



## **SALMONES CAMANCHACA S.A. AND SUBSIDIARIES**

### **Earnings Report on the Consolidated Financial Statements**

For the periods ended December 31, 2018

#### **About Salmones Camanchaca**

*Salmones Camanchaca S.A. is a vertically integrated salmon producer engaged in egg and breeder production, recirculating hatcheries for Atlantic salmon and pass-through hatcheries for other species, estuary and sea grow-out sites, primary and secondary processing, marketing and sale of Atlantic salmon. The Company farms trout at estuary grow-out sites through a joint venture (1/3 share of results) in effect for four more years with an estimated average annual harvest of 12,000 tons WFE. For its main business (Atlantic salmon), the Company has an annual estimated harvest of 55,000 tons WFE for 2019-2021, in addition to an estimated 4,000 tons WFE of Pacific salmon beginning in 2019. Overall production of all salmonoid species at its farm sites should total around 75,000 tons WFE. Salmones Camanchaca has an average annual workforce of approximately 1,200 employees, 55% of which work at its secondary and value-added processing plant. Markets for sales of Atlantic salmon in a variety of fresh and frozen formats are led by the U.S., Russia, Brazil, China, Mexico, Japan and Argentina, with over 50% of sales in emerging markets.*

## Highlights for 4th Quarter 2018

- **Harvests in line with estimates.** The harvests of Q4 2018 reached 13,944 tons WFE, totaling in 2018 48,496 tons WFE, which are in line with the estimates at the beginning of the year.
- **Sales Up, Inventories Down.** Revenues up 22% over Q4 2017 due to higher sales volumes (+17%), reaching 15,730 tons WFE. This is consistent with a reduction in inventories over Q3 2018.
- **Prices stable, slightly up.** Average sales price was US\$ 5.90/Kg WFE, 3.8% up from US\$ 5.68/Kg WFE in Q4 2017 (down 3.9% over Q3 2018).
- **Sharp rise in unit margin.** Atlantic salmon EBIT/Kg WFE at US\$ 1.58, up 60% from Q4 2017, due to increased sales and reduced costs per Kg of production sold.
- **Live weight ex cage cost below expectations.** Live weight ex cage cost at US\$ 2.83/Kg, down 3.7% from Q4 2017 and 5.7% below the Company's long-term target. For 2018, live weight ex cage cost was US\$ 3.06/Kg, slightly above the long-term target.
- **Significant reduction in processing costs.** Total processing costs per Kg, which include primary and value-added processing, fell 5% this quarter compared to the same quarter in 2017, and were also down 5% with respect to the immediately preceding quarter. This reduction was due to increased production scale and greater efficiency following investments in 2017-2018. This is the second lowest processing cost recorded in the last 20 quarters.
- **Substantial increase in profitability.** EBITDA at US\$ 27.5 million, or 74% higher than Q4 2017, explained by greater sales volumes and lower costs. EBIT before Fair Value was US\$ 24.5 million for the quarter, reflecting growth of 86% over Q4 2017.
- **Reduced debt.** Net debt is reduced by 63% since year-end 2017 to US\$ 37.1 million, giving an equity ratio of 54%, compared with 36% as of December 31, 2017.
- **Future harvest estimates in line with projections.** Atlantic salmon harvest estimates at 55,000 tons WFE for 2019. The Company also expects to harvest 4,000 tons WFE of Pacific salmon in 2019 which will generate revenues in Q1 2020, along with 6,000-7,000 tons WFE of trout from its trout farming joint venture (100%).
- **Dividend.** Subject to shareholder approval at the Annual General Meeting scheduled for April 26, 2019, the Company will pay a dividend 30% of net profit, equivalent to US\$ 0.22 per share.

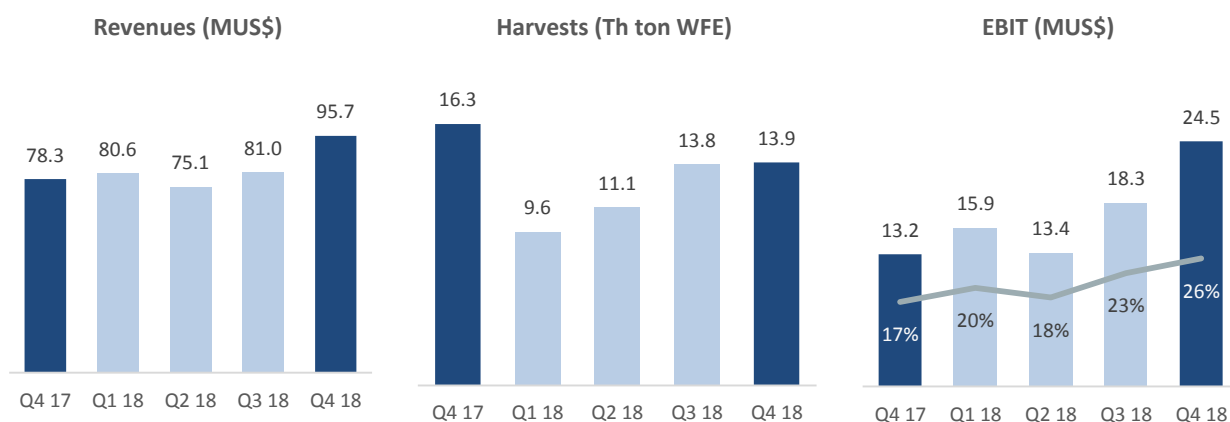
## Key Figures

ThUS\$	Q4 2018	Q4 2017	Δ%	2018	2017	Δ%
Operating revenues	95,698	78,250	22.3%	332,301	203,070	63.6%
Gross profit before Fair Value	30,057	18,217	65.0%	92,737	58,211	59.3%
EBITDA before Fair Value	27,480	15,795	74.0%	83,354	52,474	58.8%
EBIT before Fair Value	24,508	13,196	85.7%	72,085	41,794	72.5%
EBIT %	25.6%	16.9%	51.9%	21.7%	20.6%	5.4%
Fair Value	-6,690	-2,699	-	-4,825	5,301	-
Net profit (loss)	10,398	4,854	114.2%	44,017	31,721	38.8%
EPS (US\$)*	0.1575	-	-	0.6669	-	-
Harvests (ton WFE)	13,944	16,284	-14.4%	48,496	34,213	41.7%
Harvests (ton GWE)	12,550	14,656	-14.4%	43,646	30,792	41.7%
Sales (ton WFE Company-farmed)	15,730	13,469	16.8%	50,032	30,049	66.5%
Sales (ton GWE Company-farmed)	14,157	12,122	16.8%	45,029	27,044	66.5%
Ex-cage cost (US\$/Kg live weight)	2.83	2.94	-3.6%	3.06	3.03	0.9%
Ex-cage cost (US\$/Kg WFE)	3.05	3.16	-3.6%	3.29	3.26	0.9%
Ex-cage cost (US\$/Kg GWE)	3.38	3.51	-3.6%	3.65	3.62	0.9%
Processing cost (US\$/Kg WFE)	0.80	0.84	-4.8%	0.89	1.02	-12.7%
Processing cost (US\$/Kg GWE)	0.89	0.93	-4.8%	0.99	1.13	-12.7%
Price (US\$/Kg WFE)**	5.90	5.68	3.8%	6.12	6.29	-2.7%
Price (US\$/Kg GWE)**	6.56	6.31	3.8%	6.80	6.99	-2.7%
EBIT/Kg WFE (US\$)***	1.58	0.99	59.6%	1.38	1.19	16.3%
EBIT/Kg GWE (US\$)***	1.75	1.10	59.6%	1.53	1.32	16.3%
Financial debt				50,243	100,439	-50.0%
NIBD				37,100	99,593	-62.7%
Equity ratio				54%	36%	52.0%

\*After Fair Value, distributed in 66,000,000 shares at the end of Q1 2018 (after IPO)

\*\*Billing in US\$ divided by tons of product sold excluding operations with third-party raw materials

\*\*\*Excludes net profit (loss) from the trout joint venture and operations with third-party raw materials



# Financial Matters

## Q4 2018 Results

Salmones Camanchaca harvested 13,944 tons WFE of Atlantic salmon in Q4 2018, 14.4% less than the Q4 2017 harvest of 16,284 tons. The Company's average Atlantic salmon price remained fairly stable at US\$ 5.90 per Kg WFE during Q4 2018, up 3.8% from Q4 2017, which reflects stable Chilean supply.

In Q4 2018, revenues rose 22.3% over the same period in 2017 to US\$ 95.7 million, driven by a 16.8% rise in volumes of Atlantic salmon sold, a reduction of inventories over Q3 2018, and a 3.8% rise in prices.

The joint venture farming trout in sites owned by Salmones Camanchaca (in effect from 2016 to 2022), reported a loss for the Company of US\$ 319 thousand for Q4 2018, compared with a loss of US\$ 122 thousand for Q4 2017. This is mainly due to a price drop of more than one dollar per Kg WFE (-18.3%), mitigated by a reduction in unit cost by 50 cents per Kg WFE. Harvest volume for Q4 2018 was 4,828 tons WFE in comparison to 7,362 tons WFE for Q4 2017.

Gross profit before fair value was US\$ 30.1 million, 65% higher than the US\$ 18.2 million recorded for Q4 2017. Gross profit represented 31.4% of revenues in Q4 2018, up from 23.3% in Q4 2017 because of higher prices and reduced costs.

Administrative expenses as a percentage of operating revenues increased from 3.1% in Q4 2017 to 3.5% in Q4 2018, due to a one-time extraordinary expense for employee severance of US\$ 0.8 million. Distribution and sales expenses fell from 3.3% to 2.3%. Consequently, the Company's combined administrative and distribution & sales costs amounted to 5.8% of operating revenues during this quarter, down from 6.4% for the same quarter last year, explained by increased revenues and efficiencies.

EBIT before fair value was US\$ 24.5 million for the quarter, 85.7% higher than the US\$ 13.2 million recorded in Q4 2017, explained mainly by increased sales volumes and lower processing costs.

Company-farmed Atlantic salmon generated EBIT per Kg WFE of US\$ 1.58, which compares favorably to US\$ 0.99 per Kg WFE in Q4 2017 (+59.6%) and US\$ 1.43 per Kg in Q3 2018 (+10.5%), in a context of stable prices compared to the prior quarter. Thus, the increase was due to the specific characteristics of the sites harvested and processed during Q4 2018, which had lower costs than Q3 2018 and Q4 2017.

The fair value of biological assets (biomass) was a positive US\$ 24.7 million in Q4 2018, US\$ 10.2 million more than Q4 2017. The fair value adjustment to harvest and sales was a negative US\$ 31.4 million for Q4 2018, compared to a negative US\$ 17.1 million for Q4 2017. As always, this adjustment considers the reversal of estimated and accounted margins for fish sold in the quarter that was recorded as biomass in grow-out sites in previous quarters. The resulting net fair value adjustment for Q4 2018 was negative at US\$ 6.7 million, compared to a negative US\$ 2.7 million in Q4 2017.

Net finance costs were US\$ 2.1 million in comparison to US\$ 1.5 million in Q4 2017. The increase in 2018 is explained by the rise in the LIBOR rate and the negative effect of currency hedges (US\$ 1 million), which was offset by a 63% reduction in net financial debt over the last twelve months.

As a result, pre-tax profit rose from US\$ 8.4 million for Q4 2017 to US\$ 15 million for Q4 2018. This increase of US\$ 6.6 million is explained mainly by a greater gross profit (+US\$ 11.8 million), offset by a lower fair value (-US\$ 4 million). The resulting after-tax net profit in Q4 2018 was US\$ 10.4 million, up from US\$ 4.9 million in Q4 2017.

## Cash Flows Q4 2018

Cash flows from operating activities for Q4 2018 totaled a positive US\$ 21.3 million, marking an increase from US\$ 16.0 million in Q4 2017, explained mainly by increased sales and greater margins.

Cash flows used in investing activities totaled US\$ 6.2 million during the period, up from US\$ 5.7 million in Q4 2017, explained by disbursements for the investment plan to support the Company's growth for the 2018-2021 period.

Cash flows from financing activities in Q4 2018 were a negative US\$ 20.0 million, compared to a negative US\$ 10.5 million in Q4 2017. This was achieved by reduced use of available credit facilities secured in Q4 2017.

The resulting net cash flow for Q4 2018 was negative US\$ 5.2 million.

## 2018 Results

During the year 2018, Salmones Camanchaca harvested 48,496 tons WFE of Atlantic salmon, an increase of 41.7% from 34,213 tons WFE in 2017, and in line with estimates from early in the year. The average price for Atlantic salmon during 2018 was US\$ 6.12/Kg WFE, down 2.7% over 2017.

Revenues for 2018 totaled US\$ 332.3 million, 63.6% above the US\$ 203.1 million recorded in 2017, explained by 66.5% growth in the volume of Company-farmed Atlantic salmon sold.

During 2018, the trout joint venture generated net profit of US\$ 2.9 million for Salmones Camanchaca (accounted for as income with no cost associated) in comparison to US\$ 6.1 million for 2017. This decrease is explained mainly by a price drop of over one dollar per Kg WFE (-19.2%), being offset by a reduction of 50 cents per Kg WFE in unit cost. The harvest volume for this joint venture was 17,405 tons WFE of trout, up from 15,342 tons WFE in 2017, and in line with estimates prepared by Caleta Bay early in the year.

Gross profit before fair value rose 59.3% to US\$ 92.7 million, or US\$ 34.5 million greater than 2017.

During 2018, administrative expenses as a percentage of operating revenues decreased to 5.3% from 3.6%, while distribution and sales costs fell from 2.8% to 2.6%. Consequently, the Company's combined administrative and distribution and sales costs accounted for 6.2% of revenues during this period, down from 8.1% in 2017. This reduction is explained by higher revenues in 2018, increased efficiency and non-recurring expenses to implement SAP in 2017. The Company also recorded one-time administrative expenses in 2018 of approximately US\$ 1.6 million for employee severance packages.

Thus, EBIT before fair value adjustment was US\$ 72.1 million for 2018, marking an increase of 72.5% over US\$ 41.8 million in 2017, explained mainly by increased sales volumes and lower production costs, despite lower average prices. Excluding income from the trout joint venture, which is not operated by the Company, EBIT in the Atlantic salmon business was US\$ 69.2 million, or 94% greater than the US\$ 35.7 million recorded for 2017.

During 2018, the price of Company-farmed Atlantic salmon sold by Salmenes Camanchaca fell 17 cents. In that context, EBIT/Kg WFE rose to US\$ 1.38 from US\$ 1.19 in 2017, explained by the fact that improvements in costs and scale of production more than compensate the drop in price.

The Company leases some of its grow-out sites to other companies. This year the Company concluded an agreement to purchase 2,376 tons WFE of raw materials from a farmer leasing a Company-owned site, which was acquired at the US fresh spot price and generated net profit of 4 cents per Kg. This agreement gave the Company access to raw material during quarters with low Company-farmed harvests and allowed it to maintain a smolt stocking base line, which will be used for Salmenes Camanchaca's smolt stocking plan for 2019, without needing to stock additional smolt in the area. The Company has no pending purchases of raw materials scheduled for the future.

Atlantic Salmon	Total	Other Farmers	Company-Farmed	Company-Farmed 2017
EBIT (ThUS\$)	69,195	85	69,110	35,679
Sales volume (ton WFE)	52,408	2,376	50,032	30,049
EBIT/Kg WFE	1.32	0.04	1.38	1.19

The fair value adjustment of biological assets (biomass) for 2018 was US\$ 95.5 million, compared to US\$ 54.4 million for 2017, driven by larger biomass. The fair value adjustment for sold volume was negative US\$ 100.3 million for 2018, as compared to negative US\$ 49.1 million for 2017, which also reflects increased sales volumes. The latter adjustment reverses the estimated and accounted margins for the fish sold during this period for which margins were recognized in previous periods when they were considered biomass. The resulting net fair value adjustment for 2018 was a negative US\$ 4.8 million, compared to a positive US\$ 5.3 million in 2017, giving an unfavorable difference of US\$ 10.1 million.

Net finance costs were US\$ 6.3 million compared to US\$ 4.2 million in 2017 due to a rise in the LIBOR interest rate between December 2017 and December 2018, which was only partially offset by the reduction in net debt. Added to this unfavorable effect is the US\$ 1.7 million loss on currency hedges in 2018 (hedges known expenses in Chilean pesos for which the Company has revenue in dollars).

Pre-tax profit totaled US\$ 59.9 million in 2018, up 39.5% from US\$ 42.9 million in 2017. After-tax net profit totaled US\$ 44 million in 2018, up 38.8% from US\$ 31.7 million in 2017.

Net distributable income totaled US\$ 47.5 million. Subject to shareholder approval at the Annual General Meeting scheduled for April 26, 2019, the Company will pay a dividend of US\$ 14.3 million (30% of net profit), equivalent to US\$ 0.22 per share.

### Cash Flows as of 12/31/2018

For 2018, cash flows from operating activities totaled US\$ 53.9 million, up from US\$ 36.9 million for 2017, explained mainly by increased sales revenues.

Cash flows used in investing activities totaled US\$ 31.8 million for the period, US\$ 15.7 million greater than the prior year, explained by investments to support the Company's growth plan for the 2018-2021 period, consisting primarily of new farm sites and improvements and automation at primary and secondary processing plants.

Net cash flow from financing activities totaled a negative US\$ 9.0 million for the year, in comparison to negative US\$ 21.0 million for 2017, explained by a US\$ 50 million payment to the banks reducing the financial debt and US\$ 5 million to the Parent Company. The payments were offset by US\$ 46 million raised from the capital increase.

The resulting net cash flow for 2018 was positive US\$ 12.3 million.

## Balance Sheet

### Assets

During 2018, the Company's total assets increased 11.3% or US\$ 34.6 million to US\$ 341 million. This growth is explained mainly by increases of US\$ 18.6 million in property, plant and equipment; US\$ 19.9 million in current and non-current biological assets; and US\$ 12.3 million in cash. This was partially offset by a reduction of US\$ 15.2 million in inventories.

Current assets totaled US\$ 216 million, up 8.7% from US\$ 199 million as of year-end 2017, mainly attributed to the aforementioned increase of US\$ 12.3 million in cash; an increase of US\$ 15.7 million in current biological assets, which is consistent with the estimated biomass for 2019 harvest forecasts; an increase of US\$ 4.6 million in accounts receivable because of greater sales, especially in Q4 2018; and a decrease of US\$ 15.2 million in inventories. The Company's finished product inventories valued at cost as of December 31, 2018, were US\$ 17.9 million, equivalent to 2,700 tons of finished product, or close to one month of harvests, which the Company considers to be within normal ranges.

Non-current assets increased by US\$ 17.3 million (+16.2%) to US\$ 124 million, mostly due to the increase of US\$ 18.6 million in investments in property, plant and equipment, and an increase of US\$ 4.1 million in non-current biological assets, related to the larger biomass to be harvested after 2019.

### Liabilities and Equity

Current liabilities increased by US\$ 14 million (+17.7%), due to an increase of US\$ 11.1 million in related party payables because of the 2018 dividend provision to be paid by Salmones Camanchaca to its controlling shareholder (Compañía Pesquera Camanchaca S.A., holds 70% of the shares of Salmones Camanchaca S.A.); and an increase of US\$ 4.7 million in current tax liabilities because of improved results in 2018.

Non-current liabilities fell US\$ 54.6 million (-46.3%) due to US\$ 50 million in voluntary payments on its long-term revolving bank debt.

The Company's equity increased by US\$ 75.2 million to US\$ 184 million during the year, mainly explained by net profit for the year and the effects of the capital increase as part of the IPO in Q1 2018.

## Operating Performance

Salmones Camanchaca's financial performance is closely related to three key drivers:

1. **The price of Atlantic salmon**, which is very sensitive to Norwegian and Chilean supply conditions, and the exchange rates of its main trading partners;
2. **Sanitary conditions for Atlantic salmon**, which affect conversion factors, the use of pharmaceutical and mechanical means to improve fish welfare and the final biomass across which costs are allocated.
3. **The cost of feed**, which represents approximately half of the live fish unit cost at harvest.

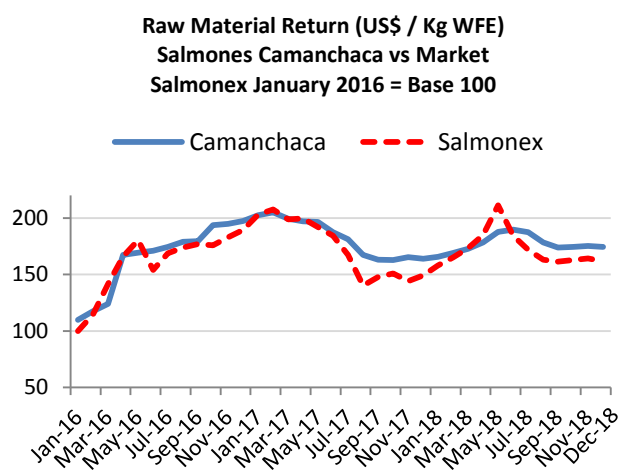
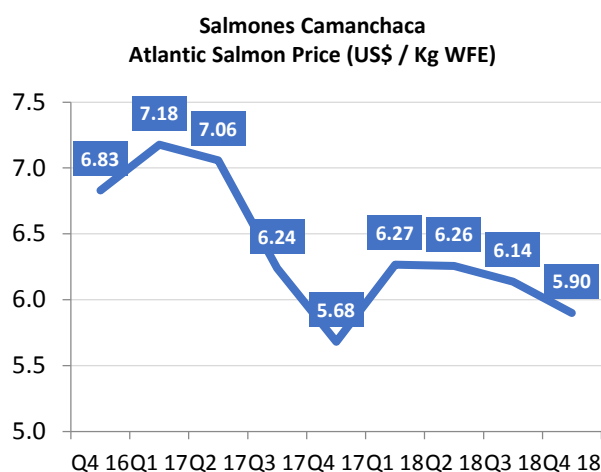
### I. Product Prices

Average price of Atlantic salmon sold by Salmones Camanchaca during Q4 2018 was US\$ 5.90 per Kg WFE, up 3.8% from the same period in 2017. After a fall in prices in 2015, there has been an upward trend in Atlantic salmon prices more consistent with long-term trends (i.e. demand outgrowing supply). In contrast to 2015, a stronger dollar in 2018 did not lead to a contraction in salmon demand in the Company's markets. Price levels in Q4 2018, and in general throughout the second half of 2018, showed great stability with minor variations, in line with stable global and Chilean supply.

In Q4 2018, Salmones Camanchaca obtained an average raw material return (RMR) for Atlantic salmon of 37 cents more for volumes sold in relation to returns shown by the market benchmark (Salmonex), which increased sharply in April and May of this year and then fell for the next two months. In particular, during October, November and December 2018, the Company's RMR outperformed Salmonex by 36, 34 and 40 cents per Kg, respectively. This differential is consistent with the Company's historical trends. In Q2 2018, this differential was negative because of the strong increase in market prices and the accounting lag for recording sales of frozen product, shipped mainly to Russia and China, which take up to 90 days between the sale being closed and being recorded in accounting. In addition, the Company settles many contracts an average of 60-90 days in advance, which generates a lag in recorded price versus Salmonex. The Company considers its contract policy to be favorable as it allows it to build long-term relationships with valuable customers and maintain the needed flexibility to adjust to changes in specific format and/or market conditions.

In this context, the drop in price from Q3 2018 to Q4 2018 did not affect Salmones Camanchaca, which maintained the prices of its raw materials and enjoyed a cumulative premium over Salmonex of 19 cents for the year 2018.

In line with expectations, prices rose in Q4 2018 (+3.8%) but failed to reverse the drop seen during the first three quarters, finishing the year with a price reduction of 2.7%. Overall, prices were stable in 2018 (fluctuating only 30 cents during the period). This in contrast to the three preceding years, which drove development in salmon consuming markets.



The Raw Material Return is the final product price less distribution and specific secondary processing costs. It is a measurement of price before selecting the final destination for harvested fish and provides a homogeneous aggregate indicator for the Company's diverse products. The market index or "Salmonex" is based on the price of fresh fillet trim D exported by Chilean companies, net of processing and distribution costs for Salmones Camanchaca's fresh trim D. It provides a comparable index to Salmones Camanchaca's Raw Material Return.

## Volumes

		Q4 2018	Q4 2017	Δ	Δ %	2018	2017	Δ	Δ %
Harvest	tons WFE	13,944	16,284	-2,340	-14.4%	48,496	34,213	14,283	41.7%
Production	tons WFE	13,952	16,216	-2,264	-14.0%	48,333	34,118	14,215	41.7%
Sales (Company-farmed)	tons WFE	15,730	13,469	2,261	16.8%	50,032	30,049	19,983	66.5%
Sales (Company-farmed)	ThUS\$	92,813	76,537	16,276	21.3%	306,016	188,943	117,073	62.0%
Average sales price	US\$/Kg WFE	5.90	5.68	0.22	3.8%	6.12	6.29	-0.17	-2.7%
Price-related change in revenues*	ThUS\$	92,813	89,383	3,430	3.8%	306,016	314,590	-8,574	-2.7%

\* With constant volume 2018

Harvests by Salmones Camanchaca in 2018 were in line with estimates from early 2018 (i.e. 48,496 tons WFE, up 41.7% over 2017, and with a decrease in 4Q from the record level seen in Q4 2017. Sales of 50,032 tons WFE in 2018 exceeded harvests, reflecting a reduction of nearly 1,500 tons WFE in inventories. The scarce inventory levels seen at the end of 2016, and abundant stocks in late 2017, explain the decreased sales in 2017 with respect to harvests, while the opposite occurred in 2018. This situation of final inventories explains the 66.5% increase in volumes sold in 2018, 25% greater than the increase in harvests.

## Revenues

### Sales by Market Segment as of December 2018

Product or Species	USA	Europe + Eurasia	Asia excluding Japan	Japan	LATAM excluding Chile	Chile	Other	TOTAL
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Atlantic Salmon	96,211	95,510	27,648	14,695	72,618	9,066	2,842	318,590
Trout (33%)	716	25	67	1,885	10	115	72	2,890
Other	0	0	0	0	0	10,821	0	10,821
<b>TOTAL</b>	<b>96,927</b>	<b>95,535</b>	<b>27,715</b>	<b>16,580</b>	<b>72,628</b>	<b>20,002</b>	<b>2,914</b>	<b>332,301</b>

### Sales by Market Segment as of December 2017

Product or Species	USA	Europe + Eurasia	Asia excluding Japan	Japan	LATAM excluding Chile	Chile	Other	TOTAL
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Atlantic Salmon	70,189	31,847	16,390	14,356	49,004	4,988	2,169	188,943
Trout (33%)	926	12	0	4,850	0	103	224	6,115
Other	0	0	0	0	0	8,012	0	8,012
<b>TOTAL</b>	<b>71,115</b>	<b>31,859</b>	<b>16,390</b>	<b>19,206</b>	<b>49,004</b>	<b>13,103</b>	<b>2,393</b>	<b>203,070</b>

The Company's marketing and sales strategy is to diversify products and target markets and focuses on the most attractive markets for its raw material, based on medium-term conditions and favoring stable customer relations.

Salmones Camanchaca has a 25% share in "New World Currents" since November 2013, a joint venture with three other Chilean producers to market Atlantic salmon in China. In this important market, there has been a significant increase in air shipments of fresh products.

The Company defines its value-added products as those containing some degree of secondary processing, including freezing, which accounted for 83.3% of total sales in 2018, slightly above 82.0% in 2017.

The remaining volume is composed of sales of fresh whole gutted head-on salmon for South American and Chinese markets. Fresh Atlantic salmon fillets are preferred in the North American market, while Europe favors frozen Atlantic salmon fillets and portions. In Asia, Japan prefers frozen fillets and China both fresh and frozen products. The rest of Latin America favors frozen fillets.

The North American market's share of total revenues decreased from 35.0% to 29.2% during 2018, while Europe and Eurasia (mainly Russia) grew from 15.7% to 28.7%. Asia excluding Japan (mainly China) rose marginally to 8.3% and Japan dropped from 9.5% to 5.0%. Latin America excluding Chile fell from 24.1% to 21.9%. In short, the Company reduced production of value-added products in order to ship more product to Eurasia (Russia) because of that region's attractive conditions in 2018.

Salmones Camanchaca's proportion of its partnership account participation with third parties in the trout business is registered in the "Trout" line, and volumes sold during 2018 by this partnership are consistent with estimates (i.e. approximately 18 thousand tons harvested in even years).

Other income comes mostly from processing and services for third parties in our primary processing plant and farm site leases.

## Other Businesses

Salmones Camanchaca had nine leased farming concessions as of December 31, 2018, seven of which are in the Reloncaví Estuary (Los Lagos Region) for trout farming. The Company contributes its concessions to a partnership account participation and receives one third of net profit generated. In 2018 this partnership reported harvests of 17,405 tons WFE and sales of 15,422 tons WFE, which generated net profit for Salmones Camanchaca of US\$ 2.9 million, or half the amount attained in 2017. This decrease is explained by a drop of more than 1 dollar per Kg WFE (-19.2%) in the sales price; an increase in inventories with respect to year-end 2017 (+3 thousand tons WFE); and greater distribution costs. These items were offset by improved mortality, conversion factors and processes, which reduced the unit cost of finished product by 50 cents.

To date, the estimates used to develop this business have not varied and the operator (Caleta Bay) continues to estimate average annual harvests of 12 thousand tons until the year 2022 when the agreement ends.

In order to take better advantage of the estuary farm sites in the Los Lagos Region and complement the partnership account participation (Joint Venture) in that area, Salmones Camanchaca obtained Pacific, or coho, salmon smolt stocking licenses in 2018. With these rights, the Company stocked 1.4 million smolt of this species in Q1 2019, which should translate into estimated harvests of 4 thousand tons in late Q4 2019 to be recorded as revenue in Q1 2020. This new initiative will give the Company specific experience producing and selling Pacific salmon, which will benefit from certain conditions in Chile that give it biological advantages over other species. The Company's production should represent around 3% of Chilean supply of this species during the first few years. Because of smolt stocking density levels permitted by regulations, Salmones Camanchaca estimates negative margins during the first two production cycles.

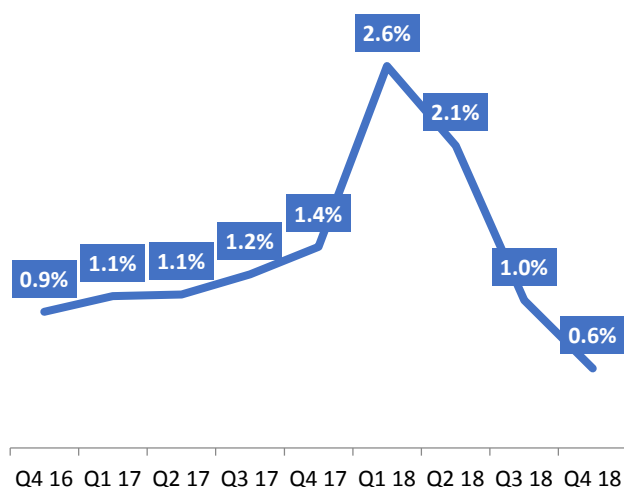
The Company's other businesses, such as processing services for third parties, farm site leases and sales of byproducts, resulted in a favorable operating margin of US\$ 5 million in 2018, up 21.9% over 2017.

## II. Sanitary and Production Conditions

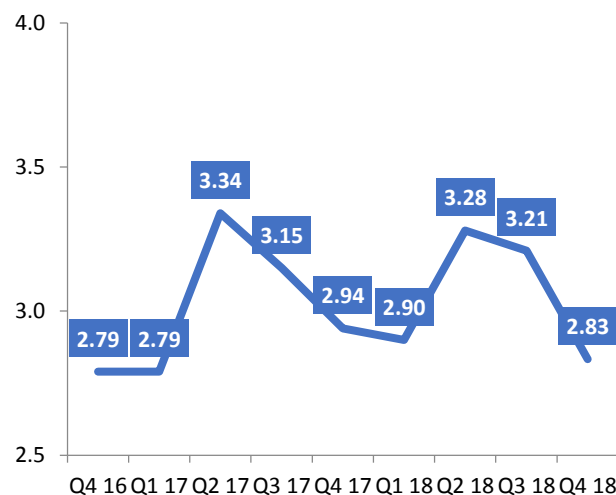
Mortality of the Atlantic salmon population in Q4 2018 was 0.6%, while mortality at the farm sites that closed their cycles in 2018 was 8.4%. Good conversion and growth conditions enabled the Company to move harvests up to the later months of 2018, thus reducing sanitary risks that often emerge during the summer months (Q1 2019).

Live weight ex-cage costs for fish harvested during Q4 2018 were US\$ 2.83 per Kg, which is 11 cents less than Q4 2017, and only 4 cents greater than Q4 2016 (at the same farm sites and/or geographic areas as the previous cycle). The quarterly variation in live weight ex-cage costs is coherent with sanitary and environmental conditions for winter/summer and the greater scale of production during the second half of the year.

### Salmones Camanchaca Atlantic Salmon Mortality\* (%)



### Salmones Camanchaca Live Weight Ex-Cage Cost (US\$/kg)



\* Total quarterly mortality (number of fish) including both closed and open sites. The closed sites affected by the HAB are included.

The following table shows the evolution over time of the most important production and sanitary variables,

Year	FCRb (LW)	Yield Kg WFE/smolt	Harvest average weight Kg WFE	Antibiotic use Gr/Ton	Antiparasite use Gr/Ton
2016	1.29	4.33	5.03	550	6.89
2017	1.21	4.76	5.14	569	6.41
2018	1.17	4.83	5.32	519	6.25

The Company has seen a reduction in biological feed conversion ratio over time, with sites closed in 2018 registering 1.17 (Kg feed/Kg live fish), as a result of the use of a micro-rations strategy, a larger number of feed lines per farm site, remote feeding and the use of higher energy diets (energy in feed up 10%, 22 MJ/Kg). The conversion ratio for Q4 2018 was 1.12.

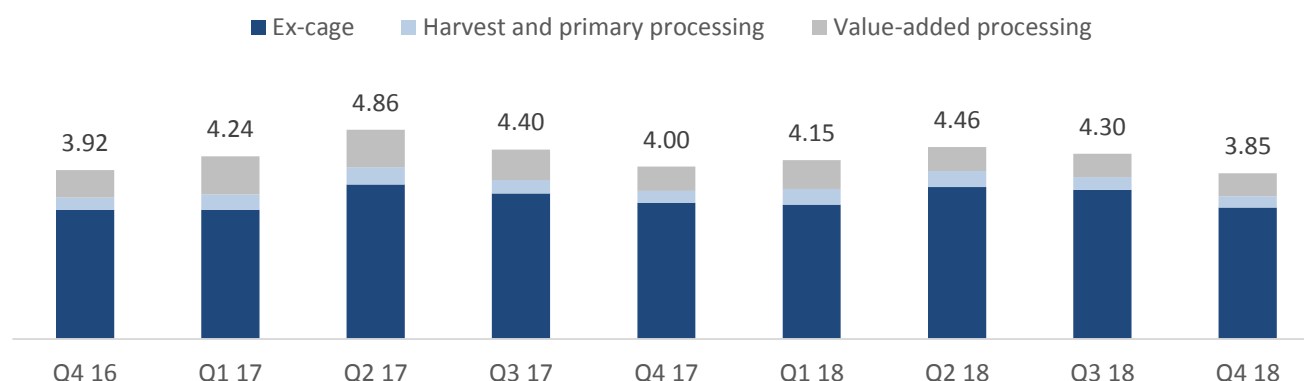
In terms of smolt productivity (Kgs of harvested biomass/number of stocked smolts), a three-year high was also attained in 2018 with a value of 4.83 Kg WFE/smolt for closed centers, explained by a greater average weight, which reached 5.32 Kg in 2018, and lower mortality.

Lastly, there has been a decrease over time in the use of both antibiotics and antiparasitic treatments. This is mainly due to improved oceanographic and sanitary conditions as well as protective and preventative strategies such as live SRS vaccines and the use of Lufenuron at sea sites (sea lice). These pharmaceutical treatment efforts explain approximately 9 cents of live weight cost (3% of total live weight cost).

Despite having reduced the scale of production by 14.4% in Q4 2018 versus Q4 2017, the cost of secondary or value-added processing showed a two-cent reduction per Kg WFE, a reflection of greater efficiency following recent investments at plants and a better use of the raw material.

With this, total finished product cost per Kg WFE was 15 cents lower than Q4 2017 (-4%), and 7 cents lower than Q4 2016 (-2%), which shows consistency between farm sites and improvements in plant productivity, thus meeting the Company's objectives.

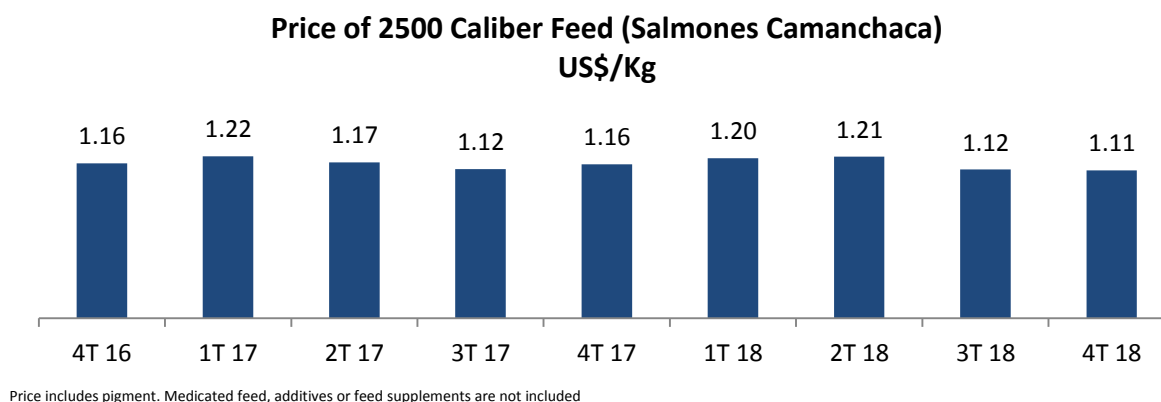
Costs (US\$/Kg WFE)	Q4 16	Q4 17	Q4 18
Ex-cage	3.00	3.16	3.05
Harvest and primary processing	0.28	0.28	0.26
Value-added processing	0.64	0.56	0.54
<b>Total finished product cost</b>	<b>3.92</b>	<b>4.00</b>	<b>3.85</b>

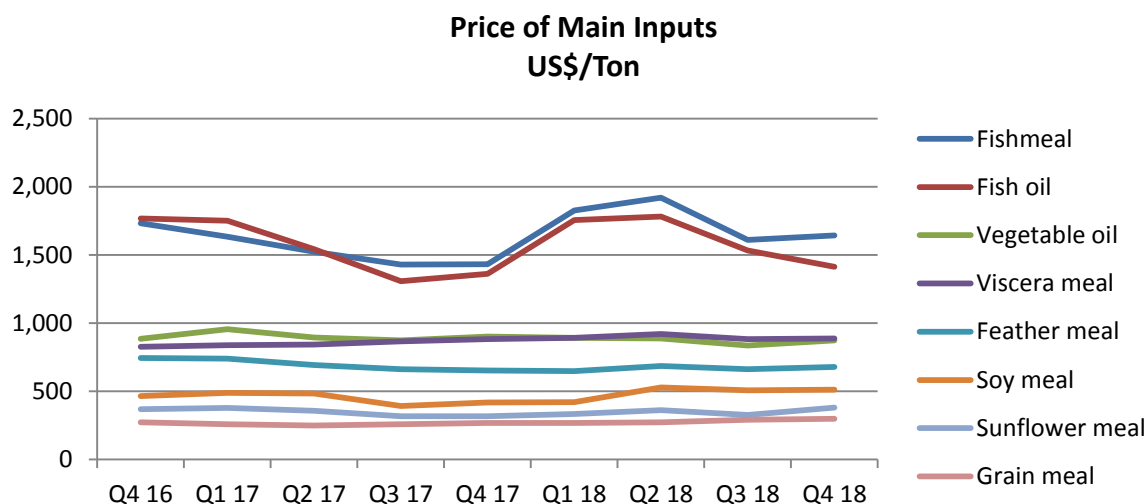


Sales volumes of Company-farmed products totaled 15,730 tons WFE in Q4 2018, which is in line with expectations and more stable from one quarter to the next, in contrast to 2017 or 2016, when significantly more than half of harvests occurred during the first half of the year.

### III. Feed Costs

Feed costs have remained stable in recent years, dropping slightly in the last two quarters of 2018, because the costs of the main inputs (fishmeal, fish oil and soy) have also held steady. The most representative caliber of feed is used for fish weighing over 2.5 Kg, which represents around 40% of the Company's total feed use, and its price development is the following,





## Subsequent Events

No subsequent events occurred after December 31, 2018, that materially affect Salmones Camanchaca's operations or its financial results.

## Company Outlook

Global supply of Atlantic salmon grew around 5% in 2018. Slightly lower growth is expected for 2019, which is consistent with the current regulatory framework in the different salmon producing countries. Chilean supply grew nearly 20% in 2018 and is estimated to expand between 1% and 2% in 2019. Growth in 2018 is the result of an abnormally low base in 2017, plus expansion of Chile's potential capacity.

A significant portion of the cash flows produced by EBITDA in 2018, was used for investments in property, plant and equipment and to grow the biomass to support harvest estimates for the next few years calling for around 55 thousand tons WFE of Atlantic salmon and 4 thousand tons WFE of Pacific salmon for 2019. In order to calculate total harvests at Salmones Camanchaca farm sites, one must add the corresponding harvest from the trout joint venture, which in 2019, an odd year, is estimated at between 6 and 8 thousand tons WFE.

The Company estimates total harvests of all species for 2019 of 65 thousand tons WFE. For the year 2020, the Company expects 55 thousand tons WFE of Atlantic salmon, 4 thousand of Pacific salmon and 16 - 18 thousand of trout from the joint venture.

The Company estimates an increase in Atlantic salmon harvests for 2019 with respect to their equivalent at 2017 sites of around 21 thousand tons WFE. Of this amount, 4,300 tons correspond to growth under the density system (reduced) and the remaining growth is under the PRS (stocking reduction program by its acronym in Spanish) system with no density restrictions, achieved by using smolt stocking rights from sites leased to third parties and partnership account participation. As a result, somewhat higher farm costs can be expected because of these density levels and, to a lesser extent, because of the use of more expensive, non-pharmaceutical treatments (antiparasitic) and the use of new technologies to mitigate the risks of harmful algae blooms. Regarding the new

coho harvests, expected for the end of 2019 and 2020, they have been stocked under the density system at a low level, so higher than normal costs are expected.

## Main Risks and Uncertainties

External variables might materially impact the Company's annual performance. The main variable affecting revenues is the price of Atlantic salmon, while the main variable affecting costs is the sanitary status of the salmon biomass, including the biological conversion of feed.

Individually and in aggregate, aquaculture businesses are exposed to various risks. Consequently, Salmones Camanchaca operates using a risk matrix that guides the Company in order to: i) review and update the critical risk inventory and generate a map that helps manage risks; ii) assess these risks on the basis of impact and probability parameters that helps with prioritizing; iii) implement an audit and internal control plan based on the risk map that focuses resources on the most vulnerable areas; iv) generate a set of strategies to either reduce probability and/or impact, including insurance wherever/whenever this is economically feasible and convenient. These risk maps guide management to continuously manage and mitigate each risk and establish the corresponding responsibilities and accountability, as well as review the frequency and depth of internal controls to validate the effectiveness of mitigating measures.

The Company's mission, vision and values; short and long-term strategic planning; critical business and knowledge risks; and the experience of key personnel are among the factors used to detect critical risks.

### **a. Phytosanitary Risks**

The Company is exposed to risk of disease or parasites that can affect the biomass, increase mortality or reduce growth of specific species, and thereby, production and sales volumes. Salmones Camanchaca has adopted strict control standards to minimize those risks, and comply with regulatory requirements with respect to coordinated fallow periods for the concessions in each neighborhood, maximum fish density in cages, constant monitoring and reporting of the biomass and its biological status and health, the smolt production process in closed recirculating sites fed by groundwater, transport of breeders and fish for harvest in wellboats, coordinated antiparasitic washing by neighborhood, frequent net cleaning, oxygen plants to supplement shortfalls in the water, vaccinations at the freshwater stage, among others.

### **b. Natural Risks**

The Company is exposed to natural risks that may affect normal operations, such as volcanic eruptions, tidal waves and tsunamis, earthquakes, harmful algae blooms, natural predators, water pollution and other factors that may threaten biomasses and production facilities. The Company is constantly monitoring these variables using first-rate instruments within the salmon industry, in addition to having appropriate insurance coverage for these risks, all of which are monitored from a central, specialized unit. This unit not only monitors the status of insurance coverage, but also manages claims preparation when these occur in order to make claims that are in line with contractual coverage.

### **c. Product Sale Price Risks**

The Company exports its products mainly at prices that are fixed on international markets, for which it has a wide commercial network. The Company adjusts the speed of its sales in accordance with production and market conditions, which are constantly in flux. However, it does not accumulate inventory under speculation of a better sale price in the future.

Prices are highly dependent on the supply from Norway and Chile and on fluctuations in exchange rates used by the Company's major trading partners, which affects demand conditions in these markets. Salmenes Camanchaca has mitigated price risk through its diversified marketing strategy and by producing higher value-added products, which have contracts that average 60 to 90-day periods.

The Company has a policy of diversifying its sales between several buyers in each market, and large diversity of markets and territories. This ensures that sales can be reallocated when necessary or convenient.

**d. Purchase Price Risks**

The Company is exposed to changes in the purchase price of salmon feed, which is based on well-diversified ingredients and suppliers. Salmenes Camanchaca defines its diets seeking a balance between feed cost and nutritional quality at each fish development stage. The Company aims to produce a final product that contains the same amount of Omega 3 as wild salmon, as well as a fish in-fish out ratio (amount of marine ingredients used to produce one weight equivalent of farmed fish) of no more than 1.0. The Company has feed contracts that are adjusted quarterly, on a cost-plus basis.

**e. Regulatory Risks**

Aquaculture is strictly regulated in Chile by laws, standards and regulations issued by fishing authorities. Significant changes in these regulations could have an impact on the Company's performance. These regulations are mainly established by the General Law on Fisheries and Aquaculture, and its associated regulations that assign concessions, manage the biomass and set sanitary preventive rules. The Company is constantly monitoring any potential changes in regulations in order to anticipate and mitigate any potential impacts.

Starting with Q2 2016, changes were made to the regulations governing salmon farming densities, and a smolt stocking reduction program was introduced (PRS). This new regulation forces salmon farmers to reduce smolt stocking and farming densities in cages when low sanitary performance has been detected and/or smolt growth is expected in the zone. The PRS mechanism gives producers the choice between replacing a reduction in density, when appropriate, with a smolt stocking plan that contains a reduction with respect to the prior cycle, maintaining densities at maximum permitted levels.

Since the Company has a policy to use its assets to provide services to third parties/producers, it has routinely leased out several farm sites. Regulations grants the stocking rights of a concession to the owner, allowing the Company to use the history of smolt stocking at farm sites leased to third parties in its own smolt stocking plans for subsequent cycles, without affecting the growth in the areas involved. Therefore, and as the lease agreements expire after 2020, the Company estimates it will harvest approximately 60,000 tons WFE of Atlantic salmon at its own farm sites previously used by third parties, plus another 12,000 tons WFE of trout, without introducing growth to the system, and therefore without having to materially reduce densities at its farm sites.

Most of the concessions held by Salmenes Camanchaca for farming fish are of indefinite duration. However, in order to retain the concession, current regulation requires a certain level of minimum use. In a context in which regulators aim to limit smolt stocking growth to preserve favorable sanitary conditions, this generates inconsistency and the risk of the concession expiring.

Camanchaca's financial position and results could be affected by changes in economic policies, specific regulations and other standards established by authorities.

**f. Liquidity Risk**

Liquidity risk is the risk of potential mismatches between the funds needed for asset investments, operating expenses, finance costs, repayment of debt as it matures and committed dividends, and funding sources like product sales revenue, collections from customers, disposal of financial investments and access to financing.

Salmones Camanchaca conservatively and prudently manages this risk by maintaining sufficient liquidity and access to third-party credit facilities, while carefully ensuring that it complies with all financial covenants.

**g. Interest Rate Risk**

The Company is exposed to interest rate risk since its long-term financing includes a variable interest rate component, which is adjusted every six months. The Company evaluates hedging alternatives based on market conditions, but has not used any over the past five years.

**h. Foreign Exchange Risk**

A substantial share of Salmones Camanchaca's revenues arise from contracts and commercial agreements set in US dollars. However, given the diversity and importance of markets other than the North American market, which have historically represented more than 50% of total exports, any devaluation of the US dollar against these markets' currencies and/or the Chilean Peso, could have an impact on the financial performance of the Company.

Corporate policy is to agree income, cost and expenses in US dollars whenever possible. When that is not possible, expenses in Chilean pesos are converted to US dollars, which generates a difference when the peso appreciates. The Company occasionally evaluates exchange rate hedging instruments for its peso-denominated expenses, based on market conditions, which results in non-operating income or loss, respectively, for any operational loss or income produced.

The Company's liabilities with financial institutions are taken out in US dollars.

**i. Credit Risk**

**1. Surplus Cash Investment Risks**

The Company has a highly conservative policy for investing cash surpluses. This policy encompasses both the quality of financial institutions and the type of financial products used.

**2. Sales Operations Risks**

The Company has insurance policies covering most of the sales of its products that are not sold with immediate payment. The remaining sales are backed by letters of credit, or advance payments, or are to customers with an excellent credit performance.

Operational stoppages at ports or by customs or other institutions, as well as protests, marches or road blockages may affect and delay shipments of our products to the markets where they are sold. Therefore, the Company continuously monitors these variables in order to anticipate any issues and identify alternatives to minimize the impact.

# Financial Statements

## Statement of Income (ThUS\$)

	Q4 2018	Q4 2017	2018	2017
<b>Operating revenue</b>	<b>95,698</b>	<b>78,250</b>	<b>332,301</b>	<b>203,070</b>
Cost of sales	(65,641)	(60,033)	(239,564)	(144,859)
<b>Gross profit before fair value adjustments</b>	<b>30,057</b>	<b>18,217</b>	<b>92,737</b>	<b>58,211</b>
Administrative expenses	(3,366)	(2,437)	(12,077)	(10,750)
Distribution & sales costs	(2,183)	(2,584)	(8,575)	(5,667)
<b>EBIT before fair value</b>	<b>24,508</b>	<b>13,196</b>	<b>72,085</b>	<b>41,794</b>
Depreciation	2,972	2,599	11,269	10,680
<b>EBITDA before fair value</b>	<b>27,480</b>	<b>15,795</b>	<b>83,354</b>	<b>52,474</b>
Fair value adjustment to biological assets	24,686	14,409	95,455	54,362
Fair value adjustment to harvest and sales	(31,376)	(17,108)	(100,280)	(49,061)
<b>EBIT after fair value</b>	<b>17,818</b>	<b>10,497</b>	<b>67,260</b>	<b>47,095</b>
<b>EBITDA after fair value</b>	<b>20,790</b>	<b>13,096</b>	<b>78,529</b>	<b>57,775</b>
Finance costs	(2,062)	(1,486)	(6,361)	(4,236)
Share of profit (loss) of associates	336	395	1,629	541
Exchange differences	(241)	(335)	(1,916)	(455)
Other income (losses)	(837)	(657)	(772)	(60)
Finance income	(1)	19	49	55
<b>Net profit (loss) before taxes</b>	<b>15,013</b>	<b>8,433</b>	<b>59,889</b>	<b>42,940</b>
Income taxes	(4,615)	(3,579)	(15,872)	(11,219)
<b>Net profit (loss) from continuing operations</b>	<b>10,398</b>	<b>4,854</b>	<b>44,017</b>	<b>31,721</b>
Profit (loss) from discontinued operations	0	0	0	0
<b>Net profit (loss) for the period</b>	<b>10,398</b>	<b>4,854</b>	<b>44,017</b>	<b>31,721</b>
Non-controlling interest	0	0	0	0
<b>Net profit (loss) for the period attributable to owners of the parent</b>	<b>10,398</b>	<b>4,854</b>	<b>44,017</b>	<b>31,721</b>

## Balance Sheet (ThUS\$)

	12/31/2018	12/31/2017
Cash and cash equivalents	13,143	846
Other financial assets, current	50	31
Other non-financial assets, current	5,990	7,041
Trade and other receivables, current	32,781	28,196
Related party receivables, current	26,952	25,585
Inventories	22,959	38,170
Biological assets, current	113,237	97,522
Current tax assets	1,136	1,584
<b>Total current assets</b>	<b>216,248</b>	<b>198,975</b>
Other financial assets, non-current	27	27
Other non-financial assets, non-current	112	260
Rights receivable, non-current	1,349	5,520
Related party receivables, non-current	0	0
Equity method investments	4,682	5,565
Intangible assets other than goodwill	6,948	7,083
Property, plant and equipment	92,269	73,646
Biological assets, non-current	18,607	14,472
Long-term deferred taxes	373	456
<b>Total non-current assets</b>	<b>124,367</b>	<b>107,029</b>
<b>Total assets</b>	<b>340,615</b>	<b>306,004</b>
Other financial liabilities, current	243	439
Trade and other payables, current	70,134	71,729
Related party payables, current	15,296	4,198
Current tax liabilities	6,509	1,829
Employee benefit provisions, current	1,056	1,020
<b>Total current liabilities</b>	<b>93,238</b>	<b>79,215</b>
Other financial liabilities, non-current	50,000	100,000
Trade and other payables, non-current	0	102
Related party payables, non-current	591	4,572
Deferred tax liabilities	12,733	13,280
Employee benefit provisions, non-current	152	157
<b>Total non-current liabilities</b>	<b>63,476</b>	<b>118,111</b>
<b>Total liabilities</b>	<b>156,714</b>	<b>197,326</b>
Share capital	91,786	73,422
Share Premium	27,539	0
Accumulated losses	41,450	11,695
Interim dividends	0	0
Other reserves	23,126	23,561
<b>Total equity</b>	<b>183,901</b>	<b>108,678</b>
<b>Total equity and liabilities</b>	<b>340,615</b>	<b>306,004</b>

## Cash Flow Statement (ThUS\$)

	Q4 2018	Q4 2017	As of 12/31/2018	As of 12/31/2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Receipts</b>				
Proceeds from sale of goods and provision of services	82,956	59,703	366,393	224,137
<b>Payments</b>				
Payments to suppliers for supply of goods and services	-50,832	-35,614	-274,496	-161,742
Payments to and on behalf of employees	-6,593	-6,889	-27,701	-22,634
Dividends paid	0	0	-3,354	0
Dividends received	577	0	2,077	0
Interest paid	-1,755	-1,910	-5,950	-3,683
Interest received	-2	18	47	55
Income taxes paid	-3,017	-48	-3,053	31
Other cash inflows (outflows)	-41	735	-20	734
<b>Net cash flows provided by (used in) operating activities</b>	<b>21,293</b>	<b>15,995</b>	<b>53,943</b>	<b>36,898</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales of property, plant and equipment	0	157	277	261
Purchases of property, plant and equipment	-6,184	-5,703	-32,044	-16,256
Other cash inflows (outflows)	0	-148	0	-81
<b>Net cash flows provided by (used in) investing activities</b>	<b>-6,184</b>	<b>-5,694</b>	<b>-31,767</b>	<b>-16,076</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from share issuance	0	0	45,903	0
Loan repayments	-20,000	-5,248	-50,000	-10,407
Proceeds from/payments to related parties	36	-5,282	-4,916	-10,640
<b>Net cash flows provided by (used in) financing activities</b>	<b>-19,964</b>	<b>-10,530</b>	<b>-9,013</b>	<b>-21,047</b>
Effects of changes in exchange rates on cash and cash equivalents	-357	-341	-866	-571
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>-5,212</b>	<b>-570</b>	<b>12,297</b>	<b>-796</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>18,355</b>	<b>1,416</b>	<b>846</b>	<b>1,642</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>13,143</b>	<b>846</b>	<b>13,143</b>	<b>846</b>

## Statement of Changes in Equity (ThUS\$)

	Paid-in Capital	Share Premium	Foreign Currency Conversion Reserve	Other Reserves	Total Other Reserves	Retained Earnings (Accumulated Losses)	Equity Attributable to Owners of the Parent	Total Equity
Balance as of January 1, 2017	34,843		75		75	-16,672	18,246	18,246
Capital increase	38,579			23,471	23,471		62,050	62,050
<b>Changes in equity</b>								
Dividends accrued						-3,354	-3,354	-3,354
Comprehensive income								
Net profit for the period						31,721	31,721	31,721
Other comprehensive income			15		15		15	15
<b>Closing balance as of December 31, 2017</b>	<b>73,422</b>		<b>90</b>	<b>23,471</b>	<b>23,561</b>	<b>11,695</b>	<b>108,678</b>	<b>108,678</b>
Opening balance as of January 1, 2018	73,422		90	23,471	23,561	11,695	108,678	108,678
Capital increase	18,364	27,539					45,903	45,903
<b>Changes in equity</b>								
Dividends accrued						-14,262	-14,262	-14,262
Comprehensive income								
Net profit for the period						44,017	44,017	44,017
Other comprehensive income			-435		-435		-435	-435
<b>Closing balance as of December 31, 2018</b>	<b>91,786</b>	<b>27,539</b>	<b>-345</b>	<b>23,471</b>	<b>23,126</b>	<b>41,450</b>	<b>183,901</b>	<b>183,901</b>

## Additional Information

### Key Financial Indicators Analysis

This section compares the Company's key financial indicators based on its consolidated financial statements as of December 31, 2018, compared to December 31, 2017.

	12/31/2018	12/31/2017
<b>Liquidity Indicators</b>		
1) Current Liquidity	2.32	2.51
2) Acid Ratio	0.86	0.80
3) Working Capital (US\$ million)	123.0	119.8
<b>Debt Indicators</b>		
4) Net Debt Ratio	0.78	1.81
5) Current Liabilities / Total Liabilities	0.59	0.40
6) Non-Current Liabilities / Total Liabilities	0.41	0.60
<b>Profitability Indicators</b>	(12 months)	(12 months)
7) Return on Equity	23.94%	29.19%
8) Return on Assets	27.23%	19.02%

The decrease of 0.19 in current liquidity is mainly caused by an increase of US\$ 17.3 million in current assets and an increase of US\$ 14 million in current liabilities, as explained in the balance sheet analysis. As a result of these movements, working capital increased by US\$ 3.3 million, where US\$ 15.7 million is explained by an increase in biological assets.

The increase of 0.06 in the acid ratio is mainly caused by an increase of US\$ 12.3 million in cash and an increase of US\$ 14 million in current liabilities. These variations have already been explained in the balance sheet analysis.

The net debt ratio fell from 1.81 to 0.78 mainly due to total liabilities decreasing by US\$ 40.6 million and equity increasing by US\$ 75.2 million, as well as the aforementioned increase in cash. These variations have already been explained in the balance sheet analysis. The decrease in the proportion of long-term liabilities from 0.60 to 0.41 is due to a decrease in non-current liabilities of US\$ 54.6 million. These variations have already been explained in the financial position analysis.

Return on equity and return on assets are mainly due to the Company's margins and performance for the respective periods, and the previously mentioned effects of the IPO that took place on February 2, 2018.

## Cumulative Indicators

		As of 12/31/2018	As of 12/31/2017
a.	Atlantic Salmon Harvests (tons WFE)/ Site	4,041	4,277
b.	Atlantic Salmon Farming Density (kg/m3)	7.0	7.3
c.	Atlantic Salmon Group Survival Rate (sea water)	91.6%	93.6%
d.	EBIT before Fair Value (US\$ million)	69.1	35.7
e.	EBIT / kg WFE (before Fair Value)	1.38	1.19

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### Notes:

a. Harvests for the period, expressed in ex-cage tons / number of sites used, expressed in ex-cage tons per site.

b. Average farming density, expressed in kg per cubic meter for sites harvested during the corresponding period.

c. Survival rate, expressed as groups of stocked smolt that are eventually harvested. A harvest group is fish of a similar origin and strain.

d. Gross margin before fair value - administrative expenses - distribution costs salmon business

e. (Gross margin before fair value - administrative expenses - distribution costs – result from one-third interest in trout business) / kg WFE sold of company-farmed salmon

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## Biomass Fair Value

### Fair Value for the year ended December 31 (ThUS\$)

	Fair value adjustment to biological assets		Fair value adjustment to harvest and sales	
	2018	2017	2018	2017
Atlantic Salmon	95,455	54,362	-100,280	-49,061

The net effect of the Fair Value of the salmon biomass is reflected in two accounts:

- “Fair Value Adjustment to Biological Assets” records the estimated gain or loss as of the period end from valuing the biomass of live and harvested fish that will be sold in future periods. It can be positive or negative based on variations in the biomass included in the valuation and its market price. A gain of US\$ 95.5 million was recorded for the Fair Value of the live and harvested biomass as of December 31, 2018, compared to a gain of US\$ 54.4 million as of the same date in 2017.
- “Fair Value Adjustment to Harvest and Sales” records the realized gain or loss on the live biomass, and the biomass harvested in current and prior periods that was sold in the current period. This account reverses the estimated gain or loss for the current and prior periods and the actual result of the transaction is recorded in revenues and cost of sales. The net effect of the biomass sold as of December 31, 2018, was a loss of US\$ 100.3 million, which reversed a positive margin estimated in prior periods, in contrast to a loss of US\$ 49.1 million as of December 31, 2017.

The net effect of the Fair Value of the salmon biomass for the period ended December 31, 2018, is a negative US\$ 4.8 million, as opposed to the positive US\$ 5.3 million recorded for the same period in 2017.

## Differences between the Market and Book Values of Principal Assets

Biological assets include groups or families of breeders, such as eggs, smolts and fish being fattened at sea. They are valued at initial recognition and subsequently at their fair value less estimated selling costs, except where their fair value cannot be reliably measured, in accordance with IAS 41. Therefore, an active market for these assets is sought in the first instance.

As there is no active market for live fish at all their stages, they are valued as freshwater fish, such as breeders, eggs, fry and smolts, using their cumulative costs at the reporting date.

The valuation criteria for farmed fish that are being fattened is fair value. This is understood to be their market price less their estimated processing and selling costs. There is a representative market for fish being fattened that are over a certain size, which is 4.0 kg for Atlantic salmon. The market price is used in both cases, adjusted appropriately for each group in the sea, from which the harvesting, processing, packaging, distributing and selling costs are deducted. The volume is adjusted for process wastage.

Smaller fish are valued at cost, though are subject to net realizable value testing.

Changes in the fair value of biological assets are recorded in the statement of income for the year.

Biological assets that will be harvested in the next 12 months are classified as current biological assets.

The gain or loss on the sale of these assets may vary in comparison to their calculated fair value at the reporting date.

The Company uses the following method:

Stage		Asset	Valuation
Fresh water		Eggs, fry, smolts and breeders	Direct and indirect cumulative costs at their various stages.
Sea water		Salmon	Fair Value, based on a market with reference prices and companies that buy and sell these assets. Historically we have considered that this market is for fish over 4 kg. If no market can be identified, then cumulative cost is used.

The Company has developed a valuation model that incorporates the recommendations proposed by the Norwegian Financial Supervisory Authority, which are detailed in Note 35 of the Company's financial statements. This biomass valuation model takes the market price for fish over 1.0 kg as Fair Value. This model has the following effects on these financial statements for the period ended December 31, 2018:

1. An increase in net profit for the period of US\$ 30.2 million, net of deferred tax effects.
2. An increase in "Fair Value" within the statement of income of US\$ 41.4 million.
3. An increase in biological assets within current assets of US\$ 41.4 million, which also generates an increase in deferred tax liabilities of US\$ 11.2 million and in equity of US\$ 30.2 million.
4. This alternative approach to biomass valuation has no effects on EBITDA, EBIT, nor on the indicators per kg (before Fair Value).