

Board of Directors' report

Financial information

Lerøy Seafood Group currently has a full, vertically integrated value chain within both redfish and whitefish, and is the leading Norwegian seafood company, and thereby one of the world's leading seafood corporations. The Group has a clear ambition to further develop this position in the years to come.

The Group's earnings in 2020 were lower than in 2019. This is mainly attributed to lower prices realised for the Group's products, due to the impact on demand of the restrictions laid down because of the global COVID-19 pandemic. Operating profit before biomass adjustments was down from NOK 2,734 million in 2019 to NOK 1,950 million in 2020. Despite a substantial fall in prices realised, revenue only fell by 2% from 2019 to 2020, evidence of strong underlying activities.

Associates represent significant value for the Group, demonstrated by the profit figure from associates, before fair value adjustment related to biological assets, of NOK 161 million in 2020. The corresponding figure for 2019 was NOK 198 million. The Group's net financial items for 2020 were negative at NOK 241 million compared with a negative figure of NOK 215 million in 2019.

Profit before tax and fair value adjustment related to biological assets was NOK 1,869 million in 2020 compared with NOK 2,718 million in 2019. Earnings per share before fair value adjustment related to biological assets and minority shareholdings totalled NOK 2.46 per share in 2020, compared with NOK 3.48 per share in 2019. The Board of Directors aims to recommend to the Annual General Meeting a dividend payment of NOK 2.00 per share in 2021.

The Group's dividend policy is to pay 30-40% of earnings as dividends. Historical figures for dividend recommendations bear witness to stable and increasing dividend payments over time. The dividend payment for 2021 recommended to the Annual General Meeting must be viewed in light of the former reports relating to dividend payment in 2020. The Annual General Meeting in 2020 adopted a dividend payment of NOK 1.50 per share, also mandating the Board of Directors to pay a further NOK 0.80 per share. The Board of Directors chose not to exercise this mandate, but also reported that the dividend payment recommended to the Annual General Meeting in 2021 will reflect this.

The return on the Group's capital employed before fair value adjustment related to biological assets in 2020 was 10.5% compared with 15.5% in 2019.

The Group is financially sound with book equity of NOK 17,633 million, equivalent to an equity ratio of 58.5%. Cash flow from operating activities for 2020 in total amounted to NOK 2,367

million, compared with NOK 2,859 million in 2019. Cash flows in 2020 are impacted by the Group having built substantial biomass in the sea. At year-end 2020, the inventory in volume in the sea was approx. 7% higher than at year-end 2019. Net interest-bearing debt was up from NOK 2,641 million at year-end 2019 to NOK 3,521 million at year-end 2020.

Net cash flow from investing activities in 2020 was NOK -1,354 million compared with NOK -876 million in 2019. Please note that right of use assets are not included in the cash flow from investing activities, as these assets do not generate any initial cash impact. Total investment in own and leased fixed assets from credit institutions totalled NOK 1,833 million in 2020 compared with NOK 1,460 million in 2019. Major individual investments made in 2020 include a new trawler in the Wild Catch segment (received from the shipyard in the first quarter) and the development of facilities for large smolt at Lerøy Midt and Lerøy Aurora. The Group has invested NOK 183 million in intangible assets in 2020, compared with NOK 2 million in 2019. The major share of this figure relates to the purchase of farming licence capacity from the Norwegian government.

In 2020, the Group paid dividends amounting to NOK 925 million, of which NOK 893 million from the parent company to the shareholders of Lerøy Seafood Group ASA. Corresponding figures for 2019 were NOK 1,273 million and NOK 1,191 million respectively.

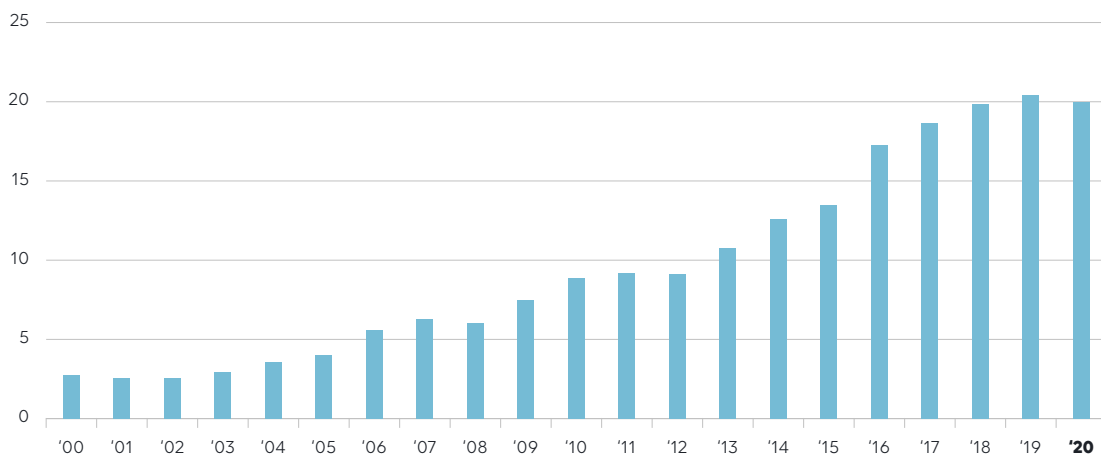
The Group has a satisfactory financial position that supports its objective to retain its position as the leading Norwegian seafood corporation, thus remaining one of the leading seafood companies worldwide in the future.

The Group's statement of financial position totals NOK 30,163 million as of 31 December 2020 compared with NOK 30,189 million as of 31 December 2019. Over the past 20 years, the Group has based its growth on financial flexibility. The Board of Directors is of the opinion that such financial flexibility is an important factor for the ability to generate further profitable, organic growth, carrying out strategic acquisitions, establishing alliances and continuing the company's dividend policy.

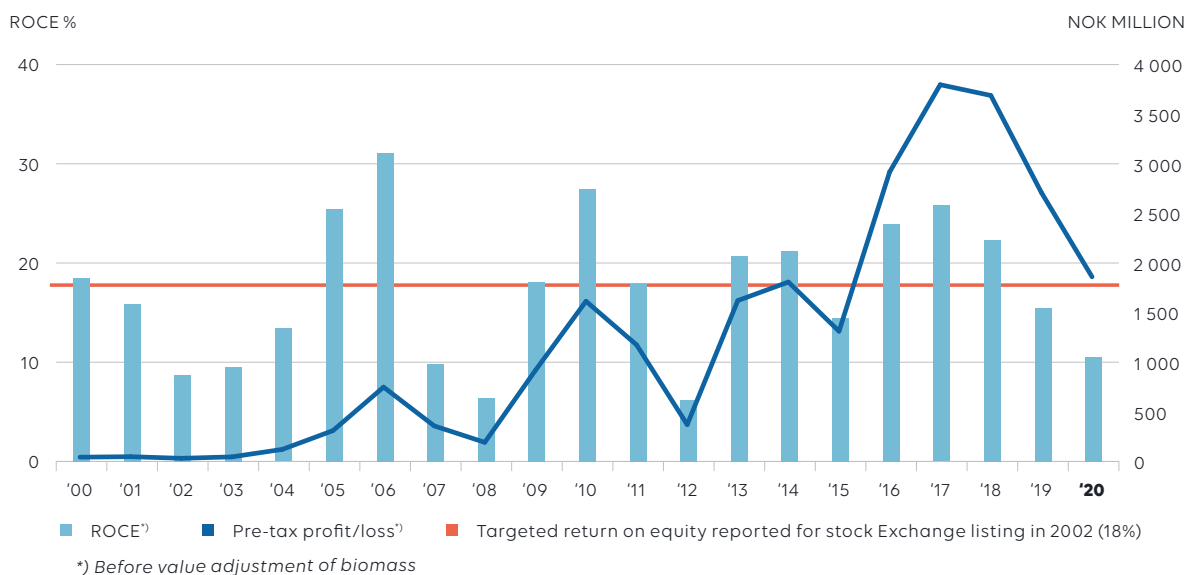
The group's satisfactory financial position substantiates the ambition to retain the position as the leading Norwegian seafood company and at the same time be one of the global leading seafood companies over the years to come.

The Group compiles its financial reports in accordance with the international accounting standards, IFRS.

Profit performance, Lerøy Seafood Group
(figures in NOK billion)



Development in return on capital employed and profit/loss before tax and fair value adjustment for fish in the sea



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The Wild Catch Segment

In October 2016, Lerøy Seafood Group obtained 100% ownership of Havfisk ASA (Lerøy Havfisk) and Norway Seafoods Group AS. As a result of this transaction, both companies were consolidated into Lerøy Seafood Group as of 1 September 2016. These companies comprise the Wild Catch segment. Norway Seafoods Group AS subsequently changed its name to Lerøy Norway Seafoods AS (LNWS) and Havfisk ASA to Lerøy Havfisk AS.

The wholly-owned subsidiary Lerøy Havfisk's primary business is wild catches of whitefish. Lerøy Havfisk has licence rights to harvest just above 10% of the total Norwegian cod quotas in the zone north of 62 degrees latitude, corresponding to around 30% of the total quota allocated to the trawler fleet. Lerøy Havfisk also owns several processing plants, which are mainly leased out to its sister company Lerøy Norway Seafoods (LNWS) on long-term contracts. Lerøy Havfisk's trawler licences stipulate an operational obligation for these processing plants.

Lerøy Havfisk took delivery of the new trawler, "Kongsfjord", on schedule in February 2020, and subsequently had 10 trawlers in operation in 2020. Experience of operations with Kongsfjord is positive.

Lerøy Havfisk's catch volume in 2020 was approx. 68,000 tonnes, up from around 62,000 tonnes in 2019. This increase is attributed to higher quotas.

LNWS's primary business is processing whitefish. The company has use of 12 processing plants and purchasing stations in Norway, five of which are leased from Lerøy Havfisk. LNWS is Norway's largest purchaser of whitefish from third parties, including from the coastal fleet. Symbiosis, or mutual dependence, is of decisive importance. The processing of whitefish in Norway has been extremely challenging for several decades.

The repercussions of COVID-19 have been negative for both the producer and the customer. There has been a substantially negative impact on market demand for fresh and conventional products in 2020. For 2020 in total, the segment contributed an EBIT of NOK 205 million, compared with NOK 293 million in 2019.

A number of improvement measures have been taken, and the Board of Directors expects to see an increase in earnings from this segment in the years to come.

The Farming segment

The Farming segment has locations in the three farming regions in Norway: Lerøy Aurora in Troms and Finnmark, Lerøy Midt in Nordmøre and Trøndelag, and Lerøy Sjøtroll in Vestland.

Earnings in 2020 have again been impacted by several unforeseen incidents, including challenges related to winter ulcers on fish for Lerøy Aurora. Despite this, there has been a significant improvement in production in the sea in 2020 when compared with previous years. In 2020, the segment harvested 171,000 tonnes of salmon and trout, up from 158,000 tonnes in 2019. In addition, the inventory of salmon and trout in the sea increased from 111,000 tonnes at year-end 2019 to 119,000 tonnes at the end of 2020. This represents

a net growth of 7% in relation to inventory at the end of 2019, a positive development.

The increase in production significantly supports a falling trend in release from stock costs throughout 2020, although these costs for the Group's farming operations remain higher in 2020 than in 2019. The Group expects further growth in production to provide a reduction in release from stock costs in 2021.

Throughout 2020, the prices for Atlantic salmon and trout were significantly impacted by the effect the global COVID-19 restrictions had on demand. In total, prices realised for salmon and trout in 2020 fell by around NOK 4 per kilogram. The contract share for salmon for the Group's farming operations was 33%. Trout represented 16% of the harvest volume for the segment, and prices realised for trout were around NOK 9 per kilo lower than for salmon.

In total, the above had an effect on EBIT before fair value adjustment for Farming in 2020 of NOK 1,381 million, compared with NOK 2,065 million in 2019. These figures include an increase of 8% in harvest volume, but a fall in EBIT/kg before biomass adjustments from NOK 13.1 in 2019 to NOK 8.1 in 2020.

As already reported in relation to outlook, the Group has made significant investments in the past year in post-smolt operations, and expects that these investments, combined with other improvement measures, will contribute to an increase in harvest volume in the years to come.

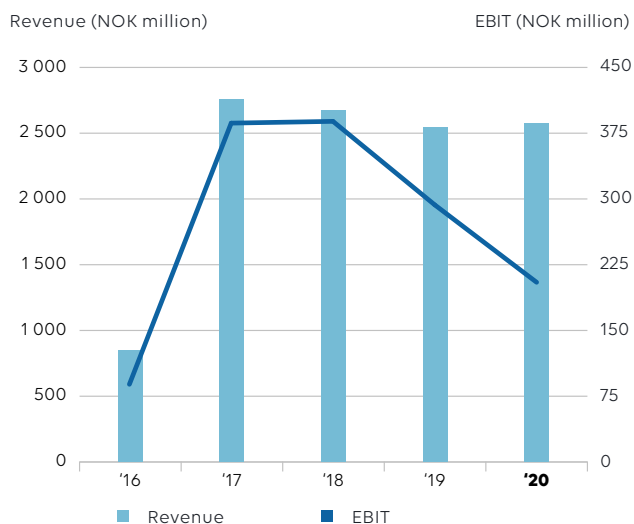
VAP, Sales & Distribution segment

With its fully integrated, efficient value chain for salmon, trout, whitefish and shellfish, Lerøy Seafood Group shall be able to supply products that are best suited to the consumers' preferences. Proximity to key markets and knowledge of the customer's needs are therefore of decisive importance if the Group is to develop demand for its main products. Lerøy distributes more than 70 different seafood products from Norway to more than 80 different markets in the space of one calendar year. In addition, the Group processes and distributes a number of market-specific seafood products in their respective local markets where Lerøy has operations. Lerøy Seafood Group's value chain shall be developed further in order to satisfy and increase the consumers' total demand for seafood.

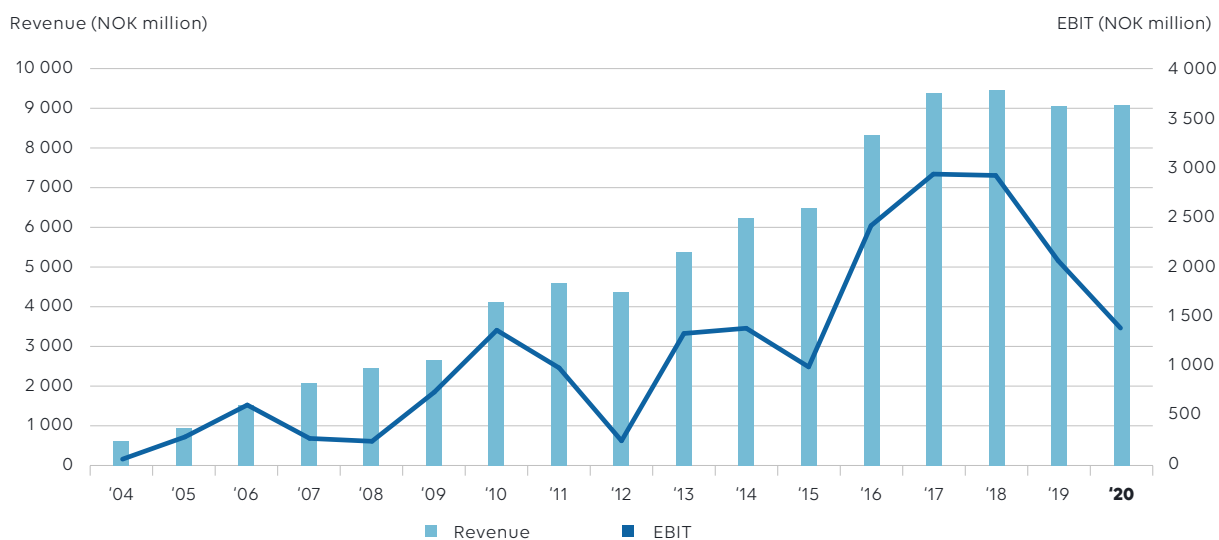
In 2020, the seafood markets have been negatively impacted by the COVID-19 pandemic. The impact was first evident in markets in Asia, spreading globally throughout Q1 2020 and into Q2 2020. The COVID-19 pandemic has had an effect on demand trends. The grocery market now represents a larger volume of consumption, while the hospitality and catering segment on many core markets has practically been closed down for long periods of time. The COVID-19 pandemic has also had an impact on logistics, particularly for overseas markets, with a reduction in cargo capacity resulting in increased costs during the period.

The main focus for the VAPS&D segment in 2020 has been to keep the value chain open. Throughout the second quarter, key markets showed a considerable level of improvement as the supply chain adapted to the change in consumer trends, with a much higher focus on groceries, but also as some parts of the hospitality and catering segment have

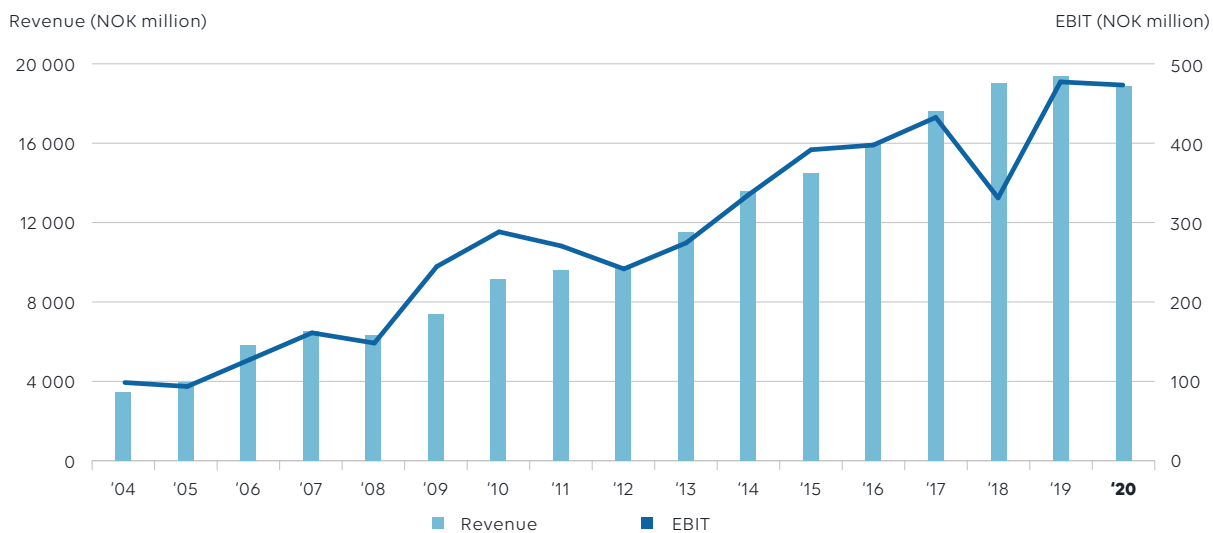
Profit performance and EBIT Wild Catch



Profit performance and EBIT Farming



Profit performance and EBIT VAP, Sales & Distribution



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gradually reopened. At the start of the third quarter, demand had improved considerably in comparison with the status in the middle of the second quarter. At the start of the fourth quarter, we once again experienced an increase in restrictions on key markets, with a significant impact on demand. At the same time, we are pleased to note that demand continues to be as strong as it is, and that the value chain has proved to be very adaptable. This gives grounds for an optimistic outlook once the pandemic is over and the restrictions are lifted.

Despite significantly lower prices realised for key species, the segment reported revenue in 2020 that was only 3% lower than in 2019. This is a clear indication of a high level of underlying activities. In recent years, the Group has implemented substantial initiatives for improvement of several of the units in the segment, including facilitating better interaction along the Group's value chain. The Board of Directors believes there is high potential for increased earnings in this segment. In 2020, operating profit before fair value adjustment related to biological assets was NOK 475 million – in principle, in line with the figure reported in 2019 of NOK 480 million.

Associates

Associates represent substantial values for the Group. The most important associates are Norskott Havbruk AS (50.0%), Seistar Holding AS (50.0%) and Seafood Danmark (33.3%).

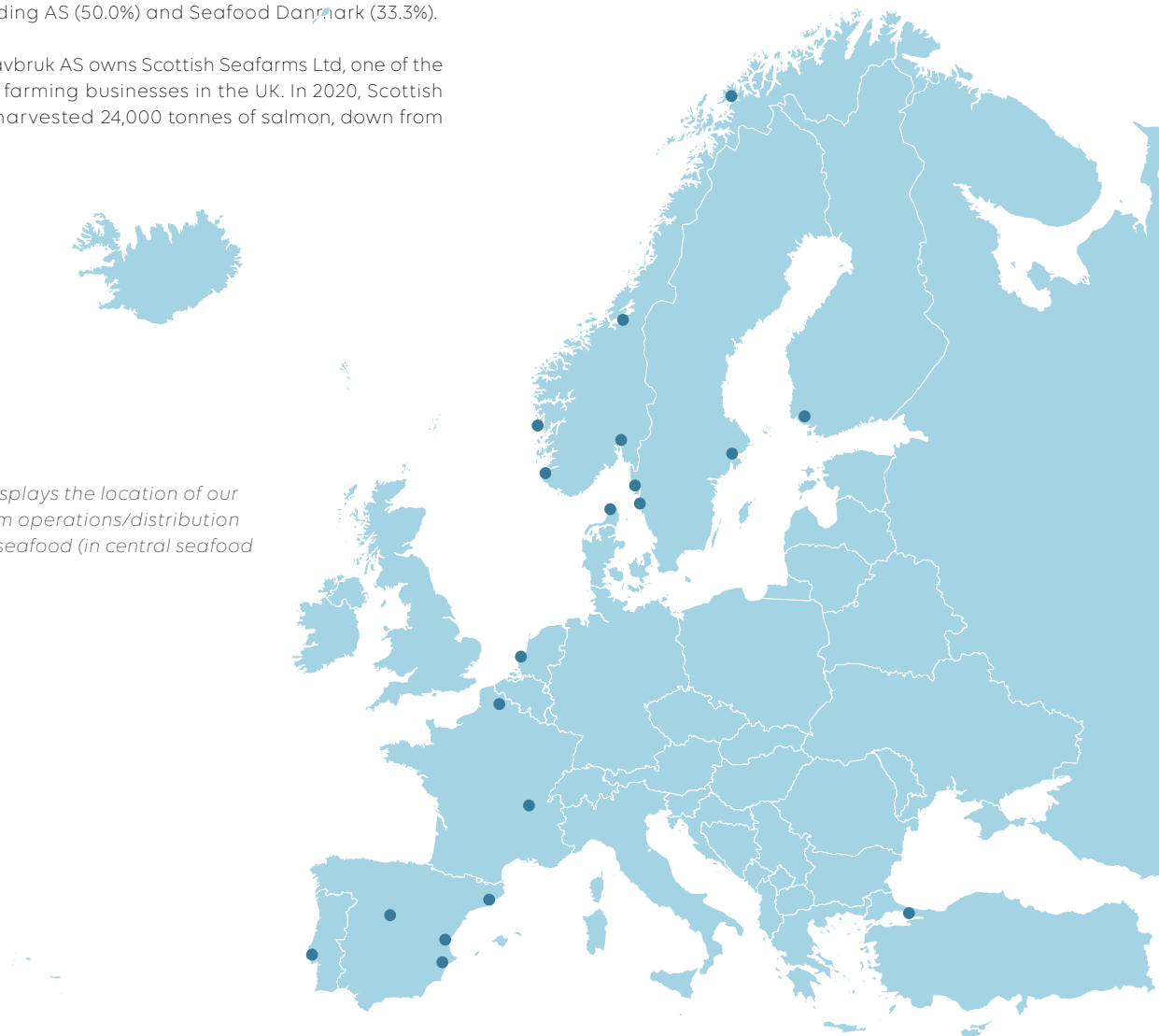
Norskott Havbruk AS owns Scottish Seafarms Ltd, one of the largest fish farming businesses in the UK. In 2020, Scottish Seafarms harvested 24,000 tonnes of salmon, down from

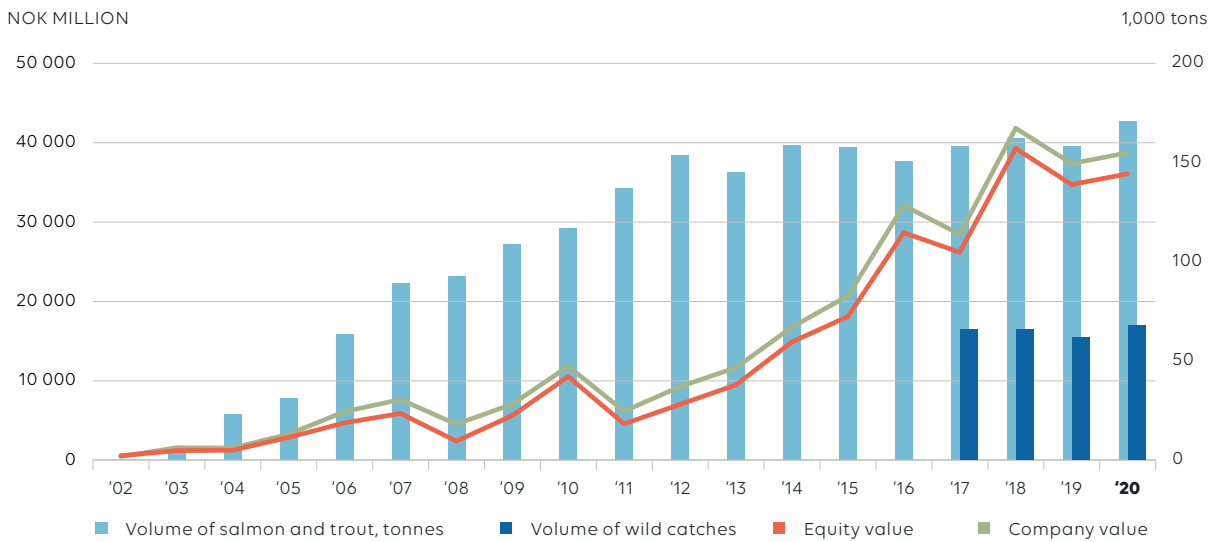
26,000 tonnes in 2019. Operating profit before fair value adjustment related to biological assets was up from NOK 292 million in 2019 to NOK 308 million in 2020. The company's new RAS facility for production of smolt was completed in the autumn of 2019, and is expected to make significant contributions to increased production in the years to come. The estimated harvest volume for 2021 is 36,000 tonnes gutted weight.

Well boat company Seistar Holding AS is an important supplier of services to both Lerøy and other aquaculture businesses, primarily in the region of Vestland. The operating profit figure in 2019 was positively impacted by the gain of NOK 82 million on the sale of an older vessel, part of Seistar's fleet renewal programme. Operating profit in 2020 totalled NOK 52 million, compared with NOK 116 million in 2019.

Seafood Danmark is a Danish company, where the Group currently owns one third of the shares, but where agreements have been signed entitling and obliging Lerøy to purchase the remaining outstanding shares. Developments have remained positive in 2020, and Lerøy currently expects to gain controlling ownership in 2021.

The map displays the location of our downstream operations/distribution centres for seafood (in central seafood markets)



Developments since Stock Exchange listing^{*)}

*) LSG was listed on the Stock Exchange on 3 June 2002

Development in harvest volume per region

Region	2015 GWT	2016 GWT	2017 GWT	2018 GWT	2019 GWT	2020 GWT	2021E GWT
Lerøy Aurora AS	29,200	30,000	39,200	36,800	32,800	35,000	47,000
Lerøy Midt AS	71,400	52,200	64,500	66,500	64,800	67,900	70,000
Lerøy Sjøtroll	57,100	68,000	54,000	58,800	60,600	68,000	75,000
Total Norway	157,700	150,200	157,700	162,100	158,200	171,000	192,000
Norskott Havbruk (UK) ^{*)}	13,500	14,000	15,500	13,700	12,900	12,000	18,000
Total	171,200	164,200	173,200	175,800	171,100	182,900	210,000

*) LSG's shareholding, not consolidated

“ We have more than 2,500 solar panels at our new factory, so our production methods support a sustainable world.”

Meindert Jan de Boer

Operational Manager, Lerøy Seafood
Netherlands