Lerøy Seafood Group’s (Lerøy) vision and values form the framework for Lerøy’s strategy.

**Vision:**
Lerøy's vision is to be the leading and most profitable global supplier of sustainable, quality seafood.

**Values:**
- Open
- Creative
- Honest
- Responsible

“We aim to develop a global economically and environmentally sustainable value chain for seafood.”
Financial information

We develop an efficient and environmentally sustainable value chain.

Sustainable growth and an efficient value chain

Lerøy has a strong focus on its customers. Everything we do is ultimately to benefit our customers. If we are to achieve our vision, we must be a preferred supplier of seafood on a global scale. Our vision requires a value chain based on competitive processes allowing our customers to succeed.

Economic sustainability
- The long-term goal for earnings is to generate an annual return on the Group’s average capital employed of 18% before tax
- We shall monitor fluctuations on the markets on which we operate, and shall have a capital structure that allows us to exploit such fluctuations

Environmental sustainability
- “Take action today – for a difference tomorrow”
- We work with renewable resources, and every choice we make regarding both daily operations and growth shall be based on a perspective of sustainability

Social sustainability
- Lerøy shall be a safe place to work
- We shall offer well-structured working conditions for all our employees, and ensure that our suppliers and subcontractors do the same
- We shall pay equal salary for equal work and provide proper training in all parts of the value chain
- Lerøy is a local corporation with a global perspective. We want our operations to have a spin-off effect in our local communities

Sustainable growth

To achieve our vision, Lerøy has focused on securing access to raw materials and a wide product range, at the same time as developing activities and products that over time enhance consumer satisfaction and willingness to pay. Lerøy aims for sustainable growth. Sustainability is defined according to an economic, environmental and social perspective.
Lerøy has a history of and future goals for organic growth via acquisitions, development of alliances and partnerships and by taking a driving seat in the consolidation of the seafood industry. The Group’s long-term goal for earnings is to generate an annual return on the Group’s average capital employed of 18% before tax.

When assessing potential acquisitions, it is essential to maintain a perspective relating to the development of the seafood markets. This applies to both supply and demand, and requires an understanding of the cyclical nature of the Group’s markets. The Group is constantly aware of their standing in market cycles, and makes decisions accordingly. In order to enable trading with such cyclical markets, it is decisive for the Group to have a high rate of capitalisation, a good reputation on the capital markets and to maintain a solid financial position.

An efficient and creative value chain
The customers decide whether Lerøy is a leading supplier or not. During the process of developing our own customer relationships, we have come to the understanding that the preferred partner for customers is the company that is able to provide the most efficient, innovative and customer-oriented value chain.

An efficient value chain has a perfect flow and zero errors. To build such a value chain, each step of a process must be optimised, including the relationship between customer and supplier in between processes, ensuring a good flow of information throughout the value chain and facilitating continuous improvements.

Provided that capital is available, an efficient value chain is created by means of the interaction between people, machines and methods. Lerøy shall be an attractive and developmental workplace that attracts talented employees and provides them with the opportunity to develop. Lerøy shall have an in-depth insight into and an understanding of industrial processes and new technology. Lerøy shall develop methods and processes that ensure full exploitation of the potential within both employees and machines, jointly and individually. Lerøy shall have and develop management tools that allow for a full overview and control of the entire value chain.

Lerøy’s history is a demonstration of the Group’s strategy in practice
Lerøy has remained consistently loyal to its strategy. Over the past 20 years, Lerøy has grown from a family-run Norwegian wholesaler/exporter to a fully integrated international seafood corporation. This growth would not have been possible without professionalisation, organisational development and access to venture capital once the company was listed on the stock exchange in June 2002.

Access to venture capital is proof that Lerøy has the confidence of the different parties on the capital markets. This confidence has been and remains an essential prerequisite for Lerøy’s growth and development. Via acquisitions, alliances and development of operations, the Group has played a role in and been one of the drivers behind the substantial growth experienced for Norwegian production of salmon and trout over the past decades, and has made an important contribution to the development of Norwegian seafood on the global market. With an ever-increasing resource base and a continuous focus on improving value chain efficiency, the Group has become an increasingly preferred partner for its customers. Lerøy is positioned for more long-term and closer cooperation with customers at an increasingly strategic level.

Potential acquisitions are assessed on a consecutive basis, although the last acquisitions within the red fish segment date back some time, with the acquisition of shares in Villa Organic in 2013 the last major move. In 2016, Lerøy executed the largest acquisition in the Group’s history – Havfisk and...
Lerøy Norway Seafoods. This allowed Lerøy to claim the position as the largest player within catches and processing of whitefish. Lerøy’s investments in whitefish in Norway have also gained the Group a position as a significant global actor within whitefish. This increased resource base makes Lerøy a more attractive supplier. The Board of Directors and management are confident that there is considerable potential for creating a more efficient and innovative value chain for whitefish.

In combination with increased access to raw materials, the Group has focused on developing strategic customer relationships via an efficient downstream value chain. In recent years, Lerøy has accumulated advanced in-house expertise in building and developing processing facilities on the markets, close to consumers and facilitating an efficient value chain and innovation in collaboration with customers.

Recent strategic decisions, and development in 2018

Lerøy works continuously on developing the Group’s value chain and making the best decisions for the value chain, from raw material to end product. Lerøy reports within three segments.

**Lerøy Seafood Group ASA**

- **Farming**
- **Wild catch**

**Significant associated companies**

- **Norskott Havbruk AS**
- **Seistar Holding AS**
- **Seafood Danmark AS**

**VAP, sales and distribution**

Whitefish – strategic focus on improving value chain efficiency. The Group’s whitefish operations are described in more detail in the business overview, but comprise fisheries and onshore facilities that work closely together.

The Group’s fisheries are currently very efficient. Historically, the Group’s fleet suffered at times from low profitability, but the Group has been able in recent years to invest in renewing and developing its fleet. The new vessels, with the most recent being Nordtind (delivered in 2018), are efficient in terms of catches, and investments made in increased capacity allow for the use of triple trawls that also boost efficiency for shrimp catches. Nordtind has lived up to expectations. In 2018, Havfisk signed a contract for a new vessel for delivery in 2020. This will be based on the same design as Nordtind and is a combination trawler (fresh and frozen fish) with unique equipment that will provide optimal quality and utilisation of the whole fish. This vessel will be the first stern trawler with integrated energy storage system, with the option for both battery operation, diesel-mechanic and diesel-electric propulsion. The new system, together with other systems installed, will ensure lower emissions of CO₂, NOX and reduce noise levels.

For many years now, the Norwegian onshore industry for whitefish has struggled with low profitability. Framework conditions for the onshore industry are challenging, partly driven by the seasonal fluctuations in raw material supply and partly the framework conditions that make it difficult to aggregate large volumes for industrial units and invest in automation. A comprehensive effort is required to improve profitability in this industry, and the Group’s strategy centres around three lines of action.

**What to produce where?**

How can we pave the way for new activity, preferably all year round, or minimise seasonal fluctuations in relation to our past? Several factors may be instrumental here, but increased specialisation will allow for investments and higher profitability. Examples of such investments are a new production line for boiling and packing king crab in Kjøllefjord, the start-up of salted fish production in Rypefjord and, not least, the reconstruction of the facility in Samsund. The update to the latter facility will provide a significant capacity for production of fish products, minimising our dependency on seasons. At the same time, the opportunity to concentrate on more standardised fillet production, using fresh produce in season and frozen fish outside of season, will enhance production stability and provide more stable access to raw materials for the Group’s downstream units.
**Stabilisation, continuous and intermittent improvements**

The second line of action is the systematic work to stabilise operations via continuous and intermittent improvements in each facility, in addition to improved flow of goods between different facilities. To move this process and other similar work in other parts of the value chain forward, the Group has made a start on developing a new production system, the Lerøy Way. In 2018, a major project was implemented in the facilities in Melbu and Stamsund. This is expected to gradually result in improved profitability, and the methodology will be rolled out throughout the value chain, provided it continues to generate the expected results.

**A more efficient value chain for whitefish**

The Group works continuously on forming closer links between the different whitefish businesses, together with Lerøy’s growing downstream operations. Investments are being made in machinery replacements and support systems for new and more modern production technology, in addition to a gradual upgrade to buildings. Last, but not least, investments are being made in improving expertise.
Financial information

Red fish - salmon and trout - focus on improving cost-effectiveness and organic growth

The volume of salmon and trout harvested by the Group has been relatively stable since 2012. This is due to a lack of access to new licence capacity, and challenges relating to new regulations introduced in 2013.

The 2013 change in Norwegian authorities’ requirements for maximum prevalence of salmon lice has led to significant cost growth in Norway. Concurrent with Lerøy’s investments in equipment for mechanical delousing, the Group has also invested heavily in producing cleaner fish. Increased use of cleaner fish has reduced the need for mechanical delousing. The combination of big investments and high costs linked to preventive work means that these tasks continue to represent a significant cost driver for the Group’s farming activities.

The Board of Directors has identified a lack of growth and excessive costs as the two main challenges for the Group’s fish farms. On this basis, major investments have been and are still being made to provide a large increase in the Group’s post-smolt capacity. These involve the construction of smolt facilities with RAS technology (recycling plants), where the smolt are kept longer in the facility than in traditional smolt plants. As a result, these plants can produce larger smolt that are more robust before being launched to sea cages. The Board of Directors and management believe that this strategy will generate growth and provide reductions for the Group’s production on the cost side.

Thanks to expert employees and new technology, the Group has developed the framework for a forward-looking smolt strategy that will provide significantly better exploitation of the Group’s production rights. The Board of Directors is satisfied with developments to date and will consider further investment opportunities within this area in 2019.

<table>
<thead>
<tr>
<th>Year completed</th>
<th>Facility</th>
<th>Capacity (annual capacity in tonnes)</th>
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<tr>
<td>Investments made in RAS for smolt</td>
<td></td>
<td></td>
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<tr>
<td>2012</td>
<td>Belsvik</td>
<td>1 200</td>
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<tr>
<td>2014</td>
<td>Aurora phase 1</td>
<td>1 200</td>
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<tr>
<td>Total investments made in RAS for smolt</td>
<td></td>
<td>2 400</td>
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<tr>
<td>Ongoing investments in RAS for smolt</td>
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<tr>
<td>2019</td>
<td>Kjørelva</td>
<td>4 200</td>
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<td>2019</td>
<td>Aurora phase 2</td>
<td>2 000</td>
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<tr>
<td>Total ongoing investments in RAS for smolt</td>
<td></td>
<td>6 200</td>
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<tr>
<td>Investments to be adopted in RAS in 2019</td>
<td></td>
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<tr>
<td>Belsvik phase 2</td>
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<td>4 000</td>
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<tr>
<td>Aurora phase 3</td>
<td></td>
<td>1 700</td>
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<tr>
<td>Total investments to be adopted in RAS in 2019</td>
<td></td>
<td>5 700</td>
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As a result of the investments, more than 25% of salmon smolt released to open cages in 2019 at Lerøy Sjøtroll – the Group's fish farming business in Hordaland – will weigh more than 500 grams. In 2021, this figure will increase to more than 40%.

Despite experience gained by the Group, this is still new technology requiring a new production method and therefore implies a risk. The Board expects the past and ongoing investments to significantly boost the Group’s production of salmon and trout leading up to 2022.

This growth in production will be driven by more robust and larger smolt that spend less time in the sea, therefore allowing for improved exploitation of the Group’s licences. The Board and management expect that the reduced period of time in the sea will also reduce biological risk during production, increase exploitation of equipment and reduce costs. The potential for reduced costs is greatest at Lerøy Sjøtroll.

Sales and distribution – an efficient value chain involved in innovation

Lerøy sells seafood in a number of categories, including fresh, frozen and smoked. Over the past 15 years, the Group has focused on developing a more efficient value chain for fresh distribution of seafood. This has included the construction of a number of distribution centres for fresh seafood. These centres are strongly based on raw materials in the form of fillets that are produced at the Group’s facilities in Norway. Having centres with proximity to the markets allows the Group to provide a high level of service and extensive interaction and development with customers on each specific market. The Group is also gradually building up capacity for sushi and so-called “ready-meals”. One important premise for the further development of profitable, conceptual trading is having stable access to raw materials with the right quality.
Financial information
In 2018, Lerøy Midt completed construction of the world’s most modern fillet factory for salmon, where the vision is for the salmon to be processed without being touched by human hands. This high-tech factory has been commissioned over time in 2018 and shall be the world’s most efficient production plant for salmon fillets. Fresh fillets are transported to the Group’s distribution units close to the end market, where they are cut and packaged for consumers. This type of investment is of decisive importance for future improvements to the efficiency of the value chain for salmon.

Lerøy Seafood Center opened in the city of Urk, the Netherlands, in 2018. This is a highly automated plant for fresh distribution of consumer packaged seafood, including smoked products. To date, the Group has experienced that the new plant’s proximity to market, level of service and quality and cost-effectiveness has provided competitive strengths in relation to producers in so-called low-cost countries. In 2018, Lerøy has also made further developments to their collaborative work with a number of important strategic customers. Lerøy has built several plants in Spain. By the end of 2018, the Group was able to deliver sushi and ready-meals to around 950 shops every day in Spain.

Within whitefish, there still remains a vast potential for increased value creation via the Group’s own value chain, and this is a key target area in the years to come.

2018 was an historic year for Lerøy in terms of the high level of investments made. These investments are in line with the Group’s long-term strategy for continued sustainable growth. The investments required major capital and have made little or no contribution to increased earnings in 2018, but the Board and management are confident that the investments pave the way for future sustainable growth by means of an increasingly efficient value chain. The investments are also challenging, not least as they require patience, but we strongly believe that they help Lerøy take further steps towards the Group’s vision of being the leading and most profitable global supplier of sustainable, quality seafood.

Financial information

Lerøy Seafood Group reported revenue in 2018 of NOK 19,838 million, up from NOK 18,624 million in 2017. This is the highest revenue ever reported by the Group. The increase in Group revenue is attributed to good prices for the main products and increased activity for the Group’s downstream operations.

Lerøy Seafood Group is the leading seafood group in Norway and thereby one of the leading seafood companies in the world. The Group has a clear ambition to further develop this position in the years to come.

The Group’s operating profit before fair value adjustment related to biological assets was NOK 3,569 million in 2018 compared with NOK 3,717 million in 2017. Profit before tax and fair value adjustment related to biological assets was NOK 3,697 million in 2018 compared with NOK 3,805 million in 2017. Earnings per share before fair value adjustment related to biological assets and minority shareholdings totalled NOK 4.90 per share in 2018, exactly the same level as in 2017.

Havfisk’s primary business is wild catches of whitefish. Havfisk has licence rights to harvest just above 10% of the total Norwegian cod quotas in the zone north of 62 degrees latitude, corresponding to more than 30% of the total quota allocated to the trawler fleet.

In the Wild Catch segment, Havfisk also owns several processing plants, which are mainly leased out to Lerøy Norway Seafoods (LNWS) on long-term contracts. Havfisk’s trawler licences stipulate an operational obligation for these processing plants.

In 2018, Havfisk reported a total catch volume of around 66,000 tonnes, in line with the figures for 2017. The company reported stable and good operations throughout the year.

LNWS’s primary business is processing wild-caught whitefish. The company has use of 12 processing and purchasing plants in Norway, five of which
are leased from Havfisk. The processing of whitefish in Norway has been extremely challenging for many years. As a result of high demand for seafood and lower quotas, the raw material prices increased throughout 2018, representing a challenge for processing operations. The Group has implemented a large number of measures within both production and marketing to improve earnings, but these are long-term initiatives and it will take time before significant improvements are evident.

The Wild Catch segment reported operating profit of NOK 388 million in 2018, compared with NOK 386 million in 2017.

The Farming segment comprises the Group’s three farming regions in Norway: Lerøy Aurora located in Troms and Finnmark, Lerøy Midt located in Nordmøre/Trøndelag, and Lerøy Sjøtroll located in Hordaland. These companies harvested a total of 162,000 tonnes salmon and trout in 2018, up from 158,000 tonnes in 2017.

The Farming segment generated an operating profit before fair value adjustment related to biological assets of NOK 2,928 million in 2018, compared with NOK 2,942 million in 2017.

The prices for Atlantic salmon and trout remained strong in 2018, but with a high level of volatility throughout the year. Prices realised for salmon by the Farming segment remained stable from 2017 to 2018, while prices realised for trout were down, partly due to quality downgrades caused by problems with reproductive maturity. For the year as a whole, prices realised in the Farming segment for trout were around NOK 6 per kg lower than for salmon.

In the Report of the Board of Directors for 2017, the Board indicated expectations of falling release from stock costs through 2018. These expectations were proven true and release from stock costs in 2018 were lower than in 2017, but unfortunately not fully in line with our expectations.

Given the major differences in biological framework conditions, there are major variations in release from stock costs between the regions. Lerøy Aurora can still report a low level of costs, Lerøy Midt has shown a considerable improvement throughout 2018, while cost levels at Lerøy Sjøtroll are still at a level the Group defines as unsatisfactory. There is vast potential for improvements at Lerøy Sjøtroll, and the Group has high expectations for the investments made in the facility for production of larger smolt.

### Development harvesting volume per region:

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<tbody>
<tr>
<td>Lerøy Aurora AS*</td>
<td>24 200</td>
<td>52 800</td>
<td>29 200</td>
<td>30 000</td>
<td>39 200</td>
<td>36 800</td>
<td>37 000</td>
</tr>
<tr>
<td>Lerøy Midt AS</td>
<td>58 900</td>
<td>68 300</td>
<td>71 400</td>
<td>52 200</td>
<td>64 500</td>
<td>66 500</td>
<td>71 000</td>
</tr>
<tr>
<td>Lerøy Sjøtroll</td>
<td>61 700</td>
<td>63 200</td>
<td>57 100</td>
<td>68 000</td>
<td>54 000</td>
<td>58 800</td>
<td>66 000</td>
</tr>
<tr>
<td>Total Norway</td>
<td>144 800</td>
<td>158 300</td>
<td>157 700</td>
<td>150 200</td>
<td>157 700</td>
<td>162 100</td>
<td>174 000</td>
</tr>
<tr>
<td>Norskott Havbruk (UK)**</td>
<td>13 400</td>
<td>13 800</td>
<td>13 500</td>
<td>14 000</td>
<td>15 500</td>
<td>13 700</td>
<td>15 000</td>
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<tr>
<td>Total</td>
<td>158 200</td>
<td>178 100</td>
<td>171 200</td>
<td>164 200</td>
<td>173 200</td>
<td>175 800</td>
<td>189 000</td>
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*) Included harvested volume from Villa Organic after split July 2014
**) LSG’s share, not consolidated
The Group has high expectations for the yield from this investment, based on e.g. knowledge of similar facilities in the Group.

**Development in turnover and EBIT for farming**

Prior to fair value adjustment related to biological assets, the Group’s income from associates totalled NOK 290 million in 2018, marginally down from NOK 298 million in 2017. The most important contribution to this figure comes from Norskott Havbruk, owner of Scotland’s second largest fish farming company, and 50% owned by the Group.

The Group’s net financial items for 2018 were negative at NOK 161 million compared with a negative figure of NOK 210 million in 2017.

The profit achieved in 2018 corresponds to a profit before fair value adjustment related to biological assets of NOK 4.90 per share, exactly the same level of earnings per share as in 2017. The Board of Directors intends to recommend a dividend payment for 2018 of NOK 2.00 per share to the company’s annual general meeting in 2019. This recommendation is in line with the company’s dividend policy and reflects the Group’s financial adequacy, strong financial position and projections for increased profit.

The Board of Directors also underlines the importance of continuity and predictability for the company’s shareholders.

**Development in turnover and EBIT for VAP, sales and distribution**

In the VAP, sales and distribution segment, Lerøy Seafood Group has major downstream activities and a clearly defined goal to drive demand for seafood in the form of new products and market development. The Group sells, processes and distributes own-produced salmon and trout along with whitefish from its own fleet of trawlers, but also has substantial activities in cooperation with third parties. As a result, the Group now supplies a wide range of seafood products. The Group has identified positive synergy effects in its marketing work as a result of the acquisition within whitefish.

Highly volatile prices for salmon and trout had a negative impact and affected earnings for the segment in 2018. Earnings are lower than the Board and management’s expectations for the future and required levels. Operating profit before fair value adjustment related to biological assets was down from NOK 435 million in 2017 to NOK 333 million in 2018. The Group expects the segment to achieve a positive development both in the level of activities and earnings in 2019.
The return on the Group’s capital employed before fair value adjustment related to biological assets in 2018 was 22.3% compared with 25.8% in 2017. The Group is financially sound with book equity of NOK 17,134 million, equivalent to an equity ratio of 60%. Once again in 2018, the Group has strong cash flows, but as previously mentioned, has made considerable investments in its core business in 2018. In total, net interest-bearing debt increased marginally from NOK 2,262 million at the end of 2017 to NOK 2,546 million at the end of 2018.

Cash flow from operating activities in 2018 was NOK 2,783 million, after tax payments of NOK 851 million. The Group has made net investments in tangible assets of NOK 2,047 million including financial leases. The Group’s statement of financial position totals NOK 28,373 million as of 31 December 2018 compared with NOK 25,658 million as of year-end 2017. The Group’s financial position is strong and shall continue to be utilised to ensure increased value creation through organic growth, new alliances and acquisitions. The Group compiles its financial reports in accordance with the international accounting principles, IFRS.

Key risk factors

The Group is a significant owner of farming licences in Norway and the UK, and of wild catch quotas in Norway. The Group faces political risk linked to decisions by the authorities, including framework conditions for fish farming and licence terms related to fisheries legislation. Unfortunately, the Group has to report an increase in the risk related to developments in framework conditions for development of the farming industry in Norway. Lack of predictability will in the long term impair the industry’s competitiveness and capacity for development and value creation. Industrial developments and employment in capital-intensive activities exposed to global competition such as fish farming, fisheries and processing represent challenges and require a long-term perspective by businesses and politicians at a national level. The Group’s strategy centres on a long-term perspective, irrespective of framework conditions, to ensure a globally competitive organisation, which will be able to continue to ensure sustainable industrial development in the numerous local communities where the Group has operations.
The Group’s results are closely linked to developments in the markets for seafood – particularly the price for Atlantic salmon and trout – but also to an increasing degree the price for whitefish, particularly cod, after the investments within whitefish in 2016. The development in prices for whitefish, salmon and trout in recent years has been very positive. As a result of its significant marketing activities, the Group has in-depth knowledge of the end market and believes that the strong growth in demand for seafood in general, and fresh seafood in a consumer-friendly format in particular, gives grounds for optimism for operations in the future. The high prices for salmon and trout must also be assessed within the context of the lack of growth in the supply of these products from Norway.

At the end of Q4 2018, the Group has live fish on its statement of financial position worth approximately NOK 5.5 billion. Biological risk has been and will remain a substantial risk factor for Group operations. Assessing and managing biological risk must therefore be an integral part of the Group’s expertise.

The seafood industry is international, and Norway is an important seafood-exporting nation. Trade barriers have and will continue to represent a considerable risk factor for the industry, and the political trade barriers laid down on Norwegian salmon and trout exports to Russia provide an illustration of such political risk in practice. However, the market for high-quality seafood is global and is experiencing strong growth. Over time, this...
growth has largely compensated for political trade barriers, providing grounds for an optimistic outlook and our belief that the Group is well positioned to continue its positive long-term development. The Board of Directors maintains a strong focus on conscious and systematic management of risk in all parts of the organisation. This policy is seen as essential in securing long-term value generation for shareholders, employees and society in general.

The Group’s overall financing strategy is to safeguard financing, including suitable financial covenants, and satisfactory liquidity. The Group’s operations will always be exposed to currency fluctuations.

Examples of other risk areas include credit risk, changes in the prices of input factors and market risk.
Board of Directors’ report

Structural conditions

The Group aims to create lasting value through its activities. For this reason, stringent requirements are imposed on risk management and the ability to plan for the long term in the development of sustainable strategic business processes.

Through organic growth and a series of acquisitions carried out since the Group was listed on the Stock Exchange in the summer of 2002, the Group is now one of the world’s largest producers of Atlantic salmon and trout. With the acquisitions of Havfisk ASA and Norway Seafood Group AS, the Group is now the largest supplier of whitefish in Norway, and a major supplier worldwide. In recent years, the Group has also developed and consolidated its position as a central actor in the distribution of seafood in Norway and abroad.

Lerøy Seafood Group’s investments in the Norwegian whitefish sector are based on an industrial, eternal perspective. The industrial facilities receive raw materials from the Group’s own trawlers and from suppliers in the coastal fleet. Appropriate framework conditions, including predictability, are absolutely decisive to allow us to assume our responsibilities as an industrial organisation. The whitefish sector fluctuates according to seasons and requires vast amounts of capital. We firmly believe that we will only be able to build a sustainable industry and create attractive jobs if we have appropriate framework conditions, investment capacity, product development and access to the global market.

We hope and believe that it is possible to create an understanding among national political management of what is required to create jobs and value in the decades to come. We are extremely interested in dialogue and assume that any future adjustments to framework conditions will be based on knowledge and insight, preventing impairment of the industrial foundations for operations for our industry.
The Board of Directors is still of the opinion that the acquisitions related to whitefish will in time strengthen the industrial development of the businesses involved, and will create value for society, the employees and the Group’s shareholders.

The Group’s financial position is very strong, and the Board attaches importance to the Group, through all its operations, retaining the confidence of participants in the different parts of the global capital market. The Group’s strong balance sheet in conjunction with current earnings enables the Group to continue as a leading participant in the global and national value-generating structural changes within the seafood industry. Lerøy Seafood Group will continue to selectively consider possible investment and merger opportunities, as well as alliances, that could strengthen the basis for further profitable growth and sustainable value creation. This includes investment opportunities both upstream and downstream. The Group shall continue its strategy for growth, implying continuous developments and improvements to operating segments throughout the entire value chain.

Viewed against the background of the Group’s many years of investments in sustainable production methods, developing alliances, quality products, new markets, brands and quality assurance, the Board feels that the outlook for generating increased value is good.

In coming years, the Group will continue to work towards sustainable value creation by focusing on strategic commercial developments combined with improvements to the Group’s operational efficiency. Based on customer requirements, this work will ensure continuity of supply, quality and cost efficiency and, consequently, increased profitability. Improving operational efficiency at all stages is an ongoing process aimed at further developing the Group’s national and international competitiveness.

Being listed on the Stock Exchange affords the company a marketplace for its shares, improved access in the future to venture capital as well as the opportunity to use the company’s shares as a payment medium in future acquisitions or business combinations.

As of 31 December 2018, the company had 7,027 shareholders against a comparison figure of 5,297 shareholders at the end of December 2017.

Employees

The parent company Lerøy Seafood Group ASA has its head office in Bergen, Norway. In addition to the Group’s CEO, the parent company has 15 employees. Administratively, personnel functions for the parent company are conducted by the wholly-owned subsidiary, Lerøy Seafood AS. In 2018, the Group had 4,589 full-time equivalents, of which 2,964 men and 1,625 women. Of this figure, 1,336 full-time equivalents work outside Norway. The ratio of female employees is 35%, slightly up from 2017.

Independently of the demand for equal opportunities for men and women, the Group has always emphasised individual skills, performance and responsibility in its recruitment policy and salary systems. Furthermore, the Group seeks at all times to ensure equal employment opportunities and rights for all employees, and works hard to prevent discrimination based on national origin, ethnicity, colour, language, religion or personal philosophy. One of the company’s goals is to provide a workplace without discrimination because of disabilities. The company will arrange for individually adapted workplaces and work tasks where possible for employees or work applicants with disabilities.
The company is a player in a global industry and the company’s working environment changes continuously. This requires flexible employees who are dynamic and willing to adapt and learn.

As in previous years, the Board of Directors would like to take this opportunity to praise the employees’ efforts, their understanding of the need for a results-oriented operational focus and for their willingness to adapt to change throughout the organisation. The Board of Directors would like to thank all employees for their hard work in 2018.

Health, environment and safety

On 27 January 2019, a fire started in the smolt facility in Laksefjord, Finnmark, resulting in a fatality. An employee of a company carrying out maintenance work died in the fire. Our thoughts are with his close family and colleagues. After the incident, Lerøy Seafood Group has assisted and will continue to assist the police and other public agencies in identifying how this tragic accident occurred.

The Group maintains a strong focus on procedures and compliance with these, and on measures to protect all employees. This is a perpetual process moving us forwards to our vision of zero injuries.

Total sick leave registered in the Group in 2018 was 4.96%. This is down from 5.97% in 2017. Sick leave comprises 3.03% long-term sick leave and 1.93% short-term sick leave. The Board is pleased to observe that sick leave is on the decline, and that the Group works actively to keep sick leave low. The organisations in the individual subsidiaries are continuously being developed to ensure that they can deal with new challenges and changes in framework conditions. The working environment and cooperative atmosphere are good.

External environment

From a national and global perspective, the Board is of the opinion that its production of Atlantic salmon and trout is one of the most sustainable and environmentally-friendly forms of food production to be found. The Group was therefore delighted to note that this was substantiated last year, once again, in an international survey of sustainability conducted by «The Collier FAIRR Protein Producer Index». Irrespective of the above, the Group maintains a high focus on potential challenges relating to point source pollution. This type of pollution is monitored by means of continuous investigations at the company’s localities. The Group’s operations are closely linked to natural conditions in Norwegian and international fresh and salt waters. The Group’s operations rely on access to clean fresh and sea waters. The Board and management are of the opinion that operations in 2018 are environmentally sustainable and are conducted with a competitive footprint. This is supported, not only by the Group’s comprehensive “Sustainability Report” – part of the consolidated financial statements, available at www.leroyseafood.com – but also in several national and international reports on fish farming and fisheries. The Group invests in minimising its impact on the external environment, and continuously works hard to encourage both management and employees to maintain a proactive approach towards environmental protection.

Result and allocations, Lerøy Seafood Group ASA

The company and consolidated financial statements have been prepared on the assumption that the company and Group are a going concern. In 2018, Lerøy Seafood Group reported an annual profit after tax of NOK 2 289 million, against a comparative amount of NOK 2 775 million in 2017.

The Board proposes the following allocation of the 2018 annual profit (NOK 1 000):

• Dividend (NOK 2.0 per share): 1 191 547
• Transferred to other equity: 1 097 872
• Total allocations: 2 289 419

The Group’s parent company has a strong financial position with a book equity ratio of 81.4%. The parent company has access to satisfactory financing and liquidity, corresponding with the Group’s strategy and operating plans.
Financial information

Market and outlook

The Group can report a good underlying demand for seafood, and expects to have satisfactory market conditions in 2019. The Group’s harvest volume for red fish was down 2% in relation to expected volumes for 2018, partly due to price developments but also due to slightly lower growth than expected in the sea towards the end of the year. The lower growth at the end of 2018 resulted in reduced harvest volume in Q1 2019 when compared with Q1 2018.

The Board of Directors and management have acknowledged that the Group’s release from stock costs for red fish are lower in 2018 than in 2017, but at the same time specify that they are not satisfied with the cost levels. With time, the Group’s investments and continuous work on improvements will result in lower cost levels. As a result of the investments in new smolt facilities, the smolt released to sea by Lerøy Sjøtroll in 2019, for example, will be of a higher quality and considerably larger than before. The Group expects to see Lerøy Sjøtroll gradually increase production and competitive strength from 2020.

The Group’s contract share for salmon for 2019 is currently around 30% of the estimated harvest volume of salmon. Estimates for harvest volume of salmon and trout in 2019, including the share from associates, remains around 189 000 tonnes.

For whitefish, developments in 2018 have in the main concurred with the Group’s estimates. It has been a good year for catches, while increased raw material prices and falling quotas have challenged shore-based operations. In 2019, the quota for important species such as cod and haddock will be reduced by 6.5% and 15% respectively, and this reduction will probably result in increased prices for these products. The Group has implemented a number of measures to improve competitive strength. These together with good marketing and product development provide us with an optimistic outlook for the segment.

The Group can report a good level of activity for VAPS&D and currently expects the factories that opened in 2018 and the improvements in operations to produce higher earnings in this segment in 2019, when compared with 2018.

The Board of Directors currently expects to see satisfactory earnings in 2019.

Bergen, 12 April 2019

Karoline Møgster
Board Member

Arne Møgster
Board Member

Britt Kathrine Drivenes
Board Member

Didrik Munch
Board Member

Heige Singelstad
Chairman

Hans Petter Vestre
Employee representative

Bergen, 12 April 2019

Karoline Magster
Board Member

Britt Kathrine Drivenes
Board Member

Siri Lill Mannes
Board Member

Arne Magster
Board Member

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