

September 2011



Iceland Seafood Market Report

Íslandsbanki Seafood Industry Team



Foreword

Íslandsbanki and its predecessors have been closely linked to the seafood industry since the Bank was founded in the year 1904. The original purpose of the Bank was to provide support for the mechanization of the fishing fleet and the development of modern fishing technology in Iceland. Íslandsbanki financed, for instance, the purchase of the first two motorized trawlers in Iceland, Jon forseti and Coot, in 1904 and 1907 respectively.

The seafood industry is of great importance to Íslandsbanki and represents the third largest share of the Bank's loan portfolio, or approximately 13%. The Bank has provided further support to the seafood industry through regular publication of reports and opinion papers. Earlier this year the Bank also established a New York subsidiary, Glacier Securities, which specializes in strategic and financial advisory in the seafood industry.

It is a real pleasure for us to publish a new report on the Icelandic seafood industry. The report addresses key issues in the industry today as well as Íslandsbanki's views on the industry and issues within it.

This report is intended to give foreign readers insight into the importance of the seafood industry for the Icelandic economy and the emphasis that Íslandsbanki places on services for seafood industry companies in Iceland and internationally.

Rúnar Jónsson

Director, Seafood Industry Team
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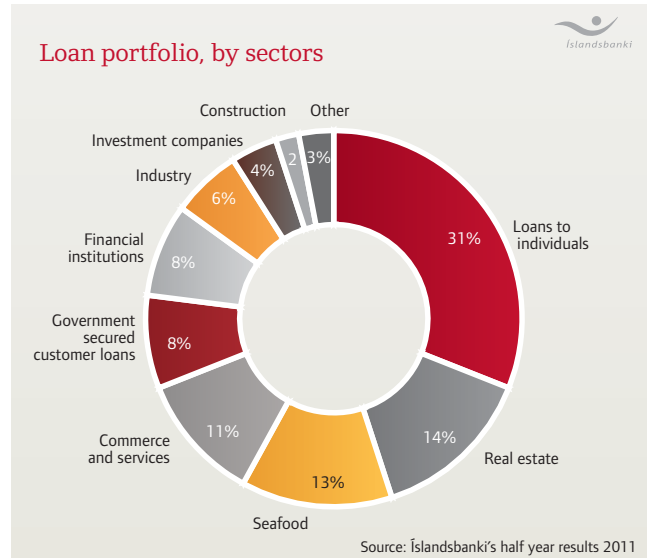
Íslandsbanki

Íslandsbanki offers comprehensive financial services to individuals, households, companies, and professional investors. Building on a heritage of servicing the nation's core industries, Íslandsbanki has developed expertise in two key economic sectors – seafood and geothermal energy.

Today, loans to seafood industry companies represent the third largest share of the Bank's loan portfolio, or approximately 12%. This underscores the seafood industry's great importance to the Bank.

Íslandsbanki employs a group of experts who focus on the seafood industry. The group is part of the corporate banking unit and handles relations and services for domestic and foreign seafood industry companies, as well as the publication of analyses and reports.

Over the years, many of the largest and most prominent seafood companies globally have been valued customers of Íslandsbanki.



Glacier Securities

Glacier Securites is a wholly-owned subsidiary of Íslandsbanki with headquarters in New York. Glacier has a team of experienced investment banking professionals dedicated to servicing corporate clients in the seafood industry in the Americas and internationally.

The seafood industry is a highly fragmented, yet globalized business that requires strategic insight based on specialized regulatory and operational knowledge. The industry is currently experiencing rapid consolidation as companies work to balance increasing global demand against sustainability in supply. Glacier understands the nature and

language of this segment. The firm's seafood team leverages its extensive industry knowledge and international network to provide expert advice and deal execution tailored to each specific situation.

Services provided:

- Strategic advisory
- Structuring of capital raising
- Balance sheet restructuring
- Valuations and due diligence
- Fairness opinions



For more information please visit www.GlacierSecurities.com.

Íslandsbanki's Seafood Industry Dashboard

Íslandsbanki's Seafood Industry Dashboard is an international source of information designed to make it easier for the industry to follow various data series on the seafood industry. The information in question is collected from various databases and widely disbursed websites, but the dashboard permits this data to be viewed in one place in graphic form. The dashboard is divided into five parts: Global, United States, Iceland, Stockwatch, and Publications.

Global: International data on the seafood industry, including volume of fish catches, aquaculture, and consumption by countries, as well as daily data on the prices of various fish products.

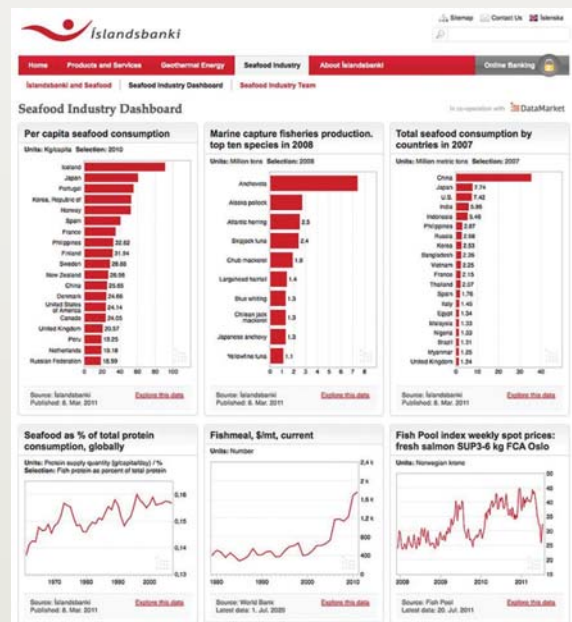
United States: Data on the seafood industry in the United States, including volume of fish catches, aquaculture, and consumption. Surveys of the main categories of seafood products and their prices relative to other sources of protein.

Iceland: Data on the Icelandic seafood industry, including the share of the seafood industry in national product, volume of fish catches, exports, operations, and profits of seafood industry companies, as well as daily prices of cod, haddock, and saithe in fish markets.

Stockwatch: Share prices for the world's principal seafood industry companies, as well as three Íslandsbanki Share Price Indexes for the seafood industry. The indexes are based on the 15 largest seafood industry companies in each separate continent.

Publications: All Íslandsbanki reports on the seafood industry are accessible on the dashboard.

Íslandsbanki's Seafood Industry Dashboard is open to all and accessible on the Bank's seafood industry website: www.islandsbanki.is/seafood.



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Key Highlights

The seafood industry is one of the foundations of the Icelandic economy – especially now when the importance of exports has increased. In 2010, seafood products accounted for 39% of Iceland's total export value but for approximately 25% of the total value of exports of goods and services. Europe is the most important market area, with approximately 80% of seafood product exports going to European countries. Provisional data show that approximately 11% of gross domestic product (GDP) in 2010 was derived from the seafood industry. The industry directly employs 8,600 individuals, or approximately 5.2% of the country's total labor force. The industry has generated various derivative employments, and it remains important for a great many service-, import-, and consulting companies that base their operations on services for the seafood industry.

The operations of seafood industry companies have generally been satisfactory in recent years. The years 2009 and 2010 are both among the very best with respect to EBITDA contribution margins, and provisional data suggest that 2011 will be an excellent year for the industry. A low exchange rate for the krona and relatively high product prices are positive factors in this respect at present. Extensive and comprehensive rationalization measures during the past few years are beginning to yield results. This achievement has been attained despite a contraction of fishing quotas, a high price of oil, and increased levies on the industry.

Iceland is ranked seventeenth among the greatest fishing nations in the world, accounting for approximately 2% of the world's catch. In 2010, the total catch of Icelandic fishing vessels was 1,063 thousand tons, or 6% below the level of the previous year. The total value of the catch in 2010 was close to ISK 133 billion. As before, the primary emphasis was placed on catching and processing demersal fish. Cod was the most valuable fish species, accounting for approximately 34% of the total value of seafood industry exports. Next were red ocean perch and haddock with 12% and 13%, respectively, of such export value. Pelagic species such as herring, capelin, blue whiting, and most recently, mackerel are also important sources of raw material, although their value is less than that of demersal fish species.

There has been a strong trend towards consolidation in the Icelandic seafood industry in recent decades after fishing quotas became transferable. Increased operational efficiency has been the primary impetus for consolidation. The consolidation has entailed increased indebtedness within the industry. Today, the 50 largest seafood companies have approximately 87% of issued quotas; thereof, the 10 largest companies have 53% of the quota. Based on issued quota, the following were the largest companies in the year 2010: HB Grandi, Samherji, Ísfélag Vestmannaeyja, Síldarvinnslan, and Vinlustödin.

The Icelandic fisheries face tough competition in international markets for seafood products where product quality, dependable delivery, and services are of the utmost importance. Icelanders have much at stake, most important being that the fish stocks around the country yield the greatest possible benefits in a sustainable manner. In this respect, it is necessary to reach an agreement as soon as possible on arrangements for fisheries management. The Minister of Fisheries

Icelandic Seafood Industry

1. Seafood industry products account for approximately 39% of the country's total merchandise export value, but approximately 25% of the total export value of goods and services.
2. Total value of exported seafood products in 2010 was ISK 220 billion, and Íslandsbanki believes that export value will continue to increase.
3. The seafood industry had an 11% share of GDP in 2010.
4. Europe is the largest market for Icelandic seafood products, with approximately 80% share.
5. Cod is the most valuable fish category, accounting for about 33% of total seafood industry exports.
6. Since the beginning of 2011, the seafood product price index in kronur has increased by 9.0%, but the index in SDRs has increased by 2.5%.
7. Iceland is the seventeenth leading fishing nation in the world, with 2% of the total world's catch.
8. The contribution margin of seafood industry companies was good in 2009 and 2010 (outlook for 2011 good).
9. About 87% of the yearly issued quota is held by the 50 largest companies.
10. Approximately 8,600 persons are directly employed in the Icelandic seafood industry, or approximately 5.2% of the total workforce.
11. Íslandsbanki warns of the negative impact that the new legislative proposal for changes to fisheries management from the Minister of Fisheries will have.

and Agriculture submitted two legislative proposals for changes in the fisheries management system this spring. The proposals envisaged fundamental changes in the current fisheries management laws. The first proposal contained mainly changes in quota fees and coastal fisheries and was passed last June. The second proposal will be re-submitted to Althingi (Icelandic Parliament) this fall, it contains considerably greater changes in the fisheries management system. Íslandsbanki submitted comments on the proposals in June 2011 which may be accessed on the Bank's website. The comments show that Íslandsbanki has great doubts about the changes which are envisaged by the proposal.

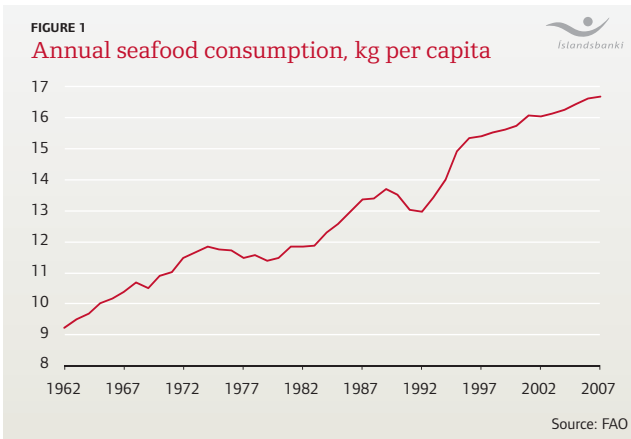
Under current circumstances, valuable time, and energy is being wasted and might be better used to find ways to maximize value creation based on the fish stocks at hand and to strengthen the competitive position of Icelandic companies in international markets.

1 Trends and Policies in the Seafood Industry

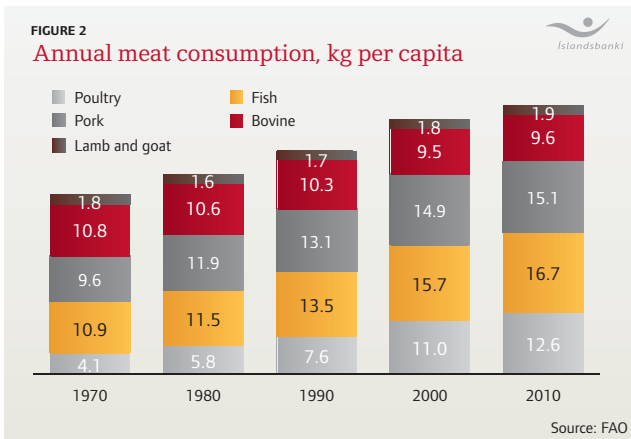
1.1 Consumption of seafood products

The annual consumption of seafood products worldwide averages approximately 17 kg per person and has never been greater.

Seafood products are thereby one of the main sources of protein in the human diet. Seafood products account for approximately 6.2% of total human protein consumption, but considering animal protein consumption alone, the share of seafood products is approximately 15.7%.



Consumption of poultry has increased rapidly in recent decades, with yearly consumption per person reaching 12.6 kg in 2007, which is an increase of approximately 211% since 1970. Over the same period, fish consumption has increased by 53%, pork consumption has increased by 58%, beef consumption has decreased by 11%, and lamb consumption has increased by 7%.



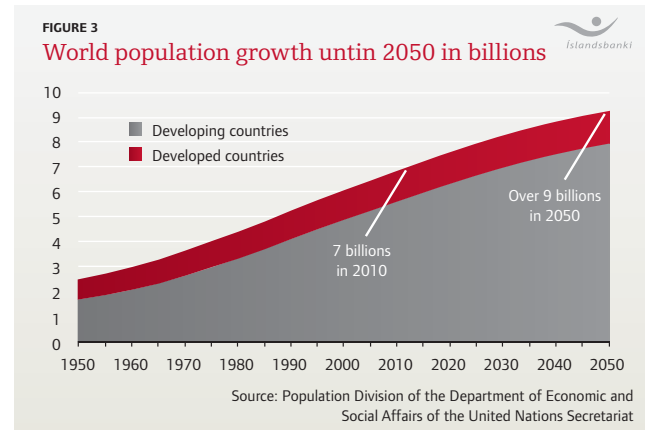
The main factors influencing future consumption and demand for seafood products are increased emphasis on a healthy lifestyle, increased protein consumption, and population growth.

Population growth

In 2010, the world's population was 6.9 billion. In 2030, it is estimated that the world's population will have reached 8.3 billion (an increase of 20%) and will be 9.3 billion (an increase of 35%) by the year 2050.

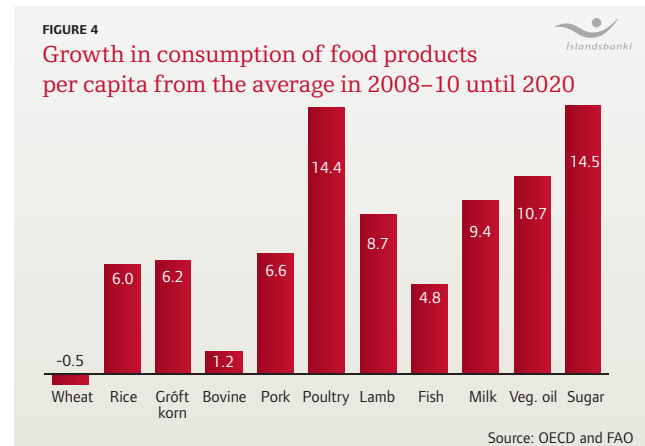
Taking account of the increase in population alone (and constant annual consumption of fish per person of 17 kg), the annual demand

for fish for human consumption in the year 2020 will be approximately 130 million tons and will be 158 million tons in 2050. For further details, see Figure 5.

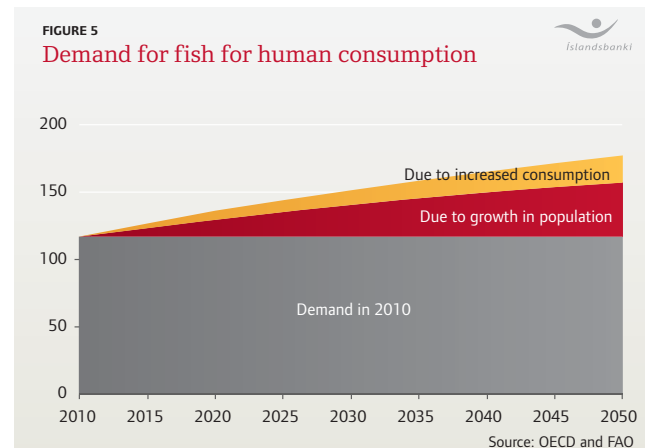


Increased protein consumption

It is believed that protein consumption will increase in the future and especially in Eastern Europe, Asia, and South- and Central America because of increasing disposable incomes. With increased income, people increase their protein intake, which explains to some extent



the rapid growth of meat consumption in developing countries. For example, it may be noted that meat consumption in developing countries was 9 kg per person in 1961 but had increased to 29 kg by 2007.



With increased income available for food purchases, consumers will also increase their purchases on processed and ready-to-eat food, which contains greater portions of protein. For example, it is believed that total world consumption of wheat will decrease over the next 10 years, while the consumption of sugar, milk, fish, and meat will increase, especially poultry consumption among less affluent people.

It is believed that fish consumption in the world will increase by 4.8% by 2020, and that is a considerably smaller increase than in the case of other protein sources. This may be explained, among other things, by increased consumption by Asian consumers of sources of protein other than fish. Price increases and limited supply of fish also have an impact.

Based on the aforementioned population growth and assuming that consumption of fish will increase by 4.8% by 2020 and by 2.4% thereafter, the annual demand for fish for human consumption will be approximately 136 million tons in 2020 and approximately 178 million tons in 2050 (see Figure 5).

Positive effects of fish consumption on human health

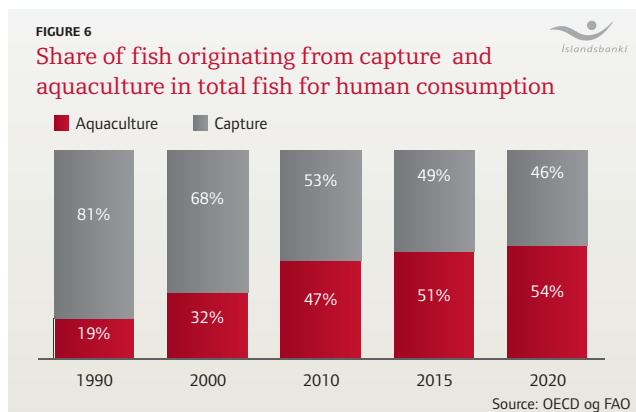
With growing welfare, there is increased interest in and awareness of better health and health protection. In 1999, lifestyle-connected disorders such as certain types of cancer, diabetes, obesity, etc. were held to account for 43% of all illnesses and 60% of all deaths.

According to the World Health Organization, the same group of disorders will account for 60% of illnesses and 73% of all deaths in 2020. Therefore, health authorities in various parts of the world have begun to urge the public to eat fish at least twice per week, since research has shown that, for example, it reduces by one-half the probability of getting heart disease. Fish is a very protein-rich food and contains many nutritional substances such as iodine, selenium, and fish fat. Fish fat is very healthy because it contains omega-3 fatty acids and vitamin D but little saturated fat.

1.2 Supply of seafood products

World production of fish in 2011 is expected to be approximately 149 million tons and has never been higher.

This is due especially to a large increase in aquaculture together with increased fishing from various stocks such as Atlantic cod, Alaska saithe, and Atlantic mackerel. Fishing quotas have also been increased and so has the supply from wild stocks, which shows that the fisheries management of many countries, including Iceland, has positive long-time effects on sustainability.



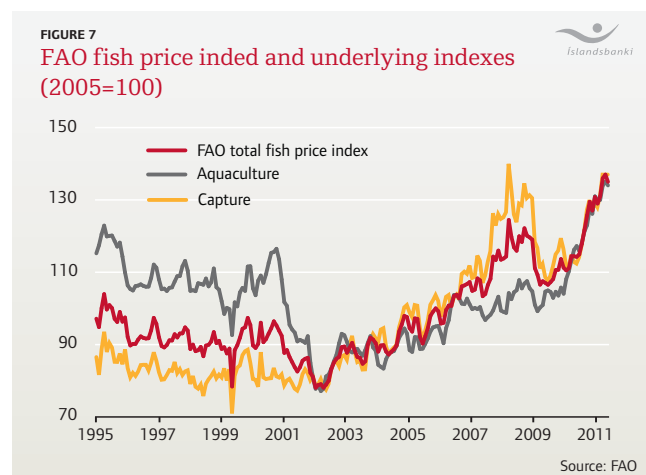
It is expected that world supply of fish during the next 10 years will increase by 15%, with the increase deriving primarily from aquaculture. Aquaculture is estimated to account for approximately 45% of the total fish supply in the year 2020, up from approximately 38% during 2008–2010. The proportion of farmed fish for human consumption

during 2008–2010 was approximately 47% and is projected to reach 51% in 2015 and 54% in 2020. Thus, the proportion of farmed fish for human consumption is projected to become greater in 2015 than the proportion of fishing for human consumption.

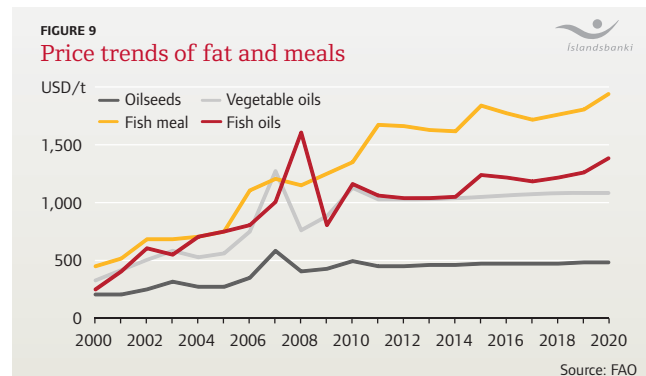
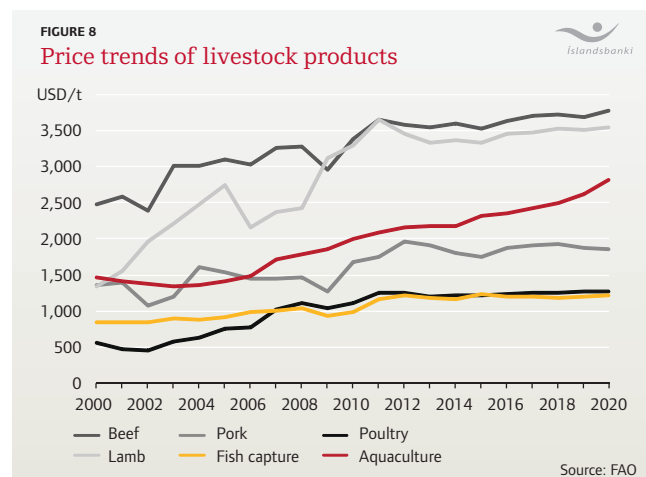
Fishing has reached approximately 90 million tons and is not considered likely to increase much in the future because fish stocks may not be able to sustain higher catches.

1.3 Development of seafood product prices

The fishing industry has fared better during the past two years following a difficult year in 2009, which was marked by lowered prices. Concurrently with rising prices, demand has increased, especially in the developing countries.



The fish price index of FAO (Food and Agriculture Organization of the United Nations) shows that international fish prices have never been higher, especially for farmed fish.

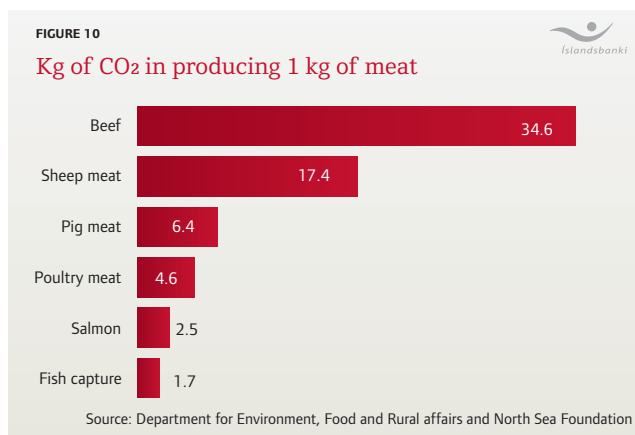


If fish prices are compared to meat prices, it can be seen that world meat prices have been on a rising trend during the past decade and continuing price increases are projected according to FAO. It is believed that the price of caught fish may increase considerably in 2011 but will remain quite stable thereafter until the year 2020. On the other hand, it is envisaged that prices of farmed fish, fishmeal, and fish oil will most likely increase more than the prices of caught fish until the year 2020. According to projections, the average price of caught fish would be approximately 20% higher in 2020 but would be 50% higher for farmed fish.

1.4 Increased emphasis by consumers and retail chains

The environmental effects of seafood production

In the future, it is likely that greater attention will be given to the degree to which the production of certain goods damages the environment. Such effects can be measured, for example, in terms of carbon dioxide (CO₂) emission. Fish catches do very well in such a comparison, as may be seen in Figure 10. It shows that fisheries use only 1.7 kg of CO₂ in producing 1 kg of fish, but the comparable figure for beef production is 34.6 kg. Aquaculture also compares favorably, with production of 1 kg of salmon entailing only 2.5 kg of CO₂.



Increased demand for traceability and security of food



Demand for sustainability and traceability in the seafood industry is steadily increasing among consumers and retail chains. Environmental awareness has increased, and there is growing demand in the market to demonstrate that seafood products are being produced in a manner consistent with sustainability and that ways be found to minimize pollution. In light of these increased demands, it was decided to create an Icelandic source label – Responsible Fisheries – that identifies Icelandic seafood products based on the processing of catches within Icelandic territorial waters. Responsible Fisheries also grants certification of responsible fishing by Icelanders that provides producers and sellers of Icelandic seafood products with an opportunity to meet the market’s demands. Cod fishing by Icelanders within Icelandic territorial waters were certified in December 2010.

2 Fishing Industry in Iceland

The fishing industry has been important for Icelanders through the centuries, both as a source of food for the population and as a source of a large share of the country's export earnings.

The mechanization of the Icelandic fishing industry began in the early part of the nineteenth century. The first trawler owned by Icelanders arrived in the country in the year 1904. Thereafter, the fishing sector developed rapidly, and a total of 29 trawlers were operated out of Icelandic harbors in 1927. The catch of demersal fish more than doubled between 1905 and 1917, from 40 thousand tons to 100 thousand tons.

The first stern trawlers were introduced around 1970, and in 1983, a total of 103 trawlers were operating out of Icelandic harbors. A quota system was introduced in 1984 when over-fishing in Icelandic waters had become a problem. In 1994, an Act entered into effect permitting full quota transferability between companies. Following the adoption of the quota system, the profit of Icelandic fishing companies before taxes, depreciation, and financial items increased substantially, with the EBITDA contribution margin of fishing companies rising to 31% in 2009.

Íslandsbanki and its forerunners have been closely linked to the fisheries and fish processing since the Bank was founded in 1904. The purpose of the Bank was to provide support for the mechanization of the fishing fleet and the development of modern fishing technology. Íslandsbanki financed, for instance, the purchase of the first two motorized trawlers, *Jón forseti* and *Coot*, which were brought to the country in 1904 and 1907 respectively.

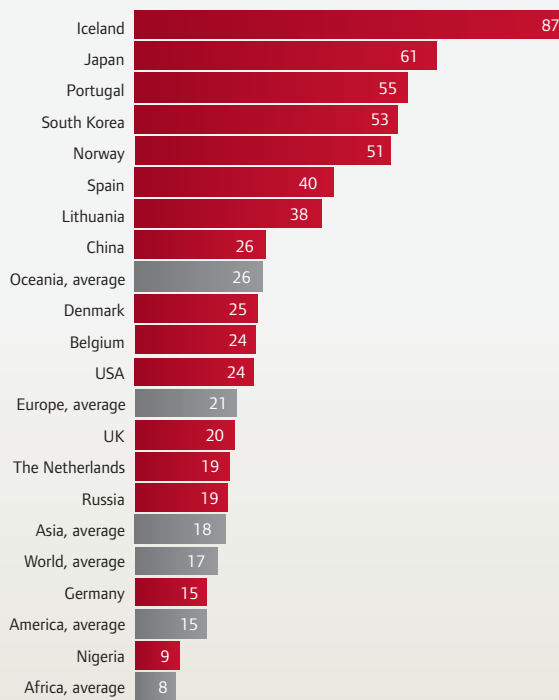


The Icelandic trawlers *Jón forseti* and *Coot*

Source: Reykjavík Museum of Photography

FIGURE 12

Seafood consumption per capita in 2007



Source: FAO

According to the latest data from FAO, Iceland was in seventeenth place as the world's leading fishing nation in 2009. Iceland has moved down by six places since 2000, when it ranked as the eleventh leading fishing nation. Total world catch was 65.2 million tons in 2009. Iceland caught approximately 2% of the total, or 1.1 million tons. Between them, the twenty leading fishing nations caught 78% of the total catch in 2009.

Seafood products are an important part of the Icelanders' diet, with FAO data showing annual consumption of seafood products in Iceland amounting to approximately 87 kg per person (ungutted fish), which is among the highest level in the world. It is more than four-fold the annual average consumption in Europe of approximately 21 kg per person.

FIGURE 11

The world's main fishing nations by catch in 2009



Source: FAO

3 Operations and Financial Position of Seafood Companies

3.1 Operating results

TABLE 1
Operating accounts of fishing and fish processing, 1997–2009

Fishing (ISK bn)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total income	60	63	64	63	76	83	70	71	75	82	85	103	118
EBITDA	10	12	12	12	19	19	15	12	15	20	18	26	31
Depreciation	-8	-10	-10	-9	-9	-12	-12	-12	-9	-8	-7	-8	7
Price adjustments and interests	-3	-3	-2	-8	-11	5	0	2	3	-22	1	-127	-13
Net profit (EBT)	-1	1	0	-5	-2	13	2	3	9	-10	13	-109	11
Processing (ISK bn)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total income	74	78	74	69	93	98	86	93	80	90	94	128	156
EBITDA	6	8	5	6	18	8	8	7	6	12	6	22	33
Depreciation	-4	-4	-5	-5	-3	-3	-2	-3	-2	-2	-3	-4	5
Price adjustments and interests	-2	-2	-1	-4	-7	6	1	2	0	-12	2	-66	-9
Net profit (EBT)	1	3	-1	-3	8	10	6	5	4	-2	6	-48	18

Source: Statistic Iceland

Findings based on operation results of seafood industry companies over the period 1997–2009 show that income and EBITDA contribution margins have increased considerably over the past decade. Data for 2010 indicate that the operating results were excellent and that prospects for 2011 are favorable. These are good findings considering quota curtailment and higher oil prices. Profits before tax (EBT), after taking into account depreciation and financial items, were generally positive over the period. However, profits have not been high over the past decade, and moreover, they have been sensitive to exchange rate fluctuations.

3.2 Debt position

The ratio of net indebtedness to EBITDA has increased over the past decade in the seafood industry. The ratio was 3.6 in the year 2001 and reached a maximum of 10.0 in 2007 but declined subsequently to a level of 7.0 in 2009.

The decline in the ratio in 2009 is due to greater profits before depreciation and financial items (EBITDA), since the net indebtedness of the seafood industry showed little change between the years 2008 and 2009.

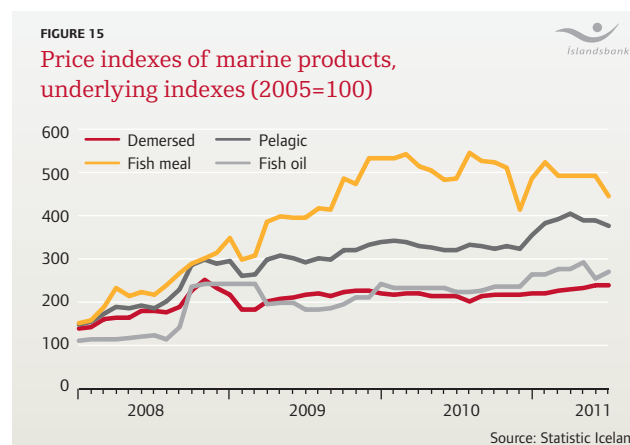
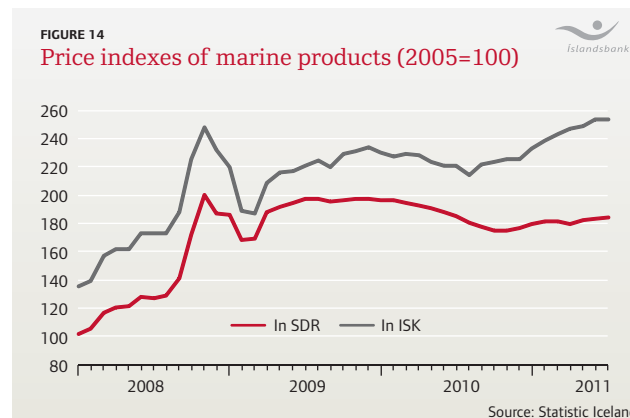


3.3 Prices and exchange rate developments

Seafood product prices have been increasing during the past two years following a considerable decline at the beginning of 2009. Since early 2011, the seafood price index in Icelandic kronas has increased by 9.0%, but measured in SDRs (the basket index of the International Monetary Fund, which is based on the euro, yen, pound

sterling and the U.S. dollar), the seafood price index has increased by 2.5%.

Seafood product prices in foreign markets have been high recently (see Chapter 1.3), in addition to which the real exchange rate of the Icelandic krona has been rather low, so that seafood product prices measured in Icelandic kronas have increased substantially. A weak position of the krona has therefore had somewhat positive effects on the seafood industry and other export industries, since a weak krona improves the competitive position of export companies. The export value of seafood products has been rising sharply during the past two years (see Chapter 5), a trend which may be partly ascribed



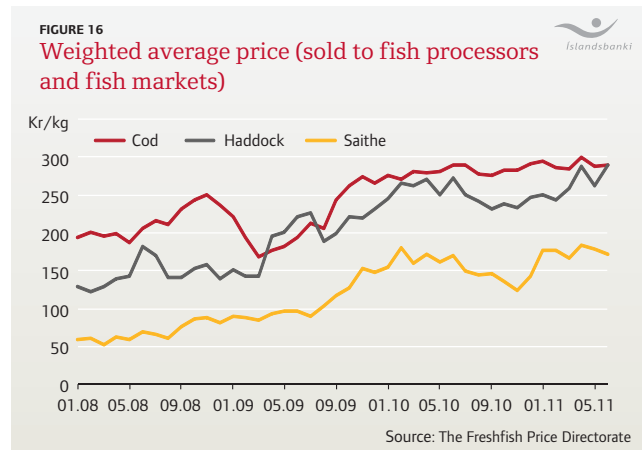
to a strong competitive position of Icelandic seafood companies due to a weak currency.

In terms of specific categories of seafood products, it may be mentioned that the price of fishmeal has been at historical highs during the past two years. It is believed that the world market price of meal will continue to rise because of increased demand. Fishmeal is used, among other things, for aquaculture, and since aquaculture is likely to expand rapidly on a worldwide basis in the future, demand may be expected to increase.

Prices of the principal demersal fish categories have also been on a rising trend during the past two years. The price of cod has been quite steady since the beginning of the year, but the prices of other demersal fish categories have shown some increases.

The Freshfish Price Directorate has collected weighted average prices for various fish categories, including cod, haddock, and saithe. Price and quantity are based on landed catch, and only data on direct purchases by domestic fish processors and sales on domestic fish markets are used. The weighted average of these two is then arrived at. The average prices for 2011 are ISK 288.92 per kg for cod, ISK 258.92 per kg for haddock, and ISK 175.26 per kg for saithe.

In its economic forecast, Statistics Iceland envisages that prices of seafood products will increase by 8.5% in 2011, 4.0% in 2012, and 2.2% in 2013.



4 Fisheries Management System

The seafood industry is very important for the nation's economy in that it contributes approximately 39% of the total value of Iceland's merchandise exports and contributes directly approximately 11% of each year's GDP. In fact, the contribution is considerably greater because the industry has a multiplier effect on other sectors of the economy and generates derived activities and incomes for a great number of production and services companies. Therefore, it is necessary that the value yielded by the fish stocks around the country be maximized in a sustainable manner. That makes it possible to increase the nation's future quality of life and well-being.

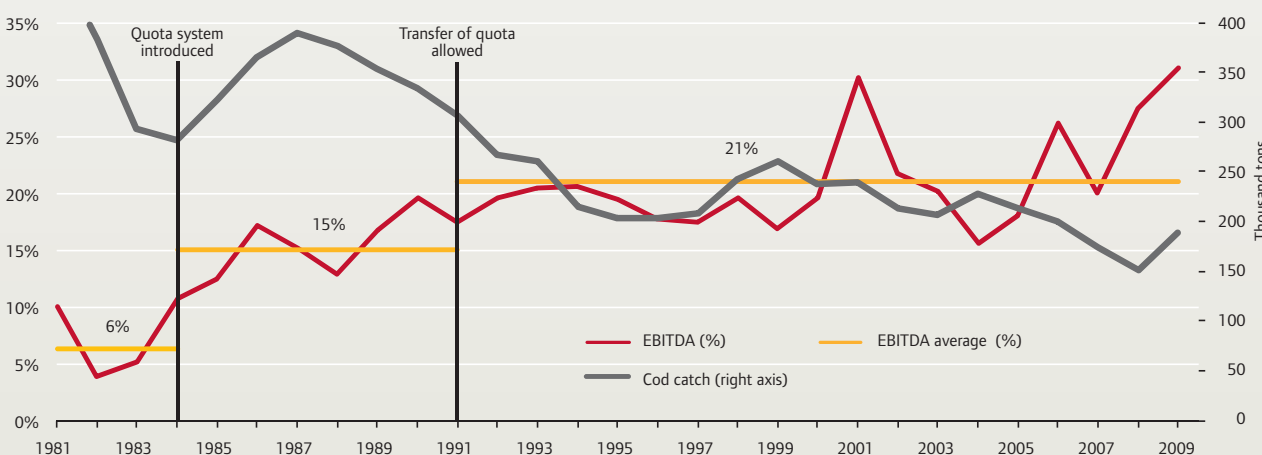
The operational results of the seafood industry sector, measured by EBITDA contribution margins (earnings before financial items, taxes, and depreciation) have increased steadily since the adoption of the current fisheries management system. That is clearly shown in the following graph. This development of EBITDA contribution margins is remarkable not least in light of the fact that the catch of cod, the

TABLE 2
TAC by top 50 companies in 2011

Company	Cod bated volume (thousand tons)	Percentage
HB Grandi hf	45,150	11.9%
Samherji hf	27,685	7.3%
Ísfélag Vestmannaeyja hf	22,741	6.0%
Sildarvinnslan	19,708	5.2%
Vinnslustödin	17,992	4.7%
Thorbjörn hf	16,101	4.2%
Skinney-Thinganes hf	14,551	3.8%
FISK-Seafood hf	13,727	3.6%
Rammi hf	12,400	3.3%
Vísir hf	12,092	3.2%
Top 10	202,147	53.0%
Top 20	276,154	72.5%
Top 30	303,471	79.6%
Top 50	329,764	86.6%

Source: Directorate of Fisheries and Íslandsbanki

FIGURE 17
EBITDA margin ratio of Icelandic seafood companies, 1981–2009



Source: Statistic Iceland and National Economic Institute of Iceland

most valuable fish species, contracted greatly during the period. At the same time, the seafood industry sector in many of Iceland's competitor countries receives sizable government subsidies.

As shown in the above graph, the quota system was introduced in the year 1984. The quota system was established to protect Icelandic fish stocks against over-fishing. The quota system was subsequently changed considerably in 1990 when quota transfers were authorized. Since the quota system was introduced, the EBITDA contribution margins of seafood industry companies increased considerably, reaching 31% in the year 2009.



The Minister of Fisheries and Agriculture submitted two legislative proposals for changes in the fisheries management system this spring. The proposals envisaged fundamental changes in the current fisheries management laws. The first proposal contained mainly changes in quota fees and coastal fisheries and was passed last June. The second proposal will be re-submitted to Althingi (Icelandic Parliament) this fall, but

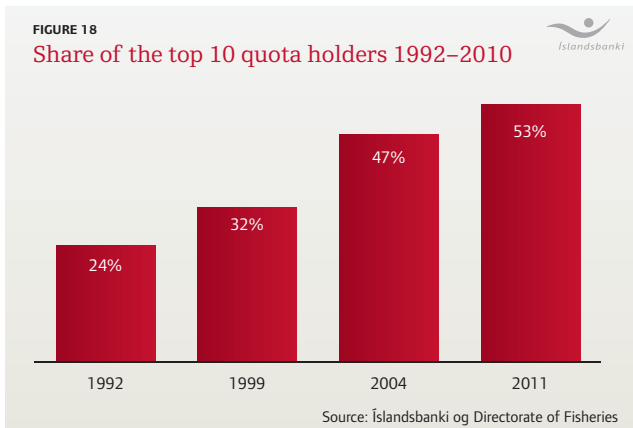
it contains considerably greater changes in the fisheries management system.

Íslandsbanki submitted comments on the proposals in June 2011, which may be accessed on the Bank's website. The comments show that Íslandsbanki has great doubts about the changes that are envisaged by the proposal.

4.1 Stakeholders and companies

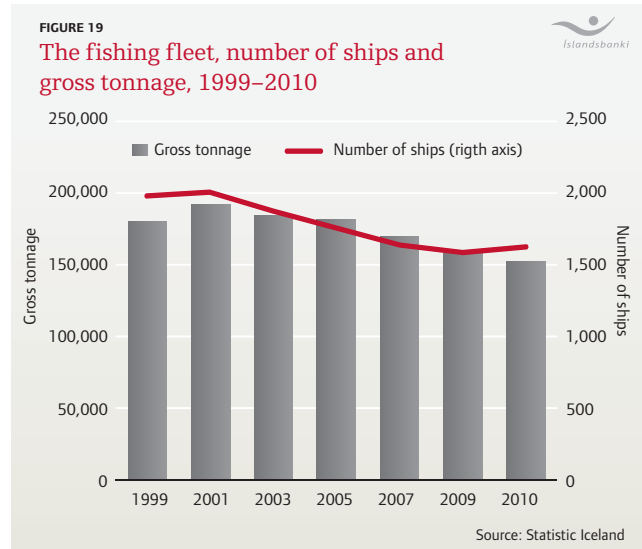
There has been a strong trend towards consolidation in the Icelandic seafood industry in past two decades after fishing quotas became transferable. The impetus behind this trend has been the desire to increase operational efficiency. At present, the 50 largest seafood industry companies hold approximately 87% of issued quotas. In 2010, the following five companies were the largest based on issued quota: HB Grandi, Samherji, Ísfélag Vestmannaeyja, Sildarvinnslan, and Vinnslustödin. The 10 largest companies hold 53% of the quota, and the 20 largest companies hold approximately 73%.

This consolidation has entailed increased indebtedness within the seafood industry, while at the same time contributing greatly to increase profitability of seafood industry companies. In addition, large companies that have quotas in a greater number of fish stocks are in a better position to cope with operational fluctuations.



The Icelandic fishing fleet has contracted in recent decades, both in terms of the number of ships and gross tonnage. The number of ships has decreased by 18%, or from 1,976 in 1999 to 1,625 in 2010. Within the total, the number of trawlers has decreased from 91 to 57. In 2010, the number of motor vessels was 761, having decreased by 7 from the previous year.

For the first time in a decade, the number of fishing vessels increased from one year to the next, by 43 ships, all of which were open fishing boats. This was due to an increase in coastal fishing, but in 2010, a total of 741 boats received coastal fishing permits.



5 The Seafood Industry's Weight in the Icelandic Economy

5.1 The share of the seafood industry in gross domestic product (GDP)

The seafood industry has played an important role in the Icelandic economy for centuries. Although the share of the seafood industry in GDP has declined somewhat during the second half of the twentieth century, the seafood industry remains an important part of the Icelandic economy, with a direct contribution to GDP of approximately 11% and 39% of merchandise export value in 2010. In an historical context, an 11% share of fishing (5.3%) and processing (5.4% estimate) in GDP is considerably above the average over the past 10 or 15 years.

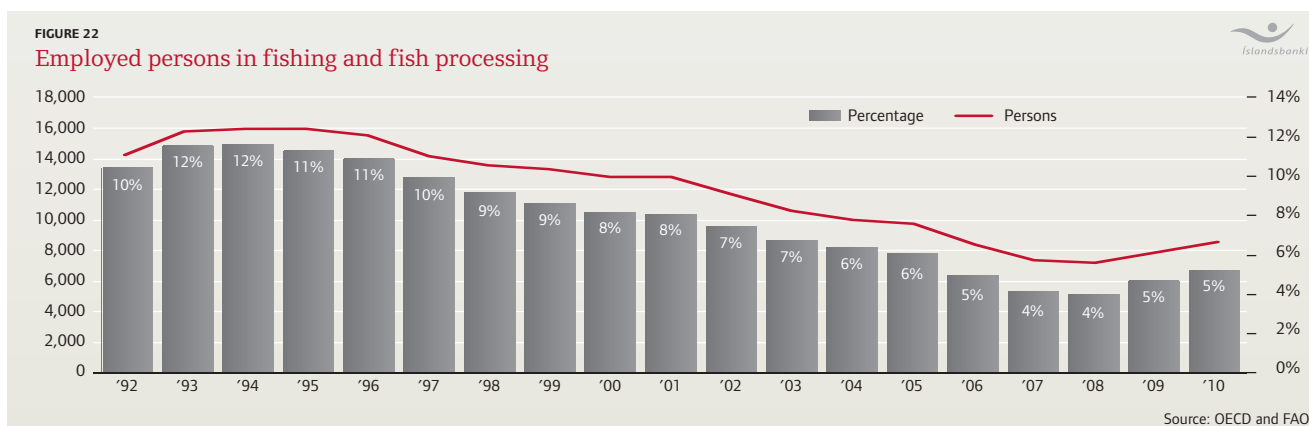
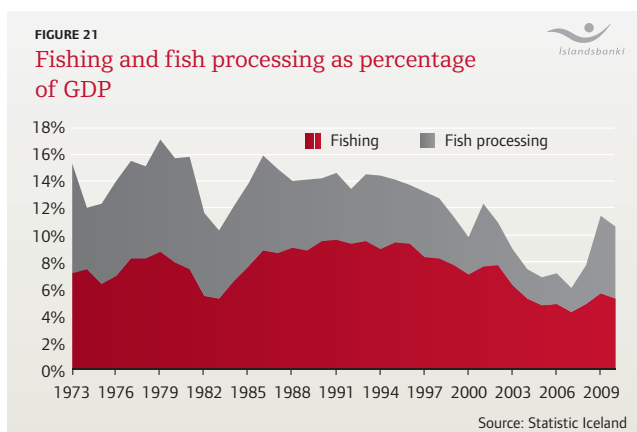
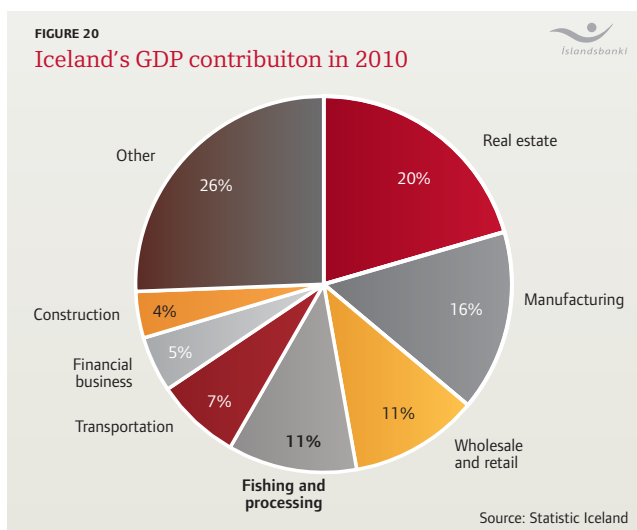


TABLE 3
Jobs in fishing and processing in 2010

Area	Number	Percentage
Reykjavik area	1,500	1.4%
Country side	7,100	11.9%
Total	8,600	5.2%

5.2 Jobs in the seafood industry

Today, approximately 8,600 people are employed directly in the seafood industry: 5,000 in fishing and 3,600 in fish processing. Together, this represents 5.2% of the country's total work force. Between 1991 and 2010, the number of jobs in fishing declined by 1,200 but declined by 4,400 in fish processing.

The seafood industry plays an especially important role in the countryside, where it accounts for approximately 11.9% of all jobs, compared to only 1.4% in the capital area. A large number of jobs in other sectors are connected to the seafood industry, including various kinds of industrial and service activities.

5.3 The seafood cluster



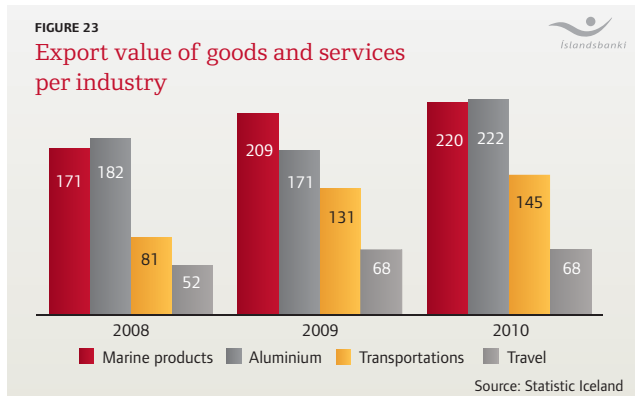
The seafood cluster is a collective undertaking of a great many companies in operations connected to the seafood industry, and the objective is to improve cooperation, increase value, and enhance understanding of the importance of the operations within the cluster.

This involves, among other things, a mapping of all operations related to seafood, right from fishing, fish processing, research, and innovation to biotechnology and high-tech production, transportation, financial services, and repair and maintenance services. According to research that has been undertaken, more than 23.5% of GDP may be traced to the activities of the Icelandic seafood industry, divided into a direct contribution of 11% and an indirect contribution of 12.5%.

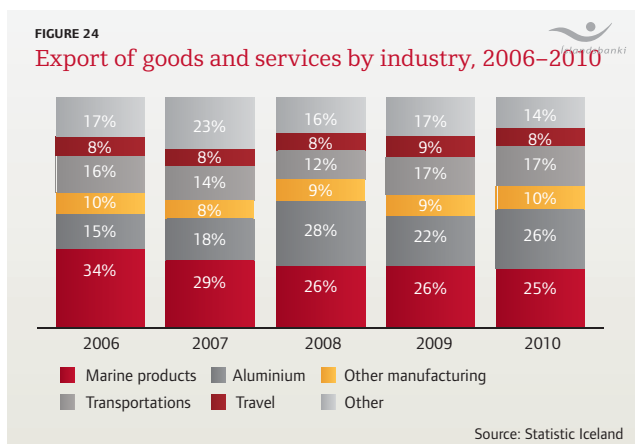
Íslandsbanki is the principal sponsor of the project that is headquartered at the University of Iceland's Institute of Business Research.

6 Exports of Seafood Products

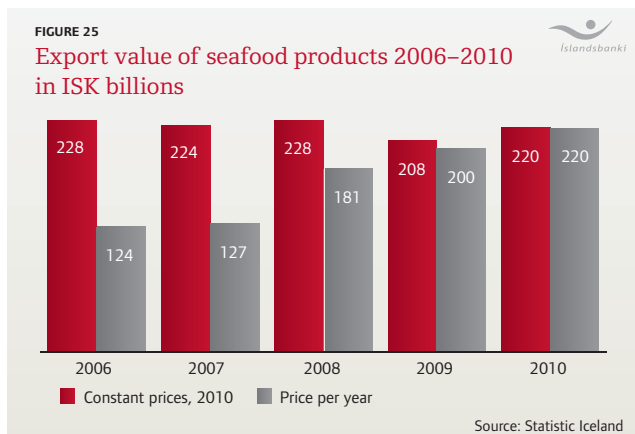
The seafood industry contributed some 39.3% of all merchandise exports in 2010. However, when both services and merchandise exports are considered, the seafood industry's share of total export value is 25%. The export value of seafood products last year was ISK 220 billion, an increase of 5.7% over 2009. However, the quantity of exports decreased in this period by 5.5%. The higher export value was due to a strong competitive position based on a weak currency, increased demand, and higher prices in world fish markets.



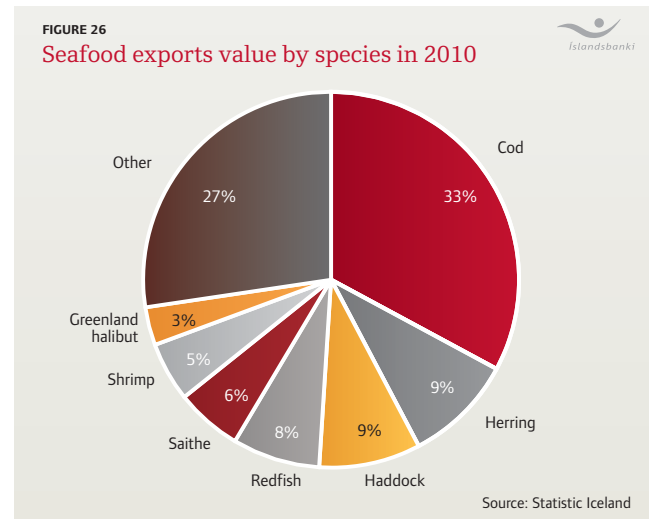
In 2010, only the aluminum industry accounted for a greater export value than that of the seafood industry, or approximately ISK 222.4 billion. Next were communications and transport (ISK 145 billion) and tourism (ISK 68 billion).



The share of seafood products in total exports has decreased in recent years, reflecting mainly increased aluminum exports rather than contraction of the export value of seafood products, which has shown some increase.



In terms of export values at constant prices in 2010 (seafood product price index), the export values in 2009 and 2010 were lower than those of recent years.



6.1 Exports of seafood products by countries

Icelandic seafood products are exported mainly to Britain (21%), followed by Spain (9%) and Norway (7%). The top ten nations on the list of buyers of Icelandic seafood products account collectively

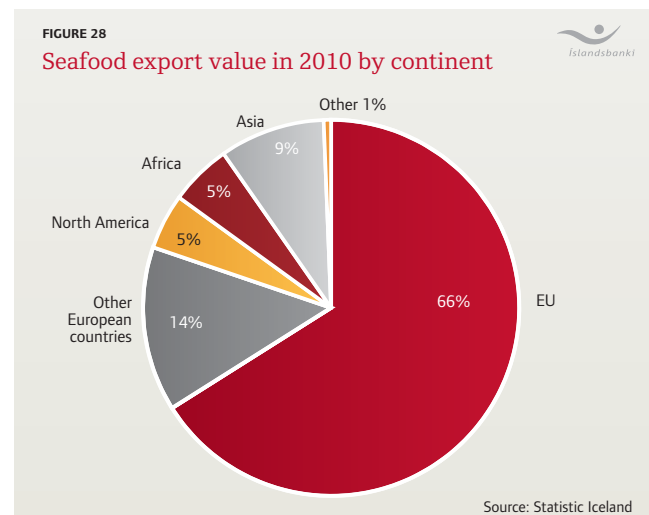
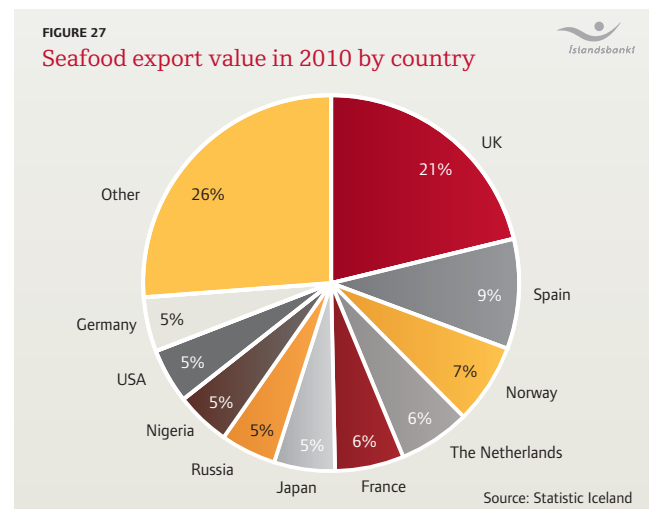


TABLE 4

Export value by species and countries for the seven most valuable species in 2010

Cod	ISK bn	Percent	Saithe	ISK bn	Percent	Haddock	ISK bn	Percent	Greenland halibut	ISK bn	Percent
UK	19,422	26.8%	Germany	2,744	18.8%	UK	10,618	55.4%	Japan	4,217	58.2%
Spain	14,609	20.2%	Netherlands	1,610	11.0%	USA	4,888	25.5%	Taiwan	1,336	18.4%
France	7,755	10.7%	Spain	1,318	9.0%	Nigeria	1,486	7.8%	China	701	9.7%
Netherlands	6,746	9.3%	Nigeria	1,162	8.0%	Belgium	680	3.6%	Hong Kong	262	3.6%
Herring			Shrimp			Redfish					
Norway	7,012	33.8%	UK	7,956	70.6%	Japan	4,197	25.4%			
Poland	4,090	19.7%	Denmark	1,788	15.9%	Germany	3,575	21.6%			
Lithuania	2,917	14.1%	Italy	310	2.7%	China	1,219	7.4%			
Russia	2,245	10.8%	Spain	219	1.9%	Netherlands	1,113	6.7%			

TABLE 5

Export value for other selected species in 2010

Silver smelt	ISK bn	Percent	Mackerel	ISK bn	Percent	Blue whiting	ISK bn	Percent	Monk	ISK bn	Percent
Lithuania	1,137	65.3%	Russia	5,610	66.2%	Norway	1,396	38.3%	UK	1,097	67.0%
Lobster			Capelin			Catfish					
Spain	2,127	60.9%	Norway	2,947	23.7%	France	1,380	27.9%			
						Germany	1,116	22.6%			

Source: Statistic Iceland

for 74% of total export value, with the top five countries accounting for 50% as shown in Figure 27. More than two-thirds of all exports of seafood products from Iceland are sold to countries within the European Union. Total exports to European countries (inside and outside the EU) represent 80% of all such exports from Iceland.

The principal export products to Britain are frozen or refrigerated cod and haddock as well as frozen shrimp. Large amounts of salt fish and frozen cod as well as frozen lobster are exported to Spain. Large amounts of salt fish and frozen cod as well as frozen saithe and capelin roes comprise exports to the Netherlands.

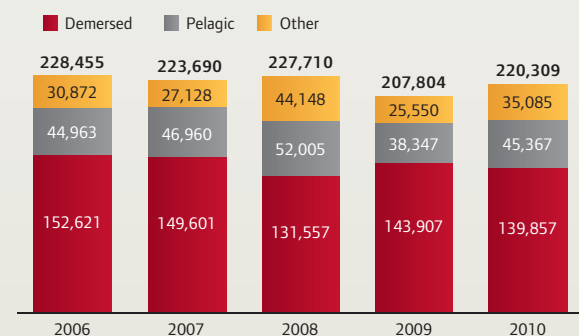
The main export products to Norway are fishmeal and fish oil from herring, capelin, and blue whiting. Exports to France are composed of mainly fresh cod and frozen capelin roes, but sea-frozen red perch fish and Greenland halibut are the main products exported to Japan.

Table 4 shows the export values of the seven most valuable export categories and their principal export markets. As shown therein, among other things, in 2010, Britain was the export market for 27% by export value of cod, 55% of that of haddock, and 71% of shrimp. In addition, exports to Norway were 34% of the export value of herring and 24% of that of capelin. It is noteworthy that 25% of the red perch fish and 58% of Greenland halibut are shipped to Japan.

Table 5 shows the export values of several other selected categories, with Russia accounting for some 70% of the export value of mackerel and Lithuania for the like share of that of silver smelt.

FIGURE 29

Export value by species group in million ISK (constant price 2010)



Source: Statistic Iceland

6.2 Exports of seafood products by species class, species, and product categories

Cod was the most valuable export species in 2010, accounting for ISK 72 billion, followed by herring with ISK 21 billion and haddock with ISK 19 billion.

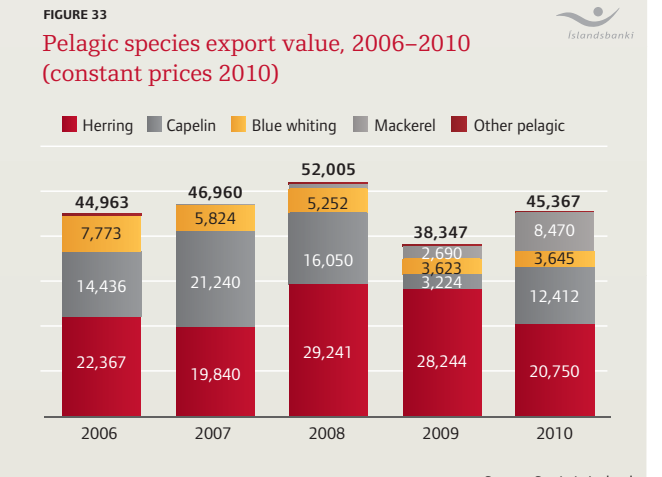
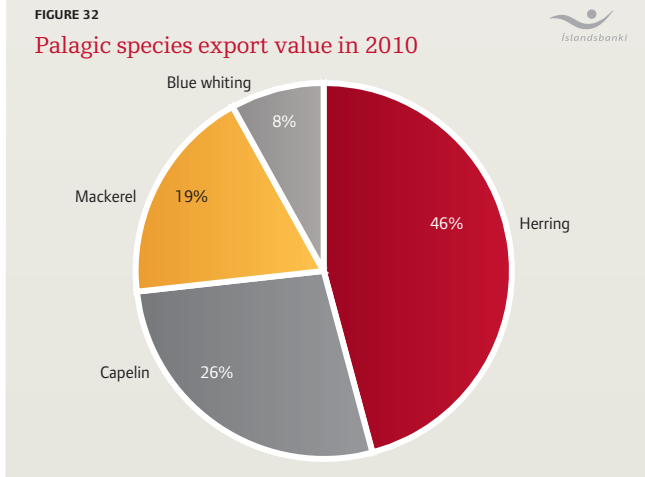
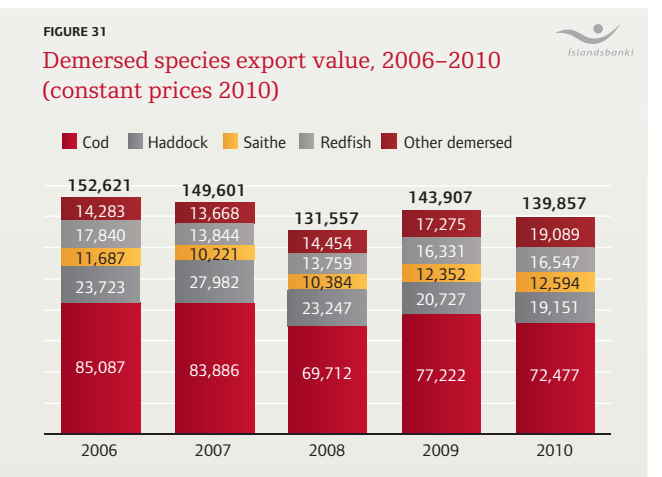
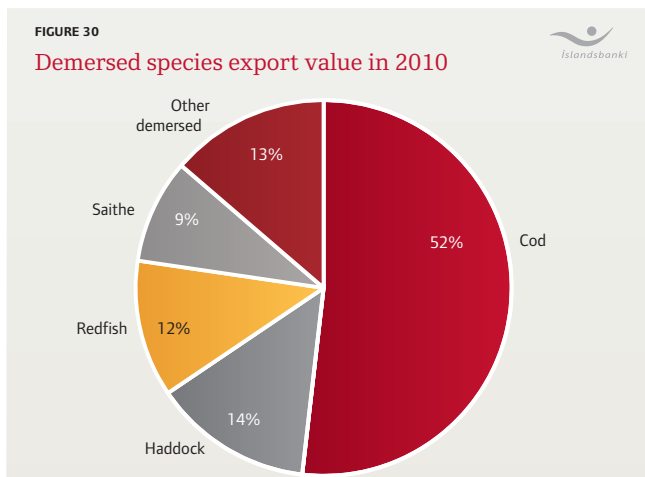
About 64% of total export earnings from all fish species came from demersal species, which are considerably more valuable than pelagic species, which accounted for approximately 21% of export values.

Cod accounted for more than one-half of the export value of demersal species, followed by haddock and red ocean perch.

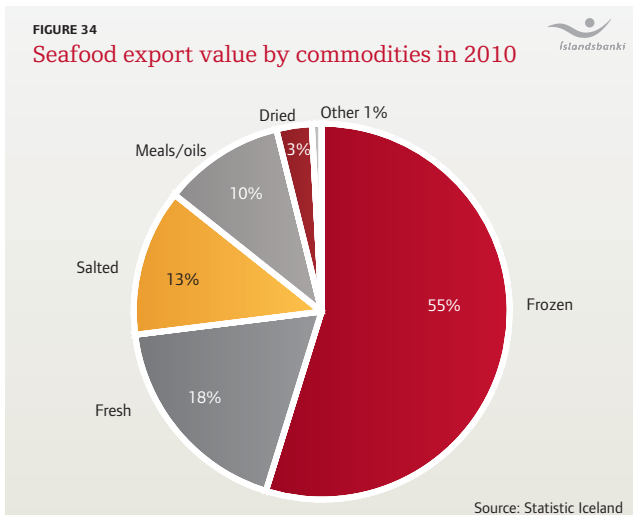
Almost one-half of export earnings from pelagic fish was accounted

for by herring, followed by capelin and mackerel. There was a considerable increase in capelin exports after 2009, when the capelin catch was relatively small. Mackerel entered the picture in a substantial way in 2010, accounting for some 19% of the export value of pelagic species, a share that is likely to continue to increase.

Freezing accounted for slightly more than one-half of the export values of all individual seafood product categories, or some ISK 121 billion, an increase of about ISK 20 billion compared to the year 2009. Next were fresh (iced) fish products for approximately ISK 40 billion, which represented a decrease of close to ISK 4 billion from the 2009 level. This was followed by salted seafood products and fish meal/oil. Salted seafood products amounted to ISK 28 billion and fishmeal and oil for some ISK 23 billion.



Source: Statistic Iceland



6.3 Future export values

With increased quotas, especially for cod, increasing world market prices and assuming that the exchange rate of the krona will remain relatively stable, Íslandsbanki envisages that the export value of seafood products will increase to ISK 236 billion in 2011. In 2012, the export value is projected to reach ISK 240 billion, representing an increase of 9%. That will have a positive impact on the national economy.

However, there are major uncertainty factors, including the negative effects of a possible debt crisis in Europe and the United States as well as the legislative proposal by the Fishing Industry Minister for changes in the fisheries management system that, in the view of Íslandsbanki, would curtail the industry's productivity as outlined in Chapter 4.

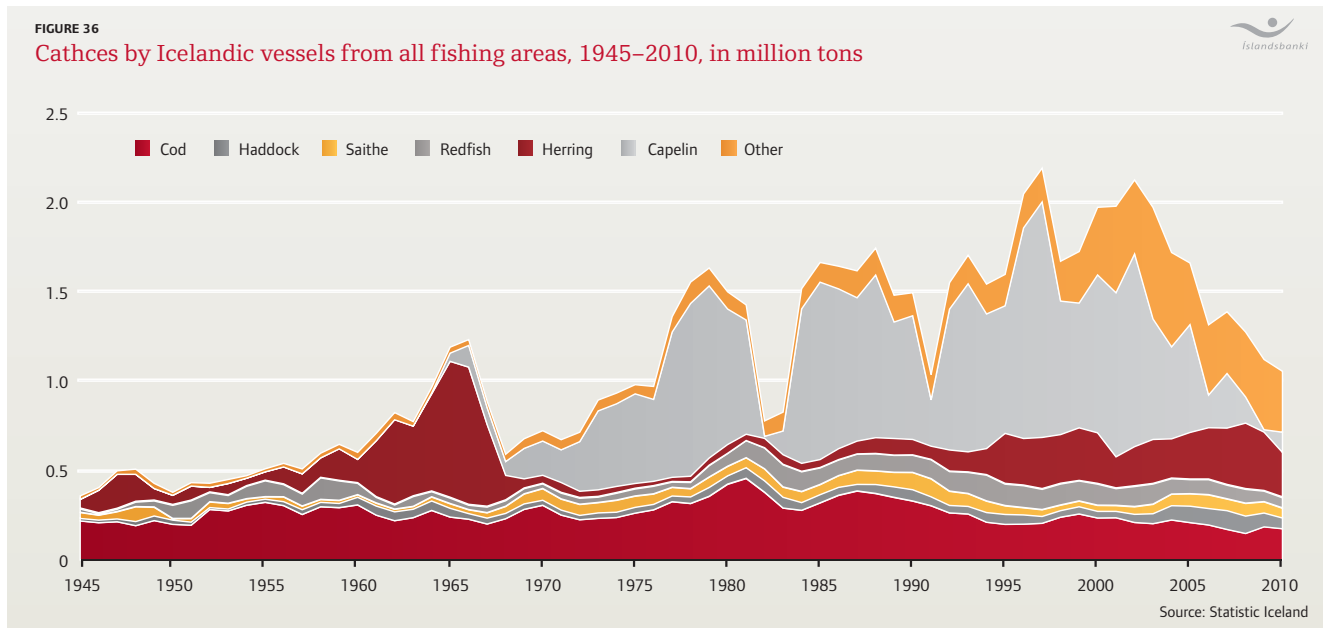
TABLE 6
Seafood export value by branches of processing in 2010

Frozen	120,884
Sea frozen fish, whole	19,589
Sea frozen fish fillets, in blocks	1,815
Sea frozen fish fillets, n,e,s,	17,858
Other sea frozen marine products	228
Whole frozen fish, n,e,s,	14,959
Frozen fish fillets, in blocks	2,505
Frozen fish fillets n,e,s,	17,872
Minced or strained fish, frozen	1,125
Frozen roes	7,398
Other frozen marine products	37,534
Fresh	40,159
Whole fish, fresh, chilled or on ice	11,246
Fish fillets, fresh, chilled or on ice	13,997
Other marine products, fresh or chilled	14,916
Salted	27,818
Dried-salted fish	3,368
Uncured salted fish	14,497
Salted fish fillets, bits etc.	7,113
Salted roes	2,840
Meal and oil	23,039
Fish meal	14,114
Fish oil	8,925
Dried	6,748
Stock fish	483
Dried fish heads	5,967
Other dried, salted fish	298
Other	1,839
Fish processing, n,e,s,	1,839
Total	220,488

Source: Statistic Iceland



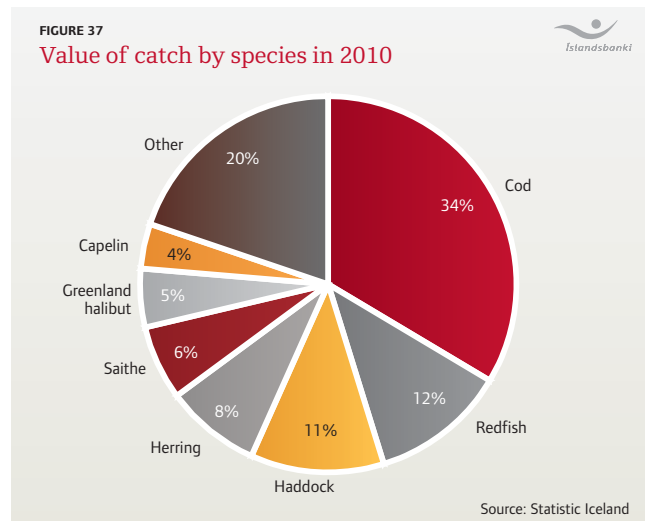
7 Catch and Catch Value



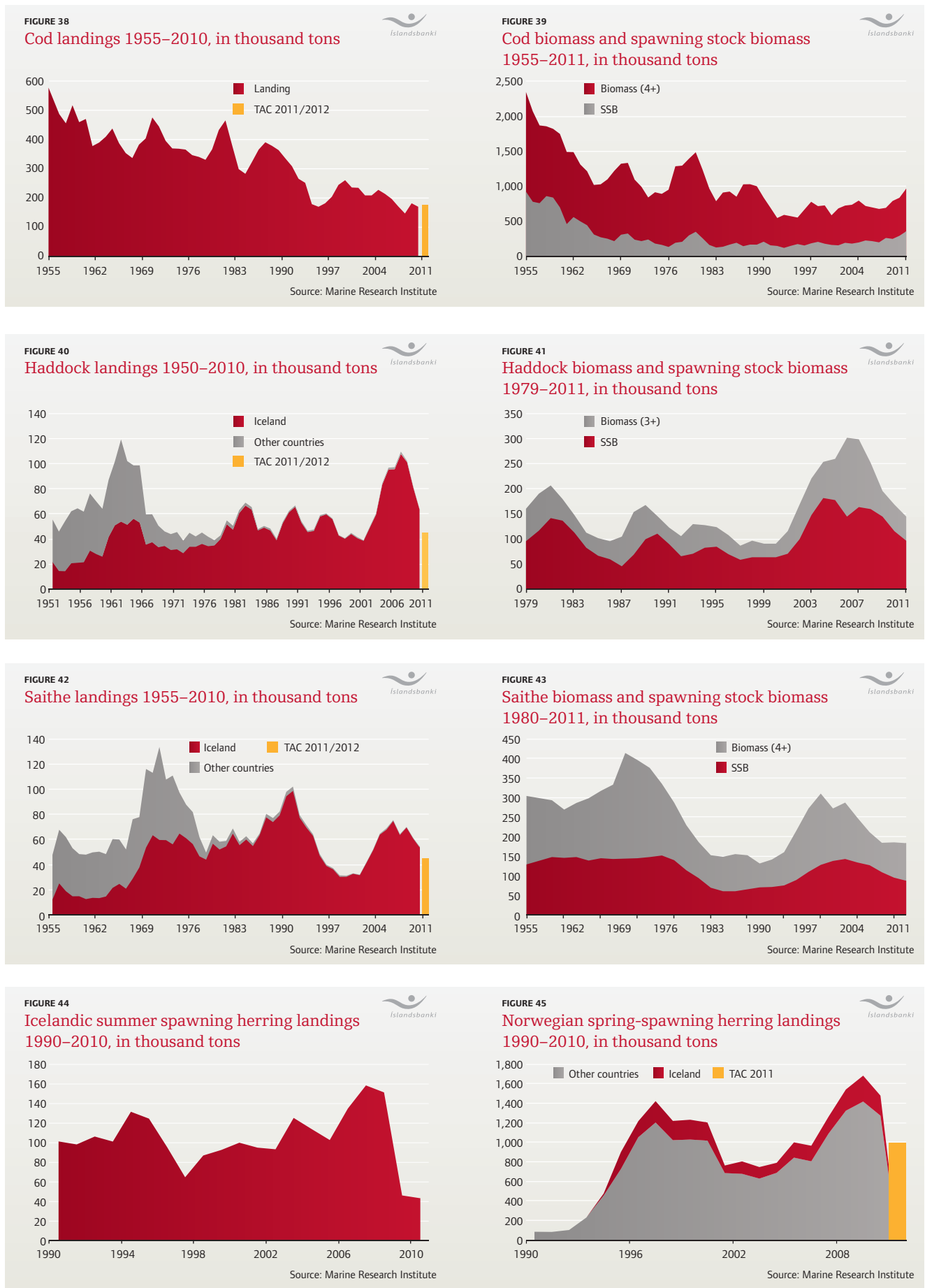
The waters around Iceland are probably the most productive in the North Atlantic. In the Icelandic seafood industry, primary emphasis has been placed on catching and processing demersal fish, especially cod but also haddock, saithe, and red ocean perch. Pelagic species such as herring, capelin, blue whiting, and most recently, mackerel are also important sources of raw material, although their value is less than that of demersal fish species.

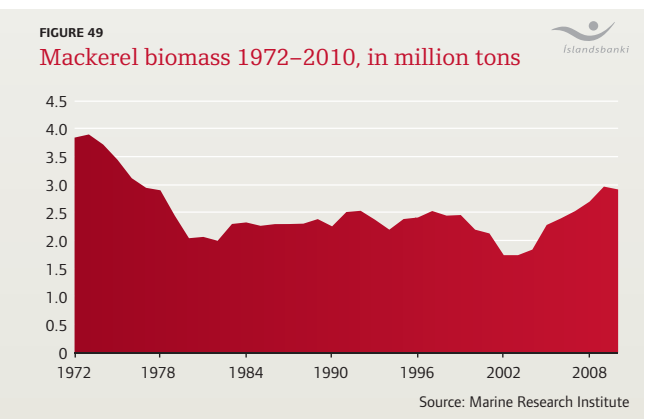
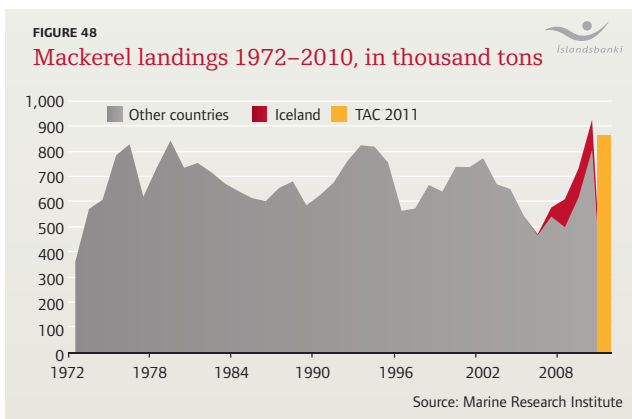
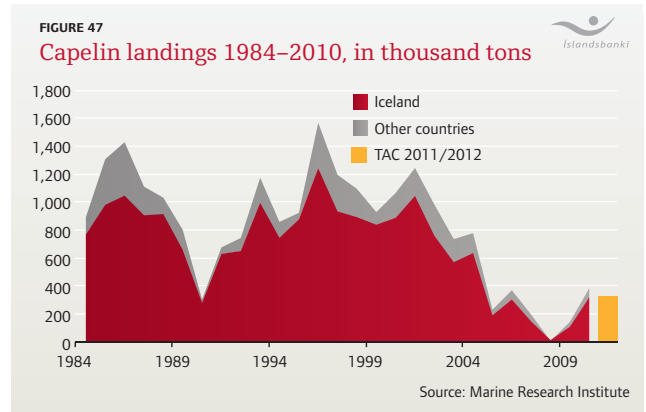
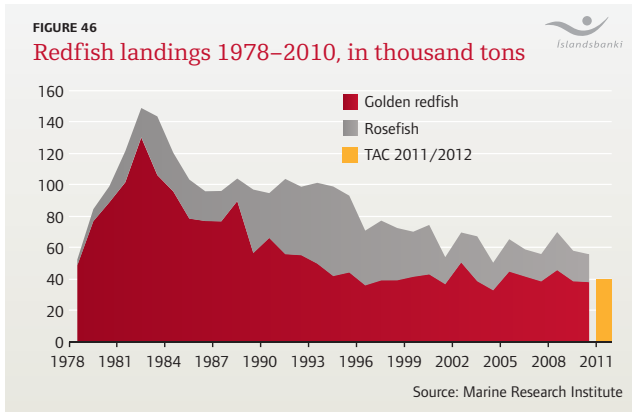
The total catch has increased from 366 thousand tons in 1945 to 1,063 thousand tons in 2010. The total catch reached a maximum of 2,199 thousand tons in 1997 and has subsequently decreased by one-half.

The total value of the catch in 2010 was close to ISK 133 billion, representing an increase of 15.2% from 2009. Cod was the most valuable species in Icelandic waters in 2010, accounting for 34% of total catch value. Red ocean perch was the second most valuable species, its catch value increasing by 20% over that of last year. Haddock and herring were next, as shown in Figure 37.



Below is an overview of the development of the catch and stocks of the principal species of fish in Icelandic waters.



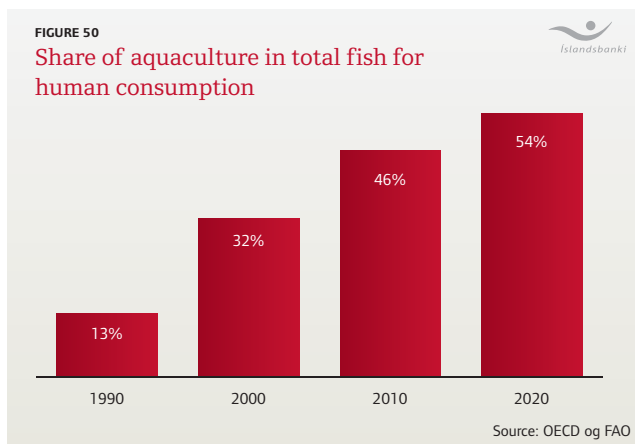


8 Aquaculture

Aquaculture has been increasing rapidly in the world since the ocean's resources are limited and there has been increased emphasis on the sustainability of fishing. Global aquaculture increased by an annual average of 5.6% between 2001 and 2010 according to FAO. However, the rate of increase is currently slowing down and is projected to average some 2.8% a year over the period to 2020.

Farmed fish today accounts for about 37% of the total world supply of fish, and the share of farmed fish is projected to have increased to 45% by the year 2020.

Farmed fish accounts for approximately 46% of fish for human consumption, a share that is projected to exceed that of caught fish by the year 2015 and reach 54% in 2020.



According to FAO, the total value of farmed fish has now become greater than that of fish caught at sea. The value of farmed fish in 2008 is estimated at USD 98.4 billion, but the value of fish caught in the traditional manner is estimated at USD 93.9 billion.

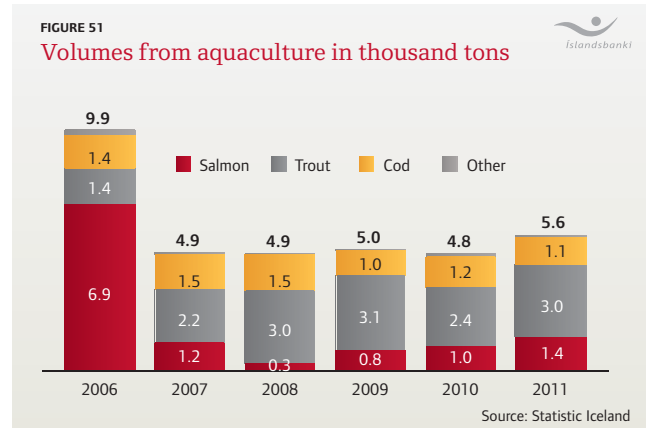
About 88% of world output of farmed fish is in Asia, with China being by far the largest producer, with some 60% of total world output. Next are India, Vietnam, Indonesia, and Thailand. FAO estimates that the increase in fish farming will be greatest in South and Central America, especially in Brazil.

The principal fish species that are cultivated in aquaculture globally are squawfish, catfish, salmon, and tilapia. The principal shellfish species are shrimp and various mollusks such as oysters, mussels, and scallops.

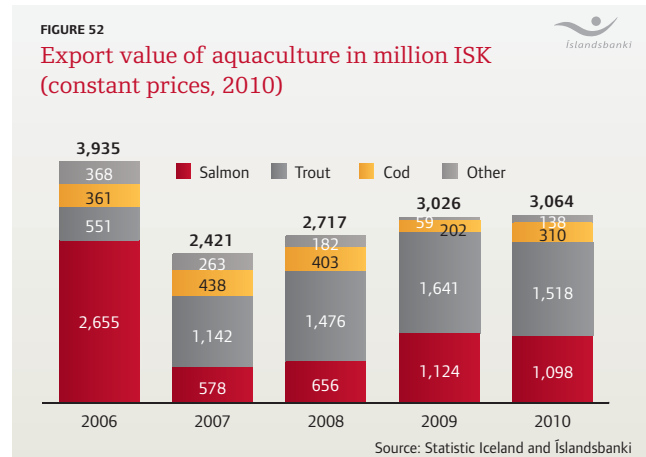
8.1 Aquaculture in Iceland

The roots of aquaculture in Iceland extend back to the latter part of the nineteenth century when the first attempts were made to fertilize and hatch salmon roes and release fingerlings into rivers. In the middle of the twentieth century, farming of fish for human consumption began with rainbow trout at Laxalon in Reykjavik. Interest in aquaculture increased in the latter part of the 1980s, and output, primarily of salmon but also a considerable quantity of rainbow trout, increased from 150 tons in 1985 to 3,000 tons in 1990. Output remained relatively stable into the twenty-first century, when it began to increase considerably, reflecting the activities of the large seafood companies. Total output reached a maximum in 2006, or approximately 10,000 tons, with close to 7,000 tons thereof deriving from salmon farming. To place the size of aquaculture in Iceland in context, it may be noted that the country's total catch in 2006 was approximately 1.1 million tons. A major contraction of salmon farming occurred in 2006 when two of the country's largest salmon farming stations discontinued

operations, with the output from salmon farms in 2007 being slightly more than 1,000 tons. Arctic char, which is classified with trout in Figure 51, is currently the principal staple of aquaculture production, followed by salmon and cod.



Total aquaculture production in 2010 was 4,800 tons (whole, ungutted fish). In 2011, it is projected to be 5,620 tons, with arctic char and salmon accounting for most of the increase. Further increases are anticipated in the next few years. Existing companies have been steadily increasing their production capacity, and new companies have commenced operations in recent years. It is estimated that the annual aquaculture production may reach close to 10,000 tons in the next five years.



The export value of farmed fish in 2010 was ISK 3.1 billion. The export value has increased in recent years following a large decrease in 2007 due to contraction in production. Last year some 1.4 thousand tons of farmed trout, arctic char, and rainbow trout was exported for approximately ISK 1.5 billion. The export value of farmed salmon had reached ISK 1.1 billion in 2010, having increased considerably following the collapse of salmon farming in 2006, primarily because of higher international market prices. Data on the export value of farmed cod are not available because Statistics Iceland does not distinguish farmed cod from wild cod except to a minor degree. However, taking account of the average price of wild cod, the estimated export value of farmed cod was ISK 0.3 billion in 2010.

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