Outlook for the Icelandic salmon industry

NASF
CEO Charles Høstlund
Agenda

1. Norway Royal Salmon in brief
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Norway Royal Salmon (NRS) in brief

**Segment**
- Farming
- Trading

**200 employees**

**Listed on Oslo Stock Exchange March 2011**

**Farming**
- 35 licenses
  - Region North 29 licenses
  - Region South 6 licenses
- Volume 2017: 31,900 tonnes

**Associated companies**
- Norway: 10 licenses (3 companies)
- Iceland: Arctic Fish ehf

**Trading**
- Own and external volume
- Selling to over 50 countries
- Volume 2017: 77,800 tonnes
• 26 % higher biomass than at the end of Q4 last year
• Estimated harvest volume for 2018 of 42 500 tonnes (+33 % yr/yr)
In process with new smolt facility

- NRS is in process of building a hatchery that will produce 10 million 120 - 200 grams smolt yearly

- Strategically located in short distance to our farming sites in Region North

- Strategically important for NRS
  - The hatchery will contribute to increase the biological safety and quality of our smolt
  - Improved utilization of licenses

- We are planning to start building next year
• NRS and Aker ASA have applied for 15 development licenses

• Semi-submersible offshore fish farms designed for harsh environments

• The Directorate of Fisheries has informed that the application is in line with the criteria for development licenses and they will process the application limited up to 5,990 tonnes MAB (2 cages)
• NRS has applied for 6 development licenses

• FlipCage is a multifunctional rotatable cage

• The concept includes a rotatable cage that can alternate between open operations and closed operations

• The concept has a significant degree of innovation
Highlights in Q4 2017
Highlights in Q4 2017

- Operational EBIT of MNOK 95
  - Operational EBIT per kg NOK 15.51
- ISA detected at 3 sites in Region North, has affected the Operational EBIT significantly negative in the quarter
- Production costs Region North ex ISA sites are down
- 26 % higher biomass than at the end of Q4 last year
- Credit facilities from bank increased by MNOK 500
- The Board proposes a dividend of NOK 5.20 per share
Region North

- Operational EBIT* MNOK 116.1
- Operational EBIT per kg NOK 15.84
  - Suboptimal size and quality of the fish due to harvested ISA fish in the quarter
- Production cost from sites not affected by ISA of NOK 33.10 per kg
  - Harvested 1,600 tonnes from sites with ISA with a high production cost, which resulted in a total production cost of NOK 36.58 per kg
- Harvested 7,326 tonnes, up 4,714 tonnes compared to Q4 16

* EBIT pre fair value adjustment and non-recurring items incl. allocated margin form sales
Region South

• Operational EBIT* MNOK 24.4

• Operational EBIT per kg NOK 14.12
  • Suboptimal size and timing of harvest volume during the quarter

• Production cost of NOK 38.60 per kg
  • Increased production cost due to harvest from sites within a zone with temporary authority-imposed transport regulations, which has resulted in higher harvest and well boat costs

• Harvested 1,726 tonnes, down 354 tonnes compared to Q4 16

* EBIT pre fair value adjustment and non-recurring items incl. allocated margin form sales
Outlook for the Icelandic salmon industry
Icelandic salmon industry

• Three steps (waves)
  1. 80's and 90's - Experimental salmon farming in sea cages
  2. Early 2000's – Sea farming in east of Iceland
  3. From 2010 - Professional salmon farming starting in the Westfjords of Iceland

• Good farming conditions with a big potential for growth

• Two main areas for salmon farming: Westfjords and Eastfjords
  • Big part of the Icelandic coastline is closed to sea-cage farming
  • Only 5 farming companies

• Farming condition similar to Finnmark in Norway
  • Colder during winter, but warmer during summer
Potential for growth for the industry

- New risk assessment last year evaluation of MRI assumes yearly production volume on 71,000 tonnes
  - Westfjords: 50,000 tonnes
  - Eastfjords: 21,000 tonnes
- The size of the farming sites and the distance to rivers are important variables in the model, and based on the principle to protect the wild populations
- Harvest volume for 2017 just under 12,000 tonnes

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<tr>
<td>Samtals:</td>
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Source: MARINE AND FRESHWATER RESEARCH IN ICELAND
Arctic Fish in brief

- NRS owns 50 % of Arctic Fish
- Experienced owners both within farming and processing
- All sites and pending licenses are located in the Westfjords
- Licenses capacity can reach 30 000 tonnes:
  - Existing licenses: 11 400 tonnes (salmon)
  - Licenses applications: 10 000 tonnes
  - There are further license applications within current risk assessment in Westfjords, if current areas that are closed due to the evaluation will be reevaluated
Focus on smolt - new recirculation hatchery

- Smolt capacity will be one of the major bottlenecks in terms of production for the industry

- Focus on bigger smolt, to reduce production period in sea
  - Arctic Fish is the only company that have stated and build up RAS hatchery at Iceland

- The hatchery is located in south part of Westfjords and is to undergo a three phase expansion process
  - Two of three buildings almost completed
  - Potential for further expansion in our own area for the future

- Arctic Fish estimated number of smolt release
  - 2017: 0.8 million
  - 2018: 2.0-2.5 million
Challenges we are working on

• Keep control on fish health
  • Some challenges with BKD, and we need to control this disease, new hatchery equipped with UV-radiation system

• We need to grow and develop the supply and service industry

• Pending licenses
  • We got 6 800 tonnes new licences end 2017 after a 3 years application process, after several years in a “steady stage” situation
  • We have still licenses in process and have put more resources to work on this important part of our operation

• Some NGO`s are negative towards salmon farming in sea cages
Our focus areas

- Building a team with farming experience
  - Recruited new CEO from NRS

- Focus on fresh water facility to produce high quality smolt

- Develop a good and robust site structure, and also investing heavily in new equipment at sea

- Regulation
  - We are working for a foreseeable framework and a well-regulated aquaculture industry at Iceland, knowing that regulations can secure a good sanitary situation

- Marketing
  - Develop Icelandic origin with high quality salmon

*We are building the industry and company step by step, and see a significant growth potential*