

# Risk factors

The risks and uncertainties described here are risks of which the Company is aware and that the Company considers to be material to its business. The risk factors are presented in a limited number of categories, where each individual risk factor is sought placed in the most appropriate category based on the nature of the risk it represents. Within each category, the risk factors deemed most material for the Group, taking into account their potential negative effect on the Company and its subsidiaries and the probability of their occurrence, are set out first. This does not mean that the remaining risk factors are ranked in order of their materiality or comprehensibility, nor based on a probability of their occurrence. The risks mentioned herein could materialize individually or cumulatively.

If any of these risks were to occur, individually, cumulatively or together with other circumstances, the Company's business, financial position, operating results or cash flows could be materially adversely affected.

## **STRATEGIC RISK AND RISK RELATED TO THE INDUSTRY IN WHICH THE GROUP OPERATES**

### **Risks related to acquisitions and expansions:**

In April 2020, Grieg Seafood acquired Grieg Newfoundland AS with subsidiaries in Newfoundland, Canada to expand its operations in North America. This is a new farming region for Grieg Seafood, and full realization of expected benefits depends on several circumstances, such as biological conditions, staffing of personnel with relevant expertise, obtaining the last three farming licenses. In addition, construction cost budgeted for the finalization of the freshwater Recirculating Aquaculture System (RAS) might increase and the Group has no operational experience with this type of RAS facility that is currently under construction. These risks may have a material adverse effect on the Group's business, financial condition and results of operations.

### **Risks related to food safety and health concerns:**

Food safety issues and perceived health concerns may in the future have a negative impact on the reputation of and demand for the products and services of the Group. It will be of critical importance to the Group that its future products are perceived as safe and healthy in all relevant markets. The food industry in general experiences increased customer awareness with respect to food safety and product quality, information and traceability. A failure by the Group to meet new market or governmental requirements may reduce the demand for our products which, in turn, may have a material adverse effect on the Group.

### **The Group's business depends on goodwill, reputation and maintaining good relationships:**

The Group's business depends on goodwill, reputation and on maintaining good relationships with clients, partners, lenders, suppliers, employees, governments and local communities. Negative publicity related to the Group and/or its customers could, regardless of its truthfulness, adversely affect the Group's reputation and goodwill. The Group is exposed to the risk that negative publicity may arise from activities of legislators, pressure groups and the media, for instance that fish and other commodities are being bred only to generate profit, which may tarnish the industry's reputation in the market. Loss of certification may lead to reputational risks. Negative reputational publicity may arise from a broad variety of causes, including incidents and occurrences outside the Group's control. No assurance can be given that such incidents will not occur in the future, which may cause negative publicity about the operations of the Group, which in turn could have a material adverse effect on the Group. Negative publicity could further jeopardize the Group's relationships with customers and suppliers or diminish the Group's attractiveness as a potential investment opportunity, thus causing a potential lower trading value of the Bonds on the secondary market. In addition, negative publicity could cause any customers of the Group to purchase products from the Group's competitors, i.e. decrease the demand for the Group's products. Any circumstances that publicly damage the Group's goodwill, injure the Group's reputation or damage its business relationships, may lead to a broader adverse effect in addition to any monetary liability arising directly from the damaging events by way of loss of business, goodwill, clients, partners and employees.

### **Risks related to existing and increasing competition in the farmed salmon market:**

The market for farmed salmon in general is global and highly competitive, and the Group faces strong competition from both domestic and international players within the farmed salmon market. In addition to competition faced from traditional coast and land-based farming of salmon, Grieg Seafood expects increased competition from fish farming companies with land-based production and also from digitalization efforts within fish farming. If the Group is unable to compete efficiently, e.g. due to overcapacity, consolidation, increased competition and price pressure in the market, this may have a material adverse effect on the business, financial condition, results of operations or cash flow of the Group.

### **The Group may be exposed to activism:**

Certain global environmental organizations aim to eradicate salmon farming. Therefore, salmon farming companies such as the Group may be targets for activism of various kinds with the aim to cause reputational damage or

damage to production facilities (spread of information, sabotage, etc.), which may have a material adverse effect on the business, financial condition, results of operations, prospects or cash flow of the Group.

## **RISKS RELATED TO THE GROUP'S OPERATIONS**

### **The Group's operations are subject to several biological risks:**

The Group's operations are subject to biological risks which could have a negative impact on profitability and cash flows. Biological risks include for instance oxygen depletion, diseases, viruses, bacteria, parasites, algae blooms, jelly fish and other contaminants, which may adversely affect fish survival, health, growth and welfare and result in reduced harvest weight and volume, downgrading of products and claims from customers. An outbreak of a significant or severe disease represents a cost for the Group through e.g. direct loss of fish, loss of biomass growth, accelerated harvesting and poorer quality on the harvested fish, but may also be followed by a subsequent period of reduced production capacity, increased cost or loss of income. The most severe diseases may require culling and disposal of the entire stock, disinfection of the farm and a long subsequent fallow period as preventative measures to stop the disease from spreading. Market access could be impeded by strict border controls, not only for salmon from the infected farm, but also for salmon originating from a wider geographical area surrounding the site of an outbreak. Continued disease problems may also attract negative media attention and public concerns. Salmon farming has historically experienced several episodes with extensive disease problems and no assurance can be given that this will not also happen in the future.

### **The Group is dependent on favorable salmon prices, which may be affected by a number of factors, to sustain or expand its operations:**

Salmon price developments are highly volatile, with major fluctuations within relatively short time spans. There has been a stable rise in demand for salmon over recent years, while the growth in supply has been limited. This development is expected to continue going forward. Supply is also impacted by other factors, such as government regulations, sea temperatures, sea lice, outbreaks of disease, and other indirect and direct factors, which affect production and hence also supply. The current low market prices could further affect the Groups targeted harvest volume for 2020 and its 2025 growth ambitions. If the market prices remain low or if the Group is to experience a sudden drop in salmon prices, this may have a material adverse effect on the Group's results, financial condition, cash flow and prospects.

### **The outbreak of the Covid-19 may reduce demand for salmon and disrupt global supply chains:**

After the outbreak of the Covid-19 pandemic, authorities worldwide have implemented strict measures to reduce and slow its spread. These measures are likely to impact global economic activity, which might also affect global demand for salmon. Furthermore, Grieg Seafood might experience disruptions to its supply chain upstream or downstream. Air traffic restrictions with respect to jurisdictions heavily hit by the Covid-19 outbreak may impact the aquaculture industry's capacity to transport products to end-markets globally, which may have different impacts on salmon prices in different markets, and on Grieg Seafood's operations, e.g. by causing a reduction in the price and/or volume of salmon export due to e.g. severe delays on border areas because of passport and custom checks as well as increases in transportation cost. There are great uncertainties regarding the definite consequences of the Covid-19 outbreak, and should the global demand for salmon and/or the Group's supply chain experience disruptions, it may adversely affect the Group's revenue, operations, financial condition and business.

### **Risks related to feed costs and supply:**

Feed costs account for a significant portion of the Group's total production costs, and an increase in feed prices could, thus, have a major impact on the Group's future profitability. The feed industry is characterized by large global suppliers operating under cost plus contracts, and feed prices are accordingly directly linked to the global markets for fishmeal, vegetable meal, animal proteins and fish/vegetable/animal oils which are the main ingredients in fish feed. Increases in the prices of these raw materials will accordingly result in an increase in feed prices. The Group may not be able to pass on increased feed costs to its customers in the future. Due to the long production cycle for farmed salmon, there may be a significant time lag between changes in feed prices and corresponding changes in the prices of farmed salmon and finished products to customers. As the main feed suppliers normally enter into fixed contracts and adapt their production volumes to prevailing supply commitments, there is limited excess of fish feed available in the market. If one or more of the feed contracts the Group has entered into were to be terminated on short notice prior to their respective expiration dates, the Group could not be able to find alternative suppliers in the market. Shortage in feed supply may lead to starving fish, accelerated harvesting, loss of biomass and reduced income.

### **Uncertainties regarding the outcome of the UK's departure from the EU:**

The outcome of the UK's departure from the European Union (Brexit) represents an uncertainty for the Scottish salmon farming industry and for Norwegian exporters. Once the Brexit transition period comes to an end, the salmon industry will experience operational and economic changes in trade between the UK and the rest of the world. Approximately 68% of farmed Scottish salmon was destined for markets outside the UK in 2019. For Grieg Seafood Shetland, 20% of the volume in 2019 went to other markets. Brexit without trade agreements could lead to a higher supply of salmon than demand in the UK market, negatively impacting salmon prices, affecting the Group's results.

**The use of Triploid salmon in Newfoundland is associated with several risks and may affect the success and profitability of the project:**

The subsidiaries of Grieg Newfoundland AS currently hold eight licenses. The utilization of these licenses is conditional upon the use of sterile salmon to prevent any mating between farmed and wild salmon. The Group has chosen to use Triploid salmon, and this will be the first production of sterile Salmon performed by the Group. The commercial use of Triploid salmon is relatively new, and the science data relating to such use is limited compared to data on Diploid salmon. This may lead to, among other things, increased operational costs, increased mortality, less volume of harvested and sellable salmon. Should these risks materialize, the Group's revenues, financial condition and prospects may be affected.

**RISKS RELATED TO CLIMATE CHANGES AND LOSS OF NATURE**

**The Group is exposed to physical risks from climate change:**

The climate plays an important role in Grieg Seafood's operations. Grieg Seafood recognizes that climate change is likely to present a range of challenges to the aquaculture industry. Without proactive adaptation, salmon farming may become more vulnerable to acute physical risks caused by extreme weather events such as damages to production facilities and infrastructure, increase employee accident rates and increase in downtime due to harsh weather and higher risks of escapes due to facility impairment. These risks might result in decreased harvest due to loss of fish, or lost opportunity to farm in the most exposed areas. In addition, extreme weather conditions in locations where our suppliers source feed raw materials may impact the price and availability of fish feed. Sea water salmon farming may also become exposed to chronic physical risk such as increased water temperatures, which can lead to elevated risk of algae bloom, lower oxygen levels and impact disease and mortality rates. An increase in deviating weather conditions resulting from climate change may have a detrimental impact on the Group's operations, business, financial conditions and prospects and disease due to higher seawater temperature.

**The Group is exposed to regulatory risk related to climate change:**

Grieg Seafood is increasingly transporting products by air freight, particularly to the US and Asian markets. The largest direct source of emissions comes from the use of fuels for boats, vehicles and on-site energy production from generators. Carbon taxes will increase the costs of consumption of fossil fuels and may have a significant financial impact while also making the products less competitive. In addition, increasing cost of carbon may change market dynamics in favor of local, land-based production or closed-containment technologies, leaving Grieg Seafood with an obsolete business model and mode of production. Grieg Seafood's resilience to emerging climate-related regulations is also dependent on the suppliers' ability to adapt to new climate-related regulations that affect them. If suppliers are not prepared to face these risks, it is highly likely that their increased operating costs would be passed on to Grieg Seafood. These risks may have a detrimental impact on the Group's operations, business, financial conditions and prospects.

**The Group is exposed to market risks related to climate change:**

Grieg Seafood relies heavily on access to good quality, sustainably sourced feed raw materials. If climate change causes acute or chronic physical changes, the availability of these raw materials may become scarcer and hence more expensive. Grieg Seafood is also reliant on suppliers to find more sustainable production and transportation methods as these could become more heavily regulated in the future. Climate change and increased consumer attention to climate-related issues can have a multitude of effects on the demand for protein sources. One of the main changes is the risk from shifts in consumer preferences of preferring certified fish. Certified products, such as ASC certified fish, can become a common customer demand. These risks may have a detrimental impact on the Group's operations, business, financial conditions and prospects.

**The Group is exposed to technology risks related to climate change:**

Grieg Seafood can be at a great disadvantage if land-based fish farming increases in markets such as China and the US. R&D efforts in land-based farming technologies may increase as the cost of carbon rises, making land-based fish farming more competitive, and placing Grieg Seafood at a competitive disadvantage. Furthermore, Grieg Seafood observed a considerable development within the markets for alternative protein production, such as plant-based protein, edible insects, cultured meats, algal protein, and microbial protein. If this development continues, there is a risk that the demand for the Group's products will be reduced, which may have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group is exposed to reputational risks related to climate change:**

Grieg Seafood is increasingly transporting products by air freight. Extensive use of air freight may see growing reputational pressure as climate awareness increases. This may impact attractiveness to consumers, employees, and investors. Investor and consumer interest may decrease if Grieg Seafood fails to develop and effectively communicate the approach to sustainable and climate-friendly solutions. Negative reputation may have a detrimental impact on the Group's operations, business, financial conditions and prospects.

**Risks related to the loss and degradation of nature:**

Biodiversity, the diversity within species, between species and of ecosystems, is declining globally, faster than at any other time in human history. Nature and ecosystems provide basic building blocks of the global economy, and

biodiversity loss and ecosystem collapse will also affect Grieg Seafood's operations, supply chains and markets. Changes in biodiversity may affect access to feed raw materials, impacting feed prices and availability. It may also limit access to medicines, as some medicines are derived from rainforest plants, or natural or synthetic products inspired by nature, which may impact the fish health of salmon. Local businesses are also dependent on nature for local value creation, where loss of nature may impact where people can or decide to live, which can affect access to employees or expertise in the local communities where Grieg Seafood operates. Further loss of nature and biodiversity may have a detrimental impact on the Group's operations, business, financial conditions and prospects.

## **RISKS RELATED TO THE GROUP'S FINANCING AND FINANCIAL SITUATION**

### **Funding may not be available on favorable terms in the future or at all:**

The Group's business and future plans are capital intensive and, to the extent the Group does not generate sufficient cash from operations in the long term, the Group may need to raise additional funds through public or private debt or equity financing to execute the Group's growth strategy and to fund capital expenditures. Adequate sources of capital funding might not be available when needed or may only be available on unfavorable terms. If funding is insufficient at any time in the future, the Group may be unable to fund maintenance requirements and acquisitions, take advantage of business opportunities or respond to competitive pressures, any of which could adversely impact the Group's results, financial condition, cash flow and prospects.

### **The Group's obligations arising from debt arrangements impose restrictions on operations and may be defaulted:**

The Group has revolving credit and overdraft facilities and has entered into long-term loan agreements with DNB and Nordea Bank Abp, with final maturity in February 2023. The Group has furthermore incurred additional debt through the issuance of this bond, and also has leasing liabilities. The agreements entered into in connection with the above-mentioned arrangements may impose severe operating restrictions.

Although management draws up rolling liquidity forecasts, extending over five years, which are based on conservative assumptions for salmon prices and form the basis for calculating liquidity requirements and financing needs, there can be no assurances that these forecasts may prove correct or sufficient to satisfy the Group's financing needs. If the current low market prices do not improve, investments of the Group must to larger extent be financed through debt rather than operational cash flow. The Group has already incurred considerable debt. Should the Issuer and/or the Group fail to fulfill its obligations arising from the above-mentioned debt arrangements and/or breach clauses in the loan/leasing agreements entered into, it may have an adverse effect on the Group's reputation, financial condition, business and prospects.

### **The Group is exposed to currency risk:**

In translating the operating income and balance sheet items of foreign subsidiaries, the Group's major currency exposure is to CAD and GBP. The strategy is to reduce the currency risk by funding the businesses in their local currencies. Most long-term loans from the Issuer to subsidiaries are in the local currency. Such loans are regarded as net investments, as they are not repayable to the Issuer. The subsidiaries will always require long-term funding. The currency effect of these net investments is included in the Group's consolidated statement of other comprehensive income (OCI). Income and currency risk have been transferred to the sales organization, currently Ocean Quality. The production companies sell in local currencies to the sales organization, which hedges its transactions against currency fluctuations related to CAD/USD, EUR/NOK, GBP/EUR, GBP/USD and USD/NOK, as well as other currencies if required. Long-term foreign currency contracts are hedging instruments, where unrealized currency gains or losses are recognized through OCI in the financial statements. The Group is also exposed to EUR, as part of the credit facility is in EUR. If the Group is unsuccessful in hedging against currency fluctuations and significant fluctuations, it may have a material adverse consequence on the Group's financial results and business.

### **The Group is exposed to liquidity risks:**

In line with the Group's growth strategy, interest-bearing liabilities have increased and may continue to increase. The Group has invested substantial amounts during the last year and built up its biomass, as well as paid out a dividend. The last year's refinancing has made the Group financially equipped to carry out further investments in increased smolt stocking and new locations for sea production. Ocean Quality in Norway and the UK each have factoring agreements with credit institutions that cover the financing of outstanding receivables. The agreement for Ocean Quality UK means that any significant risk and control of trade receivables remains with Ocean Quality UK. Ocean Quality AS's factoring agreement entails that the factoring company purchases 90% credit-insured trade receivables from Ocean Quality AS, transferring significant risk and control of the receivable to the credit institution, thus the receivables from Ocean Quality AS is derecognized from the balance sheet. If the Group is unsuccessful in managing its liquidity reserves, it may have a material adverse consequence on the Group's financial results and business.

### **The Group is exposed to interest rate risk:**

The Group is exposed to interest rate risk through its borrowing activities, and to fluctuating interest rate levels in connection with the financing of its activities in the various regions. The Group's existing loans are at floating interest

rates, but separate fixed-rate contracts have been entered into to reduce interest rate risk. It is the Group's policy to have 20–50% of its interest-bearing debt hedged through interest rate swap agreements. A given proportion shall be at floating rates, while consideration will be given to entering and exiting hedging contracts for the remainder. The interest rate swap agreement changes with the three months NIBOR. Increases in interest rate levels may have a material adverse consequence on the Group's financial results.

## **RISKS RELATED TO LAWS AND REGULATIONS**

### **The Group is currently under investigation by the European Commission and US competition authorities, 5 lawsuits have been filed against the Group, and there can be no assurances regarding the outcome of such investigations and/or lawsuits:**

In February 2019, the European Commission launched an investigation to explore potential anti-competitive behavior in the Norwegian salmon industry, whereby Grieg Seafood is one of the companies under investigation. Based on the EU investigation, US competition authorities launched their own investigation into the matter in November 2019. Following these investigations two consolidated lawsuits (one direct and one indirect purchaser case) had been filed at the Florida, District Court, USA and three separate class-action cases in Canada. Grieg Seafood is not aware of any anti-competitive behavior within the Group; not in Norway, the EU, the USA, or in Canada, and the Group will use all its reasonable endeavors to fully collaborate with European and American authorities in this matter and will follow up the lawsuits in the USA and Canada accordingly. However, there can be no assurances regarding the outcome of such investigations or law suits against the Group. Adverse regulatory action or judgment in litigation could result in expensive fees and legal costs, as well as sanctions of various types for the Group, including, but not limited to, the payment of fines, damages or other amounts, the invalidation of contracts, restrictions or limitations on its operations, any of which could have a material adverse effect on the Group's reputation, profitability and/or financial condition.

### **The Group is subject to extensive regulations:**

The Group's activities are subject to extensive regulations, in particular relating to environmental protection, food safety, hygiene and animal welfare. Further, salmon farming is strictly regulated by licenses and permits granted by the authorities. Future changes in the laws and regulations applicable to the Group's operations can be unpredictable and are beyond the control of Grieg Seafood. Such changes could imply the need to materially alter the Group's operations and set-up and may prompt the need to apply for further permits, which could in turn have a material adverse effect on the business, financial condition, results of operations, prospects or cash flow of the Group. For example, the authorities may introduce further regulations for the operations of the Group's facilities, e.g. regarding standards for production facilities, capacity requirements, feed quotas, fish density, site allocation conditions or other parameters for production, which may negatively impact the Group.

### **Risks relating to the Group's current and future expected licenses:**

The Group is to a significant extent dependent on maintaining its current licenses (also known as concessions) and being granted future licenses from the relevant governmental authorities to operate its fish farms and to sustain and expand its revenues and business. There are strict requirements relating to the granting of such licenses. Once a license is granted, the relevant Group company is from that point and onwards subject to strict regulations when it comes to the operation of the licensed fish farms. However, there can be no assurances that the relevant Group company will maintain all of its current licenses or be granted the necessary future licenses in order to sustain or expand its operations in the future. Grieg Seafood Newfoundland has currently been granted eight licenses, and depends on further licences to reach its future production target. In 2018, there was a change in license regulation in BC, Canada, which will take effect from 2022, where renewal of licenses will require support of local First Nations in addition to approval from the Fisheries and Oceans Canada. Any failure to maintain or be granted necessary license may have a material adverse impact on the Group's business, financial conditions, results of operation and liquidity.

### **Risks related to international trade restrictions imposed on the Group:**

The Group's business is affected by laws and regulations in the geographical areas in which the Group operates, and the Group may be exposed to political and other uncertainties, including risks of import-export quotas, wage and price controls and the imposition of trade sanctions, embargoes and other trade barriers. Accordingly, the Group is affected by the adoption of laws and regulations and decisions in international bodies and may be required to make significant capital expenditures or operational changes to comply with such laws, regulations and decisions. Many countries control the export and re-export of certain goods, services and technology and impose related export recordkeeping and reporting obligations. The laws and regulations concerning export recordkeeping and reporting; export control and economic sanctions are complex and constantly changing. These laws and regulations may be enacted, amended, enforced or interpreted in a manner materially impacting the Group's operations. Products and services can be denied export or entry for a variety of reasons, some of which are outside the Group's control. Any failure to comply with applicable trade sanctions and restrictions could also result in criminal and civil penalties and sanctions, such as fines and loss of import and export privileges.

### **Environmental risks:**

The Group's operations are subject to environmental requirements which govern, among other matters, air pollution emissions, wastewater discharges, solid and hazardous waste management, and the use, composition, handling,

distribution and transportation of hazardous materials. Many of these laws and regulations are becoming increasingly stringent, and the cost of compliance, including penalties if the Group fails to comply with these requirements, can be expected to increase over time.

**Changes in tax laws of any jurisdiction in which the Group operates, and/or any failure to comply with applicable tax legislation may have a material adverse effect for the Group:**

The Group already is and will be subject to prevailing tax legislation, treaties and regulations in the jurisdictions in which it operates, or decides to commence operations, and the interpretation and enforcement thereof. The Group's income tax expenses are based upon its interpretation of the tax laws in effect at the time that the expense is incurred. If applicable laws, treaties or regulations change, or if the Group's interpretation of the tax laws is at variance with the interpretation of the same tax laws by tax authorities, this could have a material adverse effect on the Group's business, results of operations or financial condition. If any tax authority successfully challenges the Group's operational structure, pricing policies or if taxing authorities do not agree with the Group's assessment of the effects of applicable laws, treaties and regulations, or the Group loses a material tax dispute in any country, or any tax challenge of the Group's tax payments is successful, the Group's effective tax rate on its earnings could increase substantially and the Group's business, earnings and cash flows from operations and financial condition could be materially and adversely affected.