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MHG.OL - Q1 2012 Marine Harvest ASA Earnings Presentation

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PRESENTATION

Alf-Helge Aarskog - *Marine Harvest ASA - CEO*

Good morning, welcome to the presentation of the first quarter for Marine Harvest in 2012. To present today it's Jorgen Andersen, CFO, and myself, Alf-Helge Aarskog.

To start with the summary of the first quarter this year and it's been very interesting dynamics. We have seen growth in this quarter, quarter-on-quarter that we've never seen before. 33% supply growth is extremely high. It's outside of our boundary; we predicted from 20% to 29% growth in the first quarter of 2012 and it's exceeded that.

Then we should expect that prices will come down at least when you look upon this from quarter-to-quarter and it surely did. Prices are down with 33% compared to the first quarter of 2011. But in all honestly, I think we should state that it's not as much as we could fare in this quarter.

So the demand has been strong. When you release 100,000 tonne more fish into the market in one quarter, the prices does go lower than they did. We have to say that demand has been good. And also we see in the prices compared to Q4 actually increasing slightly in Europe at least which also speaks for itself in terms of a strong market.

For our operations, very strong performance in Scotland. And the result in value-added in Europe was very disappointing to us. I'll get back to both of them later on. Operational EBIT ended at NOK276 million and the cash flow from operation was NOK567 million.

Not going to depth on the key financial but just highlight a few numbers. Sales or revenue here is NOK3.8 billion, slightly down from 2011 first quarter that was at NOK3.9 billion. If you look at the annualized return on average capital employed we see that numbers is 6% in this quarter, way beyond or under our target which is 10% and compared to Q1 2011, 21.9%. So there's no doubt that this high supply has an impact on financials in our Company.

One last number to comment upon, we harvested 96,700 tonne in the first quarter, more than we guided, and 21,000 tonne more than last year. The underlying growth here, the conditions especially Norway but also in Scotland and also in Chile in fact has given room for a higher harvest volume. But we've also harvested more than necessary to take advantage of what we would think was a good market in the first quarter.

Just to go into details on the markets. If we look at graph on the left-hand side, you will see the volume growth into EU and the price into EU as well. If you compare the red bar, which is the first quarter of 2012 with the first or the other first quarters over the year, you see a tremendous change in supply.

Also you see a smaller drop from Q4 in 2011, down to Q1 2012; that's the normal distance between the quarters, if you compare those. Also if you follow the red line here on that chart you'll see that the price is slightly up in the first quarter of 2012 compared to the fourth quarter of 2011.

If you look at the graph on the right side where you will see the prices into US, the picture is similar, but the price increase is not there. You see a tremendous growth also there compared to Q1 2011, not such a big drop compared to the fourth quarter. It's basically the same numbers. But you don't see the same price increase as you see in Europe. So it seems there is some tension in the American market more so than in Europe at least in this quarter.

Then take a look at Marine Harvest, and this slide shows basically key performance indicators in sales and also on the same page cost performance on a global scale in the farming operations. If you look at the sales slide on the left-hand side, we've taken the achieved prices in Q1 2011 and then rebased it to the first quarter of 2012 and then looked at the performance what we have achieved in Marine Harvest on a global -- in a global picture, all our operations compiled.

And then we see spot prices. We achieved a little bit better on our spot sales. We have beneficial contracts also in the first quarter of 2012; the contract share on a global scale was 27%. Then you see contribution from other units, a tiny positive component and quality which is here in red, but that's downgrading from superior fish to ordinary and production on a global scale.

And then you see the achieved price globally. You don't see the performance of our sales and marketing division. We have divided that in two. I showed that on previous presentations. And what we call MH markets here, which is sales in the US and Americas, sales in Asia, and also sales of whole fish in Europe, we see a sale there of NOK3.1 billion and an EBIT margin at 2.9%, which I think is very good.

In terms of the value-added Europe, I will get back to that in another slide and comment on that, but you see there the NOK909 million in revenue and a negative margin of 0.6%. If you then move to the right slide and look at the farming operations, again on the global scale, you see the cost per kilo first quarter of 2011 in the range around NOK24.

You see the fish we harvested in the first quarter of 2012 had an increased feed cost, the feed component were higher. And that fishes was put into the ocean partly in the spring of 2010 and also in the fall, mostly in the fall of 2011. So it's been through a period of high feed prices.

Other saltwater cost is slightly in the red and then non-seawater cost, well boat, processing plants and so forth is kind of making this up driven by volumes obviously in the first quarter. We were harvesting 96,000 tonne. And cost per kilo is similar levels, slightly down compared to the cost in 2011 first quarter.

If you then look at how we try to put the -- or the EBIT back on to our operations, you see the operational EBIT for the total Group was 3.02% in the first quarter of 2011 -- 2012 compared to 13.11% in the first quarter of 2011. So a big difference there and obviously mostly driven by lower sales price.

Then we have contribution from farms that makes up the 3.02% there at 2.15% from the farming units. The sales contribution, what we make on our sales operation at 0.95% and a negative margin from value-added, the salmon that goes into the value-added operation at negative NOK0.06 per kilo. So this is to explain the whole operation in one slide. And if you study it, you get a lot of good information there.

Then on to our market performance, how are we doing in terms of sales and marketing? In this slide, you will see the performance in the first quarter of 2011 compared to the performance first quarter 2012. And we see -- here we list our price achievement towards the reference price, and the reference price is listed down below in a presentation in the notes there. And in Norway, that is the NOS price. In Scotland, it's the NOS price plus NOK4.15 per kilo, which is Scottish premium.

In Canada, it's Umer Barry in Seattle; in Chile, it's Umer Barry in Miami and in Faroe Islands, it's NOS. And then you'll see that we in Norway performed better than the NOS price in Scotland. Even with the margin, we had a good performance in sales.

In Canada, it's lower than last year. Still we have our challenges with Kudoa. In Chile, good margins, quite a bit of the fish here are sold into Brazil and Brazil is developing tremendously in this quarter as well with 86% increase compared to the quarter -- same quarter last year. But also in the US market, we are performing well on the Chilean fish. Just listed contract share for the different units and the superior share down below. And all in all, this quarter, I'm very happy with the superior share on a global picture.

Then, we'll take a trip into the different regions and farming regions and take a look on how they are performing. Start with the biggest one, Norway, and as you can see their operating EBIT result came down from NOK657 million first quarter last year to NOK210 million this quarter or first quarter 2012.

Harvest volume was up. Again, tremendously good conditions this quarter. But also decision made to increase harvest in this quarter to take advantage of what we see as fairly good market conditions. Operational EBIT at NOK3.35 million compared to NOK13.56 million in the quarter before.

Just take a quick look on the waterfall there. You see the prices, a major deviation, volumes is positive. Feed cost is slightly higher also in the Norwegian unit. Other saltwater cost is the same as the quarter before, and non-seawater cost is coming down. And then it results in The NOK210 million over at the end.

A few comments on -- in terms of sea lice mitigation, still a challenge in Norway. And we have good control in our operations, but the exceptional cost is NOK0.65. We expect that cost for the year to be NOK0.8 per kilo. So obviously when you harvest several hundred thousand tonnes, it's a lot of money going into combating sea lice still.

Then on to our contracts portfolio, if you look at Q1 2012, we had close to 15,000 tonne on favorable contracts. In Q2, this will increase slightly or it's basically the same level, 16,000 tonnes. And then it's lower in Q3 with down to 8,000 tonne contracted at this point in time. And that is a reflection of the market. We've been challenged now with low prices for a long time and we're not willing to accept contracts at too low prices.

Then take a look at Norway. We have broken Norway, as you know, into four regions. And the performance in the four regions, I think it's very good in region mid, really shows the importance of good fish health, good region and good farming conditions. And I think it's worth protecting those regions. If you compare region mid to region south, it's more than NOK3 difference, as you can see, and the major difference area is PD and PD related.

Region north and region west is performing also well I would say in all honesty and where we really need to work going forward is region south. It's been challenging and it's a major -- PD is the major reason, but it's also the structure in the region in terms of having good locations and sites and the same conditions to operate in as we have in mid and north.

Scotland, a very positive operation again with -- even though if the operational EBIT came down from NOK133 million to NOK51 million in first quarter of 2012, price is part of the explanation here as well. Volume is lower, but that was planned. We have 11% lower harvest volume here than we had last year and that's because of lower smolt stocking in previous years.

We see feed cost. This just slightly increased, meaning that we have improved in feed conversion rate in this region. Other saltwater cost slightly up, volume is, as we see, down, and non-saltwater cost is even. So all in all, I'm happy with the performance in Scotland. Underlying biological conditions and what we see going forward is good.

Then on to Canada, in our Canadian operation, we have broke even. It's not great, but we've said we're working on structural change in Canada. We also said that we expect that Kudoa would be less of a problem when we come into Q3. If you look at Canada, price is the major driving force for the result not being as good as we would like it to be.

Volume is slightly up and contributing positive. Feed costs just on the [money], the same almost as the last -- same quarter last year. Then the other costs are coming down. So all in all, the performance there and the operational EBIT, even if it's zero, I think we're moving in the right direction in Canada. Fairly good biological performance on this site harvested in this quarter, and take away Kudoa and we will be competing also in this region.

Then on to Chile; in Chile, we had an operational EBIT at NOK21 million compared to NOK42 million in the last -- in the same quarter last year. And you can see on the waterfall here that price is obviously playing an important factor also in Chile. But the increased volume, we're coming from 2,700 tonne in first quarter of 2011 to 9,700 tonne first quarter 2012, that have an impact on costs.

Feed cost though is going more up here than in the other regions. Increased feed conversion rate is part of the explanation, but also the same as for Norway that the cost of raw materials going in to feed in the period where these fish were grown was higher than the same period -- or the first quarter 2011.

Other saltwater cost is up, somewhat also here we see lice treatments more than we would like. Non-saltwater cost is down because of the volume. We pointed out here that we will increase our investments somewhat in Chile in -- and has done so. Jorgen will come back to increase in net CapEx, but we will increase our investments in Chile to actually protect our licenses.

It's a fact that in Chile from 2014, if you're not utilizing all our licenses, we will -- we can have an issue with that. So we will do whatever it takes to protect our licenses in Chile. And that will reflect a somewhat higher investment in Chile going forward.

A shot on Ireland and Faroe Islands. Ireland is -- the majority of the diary salmon is organic. They are making good money, good prices on organic salmon. Slow volumes but still a decent margin at NOK5.53 per kilo. Cost in Ireland is higher than in Q1 2011. Also prices there have come down somewhat, but is still above other or call it normal salmon.

Faroe Islands, a slight negative number there, minus NOK3 million compared to NOK42 million plus last year. Operational EBIT at NOK1.74 million; low volumes there and low price achievement as well, but also increased cost because of low volumes.

Then to our maybe biggest headache this quarter and also maybe next quarter. In our value-added operations, we had a revenue of NOK909 million compared to last year of slightly above NOK1 billion. Operational EBIT went down to negative NOK5 million compared to NOK6 million in the first quarter of 2011.

And it's important to note that the first quarter now is the best quarter for the value-added operations and you will see that in the numbers. But here we see, if you take a look at the waterfall here, you will see that the price has come down. You will see that raw material is blue and that means that the raw material price going into the operation has been favorable.

And but also we see other costs being higher. The main explanation for the result is we have quality issues that has led to some claims to customers, especially from one factory in Poland. We also have had low capacity utilization in our factories. And that's because of a change in product mix. In fact, less value-added products has been sold, more bulk and bulk portions and that -- this has led to higher costs.

We also had losses on contracts. We have had contracts on whitefish and customers and being open and exposed on income, and taken a loss because the raw material has been increased. And that's not good. But we have taken action. We have positive view on the future, changed the management from March or early March. And we'll have a tough job going forward. But I'm convinced we are going to turn it around.

Then I was finished. Then Jorgen, if you can come up and take a deeper look into the financials, we'll take it from there.

Jorgen Andersen - *Marine Harvest ASA - CFO*

Thank you, Alf-Helge. I will go through the financials and volumes and markets. So let's start with the more detail walk through the profit and loss statement. And starting at the top line here and comparing this quarter to the first quarter last year, revenues were down by NOK100 million. And that's a combination of higher volumes plus 29% plus, the prices dropped more than that. So that's the reason why the income is down by NOK100 million.

Looking at operational EBIT, it's down by -- in the range of NOK700 million compared to last year. As you see from report, our cost per kilo is more or less unchanged. So given a higher volume, it means that our cost base is higher. So in combination with somewhat lower top line, it explains then the drop in operational EBIT by NOK700 million.

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When we move down to EBIT, the financial EBIT, you will see a much relative stronger performance. We are roughly NOK200 million down compared to last year and the explanation here is the fair value of the adjustments of the biomass. It's a plus NOK167 million in this quarter versus minus NOK300 million. And this is mainly driven by a higher biomass in the sea. So a difference there of close to NOK480 million in favor of this quarter.

When it comes to net financial items, you are booking positive elements here versus a negative last year. A negative element is normal. But in this quarter we were impacted by the currency development again, the Norwegian kroner appreciated versus the euro and euro is the dominant debt component we have. And that contributed by NOK154 million. And together with other items, it summed up to positive NOK81 million. Last year we had a negative impact on the valuation under convertible bonds option.

So earnings before tax, better than last year and with the tax rate in the range of 24, we are booking an EPS of NOK0.11 per share. And that's better than last year. So these key performance indicators at the bottom, it's commented upon, higher volumes and compared to last year, but lower return on average capital employed.

Then moving on to the cash flow and starting at the top again with operational EBIT -- sorry, the financial EBIT, NOK200 million or so lower. And then, of course, we have to adjust for the components in the EBIT that are most impacting the cash flow. So the cash from operations NOK567 million, down by NOK450 million or so compared to last year, but better taking into account that the operational EBIT was down by NOK700 million, explanation being if you look at this line of change in inventory, we are releasing working capital in this quarter. We have communicated that we will take some measures, and we are delivering on that. So you see here we are reducing working capital by NOK195 million this quarter versus a build up last year.

So NOK567 million, and in line with our guided CapEx level as communicated earlier, we have spent a modest NOK82 million in CapEx net this quarter, around NOK300 million lower than last year. So cash from operations minus investments, NOK480 million. That's used to pay our financial expenditures. And as a result of that we have reduced our debts by more than NOK400 million. So our debt, as a result of this, has gone down, but I will revert to that, also the currency impacts.

Cash flow issues, this is what we communicated before. The normal -- the way the working capital develops in this business is that we are releasing in the first half; we are building operating capital in the second half. And we have communicated earlier a release of NOK100 million to NOK200 million due to the measures we have taken, i.e., driven by reductions in smolt release.

And as I said, we reduced our working capital by NOK195 million. And given that we increased it last year, we are well within our targets on this working capital reduction we have guided on. When it comes to capital expenditure issues, we have guided earlier on net CapEx level for the year of NOK400 million. We have increased that somewhat taking up to NOK500 million, reason being one of them explained by Alf-Helge, a situation in Chile, but also because our improved financial flexibility. We see that we have so more financial resources to spend and do some necessary investment in our operations,

But we see from this that our CapEx level net is still 50% over last year's. And then the salmon future, the cash flow dynamics of this in this quarter is very limited. This had quite a big impact on -- in the second half of last year with a limited impact here. The salmon future, it's the change in market -- m-to-m evaluation of the portfolio and that leads to adjustment on a daily basis, but as I said impact is limited.

Then we move over to the net interest bearing debt. And you see here that our net interest-bearing debt during the quarter has been reduced by -- in the range of NOK500 million. Most of that is a result of the cash flow generated from the business. And on top of that we had a positive impact of currency. So you see here that currency reduced the net interest-bearing debt in Norwegian krone by NOK146 million. So we are just south of NOK6 billion in net interest-bearing debt as we closed our books end of March.

And given the scope of our business, we have outlined before how we set our target for the net interest bearing debt. But given the scope of our business in 2012, as we increase now our guided volumes from NOK360,000 to NOK380,000, the target is then to manage the average net interest-bearing debt around NOK6 billion.

When it comes to debt distribution, it's same as when met last time. Euro still dominating around 80%, but we have said earlier that our target is to reduce that somewhat and take that down to around 70% and increase US dollars up to 20%. So we are monitoring the market.

When it comes to our financial position, comparing the total balance sheet at the end of this quarter versus the end of the fourth quarter, we have very small changes. But we see the impact of current assets somewhat down linked to the working capital issue. So there is somewhat smaller total balance sheet.

And given our net income in the quarter, you would see that our solidity measures have increased. So our net interest-bearing debt over equity, you have a target of less than 0.5. You see that this has moved from close to 0.6 to close to 0.54 during the quarter. So we are approaching our target.

Then the impact of currency and interest rate movements, the impact on the profit and loss and the balance sheet. And you will see from the top of this slide that its negative numbers means that except for the US dollars this quarter versus the first quarter of 2011, but in general the Norwegian krone has depreciated versus all our key currencies.

So this has a rather big impact on our profit and loss. So if you look at the net financial impact, then as we reported a positive number there, if you sum up all these three bullet points here, you will find this NOK154 million I mentioned as opposed to impact, and last year these three items summed up to plus 10.

When it comes to the impact on the financial position, I mentioned it's NOK146 million. There were only small impact of this interim evaluation over these long term currency cash flow hedges. And when it comes to our interest rate derivatives, it was a negative, minus NOK12.5 million versus opposed to last year.

Overview of financing. Basically, there is no change here to what we have communicated, neither for the facility agreement nor the convertible bond. Maturity covenants and all the terms are the same as last time we met. And we have earlier communicated that we are in the process of taking out some interest exposure for this five-year period beyond this first five years that we hedged 100% our exposure, but that's in process.

Dividend policy, there are no change to our dividend policy as such. And in the frame on this slide, you can see how its -- the components in our policy is cash flow based. Of course, we had to take into account our solidity. And given that these targets are met, the 75% at least will be distributed.

But this has to be read in conjunction with our net interest-bearing debt targets of the NOK6 billion and from this slide you can see how we arrive at this and there are no changes for this mechanics either. But in sum, no dividend will be proposed during 2012 unless a clear positive change in market circumstances is observed.

Then we move on to the proxy proposal for the 2012 AGM. And the three first elements there are exactly the same as those we have in place, i.e., the ones that were all approved by AGM in 2011. So share capital increase up to 5% of share capital; purchase of own shares, up to 10% of share capital, and the issuance of new convertible bond.

The fourth element here is the reason why this is proposed is the following. You know we have a convertible bond and there is a strike price there of EUR0.65. And to the extent with dividend in the future that strike price will go down. And in the event that we settle the bonds in shares, that means the number of shares will be increased. So that's why we are now -- we are asking for some increases in this authorization, so we have some more headroom in numbers of shares in case a settlement of the convertible bonds will take place in the future.

Then we are over to the global supply developments. And Alf-Helge have commented on this already. But in sum, just looking at the mid part of this slide, you see that the tonnage is up by 100,000 tonnes. This is driven by Norway and Chile due to good growth conditions. And as mentioned it's the largest first quarter increased ever and much higher than the increase we experienced in the fourth quarter 2011 with 20.5%. Chile is up by more than 100% as you will see from this slide and also strong increases in the Faroes, and that industry there is probably now approaching its plateau level.

When it comes to reference prices, looking at the reference prices in the market currencies, you see that they are all down by 33% or so. So they have all moved in parallel. And this has been necessary to absorb these high increases in supply globally of 33%. But the good thing, as mentioned by Alf-Helge, is that the prices as we can see here in this quarter has been higher than in the fourth quarter.

Then moving over to the distribution to the markets and the good thing is to see that the EU volumes are increasing, showing sign of a bit more strength than what we have seen over the last quarters or so. So this impact of lower prices and expanded market channels have had its positive impact on the demand here.

So the EU is up by 27%, but we see also a very strong -- we see a very strong increase in Russia. This is something we have seen over several quarters. And look at Brazil coming on up by more than 85%. Japan is close to 60%. So it's -- there are some very strong growth rates in these markets.

Then the supply outlook for 2012. And here we are showing to -- up in the right hand corner our estimates for 2012. And first of all our estimates is up by 3% or so. Last time we met, we guided 11% to 16% growth. Now we are 14% to 20%. And the increase here is in the range of 50,000 tonnes and 30,000 to 40,000 tonnes comes from Norway, the remaining from Chile.

Looking at the mid part of the slide and to the right, you see the estimates for the second quarter. So we expect the second quarter increase to be between 20% and 27%. Somewhat lower than 33% that we experienced in the first quarter. And as we approach the second half, you see the growth rates, our estimated growth rates for the global supply down to 5% to 13%. And we expect the growth rate debt be lower in the fourth quarter than in the third quarter.

And then the development in harvest volumes, and it's quite interesting to see now the growth in Marine Harvest, and this is something we have seen over several quarters after several years of decline or more stable harvest level. And this is something that we started 12 months ago and you see that the first quarter now is a record high compared to earlier first quarters in the history of the Group.

And then, over to Marine Harvest's volume guidance for 2012. First of all, I've said that we are increasing our guidance from NOK360,000 to NOK380,000 and the increase here is in Norway, up by 17,000 tonnes. Chile is up by 2%, Canada is up by 2%, and others are down by 1%. So for the Group, our estimate is 11% increase in volume.

When it comes to the second quarter, we expect 95,000 tonnes, that's up by 19% versus last year while the second half of the year will show no growth compared to the second half of 2011. Sales contract policy, there is no changes to the policy. This is in line with what we've communicated before. But the context here for the second quarter this year, Norway is 26%. And that's on prices in line with the contract prices we have realized in the first quarter, Scotland, 47%; Canada 8%, and Chile 33%. And then it's outlook.

Alf-Helge Aarskog - *Marine Harvest ASA - CEO*

Thank you, Jorgen. Then looking forward, Jorgen has just been through the supply outlook estimates. And we have increased it to 14% to 20% for 2012. In the coming quarters, within Q2 and Q3, we will see growth on growth. Q1 growth in 2012 was growth on a negative growth in the first quarter of 2011.

So we will really start to test the market strength further in the second quarter and the third quarter also in the fourth quarter. But what we see is a positive contribution here from a cheaper product. The salmon is going into new markets and it's widening in scope.

It's also more competitive compared to other protein than it's ever been before, which is a very good thing in terms of the outlook. Declining benefits from contracts and lower Q2 superior share, we see some higher downgrades in the second quarter, at least early in the second quarter in Norway. That will have an effect on our price achievement in the second quarter of 2012. Improved financial flexibility opens for organic investments in the business and we've increased the CapEx with NOK100 million and I've spent a little time on explaining that. Some of that will go into Chile.

In terms of feed production, we are continuing to assess that operation. I think we owe it our shareholders to take a real good hard look at our biggest costs and how it's produced. So we will not come with the decision today. But we take the challenge serious and we are looking into it. And that goes as planned.

In terms of cost efficiency and/or capital efficiency and cost measures, that continues. We do not think that this winter is quite over yet. So it's important to stay in control both of how we spent our capital and cost measures and those we have communicated before.

QUESTIONS AND ANSWERS

Alf-Helge Aarskog - *Marine Harvest ASA - CEO*

Okay. With that, I will open for questions, and just please state your name and your employer for the record and we will start. So our first one is Kolbjorn.

Kolbjorn Giskeodegard - *Nordea Markets - Analyst*

Kolbjorn Giskeodegard, Nordea Markets. Two questions. One, a little bit more on the feed factory plants. It has been -- not been highlighted very much in the presentation. And the second one is your general opinion about the situation in Chile and how the situation is there from your point of view?

Alf-Helge Aarskog - *Marine Harvest ASA - CEO*

Yes. First on to the -- to answer the feed, the plants on producing our own feed, we released press release to the stock exchange in March that we would like to assess and take a look on the feasibility of producing our own feed. We are doing that study now starting with factories and logistics and all that. And I will not go into details on comment on where we are at this stage.

I say, we will take our time. We are not underestimating the complexity of a project like this. But at the same time it's important to take a look at it because it's 50% of our cost. And we really need to understand both what kind of efficiency we can gain from having our own production and also both in terms of logistics and in terms of the nutritional side of the operation. So I will not go more into details on that at this point in time. But we will come back to it when we have made our decision.

In terms of Chile, I will say that -- we said we will increase our investment somewhat in Chile. We know that there will be pressure on licenses from 2014 from a regulatory point of view. For us to keep our licenses, it's a very important part of our operation. We don't think this is wise. And to explain that is -- we have 154 licenses in Chile. And from 2014, they will start measuring if there have been in use the last two years.

So this in fact forces to put out smolt on the licenses not fully used but 5% of the production capacity, which is not very good for sustainability in the long run for Chile. But if the regulations are not changed we will have to go that route. So that's what we're preparing into.

In terms of the biological conditions, they have not been bad. The growth has been good in Chile. Sea lice, we are treating for sea lice still more frequent than we would like. But this summer it's been quite okay. And we have come through without any big losses to algae blooms and so forth even if there has been algae blooms in the area. So I will say overall better than expected so far.

Yes, Dag.

Dag Sletmo - *ABG - Analyst*

Dag Sletmo from ABG. Three questions, first Russia. It's a very good growth we see in that market just driven by the low prices or is there any structural change or so?

And secondly, when it comes to Chile, isn't it better to either fully stop those licenses or sell them instead of going sort of half way which we are doing now? And thirdly, could you share some thoughts with us on how you plan to grow in the future in light of what you're saying within feed, like integrating backwards versus say, integrating downstream and also just growing within farming and would you like to do this organically, green field or through M&A.

Alf-Helge Aarskog - *Marine Harvest ASA - CEO*

Last one was a big question. That's our whole strategy plan in one question. So I will start with the first one first. Russia and growth, I think what we see in Russia in terms of the growth of salmon is that the fish is going wider into the country. Russia is a big country and the distribution network has been built up. And obviously, because of the price being now at a more affordable level, more and more people is eating salmon in Russia.

So I think that answers that question. And in terms of Chile and our strategy in Chile, we've always stated that we will stay and be in Chile. It's one of two countries where you really have good potential for operations in the future given good regulations.

In terms of stocking all licenses wouldn't be wise. There is 1,067 licenses in Chile, and if all of them were stocked, the sustainability of the operation would not be good. So what is wise to do in Chile is to do swapping of sites to get the zone or neighborhoods where you're on your own, and hopefully that we will see consolidation in the industry there going forward, but we would like to take part.

The last one was more a complete question to our total strategy plan, whether we would like to grow downstream, upstream and in farming and in feed, back integrate into feed. I will say I think I answered the feed question. We're doing an assessment of one of our most important costs. I think that needs to be done and needs to be understood. And we will come back with the answer on that question.

In terms of organic growth in our operation, we have said that we have higher or better financial flexibility to grow both in farming and in value-added, if that's the [need]. So -- but we will not go into (inaudible), not at this moment.

Thomas Lorck - *Arctic Securities - Analyst*

Thomas Lorck, Arctic Securities. I was just following up on your targeted debt level of NOK6 billion which is actually above your current net debt situation. In the previous cycle, you distributed NOK1.4 billion in dividends. Could you say something about your key priority going forward? Will that be cash distribution to shareholders or organic growth?

Jorgen Andersen - *Marine Harvest ASA - CFO*

Well, first of all, I said that this average, as you pointed out, NOK6 billion. But when we are taking up our CapEx level out, our priority now short term is to build the business. And as a result of that, we also stated that there would be no dividend as -- based on the current market outlook. So our priority now is to build a business, and as a result of that, we increased our CapEx level with a modest NOK100 million.

Thomas Lorck - *Arctic Securities - Analyst*

It was maybe more related to the outlook statements from the Board in the report where you're mentioning both feed plants on expansion but then processing as well as organic growth in farming versus kind of cash flow distribution to shareholders?

Jorgen Andersen - *Marine Harvest ASA - CFO*

Well, the cash flow generated will be used for organic growth. Of course, if we are going to do any major things when it comes to expansion of the business, of course then we have to look at various capital sources.

Henning Lund - *Platou Markets - Analyst*

Henning Lund, Platou Markets. BMR guided on feed volumes in Norway in the fourth quarter to be negative. And you have yourself reduced smolt stocking in 2012 or at least you decreased the smolt stocking compared to the original plans for 2012. Can you give us some thoughts on the expected volumes for 2013, both for Marine Harvest and also share some thoughts about the market, the global supply for 2013?

Jorgen Andersen - *Marine Harvest ASA - CFO*

When it comes to 2013 and the Marine Harvest numbers, we have to revert to that on a later stage. We will not comment upon that now. Do you have some thoughts on that?

Alf-Helge Aarskog - *Marine Harvest ASA - CEO*

Well, it's -- I think you can -- you are an analyst yourself. So I think you can -- we have obviously thoughts on it, but we don't state it publicly. And what we can state is that the demand for salmon is strong. In terms of the supply, the fish seems to be coming from Chile in high volumes.

And we know in Norway that MAB limit is there. But obviously that can be increased from the government point of view. So it's hard to guess. If 2013 is an election year, if they decide to increase the MAB limit in Norway, supply can hit the road also in 2013.

If there's no more questions, I thank you all for coming, and have a great day. Going off.
