

TRANSCRIPT

Grieg Seafood Q3 2023 Results

14 November 2023

Part One

Highlights

Andreas Kvame, CEO:

In the first part, I will go through our operations in the third quarter as usual, look at the highlights of the quarter, look at the market situation, and each of our four operating regions. After that, Atle Harald Sandtorv will look at financials, especially tax issues, where we have decided on our accounting practices going forward. In the second part we will go more closely through the background for our investment at Adamselv, more about growth opportunities in Canada, following by a short summary and our outlook.

Now to the highlights of the third quarter.

We announced already last quarter that there would be a low harvest in the third quarter as we planned to use the quarter to build our biomass. The third quarter was, as expected, a weak quarter for Grieg Seafood, and we are not satisfied with it. Sales in the third quarter ended up being less than half of our sales in the second quarter, NOK 1.164 billion to be exact. EBIT per kilo ended at minus NOK 7/kg. Obviously, that is not good enough.

78% of the salmon we harvested was ASC certified, which is the highest environmental standard. On the positive side, it is pleasing to note that we completed our first harvest in Newfoundland. Even though the harvesting took place in the fourth quarter, hard work in every quarter since the start-up contributed to the successful result we have achieved. Many have been sceptical to this, but it has gone very well. We are excited about this, which is why we are considering partners to bring this forward in the best possible way.

At the halfway point of the fourth quarter we are expecting a doubling of the harvest volume this quarter compared to the third quarter. That will give us a harvest volume of 76,000 tonnes for 2023, and our volume guidance for 2024 is 85,000 tonnes.

Then a few words about the market. The market has generated much volume in the third quarter, and prices have declined as they often do seasonally. If we look at supply over the past year, it has been stable. Even if there currently is a forecast for a 2-4% increase in 2024, it will only bring 2024 back to the level we were at in 2021. So there is no growth of significance in the market, and not for next year, either.

Looking at the different markets where we sell salmon, the US is still a market that has been stable and good, with 1% demand growth this year. It is a very big market that takes a lot of volume. Then there is Asia, especially China and other Asia, which is a growing market. Those with large salmon have been particularly favoured in this period, because that market has had exceptionally good prices. We are still focusing on adding value to our fish, and have increased our VAP share somewhat during the quarter. There too, we are working through partners, both in Europe and in Canada.

Following a seasonal pattern, prices have declined somewhat during the third quarter, have stabilized now, and we expect some increase as Christmas approaches.

Now we will look at how our operations have fared in the various regions. We will start with Rogaland, where we are very happy with the underlying production growth. Survival rates are good, and we have a strong share of superior fish. We aren't happy about high costs in the region, and weak margins due to early harvesting and salmon with ISA (*Infectious Salmon Anaemia*). We have had two sites with ISA this year, where we have harvested early, with low average weights and not the best realized prices. We are still having good results with post-smolt in Rogaland, and we expect modest production growth in 2024, reaching 28,000 tonnes. Still I would like to say that so far this year, operational EBIT is NOK 714 million in this region, which is due to strong harvesting in the first and second quarter, where we took out a lot of fish, although harvesting was low in the third quarter.

Then there is Finnmark, where the plan was actually to not harvest any fish in the third quarter, but due to fish health and fish welfare reasons, meaning Spiro (*the Spironucleus Salmonicida parasite*), we decided to harvest a low volume. What does Spiro do? Well, it gave us low average weights, low quality and high costs. To top it all off, we get low price achievement for that fish. That has been the story of the third quarter, but we both hope and believe that we will have less Spiro going forward. But all the fish of the generation in the sea and being harvested before the end of the second quarter has been affected by the Spiro parasite, the parasite we spoke about in depth last quarter.

Having said that, the new generation of fish we have in the sea is very good. We will be releasing 12 million smolt in Finnmark this year, and that fish is developing well and without Spiro. Spiro is a little known parasite that the Norwegian Fisheries and Aquaculture Industry's research funding has committed NOK 7 million to study. We must find out more about it and increase our understanding.

So far this year harvest volumes have been just below 15,000 tonnes, and we expect to harvest 12,000 tonnes in the fourth quarter. Finnmark is a large and important region for us, with great potential. Therefore we have decided to move forward with post-smolt investments at Adamseelv. We will talk more about that in part two of our presentation.

Our results were also weak in British Columbia, with high costs and weak margins due to poor biology. The oxygen levels in the sea have been low, there has been algae and there have been lice. Price achievement was affected by low average weights on the harvested biomass. We are continually working on improving our costs and production in this area, including the use of the CO²L Flow (*Cool Flow, semi-closed*) system we have talked about earlier, and a barrier system separating wild salmon from farmed, which is very important for the transition plan the government is working on in cooperation with First Nation and the salmon industry.

We expect to harvest 18,000 tonnes this year, which is 2,000 tonnes below our previous guidance. Next year, we expect 15,000 tonnes salmon due to the pattern of alternating releases on the east and west side. And, as you all know, there is a standstill in issuing new licences. We have applied for several licences, but until a decision is made about how the transition plan will be, there won't be licenses for new sites. We would like to see a better balance between the west and east side of Vancouver Island. We have worked hard on sourcing external smolt but there are very few suppliers of external smolt in the area.

Then we have Newfoundland. This quarter that was the bright spot. We have been especially positive and enthusiastic about our development in Newfoundland. We had a milestone in October with our first harvest, where we harvested a pen with an average round weight (*wfe*) of 4.9 kg. That is a very good result. In addition, the percentage of superior graded fish was high and survival rates were high. We have succeeded in starting activity in a virgin area where operating conditions are challenging. This is an area that is very good for aquaculture, but the waves are high, the winds are strong, and the water can be both cold and warm. So we have experienced all conditions. But all the same we are very proud of and happy about what we are likely to achieve over there. We are maintaining our harvest guidance for 2023 of 5,000 tonnes and our guidance is 8,000 tonnes for 2024. We will come back to this, and the path forward, after Atle Harald, who will now go through financials.

Financial Review

Atle Harald Sandtorv, CFO:

Thank you, Andreas. Now we will look at the numbers related to the profit and loss statements. Our revenue was NOK 1.2 billion, significantly lower than the same period last year, which is due to the lower volumes that Andreas covered. Our EBIT was a negative NOK 86 million. The fair value adjustment was positive at NOK 137 million because we increased our biomass in the sea during the quarter. That gives an EBIT of nearly NOK 68 million. Net financial items show costs of NOK 94 million, with a foreign exchange loss making those costs a little higher than normal. When it comes to taxes, our comment is that this quarter we did our best to estimate the resource rent tax and how it influenced the tax in the period. We have shown that, along with supplementary details, in note 5 in our quarterly report. We can also give more details if there are questions in the Q&A session today. But as we said, we did not have enough details about this in Q2 to make these calculations, but now we do. We have done that to the best of our ability and included it in our numbers.

When it comes to EBIT per kilo, we have taken a little look at the bridge from Q2 2023 to Q3 2023, where income declined by NOK 18/kg, partly from somewhat lower market prices, and the lower quality of the harvested fish and low price achievement which Andreas already mentioned. Costs increased during the quarter by a little more than NOK 10/kg, which is related to low volumes and harvesting of weak fish. We also had a higher share of our harvest in BC, which normally has higher costs. We would like to remind you of our improvement project related to costs which is a high priority for us.

A short analysis of net interest-bearing debt and its development: we started the quarter with NOK 1.7 billion in net-interest bearing debt and we exited the quarter with NOK 2.8 billion. The most important reason for that is that we increased biomass during the quarter by NOK 664 million, we invested for NOK 210 million and we paid a dividend of NOK 504 million. A little more about our debt and our balance sheet: the largest item in our debt is the green bond loan of NOK 1.4 billion and a term loan for NOK 1.4 billion. We can also point out that 69% of our debt is tied to sustainability.

We have a free liquidity of a little above NOK 2.1 billion, which includes NOK 1.7 in undrawn bank facilities. Our equity ratio is 47%.

Now a little about our investments with the focus still on 2023. Our guidance for total capex this year is NOK 1 billion. That includes NOK 400 million in maintenance investments, which means replacement investments of existing equipment. Newfoundland's capex will be NOK 400 million, driven by new sites to achieve growth. Then we have investments for Spiro for UV treatment of water and filtration, totalling

NOK 70 million. Then we will also start on the investment Andreas mentioned, an expansion of our hatchery in Finnmark and focus on large smolt. We will touch on that later, but the investments there will total about NOK 130 million in 2023. These investments add up to NOK 1 billion in 2023.

When it comes to biomass, we are expecting relatively small changes in that and in working capital in the fourth quarter.

To summarize the financial numbers, our debt has increased during the year, and our interest-bearing debt is NOK 2.8 billion. That must be seen in conjunction with the increased value of the biomass in our balance sheet. Our dividend policy is unchanged. We pay 30-40% of our earnings after tax. We have paid NOK 4.50/share in dividends in 2023. Our debt per kilo is NOK 39.40/kg. That was a quick summary of our financials and I give the word back to Andreas.

Outlook

Andreas Kvame, CEO:

Thank you, Atle Harald. Let's look briefly at our outlook. As I said earlier, we are guiding for 76,000 tonnes this year. For 2024, we have Rogaland at 28,000, Finnmark at 34,000, BC at 15,000 tonnes, and our new region at 8,000 tonnes. Thus for 2024, we expect 84,000 tonnes, an increase of 12 per cent.

Now we have covered what has happened, let's talk about our plans for the future.

Part Two

Andreas Kvame, CEO:

During the past year or so, the aquaculture industry has been characterized by the focus on the salmon resource rent tax. There has been a lot of discussion and uncertainty about it. As soon as the uncertainty about the tax arose about 15 months ago, we decided at Grieg Seafood to put all our investments on hold. The basic premises were too uncertain to commit ourselves to an investment programme. We said back then that we would come with more information when we saw more clearly how the resource tax would work. After a long political tug-of-war over 15 months, a resolution was passed before the summer to implement a resource rent tax of 25%. That was significantly lower than the original forecast, although all the details are still not crystal clear for us as of today, for instance norm prices and such things are still not fully clarified, but we feel that we come far enough to have a reasonable overview, and can start investing again.

Naturally enough, the salmon resource rent tax does take a sizeable chunk of capital from us that could have been available for growth investments, so we in Grieg Seafood need to prioritize tougher, prioritize where we invest, how big of investments we can make, and when each individual investment can be done. In addition, like everyone else, we are experiencing increased inflation which also influences the investment calculation. In sum, this is a regime we must adapt to. We have seen this before. Our strategic goals were communicated in June 2022. That was not long before 28 September. They state that we should achieve a harvest of 120,000 – 135,000 tonnes. That goal is unchanged. We say too that the growth will primarily be driven by better utilization of today's business. In addition, we have Newfoundland, our new aquaculture region. There we have shown that it is doing very well.

We have also stated we will put the spotlight on post-smolt. We have been very clear about that goal. We will be clearly focused on obtaining new licenses, and exploit possibilities with new technology. In all our regions, the potential is there to utilize our existing assets better than we do today. In Norway, this means MAB (*maximum allowable biomass*) and in Canada it means licenses. That is our main focus and the area where it is “cheapest” to do something. We are working very hard at this throughout our whole organization, for instance our improvement project that Atle Harald talked about.

We have also said that we want to participate in further growth initiatives, which could be mergers, takeovers, joint ventures or greenfield projects and we always look for cooperation with aquaculture companies in the regions we operate in if there are achievable synergies. To be competitive with costs in the regions we operate in, we will continually focus on healthy and good operations. We will control biology by using preventive measures that maximize welfare and health for the fish, because that is necessary to ensure increased survival and reduce production costs. On top of this, we aim to increase the value of our products by increasing our presence in the marketplace. This is based on partnerships for developing categories and building brands; both are things we are working on.

As of today, our business is located in two countries: Norway and Canada. We have four regions, Rogaland and Finnmark in Norway, British Columbia on the west coast and Newfoundland on the east coast of Canada. The latter is a new area for Grieg Seafood and Newfoundland has already demonstrated good results and we are very enthusiastic about the development in this region. Canada definitively has the greatest growth potential today, but Norway will be the financial foundation for the further development of the company. And we have also utilized the growth potential of Norway as we highlighted at our capital markets day in June 2022.

This is why we must thus strengthen our foundation in Norway. We have less capital available due to the salmon tax, and we have higher requirements than earlier to plan the size, order and timing of the investments we are making. Our first step is our decision to make further investments in Finnmark. As we said, the profitability in Norway is the prerequisite to achieving sustainable growth. In a situation with less capital available, we have nevertheless chosen to prioritize investments in Norway to ensure good financial and operational conditions.

Post-smolt is and will be a key part of our strategy to achieve our goals, and we have decided to go further with our plans to expand our post-smolt facility and capacity in Adamselv, Finnmark. We are very familiar with post-smolt and have worked with it for many years. We already have a good starting point in Rogaland, but the biggest effect is ahead of us, even if we have seen some impact already. The biggest impact from post-smolt is coming when the fish size increases. As you see from slide 27, we have fewer lice treatments, improved survival and better fish welfare. The status in Rogaland is that we have 3,000 tonnes on land at Tytlandsvik and at Årdal Aqua we will reach 4,500 tonnes. So we are well-equipped there with post-smolt for the further development of the company. At Årdal we will start with fish at the facility at the end of 2025.

This picture is from Adamselv, Finnmark and the knoll you see at the bottom was partly removed to make room for the expansion of the facility. The investment in Adamselv will have a significant impact on the biology in the short and long term. And this will drive in turn drive the growth and, in the end, the profitability of Grieg Seafood in Finnmark. The total investments in Adamselv will be over NOK 1 billion. Today's capacity is 1,800 tonnes. When we are finished with this investment we will have nearly 5,000

tonnes with post-smolt capacity in that region. The construction time will be roughly two years and the first smolt from the facility will be released to the sea in 2026.

What will we achieve by doing this? We want to reduce the time the fish spend in the sea, spending only one winter in the sea is important. Better fish health and fish welfare, reducing the risk of winter ulcers and ISA, shorter times in the sea and better control over lice are the headlines for these investments.

So first build the foundation and then develop our potential.

After many years of experience in BC, and, not least, after our first results from Newfoundland, there is no doubt of the large growth potential in Canada. In addition, we are close to one of the world's fastest growing markets, where there is strong, fast rising demand for healthy, sustainable protein or food. The conditions for the further development in Canada are truly excellent. We can reach the markets using trucks and can avoid using air freight. At the same time there are significant sales synergies between the two areas, the east and west coast. That is related to the temperature profiles in the two regions, allowing synergies with cross-selling between the east and west coast.

The requirements for capital discipline have risen because of the salmon resource rent tax; it has reduced the available capital for investment in Grieg Seafood in addition to the general inflation which has made capital more expensive. In order to exploit as quickly as possible the potential in Canada, we have engaged DnB as an advisor to aid us in the process of identifying potential partners who can join us in developing Grieg Seafood Canada, and we are looking for long-term capital.

BC has been a challenge, with something called the transition plan set by federal authorities, where everything has not yet been decided. That creates some uncertainty, but we have a solid basis in BC and a good dialogue with the rights holder in the region, First Nation, which is a good foundation for good and predictable results. There is also a large potential here by starting a post-smolt strategy. Having said that, over the last year in BC, investments have been very low in anticipation of what the authorities' transition plan will include. We have a close dialogue with the authorities, giving them our suggestions for future operating concepts in this region. This means federal and local authorities and not least First Nation, the rights holder. Our suggestions are based on our experience, not only with the CO²L Flow system but also with the barrier system, which prevents encounters between farmed salmon and wild salmon.

Here is a picture of a fish from Newfoundland (*slide 31*), the most promising area there is in Canada. We are in an early phase. We have a number of long-term licenses in this area, Placentia Bay, and we see a large production potential in Newfoundland. We have had a goal of harvesting the first fish in November, and we ended up harvesting in late October, and we are proud to report a successful harvest in this area. Despite challenging conditions, we have raised salmon of good quality, with high survival rates and a good growth performance, and we are starting to harvest the first generation.

What we see now of results is good survival, with a 96% annual rolling survival rate, good fish health and welfare. We see strong growth of the fish, with no cases of lice, we are monitoring three rivers, and counted 370 fish in these rivers, and there is very little pressure from wild salmon in Placentia Bay. That could change, but that is how it was last year. We have also almost outperformed all predictions for triploid fish. The triploid fish have performed very strongly, both in the hatchery/smolt phase, and in the sea. Now we did adopt a lot of measures, with feed, minerals and vitamins, to strengthen the fish and we

have succeeded quite well with this. So today in Placentia Bay If I had to choose between triploid and diploid fish, I would choose triploid.

A little about the potential in the region. As we communicated earlier, we have already started on the basic work for post-smolt. We have a post-smolt department in Marystown, Newfoundland to further the development in this region. The total potential in the region is at least 45,000 tonnes. Placentia Bay looks small on a map, but it is three times as big as Boknafjord in Ryfylke, where 90,000 tonnes are produced in farmable, available aquaculture areas. We think Placentia's potential is 45,000 tonnes. In addition, it is possible to utilize the nearby area Bays West, which is west of Placentia Bay, and has a potential of 20,000 tonnes. We are currently working on an Environmental Impact Study (EIS) to see where the best locations and the best environments are located. The potential for Newfoundland is at any rate 65,000 tonnes. And 65,000 tonnes is a pretty big salmon farming company. When we succeed with this it will become our biggest region or probably our largest region. It will take time, but it can happen. It has the potential.

We of course want to maintain the momentum that we have from proving that you can farm fish in Placentia Bay. We have been through nearly everything: low temperatures, high temperatures, storms and so on. Our equipment has worked well, the fish have managed well, so this is a very exciting area where we want to keep up the momentum which is why we have started the work on finding a partner to join us and bring this further, and move a little faster than we can do alone.

So to conclude, our results this quarter are weak, and we are not satisfied. We are working on this, on our improvement project and other things so that we can return stronger. The development in Newfoundland has so far been very encouraging and good. We see good results from our post-smolt investment in Rogaland and we have decided to expand our post-smolt capacity in Finnmark. We have started the process of finding a potential partner for the further development of Canada.

We are now open for questions.

Q&A

Atle Harald Sandtorv, CFO:

We will start with questions coming from the web.

Question from listener:

Can we expect a 50% superior share in Finnmark in Q1 and Q2 2024?

Andreas Kvame, CEO:

That is a very good question. The way things look now, it is looking much better than what we have harvested. We have been harvesting from weak pens and as soon as we see that things are affecting fish health we harvest those fish. I cannot answer this 100% because we don't know until we have harvested the fish, but I am expecting a higher share of superior fish. Spiro, along with winter ulcers has contributed to a high share of downgraded fish. I am still expecting some downgraded fish, but I cannot say to what extent.

Question from listener:

When are larger debt repayments expected and is there a need to raise more capital?

Atle Harald Sandtorv, CFO:

I can answer that. We won't be raising capital now. Our biggest repayment is our bond, where we have NOK 1.4 bn maturing in one-and-a-half years, and we will evaluate extending that debt in a normal manner. So that is our assessment of that.

Question from listener:

Is it possible to sell the whole Canada operation if the price is right and what would your capacity be worth in the case of a sale?

Andreas Kvame, CEO:

We are very enthusiastic regarding what has happened in Newfoundland, we see a very large potential in Canada, and our main goal is to obtain a partner to develop this further with us.

Question from listener:

Here is a follow-up question about a possible partner in Canada. Can't you just sell Canada and focus on Norway?

Andreas Kvame, CEO:

I believe that when it comes to Canada, there are real possibilities to get a partner and I think that developing Canada for our own book will be profitable for our shareholders and investors in our company.

Question from listener:

What percentage of the volumes in the first half of 2024 in Finnmark will have Spiro?

Andreas Kvame, CEO:

For the time period from now until the second quarter, infection has been detected, but it doesn't mean that they are sick. The number of tonnes is 8,000 to 10,000.

Martin Kaland, ABG Sundal Collier:

Is it correct to assume that the post-smolt investment in Finnmark will lift the volume from these 35,000 tonnes to the 40-45,000 you talked about at your last capital market's day? Or is this just talk about a delay, because then you talked about fish planned for a release in 2024 and a result in 2026, now you say the fish get released in 2026? Will the result thus be later?

Andreas Kvame, CEO:

Unfortunately, it is correct to think like that. On that day, the 28 September 2022, we had a board meeting in Finnmark, and we were going to approve Adamselv. So we just had to start all over. That is the reason we have been delayed. It was part of our strategic plan back then with post-smolt in Finnmark. And now we will do it.

Martin Kaland, ABG Sundal Collier:

Are there other factors affecting the volume equation such as new localities or releasing normal smolt? What should we assume?

Andreas Kvame, CEO:

We have also done that this year. Normally we would release 11 million smolt, but this year we are releasing 12 million smolt to compensate for Spiro and to achieve our volumes. You hit the nail on the head with localities. We are working continuously to find the right sites. We have sent in five applications that are being processed and very many are located near Nordkapp.

Martin Kaland, ABG Sundal Collier:

You are investing NOK 100 million this year, and the remaining NOK 1 billion later, will that be evenly divided over a construction time for this project of, say, two years?

Atle Harald Sandtorv, CFO:

We will come back to that later, but there will be an amount in 2024, of course. More on that at a later date.

Wilhelm Røe, Danske Bank:

Just a short question about the increase in maintenance capex. What does it mainly consist of?

Andreas Kvame, CEO:

That is mainly replacing some barges.

Atle Harald Sandtorv, CFO:

We try to estimate the rough amount of maintenance capex, but there is always a question of what side of the new year the equipment gets replaced. We are now estimating that a bit more of this will take place in 2023 than in the original plans.

Wilhelm Røe, Danske Bank:

Another question about Finnmark and Spiro. Is it correct to assume that you have not identified any new cases of Spiro at all, even in the older generation of fish?

Andreas Kvame, CEO:

In the older generation of fish in the sea now, there has always been Spiro, but it has given different outcomes. The fish that has been released to the sea this year is Spiro-free, with nothing at our own sites nor at external sites. We are paying very close attention to that. We made a big investment at Adamselv, making it one of the most secure hatcheries in the country with a large UV facility and filtration system, with buildings to accommodate that. All that is to be sure it doesn't re-enter. There isn't a lot of competence about Spiro. It is too bad that we had to learn so much about it. But today a lot of research has been done to find out what causes it and how to avoid it in the future. But it is clear that it comes from fresh water sources along with the fish. But to make it clear, the new generation of fish has no Spiro.

Christian Norby, Kepler Cheuvreux:

You say that biology in Newfoundland is developing very well, and you prefer triploid salmon to diploid there. Have you considered switching to triploid in Finnmark as well?

Andreas Kvame, CEO:

Well I am sure you know the debate about triploid in Norway. I think we have to wait for this generation and the next generation to finish before we reach a 100% conclusion. But as of today, things are looking fantastic, and if this ends up being so good, then Finnmark, why not?

Christian Norby, Kepler Cheuvreux:

In Finnmark, you are taking out more fish than expected this year due to biology, so how comfortable are you for your estimates next year?

Andreas Kvame, CEO:

We try to take this into account, although we weren't able to estimate the Spiro impact closely enough this year. We are hoping for more stable conditions when we get to the next generation of fish. We have released fish to the sea, and we have released larger smolt from our joint venture Nordnorsk Smolt. I am reasonably sure about our guidance of 35,000 tonnes but this is about biology.

Atle Harald Sandtorv, CFO:

There are no further questions from the room, so we will check the web one last time.

Question from the web:

Are you using krill in your feed?

Andreas Kvame, CEO:

Yes, we are using it in some feed, and especially in Finnmark.

Andreas, Atle Harald:

With no further questions, we say thank you for your attendance.