

# Corporate Governance Report 2020

## BAKKAFROST



## **This statutory report on corporate governance for Bakkafrost forms part of the management's report in the Annual Report 2020.**

The report comprises:

Part A: Status on recommendations for corporate governance.

Part B: Other codes or regulatory framework on corporate governance, where the company is subject.

Part C: The main elements of Bakkafrost's internal control and risk management systems used in the financial reporting process.

Part D: The management bodies and their committees and functions.

Part E: Appointment and replacement of members of the board of directors.

Part F: The board of directors' authorisation to repurchase or issue its own shares.

The report is not covered by the auditor's report in Bakkafrost's annual report for 2020.

## Part 1. Status on recommendations for Corporate Governance.

The recommendations on corporate governance applicable to Bakkafrost are available on the Norwegian Corporate Governance Board's website, [www.nues.no](http://www.nues.no). The Oslo Stock Exchange has included the recommendations in the "Continuing obligations".

Below, the Board of Directors comments on the status of compliance with all recommendations issued by the Corporate Governance Board. Bakkafrost complies with all the recommendations except recommendation 3.4.

- The company complies

- The company does not comply

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### 1. Implementation and reporting on corporate governance

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- 1.1. The board of directors must ensure that the company implements sound corporate governance.

- The company complies

**Explanation:**

Bakkafrost is dedicated to maintaining high standards of corporate governance. The company endeavours to be in compliance with the Norwegian Corporate Governance Code of Practice.

- 1.2. The board of directors must provide a report on the company's corporate governance in the directors' report or in a document that is referred to in the directors' report. The report on the company's corporate governance must cover every section of the Code of Practice.

- The company complies

**Explanation:**

The company's principles for corporate governance (Principles of Corporate Governance) are available on Bakkafrost's website, [www.bakkafrost.com](http://www.bakkafrost.com).

- 1.3. If the company does not fully comply with the Code of Practice, the company must provide an explanation of the reason for the deviation and what solution it has selected.

- The company complies

**Explanation:**

This report explains any deviation from the Code of Practice.

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## 2. Business

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- 2.1. The company's articles of association should clearly describe the business that the company shall operate.

- The company complies

**Explanation:**

Bakkafrost's objects are defined in § 3 in its articles of association:  
"The objects of the company are to hold shares in other companies, fish farming activities, trade and any business related to these activities."

- 2.2. The board of directors should define clear objectives, strategies and risk profiles for the company's business activities such that the company creates value for shareholders.

- The company complies

**Explanation:**

The Group's long-term strategic objective is to be a global leader in premium salmon, producing healthy world-class salmon to meet the world's growing demand for sustainably and responsibly produced protein and essential fatty acids.

The Group is vertically integrated, and each business unit in the Group's value chain has its own goal and strategy, which is in line with the Group's strategic objective.

- 2.3. The company should have guidelines for how it integrates considerations related to its shareholders into its value creation.

- The company complies

**Explanation:**

Bakkafrost's annual and sustainability report gives further description of its business objectives, strategy and risks and are available on Bakkafrost's website.

- 2.4. The board of directors should evaluate these objectives, strategies and risk profiles at least yearly.

- The company complies

**Explanation:**

The board of directors has implemented a yearly evaluation of Bakkafrost's objectives, strategies and risk profiles. Once a year the board of directors adopts schedules for board meetings for the next twelve months. The Group's strategy is normally discussed ahead of Bakkafrost's budget process, which normally will be during the autumn.

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### 3. Equity and dividends

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- 3.1. The board of directors should ensure that the company has a capital structure that is appropriate to the company's objective, strategy and risk profile.

- The company complies

**Explanation:**

The shareholders' equity was 8,819 million DKK as of 31 December 2020, which represents 67% of the Group's total assets. Bakkafrost aims to maintain a capital structure that is appropriate for the company's objective, strategy and risk profile.

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- 3.2. The board of directors should establish and disclose a clear and predictable dividend policy.

- The company complies

**Explanation:**

Bakkafrost aims to give its shareholders a competitive return on their investment, both through payment of dividends from the company and by securing an increase in the value of the equity through positive operations. Generally, the company should pay dividends to its shareholders, but it is the responsibility of the board of directors to make an overall assessment in order to secure the company a healthy capital base, both for daily operations and for a healthy future growth of the company. A long-term goal for the board of directors is that 30-50 % of adjusted EPS shall be paid out as dividends.

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- 3.3. The background to any proposal for the board of directors to be given a mandate to approve the distribution of dividends should be explained.

- The company complies

**Explanation:**

The general meeting has not given the board of directors a mandate to approve the distribution of dividends.

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3.4. Mandates granted to the board of directors to increase the company's share capital or purchase own shares should be intended for a defined purpose. Such mandate should be limited in time to no later than the date of the next annual general meeting.

- The company does not comply

**Explanation:**

P/F Bakkafrost's articles of association § 4A gives the board of directors authorisation to increase the share capital until the ordinary general meeting of the company in 2024, and § 4B gives the board of directors authorisation to buy own shares on behalf of the company until the ordinary general meeting is held in 2022.

According to the Faroese Company Act, a company may in its articles of association decide that that the annual general meeting may give the board of directors authority to increase the share capital, and buy own shares. This permission may last for more than one year. For practical reasons, this has been implemented into the articles of association of P/F Bakkafrost. It is the board of directors' view that if shareholders find this authorisation unacceptable, the board of directors will support a change to the article of association.

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## 4. Equal treatment of shareholders and transactions with close associates

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- 4.1. Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in share capital should be justified. Where the board of directors resolves to carry out an increase in share capital and waive the pre-emption rights of existing shareholders on the basis of a mandate granted to the board, the justification should be publicly disclosed in a stock exchange announcement issued in connection with the increase in share capital.

- The company complies

**Explanation:**

The board of directors is authorised in the article of association § 4A to set aside the pre-emption rights of existing shareholders in equity issues, if the board of directors exercises its authority to issue new shares, cf. section 3.4 above. The authorisation simplifies the procedure in connection with capital increase and if the existing shareholders' rights will be waived, the reason will be provided in a public announcement in connection with the capital increase.

The authorisation is valid until the ordinary general meeting of the company in 2024.

- 4.2. Any transactions the company carries out in its own shares should be carried out either through the stock exchange or at prevailing stock exchange prices if carried out in any other way. If there is limited liquidity in the company's shares, the company should consider other ways to ensure equal treatment of all shareholders.

- The company complies

**Explanation:**

Bakkafrost owned 98,929 treasury shares on 31 December 2020, corresponding to 0.17 % of the company's registered share capital. Purchasing of own shares shall be conducted to the official rate of the shares, but the board of directors may in special circumstances deviate from the official price with up to 10%.

- 4.3. In the event of any not immaterial transactions between the company and shareholders, a shareholder's parent company, members of the board of directors, executive personnel or close associates of any such parties, the board should arrange for a valuation to be obtained from an independent third party. This will not apply if the transaction requires the approval of the general meeting pursuant to the requirements of the Public Companies Act. Independent valuations should also be arranged in respect of transactions between companies in the same group where any of the companies involved have minority shareholders.

- The company complies

**Explanation:**

The board of directors shall consider the need for shareholder approval of any related party transaction or the company's internal guidelines. To the extent shareholder approval is not required, the board of directors shall nonetheless consider, whether it is appropriate to obtain independent third-party valuations of any materially related party transaction.

All transactions between related parties shall be executed according to arm's length principles.

## 5. Shares and negotiability

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- 5.1. The company should not limit any party's ability to own, trade or vote for shares in the company.

- The company complies

**Explanation:**

All shares in Bakkafrost have equal rights and may be freely transferred. No restriction applies in regard to sale or other transition of shares.

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- 5.2. The company should provide an account of any restrictions on owning, trading or voting for shares in the company.

- The company complies

**Explanation:**

The Faroese Farming legislation stipulates that no legal entity or physical person, which are foreign based, can own or hold 20% or more of the voting right of the company.

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## 6. General meetings

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6.1. The board of directors should ensure that the company's shareholders can participate in the general meeting.

- The company complies

**Explanation:**

Bakkafrost urges all shareholders to attend the annual general meeting and to use their right to vote, either in person or by proxy. Due to the outbreak of the COVID-19 pandemic, for the 2020 annual general meeting shareholders were urged not to attend physically but vote by proxy.

The general meeting is the shareholders' opportunity for exerting influence on company matters through making statements, asking questions and voting.

6.2. The board of directors should ensure that:

- the resolutions and supporting information distributed are sufficiently detailed, comprehensive and specific to allow shareholders to form a view on all matters to be considered at the meeting
- any deadline for shareholders to give notice of their intention to attend the meeting is set as close to the date of the meeting as possible
- the members of the board of directors and the chairman of the nomination committee are present at the general meeting
- the general meeting is able to elect an independent chairman for the general meeting.

- The company complies

**Explanation:**

Notices of general meetings are made available on Bakkafrost's website, through a separate notice to the Oslo Stock Exchange and through a separate notice in one or several of the major Faroese newspapers at least 21 days in advance of the general meeting. A shareholder is entitled to participate in the general meeting, if the relevant shareholder not later than 3 days prior to the general meeting has notified the company of his intent to participate in the general meeting.

As a rule, the chairman of the board of directors will nominate an independent chairman for the general meeting, which the general meeting decides on.

The chairman of the board, the chairman of the nomination committee, the CEO and the external auditor are all present at the AGM. Bakkafrost does not have a policy that requires the other members of the board of directors to attend the AGM.

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6.3. Shareholders should be able to vote on each individual matter, including on each individual candidate nominated for election. Shareholders who cannot attend the meeting in person should be given the opportunity to vote. The company should design the form for the appointment of a proxy to make voting on each individual matter possible and should nominate a person who can act a proxy for shareholders.

- The company complies

**Explanation:**

Shareholders may participate in person or together with an advisor. The shareholders of the company also have the right to participate in the general meeting by proxy, who can vote on behalf on the shareholder by presenting a written proxy. The proxy may be valid for a specified period, however not for a period longer than 1 year.

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## 7. Nomination committee

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- 7.1. The company should have a nomination committee, and the nomination committee should be laid down in the company's articles of association.

- The company complies

**Explanation:**

Bakkafrost's articles of association stipulate that the nomination committee shall comprise a total of three to five people, which shall be shareholders or shareholders' representatives.

- 7.2. The general meeting should stipulate guidelines for the duties of the nomination committee, elect the chairperson and members of the nomination committee and determine the committee's remuneration.

- The company complies

**Explanation:**

The general meeting elects the members of the nomination committee, including the committee's chair and the committee's remuneration. The board of directors has approved a set of instructions defining the responsibility of the nomination committee. These instructions are available on Bakkafrost's website.

- 7.3. The nomination committee should have contact with shareholders, the board of directors and the company's executive personnel as part of its work on proposing candidates for election to the board.

- The company complies

**Explanation:**

The nomination committee has regular contact with shareholders, the board of directors and the management.

- 7.4. The members of the nomination committee should be selected to take into account the interests of shareholders in general. The majority of the committee should be independent of the board of directors and the executive personnel. No more than one member of the nomination committee should be a member of the board of directors, and any such member should not offer himself for re-election to the board. The nomination committee should not include the company's chief executive or any other executive personnel.

- The company complies

**Explanation:**

The majority of the members of the nomination committee are independent of the board of directors and the executive personnel.

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7.5. The nomination committee's duties should be to propose candidates for election to the board of directors and nomination committee (and corporate assembly where appropriate) and to propose the fees to be paid to members of these bodies.

- The company complies

**Explanation:**

The duties of the nomination committee are to nominate candidates to stand for election as members of the board of directors including the chairman and deputy chairman, and to suggest the size of appropriate remuneration for the members of the board.

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7.6. The nomination committee should justify why it is proposing each candidate separately.

- The company complies

**Explanation:**

The recommendation of the nomination committee for the general meeting concerning election of shareholder-elected board members shall be distributed to the shareholders no later than two weeks before the relevant elections are to take place. The committee's recommendation shall include relevant information on the candidates. The committee's chairman, or a person appointed by him, presents the recommendation for the general meeting.

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7.7. The company should provide information on the membership of the committee and any deadlines for proposing candidates.

- The company complies

**Explanation:**

The current members of the nomination committee are:

- Gunnar í Liða (chairman)
- Leif Eriksrød
- Eyðun Rasmussen
- Rógvi Jacobsen

This information is available on Bakkafrost's website.

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## 8. Board of directors: composition and independence

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8.1. The composition of the board of directors should ensure that the board can attend to the common interests of all shareholders and meets the company's need for expertise, capacity and diversity. Attention should be paid to ensuring that the board can function effectively as a collegiate body.

- The company complies

**Explanation:**

Bakkafrost's articles of association stipulates that the company shall have a board of directors with 3 to 7 members and are elected by the general meeting.

8.2. The composition of the board of directors should ensure that it can operate independently of any special interests. The majority of the shareholder-elected members of the board should be independent of the company's executive personnel and material business contacts. At least two of the members of the board elected by shareholders should be independent of the company's main shareholder(s).

- The company complies

**Explanation:**

The majority of the members of the board of directors are considered to be independent. Hence, 5 of the 6 board members, including the chairman of the board, are considered to be independent.

8.3. The board of directors should not include executive personnel. If the board does include executive personnel, the company should provide an explanation for this and implement consequential adjustments to the organisation of the work of the board, including the use of board committees to help ensure more independent preparation of matters for discussion by the board, cf. Section 9.

- The company complies

**Explanation:**

The members of the board of directors does not include executive personnel.

8.4. The general meeting (or the corporate assembly where appropriate) should elect the chairman of the board of directors.

- The company complies

**Explanation:**

The general meeting appoints the chairman of the board of directors, whilst the board of directors appoints the deputy chairman.

8.5. The term of office for members of the board of directors should not be longer than two years at a time.

- The company complies

**Explanation:**

The members of the board of directors are elected terms of one year. Members may be re-elected.

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8.6. The annual report should provide information to illustrate the expertise of the members of the board of directors, and information on their record of attendance at board meetings. In addition, the annual report should identify which members are considered to be independent.

- The company complies

**Explanation:**

The members of the board of directors, including their independence status, CVs and record of attendance at board meetings, are presented in the annual report.

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8.7. Members of the board of directors should be encouraged to own shares in the company.

- The company complies

**Explanation:**

The members of the board of directors are encouraged to own shares in Bakkafrost.

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## 9. The work of the board of directors

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- 9.1. The board of directors should issue instructions for its own work as well as for the executive management with particular emphasis on clear internal allocation of responsibilities and duties.

- The company complies

**Explanation:**

Rules of Procedures govern the work of the board of directors, which describe the board's responsibilities, tasks and administrative procedures. Instructions for the CEO and other management clarifies the powers and responsibility of the management of the company.

The CEO is in charge of the day-to-day management of the Group, and is responsible for ensuring that the Group is organised in accordance with applicable laws, the company's articles of association and the decisions adopted by the Board and the company's general meeting. The CEO has particular responsibility for ensuring that the Board receives accurate, relevant and timely information in order to enable it to carry out its duties. The CEO shall also ensure that the Group's financial statements comply with Norwegian legislation and regulations and that the assets of the company are soundly managed.

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- 9.2. The board of directors should ensure that members of the board of directors and executive personnel make the company aware of any material interests that they may have in items to be considered by the board of directors.

- The company complies

**Explanation:**

The board of directors ensure that the members of the board of directors and executive personnel inform the company of any items or matters that they have any special or prominent interest.

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- 9.3. In order to ensure a more independent consideration of matters of a material character in which the chairman of the board is, or has been, personally involved, the board's consideration of such matters should be chaired by some other member of the board.

- The company complies

**Explanation:**

If the chairman of the board is, or has been, personally involved in matters considered by the board of directors to be dependant, the board will be chaired by the deputy chairman.

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9.4. The Public Companies Act stipulates that large companies must have an audit committee. The entire board of directors should not act as the company's audit committee. Smaller companies should give consideration to establishing an audit committee. In addition to the legal requirements on the composition of the audit committee etc., the majority of the members of the committee should be independent.

- The company complies

**Explanation:**

The board of directors has one subcommittee, the audit committee. Bakkafrost's audit committee consists of:

- Rúni M. Hansen (independent)
- Øystein Sandvik (independent)
- Teitur Samuelsen (independent)

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9.5. The board of directors should also consider appointing a remuneration committee in order to help ensure thorough and independent preparation of matters relating to compensation paid to the executive personnel. Membership of such a committee should be restricted to members of the board who are independent of the company's executive personnel.

- The company complies

**Explanation:**

The board of directors has chosen not to appoint a remuneration committee.

Matters relating to remuneration of executive personnel are discussed by the board of directors without presence of the CEO or other executive personnel.

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9.6. The board of directors should provide details in the annual report of any board committees appointed.

- The company complies

**Explanation:**

Bakkafrost's annual report gives information of board committees appointed.

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9.7. The board of directors should evaluate its performance and expertise annually.

- The company complies

**Explanation:**

The board of directors has formally assessed its work and competence in 2020.

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## 10. Risk management and internal control

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10.1. The board of directors must ensure that the company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the company's activities. Internal control and the systems should also encompass the company's guidelines etc. for how it integrates considerations related to stakeholders into its creation of value.

- The company complies

**Explanation:**

The board of directors and management has established a framework for risk management to ensure that Bakkafrost has good internal controls and appropriate systems for risk management adapted to the nature of and the risks related to its operations. Bakkafrost's code of conduct and CSR guideline describes the Group's commitment and requirements in connection with ethical issues relevant to business practice and personal conduct.

The follow-up and control of compliance with the company's values, code of conduct and guidelines for social responsibility is carried out by a day-to-day basis by the operation units and is in part audited annually as part of the preparation of the group's sustainability report. Material risks and any changes in them are discussed regularly at management meetings.

10.2. The board of directors should carry out an annual review of the company's most important areas of exposure to risk and its internal control arrangements.

- The company complies

**Explanation:**

The board of directors' conducts, through the audit committee, a comprehensive annual review of the Group's financial and risk management systems. This is normally done in connection with the annual budget process.

Bakkafrost's key risk factors are biological risk, associated with the state of health at hatchery and fish farming facilities, in addition to financial risk (foreign exchange, credit and interest rates). These risk factors are monitored and addressed by managers at all levels in the organisation.

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## 11. Remuneration of the board of directors

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11.1. The remuneration of the board of directors should reflect the board's responsibility, expertise, time commitment and the complexity of the company's activities.

- The company complies

**Explanation:**

The nomination committee makes recommendations regarding the remuneration of the members of the board of directors. The remuneration is determined by the general meeting. The remuneration shall reflect the responsibilities, competence, time spent and complexity of Bakkafrost's activities.

11.2. The remuneration of the board of directors should not be linked to the company's performance. The company should not grant share options to members of its board.

- The company complies

**Explanation:**

The remuneration of the board of directors is not related to Bakkafrost's performance and contains no share option element. The fee paid to the board of directors is fixed for each 12-month period, from AGM to AGM.

11.3. Members of the board of directors and/or companies with which they are associated should not take on specific assignments for the company in addition to their appointment as a member of the board. If they do nonetheless take on such assignments this should be disclosed to the full board. The remuneration for such additional duties should be approved by the board.

- The company complies

**Explanation:**

The members of the board of directors did not take on specific assignments for Bakkafrost in 2020.

11.4. Any remuneration in addition to normal directors' fees should be specifically identified in the annual report.

- The company complies

**Explanation:**

The remuneration paid to the board of directors is disclosed in the annual report. In case of additional remuneration to the members of the board, this will be specifically identified in the annual report.

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## 12. Remuneration of executive personnel

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12.1. The board of directors is required by law to prepare guidelines for the remuneration of the executive personnel. These guidelines are communicated to the annual general meeting. The board of director's statement on the remuneration of executive personnel should be a separate appendix to the agenda for the general meeting. It should also be clear which aspects of the guidelines are advisory and which, if any, are binding. The general meeting should vote separately on each of these aspects of the guidelines.

- The company complies

**Explanation:**

The board of directors determines the guidelines applicable to Bakkafrost's policy for remuneration of senior executives.

The guidelines will be laid before the AGM each year.

The salary of the CEO is determined directly by the board of directors. Salary and benefits payable to other senior executives in the Group are determined by the CEO in accordance with the guidelines.

12.2. The guidelines for the remuneration of the executive personnel should set out the main principles applied in determining the salary and other remuneration of the executive personnel. The guidelines should help to ensure convergence of the financial interests of the executive personnel and the shareholders.

- The company complies

**Explanation:**

Bakkafrost's remuneration policy for senior management is adopted by the general meeting. The board of directors decide within the framework of the remuneration policy all aspects of the remuneration to the senior management.

12.3. Performance-related remuneration of the executive personnel in the form of share options, bonus programmes or the like should be linked to value creation for shareholders or the company's earnings performance over time. Such arrangements, including share option arrangements, should incentivise performance and be based on quantifiable factors over which the employee in question can have influence. Performance related remuneration should be subject to an absolute limit.

- The company complies

**Explanation:**

Remuneration of the company's CEO and the executive management team is disclosed in Note 2.4 to the Bakkafrost financial statements. In compliance with the Norwegian Public Limited Liability Companies Act, the Board prepares a statement regarding the remuneration policy for the executive management team for consideration by the AGM.

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

- Fixed salary
- Benefits-in-kind
- Pension
- Termination payment
- Bonus

In addition, the Group has a Share-based Bonus Scheme ("Scheme"). The Scheme applies for all employees and is linked to individual and collective performance against a number of KPI's.

Any variable remuneration, such as bonus, cannot exceed the fixed remuneration in a financial year.

Furthermore, the Group has a Share Savings Plan for all employees, including the executive management team. This allows employees to invest 5% of their base salary in Bakkafrost shares and - after a 2 year lock-in period - receive one free share for each invested share. The details of the Share Savings Plan are described in Note 2.4 to the Bakkafrost Financial Statement.

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## 13. Information and communications

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- 13.1. The board of directors should establish guidelines for the company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in the securities market.

- The company complies

**Explanation:**

Communication with shareholders, investors and analysts is a priority for Bakkafrost. The objective is to ensure that the financial market and the shareholders have sufficient information about the company to be certain that pricing reflects underlying values.

The board of directors have approved Bakkafrost's investor relations policy, which is available on Bakkafrost's website.

- 13.2. The board of directors should establish guidelines for the company's contact with shareholders other than through general meetings.

- The company complies

**Explanation:**

The CEO and CFO are responsible for communication with shareholders outside the general meetings.

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## 14. Take-overs

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14.1. The board of directors should establish guiding principles for how it will act in the event of a take-over bid.

- The company complies

**Explanation:**

The board of directors have approved guidelines relating to take-over bids.

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14.2. In a bid situation, the company's board of directors and management have an independent responsibility to help ensure that shareholders are treated equally, and that the company's business activities are not disrupted unnecessarily. The board has a particular responsibility to ensure that shareholders are given sufficient information and time to form a view of the offer.

- The company complies

**Explanation:**

The board of directors will follow the overriding principle of equal treatment for all shareholders in the event of a take-over bid.

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14.3. The board of directors should not hinder or obstruct take-over bids for the company's activities or shares.

- The company complies

**Explanation:**

The board of directors will not seek to prevent any take-over bids unless it believes that the interests of Bakkafrost and the shareholders justify such actions.

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14.4. Any agreement with the bidder that acts to limit the company's ability to arrange other bids for the company's shares should only be entered into where it is self-evident that such an agreement is in the common interest of the company and its shareholders. This provision shall also apply to any agreement on the payment of financial compensation to the bidder if the bid does not proceed. Any financial compensation should be limited to the costs the bidder has incurred in making the bid.

- The company complies

**Explanation:**

Any agreement with the bidder that acts to limit the company's ability to arrange other bids for the company's shares will be submitted to the general meeting for its approval.

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14.5. Agreements entered into between the company and the bidder that are material to the market's evaluation of the bid should be publicly disclosed no later than at the same time as the announcement that the bid will be made is published.

- The company complies

**Explanation:**

Any agreement entered into between the company and the bidder considered to be material to the market's evaluation of the bid will be publicly disclosed at the same time as the announcement that the bid will be made is published.

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14.6. In the event of a take-over bid for the company's shares, the company's board of directors should not exercise mandates or pass any resolutions with the intention of obstructing the take-over bid unless this is approved by the general meeting following announcement of the bid.

- The company complies

**Explanation:**

The board of directors will not exercise mandates or pass any resolutions with the intention of obstructing any take-over bid unless this is approved by the general meeting following the announcement of the bid.

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14.7. If an offer is made for a company's shares, the company's board of directors should issue a statement making a recommendation as to whether shareholders should or should not accept the offer. The board's statement on the offer should make it clear whether the views expressed are unanimous, and if this is not the case it should explain the basis on which specific members of the board have excluded themselves from the board's statement. The board should arrange a valuation from an independent expert. The valuation should include an explanation, and should be made public no later than at the time of the public disclosure of the board's statement.

- The company complies

**Explanation:**

If a take-over bid is made, the board of directors will issue a statement in accordance with statutory requirements and the recommendations in the Code of Practice.

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14.8. Any transaction that is in effect a disposal of the company's activities should be decided by a general meeting (or corporate assembly where relevant).

- The company complies

**Explanation:**

Any transaction that is in a significant effect a disposal of the company's activities will be submitted to the general meeting for its approval.

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## 15. Auditor

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15.1. The board of directors should ensure that the auditor submits the main features of the plan for the audit of the company to the audit committee annually.

- The company complies

**Explanation:**

Bakkafrost's elected auditor by the AGM is P/F Januar. The auditor is independent of Bakkafrost.

The auditor presents a plan for the audit and presents the plan for the audit committee.

15.2. The board of directors should invite the auditor to meetings of the board of directors that deal with the annual accounts. At these meetings the auditor should report on any material changes in the company's accounting principles and key aspects of the audit, comment on any material estimated accounting figures and report all material matters on which there has been disagreement between the auditor and the executive management of the company.

- The company complies

**Explanation:**

The auditor is present at all meetings of the board of directors that deal with the annual accounts.

15.3. The board of directors should at least once a year review the company's internal control procedures with the auditor, including weaknesses identified by the auditor and proposals for improvement.

- The company complies

**Explanation:**

The auditor annually presents a review of Bakkafrost's internal control procedures to the audit committee.

15.4. The board of directors should establish guidelines in respect of the use of the auditor by the company's executive management for services other than the audit.

- The company complies

**Explanation:**

To the extent that the auditor is providing services beyond the audit, this is discussed separately on case-by-case basis prior to engagement, to ensure that there are no conflict of interest issues. The audit committee ensures that the auditor acts independently relative to management, including ensuring compliance with current rules and decisions regarding the purchase of additional services from the auditor.



## **Part B. Other codes or regulatory framework on corporate governance, where the company is subject.**

Bakkafrost follows the Norwegian Code of Practice for Corporate Governance and is not subject to other codes or regulatory framework on corporate governance.

## **Part C. The main elements of Bakkafrost's internal control and risk management systems used in the financial reporting process.**

The basis of the financial reporting process is well-defined authorisations, a segregation of duties, regular reporting and significant transparency regarding the Group's circumstances. The shared IT platform helps provide the documentation of accounting data across the Group and reduce financial reporting risks.

The financial reporting risks are regularly assessed by the Group's Finance Department. The most significant risks are regulatory risk, reporting process risk and value measurement risk. Regulatory risk consists of the increasing number of disclosure requirements imposed on Bakkafrost by both national and international bodies and organisations. Bakkafrost must incorporate the required information in its financial reporting. Reporting process risk concerns the preparation of interim and annual reports. Because of the large data volumes and short reporting deadlines, the financial reporting process depends on the Group's IT systems. Value measurement risk concerns the biomass, fixed-priced contracts and deferred taxes for which estimates and assumptions may significantly affect the valuation of assets and liabilities. These financial items are described in the notes to the consolidated financial statements.

The Group management has implemented controls to eliminate financial reporting risks, which have been identified, and regularly monitors changes in and compliance with relevant legislation and other financial reporting regulations. The purpose of the controls is to prevent, detect and correct reporting errors and irregularities. Although controls reduce the risk, they provide no guarantee against such errors and irregularities.

The Group has a well-established procedure of regular reporting, including deviation reports for the individual units of the Group. Internal management reporting is based on the same principles as external reporting, and local and central units use the same data and reporting systems. The Group's finance department reviews the reports and uses them to prepare the consolidated financial statements to be submitted to the Group's management.

The Group management regularly reports to the board of directors and its committees on compliance with the risk and investment framework set out and with statutory investment rules. The board of directors also receives accounting information on an ongoing basis.

## **Part D. The management bodies and their committees and functions.**

Bakkafrost strives to ensure that its internal control mechanisms and management structures comply with generally accepted principles for good corporate governance. The structure is a conventional two-tier management structure with a board of directors and a management (executive board). Under the management structure, the board of directors is responsible for the overall and strategic management, while the management is in charge of day-to-day management, observing the guidelines issued by the board of directors.

Bakkafrost's governance and management structure is further described on the website at [Bakkafrost.com](http://Bakkafrost.com).

The board of directors consists at the moment of six members all elected by the general meeting.

The board of directors has appointed the audit committee. The committee prepare cases for consideration by the board of directors and thus have no independent decision-making authority.

The audit committee works with accounting, auditing and security issues. The committee's tasks include the preparation of interim and annual reports and assessment of the related risks, internal controls, auditing, compliance and IT security risk.

## **Part E: Appointment and replacement of members of the board of directors.**

The board of directors consists of three to seven members all elected by the general meeting. The members are elected on terms of one year. Members may be re-elected. The general meeting elects the chairman of the board of directors.

The nomination committee recommends candidates for election to the board of directors and directors' fees. The deadlines for submitting proposals to the nomination committee is 31 January.

The company's articles of association stipulate that the nomination committee shall comprise a total of three to five people, who shall be shareholders or shareholders' representatives. The members of the nomination committee, including the committee's chair, are elected by the annual general meeting.

The nomination committee identifies potential board of director's candidates and recommends board of directors' candidates for election at the general meeting. The committee also plans the evaluation of the board of directors' work and performance and submits proposals to the board of directors on policies for succession planning, diversity and inclusion.

## **Part F: The board of directors' authorisation to repurchase or issue its own shares.**

The board of directors of the company is authorised to increase the share capital of the company in one or several rounds with up to a nominal amount of DKK 5,914,300. The new shares shall be registered by name and comply with the rules in § 4 of the articles of association. The board of directors is authorised to set aside the pre-emptive right of the existing shareholders to subscribe the new share capital. The new shares shall have a nominal value of DKK 1. New shares may be subscribed against cash payment. The authorisation of the board of directors to increase the share capital is in force until the ordinary general meeting of the company in 2025.

In the period from 7 April 2017 until the ordinary general meeting of the company, which will be held in 2022, the board of directors is authorised to buy own shares on behalf of the company. Purchasing of own shares shall be conducted to the official rate of the shares, but the board of directors may in special circumstances deviate from the official price with up to 10%. The company may not own more than 10% of the entire share capital of the company.

For practical reasons, this has been implemented into the articles of association of Bakkafrost. It is the board of directors' view that if shareholders find this authorisation unacceptable, the board of directors will support a change to the article of association of Bakkafrost.