

NOTE 3

FINANCIAL RISK MANAGEMENT

CAPITAL MANAGEMENT

"It is a Group aim to ensure that it has access to capital to enable the Company to develop in accordance with adopted strategies. By so doing, Grieg Seafood should continue to be one of the leading players in its sphere of activity. Historically, the industry has always been vulnerable to price fluctuations in the market. Because of this, the accounting performance may fluctuate considerably from year to year. Therefore, it is a goal to ensure that the business maintains an appropriate level of free liquidity.

The Board believes it is natural that, over a period of several years, the average dividend should correspond to 25-30% of the profit after tax, after allowing for the effects of fair value adjustments of biomass on profits. However, the dividend must always be considered in the light of what is deemed to be a healthy and optimal level of equity.

At 31.12.2015 the Group had net interest-bearing debt including finance leases of MNOK 1 907, ref. note 12. Funding is mainly in the form of bank loans. The level of debt and alternative forms of funding are subject to constant evaluation.

FINANCIAL RISK FACTORS

The Group is exposed to a range of financial risks; market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial performance. To some extent, the Group uses financial derivatives to reduce some risks.

The Group identifies, evaluates and hedges financial risks in close cooperation with the Group's operational units. The board has established written principles for the management of foreign exchange risk, interest rate risk and the use of financial instruments.

MARKET RISK

(I) FOREIGN EXCHANGE RISK

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the CAD, USD, GBP and EUR. Foreign exchange risk arises from future commercial transactions, recognised assets, liabilities and net investments in foreign operations. Hedge accounting is not applied to foreign currency forward contracts and other derivatives. Change in value of forward contracts/other derivatives thus affect the result, since these are accounted for at fair value through profit or loss, see description in accounting principles (note 2). The Group enters into foreign currency forward contracts to manage this risk.

Foreign currency in NOK	2015	NOK	USD	EUR	GBP	CAD	JPY	Other currency	Total
Accounts receivable		102 482	87 647	271 653	92 021	4 679	23 422	0	581 904
Accounts payable		424 127	769	7 419	124 405	91 513	-	4 850	653 083

Foreign currency in NOK	2014	NOK	USD	EUR	GBP	CAD	JPY	Other currency	Total
Accounts receivable		97 366	71 332	173 908	145 184	3 782	12 538	0	504 110
Accounts payable		214 994	341	2 168	97 021	45 835	0	0	360 358

Currency statement net interest-bearing debt	2015	NOK	USD	EUR	GBP	CAD	JPY	Other currency	Total
Cash and cash equivalents		261 739	24 165	1 601	48 231	55 930	353	1	392 020
Longt-term interest-bearing debt*		1 965 818	71 053	199 476	50 587	-	12 195	-	2 299 129
Net interest-bearing debt		1 704 079	46 888	197 875	2 356	-55 930	11 842	-1	1 907 109

*Overview interest-bearing debt, see note 12

Currency statement net interest-bearing debt	2014	NOK	USD	EUR	GBP	CAD	JPY	Other currency	Total
Cash and cash equivalents		109 059	13 822	-	48 124	10 490	4	-	181 498
Interest-bearing*		1 866 456	-	-	86 371	-	-	-	1 952 827
Net interest-bearing debt		1 757 397	-13 822	-	38 247	-10 490	-4	-	1 771 329

The Group has investments in foreign subsidiaries whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations has previously been managed primarily through borrowings denominated in the relevant foreign currencies.

The Group's bank loans are now in NOK. The background is a wish to prevent the parameters of the financial framework from being affected by foreign currencies, since all of the syndicated bank loans are measured in NOK.

The parent company has short and long-term loans to the subsidiaries denominated in these companies' functional currency. All long-term loans are considered to be equity in these companies, as they will not be repaid. The currency effect of loans are posted under "currency effect of net investments" in consolidated comprehensive income. Numerical effects for 2015 and 2014 are presented below.

The currency effect of the net investments of subsidiaries is as follows:	2015	2014
Currency effect	54 134	78 912
Tax effect	-14 616	-21 306
Net effect charged against equity	39 518	57 606

Sensitivity analysis

Given a currency appreciation of NOK with 10% against USD, CAD, GBP and EUR on the balance sheet date 31.12.2015, the following effects on net interest-bearing debt in TNOK can be expected.

10% appreciation against	USD	EUR	GBP	CAD
Net effect on net interest-bearing debt	4 689	19 788	236	-10 282

The reversed effect will take place if NOK depreciates with 10%

10% appreciation against	USD	EUR	GBP	CAD
Monetary items - net effect on profit after tax	5 579	117	12 506	9 399

The reversed effect will take place if NOK depreciates with 10%

Forward currency contracts

Forward currency contracts are classified at fair value through profit or loss as current assets or current liabilities, respectively. Changes in fair value are recognised as financial expenses or financial income.

The following table shows the Group's forward currency contracts as at 31.12.2014 and 31.12.2015:

Forward currency contracts as at 31.12.2015:

Sold	Amount	Bought	Amount	Weighted hedging rate	Market rate	Maturity interval *)	Market value in TNOK at 31.12.2015
USD	5 550	CAD	7 562	1,3625	1,3884	05.01.16 - 12.02.16	-847
EUR	51 070	NOK	483 247	9,4625	9,6030	04.01.16 - 24.01.17	-9 420
USD	2 826	NOK	24 311	8,6036	8,8206	05.01.16 - 08.02.16	-615
GBP	9 032	NOK	117 080	12,9631	13,0840	04.01.16 - 20.01.17	-1 196
JPY	299 059	NOK	21 448	0,0717	0,0733	05.01.16 - 08.02.16	-467
Other currency	193	NOK	244			05.01.16 - 07.01.16	-4
Total							-12 549

Forward currency contracts as at 31.12.2014:

Sold	Amount	Bought	Amount	Weighted hedging rate	Market rate	Maturity interval *)	Market value in TNOK at 31.12.2014
USD	14 700	CAD	16 655	1,1326	1,1612	27.02.15 - 29.06.15	-2 695
EUR	30 353	NOK	268 825	8,7820	9,0400	02.01.15-23.01.15	-6 129
USD	9 197	NOK	65 730	6,9798	7,4500	02.01.15-23.01.15	-2 825
JPY	255 907	NOK	15 679 635	0,0609			-259
Other currency							39
Total							-11 869

*) The maturity is stated in intervals where there are several contracts.

(II) PRICE RISK

The Group is exposed to fluctuations in the spot prices for salmon, which is mainly determined by the global supply of salmon. The effect of price changes is reduced by geographical diversification, but due to the long production cycle it can be difficult to respond rapidly to global trends in market prices. Salmon is mainly traded at spot prices, and an increase in the global supply of salmon can result in a decline in spot prices. When entering into a financial price contract, the buyer and the seller agree on a price and a fixed volume for future delivery. In 2015, the Group has no financial price contracts, but the sales company Ocean Quality AS has secured contracts with customers. The Group management continuously analyses the price market and opportunities to enter into price contracts. In 2014, the Group entered into financial price contracts for 2015 of 1445 tons.

(III) INTEREST RATE RISK

As the Group has no significant interest-bearing assets, its income and operating cash flows are largely independent of changes in market rates. The Group's interest rate risk arises from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Fixed interest contracts are used to reduce this risk. The level of fixed interest loans is insignificant. The Group monitors its interest rate exposure continuously. The Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same change in the interest rate is used for all currencies. The scenarios are run only for liabilities which represent major interest-bearing positions.

Sensitivity calculations show the following expected values: If the interest rate had been 1% higher (lower) throughout the year, other things being equal, the pre-tax profit would have been reduced (increased) by MNOK 17,7 in 2015 and MNOK 14,2 in 2014 due to the floating rate of interest on loans and deposits. The sensitivity analysis is based on average net interest-bearing debt throughout 2015 and 2014, notwithstanding concluded interest rate swap agreements.

Amounts in NOK 1000	Increase/reduction in interest rate points	2015	2014
Effect on profit before income tax	-/+ 1%	-/+ 17 704	-/+ 14 214

INTEREST RATE SWAP AGREEMENTS

The purpose of the Group's risk management activities is to establish an overview of the financial risk that exists at any given time and to take protective steps which give more time to adapt to the changes that take place. With this purpose in mind, the Group has chosen to employ interest rate swap agreements to establish greater stability for the Group's loan interest expenses on variable rate. The Group has decided that at any given time a certain percentage of its interest-bearing debt on variable rate in banks a.o. shall be hedged under interest rate swap agreements. A specific proportion will always be at a floating rate, while the remainder will be subject to possible hedging. This is under constant consideration, based on the market situation.

The interest rate swap agreements have a horizon of 2-4 years and whether these periods are to be rolled over is a matter of constant evaluation.

The following table shows the Group's interest rate swap agreements in TNOK, and the market value as at 31.12.2014 and 31.12.2015:

2015

Agreement	Principal	Fixed rate	Basis of floating rate	Duration	Market value
Fixed rate paid - floating rate received	400 000	1,69	Nibor 3 mth	27.03.19	-10 380
Fixed rate paid - floating rate received	200 000	2,34	Nibor 3 mth	17.10.16	-1 766
Fixed rate paid - floating rate received	200 000	2,40	Nibor 3 mth	16.08.16	-2 409
Total					-14 555

The interest rate swap agreements are measured at market value excluding accrued interest.

2014

Agreement	Principal	Fixed rate	Basis of floating rate	Duration	Market value
Fixed rate paid - floating rate received	400 000	1,70	Nibor 3 mth	31.10.19	-8 603
Fixed rate paid - floating rate received	200 000	2,34	Nibor 3 mth	16.08.16	-4 315
Fixed rate paid - floating rate received	200 000	2,40	Nibor 3 mth	17.10.16	-4 980
Total					-17 898

Similar to the forward currency contracts hedge accounting under IAS 39 is not applied to interest rate swap agreements. Change in value of interest rate swap agreements thus affect the result, since these are accounted for at fair value through profit or loss, see description in accounting principles (note 2). Recognised change in value (unrealized) is classified as financial income or expense.

FAIR VALUE, FINANCIAL ASSETS

Carrying value of derivatives and other financial instruments as at 31.12 is displayed below (TNOK). Carrying value equals fair value. Positive value is classified as assets, negative value is classified as liabilities in the balance.

	2015		2014	
	Assets	Short-term loan	Assets	Short-term loan
Forward currency contracts	0	-12 549		-11 869
Interest rate swap agreem. (3 contracts totalling MNOK 800 due in 2016 and 2019)	0	-14 555	0	-17 898
Financial salmon contracts	0	0	0	1 834
Sum financial instruments at fair value	0	-27 104	0	-27 932

CREDIT RISK

Credit risk is managed at Group level. Credit risk arises from transactions with derivatives and deposits in banks and financial institutions, as well as from transactions with customers, including accounts receivable and fixed contracts. The Group has procedures to ensure that products are only sold to customers with satisfactory creditworthiness. The company normally sells to new customers only on presentation of a letter of credit or upon advance payment. Credit insurance is used when deemed appropriate. For customers who have a reliable track record with the Group, sales up to a certain level agreed in advance are permitted without any security.

Factoring agreements have been concluded with Ocean Quality AS and Ocean Quality UK regarding accounts receivable, see further information in note 12. All production is sold to Ocean Quality Group which in turn sells to external customers. As from 2015, this also applies to production in BC, selling to Ocean Quality's subsidiary in NA. It is the policy of Ocean Quality AS to secure the bulk of its sales through credit insurance and bank guarantees.

The book value of financial assets represents the maximum credit exposure. The maximum credit risk exposure as at 31.12.2015 was as follows:

Amounts in NOK 1000

	NOTE	2015	2014
Accounts receivable	22	581 904	504 110
Other receivables	23	145 767	93 371
Cash and cash equivalents	21	392 020	181 498
Total		1 119 691	778 979

Other receivables relates mainly to prepayments and VAT receivable.

AGE DISTRIBUTION OF ACCOUNTS RECEIVABLE	2015	2014
Not due	460 807	158 298
Due	120 973	95 745
- 0-3 months	109 423	78 787
- more than 3 months	10 132	7 574
- more than 1 year	1 404	9 384
Total nominal value of accounts receivable	581 780	254 043

CHANGE IN PROVISION FOR BAD DEBTS	2015	2014
01.01.	1 704	4 420
Change in provision	3 275	2 715
At 31.12.	4 979	1 704

LIQUIDITY RISK

The Group performs prudent liquidity risk management, which implies maintaining sufficient cash and marketable securities, the availability of funding through sufficient credit facilities and the ability to close our market positions when considered appropriate. Due to the dynamic nature of the underlying nature of the business, the Group aims to maintain flexibility in funding by keeping committed credit lines available. In June 2015 the Company's bank loans were expanded by MNOK 500 to ensure financing upon expiration of bond loans totalling MNOK 400. Simultaneously, Danske Bank exited the bank syndicate, leaving DNB and Nordea with 50% each. The financing agreement consists of a total credit frame of MNOK 1 910, of which a long-term credit facility of MNOK 700. The Group redeemed the bond loan of MNOK 400 December 2015, by utilising the bank loan with MNOK 400. By year-end 2015, a total of MNOK 450 has been utilised of a total frame of MNOK 700. This credit facility is classified as non-current liability, as it matures with the maturity of the mortgage loan in June 2019. For further information about non-current liabilities, see note 12.

The management monitors the Group's liquidity reserve comprising credit facilities (see note 12) and cash and cash equivalents (note 21) based on expected cash flows. This is generally carried out at Group level in cooperation with the operating companies.

The following table shows a specification of the Group's financial liabilities that are not derivatives, classified by structure of maturity. The amounts in the table are undiscounted contractual cash flows. Note 12 shows the payment profile for the Group's non-current liabilities.

31 December 2015	← 3 mth	3-12 mth	1-2 years	2-5 years	Over 5 years	Total
Long-term loan instalments	22 866	68 598	90 000	985 018		1 166 482
Loan interest - floating	11 909	34 627	42 778	60 967		150 281
Long-term credit facility				450 000		450 000
Short-term loan interest - floating	1 580	4 740	6 320	15 800		28 440
Finance leases	16 739	44 269	63 732	151 345	57 891	333 976
Finance lease interest	1 695	7 792	8 471	18 442	5 426	41 826
Accounts payable	652 106	235	742	0	0	653 083
Export credits		10 458				10 458
Factoring commitments	338 213					338 213
Total commitments	1 045 108	170 719	212 043	1 681 572	63 317	3 172 759

31 December 2014	← 3 mth	3-12 mth	1-2 years	2-5 years	Over 5 years	Total
Long-term loan instalments	2 904	464 761	91 464	667 363	24 485	1 250 977
Loan interest - floating	15 486	45 329	23 806	46 617	0	131 238
Long-term credit facility	0	0	0	200 000	0	200 000
Short-term loan interest - floating	1 580	4 740	6 320	15 800	0	28 440
Finance leases	13 936	40 347	51 606	110 174	73 598	289 661
Finance lease interest	3 080	8 642	9 772	21 097	9 124	51 715
Accounts payable	360 358	0	0	0	0	360 358
Export credits		9 527				9 527
Factoring commitments	195 560					195 560
Total commitments	592 904	573 346	182 968	1 061 051	107 207	2 517 476

Current and non current liabilities are met with available liquidity, available drawdown on short-term credit facility, as well as positive cash flows from operations.

FAIR VALUE ESTIMATION

(I) FINANCIAL INSTRUMENTS

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques (see note 14). The Group uses different methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates on the balance sheet date. The fair value of financial salmon contracts is determined using forward prices from Fish Pool.

(II) ACCOUNTS RECEIVABLE AND PAYABLES

The nominal value less write-downs for realised losses on trade receivables and payables is assumed to correspond to the fair value of these items. The fair value of financial liabilities is assumed to be close to the book value, as they nearly all carry a floating interest rate.

(III) BIOLOGICAL INVENTORIES

Fish in the sea is measured at fair value. As a consequence, the value of biological inventories will likely vary more than the value of inventories based on cost. Fair value varies due to a number of reasons, including volatility in pricing of Atlantic salmon and factors related to production, unpredictability of biological production and changes in the composition of inventories.

A sensitivity analysis of the prices of salmon as at 31.12.2015 and 31.12.2014 shows the following impact on the Group's operating result before tax (MNOK).

31 DECEMBER 2015		
Price reduction per kg	NOK 1	NOK 2
Reduced profit after tax	22 527	45 050
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Price increase per kg	NOK 1	NOK 2
Increased profit after tax	22 519	45 042
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31 DECEMBER 2014		
Price reduction per kg	NOK 1	NOK 2
Reduced profit after tax	24 478	48 958
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Price increase per kg	NOK 1	NOK 2
Increased profit after tax	24 474	48 541

A sensitivity analysis of the full volume of Atlantic salmon as at 31.12.2015 shows the following impact on profit after tax (MNOK):

31 DECEMBER 2015	
Increased volume in tons	+ 10 %
Increased profit after tax	92 443
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Reduced volume in tons	- 10 %
Reduced profit after tax	83 860