feøy AS	Feøy	1 445	100.00 %
NRS Finnmark AS	Alta	9 429	100.00 %
Nor Seafood AS	Torsken	205	82.50 %
Nord Senja Laks AS	Botnhamn	405	100.00 %
NRS Settefisk AS	Trondheim	1 000	100.00 %

All subsidiaries are included in the consolidation. The proportion of the voting rights in the subsidiary held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company does not have any shareholdings in the preference shares of subsidiaries in the group.

Summarised financial information on subsidiaries with material non-controlling interests:

	Nor Seafood AS		Nord Senja Laks AS <sup>1)</sup>
Summarised balance sheet	2016	2015	2015
<b>Current</b>			
Assets	174 871	143 573	169 816
Liabilities	-11 813	-66 958	-131 534
<b>Total current net assets</b>	<b>163 058</b>	<b>76 615</b>	<b>38 282</b>
<b>Non-current</b>			
Assets	100 956	105 940	214 645
Liabilities	-57 694	-65 208	-93 088
<b>Total non-current net assets</b>	<b>43 262</b>	<b>40 732</b>	<b>121 557</b>
<b>Net assets</b>	<b>206 320</b>	<b>117 347</b>	<b>159 839</b>

	Nor Seafood AS		Nord Senja Laks AS <sup>1)</sup>
Summarised income statement	2016	2015	2015
Operating revenues	227 099	65 569	187 585
Operational EBIT	97 335	14 325	25 834
Result before tax	114 471	23 734	18 999
Tax	26 155	5 383	4 747
<b>Total comprehensive income</b>	<b>88 316</b>	<b>18 351</b>	<b>14 252</b>
Total comprehensive income allocated to non-controlling interests	15 464	3 183	4 767
Dividends paid to non-controlling interests	0	0	0

1) The remaining non-controlling interests in Nord Senja Laks were acquired in February 2016.

## Note 4 cont.

	Nor Seafood AS		Nord Senja Laks AS <sup>1)</sup>
Summarised cash flows	2016	2015	2015
<b>Cash flows from operating activities</b>			
Cash generated from operations	85 059	-14 125	-4 541
Interest paid	-563	-885	-3 616
Income tax paid	0	-2 031	0
Net cash generated from operating activities	84 496	-17 040	-8 157
Net cash used in investing activities	-2 080	-25 931	-48 778
Net cash used in financing activities	-21 667	30 947	56 932
<b>Net increase in cash and cash equivalents and bank overdrafts</b>	<b>60 749</b>	<b>-12 024</b>	<b>-3</b>
Cash, cash equivalents and bank overdrafts at beginning of year	0	12 024	922
<b>Cash and cash equivalents and bank overdrafts at end of year</b>	<b>60 749</b>	<b>0</b>	<b>919</b>

1) The remaining non-controlling interests in Nord Senja Laks were acquired in February 2016.

## Note 5. Biological assets (biomass)

### Specification of biological assets:

(NOK 1 000)	31.12.2016	31.12.2015
Biological assets valued at cost	813 888	632 534
Fair value adjustments of the biological assets	391 511	197 394
<b>Total biological assets</b>	<b>1 205 399</b>	<b>829 928</b>

### Specification of changes in book value of biological assets:

(NOK 1 000)	2016	2015
Biological assets as of 1 January	829 928	808 674
Increase due to production in the period	967 416	853 256
Non-recurring event at cost	-19 158	-25 000
Reduction due to harvesting in the period	-766 904	-804 194
Fair value adjustments of the biological assets	194 117	-2 808
<b>Biological assets as of 31 December</b>	<b>1 205 399</b>	<b>829 928</b>

### Specification of biological assets – tonnes (ungutted weight):

	2016	2015
Biological assets as of 1 January	22 407	23 537
Increase due to fish put in the sea in the period	1 298	865
Increase due to production in the period	33 714	33 614
Reduction due to mortality in the period	-2 269	-1 637
Reduction due to harvesting in the period	-31 955	-33 258
Non-recurring event	-135	-714
<b>Biological assets as of 31 December</b>	<b>23 060</b>	<b>22 407</b>

Specification of biological assets status on the balance sheet date 31.12.2016	Number of fish (1000)	Biomass (tonnes)	Acquisition costs	Fair value adjustments	Accounted value
Smaller than 1 kg	7 098	4 575	255 803	109 784	365 587
1-4 kg	4 950	13 027	412 823	171 133	583 956
Larger than 4 kg	1 162	5 458	145 262	110 594	255 856
<b>Biological assets</b>	<b>13 210</b>	<b>23 060</b>	<b>813 888</b>	<b>391 511</b>	<b>1 205 399</b>

Specification of biological assets status on the balance sheet date 31.12.2015	Number of fish (1000)	Biomass (tonnes)	Acquisition costs	Fair value adjustments	Accounted value
Smaller than 1 kg	5 172	2 376	143 001	0	143 001
1-4 kg	4 259	12 561	325 229	94 543	419 772
Larger than 4 kg	1 628	7 470	164 304	102 851	267 155
<b>Biological assets</b>	<b>11 059</b>	<b>22 407</b>	<b>632 534</b>	<b>197 394</b>	<b>829 928</b>

#### Fair value of biological assets:

In accordance with IAS 41, must biological assets be valued at fair value. Fair value is calculated in accordance with IFRS 13. Changes to valuation adjustments are recognised in the income statement on an ongoing basis and classified on a separate line in order to highlight operating results before and after fair value adjustments. The valuation model for biomass makes the fair value within level 3 in the fair value hierarchy.

#### Valuation model:

Efficient markets for sale of live fish do not exist and the valuation of biological assets involves estimating fair value in a theoretical market for live fish.

The technical model for calculating fair value changed 31 December 2016 from a growth model to a present value model. In accordance with IFRS 13, the change of model is regarded as an estimate change. Present value is calculated for the biomass on each site/project by estimating the future sales value less remaining production costs discounted to the present value at the balance sheet date.

The fair value of fish in the sea is calculated in the present value model as a function of the expected biomass at the time of harvest multiplied by the expected sales price. For fish that are not harvestable, estimated remaining costs to breed the fish to its harvestable weight are deducted. Cash flows are discounted monthly

using a discount factor. The discount factor consists of three main components: 1) risk for events that affect cash flow, 2) hypothetical license and site rent and 3) the time value of money. Expected biomass (volume) is based on the estimated number of individuals in the sea, adjusted for expected mortality until harvesting and multiplied by the expected harvest weight per individual at the time of harvest. The measuring unit is the individual fish, but for practical reasons the calculation is made on site level. Live weight of fish in the sea is translated into gutted weight to get the same measurement unit as the prices are set in.

The price is calculated based on forward prices from Fish Pool. The forward price for the month in which the fish expected to be harvested is used in the calculation of expected cash flow. The price quoted by Fish Pool adjusted for the export cost is the reference price. This rate is further adjusted for expected harvest costs (well boat, harvest and packing) and transport to Oslo. Adjustments for expected size differences and quality differences are also made. The adjustment in relation to the reference price is done at site level.

The principle of highest and best use, according to IFRS 13 is the basis for the valuation and classification. In the fair value calculation, optimal harvest weight is defined as harvest weight according harvest plans.

The valuation model use the following forward prices:

Fish Pool forward prices 31.12.2016	NOK/kg	Fish Pool forward prices 31.12.2015	NOK/kg
Q1-17	74,00	Q1-16	51,80
Q2-17	71,80	Q2-16	47,50
Q3-17	64,70	Q3-16	44,10
Q4-17	64,50	Q4-16	44,60
Q1+Q2-18	64,10	Q1+Q2-17	45,20
Y2018	61,20	Y2017	44,50

## Note 5 cont.

The following discount factor is used in the valuation model:

### Discount factor

31.12.2016	6 %
------------	-----

### Sensitivity analysis:

Based on the Group's biomass at 31 December 2016, a change in some factors will affect the book value of the biomass in the following manner:

	Increase	Effect on biomass value at 31.12.2016	Reduction	Effect on biomass value at 31.12.2016
Change in price	NOK 5,- per kg	132 623	NOK -5,- per kg	-136 550
Change in production cost on finished projects, gutted weight	NOK 1,- per kg	-39 964	NOK -1,- per kg	36 255
Change in discount factor	0.5 %	-53 210	-0.5 %	56 790
Change in discount factor	1 %	-103 413	-1 %	117 338
Biomass at 31.12.2016	1 %	15 697	-1 %	-15 697
Biomass at 31.12.2016	5 %	78 485	-5 %	-78 485

Non-recurring events	2016			2015		
	Cost	Fair value adjustments	Fair value	Cost	Fair value adjustments	Fair value
Fish disease ISA, destruction required by the authorities <sup>1)</sup>	0	0	0	25 000	0	25 000
Destruction of fish with winter wounds Nor Seafood AS <sup>1)</sup>	11 156	0	11 156	0	0	0
Destruction of desmoltified fish NRS Finnmark AS <sup>1)</sup>	8 000	0	8 000	0	0	0
<b>Biological assets</b>	<b>19 156</b>	<b>0</b>	<b>19 156</b>	<b>25 000</b>	<b>0</b>	<b>25 000</b>

1) Fish less than 1 kg. At the time of the events the cost price was seen as the best estimate of fair value.

## Note 6. Accounts and other receivables

### Specification of accounts and other receivables:

(NOK 1 000)

	31.12.2016	31.12.2015
Account receivables	479 069	502 537
Provision for bad debts	-855	-1 848
Net accounts receivables	478 214	500 689
Other short-term receivables	244 596	100 438
Other long-term receivables	16 000	20 000
<b>Total accounts and other receivables</b>	<b>738 810</b>	<b>621 126</b>

**Other short-term receivables comprise:**

(NOK 1 000)	31.12.2016	31.12.2015
Fair value of derivatives	183 273	36 758
Prepaid costs	9 652	19 072
Value added tax repayable	47 022	33 506
Other receivables	4 649	11 103
<b>Total other short-term receivables</b>	<b>244 596</b>	<b>100 438</b>

At 31 December 2016, accounts receivables of KNOK 92 580 (2015: KNOK 129 769) were past their due date but not impaired. These relate to a number of different customers that have not previously defaulted on their obligations to the group. The age distribution of these receivables are:

(NOK 1 000)	31.12.2016	31.12.2015
Less than 3 months	91 580	129 769
More than 3 months	0	5
<b>Accounts receivables past due date, but not impaired</b>	<b>91 580</b>	<b>129 774</b>

**Change in provision for bad debts:**

(NOK 1 000)	2016	2015
Provision for bad debts as of 1 January	-1 848	-7 283
Bad debts recorded in the year	2 561	8 950
Change in provision for bad debts	-1 568	-3 515
<b>Provision for bad debts as of 31 December</b>	<b>-855</b>	<b>-1 848</b>

At 31 December 2016 was nominal accounts receivables of KNOK 2 771 (2015: KNOK 7 173) written down. The size of the provision was KNOK 855 at 31 December 2016 (2015: KNOK 1 848). The individually impaired receivables relate to customers who have had financial problems. Accounts receivables are insured with a deductible mainly between 10 and 20 per cent. The age distribution of the written down receivables are:

(NOK 1 000)	31.12.2016	31.12.2015
2 to 6 months	0	3 398
More than 6 months	2 771	3 775
<b>Accounts receivables written down</b>	<b>2 771</b>	<b>7 173</b>

**Foreign currency exposure on receivables:**

(NOK 1 000)	31.12.2016	31.12.2015
CHF	1 007	1 395
EUR	287 348	304 685
GBP	43 958	58 196
JPY	7 531	9 020
SEK	0	585
PLN	2 480	0
USD	54 890	62 718
NOK	80 999	64 089
<b>Total book value trade receivables</b>	<b>478 214</b>	<b>500 689</b>



## Note 7. Property, plant and equipment

(NOK 1 000)	Land and buildings	Machinery and equipment	Boats and floating assets	Other operating assets	Total	Of which leased operating assets*
<b>Acquisition cost as of 1 January 2015</b>	20 883	249 058	172 801	21 141	463 884	263 112
Additions	1 081	57 254	55 057	9 359	122 751	85 259
Disposals	0	-3 883	-450	-68	-4 402	-2 534
<b>Acquisition cost as of 31 December 2015</b>	<b>21 964</b>	<b>302 429</b>	<b>227 407</b>	<b>30 432</b>	<b>582 232</b>	<b>345 837</b>
<b>Acquisition cost as of 1 January 2016</b>	21 964	302 429	227 407	30 432	582 232	345 837
Additions	7 796	53 908	49 250	10 466	121 421	52 212
Disposals	0	-8 594	-2 437	-5 338	-16 369	-42 364
<b>Acquisition cost as of 31 December 2016</b>	<b>29 760</b>	<b>347 744</b>	<b>274 221</b>	<b>35 561</b>	<b>687 285</b>	<b>355 685</b>
<b>Accumulated depreciation as of 1 January 2015</b>	<b>8 137</b>	<b>101 391</b>	<b>51 031</b>	<b>14 272</b>	<b>174 831</b>	<b>75 381</b>
Depreciation for the year	960	36 281	12 991	3 464	53 697	29 345
Disposals	0	-3 883	-313	-49	-4 245	0
<b>Accumulated depreciation as of 31 December 2015</b>	<b>9 098</b>	<b>133 788</b>	<b>63 709</b>	<b>17 688</b>	<b>224 283</b>	<b>104 726</b>
Accumulated depreciation as of 1 January 2016	9 098	133 788	63 709	17 688	224 283	104 726
Depreciation for the year	1 083	39 629	15 663	4 688	61 063	28 787
Disposals	0	-7 783	-2 436	-5 338	-15 557	-29 096
<b>Accumulated depreciation as of 31 December 2016</b>	<b>10 181</b>	<b>165 634</b>	<b>76 936</b>	<b>17 038</b>	<b>269 790</b>	<b>104 417</b>
Book value as of 1 January 2015	12 746	147 667	121 771	6 868	289 052	187 730
Of which leased as of 1 January 2015	0	101 808	85 400	0	187 208	
<b>Book value as of 31 December 2015</b>	<b>12 866</b>	<b>168 641</b>	<b>163 698</b>	<b>12 743</b>	<b>357 948</b>	<b>241 112</b>
Of which leased as of 31 December 2015	0	107 649	133 463	0	241 112	
<b>Book value as of 31 December 2016</b>	<b>19 579</b>	<b>182 110</b>	<b>197 285</b>	<b>18 521</b>	<b>417 496</b>	<b>251 268</b>
Of which leased as of 31 December 2016	0	87 888	163 381	0	251 269	
Economic life	20 years	5–10 years	5–15 years	3–5 years		
Depreciation method	Straight-line	Straight-line	Straight-line	Straight-line		

\* Disposal leased assets relate to the purchase of leased assets

### Write-downs and other non recurring items

In 2016 the Group has not recognised write-downs or costs relating to individual events on property, plant and equipment.

## Note 8. Interest bearing debt

### Long-term interest bearing debt:

(NOK 1 000)	31.12.2016	31.12.2015
Debt to financial institutions	150 000	500 000
Long-term finance leases	153 781	153 361
<b>Total long-term interest bearing debt</b>	<b>303 781</b>	<b>653 361</b>

### Short-term interest bearing debt:

(NOK 1 000)	31.12.2016	31.12.2015
Liabilities to financial institutions	0	0
First year's instalment long-term debt	47 635	46 519
<b>Total short-term interest bearing debt</b>	<b>47 635</b>	<b>46 519</b>

<b>Total interest bearing debt</b>	<b>351 416</b>	<b>699 880</b>
Cash and cash equivalents	69 257	201 339
<b>Net interest bearing debt</b>	<b>282 159</b>	<b>498 541</b>
Unused credit facility long-term debt	350 000	0
Limit credit facility	400 000	400 000
Drawn upon credit facility	0	0
<b>Unutilised drawing rights</b>	<b>750 000</b>	<b>400 000</b>

#### Group loan agreements

Norway Royal Salmon ASA has an agreement with Danske Bank where the Group's credit facilities totals NOK 900 million over five years. NOK 500 million is a long-term credit facility. The loan is instalment-free until 2021 and has subsequently an annual credit review for a further extension of 5 years. NOK 400 million is a short-term multi-currency overdraft facility. The agreement covers all companies in the Group.

Interest on the long-term debt is floating and linked to the 3-month NIBOR plus a margin. Interest on the multi-currency credit line is 3-month NIBOR/ 1-week LIBOR/Danish BOR plus a margin.

#### Leasing liabilities

At 31 December 2016 the book value of the company's leasing liabilities amounted to KNOK 201 417. Interest rates on these leasing liabilities are three-month NIBOR plus a margin.

#### Financial covenants:

The Group's loan covenants are based on standard ratios. The Group shall have an equity ratio of at least 30 per cent and another requiring that the short-term credit facility shall not exceed 75 per cent of the inventory and accounts receivables. At the end of 2016 the Group is in compliance with the terms of its loan agreements.

## Note 8 cont.

### Foreign currency exposure in connection with company's interest bearing debt at 31.12.2016:

(NOK 1 000)	NOK	EUR	USD	GBP	JPY	Other	Total
Long-term interest bearing debt	303 781	0	0	0	0	0	303 781
Short-term interest bearing debt	-47 127	25 756	9 632	47 245	8 378	3 751	47 635
<b>Total interest bearing debt</b>	<b>256 654</b>	<b>25 756</b>	<b>9 632</b>	<b>47 245</b>	<b>8 378</b>	<b>3 751</b>	<b>351 416</b>

Short-term foreign exchange liabilities are hedging currency exposure on trade receivables.

### Foreign currency exposure in connection with company's interest bearing debt at 31.12.2015:

(NOK 1 000)	NOK	EUR	USD	GBP	JPY	Other	Total
Long-term interest bearing debt	653 361	0	0	0	0	0	653 361
Short-term interest bearing debt	-138 802	96 775	11 050	65 984	9 343	2 169	46 519
<b>Total interest bearing debt</b>	<b>514 559</b>	<b>96 775</b>	<b>11 050</b>	<b>65 984</b>	<b>9 343</b>	<b>2 169</b>	<b>699 880</b>

Short-term foreign exchange liabilities are hedging currency exposure on trade receivables.

### Maturity structure of Group's interest-bearing debt:

(NOK 1 000)	31.12.2016	2017	2018	2019	2020	2021	After 2021
Long-term debt to financial institutions *	150 000	0	0	0	0	150 000	0
Interest on long-term debt	15 360	3 840	3 840	3 840	3 840	0	0
Long-term finance leases *	201 417	47 635	40 650	33 313	25 616	17 487	36 718
Interest on finance leases	14 137	4 664	3 505	2 533	1 760	1 194	482
<b>Total interest bearing debt</b>	<b>380 914</b>	<b>56 139</b>	<b>47 995</b>	<b>39 686</b>	<b>31 216</b>	<b>168 681</b>	<b>37 200</b>

\* First year's instalment long-term debt are in the Group accounts classified as short-term debt. In this note it is presented as long-term debt.

### Maturity structure of Group's interest-bearing debt:

(NOK 1 000)	31.12.2015	2016	2017	2018	2019	2020	After 2020
Long-term debt to financial institutions *	500 033	33	0	0	0	500 000	0
Interest on long-term debt	50 575	14 450	14 450	14 450	7 225	0	0
Long-term finance leases *	199 846	47 984	44 399	36 275	27 559	19 631	24 000
Interest on finance leases	14 843	5 240	3 864	2 662	1 711	1 008	358
<b>Total interest bearing debt</b>	<b>765 297</b>	<b>67 707</b>	<b>62 713</b>	<b>53 387</b>	<b>36 495</b>	<b>520 639</b>	<b>24 358</b>

\* First year's instalment long-term debt are in the Group accounts classified as short-term debt. In this note it is presented as long-term debt.

## Note 9. Pledges and guarantees etc.

### Reported liabilities secured by pledge:

(NOK 1 000)	31.12.2016	31.12.2015
Long-term liabilities to financial institutions	150 000	500 033
Long-term finance leases	153 781	153 328
Short-term interest-bearing debt	47 635	46 519
<b>Total liabilities secured by pledges</b>	<b>351 416</b>	<b>699 880</b>
Guarantee obligations and guarantor liabilities	0	0

### Book value of assets pledged:

(NOK 1 000)	31.12.2016	31.12.2015
Licenses	648 887	648 887
Property, plant and equipment	417 496	357 948
Inventories and biological assets	1 307 035	870 559
Trade receivables	478 214	500 689
<b>Total book value of pledged assets</b>	<b>2 851 632</b>	<b>2 378 083</b>

## Note 10. Investments in associates

2016 (NOK 1 000)	Business local authority	Share- holding	Book value 31.12.2015	Share of result for the year	Dividend received	Equity changes	Book value 31.12.2016
<b>Company</b>							
Wilsgård Fiskeoppdrett AS*	Torsken	37.50 %	64 733	52 949	0	16 862	134 544
Måsøval Fishfarm AS	Frøya	36.10 %	16 729	617	-6 859	0	10 487
Hellesund Fiskeoppdrett AS	Lillesand	33.50 %	51 995	17 567	-2 012	-517	67 033
Arctic Fish**	Isafjörður	50.00 %	0	-957	0	282 175	281 218
Hardanger Fiskeforedling AS	Kvam	31.10 %	8 544	1 361	0	0	9 905
Espevær Laks AS	Bømlo	33.33 %	2 222	687	0	0	2 909
Ranfjord Fiskeprodukter AS	Mo i Rana	37.75 %	20 689	1 125	0	0	21 814
Skardalen Settefisk AS	Kåfjord	30.00 %	5 032	-1 485	0	0	3 547
Other			48	0	0	0	48
<b>Total associates</b>			<b>169 991</b>	<b>71 865</b>	<b>-8 871</b>	<b>298 520</b>	<b>531 504</b>

Wilsgård, Måsøval, Hellesund and Arctic Fish are engaged in fish farming activities. Hardanger and Espevær operate harvesting plants and Ranfjord and Skardalen are smolt producers.

The Group's share of fair value adjustments in connection with biomass at associates was KNOK 45 609 as of 31 December 2016. The fair value adjustments at the start of the year were KNOK 24 793. The increase of KNOK 20 816 less tax is included in income from associates.

\*\* The change in equity is related to gain on sale of shares in Norway Royal Salmon ASA.

\*\* The change directly against equity is in connection with a direct private placement against NRS. See separate specification.

## Note 10 cont.

The Group accounts include the Group's share of result from associates by using the equity method. The equity method is considered a consolidation method. Some associates own shares in Norway Royal Salmon ASA. These are treated as treasury shares in the Group accounts. The fair value of the shares that the associates companies own is thus not included in the Group accounts.

### Associates that own shares in NRS as of 31.12.2016:

	Shareholding	Number of shares	Fair value 31.12.2016	NRS' share of fair value adjustment 31.12.2016
Måsøval Fishfarm AS	36.10 %	252 520	52 272	18 870
Hellesund Fiskeoppdrett AS	33.50 %	1 620 380	335 419	112 365
<b>Total</b>		<b>1 872 900</b>	<b>387 690</b>	<b>131 235</b>

2015 (NOK 1 000)	Business local authority	Share-holding	Book value 31.12.2014	Share of result for the year	Dividend received	Equity changes	Book value 31.12.2015
<b>Company</b>							
Wilsgård Fiskeoppdrett AS	Torsken	37.50 %	58 398	6 335	0	0	64 733
Måsøval Fishfarm AS	Frøya	36.10 %	17 268	5 417	-5 956	0	16 729
Hellesund Fiskeoppdrett AS*	Lillesand	33.50 %	43 121	10 009	-1 006	-129	51 995
Hardanger Fiskeforedling AS	Kvam	31.10 %	8 128	882	-467	0	8 544
Espevær Laks AS**	Bømlo	33.33 %	1 107	-885	0	2 000	2 222
Ranfjord Fiskeprodukter AS**	Mo i Rana	37.75 %	18 855	1 834	0	0	20 689
Skardalen Settefisk AS	Kåfjord	30.00 %	3 229	-837	0	2 640	5 032
Other			48	0	0	0	48
<b>Total associates</b>			<b>150 155</b>	<b>22 754</b>	<b>-7 429</b>	<b>4 511</b>	<b>169 991</b>

The Group's share of fair value adjustments in connection with biomass at associates was KNOK 24 793 as of 31 December 2015. The fair value adjustments at the start of the year were KNOK 23 680. The increase of KNOK 1 113 less tax is included in income from associates.

\*Change directly against equity is a correction from 2014.

\*\*Capital contribution

### Associates that own shares in NRS as of 31 December 2015:

	Shareholding	Number of shares	Fair value 31.12.2015	NRS' share of fair value adjustment 31.12.2015
Wilsgård Fiskeoppdrett AS	37.50 %	486 627	38 930	14 599
Måsøval Fishfarm AS	36.10 %	249 413	19 953	7 203
Hellesund Fiskeoppdrett AS	33.50 %	1 600 444	128 036	42 892
<b>Total</b>		<b>2 336 484</b>	<b>186 919</b>	<b>64 694</b>



**Summary of financial information for investments (100 % basis) – converted to IFRS:**

<b>2016</b> (NOK 1 000)	<b>Wilsgård Fiskeopp- drett AS</b>	<b>Måsøval Fish farm AS</b>	<b>Hellesund Fiske- oppdrett AS</b>	<b>Arctic Fish</b>	<b>Other</b>
Operating revenues	361 514	100	143 997	27 834	168 974
Depreciation	8 338	77	2 688	0	9 730
Net interest expenses	-2 476	-191	690	-2 357	-2 195
Result before tax	180 496	2 468	68 231	-35 049	6 341
Net result for the year	141 199	1 708	52 438	-35 049	4 469
Translation differences and OCI posts	0	0	0	12 688	208
<b>Comprehensive income</b>	<b>141 199</b>	<b>1 708</b>	<b>52 438</b>	<b>-22 361</b>	<b>4 677</b>
Current assets	378 477	19 875	171 501	258 204	78 737
Non-current assets	168 097	13 353	28 915	209 233	101 177
Current liabilities	110 904	7 865	22 075	26 612	52 913
Non-current liabilities	122 763	17 645	13 519	74 778	49 261
<b>Net assets</b>	<b>312 907</b>	<b>7 718</b>	<b>164 822</b>	<b>366 047</b>	<b>77 740</b>
<b>Net interest bearing debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>46 073</b>

<b>2015</b> (NOK 1 000)	<b>Wilsgård Fiskeopp- drett AS</b>	<b>Måsøval Fish farm AS</b>	<b>Hellesund Fiske- oppdrett AS</b>	<b>Other</b>
Operating revenues	164 515	108	99 446	171 382
Depreciation	5 629	50	1 801	8 663
Net interest expenses	-2 620	-50	1 854	-2 202
Result before tax	14 763	25 806	42 752	-1 099
Net result for the year	16 892	18 839	29 877	-3 424
<b>Comprehensive income</b>	<b>16 892</b>	<b>18 839</b>	<b>29 877</b>	<b>-3 524</b>
Current assets	207 636	38 619	115 624	61 558
Non-current assets	135 138	13 195	28 441	100 540
Current liabilities	135 943	6 862	22 291	37 994
Non-current liabilities	80 090	19 944	1 841	50 825
<b>Net assets</b>	<b>126 741</b>	<b>25 008</b>	<b>119 933</b>	<b>73 280</b>
<b>Net interest bearing debt</b>	<b>116 758</b>	<b>0</b>	<b>0</b>	<b>43 449</b>

## Note 10 cont.

23 August 2016, Norway Royal Salmon ASA entered into an agreement to acquire 50 per cent of Arctic Fish ehf. through a direct private placement of EUR 29 million. The transaction was financed through existing cash and loan facilities. The remaining 50 per cent ownership in Arctic Fish is owned by Bremesco Holding Ltd and Novo ehf. with 47.5 per cent and 2.5 per cent respectively.

The Board of Arctic Fish consists of two directors elected by Norway Royal Salmon ASA and two chosen

by Bremesco Holding. In addition, the parties have appointed an independent Chair of the Board so that the Board consists of five members. None of the owners have through representation on the Board control and the company is considered to be an associated company accounted for by the equity method.

The transaction was recognised in the accounts at 3 October 2016, when Norway Royal Salmon ASA had the possibility to appoint the Board. The Board was formally registered on 24 October 2016.

Company	Currency	Acquisition date	Office	Share-holding	Voting share
Arctic Fish ehf.	ISK	03.10.16	Isafjörður	50 %	50 %

Book value (NOK 1 000)	Arctic Fish ehf.
Acquisition cost 3 October 2016	269 487
Share of profit/loss in the period	-957
Translation differences	12 688
<b>Book value 31.12.2016</b>	<b>281 218</b>

Calculation of this year's share of profit/loss	31.12.2016
Share of profit/loss	-957
Depreciation rate attributable added value	0 %

Added value in the Arctic Fish ehf. Group are linked to land property and fish farming licenses. Approved farming licenses are considered an intangible asset. Applications for fish farming licenses are not considered an intangible asset as the assets are not controlled by the company before the licenses are approved.

Two types of licenses are required to run fish farming operations on Iceland: A production license issued by the Icelandic Food and Veterinary Authority (IFVA) and an operating license granted by the Environmental Agency of Iceland (EAI). An environmental survey must be completed before applying for the two licenses. The survey must be approved by Icelandic National Planning Agency.

Fish farming licenses are normally granted with a 10-year lifetime with a maximum average volume harvested per year. The license regulation on Iceland is new and under continuous development, it aims to ensure sustainable development. Arctic Fish ehf. is therefore subject to requirements, and the company is liable to penalties, sanctions or revocation of the licenses if the company fails to comply with the licensing requirements. The licensing requirements for the production licenses means that the company must, annually, report production volume for each site, location of the site, feeding, origin of the fish, diseases and other events affecting production or other conditions that the company sees relevant for the authorities to ensure its surveillance responsibilities to the Icelandic Food and Veterinary Authority (IFVA). A production diary shall always be available to the authorities.

The licensing requirements for an operating license means that the company is required to have established internal control related to environmental threats in the operations, such as pollution or emissions of chemicals. Information about the controls and possible incidents shall be recorded and be available for review by the Environmental Agency of Iceland (EAI).

The licenses require renewal after a certain period. On a general basis, no assigned licenses on Iceland has

expired. The intention of the licensing regulation is that licenses will be renewed if there is not a specific reason to deny the extension. The licenses can therefore be renewed without significant costs to the company, as long as the company comply with the licenses requirements. Based on its understanding of the licensing regulations Norway Royal Salmon considers the fish farming licenses as an intangible asset with an indefinite useful life that are not to be depreciated.

#### Financial information converted to NOK for Arctic Fish ehf. based on 100 % numbers

(NOK 1 000)	Q4 2016	31.12.2016	03.10.2016
Operating revenues	7 622	27 834	20 223
Cost of goods sold	-10 650	-28 974	-18 561
Operating costs	-3 851	-14 925	-11 061
<b>Operational EBIT</b>	<b>-6 879</b>	<b>-16 065</b>	<b>-9 399</b>
Fair value adjustments	-2 559	-28 760	-25 770
<b>Net operating result</b>	<b>-9 438</b>	<b>-44 825</b>	<b>-35 169</b>
Net interest costs	1 404	-2 357	-3 591
Other financial income	6 119	12 133	6 250
Result before tax	-1 915	-35 049	-32 510
<b>Result after tax</b>	<b>-1 915</b>	<b>-35 049</b>	<b>-32 510</b>
Translation differences and comprehensive income posts	12 688	12 688	
<b>Comprehensive income</b>	<b>10 773</b>	<b>-22 361</b>	
The group's share of the result (50 %)	-957	-957	
The Group's share of translation differences and comprehensive income posts	12 688	12 688	
Non-current assets		209 233	187 380
Current assets excl. cash		61 666	47 460
Cash		196 538	275 709
Total assets		467 437	510 548
Long-term liabilities		74 778	41 854
Short-term liabilities		26 612	112 129
Total liabilities		101 390	153 982
<b>Reconciliation of equity against Norway Royal Salmon's share</b>			
Equity in Arctic Fish ehf. (100 %)		366 046	356 566
Principle adjustment IFRS (100 %)		-12 331	-17 002
Total		353 715	339 563
The group's share of equity (50 %)		176 858	169 782
Value added connected to properties, licenses and goodwill		125 247	119 646
Deferred tax		-20 888	-19 941
Book value at 31 December 2016		281 218	269 487

## Note 11. Other current liabilities

### Specification of other short-term liabilities:

(NOK 1 000)	31.12.2016	31.12.2015
Official taxes due	21 358	13 774
Interest rate swap	0	1 690
Accrued option costs	26 822	9 527
Holiday pay	8 891	8 433
Unrealised value forward currency contracts	3 772	39 006
Provision for onerous sales contracts <sup>1)</sup>	89 994	27 767
Other short-term liabilities and accruals	32 080	34 075
<b>Total other short-term liabilities</b>	<b>182 916</b>	<b>134 271</b>

1) Physical sales contracts with fixed price where the price is lower than the price which underlies the fair value of the biomass, posted as a liability in the financial statements in accordance with IAS 37.

## Note 12. Operating expenses

### Specification of other operating expenses:

(NOK 1 000)	2016	2015
Rental of premises and equipment	18 418	17 209
Maintenance	48 909	40 380
Off-balance sheet equipment	12 541	8 516
Fuel	10 481	10 132
External fees	9 906	14 685
Insurance	4 077	5 483
Bad debts	1 568	3 515
Other	30 369	34 698
<b>Total other operating expenses</b>	<b>136 269</b>	<b>134 618</b>

### Non-recurring items

(NOK 1 000)	2016	2015
<b>Operating expenses</b>		
Costs related to verdict against Nord Senja Laks AS	1 136	6 330
<b>Cost of materials</b>		
Fish disease ISA, destruction required by the authorities	0	25 000
Destruction of fish with winter wounds Nor Seafood AS	11 186	0
Destruction of desmoltified fish NRS Finnmark AS	8 000	0
<b>Total</b>	<b>20 322</b>	<b>31 330</b>

## Note 13. Taxation

### TAX ON THE RESULT

#### Tax on the result is as follows:

(NOK 1 000)	2016	2015
Tax payable	79 350	3 180
Corrections from previous years	3 395	158
Change in deferred tax	84 962	29 160
<b>Tax</b>	<b>167 707</b>	<b>32 498</b>

Tax on items recognised in comprehensive income: (NOK 1 000)	2016			2015		
	Before tax	Tax expense	After tax	Before tax	Tax expense	After tax
Cash flow hedges	28 196	6 767	21 429	-482	-121	-362
Actuarial losses on benefits pension scheme	-1 790	-429	-1 361	6 332	1 583	4 749
<b>Total tax recognised in comprehensive income</b>	<b>26 406</b>	<b>6 339</b>	<b>20 068</b>	<b>5 850</b>	<b>1 463</b>	<b>4 387</b>

#### Reconciliation of nominal and actual tax rates:

(NOK 1 000)	2016	2015
Result before tax	1 172 421	270 081
Tax calculated at nominal tax rate (25 % in 2016 and 27 % in 2015)	293 105	72 922
Permanent differences:		
Equity method associates	-17 966	-6 144
Gain Total Return Swap (TRS)	-77 858	-12 195
Expenses not deductible for tax purposes	484	1 877
Other deductions and income	-11 371	-4 859
Share based share of share based incentive scheme	-4 654	-423
Changes in deferred tax caused by changed tax rate	-14 033	-18 680
<b>Tax on the result</b>	<b>167 707</b>	<b>32 498</b>
<b>Effective tax rate</b>	<b>14 %</b>	<b>12 %</b>



## Note 13 cont.

### DEFERRED TAX LIABILITIES

#### Breakdown of deferred tax and basis for deferred tax:

(NOK 1 000)	31.12.2016	31.12.2015
Intangible assets	452 091	452 091
Property, plant and equipment	21 354	3 482
Inventory	1 197 757	829 004
Trade receivables	1 777	3 744
Pensions	-11 382	-12 479
Fish Pool contracts	94 547	62 286
Cash flow hedge contracts (currency)	-7 870	-39 006
Loss on onerous contracts	-89 994	-27 767
Leasing	49 852	41 266
Provision option scheme costs	-26 822	-8 697
Other	-36 366	3 143
Tax losses carried forward	0	-93 125
<b>Basis for deferred tax</b>	<b>1 644 944</b>	<b>1 213 942</b>
<b>Estimated deferred tax liabilities</b>	<b>394 786</b>	<b>303 485</b>

#### Change in deferred tax liabilities in balance sheet:

(NOK 1 000)	2016	2015
Book value as of 1 January	303 485	272 742
Income statement charge	84 962	29 160
Tax effect relating to components in other comprehensive income	6 339	1 583
<b>Book value 31 December</b>	<b>394 786</b>	<b>303 485</b>

## Note 14. Fair value adjustments

Fair value is part of consolidated EBIT, but is presented on a separate line to give a better understanding of the Group's operating results on goods sold.

### Specification of fair value adjustments in the income statement:

(NOK 1 000)	Note	2016	2015
Change in fair value adjustments of biomass	5	194 117	-2 808
Change in provision for sales contracts		-62 227	-22 241
Change in fair value on financial Fish Pool contracts	16	32 261	49 465
<b>Total fair value adjustments</b>		<b>164 151</b>	<b>24 416</b>

### Specification of fair value adjustments in the balance sheet:

(NOK 1 000)		31.12.2016	31.12.2015	Change
Fair value adjustments biomass (biological assets)	5	391 511	197 394	194 117
Provision for onerous sales contracts (other current liabilities)		-89 994	-27 767	-62 227
Fair value of financial Fish Pool contracts (other current receivables)	16	94 547	62 286	32 261
<b>Total fair value adjustments</b>		<b>396 064</b>	<b>231 913</b>	<b>164 151</b>

## Note 15. Financial instruments by category

The principles applied for subsequent measurement of financial instruments in the balance sheet are as follows:

### As of 31 December 2016

(NOK 1 000)	Loans and receivables at amortised cost	Assets at fair value through profit or loss	Derivatives used for hedging purposes	Available-for-sale	Total
Available-for-sale financial assets	0	0	0	395	395
Derivatives**	0	183 273	0	0	183 273
Trade and other receivables*	529 886	0	0	0	529 886
Cash and cash equivalents**	69 257	0	0	0	69 257
<b>Total</b>	<b>599 143</b>	<b>183 273</b>	<b>0</b>	<b>395</b>	<b>782 811</b>

\* Trade and other receivables exclude prepayments

\*\*Unrealised value of Fish Pool contracts have daily cash settlements against a bank account. Unrealised value of KNOK 94 547 is posted on a bank account which is part of the Group's cash pool.

(NOK 1 000)	Liabilities at fair value through profit or loss	Derivatives used for hedging purposes	Other financial liabilities at amortised cost	Total
Loans (excluding finance leases)	0	0	150 000	150 000
Finance leases	0	0	201 416	201 416
Derivatives	0	7 870	0	7 870
Trade and other payables *	0	0	800 203	800 203
<b>Total</b>	<b>0</b>	<b>7 870</b>	<b>1 151 619</b>	<b>1 159 489</b>

\* Trade and other payables excluding statutory liabilities

## Note 15 cont.

As of 31 December 2015

(NOK 1 000)	Loans and receivables at amortised cost	Assets at fair value through profit or loss	Derivatives used for hedging purposes	Available- for-sale	Total
Available-for-sale financial assets	0	0	0	395	395
Derivatives	0	36 758	62 286	0	99 044
Trade and other receivables*	545 297	0	0	0	545 297
Cash and cash equivalents**	201 339	0	0	0	201 339
<b>Total</b>	<b>746 636</b>	<b>36 758</b>	<b>62 286</b>	<b>395</b>	<b>846 075</b>

\* Trade and other receivables exclude prepayments

\*\*Unrealised value of Fish Pool contracts have daily cash settlements against a bank account. Unrealised value of KNOK 62 286 is posted on a bank account which is part of the Group's cash pool.

(NOK 1 000)	Liabilities at fair value through profit or loss	Derivatives used for hedging purposes	Other financial liabilities at amortised cost	Total
Loans (excluding finance leases)	0	0	500 033	500 033
Finance leases	0	0	199 847	199 847
Derivatives	0	38 214	0	38 214
Trade and other payables *	0	0	612 713	612 713
<b>Total</b>	<b>0</b>	<b>38 214</b>	<b>1 312 593</b>	<b>1 350 807</b>

\* Trade and other payables excluding statutory liabilities

### Fair value of financial instruments

#### *Fair value of financial instruments recognised at amortised cost*

The Group assumes that the recognised value of financial assets and liabilities that are recognised at amortised cost is approximately equal to the fair value of those instruments.

#### *Fair value measurement of financial instruments*

Financial instruments which are valued at fair value at the balance sheet date under IFRS 7 are grouped according to a valuation hierarchy based on the level of observability of the market value for establishment and disclosure of fair value of financial instruments:

**Level 1:** Listed price in an active market for an identical asset or liability

**Level 2:** Valuation based on other observable factors either directly (price) or indirectly (price-derived) than listed price (used in level 1) for assets or liabilities

**Level 3:** Valuation based on factors not taken from observable markets (non-observable assumptions)

The table below shows the Group's assets and liabilities measured at fair value as of 31 December 2016:

(NOK 1 000)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
– Derivatives held for trading purposes	0	183 273	0	183 273
– Securities held for trading purposes	0	0	0	0
Derivatives used for hedging	0	94 547	0	94 547
Available-for-sale financial assets				
– Equity instruments	0	0	395	395
– Debt instruments	0	0	0	0
<b>Total assets</b>	<b>0</b>	<b>277 820</b>	<b>395</b>	<b>278 215</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
– Derivatives held for trading purposes	0	0	0	0
– Derivatives used for hedging	0	7 870	0	7 870
<b>Total liabilities</b>	<b>0</b>	<b>7 870</b>	<b>0</b>	<b>7 870</b>

The table below shows the Group's assets and liabilities measured at fair value as of 31 December 2015:

(NOK 1 000)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
– Derivatives held for trading purposes	0	36 758	0	36 758
– Securities held for trading purposes	0	0	0	0
Derivatives used for hedging	0	62 286	0	62 286
Available-for-sale financial assets				
– Equity instruments	0	0	395	395
– Debt instruments	0	0	0	0
<b>Total assets</b>	<b>0</b>	<b>99 044</b>	<b>395</b>	<b>99 439</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
– Derivatives held for trading purposes	0	0	0	0
– Derivatives used for hedging	0	40 696	0	40 696
<b>Total liabilities</b>	<b>0</b>	<b>40 696</b>	<b>0</b>	<b>40 696</b>

## Note 16. Derivatives

The Group uses derivatives to reduce risk and to add desired risk exposure.

### Derivatives used to reduce risk

The Group uses forward currency contracts to hedge against currency fluctuations. The Group has used an interest rate swap to hedge against fluctuations in interest rates on its long-term debt. The Sales Operations use derivatives to hedge margins related to deliveries. In those cases where it is entered into fixed-price contracts with customers without being hedged by physical contracts, the Sales Operations enter into agreements to purchase financial Fish Pool contracts to hedge margins. The Farming Operations enter into financial Fish Pool contracts to hedge prices for future deliveries.

### As of 31 December 2016

(NOK 1 000)	Bank overdraft	Other short-term receivables	Other current liabilities
Forward currency contracts	0	0	7 870
Financial Fish Pool contracts*	94 547	0	0
Total return swap	0	183 273	0
Total	94 547	183 273	7 870

\* Unrealised value of Fish Pool contracts have daily cash settlements against a bank account. Unrealised value of NOK 95 547 is posted on a bank account which is part of the Group's cash pool.

### As of 31 December 2015

(NOK 1 000)	Bank overdraft	Other short-term receivables	Other current liabilities
Forward currency contracts	0	0	39 006
Financial Fish Pool contracts*	62 286	0	0
Total return swap	0	36 758	0
Interest rate swap	0	0	1 690
Total	62 286	36 758	40 696

\* Unrealised value of Fish Pool contracts have daily cash settlements against a bank account. Unrealised value of NOK 62 286 is posted on a bank account which is part of the Group's cash pool.

### Forward currency contracts

Forward currency contracts are recognised at fair value at the balance sheet date. At 31 December 2016 forward currency contracts were nominated in EUR, USD, JPY and GBP. These contracts mature between 5 January 2017 and 22 December 2017 and are used to hedge cash flows expected to arise during this period and reduce foreign currency exposure on receivables.

### As of 31 December 2016

(NOK 1 000)	Type	Currency	Currency amount	Currency period	Exchange rate range	Book value
Forward currency contracts – cash flow hedging	Sale	EUR	22 332	15.01.17-22.12.17	8.970-9.616	1 587
Forward currency contracts – cash flow hedging	Sale	USD	12 318	17.01.17-20.12.17	7.504-8.759	-1 324
Forward currency contracts – cash flow hedging	Sale	GBP	41 252	05.01.17-20.12.17	10.022-12.776	-4 136
Forward currency contracts – cash flow hedging	Sale	JPY	188 575	04.01.17-10.03.17	0.0739-0.0742	101
Forward currency contracts – fair value hedging	Sale	USD	6 000	03.04.17	8.667	-3 410
Forward currency contracts – fair value hedging	Sale	EUR	32 000	01.04.17-03.04.17	9.033-9.123	-687
<b>Total forward currency contracts</b>						<b>-7 870</b>



## As of 31 December 2015

(NOK 1 000)	Type	Currency	Currency amount	Currency period	Exchange rate range	Book value
Forward currency contracts – cash flow hedging	Sale	EUR	34 502	16.01.16-25.01.17	8.320-9.643	-8 964
Forward currency contracts – cash flow hedging	Sale	USD	20 150	05.01.16-08.12.17	6.252-8.787	-14 545
Forward currency contracts – cash flow hedging	Sale	GBP	22 987	05.01.16-15.02.17	10.719-13.216	-8 325
Forward currency contracts – cash flow hedging	Sale	JPY	102 464	20.01.16-20.06.16	0.0694-0.0715	-300
Forward currency contracts – fair value hedging	Sale	USD	6 000	04.04.16	8.7468	-2 059
Forward currency contracts – fair value hedging	Sale	EUR	22 000	04.04.16	9.590	-2 332
Total forward currency contracts						-36 524

The cash flow hedging satisfy the demands for hedge accounting and the changes in unrealised value are recognised in other comprehensive income. Realised profit/loss on the contracts are recognised in revenues.

## Specification of cash flow hedges over OCI

	Cash flow hedges per 01.01	Cash flow hedges per 31.12	Inefficiency	Gross change	Tax	Over OCI
<b>2016</b>	-32 133	-3 772	-165	28 361	-6 767	21 429
<b>2015</b>	-31 677	-32 133	-26	-456	121	-362

## Financial Fish Pool contracts

Contracts have been signed to purchase 8 952 tonnes on the Fish Pool salmon exchange. The contract prices are in the range NOK 41.00–NOK 67.40 and cover the period from January 2017 to December 2018. The sales department enters into the contracts with the aim of hedging margins linked to deliveries of fixed-price contracts to customers. In addition to these agreements the group has entered into agreements to sell 780 tonnes on Fish Pool. The contract price is NOK 69.00 and covers the period January to December 2017. The aim with the contracts is to hedge the price on own-produced fish. Realised Fish Pool contracts are posted in the accounts under in the operational result and the unrealised value changes to the Fish Pool contracts are posted under fair value adjustments in the accounts. Realised Fish Pool contracts classified under the operational result amounted to KNOK 202 974 in 2016 (2015: KNOK 3 818). Unrealised gains in 2016 was KNOK 32 261 (2015: KNOK 49 465).

## As of 31 December 2016

(NOK 1 000)	Type	Currency	Volume (tonnes)	Period	Price range	Book value
Fish Pool contracts	Purchase	NOK	8 952	01.01.16-31.12.18	41.00-67.40	94 436
Fish Pool contracts	Sale	NOK	780	01.01.17-31.12.17	69.00	111
Total						94 547

## As of 31 December 2015

(NOK 1 000)	Type	Currency	Volume (tonnes)	Period	Price range	Book value
Fish Pool contracts	Purchase	NOK	11 970	01.01.16-31.12.17	40.75-51.50	62 286
Total						62 286

## Derivatives that add desired risk exposure (Total Return Swap)

In 2016 the company entered into a TRS (Total Return Swap) agreement against own shares. The Group uses Total Return Swaps (TRS) agreements against own shares to get an economic exposure of an assets without having to acquire the asset. At 31 December 2016, Norway Royal Salmon's total underlying exposures through the TRS agreement is 2 354 691 shares, representing 5.40 per cent of the share capital of the company. The agreement expires 15.03.2017. The exercise price is NOK 129.6229. The agreement means that the group get a result and liquidity exposures that are linked to the value of the parent company's shares. The TRS-agreement is recognised at fair value and changes in fair value are recognised in financial items. The company realised previously entered into agreements in 2016. The gain on realisation amounts to KNOK 164 916 (2015: KNOK 120 536) and is posted as a finance post in the accounts. Unrealised gains on the agreements in 2016 was KNOK 146 515 (2015: Loss of KNOK 75 638).

## Note 16 cont.

### As of 31 December 2016

(NOK 1 000)	No. of shares	Exercise price	Maturity	Book value
TRS	2 351 691	129.6229	15.03.17	183 274
Total	2 351 691			183 274

### As of 31 December 2015

(NOK 1 000)	No. of shares	Exercise price	Maturity	Book value
TRS 1	2 424 386	66.4650	17.03.16	34 274
TRS 2	567 038	75.9631	26.05.16	2 483
Total	2 991 424			36 758

#### Interest rate swap

NRS had an interest rate swap agreement. The interest rate swap is not recognized as hedge accounting. Subsequent, the fair value changes on the agreement are charged to the income statement as a part of other net financial items. The interest rate swap expired in September 2016.

### As of 31 December 2016

Currency	Amount	NRS pays	NRS receives	Maturity	Market value 31.12.2015	Market value 31.12.2016	Change in market value 2016
NOK	100 000	Fixed 3.37 %	3 mnd NIBOR	07.09.16	-1 690	0	1 690

### Per 31.12.2015

Currency	Amount	NRS pays	NRS receives	Maturity	Market value 31.12.2014	Market value 31.12.2015	Change in market value 2015
NOK	100 000	Fixed 3.37 %	3 mnd NIBOR	07.09.16	-3 926	-1 690	2 236

## Note 17. Cash and cash equivalents

(NOK 1 000)	31.12.2016	31.12.2015
Bank deposits	69 257	201 339
<b>Cash and cash equivalents</b>	<b>69 257</b>	<b>201 339</b>
Of which restricted bank deposits	67 263	68 508

Of the restricted deposits KNOK 62 659 (2015: KNOK 50 796) is pledged as collateral related to the company's trading at Fish Pool. NOK 0 (2015: KNOK 13 677) is pledged as collateral related to its TRS agreements. The rest is related to guarantees and tax accounts.

## Note 18. Personnel expenses and benefits

### Wages and personnel expenses

(NOK 1 000)	2016	2015
Wages and salaries	125 541	93 190
Payroll tax	15 293	9 734
Pension costs defined contribution scheme	1 025	713
Pension costs defined benefit scheme	2 379	5 583
Other benefits	11 230	4 047
<b>Total wages and personnel expenses</b>	<b>155 468</b>	<b>113 269</b>
<b>Average full-time equivalents</b>	<b>149</b>	<b>132</b>

### REMUNERATION TO SENIOR MANAGEMENT AND BOARD OF DIRECTORS:

#### Senior management:

2016 (NOK 1 000)	Salary	Fees <sup>1)</sup>	Bonus	Share-based payments	Payments in kind	Total	Accrued pension costs <sup>2)</sup>
Charles Høstlund, CEO	2 629	70	334	11 006	211	14 220	81
Ola Loe, CFO	1 775	45	217	5 562	36	7 609	35
John Gunnar Grindskar, COO farming <sup>3)</sup>	1 379	0	165	2 524	14	4 082	0
Klaus Hatlebrekke, COO market and business development	1 494	0	187	3 973	31	5 685	33
<b>Total</b>	<b>7 278</b>	<b>115</b>	<b>903</b>	<b>23 063</b>	<b>292</b>	<b>31 596</b>	<b>149</b>

1) Fees are directors' fees paid by subsidiaries.

2) Accrued pension cost are entitlements under the defined benefits pension scheme for the year. The employees own share of 2 per cent of gross salary has not been deducted.

3) John Gunnar Grindskar left as COO farming on 31 December 2016.

2015 (NOK 1 000)	Salary	Fees <sup>1)</sup>	Bonus	Share-based payments	Share-based payments	Total	Accrued pension costs <sup>2)</sup>
Charles Høstlund, CEO	2 387	60	250	2 876	133	5 705	156
Ola Loe, CFO	1 692	50	213	2 152	38	4 146	82
John Gunnar Grindskar, COO farming <sup>3)</sup>	1 181	0	0	0	15	1 196	140
Klaus Hatlebrekke, COO market and business development	1 452	0	180	1 537	24	3 192	108
<b>Total</b>	<b>6 712</b>	<b>110</b>	<b>643</b>	<b>6 564</b>	<b>209</b>	<b>14 239</b>	<b>485</b>

1) Fees are directors' fees paid by subsidiaries.

2) Accrued pension cost are entitlements under the defined benefits pension scheme for the year. The employees own share of 2 per cent of gross salary has not been deducted.

3) John Gunnar Grindskar started as COO farming on 26 January 2015.

## Note 18 cont.

### Directors fee:

(NOK 1 000)

	2016	2015
Helge Gåsø, Board Chair	376	375
Kristine Landmark, Vice Chair	270	270
Endre Glastad	270	270
Inge Kristoffersen	276	275
Trude Olafsen	250	250
Marianne E. Johnsen	270	270
Fredd Wilsgård	0	4
Lars Måsøval	4	0
<b>Total</b>	<b>1 716</b>	<b>1 714</b>

### Share-based incentive scheme

In 2014 a bonus scheme based on synthetic options was entered into for the Group management. The bonus scheme confers the right to a cash bonus based on the average price performance of the company's shares in a period from 29 March 2014 for the CFO and the COO market and business development, 24 June 2014 for the CEO and 1 February 2015 for the COO farming.

Bonuses are calculated 12 and 24 months after 29 March and 24 June, and the bonus scheme involves an obligation to invest net bonuses after 50 per cent tax in Norway Royal Salmon shares at their market price at each date. Shares purchased under the bonus scheme will be subject to a 12-month lock-in period. All bonus payments are contingent on full-time employment with the company.

Bonuses are based on the increase in value of shares in Norway Royal Salmon from respectively 29 March 2014 and 24 June 2014 until the given deadlines, and in proportion to the price increase in the period for 250 000 shares for the CEO, 70 000 shares for the CFO and 50 000 shares for the COO market and business development.

At 1 January 2016 there were 790 000 outstanding options.

In the first quarter of 2016, 170 000 options expired. At the time of exercise, the weighted average share price was NOK 108.42. The exercise price at the time of exercise was NOK 28.97 for 120 000 options belonging to the CFO and the COO market and business development. The exercise price at the time of exercise was NOK 57.95 for the 50 000 options belonging to the COO farming.

In the second quarter, 150 000 of the CEO's options expired. At the time of exercise, the weighted average share price was NOK 115.00. The exercise price at the time of exercise was NOK 41.77.

In 2016 100 000 options was terminated when the COO farming left his position.

At 31 December 2016, the scheme includes 370 000 shares distributed to the Group management. The exercise price of the CEO's options at 31 December 2016 is NOK 41.77. The exercise price of the other executives' options at 31 December 2016 is NOK 26.37.

In 2016, a cost of KNOK 35 807 (2015: KNOK 8 682) is recognized in the income statement in connection with the option scheme. A current liability of KNOK 26 822 (2015: KNOK 9 257) is recognized in the balance sheet.

Movements in the number of outstanding options and related weighted average exercise prices are as follows:

<b>2016</b>		
	<b>Average exercise price</b>	<b>Number</b>
1 January	42.33	790 000
Exercised 29 March 2016	28.97	-120 000
Exercised 29 March 2016	57.95	-50 000
Exercised 24 June 2016	41.77	-150 000
Terminated		-100 000
<b>31 December</b>	<b>39.50</b>	<b>370 000</b>

<b>2015</b>		
	<b>Average exercise price</b>	<b>Number</b>
1 January	39.85	910 000
Allocated	59.46	150 000
Exercised 2015	38.27	-270 000
<b>31 December</b>	<b>42.33</b>	<b>790 000</b>

Outstanding options at end of the year have the following exercise dates and exercise prices:

<b>Awarded</b>	<b>Exercise date</b>	<b>Exercise price</b>	<b>Number</b>	
			<b>2016</b>	<b>2015</b>
31.03.2014	29.03.16	28.97		120 000
01.02.2015	29.03.16	57.96		50 000
20.06.2014	24.06.16	41.77		150 000
31.03.2014	29.03.17	26.37	120 000	120 000
01.02.2015	29.03.17	57.96		50 000
20.06.2014	24.06.17	41.77	150 000	250 000
20.06.2014	20.03.18	41.77	100 000	
01.02.2015	29.03.18	57.96		50 000
			<b>370 000</b>	<b>790 000</b>

## Note 19. Pension costs and liabilities

The Group is required to operate occupational pension schemes under the Norwegian Mandatory Occupational Pensions Act. The schemes offered by all Group companies meet statutory requirements.

The subsidiaries have defined contribution schemes for the employees. In addition, some employees participate in an early retirement scheme (AFP). The scheme is funded through grants from the participating companies and is a defined benefit multi-employer plan. There is currently insufficient information to estimate the proportionate share of the liability for the AFP scheme and fees are therefore recognized in the same way as contribution schemes. The scheme is accounted for as a defined contribution scheme until reliable and sufficient information that enables the Group can recognise its

proportionate share of pension costs, pension obligations and pension funds in the scheme.

The parent company operates a defined benefits pension scheme and a defined contribution scheme. The defined benefits scheme covers 36 people. The pension scheme provides an entitlement to defined future benefits, the size of which is largely dependent on the number of years' entitlement, salary upon retirement and state pension benefits. The scheme is financed externally through an insurance company.

As a result of the application of IAS 19R, the period's net interest expense is now calculated by applying the discount rate for the liability at the beginning of the period to the net liabilities. Net interest expense



## Note 19 cont.

therefore consists of interest on the obligation and return on assets, both calculated at the same discount rate. The change in the net pension obligation as a result of premium payments and pension payments are taken into account.

The Norwegian Accounting Standards Board has announced that the market interest rate for covered bonds (OMF) can be used as the discount rate when

estimating the future pension liabilities. Norway Royal Salmon finds it appropriate to use the market interest rate for covered bonds as the discount rate for its pension liability. Norway Royal Salmon believes there is a deep market in covered bonds that satisfy the requirements of high quality. Norway Royal Salmon have in their calculations per 31.12.2016, used a discount rate of 2.6 per cent.

### Pension costs:

(NOK 1 000)	2016	2015
Current service cost	3 223	4 203
Interest cost	284	468
Payroll tax	506	617
Administration cost	79	74
Net curtailment and settlement for new disability pension inc. payroll tax	-2 077	0
<b>Net pension costs service – defined benefit scheme</b>	<b>2 015</b>	<b>5 361</b>
Cost of defined benefit pension scheme	2 015	5 361
Cost of defined contribution pension scheme	1 025	713
Early retirement scheme	875	711
Employee contributions to scheme	-511	-491
<b>Total pension costs</b>	<b>3 404</b>	<b>6 294</b>

### Assumptions::

	2016	2015
Discount rate	2.60 %	2.70 %
Future salary increases	2.50 %	2.50 %
Inflation rate	2.25 %	2.25 %
Future pension increase	0.00 %	0.00 %

### Demographic factors:

Disability table	IR02	IR02
Mortality table	K2013 BE	K2013 BE

### Number of employees in the scheme

Active	36	37
Pensioners	6	5
Total	42	42

	2016	2015
Paid into the scheme during the year	4 297	4 629
Forecast payment to the scheme next year	4 845	4 800

**Calculation of amount recognised in the balance sheet:**

(NOK 1 000)	31.12.2016	31.12.2015
Present value of funded obligations	45 653	44 561
Fair value of plan assets	-34 271	-32 083
<b>Net pension liabilities in balance sheet</b>	<b>11 383</b>	<b>12 480</b>

**Change in present value pension liabilities:**

(NOK 1 000)	2016	2015
Pension liabilities as of 1 January	44 561	46 702
Current service cost	3 777	4 905
Interest expense	1 095	1 073
Effect of new disability pension	-4 303	0
Payroll tax on this year's payment	-606	-653
Pension payments	-302	-359
Actuarial losses/ (gain) over other comprehensive income	1 431	-7 107
<b>Pension liabilities as of 31 December</b>	<b>45 653</b>	<b>44 561</b>

**Change in estimated fair value of plan assets:**

(NOK 1 000)	2016	2015
Estimated fair value of plan assets as of 1 January	32 083	27 970
Return on plan assets	780	618
Effect of new disability pension	-2 227	0
Contributions paid	4 902	5 282
Payroll tax on this year's payment	-606	-653
Pension payments	-302	-359
Actuarial losses/ (gain) over other comprehensive income	-359	-775
<b>Plan assets as of 31 December</b>	<b>34 271</b>	<b>32 083</b>

**Pension funds are made up as follows:**

(NOK 1 000)	2016	2015
Shares	9.3 %	4.5 %
Alternative investments	0.0 %	3.8 %
Short-term bonds	12.0 %	6.5 %
Money market fund	21.8 %	24.3 %
Long-term bonds	31.6 %	32.7 %
Loans and receivables	17.0 %	18.0 %
Property	6.8 %	9.9 %
Other	1.5 %	0.3 %
Total	100.0 %	100.0 %

**Sensitivity calculations**

The Group's pension liabilities and costs are based on assumptions as described above. Changes in these assumptions will result in changes in liability. A 1 per cent increase in the discount rate would result in a gross pension liability of KNOK 2 422. Conversely, reducing

the discount rate by 1 per cent would result in a gross pension liability of KNOK 23 409. A 1 per cent increase in the future salary increases, would result in a gross pension liability of KNOK 19 157. Conversely, reducing the future salary increases by 1 per cent would result in a gross pension liability of KNOK 4 434.

## Note 20. Financial income and financial expenses

(NOK 1 000)	2016	2015
Interest income	1 803	882
Inefficiency cash flow hedging	165	26
Change in market value interest rate swap	1 690	2 236
Realised gains on TRS agreements	164 916	120 536
Unrealised gains on TRS agreements	146 515	0
<b>Financial income</b>	<b>315 089</b>	<b>123 680</b>
Interest expenses	18 020	24 859
Unrealised loss on TRS agreements	0	75 368
Other financial expenses	1 277	2 436
<b>Financial expenses</b>	<b>19 297</b>	<b>102 663</b>
<b>Net financial items</b>	<b>295 792</b>	<b>21 016</b>

## Note 21. Share capital and shareholder information

Share capital in parent company as of 31 December 2016:	No. of shares	Nominal	Value
Ordinary shares	43 572 191	1.00	43 572 191

The company only has one class of shares. All shares confer the same rights in the company.

### Ownership structure – the 20 largest shareholders as of 31 December 2016:

Shareholder	No. of shares	Shareholding	Voting rights
Gåsø Næringsutvikling AS	6 632 835	15.22 %	15.22 %
Glastad Invest AS	5 347 862	12.27 %	12.27 %
Måsøval Eiendom AS	5 111 933	11.73 %	11.73 %
Egil Kristoffersen og Sønner AS	4 679 382	10.74 %	10.74 %
Havbruksinvest AS	3 706 873	8.51 %	8.51 %
Dnb Nor Markets. Aksjehand/Analyse	2 365 393	5.43 %	5.43 %
Sparebank 1 Markets AS	1 698 009	3.90 %	3.90 %
Hellesund Fiskeoppdrett A/S	1 620 380	3.72 %	3.72 %
Lovundlaks AS	1 051 205	2.41 %	2.41 %
Nyhamn AS	1 012 457	2.32 %	2.32 %
State Street Bank And Trust Comp	626 908	1.44 %	1.44 %
Morgan Stanley And Co Intl Plc	510 462	1.17 %	1.17 %
J.P. Morgan Bank Luxembourg S.A.	437 274	1.00 %	1.00 %
Holta Invest AS	344 368	0.79 %	0.79 %
The Bank Of New York Mellon N.V.	301 389	0.69 %	0.69 %
J.P. Morgan Securities Llc	261 000	0.60 %	0.60 %
Mp Pensjon Pk	254 086	0.58 %	0.58 %
Måsøval Fishfarm AS	252 520	0.58 %	0.58 %
Henden Fiskeindustri AS	233 808	0.54 %	0.54 %
State Street Bank and Trust Comp	201 843	0.46 %	0.46 %
<b>Total 20 largest shareholders</b>	<b>36 649 987</b>	<b>84.11 %</b>	<b>84.11 %</b>
<b>Total other shareholders</b>	<b>6 922 204</b>	<b>15.89 %</b>	<b>15.89 %</b>
<b>Total no. of shares</b>	<b>43 572 191</b>	<b>100.00 %</b>	<b>100.00 %</b>

**Shares held by members of the board, CEO and senior executives:**

	Occupation	No. of shares	Shareholding	Voting rights
Helge Gåsø v/ Gåsø Næringsutvikling AS	Chair	6 632 835	15.22 %	15.22 %
Kristine Landmark	Vice Chair	39 948	0.09 %	0.09 %
Charles Høstlund v/ Høstlund Invest AS	CEO	70 686	0.16 %	0.16 %
Ola Loe	CFO	186 092	0.43 %	0.43 %
Klaus Hatlebrekke v/ Hatlebrekke Invest AS	COO Market and business development	116 146	0.27 %	0.27 %

**Treasury shares:**

The board is authorised to acquire treasury shares up to a total nominal value of NOK 4 357 219. This authority runs until the Annual General Meeting in 2017, however not later than 30 June 2017. On the acquisition of such shares, the purchase price per share may not be less than a nominal value of NOK 1.00 and not more than NOK

200.00. The group owns 98 279 treasury shares at the end of 2016. In 2016 the company entered into a TRS (Total return swap) agreement against own shares. At 31 December 2016 Norway Royal Salmon ASA's underlying exposure through TRS agreements is 2 354 691 shares, representing 5.40 per cent of the share capital in the company.

**Treasury shares (NOK 1 000)**

	No. of shares	Payment
Book value as of 1 January	70 885	-4 826
Purchase of treasury shares in the period	667 038	68 985
Sale of treasury shares in the period	-639 644	-67 418
<b>Book value 31 December</b>	<b>98 279</b>	<b>-3 259</b>

**Board mandates:**

The board is authorised to increase the share capital by up to NOK 4 357 219. This authority runs until the Annual General Meeting in 2017, however not later than 30 June 2017.

**Dividend:**

The board has proposed a dividend of NOK 413 935 815 (NOK 9.50 per share) based on the annual accounts for the financial year 2016. The resolution will be adopted at the Annual General Meeting of 1 June 2017. In 2016 an ordinary dividend of NOK 113 287 697 (NOK 2.60 per share) was paid based on the annual accounts for the financial year 2015. The dividend was partly distributed in cash, 1.30 per share, totalling NOK 56 643 848 and partly by distribution of 536 026 shares. The dividend was transferred in June 2016.

## Note 22. Earnings per share

Basic earnings per share is based on the earnings attributable to shareholders of the company and the weighted average number of ordinary shares outstanding for the year, less ordinary shares purchased by the company and held as treasury shares.

### Result allocated to majority shareholders:

(NOK 1 000)	2016	2015
Majority share of net result for the year	988 007	229 633
Fair value adjustments	-146 698	-16 711
Tax on changes in fair value adjustments	22 774	4 177
<b>Majority share of value-adjusted result for the year</b>	<b>864 083</b>	<b>217 099</b>
<b>Weighted average number of ordinary shares outstanding</b>	<b>43 480 197</b>	<b>43 510 262</b>

### Basic earnings per share:

	2016	2015
Basis	22.72	5.28
Diluted	22.72	5.28

Basic earnings per share shows the majority's share

### Value-adjusted earnings per share:

	2016	2015
Basis	19.87	4.99
Diluted	19.87	4.99

Value-adjusted earnings per share shows the majority's share

### Shares outstanding:

(NOK 1 000)	2016	2015
Shares outstanding as of 1 January	43 501 306	43 538 452
Effect of purchase of treasury shares	-27 394	-37 146
<b>Shares outstanding as of 31 December</b>	<b>43 473 912</b>	<b>43 501 306</b>

## Note 23. Inventory

(NOK 1 000)	31.12.2016	31.12.2015
Raw materials	35 512	27 034
Finished goods	66 123	13 596
<b>Total inventory</b>	<b>101 635</b>	<b>40 630</b>

Raw materials mainly comprise feed for the farming business. Finished products comprise frozen salmon for resale and goods in transit to customers, where risk and control over the goods have not been transferred to the customer.

## Note 24. Operating leases

The Group leases non-current assets defined as finance leases. In addition to items defined as finance leases and recognised in the company's balance sheet, the company also has property rental leases and leases for some smaller equipment.

Specification of operating leases: (NOK 1 000)	Lease term	Annual leasing charges
Property lease Trondheim	30.06.2020	1 568
Property lease Kristiansand	Three months' notice	305
Other property rental leases		3 351
Leases other equipment		712
<b>Annual operating lease costs</b>		<b>5 936</b>

## Note 25. Auditor's fees

(NOK 1 000)	2016	2015
Statutory auditing services	397	296
Other attestation services	43	36
Tax advisory services	9	11
Other services	7	25
<b>Total auditor's fees</b>	<b>456</b>	<b>368</b>

All auditor's fees are exclusive VAT.

## Note 26. Available-for-sale financial assets

### 2016

(NOK 1 000)	31.12.2015	31.12.2016
Available-for-sale financial assets	395	395
<b>Total available-for-sale financial assets</b>	<b>395</b>	<b>395</b>

### 2015

(NOK 1 000)	31.12.2014	Sale	31.12.2015
Available-for-sale financial assets	1 895	-1 500	395
<b>Total available-for-sale financial assets</b>	<b>1 895</b>	<b>-1 500</b>	<b>395</b>

All the Group's investments in the available-for-sale are unlisted shares. Other shares are financial instruments available for sale and recorded at fair value. The original cost is used as an estimate of fair value. They are included in Level 3 of the fair value hierarchy (see Note 14).

### Available-for-sale financial assets comprise:

(NOK 1 000)	31.12.2016	31.12.2015
Other unlisted shares	395	395
<b>Total available-for-sale financial assets</b>	<b>395</b>	<b>395</b>



## Note 27. Related parties

### Group transactions with related parties:

#### Goods and services purchased:

(NOK 1 000)	2016	2015
Associates – products purchased	445 462	258 684
Associates – services purchased	42 236	25 087
Enterprise controlled by large shareholder – purchase of products	141 471	2 010
Enterprise controlled by board members – purchase of services	14 582	9 267
<b>Total goods and services purchased from related parties</b>	<b>643 751</b>	<b>295 048</b>

The Group conducts transactions on normal terms with associates and chain members who are also shareholders in NRS. This applies to the purchase of fish from fish-farming companies. The Group also buys smolt from associates. Purchases of smolt are made at market price.

The Group purchase in harvesting services from two of its associates. Harvesting services are purchased at market terms. Administrative services are also purchased and equipment is hired from one of the Group's associates.

Well boat services are purchased from enterprises controlled by the company's Chair Helge Gåsø. The Group also purchase smolts from Nordland Akva AS which is owned by one of the largest shareholders of NRS, Egil Kristoffersen og Sønner AS. Services and smolts are priced at market terms. In addition, has Nordland Akva received a prepayment of NOK 12 million for smolts.

#### Trade payables due to goods and services purchased:

(NOK 1 000)	2016	2015
Associates	71 869	68 794
<b>Total trade payables related parties</b>	<b>71 869</b>	<b>68 794</b>

## Alternative performance measures

The consolidated financial statements of Norway Royal Salmon ASA are prepared in accordance with the International Financial Reporting Standards (IFRS). In addition, the management prepares alternative performance measures to provide useful and relevant information to the users of the financial statements. Alternative performance measures are designed to increase the understanding of the underlying operational performance and is not a substitute for the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS). The performance measures are regularly reviewed by the Board. The alternative performance measures can be defined and used differently by other companies.

### Net interest-bearing debt

Net interest-bearing debt is defined as the net of long-term debt, short-term debt and bank deposits. The measure is useful and necessary information to investors and other users of the financial statements to assess the net of the interest-bearing external capital used to finance the group. The measure is used to calculate return on capital employed and highlights the Group's ability to take on more debt.

(NOK 1 000)	31.12.2016	31.12.2015
Reported long-term interest-bearing debt	303 781	653 361
Reported short-term interest-bearing debt	47 635	46 519
Reported bank deposits, cash	69 257	201 339
<b>Net interest bearing debt</b>	<b>282 160</b>	<b>498 541</b>

### Equity ratio

The equity ratio is defined as equity divided by total assets. The measure is expressed as a percentage. The measure is relevant to users of the financial statements to see how much of the assets are financed with equity, the measure also indicate something about the solvency of the group.

(NOK 1 000)	31.12.2016	31.12.2015
Reported equity	2 047 017	1 186 519
Reported total assets	3 713 382	2 870 245
<b>Equity ratio</b>	<b>55.1 %</b>	<b>41.3 %</b>

### Operational EBIT per kg

Operational EBIT per kg is defined as a central performance measure for Norway Royal Salmon ASA. The measure is used to evaluate the profitability of sold goods and the operations of the Group. The performance measure is useful to users of the financial statements to evaluate the profitability of sold goods and the production. The measure is calculated before unallocated costs and non-recurring events, fair value adjustments, income from associated companies, financial expenses and taxes. The measure is expressed per kg harvested volume.

(NOK 1 000)	2016	2015
Operational EBIT	640 613	201 894
Unallocated expenses	64 824	35 819
Non-recurring events (note 12)	20 322	31 330
Operational EBIT (note 2)	725 759	269 043
Harvested volume	26 819	27 903
<b>Operational EBIT per kg</b>	<b>27.06</b>	<b>9.64</b>

### ROCE

Return on average capital employed (ROCE) is defined as 4-quarters rolling EBIT aligned for fair value adjustments divided by average net interest-bearing debt plus equity less financial assets. The performance measure is expressed as a percentage and is useful for users of Norway Royal Salmon ASA's financial information to evaluate its profitability.





A close-up photograph of several slices of smoked salmon resting on a weathered wooden plank. The salmon has a vibrant orange-red color and a visible white marbling pattern. The wood is light brown with a rough, textured surface. The background is dark and out of focus, showing more wooden planks.

# Financial Statements





## **Accounting**

Income statement .....	115
Balance sheet .....	116
Cash flow .....	118

## **Notes**

Note 1. Accounting principles.....	119
Note 2. Sales revenues.....	121
Note 3. Personnel expenses .....	121
Note 4. Auditor's fee.....	121
Note 5. Pension costs and pension liabilities .....	122
Note 6. Financial income and financial expenses .....	124
Note 7. Property, plant and equipment.....	124
Note 8. Subsidiaries and associated companies .....	125
Note 9. Receivables due in more than one year .....	128
Note 10. Inventory .....	128
Note 11. Share capital and shareholders .....	129
Note 12. Taxation.....	129
Note 13. Intra-group transactions and balances .....	131
Note 14. Long-term liabilities .....	131
Note 15. Assets pledged as securities, guarantees, etc.....	132
Note 16. Liquidity .....	132
Note 17. Derivatives .....	132
Note 18. Financial risk.....	134







# Income statement

(NOK 1 000)	Note	2016	2015
Sales revenues	2	4 219 524	3 171 282
Other operating revenues	2,13	7 806	8 445
<b>Total sales revenues</b>		<b>4 227 330</b>	<b>3 179 728</b>
Cost of materials	13	4 133 586	3 112 383
Personnel expenses	3,5	81 103	54 298
Depreciation	7	0	76
Other operating expenses	4,7	22 902	22 227
<b>Total operating expenses</b>		<b>4 237 591</b>	<b>3 188 984</b>
<b>Net operating result</b>		<b>-10 261</b>	<b>-9 256</b>
<b>Financial items</b>			
Income from associates and subsidiaries	6,8	528 839	157 988
Other interest income	6,13	5 790	11 873
Other financial income	6,17	166 771	122 797
Other interest expenses	6	-12 226	-17 211
Other financial expenses	6,17	-1 269	-1 939
<b>Net financial items</b>		<b>687 904</b>	<b>273 507</b>
<b>Result before tax</b>		<b>677 644</b>	<b>264 250</b>
Tax	12	7 822	1 394
<b>Net result for the year</b>		<b>685 466</b>	<b>265 644</b>
<b>Allocations:</b>			
Allocated to dividend	11	413 936	113 288
Allocated to reserve for valuation variances	11	243 183	106 573
Allocated to other equity	11	28 347	45 783
<b>Total allocations</b>		<b>685 466</b>	<b>265 644</b>

# Balance sheet

(NOK 1 000)	Note	31.12.2016	31.12.2015
<b>Assets</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Deferred tax assets	12	10 849	14 973
<b>Total intangible assets</b>		<b>10 849</b>	<b>14 973</b>
<b>Property, plant and equipment</b>			
Construction in progress	7,15	3 359	1 069
<b>Total property, plant and equipment</b>		<b>3 359</b>	<b>1 069</b>
<b>Non-current financial assets</b>			
Investments in subsidiaries	8,15	852 549	616 880
Investments in associates	8,15	480 245	133 785
Investments in other shares		1	1
Other non-current receivables	9,15	4 000	5 000
<b>Total non-current financial assets</b>		<b>1 336 795</b>	<b>755 666</b>
<b>Total non-current assets</b>		<b>1 351 003</b>	<b>771 707</b>
<b>Current assets</b>			
Inventory	10,15	66 123	13 596
<b>Total inventory</b>		<b>66 123</b>	<b>13 596</b>
<b>Receivables</b>			
Accounts receivables	13,15	463 577	476 636
Other receivables	13,15,17	244 755	97 302
<b>Total receivables</b>		<b>708 332</b>	<b>573 938</b>
Cash and cash equivalents	16	65 095	620 827
<b>Total current assets</b>		<b>839 550</b>	<b>1 208 361</b>
<b>Total assets</b>		<b>2 190 553</b>	<b>1 980 068</b>

(NOK 1 000)	Note	31.12.2016	31.12.2015
<b>Equity</b>			
<b>Paid-in capital</b>			
Share capital	11	43 572	43 572
Treasury shares	11	-98	-71
Other paid-in equity	11	87 757	86 929
<b>Total paid-in capital</b>		<b>131 231</b>	<b>130 430</b>
<b>Retained earnings</b>			
Reserve for valuation variances	11	644 116	400 533
Other equity	11	171 747	146 788
<b>Total retained earnings</b>		<b>815 863</b>	<b>547 322</b>
<b>Total equity</b>		<b>947 094</b>	<b>677 751</b>
<b>Liabilities</b>			
<b>Provisions</b>			
Pension liabilities	5	11 382	12 479
<b>Total provisions</b>		<b>11 382</b>	<b>12 479</b>
<b>Other non-current liabilities</b>			
Debt to credit institutions	14,15	150 000	500 000
<b>Total other non-current liabilities</b>		<b>150 000</b>	<b>500 000</b>
<b>Current liabilities</b>			
Debt to credit institutions	15	14 998	0
Accounts payables	13	499 909	551 188
Public charges payable		10 660	6 432
Dividend	11	413 936	113 288
Other current liabilities	13	142 574	118 931
<b>Total current liabilities</b>		<b>1 082 077</b>	<b>789 839</b>
<b>Total liabilities</b>		<b>1 243 458</b>	<b>1 302 317</b>
<b>Total equity and liabilities</b>		<b>2 190 553</b>	<b>1 980 068</b>
<b>Guarantee liabilities</b>	15	0	0

Trondheim, 4 April 2017

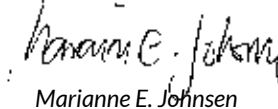
  
Helge Gåsø  
Chair

  
Kristine Landmark  
Vice Chair

  
Lars Måsøval

  
Inge Kristoffersen

  
Trude Olafsen

  
Marianne E. Johnsen

  
Charles Høstlund  
Chief Executive Officer

# Cash flow

(NOK 1 000)	Noter	2016	2015
<b>Operating result</b>		<b>-10 261</b>	<b>-9 256</b>
Depreciation	7	0	76
Pension costs with no cash effect		-2 887	79
Share based payment		-10 703	-1 249
Change in inventories		-52 527	3 747
Change in accounts receivables		13 059	-63 511
Change in accounts payables		-51 279	176 333
Change in other current assets and other liabilities		129 780	50 690
<b>Net cash flow from operating activities</b>		<b>15 182</b>	<b>156 909</b>
<b>Cash flow from investing activities</b>			
Payments for purchase of property, plant and equipment	7	-2 290	-1 069
Proceeds from investments in current financial assets (TRS)	8	164 916	128 093
Payments for investing in subsidiaries	8	-71 000	0
Payments for acquisition of associated companies	8	-269 487	0
Dividend from associated companies and subsidiaries	8	58 871	0
Change in loans to subsidiaries, associates and others		1 000	-3 800
<b>Net cash flow from investing activities</b>		<b>-117 990</b>	<b>123 224</b>
<b>Cash flow from financing activities</b>			
New non-current borrowings		0	100 000
Non-current debt repayments		-350 000	0
Net change in overdraft		14 998	0
Purchase/sale of treasury shares		-1 567	-2 590
Net interest payments		-4 581	-5 338
Dividend payment		-111 772	-65 356
<b>Net cash flow from financing activities</b>		<b>-452 922</b>	<b>26 714</b>
Net increase/ reduction in cash and cash equivalents		-555 730	306 847
Cash and cash equivalents as of 1 January		620 827	313 980
<b>Cash and cash equivalents as of 31 December</b>		<b>65 095</b>	<b>620 827</b>

# Notes to the financial statements

## Note 1. Accounting principles

The financial statements for Norway Royal Salmon ASA have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting practice in Norway.

### Principle for valuation and classification of assets and liabilities

Assets intended for long-term ownership or use are classified as non-current assets. Other assets are classified as current assets. Receivables due within one year are classified as current assets. Similar criteria are used when classifying non-current and current liabilities.

Current assets are valued at the lower of acquisition cost and fair value.

Non-current assets are valued at acquisition cost, but are written down to their recoverable value if this is lower than book value and the impairment is expected to be permanent. Non-current assets with a limited useful economic life are systematically depreciated or amortised.

Other long-term and current liabilities are valued at nominal value.

### Revenues

Revenues are recognised as they are accrued, when the majority of both risk and control have been transferred to the customer. This will normally be the case when the goods are delivered to the customer. Revenues are recognised at the value of the consideration on the date of the transaction.

### Expenses

Expenses are generally recognised in the same period as the corresponding revenue. In cases where there is no clear connection between expenses and revenues, the allocation is determined based on an informed estimate. Other exceptions to the matching principle are specified where relevant.

### Assets and liabilities in foreign currencies

Transactions in foreign currencies are translated at the exchange rate in effect on the date of the transaction. Monetary items, receivables and liabilities in foreign

currencies are translated into NOK at the exchange rate in effect on the balance sheet date. Changes in exchange rates are recognised in the accounting period as an operational item.

The company reduces its foreign exchange risk on receivables by entering into forward contracts and raising loans for a corresponding amount in the same currency. As of 31 December, both trade receivables and withdrawals from currency accounts are valued at the day rate. See also the description of forward currency contracts in the Derivatives section.

### Derivatives

Currency Forward contracts are capitalised at their fair value on the date the contract was signed. Changes in fair value are recognised in the income statement, unless they qualify for hedge accounting. A derivative qualifying for hedge accounting is classified directly against equity. The instrument is derecognised when the contractual rights expire or contractual rights and obligations are transferred. Derivative financial instruments are classified as current assets or liabilities.

The company can use interest rate swaps to hedge against fluctuations in interest rates on the long-term debt. The interest rate swaps are not included in hedge accounting and are measured at the lowest of cost and fair value. Value changes are recognized in the income statement as financial items.

Commodity derivatives entered into by the company do not meet the requirements for hedge accounting, and gains and losses are recognised in the income statement on the date they are realised. The effect is classified as an operating item in the company's financial statements.

### Property, plant and equipment

Property, plant and equipment are capitalised at historical cost and depreciated in a straight line over the asset's expected useful economic life. If the recoverable value of an operating asset is lower than its book value, it is written down to its recoverable value. Recoverable value is the higher of net sales value and value in use. Value in use is the net present value of the future cash flows the asset is expected to generate.



### **Shares in subsidiaries and associates**

Subsidiaries are defined as companies in which the shareholder has a controlling influence, normally where the shareholding exceeds 50 per cent. Associates are defined as companies in which the Group has a significant, but not controlling, influence. This is normally deemed the case where the shareholding is between 20 and 50 per cent.

Investments in subsidiaries and associates are recognised in accordance with the equity method. The company's share of the profits/losses from subsidiaries and associates will be its share of their profit/loss after tax less any amortisation of excess values on the date of acquisition. Shares of profit/loss are presented net on a separate line under financial items in the income statement. Investments in subsidiaries and associates are presented as non-current assets in the balance sheet.

### **Other investments in shares classified as non-current assets.**

Shares and other securities intended for long-term ownership are classified as non-current assets and recognised at their original cost price. A write-down is performed if the fair value is lower than cost price, and this situation is not of a temporary nature. Dividends received from these companies are recognised as other financial income.

### **Inventory**

Inventory is recognised at the lower of acquisition cost and net sales price. The cost price of purchased goods is their acquisition cost plus freight charges.

### **Receivables**

Trade and other receivables are recognised at nominal value less provisions for bad debts. Trade receivables are monitored continuously and it is the company's policy to insure all material trade receivables. Provisions for bad debts are based on an individual assessment of each receivable.

### **Bank deposits, cash and cash equivalents**

Bank deposits, cash and cash equivalents include cash, bank deposits and other means of payment maturing less than three months after acquisition.

### **Pensions**

#### ***Defined contribution pension schemes***

A defined contribution plan is a pension plan under which the group pays fixed contributions. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. In a defined contribution scheme, the company pays what they have committed in accordance with an agreement, committed by law or voluntarily contributes. The company has no further obligations beyond this payment. Liabilities to pay contributions to defined contribution pension schemes are recognised as costs in the income statement as they accrue.

#### ***Defined benefit pension schemes***

Pension schemes that are not defined contribution schemes are defined benefit schemes. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using a linear accrual method. Pension obligations are calculated based on long-term discount rate and long-term expectations of future salary growth, inflation and pension increases. Pension assets are valued at fair value. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the equity.

### **Tax**

The tax expenses are matched to the result before tax. Tax relating to equity transactions is recognised in equity. The tax expense comprises tax payable (tax on the direct taxable income for the year) and any change in net deferred tax. The tax expense is divided between ordinary profits and profits from extraordinary items in accordance with the tax basis. Deferred tax liabilities and assets are presented net in the balance sheet.

## Note 2. Sales revenues

### Specification of sales by region:

(NOK 1 000)	2016	2015
Norway	423 707	253 888
Western Europe	2 735 901	2 040 771
Eastern Europe & Russia	235 575	231 536
Asia & Middle East	780 548	608 433
Other countries	51 598	45 099
<b>Total operating revenues</b>	<b>4 227 330</b>	<b>3 179 728</b>

## Note 3. Personnel expenses and benefits

(NOK 1 000)	2016	2015
Wages and salaries	66 491	42 040
Payroll tax	12 657	6 635
Pension costs – defined benefits scheme	1 610	4 870
Other benefits	344	753
<b>Total salary and personnel expenses</b>	<b>81 103</b>	<b>54 298</b>
<b>Average number of full-time-equivalents</b>	<b>39</b>	<b>37</b>

For details of the salary and other benefits payable to the Board of Directors, CEO and other senior executives, see Note 18 to the consolidated financial statements.

## Note 4. Auditor's fee

(NOK 1 000)	2016	2015
Statutory auditing services	258	154
Other attestation services	43	36
Tax advisory services	9	11
Other services	7	22
<b>Total auditor's fees</b>	<b>317</b>	<b>223</b>

All auditing costs are exclusive of VAT.

## Note 5. Pension costs and pension liabilities

The company has a statutory obligation to provide an occupational pension scheme under the Norwegian Mandatory Occupational Pension Schemes Act. The company's pension scheme complies with the requirements of this legislation.

The company operates a defined benefits pension scheme and a defined contribution scheme.

The company's defined benefit scheme entitles the 36 members to defined future benefits. These are mainly dependent on the number of years of entitlement, level of salary upon reaching retirement age and the size of the pension benefits paid by the National Insurance

Scheme. The liability is funded through an insurance company.

As a result of the application of IAS 19R, the period's net interest expense is now calculated by applying the discount rate for the liability at the beginning of the period to the net liabilities. Net interest expense therefore consists of interest on the obligation and return on assets, both calculated at the same discount rate. The change in the net pension obligation as a result of premium payments and pension payments are taken into account. The difference between the actual return on plan assets and the return recognised in the profit and loss accounts are expensed as incurred against equity.

### Pension costs:

(NOK 1 000)	2016	2015
Current service cost	3 223	4 203
Interest expenses	284	468
Payroll tax	506	617
Administrational expenses	79	74
Net curtailment and settlement for new disability pension inc. payroll tax	-2 077	0
<b>Net pension cost – defined benefit scheme</b>	<b>2 015</b>	<b>5 361</b>
Employee contributions to scheme	-511	-491
Costs of defined contribution pension scheme	106	0
<b>Total pension costs</b>	<b>1 610</b>	<b>4 870</b>

Assumptions	2016	2015
Discount rate	2.60 %	2.70 %
Future salary increases	2.50 %	2.50 %
Inflation rate	2.25 %	2.25 %
Future pension increase	0.00 %	0.00 %

### Demographic factors:

Disability table	IR02	IR02
Mortality table	K2013BE	K2013BE

### Number of people covered by the defined benefit scheme:

In work	36	37
Pensioners	6	5
Total	42	42

	2016	2015
Paid into scheme during the year	4 297	4 629
Forecast payment to scheme next year	4 845	4 800

**Net pension liabilities:**

(NOK 1 000)	31.12.2016	31.12.2015
Pension liabilities	45 653	44 561
Fair value of plan assets	-34 271	-32 084
<b>Pension liability</b>	<b>11 382</b>	<b>12 479</b>

**Change in present value pension liabilities:**

(NOK 1 000)	2016	2015
Pension liabilities as of 1 January	44 561	46 702
Current service cost	3 777	4 905
Interest expense	1 095	1 073
Effect of new disability pension	-4 303	0
Payroll tax on this year's payment	-606	-653
Pension payments	-302	-359
Actuarial losses/ (gain) over equity	1 431	-7 107
<b>Pension liabilities as of 31 December</b>	<b>45 653</b>	<b>44 561</b>

**Change in estimated fair value of plan assets:**

(NOK 1 000)	2016	2015
Estimated fair value of plan assets as of 1 January	32 083	27 970
Return on plan assets	780	618
Effect of new disability pension	-2 227	0
Contributions paid	4 902	5 282
Payroll tax on this year's payment	-606	-653
Pension payments	-302	-359
Actuarial losses/ (gain) over equity	-359	-775
<b>Plan assets as of 31 December</b>	<b>34 271</b>	<b>32 084</b>

**Pension funds are made up as follows:**

(NOK 1 000)	2016	2015
Shares	9.3 %	4.5 %
Alternative investments	0.0 %	3.8 %
Short-term bonds	12.0 %	6.5 %
Money market fund	21.8 %	24.3 %
Long-term bonds	31.6 %	32.7 %
Loans and receivables	17.0 %	18.0 %
Property	6.8 %	9.9 %
Other	1.5 %	0.3 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>

## Note 6. Financial income and financial expenses

### Financial items included in the income statement:

(NOK 1 000)	2016	2015
Income from associates and subsidiaries	528 839	157 988
Gains on TRS-agreements	164 916	120 535
Interest income	5 790	11 873
Fair value changes interest rate swap	1 690	2 236
Currency gains	165	26
<b>Financial income</b>	<b>701 400</b>	<b>292 658</b>
Interest expenses	12 226	17 211
Other financial expenses	1 269	1 939
<b>Financial expenses</b>	<b>13 495</b>	<b>19 152</b>
<b>Net financial items</b>	<b>687 904</b>	<b>273 507</b>

## Note 7. Property, plant and equipment

(NOK 1 000)	2016	2015
Acquisition cost 1 January	2 426	1 357
Additions	2 290	1 069
Acquisition cost 31 December	4 717	2 426
Accumulated depreciation 1 January	1 357	1 281
Depreciation for the year	0	76
Accumulated depreciation 31 December	1 357	1 357
<b>Book value 31 December</b>	<b>3 359</b>	<b>1 069</b>
Useful economic life	5–7 years	5–7 years
Depreciation method	Straight-line	Straight-line
Annual leasing cost of uncapitalised operating assets	2 294	1 846
Lease duration	0-5 years	0-5 years



## Note 8. Subsidiaries and associated companies

Company	Consolidated	Registered office	Last acquisition date	Voting and shareholding	Book value
Nor Seafood AS	Yes	Torsken	10.08.07	82.50 %	133 653
NRS Feøy AS	Yes	Torvastad	10.10.07	100.00 %	209 742
NRS Finnmark AS	Yes	Alta	01.08.08	100.00 %	349 462
Nord Senja Laks AS	Yes	Botnhamn	04.03.16	100.00 %	158 704
NRS Settefisk AS	Yes	Trondheim	01.12.16	100.00 %	988
<b>Total investment in subsidiaries</b>					<b>852 549</b>

Arctic Fish ehf.	No	Iceland	03.10.16	50.00 %	281 217
Wilsgård Fiskeoppdrett AS	No	Torsken	19.08.08	37.50 %	110 613
Måsøval Fishfarm AS	No	Frøya	03.01.03	36.10 %	9 180
Hellesund Fiskeoppdrett AS	No	Lillesand	21.02.04	33.50 %	58 522
Ranfjord Fiskeprodukter AS	No	Mo i Rana	30.09.12	37.75 %	10 761
Hardanger Fiskeforedling AS	No	Kvam	16.05.11	31.10 %	9 904
Other	No				48
<b>Total investment in associates</b>					<b>480 245</b>

### Subsidiaries:

(NOK 1 000)	Nord Senja Laks AS	Nor Seafood AS	NRS Feøy AS	NRS Finnmark AS	NRS Settefisk AS	Total
Acquisition cost	41 019	23 691	81 198	125 592	988	
Paid excess value	24 473	14 045	18 162	77 824	0	
Opening balance 1 January 2016	74 915	73 929	138 969	329 067	0	616 880
Foundation of company	0	0	0	0	988	988
Acquisition	70 000	0	0	0	0	70 000
Share of profit/loss for the year	31 671	59 724	59 061	321 572	0	472 027
Group contribution between subsidiaries	22 640	0	11 712	-34 352	0	0
Group contribution from subsidiary	0	0	0	-216 824	0	-216 824
Equity adjustments and dividend	-40 522	0	0	-50 000	0	-90 522
<b>Closing balance 31 December 2016</b>	<b>158 704</b>	<b>133 653</b>	<b>209 742</b>	<b>349 462</b>	<b>988</b>	<b>852 549</b>

Paid excess value is almost entirely related to the value of licences and is not amortised, but is tested annually for impairment.

## Note 8 cont.

### Associated companies:

(NOK 1 000)	Arctic Fish ehf	Wilsgård Fiske- oppdrett AS	Måsøval Fishfarm AS	Hellesund Fiske- oppdrett AS	Ranfjord Fiske- produkter AS	Other	Total
Acquisition cost at 31.12.2016	0	25 011	10 977	17 472	19 241	7 626	
Paid excess value	0	17 205	7 699	11 807	12 211	0	
Of which amortisable excess value/goodwill	0	0	0	0	11 211	0	
Excess value and goodwill as of 31 December 2016	0	17 205	7 699	11 807	1 404	0	
Opening balance 1 January 2016	0	52 481	15 028	47 836	9 846	8 593	133 785
Additions	269 487	0	0	0	0	0	269 487
Share of profit/loss for the year	-957	41 271	1 010	13 214	915	1 359	56 811
Conversion differences	12 688	0	0	0	0	0	12 688
Dividend	0	0	-6 859	-2 012	0	0	-8 871
Equity adjustments	0	16 862	0	-517	0	0	16 345
<b>Closing balance 31 December 2016</b>	<b>281 217</b>	<b>110 613</b>	<b>9 180</b>	<b>58 522</b>	<b>10 761</b>	<b>9 952</b>	<b>480 245</b>

Paid excess value is almost entirely related to the value of licences and is not amortised, but is assessed annually for impairment.

The exception is Ranfjord Fiskeprodukter AS. NOK 11 211 out of a total excess value of NOK 12 211 has been allocated to goodwill. All the goodwill has been amortised.

Income from subsidiaries and associates	2016
Share of profit/loss for the year from subsidiaries	472 027
Share of profit/loss for the year from associates	56 811
<b>Total revenue recognised</b>	<b>528 839</b>

### Arctic Fish

23 August 2016, Norway Royal Salmon entered into an agreement to acquire 50 per cent of Arctic Fish ehf. through a direct private placement of EUR 29 million. The transaction was financed through existing cash and loan facilities. The remaining 50 per cent ownership in Arctic Fish is owned by Bremesco Holding Ltd and Novo ehf, with 47.5 per cent and 2.5 per cent respectively.

The Board of Arctic Fish consists of two directors elected by Norway Royal Salmon ASA and two chosen by Bremesco Holding. In addition, the parties have appointed an independent Chair of the Board so that

the Board consists of five members. None of the owners have through representation on the Board control and the company is considered to be an associated company accounted for by the equity method.

The transaction was recognised in the accounts at 3 October 2016, when Norway Royal Salmon ASA had the possibility to appoint the Board. The Board was formally registered on 24 October 2016.

Arctic Fish was founded in 2011 with fish farming activities in the Westfjords.

Company	Currency	Acquisition date	Office	Share-holding	Voting share
Arctic Fish ehf.	ISK	03.10.16	Isafjörður	50 %	50 %

Book value (NOK 1 000)	Arctic Fish ehf.
Acquisition cost 3 October 2016	269 487
Share of profit/loss in the period	-957
Translation differences	12 688
<b>Book value 31.12.2016</b>	<b>281 217</b>

Calculation of this year's share of profit/loss	31.12.2016
Share of profit/loss	-957
Depreciation rate attributable added value	0 %

Added value in the Arctic Fish ehf Group are linked to land property and fish farming licenses. Approved farming licenses are considered an intangible asset. Applications for fish farming licenses are not considered an intangible asset as the assets are not controlled by the company before the licenses are approved.

Two types of licenses are required to run fish farming operations on Iceland: A production license issued by the Icelandic Food and Veterinary Authority (IFVA) and an operating license granted by the Environmental Agency of Iceland (EAI). An environmental survey must be completed before applying for the two licenses. The survey must be approved by Icelandic National Planning Agency.

Fish farming licenses are normally granted with a 10-year lifetime with a maximum average volume harvested per year. The license regulation on Iceland is new and under continuous development, it aims to ensure sustainable development. Arctic Fish ehf is therefore subject to requirements, and the company is liable to penalties, sanctions or revocation of the licenses if the company fails to comply with the licensing requirements. The licensing requirements for the production licenses means that the company must, annually, report production volume for each site, location of the site, feeding,

origin of the fish, diseases and other events affecting production or other conditions that the company sees relevant for the authorities to ensure its surveillance responsibilities to the Icelandic Food and Veterinary Authority (IFVA). A production diary shall always be available to the authorities.

The licensing requirements for an operating license means that the company is required to have established internal control related to environmental threats in the operations, such as pollution or emissions of chemicals. Information about the controls and possible incidents shall be recorded and be available for review by the Environmental Agency of Iceland (EAI).

The licenses require renewal after a certain period. On a general basis, no assigned licenses on Iceland has expired. The intention of the licensing regulation is that licenses will be renewed if there is not a specific reason to deny the extension. The licenses can therefore be renewed without significant costs to the company, as long as the company comply with the licenses requirements. Based on its understanding of the licensing regulations Norway Royal Salmon ASA considers the fish farming licenses as an intangible asset with an indefinite useful life that are not to be depreciated.

## Note 8. cont.

### Financial information converted to NOK for Arctic Fish ehf. based on 100 % numbers

(NOK 1 000)	Q4 2016	31.12.2016	03.10.2016
Operating revenues	7 622	27 834	20 223
Cost of goods sold	-10 650	-28 974	-18 561
Operating costs	-3 851	-14 925	-11 061
Fair value adjustments	-2 559	-28 760	-25 770
Net interest costs	1 404	-2 357	-3 591
Other financial income	6 119	12 133	6 250
Result before tax	-1 915	-35 049	-32 510
<b>Result after tax</b>	<b>-1 915</b>	<b>-35 049</b>	<b>-32 510</b>
The group's share of the result (50 %)	-957	-957	
Non-current assets		209 233	187 380
Current assets excl. cash		61 666	47 460
Cash		196 538	275 709
Total assets		467 437	510 548
Long-term liabilities		74 778	41 854
Short-term liabilities		26 612	112 129
Total liabilities		101 390	153 982
Reconciliation of equity against Norway Royal Salmon's share			
Equity in Arctic Fish Ehf (100 %)		366 046	356 566
Principle adjustment IFRS (100 %)		-12 331	-17 002
Total		353 715	339 563
The group's share of equity (50 %)		176 858	169 782
Value added connected to properties, licenses and goodwill		125 247	119 646
Deferred tax		-20 888	-19 941
<b>Book value at 31 December 2016</b>		<b>281 217</b>	<b>269 487</b>

## Note 9. Receivables due in more than one year

(NOK 1 000)	2016	2015
Loans to smolt supplier	4 000	5 000
<b>Total receivables due in more than one year</b>	<b>4 000</b>	<b>5 000</b>

## Note 10. Inventory

(NOK 1 000)	2016	2015
Goods in transit	44 638	0
Finished goods	21 485	13 596
<b>Total inventory</b>	<b>66 123</b>	<b>13 596</b>

## Note 11. Share capital and shareholders

**Share capital as at 31 December 2016 comprises the following classes of share:**

	Number of shares	Nominal value	Book value
Ordinary shares	43 572 191	1.00	43 572 191

Norway Royal Salmon ASA had 1 944 shareholders as at 31 December 2016. All shares afford the same rights in the company. The board has proposed a dividend of NOK 9.50 per share for the year 2016.

For details of the largest shareholders and shares owned by board members, the CEO and other senior executives, see Note 21 to the consolidated financial statements.

(NOK 1 000)	Share capital	Treasury shares	Other paid-in equity	Reserve for valuation variances	Other equity	Total
Equity as of 31 December 2015	43 572	-71	86 929	400 533	146 788	677 751
<b>Change in the year:</b>						
Net result for the year	0	0	0	519 497	165 969	685 466
Dividend associates and subsidiaries	0	0	0	-58 871	58 871	0
Conversion differences associated company	0	0	0	0	12 688	12 688
Other changes associated companies	0	0	0	-219	16 552	16 332
Acquisition of minority interest	0	0	0	0	-40 522	-40 522
Allocated, but not distributed dividend	0	0	0	0	1 515	1 515
Cash flow hedges	0	0	0	0	21 429	21 429
Share based payment	0	0	829	0	-11 532	-10 703
Actuarial gains	0	0	0	0	-1 361	-1 361
Proposed dividend	0	0	0	0	-413 936	-413 936
Corporate contributions	0	0	0	-216 824	216 824	0
Purchase of treasury shares	0	-667	0	0	-68 318	-68 985
Sale of treasury shares	0	640	0	0	66 778	67 418
<b>Equity as of 31 December 2016</b>	<b>43 572</b>	<b>-98</b>	<b>87 757</b>	<b>644 116</b>	<b>171 748</b>	<b>947 094</b>

For additional information on purchase and sale of treasury shares please see Note 21 in the consolidated accounts.

## Note 12. Taxation

(NOK 1 000)	2016	2015
Tax payable	-5 608	0
Tax on actuarial losses and cash flow hedges directly against equity	-6 338	-1 580
Change in deferred tax	3 672	-2 197
Changes in deferred tax caused by changed tax rate	452	2 383
<b>Tax related to profit/loss for the year</b>	<b>-7 822</b>	<b>-1 394</b>

**Tax payable in the balance sheet:**

## Note 12 cont.

(NOK 1 000)	31.12.2016	31.12.2015
Tax payable	-5 608	0
Tax on group contributions	5 608	0
<b>Tax payable</b>	<b>0</b>	<b>0</b>

### Specification of deferred tax and basis for deferred tax:

(NOK 1 000)	31.12.2016	31.12.2015	Endring
Property, plant and equipment	716	908	-191
Inventories	190	25	165
Trade receivables	-1 777	-3 744	1 967
Financial instruments	7 870	39 006	-31 136
Pensions	11 382	12 479	-1 097
Other temporary differences	26 822	11 217	15 605
<b>Basis for deferred tax</b>	<b>45 203</b>	<b>59 890</b>	<b>-14 687</b>
<b>Deferred tax assets</b>	<b>10 849</b>	<b>14 973</b>	<b>-4 124</b>
<b>Deferred tax on items recognised directly in equity</b>	<b>-6 338</b>	<b>-1 463</b>	<b>-4 875</b>

### Reconciliation of nominal and actual tax rates:

(NOK 1 000)	2016	2015
Result before tax	677 644	264 250
Expected tax after nominal tax rate (25 % in 2016 and 27 % in 2015)	169 411	71 347
Actual tax	-7 822	-1 394
<b>Difference</b>	<b>177 233</b>	<b>72 741</b>
<b>Explanation of difference</b>		
Non-deductible representational expenses, fees and gifts	77	26
Impairment of shares and other securities	0	270
3 % of net taxable income for the exemption method	67	56
Cash flow hedges and actuarial gains recognized in equity	6 602	1 463
Permanent differences related to the equity method	-132 210	-42 657
Realised TRS gain	-41 229	-32 544
Share-based share of the option scheme	-4 654	-392
Tax effect of items recognized directly in equity	-6 602	-1 463
Change in deferred tax due to change in tax rate	452	2 383
Change in deferred tax directly recorded in the balance sheet as a result of changed tax rate	264	117
<b>Tax on ordinary result</b>	<b>-177 233</b>	<b>-72 741</b>
<b>Effective tax rate*</b>	<b>-1,2 %</b>	<b>-0,5 %</b>

\* The negative effective tax rate is due to the results from subsidiaries and associated companies of KNOK 528 829 (KNOK 157 988) and realised gains on TRS of TNOK 164 916 (TNOK 120 534) being included in profit before tax.



## Note 13. Intra-group transactions and balances

### Intra-group balances:

(NOK 1 000)	Non-current receivables		Trade receivables		Other current receivables	
	2016	2015	2016	2015	2016	2015
Group companies	0	0	0	0	273 134	59 270
Associated companies	0	0	39	66	0	1 200
<b>Total</b>	<b>0</b>	<b>0</b>	<b>39</b>	<b>66</b>	<b>273 134</b>	<b>60 470</b>

(NOK 1 000)	Trade payables		Other current liabilities	
	2016	2015	2016	2015
Group companies	102 952	190 062	0	0
Associated companies	71 869	71 930	0	0
<b>Total</b>	<b>174 821</b>	<b>261 992</b>	<b>0</b>	<b>0</b>

### Transactions with group companies:

(NOK 1 000)	2016	2015
Other operating revenues	3 504	3 504
Cost of goods sold	1 535 730	1 081 958
Other interest income	5 462	0

## Note 14. Long-term liabilities

### Instalment profile – debt to credit institutions:

(NOK 1 000)	2017	2018	2019	2020	2021	Totalt
Debt to credit institutions	0	0	0	0	150 000	150 000
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>150 000</b>	<b>150 000</b>

Long-term credit facility related to the Group's financing agreement is KNOK 500 000. The loan is instalment-free until 2021 and has subsequently an annual credit review for a further extension of 5 years. At 31 December 2016, the company has drawn KNOK 150 000 on the long-term credit facility. In addition, the Group has a short-term multi-currency overdraft facility of KNOK 400 000. At 31 December 2016 the company has drawn KNOK 14 998 on the short-term multi-currency overdraft facility.

As of 31 December 2016 the interest on the long-term debt is floating and linked to the 3-month NIBOR plus a margin. Interest on the multi-currency credit line is 3-month NIBOR/ 1-week LIBOR/Danish BOR plus a margin. In addition, the Company had an interest rate swap in 2015 and 2016. The swap is not recognized as hedge accounting. The change in value of the interest rate swap is recorded as a financial item in the income statement. The interest rate swap expired in September 2016.

The company's covenants are that the Group shall have an equity ratio of at least 30 per cent and that the short-term credit facility shall not exceed 75 per cent of the inventory and accounts receivables.

## Note 15. Assets pledged as securities, guarantees, etc.

### Capitalised secured liabilities

(NOK 1 000)	31.12.2016	31.12.2015
Long-term debt to credit institutions	150 000	500 000
Short-term debt to credit institutions	14 998	0
<b>Total secured liabilities</b>	<b>164 998</b>	<b>500 000</b>

### Book value of assets pledged as security

(NOK 1 000)	31.12.2016	31.12.2015
Property, plant and equipment	3 359	1 069
Inventories	66 123	13 596
Accounts receivables	463 577	476 636
<b>Total secured liabilities</b>	<b>533 059</b>	<b>491 301</b>

<b>Guarantee liabilities</b>	<b>0</b>	<b>0</b>
------------------------------	----------	----------

*In addition to the above-mentioned guarantees, the company had the following liabilities as of 31 December 2016:*

- 1) Norway Royal Salmon ASA has given guarantees to credit institutions with respect to some of its subsidiaries' leasing liabilities. As of 31 December 2016 the total recognised leasing liabilities for which NRS has pledged security amounted to KNOK 201 417.
- 2) Norway Royal Salmon ASA has joint liability up to a maximum of KNOK 400 000 for the group overdraft arrangement.
- 3) In connection with Group funding the company's assets are pledged as security for the liabilities of the subsidiaries.

## Note 16. Liquidity

As at 31 December 2016 the company had restricted deposits of KNOK 65 086. Of the funds, KNOK 63 333 have been pledged as security for the company's trading activities on Fish Pool.

The company is part of the group's cash pool, for information on unutilized overdraft please see Note 8 to the consolidated financial statements.

## Note 17. Derivatives

### Forward currency contracts

Forward currency contracts are recognised at fair value at the balance sheet date. At 31 December 2016 forward currency contracts was nominated in EUR, USD, JPY and GBP. These contracts mature between 5 January 2017 and 22 December 2017 and are used to hedge cash flows expected to arise during this period and reduce foreign currency exposure on receivables. The cash flow hedging satisfy the demands for hedge accounting and the changes in unrealised value are recognised directly against equity. Realised profit/loss on the contract are recognised in revenues.

## As of 31 December 2016

(NOK 1 000)	Type	Currency	Currency amount	Currency period	Exchange rate range	Book value
Forward currency contracts – cash flow hedging	Sale	EUR	22 332	15.01.17-22.12.17	8.970-9.616	1 587
Forward currency contracts – cash flow hedging	Sale	USD	12 318	17.01.17-20.12.17	7.504-8.759	-1 324
Forward currency contracts – cash flow hedging	Sale	GBP	41 252	05.01.17-20.12.17	10.022-12.776	-4 136
Forward currency contracts – cash flow hedging	Sale	JPY	188 575	04.01.17-10.03.17	0.0739-0.0742	101
Forward currency contracts – fair value hedging	Sale	USD	6 000	03.04.17	8.667	-3 410
Forward currency contracts – fair value hedging	Sale	EUR	32 000	01.04.17-03.04.17	9.033-9.123	-687
<b>Total forward currency contracts</b>						<b>-7 870</b>

## As of 31 December 2015

(NOK 1 000)	Type	Currency	Currency amount	Currency period	Exchange rate range	Book value
Forward currency contracts – cash flow hedging	Sale	EUR	34 502	16.01.16-25.01.17	8.320-9.643	-8 964
Forward currency contracts – cash flow hedging	Sale	USD	20 150	05.01.16-08.12.17	6.252-8.787	-14 545
Forward currency contracts – cash flow hedging	Sale	GBP	22 987	05.01.16-15.02.17	10.719-13.216	-8 325
Forward currency contracts – cash flow hedging	Sale	JPY	102 464	20.01.16-20.06.16	0.0694-0.0715	-300
Forward currency contracts – fair value hedging	Sale	USD	6 000	04.04.16	8.7468	-2 059
Forward currency contracts – fair value hedging	Sale	EUR	22 000	04.04.16	9.590	-2 332
<b>Total forward currency contracts</b>						<b>-36 524</b>

### Financial Fish Pool contracts

Contracts have been signed to purchase 8 952 tonnes on the Fish Pool salmon exchange. The contract prices are in the range NOK 41.00–NOK 67.40 and cover the period from January 2017 to December 2018. The sales department enters into the contracts with the aim of hedging margins linked to deliveries of fixed-price contracts to customers. In addition to these agreements the group has entered into agreements to sell 780 tonnes on Fish Pool. The contract price is NOK 69.00 and cover the period January to December 2017. The aim with the contracts is to hedge the price on own-produced fish. Realised Fish Pool contracts are posted in the accounts under the operational result. Realised Fish Pool contracts classified under the operational result amounted to KNOK 202 974 in 2016 (2015: KNOK 3 818). The unrealised gains on the derivatives of KNOK 32 261 (2015: KNOK 49 465) have not been recognised in the accounts.

## As of 31 December 2016

(NOK 1 000)	Type	Currency	Volume (tonnes)	Period	Price range	Book value
Fish Pool contracts	Purchase	NOK	8 952	01.01.16-31.12.18	41,00-67,40	94 436
Fish Pool contracts	Sale	NOK	780	01.01.17-31.12.17	69,00	111
<b>Total</b>						<b>94 547</b>

## Per 31.12.2015

(NOK 1 000)	Type	Currency	Volume (tonnes)	Period	Price range	Book value
Fish Pool contracts	Purchase	NOK	11 970	01.01.16-31.12.17	40,75-51,50	62 286
<b>Total</b>						<b>62 286</b>

### Total return swap

In 2016 the company entered into a TRS (Total Return Swap) agreement against own shares. At 31 December 2016, Norway Royal Salmon ASA's total underlying exposures through the TRS agreement is 2 354 691 shares, representing 5.40 per cent of the share capital of the company. The agreement expires 15.03.2017. The exercise price is NOK 129.6229. The unrealised gain on the derivative has not been recognised in the accounts. The company realised previously agreements in 2016. The gain on realisation amounts to KNOK 164 916 (2015: KNOK 120 536) and is posted as a finance post in the accounts. Unrealised gain on the agreements in 2016 was KNOK 146 515 (2015: loss of KNOK 75 368).

#### As of 31 December 2016

(NOK 1 000)	No. of shares	Exercise price	Maturity	Fair value
TRS	2 354 691	129.6229	15.03.17	183 274
<b>Total</b>	<b>2 354 691</b>			<b>183 274</b>

(NOK 1 000)	No. of shares	Exercise price	Maturity	Fair value
TRS 1	2 424 386	66.4650	17.03.16	34 274
TRS 2	567 038	75.9631	26.05.16	2 483
<b>Total</b>	<b>2 991 424</b>			<b>36 758</b>

### Interest rate swap

NRS had an interest rate swap. The interest rate swap is not recognized as hedge accounting under IFRS. Subsequent the fair value changes on the agreement will be charged to the income statement as a part of other net financial items. The interest rate swap expired in September 2016.

#### As of 31.12.2016

Currency	Amount	NRS pays	NRS receives	Maturity	Market value 31.12.2015	Market value 31.12.2016	Change in market value 2016
NOK	100 000	Fixed 3.37%	3 mnd NIBOR	07.09.16	-1 690	0	1 690

#### As of 31.12.2015

Currency	Amount	NRS pays	NRS receives	Maturity	Market value 31.12.2014	Market value 31.12.2015	Change in market value 2015
NOK	100 000	Fixed 3,37%	3 mnd NIBOR	07.09.16	-3 926	-1 690	2 236

## Note 18. Financial risk

For further information relating to the management of financial risk in the parent company and group, see Note 1.6 to the consolidated financial statements.







# Responsibility statement

from the Board of Directors and Chief Executive Officer

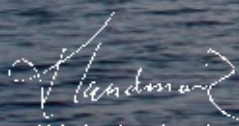
We confirm that, to the best of our knowledge, the financial statements for the period for 2016 for the group and the parent company have been prepared in accordance with applicable accounting standards, and that the accounts give a true and fair view of the group and the company's consolidated assets, liabilities, financial position and results of the operations per 31 December 2016.

We also confirm to the best of our knowledge, that the Director's report provides a true and fair view of the development and performance of the business and the position of the group and the company including description of key risks and uncertainty factors pertaining to the group going forward.

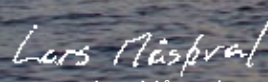
Trondheim, 4 April 2017



Helge Gåsø  
Chair



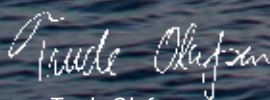
Kristine Landmark  
Vice Chair



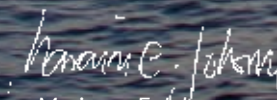
Lars Måsøval



Inge Kristoffersen



Trude Olafsen



Marianne E. Johnsen



Charles Høstlund  
Chief Executive Officer







To the General Meeting of Norway Royal Salmon ASA

## *Independent Auditor's Report*

### *Report on the Audit of the Financial Statements*

---

#### *Opinion*

We have audited the financial statements of Norway Royal Salmon ASA. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

---

#### *Basis for Opinion*

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

---

PricewaterhouseCoopers AS, Brattørkaia 17 B, Postboks 6365 Sluppen, NO-7492 Trondheim

T: 02316, org.no.: 987 009 713 VAT, [www.pwc.no](http://www.pwc.no)

State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Measurement and valuation of biological assets</i></p> <p>(We refer to accounting principles part 1.4 and 1.5 and note 5 for further information)</p> <p>As described in the financial statements Norway Royal Salmon ASA value biological assets at fair value according to IAS 41. At the balance sheet date the fair value of biological assets was NOK 1 205,4 m, out of which NOK 813,9 m is historical cost and NOK 391,5 m is fair value adjustment.</p> <p>Biological assets comprise live fish stock related to the fish farming segment.</p> <p>When auditing inventories the auditing standards require that the auditor attend the physical inventory counting when possible. The biological assets are by nature difficult to count, observe and measure, due to lack of sufficiently accurate measuring techniques that at the same time does not affect fish health. As a result, there is some uncertainty related to the number of fish and biomass in the sea. Therefore, we have focused on measurement of the biological assets (number and biomass) in the audit, and specifically the inventory of live fish held for harvesting purposes (ongrowing), which constitutes the majority of the value of the biological assets.</p> <p>The fluctuations in the value estimate that arise due to for instance changes in marked price, may have a significant impact on the net operating result for the period. Norway Royal Salmon ASA therefore show the effect from fair value</p>	<p>The Group's biomass system include information on number of fish, average weight and biomass per site.</p> <p>We have reconciled the movement in the inventory of live fish stock (biomass and number of fish). The movement in number of fish is the total of smolt stocked, loss of fish and harvested fish for the period. The movement in biomass equals the total of stocked biomass, net growth and harvested biomass for the period. We focused mainly on the number of smolt stocked and the net growth in kg for the period, as these have the most significant impact on the measurement at year-end.</p> <p>We have reviewed the Group's routines for registration of the number of smolts stocked. To ensure accuracy of the number of smolt registered in the biomass system we checked a selection of registered smolt stockings from the biomass system against supporting documentation.</p> <p>The period's net growth correspond to the feed consumption in the period divided by the feed conversion rate. The feed consumption is closely related to the feed purchase in the period. To evaluate the feed consumption and feed purchase of the period we have reviewed the Group's routines for reconciling the feed inventory and reconciled feed purchase against external confirmations from the two main suppliers. Furthermore, we have compared the accumulated feed conversion rate for the stock against our expectation based on industry data per farming region. Where the feed conversion rate differed from our expectation, we obtained explanations and supporting documentation. Our work supported that the estimated growth was reasonable.</p> <p>To evaluate the historical accuracy of the Group's estimates on biomass and number of fish, we have reviewed the harvesting deviations for the period. We found that the deviations were as expected.</p>



adjustments on a separate line, before net operating result.

In 2016 the Group changed its model used for estimating the fair value of biological assets. We refer to note 5 for further details. We focused on the valuation of the biological assets due to the size of the amount, the complexity and use of judgement used when calculating the fair value, the effect on the profit and due to the change in the model used to estimate the fair value of the biological assets.

We challenged the Group's model used to calculate the fair value by comparing it to the criteria in IAS 41 and IFRS 13. We found no obvious exceptions.

We then examined whether the biomass in kg and number of fish used in the calculation corresponded to the biomass and number of fish in the Group's biomass system, and tested that the model made mathematical calculations as intended.

After ensuring these fundamental assumptions were in place, we considered if the assumptions made by management when valuation the fair value was reasonable. We did this by discussing the assumptions with the group management and comparing them to e.g. historical data, industry data and observable market data. We found that the assumptions were reasonable.

---

### *Other information*

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility and message from the CEO, various market information, key figures and overview of alternative performance measures, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

---

### *Responsibilities of the Board of Directors and the Managing Director for the Financial Statements*

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the parent company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going

(3)



concern. The financial statements of the parent company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

---

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

(4)





We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide the Board of Directors with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### *Report on Other Legal and Regulatory Requirements*

---

#### *Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

---

#### *Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Trondheim, 4 April 2017  
**PricewaterhouseCoopers AS**

Rune Kenneth S. Lædre  
State Authorised Public Accountant

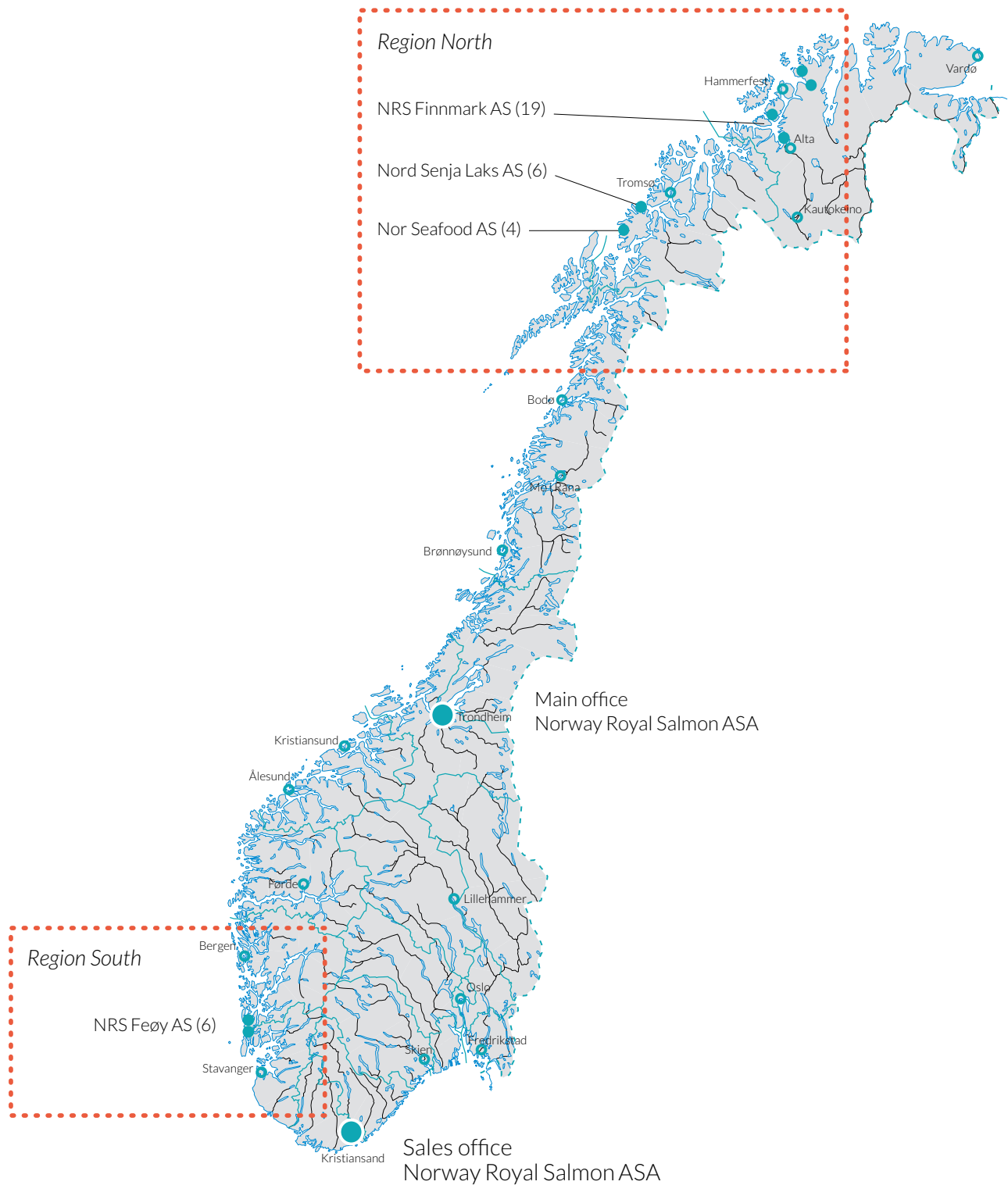
Note: This translation from Norwegian has been prepared for information purposes only.

(5)





Norway Royal Salmon ASA has four subsidiaries that operate 35 fish farming licences. These are located in Alta and Senja in northern Norway (Region North) and in the area around Haugesund (Region South). The number of licences is stated in parentheses.





## Main office

### Norway Royal Salmon ASA

Ferjemannsveien 10  
Box 2608, Sentrum  
NO-7414 TRONDHEIM

Phone: +47 73 92 43 00  
E-mail: [nrs@salmon.no](mailto:nrs@salmon.no)

## Sales office

### Norway Royal Salmon ASA

Gravane 8  
Box 110  
NO-4662 KRISTIANSAND S

Phone: +47 38 12 26 66  
E-mail: [nrs@salmon.no](mailto:nrs@salmon.no)

---

### NRS Finnmark AS

Markveien 38 B  
Box 1154  
NO-9504 ALTA

Mobile: +47 928 96 202  
E-post: [per.magne.bolgen@salmon.no](mailto:per.magne.bolgen@salmon.no)

### NOR Seafood AS

NO-9381 TORSKEN

Phone: +47 77 85 53 08  
Mobil: +47 905 73 554  
E-mail: [fredd@wilsgaard.no](mailto:fredd@wilsgaard.no)

### NRS Feøy AS

Storasundvegen 291  
Box 244  
NO-4260 TORVASTAD

Mobile: +47 994 48 090  
E-mail: [stein.ove.tveiten@salmon.no](mailto:stein.ove.tveiten@salmon.no)

### Nord Senja Laks AS

NO-9373 BOTNHAMN

Phone: +47 77 84 85 86  
Mobile: +47 950 71 879  
E-mail: [rune.eriksen@salmon.no](mailto:rune.eriksen@salmon.no)

### NRS Settefisk AS

NO-9130 KARLSØY

Phone: +47 739 24 300  
Mobile: +47 976 56 695  
E-mail: [ole.christian.norvik@salmon.no](mailto:ole.christian.norvik@salmon.no)



COMMITTED  
BY NAME

**NORWAY ROYAL SALMON ASA**

Ferjemannsveien 10  
Box 2608, Sentrum  
NO-7414 TRONDHEIM  
Phone: +47 73 92 43 00



[www.norwayroyalsalmon.com](http://www.norwayroyalsalmon.com)