# Iceland Seafood International hf.

## Consolidated Financial Statements
for the year ending 31 December 2018

Iceland Seafood International hf.
Köllunarklettsvegur 2
104 Reykjavík
Iceland
TIN 611088-1329

# Contents



### Company Information

| | |
|---|---|
| Name | Iceland Seafood International hf. |
| TIN | 611088-1329 |
| BOD | Magnús Bjarnason, Chairman<br>Liv Bergþórsdóttir, Board Member<br>Jakob Valgeir Flosason, Board Member<br>Ingunn Agnes Kro, Alternate Board Member |
| CEO | Bjarni Ármannsson |
| Address | Köllunarklettsvegur 2<br>104 Reykjavík<br>Iceland |
| Web | www.icelandseafood.com |
| Lawyers | Lex ehf<br>Borgartúni 26<br>105 Reykjavík<br>Iceland<br>www.lex.is |
| Auditors | Deloitte ehf.<br>Smáratorg 3<br>201 Kópavogur<br>Iceland<br>www.deloitte.is |
| Reporting currency | Euro (EUR) |

# Independent Auditor's Report

of the Consolidated Financial Statements

To the Board of Directors and shareholders of Iceland Seafood International hf.

### Opinion

We have audited the Consolidated Financial Statements of Iceland Seafood International hf. for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of Iceland Seafood International hf. as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Iceland Seafood International hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Icelandic Institute of State Authorized Public Accountants, Code of Ethics (FLE Code) and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Valuation of goodwill

Book value of goodwill at year-end amount to EUR 43.4 million (2017: 8.8 million).

As required by the applicable accounting standards, management conducts annual impairment tests to assess the recoverability of the carrying value of goodwill. This is performed using discounted cash flow models. As disclosed in note 11, there are a number of key sensitive judgements made in determining the inputs into these models which include:

▪ Revenue growth
▪ Expected future margins and
▪ The discount rate applied to the projected future cash flows

Accordingly, the impairment test of these assets is considered to be a key audit matter in the audit of valuation of goodwill.

#### How our audit addressed the key audit matter

We focused our testing of the impairment of goodwill on the key assumptions made by management. Our audit procedures included:

Engaging our internal specialist to assist with:

▪ Critically evaluating whether the model used by management to calculate the value in use of the individual Cash Generating Units complies with the requirements of IAS 36 Impairment of Assets.
▪ Validating the assumptions used to calculate the discount rates and recalculating these rates.
▪ Analysing the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current economic climate and expected future performance of the Cash Generating Unit.
▪ Subjecting the key assumption to sensitivity analyses.
▪ Comparing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance to test the accuracy of management´s projections.

We also reviewed the disclosures presented in note 11 to the Consolidated Financial Statements to confirm compliance with the requirements within IAS 36.

### Business combinations

Two acquisitions occured in the year. As detailed in note 13, 34.4 million of goodwill have been recognized in connection with the acquisitions.

The accounting for these transactions is complex due to management judgements taken in the application of accounting standards, for example the valuation of the businesses, the recognition and valuation of consideration and the identification and valuation of intangible assets.

Accordingly, business combinations is considered to be a key audit matter in the audit.

### How our audit addressed the key audit matter

We focused our testing of the audit of business combination on the key assumptions made by management. We have performed the following procedures, with assistance from our internal specialists, to address this key audit matter:

▪ Obtained and reviewed the share purchase agreements, due diligence reports and associated contractual agreements for the current year business combinations and understood the terms and conditions of each transaction to assess compliance with IFRS 3 Business Combinations (IFRS 3).
▪ Tested the initial consideration to the signed purchase agreement and assed the appropriateness of the fair value of the total consideration determined by management.
▪ Assessed the valuation models prepared by management to value the businesses and the intangible assets identified in the acquired businesses and engaged our internal valuation specialists to challenge the assumptions and methodology used by management.
▪ Examined and assessed the inputs within the valuation models, including the future growth patterns to the historical trends

We also reviewed the disclosures presented in note 13 to the Consolidated Financial Statements to confirm compliance with the requirements within IFRS 3.

### Other information

The Board of Directors and the CEO are responsible for the other information. The other information comprises the Statement and Endorsement by the Board of Directors and the CEO and the unaudited appendices to the Consolidated Financial Statements.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding Statement and Endorsement by the Board of Directors and the CEO as stated below.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying Statement and Endorsement by the Board of Directors and CEO includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the Financial Statements.

**Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements**
The Board of Directors and the CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors and the CEO are responsible for assessing Iceland Seafood International hf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the Consolidated Financial Statements**
Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:
▪ Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
▪ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Iceland Seafood International hf.'s internal control.
▪ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
▪ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
▪ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
▪ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters.  We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Kópavogur, 20 March 2019.

**Deloitte ehf.**

Ingvi Björn Bergmann
State Authorised Public Accountant

# Statement and Endorsement

by the Board of Directors and the CEO

### Statement

It is the opinion of the Board of Directors and the CEO of Iceland Seafood International hf. (the Company), that these Consolidated Financial Statements present the necessary information to evaluate the financial position of the Company at year end, the operating results for the year and financial developments during the year 2018.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional disclosure requirements in the Icelandic Act no. 3/2006 on Financial Statements.

### The Company

The Company is a holding company for a Group of subsidiaries in Europe, North and South America, that are leading suppliers of North Atlantic seafood and one of the largest exporters of seafood from Iceland. The Group is headquartered in Iceland and has subsidiaries in the United Kingdom, Ireland, Spain, Argentina, Iceland, France, Germany and the United States.

The Group operates across three divisions, Value Added Southern Europe, Value Added Northern Europe and our Sales & Distribution Division which has offices in Iceland, France, Germany and the USA. The Value Added Divisions have processing factories and coldstores in their respective regions with Southern Europe also having a satellite facility in Argentina.

### Operations for the year

The Board of Directors and the CEO are very pleased to report a strong performance for 2018. Sales of EUR 346.0 million were 39% up on prior year, supported by a EUR 63.0 million contribution from Oceanpath and Solo Seafood who were acquired during the year.

The Consolidated Income Statement for the year 2018 shows Normalised Profit Before Tax of EUR 7.2 million compared to EUR 3.5 million in 2017. On a proforma basis, including full year impact of Oceanpath and Iberica acquisitions, the Normalised Profit Before Tax is EUR 10.8m which highlights the transformational change of the Group during the year. Profit For The Year of EUR 4.7 million increased by EUR 2.1m from the prior year.

The Consolidated Balance Sheet at year-end 2018 shows total assets of EUR 193.8 million or EUR 105.6 million increase over the prior year, reflecting a combination of the assets and goodwill acquired in Oceanpath (EUR 21.8 million) and Solo Seafood ehf (EUR 82.0 million). Equity amounted to EUR 59.3 million or up EUR 41.6 million from December 2017, largely due to the issue of new shares in relation to the acquisition of Solo Seafood ehf (EUR 34.8 million). The Equity ratio was 30.6% at year end compared to 20.1% in 2017. Full time employees on average for the year were 450 (2017: 287), with 667 at year end.

### Acquistion of Oceanpath Ltd.

On 13 March 2018 the Company announced the acquisition of a 67% of the share capital of Oceanpath Ltd., an Irish company and a leading fresh fish supplier to retailers in Ireland. The acquisition was completed on 14 March 2018 and Oceanpath has been included in the consolidated accounts from that time. The total acquisition price is EUR 14.2 million assuming full earn out, in accordance with the Share Purchase Agreement, €11.5 million was paid in 2018 with the remaining EUR 2.7 million to be paid in 2019 (further details in Note 13).

# Statement and Endorsement

by the Board of Directors and the CEO

### Acquistion of Solo Seafood ehf.

On 30 April 2018 the Company announced that it had agreed on the Head of Terms to acquire Solo Seafood ehf., an Icelandic holding company which holds 100% of the share capital of Icelandic Ibérica S.A., a Spanish company and one of the leading seafood suppliers in South Europe. On 1 August 2018 the Company agreed final terms and signed the Sales and Purchase Agreement. The acquisition was completed on 14 September 2018 following Shareholders approval of share issuance related to the transaction and Solo Seafood ehf. has been included in the consolidated accounts from that time (further details in Note 13).

### Events after the reporting period

On 23 January 2019 the Company announced the appointment of Bjarni Ármannsson as the Company's new CEO. At the same time Helgi Anton Eiríksson and Lee Camfield resigned from their CEO and COO positions. At a Shareholders Meeting held on 5 February 2019 a new Board of the Company was elected, where Magnús Bjarnason, Liv Bergþorsdottir and Jakob Valgeir Flosason were elected to the Board and Ingunn Agnes Kro as an alternate Board member. At a Board meeting the same day, Magnus Bjarnason was elected as the Chairman of the Board.

### Market capitalization

The Company is listed on the Nasdaq First North market in Iceland (ticker: ICESEA). The Company issued 1.025m new shares during 2018, in relation to the acquisition of Solo Seafood ehf. The latest transaction in 2018 was at ISK 8.7 per share, giving the Company a market capitalization of EUR 152.1 million (2017: EUR 68.1 million) or 124% increase YOY.

### Shareholders

The total number of shareholders at year end was 289 (2017: 161). The ten largest are (shares are in ISK millions):

| | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Sjávarsýn ehf | 248 | 11% | | |
| Nesfiskur ehf | 239 | 10% | | |
| FISK Seafood ehf | 239 | 10% | | |
| Solo Holding ehf | 209 | 9% | | |
| Jakob Valgeir ehf | 203 | 9% | | |
| International Seafood Holdings | 122 | 5% | 657 | 51% |
| Arion Banki | 118 | 5% | 25 | 2% |
| Kvika | 97 | 4% | 113 | 9% |
| Frjálsi lífeyrissjóðurinn | 89 | 4% | 50 | 4% |
| Akta Sjóðir | 89 | 4% | 54 | 4% |
| | 1.653 | 71% | 898 | 69% |
| Other | 672 | 29% | 402 | 31% |
| | 2.325 | 100% | 1.300 | 100% |

The Board of Directors will propose to the Annual General Meeting that no dividend will be paid to shareholders in 2018. For an overview of changes in equity, see the Consolidated Statement of Changes in Equity.

# Statement and Endorsement

by the Board of Directors and the CEO

### Non-financial information

The Company is defined, under the Icelandic Act no. 3/2006 on Financial Statements, as a parent company of a large consolidation. According to the Act, such companies are to disclose as an attachment to the Statement and Endorsement by the Board of Directors and the CEO, relevant and useful information on their policies, main risks and outcomes relating to environmental, social and employee matters, their human rights policy and how they counteract corruption and bribery. Also a short description of their business model. This new disclosure requirement is derived from a European directive that became effective on 1 January 2017.

The Company has various policies in place regarding these above mentioned matters, rights and actions, which are disclosed in the Non Financial Information appendices to these Consolidated Financial Statements.

### Endorsement

The Board of Directors and the CEO of Iceland Seafood International hf. hereby confirm the Consolidated Financial Statements of the Company for the year 2018 with their signatures.

Reykjavík, 20 March 2019.

Magnús Bjarnason
Chairman of the Board

Liv Bergþórsdóttir
Board Member

Jakob Valgeir Flosason
Board Member

Bjarni Ármannsson
Chief Executive Officer

# Consolidated Income Statement

for the year ended 31 December 2018

| | Note | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|
| | | Normalised results | Significant items* | IFRS | Normalised results | Significant items* | IFRS |
| **Gross profit** | | | | | | | |
| Sales of seafood .................................. | 2 | 345.978 | | 345.978 | 249.149 | | 249.149 |
| Cost of sales ........................................ | 14 | (299.153) | | (299.153) | (214.976) | | (214.976) |
| | | 46.825 | 0 | 46.825 | 34.173 | 0 | 34.173 |
| **Operating expenses** | | | | | | | |
| Operating expenses .............................. | | (36.354) | (1.290) | (37.644) | (28.473) | (192) | (28.665) |
| Depreciation and amortisation ............ | 10,11 | (1.319) | | (1.319) | (863) | | (863) |
| **Operating profit ................................** | | 9.152 | (1.290) | 7.862 | 4.836 | (192) | 4.644 |
| Net finance costs ................................. | 5 | (2.005) | | (2.005) | (1.343) | | (1.343) |
| Net exchange rate difference ............... | | 69 | | 69 | 15 | | 15 |
| **Normalised profit before tax ..............** | | **7.216** | **(1.290)** | **5.926** | **3.508** | **(192)** | **3.316** |
| Income tax expense ............................ | 6 | (1.489) | 258 | (1.231) | (765) | 38 | (727) |
| **Normalised profit ..............................** | | 5.727 | (1.032) | 4.695 | 2.743 | (154) | 2.589 |
| Discontinued operations ...................... | 8 | | (18) | (18) | | (11) | (11) |
| **Profit for the year ..............................** | | **5.727** | **(1.050)** | **4.677** | **2.743** | **(165)** | **2.579** |
| **Attributable to** | | | | | | | |
| Owners of the Company ...................... | | 5.063 | (1.044) | 4.019 | 2.730 | (161) | 2.569 |
| Non-controlling interests ..................... | | 664 | (6) | 658 | 13 | (4) | 10 |
| | | 5.727 | (1.050) | 4.677 | 2.743 | (165) | 2.579 |
| **Earnings per share** | 9 | | | | | | |
| Basic (cents per thousand shares) ......... | | 0,3583 | | 0,2926 | 0,2111 | | 0,1984 |
| Diluted (cents per thousand shares) ..... | | 0,3546 | | 0,2896 | 0,2111 | | 0,1984 |

* See note no 7 for further information on significant items.

Amounts in EUR thousands

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

| | Note | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|
| | | Normalised results | Significant items* | IFRS | Normalised results | Significant items* | IFRS |
| **Profit for the year ................................** | | **5.727** | **(1.050)** | **4.677** | **2.743** | **(165)** | **2.579** |
| **Items that may be reclassified subsequently to profit or loss** | | | | | | | |
| Net fair value of cash flow hedges ......... | | 177 | | 177 | (328) | | (328) |
| Translation difference ........................... | | (141) | | (141) | 108 | | 108 |
| Other adjustments ................................ | | 7 | | 7 | | | |
| **Total comprehensive income for the year** | | **5.770** | **(1.050)** | **4.719** | **2.523** | **(165)** | **2.358** |
| **Attributable to** | | | | | | | |
| Owners of the Company ......................... | | 5.105 | (1.044) | 4.061 | 2.510 | (161) | 2.349 |
| Non-controlling interests ...................... | | 664 | (6) | 658 | 13 | (4) | 9 |
| | | 5.770 | (1.050) | 4.719 | 2.523 | (165) | 2.358 |

* See note no 7 for further information on significant items.

Amounts in EUR thousands

# Consolidated Balance Sheet

at 31 December 2018

| | Note | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 14.435 | 8.462 |
| Intangible assets | 11 | 44.689 | 8.900 |
| Investments in other companies | 12 | 89 | 42 |
| Deferred tax assets | 6 | 2.535 | 1.532 |
| Other long term assets | | 54 | 0 |
| **Total non-current assets** | | **61.802** | **18.937** |
| **Current assets** | | | |
| Inventories | 14 | 62.107 | 30.618 |
| Trade and other receivables | 15 | 62.452 | 35.095 |
| Other assets | 16 | 3.392 | 1.208 |
| Cash and bank balances | 17 | 3.967 | 2.223 |
| | | 131.918 | 69.144 |
| Assets classified as held for sale | 18 | 74 | 81 |
| **Total current assets** | | **131.992** | **69.225** |
| **Total assets** | | **193.794** | **88.162** |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Issued capital and share premium | 19 | 53.156 | 18.356 |
| Translation reserve | 20 | (900) | (759) |
| Other reserves | 20 | 538 | 350 |
| Retained earnings (accumulated deficit) | | 3.659 | (356) |
| Equity attributable to owners of the Company | | 56.452 | 17.591 |
| Non-controlling interests | | 2.890 | 129 |
| **Total equity** | | **59.342** | **17.720** |
| **Non-current liabilities** | | | |
| Borrowings | 21 | 6.640 | 877 |
| Pension and other obligations | | 914 | 148 |
| Deferred tax liabilities | 6 | 832 | 483 |
| Total non-current liabilities | | 8.386 | 1.508 |
| **Current liabilities** | | | |
| Borrowings | 21 | 75.828 | 40.194 |
| Trade and other payables | | 44.873 | 25.608 |
| Other liabilities | 22 | 5.357 | 3.130 |
| | | 126.058 | 68.932 |
| Liabilities associated with assets classified as held for sale | 18 | 8 | 2 |
| Total current liabilities | | 126.066 | 68.934 |
| **Total liabilities** | | **134.452** | **70.442** |
| **Total equity and liabilities** | | **193.794** | **88.162** |

Amounts in EUR thousands

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

| | Restricted equity | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Translation reserve | Hedging reserve | Statutory reserve | Equity reserve | Unrealised profit of subsidiaries | Accumu-lated deficit | **Attributable to owners of the Company** | Non - controlling interests | **Total equity** |
| **Balances at 1 January 2017** | **14.369** | **3.987** | **(867)** | **235** | **430** | **13** | **3.001** | **(5.878)** | **15.290** | **73** | **15.363** |
| Profit (loss) for the year ..................................... | | | | | | | 4.055 | (1.486) | 2.569 | 10 | 2.579 |
| Dividend declared from subsidiaries to parent ... | | | | | | | (2.700) | 2.700 | 0 | | 0 |
| Net fair value (loss) on cash flow hedges ............ | | | | (328) | | | | | (328) | | (328) |
| Translation of shares held in foreign currencies .. | | | 108 | | | | | | 108 | (1) | 107 |
| Other adjustments ............................................ | | | | | | | | (48) | (48) | 48 | 0 |
| Total comprehensive income ............................. | | | 108 | (328) | 0 | 0 | 1.355 | 1.166 | 2.301 | 57 | 2.358 |
| **Balances at 31 December 2017** | **14.369** | **3.987** | **(759)** | **(93)** | **430** | **13** | **4.356** | **(4.712)** | **17.591** | **129** | **17.720** |
| Profit (loss) for the year ..................................... | | | | | | | 6.529 | (2.510) | 4.019 | 658 | 4.677 |
| Net fair value gain on cash flow hedges ............. | | | | 177 | | | | | 177 | | 177 |
| Translation of shares held in foreign currencies .. | | | (141) | | | | | | (141) | (1) | (142) |
| Other adjustments ............................................ | | | | | | 11 | | (4) | 7 | | 7 |
| Total comprehensive income ............................. | | | (141) | 177 | 0 | 11 | 6.529 | (2.514) | 4.062 | 657 | 4.719 |
| Issue of share capital ......................................... | 8.020 | 26.780 | | | | | | | 34.800 | | 34.800 |
| Dividend declared from subsidiaries to parent ... | | | | | | | (5.222) | 5.222 | 0 | | 0 |
| Non-controlling interest arising from acquisitions of a subsidiary .............................. | | | | | | | | | 0 | 2.104 | 2.104 |
| **Balances at 31 December 2018** | **22.389** | **30.767** | **(900)** | **84** | **430** | **24** | **5.663** | **(2.004)** | **56.452** | **2.890** | **59.342** |

Amounts in EUR thousands

# Consolidated Statement of Cash Flows

for the year ended 31 December 2018

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit | | 7.862 | 4.644 |
| Depreciation and amortisation | | 1.319 | 863 |
| Gain on disposal of property, plant and equipment | | (23) | (51) |
| Change in obligations and other calculated liabilities | | (323) | 5 |
| **Working capital generated from operations** | | **8.835** | **5.461** |
| Decrease/(increase) in inventories | | 1.244 | (10.580) |
| Increase in receivables and other assets | | (4.437) | (2.055) |
| Increase in payables and other liabilities | | 2.311 | 5.957 |
| **Cash generated from / (used in) operations before interests and taxes** | | **7.952** | **(1.216)** |
| Interest received | | 83 | 77 |
| Interest paid | | (2.088) | (1.420) |
| Income taxes paid | | (1.836) | (847) |
| **Net cash from / (to) continuing operations** | | **4.112** | **(3.406)** |
| Net cash to discontinued operations | | (5) | (35) |
| **Net cash generated by / (used in) operating activities** | | **4.106** | **(3.441)** |
| | | | |
| **Investing activities** | | | |
| Payments for property, plant and equipment | 10 | (2.073) | (774) |
| Proceeds from disposal of property, plant and equipment | | 71 | 65 |
| Payments for intangible assets | 11 | (87) | (23) |
| Proceeds from disposal of intangible assets | | 3 | 3 |
| Net cash outflow on acquisition of subsidiaries | 13 | (7.862) | 0 |
| **Net cash used in investing activities** | | **(9.948)** | **(728)** |
| | | | |
| **Net cash before financing activities** | | **(5.842)** | **(4.169)** |
| | | | |
| **Financing activities** | | | |
| Net proceeds from revolving credit facility | | 5.405 | 5.299 |
| Net proceeds from borrowings on new term loan | | 5.000 | 0 |
| Net repayment of other borrowings | | (2.750) | (750) |
| **Net cash generated by financing activities** | | **7.655** | **4.549** |
| | | | |
| Net increase in cash and bank balances | | 1.813 | 380 |
| Cash and bank balances at the beginning of the year | | 2.223 | 1.797 |
| Effect of exchange rate changes on cash held in foreign currencies | | (69) | 46 |
| Cash and bank balances at the end of the year | | 3.967 | 2.223 |

**Non-cash investing and financing activities**

| | Note | 2018 | 2017 |
|---|---|---|---|
| Acquisition of subsidiary | 13 | (34.800) | |
| Proceeds from issue of share capital | 19 | 34.800 | |

Amounts in EUR thousands

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

## 1. General information

Iceland Seafood International hf. (the Company) is a public limited company incorporated in Iceland. It is listed on the Nasdaq First North market in Iceland (ticker: ICESEA).

The addresses of its registered office and principal place of business are disclosed in the Contents to the Consolidated Financial Statements. The principal activities of the Company and its subsidiaries (the Group) are described in the Statement and Endorsement by the Board of Directors and the CEO.

## 2. Segment information

### 2.1 Products and services from which reportable segments derive their revenues

Information is reported to the Board of Directors and key management on the operating segment level. The reportable segments in 2018 were:

| | |
|---|---|
| Value added Southern Europe . | Processing of seafood into value added products prior to sale in Southern Europe. |
| Value added Northern Europe . | Processing of seafood into value added products prior to sale in Northern Europe. |
| Sales and distribution ............ | Distribution of seafood to a global network of customers. |
| Other ...................................... | Head office and discontinued operations. |

### 2.2 Segment revenue, results, assets and liabilities

| **For the year 2018** | Value added S-Europe | Value added N-Europe | Sales and distribution | Other and Eliminations | Consolidated |
|---|---|---|---|---|---|
| ***Revenue:*** | | | | | |
| Sales of seafood ..................... | 106.677 | 97.641 | 198.534 | | 402.852 |
| Eliminations ........................... | (6.566) | (253) | (15.324) | (34.731) | (56.874) |
| | 100.111 | 97.388 | 183.210 | (34.731) | 345.978 |
| ***Operating results:*** | | | | | |
| EBIT ........................................ | 3.639 | 5.348 | 1.554 | (1.389) | 9.152 |
| Finance costs ......................... | (115) | (762) | (373) | (686) | (1.936) |
| **Normalised PBT .....................** | **3.524** | **4.586** | **1.181** | **(2.075)** | **7.216** |
| Income tax ............................. | (876) | (694) | (317) | 398 | (1.489) |
| **Normalised profit (loss) .........** | **2.648** | **3.892** | **864** | **(1.677)** | **5.727** |
| Significant items .................... | (2) | (162) | (107) | (761) | (1.032) |
| Discontinued operations ........ | | | | (18) | (18) |
| **Profit (loss) ...........................** | **2.646** | **3.730** | **757** | **(2.456)** | **4.677** |
| | | | | | |
| Assets .................................... | 88.108 | 38.689 | 30.788 | 36.209 | 193.794 |
| Liabilities ................................ | 60.670 | 24.981 | 21.534 | 27.265 | 134.452 |

Amounts in EUR thousands

| For the year 2017 | Value added | Sales and distribution | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|
| ***Revenue:*** | | | | | |
| Sales of seafood | 118.286 | 179.004 | | | 297.290 |
| Eliminations | (40) | (14.415) | | (33.686) | (48.141) |
| | 118.246 | 164.589 | 0 | (33.686) | 249.149 |
| ***Operating results:*** | | | | | |
| EBIT | 4.265 | 1.742 | (1.172) | 2 | 4.836 |
| Finance costs | (751) | (207) | (368) | (2) | (1.328) |
| **Normalised PBT** | **3.514** | **1.535** | **(1.540)** | **0** | **3.508** |
| Income tax | (698) | (375) | 307 | | (765) |
| **Normalised profit (loss)** | **2.816** | **1.160** | **(1.233)** | **0** | **2.743** |
| Significant items | (52) | | (101) | | (154) |
| Discontinued operations | | | (11) | | (11) |
| **Profit (loss)** | **2.764** | **1.160** | **(1.345)** | **0** | **2.579** |
| Assets | 58.546 | 29.937 | 53.457 | (53.779) | 88.162 |
| Liabilities | 43.875 | 21.319 | 35.597 | (30.348) | 70.442 |

## 3. Salaries

Salaries and related expenses:

| | 2018 | 2017 |
|---|---|---|
| Salaries | 17.413 | 11.674 |
| Pension related expenses | 1.761 | 1.234 |
| Other salary related expenses | 975 | 700 |
| | 20.149 | 13.608 |

Classified by operational category:

| | 2018 | 2017 |
|---|---|---|
| Cost of sales | 13.509 | 9.647 |
| Operating expenses | 6.640 | 3.961 |
| | 20.149 | 13.608 |
| Full time employees on average for the year | 450 | 287 |
| Full time employees at end of the year | 667 | 287 |

## 4. Fee to auditors

| | 2018 | 2017 |
|---|---|---|
| Audit of the Consolidated Financial Statements | 211 | 182 |
| Other services | 159 | 62 |
| | 370 | 244 |

Amounts in EUR thousands

## 5. Net finance costs

| | 2018 | 2017 |
|---|---|---|
| *Investment income:* | | |
| Interest income on bank accounts | 4 | 4 |
| Interest income on trade receivables and payables | 79 | 73 |
| Total investment income | 83 | 77 |
| | | |
| *Finance costs:* | | |
| Interest expenses on borrowings | (1.975) | (1.213) |
| Interest expenses on obligations under finance leases | (9) | (10) |
| Other interest expenses | (104) | (197) |
| Total finance costs | (2.088) | (1.420) |
| | | |
| Net finance costs | (2.005) | (1.343) |

## 6. Income tax

### 6.1 Income tax recognised in profit or loss

| | 2018 | 2017 |
|---|---|---|
| Current tax expense | (1.341) | (874) |
| Deferred tax expense | 110 | 147 |
| | (1.231) | (727) |

The income tax expense for the year can be reconciled to the accounting profit as follows:

| | 2018 | 2017 |
|---|---|---|
| Normalised profit before tax after significant items | 5.926 | 3.316 |
| | | |
| Income tax expense calculated at 20% (the Company's rate in Iceland) | (1.185) | (663) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 164 | (99) |
| Effect of income that is exempt from taxation | 9 | 1 |
| Effect of expenses that are not deductible in determining taxable profit | (60) | (67) |
| Effect of unused tax losses and tax offsets not recognised as def. tax assets | (95) | 50 |
| Effect of exchange rate difference on deferred tax | (3) | 50 |
| Change in tax rate | | 2 |
| Others | (61) | (1) |
| Income tax expense recognised in profit or loss | (1.231) | (727) |
| Effective tax rate | 21% | 22% |

### 6.2 Current tax balances

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Income tax payable | 1.035 | 248 |

Amounts in EUR thousands

### 6.3 Deferred tax balances

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Deferred tax assets | 2.535 | 1.532 |
| Deferred tax liabilities | (832) | (483) |
| | 1.703 | 1.049 |

Deferred tax assets / (liabilities) have changed as follows:

| | Deferred tax assets | Deferred tax liabilities | Total |
|---|---|---|---|
| At 1 January 2017 | 1.117 | (229) | 888 |
| Calculated tax for the year | 415 | (1.142) | (727) |
| Income tax payable the following year | | 874 | 874 |
| Other items | | 15 | 15 |
| At 31 December 2017 | 1.532 | (483) | 1.049 |
| Calculated tax for the year | 393 | (1.624) | (1.231) |
| Acquired on acquisition of subsidiary | 610 | (66) | 544 |
| Income tax payable the following year | | 1.342 | 1.342 |
| Other items | | (1) | (1) |
| At 31 December 2018 | 2.535 | (832) | 1.703 |

Deferred tax assets / (liabilities) are in relation to:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Property, plant and equipment | (622) | (422) |
| Intangible assets | 254 | (5) |
| Inventories | 44 | (26) |
| Trade and other receivables | 117 | (102) |
| Deferred revenue | 27 | 27 |
| Deferred exchange rate difference | 96 | (2) |
| Deferred tax loss | 1.787 | 1.579 |
| | 1.703 | 1.049 |

### 6.4. Unused tax losses

Most of the unused tax losses will expire in the years 2025-2027, although some subsidiaries have unused tax losses that do not expire.

## 7. Significant items

In 2018 the Group incurred costs associated with the acquisitions of Oceanpath Ltd and Solo Seafood ehf and restructuring of some of its subsidiaries. The total costs related to acquisitions amounted to EUR 0.9m and costs related to restructuring were EUR 0.3m.

In 2017 the Group incurred costs associated with potential acquisitions and restructure of some of the foreign subsidiaries, EUR 0.2m in total.

Note 8 includes further information on discontinued operations.

Amounts in EUR thousands

## 8. Discontinued operations

### 8.1 Disposal of all operations in Greece

In 2014 the Company sold the trading assets of its subsidiary in Greece, Iceland Seafood Hellas A.E.E. The subsidiary ceased operations following the sale and has been a dormant company since. It is now in liquidation.

### 8.2 Discontinued operations recognised in profit or loss

The results of the discontinued operations recognised in profit or loss are:

| | 2018 | 2017 |
|---|---|---|
| Operating expenses | (18) | (11) |
| Loss of discontinued operations | (18) | (11) |

Attributable to:

| | 2018 | 2017 |
|---|---|---|
| Owners of the Company | (12) | (7) |
| Non-controlling interests | (6) | (4) |
| | (18) | (11) |

## 9. Earnings per share

| | 2018 | 2017 |
|---|---|---|
| Profit from continuing operations | 4.695 | 2.589 |
| Profit including discontinued operations | 4.677 | 2.579 |
| | | |
| Weighted average number of ordinary shares (in ISK thousands) for basic EPS | 1.598.540 | 1.299.588 |
| Shares to be issued in respect of employee options | 16.342,709 | |
| Weighted average number of ordinary shares (in ISK thousands) for diluted EPS | 1.614.883 | 1.299.588 |
| | | |
| *Basic earnings per share (EUR cents per thousand shares):* | | |
| From continuing operations | 0,2937 | 0,1993 |
| Including discontinued operations | 0,2926 | 0,1984 |
| | | |
| *Diluted earnings per share (EUR cents per thousand shares):* | | |
| From continuing operations | 0,2907 | 0,1993 |
| Including discontinued operations | 0,2896 | 0,1984 |

## 10. Property, plant and equipment

| For the year 2018 | Property and land | Plant and equipment | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 January | 5.791 | 8.789 | 14.580 |
| Acquired on acquisition of subsidiary | 2.725 | 2.477 | 5.202 |
| Additions | 942 | 1.131 | 2.073 |
| Eliminated on disposal | | (268) | (268) |
| Fully depreciated assets | | (98) | (98) |
| Exchange rate differences | (7) | (50) | (57) |
| At 31 December | 9.451 | 11.980 | 21.431 |
| **Depreciation** | | | |
| At 1 January | 1.034 | 5.084 | 6.118 |
| Charge for the period | 218 | 1.001 | 1.219 |
| Eliminated on disposal | | (220) | (220) |
| Fully depreciated | | (98) | (98) |
| Exchange rate differences | (1) | (21) | (22) |
| At 31 December | 1.251 | 5.746 | 6.997 |
| At 31 December 2018 | 8.200 | 6.234 | 14.435 |

| For the year 2017 | Property and land | Plant and equipment | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 January | 5.926 | 9.366 | 15.292 |
| Additions | | 774 | 774 |
| Eliminated on disposal | | (116) | (116) |
| Fully depreciated assets | (48) | (1.063) | (1.111) |
| Reclassified due to grant | (58) | | (58) |
| Exchange rate differences | (29) | (173) | (201) |
| At 31 December | 5.791 | 8.789 | 14.580 |
| **Depreciation** | | | |
| At 1 January | 973 | 5.578 | 6.551 |
| Charge for the period | 112 | 733 | 845 |
| Eliminated on disposal | | (102) | (102) |
| Fully depreciated assets | (48) | (1.062) | (1.110) |
| Exchange rate differences | (3) | (63) | (65) |
| At 31 December | 1.034 | 5.084 | 6.118 |
| At 31 December 2017 | 4.757 | 3.705 | 8.462 |

### 10.1 Useful lives

The following useful lives of property, plant and equipment are used in the calculation of amortisation.

| | |
|---|---|
| Property and land | 20-40 years |
| Plant and equipment | 3-20 years |

Amounts in EUR thousands

### 10.2 Property, plant and equipment pledged as security

The group has pledged property, plant and equipment having a carrying amount at year-end of approximately 11.0 million (2017: 8.2 million) to secure banking facilities granted to the group.

### 10.3 Depreciation and amortisation expense

| | 2018 | 2017 |
|---|---|---|
| Depreciation of property, plant and equipment | 1.219 | 845 |
| Amortisation of intangible assets | 100 | 18 |
| | 1.319 | 863 |

### 10.4 Property, plant and equipment insurance value

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Insurance value | 27.711 | 12.781 |

## 11. Intangible assets

| For the year 2018 | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| At 1 January | 8.842 | 58 | 8.900 |
| Acquired on acquisition of subsidiary | 34.609 | 1.214 | 35.823 |
| Additions | | 87 | 87 |
| Charge for the period | | (100) | (100) |
| Eliminated on disposal | | (4) | (4) |
| Exchange rate differences | (17) | (1) | (18) |
| At 31 December | 43.435 | 1.254 | 44.689 |

| For the year 2017 | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| At 1 January | 8.907 | 57 | 8.964 |
| Additions | | 23 | 23 |
| Charge for the period | | (18) | (18) |
| Eliminated on disposal | | (3) | (3) |
| Exchange rate differences | (65) | (0) | (65) |
| At 31 December | 8.842 | 58 | 8.900 |

During the year, the Company assessed the recoverable amount of goodwill and determined that none of the Company's cash-generating units have suffered an impairment loss.

Amounts in EUR thousands

### 11.1 Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the following cash-generating units.

| | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| | WACC % | Book value | WACC % | Book value |
| Iceland | 8,1% | 4.072 | 8,1% | 4.072 |
| Spain | 7,9% | 26.499 | 7,9% | 2.019 |
| France | 8,0% | 1.127 | 8,0% | 1.127 |
| Ireland | 8,3% | 10.129 | | |
| UK | 8,4% | 1.608 | 8,0% | 1.624 |
| | | 43.435 | | 8.842 |

The recoverable amount of these cash-generating units is determined based on a value in use calculation, which uses cash flow projections based on financial forecasts prepared by management covering a five-year period and a discount rate of 7.9-8.4% p.a. (2017: 7.9-8.1% p.a.).

Cash flow projections during the forecast period are based on the same expected gross margins and raw materials price inflation throughout the forecast period. The cash flows beyond that five-year period have been extrapolated using a steady 2% p.a. (2017: 2%) growth rate which is the projected long-term average growth rate for the international seafood market. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit. An increase in weighted average cost of capital of more than 100 bps would cause impairment of goodwill.

Amounts in EUR thousands

## 12. Subsidiaries and other investments

The Group's subsidiaries and other investments are as follows.

| Name of company | Place of incorporation | Ownership 31.12.2018 | Ownership 31.12.2017 | Principal activity |
|---|---|---|---|---|
| *Subsidiaries:* | | | | |
| Iceland Seafood ehf. | Iceland | 100% | 100% | Sale of seafood |
| Solo Seafood ehf. | Iceland | 100% | | Holding |
| Iceland Seafood S.L. | Spain | 100% | 100% | Sale of seafood |
| - Union Islandia Pleamar S.L. | Spain | 55% | 55% | Not active |
| Icelandic Iberica | Spain | 100% | | Sale of seafood |
| - Ecomsa | Spain | 100% | | Sale of seafood |
| - IPDLM | Spain | 100% | | Not active |
| - Achernar | Argentina | 100% | | Sale of seafood |
| Iceland Seafood Barraclough Ltd. | UK | 95% | 95% | Sale of seafood |
| - F. Barraclough Ltd. | UK | 100% | 100% | Not active |
| - Havelok Ltd. | UK | 67% | 67% | Sale of seafood |
| Oceanpath Limited | Ireland | 67% | | Sale of seafood |
| - Dunns (Fish & Poultry) Ltd. | Ireland | 100% | | Holding |
| - Dunns Seafare Ltd. | Ireland | 100% | | Sale of seafood |
| Iceland Seafood France S.A.S. | France | 100% | 100% | Sale of seafood |
| ISG Iceland Seafood GmbH | Germany | 100% | 100% | Sale of seafood |
| ISI Seafood Inc. | USA | 100% | 100% | Sale of seafood |
| | | | | |
| *Discontinued operations:* | | | | |
| Iceland Seafood Hellas A.E.E. | Greece | 66% | 66% | Liquidation |
| | | | | |
| *Investments in other companies:* | | | | |
| Credible Properties Ltd. | Ireland | 50% | | Properties |
| Febin Marine Foods Private Ltd | India | 5% | 5% | Seafood supply |

### 12.1 Subsidiaries pledged as security

Equity of subsidiaries have been pledged for the Group's borrowings.

Amounts in EUR thousands

## 13. Business combinations

### 13.1 Oceanpath Ltd.

On 13 March 2018 the Company announced the acquisition of 67% of the share capital of Oceanpath Ltd., an Irish company and the leading fresh fish supplier to retailers in Ireland. The acquisition was completed on 14 March 2018 and Oceanpath has been included in the consolidated accounts from that time.

Oceanpath is the leading fresh fish supplier to retailers in Ireland. The company operates two factories in Dublin. Oceanpath sources, processes and sells fresh and frozen seafood, whilst Dunn's of Dublin, established in 1822, is an iconic premium retail brand best known for its smoked salmon products.

From the acquisition date to the year end the total sales of Oceanpath were EUR 28.5m, generating normalised profit before tax of EUR 2.1m. On a 2018 Full Year Proforma Basis the sales would be EUR 34.8m and normalised profit before tax of EUR 2.7m.

In accordance with IFRS 3 *Business Combinations* the purchase price of Oceanpath was allocated to the identifiable assets and liabilities acquired. Provisional goodwill amounted to 9.9 million.

The following table summarizes the consideration paid for Oceanpath and the recognized provisional amounts of assets acquired and liabilities assumed at the acquisition date being 14 March 2018.

| | 14.3.2018 |
|---|---|
| Property, plant and equipment | 2.453 |
| Intangible assets | 237 |
| Inventories | 1.194 |
| Trade and other receivables | 4.647 |
| Cash and bank balances | 3.369 |
| Assets acquired | 11.900 |
| | |
| Trade and other payables | 2.712 |
| Other liabilities | 2.811 |
| Liabilities assumed | 5.523 |
| | |
| Total net identified assets | 6.377 |
| Non-controlling interest's proportinate share of the total net identified assets | (2.095) |
| Attributable to the Company | 4.282 |
| Consideration paid in cash | 14.173 |
| Provisional goodwill on acquisition | 9.891 |

Net cash outflow on acquisition of Oceanpath:

| | 2018 |
|---|---|
| Consideration paid in cash during the year | 14.173 |
| Less: deferred / earn out payments | (2.679) |
| Less: cash and cash equivalent balances acquired | (3.369) |
| | 8.125 |

Under IFRS 3, up to one year from the acquisition date, the initial accounting for business combinations needs to be adjusted to reflect new information that is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. As a result of such adjustments the values of assets and liabilities recognized may change in the one-year period from the acquisition date.

Amounts in EUR thousands

### 13.2 Solo Seafood ehf.

On 30 April 2018 the Company agreed on the Head of Terms to acquire 100% of the share capital of Solo Seafood ehf., an Icelandic holding company which holds 100% of the share capital of Icelandic Ibérica S.A. in Spain. The Share Purchase Agreement related to the transaction was signed on 1 August 2018. The sellers were Sjávarsýn ehf., an Icelandic holding company, three Icelandic seafood companies, FISK Seafood ehf., Jakob Valgeir ehf. and Nesfiskur ehf. and the Managing Director of Icelandic Ibérica S.A.

Icelandic Ibérica S.A. is one of the leading seafood suppliers in Southern Europe and has seen strong growth in sales and profit in the last few years, with its extensive product range, including cod (bacalao), Argentinian shrimp, cuttlefish and hake and its processing capacity in Spain and Argentina.

The acquisition was completed on 14 September 2018 and Solo Seafood ehf. has been included in the consolidated accounts from that time.

From the acquisition date until the year end the total sales of Solo Seafood ehf and its subsidiaries were EUR 34.5m generating total normalised profit before tax of EUR 1.8m. On a 2018 Full Year Proforma basis the sales would be EUR 113.9m and normalised profit before tax of EUR 4.8m

In accordance with IFRS 3 *Business Combinations* the purchase price of Solo Seafood ehf. was allocated to identifiable assets and liabilities acquired. Provisional goodwill amounted to 24.5 million.

The consideration for the acquisition was settled by the issuance of 1.025m new shares and a cash payment of EUR 0.5m. The consideration is valued at EUR 35.3m at the acquisition date using a combination of multiple and DCF valuation methodologies.

The following table summarizes the consideration paid for Solo Seafood ehf. and the recognized provisional amounts of assets acquired and liabilities assumed at the acquisition date being 14 September 2018.

| | 14.9.2018 |
|---|---|
| Property, plant and equipment | 2.749 |
| Intangible assets | 1.215 |
| Other longterm assets | 828 |
| Inventories | 31.539 |
| Trade and other receivables | 20.456 |
| Cash and bank balances | 741 |
| Assets acquired | 57.528 |
| Longterm borrowings | 7.714 |
| Contingent liabilities | 635 |
| Short-term borrowings | 23.600 |
| Trade and other payables | 12.289 |
| Other liabilities | 2.492 |
| Liabilities assumed | 46.730 |
| Total net identified assets | 10.798 |
| Consideration paid in shares | 34.800 |
| Consideration paid in cash | 478 |
| Provisional goodwill on acquisition | 24.480 |

Amounts in EUR thousands

Net cash outflow on acquisition of Solo Seafood ehf:

| | 2018 |
|---|---|
| Consideration paid in cash | 478 |
| Less: cash and cash equivalent balances acquired | (741) |
| | (263) |

Under IFRS 3, up to one year from the acquisition date, the initial accounting for business combinations needs to be adjusted to reflect new information that is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. As a result of such adjustments the values of assets and liabilities recognized may change in the one-year period from the acquisition date.

## 14. Inventories

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Raw materials | 9.744 | 6.292 |
| Finished goods | 51.600 | 24.213 |
| Other inventories | 763 | 113 |
| | 62.107 | 30.618 |

### 14.1 Recognised as an expense

The cost of inventories recognised as an expense is:

| | 2018 | 2017 |
|---|---|---|
| Cost of sales | 299.153 | 214.976 |

### 14.2 Movement in write-downs to net realisable value

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| At 1 January | (190) | (294) |
| Movement related to acquisition of a subsidiaries | (1.324) | |
| Write-downs of inventory to a net realisable value | (362) | (115) |
| Reversal of such write-downs | 400 | 214 |
| Exchange rate differences | 3 | 5 |
| At 31 December | (1.473) | (190) |

### 14.3 Inventories pledged as security

Inventories have been pledged for the Group's borrowings.

## 15. Trade and other receivables

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Trade and other receivables | 63.307 | 35.907 |
| Allowance for doubtful accounts | (855) | (812) |
| | 62.452 | 35.095 |

Allowance has been made for doubtful accounts and sales returns. This allowance has been determined by management in reference to past default experience. Management considers that the carrying amount of receivables approximates their fair value.

Amounts in EUR thousands

### 15.1 Trade receivables

The expected credit losses (ECL) on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor´s current financial position, adjusted for factors that are specific to the debtors such as general economic conditions in the markets the Group operates. This analysis also takes into account if receivables are credit insured or not at end of the year. Around 84% of Group's receivables were credit insured.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

### 15.2 Trade receivables expected credit loss

The following table details the risk profile of trade receivables based on the Group´s provision matrix.

| | Trade receivables - days past due | | | | |
|---|---|---|---|---|---|
| 31.12.2018 | Not past due | <30 | 31 - 60 | 61 - 90 | >90 |
| **Uninsured receivables** | | | | | |
| Expected credit loss rate | 0,7% | 2,4% | 6,6% | 12,7% | 100,0% |
| Estimated total gross carrying amount at default | 6.442 | 3.378 | 300 | 237 | 641 |
| Estimated Credit Loss (ECL) | 41 | 82 | 20 | 30 | 641 |
| **Insured receivables** | | | | | |
| Expected credit loss rate | 0,2% | 1,8% | 3,9% | 13,1% | 100,0% |
| Estimated total gross carrying amount at default | 43.661 | 7.483 | 744 | 167 | 131 |
| ECL (10% Loss given default) | 10 | 13 | 3 | 2 | 13 |
| Total | | | | | 854 |

### 15.3 Movement in the allowance for doubtful debts

| | 2018 | 2017 |
|---|---|---|
| At 1 January | (812) | (3.276) |
| Change in impairment estimate | (425) | (698) |
| Amounts written off as uncollectible | 303 | 3.132 |
| Amounts recovered | 81 | 24 |
| Exchange rate difference | (2) | 6 |
| At 31 December | (854) | (812) |

### 15.4 Receivables pledged as security

Trade receivables have been pledged for the Group's borrowings.

Amounts in EUR thousands

## 16. Other assets

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Prepaid expenses | 1.546 | 877 |
| Value added and capital gain taxes | 1.700 | 308 |
| Fair value of cash flow hedges | 146 | 23 |
| | 3.392 | 1.208 |

## 17. Cash and bank balances

Cash and bank balances consist of cash and bank accounts.

## 18. Assets classified as held for sale

The assets classified as held for sale and associated liabilities relate to the dormant subsidiary in Greece.

## 19. Issued capital and share premium

| 19.1 Shares | Authorized shares | Issued shares | Outstanding shares | Book value |
|---|---|---|---|---|
| At 1 January 2017 | 1.299.588 | 1.299.588 | 1.299.588 | 14.369 |
| At 31 December 2017 | 1.299.588 | 1.299.588 | 1.299.588 | 14.369 |
| New shares issued | 1.024.977 | 1.024.977 | 1.024.977 | 8.019 |
| At 31 December 2018 | 2.324.566 | 2.324.566 | 2.324.566 | 22.389 |

Fully paid shares, which have a par value of ISK 1, carry one vote per share and carry right to dividends.

| 19.2 Issued capital and share premium | Share capital | Share premium | Total |
|---|---|---|---|
| At 1 January 2017 | 14.369 | 3.987 | 18.356 |
| At 31 December 2017 | 14.369 | 3.987 | 18.356 |
| New shares issued | 8.020 | 26.780 | 34.800 |
| At 31 December 2018 | 22.389 | 30.767 | 53.156 |

Amounts in EUR thousands

## 20. Reserves

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Translation reserve | (900) | (759) |
| Hedging reserve | 84 | (93) |
| Statutory reserve | 430 | 430 |
| Equity reserve | 24 | 13 |
| Unrealised profit of subsidiaries | 5.663 | 2.308 |
| | 5.301 | 1.899 |

### 20.1 Translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Euro) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to profit or loss on the disposal of the foreign operation.

### 20.2 Hedging reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the Group's accounting policy.

### 20.3 Statutory reserve

In accordance with the Icelandic Act no 2/1995 on Public Limited Companies, the Company is to retain 10% of its annual profit in a statutory reserve until it equals 10% of the outstanding shares. After that, the Company is to retain 5% until the reserve equals 25% of the outstanding shares.

### 20.4 Equity reserve

The equity-settled employee benefits reserve relates to share options granted by the Company to its employees under its employee share option plan.

At 31 December 2018, executives and senior employees held options to buy 34.850.000 shares in the Company. The outstanding options will vest from May 2017 to July 2022. The exercise price of options granted prior to 2017 is 5.4, the exercise price of options granted in 2017 is 6.85 and on options granted in 2018 is 7.69. All options have a five year term and are conditional that the Optionee remains an employee of the Company. The options carry neither rights to dividends nor voting rights and are valued using the Black Scholes option pricing model.

Amounts in EUR thousands

| | Average exercise price per share | Stock options (thousands) |
|---|---|---|
| At 1 January 2018 | 5,48 | 32.500 |
| Granted in 2018 | 7,69 | 2.350 |
| Exercised 2018 | | |
| At 31.12.2018 | 5,63 | 34.850 |
| | | |
| Exercisable stock options at 31.12.2018 | | 20.494 |
| | | |
| At 1 January 2017 | 5,40 | 30.800 |
| Granted in 2017 | 6,85 | 1.700 |
| Exercised 2017 | | |
| At 31.12.2017 | 5,48 | 32.500 |
| | | |
| Exercisable stock options at 31.12.2017 | | 12.192 |

### 20.5 Unrealised profit of subsidiaries

If a share of profit of subsidiaries is in excess of dividends received from those companies or dividend that has been decided to distribute, the difference is to be transferred from retained earnings to a restricted reserve among equity. If a company's shareholding in its subsidiary is sold or written off, the aforementioned reserve is to be dissolved via transfer to retained earnings or accumulated deficit, as applicable.

## 21. Borrowings

| | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Revolving credit facilities | 63.549 | | 39.429 | |
| Other bank loans | 12.067 | 6.272 | 452 | 386 |
| Finance leases | 212 | 368 | 313 | 491 |
| | 75.828 | 6.640 | 40.194 | 877 |

### 21.1 Revolving credit facilities

The Group´s main source of financing is a multi currency revolving credit facility with an Icelandic financial institution, with a cap of EUR 65 million with EUR 41.6 million draw down at year end (2017: EUR 32.6 million). The facility was renewed in November 2018 and extended to May 2022.

At year end 2018 the Group has credit facilities in place with number of banks in Spain. Total amount of these loans was EUR 28.1m at year end. Most of these loan agreements are short term facilities with 6-12 months duration.

### 21.2 Aggregated maturities

The contractual repayments of non-current borrowings are as follows:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| In 2019 / 2018 | 12.279 | 765 |
| In 2020 / 2019 | 2.300 | 526 |
| In 2021 / 2020 | 1.320 | 227 |
| In 2022 / 2021 | 610 | 90 |
| Later | 2.410 | 34 |
| | 18.919 | 1.642 |

### 21.3 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non–cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's Consolidated Statement of Cash Flows as cash flows from financing activities.

| Borrowings | 2018 | 2017 |
|---|---|---|
| At 1 January | 41.071 | 36.522 |
| Acquired on acquisition of a subsidiary | 31.314 | |
| Deferred / earn out payments | 2.680 | |
| Net increase/(decrease) in revolving credit facility | 5.405 | 5.298 |
| New borrowings | 5.000 | 57 |
| Repayments | (3.018) | (762) |
| FX impact long term loans | 16 | (45) |
| At 31 December | 82.468 | 41.071 |

### 21.4 Assets pledged as security

Borrowings are secured with most of the Group's assets. The revolving credits are secured with inventories, receivables, intellectual property rights and shares in subsidiaries. The other bank loans are secured with inventories, receivables and PP&E. The finance leases are secured with the assets leased.

## 22. Other liabilities

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Accrued payroll related expenses | 2.184 | 1.292 |
| Accrued other expenses | 1.047 | 416 |
| Income tax | 1.035 | 248 |
| Value added tax | 1.068 | 1.006 |
| Fair value of cash flow hedges | 23 | 168 |
| | 5.357 | 3.130 |

Amounts in EUR thousands

## 23. Obligations under finance leases

The Group has a number of finance lease agreements, which relate to the leasing of PP&E. The Group will take ownership of these assets at the end of the lease term.

### 23.1 Finance lease liabilities

Minimum lease payments.

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| No later than one year | 367 | 313 |
| Later than one year and not later than five years | 212 | 491 |
| | 580 | 804 |

Included in the Consolidated Financial Statements as:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| – Current borrowings | 367 | 313 |
| – Non-current borrowings | 212 | 491 |
| | 580 | 804 |

## 24. Obligations under operating leases

The Group leases premises under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The Group also leases motor vehicles under non-cancellable operating lease agreements. The lease payments are included in the Consolidated Income Statement as:

| | 2018 | 2017 |
|---|---|---|
| Operating expenses | 1.342 | 965 |

### 24.1 Operating lease liabilities

Minimum lease payments.

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| No later than one year | 921 | 324 |
| Later than one year and not later than five years | 1.804 | 805 |
| Later than five years | 1.073 | |
| | 3.797 | 1.129 |

These liabilities are not included in the Consolidated Balance Sheet.

Amounts in EUR thousands

## 25. Financial instruments

### 25.1 Categories of financial instruments

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Financial assets** | | |
| Fair value through profit or loss (other investments) | 89 | 42 |
| Amortised cost (trade and other receivables) | 62.452 | 35.095 |
| Amortised cost (other assets) | 412 | 50 |
| Derivative instruments in designated hedge accounting relationships | 9.012 | 8.409 |
| Cash and bank balances | 3.967 | 2.223 |
| **Financial liabilities** | | |
| Amortised cost (borrowings) | 82.468 | 41.071 |
| Amortised cost (trade and other payables) | 44.873 | 25.608 |
| Amortised cost (other liabilities) | 3.039 | 1.709 |

### 25.2 Financial risk management objectives

The Company's Board of Directors and senior executive team has the overall responsibility for the establishment and oversight of the Group's risk management framework, with regards to market risk, credit risk, liquidity risk and operational risk. The objective of the Group's risk policies is to manage and control risk exposures within acceptable levels, while optimizing the return.

### 25.3 Foreign currency risk management

The Group's foreign currency forward contracts are measured at fair value with discounted cash flow valuation techniques. Future cash flow (which is all anticipated within the next 12 months) is estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | 31.12.2018 | 31.12.2017 |
| GBP | 12.407 | 1.038 | 8.129 | 1.956 |
| USD | 6.130 | 3.488 | 12.267 | 4.185 |
| ISK | 13 | 125 | 1.311 | 115 |
| ARS | 242 | | 1.411 | |
| Other | 139 | 138 | 29 | 229 |
| | 18.931 | 4.789 | 23.147 | 6.485 |

### 25.4 Interest rate risk management

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

| Variable rate instruments | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Financial assets | 3.967 | 2.223 |
| Financial liabilities | (82.468) | (41.071) |
| | (78.501) | (38.848) |

A change of 50 basis points in interest rates during the year would have impacted pre-tax profits by EUR 309 thousands (2017: 177 thousands).

Amounts in EUR thousands

### 25.5 Credit risk management

Trade receivables consist of a large number of customers spread across geographic areas. The Group manages its credit risk by using credit insurances alongside ongoing credit evaluation on the financial conditions of relevant customers.

### 25.6 Liquidity risk management

The Group manages liquidity risk by ensuring sufficient liquidity is available from current bank facilities to meet foreseeable needs and to invest cash assets safely and profitably. This policy has remained unchanged from previous periods. The Group´s main source of financing is a multi currency revolving credit facility with an Icelandic financial institution, with a cap of EUR 65 million. The facility was renewed in November 2018 and extended to May 2022.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities, including estimated interest payments.

| **31 December 2018** | Carrying amount | Contractual cash flow | Less than 1 year | 1-3 years | More than 3 years |
|---|---|---|---|---|---|
| Non-current borrowings* ....... | 18.919 | 19.917 | 12.727 | 3.922 | 3.268 |
| Current borrowings ................ | 63.549 | 63.549 | 63.549 | | |
| Other liabilities ...................... | 48.127 | 48.127 | 48.127 | | |
| | 130.595 | 131.593 | 124.403 | 3.922 | 3.268 |

| **31 December 2017** | Carrying amount | Contractual cash flow | Less than 1 year | 1-3 years | More than 3 years |
|---|---|---|---|---|---|
| Non-current borrowings* ....... | 1.642 | 1.701 | 802 | 772 | 127 |
| Current borrowings ................ | 39.429 | 39.429 | 39.429 | | |
| Other liabilities ...................... | 27.618 | 27.618 | 27.618 | | |
| | 68.689 | 68.748 | 67.849 | 772 | 127 |

**Non- current borrowings includes Long term loans and financial leases*

### 25.7 Fair value measurements

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the Consolidated Financial Statements approximate their fair values.

Amounts in EUR thousands

## 26. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

### 26.1 Trading transactions

During the year, Group entities entered into the following trading transactions with related parties that are not members of the Group:

| | 2018 | 2017 |
|---|---|---|
| Purchases of goods and services | 11.892 | 19.309 |

The following balances were outstanding at the end of the reporting period:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Amounts owed to related parties | | 1.444 |

Purchases of goods and services from and sales to related parties were made at the same prices and terms to non related parties.

### 26.2 Compensation to key management personnel

The remuneration of directors and other members of key management personnel was as follows:

| | 2018 | 2017 |
|---|---|---|
| Short-term benefits | 1.211 | 1.183 |
| Post-employment benefits | 120 | 108 |
| | 1.331 | 1.291 |

The remuneration of directors and other members of key management is determined by a Remuneration Committee, having regarded to their performance, general market trends and other factors.

## 27. Events after the reporting period

On 23 January 2019 the Company announced the appointment of Bjarni Ármannsson as the Company's new CEO. At the same time Helgi Anton Eiríksson and Lee Camfield resigned from their CEO and COO postions. At a Shareholders Meeting held on 5 February 2019 a new Board of the Company was elected, where Magnús Bjarnason, Liv Bergþorsdottir and Jakob Valgeir Flosason were elected to the Board and Ingunn Agnes Kro as an alternate Board member. At a Board meeting the same day, Magnus Bjarnason was elected as a Chairman of the Board.

## 28. Approval of financial statements

The Consolidated Financial Statements were approved by the Board of Directors and the CEO and authorised for issue on 20 March 2019.

Amounts in EUR thousands

## 29. Significant accounting policies

### 29.1 Statement of compliance

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional disclosure requirements in the Icelandic Act no. 3/2006 on Financial Statements.

### 29.2 Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Share-based payments transactions are valued according to IFRS 2.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

### 29.3 Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Group. Control is achieved when the Group has power over the subsidiaries, is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an entity, it has power over the entity when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the entity unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an entity are sufficient to give it power, including:

▪ the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
▪ potential voting rights held by the Company, other vote holders or other parties;
▪ rights arising from other contractual arrangements; and
▪ any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income are attributed to the owners of the Company and to the non-controlling interests. Total Comprehensive Income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### 29.4 Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

### 29.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### 29.6 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is considered as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposals groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### 29.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

*29.7.1 Sale of seafood*

Revenue from the sale of goods is recognised when control of the goods has transferred, being at the point the goods are delivered to the customer and titles have passed. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. There is no right of return under the Group's return policy and therefore no refund liability is recognised.

*29.7.2 Dividend and interest income*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

### 29.8 Leasing

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

*29.8.1 The Group as lessee*

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 29.9 Foreign currencies

The Group’s Consolidated Financial Statements are presented in Euro, the Group’s presentation currency. In preparing the Financial Statements of each individual group entity, transactions in foreign currencies other than the entity's functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Group´s foreign operations (including comparatives) are expressed in Euro using exchange rates prevailing on the balance sheet date. Income and expense items of foreign operations, are translated at the average exchange rates for each month. Translation differences from foreign operations are posted to translation reserves among equity. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as asset and liabilities of the foreign operation and translated at the rate of exchange prevailing at end of each reporting period. Exchange differences are recognised in other comprehensive income.

### 29.10 Employee benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

*29.10.1 Short-term and other long-term employee benefits*

A liability is recognised for benefits accruing to employees in respect of wages and salaries and annual leave in the year the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

*29.10.2 Share based payment arrangements*

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

### 29.11 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

*29.11.1 Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the Consolidated Income Statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

*29.11.2 Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

*29.11.3 Current and deferred tax for the year*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### 29.12 Property, plant and equipment

Property and equipment are recognized as an asset when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured in a reliable manner. Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Land is not depreciated. Such cost includes the cost of replacing parts of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognized in profit or loss as incurred.

The depreciable amount of the asset is allocated on a straight-line basis over its useful life. The depreciation charge for each period is recognized as an expense. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

In the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the Consolidated Income Statement.

### 29.13 Intangible assets

*29.13.1 Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### 29.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### 29.15 Financial assets

*29.15.1 Recognition of financial assets*

Financial assets are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

*29.15.2 Financial assets at amortised cost*

Financial assets at amortised cost are debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group's financial assets measured at amortised cost are trade and other receivables, bank balances and cash.

*29.15.3 Financial assets at fair value*

Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL). The Group currently holds no financial assets measured at fair value.

*29.15.4 Impairment of financial assets*

The Group recognises a loss allowance for expected credit losses (ECL) on its trade receivables, that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The Group's estimate for trade receivable ECL is described in detail in note 15.

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

*29.15.5 Derecognition of financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

### 29.16 Financial liabilities and equity instruments

*29.16.1 Financial liabilities*

Financial liabilities are classified as ‘other financial liabilities'. Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

### 29.17 Hedge accounting

The Group designates certain hedging instruments, which include derivatives in respect of cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. The Group has elected to continue to apply the hedging requirements of IAS 39, as permitted by IFRS 9.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

*29.17.1 Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the ‘other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

## 30. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the management of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

## 31. Application of new and revised International Financial Reporting Standards (IFRSs)

### 31.1 Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Consolidated Financial Statements, except as described below.

*31.1.1 IFRS 9 Financial Instruments (as revised in 2014)*

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The Group has elected not to restate comparative numbers, as permitted by the transition provisions of IFRS 9. Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018.

IFRS 9 introduced new requirements for:
• The classification and measurement of financial assets and financial liabilities,
• Impairment of financial assets, and
• General hedge accounting

The transition to IFRS 9 did not effect the classification and measurement of financial assets and financial liabilities of the Group. The Group has elected to continue to apply the hedge accounting requirements of IAS 39, as permitted by IFRS 9.

IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. In particular, IFRS 9 requires entities to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if credit risk for a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), entities are required to measure loss allowance for that financial instrument at an amount equal to 12-months ECL.

IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables without a significant financing component. The Groups applies the simplified model to its trade receivables, see note 15.

*31.1.2 IFRS 15 Revenue from Contracts with Customers*

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual periods that begin on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. The impact on the Group's Consolidated Financial Statements s described below.

The Group's accounting policies for its revenue streams are disclosed in detail in note 29.7. Apart from requiring more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position or financial performance of the Group. The Group did not recognise any adjustment to equity at 1 January 2018 with regards to the implemention of the standard.

### 31.2 New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 16 | Leases |
| Amendments to IAS 28 | Long-term interests in associates and joint ventures |
| Annual improvements | IFRS 2015-2017 cycle, Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 |
| Amendments to IAS 19 | Plan amendment, curtailment of settlement |
| Amendments to IFRS 10 / IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration |
| IFRIC 23 | Uncertainty over income tax treatments |
| Annual Improvements | IFRS Standards 2014-2016 Cycle |

The Management of the Company do not expect that the adoption of the Standards listed above will have a material impact on the Consolidated Financial Statements of the Group in future periods, except as noted below:

*31.2.1 IFRS 16 Leases*

The standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and replaced by a model where the right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short term leases and leases of low value assets. Furthermore, extensive disclosures are required by IFRS 16. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

The Group has assessed the estimated impact that initial application of IFRS 16 will have on its Consolidated Financial Statements, as described below.

The Group will recognise new assets and liabilities for its operating leases of real estate and motor-vehicles, (see note 24). The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of 3.7 million and a right-of-use asset of 3.3 million as at 1 January 2019 and the difference of 0.4 million as an adjustment of the opening balance of retained earnings.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the simplified transition approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Amounts in EUR thousands

# Non-Financial Information (unaudited)

for the year ended 31 December 2018

## About the Company

Iceland Seafood International hf. (the Company) is an Icelandic holding company of a worldwide processing, sales and distribution group for frozen, fresh, salted and dried seafood products (the Group). The Group is headquartered in Iceland, operates in three divisions and has eleven subsidiaries in Europe, North and South America. The Group is an industry leading supplier of North Atlantic seafood, one of the largest exporters of seafood from Iceland and a key supplier of high quality seafood to the Global market.

## Non-financial information

The importance to work ethically and with integrity is built into the operations of the Group. The Board of the Company has approved an updated Group policy on Corporate Social Responsibility (CSR) and Environmental matters. The Company will report on these matters (ESG report) alongside publishing of its Annual Report. This reporting will be based on Nasdaq guidelines on these matters (Nasdaq ESG guide).

## Employees

The Group has over 677 employees in the eight countries it operates in. The Group focuses on the importance of attracting employees with the right skills and ambition to provide high quality service, exceed customer demands and achieve the Company's financial and strategic goals.

The Group's operations are made up of a highly experienced group of employees, from various countries, backgrounds and cultures. The objective is to ensure that the employees feel empowered to deliver to the highest standards by

- Connected to our producers and customers.
- Dependable to deliver seafood consistently all year round.
- Open to different ideas and innovation for evolving demands.

## Environment

ISI has had a long running consideration for the environment. The Group has documented its Environmental policy which covers both environmental aspects of day to day operations and also the ongoing concern for responsible fisheries management. The company is committed to supply sustainable seafood to its customers. The ratio of certified sustainably sourced seafood, both wild caught and farmed, in the supply chain is monitored regularly.

## Social

ISI is committed to be fair, equitable and respectful to employees, associates, competitors, customers, the society, and all business or professional relationships. This is detailed in the Group's CSR policy that covers human rights, fair labour practices, non-discrimination, anti-bribery/corruption and tax transparency. The main social impact and concern of ISI is on its employees and their families. The company strives to supply its employees with good and save work environment. ISI recognises and supports international human right treaties. No human right violations have been reported in 2018. Key metrics regarding the social aspects of ISI operations and more details on the CSR policy will be documented in the ESG report for 2018.

## Food safety

Food safety is of critical importance for the company. To ensure appropriate food safety standards factories within the Group have a food safety managements systems in place. These systems cover suppliers, contractors, distributors as well as the production facilities and processes, include detailed specifications for raw material and finished product and procedures for Good Manufacturing Practice. A thorough product traceability systems are in place within the Group's businesses and product recall procedures that are tested regularly. These systems are certified to international standards and as such are audited regularly by an independent third party auditor. All production sites are also subject to inspections for compliance with applicable food laws by local authorities.

## Health and Safety

Health and safety of staff is a essentially important for the Company. Management in each of the subsidiary is in charge of compliance with all local laws and regulations. Production sites have in place appropriate OHS and emergency preparedness and response management systems.  Metrics on operational health and safety will be reported in the company's ESG report.