



ESTABLISHED 1968

HEALTHY LIVING

SUSTAINABILITY
REPORT 2017

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WHAT'S IN THIS REPORT

This document gives an overview of Bakkafrost's new sustainability plan, including our new framework and key 2018-2020 commitments. It also reviews key progress made to date and performance for the reporting period 1 January to 31 December 2017. As the biggest salmon farmer in the Faroe Islands, we believe we have a responsibility to manage and report our impacts on the local economy, society and the environment. Our new plan builds on the work we have been doing with a renewed ambition to become a leader in our field.

To find out more, please visit
www.bakkafrost.com/sustainability

Bakkafrost at a Glance



BAKKAFROST

Salmon, packaging, fishmeal, oil and feed producer

Location: Faroe Islands

Headquarters: Glyvrrar, Eysturoy

Listed on: Oslo Børs

Brands: Bakkafrost and Havsbrún

1,104 employees (960 full time equivalent)

Business to business

Longest integrated supply chain in the industry



FISHMEAL

450 tonnes of fishmeal daily capacity



FISH OIL

300 tonnes of fish oil daily capacity



FISH FEED

700 tonnes of fish feed daily capacity



HATCHERIES

14 million smolts annual capacity



FARMING

21 farming sites operating across 17 fjords



FSV (FARMING SERVICE VESSELS)

4 live fish carriers and two service vessels



HARVESTING

54.6 thousand tonnes of salmon harvested in 2017



PROCESSING

130,000 tonnes in primary and 40,000 tonnes in secondary annual processing capacity



PACKAGING

70,000 tonnes annual salmon packaging capacity



SALES

3.8 DKK billion operating revenues for salmon, fishmeal, oil and feed

18% salmon sales to USA

44% salmon sales to EU

21% salmon sales to Eastern Europe

17% salmon sales to Asia



HAVSBRÚN

BAKKAFROST HEADQUARTERS

Map excludes farming sites not in operation in 2017

Our sustainability story so far



2010
Havsbrún became first feed factory to receive GLOBAL G.A.P. certification

2014
Increased transparency through public reporting to the Global Salmon Initiative



2015
Bakkafrost became the first Faroese company to get ASC certification at a site and ASC Chain of Custody across value chain

2016
Two sites ASC certified



2017
Moved to new consolidated site, reducing our carbon footprint from harvest and processing, through efficiencies

2003
Faroese Veterinary model introduced, reducing mortality from 18% to 6%
(source: www.avrik.fo)



2013
Bakkafrost became founding member of the Global Salmon Initiative

2015
Havsbrún became the first company to start filtering all the fish oil produced for feed of dioxin and DL-PCBs



2015
RS IFFO certification awarded to our meal factory at Havsbrún

2017
Four sites in total ASC certified



2017
MSC Chain of Custody standard awarded to meal and oil division at Havsbrún

Our vision for healthy living



Chief Executive Regin Jacobsen's
2017 Reflections

Q: 2017 was another successful year for the salmon industry in the Faroe Islands. What are your main reflections for the year?

RJ: Even with some hurdles on our way in 2017, the year ended as the best in Bakkafrost's history. Our company has developed significant improvements during recent years to improve sustainable operations, and we know that despite the areas where we still can improve, we are committed to the journey of improving sustainability in our operations. The learning curve has been steep and a big effort has been taken by our employees to amend and change operations into a higher level of sustainability. Several significant improvements are ahead of us, and we are delighted to see these commence.

Q: Despite the continued strong financial results, you are still facing several significant issues in the industry. What have you done in 2017 to address these?

RJ: To make changes, the first step is to be aware of what needs to be changed. Bakkafrost is a proud founding member of [Global Salmon Initiative \(GSI\)](#), where there is a high focus to lead the way in sustainable salmon farming. Through the initiative, the salmon industry is demonstrating how an industry can improve sustainability, and share information in order to speed up the transformation of the whole industry. I think this model could be an inspiration for other industries to follow. We have invested heavily in the value chain over the last couple of years to improve operations, and we have shared and received information from other GSI members in order to speed up the transformation. The introduction of non-medicinal de-licing treatments, such as lumpfish and fresh and lukewarm water treatment are all important, but ensuring we produce fish feed sustainably and that we filter all fish oil of dioxin and DL-PCBs, are also very important steps for Bakkafrost to take to become more sustainable.

Q: Where there any key events in 2017 for Bakkafrost?

RJ: Bakkafrost started operations in the new factory in Glyvrrar during 2016 and 2017. This factory will reduce our environmental impact, as all heating in the building will be by surplus energy from production of packaging material in the new factory built next door to the factory. Laying down seven factories and opening up the brand-new factory in Glyvrrar will significantly cut down transportation of raw materials, packing material and other items, between the factories. We estimate an average of 20 fewer truck trips per day. The changes were carried through without anyone losing their job; all employees were offered the option of being part of the new factory.

Q: Please tell us about your approach to sustainability at Bakkafrost.

RJ: The salmon industry has faced some difficult challenges over the years which has made it imperative for us to understand and take a long-term view of the sustainability risks facing our business if we are to survive and thrive. We believe that coming together to address many of these risks through national initiatives, such as our unique Faroese Veterinary Model, has given us an advantage, and we are proud to be leading the way in areas such as fish health and welfare. Our collaboration with the GSI and our commitment to various standards and certifications such as the [Aquaculture Stewardship Council \(ASC\)](#), has also enabled us to work with the rest of the industry to address systemic issues. We have not stopped there though. We have set ourselves apart from our competitors by investing heavily in our integrated supply chain to produce healthy world-class salmon, as sustainably as possible. The new plan outlined in this report is setting out for the first time how we intend to build on our work so far, with a new vision to promote healthy living.

Q: Please tell us more about this renewed approach to sustainability.

RJ: We are calling this our Healthy Living Plan. 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 achieve our corporate mission to produce healthy world-class salmon, today and in the future, and realise our sustainability vision to enable healthy living for millions of people globally. Setting out a series of commitments will enable us to increase transparency in how we manage our most material issues. This new refocused approach to sustainability is the result of a ‘materiality analysis’ carried out in 2017, which involved consultation across our business and with numerous external stakeholders such as investors, customers, community representatives, regulators, NGOs, suppliers and sustainability experts. Our new plan marks a further pledge to address these issues and create long-term value for our stakeholders and society through five strategic priorities, commitments against our top ten issues, and greater transparency against all issues identified in the process.

Q: How does this fit with your corporate strategy and your organisational values and principles?

RJ: Our sustainability vision to enable healthy living is enabled by our corporate mission to produce healthy world-class salmon, and our operational strategies which are designed to achieve this, while addressing our key risks and opportunities. Our core values, which support our performance and guide our behavior, reflect our commitment to create long-term value to our customers, shareholders and the society by acting responsibly, showing respect, and being persistent, efficient and ambitious.

Q: What inspired the new approach?

RJ: Continued unprecedented population growth – from 7.5 billion in 2017, to an estimated 9.7 billion in 2050 (UN) – coupled with a 70% increase in demand for protein than is currently available by 2050 (FAO), will require the agriculture and fishery sectors to considerably increase production.

With limited availability of arable land and fresh water, and heavily exploited wild fisheries, aquaculture is stepping up to

	Healthy business	>
	Healthy people	>
	Healthy salmon	>
	Healthy environment	>
	Healthy communities	>






meet some of this demand. Salmon aquaculture is the world’s fastest growing food production system (GSI). Compared to other sectors, it benefits from one of the most efficient feed-to-food conversion ratios, low CO² emissions, and low use of freshwater. However, ensuring social and environmental responsibility of the sector is paramount for its future. This means producing nutritious salmon sustainably and responsibly.

To achieve this goal, and to hand over an environment to future generations that is in the same or even better condition than we found it, where salmon thrive, we must be aware of the impact of our operations and be able to control this.

By providing a healthy source of protein and essential fatty acids to feed the growing population, and by creating socio-economic value for the Faroe Islands, we are contributing to the UN Sustainable Development Goals (SDGs), specifically Goal 2: Zero hunger, and Goal 8: Decent work and economic growth. Our sustainable and collaborative approach to aquaculture also supports Goal 14: Life below water, and Goal 17: Partnerships for the goals.

While we are already leading the way in many areas, as the biggest private employer in the Faroe Islands, we have a duty to act responsibly and think long-term both for the future health of our business and the islands. Through our Healthy Living Plan, we will continue to look for ways in which we can become more sustainable and create value for the communities in which we operate.

HEALTHY LIVING PLAN

Healthy business	Healthy people	Healthy salmon	Healthy environment	Healthy communities
				
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



Healthy business Our commitments

★ STRATEGIC PRIORITY

- To grow efficiently and responsibly

🎯 2020 COMMITMENTS

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

📊 2017 PERFORMANCE

- Zero cases of non-compliance
- Customer net promoter score of 8.4 out of 10

Financial strategy and performance can be found in our 2017 [Annual Report](#).

WHY IT IS IMPORTANT


Competing in the world's fastest growing food industry, means we must be prepared to maintain and even grow our market share, this is at the core of our corporate strategy. 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 2017, we produced an average of almost 700,000 meals a day, serving different global markets where consumers are increasingly demanding peace-of-mind about the quality and sustainability of the food they buy. It is no longer enough for us to just run a first-rate business, we must also be able to *demonstrate* our commitment to producing healthy world-class salmon, responsibly and sustainably. This means making a commitment to increase transparency and external certification. This is part of our new sustainability plan, championed by our Board.

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

GOVERNMENT REGULATION AND COMPLIANCE

As we grow our business we must ensure we continue to meet local and international standards. 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.



Over the last years, customers and consumers have become increasingly interested in where their food comes from and whether it is produced responsibly and comes from sustainable sources. It is equally important to us, being reassured that Bakkafrøst, our supplier in long-term partnership, is meeting industry best-practice and reporting their sustainability policies openly.

Oliver Spring, Group Corporate Social Responsibility Project Manager, Nomad Foods Europe



Our business relies heavily on the Faroe Islands' natural capital, so compliance, leadership and openness on environmental issues is key. We cooperate with the environment agency and comply with Faroese aquaculture legislation which covers production at each stage of the value chain. Our farming licenses are subject 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, 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, which we met in 2017.

ETHICAL CONDUCT

The starting point for our sustainability plan is ensuring that we continue to uphold and promote good business practice 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](#) for more information on our anti-bribery and corruption, money laundering and other standards of ethical conduct.

CUSTOMER SATISFACTION

Listening to our customers and meeting their changing needs and standards is important if we want to maintain our position as a preferred supplier of world-class salmon in the marketplace. We aim to secure loyalty and trust by providing outstanding service, priding ourselves on our reliable, efficient, and responsible approach. More information on our customer strategy can be found in our [Annual Report](#).

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 categories and a move towards full ASC certification by 2020, inevitably we have met some challenges, particularly as we have expanded and consolidated operations.

2017 update

- Introduced a new system for collecting customer feedback across our customer base.
- Experienced some logistical errors and delays delivering customer orders due to start-up glitches in our new factory, and some external factors beyond our control impacted our satisfaction scores.
- Lost a major low-cost supermarket customer whose pricing model made it difficult for them to continue sourcing from us. We hope to minimise the impact of this with new contracts.
- Increased volume of salmon sold (head on and gutted) by 2%.

In 2018, we will look to bring in new customers, start producing new fresh fillets and portions in response to customer demand, and to ensure we continue our customer focus, we are making a 2020 commitment to have a net promoter score of 9 out of 10, which means our customers will be even more likely to recommend us.

INNOVATION

Investing in innovation through research and development is key if we are to meet changing customer demands, capitalise on opportunities, and lead sustainably. Our five-year 2020 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 further growth.

2017 update

- Continued our research to optimise feed quality and sustainability.
- Opened our new consolidated headquarters and production site, using the latest production and office technology giving us one of the most modern processing plants in the world.
- Set up new production facilities at Havsbrún to start salmon oil and salmon fishmeal production in 2018.
- Started our own breeding program in collaboration with Fiskaaling.

In 2018, we plan to invest in a new biogas plant in collaboration with other Faroese farmers, using waste products from fish and dairy farming to produce energy and fertilizer for the Faroese agriculture industry; and continue building a new hatchery site which will improve productivity by approximately 30% by keeping the smolts on land for longer periods.

Following an agreement with the Minister of Industry and Aquaculture, we will also take over and further the development of the Faroese salmon breed, giving us full ownership of the programme by 2021.





Healthy business Growing with our customers

Beijing Dong Long is one of China's biggest importers of salmon, and one of Bakkafrøst's most important fresh salmon customers. Beijing Dong Long is a family owned and run company. Their representative, Anthony Chung, credits the success of their company to the top-quality seafood their team sells, and the strong relationships their team has with customers. This relies not only on their ability to source the highest standard products, but also their ability to meet customers' changing needs.

Since making their first order with us in 2012, their weekly order size with us has gone up twelvefold. Anthony explains that this success is down to two things; firstly, the world-class quality salmon we sell, and secondly, our ability to provide this on a regular and reliable basis. Being able to tell his customers that our salmon feed is free from GMO ingredients and antibiotics, has high omega 3 levels as well as the fact that Bakkafrøst is a fully vertically integrated company, makes his job even easier. Anthony also anticipates a growing awareness and demand for sustainably and responsibly sourced seafood products will make Bakkafrøst salmon an even stronger proposition.

In February 2017, Anthony made one of his regular visits to the Faroe Islands and took to the stage to talk to the whole of Bakkafrøst about the things that matter most to his customers. Maintaining a close relationship with him has helped us grow our business as he grows his.

Adapting to our customers' needs is at the heart of our strategy. In 2018, this will mean adapting production to begin supplying Beijing Dong Long with fresh portions and fillets for the first time. We will also work with them to explore new ways to get products to market more quickly.

Healthy people Our commitments

STRATGIC PRIORITY

- To strengthen our human capital

2020 COMMITMENTS

- To renew employee strategy and launch engagement survey

2017 PERFORMANCE

- N/A

WHY IT IS IMPORTANT

Investing in human capital is fundamental for a healthy business. Bakkafrost acknowledges that in order to achieve our mission and meet our strategic objectives, we must have a capable and engaged workforce which is committed to our core values. Today we are the consolidation of many farming companies which have grown up across the Faroe Islands, often in insular communities, over a number of years. Integrating people into the business, and into our corporate culture, needs to be a priority, in order to maintain our world-class standards and all live by the same set of values. This has also involved continually adapting ourselves and being open to learning new ways, as the business continues to evolve with its 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.

HUMAN CAPITAL

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. We employ 1,104 (960 full-time equivalent) people across 24 municipalities in the Faroe Islands.

Strong human capital is the foundation for any successful business. At the most basic level, the health of our people contributes to the health of our businesses. For us this means providing meaningful work opportunities in safe and healthy environments, where people feel valued, listened to and invested in.

Guðrun Olsen, Bakkafrost Group HR Manager

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. Our Ageing and Employment Policy is one example of how we value the expertise and contribution from all employee groups. We make provisions for individuals who wish to continue their duties, and encourage collaboration with younger workers to combine strengths. In 2017, we had 38 people over the retirement age working across our operations.

Attracting young talent is part of our employment strategy. In 2017, we took on two interns studying post-graduate qualifications in aquaculture and marine biology, and eleven work experience students from local schools. We also hired two apprentices in our head office function and one at Havsbrún.

Bakkafrost offers market-leading benefits to employees. These include a share savings plan taken up by 171 employees, bonus shares issued to 746 employees in 2017, and various insurance options for all permanent employees, after three months.

Our parental leave and pension provision is in line with national legislation, we meet regularly with unions (which represent a large proportion of our workforce), and we have a grievance procedure in place.

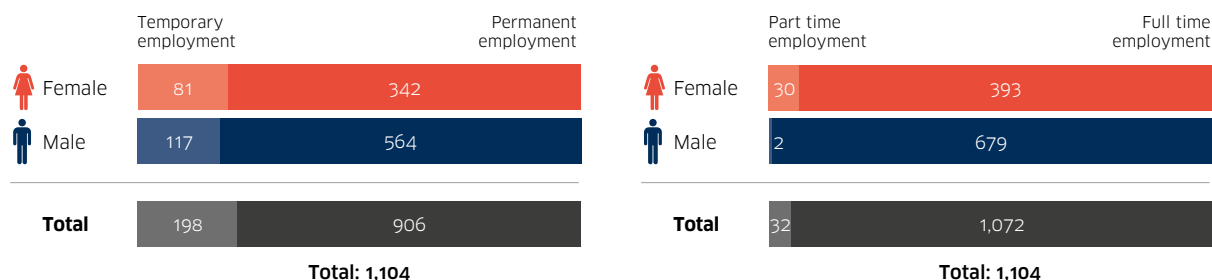
To ensure we continue meeting the highest health, safety and welfare standards, we carry out annual training using both internal and outside trainers who deliver modules on topics ranging from hygiene, first aid, safety at sea, safe chemical use, to fish welfare. We also offer relevant development opportunities to our management team.

2017 update

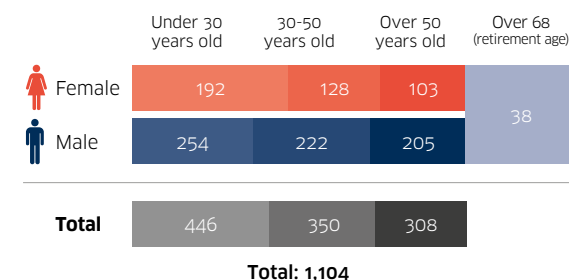
- Consolidated seven factories into one; offering all employees jobs at the new site.
- Around 150 jobs lost in January 2018, following the loss of a contract with a major low-cost supermarket customer. Our aim is to bring in new customers so that we can build our team back up as soon as possible.
- Had 1,104 (960 full-time equivalent) employees from 24 of the 29 municipalities in the Faroe Islands working for us.

In 2018, we plan to launch an employee engagement survey, a new worker integration initiative, and further training for all land and sea farmers, and by 2020 we will renew our employee strategy.

BAKKAFROST WORKFORCE 2017 BY TYPE OF EMPLOYMENT



BAKKAFROST WORKFORCE BY AGE



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 work place. 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 sea, and considered the wellbeing of our employees in our internal policies.

The wellbeing of all people in our value chain is important to us, which is why we respect the protection of human rights and make sure that we are not complicit in human rights abuses. Our Code also states our commitment to ensure that neither Bakkafrost nor our business partners shall exploit children as a labour force. This is supported by the standards we ask our suppliers to sign up to when entering into agreements with us.

2017 Update

- Increased health and safety resources.
- Further strengthened sea-safety procedures and equipment, following an incident in 2016.
- Improved physical working conditions in new factory.
- Increased focus on awareness training, for example in relation to fire safety.

Employee wellbeing will be in our 2020 employee strategy review, and in 2018 we will improve our health, safety and wellbeing reporting.





Healthy people Supporting our best people

VESTHAV

Per Larsen is captain of Vesthav – one of Bakkafrøst's wellboats – and has been working at sea since he was 15. He is one of 38 of Bakkafrøst's full time workers to continue working beyond the age of retirement. Since 1991, he has been working on a number of wellboats which bring in salmon from the various farms across the Faroe Islands, to be harvested and processed. At the start of every week he receives information from head office detailing customer orders against stock. Per uses his experience to determine the suitability of the weather conditions for the trip – over the years he has seen some spectacular storms hit the islands and knows how quickly the conditions can change.

Vesthav and its team of three has been under his command since 2002 and he has no definite plans to retire: "I am taking it one day at a time, but while I feel this fit and healthy and I am enjoying my work, I plan to carry on." Per keeps fit by climbing the various mountains surrounding his home town of Gøta almost on a daily basis. He enjoys working for Bakkafrøst, gets fulfillment from coming to work, and most of all, he likes the atmosphere and camaraderie on board: "We are all different ages – our youngest is 30 – the mix works well."

Bakkafrøst has a policy to support employees that would like to continue working beyond the age of retirement, making the necessary adjustments to enable safe and fulfilling work. Per feels supported by the leadership team, which says make him, and his team, feel valued and equal.



Per Larsen at work

Healthy salmon Our commitments

STRATEGIC PRIORITY

- To meet and exceed leading standards

2020 COMMITMENTS

- To maintain our high omega 3 levels
- To maintain high customer satisfaction with product quality
- To reduce fish mortality to 6%
- To have ASC certification across all sites
- To further develop and implement non-medicinal treatments with high focus on fish welfare

2017 PERFORMANCE

- 2.2g per 100g mean omega 3 levels
- 96% of customers satisfied, more than satisfied, or very satisfied with product quality
- 8.96% fish mortality
- 4 sites ASC certified
- Roll out of cleaner fish and sea lice de-licensing service vessels

WHY IT IS IMPORTANT

The fast-growing global population and increasing demand for protein is putting a pressure on the planet never seen before. To meet this demand, the aquaculture industry must be able to increase production of healthy and nutritious protein, responsibly and sustainably.

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.avrik.fo).

As one of the original GSI members, Bakkafrost continues to play a global leadership role in the initiative. Their high level of engagement and willingness to share updates and insights when it comes to improvements in sustainability and biosecurity has been important in speeding the rate of progress, and to driving improvement across the whole sector.

Avrim Lazar, Convenor of the Global Salmon Initiative

However, tackling sea lice and diseases, such as pathogenic ISA, 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.

PRODUCT QUALITY

Our salmon provides a nutritious, efficient and sustainable source of animal protein high in omega 3. Maintaining world-class product quality, with high nutritional value, free from chemical contaminants, is our top priority. With nearly 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. Our feed is produced with a high percentage of (sustainably sourced) marine ingredients which gives our salmon a very high omega 3 content - a mean of 2.2g 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.

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. See more under Collaboration and Certification on page 17.

2017 update

- Optimised fishmeal production process at Havsbrún, increasing its quality and nutritional value.
- Continued phasing out the use of formalin in our hatcheries, in favour of natural salt water treatments.
- Came top in German Stiftung Warentest 2017 test for taste and lowest toxicity in all categories.
- Came top in Swedish Test Fakta 2017 test for lowest ethoxyquin and highest omega 3 levels in the non-organic category.

In 2018, a decision was made to phase out the use of ethoxyquin in all fishmeal produced at Havsbrún and used in the feed for our salmon (in favour of natural antioxidants). We also commit to maintaining our high omega 3 levels and to maintaining our high customer satisfaction with product quality.

FISH HEALTH AND WELFARE

We are committed to upholding leading welfare standards and reducing the use of chemicals and medicines in the prevention of disease and sea lice. Our experienced fish health team - made up of certified veterinarians, biologists, and assistants - is always looking for new ways to do this.

We have not used any antibiotics on our salmon since 2004. We have started introducing lumpfish in all new stocking and sea cages to prevent lice infestation, and as part of our five-year 2020 [investment plan](#), we have invested heavily in other non-medicinal methods such as freshwater and thermal delicing. The plan also includes upgrading and building new sites on-land to reduce production cycle time spent at sea. This, together with the minimum eight-week fallow period we observe, reduces biological risk.

To reduce biological risk, we are sourcing from selective breeding programmes to improve fish resilience, we vaccinate

OMEGA 3 LEVEL 2017 MEAN

2.2g per 100g

2016: 2.5g per 100g

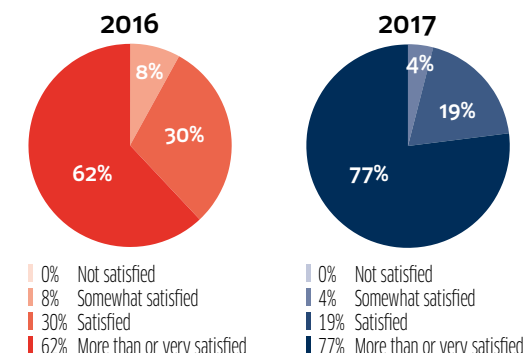
OMEGA 3 TO 6 RATIO 2017 MEAN

1.5g per 100g

2016: 1.7g per 100g

CUSTOMER PRODUCT QUALITY SCORE

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



DIOXIN LEVELS in Bakkafröst salmon 2017

0.4pg/g

2016: 0.4pg/g

EU dioxin max level post 2012
3.5 pg/g

DIOXIN-LIKE PCB LEVELS in Bakkafröst salmon 2017

0.6pg/g

2016: 0.7pg/g

EU dioxin-like PCBs max level post 2012: **6.5 pg/g dioxin**

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 fish stock density limits. However, we are continually looking for new ways to further improve fish welfare, which is why we are taking part in research to detect stress factors at various stages of production, and are further investing in highly-skilled qualified people in our hatcheries to improve the welfare of smolts being transported to sea.

2017 update

- Delivered two new service vessels for mechanical de-licing. The adjustment period together with other extraordinary environmental factors has temporarily increased mortality rates.
- Reduced number in mature lice in second half of the year through preventive measures and new treatments.
- Launched new research to optimise fish environment to improve salmon welfare and wellbeing in hatcheries.
- Harvested at Bakkafrøst site A-73 following a confirmed case of pathogenic ISA disease. A-73 together with surrounding sites, remain under strict surveillance.

For more information on fallow time and medicine use, please visit our [sustainability pages](#) online.

COLLABORATION AND CERTIFICATION

Collaborating 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 (and only Faroese) member of the [Global Salmon Initiative \(GSI\)](#), an international leadership initiative established to improve health and sustainability in salmon farming. As part of this collaboration, we have committed to having all our sites certified by the [Aquaculture Stewardship Council \(ASC\)](#) by 2020.

As well as this, we also subscribe to a number of other external standards and certification programmes to ensure product sustainability, quality and safety. Our entire value chain – feed production, hatcheries, farming sites, and harvesting and processing plant – is certified according to the international GLOBALG.A.P. standard which focuses on food safety throughout production, fish welfare, health and safety, and environmental management. In addition, our harvesting and value-added product (VAP) production has the ASC Chain of Custody certification and our VAP production is certified according to the BRC and IFS food safety standards. Our fish meal, oil and feed production at Havsbrún, also hold multiple certifications, all units are certified to ISO9001:2008, and the meal and oil division is certified according to the GMP+ standards, the IFFO RS certification and the MSC Chain of Custody standard.

2017 update

- Certified two further sites to the ASC standard (bringing total to four).
- Received ASC chain of custody certification again for our harvesting and VAP production.
- Passed 100% of audits across our various certification programmes.

In 2018, we expect to have six sites ASC certified and continue working towards certification across all sites by 2020.

FISH MORTALITY RATE

2017

8.96%

2016: 6.33%

For historic data, visit the GSI website.

SEA LICE COUNT

2017

0.7

2016: 0.8

Authorities limit 1.5 in 2017 and 2.0 in 2016. Average over 12 months of female adult lice across all sites.





Healthy salmon Thriving side-by-side



Lumpfish

In April 2015, our first delivery of lumpfish (*cyclopterus lumpus*), was released to our Kunoyarnes salmon farm. The move was part of a trial to test the suitability of this cleaner-fish species in the fight against sea lice – one of the biggest challenges faced by the salmon farming industry globally.

The practice, which to date is primarily used during the early stages of a salmon's life – from stocking to 12 months – has considerably lowered the need for medicinal treatment and improved the health of the salmon by reducing the number of sea lice at this stage of its life. Subsequent full-scale trials have been a success and early indicators show salmon thrive in this shared setting.

The lumpfish live side-by-side with our salmon, in a custom-built environment within the farming pens, and are fed specially-produced feed by hand. By the end of 2017, lumpfish were being used across more than half of our sites.

Although the new method has had great success to date and there has been an explosion of knowledge in this area, it is still relatively early days. Bakkafrost is working closely with other farmers in the Faroe Islands to share information and best-practice, and employing Fiskaaling, Aquaculture Research Station of the Faroes, to conduct further research in order to further optimise fish health and welfare. We recognise there are still areas where we need to greatly improve our knowledge to identify the perfect conditions for lumpfish and salmon to thrive together.

This collaborative approach is one of the reasons we believe we are leading the industry in this area. In 2018, we will hire more specialised biologists to enable the successful roll-out of lumpfish across all suitable sites and we will continue sharing our data with researchers so that other farmers can benefit from our learnings. This is just one innovative approach we are investing in to continue improving salmon quality through improved health and welfare. We will also continue to use mechanical de-licing carried out by our two new service vessels: Roland and Martin.

Healthy environment Our commitments

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 21 salmon farming sites in operation in 2017, 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.

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 worlds' waste problem.

While our CO² footprint is relatively low as an industry, climate change could significantly impact our industry in the future.

“The impacts of livestock feed ingredient production, particularly on land use, freshwater use and ghg emissions is increasingly recognised as a significant global challenge exacerbated by increasing population and wealth. Therefore, the sustainability of feed ingredients should be an extremely important consideration for all livestock farmers including salmon farmers. It is encouraging to see that salmon farmers are taking this issue seriously and are rising to the challenge”.

Piers Hart, Seafood and Aquaculture Specialist, WWF

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 most of the ingredients are produced locally and sustainably, which considerably limits our carbon emissions and gives 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.

★ STRATGIC PRIORITY

- To reduce our environmental impact

🎯 2020 COMMITMENTS

- To further optimise feed distribution
- To continue phasing out copper treated nets
- To implement a sustainable feed policy
- To have zero fish escapes

📊 2017 PERFORMANCE

- New cameras set up in cages to optimise feed
- Reduced antifouling agent use
- 109,515 fish escaped due to extreme weather conditions

LOCAL POLLUTION

We are committed to minimising pollution of the local environment and 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, whether by reducing the use of chemical substances, adapting our operations or by investing in new initiatives. 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.

We comply with strict local environmental regulation and adhere to minimum requirements as part of the [ASC standard](#). This includes observing fallow periods between production cycles to allow the seabed to regenerate, which in 2017 was almost double the national requirements. We have also chosen to eliminate the use of diflubenzuron in our de-licing treatments.

2017 Update

- Increased mechanical cleaning of nets to phase out use of antifouling agent, which can cause copper buildup.
- Continued optimising feed distribution to reduce the build up of waste under the nets and reduce zinc buildup – by the end of 2017 we had installed cameras in almost a third of our farms.
- Reduced noise pollution in Fuglafjørður from internal transportation at Havsbrún through restricted loading hours and reducing internal transportation.

In 2018, we plan to employ a more structured approach to environmental management (going beyond the various international standards we subscribe to). We will also continue to reduce use of antifouling agent, continue introducing cameras across all our sites, and look for new ways to de-lice salmon without the use of chemicals.

SUSTAINABLE FISH FEED

Maintaining high product quality means we have a higher marine content in our feed than many of our competitors, so the sustainable and responsible production of fish meal, oil and feed, at our feed company Havsbrún, is incredibly important to us. 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 2017, a quarter of the fishmeal and almost 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. The plant proteins and oils in our feed are all non-GM, and the soybeans are [Pro-Terra](#) certified, which is our way of ensuring it is sourced responsibly and sustainably. All our rapeseed oil is certified sustainable and we do not use palm oil in our feed.

Please see our [sustainability webpages](#) for more information on the source of marine products going into our feed.

2017 Update

- Increased the quantity of marine raw-materials coming from by-products of fish destined for direct human consumption, in our feed.

While all our ingredients are sustainable, we must be prepared to find alternative sources in the future to minimise our exposure to feed ingredients that may become unsustainable. In 2018, we will continue looking into other sustainable high-quality marine or aquatic ingredients and by 2020 we will implement a sustainable feed policy.

FEED COMPOSITION IN 2017



Wheat 16%
(12,348 tonnes)



Wheat gluten 8%
(6,118 tonnes)



Non-GM SPC 12%
(9,409 tonnes)



Fishmeal 29%
(22,680 tonnes)



Fish oil 15%
(11,313 tonnes)



Rapeseed oil 16%
(12,077 tonnes)



Others 4%
(3,117 tonnes)

BIOSECURITY

Taking precautions to avoid spread of disease 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 as the Faroe Islands are at the mercy of fierce Atlantic storms, which cause sometimes unavoidable damage to our nets, causing escapes. While we report all suspected escapes to the veterinary and environmental authorities immediately, it is not until we harvest that we are able to confirm the exact number of escapes, so it can be that escapes reported during one financial year, may have occurred during the previous year.

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

2017 Update

- Extreme weather conditions caused the escape of 109,515 Atlantic salmon from our site in Gulin.

We have a commitment to have zero fish escapes and in 2018 we will continue to re-evaluate our procedures and equipment.

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 globally. 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 ensure that we utilise all of the by-products from our salmon, selling backbones, offcuts, bellies, skin, and heads.

Around 90% of our old farming nets and chains are recycled or reused, and we repair and reuse cables and pipes from old nets when we build new ones. We are also upgrading our cages using stronger materials to increase their lifespan. At our feed factory Havsbrún, we collect all the feed bags we use at Bakkafróst, recycling almost 100% of these.

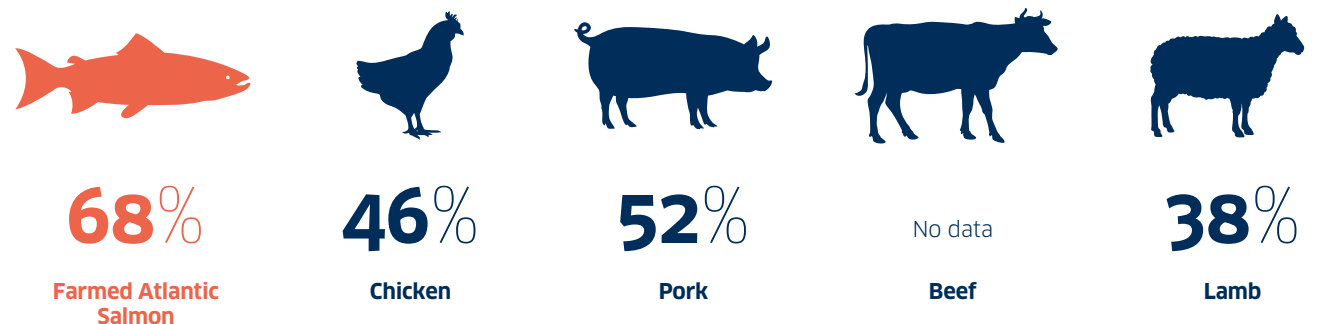
2017 update

- Sold 5284 tonnes of salmon by-products.
- Set up salmon oil and meal production at Havsbrún, which will commence in 2018.

In 2018, we will improve our waste reporting, and continue to look for new ways to reduce waste. We will begin a review of our packaging's lifecycle, including the sustainability of raw materials used, exploring how we can reduce packaging and how we can influence its disposal. We will move to 100% FSC certified paper used in our own-brand packaging, and encourage our customers to move to 100% sustainably sourced or recycled, for the paper used in theirs. Some of our organic waste will in the future be processed at a new biogas plant.

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

WATER

Although the Faroe Islands enjoy high and regular rainfall, 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 new technology to harvest water at all our five hatchery sites and we were one of the first salmon farmers in the world to start recirculating water in our hatcheries, currently recycling up to 99% of the water harvested to reduce pressure on the water board.

2017 update

- Recycled approximately 23,000 cubic meters of water per hour in our hatcheries.
- Reduced freshwater use in our farming division following the launch of two new service vessels using lukewarm water for de-licing treatment.

In 2018, we will continue managing and minimising water use, for example at one of the new sites we are building a system which will harvest rain water from a neighbouring island, in a joint arrangement with the council, which will improve infrastructure for surrounding businesses.



SALMON FARMING | CARBON FOOTPRINT

A carbon footprint measures the total greenhouse gas emissions 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

CLIMATE CHANGE

Despite our relatively low CO₂ emissions compared to other industries, at Bakkafrost we are investing heavily in the efficiency of our operations which is reducing the relative carbon emissions from some parts of the value chain. This includes modernising and consolidating operations – which has reduced oil consumption and minimised transportation; recycling energy in our feed and processing factories; introducing LED lighting throughout offices and farms; and promoting responsible behaviour, for example, in how we run our service vessels.

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 the average in 2017, at 1.2:1.

Though salmon already has one of the lowest carbon footprints, relative to the five largest sources animal protein outlined above, 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.

Our electricity provider, SEV, has announced plans to reach 100% green energy by 2030, so we are also sourcing increasingly from renewable sources.

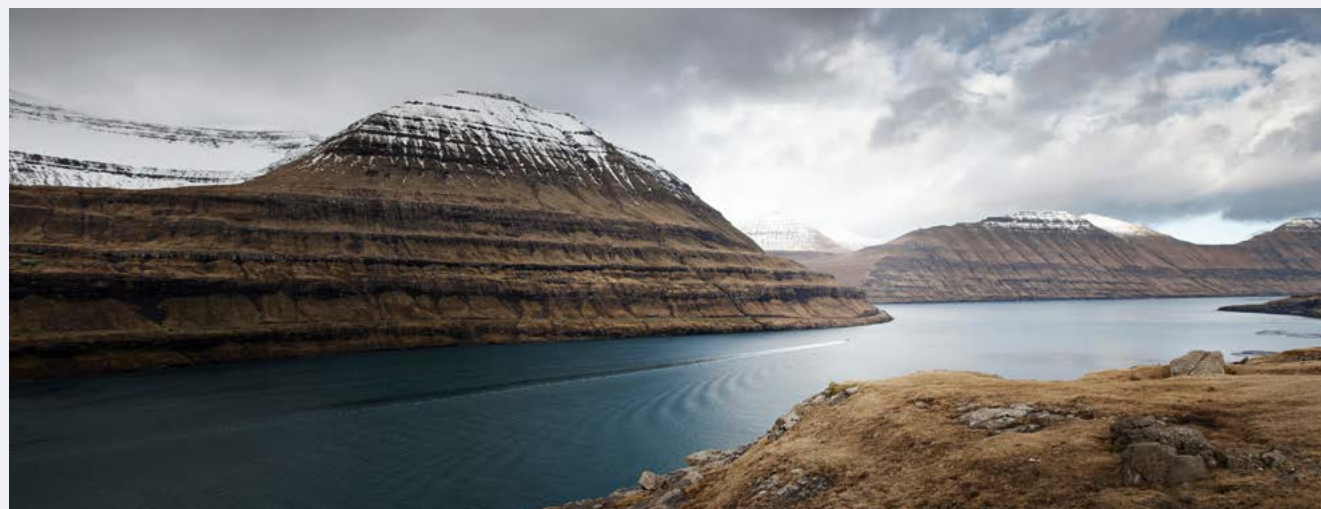
We have included climate change adaptation measures in our long-term plans for the business.

2017 update

- Sourced electricity from a mix with 51% of renewable sources in 2017.
- Consolidated seven factories into one, resulting in efficiencies from harvesting and processing.
- Built new processing plant with capability to convert heat created in our packaging production to partly power our processing operation and heat the building.
- Connected numerous feeding-station barges to mainstream electricity, reducing oil consumption from our farming operations.

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, and packaging and feed production for 2017. 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 fish meal, oil and feed which we produce and sell to other fish farmers.

Despite the increase in production, following the consolidation of factories in 2017, we reduced the absolute GHG emissions from harvest and processing. However, in 2018, we will increase our focus on reducing our footprint, and set internal carbon reduction targets in areas where we identify an opportunity for further improvement. We already expect to be able to reduce oil consumption for some of our service vessels, which will be able to access an onshore power source at the harbour for the first time.



ENERGY CONSUMPTION

Energy Consumption	2017 [kWh]
Direct energy use - scope 1	264,671,752
Direct energy [electricity] use - scope 2	48,377,189
Total energy use	313,048,941

GHG Emissions	2017 [TCO2e]
Scope 1 emissions	69,826
Scope 2 emissions	15,723
Total energy use	85,549

Tonnes of salmon harvested	2017 [Tonnes]
Tonne CO2e emitted per tonne of salmon produced*	1.57

*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.

- Electricity consumption gives rise to indirect emissions, i.e. at the point of energy generation by the power company. Direct emissions result from the use and combustion of fossil fuels, i.e. solid, liquid or gas.
- 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.
- All emission and conversion factors for direct emissions are from DEFRA 2017, while emission factors for electricity use are based on statistical data 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).



Healthy environment Fashion meets salmon farming



Shisa Brand salmon skin bag and smock
Photo: Karen Sissal Kristiansen
Model: Jenny S Wardum

Faroeese fashion designer, Sissal Kristiansen, received global recognition in 2017 for her Shisa Brand's innovative and sustainable approach to fashion. In August, she was awarded first prize at the Blue Fashion Challenge for her Bakkafrost salmon skin bag and smock design – sourced, designed and made in the Faroe Islands.

"Salmon leather spoke to my aesthetics, also it has a lot of character, it is very strong and I love the story, especially as I eat salmon from Bakkafrost at least twice a week, so it feels like completing my sustainable circle. My tagline was 'I eat fish and use the skin too'."

Using salmon leather has opened up new markets for Sissal, attracting a niche group of conscious customers in markets as far flung as Australia.

FOSAA has also been selling salmon-skin bags as part of her collection for the last eight years. Using salmon skin has become a unique selling point for her business, which sells in Denmark and the Faroe Islands. She also sources her salmon skin from Bakkafrost, making her products 100% Faroeese and sustainable.

This is just one example of our systematic approach to optimising raw material use and minimising waste, which is written in to our Code of Conduct, and has been part of our mentality since we started our business in 1968.

The various ups and downs over the years, have meant we've had to be resourceful; reusing, repurposing and selling waste materials wherever possible. Since 2015, we have sold almost 30 tonnes of salmon skin, with a further 50 tonnes projected for 2018. It's not only salmon skin that has a market, all the by-products from our salmon are utilised – backbones, offcuts, bellies, and even salmon heads, leaving almost nothing to waste. There is very little we don't repurpose, reuse or recycle, be it from our core product or its production; the water in our hatcheries, plastic from our feedbags and farming nets, and energy in our feed and processing plants, all contribute towards our circular economy.

In 2018, we will improve our waste reporting and look for new ways to reduce waste for a healthier environment. We will start producing oil and meal from salmon guts and skin, and we will invest in a biogas plant which will process organic waste from our fresh water sites, and organic material from the processing plant and sea site operations.

Healthy communities Our commitments

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 95% of merchandise exports and 20% of all GDP. Farmed Atlantic Salmon represents largely half of all seafood exports, 34% of which comes from Bakkafrøst.

The Faroe Islands benefit from one of the lowest unemployment rates in the world: 2.2% in October 2017. Bakkafrøst is the largest private employer on the islands, employing 4% of all employees (Aug 2017), 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 873 million DKK in corporate taxes for the Faroe Islands, and almost 481 million DKK in shareholder tax payments (distributed according to international tax agreements).

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 an invested 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.

Vikingur football club was formed in 2008, and since then the strategy has been to keep focus on the youth football in order to create own players, as well as engage and activate the young people in our community, which we believe has great importance for them. The support we get from our sponsors, including Bakkafrøst, helps us to fulfil this task.

Brandur Jacobsen, Chairman Vikingur Football Club

★ STRATEGIC PRIORITY

- To add value and strengthen relationships

🎯 2020 COMMITMENTS

- To set up a new 'Healthy Living' Fund
- To implement stakeholder engagement and community investment plan

📊 2017 PERFORMANCE

- N/A

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 this 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.

In 2018, we plan to launch a new fund through which we will make our community investments and address some of our most material issues, primarily at a local level.

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. While we already have regular dialogue with community representatives, such as the local councils, our 2017 materiality analysis also highlighted that this is an area in which we can do better. We need to be more open on certain issues, including our approach to sustainability and our community investments.

2017 update

- Consulted local communities on issues ranging from water use to investment needs.
- Consulted 19 external stakeholders including local communities, customers, investors, suppliers, experts and regulators for our materiality analysis.
- Made a commitment to increase transparency through our first dedicated sustainability report.



Bakkafrost was one of the sponsors of Kópakonan, The Seal Woman, in Mikladalur

In 2018, we aim to strengthen our community relationships by implementing a stakeholder engagement plan which will give us a more structured approach and increase the opportunities for our stakeholders to give us their feedback.

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 our voluntary community returns. In 2013, we centralised our community investment approach with a single policy. This has

enabled us to support sport and culture, meeting local needs while serving the community as a whole.

2017 update

- Paid more than 400 million DKK in salaries and employee costs.
- Paid almost 320 million DKK in corporate and revenue taxes.
- Contributed almost 2 million DKK to local projects promoting healthy communities, including restoration of historical buildings.
- Sourced 73% of products and services locally.

In 2018, we will begin channelling our community investments through our new Healthy Living Fund and by 2020 implement a revised community investment plan.



Healthy communities Taking on plastic pollution

2017 was a big year for plastic. People around the world were hit with headlines and devastating images of the effects of human pollution on our oceans. Despite the Faroe Islands' remote location in the Atlantic, hundreds of miles from any mainland, plastic still ends up on the many otherwise unspoiled beaches, throughout the islands. Sadly, some of this waste comes from salmon farms, including ours.

Although we try to minimise the debris from our operations to ensure the health of our local communities and wildlife are not impacted, damage caused by frequent storms means that buoys and ropes can often end up washing up ashore. In June 2017, 17 of our farmers came together with other fish farmers in the Faroes to clean up the beaches around the islands over the course of a week.

Jóan Petur Joensen, farmer at our Selatræð A-80 site, was one of our team of farmers sailing around the beaches "In the Faroes we rely on a healthy environment for our survival. This event was a great way to bring the community together on an issue affecting us all. Our boat collected 8 cubic meters of rubbish, which included washed up waste from around the world. We are looking forward to getting behind this again in 2018."

We were also happy to sponsor a beach clean-up in our southernmost island, Suðuroy, where 55 large storage sacks of rubbish were collected from Trongisvágsmegin beach by 45 volunteers in May 2017.

In 2018, we plan to repeat our week-long initiative and continue to support similar environmental community initiatives to protect the pristine natural capital our economy relies on. We will also increase our contribution to local community needs through a new dedicated fund.

About this report

This report was prepared using the Oslo Børs Guidance on the Reporting Corporate Responsibility, which promotes the Global Reporting Initiative Standard and the UNGC Principles.

In 2018, we plan to report against the Global Reporting Initiative Standard and include further information regarding our basis of reporting. We will assess the need for external assurance on selected data.

Visit www.bakkafrost.com for our latest reports and presentations and further sustainability data.

MATERIALITY ANALYSIS

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). All contributors were asked to complete a survey, which was followed with a by face-to-face interview.

A list of twenty material topics emerged, which have formed the basis for this report and our new Healthy Living Plan. We have made commitments against the ten topics rated as having the greatest potential impact on the company and of greatest interest to its stakeholders. However, all twenty 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).

STAKEHOLDER ENGAGEMENT

Bakkafrost engages with local, national and international stakeholders on a regular basis. Our approach to engagement is guided by the groups which we consider to be significantly affected by our activities, and who have the ability to influence our successful running of the business, including how we achieve our strategy. These groups include Bakkafrost employees, investors, customers, and suppliers, and community representatives, national regulators, NGOs and sustainability experts.

As part of the materiality analysis in 2017, we interviewed 19 external stakeholders, and also continued regular engagement with an extended list of these groups, including worker unions, through which Bakkafrost has a collective bargaining agreement with its employees.

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 twice a year, as well as at the Annual General Meeting.

The Board contributed to and approved the 2017 materiality process and sustainability report.

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 are monitored throughout the supply chain and reported against internally on a regular basis, and specific sustainability risks are reported through 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."

Please contact bakkafrost@bakkafrost.com for further information regarding this report.



ESTABLISHED 1968