

Royal Greenland A/S

Interim Report

1 January 2023 – 30 June 2023

CVR: 13645183

Royal Greenland A/S

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Statement by the Management on the Interim Report

We have today presented the interim report at 30 June 2023 for Royal Greenland A/S.

The company's auditor has not carried out an audit or review of the interim report.

The interim report is presented in accordance with the Danish Financial Statements Act. We consider the chosen accounting policy to be appropriate, and following this unchanged accounting policy, the interim report provides a true and fair view of the Group's assets and liabilities, financial position, profits and cash flow.

Nuuk, 30 August 2023

Executive Board

Susanne Arfelt Rajamand

Nils Duus Kinnerup

Bruno Olesen

Lars Nielsen

Supervisory Board

Maliina Abelsen

Susanne Christensen

Jesper Højer

Johannes Jensen

Arnanguaq Holm Olsen

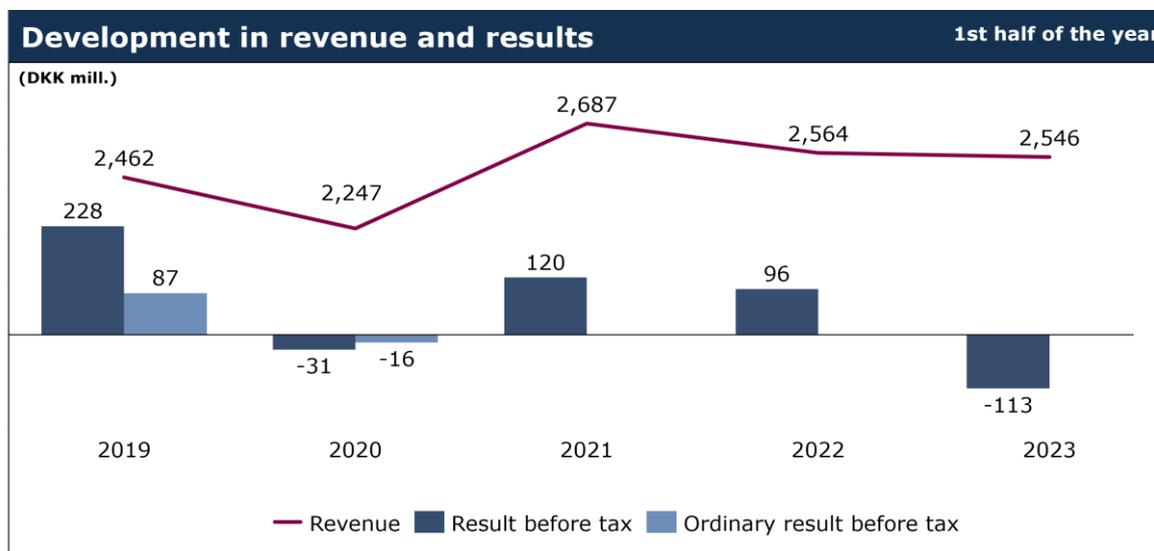
Niels Ole Møller

Sara Biilmann Egede

Johan Berthelsen

Royal Greenland’s earnings under pressure from a number of external factors

Royal Greenland maintained its revenue, but volatile macroeconomic and external factors gave an interim result before tax of DKK (113) million, which is not satisfactory.

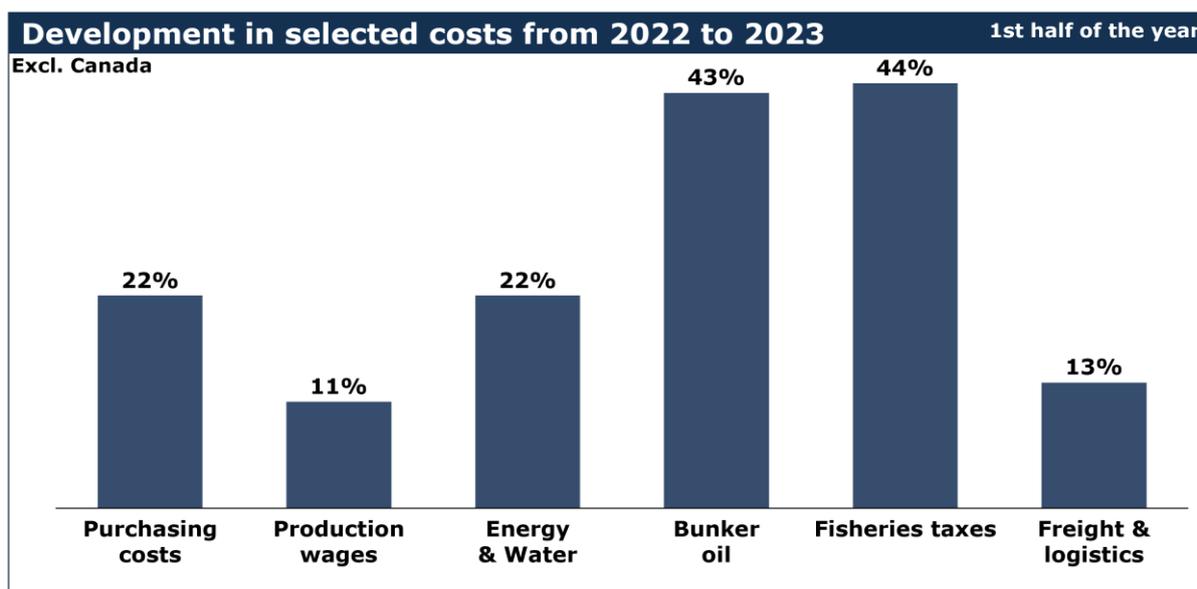


Note: The interim result for 2019 included a profit of DKK 141 million concerning the sale of two trawlers.

Core species are negatively affected by external factors such as:

1. Russia’s invasion of Ukraine
2. Stop of sales of shell-on prawns to the world’s second largest market for shell-on prawns
3. Energy crisis and consequential sharply rising oil and energy prices
4. General inflation and cost increases
5. Economic crisis in Europe
6. Brexit in the UK
7. Lower prawn catch rates

Russia’s invasion of Ukraine has put a direct stop to the sale of shell-on prawns to the world’s second largest market for shell-on prawns, but has also resulted in an energy crisis, rising inflation and cost increases, as well as an economic crisis in Europe with a consequential market slowdown and changed purchasing behaviour among consumers. Cost increases alone entail additional costs of DKK 240 million for the direct activity.



The war and the resulting boycott of Russia also mean that Russia’s crab exports are flooding the Asian markets and challenging crab sales in Asia, with a particular impact on sales prices in Japan. North America’s imports of snow crab from Russia previously amounted to around 19,000 tonnes, but these products are now exported to Japan, South Korea and China.

Moreover, lower prawn catch rates have been noted in Greenland, which may be due to a decline in the stock, but also that the ice conditions have hampered fishing.

The lower catch rates affect sales of shell-on prawns, as there are fewer prawns available for sale. 25% fewer shell-on prawns were sold than in the first half of 2022, despite a good market and strong demand. So far, it has been possible to compensate for cost increases, including 43% higher oil costs, with higher sales prices. However, sales in Scandinavia are challenged by low SEK and NOK exchange rates, and sales prices are being raised to compensate for the lower exchange rates. Sales to China are strong. Furthermore, the ban on sales to Russia gives a deviation of 1,000 tonnes or around one third of the total deviation.

As a distinctly European product, cooked and peeled prawns are the category that is most severely affected by the market slowdown in Europe. This is a consequence of the general crisis, but also Brexit in the UK. In times of crisis, consumers typically abandon the more luxurious goods in favour of more basic goods.

There is little immediate prospect of a free-trade agreement between Greenland and the UK. Sales are 27% lower than last year, and higher catch landing prices, together with payroll and logistics costs, are also a burden on the category. These are costs that could not be fully compensated by higher sales prices.

As the largest single item, prawns gave a total profit deviation of DKK (160) million.

Greenland halibut, which is primarily sold to Asia, is performing well in terms of sales. As for the other categories, however, earnings are challenged by increasing costs, particularly higher catch raw material prices, see the competition for the raw material in North Greenland. But a good market in Asia gives positive expectations of the major sales season in the autumn.

Cod is developing positively in sales terms. However, it is no longer possible to fish in the Russian part of the Barents Sea, which entails a loss of 1,500 tonnes of frozen-at-sea cod (trawler products). Conversely, coastal pound net fishing in Greenland is increasing, but cannot replace offshore fishing in terms of earnings. It has not been possible to maintain sales prices at the record-high level achieved in 2022, but they remain at attractive levels. Like the other categories, however, this category is burdened by rising costs in the form of higher catch landing prices, wage costs, fishing taxes and energy costs.

Snow crab presented the big challenge in 2022. The snow crab market was more or less dead in 2022, and the normal sales pattern of simultaneous sales with fishing and production was broken. This led to extensive stockpiling by producers, including Royal Greenland.

At the same time, raw material prices in Canada were record-high in a market with falling sales prices. In the first half-year, major efforts were made to sell the crab stocks from 2022 before the new season began.

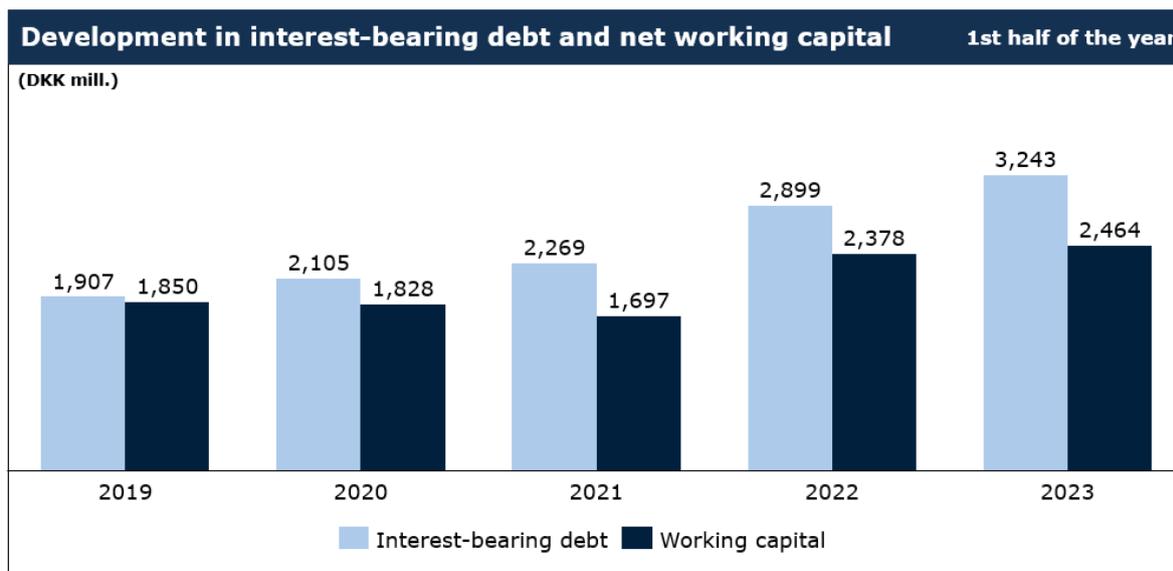
The stock is almost sold out, but the sales prices have declined further. The first half-year shows a loss of DKK 19 million in addition to the impairment reserved in the 2022 financial statements. For the 2023 season, the raw material price in Canada is set low due to the market conditions, which has led to a conflict between fishermen and producers in Newfoundland. Fishing therefore did not start up until the end of May, one and a half months later than usual. The consequence will be a sales lag between the first and second half of the year.

It is positive that earnings from the 2023 production have normalised due to the low raw material prices, but also that the sales pattern whereby 60-70% of production is sold in the course of the season has returned. Snow crab is thus returning to a position as a strong pillar of Royal Greenland's business.

Unlike the core species, the pelagic activity performed well in the first half-year. Capelin fishing was favourable, with good earnings, and including the mackerel fishing to come in the second half-year, the pelagic activity will be positive in 2023.

Royal Greenland's net result for the first six months amounts to DKK (107) million, compared to DKK 81 million for the same period last year.

Balance sheet and liquidity



Even though working capital has increased by DKK 86 million, inventories have actually been reduced by DKK 145 million and the debtor base remains unchanged. The increase can therefore be attributed to a lower creditor base as a consequence of lower debt to associated companies.

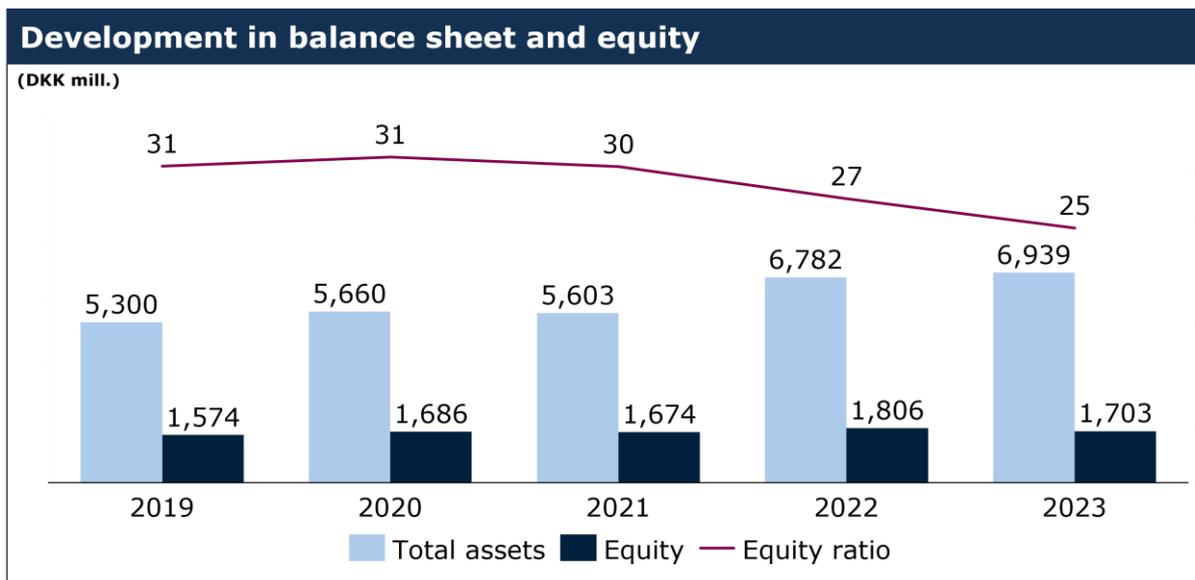
The crab stock has been reduced by DKK 500 million, but on the other hand there is an increasing stock of the core Greenlandic species, especially cooked & peeled prawns and cod, due to the market situation and an increasing catch landing of coastal cod. These two categories alone entail stockbuilding for DKK 260 million.

As a consequence of completed investments for DKK 248 million and the development in working capital, interest-bearing debt increased by DKK 344 million compared to the previous year. As stated, the development reflects the market challenges for cooked & peeled prawns, lack of sales of shell-on prawns, a delayed start of the crab season and thereby a sales lag, extensive landing of coastal cod in Greenland, cost increases and planned trawler and processing plant investments in Greenland and Newfoundland. The company has one trawler newbuilding in progress. Trawler investments during the six months amounted to DKK 175 million. The trawlers will be delivered in 2025, after which Royal Greenland’s entire offshore trawler fleet will have been replaced and top-tuned for fishing for many years to come.

The company’s liquidity situation is under control and will improve in the second half-year in step with the recovered sales lag, the high seasonal sales to Asia and the reduction of the stocks of cod and cooked & peeled prawns in particular.

The interest-bearing debt is expected to be reduced by DKK 0.6 billion in the second half-year and to close the year at approximately DKK 2.6 billion.

Equity amounts to DKK 1.7 billion, with an equity ratio of 25%.



Expected development of the company

Russia's invasion of Ukraine has led to global uncertainty and uncertain markets, particularly in Europe, with rising inflation, higher costs and low growth. In addition, there are the continued consequences of Brexit. On the other hand, the markets in Asia and North America are returning to pre-Covid-19 levels.

The outlook for the second half-year is significantly more positive, based on:

- A continued good market for shell-on prawns, with strong demand in both China and Scandinavia. Sales prices will be increased to compensate for the lower exchange rates.
- Increasing prawn catch rates in recent months, and thereby more shell-on prawns available for sale.
- A strong market for Greenland halibut in Asia, which bodes well for the major sales season up to Chinese New Year.
- Sales of snow crab in North America in the 2023 season have normalised in terms of both earnings and sales patterns, with a sales lag into the second half-year.
- Intensified sales of cooked & peeled prawns, as well as cod, in line with the available volumes.
- Tight cost control.

External challenges and market conditions do, however, mean that we cannot achieve an annual result in line with the "normal" level and the previous year. Significant positive earnings are expected in the second half-year, with a positive result before tax for the year of at least DKK 100 million.

Earnings are being re-established on an ongoing basis, and a result in line with the normal level is expected for the second half-year.

Financial highlights for the Group

H1

(DKKm)	2023	2022	2021	2020	2019
Result					
Revenue	2,546	2,564	2,687	2,247	2,462
EBITDA	42	208	220	68	320
EBIT	(61)	121	140	(17)	248
Profit before tax	(113)	96	120	(31)	228
Profit for the period	(107)	81	58	(39)	141
Balance sheet					
Fixed assets	3,609	3,386	2,821	2,781	2,252
Net working capital	2,464	2,378	1,697	1,828	1,850
Equity	1,703	1,806	1,674	1,686	1,574
Net interest-bearing debt	3,243	2,899	2,269	2,105	1,907
Total assets	6,939	6,782	5,603	5,660	5,300
Investments in property, plant and equipment	248	149	116	63	391
Ratios in %					
EBITDA margin	1.7	8.1	8.2	3.0	13.0
EBIT margin	(2.4)	4.7	5.2	(0.7)	10.1
EBT margin	(4.4)	3.7	4.5	(1.4)	9.3
ROIC including goodwill	(2.4)	5.2	6.6	(1.4)	13.9
Return on equity (ROE)	(10.2)	11.5	9.0	(2.8)	19.6
Equity ratio	24.8	27.4	30.5	31.4	30.5

Statement of income

	H1 2023	H1 2022	2022
Revenue	2,546,319	2,564,398	5,756,592
Changes in inventories of finished goods	323,793	886,452	596,760
Other operating income	41,269	34,707	172,080
	2,911,381	3,485,557	6,525,432
Costs of raw materials and consumables	(1,598,485)	(2,155,797)	(3,788,802)
Other external expenses	(657,494)	(559,047)	(1,080,450)
Personnel costs	(614,084)	(581,805)	(1,184,437)
Write-offs/write-downs	(103,275)	(87,650)	(187,305)
Other operating costs	(43)	0	(10,771)
Operating profit	(62,000)	101,258	273,667
Profit from investments in associates after tax	832	19,518	36,361
Financial income	24,157	10,996	84,802
Financial expenses	(76,141)	(36,030)	(159,445)
Profit before tax	(113,152)	95,742	235,385
Tax on the profit for the year	23,048	7,656	(48,920)
Profit after tax	(90,104)	103,398	186,465
The Group result can therefore be distributed as follows:			
Shareholders in Royal Greenland A/S	(107,115)	81,386	146,084
Minority interests	17,011	22,012	40,381
PROFIT FOR THE PERIOD	(90,104)	103,398	186,465

Balance sheet

(DKK 1,000)

Assets	30.06.2023	30.06.2022	31.12.2022
Intangible fixed assets	110,782	177,846	101,640
Buildings	463,610	427,433	480,768
Production plant and machinery	243,692	244,894	257,381
Vessels	1,346,766	1,302,728	1,363,697
Other fixtures and fittings, tools and equipment	29,895	23,042	28,479
Fixed assets under construction	302,423	182,211	101,374
Tangible fixed assets	2,386,386	2,180,308	2,231,699
Investments in associates	221,271	215,236	234,814
Receivables from associates	289,664	227,580	186,333
Derivative financial instruments	73,340	177,441	104,041
Other financial fixed assets	527,301	407,552	472,394
Financial fixed assets	1,111,576	1,027,809	997,582
FIXED ASSETS	3,608,744	3,385,963	3,330,921
Inventories	2,242,651	2,388,287	2,106,534
Receivables from sales	766,096	733,568	931,777
Receivables from associates	37,341	13,428	22,349
Other receivables	31,138	42,946	107,337
Deferred tax assets	65,584	57,992	85,965
Corporate tax receivable	75,679	57,625	83,793
Accruals	39,049	27,420	9,331
Receivables	1,014,887	932,979	1,240,552
Cash and cash equivalents	72,929	74,413	43,938
CURRENT ASSETS	3,330,467	3,395,679	3,391,024
ASSETS	6,939,211	6,781,642	6,721,945

Balance sheet

(DKK 1,000)

Liabilities	30.06.2023	30.06.2022	31.12.2022
Share capital	850,000	850,000	850,000
Retained earnings	780,022	956,048	905,886
Proposed dividend	73,042	0	73,042
Shareholders in Royal Greenland A/S' share of equity	1,703,064	1,806,048	1,828,928
Minority interests	229,758	219,198	233,184
TOTAL EQUITY	1,932,822	2,025,246	2,062,112
Deferred tax	104,138	105,971	97,348
Other provisions	17,817	15,441	10,547
PROVISIONS	121,955	121,412	107,895
Other credit institutions	2,522,436	1,873,500	2,588,120
Other long-term debt	45,646	71,128	19,738
Derivative financial instruments	10,216	0	4,257
Long-term liabilities	2,578,298	1,944,628	2,612,115
Current portion of long-term debt	6,840	492,599	10,778
Credit institutions	1,505,713	1,254,618	1,038,421
Suppliers of goods and services	472,836	554,884	477,410
Debt to associated companies	60,505	121,842	85,468
Corporate tax	17,122	25,727	19,729
Other debt	234,498	215,825	301,333
Accruals	8,622	24,861	6,684
Short-term liabilities	2,306,136	2,690,356	1,939,823
DEBT	4,884,434	4,634,984	4,551,938
LIABILITIES	6,939,211	6,781,642	6,721,945

Statement of changes in equity

DKK 1,000	Share capital	Retained earnings	Proposed dividend	Total	Minority interests	Equity Total
Equity on 31 December 2021	850,000	834,544	112,878	1,797,422	213,184	2,010,606
Exchange rate adjustments	0	47,141	0	47,141	0	47,141
Fair value adjustment	0	(7,023)	0	(7,023)	0	(7,023)
Dividends paid	0	0	(112,878)	(112,878)	(15,998)	(128,876)
Profit for the period	0	81,386	0	81,386	22,012	103,398
Equity on 30 June 2022	850,000	956,048	0	1,806,048	219,198	2,025,246
Addition	0	0	0	0	3,540	3,540
Exchange rate adjustments	0	(48,455)	0	(48,455)	79	(48,376)
Fair value adjustment	0	6,672	0	6,672	0	6,672
Tax on fair value adjustments	0	(35)	0	(35)	0	(35)
Dividends paid	0	0	0	0	(8,002)	(8,002)
Profit for the period	0	(8,344)	73,042	64,698	18,369	83,067
Equity on 31 December 2022	850,000	905,886	73,042	1,828,928	233,184	2,062,112
Exchange rate adjustments	0	(11,883)	0	(11,883)	(437)	(12,320)
Fair value adjustment	0	(6,866)	0	(6,866)	0	(6,866)
Dividends paid	0	0	0	0	(20,000)	(20,000)
Profit for the period	0	(107,115)	0	(107,115)	17,011	(90,104)
Equity on 30 June 2023	850,000	780,022	73,042	1,703,064	229,758	1,932,822

Cash flow statement

(DKK 1,000)	H1 2023	H1 2022	2022
Profit for the period	(107,115)	81,386	186,465
Adjustments to the annual profit	120,918	88,426	173,933
Change in working capital	(76,265)	(811,852)	(1,001,567)
Cash flow from operations before financial items	(62,462)	(642,040)	(641,169)
Payments in connection with financial items	16,132	58,136	67,562
Disbursements in connection with financial items	(86,867)	(43,053)	(76,855)
Cash flow from ordinary activities	(133,197)	(626,957)	(650,462)
Refunded or paid tax	35,648	(67,225)	(137,814)
Cash flow from operating activities	(97,549)	(694,182)	(788,276)
Purchase and sale of intangible and tangible fixed assets	(248,444)	(142,034)	(154,692)
Purchase and sale of financial fixed assets	(66,799)	(97,693)	(184,637)
Dividend received from associates	0	0	30,380
Cash flow from investment activities	(315,243)	(239,727)	(308,949)
Inclusion of/(instalments on) long-term debt	(5,507)	2,301	261,055
Change in drawing on credit facilities	467,290	946,506	825,055
Dividends paid	0	(112,878)	(112,878)
Sales to minority interests	0	0	3,540
Dividends paid out over the year to minority interests	(20,000)	(15,998)	(24,000)
Cash flow from financing activities	441,783	819,931	952,772
Change in cash and cash equivalents	28,991	(113,978)	(144,453)
Cash and cash equivalents at start of the period	43,938	188,391	188,391
Cash and cash equivalents at the end of the period	72,929	74,413	43,938

Company details

The Company

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CVR (business reg. no.) 13645183

Financial year: 1 January – 31 December

Registered office: Kommuneqarfik Sermersooq

The Government of Greenland owns all shares in the company

Supervisory Board

Maliina Abelsen, Chair

Susanne Christensen, Vice-Chair

Jesper Højer

Johannes Jensen

Arnanguaq Holm Olsen

Niels Ole Møller*)

Sara Biilmann Egede*)

Johan Berthelsen*)

*) Elected by the employees

Executive Board

Susanne Arfelt Rajamand, CEO

Nils Duus Kinnerup, CFO

Bruno Olesen, Group Sales and Marketing Director

Lars Nielsen, Group Production Director

Auditors

EY Grønland Godkendt Revisionsanpartsselskab

Group chart

