Testimony of Morten Vike
CEO, Grieg Seafood, ASA

Good afternoon. My name is Morten Vike. I am the CEO of Grieg Seafood. I am pleased to be here today to tell you about our company, and to explain how we make our selling decisions and how Grieg sees the whole fresh salmon market today.

Grieg is one of the world's leading fish farming companies. We produce Atlantic salmon in two regions in Norway, in British Columbia in Canada and in the Shetland Islands in Scotland in the UK. Our total annual production of Atlantic salmon is approximately 63,000 metric tons gutted weight; about half of this production in Norway.

Even though Norway's production has grown over the last six years, this growth has been in response to strong demand and, as a result, our prices have also increased. Grieg's Norwegian production of fresh whole Atlantic salmon has grown substantially from 2005 to 2010, but at the same time average value of our whole fresh Atlantic salmon sales during that period increased by almost 40 percent on average. Grieg's exports to Russia went from nothing in 2005 to a volume that made Russia our second largest export market last year, and it has continued to grow in 2011. The development of the Russian market has been particularly important. We have production in two regions in Norway. Our production in Finnmark, in the northernmost part of Norway, is particularly well situated to serve the neighboring Russian market, to which salmon is transported by truck, often picked up by our Russian buyers. Most of Grieg's projected harvest growth in 2012 will be in Finnmark and will be directed to the Russian market. Our Asian exports have also increased substantially.

In that regard, I want to explain to you how it is that we at Grieg make our sales decisions concerning our Norwegian salmon, and why exporting whole fish to the U.S. market from Norway makes no sense for us or for other Norwegian suppliers. In making our sales decisions, we actually compute what our best return will be given prevailing prices in alternative export markets, taking into account packing costs, transportation costs, and exchange rate differences. We do this through the use of a computer program that shows us each week where we will earn the best return on our salmon. I have reviewed the analysis that was presented in our prehearing brief and this analysis very much reflects the actual process we go through in deciding where to sell our whole fresh salmon. Our starting point will be the prices that our sales affiliates quote to us, and from this we calculate what our net return would be for each market. Of course, we also take into account long term customer relationships and the importance of our core markets, so that a small change in the relative returns for short period of time will not see us shifting a large portion of supply from one market to the other.

Because we actually look for the best return in selling our whole fresh salmon, exporting our Norwegian salmon to the U.S. market makes no sense. Sending whole fresh salmon from Norway to the United States costs approximately 9-10 Norwegian kroner per KG more than it costs Canadian suppliers to ship whole fresh salmon here. This represents about 20-30 percent of the average export price from Norway in 2011. Given prices levels in the U.S. which are set by Canadian suppliers who account for about 70 percent of the U.S. whole fresh salmon market and the supply of salmon fillets from Chile, selling to the United States is almost never a better option for us from Norway.

We can almost always set a better price by selling our Norwegian salmon to Europe or Russia.

Let me give you an example. Today, to send whole fresh salmon by air to the U.S. from our processing plants in Rogaland would cost an average of about 13 NOK/kg. including inland freight to the airport, packing costs for air-freight, and air freight to the United States. Our costs from Finnmark (in northern Norway) would be higher. The U.S. price for an industrial size whole salmon, say 8-10 pounds (a size used for processing into fillets)is now at $2.45/lb. This converts at current exchange rates to NOK 30.50/kg., yielding us a net return of NOK 17.50/kg. after deducting 13 NOK/kg. in transport costs if we were to ship to the United States. The average spot export price for this time period to non-U.S. markets, primarily Europe, is NOK 22.47/kg., at Oslo, based on NOS Clearing data. Freight from our packing plant to Oslo is about NOK 1/kg., so the average net return for exporting to non-U.S. markets is about NOK 21.47/kg., a <u>much</u> better return than the NOK 17.50/kg. we could get by exporting to the United States. If we were to ship to the U.S. market, we —and other Norwegian exporters—would have to explain to our shareholders why we are choosing a market that was less profitable. It would not be a rational business decision, and we will not do this. It also does not make business sense to do so given the substantial investment we have made to supply the U.S. market from our operations in Canada.

You can see that the U.S. market is not very attractive for Norwegian salmon exports by considering what has happened with fillets. Norwegian fillets have just not made their way to the U.S. despite the absences of any restrictions. Exporters prefer the higher returns in Europe and elsewhere. There was an exception, briefly, when Chile exited the U.S. fillet market in 2009 and 2010, but that situation did not last long. At Grieg, we had many inquiries from U.S. buyers seeking to replace Chilean fillets. We evaluated the opportunities, but did not find them as profitable as other options. The same is true for whole fresh salmon.

It was precisely because production in Norway and Scotland is not well positioned to serve the U.S. market that Grieg, like a number of large Norwegian salmon producers, have established salmon farms in Canada. We have been there since 2002. We produce approximately 13,000 metric tonnes of Atlantic salmon in British Columbia each year, and almost all of it is exported to the U.S. market in the form of whole fresh salmon.

I do wish to note that my company has supplied a limited quantity of whole fresh salmon to the U.S. from our Scottish production. Given what I have just told you, this may seem to make no sense. But what we have found is that there is a small segment of the U.S. market that wants and will pay a much higher price for large fish from Scotland. The price is sometimes (but not always) high enough to make the US more attractive for those sizes than the price in other markets. This is <u>never</u> the case for smaller sizes. You can see in your import data that the price of whole salmon imported from Scotland is higher, for example, than prices from Canada. Why would a buyer purchase the more expensive Scottish salmon, when Canadian and perhaps a small quantity of U.S. salmon are available at a lower price? The reason for this is that there is typically not enough very large fish from Canadian suppliers to satisfy the growing demand for this large fish. This mostly goes to the increasing sushi segment and to some white table cloth restaurants that prefer larger salmon. Of course, there are points in time that many larger fish maybe available to the market, and the size "premium" may disappear briefly, but in general, it is this larger fish which commands the high prices that sometimes attract Scottish salmon into the U.S. market. Some larger Norwegian fish may also be attracted here by high prices but even for its large size salmon, Norway has a more proximate and attractive market. The Russian market, which Norwegian suppliers can serve more competitively than Scotland, has a relatively high demand for larger sizes of fish. Asian buyers also have a strong preference for large fish above 12 lbs.

Finally, I would like to address the current market situation that we heard so much about this morning. It is important to recognize that our industry does experience cycles. Over time we have price increases and declines. Most recently, the very high pricing that we saw in 2010, was due to the loss of almost all Chilean supply in 2009 coupled with very rapid demand growth globally. This very tight supply-demand balance resulted in the very strong pricing levels. However, very high prices in turn resulted in some demand destruction, as consumers turned to lower priced seafood and other proteins, and as some restaurants and retailers moved away from Atlantic salmon. Subsequently, prices declined beginning in the summer of 2011 as Chile returned to the market much more quickly than anyone had anticipated. Most analysts had expected that Chile would not resume significant levels of production until 2013 or 2014. The increase in supply, coupled with the price-related demand "softening" in Europe and elsewhere has caused a price decline. This type of price drop following a peak is not unusual. And just a few key points about this --

First, in this industry, as prices drop, demand for Atlantic salmon increases. This process normally takes a few months, as lower prices filter down through the supply chain to the consumer, and as contract pricing reflects changes in market conditions. However, we have already seen significant increases in demand in Russia, where price changes flow through more quickly, and we are also already seeing increases in Europe.

Second, the increases in Norwegian harvest that we saw in the third quarter of this year as compared to the third quarter of last year were largely the result of unusual growing conditions during the third quarter, and also the fact that harvest levels early in the year were below expectations. Year on year, Norway's production in 2011 is only 5 percent higher than in 2010. Moreover, the production plans that most Norwegian producers made for 2011 and also for 2012 were made in 2008 and 2009. These decisions took into account the rapid growth in demand that actually has developed, as well as the expectation that Chilean production would be down. To somehow point a finger and to suggest that Norwegian production this year was irresponsible or disconnected from the market is simply incorrect. Production decisions must be viewed in terms of the market expectations at the time they are made.

Third, the market is already beginning to correct itself. As demand grows in response to lower prices, this situation is improving. In fact, as I just noted, we are already seeing positive reaction in demand and prices are improving. It should also be noted, that, as Chilean supply returns to the global market, Norwegian producers are able to and in many cases are reacting appropriately. My company, for example, has already decided that we will not increase the number of smolt we will put into the water in the next year,) and a number of other large producers have also made decisions to reduce the smolt introductions. However, we do expect demand to continue to grow as it has over the last six years, especially emerging markets such as Russia, and in the Asian and

European market. Finally, it is important to realize that this latest market dip does not indicate that the U.S. market will somehow become more attractive to Norwegian suppliers. Given lower prices, the choice of markets with the best net pricing becomes particularly important. Because prices have declined everywhere, the US market remains as relatively unattractive as it was at the top of the cycle.

Thank you and I look forward to answering your questions.