

5 September 2018 – Grieg Seafood capital markets day – selected presentations

Translation from the original Norwegian, which remains the definitive version

Corporate speakers

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Presentations

Roy Tore Rikardsen, Regional Manager, Finnmark region, Grieg Seafood ASA

My name is Roy Tore Rikardsen and I'm regional manager in Finnmark. I've been allowed to speak in Norwegian here since I'm more comfortable with that language.

The first slide shows one of our locations in Finnmark, at Vinnaland. It's also one of our largest locations. If we're lucky, we'll get to taste the beautiful fish from that location at lunch. We're going to process about 10 000 tonnes of fish per annum there from the beginning of next year.

Our region has a capacity of 38 000 tonnes of fish. We have 27 seawater licences for farming salmon. In addition, we have secured a school licence in conjunction with Finnmark county council in Nordkapp local authority, which we plan to start using this autumn. In Finnmark, we also have two smolt facilities – one wholly owned which lies at Adamselv in Lebesby local authority, and the other owned with NRS in Hasvik. I'll come back to their capacities a bit later. We then have one primary processing facility in Alta local authority, where we can process 40 000 tonnes of salmon per year.

Where Finnmark – and northern Norway, for that matter – is concerned, biological conditions are optimal for us. Temperatures are optimal for processing salmon. It's not too warm and not too cold. When you see the summer we've now had in Norway, conditions may become even more optimal in Finnmark within a few years. Being in the far north is positive.

Finnmark also has plenty of room, and that also applies to those of us who're in the aquaculture sector. Our locations are far apart, and so are sites belonging to other players in the county. We also have big variations in the length of daylight. We have the Midnight Sun in the summer, of course, which is also fantastic for the salmon with a lot of light.

The challenge comes in the winter, with perpetual darkness apart from a couple of hours. But we have overcome that with good technological aids for feeding, which is the most difficult issue in the winter. We're fortunate in having good temperatures during the late summer and autumn, and we have a good daylight length which gives us much growth in this period.

We've worked – as Andreas has also said – on improvement projects in Finnmark over several years, and have now really begun to see results from these.

Although we can't see harvested volume on these graphs, we've remained at around 21 000 tonnes in Finnmark. We haven't achieved the growth we've believed we should have had in recent years. A number of bottlenecks, of course, are the reason for this. All the same, we reached 26 500 tonnes in 2014 before declining to a little over 19 000 in 2015. The bottlenecks relate primarily to the lack of locations, which prevents us from fully exploiting our capacity. And that's one of the projects we're going to be working on. We'll look at that a bit later.

In addition, we suffered an ISA outbreak in 2016 which reduced our harvested volume by at least 7 000 tonnes in 2017 and early 2018. We also had an ISA outbreak in 2017 at a location in Hammerfest. In that case, the salmon were ready for harvesting, so we were able to harvest. In 2016, the salmon weren't ready for the market, which explains why we suffered a loss. But our costs also increased in 2017 because of the ISA, with consequent sanitary slaughtering.

Where our revenues are concerned, the market was strong and prices were good during much of 2016 and 2017. Prices in 2016 were strong during May-June-July, when we had little fish in Finnmark so we failed to benefit from the peak in 2016. During 2017, we had limited supplies of fish in the first quarter when prices were also fairly strong initially. To reach our goal of 38 000 tonnes per annum, we must be involved throughout the year. We must have fish every week so that we can catch both peaks and troughs for prices.

We had rising costs, and much of that naturally reflects the ISA cases and the shortage of locations which prevents us from exploiting our capacity to the full. As I said, however, we're working pretty well with that.

Where sales are concerned, we sell all our fish through Ocean Quality and most of it goes to the EU market. Finnmark lies close to Russia and the Russian market. Historically, the Russian market has been important for Grieg Seafood. So a possible re-opening of the borders there will give us a competitive edge compared with our current position where distances to the market are long. Who knows? We could be back in a while with access to the Russian market.

We are working fairly intensively to secure new locations in Finnmark. We have four production areas in the county. We have five locations in Nordkapp, with a maximum allowed biomass (MAB) of just under 20 000 tonnes. In addition, we have lodged applications for two new locations and expect to get a response this year. I really hope we receive a positive answer so that we have two new locations in the course of this year. Nordkapp local authority also contains the world's northernmost location for production of North Atlantic salmon. That belongs to us, which is also worth noting.

In Hammerfest, we have three locations – including the one we saw on the opening image – and an MAB of 16 000 tonnes. We also have an application being processed for a location there. We have no application process for locations in Alta. We secured a location there last year, and now have a total of four. In Loppa, we have six locations and one application under consideration.

At the moment, we utilise 80 per cent of our capacity. Our goal is to harvest just under 30 000 tonnes in 2018. We have a total capacity in our locations of about 68 000 tonnes and our aim is to achieve full utilisation of the capacity in our licences. We must then reach 80-90 000 tonnes in 2020 for location MAB to meet that target. So, we hope that two of our applications will be approved in 2018.

The problem with having insufficient locations is that we have been forced to halt production at the locations earlier in order to empty them and start again. If we get new locations, we can avoid that, process more from each of licences and significantly reduce our costs.

That brings me to the second bottleneck we're working with – increasing smolt capacity to secure good smolts in sufficient quantities. As we can see, we have a 2018 production capacity in our own facilities of about 6.5 million smolts with an average weight of 150 grams. In addition comes the facility we own jointly with NRS, which has a planned production for our account of about 600 000 smolts at an average weight of 200 grams.

Where our own plant in Adamselv is concerned, we are currently expanding capacity so that we can produce eight million smolts next year at an average weight of about 200 grams. We'll be completing this expansion during the autumn, and we'll be releasing the first fish to the sea next year. Our share of capacity at the Hasvik facility is about 400 tonnes. In other words, we can release about two million smolts averaging 200 grams. So we're self-sufficient for next year. But we have had contracts with external suppliers, of course, so I think it's good to have that in reserve in case things happen, perhaps, so that we also have external sources for smolt deliveries next year.

Looking at the history, we had an increase from 2016 to 2017 of about 2.5 million smolts. We released 2.5 million smolts to the sea in 2017. And we'll release just under 10 million in 2018. So we have a lot of fish in the sea, and that augurs well for reaching 38 000 tonnes in 2020.

But that brings me to our next bottleneck – ensuring that we have a good survival rate and sustainable growth. So what are we doing to stay at about 93 per cent and preferably close to 96 per cent – and perhaps above that, too?

First, as Andreas has also talked about, this involves making sure that our smolts maintain good quality. We have worked very well on this over the past year to ensure smolt quality from our own smolt facility. It's been a fantastic voyage. We set ourselves a goal of no more than 0.2 per cent wastage after 30 days and 0.5 per cent after 60 days. We're fairly close to meeting that goal, to put it like that. We also committed to reaching the goal by 2020, and we're already pretty close. So we're working well with survival rates in Finnmark. Historically, the period immediately after release is when we've had fish losses. So we've succeeded with this.

We've also taken a number of steps where release time is concerned. We now release fish only between May and August, and again in October to December. That's to reduce the level of risk. History shows that these are the best periods for growth. That's good, so we're taking many positive steps in Finnmark.

We have also introduced good routines for both hygiene and other things in Finnmark, especially during release so that we're sure we do the right things both in hatcheries and through the carriers we commission to transport our fish so that we're also ready for the fish when we get it in the sea.

As Andreas has already mentioned, too, we use lice skirts on all our fish when we release it to the sea. We've achieved very good results there, together with cleaner fish. We've reduced the amount of medical treatment for the fish and have reduced the possibility of losing even more fish.

In 2015, we laid fallow our whole Øksfjord area in Loppa. We had six locations there, with several generations simultaneously in that area. We took a decision in 2015 to lay the area fallow and released new fish there in 2016.. When we harvested them in the fourth quarter of 2017, the fish had received no lice treatment. So, lice skirts and cleaner fish clearly function. That was positive.

We also use ROV and camera surveillance of all operations in the sea to reduce the risk of losing or injuring fish. So, we pay great attention to fish health, and have good routines and procedures in Finnmark.

Our priorities in Finnmark are to secure new locations, and we must do that through applications and maintaining a good dialogue with those decide on these – the government and local decision-makers in the areas where we operate. So, I feel that we have a pretty good standing in Finnmark now. If we succeed in securing new locations, it would make it easier for us to exploit our licences in the county.

Where increasing smolt capacity is concerned, we're doing this by expanding our facility in Adamselv and we also collaborate with NRS at Hasvik. In addition, an option for a possible expansion of the latter facility is available. The local authority has made provision for an expansion, and space also exists for this.

And safeguarding survival rates provides the opportunity to achieve growth.

These are the priorities we have pursued for some years now in Finnmark. If we have another CMD, we can stand here and say that we have succeeded in Finnmark. Where GSF 2020 is concerned, our contribution to the 100 000 tonnes is 38 000.

That was what I had to say.

Knut Utheim, Chief Operating Officer, Grieg Seafood ASA, presenting Rogaland region

Hello. My name is Knut Utheim, COO of Grieg Seafood ASA. I have been here since 2014 and have participated in a number of exciting things in this company. And I have then been given the honourable task of presenting Rogaland. And before coming here I was told that one subject which was important to highlight is that Rogaland is actually the region with the best performance in the Grieg Seafood system over time. But Rogaland, in historical terms, has also had higher margins than our competitors in this area.

We've experienced a small dip now in 2018 for reasons mentioned by Andreas in the second quarter presentation. But that's behind us. So we've now been dealt new cards and things look reasonably positive. In the Rogaland area, we have a total of 20 salmon licences. Of these, 15 are normal commercial salmon licences, while five are other types. Three of these five are broodstock licences, one is a research and development licence, and one is a school licence similar to the one we've obtained up in Finnmark.

These 20 licences are operated collectively but some restrictions are imposed on the broodstock, R&D and school licences so that we can't fully utilise these five compared with the 15 others. As mentioned earlier, SalmoBreed is our broodstock partner. It handles genetics while we produce the fish and the roe, which it then sells through its system.

We have two smolt facilities, one of which is operational – and that's Trosnavåg, which we expanded in 2017 with completion in 2018. And we have a project with Bremnes and Vestnorsk Havbruk at Tytlandsvik, where we will have a capacity of 1 500 tonnes in 2019.

In addition, we operate a primary processing facility out at Sjernarøy in the heart of the region where we harvest all our fish. And we produce only head-on gutted fish.

The biggest challenges in Rogaland, as Andreas has also mentioned, are pancreas disease (PD), which as affected not only us but also the whole industry in southern Norway, and lice. To explain this in a little more detail, as Andreas also mentioned, mortality in Rogaland occurs when the fish are above two-three kilograms in weight. The average weight of fish suffering spring mortality is about two kilograms while, by comparison, the weight of dead fish up in Finnmark averages about one kilogram. This simply shows where mortality arises. We must then just work intensively to try to reduce that mortality late in the cycle, and our main measure there is post-smolt production in order to shorten production time in the sea. We will thereby expose the fish much less through their time in the sea, and our hypothesis is that the PD problem will be substantially reduced.

I'll return a little later in the presentation to precision farming.

These graphs present some historical figures. As I mentioned, we have lain around 17-18 000 tonnes per annum. We're now down in 2018 to 16 500 tonnes because of the problems we had in the first half. We have a goal for 2020 to reach 25 000 annual tonnes, and that's within reach given the measures we're due

to implement. What's also interesting here is the cost trend we've had since 2012, when we were at NOK 23.60. The 2017 figure was NOK 38.60. In reality, this increase reflects three elements – feed prices, which are influenced in turn by the exchange rate, the louse, which is perhaps the principal component driving this, and naturally PD. These three things have been the driving force behind that cost increase in Rogaland.

The most important measure for both increased production and lower costs is post-smolt production. This is primarily intended to shorten time in the sea in order to reduce the duration of exposure to PD, lice and so forth, so that we avoid the problems which arise. In addition, we achieve much greater flexibility. We have much more to play with than should things happen.

A normal fish, for example, which is released at 100 grams which gets PD when it's reached two kilograms, has been through a production period of 18-22 months because you get problems with growth ceasing in some periods because of the PD. When we produce post-smolt – I'll present some examples a bit later – we'll shorten the duration and we then buy flexibility. We have more to play with before new fish are to be released. In addition, we will achieve a reduced exposure time.

As I mentioned, we started the process of expanding Trosnavåg in 2017 and completed the development this year. We received the first fish from the new facility in April 2018. Tytlandsvik is due to be completed at the end of 2018. We're scheduled to introduce fish there on 25 December, with the first fish out during the first half of 2019. And the facility will have a capacity of 1 500 tonnes. That's our share. Total capacity is 3 000 tonnes. Our ambition is to take out about 1 000 tonnes of the 1 500 tonnes in 2019.

Another element here which it is important to be aware of is that cutting down production in the sea will also make it possible to reduce the total number of locations, because you can operate more intensively in the "best" locations. Our target is that the average weight of our smolt released to the sea in 2018 will be 200 grams and will then have a production cycle of less than 550 days. Smolt that we release in 2019 will average 400 grams and have a mean production cycle in the sea below 450 days. But we will have two locations which will receive somewhat larger smolts in 2019 and have a cycle of less than 12 months. In 2020, as mentioned earlier, smolt size will be up to 500 grams in Rogaland.

An example is shown here for smolts released to the sea this year in one of our locations – Kvitsøy outside Stavanger. We have four groups here. The lowest one, at 115 grams, is actually a group released in 2014 which has been fully harvested, and is only included to provide a comparison with the three other groups. You then have a group weighing 320 grams which was released in week 15 of 2018, and thereafter a group of 460 grams released in week 12 of 2018. Finally we have some fish above one kilo which was in the location from before, just to illustrate the growth curves. And this, of course, is production up to week 34 this year, so it's "actuals". This thereby shows a little of the potential for large smolt in the future.

Another important consideration to bear in mind is that, if we're going to achieve a production time of less than 12 months, smolt sizes in Rogaland must be above 700 grams.

We then have the precision farming pilot which Trond talked a lot about earlier today. We're working on that now and the pilot is due to be in place and operating in the course of this autumn. As mentioned, the initial object is to achieve an operations centre which will provide improved feeding. In addition, we'll also incorporate a little more analysis and such things, which Trond has gone through, in order to obtain a support tool for taking the right decisions both on feeding and in relation to general tending of our facilities.

One thing which perhaps Trond failed to mention and which is also important to bear in mind in centralising this, is that we are doing more and more tending out on our facilities today, which takes time. It's then important to succeed in freeing up sufficient time for day-to-day work. One way of doing this is to centralise feeding. You then have time for surveillance and will have to carry out lice counting as well as general tending out on the facility, and do that job properly. In addition, an HSE effect is achieved from this. The facility is monitored by a centre, of course, and – particularly perhaps in relation to weekends and such like – we secure extra surveillance when we have an operations centre which follows up our employees. The whole region will be backed by the operations centre in the course of 2019,

To sum up, then, the main priority for Rogaland is that we will have 25 000 tonnes of harvested volume across this region in the course of 2020. This production will primarily be ensured by post-smolt production in-house through the use of Trosnavåg and Tytlandsvik. We will end up with a larger smolt which reduces our production time and exposure in the sea, with the consequence that we also get less exposure to PD, other sickness and lice. And we will then also have the operations centre as the basis for precision farming, which gives us more efficient feeding and growth at our facilities in this region.

Thank you for your attention.