

Item 9 on the Agenda for the Annual General Meeting

To: The shareholder of Marine Farms ASA
From: The Board of Directors of Marine Farms ASA
Date: 26th of May 2008
Topic: Item 9 on the agenda for the Annual General Meeting

Background

In a letter dated 9th of May 2008, Nireus Aquaculture S.A. (“Nireus”) requested that the following three items were added to the agenda for the Annual General Meeting in Marine Farms ASA (“the Company”), to be held on Tuesday 27th of May 2008 at 14:00 in Bergen:

- A. Company’s dividend policy for 2007 and the forthcoming financial years.
- B. Restructuring of MAFA Group of Companies.
- C. Loan policy and currency risk.

On 22nd of May 2008, Nireus asked the Company to distribute a new letter to the market, where Nireus’ views on the three topics were presented in more detail.

The Board of Directors and the management of the Company will like to take this opportunity to explain the background for their views on the three topics.

Marine Farms

Marine Farms as a group has been built up over many years under the leadership of the current CEO Mr Bjørn Myrseth. The salmon operations in the UK, the seabass/seabream operations in Spain and the cobia operations in Belize and in Vietnam have all been started more or less from scratch, dating back to late 1980’s for salmon and early 1990’ for seabass/seabream. Not only have these operations been successful start-ups, they have also ended up being successful and very competitive businesses in their respective markets. Focus has been on high quality products coupled with high quality services. Over the years, the respective businesses have managed to establish themselves as innovative and trustworthy suppliers of high quality seafood products. As a result, both Lakeland (UK) and Culmarex (Spain) are among the most profitable producers of salmon and seabass/seabream in their respective markets, positions which all employees of the Marine Farms Group are very proud of and in which they take pride in maintaining.

Marine Farms over the past few years

In year 2000 the Company raised capital to fund expansion. Two years later, the markets for salmon and seabass/seabream collapsed, resulting in big losses for the Company. New equity was needed, however, funding was difficult to obtain. It took almost 2 years before the Company managed to raise new equity in the summer of 2004. Simultaneously with new equity being raised (NOK 4.0/share), a refinancing was agreed with the Company’s biggest creditors. The financial situation in the Company at year end 2004 was still strained, having tight liquidity and an equity ratio of 13.7%. Share price at year end 2004 was NOK 3.5/share.

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During 2005 the Company continued to restructure. Unprofitable and non strategic operations were sold off or closed down. New equity was raised and extraordinary feed credits were refinanced. At year end 2005, the financial position had improved significantly (equity ratio of 31.5%) and the liquidity position was comfortable. After many years with focus on short term liquidity, the Company could now concentrate on medium to long term value creation for its shareholders. The last recorded share price in 2005 was NOK 12.0/share.

At the end of 2005, the Board of Directors of Marine Farms decided upon the current strategy. The ambition was clear: The group wanted to grow through a combination of organic growth, acquisitions and new species. Focus was on large and efficient clusters, controlling the entire value chain from broodfish to customer. Its activity should be diversified in terms of species and markets, leveraging on established species and investing in new ones. The company would seek market leadership in selected niches by being an innovative and trustworthy supplier of high quality seafood products. Funding going forward should be a combination of new equity and debt. To get access to new equity, the ambition was to list the Company's shares on the Oslo Stock Exchange.

On the 12th of October 2006, Marine Farms ASA was listed on the Oslo Stock Exchange, trading under the "MAFA" ticker. The share was introduced at a price of NOK 14.0/share. See graph below for development in share price.

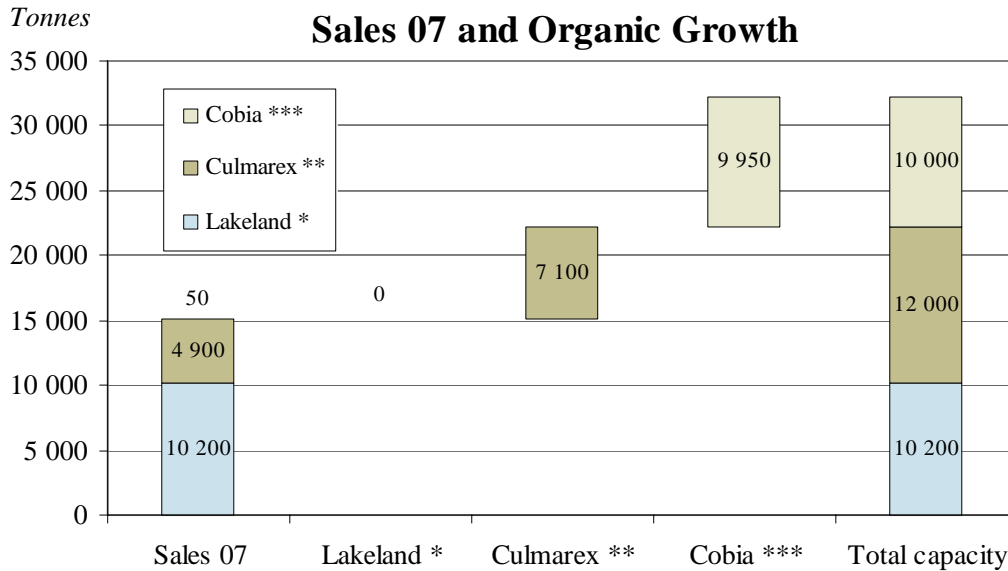


At the end of 2005 it was decided that cobia was the new species which the Company wanted to expand further into. The Company had already built up a quite unique position in cobia, with concessions in Belize and in Vietnam as well as a cobia hatchery in Florida, USA. Operations in Belize and in Vietnam started up in 2006.

During 2006 and 2007, the Company looked at several acquisition opportunities, both in salmon and in seabass/seabream. Most of these projects were considered to be either too expensive or did not fit with the Company's present strategy. In some cases it was a combination of both. At the end of 2006, it was decided that Spain provided the best window for doing strategic acquisitions at acceptable prices. As a result, Culmarex acquired 3 companies in 2007 and obtained new concessions, increasing production capacity by more than 70% in that year.

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The situation today is that Marine Farms Group has room for significant organic growth (see graph below), more than doubling its production of fish from approximately 15,000 tonnes in 2007 to more than 30,000 tonnes. The Board of Directors has decided to take on this growth over the next few years.



* Lakeland has licenses for approximately 15,000 tonnes gwt salmon, however assume only can utilise approximately 10,200 tonnes gwt at the moment.

** Culmarex incl. application for new license in Ponto (1,800 tonnes).

*** Cobia incl. application for new licenses in Belize (2,000 tonnes).

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Nireus has requested that the following three items were added to the agenda for the Annual General Meeting in Marine Farms ASA.

A. The Company's dividend policy for 2007 and the forthcoming financial years

In the prospectus dated 25th of September 2006, Section 6.8, page 80, the following is stated under the heading "Shareholder and dividend policy":

"The Company intends to manage Marine Farms' assets and business in a manner which provide the highest possible return at an acceptable risk, measured in terms of total dividends and increases in Share price, on the capital invested in the Company over time. This is intended to make Marine Farms an attractive investment, and will provide the basis for the Company to raise additional equity when this should be desirable.

The Company will strive to follow a dividend policy favourable to the shareholders. The amount of any dividends to be distributed will be dependent on, inter alia, the Company's investment requirements and rate of growth."

As mentioned earlier, the Company has taken on an ambitious investment program in order to increase its production from 15,000 tonnes fish to more than 30,000 tonnes fish. This will require substantial investment, starting with (i) investment in personnel, (ii) investment in equipment, (iii) investment in juveniles, and then (iv) investments in building up biomass. In

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addition, there will be need for investments in infrastructure in order to accommodate the significant increased tonnage. The time it takes from hiring personnel until the fish is ready to be harvested might take 2-3 years in Spain; 1-2 years in Belize and in Vietnam. Hence decisions taken today will in some cases materialise in revenue and results first in 2010-2011.

The investment budget for 2008, approved by the Board of Directors in December 2007, reflects the ambition to take on the organics growth available to the group. Investments in fixed assets are budgeted to NOK 230 mill in 2008. In addition, NOK 130 mill is to be invested in building up biomass in 2008. These are significant investments which the Company is more or less already committed to.

Based on the recent 5 year plan the group will invest an additional NOK 300-400 mill in fixed assets over the period 2009-2012. In addition, it will require investments in building up new biomass in the amount of more than NOK 200 mill. In summary, the ambition is to invest up to NOK 1 bn in fixed assets and build up of biomass over the next 5 years, a significant investment program for a company of the size of Marine Farms (will more than double the production in tonnes and more or less double the balance sheet).

This significant growth will need funding. Marine Farms obtained together with its major subsidiaries a new NOK 510 mill multicurrency corporate loan facility with DnB NOR in December 2007 (see section C. below for more details), of which NOK 275 mill were available at year end 2007. This available liquidity will be used to fund the budgeted investments and growth for 2008.

The 5 year plan shows that additional funding will be required in 2009. Hence, during the winter of 2008 the Company has had discussions with DnB NOR to increase its current NOK 510 mill facility. The plan is to have everything in place by the end of August 2008.

With the additional funding in place, the Company should have enough liquidity available to fund the 5 year plan without having to go to the shareholder and ask for additional equity.

The Board of Directors is of the opinion that the available cash should be used to fund the organic growth and therefore no dividend is proposed for 2007. If the Annual General Meeting decides that dividend is to be paid, this could have several consequences for the Company:

- There will be less funding available for growth, hence the Company will not meet its targets to sell more than 30,000 tonnes of owned produced fish by 2012. This will again reduce the economies of scale in production which again will increase average cost and reduce profitability.
- Under the NOK 510 mill Multicurrency facility with DnB NOR, there is one financial covenant, being a minimum equity ratio of 32.5%. By the end of 2008, our prognosis shows that we will have an equity ratio of around 40%. If the Company has to pay dividend, then the equity ratio will get closer to the minimum level. Breaching this covenant will incur penalties.
- The applicable interest margin is tied to the Group's consolidated book equity ratio. Payment of dividend will reduce the equity ratio; hence increase the applicable interest margin.

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We have asked our Auditor E&Y to look into the possibility for Marine Farms ASA to pay dividend for 2007. This is a summary of their response in their letter dated 22nd of May 2008:

“We understand that it could be of interest to distribute dividends to the shareholders. For this purpose the Company must have free equity in the last audited accounts, which is not the case [for Marine Farms ASA] based on the accounts as at 31.12.2007. A share premium reduction may give the Company free equity and may improve the flexibility of the Company in terms of other transactions as well. Free equity cannot be made available for distribution until the balance sheet at 31.12.2008 has been approved by the general meeting in 2009.”

E&Y’s conclusion is that that for the financial year 2007, Marine Farms ASA is not in a position where it can pay dividend to its shareholders. However, the intention going forward is that when the Company’s financial situation allows for it, the Board of Directors will propose to pay dividend to its shareholders.

B. Restructuring of the MAFA Group of Companies

The Marine Farms Group has today a legal structure in the UK and in Spain which reflect significant acquisition activity over the past many years. Focus has been on improving operational and financial performance on these acquired companies. The Board of Directors and management have in the past looked into the advantages of merging legal entities, both within Spain and within the UK. The advantages have been seen as limited compared the disadvantages; including the extra costs and the time it would take to complete the reorganisation, ref. our letter to Nireus dated 29th of April 2008, question 7.

As part of the ongoing business, the Board of Directors has initiated a new review of the pros and cons of merging companies in Spain and in the UK, looking into potential tax advantages and other benefits. The Board of Directors will make their decision when the new findings have been analysed.

C. Loan policy and currency risk

The basic philosophy to currency risk in the Marine Farms group is that revenues and expenses should be denominated in the same local currency (as much as possible), i.e. enabling a natural hedge. This is the case for Lakeland (GBP), Culmarex (EUR), MF Belize (USD) and MF Vietnam (USD). As to Marine Farms ASA, the parent company has no revenues in NOK. By allowing its subsidiaries to report in local currencies, Marine Farms ASA is left with the currency risk when consolidating the accounts into NOK. This includes the translation currency risk as well as the repayment currency risk arising from local denominated shareholder loans, see below for more details.

Prior to the refinancing with DnB NOR in December 2007, Culmarex was funded locally in Spain. Lakeland was funded locally by DnB NOR in the UK. In addition, Marine Farms has over the past many years contributed with a combination of equity and shareholders loan to fund the operations in the UK, in Spain, in Belize and in Vietnam.

The refinancing with DnB NOR was established mainly to increase the Group’s borrowing capability, demonstrating the major benefit of a corporate lending facility vs. separate local

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funding. The new increased facility with DnB NOR allowed the Company to start expansions in Spain, Belize and in Vietnam without first having to go to our shareholders and ask for new equity. In addition the Company managed to borrow the new facility at improved terms; the current interest margin is the relevant IBOR + 65 bps.

Both Lakeland Smolt Ltd, Culmarex S.A. and Marine Farms ASA are joint borrowers under the new NOK 510 mill Multicurrency 5-year corporate facility with DnB NOR (the exception being the NOK 110 mill overdraft facility, which is only available to Marine Farms ASA). The NOK 400 mill multi currency facility is split into (i) a NOK 250 mill term loan and (ii) a NOK 150 mill revolving credit facility. The NOK 250 mill term loan was distributed to Culmarex (EUR 21.0 mill) and Lakeland (GBP 7.5 mill) in December 2007. Since this is a multicurrency facility, Culmarex and Lakeland will repay in EUR and GBP respectively. Hence there should be no currency risk related to the repayment of these loans, only translation currency risk when preparing the accounts for Marine Farms in NOK (as for all companies reporting in NOK with foreign subsidiaries trading in a different foreign exchange than NOK).

Marine Farms has since the late 1980's provided shareholder loans for longer or shorter periods to its subsidiaries. The reasons for providing shareholder loans have been (i) lack of local funding, (ii) tax reasons as well as (iii) providing Marine Farms ASA with flexibility to reallocate funds from one group of companies to another, when necessary.

At the end of December 2007, the following shareholder loans were outstanding between Marine Farms ASA and its subsidiaries:

Loans to subsidiaries	Pr 31.12.2007 (NOK mill)	Currency
<u>Long term</u>		
Lakeland Smolt Ltd	72.6	GBP
Culmarex SA	53.5	EUR
Marine Farms Belize Ltd	57.2	USD
Marine Farms Technology Ltd	1.1	GBP
Marine Farms Vietnam Ltd	7.6	USD
Total long term	192.0	
<u>Short term</u>		
Lakeland Smolt Ltd	0.3	
Culmarex SA	0.3	
Total short term	0.6	
Total loans to subsidiaries	192.6	

Marine Farms ASA has both a translation currency risk as well as a repayment currency risk on these internal loans. The repayment currency risk is reported as agio provisions in the financial accounts. The provisions have been significant over the past year or so, due to the significant drop in the GBP/NOK and the USD/NOK currency rates.

If Marine Farms ASA provided the funding as share capital rather than shareholder loans, it would not have had to report agio provisions in the P&L. However, the effect on equity would have been the same.

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The repayment currency risk on some of the shareholder loans could have been hedged in the past. However, the focus on flexibility was given first priority; hence the Company did not enter into contracts in the foreign exchange (FX) market. Looking back and seeing how the GBP and the USD have developed compared to the NOK, entering into FX contracts a year ago would have been a good decision.

The latest advice the Company has got from its major bank on its current FX exposure is to remain as is today and not fix the Company's positions, as the NOK is expected to drop over the next 12-18 months (strengthen the first few months).

The plan for 2008 is to reduce the Company's current shareholder loans to both Culmarex and Lakeland. As for the USD loan to MF Belize, the plan is to convert approximately USD 10 mill into equity in 2008, hence reducing the loan by an equivalent amount.

Going forward the Company will consider to buy FX contracts in the market to hedge the repayment risk on shareholder loans.