NOTE 2
ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless stated otherwise.

BASIS OF PREPARATION

The consolidated financial statements of Grieg Seafood Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The consolidated financial statements have been prepared under the historical cost convention, as modified by biological assets, available-for-sale financial assets, and financial assets/liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are described in note 4.

CONSOLIDATION PRINCIPLES

(A) SUBSIDIARIES

Subsidiaries are all entities (including special purpose entities) over which the Group has control. A situation where the Group controls another entity arises when the Group is exposed to variability in returns from the entity, and has power to influence this return through its control of the entity.
Subsidiaries are consolidated from the point when the group can exercise control and consolidation ends when control of the subsidiary terminates.

If the Company´s ownership exceeds 50 % but is below 100 % of the subsidiaries, the minority´s share of profit after tax and share of equity are posted on separate lines in the statement.

The purchase method of accounting is used for acquisitions. The cost of an acquisition is measured as the fair value of the assets and liabilities taken over, and equity instruments issued. The cost also includes the fair value of all assets and liabilities and contingent liabilities taken over by agreement. Identifiable assets, debt and contingent liabilities are booked at fair value on the date of acquisition. Non-controlling owner interests in the acquired entity are measured from time to time either at fair value, or as their proportion of net assets of the entity that has been acquired.

Costs related to acquisitions are charged as they arise.

In the case of a multi-stage acquisition, the proportion of ownership from an earlier purchase is re-stated at fair value at the date of control and the value change is recognised through profit or loss.

A contingent acquisition price is measured at fair value at the date of acquisition. Under IAS 39, subsequent changes in the contingent acquisition price are recognised through profit or loss or are posted as a change in the comprehensive income statement where the contingent price is classified as an asset or a liability. There is no new value measurement of a contingent acquisition price classified as equity, and the subsequent settlement is charged against equity.

Intra-group transactions, balances, and unrealised gains between Group companies are eliminated. Unrealised loss is also eliminated. The accounts of subsidiaries are re-stated where necessary to ensure consistency with the accounting policies adopted by the Group.

(B) CHANGE IN OWNER INTERESTS IN SUBSIDIARIES WITHOUT LOSS OF CONTROL

Transactions with non-controlling owners of subsidiaries, which do not entail a loss of control, are regarded as equity transactions. On the purchase of further shares from non-controlling owners, the difference between the consideration paid and the shares' proportionate share of the net assets in the accounts of the subsidiary is recorded in the equity of the parent company's owners. Similarly, any gain or loss on a sale to non-controlling owners is recorded in equity.

C) DIVESTMENT OF SUBSIDIARIES

In the event of loss of control, any remaining ownership interest is stated as fair value change through profit or loss. Thereafter, for accounting purposes, fair value is the acquisition cost either as an investment in an associated company, joint venture or a financial asset. Amounts previously recorded in a comprehensive income statement related to this company, are dealt with as if the Group had disposed of underlying assets and liabilities. This may mean that amounts previously recorded in a comprehensive income statement, are reclassified as part of the income statement.

(D) ASSOCIATED COMPANIES

Associated companies are entities over which the Group has significant influence, but not control. Significant influence is deemed to exist where the Group has between 20% and 50% of the voting rights. Investments in associates are recognised using the equity method. Investments in associates are initially recognised at cost, and the Group´s share of the results in subsequent periods is recognised through profit or loss. The amount recorded in the balance sheet includes implicit goodwill identified at the date of purchase.

Share of profit or losses of associates that are closely linked to the Group´s operations and thus are included in the value chain of the Group, are classified on a separate line included in the Group's operating result.

In the event of a reduction in the owner interest in an associated company where the Group retains significant influence, only a proportionate part of amounts previously recognised in the comprehensive income statement is reclassified through profit or loss.

The Group's share of profits or losses of associated companies is recognised in the income statement and is added to the value of the investment in the balance sheet. The Group's share of the comprehensive results for the associated company is entered in the Group's comprehensive income statement and is also added to the amount of the investment in the balance sheet. The Group's share of a loss is not posted in the income statement if this means that the value of the investment in the balance sheet is negative (including the entity's unhedged receivables), unless the group has undertaken obligations or made payments on behalf of the associate. The accounts of associated companies are re-stated where necessary to ensure consistency with the accounting policies adopted by the Group.

At the end of each accounting period, the Group determines if there is a need to write down the investment in the associated company. In such case, the amount of the write-down is calculated as the difference between the recoverable amount of the investment and its book value, and the difference is recorded on a separate line along with "Share of results of associated companies".

If a gain or a loss arises on transactions between the Group and its associated companies, only the proportionate amount related to shareholders outside the Group is recorded. Unrealised losses are eliminated unless there is a need to write down the asset that was the subject of the transaction. Accounting policies of associates are changed where necessary to ensure consistency with the accounting policies adopted by the Group. Gains and losses on dilution of assets of associated companies are posted in the income statement.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group management.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency.
The financial statements of each of the Group's entities are generally measured using the currency of the economic area in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Norwegian Kroner (NOK), which is the parent company's functional and presentation currency.

TRANSACTIONS AND BALANCE SHEET ITEMS

Foreign currency transactions are translated into the functional currency using the exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency at year-end at the exchange rate on the date of the balance sheet are recognised in the income statement.

GROUP COMPANIES

The income statements and balance sheets of the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
(i) assets and liabilities are translated at the closing rate on the date of the balance sheet,
(ii) income and expense items in the income statement are translated at average exchange rates for the period (if the average is not a reasonable estimate of the cumulative effects of using the transaction rate, the transaction rate is used)
(iii) translation differences are recorded in comprehensive income and specified separately. When a foreign operation is sold, the exchange difference, which in previous periods was recorded in consolidated income, is not accrued. The accumulated exchange difference from the sale of the foreign operation is hence reversed in the consolidated income. Gain/loss from the sale is recognised on a basis of zero exchange difference. Gain/loss is recorded in the ordinary net profit.
Goodwill and fair value adjustments of assets and liabilities on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated into the functional currency at the closing rate.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Acquisition cost may also include gains or losses transferred from equity as a result of hedging the cash flow in foreign currency on the purchase of property, plant and equipment.

Improvements are included in the asset's carrying amount or recognised as a separate asset when it is probable that future economic benefits associated with the improvement will flow to the Group and the cost of the item can be reliably measured.
All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.
Land and buildings comprise mainly factories and offices. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate cost less residual value over estimated useful lives, as follows:

- Buildings/real estate 10 - 50 år
- Plants, barges, onshore power supply 5 - 30 years
- Nets/cages/moorings 5 - 25 years
- Other equipment 3 – 35 years

The assets' useful lives and residual values are reviewed at each balance sheet date and adjusted, if necessary.

An asset's carrying amount is written down to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are posted net in the income statement and correspond to the difference between the sale price and the carrying amount.

INTANGIBLE ASSETS

Intangible assets, which arise internally within the Group, are not recognised. Goodwill and licences with an indefinite economic life are subject to annual impairment tests. Impairment tests are performed more frequently if indications of impairment exist. Amortised licences are tested for impairment only if there are indications that future earnings do not justify the asset's balance sheet value.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is classified as an intangible asset. Goodwill on the purchase of a share in an associated company is included in "investments in associates". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

LICENCES

Fish quotas and fish farming licences that have an indefinite useful life are not amortised but reviewed for impairment annually, or more frequently if there are indications that the balance sheet value may have decreased.

The Group considers the following licences to have indefinite useful life:

- Licences granted with indefinite useful life, where the company has no other contractual restrictions related to the use of the licence.

- Licences granted with limited useful life, but where renewal from licence holders´ side can be arranged without substantial expenses.

Licences with a limited useful life are amortised over the useful lifetime. These regard water concessions for hatcheries and some specific grow-out licences. The following sections provide a description of concessions related to the segments Norway, UK (Shetland) and BC (Canada). Please refer to note 10 Intangible assets for an overview of the number and types of licences, as well as impairment testing.

NORWAY

The licencing regime for the production of salmon and trout in Norway has been introduced by the Parliament and adopted through the Aquaculture Act. The Ministry of Trade, Industry and Fisheries grants permits for aquaculture (licences). All aquaculture operations are subject to licencing and nobody can produce salmon/trout without permission from the authorities regardless of when the permit was issued, cf. Aquaculture Act § 4.

The aquaculture permit entitles the production of salmon and trout in limited geographic areas (sites), with the current determined limitations of the permit scope. The Aquaculture Act is administered centrally by the Ministry of Trade, Industry and Fisheries, with the Directorate of Fisheries as the supervisory authority. Regionally, several industry authorities collectively manage a complete administrative and supervisory responsibility within the regulating range of the Aquaculture Act. The county is the regional administrative body, while the Directorate of Fisheries serves as appellate body in locality and licencing matters.

Grow-out licences

Each licence for salmon and trout in the sea is subject to a production limit in the form of "maximum allowed biomass" ("MTB"). MTB does not directly limit the number of tons of fish production within a year, but limits the amount of fish to keep in the sea at any time. Normally, a licence has a limit of 780 tons MTB, ref. the Salmon Allocation Regulation § 15 ("laksetildelingsforskriften"). Such licences are limited in number and only subject to application, following politically decided licencing rounds.

Hatchery licences

Young salmon/trout are defined as eggs, juveniles, parr or smolts to be released in another locality ref. Salmon Allocation Regulation § 4 f. Such licences are not limited in number and thus subject to continuous application for new licences or changes to existing licences. Basically, it is not allowed to produce smolts over 250 grams, but the regulations allow for applications to produce a certain percentage of fish up to 1 kilogram.

R&D and broodstock licences

These licences are not limited in number. Permissions are means-tested, meaning the applicant must demonstrate a need for the production of eggs, specific research projects or educational purposes. Broodstock licences include both land and sea phase, ie the broodfish and egg production belong to the same licencing consideration.

Harvesting cage licences

Licences utilised to cage setting of live fish for harvesting. These relate to specific locations.

Duration and renewal

The Ministry may in individual decisions or regulations specify further provisions on the contents of aquaculture licences, including scope, time limitations, etc., cf. the Aquaculture Act § 5, second paragraph. Still, the preparatory work for the Aquaculture Act specify that licences normally are granted without a time limit. Grieg Seafood's general food fish licences and hatchery licences are not time limited under current regulations. After the reform in 2009, a number of licences were time limited, mainly to 15 years. As no government practices have been established related to renewal of broodstock licences, the current understanding is that expiration of licences allows for application for renewal based on demand. A licence for harvesting cages is valid for 10 years and needs renewal upon expiration, given that the licence is still connected to an approved harvesting plant.

Disposal and withdrawal

All licences can be transferred and mortgaged according to the Aquaculture Act § 19. Transfers and mortgages must be registered in a separate register (the Aquaculture Register). It is not allowed to rent out licences or licence capacity.

The Aquaculture Act reviews the basis for withdrawal of an aquaculture licence. This states inter alia that there must be significant breaches of the terms of an aquaculture licence before it can be revoked.

UK

Grieg Seafood Hjaltland UK Ltd ("Grieg UK") has farms on both the west and east coast of Shetland, as well as the west coast of Scotland. In order to operate farms in Scotland, the following five licences must be in place:

- Water Environment (Controlled activities) "CAR" licence – issued by Scottish Environment Protection Agency (SEPA)
- Planning permission – issued by local authorities (Town and Country Planning Act)
- Crown Estate Lease/Permission (The Crown Estate act 1961)
- Aquaculture Production Business Licence (APB) – issued by Aqua Animal Health
- Marine Licence (Navigation) – issued by the Scottish government

For limitations related to production quantity, see table in note 10.

Duration and renewal

- CAR licence – requires periodic inspection and monitoring. If a substantial negative effect on the environment can be proven, as a consequence of the operation, the production volume can be reduced or, as a worst-case scenario, revoked.
- Planning Permission – indefinite duration, but if the plant is left unused for 3 consecutive years, the licence may be withdrawn
- Crown Estate Lease/Permission – 25 years of duration. Normal procedure is renewal of the licences upon expiration.
- APB – indefinite duration depending on compliance with the licence´s conditions.
- Marine Licence – required application for renewal every 6 years. This is normally a formality.

BC

Grieg Seafood B.C. Ltd ("Grieg BC") has farms on both the west and east coast of Vancouver Island. In order to operate farms in British Columbia, Canada, the following three licences must be in place:

- Aquaculture licence – issued by Department of Fisheries and Oceans
- Licence of Occupation (Tenures) – issued by Ministry of Forest, Lands and Natural Resource Operations
- Navigation Water Permit – issued by Transport Canada (Canadian public authorities)

For limitations related to production quantity, see table in note 10.

Duration and renewal

- Aquaculture licence – duration of 1 year, renewal each year is a formality.
- Licence of Occupation – duration of between 2 and 20 years. Renewal is applied for upon expiration.
- Navigation Water Permit – duration of 5 years, but possible to apply for renewal.

OTHER INTANGIBLE ASSETS

Acquired customer portfolios and computer software licences are capitalised at cost and amortised over their estimated useful lives. Customer portfolios are capitalised at historical cost at the date of purchase. Amortisation is calculated using the straight-line method

over the estimated useful life, as follows:
- Customer portfolios 6 years
- Computer software 3-10 years

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not amortised and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever there are indications that future earnings do not justify the carrying amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for indicators of possible reversal of the impairment at each reporting date.

FINANCIAL ASSETS/LIABILITIES

The Group classifies its financial assets in the following categories: At fair value through profit or loss, loans and receivables, and assets available for sale. The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its financial assets upon acquisition and re-evaluates this designation at every reporting date in case of material changes.

A) LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'other receivables' in the balance sheet.
At each balance sheet date the Group considers whether there is any objective evidence that the loans and receivables are impaired. Such objective evidence is, for instance:
- breach of contract, such as a default or delinquency in payments,
- the probability that the borrower will become insolvent or be subject to financial reorganisation.
Loans and receivables are carried at amortised cost using the effective interest method.

B) 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 other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available for-sale financial assets are stated at fair value. Change of value is recorded in consolidated total financial statement.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'other financial income/losses from investment in securities '. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on shares classified as available-for-sale are recognised in the income statement when the Group's right to receive dividends is established. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include recent transactions on market terms, reference to other instruments which are essentially the same, the use of discounted cash flows and options models.

The techniques used make maximum use of market and avoid company-specific information as much as possible.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.
Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. All financial assets which are not stated at fair value through profit or loss are initially recognised at fair value plus transaction costs.

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of shares classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and fair value, less any impairment loss on that financial asset previously recognised through profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on shares and corresponding equity instruments are not reversed through the income statement. Impairment testing of accounts receivable is described below.

C) FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE INCLUDED IN INCOME STATEMENT, INCLUDING DERIVATIVES AND HEDGING

Financial equity classified as available-for-sale is recorded at fair value, whereas change of value is included in income statement.

The Group does not apply hedge accounting according to IAS 39. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently stated at fair value on an ongoing basis.
Changes in the fair value of derivatives are posted net in the income statement under 'other financial income/costs'. This includes derivatives intended for hedging purposes.

Assets/liabilities in this category are classified as current assets/short term debt when intended to be disposed of within 12 months, otherwise as non-current assets/liabilities.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The net realisable value is the estimated selling price, less processing and selling expenses.

BIOLOGICAL ASSETS

The accounting treatment of living fish by companies applying IFRS is regulated by IAS 41 Agriculture. IAS 41 comprises a hierarchy of methods for accounting measurement of biological assets. The basic principle is that such assets shall be measured at fair value.
The model applied by the Group divides the fish into three weight categories and assumes the following:

1. Fish below 1 kilogram is recorded at accumulated cost. The best estimate for fair value is considered to be accumulated cost.
2. For fish between 1 and 4 kilograms the estimated fair value includes a proportionate part of the estimated profit.
3. For fish over 4 kilograms (fish ready for harvesting) the fair value is set at the net sale price on the basis of harvesting at the balance sheet date.

If the expected sale price is below the estimated cost, this will entail a negative value adjustment of biological assets, which is 100 % accrued. Upon estimating actual accumulated cost at the respective grow-out facility, direct costs (fish feeds a.o.) are allocated to the locality. Indirect costs are distributed across localities through a norm of distribution. Given unusual mortality rate, the cost is amortised. This applies only when mortality rate exceeds normal expectations. Financial costs are not allocated to cost.

The sale price for fish ready for harvesting is based on spot prices, while the price of fish between 1 and 4 kilograms is based on forward prices and/or the most relevant price information that is available for the period when the fish is expected to be harvested.

The net sales are adjusted for quality differences (superior, ordinary and prod.), and for freight and sales commissions. Estimated harvesting expenses are also deducted. The volume is adjusted for gutting waste, as the price is measured for gutted weight.

Change in fair value of biological assets is recognised. The value adjustment is presented on the separate line "Fair value adjustment of biological assets."

The Group applies an internal principle of impairment in the event of extraordinary mortality. Such impairments are recorded as they arise as part of the cost of sales in the income statement. Information on recorded fair value for extraordinary mortality is based on the same principle as estimating value-adjusted biological assets. For specification of annual extraordinary mortality, see note 9.

INDUSTRY GROUP FOR AQUACULTURE

In autumn 2014 the Fincancial Supervisory Authority of Norway (FSA) initiated an evaluation project related to parts of the financial reporting for aquaculture companies listed on the Oslo Stock Exchange. The purpose of the project was to assess whether the aquaculture industry practices a uniform and consistent reporting in accordance with IFRS. FSA published its final report on 17 November 2015 on its website (www.finanstilsynet.no). As a result of this review, the fish farming companies subject to the project, established an industry group for financial reporting, as a venue for discussions and common improvements of reporting.

The group has held several meetings during the autumn of 2015, and the two main agendas of the meetings were to:
1) identify possible note improvements and policy applications, and
2) develop a common model for fair value measurement of biomass in line with IAS 41.

Affiliated with the first agenda, the group has identified some areas for improvement, and some adjustments of the note disclosures and presentation with effect for the fiscal year 2015. Further standardisation of the note information with effect from the fiscal year 2016, is expected.

As for the other agenda, the industry group has initiated work on a common valuation model, and this work will continue in 2016. The group aims to have completed this work in time to effect the financial statements as of December 31, 2016.

The following companies participate in the industry group: Lerøy Seafood Group ASA, Grieg Seafood ASA, Salmar ASA, Cermaq AS, P/F Bakkafrost and Marine Harvest ASA.

ACCOUNTS RECEIVABLE

Accounts receivable are generated from trading of goods or services within the ordinary operating cycle. Accounts receivable under normal terms of payment are recognised initially at nominal value. Longer terms of payment implies a subsequent measurement of net present value/discounting of the accounts receivable. A provision for impairment of accounts receivable is established when there is objective indication that the Group will not be able to collect all amounts due according to the original terms of trade. Significant financial difficulties affecting the debtor, the probability that the debtor will become insolvent or be subject to financial reorganisation, and default or delinquency in payments are considered indicators that the account receivable is impaired. The provision is the difference between nominal and recoverable amount, which is the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement under 'other operating expenses'.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, bank deposits, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown under borrowings included in current liabilities.

SHARE CAPITAL

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options, net of tax, are shown in equity as a deduction, net of tax, from the proceeds.

BORROWINGS

Borrowings are recognised initially at fair value when the funds are received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost applying the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.
Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

DEFERRED TAX

Deferred tax is provided for in full at nominal values, using the liability method, on temporary differences arising between the value of assets and liabilities for tax and accounting purposes. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income liability is settled.

Deferred tax assets are offset against deferred tax liabilities to the extent that it is probable that future taxable income will be available, from which the temporary differences can be deducted.

Deferred tax is calculated on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

EMPLOYEE BENEFITS

PENSION OBLIGATIONS

Effective from 1 July 2009 the pension obligations of Grieg Seafood ASA have been based on a defined contribution based scheme for all employees, following the termination of a defined benefits based scheme. The Company's pension scheme is in accordance with rules and regulations for mandatory occupational pensions. The premium is charged through operations as it arises in the profit and loss account. Employer's social security contributions are charged on the basis of the pension premium paid.

Grieg Seafood Rogaland AS and Grieg Seafood Finnmark AS have a contractual early retirement pension scheme (AFP). The financial commitments associated with this scheme are included in the Group's pension calculations. The AFP early retirement scheme follows the rules for public sector AFP, and both companies are members of the LO/NHO scheme. The pension payment calculations are based on standard assumtions relating to the development of mortality and disability as well as other factors such as age, years of service and remuneration.

The old AFP scheme has terminated, and the previous balance sheet obligation was therefore written back in 2010. This does not apply to that part of the obligation related to those who have already taken out a pension under the old scheme. On termination of the old AFP scheme LO/NHO required the member companies to cover the underfunding of the old scheme. Companies which have been members of LO/NHO must make a provision to cover the underfunding, with payment due over a 5-year period.

SHARE-BASED REMUNERATION

The Group operates a share-based management remuneration plan with settlement in cash. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be charged over the vesting period is calculated on the basis of the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision relative to original estimates, if any, in the income statement, with a corresponding adjustment to liability. The Black and Scholes option pricing model is used for valuation.

The company´s obligations are posted under long-term commitments if the latest possible redemption date exceeds one year.

TRANSACTIONS UNDER JOINT CONTROL

On the purchase of entities under joint control the Group has chosen to apply IFRS 3 as its accounting standard.
The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

TERMINATION BENEFITS

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Profit sharing and bonus plans
The Group recognises a provision where it has a contractual obligation or where there is a past practice that has created a constructive obligation.

PROVISIONS

Provisions (e.g. environmental improvements, restructuring costs and legal claims) are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- the amount of the obligation can be reliably estimated.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market situation and the risks specific to the obligation. The increase in the provision due to the change in value because of passage of time is posted as a financial expense.

REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating intra-group sales. Revenue is recognised when it is reliably measured and it is reasonably assured that the economical assets will be transferred, i.e. when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables and when the risks and rewards have been transferred to the customer.

INTEREST INCOME

Interest income is recorded proportionately over time using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate. Interest income on impaired loans is recognised on the basis of the amortised cost and the original effective interest rate.

DIVIDEND INCOME

Dividend income from investments under the cost method or available-for-sale is recognised when the right to receive payment is established. Dividend income from entities under the equity method are not being recognised but recorded as a reduction in the carrying value of the investment.

LEASES

FINANCE LEASES

Leases, or other arrangements as described in IFRIC 4, relating to property, plant and equipment where the Group has substantially all the risks and control, are classified as finance leases.
Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the aggregate minimum lease payments.
Each lease payment is allocated between an instalment element and an interest element so as to achieve a constant interest rate in the different periods on the outstanding lease obligation in the balance sheet. The lease obligation, less interest costs, is classified as other long-term debt. The interest expense is posted in the income statement as a financial expense over the lease period so as to achieve a constant interest expense on the outstanding obligation in each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease period.

OPERATING LEASES

Leases, or other arrangements as described in IFRIC 4, in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any financial incentives from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

DIVIDENDS

Dividends payable to the Company's shareholders are recognised as a liability in the Group's financial statements when the dividends are approved by the AGM.

BORROWING COSTS

Borrowing costs incurred during the construction of operating assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are charged in the income statement.

CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities are defined as:

1. possible obligations resulting from past events whose existence depends on future events;
2. obligations that are not recognised because it is not probable that they will lead to an outflow of resources entailing financial benefits out of the company
3. obligations that cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the annual financial statements apart from contingent liabilities which are acquired through the acquisition of an entity. Significant contingent liabilities are disclosed, with the exception of contingent liabilities where the probability of the liability occurring is remote.

Contingent liabilities acquired through the purchase of operations are recognised at fair value even if the liability is not probable. The assessment of probability and fair value is subject to constant review. Changes in the fair value are recognised in the income statement.

A contingent asset is not recognised in the financial statements, but is disclosed if it is likely that a benefit will accrue to the Group.

CASH FLOW STATEMENT

The Group's cash flow statement shows the overall cash flow broken down into operating, investing and financing activities by using the indirect method. The cash flow statement illustrates the effect of the various activities on cash and cash equivalents. Cash flows resulting from the disposal of operations are presented under investing activities.

EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit for the year allocated to the company's shareholders by a weighted average of the number of issued ordinary shares during the year.
Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.