

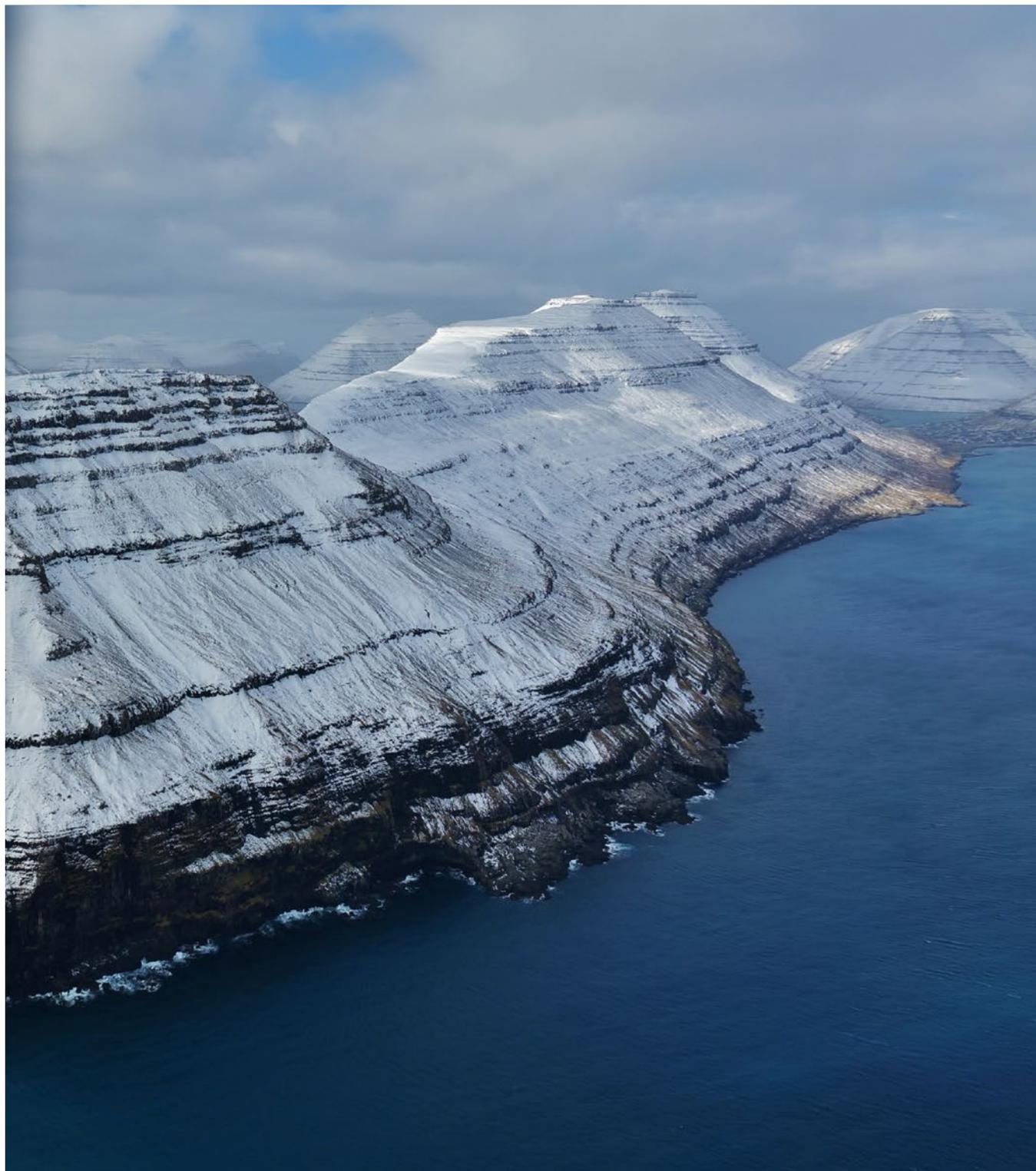


ESTABLISHED 1968

HEALTHY LIVING

SUSTAINABILITY
REPORT 2018

www.bakkafrost.com/sustainability



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WHAT'S IN THIS REPORT

This is Bakkafrost's second sustainability report. The document provides an overview of performance against our two-year Healthy Living Sustainability Plan, for the reporting period 1 January to 31 December 2018. As the biggest salmon producer in the Faroe Islands, we understand our responsibility to be transparent about the impacts we have on the local economy, society and the environment. One year in to our plan, we are more determined than ever to accelerate progress in how we manage these impacts. This report excludes data from our UK and US operations which make up less than 5% of costs and revenues, but includes our subsidiary Havsbrún.

 For more information, please visit www.bakkafrost.com/sustainability

About Bakkafrost



BAKKAFROST established in 1968 by brothers Hans and Róland Jacobsen

Location: Faroe Islands

Headquarters: Glyvrar, Eysturoy

Production and business-to-business sale: salmon, packaging, fish meal, oil and feed

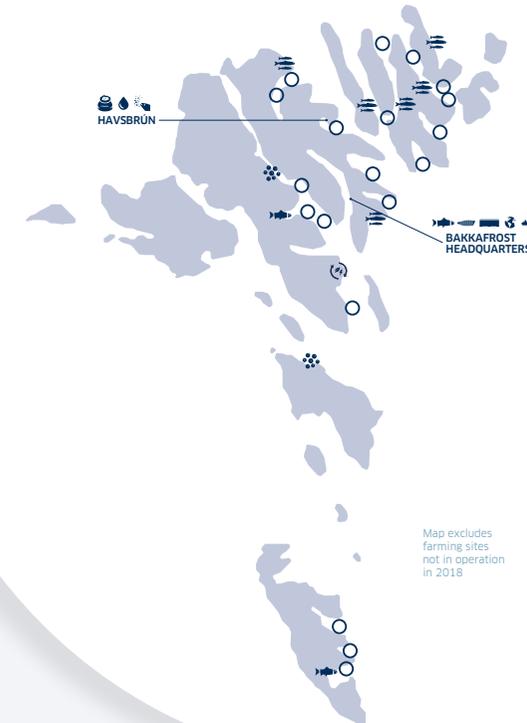
Longest integrated value chain in the industry. Fully owned subsidiaries: Havsbrún, Fuglafjørður (meal, oil and feed); Bakkafrost UK, Grimsby (seafood importer and distributor); Bakkafrost USA, New Jersey (seafood producer, importer and distributor); Förka, Tórshavn (biogas plant)

Listed: Oslo Børs with ticker symbol BAKKA

Employees: 1,032 (783 full time equivalent), including 99 at Havsbrun. We have further 5 at Bakkafrost UK, and 36 at Bakkafrost USA

Markets served: USA (20%), EU (31%), Eastern Europe (25%), Asia (24%)

- Key Resources**
- We finance our operations through a mixture of cash flow and shareholder capital
 - We rely on the expertise, competencies and values of our workforce to operate and take our business forward as we grow and evolve
 - We depend on a range of natural resources which make it possible to produce world-class quality salmon
 - We rely on state-of-the-art production facilities and service vessels to operate with optimum efficiency and volume
 - We benefit from a strong reputation for high-quality salmon and feed products enabling us to grow our market share
 - We depend on healthy relationships with our stakeholders for optimal conditions to create shared value



Our Value Chain



Output

450 tonnes of fishmeal daily capacity	300 tonnes of fish oil daily capacity	700 tonnes of fish feed daily capacity	Faroese broodstock programme taken over in 2018	14 million smolts annual capacity New hatchery in Strond	90-100,000 tonnes of waste conversion annual capacity Expected 2020	19 farming sites in operation across 17 fjords New farming site in Hvalba planned for 2019	6 farming service vessels (including 4 live fish carriers) and 74 smaller boats	44,600 tonnes of salmon harvested (2018) Changed harvest method Installed new harvest plant	130,000 tonnes primary and 40,000 tonnes secondary annual processing capacity	70,000 tonnes of salmon, annual packaging capacity	3.177 DKK billion operating revenues Sales to 29 countries
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- Value Created**
- We create value for our shareholders and for the Faroe Islands in taxes and through direct and indirect employment opportunities
 - We meet growing global demand for protein with healthy and efficiently-produced salmon products
 - We contribute towards improved infrastructure in the Faroe Islands
 - We collaborate with the aquaculture industry to promote responsible and sustainable practice
- (Please see our Annual Report at www.bakkafrost.com for our consolidated financial statements.)

The Bakkafrost Difference

High nutritional content from local marine sources, non-GMO and sustainable ingredients	Improved biosecurity	Pristine farming environment, efficient circular solutions, zero antibiotics or growth hormones	Short transportation time for salmon due to short distances	Efficient processing capabilities and product development	Good market reach
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Our sustainability journey



2018 Review with Regin Jacobsen, CEO of Bakkafrost

LOOKING BACK AT 2018

2018 was an important year for Bakkafrost, August marked 50 years since my father started the business, and in many ways, we used this celebration as a milestone to set the future direction for the business.

We announced a DKK 3 billion five-year investment plan to support our strategy to minimise biological risk, increase efficiency and create sustainable organic growth (further details of which will be announced in 2019).

As part of our growth strategy, in May, we announced the acquisition of North Landing, a US salmon importer focused on the East Coast. The new subsidiary will give us better market access and increased ability to serve our customers in that geography.

Results in 2018 were not as strong as the previous year due to difficult market conditions and market access. However, we expect new contracts for our value-added products will stabilise this in 2019.

We are pleased to be making progress with our growth strategy. However, for this to be sustainable, we must keep a sharp focus on our most material risks and opportunities and continue to be guided by our values.



Chief Executive Officer Regin Jacobsen

Another important occasion was the publication of our first sustainability report, which gave our stakeholders a strong message about our commitment to put a sustainable and responsible approach to aquaculture at the top of our agenda. As the recent [EAT-Lancet Food Planet Health](#) report outlines, to have healthy and sustainable diets by 2050, we need to substantially shift to more efficient forms of protein. Although salmon aquaculture is one of the most efficient sources of animal protein, it is important that global production is expanded responsibly. This is our vision. Our first sustainability report outlined a two-year plan designed around a vision to enable healthy living for millions of people through the provision of healthy and nutritious salmon.

With this second report, we are going one step further to align our reporting with the international [Global Reporting Initiative](#) standards, which we hope will further improve the quality of our reporting and provide greater transparency on how we are working towards our vision.

AREAS OF PROGRESS

We are now one year into our Healthy Living Plan. We were very pleased to make two announcements in our first year of the plan. In April, we announced a DKK 100 million investment in a new biogas plant, which we expect will be operational in 2020. This was followed by an announcement in August to coincide with our 50th anniversary to increase



Founder Hans Jacobsen

the strategic nature of our community investments through a new ringfenced fund. The three-year DKK 10 million Healthy Living Fund will aim to build partnerships with organisations which address material issues affecting the communities in which we operate. Our first partnership is with the University of the Faroe Islands and will support natural sciences, with a focus on aquaculture.

While we have made great progress with the majority of our commitments - for example exceeding our target to have six sites certified to the international ASC standard, we still face a number of challenges.

AREAS FOR IMPROVEMENT

We experienced a set-back in September when we recorded the mortality of around 630 thousand fish at one of our farming sites, where a poisonous species of algae was registered. This has impacted our mortality rate, which was elevated for a number of reasons this year, and prevented us from meeting our target to reduce it to 6%. This will be an area of focus for us in 2019.

My father used to say that: **“we must evolve through a mentality of continuous improvement for our success to be sustainable”**. After all these years and all the various changes we have made along the way, there is no status quo on the horizon - 2018 was no exception.

Regin Jacobsen, CEO of Bakkafrost

We also need to continue accelerating progress on managing our impacts on the fjords, which I'm confident we will do through ASC certification of our farms.

LESSONS ALONG THE WAY

Over the year we have identified areas where we could benefit from extra resource to help us accelerate our progress, such as in fish health and welfare and environmental management.

We are not alone in facing many of the challenges associated with the growth of aquaculture. Collaborating on these challenges, for example through the [Global Salmon Initiative](#), has been important for us on our journey. As founding members of the initiative, we have been able to work together on issues such as sustainable fish feed, biosecurity and sealice, and share information which is transforming the industry.

Increasing our participation on international platforms has also been a good way to make progress with our strategy. In 2018, we joined the [UN Global Compact](#), giving us access

to new networks which no doubt will form an important part of our journey, as we continue to tackle issues faced by businesses globally.

Embedding sustainability into our culture is also key if we are to continue making progress. In October, the Cambridge Institute of Sustainability Leadership ran an exclusive executive education programme for the 22 members of our Board of Directors and wider management team.

This will help us as we begin planning our strategy beyond 2020. Sustainability was also the theme at our company day, attended by the vast majority of our employees.

2019 OUTLOOK

In 2019, we will begin planning for the next phase of our sustainability strategy. The emphasis here will be to continue to integrate it into our corporate strategy and investment plans. We will be re-assessing our material issues with our key stakeholders, particularly to understand areas where issues have grown in significance, for example plastic packaging.

We will look to science as we develop new targets, to meet global commitments on issues such as climate change. We are also keen to continue working more closely with the rest of the business community in the Faroe Islands in 2019, as they also assess their contribution to the UN Sustainable Development Goals.

As one of the largest contributors to the Faroese economy, we take our position seriously and will look for ways in which we can contribute to the agenda and demonstrate responsible leadership. This includes strengthening local stakeholder engagement on issues such as our approach to environmental management in the fjords.

I hope you enjoy reading this update on our Healthy Living Plan. If you have any feedback, I would like to hear from you. Please email this to reja@bakkafrost.com

Bakkafrost's Healthy Living Sustainability Plan

Our mission is to produce healthy world-class salmon. We believe that by investing in the health of our business, our people, our salmon, the environment and the communities in which we operate, we will enable healthy living for millions of people globally. Our plan outlines our commitments to increase focus and transparency in how we manage our most material issues.

	 Healthy Business	 Healthy People	 Healthy Salmon	 Healthy Environment	 Healthy Communities
 STRATEGIC PRIORITY	To grow efficiently and responsibly	To strengthen our human capital	To meet and exceed leading standards	To reduce our environmental impact	To add value and strengthen community relationships
 2020 COMMITMENTS	<ul style="list-style-type: none"> Have zero cases of non-compliance Have customer net promoter score of 9 out of 10 or above Invest in a new biogas plant 	<ul style="list-style-type: none"> Renew our employee strategy Launch an employee engagement survey Have zero fatalities 	<ul style="list-style-type: none"> Maintain our high omega 3 levels Maintain high customer satisfaction with product quality Reduce fish mortality to 6% Have ASC certification across all sites Further develop and implement non-medicinal treatments. Have zero fish escapes 	<ul style="list-style-type: none"> Further optimise feed distribution Continue phasing out copper treated nets Implement a sustainable feed policy 	<ul style="list-style-type: none"> Set up a new 'Healthy Living' Fund Implement stakeholder engagement Implement a new community investment plan
 2018 PERFORMANCE AGAINST COMMITMENTS	<ul style="list-style-type: none"> Zero cases of non-compliance ● Customer net promoter score of 8.24 out of 10 ● Announced plans to build the country's first biogas plant ● 	<ul style="list-style-type: none"> Plans to launch an employee engagement survey in 2019 ● 	<ul style="list-style-type: none"> 2.4g per 100g mean omega 3 levels ● 97.3% of customers satisfied, more than satisfied, or very satisfied with product quality ● 11.56% fish mortality ● 7 sites ASC certified ● Further roll out of cleaner fish and trials of mechanical delousing ● Had zero fish escapes ● 	<ul style="list-style-type: none"> Introduced cameras at five more sites to optimise feed distribution ● Phased out all remaining copper-treated nets ● Began work on a new sustainable feed policy ● 	<ul style="list-style-type: none"> Announced a DKK 10 million three-year Healthy Living Fund ● Developed a stakeholder engagement plan ● Developed and began implementing a new community investment policy and plan ●
 2019 FOCUS	<ul style="list-style-type: none"> Update our CR Policy Introduce a new whistleblowing programme Continue work to build the Bakkafrost brand Commence biogas plant build Transfer innovative technology across freshwater sites 	<ul style="list-style-type: none"> Launch an engagement survey Renew our employee strategy in line with our Healthy Living Plan Further develop line-manager training Launch initiatives to support a diverse workforce 	<ul style="list-style-type: none"> Reduce mortality through continued monitoring Increase our roll out of cleaner fish across our sites Audit 7 further farming sites to ASC standard Continue to increase highly-skilled farming resources 	<ul style="list-style-type: none"> Further embed the principles of the UN Global Compact into our value chain Increase internal resources to progress our approach to environmental management Sign up to the Ocean Disclosure Project Maintain low food conversion ratio Progress waste and water monitoring and reporting Set public carbon reduction targets 	<ul style="list-style-type: none"> Update our CR Policy Continue implementing our new stakeholder engagement plan Carry out a second materiality review Increase contributions into material issues
 SDGs	<ul style="list-style-type: none"> SDG 2 Zero Hunger SDG 7 Affordable and Clean Energy SDG 8 Decent Work and Economic Growth SDG 9 Industry, Innovation, and Infrastructure 	<ul style="list-style-type: none"> SDG 5 Gender Equality SDG 8 Decent Work and Economic Growth 	<ul style="list-style-type: none"> SDG 2 Zero Hunger SDG 6 Clean Water and Sanitation SDG 14 Life Below Water SDG 17 Partnerships for the Goals 	<ul style="list-style-type: none"> SDG 6 Clean Water and Sanitation SDG 7 Affordable and Clean Energy SDG 9 Industry, Innovation, and Infrastructure SDG 12 Responsible Consumption and Production SDG 13 Climate Action SDG 14 Life Below Water 	<ul style="list-style-type: none"> SDG 8 Decent Work and Economic Growth SDG 17 Partnerships for the Goals

Bakkafrost and the UN Sustainable Development Goals



Potential for high positive impact



SDG 2 Zero Hunger: End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

We are contributing towards target 2.4 by providing an efficient and healthy source of protein and essential fatty acids to feed the growing population.



SDG 8 Decent Work and Economic Growth: Promote inclusive and sustainable economic growth, employment and decent work for all.

We are contributing towards target 8.1 through our substantial contribution to the Faroese economy; 8.5 by creating full and productive employment with equal opportunities as the largest private employer in the country; 8.7 through the strict standards outlined Code of Conduct and Supplier Standard; and 8.8 by applying labour standards throughout our value chain (in line with third party certification).

Potential for limited positive impact



SDG 5 Gender Equality: Achieve gender equality and empower women and girls.

We are contributing towards target 5.5 by ensuring equal opportunities for leadership at all levels of decision-making in the company.



SDG 7 Affordable and Clean Energy: Ensure affordable, reliable, sustainable and modern energy for all.

We will be contributing towards target 7.2 by increasing the share of renewable energy in the Faroe Islands' energy mix from our planned biogas plant; and 7.3 by increasing energy efficiency in our operations.



SDG 9 Industry, Innovation, and Infrastructure: Build resilient infrastructure, promote sustainable industrialization and foster innovation.

We are contributing towards target 9.4 by upgrading and retrofitting assets across our value chain to make them more sustainable, as well contributing towards new infrastructure in the Faroe Islands.



SDG 14 Life Below Water: Conserve and sustainably use the oceans, seas and marine resources.

We are contributing towards target 14.4 by only using marine ingredients certified as sustainable; and 14.1 by managing our impacts on the fjord environment.



SDG 17 Partnerships for the Goals: Revitalize the global partnership for sustainable development.

We are contributing towards target 17.16 through collaboration and partnerships to develop and share best practice solutions that address systemic challenges in aquaculture.

Responsibility to mitigate potential negative impact



SDG 6 Clean Water and Sanitation: Ensure access to water and sanitation for all.

We are contributing towards target 6.3 by minimising the impact of our operations on the fjord environment; 6.4 by increasing water efficiency; and 6.6 by minimising future pollution from agriculture through liquid fertilizer to be produced at our biogas plant.



SDG 12 Responsible Consumption and Production: Ensure sustainable consumption and production patterns.

We are contributing towards target 12.3 by reducing food losses; target 12.2 by maximizing efficiency of natural resources used in our feed; 12.5 by adopting a circular approach across different elements of our value chain; and 12.6 by increasing transparency on our sustainability performance.



SDG 13 Climate Action: Take urgent action to combat climate change and its impacts.

We will build the climate resilience of our company and value chain, and look to reduce emissions associated with own operations, in line with climate science.

In 2019, we will be reviewing our corporate strategy and re-assessing our potential contribution to the goals as part of this.



Healthy business Performance review

STRATEGIC PRIORITY

- To grow efficiently and responsibly

2020 COMMITMENTS

- Have zero cases of non-compliance
- Have a customer net promoter score of 9 out of 10 or above
- Invest in a new biogas plant

2018 PERFORMANCE AGAINST OUR COMMITMENTS

- Zero cases of non-compliance ●
- Customer net promoter score of 8.24 out of 10 ●
- Announced plans to build the country's first biogas plant ●

2019 FOCUS

- Update our Corporate Responsibility Policy
- Introduce a new whistleblowing programme
- Continue work to build the Bakkafrost brand
- Commence biogas plant building work
- Transfer innovative technology across freshwater sites

SDGs

- SDG 2 Zero Hunger
- SDG 7 Affordable and Clean Energy
- SDG 8 Decent Work and Economic Growth
- SDG 9 Industry, Innovation, and Infrastructure

WHY IT IS IMPORTANT

According to GSI calculations, aquaculture made up around 8% of animal protein consumed by the global population in 2018 (FAO SOFIA, 2018; FAO 2018). Competing in the world's fastest growing food industry, means we must be prepared to maintain and even grow our market share. Operating in a small country like the Faroe Islands somewhat restricts the growth of our operations, so it is important for us to be as efficient as possible and continually innovate, if we are to expand within regulatory limits and maximise output. To grow responsibly and sustainably, we must also ensure that we uphold the highest standards of conduct, that we go beyond compliance on important issues, that we always listen to our customers and that we continue to maintain good international relations.

In 2018, production went down to an average of almost 660,000 meals a day, serving business customers in 29 countries across four key markets, USA (20%), EU (31%), Eastern Europe (25%), and Asia (24%). These included importers, food producers, and large supermarkets and restaurant chains. We see that consumers in these markets are increasingly demanding peace-of-mind about the quality and sustainability of the food they buy. This is supported by a Mintel report on global food and drink trends in 2019, which says consumers will continue to expect more from corporate sustainability programmes to get closer to a circular food and drink economy.

We must continue to demonstrate our commitment to producing healthy world-class salmon, responsibly and sustainably. This includes continuing to increase transparency and third-party certification to assure the sustainability and quality of our

production. This is part of our Healthy Living Plan, championed by our Board.

Through the growing provision of a healthy and efficient form of protein, and our investment into innovation and sustainable infrastructure and renewable energy solutions, we are contributing towards UN Sustainable Development Goals 2, 7, 8 and 9. For more information see page 9.

More information on our corporate strategy to grow a healthy business can be found in our [Annual Report](#).

GOVERNMENT REGULATION AND COMPLIANCE

Continuing to meet local and international standards is critical for sustainable growth. It is our company policy to comply with all relevant laws and governmental rules and regulations where we operate, and the responsibility of all employees to adhere to the standards and restrictions imposed by those laws, rules and regulations. We strive to meet, and preferably exceed, the requirements of all relevant legislation, this means demonstrating leadership on issues at a national and international level.

Our business relies heavily on the Faroe Islands' natural capital, so compliance, leadership and openness on environmental issues are key. When the [Faroese Veterinary standard](#) was introduced in 2003 a number of new restrictions were introduced to better control the farming environment. We cooperate with the environment agency and comply with Faroese aquaculture legislation which covers minimum standards from production at each stage of the value chain. Our farming licenses are subject

“It is very rare that you meet a supplier who looks at all the issues that affect the industry they operate in. Bakkafrost are setting the bar very high in tackling the issues of animal welfare and responsible sourcing whilst delivering a high grade of salmon. We are very pleased to be in partnership with them.”

James Fisher, Fish Buyer Harrods
and **Ellie Hurford**, Senior Technical Manager Harrods

to environmental impact assessments which guide part of our approach to reducing our environmental impact. We go beyond compliance by voluntarily signing up to and conforming with international standards (such as ASC), to raise the bar for the industry as a whole on certain sustainability issues.

We have an ongoing commitment to have zero cases of non-compliance.

In 2018, we:

- Had zero cases of non-compliance (which we aim to meet again in 2019) and no legal actions against us.
- Began preparations to comply with the requirements of the 2018 General Data Protection Regulation. We aim to be ready to comply with the regulations in 2019, ahead of the 2020 deadline for the Faroe Islands.

ETHICAL CONDUCT

The starting point for our sustainability plan is ensuring that we continue to uphold and promote good business practice



Harrods, London

throughout the value chain, consistent with Bakkafrost's core values and principles. Our values guide our behavior and approach to creating long-term value for our customers, shareholders and society. For us this means acting responsibly, showing respect, and being persistent, efficient and ambitious.

These values are outlined in our [Code of Conduct](#), which aims to create a sound corporate culture. Our Code requires all employees to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. They must employ a fair and honest approach in every dealing with other employees and all external stakeholders.

Ethical conduct not only involves being a good corporate

citizen but also ensuring our suppliers also meet our standards. Our suppliers are asked to adhere to our occupational health, safety and wellbeing, human rights, child-labour, and environmental standards, which are aligned with the [ASC Standard](#).

Please see our [Code of Conduct](#) at www.bakkafrost.com for more information on our anti-bribery and corruption, money laundering and other standards of ethical conduct and how we evaluate our approach to ethical conduct through our Code.

Bakkafrost has an [online mechanism](#) where members of the public can raise a complaint or make a claim about ethics or unlawful behavior. While employees have the

opportunity to raise concerns by following procedures through our HR department, in 2019, we plan to introduce a new whistleblowing programme, providing employees with a formal mechanism to raise any concerns about ethical conduct, our failure to uphold our Code of Conduct or comply with, for example, food safety standards.

In 2018, we:

- Updated our Corporate Responsibility Policy, which we plan to launch in 2019.

CUSTOMER SATISFACTION

Building long-term relationships with our customers is important if we want to maintain our position as a preferred supplier of world-class salmon in the marketplace. This means listening to them and meeting their changing needs and standards. One way we do this is through our annual customer survey, where we give all our customers an opportunity to give feedback on issues ranging from product quality, service and packaging. We have also been giving our customers the opportunity to see our operations for themselves at our Customer Summit. Over two days they visit our entire value chain and receive insight on a variety of topics including our quality and sustainability standards.

Our ongoing aim is to secure loyalty and trust from our customers by providing outstanding service through a reliable, efficient, and responsible approach. More information on our customer strategy can be found in our [Annual Report](#).

As we grow and expand into new markets, which has been greatly accelerated since the lead-up to our listing on the Oslo Stock Exchange, our sales and customer numbers have increased alongside production. While we have responded well to increasing and changing customer demands, for example through new product development and a move

towards third party certification, inevitably we meet some challenges, some outside of our control (such as international relations). However, our commitment to maintain long-lasting relationships has enabled us to address these, where we can.

In 2018, we:

- Started producing fresh fillets and portions in response to customer demand.
- Ran our customer survey again and received a net promoter score of 8.24. While we had a marginally lower score than last year, customers gave us a higher score than on product quality and for our value-added products.
- Engaged a number of customers on our planned sustainable feed policy and packaging review.
- Hosted around 80 customers over two days at our 50th anniversary Customer Summit in the Faroe Islands.
- Received a report of biological issues with our salmon offcuts from regulators in Russia (though further tests did not confirm any issues). This temporarily stopped access to the Russian market.
- Brought in numerous new customers and contracted a major supermarket customer, which will increase demand for our value-added products.
- Increased Bakkafrost-branded salmon sales.

In 2019, we will continue to our customer-driven focus on product development and will continue building the Bakkafrost brand.

INNOVATION

The aquaculture industry is still relatively young and its growth still relies heavily on innovation. Investing in innovation and research and development is key if we are to meet changing customer demands, capitalize on

opportunities, and lead sustainably. Our five-year investment plan has enabled us to invest heavily in new technologies, which have both helped us manage our risks, such as non-medicinal sea lice treatment, and exploit opportunities for product development and growth, such as circular solutions.

In 2018, we:

- Announced our plans to build a new biogas plant – our largest investment into the circular economy to date (see more on page 13).
- Took full ownership of a programme to develop the Faroese salmon breed (read more on page 23).
- Continued our research to optimise feed quality and sustainability.
- Started production at our freshwater site at Strond, using circular solutions to optimise environmental management (find out more on page 30).
- Started salmon oil and meal production. The plant has been developed using a ground-breaking technology which runs on electricity and steam, with the potential to significantly reduce energy use.

In 2019, we will begin building the biogas plant and transferring innovative technology from our Strond hatchery to other freshwater sites.

INTERNATIONAL RELATIONS

The Faroe Islands maintain good international relations. However, there is ongoing public interest in Bakkafrost's pilot whale hunting policy. We have strict internal guidelines mandating that employees must not take part during work hours and our equipment must not be used in any way. The Faroese Fish Farmers Association, of which Bakkafrost is a member, has made [a statement](#) with our position signed by all farming CEOs.

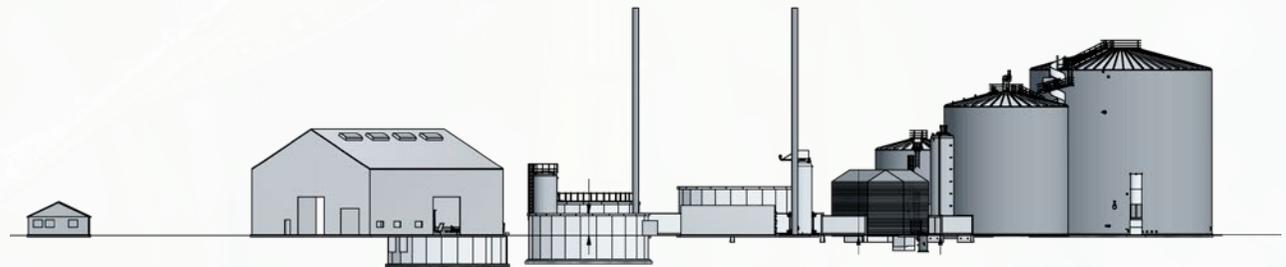


Healthy business Circular solutions

One man's trash is another man's treasure. Employing a resourceful mentality has been at the heart of our efficient growth over the years and in 2018 we cemented this into our ambitious investment strategy, announcing a DKK 100 million investment to build a new biogas plant in the Faroe Islands.

The plant will use waste products from our farms and other fish and dairy farmers to produce renewable energy and fertilizer. The process works by breaking down the organic matter in the biomass into smaller molecules through anaerobic digestion. Upon completion of this process, the biomass is converted into biogas, namely carbon dioxide and methane (the latter which is used for renewable energy production), and digestate (which is used as fertilizer).

When in operation, the plant has the capacity to convert up to 90-100,000 tonnes annually of all waste from farms, providing enough renewable heat for 400 homes and electricity for 1,900 homes, with the current input predicted. This is projected to save 11,000 tonnes of CO₂ emissions (based on the equivalent fossil fuel replacement) annually.



As well as producing renewable energy, it will produce 40-45,000 tonnes of natural liquid fertilizer annually, which will be redistributed to farmers across the islands, free of charge. The fertilizer's higher absorption potential is expected to decrease runoff into fjords.

The renewable energy produced, will feed in to the national grid, contributing to the Faroe Island's national target to have 100% electricity from renewable sources by 2030, which in 2018 was 49%.

The biogas plant will be constructed during 2019 and is planned to be in operation during the first quarter of 2020. Our ambitious investment strategy focuses on efficient growth to meet the growing demand for sustainably-produced protein. This includes advancing circular solutions such as this one, which reduce waste, reduce and avoid CO₂ emissions, and stimulate sustainability through other industries. Our approach to date has received recognition at [Edie's international 2019 Sustainability Leader Awards](#).



Healthy people Performance review

★ STRATEGIC PRIORITY

- To strengthen our human capital

🎯 2020 COMMITMENTS

- Renew our employee strategy
- Launch an employee engagement survey
- Have zero fatalities

📊 2018 PERFORMANCE AGAINST OUR COMMITMENTS

- Plans to launch an employee engagement survey were rescheduled to 2019 ●

🔍 2019 FOCUS

- Launch an employee engagement survey
- Renew our employee strategy in line with our Healthy Living Plan
- Further develop line-manager training
- Launch initiatives to support a diverse workforce

🌐 SDGs

- SDG 5 Gender Equality
- SDG 8 Decent Work and Economic Growth

WHY IT IS IMPORTANT

Investing in human capital is fundamental for a healthy business. We acknowledge that in order to achieve our vision and meet our strategic objectives, we must have a capable and engaged workforce which is committed to our core values.

The business today is made up of a consolidation of farming companies which have grown up across the Faroe Islands over a number of years, often in insular communities. More recently we have set up sales offices in the UK and acquired a small operation in the USA. Integrating people into the Bakkafrøst business and culture needs to be a priority if we are to maintain consistent world-class standards and all live by the same set of values. This means continually adapting ourselves and being open to learning new ways, as we continue to grow and evolve with our external environment.

We are fortunate to have a culturally diverse workforce today, which gives us a unique opportunity to strengthen our human capital through an inclusive attitude. The aquaculture industry often involves physically demanding work, so ensuring the health, safety and wellbeing of our employees is also at the top of our list of priorities.

Through the creation of valuable employment opportunities we are contributing, whether to a larger or lesser degree, towards UN Sustainable Development Goals 5 and 8. Please see page 9 for more information.

HUMAN CAPITAL

We employ 1,032 (783 full-time equivalent) people across 24 municipalities in the Faroe Islands. Our ability to have

a diverse and inclusive workplace, to attract and retain talent and expertise, to build workforce competency, and to maintain high employee engagement, is the starting block for our human resources team.

Our [Code of Conduct](#) outlines our approach to creating optimal working conditions and culture, including our commitment to create a professional and positive work environment which is inclusive and free from discrimination.

Unemployment rates in the Faroe Islands are one of the lowest in the world at 1.9%. In 2018, the employment rate was high for both men - 88%, and women - 84% ([source: Hagstova Føroya](#)). 20% of our Board of Directors and 7% of our Management Team were female.

Our HR policies reflect our commitment to value the expertise and contribution from all employee groups. This includes making provisions for individuals over the retirement age who wish to continue their duties.

Attracting young talent is part of our employment strategy. We take on apprentices, interns and industrial placements across a variety of disciplines including marketing, finance, aquaculture and marine biology, as well as work experience students from local schools. We also regularly host student visits to our headquarters and processing facilities.

Every year, we participate as one of the main sponsors of the Faroese Jobmatch networking conference, where we give students a window into the world of aquaculture. This has proved a great way to attract new talent and support student study.



Bakkafrost hiking day 2018

Bakkafrost offers market-leading benefits to employees. These include a share savings plan (taken up by 210 employees in 2018), bonus shares (offered to all employees) and various insurance options provided to permanent staff after three months of employment.

Our pension provision and parental leave are in line with national legislation.

We organise various company-wide events throughout the year for all employees to come together and be rewarded for their contribution to our success with gifts. This includes a company day where we discuss our strategic priorities and hear from our customers; an annual company hike; and an annual Christmas celebration for all employees and their families (in 2018 we held one in Glyrvár attended by 900 people and one in Suðuroy attended by 150).

Employment rates in the Faroe Islands are the highest in Europe, which together with Bakkafrost's strong reputation has led to good retention over the years. However, the low unemployment rates makes it more challenging to find lower-skilled labour and often leads to employment of seasonal workers such as students. We have a high turnover in our

production facility, where young people often work for a short period before moving on to further studies.

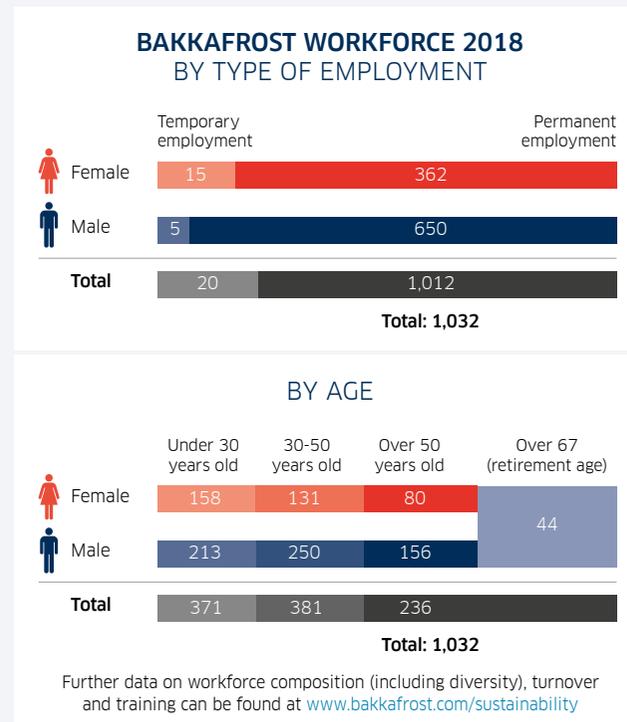
We respect freedom of association and right to collective bargaining and do not engage in any trafficked, forced or compulsory labour, including the exploitation of children as a labour force. We are a member of the Faroese Employers' Association, which negotiates collective agreements for the highly-unionised Faroese private labour market. In 2018, 90% of Bakkafrost employees were covered by collective bargaining agreements (the remaining 10% is made up of highly-skilled staff).

We meet with unions regularly and strive to have a good and constructive relationship with them. Employee representatives

are given time off from work to fulfill their duties. Bakkafrost has a grievance procedure in place. To ensure we continue meeting the highest health, safety and welfare standards, we carry out annual training using both internal and outside trainers who deliver modules on topics ranging from hygiene, first aid, workplace safety (including safety at sea), safe chemical use, to fish welfare. We review our courses regularly. We also offer relevant development opportunities to our management team.

In 2018, we:

- Signed up to the ten principles of the UN Global Compact to pledge our commitment to protect human rights; respect the freedom of association and the right to collective bargaining; and to have a workforce free from forced/compulsory/child labour, and discrimination.
- Employed 1,032 (783 full-time equivalent) people from 24 of the 29 municipalities in the Faroe Islands.
- Re-hired 80 people in the last quarter of 2018 (following a new contract), after the loss of around 150 jobs at the start of the year. We continued to make new hires into 2019.
- We also had new hires in our new hatchery site, biogas plant, and new harvesting factory.
- Launched a new worker integration initiative, offering regular Faroese language classes to foreign workers.
- Delivered new training modules for our farmers (which included sustainability) and took 22 members of our Board of Directors and wider management team through an exclusive executive education programme with the Cambridge Institute for Sustainability Leadership. Sustainability was also the theme at our company day.
- Hosted an event with the Faroese Business Women's Network.



We were unable to deliver on our plans to launch an employee engagement survey, which is now planned for 2019, when we will also be renewing our employee strategy in line with our Healthy Living Plan. We will also update our Corporate Responsibility Policy, which includes our continued commitment to equal opportunity. Our plans also include further development of line-manager training, guidance on diversity, and initiatives to support a diverse workforce.

“I’ve been attending Bakkafrost’s free Faroese language class since they started in April 2018. It is important for me to learn Faroese because most of my family speaks Faroese. I really want to be able to speak the language so that I can participate in conversations. My favourite part of the language class is to learn pronunciation and translation.”

Vivian Lamhauge, VAP, Faroese language student

HEALTH, SAFETY AND WELLBEING

Protecting our human capital also involves maintaining a high standard of occupational health and safety and creating a healthy working culture. Our Code of Conduct outlines our commitment to our employees to create a good and sound working environment and to systematically seek to attain an injury and accident-free workplace. In order to do this, we have adopted a set of guidelines based on the highest health and safety standards, on land as well as at sea.

Our entire value chain – feed production, hatcheries, farming sites, and our harvest and processing plant – is third party audited and certified to the GLOBAL G.A.P. standard which



includes strict minimum worker health safety and welfare requirements, including regular employee training and safety maintenance. Our 7 ASC-certified farming sites have had additional audits, to ensure international standard on health and safety in the work environment are met. Recommendations from audits at specific sites are typically rolled out across all our farms. In 2018, for example, we introduced new fire-safety standards which went beyond national regulation.

Examples of how we promote employee health and safety include a number of protective measures (such protective clothing), and preventative measures (such as our various local safety working groups which report to our Health & Safety Board).

All sea farmers and seafarers are required to have health checks every two years (at the company’s expense) to ensure they are fit for work.

Our internal policies support employee wellbeing, which is also considered in new building projects, such as state-of-the-art production plant and head offices which have been designed ergonomically.

The wellbeing of all people in our value chain is also important to us. We respect the protection of all internationally recognised human rights and make sure that we are not

complicit in human rights abuses. We expect the same of our business partners; they are contractually obliged to meet our Supplier Standards which among other requirements ask them to ensure all labour is carried out in a safe work environment, free from discrimination and the exploitation of children.

In 2018, we:

- Met our commitment to improve our health, safety and wellbeing reporting.
- Strengthened a culture of health and safety, by continuing to embed this into operational processes and procedures.
- Had zero fatalities and more than halved our lost time injury rate.
- Further strengthened fire and equipment safety procedures.
- Continued to upgrade our land sites with physical wellbeing in mind.
- Continued health and safety training, including a company-wide fire safety awareness training.
- Continued to give employees the opportunity to provide feedback through local working groups.

Please refer to www.bakkafrost.com/sustainability where we disclose further health, safety and wellbeing data.

Through our employee engagement survey, in 2019, we plan to seek feedback to help us further strengthen measures to mitigate health and safety risks and to identify areas where we could be doing more for employees’ wellbeing. We will also ensure employee health, safety and wellbeing are at the heart of our 2020 employee strategy review.



Healthy people Investing in our people



Rúni Weihe

Strengthening our human capital is a priority for us, which is why in 2018, we were very proud to have two of the 13 PhDs awarded to Faroe Islanders, in our workforce.

With Bakkafrost's support, Rúni Weihe, Manager of our Feed Division at Havsbrún, began his doctorate in 2011. His aim was to determine the most efficient dietary composition for optimal salmon quality and growth rate, which he investigated by testing different feed compositions.

His PhD, from the Norwegian University of Life Sciences, specifically explored the optimum balance between fat and protein content in salmon feed. His research found that salmon whose diet had a higher proportion of protein than fat, made better use of it and grew faster.

The research concluded that while the short-term cost of such a diet was higher, over time, the growth advantages pay back.

Rúni's findings will inform our approach to feed in the future: "I am grateful for Havsbrún's focus on continuous feed development. Based on our research, we have the knowledge to improve our feed strategy and fish performance to add additional value to the Bakkafrost salmon in the long-term."

Bakkafrost is committed to supporting the ongoing development of its workforce. In 2018, the Cambridge Institute for Sustainability Leadership ran an exclusive executive education programme for the 22 members of our Board of Directors and wider management team. Read more about our approach to learning and development in 2018 on page 15.



Healthy salmon Performance review

★ STRATEGIC PRIORITY

- To meet and exceed leading standards

🎯 2020 COMMITMENTS

- Maintain our high omega 3 levels
- Maintain high customer satisfaction with product quality
- Reduce fish mortality to 6%
- Have ASC certification across all sites
- Further develop and implement non-medicinal treatments with high focus on fish welfare
- Have zero fish escapes

📊 2018 PERFORMANCE AGAINST OUR COMMITMENTS

- 2.4g per 100g mean omega 3 levels ●
- 97.3% of customers satisfied, more than satisfied, or very satisfied with product quality ●
- 11.56% fish mortality ●
- 7 sites ASC certified ●
- Further roll out of cleaner fish and trials of mechanical delousing with higher focus on health and welfare ●
- Had zero fish escapes ●

🔍 2019 FOCUS

- Reduce mortality through continued monitoring
- Increase roll out of cleaner fish across our sites
- Audit 7 further farming sites to ASC standard
- Continue to increase highly-skilled farming resources

🌐 SDGs

- SDG 2 Zero Hunger
- SDG 6 Clean Water and Sanitation
- SDG 14 Life Below Water
- SDG 17 Partnerships for the Goals

WHY IT IS IMPORTANT

Unprecedented population growth and increasing demand for protein is putting a pressure on the planet never seen before. The aquaculture industry has been identified as one way to meet this demand, providing a sustainable and nutritious source of protein – farmed salmon is among the healthiest proteins on the planet due to its high omega 3, fatty acids, vitamin D, selenium, and B vitamins content. However, for this to remain sustainable, production must be responsible.

While the Faroese fjords provide optimal salmon farming conditions, over the years, systemic risks of sea lice and disease, aggravated by a fragmented industry, have threatened the health of our salmon. The consolidation of the Faroese salmon industry – from 63 farming companies in 1989 to three in 2017 – has made it easier to coordinate biological improvement, ensure effective cooperation with the authorities, and share knowledge.

The 2003 Faroese Veterinary Model introduced new regulation, tightened controls, and promoted voluntary segregation of farming sites and operations, improving fish health and welfare standards across the Faroes. The new model, combined with additional company efforts, not only reduced mortality rates from 18% to 6%, it also increased the harvesting weight of Faroese salmon by 20% between 1993 and 2010, decreased feed conversion rate by 2%, and improved productivity by over 40% over the same period ([source: www.industry.fo](http://www.industry.fo)).

However, tackling sea lice and diseases, such as pathogenic ISA and gill health, remains a priority for salmon farmers not

only in the Faroe Islands. Addressing these risks to ensure the quality and safety of our salmon while maintaining the highest health and welfare standards, has also called for a high degree of voluntary coordination between companies and large investments in new technology for continuous improvement.

New challenges brought on by changing farming conditions will also come into greater focus over the coming years.

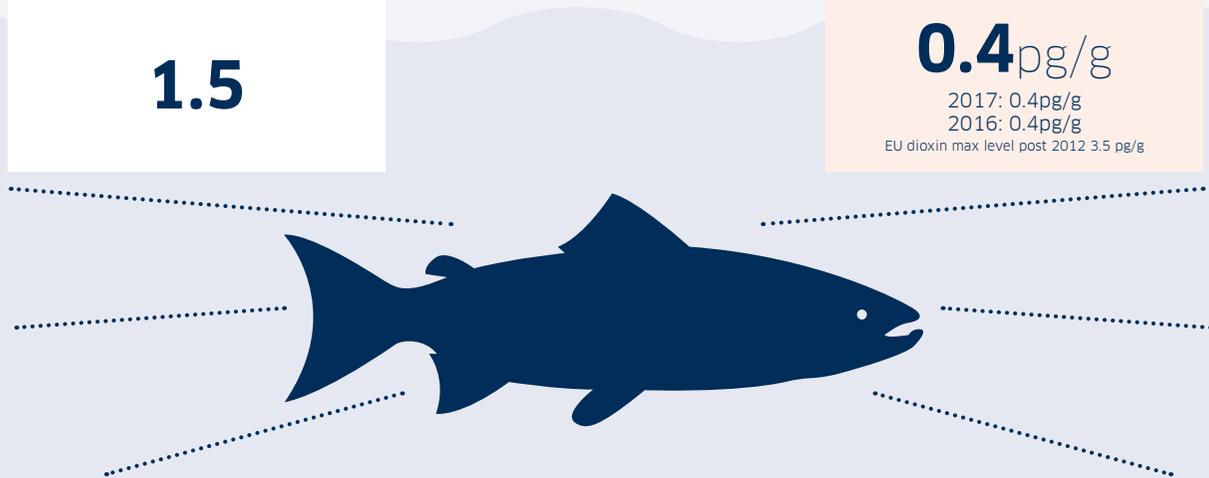
Through our focus on a responsible approach to aquaculture, we are contributing, whether to a larger or lesser degree, towards UN Sustainable Development Goals 2, 6, 14 and 17. Please see page 9 for more information.

PRODUCT QUALITY

Product quality is our top priority. Our salmon provides a nutritious, efficient and sustainable source of animal protein high in omega 3. Every step of our production is focused on maintaining world-class quality, with high nutritional value. With forty years of salmon farming experience, we understand that the quality of our product relies not only on perfect environmental conditions, the highest health and welfare standards, but also top-quality feed.

We believe that keeping the diet close to the natural diet of wild salmon provides measurable benefits, including a healthier nutritional value of our end-product. The vertical integration of our fishmeal, oil, feed and salmon production gives us an advantage of sourcing the highest quality marine ingredients from well-managed local fisheries, for our feed. This enables us to use a high percentage of sustainable

Bakkafrost salmon



2018 OMEGA 3 LEVELS
MEAN

2.4g per 100g

Recommended daily intake
0.25g*

2018 OMEGA 3 TO 6
RATIO

1.5

2018 DIOXIN LEVELS

0.4pg/g

2017: 0.4pg/g
2016: 0.4pg/g
EU dioxin max level post 2012 3.5 pg/g

2018 DIOXIN-LIKE PCB LEVELS

0.6pg/g

2017: 0.6pg/g
2016: 0.7pg/g
EU dioxin-like PCBs max level post 2012: 6.5 pg/g dioxin

2018 PROTEIN LEVELS

20.7g per 100g

Recommended daily intake
58g*

2018 MERCURY LEVELS

0.05mg/kg

2017: 0.04mg/g
2016: 0.03mg/g

2018 VITAMIN B12 LEVELS
MEAN

3.17µg per 100g

Recommended daily intake
2 µg*

2018 VITAMIN E LEVELS
MEAN

2.77mg per 100g

Recommended daily intake
9mg*

2018 VITAMIN D LEVELS
MEAN

6.28µg per 100g

Recommended daily intake
10 µg*

2018 SELENIUM LEVELS

0.19g per 100g

Recommended daily intake
0.06mg*

2018 IODINE LEVELS

0.09g per 100g

Recommended daily intake
0.15mg*

Nutritional values calculated per 100g (Bakkafrost salmon individual portions vary between 80g and 225g) *Source: Nordic Nutrition Recommendations 2012 and EFSA

marine content which gives our salmon a very high omega 3 content - a mean of 2.4g per 100g of salmon fillet. In 2015, we became the first company to start filtering all the fish oil we produce for our feed of environmental pollutants (dioxin and DL-PCBs) despite it already being well within EU safety limits. Our feed is also free from medicine, growth-promoting hormones, and any salmon meal offal or waste from any other farmed species. We are also far below all the limits in the EU directive on undesirable substances in animal feed.

Our dioxin and dioxin-like PCBs remain well within EU limits (as pictured) but we continue to look for new ways to further reduce these undesirable substances in our salmon.

Through the various standards and certification programmes we adhere to, we also ensure industry-leading food safety standards. A comprehensive internal control system is in place which is regularly inspected by the authorities. This involves daily testing and monitoring of our product, before

it is issued a health certificate, to ensure it complies with Faroese and international health and food safety regulations. 100% of our products and our entire value chain is covered by third party certification, which include high international food safety standards. See more under Collaboration and Certification on page 22.

In 2018, we:

- Phased out the use of ethoxyquin in all fishmeal used in the feed for our salmon (in favour of natural antioxidants).
- Maintained our high omega 3 levels.
- Maintained high customer satisfaction with product quality.
- Tested alternative feed ingredients to increase nutritional value and carried out research to optimise dietary conditions for high-quality, healthy salmon (focussed on feed utilization, growth and quality).
- Almost entirely phased out the use of formalin in our hatcheries, in favour of natural salt water treatments.
- Changed our stunning method from electrical to mechanical, improving quality and minimising stress.
- Began a research project to help us optimise post-harvest conditions to increase salmon quality.
- Came second in German Stiftung Warentest 2018 test for lowest toxicity in the frozen category (including organic), and second in overall quality in the non-organic frozen category.

In 2019, we will remain committed to maintaining our high omega 3 levels and our high customer satisfaction with product quality. We will also implement the results from the research into our feed strategy and continue to explore new opportunities to further develop and improve our feed quality.

FISH HEALTH AND WELFARE

Bakkafrost is committed to upholding the Faroe Islands' leading national veterinary standards, which span disease treatment and prevention, sealice control and transportation. These also include the Faroese Animal Welfare act, into which the [Five Freedoms](#) are incorporated. Our investment in this area not only ensures the quality of the final product, but most importantly ensures salmon welfare.

Our experienced fish health team - made up of certified veterinarians, biologists, and assistants - is always looking for new ways to maintain high levels of animal welfare and reducing the use of chemicals and medicines in the prevention of disease and sea lice.

We produce our salmon free from any antibiotics (which we have not used since 2004).

We continue introducing lumpfish in all new stocking and sea pens to prevent lice infestation (now at 13 sites), and as part of our investment plan, we have invested heavily in other non-medicinal methods such as freshwater, thermal and jet delousing. Sea lice levels are monitored and reported to the authorities every two weeks (which is made public).

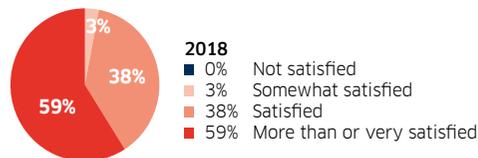
Our biosecurity strategy has also led to substantial investments to upgrade and build new freshwater sites on-land (such as our new site at Strond), giving us the possibility to increase the average size of our smolts to 500 grams before putting them out at sea. Reducing time spent at sea will increase production capacity and reduce biological risk.

We source from selective breeding programmes to improve fish resilience (see more on page 23), we vaccinate all our fish, and take part in systematic group-wide biosecurity auditing. Our fish health team and veterinarians regularly inspect and test all farms and hatcheries, and the authorities conduct regular sample testing.

Through our adherence to the 2003 Faroese Veterinary Model regulation, we commit to various salmon welfare measures, such as meeting fish stock density limits (which can be found on their [webpages](#)), which we are decreasing at our new site through larger nets. We have veterinary health plans for each site which receives ongoing biosecurity training.

CUSTOMER SCORE OF BAKKAFROST SALMON'S QUALITY

Reflecting the views of customers representing 61% of revenue in 2016, 42% in 2017, and 32% in 2018.



Year	Not satisfied	Somewhat satisfied	Satisfied	More than or very satisfied
2016	0%	8%	30%	62%
2017	0%	4%	19%	77%

ATLANTIC SALMON MORTALITY RATE

2018

11.56%

2017: 8.96%

For historic data, visit globalsalmoninitiative.org

SEA LICE COUNT

2018

0.47

2017: 0.7
2016: 0.8

Average over 12 months of female adult lice across all sites. For more information on fallow time and medicine use, [please visit our sustainability pages online.](#)

CAUSES OF REDUCED SURVIVAL

2018

- Algal bloom at Kolbanagjógv.
- Smolt transfer to sea during cold period.
- Mechanical delousing.
- Increased prevalence of PMCV infected fish.
- Reduced gill health and oxygen availability.

“In 2018, we accelerated efforts to address risks to optimum salmon health and farming environment. However, the new delousing methods, coupled with external environmental factors really impacted fish mortality. This is a reminder that we must continue to research into all factors impacting our farming practices, so we can continue to produce Bakkafrost salmon under the best conditions possible.”

Anna Johansen, Group Quality Manager

Our very short distance (average of 22 nautical miles) from farm to harvest reduces potential stress encountered during transportation.

However, we are continually looking for new ways to further improve fish welfare. As well as increasing data to optimise fish wellbeing during mechanical delousing, we are also carrying out research to address fish mortality whilst stocking at sea during colder months (by exploring stress indicators). We have also introduced new screening to identify and reduce potential pathogens in our stock.

We have continued investing in highly-skilled qualified people in our hatcheries to improve the welfare of smolts being transported to sea.

In 2018, we:

- Took over the Faroese broodstock programme (read more on page 23) and carried out research to help improve biosecurity through a better understanding of the PMCV genome.
- Began operations at a new freshwater site in Strond planned to have the largest capacity for smolt globally. The site was built with a focus on fish health and welfare and minimised environmental impact (see more on page 30).
- Concluded research to reduce stress factors in our hatcheries, increasing the growth-rate of our smolt.
- Took on three new biologists at our hatcheries.
- Encountered an outbreak of bacterial kidney disease at one of our sites. Early intervention and a prolonged following period contained this disease. This was the only notifiable outbreak in 2018.
- Recorded the mortality of around 630 thousand fish (with an average weight of 500 grams) at farming site A-81 in Kolbanagiógv. A poisonous species of algae was also registered at the site. This has impacted our mortality rate and we incurred expenses of DKK 7.2 million.
- Increased our focus on optimum oxygen levels, introducing new measuring equipment at our farms.
- Relocated four sea farming sites to more exposed areas, increasing water flow and oxygen levels.
- Further developed our delousing strategy, and trialed new mechanical delousing methods with a greater emphasis on fish health and welfare. We did not use any chemical in-bath treatment on our salmon in 2018.
- Reduced SLICE lice treatment by almost 60% YOY.
- Greatly reduced the number in mature lice through preventive measures and new treatments.

Reducing our mortality rate through continued monitoring will be a big focus for us in 2019, which was unusually high in 2018, due in part, to the event at our Kolbanagiógv site. We also plan to continue the roll out of lump fish to all possible sites and will also start introducing 200-metre pens with decreased stocking density. We will also hire a new vet at our Strond hatchery.

BIOSECURITY

Taking precautions to avoid spread of potential disease outbreaks and sea lice to and between farmed and wild fish populations is incredibly important for us, not only to ensure the health of our salmon, but also that of wild fish populations (despite the low threat of salmonid diseases on other fish families). Avoiding fish escapes is an ongoing challenge for us. The Faroe Islands are at the mercy of fierce Atlantic storms, which cause sometimes unavoidable damage to our nets, causing escapes. We report all suspected escapes to the veterinary and environmental authorities immediately.

As well as improving equipment, incorporating practices to reduce the risk of introducing infectious diseases across production, we are also reducing the time salmon spend at sea and holding regular third-party inspections to ensure compliance with Faroese legislation.

In 2018, we:

- Re-evaluated our procedures for checking our nets to further minimise the risk of escapes. A new camera system (linked to new mechanical cleaning of our nets) was introduced as an additional measure.
- Had zero fish escapes, which will be an ongoing aim for us. For historical data please visit the [GSI website](#).

COLLABORATION AND CERTIFICATION

We recognise that collaboration with the salmon industry is critical if we are to address the systemic sustainability challenges we face. We were instrumental in the formation of the Faroe Fish Farmer’s Association, specifically set up to promote a joint approach to the management of sea lice and disease. In 2013, we became a founding member of the [Global Salmon Initiative](#) (GSI), an international leadership initiative established to improve sustainability in salmon farming. As part of this collaboration, we have committed to having all our sites certified by the [Aquaculture Stewardship Council](#) (ASC).

Sites with certification include: A-25 Gøtuvík • A-06 Gulin
 • A-71 Funningsfjørður • A-57 Fuglafjørður • A-12 Kunoyarnes • A-04 Lambavík • A-13 Borðoyavík
 • Two further sites received certification in January 2019:
 A-21 Hvannasund Suður • A-73 Hvannasund Norður

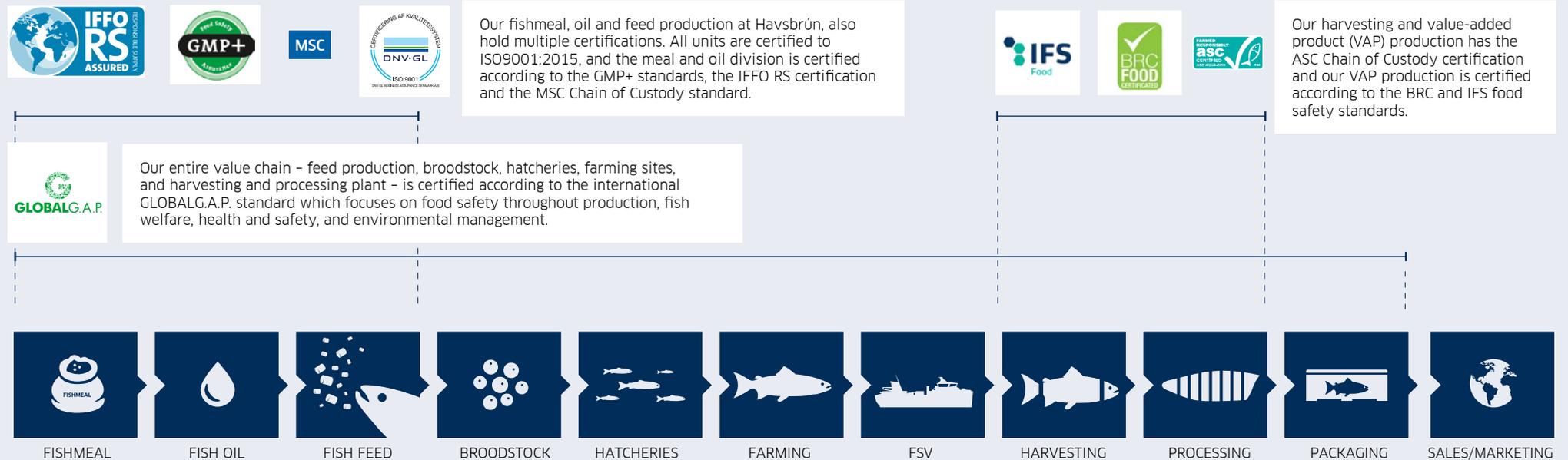


As well as this, we also subscribe to a number of other external standards and certification programmes to ensure product sustainability, quality and safety (see below).

In 2018, we:

- Accelerated ASC certification of our farming sites, certifying three further sites to the standard and bringing total to seven - one more than planned.
- Passed 100% of audits across our various certification programmes.

In 2019, we aim to audit seven further farming sites to ASC standard (potentially bringing our total to 14) and we will continue working towards certification across all sites by the end of 2020.





Healthy salmon Faroese through and through

“People working at Fiskaaling were so happy when the breeding programme started up again. They were very excited to immediately recognise the distinguishing characteristics of the Faroese breed, which display different behaviour – such as a more active personality. Bakkafrost’s investment will take the programme to a new level and could pave the way for greater biosecurity in Faroese salmon.”

Jóhanna Lava Køtlum, Fiskaaling

In April 2018, Bakkafrost took full ownership of the development of the Faroese salmon breed.

The acquisition of the programme from Fiskaaling (Aquaculture Research Station of the Faroes), forms part of our strategy to maximise biosecurity and to maintain high quality through the longest integrated value chain in the industry.

New private ownership of the programme will not only enable accelerated development of more resilient roe – reducing risk of disease in farmed salmon – but also protect the intellectual capital in the Faroe Islands, which has been built up over the years with the programme. The sizable DKK 200 million investment into new infrastructure at a new site on the island of Sandoy, will provide the necessary conditions for the programme to be fully developed with a highly-skilled team.

Roe from around 300 Faroese salmon families across four generations will be bred in a controlled environment to find the optimal genetic diversity, for example to identify hereditary characteristics for growth and quality, to increase resistance against sea lice, and to breed out common pathogens which can cause disease. Early results in a new generation have indicated great progress.

The breeding programme was resurrected in 2016 by Fiskaaling with support from the Government of the Faroe Islands.

From 2021, we will start using all roe from the Faroese breeding programme to produce Bakkafrost salmon.



Healthy environment Performance review

★ STRATEGIC PRIORITY

- To reduce our environmental impact

🎯 2020 COMMITMENTS

- Further optimise feed distribution
- Continue phasing out copper treated nets
- Implement a sustainable feed policy

📊 2018 PERFORMANCE AGAINST OUR COMMITMENTS

- Introduced cameras at five more sites to optimise feed distribution ●
- Phased out all remaining copper-treated nets ●
- Began work on a new sustainable feed policy ●

🔍 2019 FOCUS

- Further embed the principles of the UN Global Compact into our value chain
- Increase internal resources to progress our approach to environmental management
- Sign up to the Ocean Disclosure Project
- Maintain low food conversion ratio
- Progress waste and water monitoring and reporting
- Set public carbon reduction targets

🌐 SDGs

- SDG 6 Clean Water and Sanitation
- SDG 7 Affordable and Clean Energy
- SDG 9 Industry, Innovation, and Infrastructure
- SDG 12 Responsible Consumption and Production
- SDG 13 Climate Action
- SDG 14 Life Below Water

WHY IT IS IMPORTANT

While the salmon industry benefits from the one of the most efficient feed-to-food conversion ratios, low CO₂ emissions, and low use of freshwater compared to other sectors, reducing our environmental impact is a priority.

Our 19 salmon farming sites in operation in 2018, extend across 17 of the islands' fjords, and benefit from excellent water quality and circulation due to strong currents and cool steady sea temperatures. This creates excellent conditions for farming high quality salmon. The islands boast rich biodiversity, with particularly abundant bird and marine life, and rely heavily on income from fishing, and increasingly, tourism. Maintaining the pristine fjord environment, with minimum impact from farming is incredibly important.

We operate in many communities throughout the Faroe Islands, where typically industry and people have grown up side-by-side. This unusual set up means that communities are unavoidably impacted by us, whether by the noise and smell of operations, competition for water, or the pollution from production, traffic and effluent water. We also produce our own packaging and rely on various production equipment, so it is also important to consider how our operations contribute to the world's waste problem.

While our CO₂ footprint is relatively low as an industry, climate change could significantly impact our industry in the future. Changes in weather patterns (with more frequent storms), ocean acidification and increasing water temperatures, all pose a risk to the business.

We are in a unique position in that we have a fully integrated supply chain, with most of our key farming sites within a 25km radius. While our fish feed factory is located close to the farming sites, and a large proportion of our ingredients come from local and sustainable sources – considerably limiting our carbon emissions and giving us unique traceability in our supply chain – we also rely on some plant ingredients to be imported across continents. It is in feed that we believe our largest environmental footprint lies.

Through our management of our environmental impacts we are contributing, whether to a larger or lesser degree, towards UN Sustainable Development Goals 6, 7, 9, 12, 13, and 14. Please see page 9 for more information.

LOCAL POLLUTION

We are committed to minimising pollution of the local environment and impact on wildlife from each stage of the value chain, including effluent waste, marine debris, and local water, noise and air pollution.

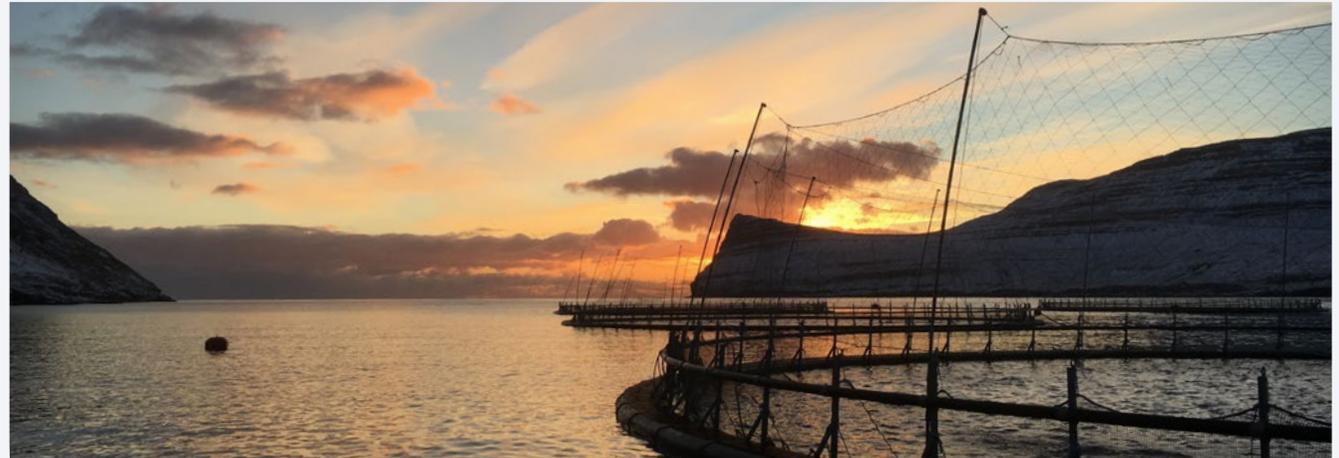
Conserving the natural capital we rely upon for our product is vital, so we are always looking for new ways to manage our impact and reduce local pollution. We regularly send information and are inspected by third parties such as the veterinary authority or the environment agency, to ensure we stay within limits and continue to minimise pollution. For example, we take samples of the seabed (when the biomass is at a maximum) for copper, zinc, and other measures of pollution. These limits can be found online at the [Faroese Environment Agency](#) website. In 2018, approximately 80%

of our frames were assessed as having a low or medium impact on the seabed. (see more information on these tests at bakkafrost.com/sustainability/data. Where pens occasionally exceed these, we take immediate measures based on recommendations from the authorities, including relocation of pens. We always follow improvement plans for pens which show indications of being close to the limit, to avoid overloading the seabed.

As well as complying with strict local environmental regulation, we go beyond this by adhering to minimum voluntary requirements as part of the international ASC standard. However, we remain focused on addressing our impact on the fjords and will continue engaging stakeholders in this area.

Example measures taken to minimise impact on fjords

- Observe 8-week fallow periods between production cycles to allow the seabed to regenerate (which in 2018 was almost double the national requirements).
- Relocation of pens, on rare occasions when tests indicate a high level of seabed loading.
- Filter effluent water from production.
- No in-bath chemical treatment of sealice (including hydrogen peroxide) in favour of mechanical methods and introducing lumpfish to pens.
- No use of diflubenzuron in delousing treatments.
- Reduced use of medicine in feed.
- Relocation of farms to exposed areas with stronger currents.
- Discontinued use of copper-treated nets.
- Investment in cameras to optimise feed distribution.
- Monthly testing of seawater quality to monitor levels of phosphorus and nitrogen.
- Quarterly testing of feed 'dust' to ensure optimum intake and minimal pollution.



Árnafjørður

Please note, a small quantity of hydrogen peroxide has been used in 2018 to test its effectiveness as a disinfectant of waste water.

All our farming sites are located in the Faroese fjords, which are rich in marine and bird life. We implement measures to reduce our impact on birds and marine mammals, such as covering the pens with high visibility nets to avoid bird incidences, and introduced additional monitoring and controls to reduce seal mortality. Please see our webpages www.bakkafrost.com/sustainability for further information regarding our impacts on biodiversity.

In 2018, we:

- Phased out all remaining copper-treated nets (which can cause copper buildup in the fjord), replacing them with new nets cleaned mechanically
- Continued optimising feed distribution by introducing cameras across five further sites, in order to reduce the buildup of waste under the pens, which can cause zinc buildup.

- As part of our developed delousing strategy, we did not use any chemical in-bath treatment on our salmon.
- Had no cases of non-compliance with environmental laws and regulation, though we continue to cooperate with the authorities to ensure we minimise the impact from our activities on the benthic productivity in the fjords.
- Cooperated with local broadcasters on research into the impact of salmon farming on the fjord environment.

In 2019, we will continue our work to embed the principles of the UN Global Compact into our value chain. We will increase resource in our quality team to progress our approach to environmental management. We will continue to introduce cameras across all our sites and to test innovative ways to de-lice salmon without the use of chemicals.

SUSTAINABLE FISH FEED

In order to maintain the highest quality, our salmon feed has a higher marine content than many of our competitors, this makes the sustainable and responsible production of fishmeal, oil and feed, at our subsidiary Havsbrún, all the more important. This includes how we source all raw materials.

The fishmeal and fish oil that goes into our feed comes from sustainably sourced fish with low-food-value and a low-market demand for direct human consumption. In 2018, more than a quarter of the fishmeal and more than half of the fish oil in our feed derived from fish trimmings and off-cuts. These species are mainly caught within Faroese waters in well-regulated legal fisheries.

We continually monitor the risk of using a high proportion of marine raw materials in our feed, observing potential implications of migrating North Atlantic fish stocks. To mitigate these risks, we continue to use approved by-products and look for new by-product-based marine proteins.

Our close relationship with the suppliers of our marine ingredients, increases our opportunities to further develop and introduce new products to improve the quality and sustainability of our fishmeal.

The plant proteins and oils in our feed are all non-GMO, and the soybeans are Pro-Terra certified (originating from Minas Gerais and Mato Grosso in Brazil), which is our way of ensuring it is sourced responsibly and sustainably. All our rapeseed oil (originating from the EU and Eastern Europe) is certified sustainable and we do not use palm oil in our feed.

Please see our sustainability webpages at www.bakkafrost.com/sustainability for more information on the source of marine products going into our feed.

Please note, there is a very small variation in content for Bakkafrost feed, which made up 90% of all feed produced in 2018.

In 2018, we:

- Increased the quantity of marine raw-materials in our feed coming from by-products of fish destined for direct human consumption.
- Began work on a sustainable feed policy.
- Continued looking into other sustainable high-quality marine ingredients.

In 2019, we will voluntarily sign up to the [Ocean Disclosure Project](#) to further increase transparency and focus on sustainable sourcing of marine ingredients. We will also take part in a Horizon 2020 project in collaboration with EU Fishmeal to continue exploring alternative sources (such as mesopelagic fish) to minimise risk in the food chain.

WASTE AND PACKAGING

Reducing and minimising the environmental impact of waste from a product's lifecycle, is an important and growing issue for all businesses. In 2018, this came into even sharper focus as a global issue, particularly the use of single-use plastics.

Although salmon has the highest edible yield of the five largest groups of animal protein, we must continue thinking about how we reduce, reuse and recycle materials from the moment the eggs enter the hatchery, right up until the salmon leaves our factory, whether from our salmon or the materials we use to produce and package it.

Despite its high edible yield, we also strive to utilise all of the by-products from our salmon, selling backbones, offcuts, bellies, skin, and heads.

We recycle or repurpose old farming nets and chains and

HAVSBRÚN FEED COMPOSITION IN 2018



Wheat
15.5%

(11,356 tonnes)



Wheat gluten
8.5%

(6,186 tonnes)



Non-GMO SPC
10%

(7,290 tonnes)



Fishmeal
30.4%

(22,195 tonnes)



Fish oil
15.9%

(11,652 tonnes)



Rapeseed oil
14.9%

(10,859 tonnes)



Others
4.9%

(3,549 tonnes)

we repair and reuse cables and pipes from old nets when we build new ones. We are also upgrading our pens using stronger materials to increase their lifespan. We collect and where possible recycle the feed bags we use.

In 2018, we:

- Sold 3,068 tonnes of salmon by-products (we were unable to meet our target to sell 50 tonnes of skin to the fashion industry due to low demand).
- Were shortlisted for the [Edie.net 2019 Sustainability Leaders Awards](#) for our approach to the circular economy.
- Commenced salmon oil and meal production at Havsbrún.
- Please see www.bakkafrost.com/sustainability for our packaging data.

- Began a project to review our packaging, including the sustainability of raw materials used.
- Moved all our own-brand packaging to 100% FSC certified paper.
- Announced the investment into a new biogas plant which will take organic waste from all our farms to be converted into biogas and fertilizer.

In 2019, with further resource, we aim to make progress with waste and water monitoring and reporting. We will conduct research with our customers with a view to offering more sustainable packaging. We will begin by trialing a new packaging option in collaboration with one of our largest supermarket customers.



WATER

While we enjoy a high and regular rainfall in Faroe Islands, the lack of infrastructure to harvest water means it is important to use fresh water efficiently in order for communities to have enough during rare dry periods. Our hatcheries have the highest demand for water, so we have invested in improved technology to harvest water at all our hatchery sites. We were one of the first salmon farmers in the world to start recirculating water in our hatcheries, currently recycling up to 99.7% of the water harvested to reduce pressure on the water board.

In 2018, we:

- Recycled approximately 24,000 cubic metres of water per hour in our hatcheries.
- Improved production efficiency at our feed plant, reducing demands on water.
- Saved water at our processing facilities through optimised cleaning.
- Please see www.bakkafrost.com/sustainability for water data.

SALMON FARMING | EDIBLE YIELD

Edible yield is calculated by dividing edible meat by total body weight.



These calculations take into account differences in FCR, differences in edible yields, and the cost of progeny. Source: Global Salmon Initiative

In 2019, we will continue to look for innovative ways to manage and minimise water use, particularly at our new building projects. Please see page 30 for information on water saving at our Strond hatchery.

CLIMATE CHANGE AND ENERGY

The salmon industry has relatively low CO₂ emissions compared to other industries (according to the Global Salmon Initiative less than 10% of the footprint associated with beef production). Despite having the lowest carbon footprints, relative to the five largest sources animal protein outlined in the diagram, we believe ours is even lower than average, as a result of our local feed production and high level of local and sustainable marine content.

Farmed salmon also has one of the lowest feed conversion ratios: 1.3 kg of feed for every 1 kg increase in body weight, compared to between 6-9 to every 1 kg for cattle (GSI). Our biological feed factor was even lower than the average in 2018, at 1.17 kg. We remain focused to keep this low.

Added to this, the protein retention for salmon is double that of beef. As one of the most efficient forms of protein, experts are promoting aquaculture as one sustainable solution to the growing demand for protein, providing it is carried out responsibly.

Even so, at Bakkafrost we recognise that we must continue to invest heavily in the efficiency of our operations as we continue to grow. Our aim is to decouple carbon emissions from our production, and we have managed to do this in some parts of the value chain - through recycling of energy (at our hatcheries and feed and processing factories), consolidation of operations and through promoting responsible behaviour.

However, some of the challenges we face particularly relating to biosecurity have meant we have increased our carbon emissions in other parts of the value chain, for example through new service vessels for mechanical delousing. As we continue to grow and increase the size of our value chain, we remain committed to looking for new ways to generate renewable energy (for example at our new

biogas plant) and introduce more efficient technology (for example at our hatcheries).

As well as plans to produce our own renewable energy, we hope to be sourcing from an increasingly renewable mix. Our electricity provider, SEV, has announced plans to reach 100% green energy by 2030.

We have included climate change adaptation measures in our long-term plans for the business.

We have strengthened our Corporate Responsibility Policy outlining our approach to environmental management, including energy use, pollution, waste and water management. This can be found at www.bakkafrost.com/sustainability.

In 2018, we:

- Sourced electricity from a mix with 48% of renewable sources (unfortunately 3% lower than 2017).
- Built new hatchery with capability to convert heat created to power and heat the building.
- Continued connecting feeding-station barges to mainstream electricity, reducing oil consumption from our farming operations.
- Improved production efficiency at our feed plant, reducing demands on energy.

SALMON FARMING | CARBON FOOTPRINT

A carbon footprint measures the total greenhouse gas emission caused directly and indirectly by the production of a product. A carbon footprint is measured in kilograms (kg) of carbon dioxide equivalent (kgCO₂e) per kg edible part of the product



CO₂e is calculated by multiplying the emissions of each of the six greenhouse gases (CO₂, CH₄, N₂O, HFCs, PFCs and SF₆) by its 100-year global warming potential (GWP) Source: Global Salmon Initiative

The table opposite outlines the energy consumption and scope 1 and 2 emissions for all our operations in the Faroe Islands, including our hatcheries, farming, harvesting, processing, packaging, meal, oil and feed production for 2018. We have an 18-month production cycle which means there is some variability in production. Environmental data will be impacted by this and trends will be most meaningful over a four-year period. Our total GHG emissions also include the fishmeal, oil and feed which we produce and sell to other fish farmers and service vessels used for other farms. This should be taken into account when comparing data.

We were unable to access an onshore power source at the harbour in 2018, as expected.

While our absolute carbon footprint went down in 2018 by 7%, our carbon intensity per tonne of salmon increased. This is due to ongoing expansion of our production capacity.

In 2019, we will work on public carbon reduction targets in line with climate science. As part of the development of our feed policy, we hope to engage closely with key stakeholders (including international certification standards) to present new knowledge regarding the most sustainable and efficient approaches to feed production. We will also continue to look for innovative ways to increase energy efficiency, particularly at our new building projects.

ENERGY CONSUMPTION

Energy Consumption	2017 [kWh]	2018 [kWh]	Change YOY
Direct energy use - scope 1	264,671,752	242,687,948	-8%
Direct energy [electricity] use - scope 2	48,377,189	47,778,814	-1%
Total energy use	313,048,941	290,466,762	-7%

GHG Emissions	2017 [TCO ₂ e]	2018 [TCO ₂ e]	Change YOY
Scope 1 emissions	69,826	64,217	-8%
Scope 2 emissions	15,723	15,528	-1%
Total energy use	85,549	79,746	-7%

Tonnes of salmon harvested	2017 [Tonnes]	2018 [Tonnes]	Change YOY (actual and %)
Tonne CO ₂ e emitted per tonne of salmon produced*	1,566	1,788	14%

*Includes scope 1 and 2 emissions from Bakkafrost's entire owned supply chain; including all fish oil, meal and feed production at Havsbrún - a proportion of which is sold externally. This also includes fuel used for vessels leased to other salmon farmers for delousing in the Faroe Islands; and harvesting of 4,200 tonnes of salmon for a competitor.

- Electricity consumption (Scope 2) gives rise to indirect emissions, i.e. via combustion of fossil fuels by the power company to generate energy. Direct emissions (Scope 1) result from the combustion of fossil fuels, i.e. solid, liquid or gas for heating, creating propulsion in vessels etc.
- The methodology used for the carbon accounting is The Greenhouse Gas Protocol, a Corporate Accounting and Reporting Standard (Revised Edition).
- The chosen consolidation approach for emissions was operational control. All figures are direct consumption reported for each Business Unit, multiplied by an energy conversion factor (as appropriate) and carbon emission factor per unit consumed.
- No estimates have been made for missing or incomplete data from across the operations.
- All emission and conversion factors for direct emissions (Scope 1) are from DEFRA [UK] 2018's dataset, while emission factors for electricity use are based on the most recent statistical data available obtained direct from SEV, the Faroe Islands energy generation company.
- Tonnes of Carbon Dioxide equivalent (TCO₂e) has been calculated and stated here - this then takes account of the global warming potential attributed to the other two key greenhouse gases associated with combustion of fossil fuels, in addition to carbon-dioxide (CO₂), i.e. methane (CH₄) and nitrous oxide (N₂O).
- A routine internal review was completed in 2018. It highlighted a small error regarding the exclusion of a small amount of energy data. The missing data from 2017 equates to less than 0.5% of Bakkafrost's total carbon footprint in 2017 and therefore is not considered to materially affect the carbon footprint for that year. Bakkafrost has introduced additional controls for the 2018 reporting cycle to address this past issue.



Healthy environment Decoupling our growth from our environmental footprint

In 2018, operations started at our new hatchery site in Strond, Borðoy. The new site was designed to be the largest freshwater farming facility in the world, holding smolt up to 500 grams in order to reduce time at sea and to increase biological security.

The 22,000m² building, sits on Haraldsund at an old quarry site, and was designed to nestle into the mountain, blending in with the natural environment.

Water efficiency is a big priority at Strond as the site which will use up to 120 mt/hr of fresh water for 56 tanks which range from 30m³ to 1200m³ in size. To minimise our demand on local supplies, we have worked with the municipality to build a water harvesting system, which will also service the local community. We have also introduced improved technology to increase water circulation to 99.7% using the most advanced biofilter system in the Faroe Islands.

The hatchery will also use seawater to regulate the temperature of the freshwater (used in operations) and run-off water from the mountain above the building will be also be harvested.

To minimise carbon emissions, we have introduced a system which produces oxygen up to 40% more efficiently, by using half the pressure. We will also use heat from production to power and heat the building.

An innovative waste processing system will enable us to process all the waste generated at the site from production, to be used at our new biogas plant (to be in operation in 2020). The new waste management technology will be rolled out at two further sites in 2019.

“We are very excited to see our Strond site in full operation. The four-year project has been a collaborative effort, and relied on engagement with the local municipality, input from top designers, and availability of local skilled labour. We are looking forward to upgrading our other hatcheries with some of the same technology.”

Rúni Olsen, Freshwater Manager



Healthy communities Performance review

★ STRATEGIC PRIORITY

- To add value and strengthen community relationships

🎯 2020 COMMITMENTS

- Set up a new 'Healthy Living' Fund
- Implement stakeholder engagement plan
- Implement a new community investment plan

📊 2018 PERFORMANCE AGAINST OUR COMMITMENTS

- Announced a DKK 10 million three-year Healthy Living Fund ●
- Developed a stakeholder engagement plan ●
- Developed and began implementing a new community investment policy and plan ●

🔍 2019 FOCUS

- Continue implementing our new stakeholder engagement plan
- Carry out a second materiality review
- Increase contributions into material issues

🌐 SDGs

- SDG 8 Decent Work and Economic Growth
- SDG 17 Partnerships for the Goals

WHY IT IS IMPORTANT

The Faroese economy is ranked amongst the highest in the world based on GDP per capita, which more than doubled between 1998 and 2015. Faroese fisheries and aquaculture represent 93% of merchandise exports. Farmed Atlantic Salmon represents 45% of all seafood exports, 33% of which comes from Bakkafrost.

The Faroe Islands benefit from the highest employment rate in Europe: 86% in November 2018. Bakkafrost is the largest private employer on the islands, employing 4% of all employees (December 2018), generating considerable value through salaries, employment taxes, and corporate tax payments.

Since our 2010 listing on the Oslo Stock Exchange, we have increased our share value by more than one thousand percent, generating more than DKK 1.639 million in (corporate, revenue and deferred) taxes.

Although we are a relatively small company, the considerable value we generate for the Faroe Islands and beyond, through employment, taxes and returns, means we have a big responsibility to everyone with a vested interest in our company; shareholders, employees and local communities alike. Despite our listed status and the fact that we are up against the biggest multinational fish farmers in the world, we are still very much a local company with local operations. Many see us as part of the fabric of our local communities,

so we must behave as responsible leaders and look after their interests. This includes making strategic community investments and supporting local cultural and sporting initiatives.

Through the value we create for the Faroese community and our collaborative approach to business, we are contributing, whether to a larger or lesser degree, towards UN Sustainable Development Goals 8 and 17. Please see page 9 for more information.

RESPONSIBLE LEADERSHIP

Demonstrating leadership on industry issues, and responsible corporate citizenship means going beyond compliance and optimising our net impact on society. As part of the materiality process we carried out in 2017, reviewing our most important sustainability risks and opportunities, it became clear that responsible leadership, particularly in the Faroe Islands, is an area where our stakeholders expect us to excel in. While our leadership on industry issues has been visible and felt at an international level, through our contribution to initiatives such as the Global Salmon Initiative (GSI), we realise we have an opportunity to make our leading commitment to sustainability and value generation be felt more at a local level.



Seaman's Day Klaksvík 2018

In 2018, we:

- Launched a new 10 million DKK fund, focused on addressing our material issues, to demonstrate our commitment to taking a leading role on industry issues. This is included a three-year partnership with the University of the Faroe Islands to increase knowledge on national sustainability challenges. See more on page 34.
- Became the first company in the Faroe Islands to sign up to the ten principles of the UN Global Compact, covering human rights, labour, environment, and anti-corruption.
- Engaged with the Government of the Faroe Islands on the UN Sustainable Development Goals.
- Contributed to the corporate sustainability conversation, speaking at numerous events in the Faroe Islands and internationally.
- Were shortlisted for the [Edie.net 2019 Sustainability Leaders Awards](#) for our approach to the circular economy.

“Bakkafrost has made a very large investment in our municipality to build the worlds’ largest smolt station. Projects of this size invariably impact communities. Through close and ongoing engagement, we have been successful in finding solutions to issues. We welcome this collaborative approach, and the various plans to manage their environmental impacts and increase their positive social impacts.”

Heri Hammer, Klaksvíkar Kommuna

In 2019, we will update our Corporate Responsibility Policy, continue to embed sustainable and responsible business, and increase our voice on key issues (particularly in the Faroe Islands) by participating at events and taking a leading voice on sustainability.

COMMUNITY ENGAGEMENT AND TRANSPARENCY

Our status in the Faroe Islands makes it all the more important for the community to feel that we are listening and responding to their concerns on issues of greatest importance to them.

Over the past few years we have been making big steps in our efficient growth strategy. This has involved new building projects throughout the islands which will have a local impact on jobs but also the environment.

While we always follow local protocol regarding community consultation and have regular dialogue with community representatives (such as the local councils), our 2017 materiality analysis highlighted that our local engagement

could be better. We have responded with closer consultation on specific projects and greater openness about our approach to sustainability and our community investments.

We have also increased dialogue and transparency with the investment community on sustainability issues, including deeper engagements with responsible investor service providers.

In 2018, we:

- Increased transparency on material sustainability issues by publishing our first dedicated sustainability report.
- Developed and began the implementation of a plan for more systematic stakeholder engagement. This resulted in the identification of a number of local stakeholders which we plan to meet in 2019.
- Increased engagement with local councils, investors, customers and regulators on sustainability issues.
- Cooperated with local broadcasters on research into the impact of salmon farming, an issue of growing local interest.
- Carried out an in-depth environmental impact assessment for our planned biogas plant (which will be followed up with a public consultation, to be made public in 2019).

As part of our stakeholder engagement plan, in 2019, we plan to increase engagement on sustainability through meetings with local stakeholders, increasing opportunities for them to provide feedback.

We will also do a materiality review, once again asking our stakeholders to share their feedback on how we are performing on the issues of greatest importance to them.

LOCAL VALUE GENERATION

Adding value through tax contribution, employment and community investment throughout the islands is how we create prosperity locally. Bakkafrost is a consolidation of many salmon farmers which over the years have been integral to the survival of many Faroese communities. Good management of our risks and opportunities has been key to maintaining a healthy business which contributes to healthy communities. Since becoming listed, it has become increasingly important for us to balance our shareholder returns with community investments which meet local needs. In 2018, we updated our [community investment policy](#) to extend the range of causes supported to include initiatives aligned to our most material issues at a local level.

Implementing our new policy will involve a dual approach to investments based on updated principles: meeting local needs by responding to online funding requests, and making proactive investments into education, research and innovation, and sponsorship of national sporting organisations and Faroese arts and culture.

Our tax contribution is the largest in the Faroe Islands. According to in.fo, in 2017 Bakkafrost paid the same amount in taxes to local communities, as the Faroe Islands received from the Danish state.

We also make a substantial contribution through the services and products we procure to run the business. In 2018, 72% of our suppliers were local, with the remaining 28% coming mainly from Denmark, Norway, Iceland and other European countries. These include suppliers of ingredients for our feed, our service vessels, technology used for production at our farms, hatcheries and processing plants, construction, and oil and energy used for our operations. In 2018, around 20 suppliers made up 50% of our total spend.

In 2018, we:

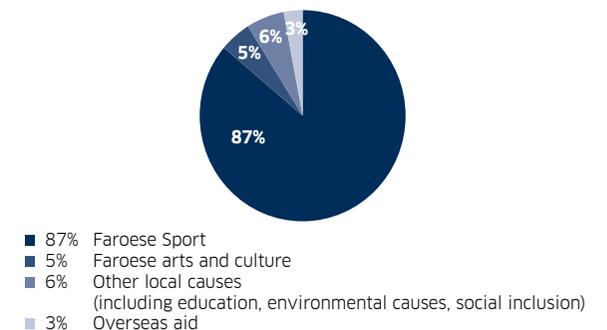
- Paid more than DKK 341 million in salaries and employee costs.
- Paid DKK 297.5 million in corporate and revenue taxes
- Sourced 72% of products and services locally.
- Continued our indirect contribution to the economy, and contracted around 200 people for new build projects alone.
- Contributed DKK 1.9 million to local causes including sport, arts and culture, education, and social inclusion.
- Organised and supported a range of community initiatives including a beach clean up and Seaman’s Day.
- Announced a new DKK 10 million fund and updated our community investment policy and strategy to increase investments into longer-term partnerships in order to address material sustainability issues.

In 2019, we will increase contributions into material issues, made through longer-term partnerships, including our three-year agreement with the University of the Faroe Islands. We will also increase transparency on our community spend, to demonstrate how we are implementing our updated policy.



Sigurð í Jákupsstovu and Regin Jacobsen

Causes supported





Healthy communities A pledge to support our natural world

In 2018, we celebrated our 50th anniversary with a pledge to invest DKK 10 million over three years into a new Healthy Living Fund.

The announcement includes a DKK 2.1 million three-year collaboration with the University of the Faroe Islands (Fróðskaparsetur Føroya) to advance research in natural sciences, with the objective to find solutions to the challenges faced by the aquaculture industry around the world.

The University partnership aims to improve knowledge about the impact from salmon farming on the fjord environment and the potential impact from climate change on salmon aquaculture in the Faroe Islands. Fish health and welfare and biosecurity will also be included in the research.

The new fund is part of our Healthy Living Plan, which aims to address our economic, social and environmental impacts. The aquaculture industry plays a big role in

“The funding will enable the University to develop its capabilities in this area and attract further funding to build intellectual capital in the Faroe Islands for a long-term positive impact on the industry.”

Sigurð í Jákupsstovu, Rector

meeting the growing global demand for protein, but also faces challenges in doing so sustainably.

By aligning our community investment to support our most material issues, and by building long-term relationships with organisations, we hope to build a more responsible approach to salmon farming in the Faroe Islands.

About the report

In 2017, we carried out a materiality analysis, reviewing our most important economic, social and environmental risks and opportunities. The analysis included various stages of desk research; a management team review of the issues with greatest operational, financial, and reputational impact; and consultation with a representative group of external stakeholders (selected by the CEO and management team based on their level of interest in the company). We interviewed stakeholders representing a diverse range of groups including worker unions, employees, investors, customers, suppliers, community representatives, national regulators, NGOs and sustainability experts. We approached at least two representatives from each group to participate, helping us identify and prioritise key issues through an online questionnaire and subsequent in-depth interview.

A list of twenty material topics emerged (see page 36), which have formed the basis for this report and our Healthy Living Plan. We have made commitments against topics rated as having the greatest potential impact on the company and of greatest interest to its stakeholders. However, all will feature in our management plans, and have indicators which we will report progress against on an annual basis. Responsible leadership and customer satisfaction arose as 'new' material topics and community engagement and transparency was raised as a topic which Bakkafrost could improve in, (due in part to the limited reporting on sustainability and community investment).

In 2018, we did a review of these issues through routine engagement (see page 38) and desk research (including a media review). Waste and packaging emerged as a growing



Bakkafrost, Glyvvar

issue, which we are considering as part of our commitment to conduct a review of our packaging in 2019.

We will carry out another in-depth assessment in 2019.

Sustainability management and governance

Sustainability is the responsibility of Bakkafrost's Management team, who report on a regular basis to our CEO. Its management and reporting is a matter for the Bakkafrost Board, and is tabled at least twice a year, as well as at the Annual General Meeting. The Board contributed to and approved the 2017 materiality process and sustainability report and will also approve the 2018 report. In 2018, the Board discussed sustainability on four occasions.

The Management Team reviews progress against the Healthy Living Plan on a quarterly basis through a scorecard, and will evaluate the management approach to all material issues outlined in this report in 2019, as we plan for the next phase of the plan. New plans will be taken to the Board of Directors for approval and will include external stakeholder insight, and feedback collected from ESG ratings.

Bakkafrost's core values specify an intent to act responsibly,

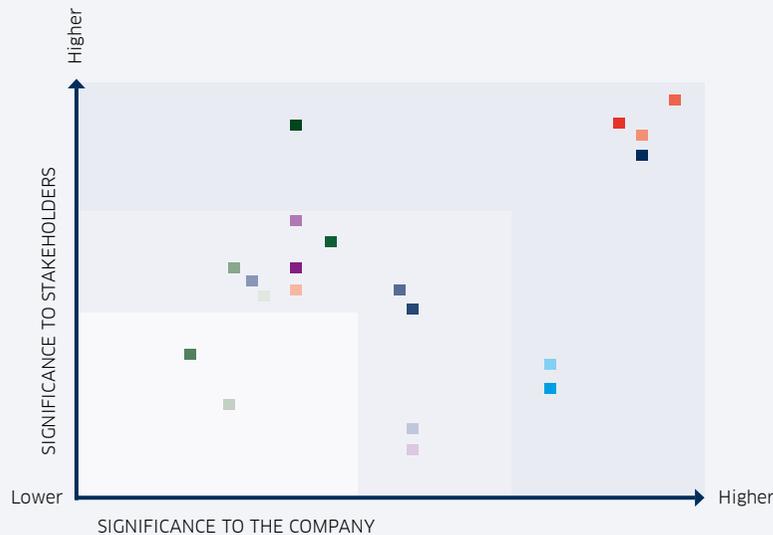
this includes thinking long-term on economic, social, and environmental issues. We follow a precautionary approach to the management of sustainability risk through an annual risk assessment process which is reported in the Annual Report and materiality analysis reported in our sustainability reporting, from 2018 onwards. The process allocates responsibility for the mitigation of significant operational risks.

Risks covering all Bakkafrost operations are monitored throughout the supply chain and reported against internally on a regular basis, and specific sustainability risks are reported though annual external reporting.

Our Code of Conduct also outlines our intention to "[...] strive to be market leading in environmental protection. All employees will be required to bear in mind the environmental effects work-related activities have on nature and the environment and apply environmentally friendly solutions to the extent reasonably possible."

Further information on Bakkafrost's approach to governance and values, principles, standards, and norms of behavior can be found online under our [Corporate Governance Principles](#).

Material sustainability topics



Notes on the report

Unless otherwise stated in the 'additional information' of our GRI Index, our reporting boundary is all Bakkafrost operations in the Faroe Islands. The new subsidiary in the US acquired half way through 2018 and the small sales office in the UK are not included.

We have mapped the material issues identified by our stakeholders against the GRI Standards, and the information in this report has been developed to cover the GRI Standard topics on an issue-by-issue basis. This report has been prepared in accordance with the GRI Standards: Core option, with guidance from our sustainability consultancy, Salterbaxter. Table can be found on page 39.

There are no restatements of information in this report. The basis for reporting on our employee data can be found online at www.bakkafrost.com/sustainability.

Only the indicators reported to the [Global Salmon Initiative](#) have been third-party audited by Januar.

 <p>Healthy Business</p>	<ul style="list-style-type: none"> ■ Government regulation and compliance: Ability to meet growing demand through regulated growth, and compliance with relevant laws, regulations and with local and international standards. ■ Ethical conduct: Upholding and promoting good business practice throughout the value chain, consistent with Bakkafrost's values and principles. ■ Customer satisfaction: Listening to customers and meeting changing customer needs and standards. ■ Innovation: Investing in innovation through research and development, to meet changing customer demands, capitalise on opportunities, and drive leading sustainability standards. ■ International relations: Managing impact on the brand from international relations issues.
 <p>Healthy People</p>	<ul style="list-style-type: none"> ■ Human capital: Ability to attract and retain talent and expertise, build workforce competency, and maintain high employee engagement through job satisfaction and engagement with company values. ■ Health, safety and wellbeing: Maintaining a high standard of occupational health and safety and creating a healthy working culture.
 <p>Healthy Salmon</p>	<ul style="list-style-type: none"> ■ Product quality: Maintaining high product quality, free from chemical contaminants, while providing nutritious, efficient and sustainable animal protein. ■ Fish health and welfare: Upholding leading welfare standards and limiting the use of chemicals and medicines in the prevention of disease and sea lice. ■ Biosecurity: Taking precautions to avoid fish escapes and the spread of disease and sea lice between farmed and wild fish populations. ■ Collaboration and certification: Collaborating to address systemic sustainability challenges through external standards and certification.
 <p>Healthy Environment</p>	<ul style="list-style-type: none"> ■ Local pollution: Minimising pollution of the local environment from each stage of the value chain (including effluent waste, marine debris, and local water, noise and air pollution), and investing in environmental initiatives. ■ Sustainable fish feed: Sustainable and responsible fishmeal, oil and feed production, including sourcing of raw materials and fish stock management. ■ Waste and packaging: Reducing and minimising the environmental impact of waste from our product's lifecycle, including food and packaging. ■ Water: Efficient use of fresh water at all stages in the value chain and investment in new technology to reduce use. ■ Climate change: Limiting GHG emissions throughout the value chain and addressing climate change risks. ■ Energy: Efficient energy consumption and ability to source from renewable sources. (Covered under 'climate change' in the report)
 <p>Healthy Communities</p>	<ul style="list-style-type: none"> ■ Responsible leadership: Demonstrating leadership on industry issues, and responsible corporate citizenship. ■ Community engagement and transparency: Engaging with the local community and promoting transparency on material issues. ■ Local value generation: Adding value in local communities through tax contribution, community investment, and employment throughout the Faroe Islands.

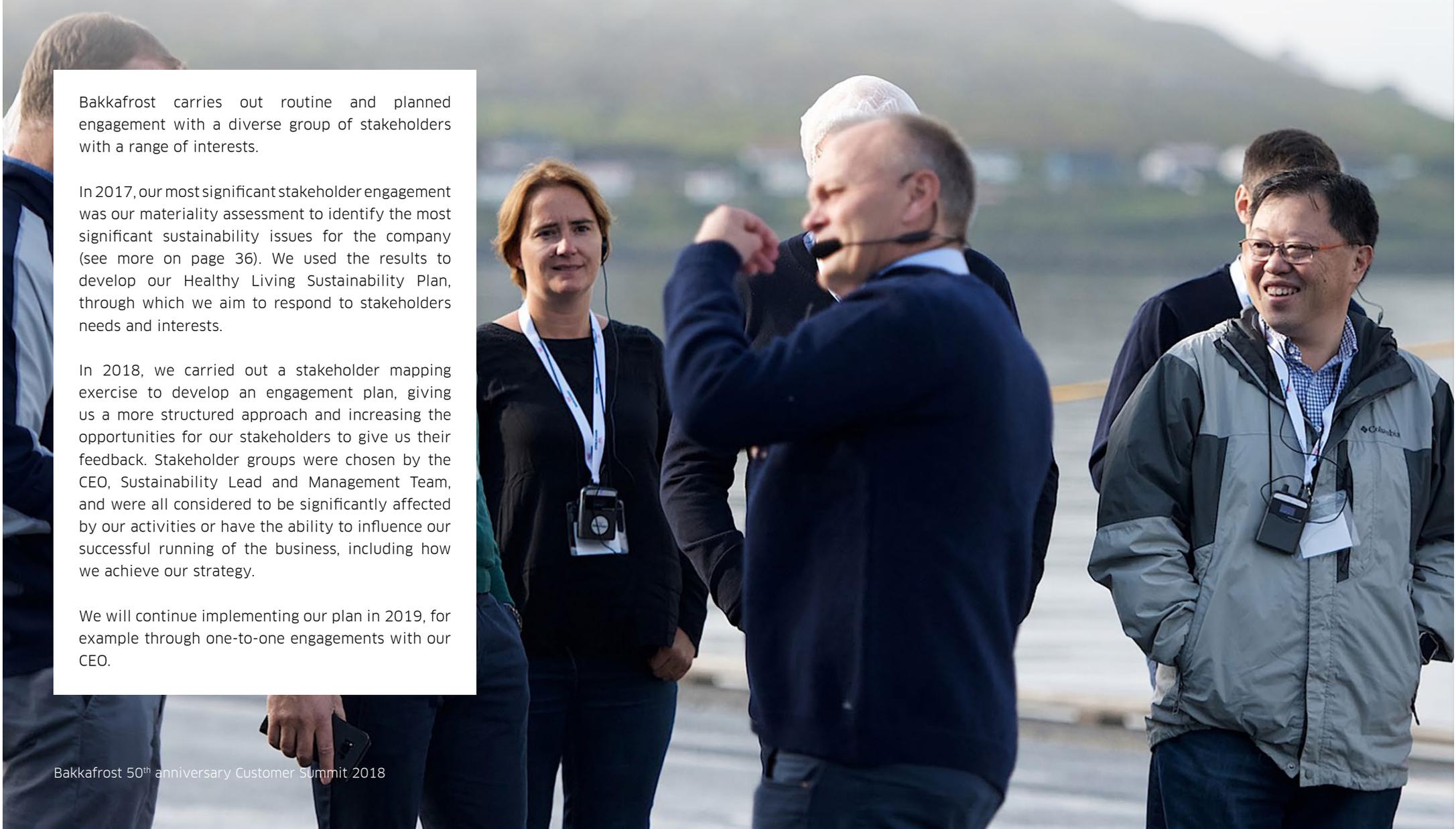
Stakeholder engagement

Bakkafrost carries out routine and planned engagement with a diverse group of stakeholders with a range of interests.

In 2017, our most significant stakeholder engagement was our materiality assessment to identify the most significant sustainability issues for the company (see more on page 36). We used the results to develop our Healthy Living Sustainability Plan, through which we aim to respond to stakeholders needs and interests.

In 2018, we carried out a stakeholder mapping exercise to develop an engagement plan, giving us a more structured approach and increasing the opportunities for our stakeholders to give us their feedback. Stakeholder groups were chosen by the CEO, Sustainability Lead and Management Team, and were all considered to be significantly affected by our activities or have the ability to influence our successful running of the business, including how we achieve our strategy.

We will continue implementing our plan in 2019, for example through one-to-one engagements with our CEO.



Group	Engagement mechanisms	Notes on engagement
Employees and unions	Regular contact and ongoing meetings with Unions Regular employee working group meetings Biennial sustainability materiality assessment	Main topics: labour conditions, remuneration, health and safety, human capital. In 2018, Bakkafrost acted on feedback from employees through the Unions to improve communications between management and employees.
Customers	Biennial sustainability materiality assessment Biennial Customer Summit (which all customers are invited to) Annual online questionnaire Annual engagement at seafood expositions including: Seafood Expo North America (Boston), Seafood Global (Brussels), China Fisheries & Seafood Expo (Qingdao), WorldFood (Moscow) Annual engagement at client summits	Main topics: certification, quality, satisfaction, international relations, packaging, product development. In 2018, Bakkafrost introduced fresh portions as a result of customer feedback. In 2018, customers were engaged on our feed policy and packaging review.
Suppliers	Biennial sustainability materiality assessment Ongoing engagement	Main topics: certification, quality, company standards (including human rights, health and safety and environmental standards).
Government and regulatory bodies	Regular ongoing engagement	Main topics: licenses and registration, fish health & welfare, pollution, ethical conduct, international relations, UN Sustainable Development Goals.
Local communities	Biennial sustainability materiality assessment Ongoing engagement with local councils, harbour masters, and interest groups Periodic engagement at industry events with Faroese business community	Main topics: new building projects, community investment, waste, water, pollution, value creation. In 2018, we participated in a documentary about the impact of salmon farming. We have increased transparency on management approach to pollution in this report.
Investors	Quarterly investor roadshows and periodic engagements Capital Markets Day (which all investors are invited to) Annual engagement on investor ESG ratings Biennial sustainability materiality assessment Periodic investor visits	Main topics: transparency on all material issues. Bakkafrost has increased transparency on material issues through its first Sustainability Report in 2017, and further increased transparency by aligning this 2018 Sustainability Report with the GRI Standard. In 2018, Bakkafrost increased engagement with investors on ESG issues.
NGOs	Biennial sustainability materiality assessment	Main topics: pollution, fish health & welfare, community engagement.
Certification bodies	Ongoing engagement with third party certification bodies, including the ASC, MSC and GLOBALG.A.P. Biennial sustainability materiality assessment	Main topics: certification, quality (including food safety), health and safety.
Industry groups	Ongoing engagement with groups including the Faroese Working Environment Service, and Faroese Maritime Authorities, Faroese Employers Association and Faroese Farmers Association, Global Salmon Initiative (GSI) Biennial sustainability materiality assessment	Main topics: fish health & welfare, human rights, innovation, collaboration and certification, international relations, health and safety, pollution, feed ingredients, transparency.
Industry experts and academics	Ongoing engagement with external vets Biennial sustainability materiality assessment Sustainability training with experts	Main topics: all material issues.

Voluntary memberships



Bakkafrost is a participant in the UN Global Compact and member of the Business Action Platform for the Ocean.

Through the action platform, we aim to contribute to the health of the ocean, through a focus on growth, innovation and sustainability.



Bakkafrost is a founding member of the initiative, which is focused on promoting sustainable aquaculture leadership through collaboration.



Havsbrún is a founding member of the initiative, which assures a pro-active position for the sector in front of the EU Commission, the Council and the Parliament and provides accurate information to decision makers.



Bakkafrost was instrumental in the formation of the Faroe Fish Farmers Association which promotes a joint approach to the management of material sustainability issues faced by the aquaculture industry in the Faroe Islands.

Ratings



SUSTAINALYTICS Bakkafrost is rated 58

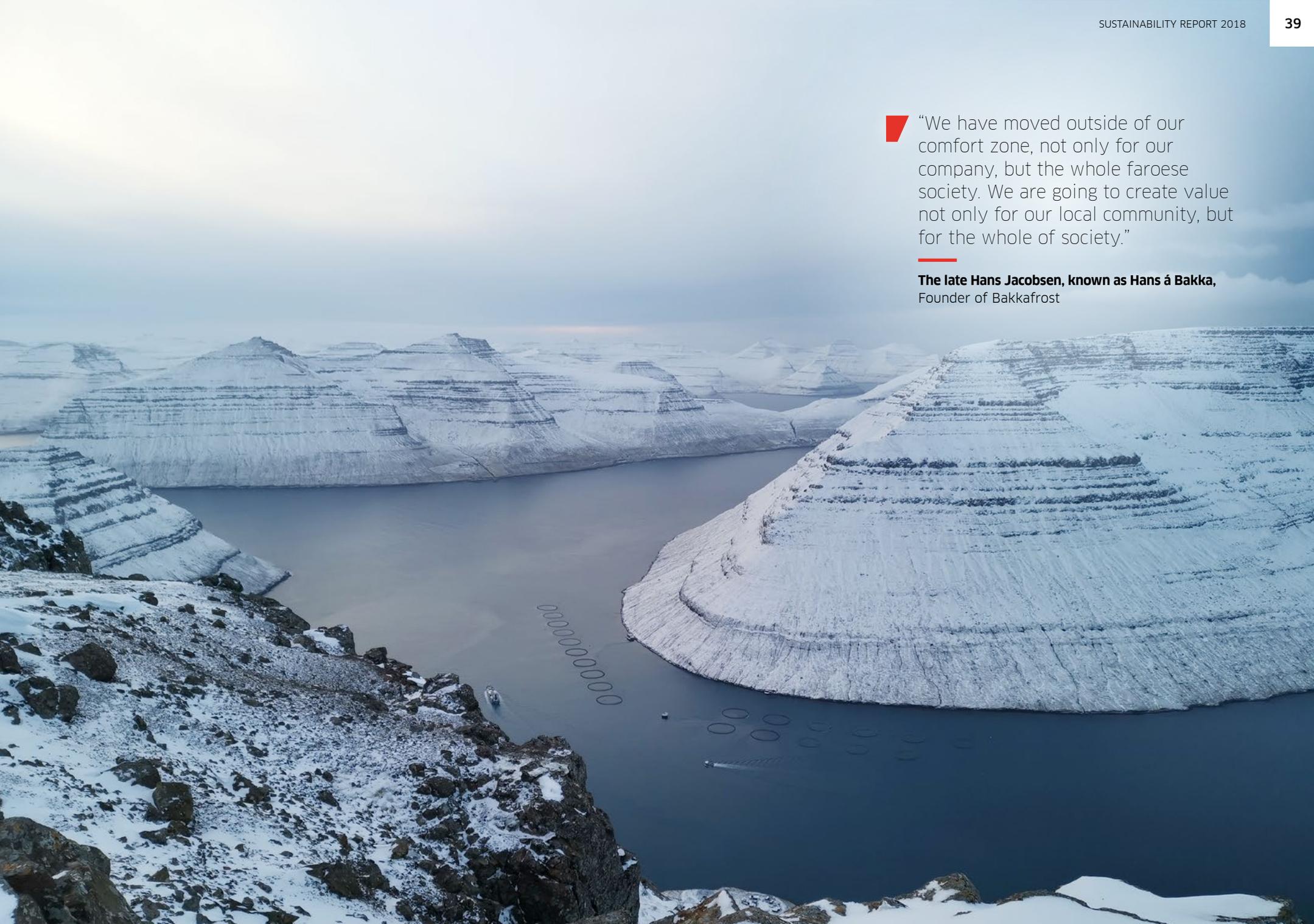


MSCI Bakkafrost is rated BB



FAIRR Bakkafrost is rated 78%

Please see our webpages for a comprehensive list of memberships and associations. More information on some of these events, community engagement and areas where we increased engagement in 2018 can be found on page 32. See page 11 for how employees engage on specific issues. Feedback on this report, or on other material economic, environmental and social issues concerning Bakkafrost should be sent to bakkafrost@bakkafrost.com. These will be shared with the Bakkafrost Sustainability Committee.



“We have moved outside of our comfort zone, not only for our company, but the whole faroese society. We are going to create value not only for our local community, but for the whole of society.”

The late Hans Jacobsen, known as Hans á Bakka,
Founder of Bakkafrost

