



FINANSTILSYNET
THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

The Board of
Salmones Camanchaca S.A.
Avenida El Golf No 99, Piso 10, Las Condes, Santiago
Region Metropolitana,
Postal code 7550000
CHILE

OUR REFERENCE
18/13066

YOUR REFERENCE

DATE
27.03.2020

Review of financial reporting

1. Introduction

Finanstilsynet has reviewed certain matters in the financial reporting of Salmones Camanchaca S.A. in accordance with the Securities Trading Act section 19-1 subsection (3). Reference is made to previous correspondence and meeting, most recently the issuer's e-mail of 20 March 2020.

Salmones Camanchaca is a Chilean fish farming company with listed shares on the Santiago Stock Exchange and Oslo Børs (Oslo Stock Exchange).

The review of the financial reporting has included an assessment of the valuation of biological assets, see point 2 below. Up until third quarter 2019, the Company has valued immature fish at cost, arguing that fair value could not be reliably measured. Finanstilsynet's assessment is that the Company has not demonstrated that measurement at fair value of immature fish is clearly unreliable. In Finanstilsynet's view, the Company should be able to estimate fair value based on internal and external supportable assumptions. The Company has agreed to measure immature fish at fair value and has changed the accounting policy in the financial statements of 2019. Corresponding amounts for 2018 are restated accordingly.

Finanstilsynet has also questioned the presentation of biological assets as current and non-current assets in the statement of financial position, see point 3 below. The Company has agreed to classify all biological assets as current assets in the financial statements of 2019. Corresponding amounts for 2018 are reclassified accordingly.

Finanstilsynet has questioned the accounting treatment of a participation in a joint account partnership where the proceeds from the partnership has been recognised as operating revenue, see point 4 below. Salmones Camanchaca has reassessed the accounting policy. The proceeds from the partnership is reclassified and presented as "Other income (losses)" in the statement of net income.

FINANSTILSYNET
Revierstredet 3
P.O. Box 1187 Sentrum
NO-0107 Oslo

Tel. +47 22 93 98 00

post@finansstilsynet.no
www.finanstilsynet.no

Enquiries to
Tine Svae
Dir. line +47 22 93 97 84

Other issues addressed by Finanstilsynet has been noted for the record. The review is hereby considered closed.

2. Valuation of biological assets

In the annual financial statements of 2018 note 2.8, Salmenes Camanchaca states that biological assets are measured at fair value, except where their fair value cannot be reliably measured, in accordance with IAS 41 *Agriculture*. The Company states there is no active market for live fish at all their stages, but there is a market for fish over a certain size, which is 4 kg for Atlantic salmon. Live fish above 4 kg (mature fish) are valued at fair value. Smaller fish under 4 kg (immature fish) are valued at cost.

According to IAS 41, biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less cost to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably, cf. IAS 41.12. In paragraph 30, there is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable.

Oslo Børs is one of the world's largest and most important financial marketplaces for seafood companies. All the listed companies at Oslo Børs, except Salmenes Camanchaca, measure immature fish at fair value using quoted market prices for mature fish as the starting point in their cash flow models.

Finanstilsynet asked the Company to justify the accounting practice and to demonstrate that fair value measurement of immature fish is clearly unreliable, taking into account the fact that all companies listed on Oslo Børs with the exception of the Company measure immature fish at fair value.

2.1 Salmenes Camanchaca's assessment

In the Company's view, the Chilean salmon industry differs from the Norwegian industry. The following considerations have been used in Chile:

1. In Chile, there are no observed prices for live fish. The Company argues that fish of at least 4 kg can be harvested and the product obtained can be sold in the markets where the industry operates. Hardly any fish below 4 kg has been harvested since 2013.
2. A future market does not exist in Chile. In contrast to the European market where a future market does exist (Fishpool), there are only spot market prices for finished products (Urner Barry in the U.S. market).
3. The Chilean salmon industry is less developed and less mature than the European market and its regulations were developed more recently. Chilean aquaculture regulation has been

subject to major changes between 2016 and 2018.

4. Salmon prices have experienced fluctuations and significant volatility in the past, reducing the reliability of price forecasts and, as such also fair value projections with a longer forecast horizon. An important element of volatility stems from exchange rate variations.

Salmones Camanchaca considered fair value only for fish that are near harvest (above 4 kg) and have a transparent market as a finished product. The Company stated that fair value modelling starting from 1 kg requires to assume future prices in a market that does not exist for Chilean products; stability in regulations, which are being adapted for greater efficiency; and relatively stable exchange conditions, which experience has proven otherwise. In the opinion of the Company, none of this holds true for the Chilean industry.

Salmones Camanchaca has given information about fair value of immature fish in note 35 to the financial statements for 2018. In the estimation of fair value, the Company has not taken costs regarding aquaculture concessions into account.

2.2 Finanstilsynet's assessment

Salmones Camanchaca states that there are no observed prices for live fish in Chile. Finanstilsynet would like to highlight that there are also no observable prices for live fish in the Norwegian or European market. The Norwegian fish farming companies use market price on slaughtered salmon as a starting point in their present value calculations. Live fish is regarded as a similar asset to slaughtered fish.

For immature fish, the fish farming companies must establish future marked prices in order to estimate the price at the time of harvest. In the assessment of future market prices, the companies use different sources, which include quoted forward prices from Fish Pool, spot prices and prices achieved in contracts most recently entered into. Several of the companies have business outside Europe (including Chile), where quoted forward prices from Fish Pool cannot be used directly. Forward prices in one market could still be a relevant source of information for establishing a future market price in another market. In Finanstilsynet's view, it is possible to establish future prices that are sufficiently reliable, based on available information in the Chilean and US market and forward prices from Fish Pool.

Finanstilsynet understands that the Chilean fish farming industry is less developed and less mature than the Norwegian industry. However, the Norwegian industry has also developed significantly since 2006. The industry has during the period dealt with sea lice, sickness, algal bloom, mortality and escapes. Even if these issues increase the uncertainty in the fair value calculations, Finanstilsynet's understanding is that fish farming companies are able to estimate the number, the size and the quality of fish at harvest, in addition to cost to completion, based on experience. Finanstilsynet assumes that the fish farming industry in Chile also has developed and become more mature since the adoption of IFRS in 2010.

Salmones Camanchaca comments that Chilean aquaculture regulation has been subject to major changes in the period between 2016 and 2018. Finanstilsynet agrees that this increases the uncertainty but assumes that Salmones Camanchaca is able to predict how these changes will affect their business. Finanstilsynet's understanding is that the new regulation will contribute to a sounder fish farming industry. As the growth period for fish in the sea is only 15 to 18 months, the estimation uncertainty is relatively short term. The Company will quickly gain experience from how the changes in regulation will impact their business, which can be used in estimations going forward.

In Finanstilsynet's view, future price estimation must be based on information at the balance sheet date regardless of historical volatility. Changes in prices after the reporting date will affect future periods' performance. Volatile prices will influence the fair value measurement and increase fluctuations in the statement of profit or loss, but the IASB still assessed fair values more relevant than historical cost when adopting the standard.

Regarding foreign exchanges variations, Finanstilsynet would like to highlight that Norway is also a country with frequent currency fluctuations. Like the Chilean economy, the Norwegian economy is relatively small and open and depending on exports. In general, Foreign exchange markets are usually highly liquid with effective spot and forward rates, which can be used in future price estimations.

Finanstilsynet's assessment is that there are no specific conditions related to the Chilean industry indicating that fair value measurement of immature fish would be clearly unreliable. In Finanstilsynet's view, the Company should be able to estimate fair value based on internal and external supportable assumptions.

Fair value information disclosed only in a note to the financial statements is, in the view of Finanstilsynet, insufficient and not in compliance with IFRS. Finanstilsynet has also emphasised that in measurement of fair values, the cost of concessions must be taken into account.

Salmones Camanchaca has agreed to measure immature fish at fair value and has changed the accounting policy in the financial statements of 2019. The corresponding amounts for 2018 is restated accordingly. In the fair value evaluation, the Company has taken the cost of concessions into account.

Finanstilsynet notes this for the record.

3. Presentation of biological assets in statement of financial position

The Company presented biological assets in two separate lines, one current and one non-current in the statement of financial position in the financial statements for 2018.

Finanstilsynet has questioned this classification. In accordance with IAS 1.66 a), an entity shall classify an asset as current when it expects to realise the asset or intends to sell or consume it, in its normal operating cycle.

The Company has agreed to classify all the biological assets as current assets in the financial statements of 2019. Comparative amounts for 2018 is reclassified accordingly.

Finanstilsynet notes this for the record.

4. Trout Joint Venture

Salmones Camanchaca participates in a partnership where it provides aquaculture concessions for trout farming. In return the Company receives one third of the result in the business. The partnership is organized as an "Asociacion en Cuentas en Participacion or ACP" (joint account partnership). The Company has neither joint control nor significant influence on key business decisions in the ACP.

Salmones Camanchaca has recognised the proceeds from the ACP within operating revenue since its indirect participation in the trout business is a result of the use of an operational asset by a third party. The concessions are used to produce species related to the Company's business (trout) and the resulting proceeds were therefor treated as part of Salmones Camanchaca's operating revenue.

Finanstilsynet has questioned the accounting treatment of the participation in the ACP. Since the proceeds from the ACP is a net amount (which could be both positive and negative) and since Salmones Camanchaca has neither joint control nor significant influence in the ACP, Finantilsynet is of the opinion that the proceeds should not be classified as operating revenue.

The Company has reassessed its accounting policy for the ACP in the financial statements of 2019. In absence of an IFRS that specifically applies to the arrangement, the Company has applied IAS 8.10 to develop an accounting policy that is relevant and reliable. The concessions contributed to the ACP are measured at cost and the proceeds from the ACP is reclassified and presented in "Other income (losses)" in the statement of net income. The comparative amounts for 2018 is reclassified accordingly. The arrangement and amount of proceeds is explained and specified in a note.

Finanstilsynet notes the new accounting policy for the record.

5. Closing

Finanstilsynet has not considered whether the above matters are subject to the securities legislation's provisions regarding the requirement to disclose inside information in accordance with the Securities Trading Act section 5-2 subsection (1) and section 3-2. Finanstilsynet expects the undertaking to consider its requirement to disclose inside information on a continuous basis.

Finanstilsynet has forwarded a copy of this letter to the issuer's appointed auditor, to Oslo Børs and to the Chilean Financial Regulator (CMF Chile).

On behalf of Finanstilsynet

Christian Falkenberg Kjøde
Head of Section

Tine Svae
Senior Supervisory Adviser

This document is electronically approved, and does not need a signature.