



ROOTED IN NATURE

Grieg Seafood ASA

Transcript Q3 2018 presentation

Introduction and Segment review

Andreas Kvame (CEO)

Introduction:

Welcome everyone. Atle Harald and I will be giving his presentation as usual. We will be reviewing the third quarter for Greig Seafood. I will start with a brief presentation about what happened in the third quarter and say a bit about who we are and our goals. We will have an operational review for each segment, then we will have a review of the financial situation, and we will conclude with the outlook, as usual.

Now, the highlights for this quarter. As we all know, the market has been strong, with good prices. This continued into October when prices dropped slightly. However, with outgoing volumes things look good.

EBIT/kg for the company was NOK 9.43. Performance has been solid in Finnmark. Production has been good in Rogaland, where we had planned for low volumes, which had an impact on the EBIT/kg for Rogaland.

We experienced high costs in British Columbia and in Shetland, but we will return to that during the segment review.

We are very pleased to have been awarded two new locations in Finnmark. This is important for the company's growth. We have experienced a bottleneck in Greig Seafood, and over the past two years we have done a good job on this and now have good, new locations in Finnmark.

The volume for the year is maintained at 75,000 tonnes, with an expected harvest volume of 82,000 tonnes in 2019.

The Board of Directors has decided to pay out a dividend of NOK 2.00 per share.

For the third quarter of 2018, we achieved almost NOK 160 million: 159,700,000, against NOK 229.3 million for the third quarter last year. I will talk about the differences later.

The harvest volume for the quarter was 17,000 tonnes, or 16,941 to be precise, which is the same level as the third quarter last year.

EBIT/kg was NOK 9.40, as I previously mentioned, against NOK 13.60 last year.

This slide shows our ambitions, which we have signalled quite clearly and quite often, last time at our Capital Markets Update. We had 62,000 tonnes in 2017 and will have 75,000 in 2018. We are guiding for a volume of 82,000 tonnes in 2019 and our goal is to reach 100,000 tonnes by 2020, with a cost that is at or below industry average. That is what we strive towards.

We have four pillars, all based on sustainability. Our post-smolt strategy should be well known, I will return to that point later during the segment review, where the different regions have invested in post-smolt capacity.

Digitalization is an area that we spend a lot of time on. At Grieg Seafood we call it precision farming.

Biosecurity and fish welfare will always be very important in any type of biological production, and it is very high on our agenda. We have clear goals and clear action points in the different regions. In addition, we want to examine the possible development opportunities, either through structural or organic growth.

Now, let's turn to the operation review per unit. This shows this quarter's figures for the different regions. EBIT/kg: Rogaland had NOK 0.4 against NOK 7.4 for the same quarter last year. Finnmark achieved almost NOK 21 for the quarter against NOK 18 last year, which is an increase of almost NOK 3.0. British Columbia had NOK 4.5 against NOK 14.2 for the same quarter last year. And Shetland had a negative result of NOK -1.2 against NOK 6 for the same quarter last year.

Year to date, things look different. Rogaland had NOK 10.1 against NOK 26.3 last year. Last year, Rogaland had a particularly good first half. This year, Rogaland had a particularly poor first half due to PD and the resulting damage.

Finnmark's result increased from NOK 17.5 last year to NOK 19.9 – almost NOK 20 – so far this year. British Columbia has experienced similar results: NOK 19.8 against NOK 14.5 last year. Shetland achieved NOK 3.5 against NOK 4.4 last year.

Segment review:

The harvest volume in Rogaland has been low. We harvested 1,400 tonnes this quarter. We harvested 1,700 tonnes in the same quarter last year, but we are significantly down from the second quarter this year because we harvested much of the fish in the first half that was originally intended for harvest in the second half. We explained this in our presentation last quarter, that this was due to PD affected fish that we harvested early.

This was completely in line with our plans, however, regarding the volume that was harvested, most of that fish was harvested at the beginning of July – the first 14 days of July – but it was significantly affected by pancreas disease and deformities arising from the vaccine.

This resulted in a high cost for this fish, while it was also downgraded because it did not achieve the right weight classes. It was too small. All of this resulted in a significantly lower result for the period.

That said, we are now rid with all of the fish that had these deformities and was affected by PD. At the same time last year, six out of twelve sites were affected by PD. This year we have two of thirteen sites affected by PD. So, the situation at sea is significantly better than last year.

This can also be seen from the performance in Rogaland, which has gone very well from week to week. We have had very strong and good performance for this generation in Rogaland. Costs are coming down significantly, and production has stabilized at normal levels.

So, cost and feed factor have come down significantly through the third quarter, and this is expected to continue in the fourth quarter, which is a good thing.

As you know, we have also used significant resources in this region on reducing time at sea, precisely because of the challenge with pancreas disease in this region. The fish most often develops pancreas disease, or PD, after more than one year at sea. Our goal is to reduce the time at sea to under one year. Therefore, we have invested in expanding our smolt capacity, both ourselves at Trosnavåg and in cooperation with others, Bremnes Seashore and Vest Havbruk, at what we call Tytlandsvik Aqua. There, the plan is to produce smolt from 750 grams up to 1 kg.

This is going according to plan and we expect to set out smolt at the facility on Christmas Eve – maybe after Christmas. But, things are going according to plan. That is very positive and we are well pleased with this.

The result for Rogaland was NOK 600,000 against NOK 12.4 million for the quarter, which is significantly lower than what we saw last year. Year to date, we have NOK 101.9 million against 364.5 million last year. However, you must remember that we had an exceptional year last year, and we would like to get back to that level.

Finnmark had a harvest volume of 8,400 tonnes, which is completely in line with what we had last year. The same volume for the same quarter. So, Finnmark has remained relatively stable. The image that you see here on this slide is from Finnmark.

We achieved good prices this quarter, but this also had to do with the exceptional quality of the fish in Finnmark and that it was the right size.

Biologic performance has been better than expected. It has been excellent in Finnmark. Operations are running well with high survival rates and good feed conversion.

Costs have continued to decline during the quarter and we don't expect them to increase. We hope and believe that these costs will remain stable going forward, which is at a relatively good level.

We also achieved two new ASC certified sites this quarter. Now we have four ASC certified sites in Finnmark, and our goal is to have the entire region ASC certified.

Our growth strategy is moving forward as planned. We now have two new seawater grow out locations, which has been one of our bottlenecks in the region. We have had too low location MAB compared to the licence MAB. This has resulted in a challenge in terms of available space for our fish in certain periods. This is getting better now and we're still working with new locations, but good locations are almost just as important as having a licence.

Smolt input in 2018 is going according to plan, and we expect to transfer 4.5 million smolt in the fourth quarter, much of this has already been accomplished in October. One of the challenges in Finnmark is an amoeba called *Parvicapsula*, which occurs most often when you release fish in August or September. So, we keep the fish on land during this period and transfer them into the sea afterwards. This has delayed transfer compared to last year, based on a risk assessment.

Now we have space, and at Adamselv, we have expanded the facility to produce more smolt and to have more control over our own smolt because we do not want to import smolt from other areas. We want to keep Finnmark "pure".

Despite the fact that our contractor went under, construction is going according to plan and we expect the first fish from this expanded facility in Adamselv in the first half of 2019.

Year to date in Finnmark, the result is NOK 377.7 million. At the same time last year, we had NOK 248 million. So, things are going well in this region.

British Columbia had a harvest volume of 2,600 tonnes, which is slightly higher than last year, 200 tonnes higher than the same quarter last year.

The harvest volume was significantly down from the second quarter, but this was in line with our plan. However, we achieved strong overall prices in the third quarter, which is positive.

As we reported in the second quarter, we experienced harmful algae blooms on the east coast of Vancouver Island, which resulted in a significant write-down in the second quarter. This has continued into the third quarter and we had a write-down of NOK 30 million as a result of the damage caused by the algae blooms, in addition to record high temperatures in British Columbia.

Temperatures were between 18 and 20° C in this area and that is quite high. This, combined with weakened fish, provides challenges that with both feeding and survival.

The quality of the fish has also declined because the high temperatures combined with everything else caused the fish to reach early maturity, resulting in downgrading. And there were also these algae challenges.

We have made major investments in British Columbia to address the challenge of too little oxygen at times. Sometimes, there is plankton and that is something we cannot escape, including in the future. We add oxygen and conduct upwelling to remove algae from the cages etc. If we had not implemented all of these measures, the situation would have been significantly worse. We have also learned a lot about this issue this autumn. Hopefully, this will enable us to be even better at mitigating algae and plankton in the future.

The situation has now stabilized, but we will still have high production costs through the fourth quarter in British Columbia.

Our guided volume in British Columbia remains unchanged at 17,500 tonnes.

In addition, we have made the decision to expand our smolt facility at Golden River, on the west coast, increasing capacity by 400 tonnes at the existing facility.

The result for the quarter in British Columbia was NOK 12 million against NOK 33.3 million last year. Year to date EBIT in British Columbia is NOK 271.0 million against NOK 101.2 million last year, even with our problems related to algae.

Shetland had a result of NOK -1.2 in this quarter. We harvested almost exactly the same volume in the third quarter this year as we did last year, 4,500 tonnes.

Shetland has faced many challenges. The fact is that there is no single best practice in aquaculture. What works in Finnmark will not necessarily work in Rogaland. And what works in Rogaland will not necessarily work in Shetland. So, it is important to understand that you need to find the best practice for the region. That is what good aquaculture entails. Copying initiatives that you implement in one region to another region does not necessarily result in success.

In Shetland, we experienced gill-related diseases towards the end of the quarter, which resulted in a high cost per kg and lower prices for parts of the volume. We had to harvest fish early, therefore we were unable to have good price achievement. We were paid small-fish prices instead of 4-5 kg fish prices. There were large variations in size and lower overall quality.

As a result of these challenges, we made a write-down of NOK 19 million because fish survival rates have been too low.

Our guided volume remains unchanged at 12,000 tonnes. Shetland will achieve a harvest volume of 12,000 tonnes in 2018.

Our ambitions for Shetland remain unchanged. We have the same ambitions for Shetland as we did when we had the CMU a month and a half ago. Having algae monitoring and aeration systems in place and having fresh water treatment capacity is extremely important due to the challenges with algae and gill health. In addition, the process of moving from the poorest to the best sites for production is ongoing. It will take some time before all of this is turned around, but it is a job that is approaching completion and it should be finished during 2019.

The result for the quarter was NOK -5.5 against NOK 26.5 million last year. Year to date, Shetland has a result of NOK 28.9 million against NOK 39.0 million last year.

The areas that our company focuses on in particular, with action plans in these various areas are, naturally, that we have good people and good routines. Point number two is our post-smolt strategy. We have a strong belief in it and we are following through on this strategy. We expect to see the effect on post-smolt size during 2019, and to an extent in 2020, but mainly in 2019 through the transfer of larger smolt to sea.

Precision farming, as I mentioned earlier, is something we are focused on, making decisions based more on facts than feelings.

Sea lice are and will continue to be a challenge. No one has a perfect solution for this yet. However, we have gained good control over sea lice in the Norwegian regions especially. In Rogaland, until very recently, we have not had to treat for sea lice since July. Cleaner fish have worked well in this region as well as in Finnmark.

Shetland has faced greater challenges due to poor gill health. You must make a decision on whether to treat the fish or whether to harvest the fish. And out of consideration for fish welfare, the decision is often made to harvest the fish.

In terms of algae and plankton prevention, we have improved. We can still get better, but I think we are best-in-class in this area. Obviously, when you have had a lot of trouble with it, you're forced to learn. And we have done so.

It is also important to have a good relationship with your neighbours, where everyone cooperates, whether it be in British Columbia, Shetland or Norway. You must have good zone agreements and consistent routines to prevent sea lice the next time around.

I will now hand you over to Atle Harald who will take you through the financials

Financial review

Atle Harald Sandtorv (CFO)

Many thanks! I will take you through the financials, starting with the profit & loss statement. Our revenues were slightly down this quarter compared to the same quarter last year, with one reason being lower prices achieved in the market. I will come back to this later in connection with the fact that Nasdaq spot prices in Oslo were lower and hence contributed somewhat to this development. Another element affecting revenues is that Ocean Quality, our sales company, has been fully consolidated into these financial statements, including revenues from sales of external fish for Bremnes Seashore. Their volumes have been slightly lower, while our volumes were generally stable in Q3 year-on-year.

EBITDA was NOK 218 million and write-downs were NOK 59 million, up slightly due to increased investments in non-current assets. EBIT came in at NOK 159 million, or almost NOK 160 million. This includes, as Andreas already mentioned, write-downs of almost NOK 50 million related to operations in BC and the UK. The fair-value adjustment is positive, amounting to NOK 154 million for this quarter. This was attributable to slightly higher achieved market prices and forward prices during the quarter and a positive contribution from higher fish volumes in the sea. Consequently, EBIT after fair-value adjustments were NOK 313 million. Furthermore, costs for net financial items were NOK 6 million, which is considerably lower compared to the same quarter last year, mainly driven by currency adjustments. However, in relation to net interest-bearing debt, underlying financial costs are regarded as relatively stable. As a result, the profit before tax amounted to NOK 307 million and the net profit after tax to NOK 224 million.

If we take a closer look at EBIT per kg and quarter-on-quarter developments, we posted a result of NOK 13.60 EBIT/kg in Q3 2017, whereas for Q3 this year we ended on NOK 9.40 EBIT/kg. This was mainly due to slightly lower market prices, where the Nasdaq spot price was, by our measurements, down by NOK 1.74 per kg and our realised price was down by NOK 1.40 per kg. That means the decrease in our prices mainly related to the Nasdaq spot price. Some of our existing contracts helped keep our realised prices higher, but we also had some quality issues e.g. related to fish harvested early in the quarter in Rogaland, which had a negative impact on our realised prices.

Farming costs are up by NOK 1.10 per kg compared to Q3 2017, which takes into account all costs, including NOK 50 million in write-downs. The NOK 50 million in write-downs corresponds to around NOK 3 per kg, which means that adjusted for these write-downs we would be looking at a cost reduction of NOK 2 per kg. But, as already mentioned, including write-downs, we end up with a cost increase of NOK 1.10 per kg in Q3.

Headquarter costs were up by as much as NOK 1.70 per kg for Q3, mainly due to an option deal settled for the company's management team. As the share price rose considerably during the quarter, the majority of the increase in headquarter costs was attributable to these options. We do not expect similar movements in the upcoming quarters. (Please note, that this is not related to our view on the share price going forward, but rather to the fact that this deal for the management team has now been capped). Going forward, we also expect costs compared to Q3 to stabilize, which, as indicated earlier, applies for both the regional branches as well as for the Group as a whole. Rogaland is expected experience a significant cost reduction due to normalized harvest volumes, but other than that, cost development is expected to remain quite stable in Q4.

Let us take a look at the cash flow. Compared to our opening balance sheet of NOK 198 million, we achieved an EBITDA of NOK 219 million in Q3, indicating that this is heading in the right direction. We

were able to increase our working capital, which was especially related to a reduction in accounts receivable due to lower sales volumes towards the end of the quarter. This released cash amounting to a total of NOK 306 million. In addition, we had investments in fix assets amounting to NOK 164 million, mainly smolt facilities and expansion of the plants. Furthermore, we have spent much of this capital to pay back debt, such as ordinary debt redemption of NOK 50 million every six months and payments to a revolving credit facility of NOK 120 million a year. This leaves us with approximately the same cash amount as in the opening balance sheet.

Our total balance sheet amounts to NOK 8 billion with an equity of NOK 4 billion, corresponding to an equity ratio of 49 per cent. Hence, we feel very comfortable with our balance sheet as of today, which again puts us in a good position to pay the dividend we are paying out.

Concerning our funding, NIBD is now down to around NOK 1.4 billion, consisting of NOK 1.1 billion in term loans, NOK 70 million in revolving credit and almost NOK 360 million in leasing. Here we have the option to lease up to NOK 600 million, which gives us some flexibility with respect to the standing agreements we have in place with involved banks. Furthermore, we have other interest-bearing debt of NOK 38 million including an overdraft facility. The company has an overdraft facility of NOK 100 million, in addition to a revolving credit of NOK 1 billion. Finally, as mentioned earlier, the cash position sums up to just above NOK 200 million. Hence for the moment, the free liquidity in the company is very comfortable, with almost NOK 1 billion that can still be drawn from our standing facilities in addition to our cash of NOK 200 million, summing up to NOK 1.2 billion in free liquidity.

Going forward, our requirement for liquidity in Q4 will be rather neutral with respect to construction and working capital. However, as of today and given the growth path we are looking at, we estimate our need for working capital to be around NOK 300 million in 2019. One main factor here being that mass products are expected to show strong growth and we need to adjust for the harvest capacity we want to have in 2020. Therefore, we are looking to achieve full utilization of the maximum allowable biomass (MAB) in all regions.

This is also the main reason why our estimated harvest volume in 2019 is relatively low compared to our goal for 2020. Hence, we are striving to increase our biomass and at the same time we are aiming at reducing our costs per kg biomass, which in the end has a positive effect on building up working capital. That is, without our goal to reduce costs, our need for working capital would have exceeded the NOK 300 million mentioned earlier, which is the net needed amount of working capital next year. Please note, that this need will be pretty evenly distributed in both the first and second half of the year.

Investments are unchanged compared to our earlier guidance. That is, NOK 650 million of investments remain intact and reflect our growth expectations. Our focus remains on the smolt plant in Rogaland and new facilities to achieve our harvest goal of 100,000 tons in 2020.

Looking at the investments in detail, we have NOK 150 million for smolt, NOK 20 million to improve control data, digitalisation and precision farming, NOK 40 to improve biosecurity, NOK 57 million for expansion opportunities (which includes the increased number of licences in Finnmark), and we have NOK 133 million for new locations.

Finally, let's have a look at our summary of financial targets and key figures. With regard to loan covenants against banks and funding, NIBD/EBITDA should stay below 4.5 and the equity ratio should remain above 35 per cent. On profitability, we are looking for a return on capital employed of 12 per cent. Furthermore, and with great importance, we are looking for a NIBD/harvest volume of NOK 20/kg. And paying dividends, we of course look at this figure and our goal for dividend payments is

set to 25–35 per cent of the Group's net profit after tax adjusted for fair value appraisals. But we also look at our debt ratio compared with harvested volume. In a period of growth, we may exceed this target to some degree but on average we should stick to around NOK 20/kg. And when we pay a dividend of NOK 2, we are comfortable with its induced impact on key figures.

Summary and Outlook

Let's take a look at our harvest volumes going forward. As mentioned, we expect a harvest volume of 75,000 tonnes in 2018. Out of this, 16,000 tonnes stem from Rogaland, Finnmark also looks stable with 29,500 tonnes, BC 17,500 tonnes and Shetland 12,000 tonnes. Adding up to the mentioned 75,000 tonnes in total, we are looking at a growth rate of 20 per cent compared to last year.

For 2019 we expect 22,000 tonnes from Rogaland. Without the PD issues we had this year, Rogaland would have been at around 20,000 tonnes. As of today, we don't expect anything similar to happen next year, quite the opposite. With additional and alternative vaccines for PD in place in that region, it now looks promising. In addition, we are starting to see some effects of our post-smolt strategy. Indeed, work done in 2017 and 2018 will also have an impact, but the main effect of the post-smolt strategy will materialise through the input in 2019. In any case, our goal for Rogaland is 22,000 tonnes.

Finnmark continues to grow. As already mentioned, we were awarded another two locations there last year, which are now in production, and we expect to see 34,000 tonnes in 2019, an increase of 15 per cent compared to last year. So steady growth here!

British Colombia: with our given input strategy to switch production back and forth from the west to the east coast, there will always be ups and downs in British Colombia on a 2-year basis. Without going into the details behind this, this is how it works there. Hence, we will see a decrease in British Colombia to 14,000 tonnes in 2019. However, with the biomass build up through 2019, we will see a strong year in 2020, with another slight dip in 2021.

Shetland: Again, we expect to see 12,000 tonnes this year, which is also identical with our guided volume for next year. Concerning Shetland, we have stressed that we want to have biological control and feel safe about what we are doing there, before we start to increase our production. We put a lot of effort into this, and we feel very confident to succeed on this field. But as I said, before we get it done, we will not increase our exposure but rather continue to draw lessons from our work here.

In Q4 2018, we expect a harvest volume of 24,000 tonnes, with especially one region being outstanding: Finnmark.

Supply outlook for this year and next year: Based on the current situation, global growth in 2018 is expected to be around 4–5 per cent. Despite the fact that Chile is set to perform quite well, we still expect global volume growth in 2019 to remain at relative stable levels at around 3–5 per cent.

As for Norway, we expect a 5 per cent growth in volumes in 2018.

Chile has shown significant growth in 2018 and looks to set to achieve around 600,000 tonnes for the year, which means a growth in volume of 16 per cent. Adding 16 per cent to 100,000 tonnes is one thing, but adding 16 per cent to 600,000 tonnes will have a significant impact on the market.

In North America, we expect a growth of 2 per cent in 2018, for both west and east coast, with a total of 148,000 tonnes.

In the UK, we expect a decrease in volumes for this year.

As mentioned, we expect to see global growth at 3–5 per cent in 2019. This despite the fact that there might be challenges such as with smolt, particularly in Norway, but then again countries like Chile will outweigh this.

Looking at the various markets around the world, I would say that in general it has been a very good market all together, where we, despite high prices, have seen strong demand.

Europe has been stable at around the same level as in Q3 2017, whereas year-to-date growth stands at 4 per cent.

USA/North America: this is a market with considerable growth. It's the world's biggest market for salmon, and it has grown by 12 per cent in Q3 year-on-year and by 11 per cent year-to-date.

Brazil has developed to become a strong market, with mainly Chile covering the supply here. So far this year, growth is up by almost 50 per cent, which is outstanding.

Russia is still a good and strong market, with Chile and the Faroe Islands taking over as the main suppliers in this market. And year-to-date growth in Russia stands at 16 per cent.

Japan has made a comeback with a year-to-date growth of 47 per cent, although the market has stabilised in Q3.

China/Hong/Vietnam have experienced a surprising decline of 8 per cent so far this year, which might have various causes. But with only -1 per cent in Q3 year-on-year, it looks like the market is picking up again.

Having said this, we see the "rest of Asia" performing well with continued growth in the market.

And finally, we have "other markets" growing by 7 per cent year-to-date.

Hence, the market as a whole looks stable, safe and strong.

Summarising:

We are continuing to focus on our 2020 target, which means we will see a considerable growth of the biomass in 2019, both with respect to fish that has been input in the sea and fish will be out into sea during the first half of next year.

Two new locations in Finnmark. This is especially important to the company and our plan is that these will be in full production by summer 2019.

Smolt input for 2018 is running according to plan, expecting an input of 12 million smolt in Q4. In October 7 million of these have already been released, which means the larger part of the 12 million has already been transferred to sea. This adds up to a total of 26 million for the full year.

In general, our yearly targets for smolt input will be in the area of 26–28 million. The overall target is of course to reach a harvest volume of 100,000 tonnes in 2020 and then to stay at 100,000-plus levels going forward. That is where we should be.

We still expect a strong demand in the market in 2019 with limited supply. We see that a lot of individuals have already been harvested at a low average weight, so we believe we will see a very strong market in the first half of 2019.

Estimated contract shares:

In Norway, our estimated contract share is 31 per cent both for Q3 as well as for the full year 2018.

In the UK, we expect a contract share of 18 per cent for both Q3 and the full year 2018.

Harvest volume: as already mentioned, 24,100 tonnes in Q4 2018 and 75,000 tonnes for the full year 2018.

For 2019, our guided harvest volume is 82,000 tonnes, with the split that I described earlier.

And finally, based on the financial position of the company, the Board has decided to pay a dividend of NOK 2 per share.

That was our quick summary!

Q&A

I will now open the floor to questions.

I think we will begin with a question from one of our online viewers. It relates to the guided volume for harvesting in British Columbia next year.

The question is: To what extent has this guided volume been affected by the algae challenges we have had this year, and whether there are other factors that have caused us to reduce the volume so significantly in 2019 compared to 2018, and finally, if we are comfortable having a goal of 20,000 in 2020 in BC?

To take the last part first, yes, 20,000 in 2020 in BC is something we are very comfortable with. Our harvest volume for 2019 is partially affected by the challenges we have faced. Particularly over the last six months and during the last quarter, there should have been more fish at sea for harvesting next year. However, I am relatively confident in the smolt transfer strategy we have in BC. Historically, volumes have always gone up and down, but now the trend is for volumes to increase.

Let's open up to the floor.

Carl-Emil Johannesen, Pareto. In relation to stable costs in the fourth quarter, are these compared to costs adjusted the write-downs in Q3, or how should we interpret this?

When we guide on costs, everything is included. So, compared to the level we had, including the write-downs, we expect to be at approximately the same level in Q4.

As Andreas mentioned, both in BC and Shetland, we have fish that will be harvested, which have been affected by what has happened earlier this year and into the fourth quarter.

Conversely, Rogaland will see a significant reduction.

Lars Johnsen, Fearnley Securities. You are guiding for 26 million smolt transferred to sea in 2018 and 26–28 million in 2019. If you view that in relation to how you see costs towards 2020, are you being careful in terms of guided volume or have you assumed that the smolt yield will be quite low going forward?

We have a set goal of 100,000 tonnes harvested in 2020, but yes, we do have some headroom there. However, we also know that there can be biological factors that could present challenges at times. If you multiply 26 million smolt by a yield of four, you get around 104. We know that it can be a good idea to have extra smolt at sea to be able to weather any storms that may come.

How do you see that in relation to cost?

We have guided costs as well. We have said that we will be "at or below average" in our strategy. We have described how we plan to achieve this through our CMU, which we had earlier. And we are firm on that. Those are our plans, just as I have explained now. The cost that we plan to get down to is NOK 37.9, which is what we have communicated.

To add a comment, if you look at the company's historical smolt yield and look at what you need if you set out 26–28 million, that smolt yield must be improved in order to achieve 100,000. And with an improved smolt yield, you also have reduced costs. So, they are related.

Improved smolt yield also means reduced mortality rates. We expect that, with more robust smolt at sea and an improved quality of fish transferred to the sea, we will also reduce mortality rates. We

see this in Finnmark, where we have very low mortality rates. In Rogaland, we expect that the large smolt that are being set out will be more robust and be able to withstand the environment better, thus reducing mortality rates. And the day when we start harvesting small fish to comply with MAB – hallelujah!

Alexander Aukner, DNB. Can you say something about CAPEX for 2019? And also, you say that you do not want to grow in Shetland unless biology is good, how should we see that in relation to the guided smolt transfer you mentioned today? Will you still be able to achieve these 100,000 tonnes, but then with more harvested in the other regions?

Yes, we will be able to do that. And we have head room for that as well. But with that said, with regard to the transfer of smolt to sea in Shetland in 2019, we expect to transfer around 4.5 to 5 million.

And CAPEX...?

At the CMU we had earlier this autumn, we said that we must expect around NOK 500 million in CAPEX in 2019. There is nothing new there, and you can also look at the level for this year. We have new locations in Finnmark that we need to get running. So, we still have growth investments to make.

And an expansion of the smolt facility in BC will require NOK 50–55 million. Most of what we use CAPEX on is growth.

Kolbjørn Giskeødegård, Nordea. Little bit about markets... Can you say something about contracts for next year, and how you experience the market for signing new contracts? -It is high season for that now... How's the climate? What kind of interest is there for contracts?

To put it humorously, interest is good, but these customers are stubborn. And it has something to do with the fact that the industry is a bit stubborn as well. It is tough to get contracts for next year. The market has slightly different expectations than what the industry has as of today. But this is improving. We have not entered into very many contracts for next year – yet. But, as you say, there is a lot happening right now and going forward.

If Greig has a market outlook for next year that varies significantly from your customers, does that mean that you are sitting on the fence and entering 2019 with fewer contracts than you would ideally like to have?

As per today, it looks as though we will be entering next year with fewer contracts than we would ideally like to have. It just has to do with different parties having different expectations.

Since there are no further questions, we will conclude here. Thank you for coming.