

Iceland Seafood International hf: Breakeven results at Normalised PBT level for Q1 2022. Results negatively impacted by extreme price increases of raw material and other key input factors

Results in Q1 call for a downward revision of full year outlook

- Sales for Q1 2022: €115.9m, up 11% from Q1 2021
- Net margin for Q1 2022: €9.4m, down €1.5m from Q1 2021
- Normalised profit before tax in Q1 2022: breakeven, compared to €3.7m profit in Q1 2021
- Net loss for Q1 2022: €0.7m compared to €2.7m profit in Q1 2021
- Basic earnings per share (EPS) for Q1 2022 were negative by €0.0279 cents per thousand shares compared to positive €0.1017 cents per thousand shares for Q1 2021
- Balance sheet reflecting seasonally high inventories in S-Europe and increases of fish prices. Total assets of €294.2m at end of March 2022
- Revised normalised PBT Outlook range of €11.0-16.0m for 2022, based on the assumption that prices of key input factors have reached its maximum in this cycle and the Group will succeed with price increases in certain areas that are either secured or still pending.

The VA S-Europe division saw a strong demand in the period, sales in the period of €54.1m were €16.9m up on Q1 2021, on a like for like basis (excluding Ahumados Domínguez) the sales were up €12.6m from prior year. Sales of cod products from Iceland were strong in the quarter and margins were good. Market conditions for Argentinean shrimp remained strong in the quarter, but production volume were down 21% on Q1 last year, impacted by lower fishing volumes and unstable labour environment in Argentina. Sales of Ahumados Domínguez grew by 16% from last year, but margin and profitability were impacted by extreme price increases of salmon in the period. Further distribution of salmon products has been secured following marketing campaign in December 2021, which will generate increased sales from Q3 onwards. Overall, the Normalised PBT of the VA S-Europe division of €2.6m in Q1 was €0.5m down on same period last year.

The VA N-Europe division was significantly impacted by cost increases in the period. Vast majority of the divisional sales are to retail customers, it takes time to pass on cost increases to these customers – and carries a level of risk. Overall the divisional sales of €28.6m were 10% down on same period last year. Demand in Ireland was unusually strong in Q1 2021, due to lockdown restrictions on restaurant activities, but price increases that have been pushed through in the period have had negative impact on demand. As a result the sales volume in Ireland have decreased by 20% YOY. Sales in UK were negatively impacted by the Omicron variant in the beginning of the year. Foodservice demand has picked up and is now climbing to pre-covid levels. The significant price increases of input materials in the period had considerable negative impact on divisional results in the period. On top of that the operation in UK is still not stable, where difficult labour market and disruptive supply chains impacted operation in the period. Overall Normalised PBT of the division was negative by €2.9m in the period, compared to €0.3m profit same time last year. Formation of new management team in UK was fully completed in the period, with Glen Mathews joining as a MD at end of February.

The S&D division benefited from strong demand and high prices of Icelandic products in the period. The division saw growth in sales of all product categories, except from pelagic fish, compared to same time last year. Ukraine is an important market for pelagic products. That market closed with the Russian invasion on February 24th but slowly started to open up again towards the end of the period. Demand for Icelandic groundfish products increased after the invasion as some customers are seeking alternatives to products of Russian origin. The results of the division were excellent in the period, Normalised PBT of €0.9m was 50% up on Q1 2021.

Increased political risk and disruptive supply chains bringing on challenges and opening up opportunities at the same time

Significant and rapid price increases in all areas, driven by strong demand and unstable supply, impacted the Group results in Q1. This is a timing issue as all industry participants are experiencing similar cost increases, but it takes time to pass the cost on to the customers especially when dealing with retail customers. Retailers demand stable product price for the consumers, highly volatile raw material, packaging, and logistic prices match badly with that demand. Prices have been increased to customers to balance the input prices but the pace of price increases on the cost side has been unprecedented. These price increases have started to influence demand of seafood products and there are signs which indicate that prices are leveling off in certain areas.

Due to Covid19 and geopolitical turmoil, it is expected that price volatility and disruptions in various supply chains will continue for the coming months, with increased prospects of deglobalization. This will have negative impact on efficiency and profitability in general, as companies are likely to carry higher inventories and diversify the supply base further to manage underlying risk. On the other hand it is likely that production will move closer to end consumers. Local production in Europe will become more competitive where automation and investments in production efficiencies will play a key role. Iceland Seafood is well positioned for that development, with its value-added production facilities close to its key markets in Europe.

Revised outlook range for 2022 Normalised PBT is set at €11.0 - €16.0m. The extreme price increases of all input factors in the first months of the year have had significant impact on the Group's profitability in the period. There are signs which indicate that prices are leveling off and coming down in certain areas, e.g. salmon prices have come down in the last few weeks after reaching a top at end of April. The revised outlook range is based on the assumptions that prices of key input factors have reached the top and the Group will succeed with price increases which balances off the cost increases of input prices

Price increases will continue to impact the Group's results in Q2. The last quarter of the year is a key trading period for the Group, in terms of smoked salmon, light salted cod and Argentinian shrimp. Largest part of the projected profit is expected to be generated during that quarter.

Bjarni Ármannsson, Group CEO:

“Despite Covid-19 coming to an end in our key markets and herd immunity being reached in many of our key areas in Europe, this quarter has been extremely challenging. Again and again, we have been increasing the sales price of our products, only to be met with increased prices of input factors. Price of raw material has reached unprecedented heights. Our strategy of increasing our exposure to the retail industry in Covid times means this has a greater effect on us than before. Clearly, we’ll reach a balance and we see no need in changing our overall strategy. This will mean that customers will value more a company with integrated model and strong links to the resource like we have. Similarly a value-added production close to our customers and end consumers becomes more valuable. This means that relying on long distance sourcing and production becomes less attractive in comparison to security of supply, quality and proximity to our customers. It also means that we’ll have to continue to invest faster and further in automation, increase our own energy production and pay more attention and devote more resources to sustainability matters. This creates opportunities as similar developments are happening to all value-added companies in our space. We continue to be true to our values and committed on our journey in growing further and becoming more profitable in the coming years. We believe we are very competitive in the current challenging environment, with our strong knowledge base, financial strength, access to capital markets, vertically integrated business model and factories close to key markets in Europe.

We are now reducing our Outlook PBT range for 2022 to €11.0-16.0m. That is part of updating our short-term estimations, so all investors have the same information and management views, but by no means reflects the potential we see long term in Iceland Seafood.”

Investors meeting

Today at 4.15pm GMT, Iceland Seafood will host a meeting for investors and market participants, where management will present and discuss the Q1 2022 results.

The meeting will be held at the company’s premises at Köllunarklettsvegur 2 and also be webcasted live in Icelandic on <https://vimeo.com/event/2112067/embed/f8fdf1a451>

and recording will be available after the meeting on www.icelandseafood.com/investors

Participants to the meeting can send questions in writing prior and during the meeting to the email investors@icelandseafood.com.

Disclaimer

This announcement is furnished and intended for European market participants and should be viewed in that light.

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For more information:

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<http://www.icelandseafood.com/Investors>

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