North Atlantic Seafood Forum
Bergen, 6. March 2014
John Binde, CEO
AGENDA:

- NRS in brief
- Current status and outlook
- Farming growth in Norway
- Large smolt vs sustainability
Business areas:

**SALMON FARMING**
- 4 companies
  - Finnmark, Troms, Hordaland, Rogaland
- 25 licenses
- Volume 2013: 25,200 tons

**EXPORT / TRADING**
- Salmon fresh & frozen
- 95% export
- 50 countries
- Sales 2013: 62,200 tons
- Revenue: 2,600 MNOK

**CHAIN MANAGEMENT**
- Procurement
- Quality Assurance
- Food Safety
- Benchmarking
- Public Relations
Region NORTH
19 licenses

Region SOUTH
6 licenses

Polar Circle

NRS Finnmark (14)
Nord-Senja (3)
Nor Seafood (2)

NRS-Feøy (6)

NRS-Group (25)
Owned and controlled by NRS
Development of volumes from NRS

- **External Volumes**
- **NRS-Farming**

Year | External Volumes | NRS-Farming |
--- | --- | --- |
2006 | 32 300 | 3 200 |
2007 | 35 100 | 4 400 |
2008 | 39 500 | 6 000 |
2009 | 40 700 | 6 500 |
2010 | 39 000 | 10 500 |
2011 | 32 000 | 18 500 |
2012 | 36 500 | 21 000 |
2013 | 62 200 | 25 200 |
Highlights in Q4 2013:

- The best quarterly and yearly result in NRS’ history
  - MNOK 91 in Q4-13 and MNOK 256 for the year

- Continued strong salmon market driven by increased demand and low supply growth
  - Historically high salmon prices throughout the quarter
  - Promising outlook with historically high forward prices

- Reduced harvesting volume
  - Planned harvesting in December was reduced due to unforeseen events in Region North and low growth in Region South
  - Estimated harvesting volume for 2014 is reduced to 29 000 tonnes due to low growth in Region South, and premature harvesting in Troms due to sea lice

- Favourable refinancing with increased flexibility

- Dividend proposal of NOK 2.20 per share
  - 41% of earnings per share
### Highlights in Q4 2013

Average salmon price (NASDAQ) up 52 % from Q4 last year with significant positive impact on profits

Harvested volume up by 14 % and sold volume up by 10 % from Q4 last year

Operational EBIT MNOK 91.4 in Q4 13

- Cost of escaped fish by MNOK 2.2
- Loss on fixed price contracts of MNOK 5.8
- Increased provision for doubtful receivables with MNOK 5.8

Positive cash flow from operations with MNOK 38.7

Equity ratio increased in Q4 13 to 42.4 % from 39.5 % due a strong total result

#### KEY FIGURES

<table>
<thead>
<tr>
<th>(NOK '000)</th>
<th>Q4 2013</th>
<th>Q4 2012</th>
<th>FY 2013</th>
<th>FY 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>851 450</td>
<td>543 003</td>
<td>2 603 712</td>
<td>1 744 266</td>
</tr>
<tr>
<td>Operational EBITDA</td>
<td>100 323</td>
<td>16 568</td>
<td>289 729</td>
<td>50 866</td>
</tr>
<tr>
<td>Operational EBIT 1)</td>
<td>91 366</td>
<td>8 484</td>
<td>256 002</td>
<td>20 416</td>
</tr>
<tr>
<td>EBIT</td>
<td>95 594</td>
<td>6 774</td>
<td>350 727</td>
<td>69 845</td>
</tr>
<tr>
<td>Income from associates</td>
<td>13 566</td>
<td>2 973</td>
<td>28 834</td>
<td>10 464</td>
</tr>
<tr>
<td>EBT</td>
<td>120 783</td>
<td>-1 945</td>
<td>396 292</td>
<td>40 749</td>
</tr>
<tr>
<td>EPS (NOK) 2)</td>
<td>2,43</td>
<td>-0,30</td>
<td>5,43</td>
<td>-0,12</td>
</tr>
<tr>
<td>ROACE 3)</td>
<td>25,3 %</td>
<td>2,1 %</td>
<td>25,3 %</td>
<td>2,1 %</td>
</tr>
</tbody>
</table>

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</thead>
<tbody>
<tr>
<td>Op. cash flow</td>
<td>38 037</td>
<td>-6 558</td>
<td>211 835</td>
<td>-2 828</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>18 421</td>
<td>8 295</td>
<td>65 399</td>
<td>34 747</td>
</tr>
<tr>
<td>Net interest-bearing debt</td>
<td>453 883</td>
<td>566 075</td>
<td>453 883</td>
<td>566 075</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>42,4 %</td>
<td>36,2 %</td>
<td>42,4 %</td>
<td>36,2 %</td>
</tr>
</tbody>
</table>

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<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Volume harvested (HOG)</td>
<td>8 383</td>
<td>7 337</td>
<td>25 191</td>
<td>21 162</td>
</tr>
<tr>
<td>Operational EBIT per kg Farming</td>
<td>12,02</td>
<td>1,45</td>
<td>11,71</td>
<td>1,25</td>
</tr>
<tr>
<td>Op. EBIT per kg Sales inc. contracts</td>
<td>-0,08</td>
<td>0,35</td>
<td>-0,59</td>
<td>1,00</td>
</tr>
<tr>
<td>Total operational EBIT per kg</td>
<td>11,94</td>
<td>1,80</td>
<td>11,12</td>
<td>2,25</td>
</tr>
<tr>
<td>Volume sold</td>
<td>19 858</td>
<td>18 115</td>
<td>62 141</td>
<td>57 673</td>
</tr>
</tbody>
</table>

1) EBIT pre fair value adjustments and non-recurring items
2) Earnings per share pre fair value adjustments
3) ROACE: Return on average capital employed based on 4-quarters rolling operational EBIT /
   average (NIBD + Equity - Financial assets)
## Region North

### KEY FIGURES

<table>
<thead>
<tr>
<th>(NOK '000)</th>
<th>Q4 2013</th>
<th>Q4 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>626 738</td>
<td>325 354</td>
</tr>
<tr>
<td>Operational EBIT *</td>
<td>78 796</td>
<td>9 039</td>
</tr>
<tr>
<td>Volume harvested (tonnes)</td>
<td>6 204</td>
<td>4 397</td>
</tr>
<tr>
<td>Operational EBIT per kg Farming</td>
<td>12,78</td>
<td>1,70</td>
</tr>
<tr>
<td>Op. EBIT per kg Sales inc. contracts</td>
<td>-0,08</td>
<td>0,35</td>
</tr>
<tr>
<td>Total operational EBIT per kg</td>
<td>12,70</td>
<td>2,06</td>
</tr>
</tbody>
</table>

* EBIT pre fair value adjustments and non-recurring items incl. allocated margin from sales

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### Temperatures Region North

<table>
<thead>
<tr>
<th>Jan</th>
<th>Mar</th>
<th>May</th>
<th>Jul</th>
<th>Sep</th>
<th>Nov</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spread 09-12</td>
<td>Average 09-12</td>
<td>2013</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Operational EBIT pr kg farming

<table>
<thead>
<tr>
<th>Q4 12</th>
<th>Q1 13</th>
<th>Q2 13</th>
<th>Q3 13</th>
<th>Q4 13</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,71</td>
<td>10,09</td>
<td>13,65</td>
<td>12,31</td>
<td>12,78</td>
</tr>
</tbody>
</table>

### Production Cost - NORTH

<table>
<thead>
<tr>
<th>Q4-12</th>
<th>Q1-13</th>
<th>Q2-13</th>
<th>Q3-13</th>
<th>Q4-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>23,37</td>
<td>23,33</td>
<td>25,35</td>
<td>24,83</td>
<td>25,16</td>
</tr>
</tbody>
</table>
## Region South

### Key Figures (NOK '000)

<table>
<thead>
<tr>
<th></th>
<th>Q4 2013</th>
<th>Q4 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>219,928</td>
<td>217,455</td>
</tr>
<tr>
<td>Operational EBIT *</td>
<td>21,316</td>
<td>4,184</td>
</tr>
<tr>
<td>Volume harvested (tonnes)</td>
<td>2,179</td>
<td>2,940</td>
</tr>
<tr>
<td>Operational EBIT per kg Farming</td>
<td>9,86</td>
<td>1,07</td>
</tr>
<tr>
<td>Op. EBIT per kg Sales inc. contracts</td>
<td>-0,08</td>
<td>0,35</td>
</tr>
<tr>
<td>Total operational EBIT per kg*</td>
<td>9,78</td>
<td>1,42</td>
</tr>
</tbody>
</table>

* EBIT pre fair value adjustments and non-recurring items incl. allocated margin from sales

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### Operational EBIT pr kg Farming

- **Q4 12**: 1,07
- **Q1 13**: 6,59
- **Q2 13**: 10,03
- **Q3 13**: 6,60
- **Q4 13**: 9,86

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### Production Cost - SOUTH

- **Q4-12**: 25,75
- **Q1-13**: 27,34
- **Q2-13**: 29,90
- **Q3-13**: 26,70
- **Q4-13**: 30,02

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### Temperatures Region North

- **Spread 09-12**
- **Average 09-12**
- **2013**

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*Figures and data represent financial performance and production costs for the Region South, highlighting key financial metrics such as operating revenues, operational EBIT, volume harvested, and operational EBIT per kg for both farming and sales. The diagrams illustrate temperature trends and production costs over different quarters.*
2013: 25 200 tonnes (+ 19 % yr/yr)
1 800 tonnes lower than estimated in Q3 report
   − Planned harvest in December was prevented by unforeseen events in Region North, such as storms and diesel leak at harvesting plant
   − Low growth in Region South due to biological challenges

2014: 29 000 tonnes (+ 15 % yr/yr)
1 000 tonnes lower than estimated in Q3 report
   − Low growth and escape of fish in Region South
   − Premature harvesting in Troms due to challenges with sea lice
**General Market Outlook**

- **Strong demand for Atlantic salmon in Q4** as prices were significantly above last year’s level, while Norwegian supply increased 2% and global supply 4%.
- **EU growth in line with Norwegian supply growth**, due to strong demand from Poland, Germany and the UK.
- **Russia affected by the high salmon prices.**
- **Improving demand from Asia** in Q4. Japan improved on fresh fillets, while Greater China saw a 14% import growth from Norway.

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*Export growth last 4 quarters from Norway*

- **EU-27**: Q1/2013: -8%, Q2/2013: 1%, Q3/2013: 6%, Q4/2013: 14%
- **France**: Q1/2013: 28%, Q2/2013: 28%, Q3/2013: 28%, Q4/2013: 28%
- **Poland**: Q1/2013: 28%, Q2/2013: 28%, Q3/2013: 28%, Q4/2013: 28%
- **Japan**: Q1/2013: 0%, Q2/2013: 0%, Q3/2013: 0%, Q4/2013: 0%

Y/Y growth past 12 quarters
OSE-listed companies

Volumes Region NORTH
Growth Y/Y: 17%

Volumes Region CENTRAL
Growth Y/Y: 7%

Volumes Region SOUTH
Growth Y/Y: 8%
Regional Performance in Norway - 2013

Regional performance - EBIT/kg
OSE-listed Companies

Q1-13Q2-13Q3-13Q4-13

Regional Performance in Norway - 2013
Current MAB and harvest in Norway

The Norwegian biomass is highest during Oct/Nov and close to current MAB limit

Harvest volumes has been fairly steady the last years, with an increase in Q4.
- Share of harvest volume: $H1/H2 = 46%/54%$
- Total harvest 2013: 1.3 million tons (live weight, salmon and trout)
Maximizing production within the current MAB

- Current average biomass is 88% of annual MAB
- Theoretical growth potential within existing framework is 14%
  - Share of harvest volume: H1/H2 = 36%/64%
  - Total harvest: 1.5 million tons (live weight, salmon and trout)

Will full utilization of the current MAB affect the prices of salmon as it becomes more seasonal?

Norwegian biomass

Harvest volumes pr month
Maximizing production with rolling MAB regime

- **Approx. 20 % higher biomass during Q3, than current MAB**
- **Theoretical growth potential is 5% above current MAB,**
  (or 19 % above today's levels)
  - Share of harvest volume: H1/H2 = 16%/84%
  - Total harvest: 1.6 million tons (live weight, salmon and trout)
- It’s a seasonal fish!
- **Biological issues in Q3 vs sustainability on each site**

![Norwegian biomass graph](chart)
![Harvest volumes pr month graph](chart)
Seasonal salmon prices – already...

- Close to NOK 10 per kg in seasonal price difference during the year, related to supply and demand situation.

- Maximum production within a Rolling MAB regulation will most probably increase seasonal variation of prices **heavily** => Reduced Profits?

```
Price and volume development
```

```
Jan  Feb  March  April  May  June  July  Aug  Sept  Okt  Nov  Dec
```

```
Tonn (live weight)
```

```
50 000  60 000  70 000  80 000  90 000  100 000  110 000  120 000  130 000  140 000
```

```
NOK/kg (gwt)
```

```
25,00  27,00  29,00  31,00  33,00  35,00  37,00  39,00
```

```
Current harvest
Average prices last 5 years
```
Rolling MAB, but with stable harvesting

Approx. 9% lower MAB during Q3

Theoretical growth potential is 11% above current levels

- Share of harvest volume: H1/H2 = 50%/50%
- Total harvest 2013: **1.5 million tons** (live weight, salmon and trout)
Somewhat higher growth potential, but flexibility is the key...

Flexibility is risky, but could also be exactly what the industry and the companies want.

<table>
<thead>
<tr>
<th>Model</th>
<th>Theoretical Potential Growth</th>
<th>Financial Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current MAB</td>
<td>14%</td>
<td>Could see higher seasonality in the future</td>
</tr>
<tr>
<td>Rolling MAB (maximum production)</td>
<td>19%</td>
<td><strong>Negative:</strong> Too large seasonality effect and increased biological risk</td>
</tr>
<tr>
<td>Rolling MAB (stable harvesting)</td>
<td>11%</td>
<td><strong>Positive:</strong> Flexibility to utilize assets and less biological risk</td>
</tr>
</tbody>
</table>

Actual growth potential with Rolling MAB estimated by NRS to 7-11 % from current levels
Use of larger smolt can reduce sea lice problems

- By releasing larger smolt (100+gr), the production time in the water time is reduced.
- Exposure time towards sea lice can be reduced by 30% per site.

Average no of Sea Lice in Troms 2010-2012

<table>
<thead>
<tr>
<th>Month</th>
<th>Lice pr fish</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>0.06</td>
</tr>
<tr>
<td>Feb</td>
<td>0.03</td>
</tr>
<tr>
<td>Mar</td>
<td>0.02</td>
</tr>
<tr>
<td>Apr</td>
<td>0.03</td>
</tr>
<tr>
<td>Mai</td>
<td>0.03</td>
</tr>
<tr>
<td>Jun</td>
<td>0.04</td>
</tr>
<tr>
<td>Jul</td>
<td>0.05</td>
</tr>
<tr>
<td>Aug</td>
<td>0.10</td>
</tr>
<tr>
<td>Sep</td>
<td>0.17</td>
</tr>
<tr>
<td>Okt</td>
<td>0.25</td>
</tr>
<tr>
<td>Nov</td>
<td>0.11</td>
</tr>
<tr>
<td>Des</td>
<td>0.09</td>
</tr>
</tbody>
</table>

Harvesting 150g | Harvesting 100g | Harvesting 60g
Use of larger smolt could also affect escapes

- By releasing larger smolt (100+gr), the production time in the water is reduced if average size is maintained.
- Less exposure for tough weather conditions and critical processes with regards to sea-lice, clean nets etc. pr site
- The challenge: Coordinate smolt release, fallowing in large areas

Average number of escapes during the year

<table>
<thead>
<tr>
<th>Month</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Escapes per month</td>
<td>1.0</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>1.5</td>
<td>2.0</td>
<td>1.5</td>
<td>1.0</td>
<td>1.0</td>
<td>2.5</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Harvesting 150g
Harvesting 100g
Harvesting 60g
Global farmed salmon producers working together to increase industry sustainability and social licence

A driver for innovation, and sustainable aquaculture development

What are we focusing on?

- Standards
  All GSI members have committed to reaching the ASC standard by 2020

- Biosecurity
  Make significant progress on sea lice management, through the cooperation and support of all GSI members

- Feed
  Working with our partners to identify sustainable sources of feed
Thank you for your attention

For more information:  www.norwayroyalsalmon.com

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