

CEO Message



2013 can be characterised as exceptionally eventful, and not least a year of transformation for Cermaq. Although now smaller, the company is still the world's third largest producer of salmonids, with a prominent global presence. Cermaq is well equipped to continue advancing toward its target of becoming the world's second largest producer of salmonids, whilst remaining at the forefront in developing preventive fish health.

Plan for upstream integration

During the New Year the company's Board of Directors and management worked on cementing the strategy for upstream integration for the feed operation EWOS in order to secure access to marine ingredients. These are important raw materials for salmonid feed, which also contain marine Omega 3, which could become a growth-restricting factor for this segment of the aquaculture industry. When Copeinca's Board of Directors, one of the principal suppliers in the world of fishmeal and oils, sought new owners it was a given to consider this opportunity. Cermaq first acquired 20 percent of the shares in the company, with the option and commitment to purchase a further 31 percent providing the General Meeting lent its support to implementing a rights issue to partially finance the purchase. However, the General Meeting did not provide the Board of Directors with the necessary support to carry out the rights issue, and consequently Cermaq's obligation to carry out the acquisition of Copeinca ceased to apply. Cermaq sold its shares in Copeinca in August, making a profit of NOK 114 million.

Bid made for Cermaq

Prior to Cermaq's General Meeting the aquaculture company Marine Harvest (MHG) had announced they would make an offer for all the shares in Cermaq if the General Meeting voted down the rights issue for the acquisition of Copeinca. Accordingly, Marine Harvest put in a voluntary bid for all the shares in Cermaq with settlement in cash and shares in MHG. Cermaq's Board of Directors recom-

mended the shareholders to not accept this offer, as the Board was of the opinion that the offer did not reflect the underlying values in Cermaq. Also in this instance, Cermaq's shareholders did not provide Marine Harvest with the required acceptance percentage and the bid failed. In the dialogue Cermaq management had with the company's shareholders in the processes around possible transactions, it emerged that overall the shareholders wanted transactions that could both expose and free up values in Cermaq.

Sale of EWOS

In order to accommodate the shareholders' wish on value-creating transactions, the Board of Directors decided to seek a sale of the feed activity EWOS. Such a transaction would free up substantial shareholder value. During this period the Norwegian State increased its holding in Cermaq from 43.5 percent to 59.2 percent. The General Meeting was widely supportive of the Board of Director's proposal to give power of attorney to the sale of EWOS, and after a concentrated process with several interested parties Cermaq signed an agreement to this effect in July with the private equity firms Altor and Bain Capital, where EWOS' company value was estimated at NOK 6.5 billion. Implementation of the agreement enabled Cermaq to pay out an extraordinary dividend of NOK 51/share, in January 2014.

Purely an aquaculture company

Since completing the sale of the feed activity Cermaq is now a smaller company, but still the world's third largest producer of salmo-

nids, with a global presence on three continents. As a consequence of the EWOS sale, Cermaq management initiated an organisational process to exemplify that Cermaq is undergoing transformation: from being an active owner of two larger areas of activity in feed and aquaculture, to becoming exclusively an integrated aquaculture company. One element in this change is that top executives in the operative companies have now become a part of group management. Furthermore, the aquaculture activity has changed its name from "Mainstream" to "Cermaq", further emphasising that Cermaq is now a single entity.

Given the structural processes the company has been through in 2013, it has been a demanding task for group management, also in the following up of progress in the operative companies. Despite a turbulent time for the company it can be stated unequivocally that the organisation has displayed an admirable ability to focus on the day-to-day tasks whilst maintaining a high standard of operational performance.

Solid global salmon market

It is first and foremost the dynamic development in the market for salmonids that set the tone for the 2013-results. The operating result for the aquaculture division amounted to NOK 611 million for the year, an improvement of NOK 787 million compared to 2012. Operating revenue for the aquaculture division totalled NOK 5.1 billion based on sales volume of 142 thousand tonnes.

Fish health is the foundation



Cermaq was the organiser for a comprehensive extended Capital Markets Day, held in Chile in November, attended also by a wide variety of Norwegian analysts and investors. Management stressed the importance of reducing costs in Chile through improvements in fish health, particularly for Atlantic salmon and trout. The fish health situation in Chile deteriorated significantly in the first quarter of 2013. A hefty increase in numbers of fish lice (caligus) with appropriate intensive treatment, higher rate of mortality and lower average harvest weight, resulted in a heavy increase in production costs. Cermaq is of the opinion that there is a clear correlation in the cause between the alarming increase in the number of lice, degraded fish health and increased production costs. Against this background the company therefore took the initiative early in 2013 in contacting other aquaculture companies and local authorities to collectively intensify efforts to reduce lice levels. This was done, partially through the organisation Global Salmon Initiative (GSI) and through the local industry organisation SalmonChile. It would now appear that the work initiated in April 2013 has had a positive effect. There is in particular improved coordination of lice treatments between producers in the same area, and not least the exchange of technology and procedures between Norwegian and Chilean producers under the regime of GSI.

This is just one example of the possibilities and power inherent in a coordinated effort in the global industry. GSI has 15 companies under its wings and represents 70 percent of the world's salmon production.

Growth in new markets

The market for Atlantic salmon has shown positive development in all markets during the year, and it's worth noting that growth in demand in relatively new markets in Asia, Russia and Brazil has been especially high. Prices for coho and trout, where the main market has traditionally been Japan, also reached record-high levels towards the close of the year.

Cermaq destined to grow



Cermaq's declared strategy is to seek growth, both organic and through strategic acquisitions in regions where the company operates. Growth in Chile is primarily expected to take place in the far south (Region XII), where at present Cermaq has a limited presence. In Norway new licences are limited to "green licences", which in turn are linked to the company's ability to demonstrate technology and aquaculture procedures that limit lice and escapes to a minimum. Cermaq has applied for 11 of in total 45 advertised "green licences".

Also in Canada and Chile the authorities have taken a restrictive stance toward new licences due to the issue concerning the industry's capability to ensure sustainable operation. It is thus imperative that in these regions the industry and industry's participants are welcomed by the local environment. A conscious and active attitude toward social responsibility is therefore also a prerequisite to enable further growth.

Improvement target for OHS

Cermaq has considerable potential to improve in the areas of occupational health and

safety. After several years with no fatalities, in 2013 Cermaq suffered two fatal accidents in Chile where divers lost their lives. The company will therefore reduce the scope of diving operations through the increased use of underwater robots and other initiatives. In a broader perspective the company will intensify OHS efforts at all levels of the organisation, and have stipulated company objectives for significant improvements in this area.



Organisation and the future

I would like to thank my colleagues who have been involved in the structural change processes for the exceptional and strenuous work they have done throughout the year, and also my colleagues in the operation that have managed to remain firmly focused on the day-to-day tasks in an exemplary manner.

Cermaq now stands well equipped to continue its advance in becoming the world's second largest producer of salmonids, whilst remaining at the forefront in developing preventive fish health. Through sustainable growth and sound operational principles, the management will continue to contribute toward creating shareholder value in the future.

Jon Hindar