

**OUR VALUE CHAIN**

INNOVATION  
EMPLOYEES  
**EWOS**  
MAINSTREAM  
NON-CORE

# GROWING MARKET SHARES IN ALL REGIONS

EWOS successfully grew its market share in a stable global salmon feed market. Harvesting from R&D investments enabled a large step in lowering fishmeal in all diets. A large portion of functional feed sales underscores broad acceptance of feeds in health management. Capacity investments in Scotland and Norway reap benefits in peak season.



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NOK million

	2010	2009	2008	2007	2006
Operating revenues	7 388.4	6 250.6	6 859.0	5 922.2	5 336.3
EBITDA	670.9	510.3	300.1	491.3	384.1
EBITDA margin	9.1%	8.2%	4.4%	8.3%	7.2%
EBIT before unrealised fair value adjustments	509.1	379.6	183.6	378.4	254.7
EBIT margin before unrealised fair value adjustments	6.9%	6.1%	2.7%	6.4%	4.8%
EBIT (operating profit)	521.9	379.2	188.9	373.6	247.0
Volumes (ktonnes)	876.2	787.6	901.9	847.4	777.0

**CERMAQ'S FISH FEED** operations are organised in the EWOS business division. EWOS is one of three major salmonid fish feed companies globally, with a market share of around 35 percent.

EWOS supplies extruded feeds for the full life cycle from hatch to harvest of salmonids. EWOS is also a full-range supplier for a number of marine and fresh water species and in a position to take part in the expected growth within these species. Today we produce feeds for 28 different farmed fish species.

EWOS is present in all of the four large salmon-producing countries, with three production facilities in Norway, and one each in Chile, Canada and Scotland. In addition to supplying local markets, EWOS also exports feed into a range of countries both in Europe, Asia and in the US.

important characteristics; performance, fish health and welfare, experience, service, and partnership. Our integrated and considerable investment in research contributed to our competitive edge especially in speciality and functional feeds. Our in depth knowledge in feed and feeding is of fundamental value in our customer relations and support.

**FRAMEWORK CONDITIONS**

There have been no major regulatory changes directly influencing the fish feed business in 2010.

New EU-regulations "on the placing on the market and the use of feed" (767/2009) will impact EWOS product development and marketing procedures, as the EU Commission has given member states more flexibility to aim for lower levels of unintended GMO presence than the 0.9 percent thresh-

«EWOS VIETNAM WILL LEVERAGE THE EWOS GROUP'S RESEARCH-BASED KNOWLEDGE WITHIN FISH NUTRITION, RAW MATERIALS AND FISH FEED PRODUCTION TO MANUFACTURE FISH FEED THAT IS MORE COST EFFECTIVE THAN ANY CURRENTLY AVAILABLE ON THE MARKET IN VIETNAM.»

In 2010, EWOS sold a total of 876 thousand tonnes of feed and had revenues of NOK 7388 million and an EBIT pre fair value of 509 million. EWOS has a total of 685 employees including EWOS Innovation.

**COMPETITIVE ADVANTAGES**

EWOS is recognised in all markets on five

old. National regulations are not yet set, but deviating national regulations within EU may complicate market adaptation.

EU's new Common Fisheries Policy (CFP) is being developed and is to be effective 1 January 2013. It will focus on better control and management of fisheries and will

## SOURCING OF MARINE RAW MATERIALS

Forage fish / Origin	Tonnes	%
Anchovy / Peru/Chile	152 065	39.6%
Sand Eel / USA	33 116	8.6%
Sprat / Denmark	32 320	8.4%
Menhaden / Norway/Denmark	30 308	7.9%
Misc. Species / Misc.*	53 325	13.9%
<b>Forage Fish Total</b>	<b>301 135</b>	<b>78.4%</b>
<b>Trimming &amp; byproducts</b>		
Herring trimmings	43 527	11.3%
Misc. Species*	38 122	9.9%
<b>Fish trimmings /byproducts Total</b>	<b>81 649</b>	<b>21.2%</b>
<b>Other Marine Ingredients</b>		
Krill	1 507	0.4%
<b>Other Marine Ingredients Total</b>	<b>1 507</b>	<b>0.4%</b>
<b>Grand Total</b>	<b>384 291</b>	<b>100.0%</b>
Total feed produced, tonnes	913 000	
Marine Index		42.1 %

\* Species included are; Hake, Capelin; Atlantic mackerel; Pollock; Blue whiting; Pilchard; Norway pout; Sardine; Jack mackerel; and Monterey sardine.

help improve the sustainability of fisheries. Aquaculture is to be part of CFP.

### RISK CONSIDERATIONS

EWOS continuously manages operational risk and uncertainty in order to reduce possible negative effects to our reputation or to our ability to continuously supply the market.

The main factors creating risk exposure to EWOS are:

- Food safety risks
- Raw material price volatility risks
- Raw material availability risks
- Receivables risks
- Business interruption risks

EWOS is well prepared to maneuver in this challenging business environment, due to our strict food safety management systems, highly competent global purchasing team, close follow up of customers and general risk assessment procedures and preparedness.

### SUSTAINABILITY

Use of marine raw materials is the key sustainability concern related to feed production. EWOS promotes better utilisation of marine

raw material e.g. use of by-catch for feed purposes, and we source our marine raw material from regulated fisheries. EWOS supports the IFFO Global Standard for Responsible Supply. We judge the sustainability of the feed ingredients based upon the best available information. Trimmings used as raw material in feed constituted 21 percent of the marine ingredients, an increase from 18 percent in 2009.

In addition to marine raw materials being sustainably sourced we focus on the efficiency in the use of marine ingredients, which is really of greater relevance than dependency on marine raw materials. Farmed salmon are well known to be very efficient in their conversion of feed into healthy and nutritious farmed salmon, and can actually be a net producer of fish protein and oil. The carbon footprint of salmon is in line with chicken and significantly lower than pork and beef.

### MARKET OVERVIEW

#### Norway

The Norwegian fish feed market was stable in 2010. EWOS successfully increased its market share from 36 to 38,5 percent with an annual production of 519 000 tonnes. Key

success factors behind the production and sales increase were high market acceptance for EWOS's growth enhancing products, enabling customers to better adapt to production regimes. An additional success factor was the well timed capacity expansion at EWOS's factory in Florø, completed in June 2009. EWOS produced as much as 74 550 tonnes of feed in the peak month of August, the highest volume ever sold by one supplier in the domestic salmon industry market. Sales of functional feeds were also at a high level in 2010, underscoring the effect of these products in strengthening the salmon's immune response against diseases and sea lice.

#### Scotland

The total feed market for 2010 for all species in the UK and Ireland remained unchanged at approximately 240 000 tonnes. Scottish salmon accounted for 210 000 tonnes of this and EWOS UK increased its share of this market to 32 percent with the commencement of new contracts and significant growth in sales of functional feeds. Export sales to the EU and Norway were maintained at historic levels and total production for the year exceeded 80 000 tonnes for the first time. A major 3 year investment programme is underway focusing on improving plant flexibility, efficiency and product quality which will support the strong volume growth that has been achieved in UK over recent years.

#### Canada

There was no growth in the industry over 2010 and there is little expectation for growth in 2011. The farming operations are highly consolidated with four companies accounting for more than 90 percent of total production. EWOS Canada's market share increased approximately 3 percent during the year.

Sales of feed to marine fish in Asia and to the salmon enhancement operations in the Pacific Northwest and Alaska showed good gains for the year due to increase in feed sold to customers in Vietnam and as a result of good feed performance results in 2010.

#### Chile

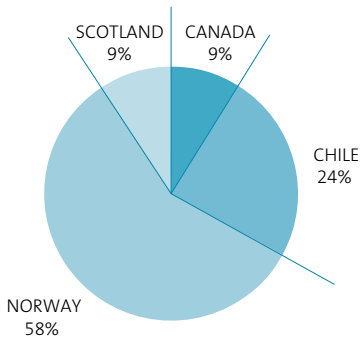
2010 will be remembered as the year of the recovery in Chile. While the Chilean salmon industry was starting its recovery from the ISA crisis, the second largest earthquake in

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**SALES VOLUME PER REGION**

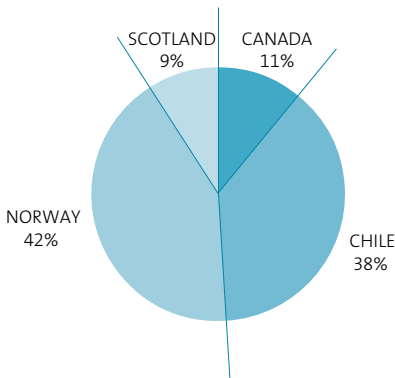
Percent (%)



Chilean history hit the central part of Chile, directly affecting EWOS' staff and the EWOS factory in Coronel. Despite this, EWOS ended 2010 as the number one feed supplier, in terms of market share. EWOS's sales grew with a rising market with sales of more than 213 000 tons, a 16 percent increase from 2009. 2010 was a successful year for EWOS's functional feed products, making more than 35 percent of total sales. EWOS's customers

**NUMBER OF EMPLOYEES PER REGION**

Percent (%)



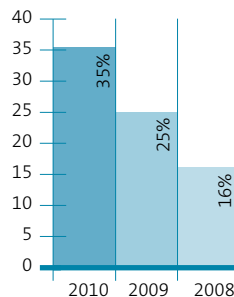
could also boast the best productive results in the industry. From a fish welfare point of view, 2010 was a year with excellent productive and sanitary results, with low mortalities, high growth and excellent feed conversion rates.

**BUSINESS DEVELOPMENT**

EWOS increased its market share in all four main salmon aquaculture markets in 2010 while the overall market growth was relatively

**FUNCTIONAL FEEDS**

Percent (%) of sales volume



stable. EWOS had special focus on Prebiosa, a probiotic based feed, with benefits for growth. This feed enables fish farmer to optimise their production within their license constraints.

Another achievement in 2010 is that functional feed were highly accepted within academia and fish health authorities as a tool for integrated pest management for diseases and parasites. Functional feeds rep-

**Objectives 2010**

Further differentiate from peers on product performance and profitability

Solve more of the sanitary challenges in the industry through advanced nutrition and active natural substances in the feed

Adjust feed capacity in Scotland and Norway to make sure EWOS can meet increasing demand for its products

Refocus sourcing and purchasing based on unique knowledge in the interface between nutritional needs and raw material properties

**Results 2010**

EWOS' high performance products helped increase EWOS' market share in 2010, despite stagnant markets. EWOS ended the year with strong profitability.

EWOS' range of functional feeds is fully accepted in all markets and they are tools used in integrated pest management regimes in Norway and Chile, both for sea lice and for various diseases. Sales volumes for functional feeds set new records.

Upgrading of the production lines in the first half of the year allowed EWOS Scotland to meet record demand for products during the peak months and achieve its highest ever annual tonnage. In Norway the capacity expansion from in 2009 came into full utilisation in peak season 2010, and EWOS Norway made production record with 74000 tons in August.

EWOS has completed its reorganisation of purchasing functions on group level, which has resulted in increased procurement competitiveness.

**Objectives 2011**

Refocus our marketing and support organisation to better reflect our high competences and the potential in our strong product range. We aim to be the feed supplier that creates the highest value for our customers.

Develop and launch new and profitable products through R&D.

None

Utilise the competent purchasing team to outperform competition in a complex raw material market, aiming to create benefits for our customers.

Maintain current market position in all markets and profitability as best in class.

Establish our future growth platform in Asia, by developing EWOS Vietnam to become one of the 10 largest feed suppliers in the country.

resented 35 percent of total sales in 2010, an increase from 25 percent in 2009.

The global markets for vegetable and marine raw materials has increased both in price and complexity due to increased demand and fluctuations in supply. The use of marine raw materials has decreased the last years, but they are still an important source for our feeds, and our efforts to develop other sustainable sources as alternatives to fish-meal and fish oil are continuing. Complexity provides new opportunities and we see it as a challenge and not a constraint.

ISO management standards 22000, 9001, and 14001 as well as OHSAS 18001 standard are key elements in our feed operations. EWOS has organised all four standards within an Integrated Management System, ensuring that we are meeting our Sustainable Aquaculture duties and also the opportunity for constant improvement.

EWOS entered feed production in Vietnam at the end of 2010, through the signing of a joint venture agreement with Anova Corporation. The venture partner is established in Vietnam with a plant in the Long Anh province. EWOS' broad competence within salmonids can be successfully transferred to pangasius. EWOS Vietnam has considerable ambitions for the Vietnamese market and the goal is to utilize the full capacity of the plant within the first operating year. The farming of pangasius in Vietnam is around 1.8 million tonnes. Farming of pangasius is predicted the highest growth globally of farmed species the next decades.

#### OUTLOOK FOR 2011

The growth in the EWOS markets for salmon feed is restricted by production regulations in three markets; Canada, Scotland and Norway. Hence limited volume growth is expected in those markets. The successful comeback of the salmon production in Chile, within new and more sustainable farming regimes, indicates that Chile will be the strongest growing market in 2011. As the market for salmon seems to remain strong, farmers will maximise their production within the regulatory frames. In order to achieve maximised production the EWOS growth promoting feed, Prebiosa, is expected to increase its proportion of the sales. The fact

that health promoting and parasite reducing diets have been well accepted not only among customers, but also by academia and fish health authorities, indicates continued strong sales of functional feed.

The uncertainties in the outlook for 2011 are related to raw material markets. We believe that fish meal markets will come back to a normal situation in the second half of the year, in the aftermath of fisheries restrictions imposed in Peru in the early part of the year. Fish oil availability will also come back, but uncertainties are related to the development of the competing omega 3 segment for human consumption. All commodities are expected to remain at rather high and unstable levels, very much depending on politics related to biofuels.

COMPLETE DATA  
[report2010.cermaq.com/sustainability](http://report2010.cermaq.com/sustainability)

## Solidarity initiative to rebuild employees' homes



**THE EARTHQUAKE THAT** struck Chile on 27th February had its epicentre close to the homes of many of the 250 employees in EWOS. Fortunately no employees or direct relatives lost their lives or were injured as a result of the earthquake, but damages on homes were significant.

16 employees experienced total destruction of their homes or that their homes were dangerous to stay in, and another 70 had significant damage of their homes. Cermaq initiated a solidarity campaign among all employees in the Cermaq group raising more than NOK 1.4 million to fund the rebuilding of the homes of our colleagues.

A group of employees working night shift when the earth quake struck stated after the reconstruction was completed: *"Our country has suffered dreadful hardships at the hands of natural forces which are beyond our control but we are a resilient people who will bounce back stronger. We are grateful for all the sympathy received from the EWOS companies around the world and for all the help you have given us in order for us to rebuild our homes. All this help and assistance will make us stronger so that we can face the future with confidence."*