



SUPERIOR  
QUALITY  
**SALMON**



## ***Bakkafrost presentation***

*A world-class company in the salmon industry*

## ***Capital Markets Day***

**Faroe Islands 12 June 2019**

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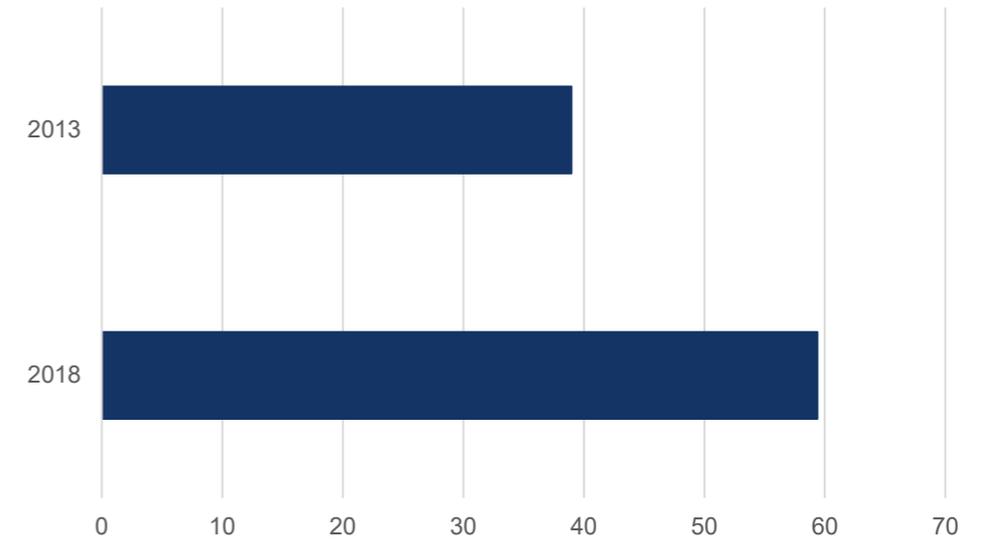
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# OUTSTANDING OPERATIONAL AND FINANCIAL PERFORMANCE

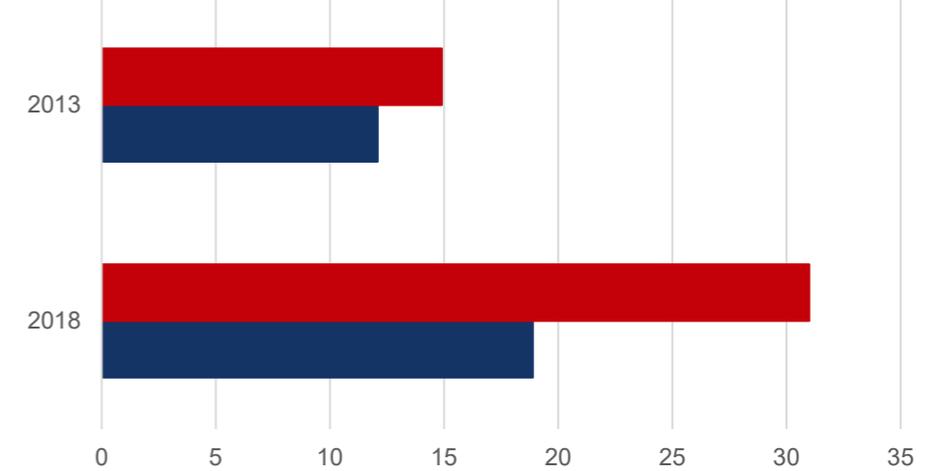


- NOK ~20 price increase from 2013 to 2018
- EBIT/kg conversion
  - Norwegian industry 1/3
  - Bakkafrost 80%
- Performance driven by
  - The unique Faroese regulatory framework
  - Business model adapted to market and biological requirements
  - Markets recognizing the uniqueness in taste, texture and nutrition

### Average price Norway (NOK per kg HOG)



### Group operational EBIT per kg (HOG, NOK)



■ Bakkafrost ■ Norway

Notes: EBIT/kg figures for Norway based on largest listed companies

Source: Kontali, Company reports  
Page 3

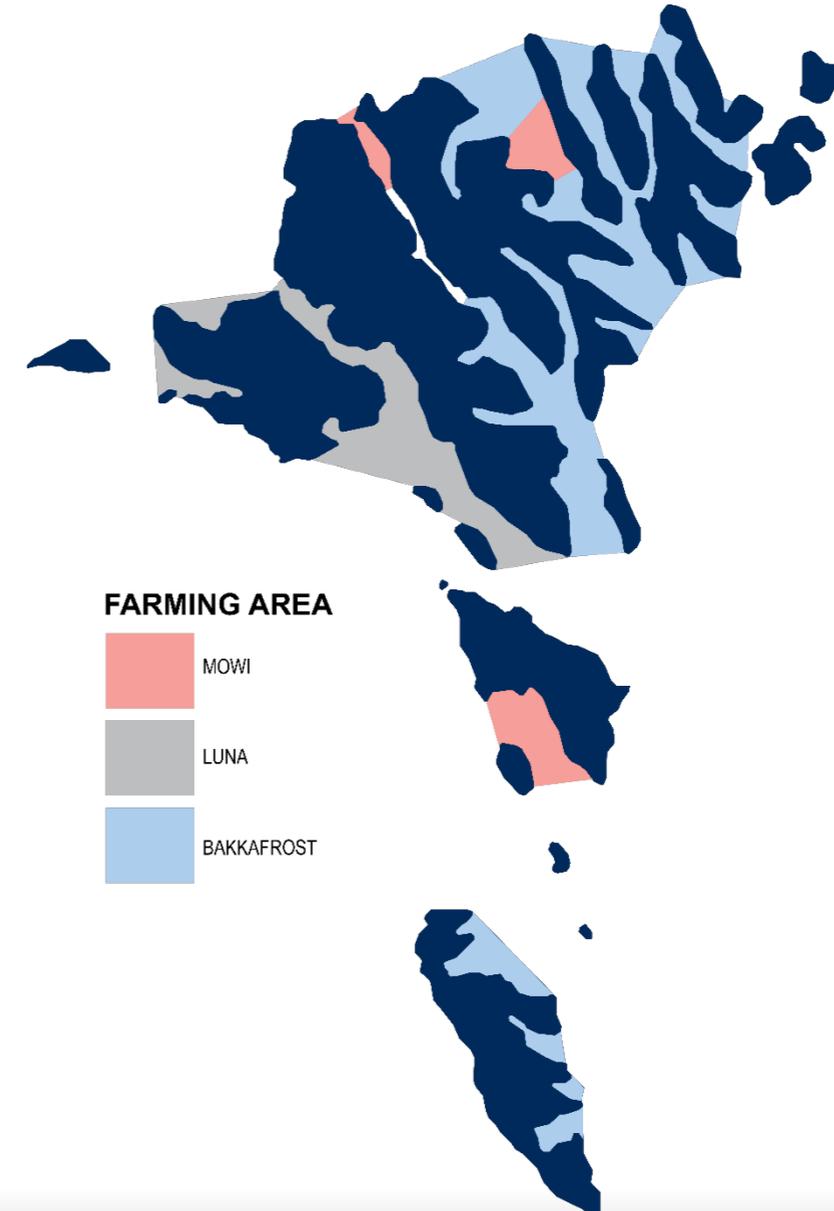


## Structure of production zones

- Strong regulatory framework
- Few players to agree on coordination of unregulated matters – avoids “tragedy of the commons”
- Limited overlap of players within production zones
- Autonomy to adjust production cycles/fallowing periods

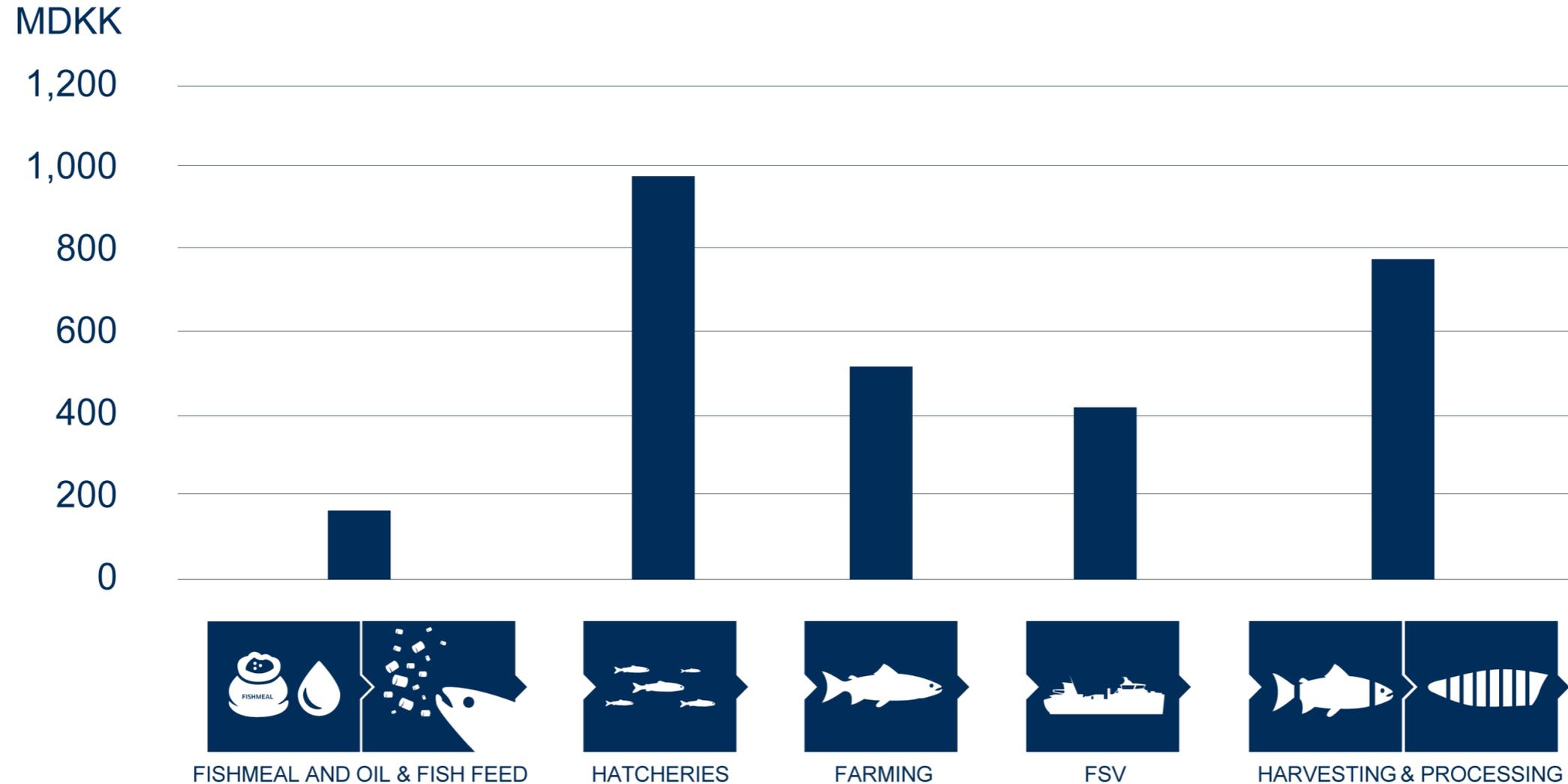
## Licenses

- Existing licenses are operated on a 12-year rolling lifespan system with automatic renewal unless
  - Subject to regulatory compliance
- Licenses give right to utilize given area of fjords for farming fish
- No MAB, but strict regulative measures on farming activity maintaining environmental sustainability



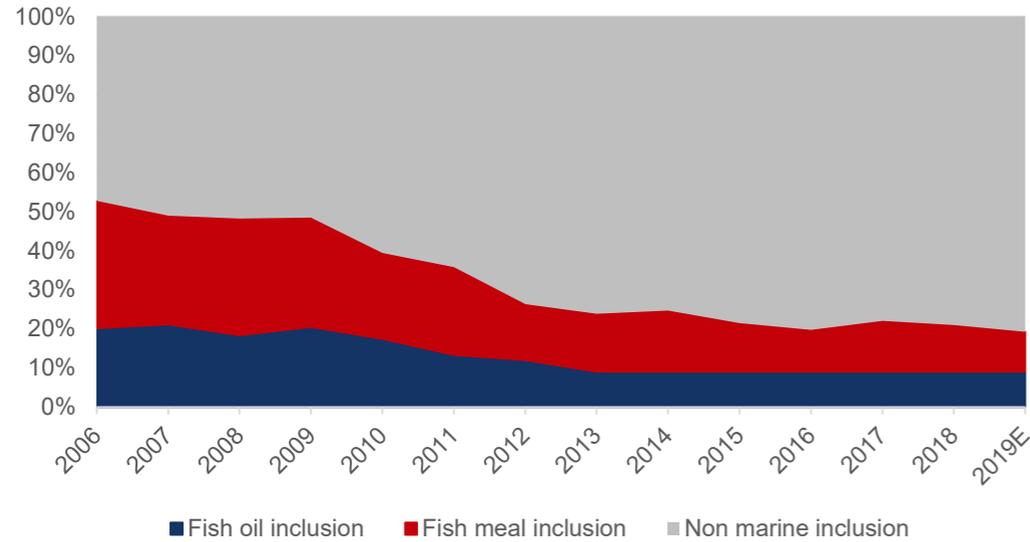
# INTEGRATED BUSINESS MODEL UNDERGOING SIGNIFICANT INVESTMENT PROGRAMME

## Investments 2013-2018 (MDKK)

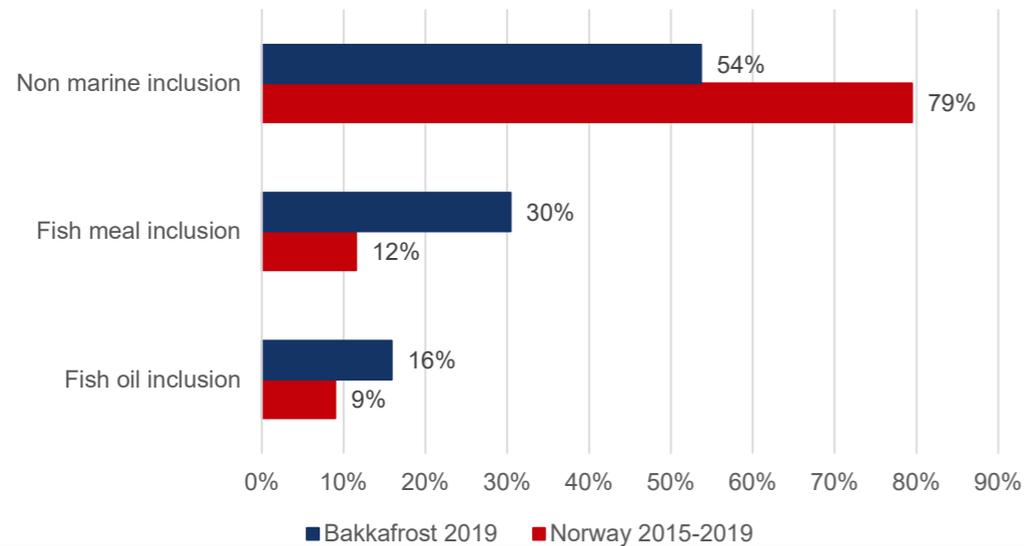


# MARINE DIET – IMPACT ON FISH WELFARE AND PRODUCT NUTRITION

## Development of feed recipes - Norway

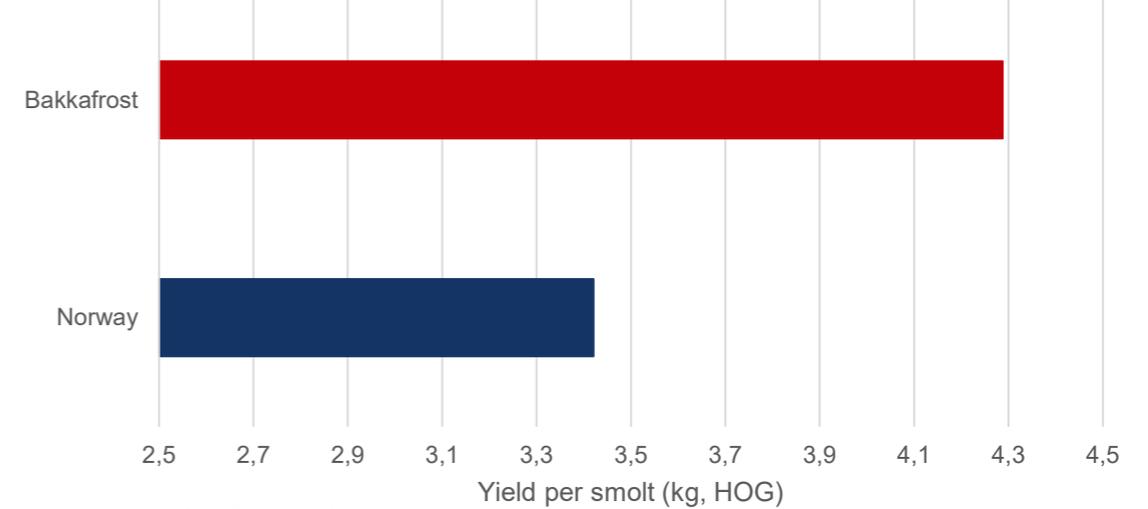


Source: Holtermann



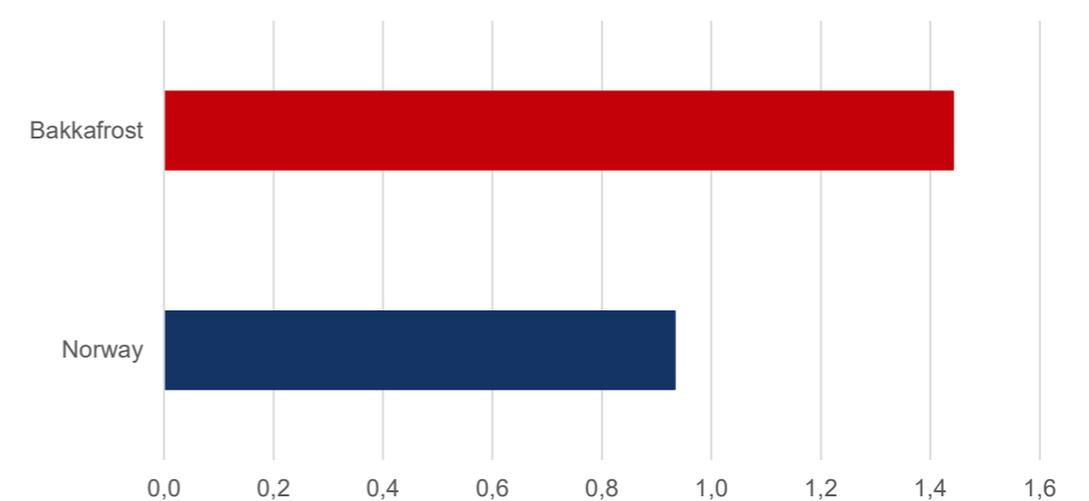
Source: Holtermann, Bakkafrost

## Key performance indicator 2016-18



Source: Kontali, Bakkafrost

## Omega 3/Omega 6 ratio consumer portion 2017



Source: Sjømatdatabasen, Bakkafrost

# INTEGRATED SUSTAINABILITY APPROACH HIGHLIGHTS FROM HEALTHY LIVING PLAN



Healthy Business

**2000⚡**

Biogas plant providing  
2000 homes renewable  
electricity



Healthy People

**45%↓**

Reduction in LTI  
(in 2018)



Healthy Business

**86%**

ASC Certification  
(2019 harvest)



Healthy Environment

**99.7%**



Water recirculation  
in hatcheries



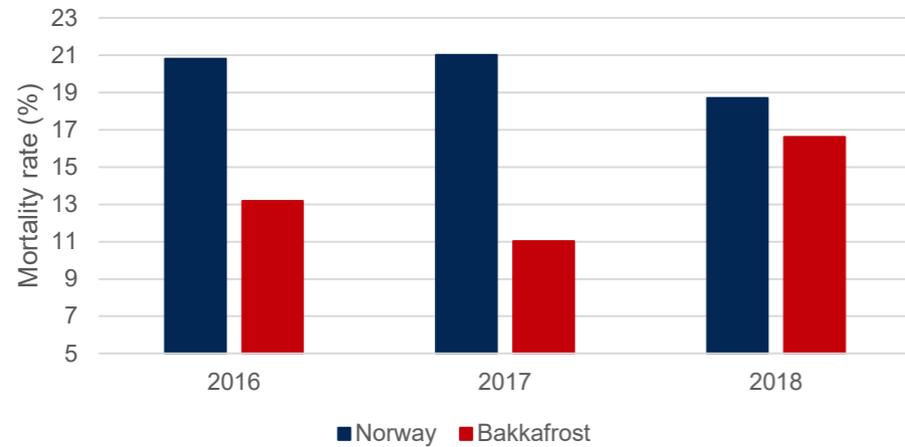
Healthy Communities

**3M DKK**

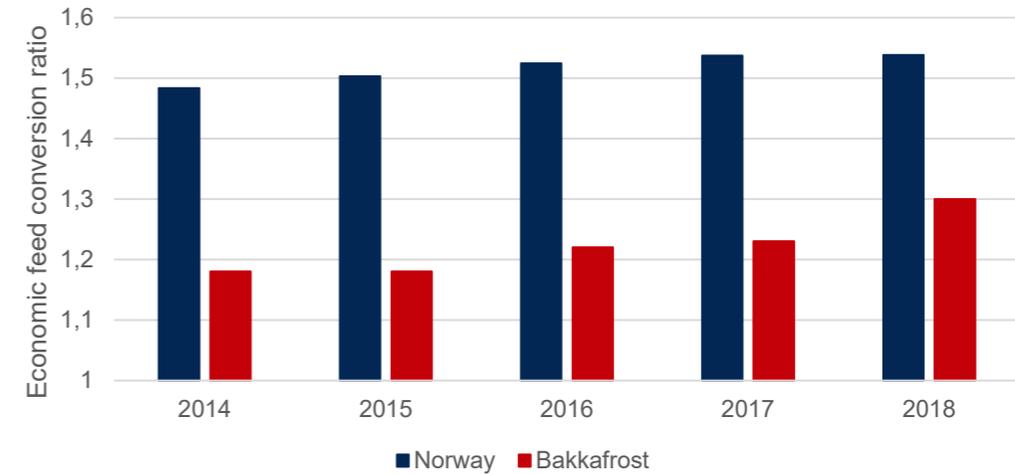
Investment in  
natural sciences

# BIOLOGICAL PARAMETERS

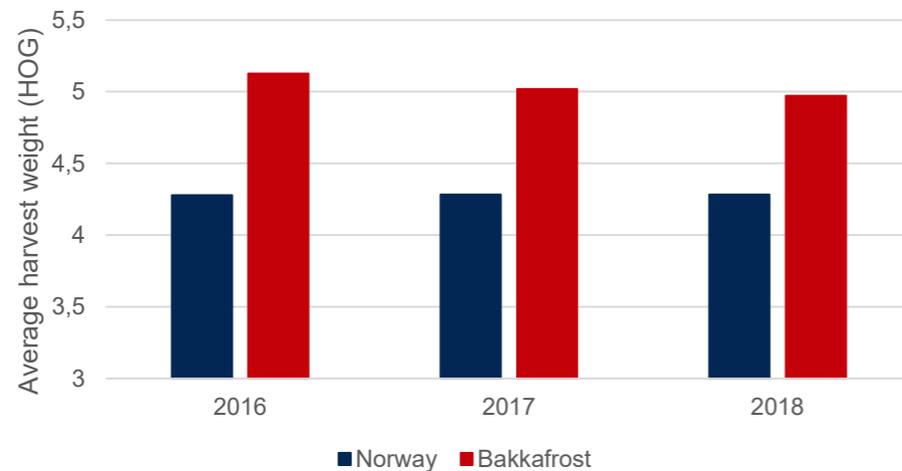
## Mortality rate



## Economic Feed Conversion Ratio (EFCR)



## Harvest Weight (HOG)

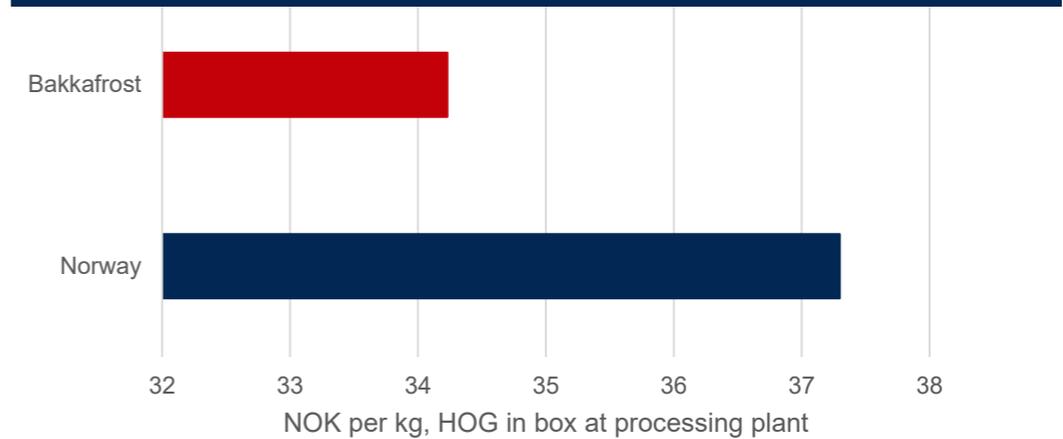


- Indication of well managed/functioning biology
- Declining cost curve with weight (fixed cost dilution)
- Indication of animal welfare

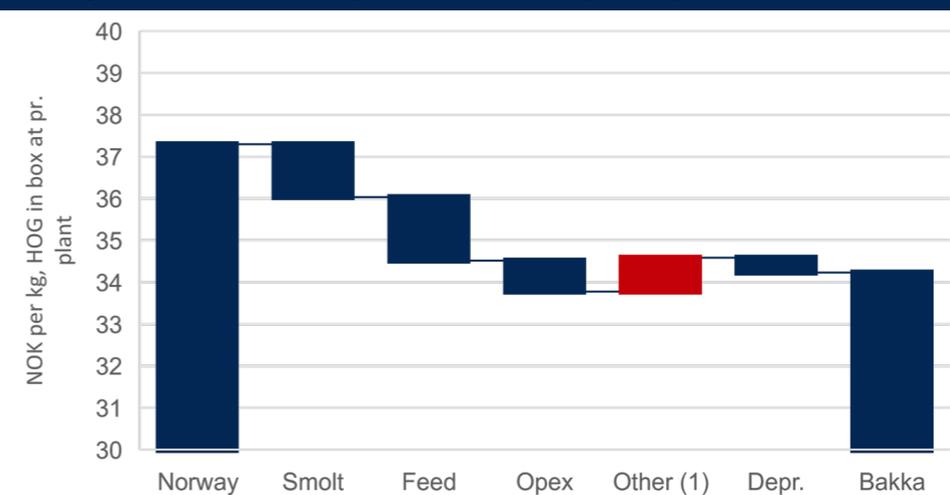
# SIGNIFICANT COST ADVANTAGE

- Costs materially below average level in Norway
- High other costs due to low capacity utilization
  - Wellboats, treatment vessels, processing
- 2018 costs somewhat higher than 2017
  - Isolated mortality incident
  - Adjustment difficulties for new mechanical sea lice method
- 2019YTD costs significantly improved from 2018
- Well invested infrastructure impacting depreciation
- Good prospects for fixed cost dilution in coming years

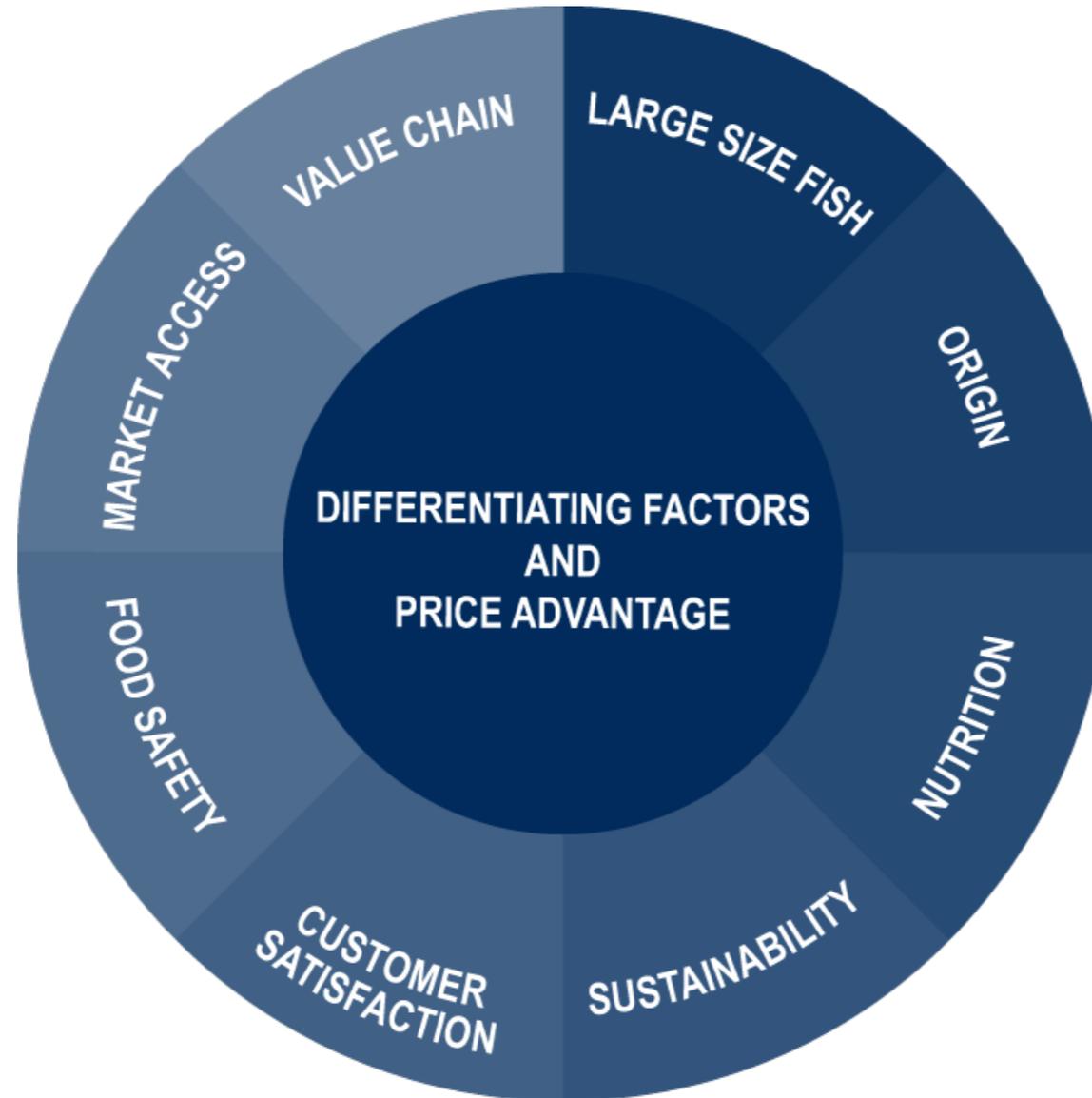
**Comparison – Group cost per kg, NOK (2017)**



**Comparison – Group cost items (2017)**

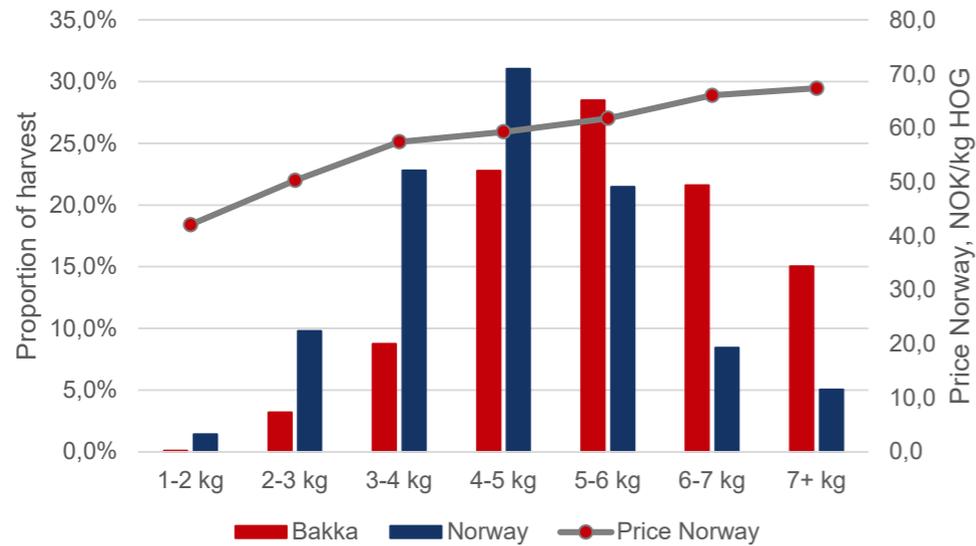


Source: Kontali, Company reports  
 Note: (1) Harvesting, fish transportation and processing/packaging

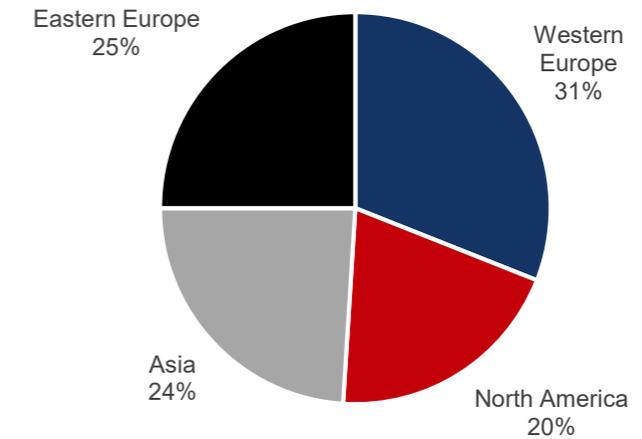


# PRICE ADVANTAGE – DIFFERENTIATING FACTORS

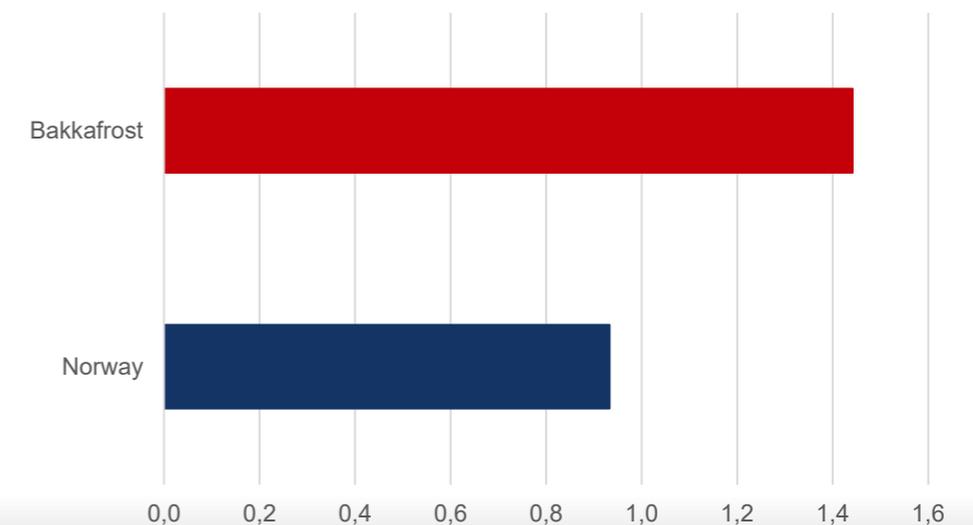
## Size distribution and price



## Revenues by geography



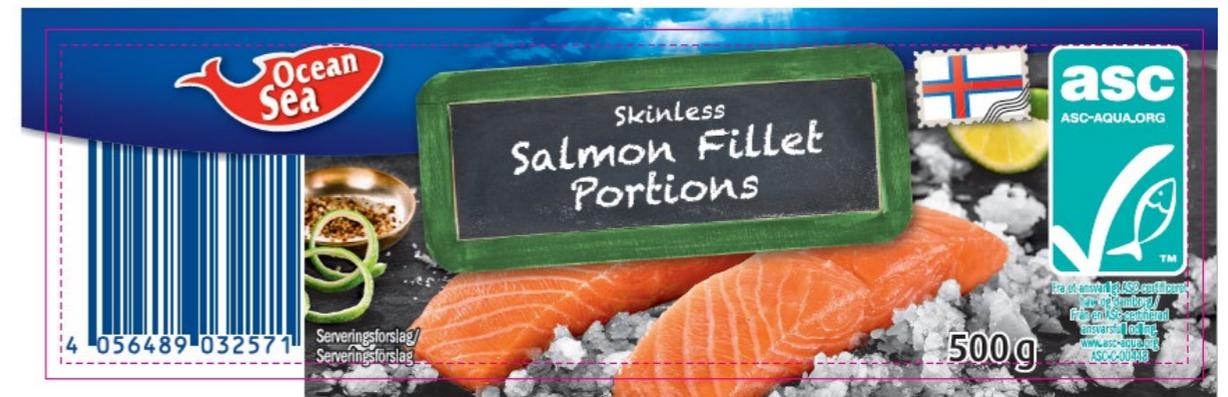
## Omega 3/Omega 6 ratio consumer portion 2017



# THE BAKKAFROST BRAND AND FAROESE ORIGIN



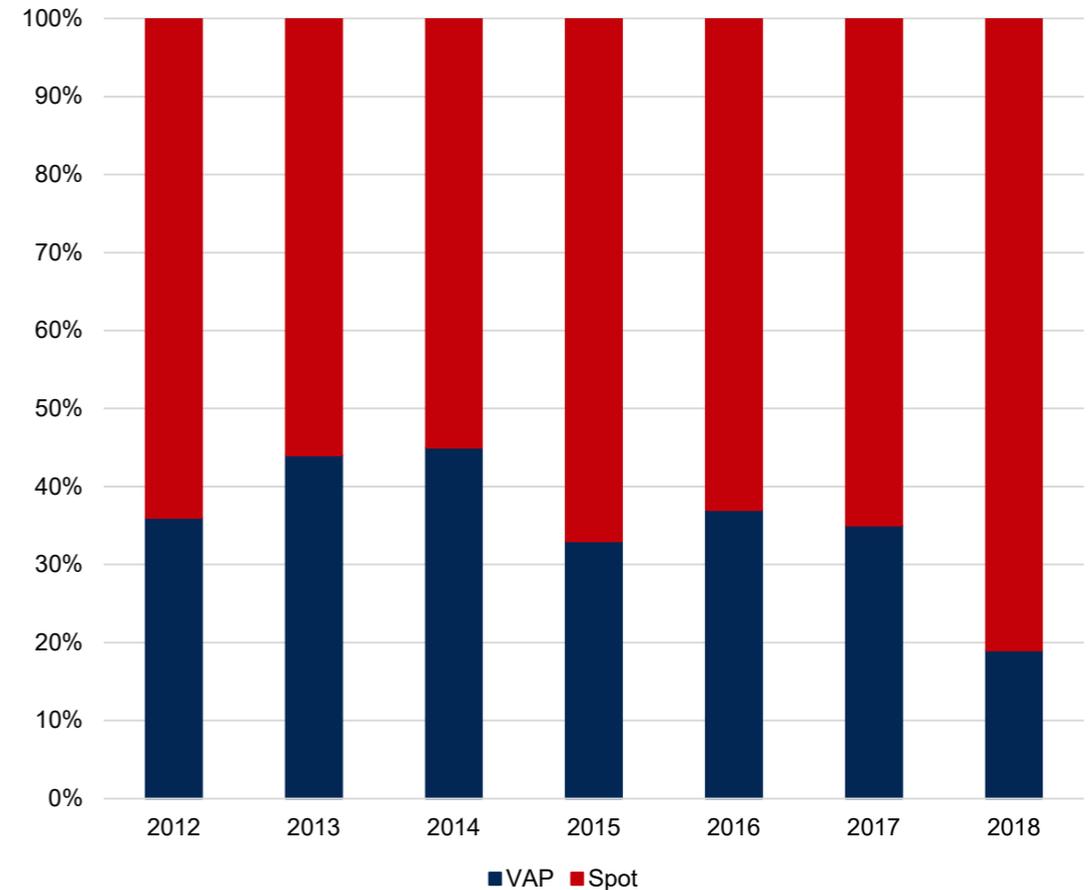
- Premium pricing through visibility of
  - The Bakkafrost brand
  - Faroese origin
- Retail sales focus
  - Visibility in the shelves and wet counters
- Food service/Restaurants
  - Bakkafrost and/or Faroese origin on menus



# VALUE ADDED PRODUCTS SIGNIFICANT PROPORTION OF SALES

- VAP contract coverage: 30-40%
  - Brand/Origin visibility
  - Reduced exposure to spot prices
- Contracts normally vary between 6-12 months
- Fixed prices
- 2018 impacted by change in product portfolio
- 2019 coverage at 2015-2017 level

### Contract coverage - VAP

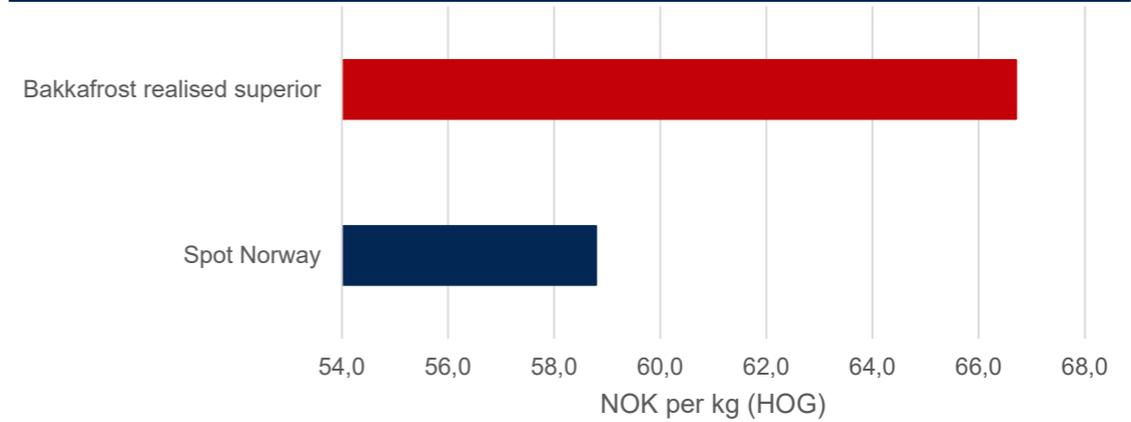


# PRICE ADVANTAGE

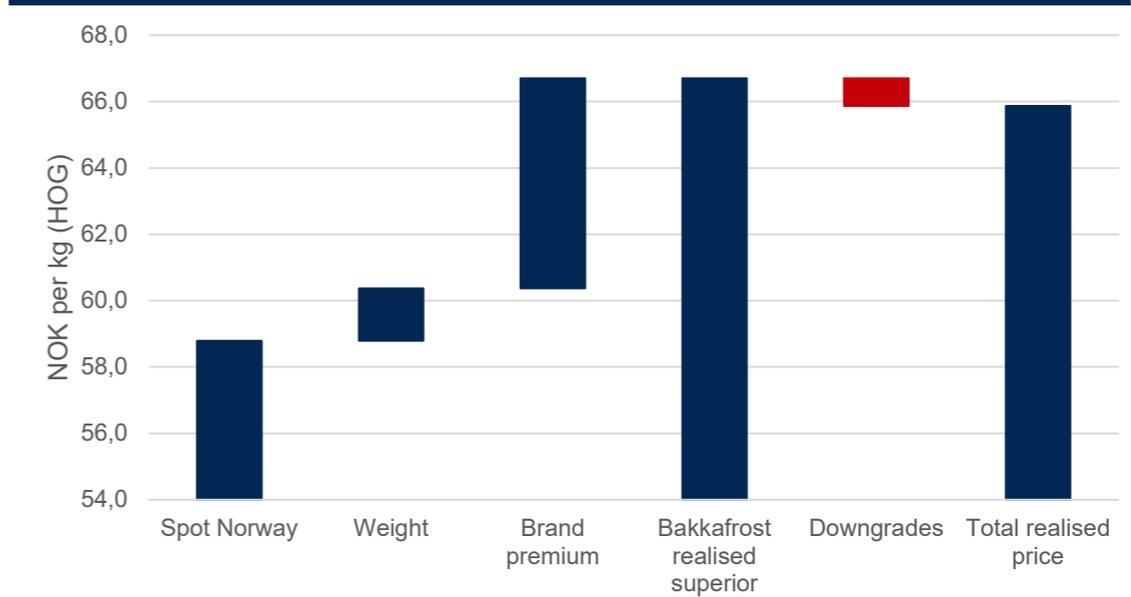


- Significant price premium
  - Larger fish fetch a higher price
  - Good market access
  - Significant Bakkafrost brand premium component
- Faroese/Bakkafrost origin favoured in many markets
  - High marine index
  - Excellent texture and taste
  - High customer satisfaction index

## Comparison – Price 2017



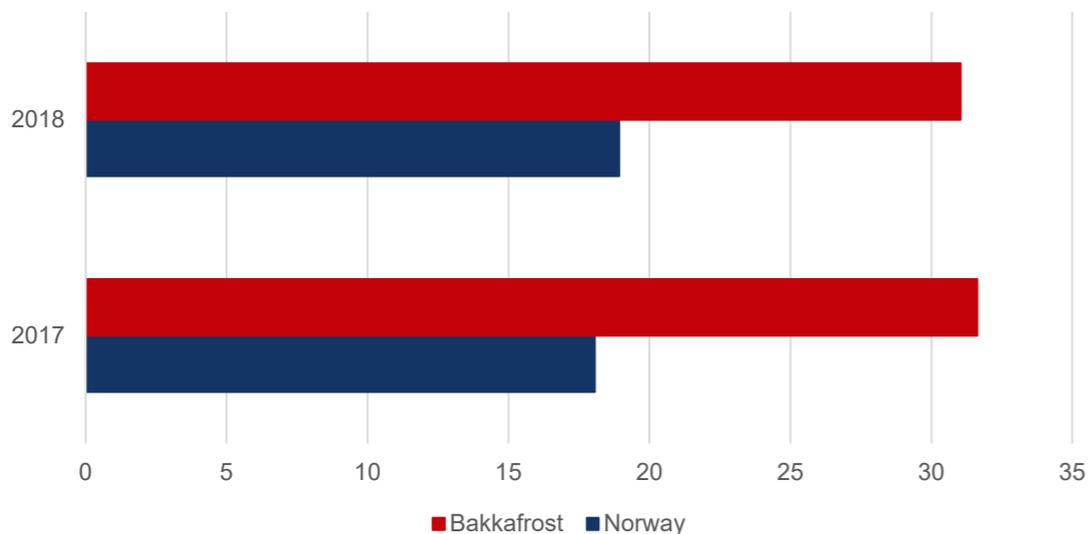
## Comparison – Price 2017



Source: Kontali, Bakkafrost

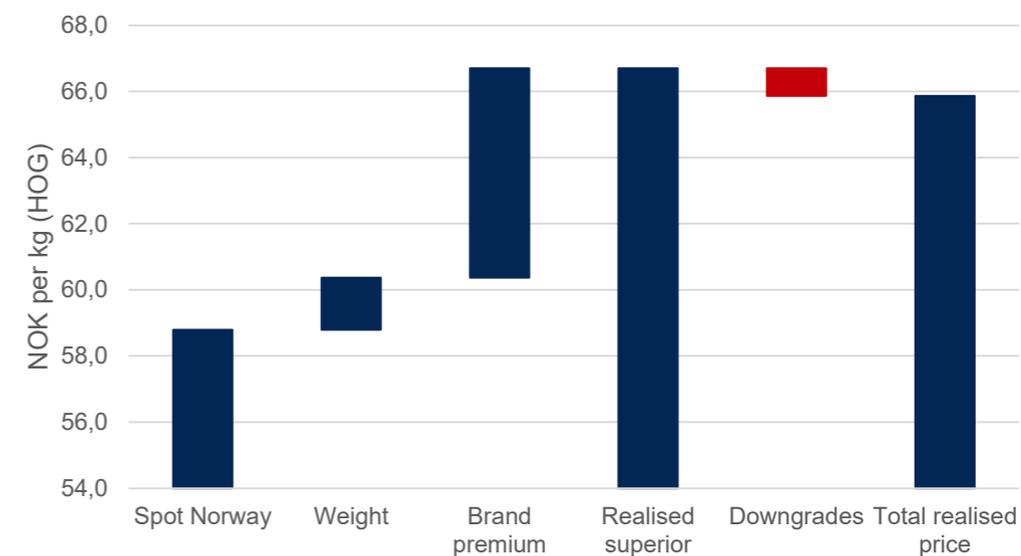
# SUMMARY – EBIT PER KG COMPARISON

## Group operational EBIT/kg



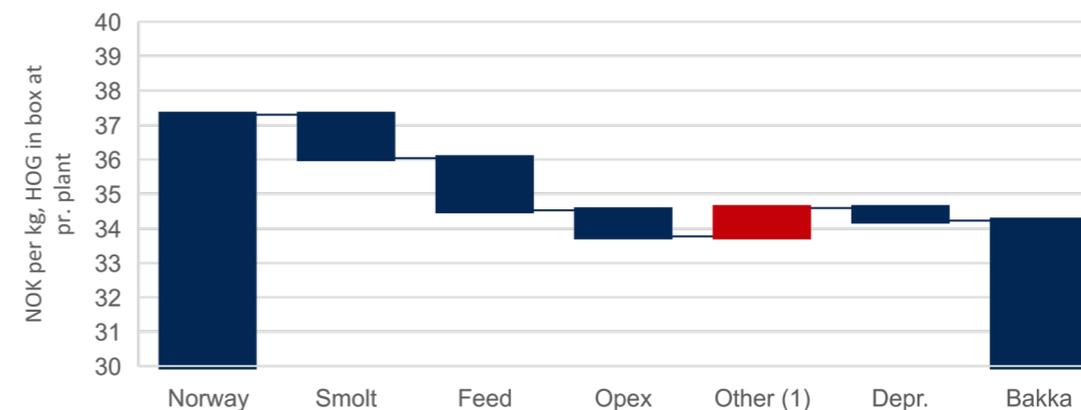
- Material outperformance in EBIT/kg
  - Differentiated product
  - Sustainable farming
  - State of the art infrastructure
- Alignment between sustainability and profitability

## Spot Norway vs realized prices, NOK (2017)



Source: Kontali, Bakkafrost

## Comparison – Group cost items (2017)



Source: Kontali, Company reports

Note: (1) Harvesting, fish transportation and processing/packaging

# ORGANIC GROWTH DRIVERS



Large smolt strategy



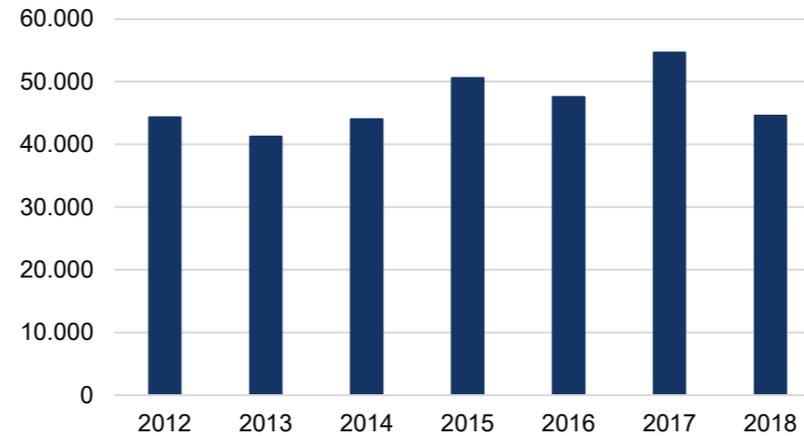
New production cluster



New farming methods



Historic harvest (tonnes HOG)

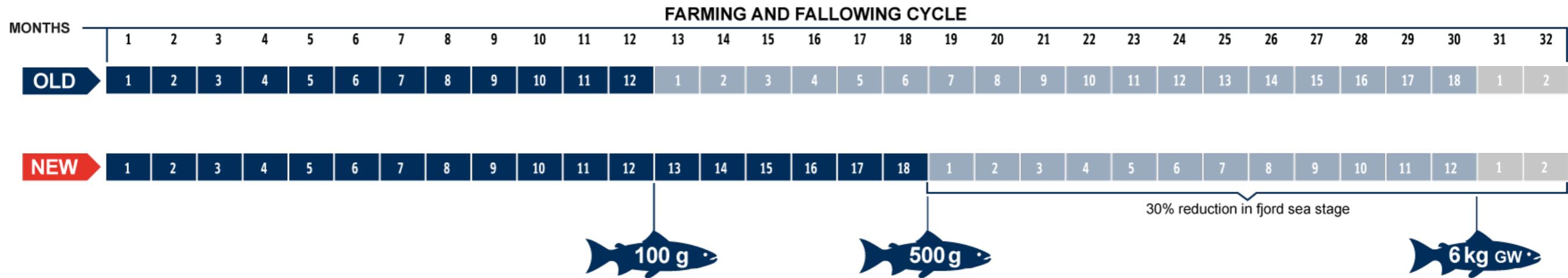


# LARGE SMOLT STRATEGY - CONCEPT

FRESHWATER STAGE

IN FJORD SEA STAGE

FOLLOWING THE FJORD



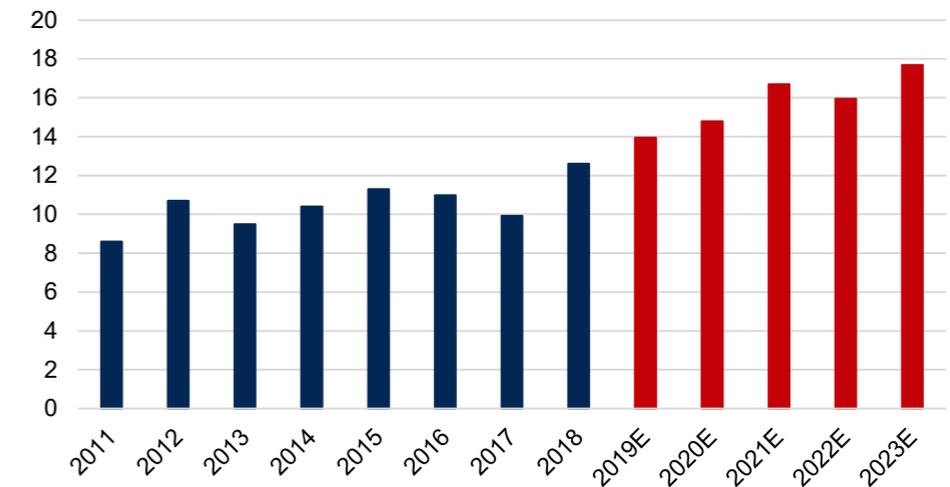
- Risk management
- Production efficiency
- Growth

# LARGE SMOLT STRATEGY – EXPECTED IMPACT

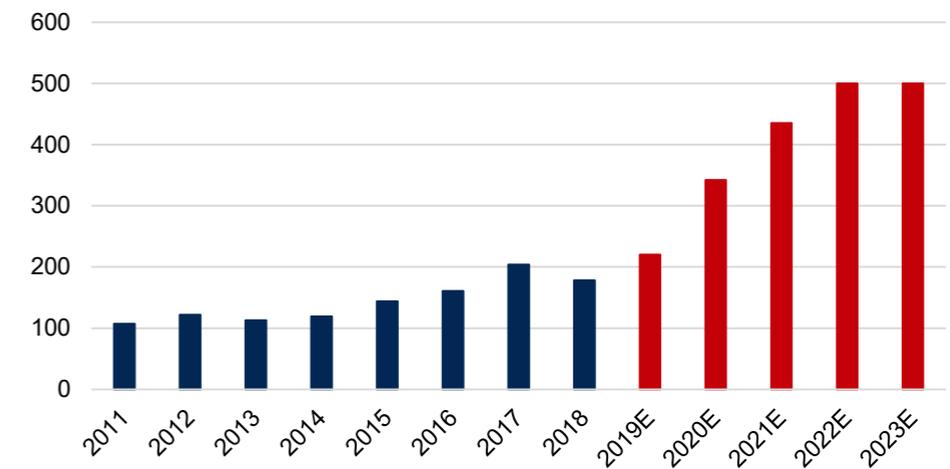
## Larger smolt will reduce time of cycle in sea farming

- Harvest cycle every second year from the same fjords until effect from larger smolt evolves
- Smolt size will gradually increase from 100-200g to 500g by 2022
- Smolt release will gradually increase from ~10-11 million pcs to ~16 million pcs
- Production volume will gradually increase to ~76 thousand tonnes

Smolt release (million pcs)



Smolt size on released fish (size gram)



## NEW PRODUCTION CLUSTER - SUÐUROY

- Suðuroy is isolated in the south of the Faroe Islands
  - Own production cluster
  - Risk reduction
- The farming operation on the islands was underdeveloped
- Bakkafrost started investment in 2016 when Faroe Farming was acquired
- The farming legislation stipulates that all salmon farmed in Suðuroy shall be harvested in Suðuroy



\*) Hov A-18 started operation in 2018

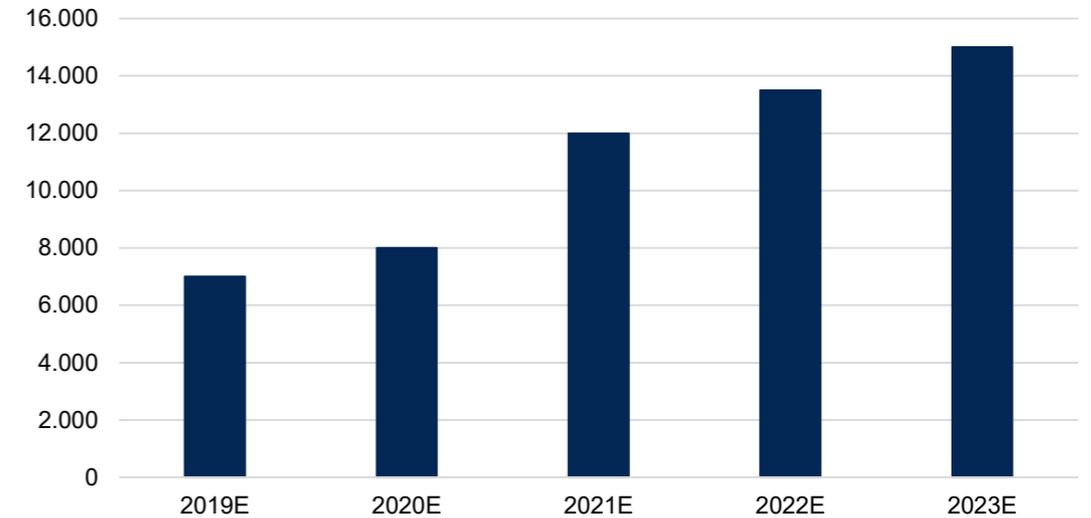
### VALUE CHAIN



# NEW PRODUCTION CLUSTER - SUÐUROY

- Four farming sites operational in 2019
  - Froðba A-15
  - Porkeri A-19
  - Hov A-18
  - Hvalba A-23
- Implementing large smolt strategy in Suðuroy
- Suðuroy has capacity to harvest ~ 15 thousand tonnes annually in 2023

## Harvest capacity in Suðuroy – tonnes HOG

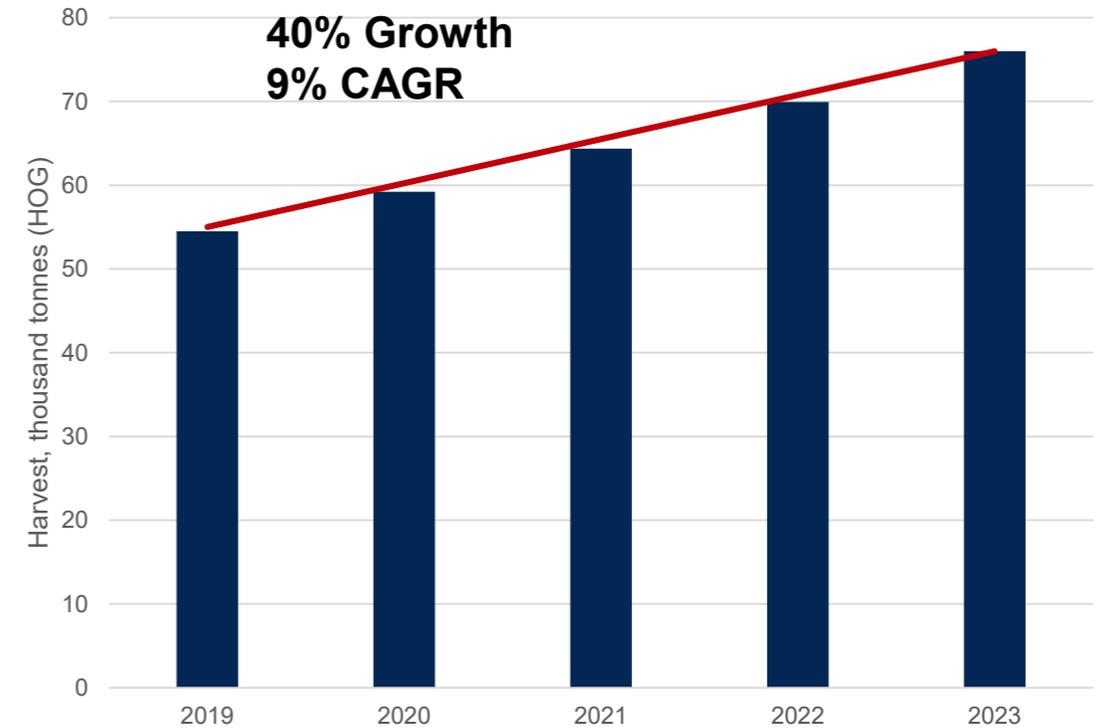


Hvalba

## ~40% HARVEST GROWTH EXPECTED (2019-2023)

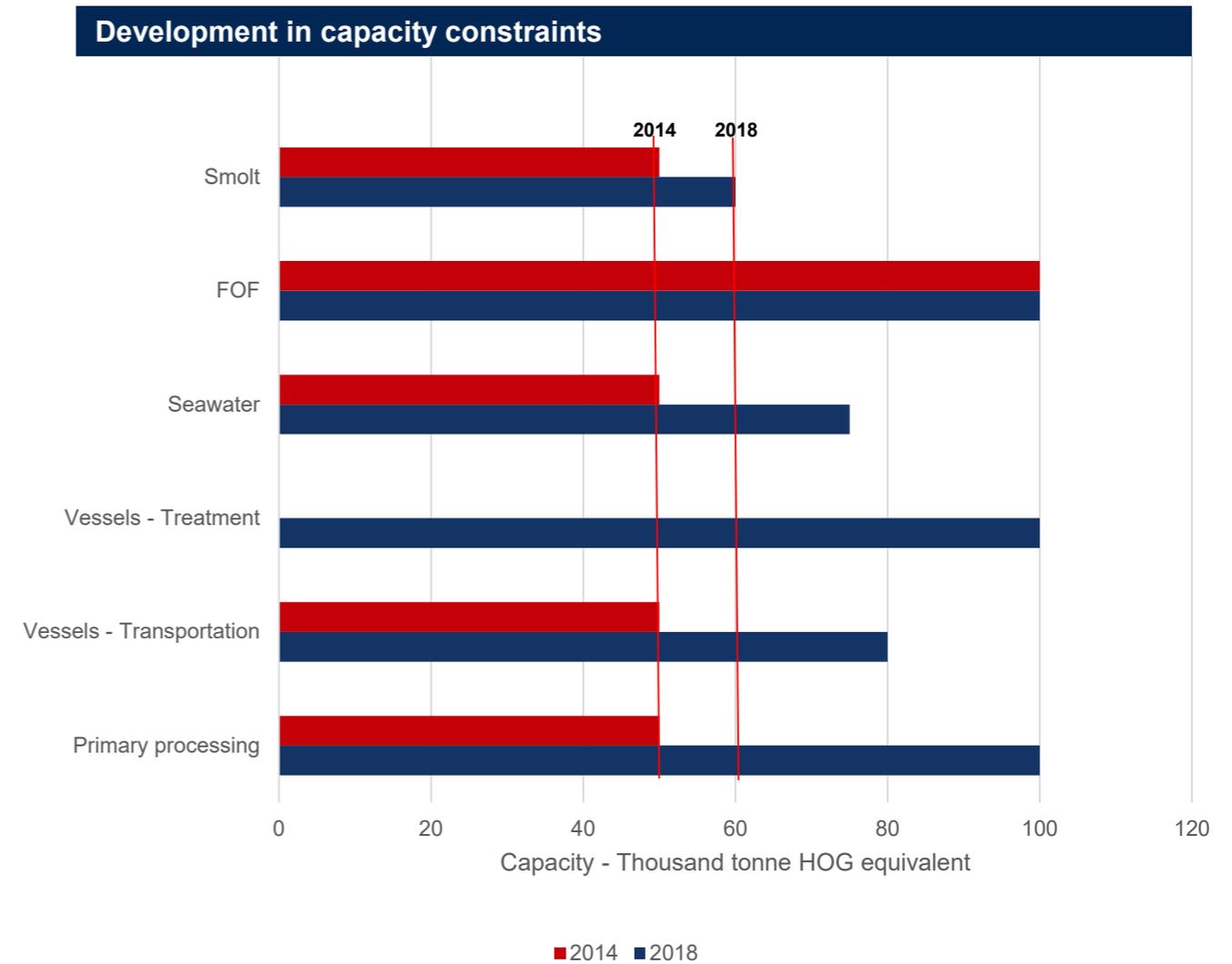
- Expecting growth ~22 thousand tonnes (HOG)
  - Large growth strategy
  - Development of Suðuroy

Estimated harvest profile 2019-2022 (Thousand tonnes HOG)



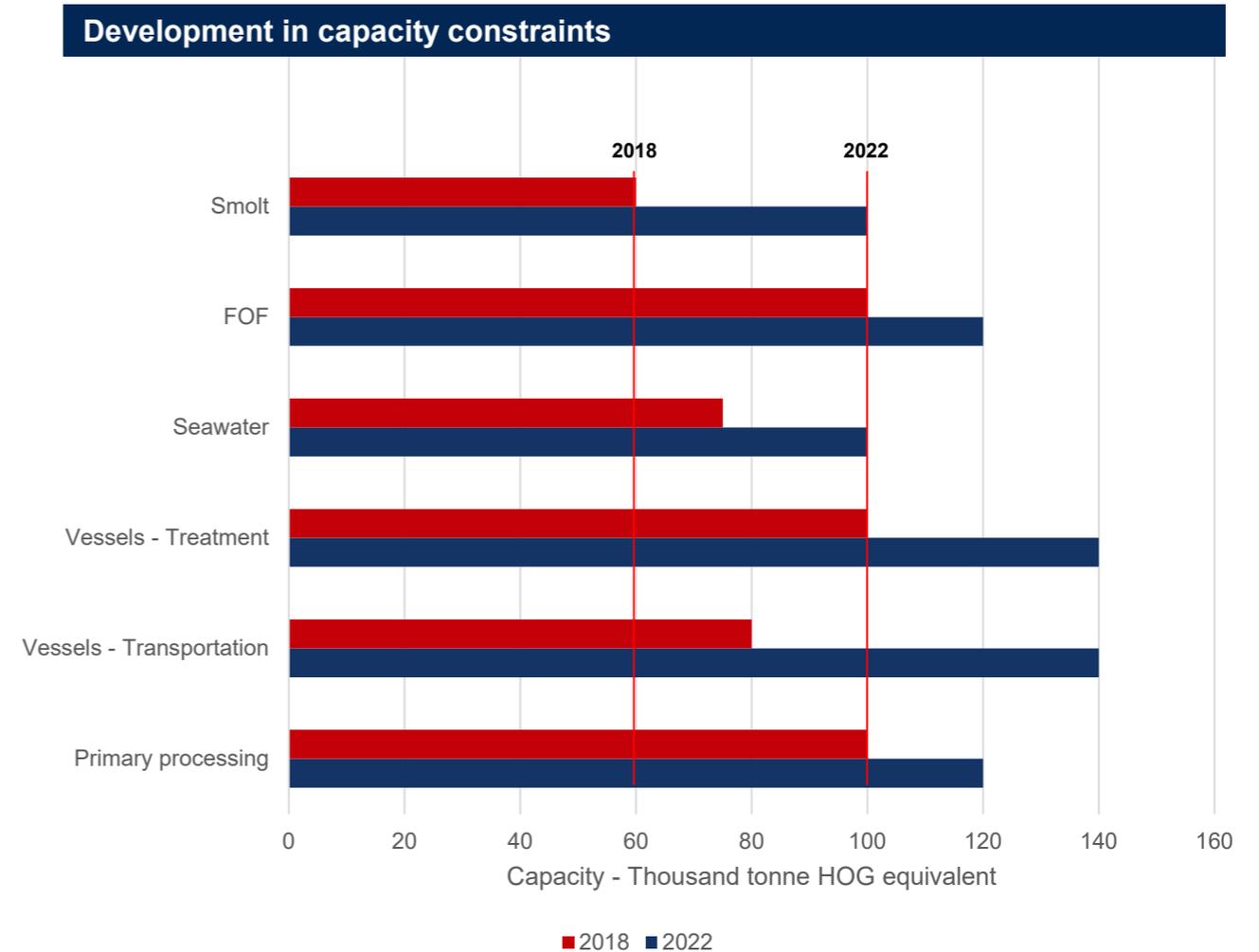
# PAST CAPACITY DEVELOPMENT INFRASTRUCTURE

- Summary main investments 2014-2018
  - First stage of major smolt investment programme
  - Expansion of seawater capacity
    - Suðuroy
    - Large smolt strategy
  - Acquisition of 2 farming service vessels
  - Acquisition of live fish carrier
  - Commissioning of Glyvrar processing site
- Large smolt capacity current bottleneck
- Material free capacity in all other parts of infrastructure



# EXPECTED IMPACT OF 2019-2022 INVESTMENT PROGRAMME

- Investment focus
  - Large smolt capacity
  - Vessels – Transportation
- Bottleneck shift from smolt to seawater sites
- Infrastructure rigged for application of new technology



# INDUSTRY R&D INTO NEW PRODUCTION TECHNOLOGIES LARGE SCALE TRIALS UNDERWAY

ON SHORE PRODUCTION



IN SEA  
CLOSED/SEMI CLOSED/SUB SEA  
SYSTEMS

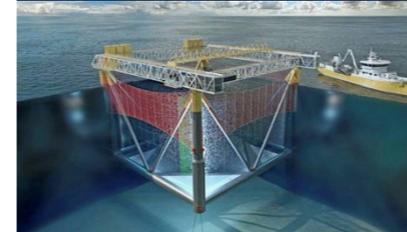


OFFSHORE



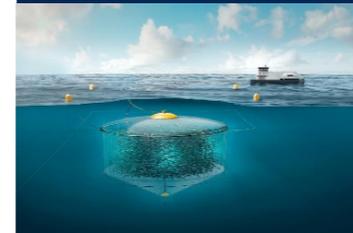
- Large ongoing R&D efforts in the industry
  - Incentive system in Norway “sponsoring” R&D efforts
  - 11 significant projects approved so far for full-scale trials
  - Total investment estimate of MNOK 7,000
- Bakkafrost is following the developments carefully
  - Prepared to adopt proven technology

## Semi-closed production in Sea



2 individual projects  
6kt licence capacity  
MNOK 800 investment

## Subsea farming



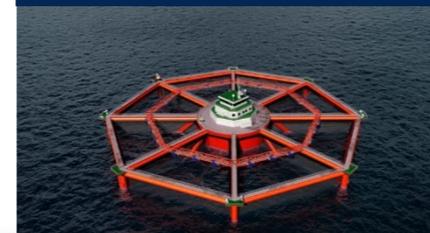
1 individual project  
780t licence capacity  
MNOK 80 investment

## Closed production in Sea



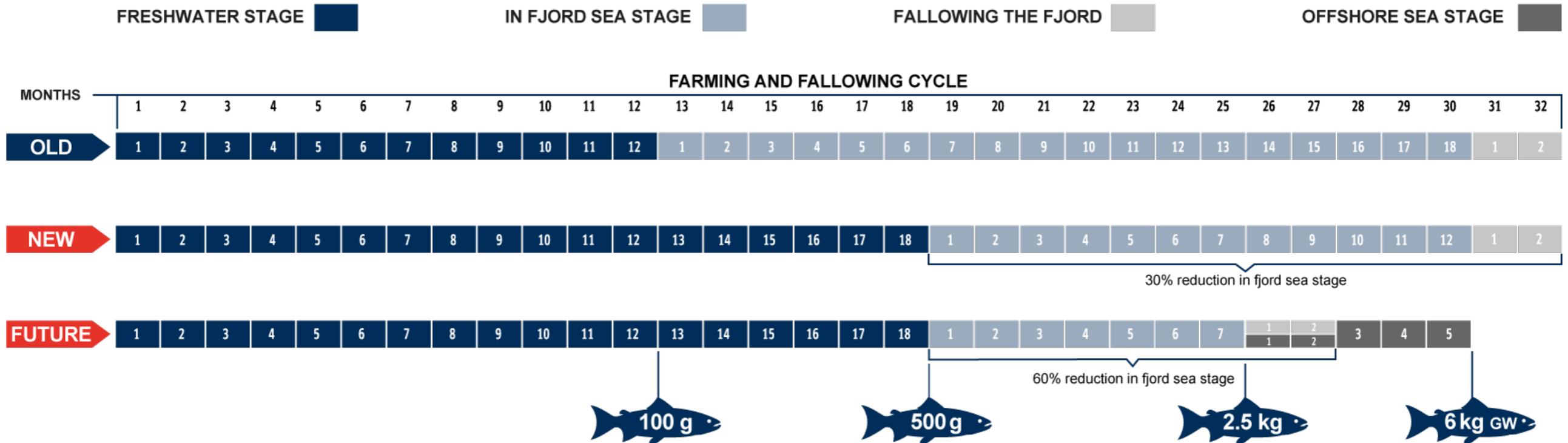
4 individual projects  
9kt licence capacity  
MNOK 1,200 investment

## Offshore farming



4 individual projects  
35kt licence capacity  
MNOK 4,900 investment

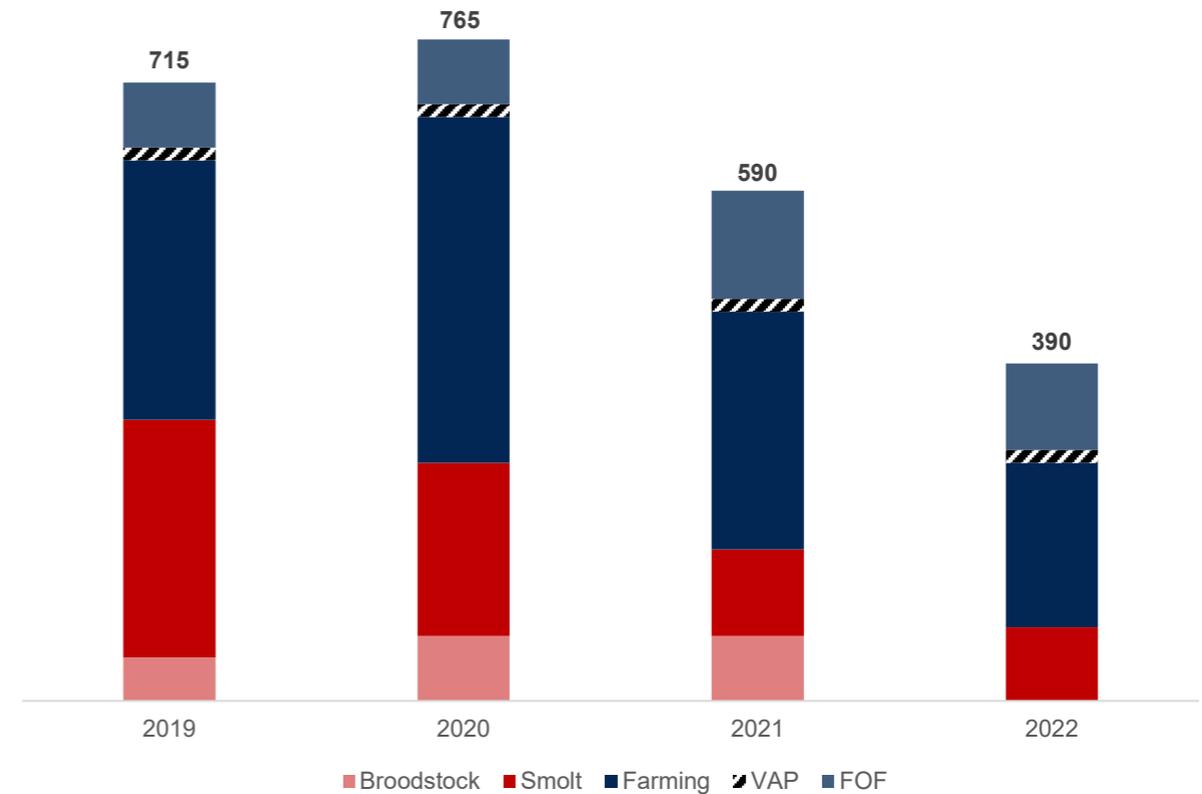
# EXAMPLE OF OFFSHORE PRODUCTION CYCLE



# SUMMARY INVESTMENT PROGRAMME 2019-2022

- Investments next four years amount to ~ DKK 2.5 billion
- Nearly DKK 2.0 billion relates to future growth
- Annually maintenance capex ~ DKK 100-150 million

## Planned investments 2019 - 2022



### Hatcheries

- Glyvradalur, expansion 9,750m<sup>3</sup>
- Norðtoftir, expansion 12,000m<sup>3</sup>
- Ónavík Suðuroy, new hatchery 12,000m<sup>3</sup>

### Broodstock

- Skálavík
- 30 million roe per year production. Ready to upscale to 50 million roe per year

### Fishmeal, oil and fish feed

- Increased capacity and flexibility



Planned hatchery in Ónavík Suðuroy

## New farming sites

- Hvalba A-23
- Hov A-18
- Nes A-85

## Transportation vessels

- Live fish carrier for transportation and treatment 6,000 m<sup>3</sup>

## R&D projects

- Offshore projects to take growth beyond 76 thousand tonnes





SUPERIOR  
QUALITY  
**SALMON**



## ***Bakkafrost presentation***

*A world-class company in the salmon industry*

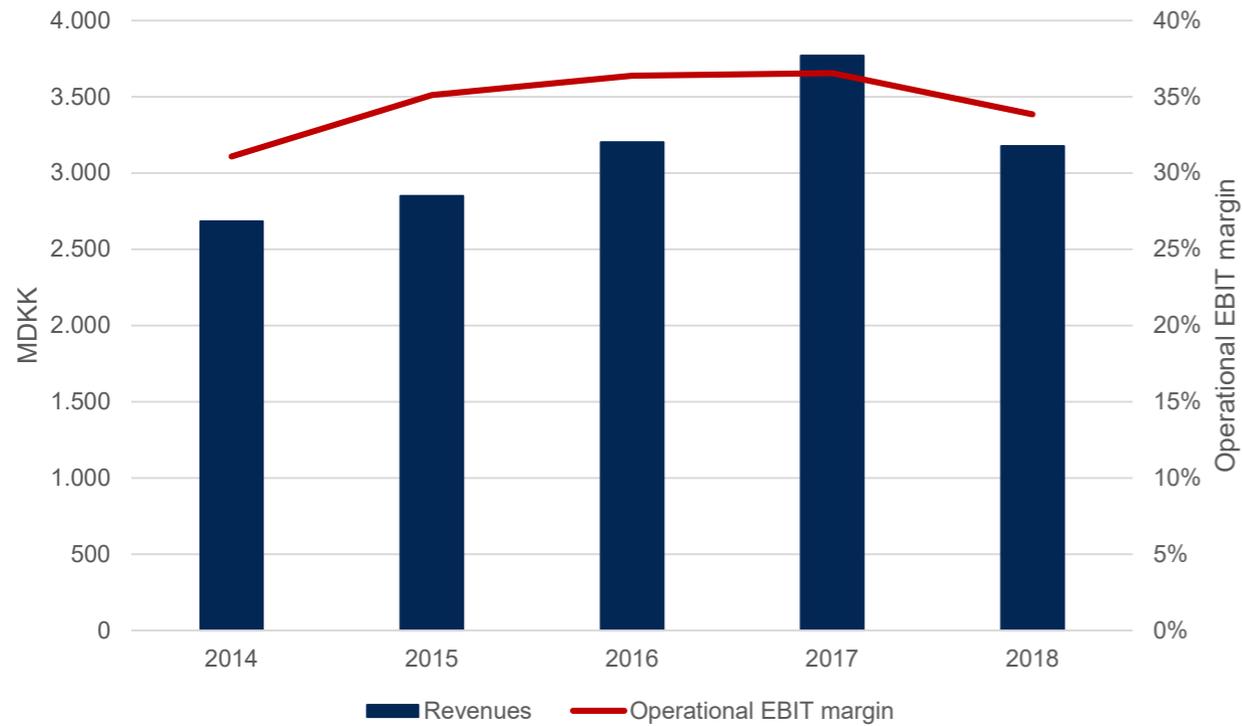
## ***Capital Markets Day***

**Financial headlines**

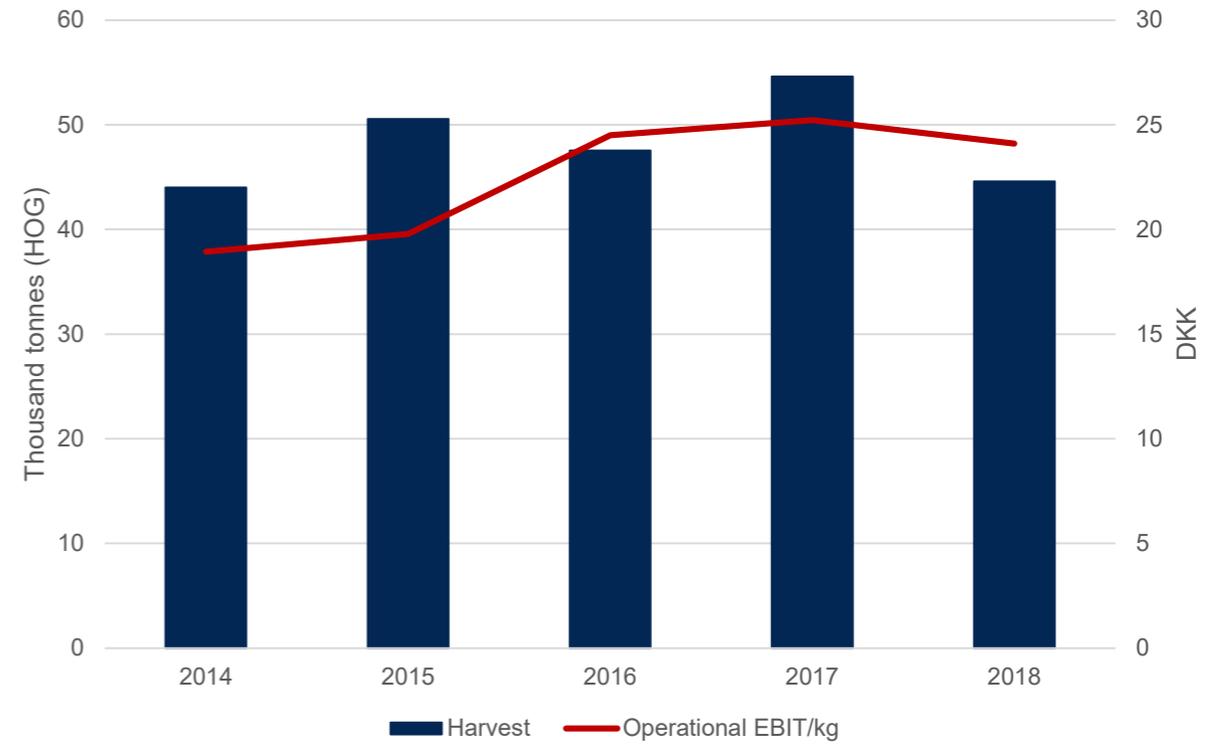
**Faroe Islands 12 June 2019**

# BAKKAFROST HAS A GOOD HISTORIC PERFORMANCE

## Revenue and margin

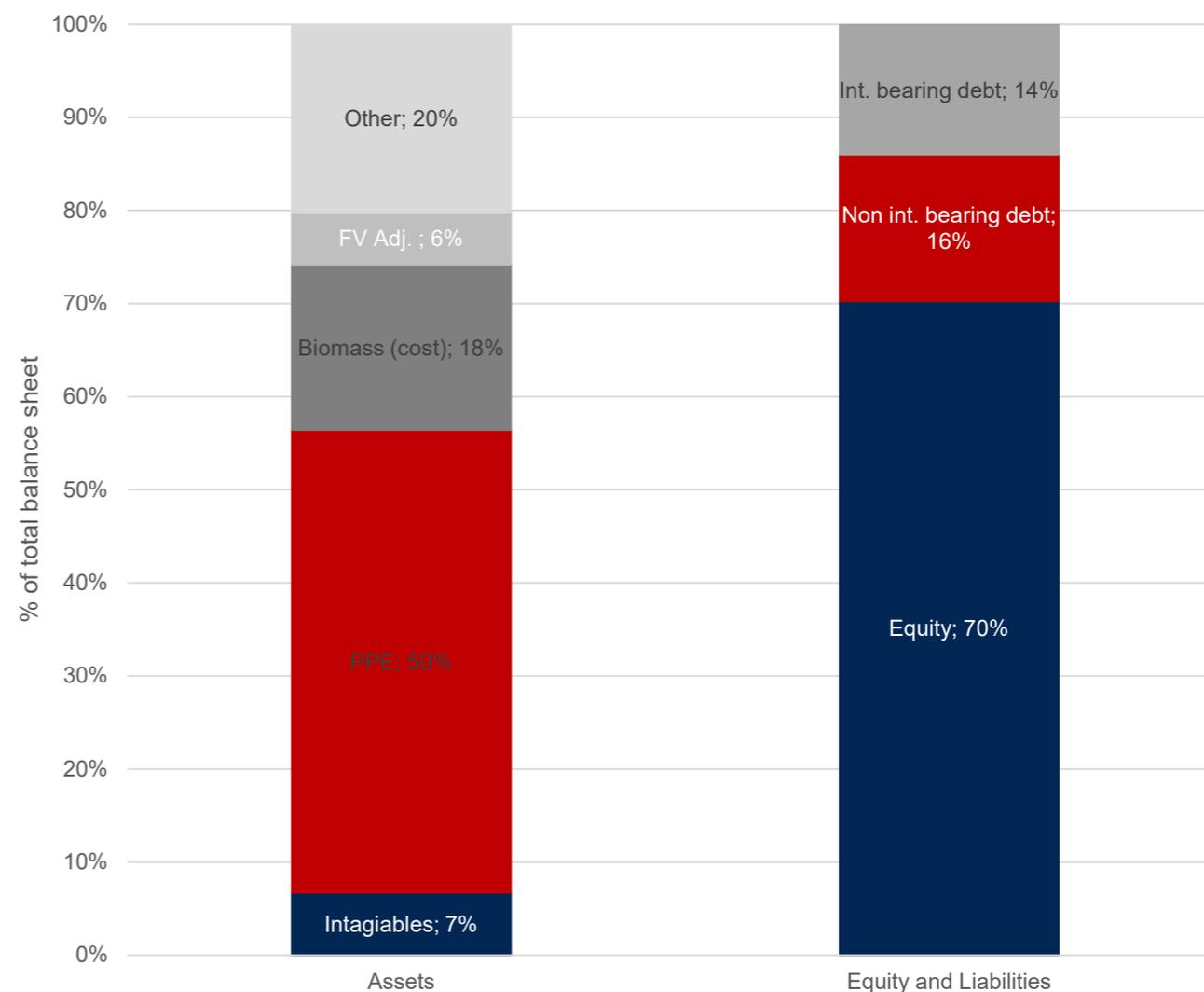


## Harvest and Group operational EBIT/kg



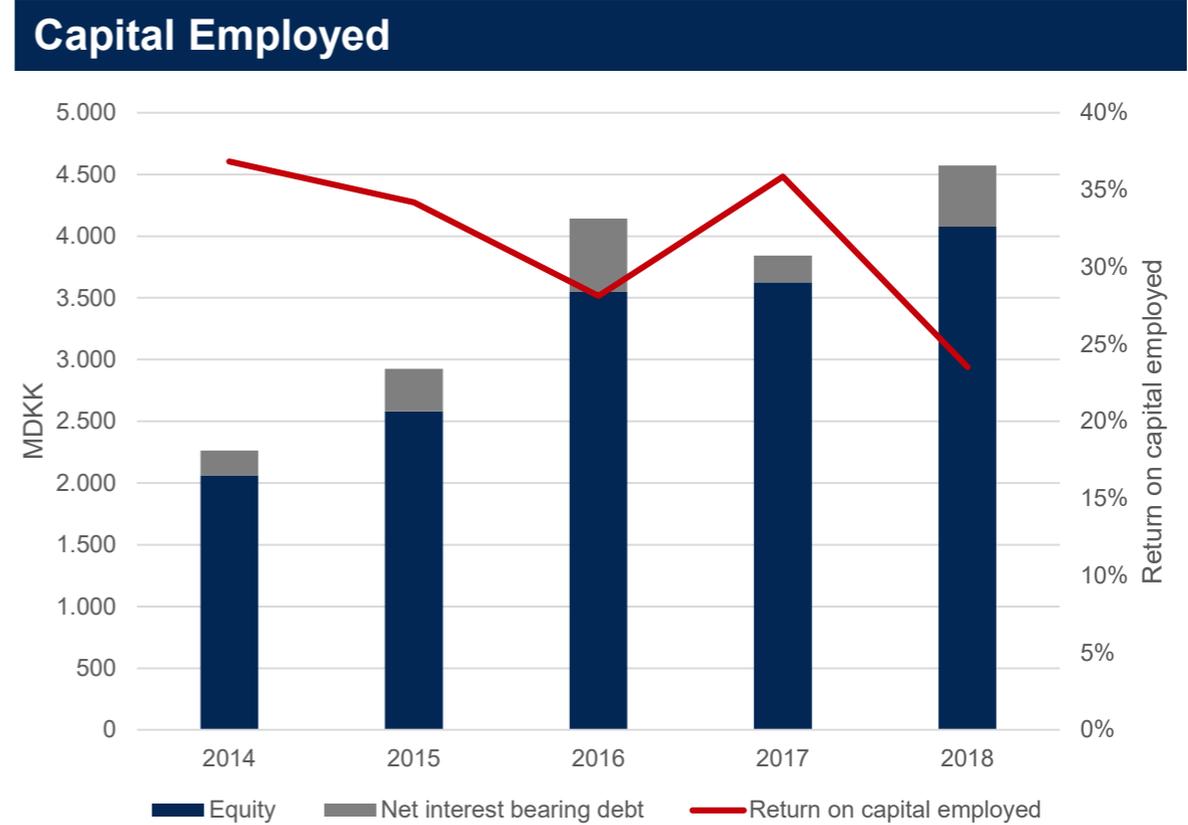
## THE BALANCE SHEET IS STRONG (ULTIMO 2018)

- Balance sheet of DKK 5.8 billion
- High proportion Property, Plant and Equipment
  - Well invested infrastructure
- Low proportion Intangibles
  - Historic value of licenses
- Net working capital DKK ~1.9 billion (~1.5 billion excl. fair value)
  - ~60% of net revenues (49% excl. fair value)
  - DKK ~42 per kg harvest (DKK 35 excl. fair value)
- 70% equity ratio
- NIBD/EBITDA ~ 0.4x



# THE CAPITAL EMPLOYED HAS INCREASED STEADILY

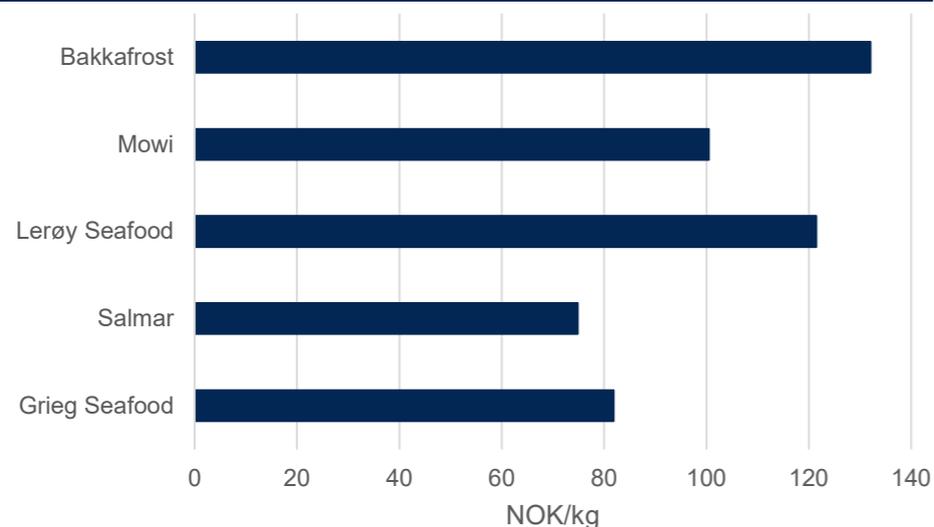
- Increasing capital employed
  - Result of expansive investment programme
- Very high return on capital employed
  - Variation between 25-35%
- Reduction in 2017 capital employed
  - Unusually low NIBD
- Reduction in 2018 return on capital employed
  - Temporary reduction in harvest



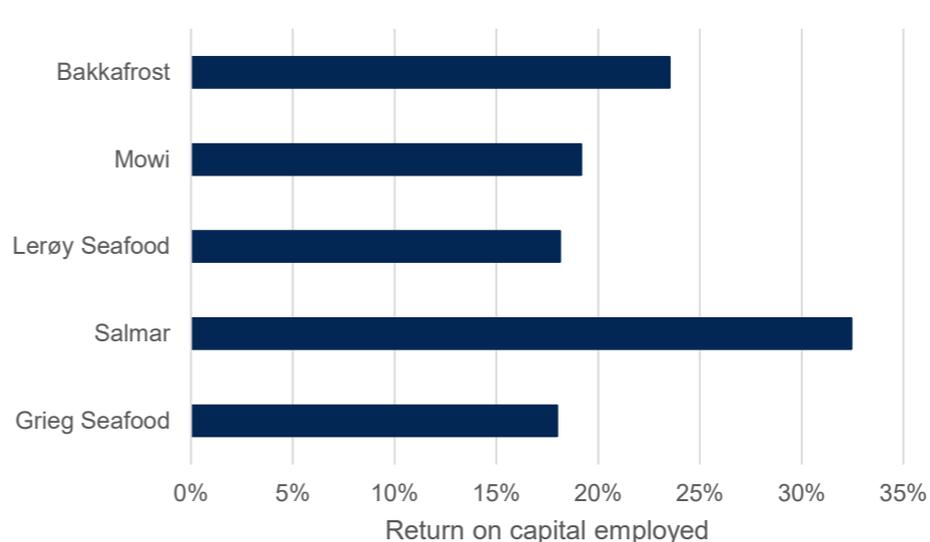
*Notes:*  
 (1) Capital employed defined as Equity + Net Interest Bearing Debt  
 (2) Return on capital employed defined as Operational EBIT/Capital Employed

# HIGH LEVEL OF CAPITAL EMPLOYED WITH VERY COMPETITIVE RETURN

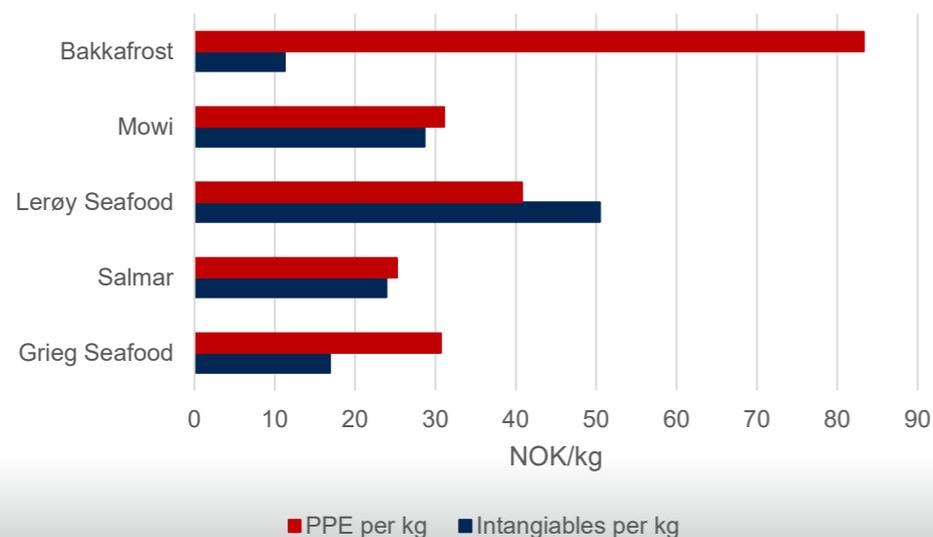
## Capital Employed



## Return on Capital Employed



## Property, Plant & Equipment vs. Intangibles



- Bakkafrost has the highest capital employed per kg harvest
- Significantly more capital tied up in PPE
  - State of the art infrastructure prepared for higher throughput
- Significantly less capital tied up in licences
- Still very competitive return on capital employed

Notes:

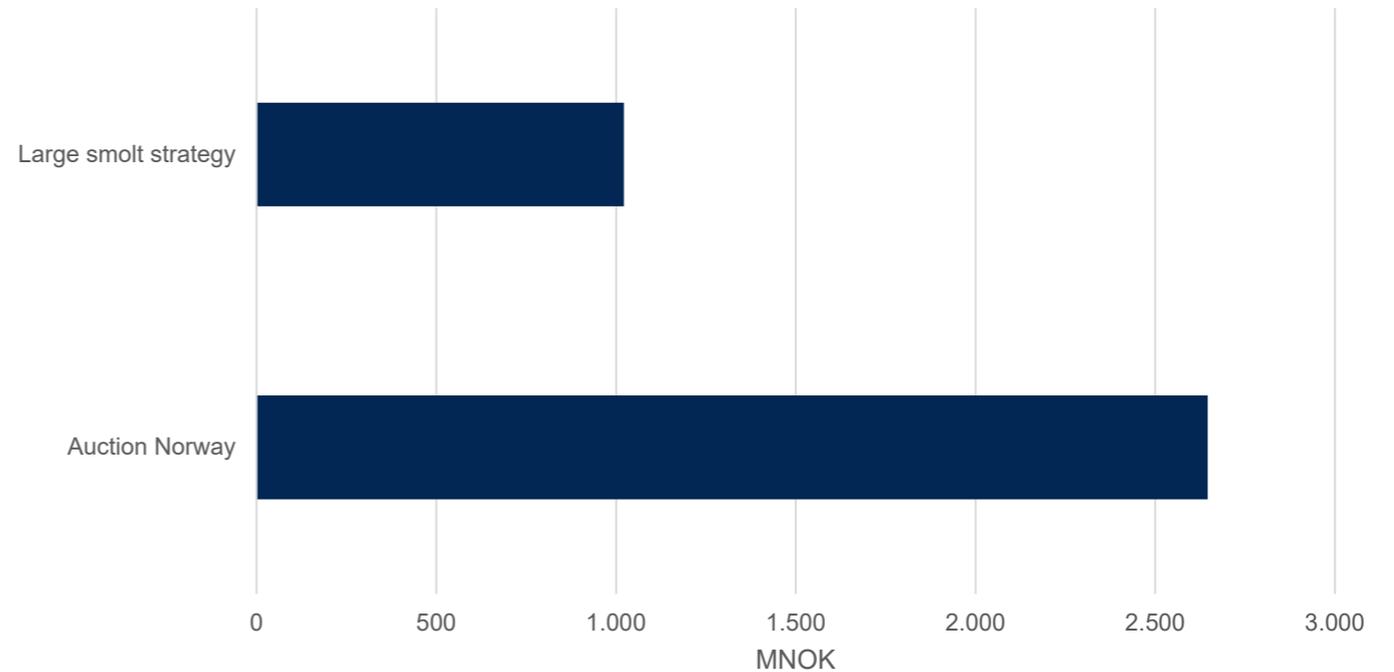
(1) Capital employed defined as Equity + Net Interest Bearing Debt

(2) Return on capital employed defined as Operational EBIT/Capital Employed

# INVESTMENTS IN LARGE SMOLT IS CHEAPER THAN LICENCE AUCTION IN NORWAY

- Large investments associated with large smolt strategy
- A number of benefits, including capacity increase
- Harvest increase of 20k tonnes
  - Auction Norway MNOK ~2,500
  - Large smolt MNOK ~1,000

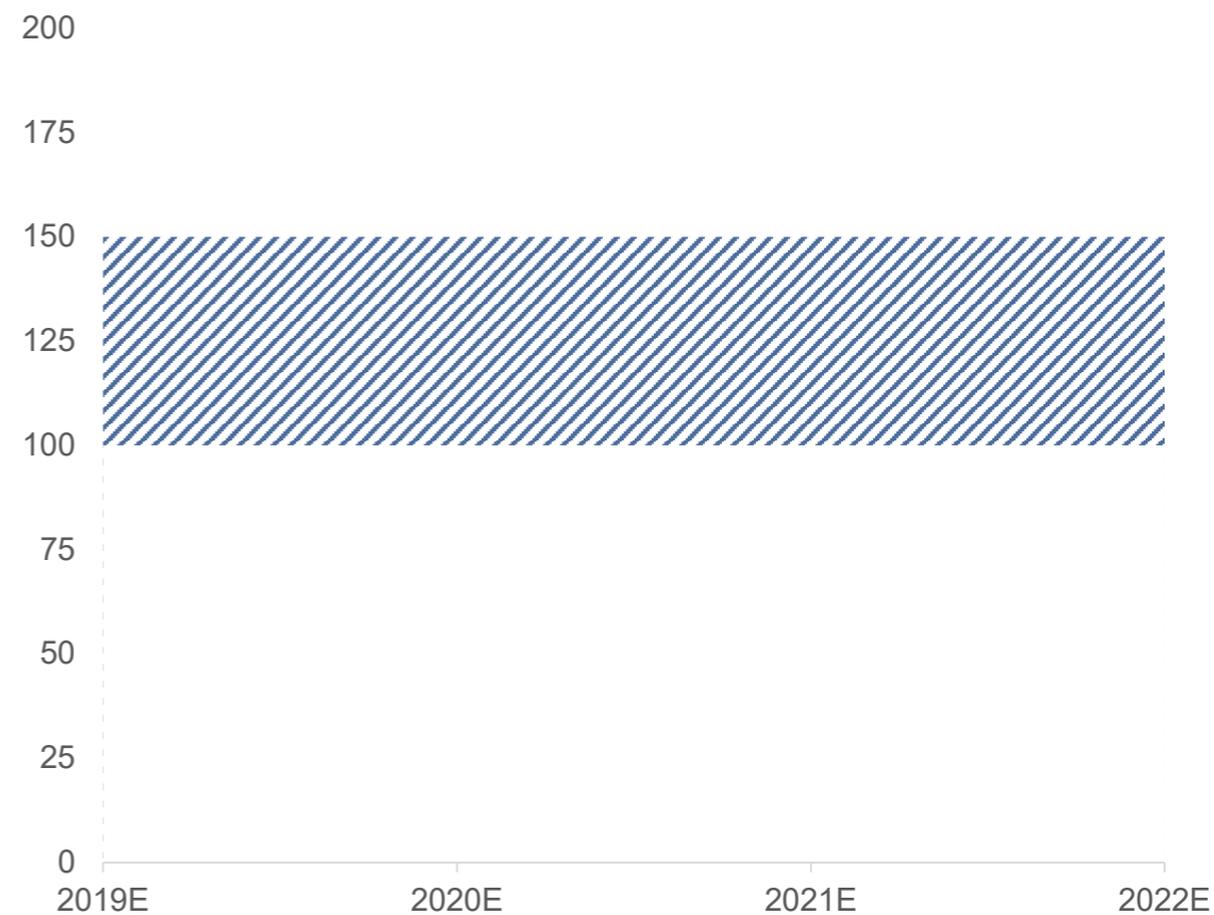
## 20,000 tonnes HOG – Large smolt strategy vs. auction prices Norway



## HOW WILL MAINTENANCE CAPEX REQUIREMENT DEVELOP?

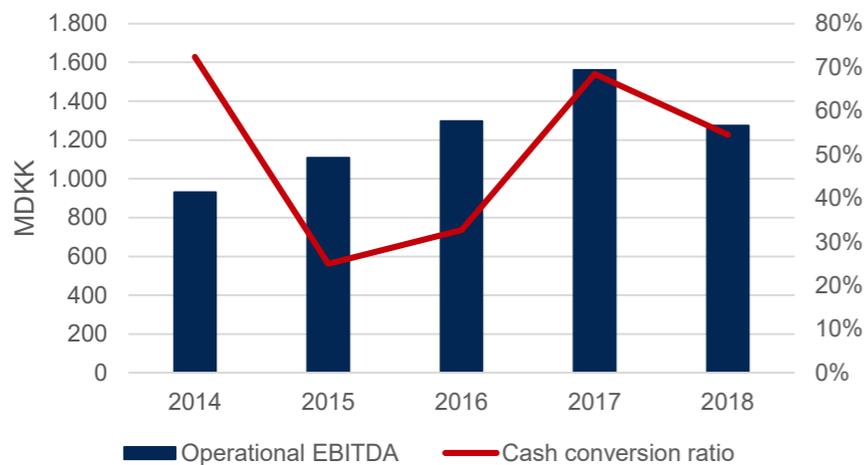
- Historical maintenance capex < DKK 100 million
- Investments in PPE last five years has lifted maintenance capex
- Maintenance is expected to be around DKK 100 – 150 million
- If cash generation from operation come under pressure, a maintenance at this level should be manageable

### Maintenance Capex

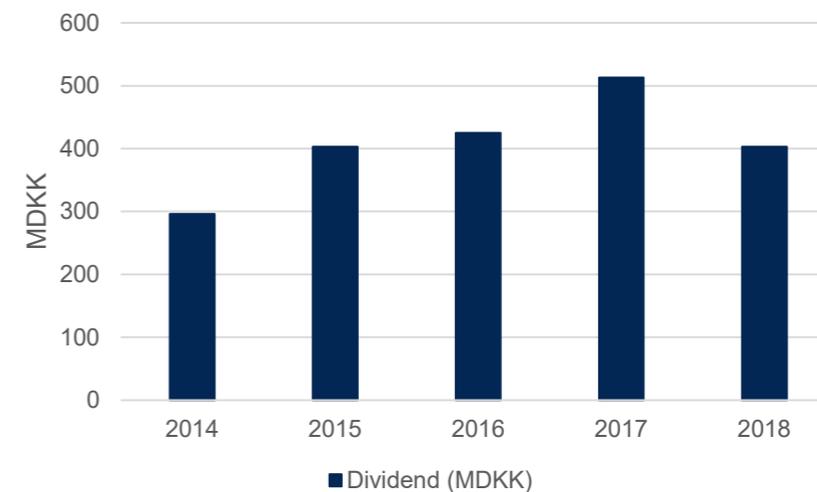


# CASH CONVERSION, REINVESTMENT AND DIVIDEND

## EBITDA and Cash Conversion Ratio

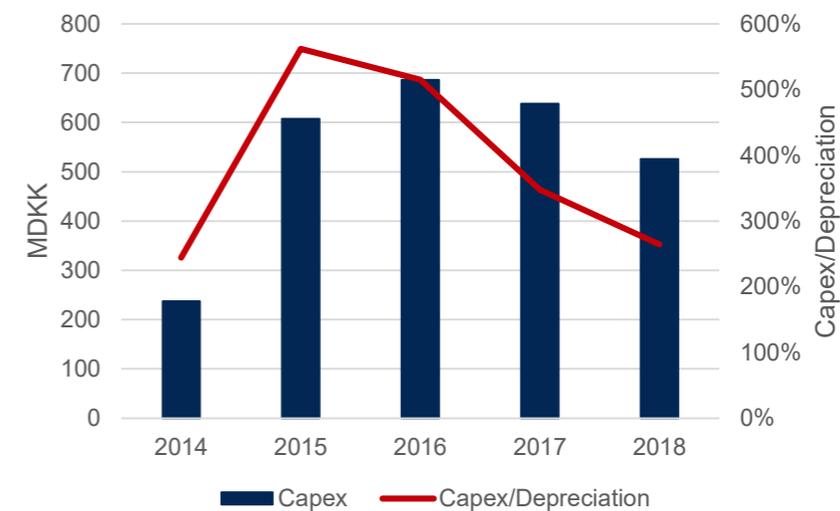


## Dividend payments



- “We can have the cake and eat it too...”

## Capital expenditure



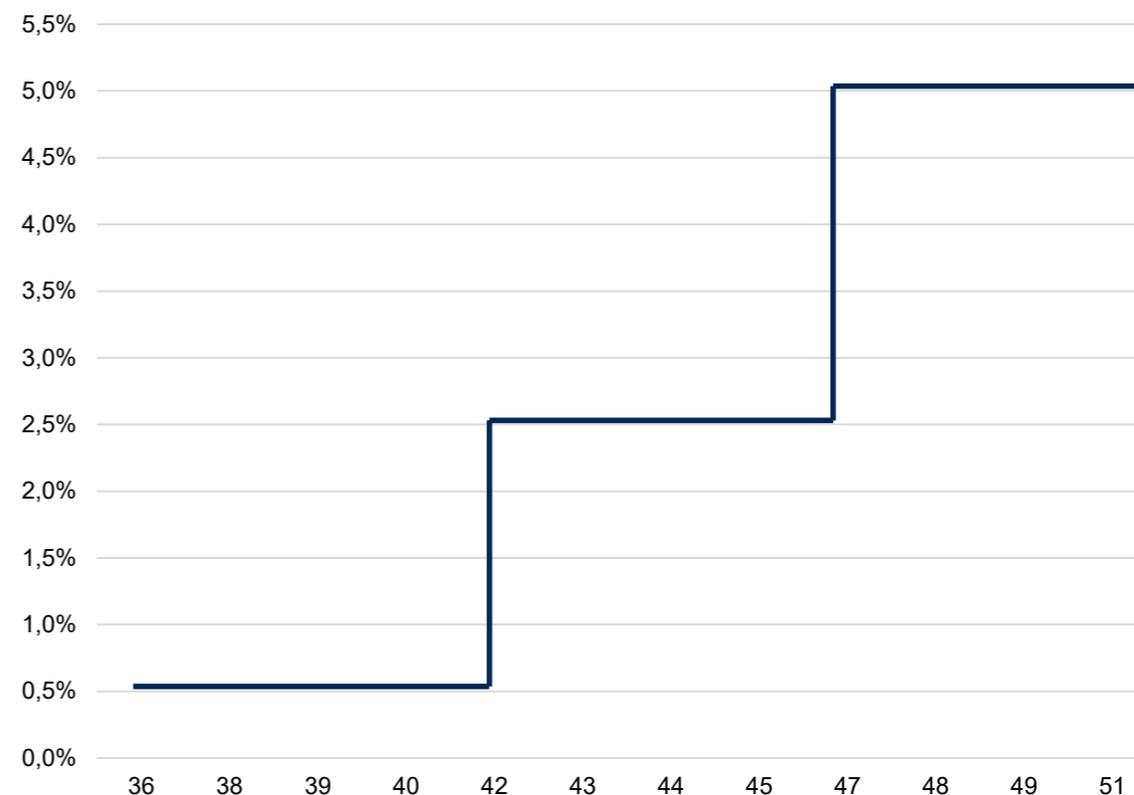
## Corporate tax

- 18% of taxable income

## Revenue tax

- % of Nasdaq salmon price of harvested volumes
  - 0.5%: salmon price < ~ NOK 42<sup>1</sup>
  - 2.5%: ~ NOK 42<sup>1</sup> < salmon price < ~ NOK 47<sup>1</sup>
  - 5.0%: salmon price > ~ NOK 47<sup>1</sup>
- Only applicable on salmon sea farming operation
- Revenue tax is deductible in taxable income
- Recognized as cost and not tax in P/L

## Revenue tax



Notes:

(1) Currency rate NOK/DKK – 77.00

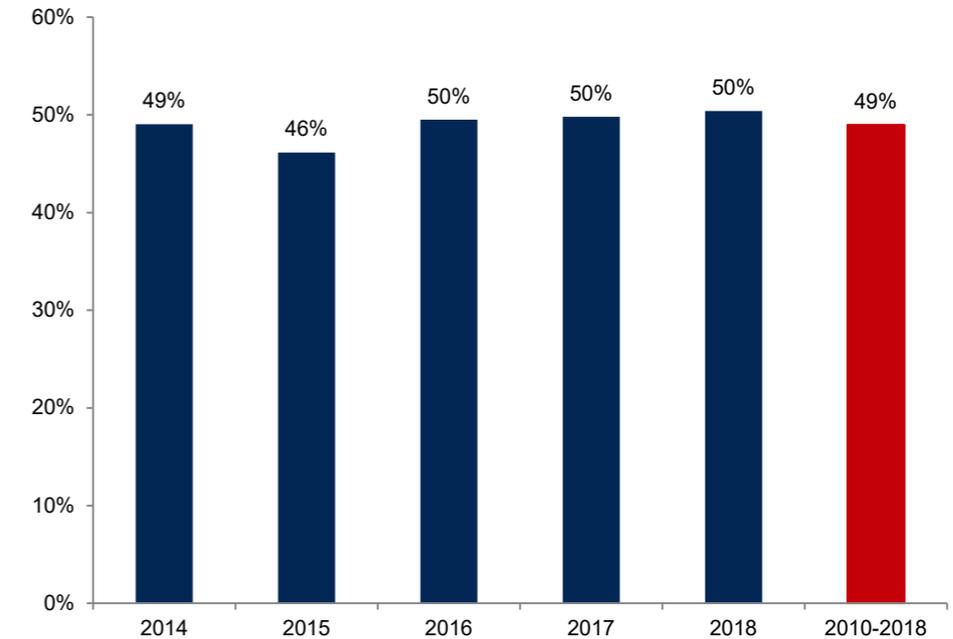
## Financial targets

- Equity ratio: > 50%
- Dividend: 30-50% of adjusted EPS

## Financing

- EUR 200m senior secured credit facility
  - Tenor 5 years with maturity Q1 2023
  - Accordion option to increase with another EUR 200m
    - Subject to bank approval

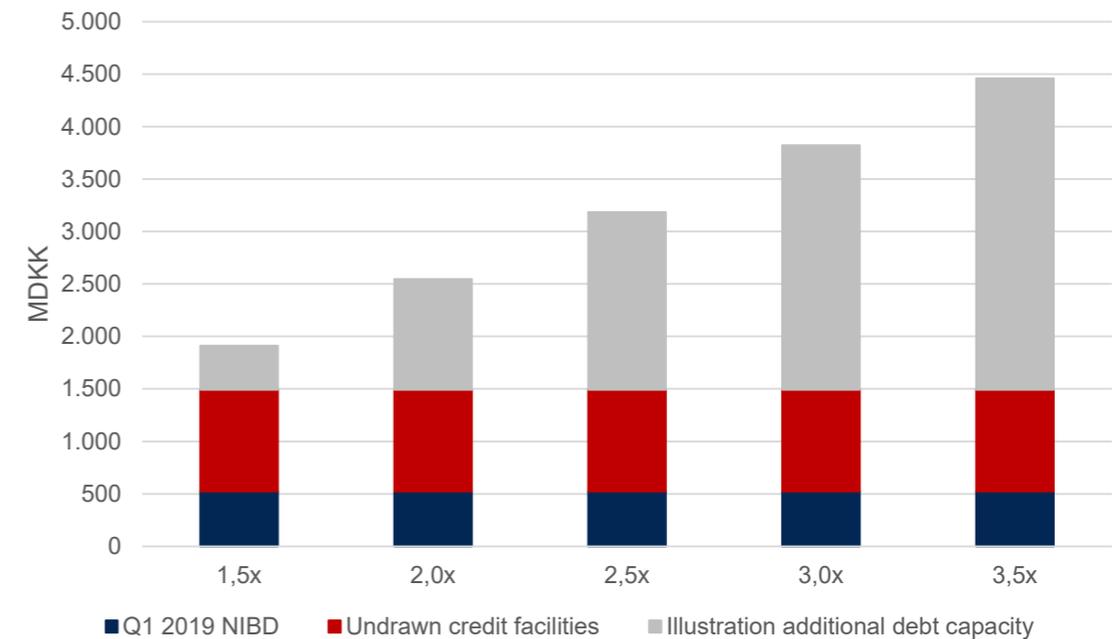
## Dividend of adjusted EPS



## GOOD ACCESS TO CAPITAL - DEBT

- Current NIBD/EBITDA ratio (NIBD/Op. EBITDA) of 0.41x
- Available liquidity of MDKK ~970
  - Equivalent to leverage ratio of 1.20x if fully drawn
- Significant leverage capacity beyond current financing

### Illustration Debt Capacity



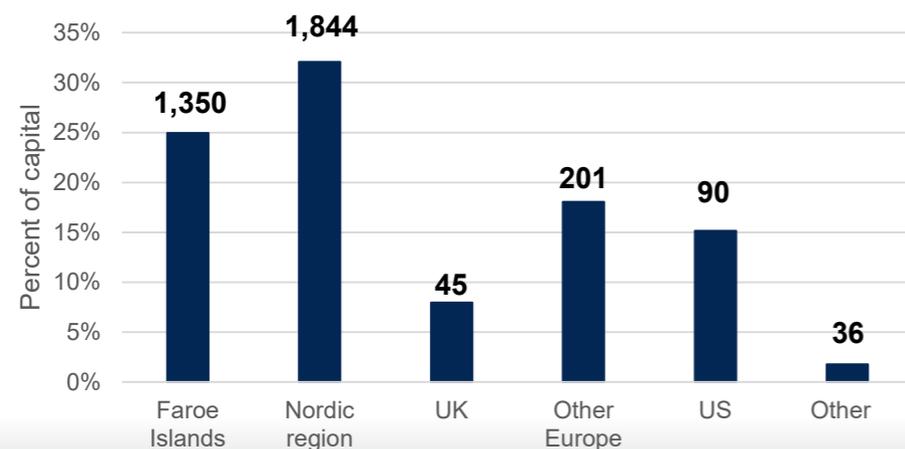
# ACCESS TO CAPITAL - EQUITY

- Share widely held among international institutional investors
- High liquidity in the share
- International roadshows every quarter

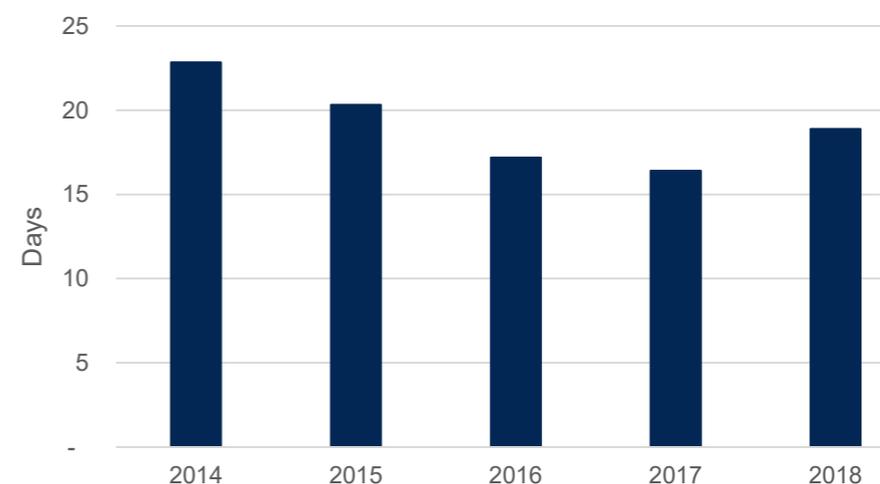
## Share Price Development



## Shareholder Location (number per location)



## Share Liquidity (days req. to trade 5%/MEUR~115)

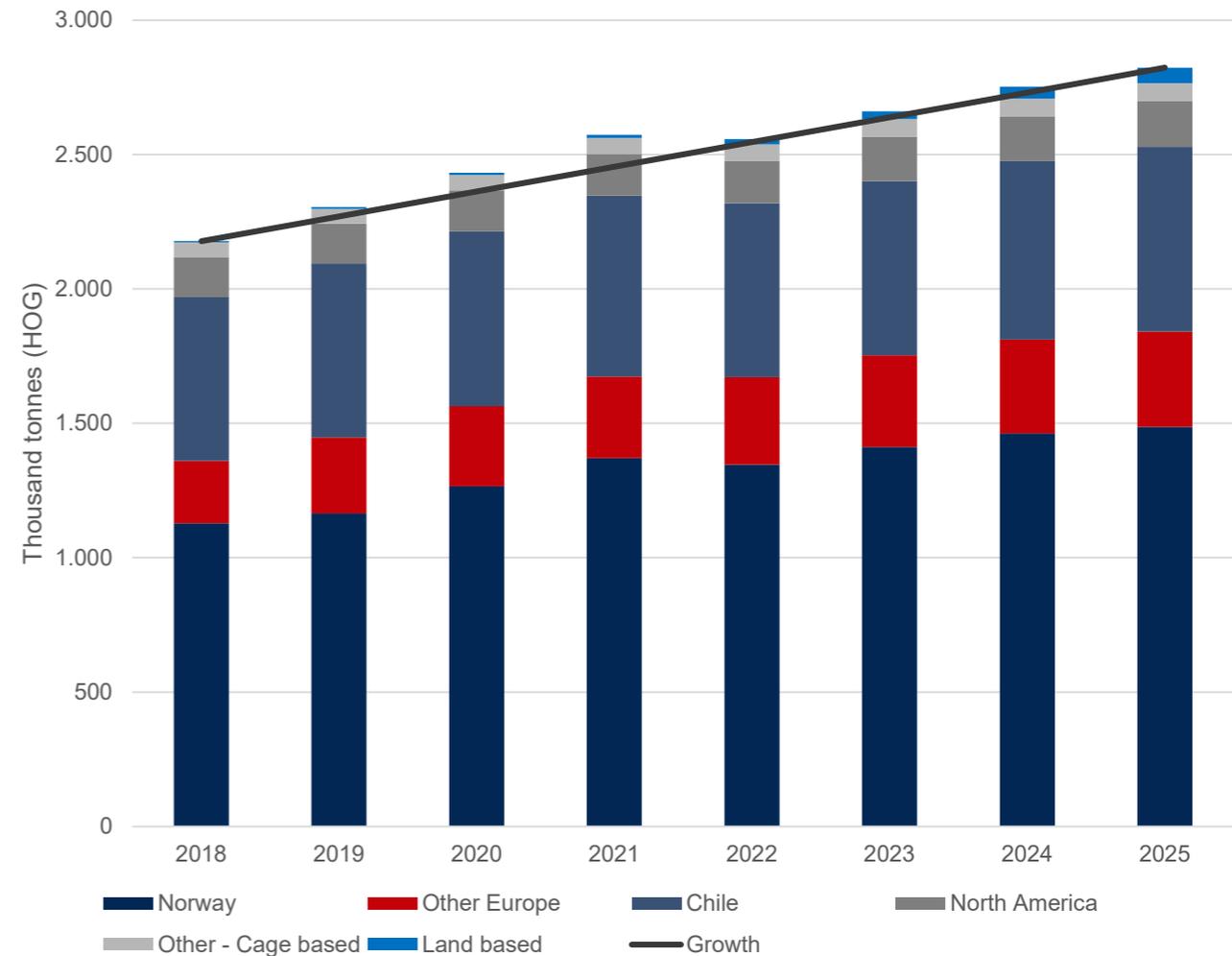


# 30% SUPPLY INCREASE EXPECTED BY 2025 (CAGR <4%)

| (Thousand tonnes HOG) | Total growth | Average growth | Growth %     | CAGR %      |
|-----------------------|--------------|----------------|--------------|-------------|
| Norway                | 359          | 51             | 31.8%        | 4.0%        |
| Other Europe          | 123          | 18             | 53.3%        | 6.3%        |
| Chile                 | 77           | 11             | 12.6%        | 1.7%        |
| North America         | 23           | 3              | 15.3%        | 2.1%        |
| Other - Cage based    | 10           | 1              | 18.1%        | 2.4%        |
| Land based            | 53           | 8              | 1291.3%      | 45.7%       |
| <b>Global</b>         | <b>645</b>   | <b>92</b>      | <b>29.6%</b> | <b>3.8%</b> |

- Generally very strong market outlook
- Significant premium for superior products in high end markets
- Bakkafrost is focused on carefully managing and developing its brand in the market
- It all comes down to the quality of the product!

## Long term supply outlook (Kontali)



# SUMMARY

- Outstanding financial performance
  - Structural, technical and market based advantages
  - Material upgrade of infrastructure carried out in recent years
- Significant investment programme underway
  - Further reinforcement of infrastructure
  - Targeting 70% increase in harvest within 2023
- On shore infrastructure rigged for significantly higher throughput
  - Growth within existing licences beyond 2023
  - Well positioned to take advantage of new seawater farming methods





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QUALITY  
**SALMON**



## ***Bakkafrost presentation***

*A world-class company in the salmon industry*

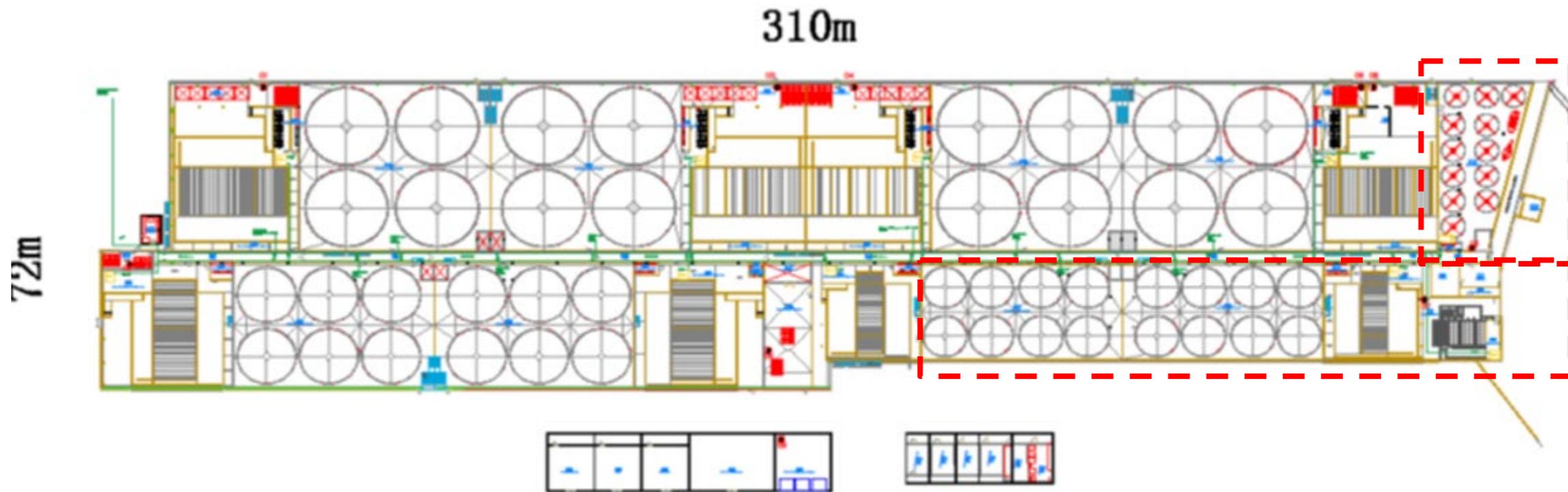
## ***Capital Markets Day***

**Large Smolt Strategy**

**Faroe Islands 12 June 2019**

# STROND: 500 GRAM SMOLT PLANT (8 MILLION P.A.)

22,600 m<sup>2</sup>, Largest tanks: Diameter 18m

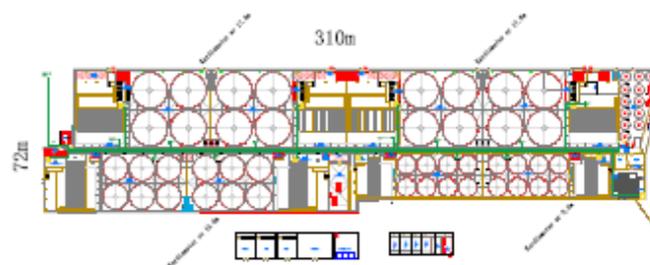
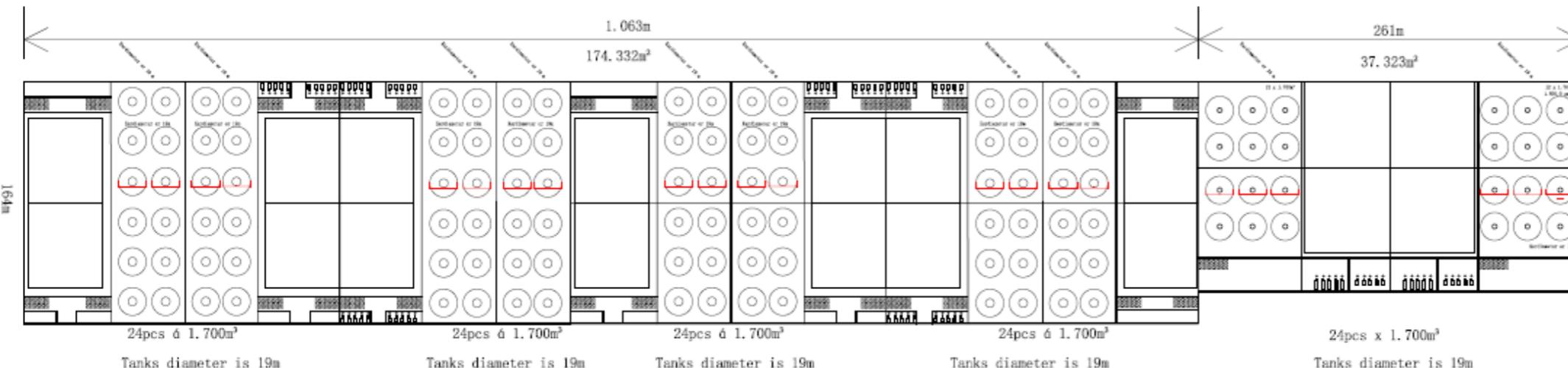


 Proportion of plant required to produce 8m 100g smolt p.a.

# ILLUSTRATION: REQUIRED EXTENSION FOR ON SHORE PRODUCTION UP TO 5 KG

Expansion hatchery is 204.760m<sup>3</sup>  
From smolt to 5kg salmon

Strond er 28.760m<sup>3</sup>



|   |                      |
|---|----------------------|
| Eggstanks is 33 pcs x 80.000=2.640.000 eggs             |                      |
| Startfeedings is 12 tanks a 30m <sup>3</sup>            | 360m <sup>3</sup>    |
| Productions stepp I is 16 tanks a 200m <sup>3</sup>     | 3.200m <sup>3</sup>  |
| Productions stepp II is 12 tanks a 500m <sup>3</sup>    | 6.000m <sup>3</sup>  |
| Productions stepp III is 16 tanks a 1.200m <sup>3</sup> | 19.200m <sup>3</sup> |
| Productions stepp V is 120 tanks a 1.700m <sup>3</sup>  | 204.000              |
| Strond er 28.760m <sup>3</sup>                          |                      |

Total: 232.760m<sup>3</sup>

Productions stepp V er 120 kør á 1.700m<sup>3</sup>

Strond + upp to 5,0kg

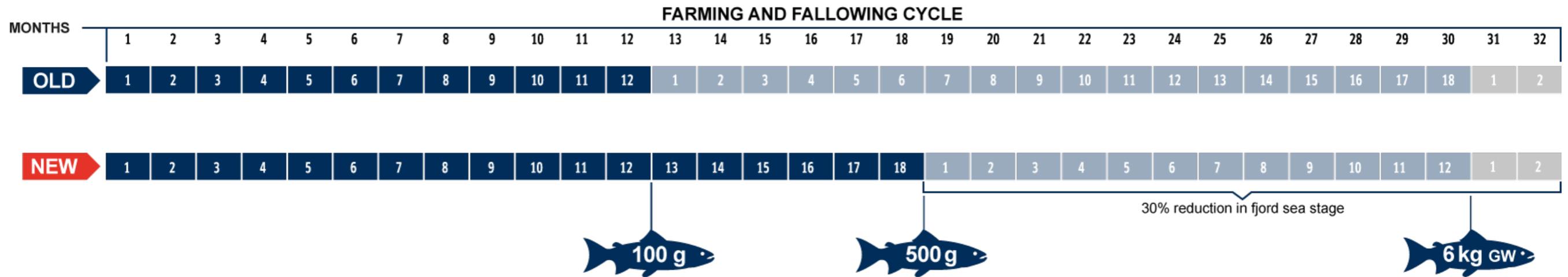
Total: 232.760m<sup>3</sup>

# LARGE SMOLT STRATEGY - CONCEPT

FRESHWATER STAGE 

IN FJORD SEA STAGE 

FOLLOWING THE FJORD 

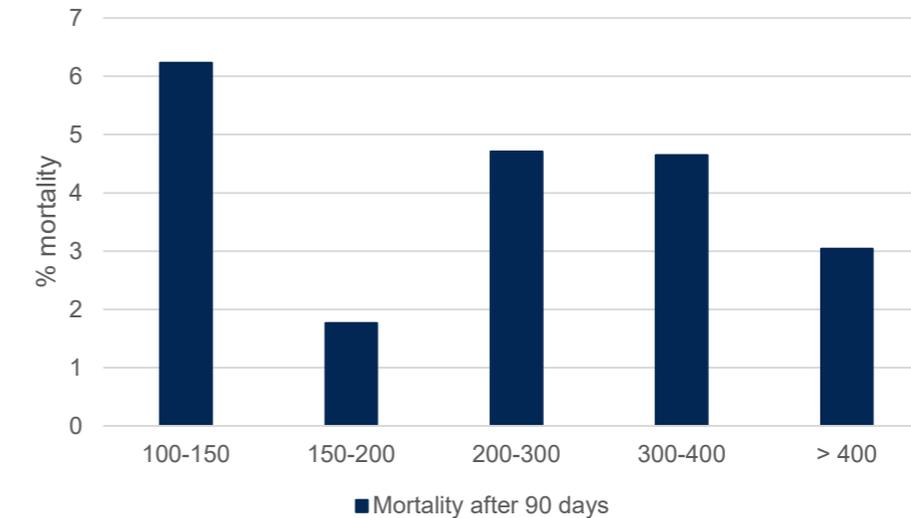


- Risk management
- Production efficiency
- Growth

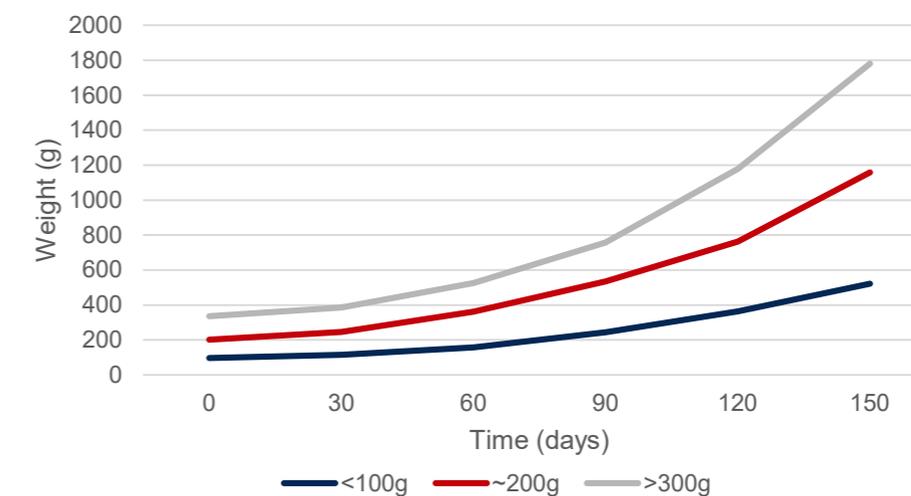
# EXPERIENCE OF RELEASING LARGE SMOLT IN THE FAROES

- Large smolt responding well to seawater release
- Low mortality in 2019
- Other companies in the Faroes have similar experience
- Critical factors
  - Adjustments and progressions
  - Pumping equipment
  - Piping system for transport
  - Heat regulation
  - CO2 Awareness

### 2019 Smolt mortality



### Indication of relationship size/growth



## OVERVIEW SMOLT PLANTS

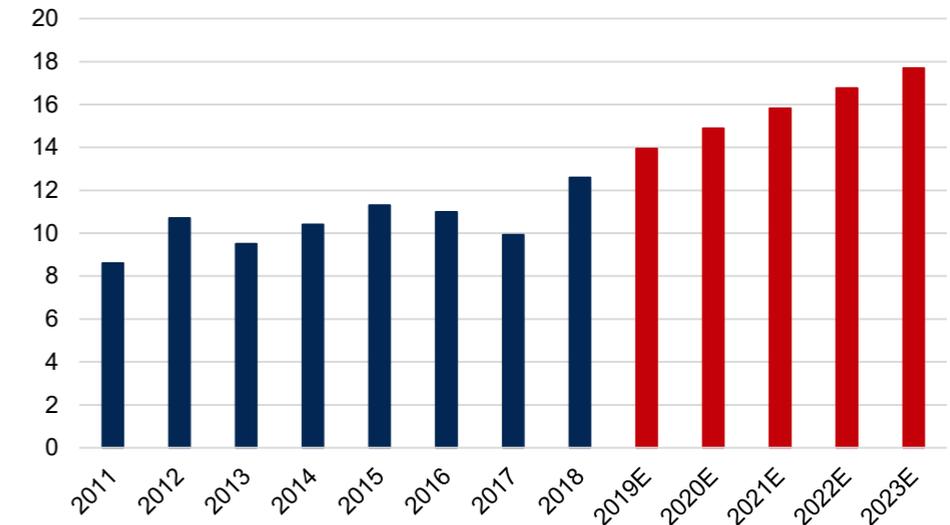
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- Strond: 29,000 m<sup>3</sup>
- Viðareiði: 11,248 m<sup>3</sup>
- Norðtoftir: 5,150 m<sup>3</sup>
- Glyvrardalur: 1,537 m<sup>3</sup>
- Húsar: 1,350 m<sup>3</sup>
- Gjógv: 1,260 m<sup>3</sup>

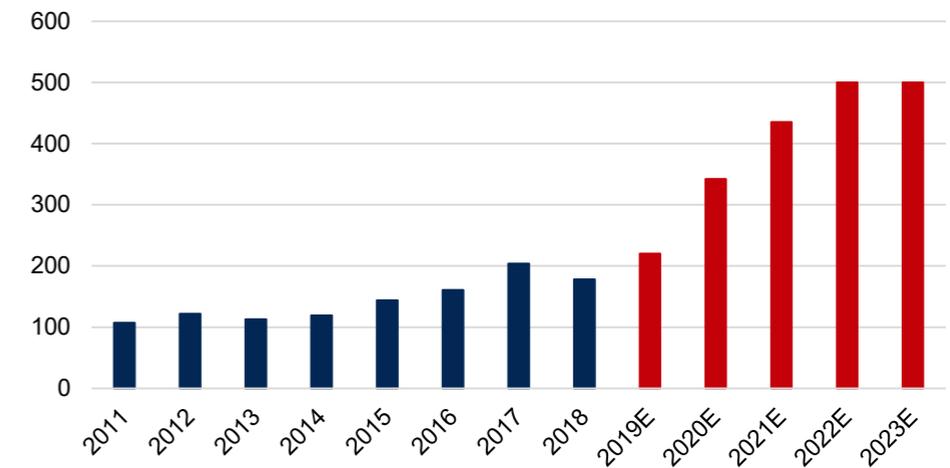
## Larger smolt will reduce time of cycle in sea farming

- Harvest cycle every second year from the same fjords until effect from larger smolt evolves
- Smolt size will gradually increase from a level of 100-200g to a level of 500g by 2022
- Smolt release will gradually increase from ~10-11 million pcs to ~16 million pcs
- Harvest volume will gradually increase to ~76 thousand tonnes
- Graph indicating smolt release per annum separated in size categories

Smolt release (million pcs)



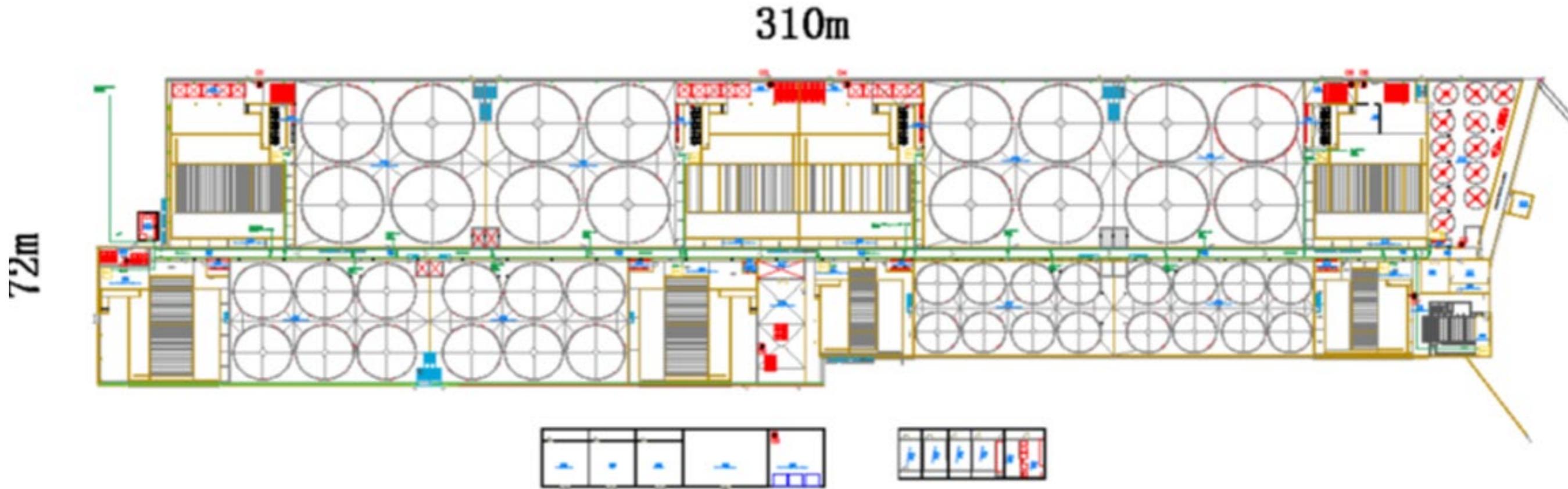
Smolt size on released fish (size gram)



- DKK 200m Faroese broodstock investment
- Optimised genetic diversity
  - Growth
  - Quality
  - Sea lice resistance
  - Reduced disease pathogens
- Good results already
- From 2021 all roe will be used



# STROND (8M SMOLT AT 500G, FULLY OPERATIONAL BY 2021





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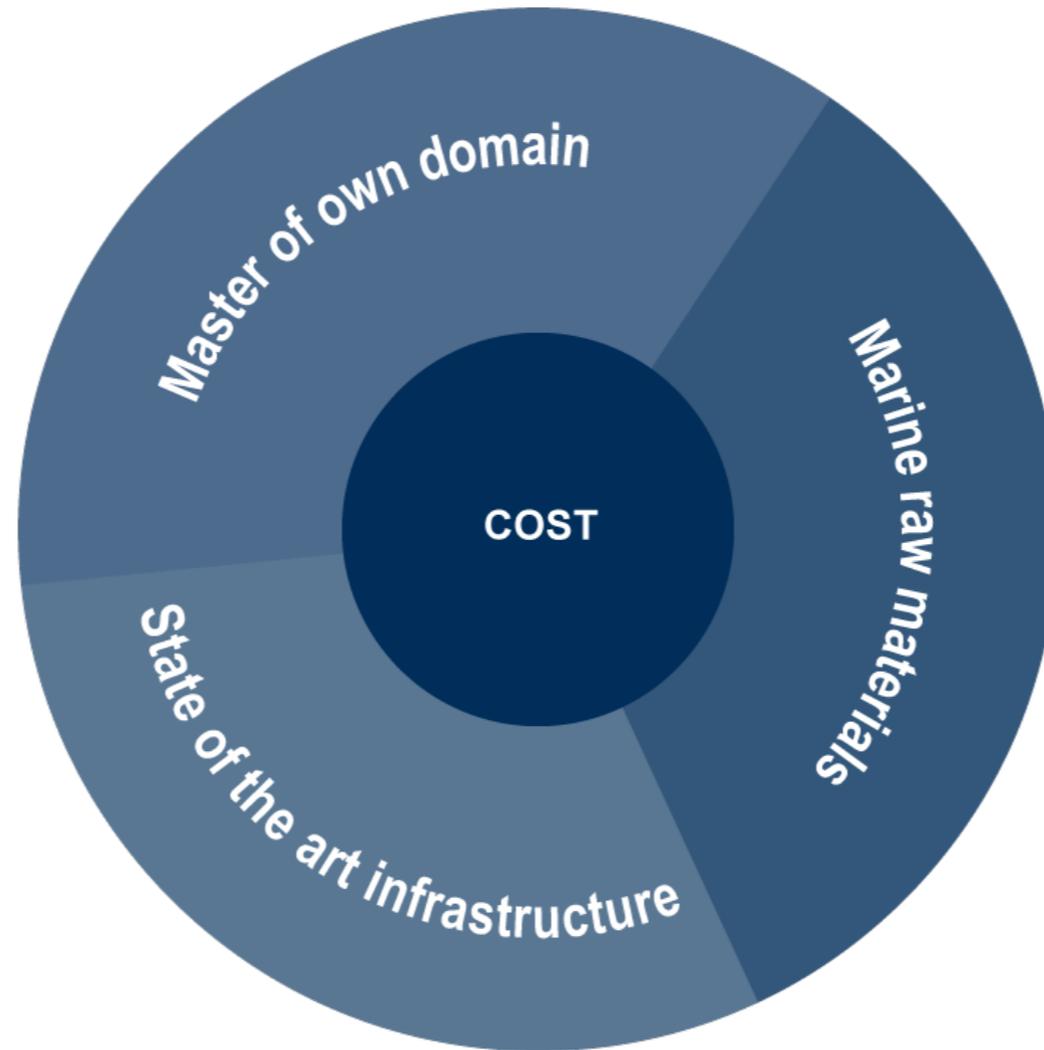
## ***Bakkafrost presentation***

*A world-class company in the salmon industry*

## ***Capital Markets Day***

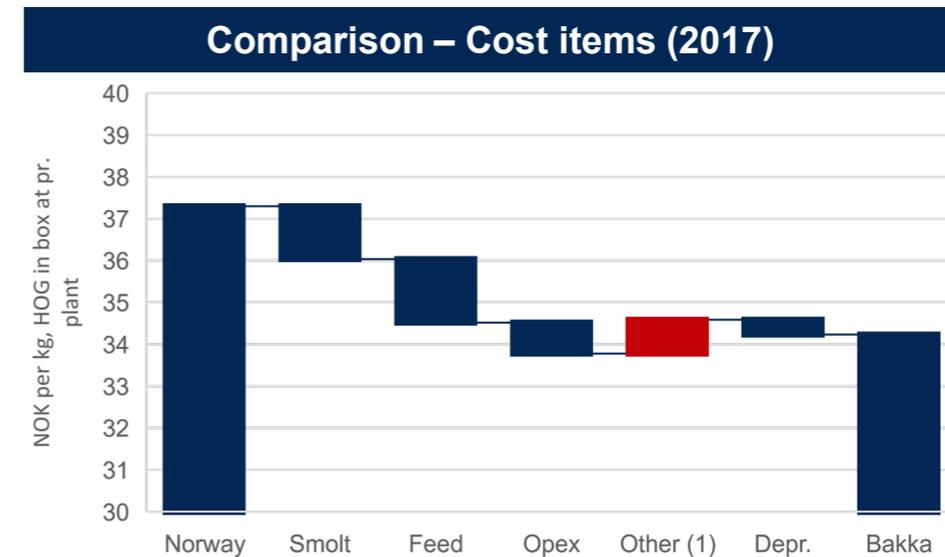
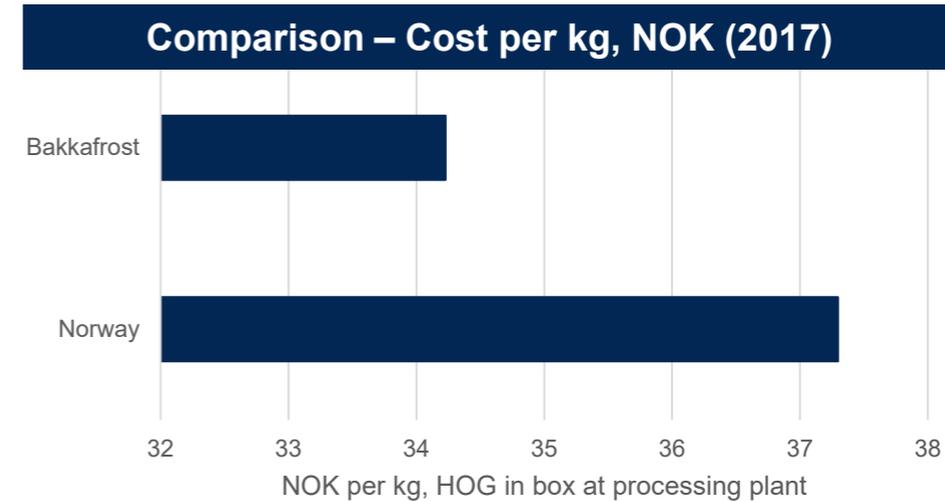
**Cost components**

**Faroe Islands 12 June 2019**



# SIGNIFICANT COST ADVANTAGE

- Costs materially below average level in Norway
- High other costs due to low capacity utilization
  - Wellboats, treatment vessels, processing
- 2018 costs somewhat higher than 2017
  - Isolated mortality incident
  - Adjustment difficulties for new mechanical sea lice method
- 2019 YTD costs significantly improved from 2018
- Well invested infrastructure impacting depreciation
- Good prospects for fixed cost dilution in coming years

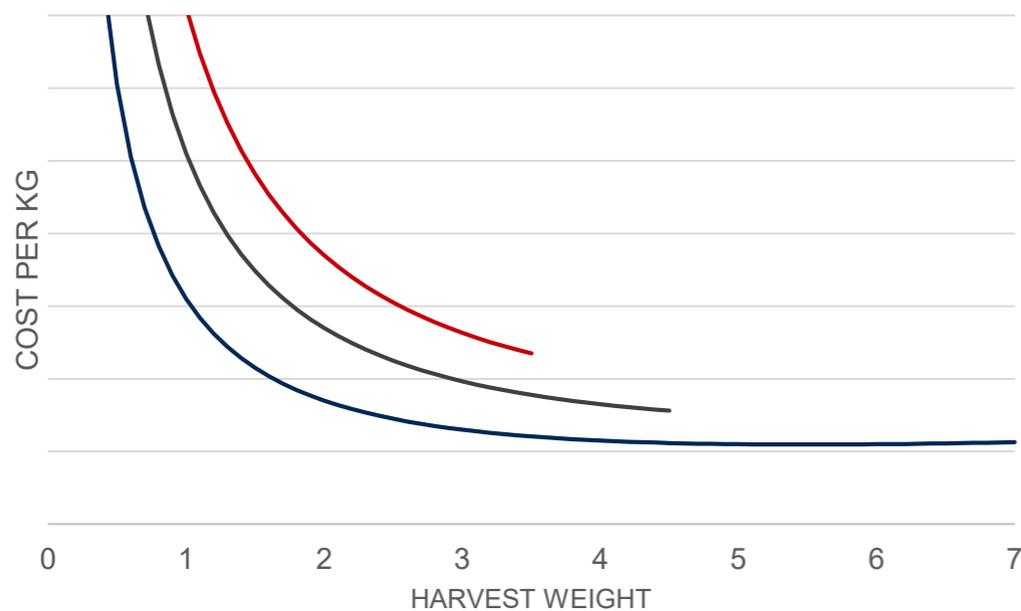


Source: Kontali, Company reports  
 Note: (1) Harvesting, fish transportation and processing/packaging

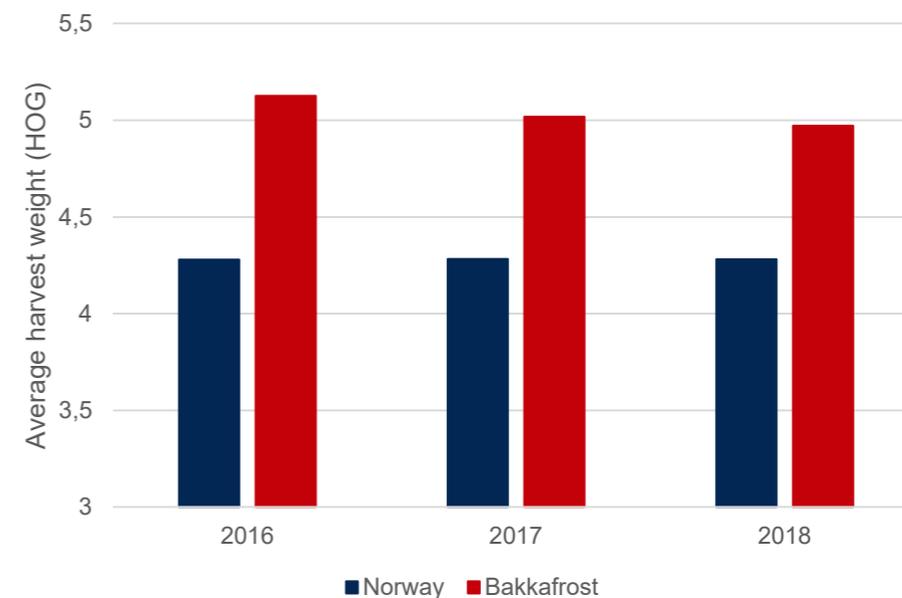
# HARVEST WEIGHT

- Bakkafrost's average harvest weight around 6 kg LWE last five years
- Cost dynamics
  - Declining cost with size of fish

## Cost Dynamics and Weight



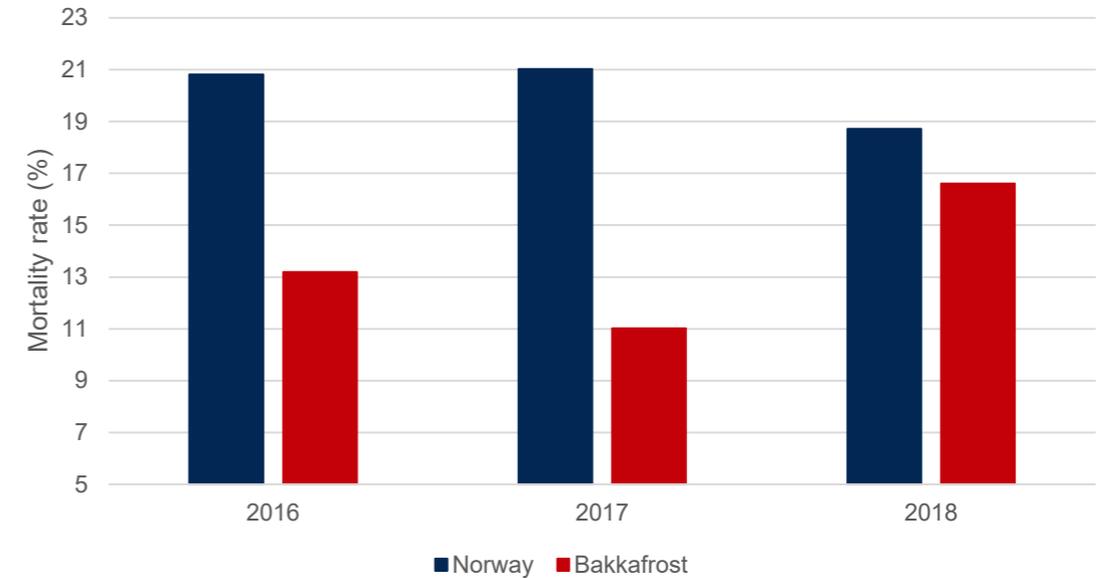
## Harvest Weight (HOG)



# MORTALITY RATE

- Mortality rate has been lower, compared to Norway
- 2018 was a challenging year for Bakkafrost
  - Implementing new treatment methods
  - Extraordinary high mortality in individual farming sites
- Development in 2019 positive

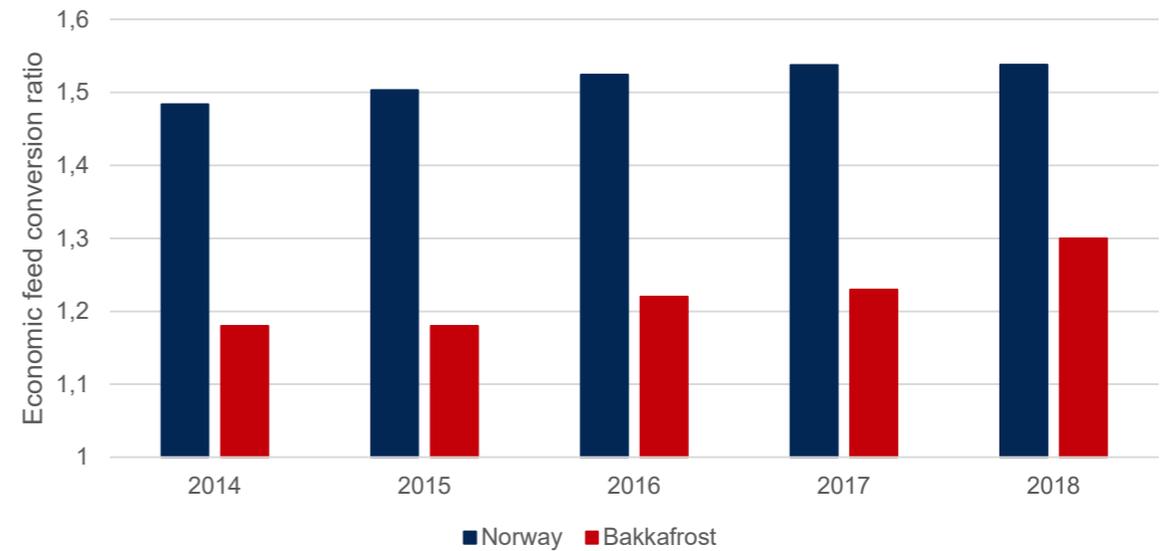
## Mortality Rate



# ECONOMIC FEED CONVERSION RATIO

- Feed conversion ratio around 1.2 and 1.3
- Development in 2017 and especially in 2018 had a negative impact on economical FCR
- Development in 2019 should see economical FCR in a positive direction

## Economic Feed Conversion Ratio





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## ***Bakkafrost presentation***

*A world-class company in the salmon industry*

## ***Capital Markets Day***

**Suðuroy and New Farming Technology**

**Faroe Islands 12 June 2019**

## BACKGROUND NEW LICENCES

- Bakkafrost acquired the company Faroe Farming in 2016
  - Prior to this, Faroe Farming was an associated company of Bakkafrost (49%)
- Due to farming license cap in the Faroe Islands, Bakkafrost had to relinquish one license (Hov)
- In 2018, Bakkafrost got licenses to all fjords in Suðuroy, but had to relinquish other licenses
- Suðuroy was an underdeveloped area with unused potential
- Bakkafrost is now sole operator in Suðuroy



### VALUE CHAIN



### Acquired assets in 2016

- Farming site Porkeri A-19
- Farming site Froðba A-15
- Farming site Hov A-18
  - Hov was chosen to be relinquished because of license cap
- Harvest facility was rented
- Old fish processing facility not in use

### Investment and changes until now

- Farming site Hov A-18 in operation again
  - Other farming site relinquished instead of Hov A-18
- Farming sites updated, e.g.
  - Move farming sites to outskirts of fjords
  - New feeding barges
  - 200 meter circumference cages
- Updated old fish processing facility to new harvest facility
  - Investment ~ DKK 50 million

# PLANNED INVESTMENTS IN SUÐUROY

- New farming site in Hvalba A-23 ~ DKK 50-70 million
  - No prior farming operation
  - First smolt release in summer 2019
  - First harvest expected in 2020
- New hatchery at Ónavík (Smolt) ~ DKK 250-300 million
  - Annual capacity of 3.0m 500g smolt



\*) Hov A-18 started operation in 2018

### VALUE CHAIN



HARVEST



HATCHERY



FARMING SITE

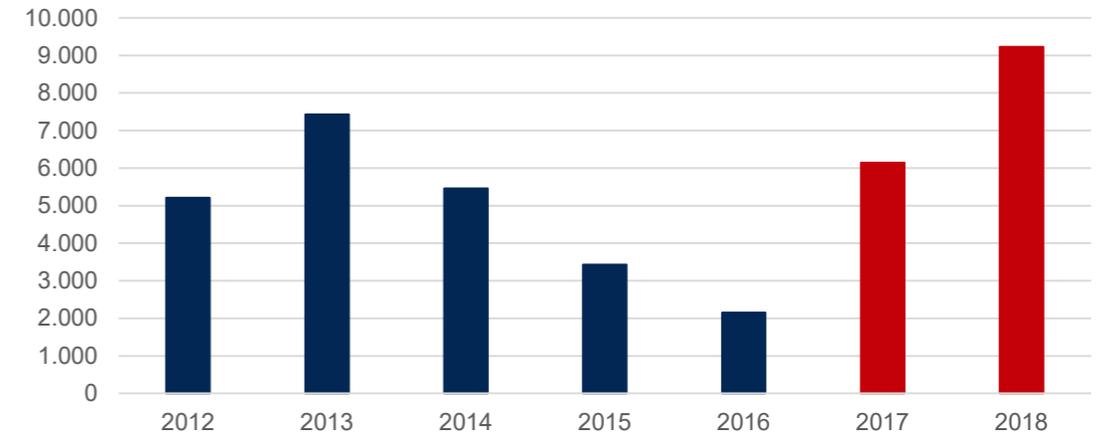


PLANNED

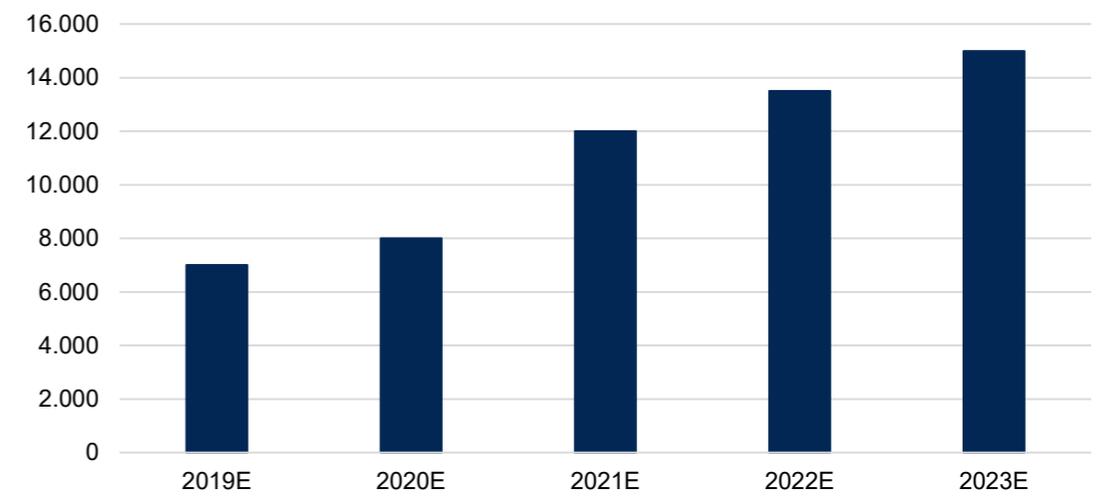
# HARVEST CAPACITY

- Four farming sites operational in 2019
  - Froðba A-15
  - Porkeri A-19
  - Hov A-18
  - Hvalba A-23
- Implementing large smolt strategy in Suðuroy
- Suðuroy has capacity to harvest ~ 15 thousand tonnes annually in 2023

**Harvest in Suðuroy tonnes HOG**  
[red = after Bakkafrost acquisition]



**Harvest capacity in Suðuroy – tonnes HOG**



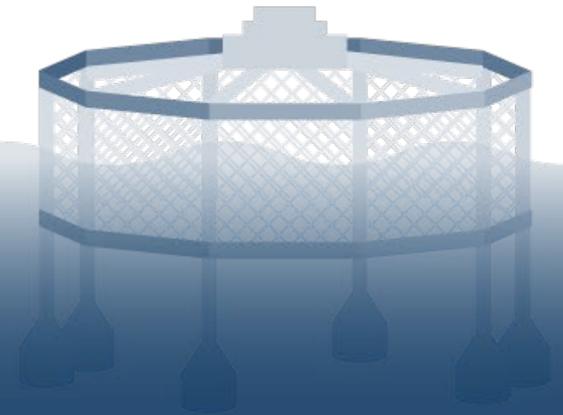
**ON SHORE PRODUCTION**



**IN SEA**  
CLOSED/SEMI CLOSED  
SYSTEMS

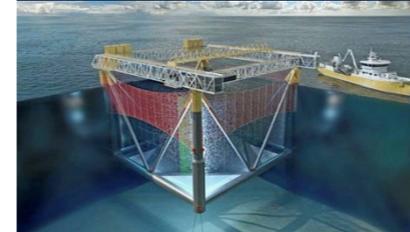


**OFFSHORE**



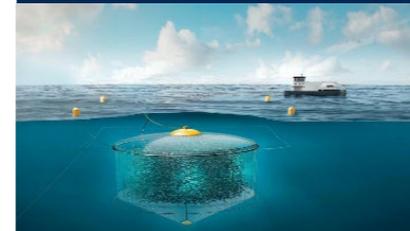
- Large ongoing R&D efforts in the industry
  - Incentive system in Norway “sponsoring” R&D efforts
  - 11 significant projects approved for full scale trials
  - Total investment estimate of MNOK 7,000
- Bakkafrost is following the developments carefully
  - Prepared to adopt new technology

## Semi-closed production in Sea



2 individual projects  
6kt licence capacity  
MNOK 800 investment

## Subsea farming



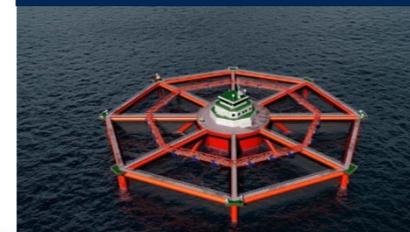
1 individual project  
780t licence capacity  
MNOK 80 investment

## Closed production in Sea



4 individual projects  
9kt licence capacity  
MNOK 1,200 investment

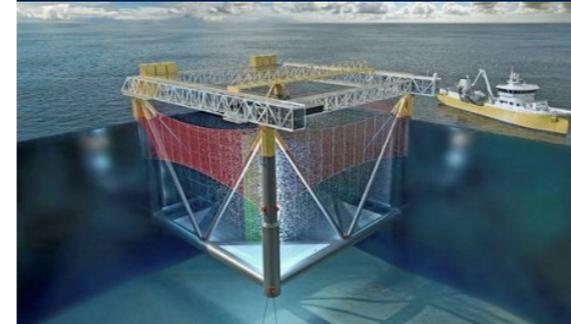
## Offshore farming



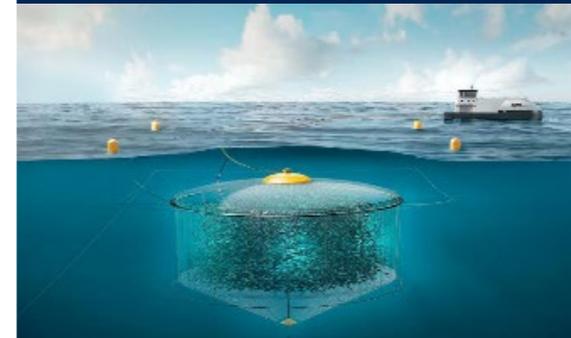
4 individual projects  
35kt licence capacity  
MNOK 4,900 investment

- Salmon farming currently carried out in protected waters
  - Global supply constraint with “open technology”
  - Biological carrying capacity reached/exceeded
- Aim of unlocking production capacity with new technology
- Main purpose closed production
  - Reduce exposure to surrounding threats
  - Reduce/eliminate negative effects on environment
- Unlocking production capacity justifies significant increase in
  - Upfront investments
  - Operating costs
- No proven technology to date
  - Excited to follow large-scale trials in coming years

Semi-closed production in Sea



Subsea farming



Closed production in Sea



## TECHNOLOGIES DEVELOPED FOR OFFSHORE FARMING

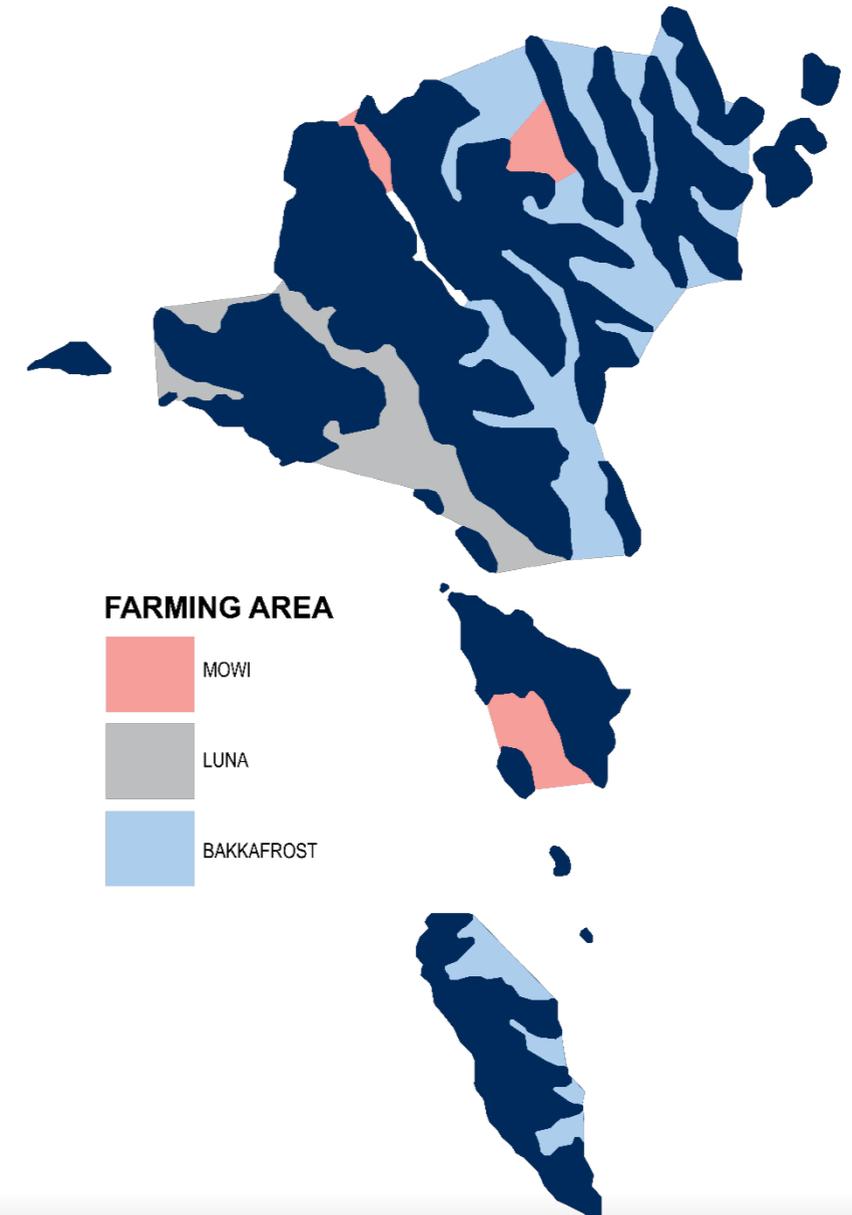
- Idea of moving production from protected to open waters
- Vast unutilized capacity in waters matching criteria
  - Biological conditions
  - Seawater temperatures
- Significant challenges, compared to traditional technology
  - Waves and current
  - Transportation requirements
  - Safety requirements
  - Investment and opex requirement
- Method replicates the life of a wild salmon
  - Smoltification in fresh water
  - Early grow out in protected waters
  - Later grow out in the ocean

Offshore farming





- Proven technology for protected waters can be adopted on an opportunistic basis
- Bakkafrost has the best conditions to produce strong fish ready to meet ocean environment (offshore)
- Infrastructure prepared for significant increase in throughput
- Sources of capital readily available





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## ***Bakkafrost presentation***

*A world-class company in the salmon industry*

## ***Capital Markets Day***

**Investment programme**

**Faroe Islands 12 June 2019**

# SUMMARY OF INVESTMENTS SO FAR

## Fishmeal, fish oil and fish feed

- Fishmeal, oil and feed inventory buildings (2014-2017)
- Storage tunnels (2017)
- Salmon meal and oil factory (2018)

## Hatcheries

- Expansions of Norðtoftir and Viðareiði (2013-2016)
- New hatchery Strond (2016-)

## Farming

- Cages, nets, land bases, catamarans and feeding barges etc.

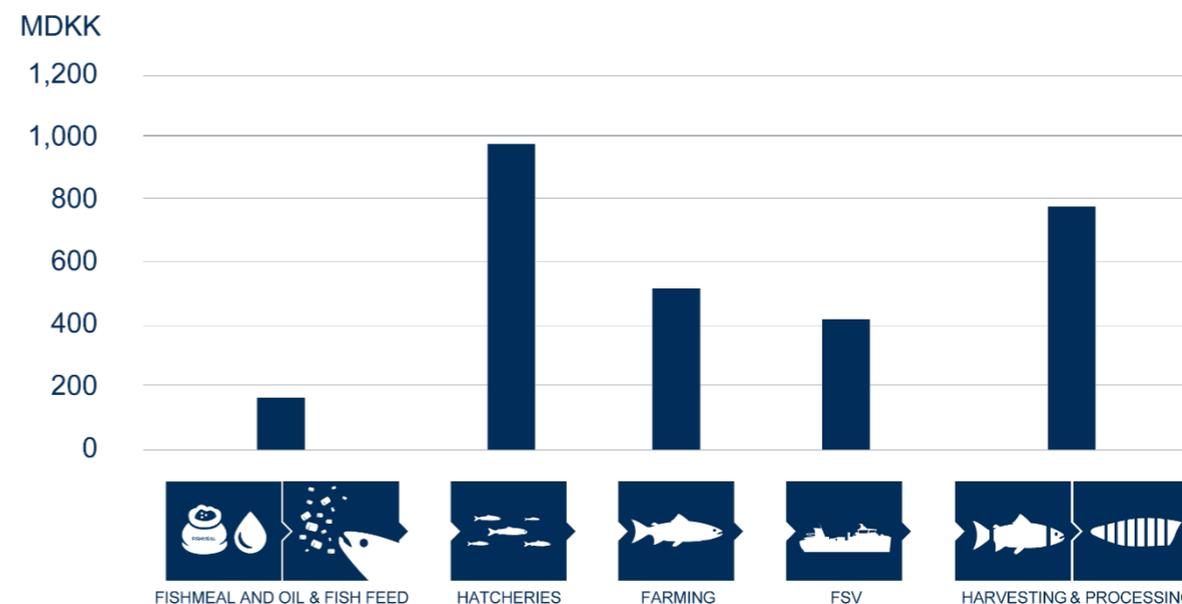
## FSV

- Hans á Bakka (2015), Martin (2016) and Róland (2017)

## Harvesting and processing

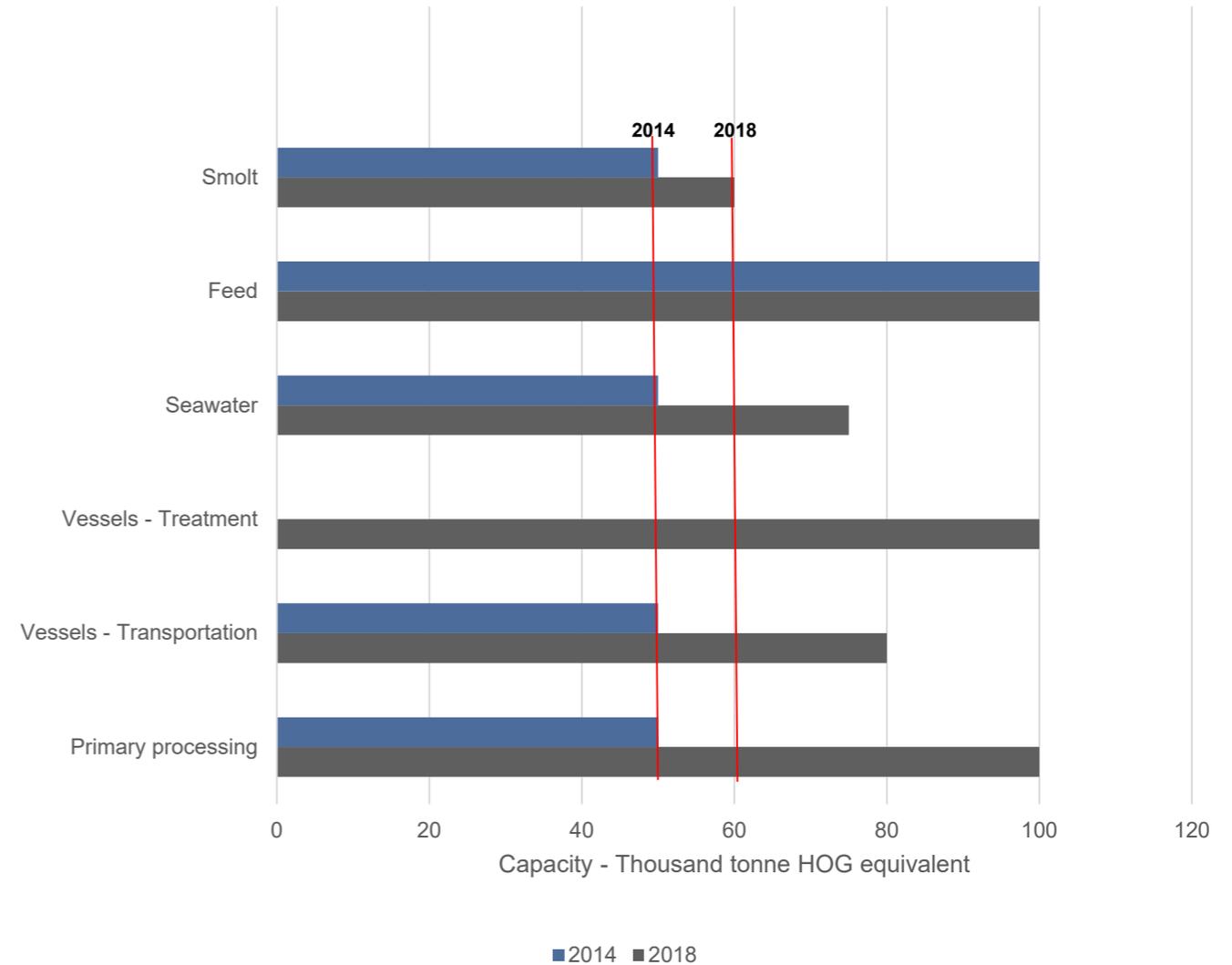
- Glyvrar, merging 7 factories into 1 (2014-2017)
- Vágur, Suðuroy (2018)

## Investment in value chain from 2013 to 2018



# CURRENT CAPACITY CONSTRAINTS

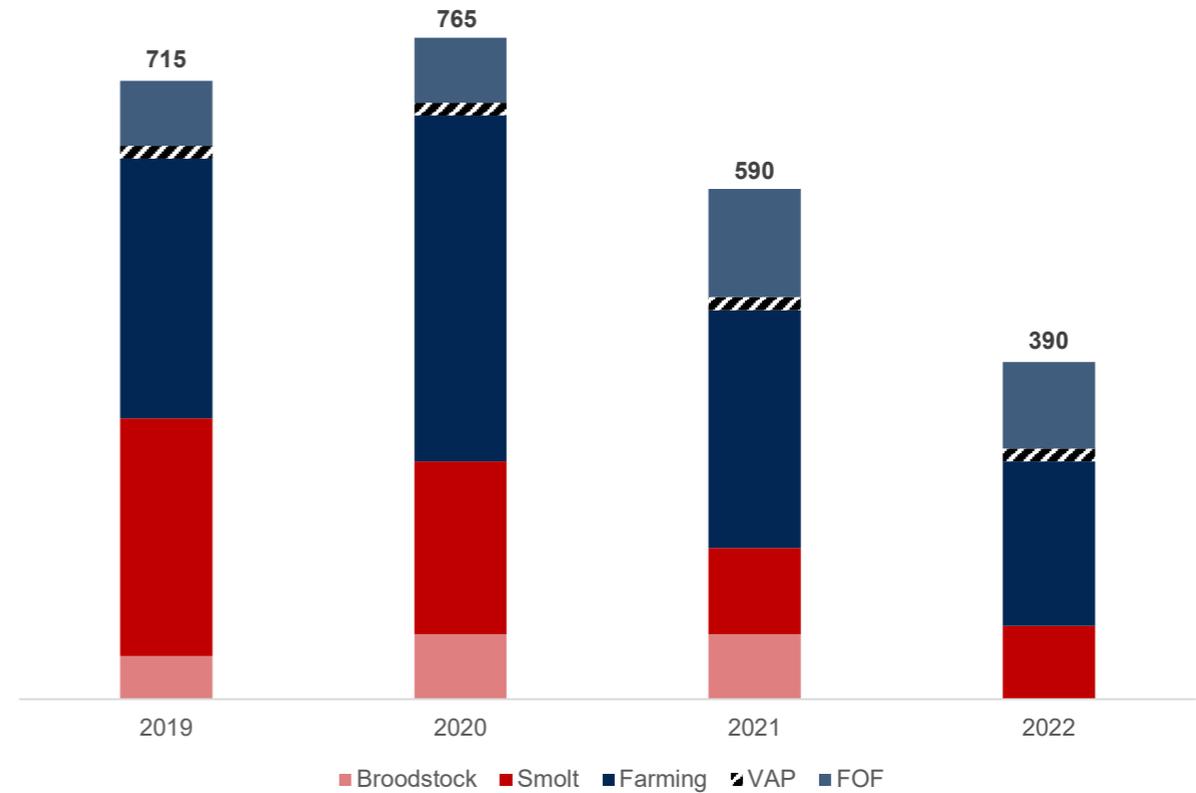
- Summary of main investments 2014-2018
  - First stage of major smolt investment programme
  - Expansion of seawater capacity
    - New seawater licences in Suðuroy
    - Release of capacity through large smolt strategy
  - Acquisition of 2 multiskill service vessels
  - Acquisition of wellboat
  - Commissioning of Glyvrar processing site
- Large smolt capacity current bottleneck
- Material free capacity in all other parts of infrastructure



# SUMMARY OF PLANNED INVESTMENTS

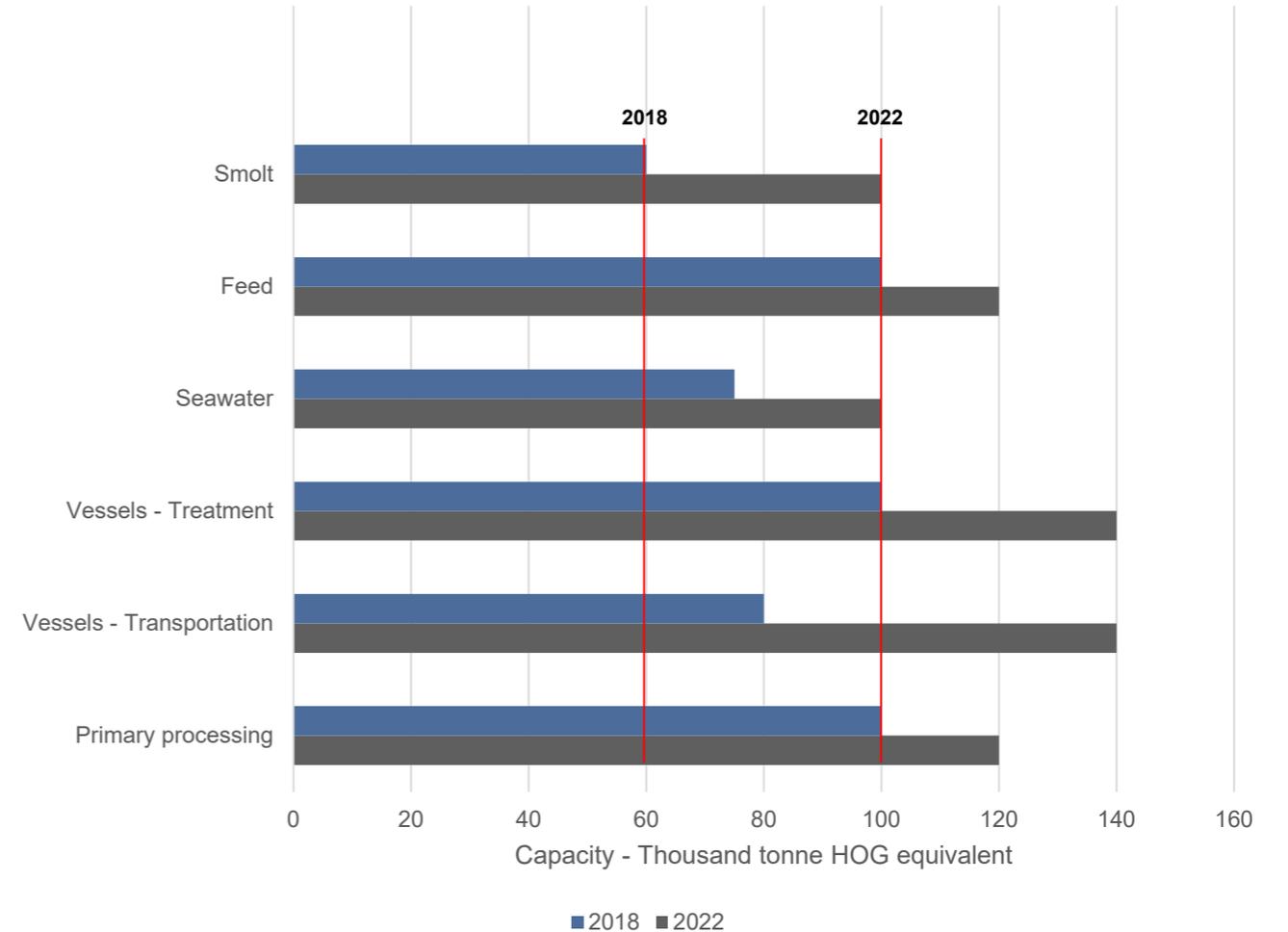
- Hatcheries
- Broodstock
- Upgrade fish feed factory
- New farming sites
- Transportation and treatment vessel
- R&D projects

## Investments 2019 - 2022



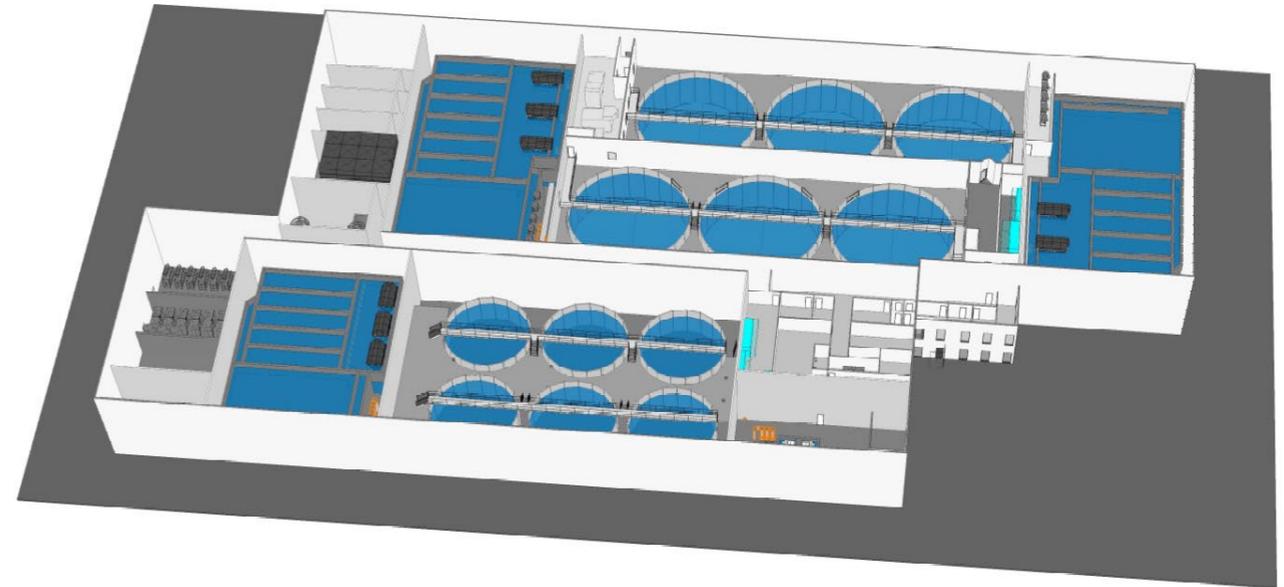
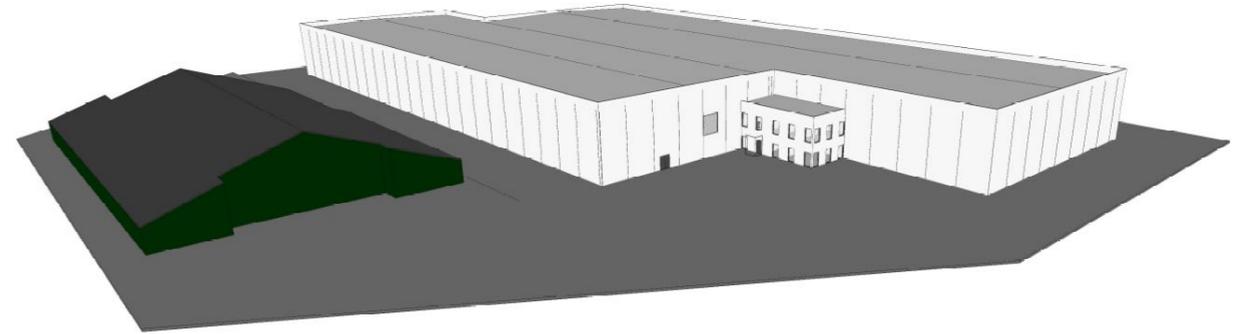
# IMPACT ON FUTURE CAPACITY CONSTRAINTS

- Investment focus
  - Large smolt capacity
  - Vessels – Transportation
- Bottleneck shift from smolt to seawater sites
- Infrastructure rigged for application of new technology



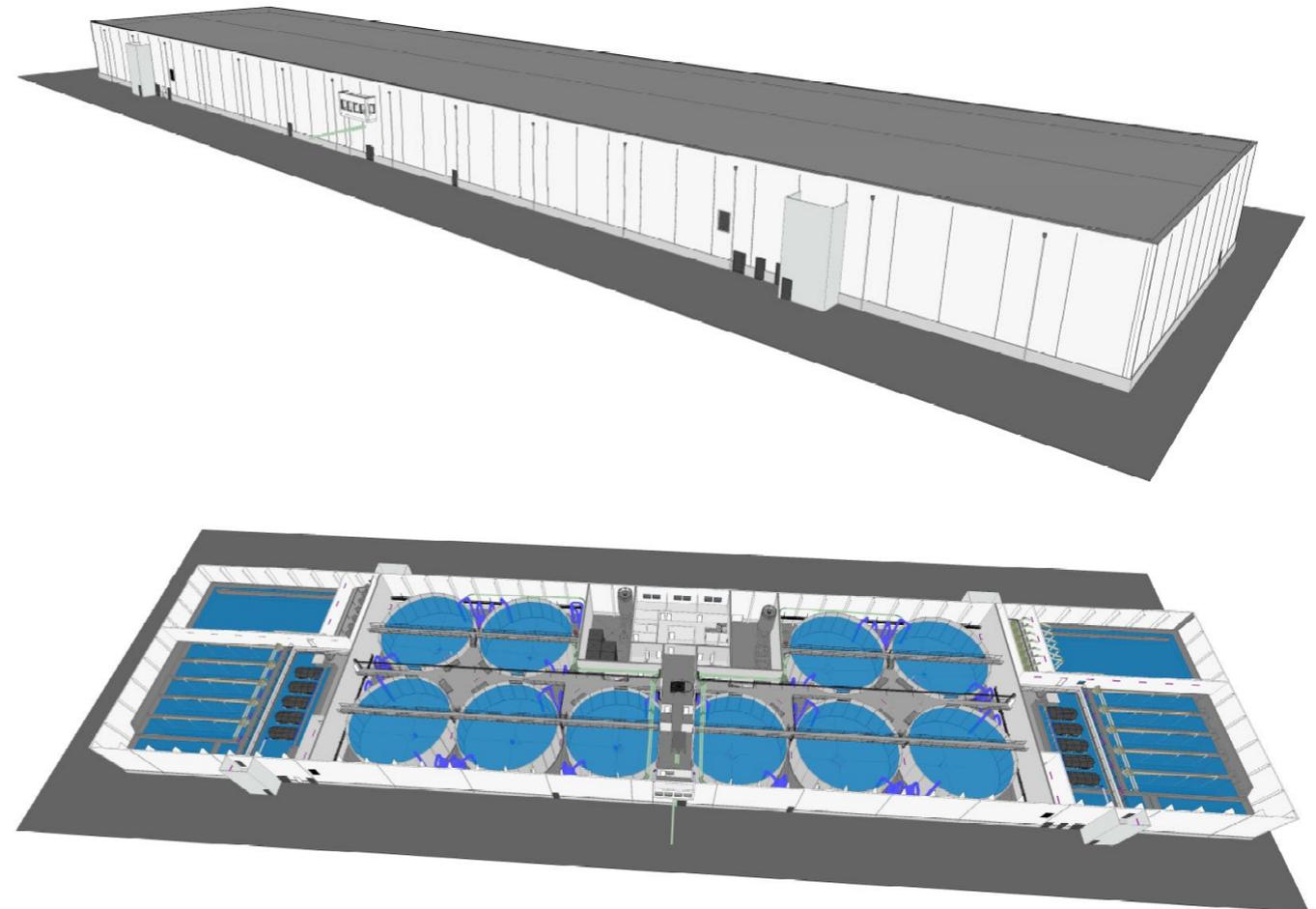
# GLYVRADALUR - EXPANSION

- Glyvradalur
- Investment ~ DKK 200 million
- Expansion of ~ 9,750 m<sup>3</sup>
- Capacity after expansion ~ 11,000 m<sup>3</sup>
- Expansion will be in growth section
- Construction is expected to start in 2019
- Shorter start-up phase than new projects
- First smolt release expected in 2021

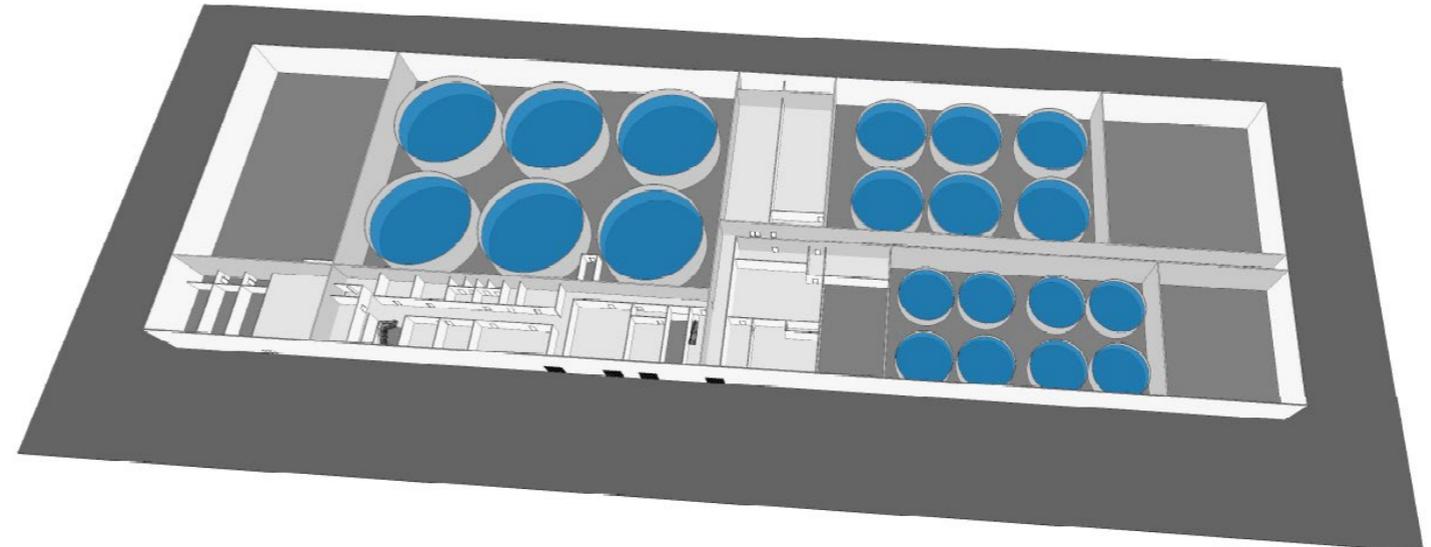


## NORÐTOFTIR - EXPANSION

- Norðtoftir
- Investment ~ DKK 240 million
- Expansion of ~ 12,000 m<sup>3</sup>
- Capacity after expansion ~ 17,500 m<sup>3</sup>
- Expansion will be in growth section
- Construction is expected to start in 2019
- Shorter start-up phase than new projects
- First smolt release expected in 2021



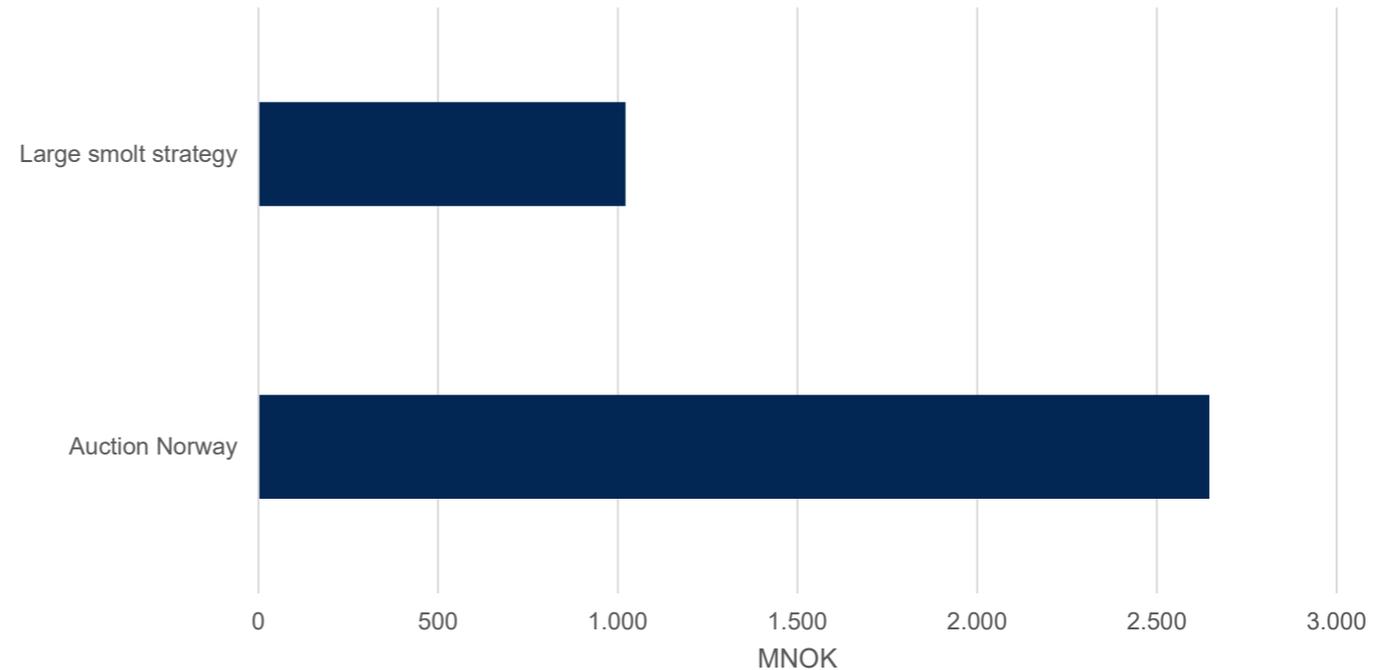
- Ónavík, Suðuroy
- Investment ~ DKK 300 million
- ~ 12,000 m<sup>3</sup>
- New facility investment more expensive than expansion:
  - Administration part
  - Start feeding
- Around same production as Viðareiði
- Construction is expected to start in 2020
- Longer start-up phase than expansion projects
- First smolt release expected in 2023



# COST OF LARGE SMOLT STRATEGY VS. LICENCE AUCTION NORWAY

- Large investments associated with large smolt strategy
- A number of benefits, including capacity increase
- Harvest increase of 20k tonnes
  - Auction Norway MNOK ~2,500
  - Large smolt MNOK ~1,000

20,000 tonne HOG – Large smolt strategy vs. auction prices Norway



# FISHMEAL, FISH OIL AND FISH FEED

- Increased fishmeal and fish oil capacity to support marine index
  - Silos and storage
  - Production facility
- Increased fish feed capacity and flexibility
  - New feeding line



- Hvalba A-23
  - New land base
  - Cages, feeding system etc.
  - Feeding barge
  - Outskirt of fjord
- Hov A-18
- Nes A-85
- Possible relocation of existing farming sites within fjords
  - Gøtuvík A-47
  - Haraldssund A-72



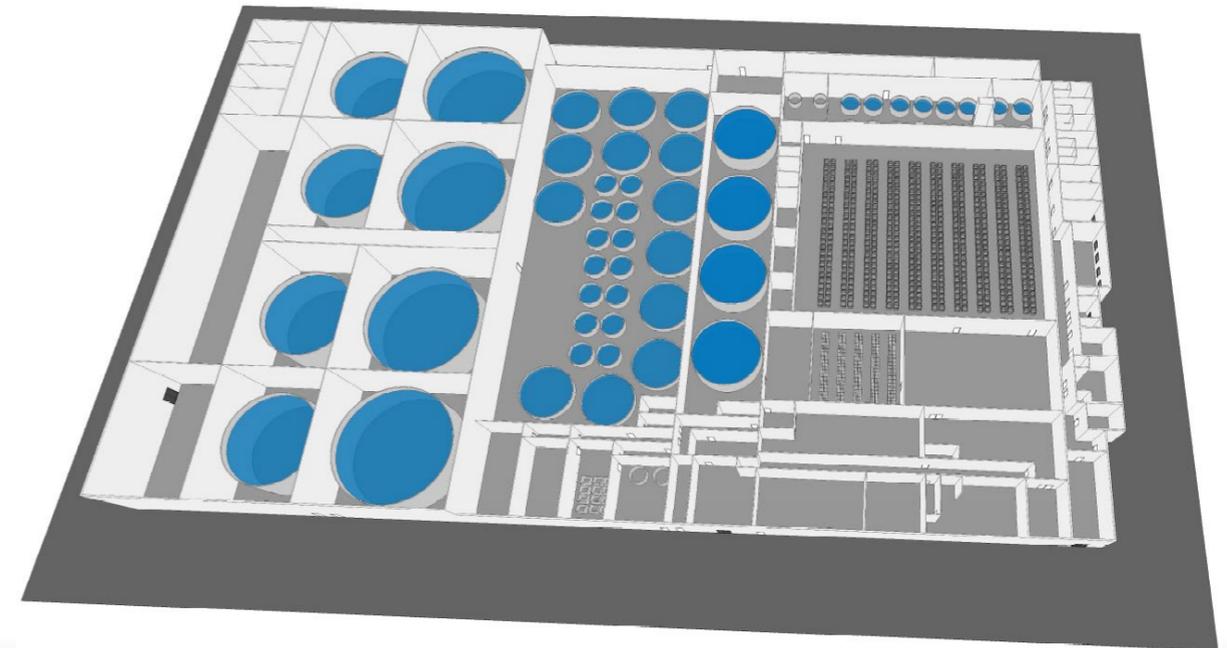
- New live fish carrier
- Investment ~ DKK 300-350 million
  - 6,000 m<sup>3</sup>
  - Freshwater treatment equipment
  - Higher daily deliveries to processing plant, due to higher production (waiting cages not allowed in the Faroe Islands)
- Hans á Bakka (existing live fish carrier)
  - Smolt transportation
  - Bath treatment
- Offshore ready in marine department
  - 2 x live fish carriers (6,000 m<sup>3</sup> and 3,000 m<sup>3</sup>)
  - 2 x farming service vessels with DP



- Breeding programme based on gene pool of local wild salmon strain
  - Adaptability to local biology
  - Product differentiation
  - Veterinary control
- Support branding strategy
- Independence of external suppliers



- Skálavík
- Capacity to produce 30 million roe per year
- Ready to upscale production to 50 million roe per year
- Location in remote area with no farming operation





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## ***Bakkafrost***

*A world-class company in the salmon industry*

## ***Capital Markets Day***

**Sustainability**

**Faroe Islands 12 June 2019**



Healthy Business

**2000⚡**

Biogas plant providing 2000 homes renewable electricity



Healthy People

**45%↓**

Reduction in LTI (in 2018)



Healthy Business

**86%**

ASC Certification (2019 harvest)



Healthy Environment

**99.7%**

Water recirculation in hatcheries



Healthy Communities

**3M DKK**

Investment in natural sciences



200 years ago

  
1 billion

2019

  
7.7 billion

2050

  
9.7 billion



By 2050 need 3 planets to sustain consumption

By 2050 need 70% more protein

Science says net zero carbon emissions by 2050 needed to avoid 'catastrophe'

**MUST SHIFT TO MORE EFFICIENT FORMS OF PROTEIN**

SALMON FARMING | CARBON FOOTPRINT



**0.60**

**Farmed Atlantic  
Salmon**



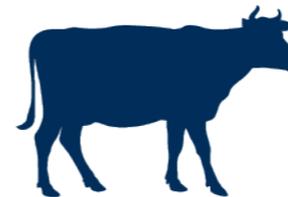
**0.88**

**Chicken**



**1.30**

**Pork**



**5.92**

**Beef**



No data

**Lamb**

Our vision is to enable healthy living for millions of people globally

Healthy business



★ To grow efficiently and responsibly

Healthy people



★ To strengthen our human capital

Healthy salmon



★ To meet and exceed leading standards

Healthy environment



★ To reduce our environmental impact

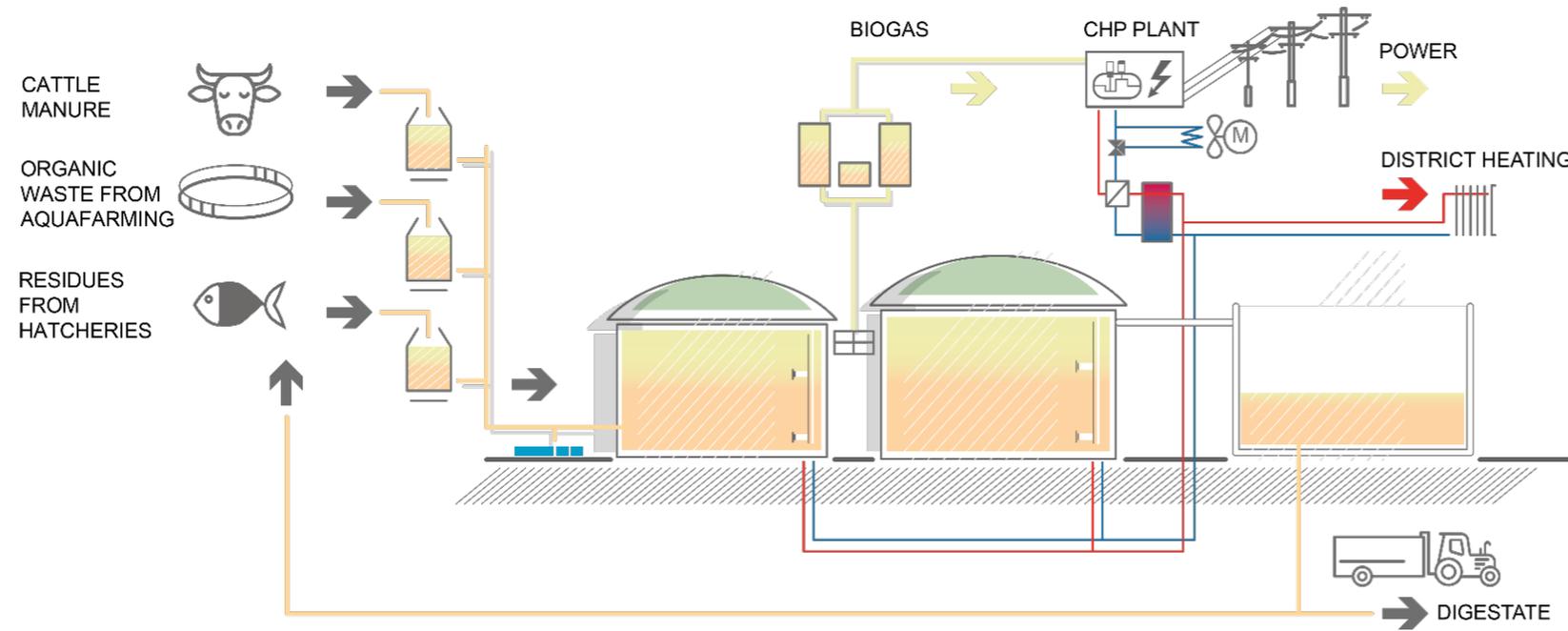
Healthy communities



★ To add value and strengthen community relationships



# BIOGAS ENERGY SYSTEM



ORGANIC WASTE  
**90-100,000** TONNES P/A

LIQUID FERTILIZER  
**40-45,000** TONNES P/A

RENEWABLE ENERGY  
**400** HOMES HEATING  
**1,900** HOMES POWER

CO<sub>2</sub> SAVING  
**11,000** TONNES P/A



## Sustainability has become a key factor for consumers

- 71%** of consumers in major European markets say they trust retailers to only offer fish from sustainable sources
- 69%** of UK consumers say they would be more likely to buy fish from a brand/retailer that provided a sustainability rating on-pack

Mintel

## Increased loyalty and value

- 94%** of consumers are likely to be loyal to a brand that offers a complete transparency
- 73%** of consumers say they would be willing to pay more for a product that offers complete transparency

2016 Label Insight Transparency ROI Study

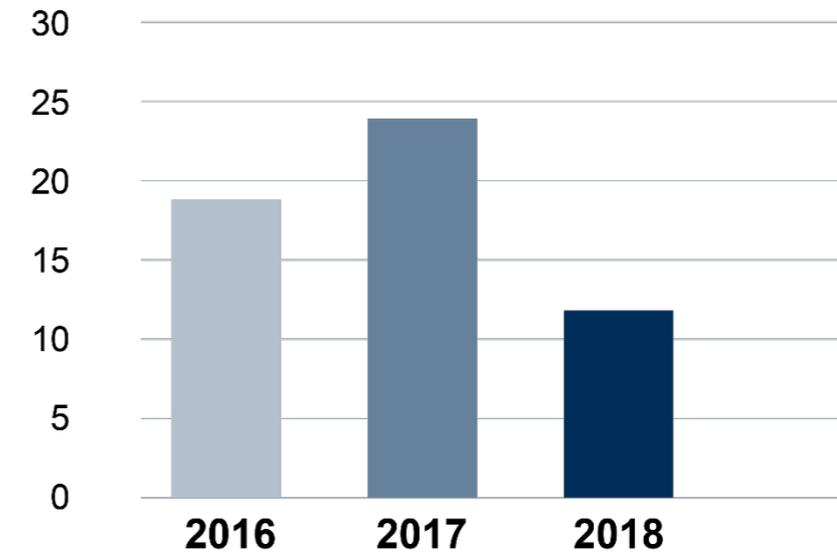
## Bakkafrost customers

- 8.24 / 10** Bakkafrost Net Promoter score
- 97.3%** satisfied more than satisfied or very satisfied with product quality

Bakkafrost Customer Research 2018

- Health, safety and wellbeing
- Highly unionized workforce
- Good labour conditions
- Investment in training

## Lost Time Injury Rate Faroe Islands



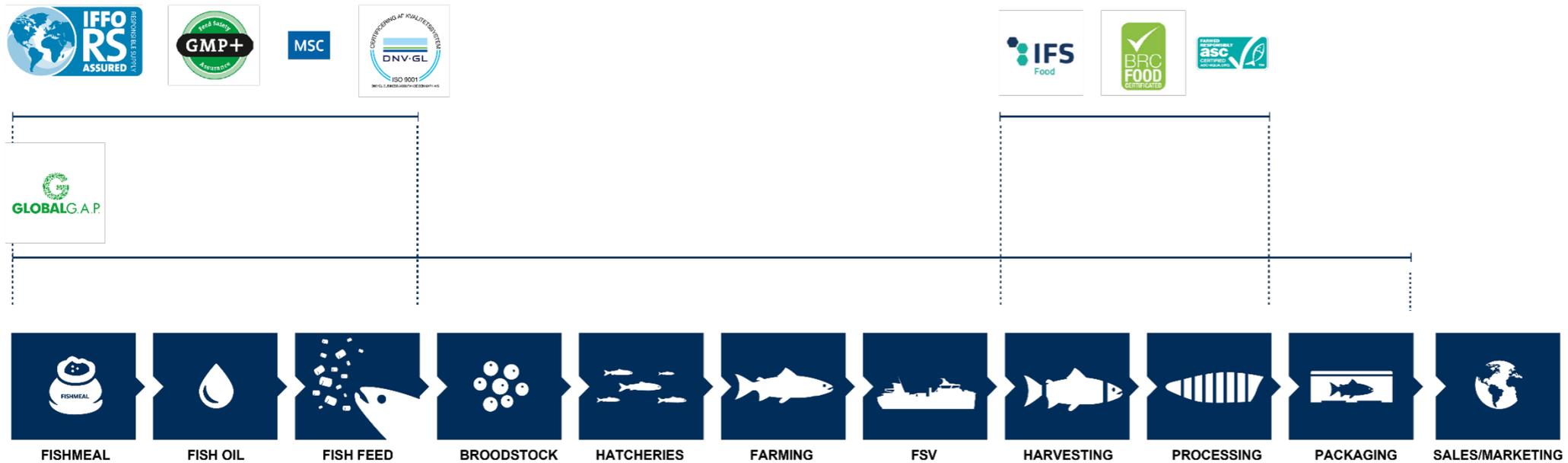
(Total number of lost time injuries/total number of working hours) x 1,000,000.

Includes number of injuries at work and work-related, leading to unfitness for work and absence from the next working day or working shift between January – December.



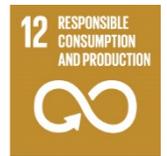
# HEALTHY SALMON

- No antibiotics
- Move towards non-medicinal treatment of sea lice
- Certified sustainable marine content
- Unique nutritional profile
- 86% 2019 harvest expected to be ASC certified





- Industry-leading feed-to-food ratio
- Sustainable meal, oil and feed production
  - Certified marine ingredients
  - Non-GMO
  - Pro-terra soy
  - REDcert
- Efficient buildings
- Packaging review
- Minimizing impact on fjords



- Largest employer with more than 1k jobs
- DKK 1.579 million in taxes since 2010
- Employed people across 24 municipalities in the Faroes
- Updated community investment policy and strategy
- DKK 10 million Healthy Living Fund announced
- 3-year investment into natural sciences



- 2017 1st Report - Oslo Børs CR Guidance
- 2018 2nd Report - Global Reporting Initiative
  
- GSI collaboration, sharing best practice solutions
- UN Global Compact (Ocean Action Business Platform)
- Ocean Disclosure Project



How it works

About us

News



## Bakkafrost

Bakkafrost is the leading producer of top quality salmon from the Faroe Islands. We offer a wide range of healthy and nutritious salmon products from our own facilities. The cool and steady sea temperatures of the North Atlantic Current in the Faroe Islands provides perfect conditions for raising healthy and robust Atlantic salmon.



- Healthy Living Plan focused on:
  - Managing sustainability risks: for example biosecurity, operating within planetary boundaries;
  - Capitalizing on opportunities: for example getting price premium from quality and brand, and cost benefits through efficiencies; and
  - Creating 'system value'.



**BAKKAFROST**

ESTABLISHED 1968





SUPERIOR  
QUALITY  
**SALMON**



## ***Bakkafrost presentation***

*A world-class company in the salmon industry*

## ***Capital Markets Day***

**Vessels and Processing Plant**

**Faroe Islands 12 June 2019**

- **Hans á Bakka – Live Fish Carrier**

*Length: 75.80 m – Breadth: 16.00 m - Fish holds: 3,000 m<sup>3</sup>*

Hans á Bakka is mainly used for transport of live salmon to the processing plant in Glyvrar and can carry up to 450 tonnes wfe.

Hans á Bakka is also equipped for freshwater treatment of salmon.



- **Martin – Farming Service Vessel**

*Length: 73.40 m – Breadth: 16.63 m - Gross tonnage: 2,466 t*

Martin is treating salmon for lice and is also used in other farming operations, such as towing and anchor handling



- **Róland – Farming Service Vessel**

*Length: 71.99 m – Breadth: 16.01 m - Gross tonnage: 2,168 t*

Róland is treating salmon for sea lice and is also used in other farming operations, such as towing and anchor handling.

Róland is also cleaning nets with two ROV net-cleaners.



- **In addition Bakkafrost has 3 smaller Live Fish Carriers:**

Vesthav      mainly used for transport of live salmon to the processing plant in Suðuroy.

Stígabrúgv    used for transport of smolt.

Víkingur      used for transport of smolt.

# PROCESSING PLANT - GLYVRAR

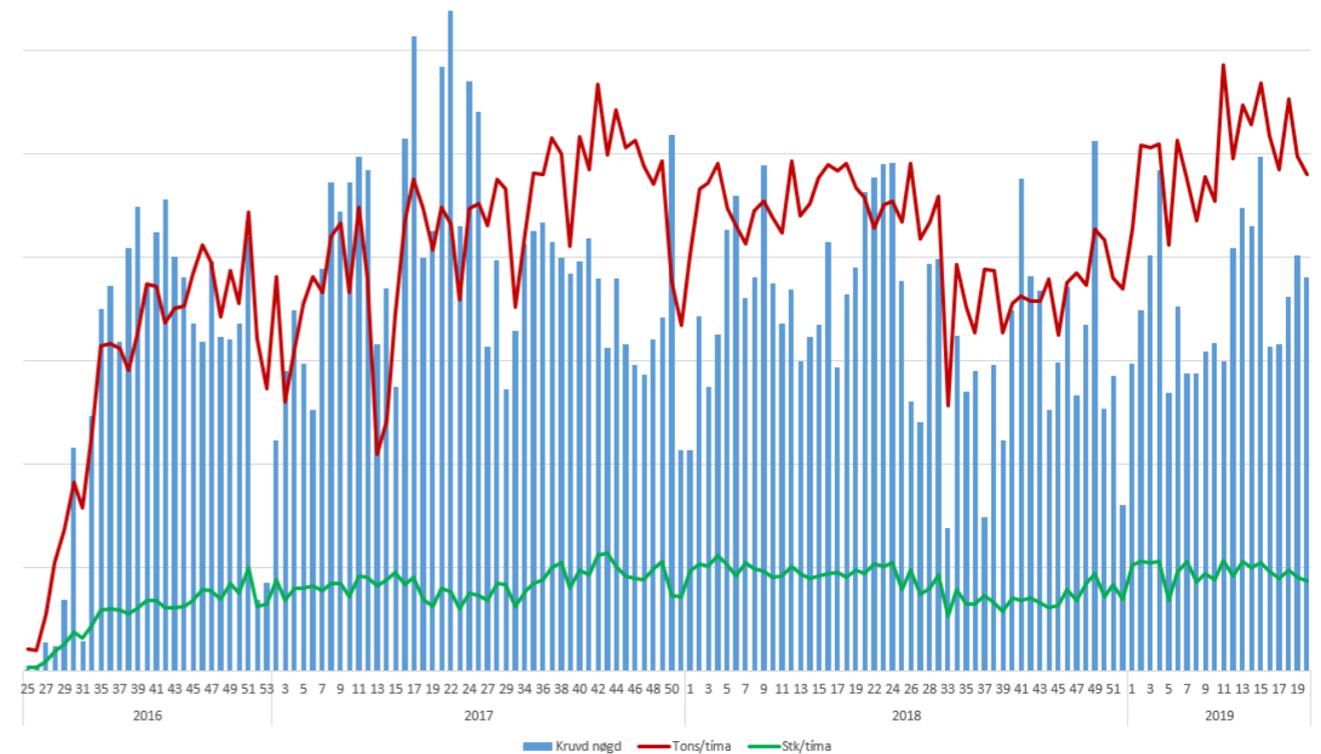
- The plant 23,500 m<sup>2</sup>
- Capacities per day:
  - Receiving 450 tonnes LW
  - Gutting 375 tonnes GW
  - Filleting 160 tonnes
- 100,000 tonnes through Harvest per year



# COST SAVING AND SYNERGIES ACHIEVED

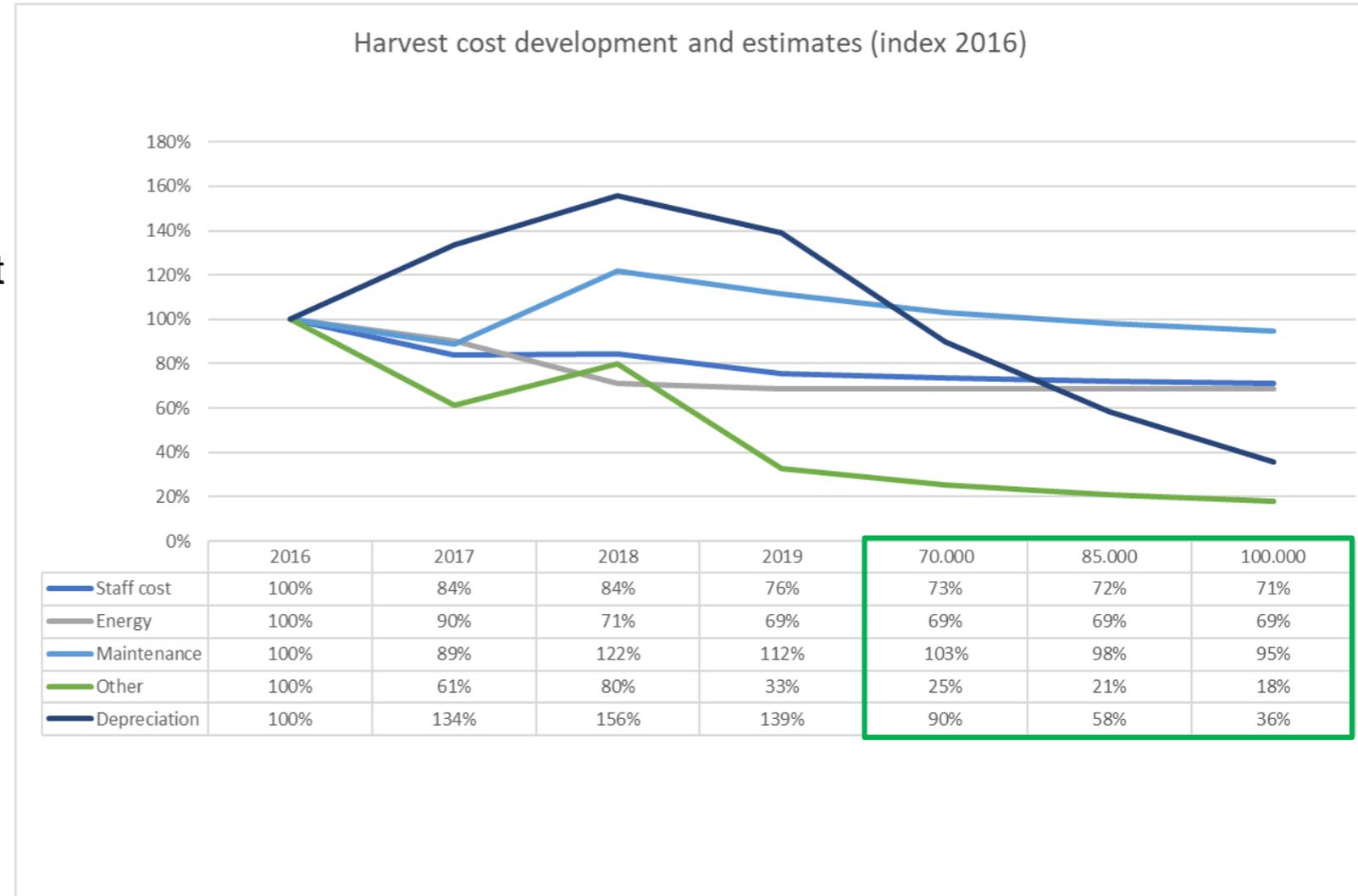
- Long ramp-up time for the production
- Bottlenecks have been identified and handled
- New stun & bleed system installed
- Pallet robot system further automated
- Synergies from integrated production

Harvest productivity per week



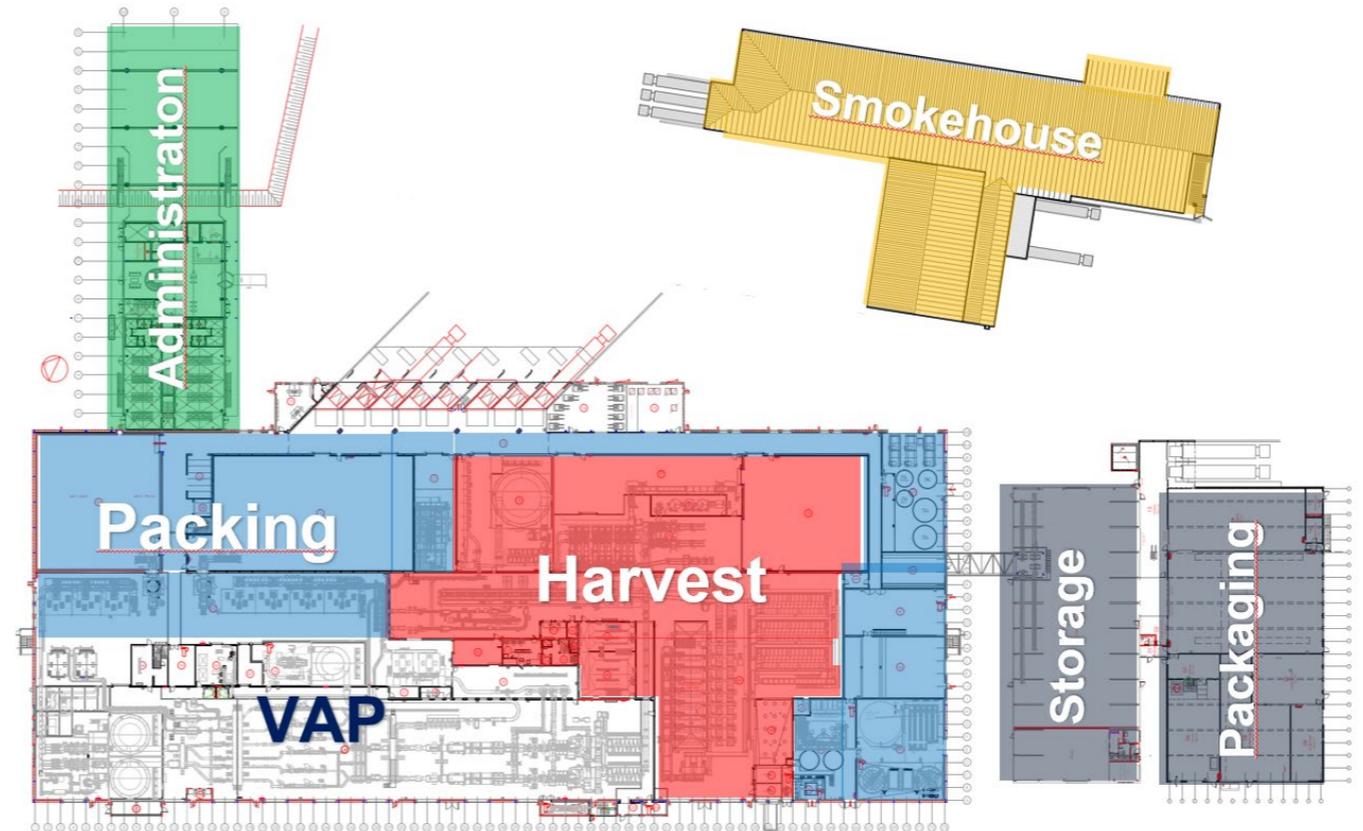
# FIXED COST DILUTION POTENTIAL

- Currently high costs per kg
  - Low utilization of plant
  
- Significant potential through higher throughput
  - Staff costs
  - Maintenance
  - Other
  - Depreciation



# OBJECTIVES

- Capacity
- Efficiency
- Flexibility
- Quality
- Meet future demands
- Minimize biological risk

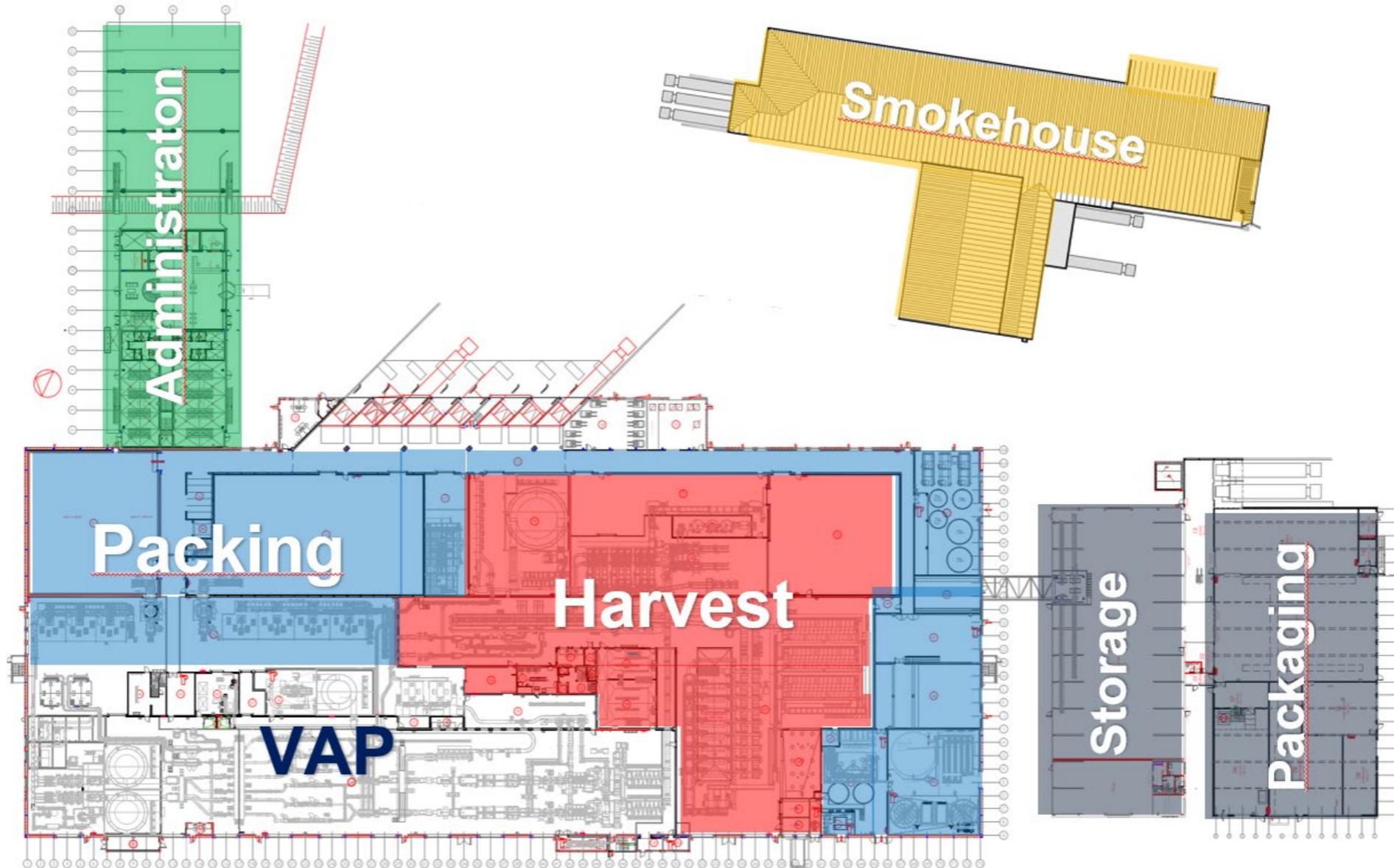


# VALUE ADDED PRODUCTS

## ABILITY TO MEET CUSTOMER REQUIREMENTS

- Good flexibility to produce finished products demanded by the market
  - Fresh and frozen natural products
- From live to finished quality products within 4 hours
  - Sub chilling
  - Various types of packaging
  - Retail and catering
  - Highest productivity
- State of the art equipment
  - 30 – 35,000 tonnes of raw material / year
- Lowest cost of production per unit
- High flexibility and multi product capability







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SUPERIOR  
QUALITY  
**SALMON**



## ***Bakkafrost presentation***

*A world-class company in the salmon industry*

## ***Capital Markets Day***

**Market**

**Faroe Islands 12 June 2019**

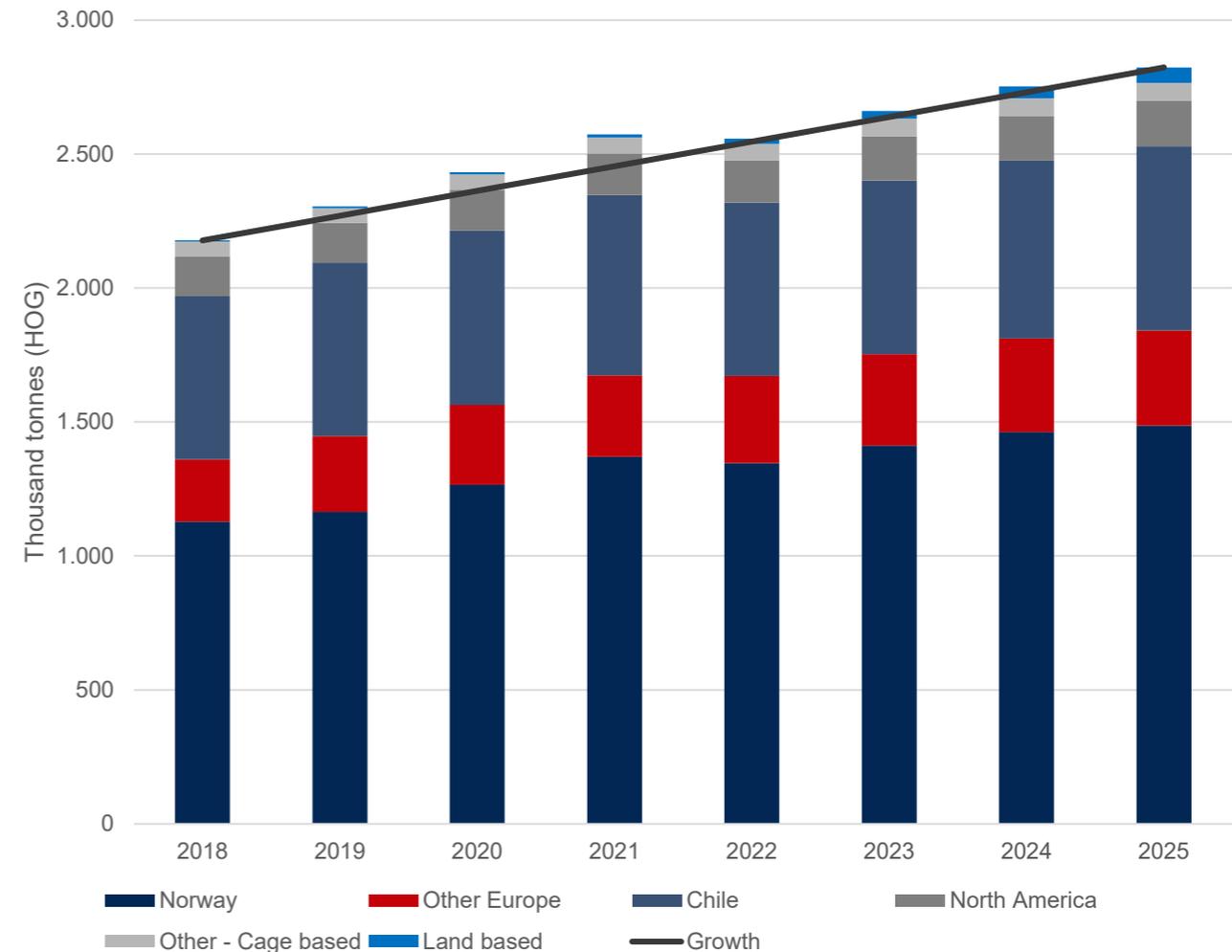


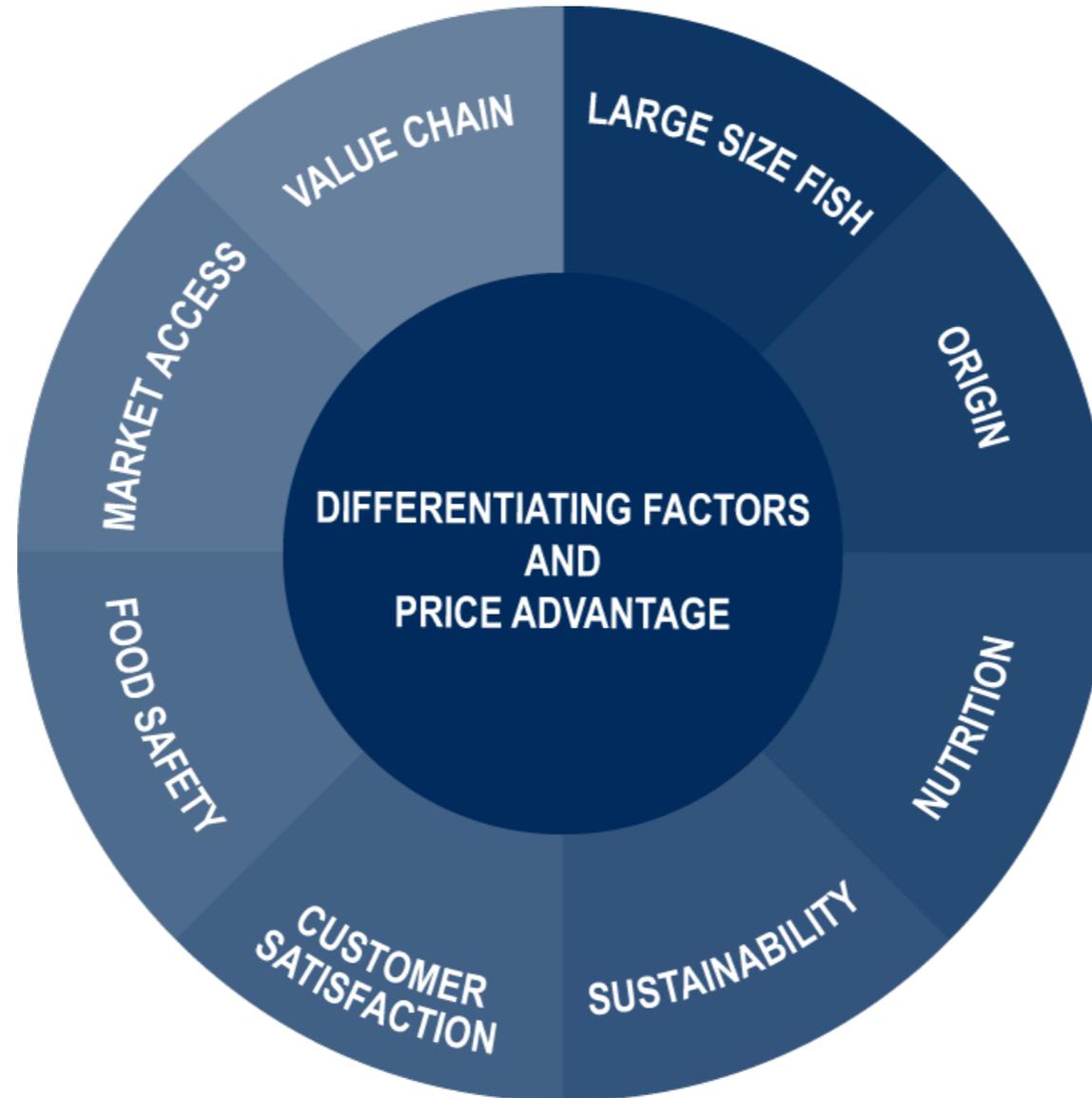
# 30% SUPPLY INCREASE EXPECTED BY 2025 (CAGR <4%)

| (Thousand tonnes HOG) | Total growth | Average growth | Growth %     | CAGR %      |
|-----------------------|--------------|----------------|--------------|-------------|
| Norway                | 359          | 51             | 31.8%        | 4.0%        |
| Other Europe          | 123          | 18             | 53.3%        | 6.3%        |
| Chile                 | 77           | 11             | 12.6%        | 1.7%        |
| North America         | 23           | 3              | 15.3%        | 2.1%        |
| Other - Cage based    | 10           | 1              | 18.1%        | 2.4%        |
| Land based            | 53           | 8              | 1291.3%      | 45.7%       |
| <b>Global</b>         | <b>645</b>   | <b>92</b>      | <b>29.6%</b> | <b>3.8%</b> |

- Generally very strong market outlook
- Significant premium for superior products in high end markets
- Bakkafrost is focused on carefully managing and developing its brand in the market
- It all comes down to the quality of the product!

## Long term supply outlook (Kontali)





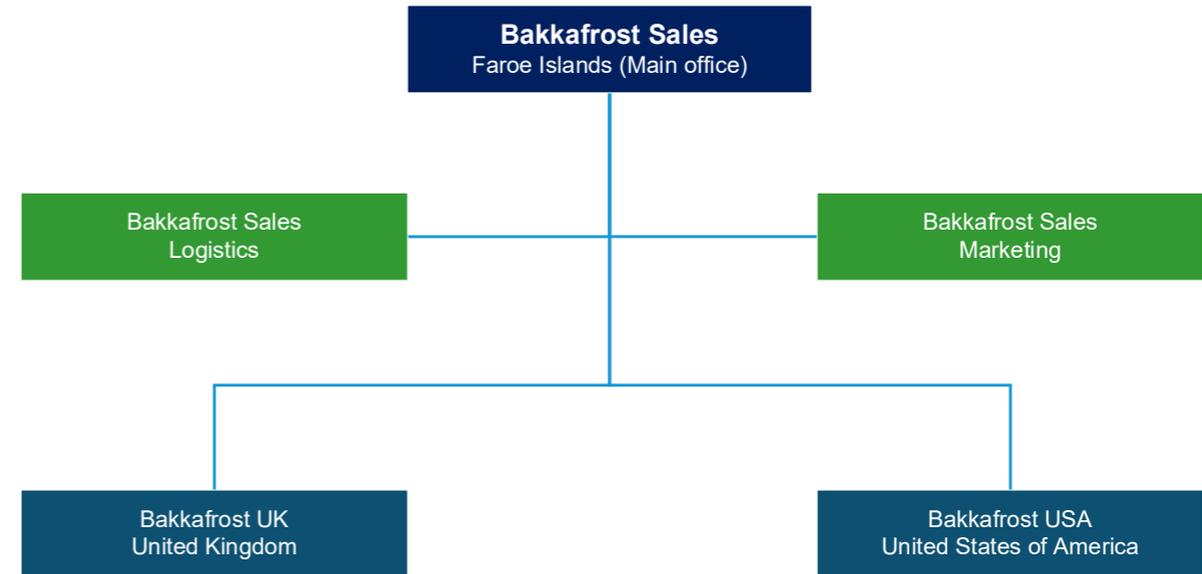
# KEY SELLING POINTS

- Superior Quality is the fulcrum
  - Size
  - Taste
  - Health (Omega-3 and Omega 3/Omega 6 ratio)
  - Food safety
- Products free from
  - Antibiotics
  - GMO ingredients
  - Ethoxyquin
  - Chemical lice bath treatments
- Cleaned for environmental pollutants (dioxin and dl-PCB)



# SALES ORGANIZATION

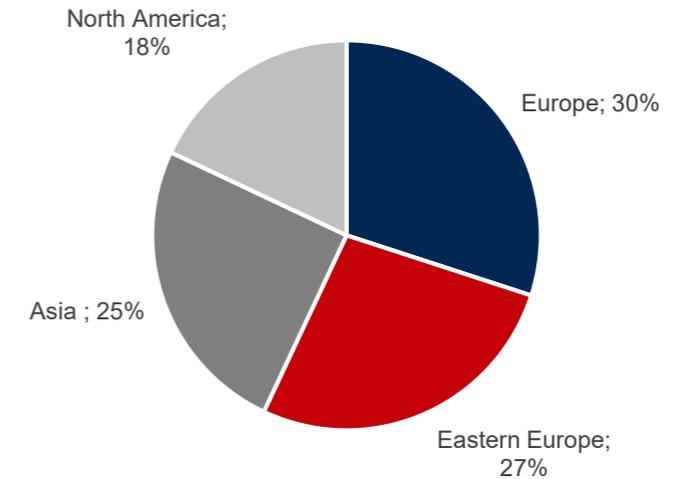
- Main sales office is in Glyvrar in the Faroe Islands
- Local sales offices in UK and USA
- Sales, logistics and marketing is handled in-house



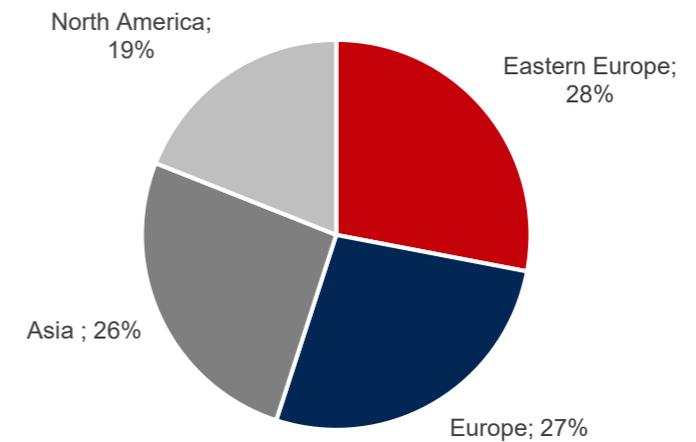
# WELL DIVERSIFIED CUSTOMER BASE

- Even split among the 4 main markets
- Close relationship with key customers (partners)
- Fresh sales
  - 20% B2C
  - 80% B2B
- Frozen sales
  - 80% B2C
  - 20% B2B

## Sales breakdown – All products 2018



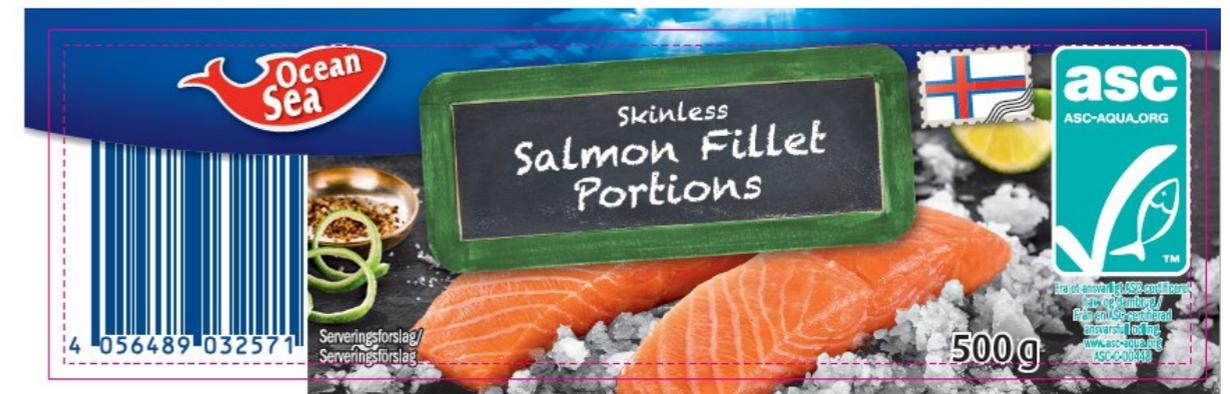
## Sales breakdown – Fresh products 2018



# THE BAKKAFROST BRAND AND FAROESE ORIGIN



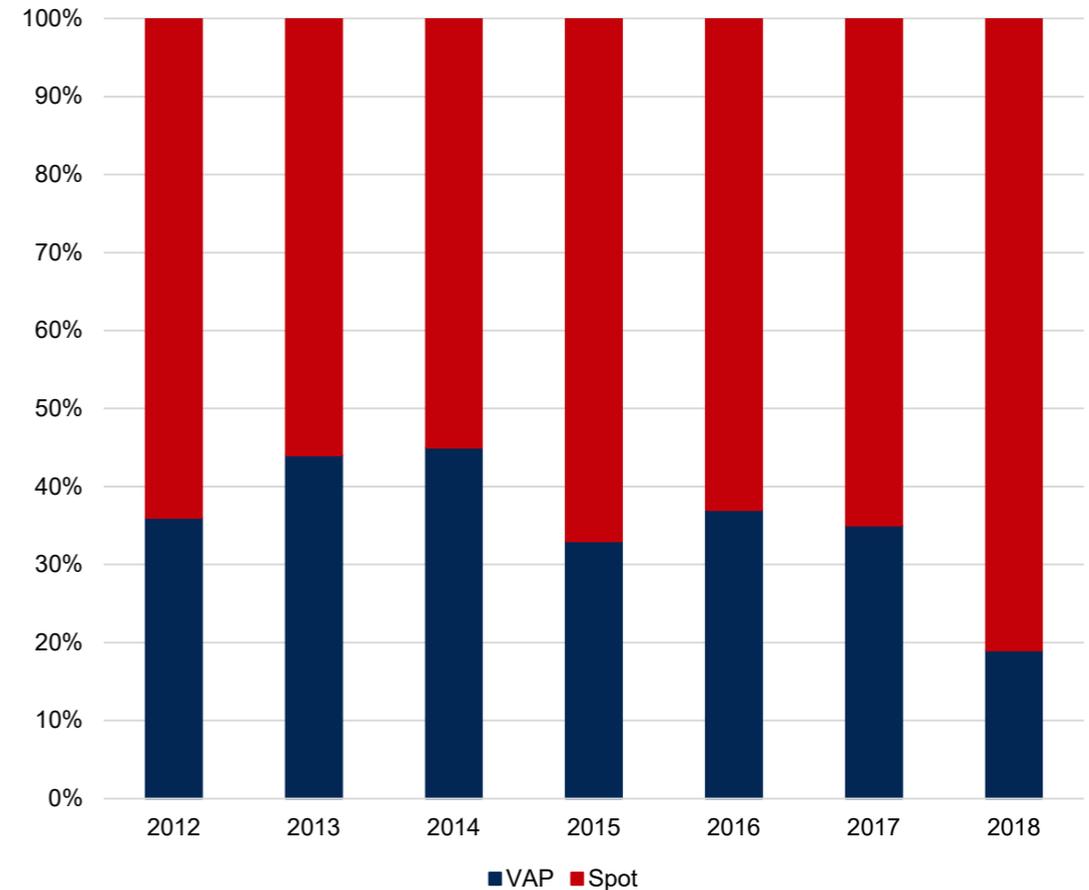
- Premium pricing through visibility of
  - The Bakkafrost brand
  - Faroese origin
- Retail sales focus
  - Visibility in the shelves and wet counters
- Food service/Restaurants
  - Bakkafrost and/or Faroese origin on menus



# VALUE ADDED PRODUCTS SIGNIFICANT PROPORTION OF SALES

- VAP contract coverage: 30-40%
  - Brand/Origin visibility
  - Reduced exposure to spot prices
- Contracts normally vary between 6-12 months
- Fixed prices
- 2018 impacted by change in product portfolio
- 2019 coverage at 2015-2017 level

### Contract coverage - VAP

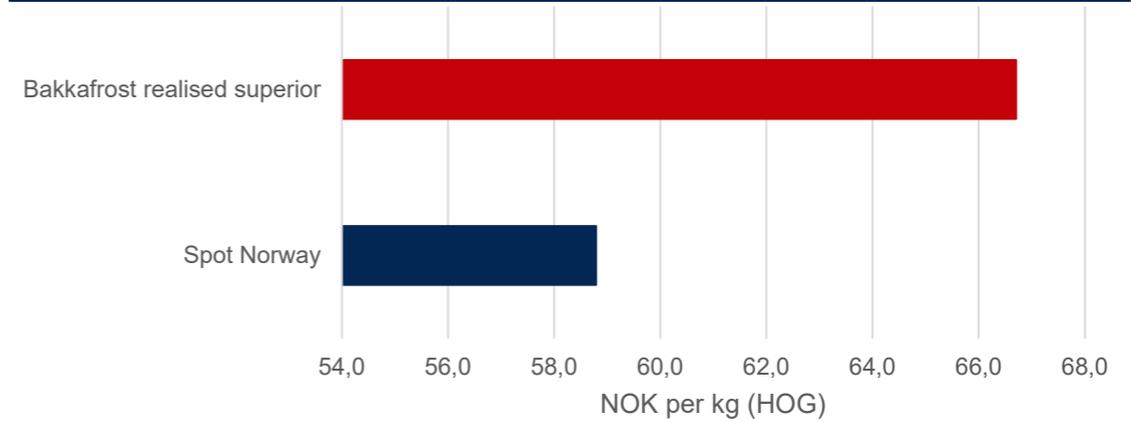


# PRICE ADVANTAGE

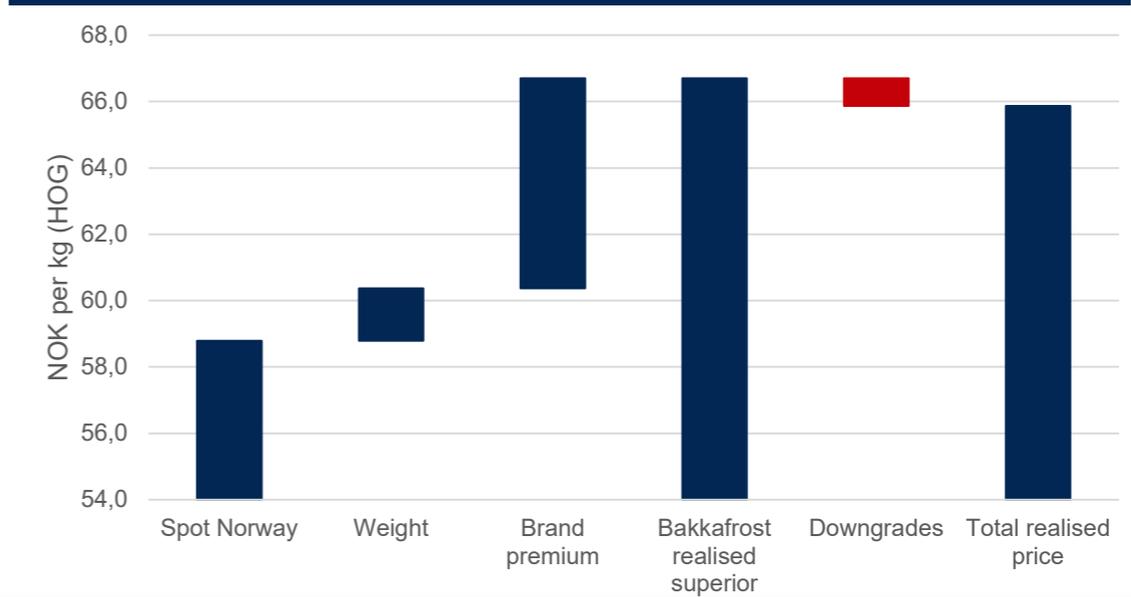


- Significant price premium
  - Larger fish fetch a higher price
  - Good market access
  - Significant Bakkafrost brand premium component
- Faroese/Bakkafrost origin favoured in many markets
  - High marine index
  - Excellent texture and taste
  - High customer satisfaction index

## Comparison – Price 2017



## Comparison – Price 2017



Source: Kontali, Bakkafrost

# SATISFIED CLIENTS – ANNUAL SURVEY TO EXISTING CLIENTS



- Customer net promoter score 8.24 out of 10
- Satisfaction with the salmon quality provided by Bakkafrost:
  - 97% are satisfied, more than satisfied, or very satisfied
- Satisfaction with delivery service:
  - 82% are satisfied, more than satisfied, or very satisfied
- Satisfaction with the service provided by your Bakkafrost contact:
  - 95% are satisfied, more than satisfied, or very satisfied



# CERTIFICATIONS





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