

Translation of financial statements and the independent auditors' report originally issued in Spanish - Note 32

Pesquera Exalmar S.A.A.

Financial statements as of December 31, 2019 and 2018 together with the independent auditors' report



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Paredes, Burga & Asociados
Sociedad Civil de Responsabilidad Limitada

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Translation of the independent auditors' report originally issued in Spanish - Note 32

Independent auditors' report

To the Shareholders of Pesquera Exalmar S.A.A.

We have audited the accompanying financial statements of Pesquera Exalmar S.A.A., which comprise the statements of financial position as of December 31, 2019 and 2018, and the statements of income, comprehensive income, changes in net equity and cash flows for the years then ended, and the significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved for application in Peru by the Board of Deans of Intitutes of Peruvian Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves the application of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgements, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.



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Independent auditors' report (continued)

We consider that the audit evidence we have obtained is enough and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements aforementioned present fairly, in all significant respects, the financial position of Pesquera Exalmar S.A.A. as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Adoption of IFRS 16

As indicated in note 3(r) to the financial statements, as of January 1, 2019, the Company changed its recording method of leases, due to the adoption of IFRS 16 "Leases", by using the modified retrospective method, which does not require the correction of balances of comparative years.

Lima, Peru
February 26, 2020

Paredes, Burga & Asociados

Countersigned by:

Daniel Carpio
C.P.C.C. Register No. 24098

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Pesquera Exalmar S.A.A.

Statements of financial position

As of December 31, 2019 and 2018

	Note	2019 US\$(000)	2018 US\$(000)		Note	2019 US\$(000)	2018 US\$(000)
Assets				Liabilities and net equity			
Current assets				Current liabilities			
Cash and cash equivalents	7	3,017	33,096	Short-term bank loans	12	81,811	70,000
Financial investments held until maturity		-	491	Trade and other payables	13	54,530	58,001
Trade and other receivables, net	8	54,057	42,108	Payables to related parties	25(b)	32	27
Inventories, net	9	61,118	79,877	Income tax payable	26(a)	-	9,593
Receivables from related parties	25(b)	4,595	3,787	Long-term financial liabilities	14	20,020	5,772
Tax credit for VAT	26(e)	6,357	11,014	Provisions for contingencies	15	96	2,383
Income tax credit	26(a)	4,649	-			<u>156,489</u>	<u>145,776</u>
Prepaid expenses		1,082	1,695	Non-current liabilities			
		<u>134,875</u>	<u>172,068</u>	Long-term financial liabilities	14	153,878	183,650
Non-current assets				Trade and other payables	13	7,910	-
Trade and other receivables, net	8	3,216	5,454	Net deferred income tax liabilities	16	54,593	54,528
Derivate financial instruments	14(d)	863	-			<u>216,381</u>	<u>238,178</u>
Property, vessels, machinery and equipment, net	10	229,542	226,861	Total liabilities			
Intangible assets, net	11(a)	120,861	117,939			<u>372,870</u>	<u>383,954</u>
Goodwill	11(c)	113,342	113,342	Net equity			
Right-of-use assets	3(r)	8,819	-		17		
Other assets		1,058	1,238	Issued capital		89,772	89,772
		<u>477,701</u>	<u>464,834</u>	Share premium		69,721	69,721
Total assets				Legal reserve		3,609	3,609
		<u>612,576</u>	<u>636,902</u>	Revaluation surplus		38,831	39,031
				Unrealized income of derivate financial instruments	14(d)	608	-
				Retained earnings		37,165	50,815
				Total net equity			
						<u>239,706</u>	<u>252,948</u>
				Total liabilities and net equity			
						<u>612,576</u>	<u>636,902</u>

The accompanying notes are an integral part of these financial statements.

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Pesquera Exalmar S.A.A.

Statements of income

For the years ended December 31, 2019 and 2018

	Note	2019 US\$(000)	2018 US\$(000)
Net sales	18	266,085	240,657
Cost of sales	19	(202,237)	(150,378)
Cost of distribution	20	(17,292)	(14,280)
Gross profit		<u>46,556</u>	<u>75,999</u>
Operating expenses			
Administrative expenses	21	(10,597)	(10,400)
Other incomes	23	3,005	3,124
Other expenses	23	(5,436)	(5,717)
Total operating expenses		<u>(13,028)</u>	<u>(12,993)</u>
Operating profit		<u>33,528</u>	<u>63,006</u>
Other incomes (expenses)			
Financial incomes		151	237
Financial expenses	24	(18,712)	(19,334)
Net exchange rate difference	6	(423)	(1,040)
Total other expenses, net		<u>(18,984)</u>	<u>(20,137)</u>
Profit before income tax		14,544	42,869
Income tax	16(b)	(8,194)	(13,539)
Net income		<u>6,350</u>	<u>29,330</u>
Number of shares in circularization (in thousands)	27	<u>295,536</u>	<u>295,536</u>
Net profit per basic and diluted share (in US\$)	27	<u>0.021</u>	<u>0.099</u>

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Pesquera Exalmar S.A.A.

Statements of comprehensive income

For the years ended December 31, 2019 and 2018

	Note	2019 US\$(000)	2018 US\$(000)
Net income		<u>6,350</u>	<u>29,330</u>
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealized results of derivate financial instruments	14(d)	863	-
Revaluation (devaluation) surplus	10(c)	(284)	9,666
Effect on net deferred income tax liabilities	16	<u>(171)</u>	<u>(2,851)</u>
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of deferred income tax		<u>408</u>	<u>6,815</u>
Total comprehensive income		<u>6,758</u>	<u>36,145</u>

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Statements of changes in net equity

For the years ended December 31, 2019 and 2018

	Number of shares (in thousands)	Issued capital US\$(000)	Share premium US\$(000)	Legal reserve US\$(000)	Revaluation surplus US\$(000)	Cash flow hedges US\$(000)	Retained earnings US\$(000)	Total equity US\$(000)
Balances as of January 1, 2018	295,536	89,772	69,721	3,609	32,216	-	21,485	216,803
Net income, note 3(q)	-	-	-	-	-	-	29,330	29,330
Other comprehensive income	-	-	-	-	6,815	-	-	6,815
Total comprehensive income of the year	-	-	-	-	6,815	-	29,330	36,145
Balances as of December 31, 2018	295,536	89,772	69,721	3,609	39,031	-	50,815	252,948
Net income	-	-	-	-	-	-	6,350	6,350
Other comprehensive income	-	-	-	-	(200)	608	-	408
Total comprehensive income of the year	-	-	-	-	(200)	608	6,350	6,758
Dividends, nota 17(e)	-	-	-	-	-	-	(20,000)	(20,000)
Balances as of December 31, 2019	<u>295,536</u>	<u>89,772</u>	<u>69,721</u>	<u>3,609</u>	<u>38,831</u>	<u>608</u>	<u>37,165</u>	<u>239,706</u>

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Pesquera Exalmar S.A.A.

Statements of cash flows

For the years ended December 31, 2019 and 2018

	2019 US\$(000)	2018 US\$(000)
Operating activities		
Collection from customers	267,751	232,110
Payments to suppliers	(172,742)	(175,698)
Payments to employees	(38,610)	(35,263)
Payment of interests and bank charges	(15,486)	(18,955)
Other taxes paid	(22,785)	(24,174)
Income tax paid	(9,816)	(754)
Recovery of VAT	21,129	18,547
Other collections	2,456	3,517
Other payments	(6,809)	(4,895)
Net cash flows from (used in) operating activities	<u>25,088</u>	<u>(5,565)</u>
Investing activities		
Purchase of property, vessels, machinery and equipment	(23,962)	(22,185)
Loans granted to related parties	(407)	(807)
Purchase of intangible assets	(233)	(1,510)
Financial investments held until maturity	-	(491)
Net cash flows used in investing activities	<u>(24,602)</u>	<u>(24,993)</u>
Financing activities		
Proceeds from short-term and long-term borrowing	385,211	322,522
Payment of short-term and long-term borrowing	(394,278)	(261,794)
Payment of lease liabilities	(1,498)	-
Dividends paid	(20,000)	-
Net cash flows from (used in) financing activities	<u>(30,565)</u>	<u>60,728</u>
Net increase (decrease) in cash and cash equivalents	(30,079)	30,170
Cash and cash equivalents at the beginning of the year	<u>33,096</u>	<u>2,926</u>
Cash and cash equivalents at the end of the year	<u>3,017</u>	<u>33,096</u>
Activities that did not generate cash flows		
Purchase of fishing licence through finance lease	(3,118)	-
Purchase of property, vessels, machinery and equipment through financial leases	(2,236)	(375)
Revaluation (devaluation) of lands	(284)	9,666

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	2019 US\$(000)	2018 US\$(000)
Reconciliation of net income with cash and net cash equivalent from (used in) operation activities		
Net income	6,350	29,330
Plus (less) - Items that do not represent cash increase or disbursements		
Depreciation	22,238	20,307
Amortisation of intangibles assets	429	390
Amortisation of right-of-use assets	1,225	-
Net cost for withdrawing of fixed assets	995	797
Net of deferred income tax	(106)	367
Recoveries of the impairment allowance	-	(8)
Impairment allowance	64	-
Decrease (increase) in operating assets		
Trade and other receivables	(9,578)	(28,945)
Receivables from related parties	(753)	(674)
Inventories	18,759	(61,135)
Tax credit for VAT	4,657	(6,583)
Income tax	(4,649)	2,285
Prepaid expenses	613	1,379
Decrease (increase) in operating liabilities		
Trade and other payables	(5,568)	27,336
Payables to related parties	5	(4)
Income tax payable	(9,593)	9,593
Net cash and cash equivalents from (used in) operation activities	<u>25,088</u>	<u>(5,565)</u>

The accompanying notes are an integral part of these financial statements.

Pesquera Exalmar S.A.A.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

1. Identification and economic activity of the Company

(a) Identification -

Pesquera Exalmar S.A.A. (hereinafter "the Company") is a subsidiary of Caleta de Oro Holding S.A. (main controlling entity), which has 66.58 percent of its issued capital. The Company was incorporated in the city of Lima on November 25, 1997.

As of December 31, 2019 and 2018, its legal domicile are located in Avenida Victor Andres Belaunde 214, San Isidro, Lima, Peru.

(b) Economic activity -

The Company mainly works in the fishing activity, including the extraction of hydro-biological resources and their transformation into fishmeal and fish oil and the direct sale of fresh and frozen fish; as well as the commercialization of these products, both in the domestic market and abroad and the storage of frozen products. For this purpose, as of December 31, 2019 it has a fleet of 24 purse seine fishing vessels and 5 industrial fishmeal and fish oil plants (23 purse seine fishing vessels and 5 industrial fishmeal and fish oil plants, as of December 31, 2018). The industrial fishmeal and fish oil plants are located in Chicama, Chimbote, Huacho, Callao and Tambo de Mora. On the other hand, for the processing of frozen fish, the Company has two plants located in Paita and Tambo de Mora.

(c) Approval of financial statements -

The accompanying financial statements for the year ended December 31, 2019 have been approved by the Company's Management on February 26, 2020 and shall be submitted for the approval of the Board of Directors and the Shareholders' meeting to be held during the first quarter of 2020. In Management opinion, the accompanying financial statements will be approved by the Board of Directors and the Shareholders' Meeting without modifications. The financial statements for the year ended December 31, 2018 have been approved by the Shareholders' meeting held on March 26, 2019.

(d) Regulatory framework -

The activities of the Company are regulated by Decree Law No. 25977, General Fishing Law, and its regulations, Supreme Decree No. 012-2001-PE. The administration and control of the fishing activity at national level is assumed by the Ministry of Production - PRODUCE, an entity that, besides monitoring fishing activities and their processing, organizes and centralizes the statistical, economic and financial information of the fishing activity in accordance with the aforementioned rules. On the basis of technical reports issued by the Marine Institute of Peru - IMARPE, establishes the biological fishing bans of anchovy and sardine to preserve the resources. The fishing bans which affected the Company in 2019 were of 198 days (194 days in 2018).

Notes to the financial statements (continued)

On June 28 and December 12, 2008, the Peruvian Government published the Legislative Decree No. 1084 and Supreme Decrees No. 021-2008-PRODUCE and No. 009-2009-PRODUCE, which sets the Law on Maximum Catch Limits per Vessel (LMCE for its Spanish acronym) and its regulation, respectively. Through these regulations, the Peruvian Government changed, since 2009, the fishing model for indirect human consumption, taken through annual maximum catch quotas, for individual fishing quotas.

Likewise, in December 2015, the Company signed a guarantee contract for remaining in the LMCE regime with the Ministry of Production for its fishing vessels, which has a validity of 10 years, a term that the Management estimates will be renewed. By virtue of those contracts, the Company must respect the conditions, duties and obligations of the law on LMCE, the General Fishing Law and its regulations, and complementary rules.

In Management's opinion and its legal advisors, in 2019 and 2018, the Company has complied with the conditions of the above mentioned contracts.

The rule states a social contribution equivalent to US\$ 1.95 per MT of fish unloaded for a period of 10 years, to a fund for supporting the retirement of workers who are affiliated to the current system of pension applicable to the industrial fishing crew.

The LMCE also sets certain guidelines for the development of fishing activities. Among the main ones, the following can be mentioned:

- The calculation of the LMCE is made for each fishing season, according to the Maximum Percentage of Catch per Vessel (PMCE) assigned to each fishing vessel.
- The amounts not caught in execution of a LMCE assigned for a fishing season may not be transferred to any other season, extinguishing the Company's right over the balances not caught on the expiration date of the corresponding fishing season.
- The fishing license of a non-nominated fishing vessel, that is, a fishing vessel not selected to carry out fishing activities during a fishing season for being docked, will be temporarily suspended during such season. Thus, this vessel will be prevented from carrying out catching activities during this period, and the quota (LMCE) of such ship will be fished within the global quota of the Company.
- It is causal for recalculation of the PMCE, when the PMCE assigned to the Company is reduced by virtue of the fact that during four consecutive fishing seasons the unexecuted percentage of the assigned LMCE exceeds by 20 percent in each period. The reduction will correspond to the average percentage not caught during the four consecutive fishing seasons, and must be prorated among the vessels belonging to the Company.

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Notes to the financial statements (continued)

During 2019 and 2018, the total PMCE of the fishing vessels of the Company in the north-central and south regions was 6.77 and 4.64 percent, respectively, and has not suffered reductions since the beginning of the LMCE validity.

(e) Operations -

According to the information prepared by the Management, the main operational data of the Company are presented below:

(i) Indirect human consumption -

	2019	2018
<u>Production</u>		
Production days	167	192
Days of stoppage	198	173
Costs incurred in the period of non-production		
imputed to the cost of the product in US\$(000)	12,600	9,473
Anchovy processed in thousand MT	490	796
Anchovy processed with own catch in thousand MT	239	395
Anchovy processed with the purchase of third parties in thousand MT	251	401
Fishmeal produced in thousand MT	116	181
Fish oil produced in thousand MT	18	33
Foreign sales in %	93	89
Local sales in %	7	11
<u>North-central region</u>		
Quota allocation in %	6.77	6.77
First season -		
Country quota in thousand MT	2,100	3,317
Beginning date	28/4/2019	7/4/2018
Ending date	31/7/2019	9/8/2018
Second season -		
Country quota in thousand MT	2,786 (*)	2,100
Beginning date	6/11/2019	15/11/2018
Ending date	14/1/2020	4/4/2019

(*) In January 2020, the Ministry of Production - PRODUCE suspended the second fishing season due to the presence of youth anchovy and, as a consequence, the sector only reached 997,000 MT of anchovy catch.

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Notes to the financial statements (continued)

	2019	2018
<u>South region</u>		
Quota allocation in %	4.64	4.64
First season -		
Country quota in thousand MT	540	535
Beginning date	8/1/2019	5/1/2018
Ending date	30/6/2019	30/6/2018
Second season -		
Country quota in thousand MT	540	535
Beginning date	1/8/2019	01/7/2018
Ending date	31/12/2019	31/12/2018
 (ii) Direct human consumption -		
	2019	2018
<u>Own catch in thousand MT</u>		
Horse mackerel and mackerel in thousand MT	17,678	7,942
<u>Third-party raw material in thousand MT</u>		
Giant Squid	217	-
Anchovy	43	-
<u>Production in thousand of MT</u>		
Giant Squid	179	-
Anchovy	40	-
<u>Sales in %</u>		
Local	42	45
Foreign	58	55

(f) Environmental regulation -

The General Fishing Law requires an Environmental Impact Study (EIA for its Spanish acronym) to be conducted prior to the beginning of any fishing activity.

Under Decree Law No. 25977 - General Fishing Law and its Regulation, according to Supreme Decree No. 01-94-PE, fishing entities should adopt the necessary measures for the protection and preservation of the environment in order to prevent and minimize pollution damage and risks of marine, land and atmospheric environment.

The operations of the Company are carried out protecting public health and the environment, and comply with all applicable regulations.

Notes to the financial statements (continued)

In 2019, the Company has executed works in its different locations related to the protection of the environment for an amount of US\$2,922,000 (US\$3,954,000 in 2018), such as the installation of a natural gas network system, a system of water treatment and solid recovery, rooms for the physical treatment of pumped water, acquisition of ovens, pumps and steam dryers. These disbursements are recognized as part of Property, vessels, machinery and equipment, net, since they are necessary to comply with the operational and production objectives, as well as the standards required for the protection of the environment. As of December 31, 2019 and 2018, there are no liabilities or environmental obligations.

2. Basis of preparation and presentation

Compliance statement -

The financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") as issued by the International Accounting Standards Board (hereinafter "IASB") and which were effective as of December 31, 2019 and 2018, respectively.

Measurement basis -

The financial statements have been prepared based on a historical cost basis, from the accounting records kept by the Company, except for the lands and derivative financial instruments which have been measured at fair value. The accompanying financial statements are presented in US dollars (functional and presentation currency), and all values are rounded to thousands, except when otherwise indicated.

The accounting policies adopted are consistent with those applied in previous years, except for the new IFRS and IASs revised which are mandatory for the periods beginning on or after January 1, 2019. The nature and effect of these changes are indicated below:

- IFRS 16 "Leases"

IFRS 16 establishes the principles for recognition, measurement, presentation and disclosures for leases and requires all leases to be accounted for under a model similar to the accounting of financial leases according to IAS 17 "Leases". The regulation includes two exceptions to recognition for lessees: short-term leases and those in which the underlying asset is low value.

At the start date of a contract, the lessee will recognize a liability for the present value of the lease payments which have not been paid on that date and an asset for the right to use the asset during the term of the lease. Lessees must recognize the interest expense on the liability for the lease and the depreciation expense for the right to use the asset.

Lessees will also be required to reevaluate the lease liability when certain events occur (for example, a change in lease term, a change in future lease payments resulting from a change in the index or the rate used to determine those payments). The lessee will recognize the amount of this valuation of the liability as an adjustment in the corresponding right to use the asset.

Notes to the financial statements (continued)

The accounting for lessors under IFRS 16 is not substantially modified with respect to the current accounting under IAS 17. Lessors will continue to classify all leases by using the same classification principle indicated in IAS 17 and distinguish two types of leases: operating and financial.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than those required by IAS 17.

The lessee may choose to apply the standard by using a full or modified retrospective approach. The effect of these changes is explained in note 3(r).

Las disposiciones transitorias de la norma permiten ciertas facilidades. El efecto de estos cambios se explica en la nota 3(r).

IFRIC 23 Interpretation "Uncertainty about Income Tax Treatments" -

The interpretation deals with the recording of the income tax when the tax treatments involve uncertainties that affect the application of IAS 12 and does not apply to taxes out of the scope of IAS 12. It does not specifically include requirements related to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- If an entity considers uncertain tax treatments separately.
- The assumptions an entity considers for the examination of tax treatments by tax authorities.
- How an entity determines the taxable profit (tax loss), tax bases, unused tax losses, and tax rates.
- How an entity considers changes in facts and circumstances.

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments.

The interpretation did not have an impact on the financial statements of the Company.

The Company has not adopted in advance other regulations, interpretations or modifications which have been issued but are not effective.

Notes to the financial statements (continued)

3. Summary of significant accounting policies

(a) Cash and cash equivalents-

Cash and cash equivalents presented in the statements of financial position correspond to current accounts and fixed-terms deposits with maturity of less than three months.

(b) Financial Instruments: Initial recognition and subsequent measurement -

(b.1) Financial assets -

Initial recognition and subsequent measurement -

Financial assets are classified according to the business model and the characteristics of the contractual cash flows, measured at:

- Amortized cost.
- Fair value through other comprehensive income (FVOCI for its acronym in English).
- Fair value through profit or loss (FVPL for its acronym in English).

The Company determines the classification of financial assets at the time of their initial recognition.

All financial assets are initially recognized at their fair value plus, in the case of financial assets that are not recorded at fair value through profit or loss, directly attributable costs.

Purchases or sales of financial assets which require the delivery of assets within a period of time established by a regulation or condition of the market (conventional trade) are recognized on the date of the trade; that is, the date when the Company agrees to buy or sell the asset.

As of December 31, 2019 and 2018, the Company held in this category, cash and cash equivalents and trade and other receivables and from related parties.

Subsequent measurement -

As of December 31, 2019 and 2018, the Company just held assets measured at amortised cost, whose record is as follows:

The Company measures cash and cash equivalents and trade and other receivables and from related parties at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

Notes to the financial statements (continued)

Derecognition -

A financial asset (or, where applicable, part of a financial asset or a group of similar financial assets) is written off when:

- (i) The rights to receive cash flows generated by the asset have expired or
- (ii) the contractual rights to the cash flows generated by the asset have been transferred or an obligation has been assumed to pay a third party all of those cash flows without significant delay, through a transfer agreement (pass-through arrangement) and (a) have transferred substantially all risks and rewards of the asset; or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control over it.

The Company will continue to recognize the asset when they have transferred their rights to receive cash flows generated by the asset or have concluded an agreement on mediation, but have neither transferred nor retained substantially all the risks and rewards of the asset, or have transferred control over it. In this case, the Company will recognize the transferred asset based on its continuing involvement in the asset and also recognize the related liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations retained by the Company.

(b.2) Impairment of financial assets -

The Company evaluate the expected credit losses (ECL) associated with its debt instruments recorded at amortized cost and at fair value through other comprehensive incomes, taking into account prospective information.

The allocation of the expected loss is based on the credit losses which are expected to arise during the life of the asset, unless there has not been a significant increase in credit risk since the initial date of the financial instrument, in which case, the provision is based on the credit loss expected by 12 months.

The credit losses expected by 12 months, is the part of the credit losses expected during the life of the asset resulting from non-compliance events on a financial instrument which are possible within 12 months after the presentation date.

Both the credit losses expected by 12 months and the credit losses expected during the life of the asset are individually or collectively calculated, according to the portfolio nature.

Notes to the financial statements (continued)

(b.3) Financial liabilities -

Initial recognition and measurement -

Financial liabilities (within the scope of IAS 39 and IFRS 9) are classified as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of financial liabilities at the time of their initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables recorded at amortized cost, net of directly attributable transaction costs.

As of December 31, 2019 and 2018, the Company maintains short-term bank loans, long-term financial liabilities and trade and other payables, payables to related parties and derivative financial instruments, within this category.

Subsequent measurement -

The subsequent measurement of financial liabilities depends on their classification, as of December 31, 2019 and 2018, the Company mainly maintains loans and borrowings, whose recording is as follows:

After initial recognition, long-term financial liabilities, loans and accounts payable are measured at amortised cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

The amortized cost is calculated taking into account any discount or premium on the acquisition and the commissions or costs that are an integral part of the effective interest rate. Amortization in accordance with the method of effective interest rate is recognized as financial cost in the income statement.

Derecognition -

A financial liability is derecognized when the obligation specified in the corresponding contract has been paid or canceled, or has expired.

When an existing financial liability is replaced by another liability from the same lender under substantially different conditions, or if the conditions of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference among the respective carrying amounts is recognized in the income statement.

Notes to the financial statements (continued)

(b.4) Offsetting of financial instruments-

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

(b.5) Fair value of financial instruments -

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Company use valuation techniques that are appropriate in the circumstances and for which they have sufficient information available to measure fair value, maximizing the use of relevant observable inputs and minimize the use of unobservable inputs valuation techniques.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- (i) Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- (ii) Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- (iii) Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

For fair value disclosure purposes, the Company have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained before.

Notes to the financial statements (continued)

(c) Derivative financial instruments and hedge accounting -

Initial recognition y subsequent measurement -

The Company use derivative instruments (swaps of interest rate) to manage their exposure to changes in interest rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gain or loss arising from changes in the fair value of the derivatives is recorded directly to income statement, except for the effective portion of the cash flow hedges, which is recognized in other comprehensive incomes.

At the beginning of the hedge, the Company formally document the hedge relationship, as well as the as the risk management objective and the strategy for undertaking the hedge. Documents include identification of the hedging instrument, the item or transaction hedged, the nature of the risk hedged and how the company will evaluate the effectiveness of changes in the fair value of the hedging instrument to offset the exposure to changes in cash flows attributed to the hedged risk. The Company expects the hedging instrument to be highly effective in offsetting the designated risk in the hedged item and assesses the cash flows at each reporting date.

The Company uses hedging operations that fully qualify as cash flow hedges.

In cash flow edges, the effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while any ineffective portion is recognized immediately as financial cost in the income statement.

The amounts recognized as other comprehensive incomes are transferred to the income statements when the hedged transaction affects gains and losses, for example, when the financial income or financial cost is recognized.

Current and non-current classification -

Derivative instruments designated as effective hedging instruments are separated into a current and non-current portion consistently with the classification of the underlying hedged item.

(d) Segment reporting-

For management purposes, the Company is organized into business units based on its products and has two operating segments on which it reports, which are:

- The segment of indirect human consumption that produces and sells fishmeal and fish oil.
- The segment of direct human consumption that sells fresh and frozen fish.

No operating segment has been added to determine the segments described above.

Translation of financial statements originally issued in Spanish - Note 32

Notes to the financial statements (continued)

The Deputy General Manager is the highest instance of operational decision making of the Company and supervises the operating results of its business units separately with the purpose of making decisions on the allocation of resources and the evaluation of performance. The performance of the segments is evaluated based on the operating result and is consistently valued with the operating result of the financial statements. However, the Company's financing (including financial expenses and incomes) and income taxes are managed at the Company level and are not allocated to operating segments.

The following are the main captions of the statement of financial position of the Company and the statement of income by operating segments:

	Indirect human consumption US\$(000)	Direct human consumption US\$(000)	Total US\$(000)
As of December 31, 2019			
Total assets	569,916	42,660	612,576
Property, vessels, machinery and equipment, net	187,751	41,791	229,542
Intangible assets, net	120,861	-	120,861
Goodwill	113,342	-	113,342
Inventories, net	60,586	532	61,118
Total liabilities	372,870	-	372,870
Short-term bank loans	81,811	-	81,811
Long-term financial liabilities	173,561	337	173,898
For the year ended on December 31, 2019			
Local sales	7,614	9,815	17,429
Foreign sales	234,891	13,765	248,656
Total net sales	242,505	23,580	266,085
Cost of sales	(187,288)	(14,949)	(202,237)
Cost of distribution	(14,361)	(2,931)	(17,292)
Gross profit (loss)	40,856	5,700	46,556
Administrative expenses	(9,961)	(636)	(10,597)
Other incomes	3,005	-	3,005
Other expenses	(5,436)	-	(5,436)
Operating profit	28,464	5,064	33,528

Translation of financial statements originally issued in Spanish - Note 32

Notes to the financial statements (continued)

	Indirect human consumption US\$(000)	Direct human consumption US\$(000)	Total US\$(000)
As of December 31, 2018			
Total assets	593,568	43,334	636,902
Property, vessels, machinery and equipment, net	184,153	42,708	226,861
Intangible assets, net	117,939	-	117,939
Goodwill	113,342	-	113,342
Inventories, net	79,249	628	79,877
Total liabilities	383,954	-	383,954
Short-term bank loans	70,000	-	70,000
Long-term financial liabilities	189,422	-	189,422
For the year ended on December 31, 2018			
Local sales	22,764	3,106	25,870
Foreign sales	211,043	3,744	214,787
Total net sales	233,807	6,850	240,657
Cost of sales	(140,879)	(9,499)	(150,378)
Cost of distribution	(12,600)	(1,680)	(14,280)
Gross profit (loss)	80,328	(4,329)	75,999
Administrative expenses	(10,088)	(312)	(10,400)
Other incomes	3,124	-	3,124
Other expenses	(5,717)	-	(5,717)
Operating profit (loss)	67,647	(4,641)	63,006

Segments by geographical area -

	2019		2018	
	Indirect human consumption US\$(000)	Direct human consumption US\$(000)	Indirect human consumption US\$(000)	Direct human consumption US\$(000)
Incomes -				
Asia	162,777	157	167,905	-
Europe	38,142	13,284	41,423	3,302
America	36,441	2,494	22,298	820
Oceania	5,038	-	1,079	170
Africa	107	7,645	1,102	2,558
	<u>242,505</u>	<u>23,580</u>	<u>233,807</u>	<u>6,850</u>

Notes to the financial statements (continued)

(e) Foreign currency transactions -

The Company's financial statements are presented in US dollars, which is its functional and presentation currency.

Transactions and balances -

Transactions in foreign currency (currencies other than US dollar) are initially recorded by the Company at the exchange rate in force on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in force on the date of their settlement in the statement of financial position and the resulting exchange differences are recorded in the income statement.

Non-monetary items are translated by using the exchange rates in force on the date of the original transactions.

(f) Inventories -

Inventories are valued at the lower of cost or net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The costs incurred to bring inventories to their current location and conditions are accounted for as follows:

Finished products -

At the cost of raw materials, supplies, direct workforce, other direct costs, general manufacturing expenses and an amount of fixed and variable manufacturing costs based on the normal operating capacity; excluding financing costs. Subsequently, the method of daily weighted average cost method is applied.

Normal capacity is defined as the extraction and production capacity in each of the two fishing seasons defined in the year, based on the anchovy fishing quota assigned to the Company by the regulator (PRODUCE).

Raw materials and supplies -

They are recorded at acquisition cost, following the method of daily weighted average cost.

The allowance for impairment is determined according to an analysis performed on the conditions and inventories' rotation. The estimate is recognized through the statements of income.

Notes to the financial statements (continued)

- (g) Property, vessels, machinery and equipment -
"Property, vessels, machinery and equipment", except land, is presented at their acquisition cost, net of accumulated depreciation and accumulated impairment losses, if any. The initial cost of an asset includes the purchase price or its manufacturing cost, including import duties and non-refundable purchase taxes and any necessary cost directly attributable to bringing the asset to be capable of operating, the initial estimate of the costs of restoring and financing costs for long-term building projects, to the extent the requirements for recognition are met.

When significant components of property, vessels, machinery and equipment require replacement, the Company derecognized the replaced component and recognized the new component with its corresponding useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognized as a replacement as long as the requirements for its recognition are met. All other routine repair and maintenance costs are recognized in the statements of income as incurred.

Land is measured under the revaluation method, that is, at fair value less impairment losses recognized after the revaluation date. Revaluations are carried out at the end of each year to ensure that the fair value of a revalued asset does not significantly differ from its carrying amount.

Any revaluation increase is recognized in other comprehensive income and accumulated in equity under "Revaluation surplus", except to the extent that such increase reverses a revaluation decrease of the same asset previously recognized in the income statement, in which case this increase is recognized in the income statement, except to the extent that such decrease compensates a revaluation increase of the same asset previously recognized in the reserve due to the revaluation of assets.

An item of property, vessels, machinery and equipment or significant component is retired at the moment of its disposal or when it is not expected to obtain economic benefits through its use or subsequent disposal. Any profit or loss from the disposal of the asset (calculated as the difference between revenues for sale and the asset's carrying amount) is included in the statements of income when it occurs.

Residual value, useful life and depreciation methods are reviewed and adjusted, if any, at the end of each year.

Work in progress includes payments for asset construction, financing costs, and other direct costs attributable to such work, accrued during the construction phase. Work in progress is capitalized when completed and depreciation is calculated since the moment the asset is available for use.

Notes to the financial statements (continued)

Depreciation is calculated using the straight-line method over the estimated useful lives, which are as follows:

Description	Years
Buildings and constructions	33
Fishing vessels	Between 2 and 29
Machinery and equipment	Between 2 and 35
Transport units	5
Furniture and fixtures	Between 2 and 10
Other equipment and computer equipment	Between 2 and 10

(h) Leases -

As a lessee -

At the beginning of a contract, the Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to know whether a contract grants the right to control the use of an asset identified, the Company assesses if:

- (i) The contract involves the use of an identified asset, the same that can be specified explicitly or implicitly, and must be physically different or substantially represent the entire capacity of a physically different asset. If the supplier has a practical right of substitution, then the asset is not identified;
- (ii) The Company has the right to substantially obtain all of the economic benefits of use of the asset during the entire period of use; and
- (iii) The Company has the right to manage the use of the asset. The Company has this right when it has the decision-making rights that are more relevant to change how and for what purpose the asset is used. In rare cases, where all decisions about how and for what purpose the asset is used are predetermined, the Company has the right to manage the use of the asset if:
 - the Company has the right to operate the asset; or
 - the Company has designed the asset in a way that predetermines the way and for what purpose it will be used.

In its lessee role, the Company recognizes a right-of-use asset and a leasing liability on the starting date of the lease.

The Company rents assets such as property (buildings) and equipments and machinery, for periods between 1 to 10 years. The lease terms are negotiated individually and has different terms and conditions.

Notes to the financial statements (continued)

Right-of-use asset

The right-of-use assets are measured at cost, which includes the amount of lease liabilities adjusted for any lease payment made at or before the commencement date, in addition to the initial direct costs incurred and an estimate of costs to be incurred by the lessee in dismantling or restoring the underlying asset or the site on which it is located, less any incentive received for leasing. Subsequently, it depreciates linearly over the useful life of the contract.

The right-of-use asset is subsequently depreciated by using the straight-line method from the beginning date to the end of the useful life of the right-of-use asset or to the end of the lease term, whichever is shorter, considering that, if there is a purchase option, the estimated useful life of the underlying assets will always be chosen.

In addition, the right-of-use asset is periodically reduced for impairment losses, if any, and is adjusted for new measurements of the leasing liability.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the beginning date, discounted using the lessee's incremental borrowing implicit rate, or, in case the incremental borrowing rate cannot be easily determined, the incremental debt rate will be applied. The Company uses the incremental debt rate as the discount rate, see note 3(r).

The lease payments include: fixed payments or, in essence they are fixed, variable lease payments that depend on an index or a rate, initially measured by using the index or rate on the beginning date, among other items. Likewise, non-leasing components referred to disbursements related to other concepts can be identified in the contracts. In this context, IFRS 16 allows adopting as an accounting policy not to separate the leasing and non-leasing components of this type of contracts, with the consequence that they will take part of the measurement of leasing liability.

The leasing liability is measured at amortized cost by using the effective interest method. The subsequent measurement of liability is made if there is a change in future lease payments derived from a change in an index or rate, if there is a change in the estimate of the amount expected to be paid for a guarantee of the Company's residual value, or if the Company changes its evaluation of whether it will exercise a purchase, expansion or termination option. When the leasing liability is redeemed, an adjustment is recognized in the carrying value of the right-of-use asset, or, in the incomes, if the right-of-use asset does not present an accounting balance.

Financial costs are charged to the incomes of the period based on the lease term at the constantly periodic interest rate of the financial liability remaining in each period.

Termination and extension options are included in the right-of-use liabilities. In determining the lease term, the Management considers all factors and circumstances resulting from the evaluation of economic and operating incentives to exercise an extension option or not to exercise a termination option.

Notes to the financial statements (continued)

Exceptions to recognition

The Company does not recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets, including computer equipment and 1m² of space for a server. The Company recognizes the lease payments associated with these leases as a straight-line expense during the term of the lease.

The Company has adopted as accounting policy that the reference amount to be considered is US\$9,000, regarding the low-value exception indicated by the standard.

As lessor -

When the Company acts as a lessor, it determines, at the beginning of the lease, whether each lease is a finance lease or an operating lease.

To classify each lease, the Company conducts an assessment of whether the leasing transfers to the lessee are substantially all of the risks and rewards inherent in the ownership of the underlying asset. If this is the case, then the lease is a finance lease; otherwise, it is an operating lease. As part of this evaluation, the Company considers certain indicators, such as whether the lease covers most of the economic life of the asset.

The Company presents its role in the contract of main lease and the sub-lease separately when subleasing an asset. The classification of the lease of a sublease is evaluated with reference to the right-of-use asset arising from the main lease, not with reference to the underlying asset. If a main lease is a short-term lease, for the Company to apply the exemption described above, then the sublease is classified as an operating lease.

If a contract contains leasing and non-leasing components, the Company applies IFRS 15 to distribute the compensation in the contract among the different components.

(i) Intangible assets -

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Notes to the financial statements (continued)

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statements of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statements of income when the asset is derecognized.

Fishing licence and production licenses -

Fishing licence and production licenses represent the right to fish in the Peruvian littoral for each of the fishing vessels and to process fishmeal and fish oil for each of the fishing plants. These assets do not have maturity. Thus, they are considered intangible assets with an indefinite useful lives and are not amortized, but every year it is evaluated if there is impairment. See paragraph (j) below.

Fishing licence and production licenses are initially measured at cost. The cost of fishing licence and production licenses acquired in a business combination is their fair value at the date of acquisition.

Goodwill -

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, assessed at least each year end. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs that are expected to benefit from the combination.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Notes to the financial statements (continued)

Software -

They correspond to licenses and costs directly related to the implementation of an information processing system. These assets are presented at the acquisition cost and amortized over ten years.

(j) Impairment of non-financial assets -

The Company assess at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGUs fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses corresponding to continuous operations, including the impairment of inventories, are recognized in the income statement in those expense categories that correspond to the function of the impaired asset.

For fishing licence, production licenses and goodwill, an impairment test is carried out at least every year (as of December 31). For other assets in general, at each closing date of the reporting period, an assessment of whether there is any indicator that previously recognized impairment losses no longer exist or have decreased is made. If there is such indicator, the Company makes an estimate of the recoverable amount of the asset or the cash generating unit.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of income.

Impairment losses related to fishing licence, production licenses and goodwill cannot be reversed in future periods.

Notes to the financial statements (continued)

(k) Provisions -

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In cases where the Company expects the provision to be reimbursed in whole or in part, for example under an insurance contract, the reimbursement is recognized as an asset separately only in cases where such reimbursement is virtually certain. The expense relating to any provision is presented in the statements of income net of any related refund.

If the effect of the time value of money is material, provisions are discounted using a current market rate before tax that reflects, where appropriate, the risks specific to the liability. When the discount is recognized, the increase in the provision by the passage of time is recognized as a finance cost in the statements of income.

(l) Contingencies -

Contingent liability are not recognized in the financial statements. These are disclosed in notes to the financial statements, unless the possibility of disbursing an economic flow is remote.

Contingent assets are not recognized, but are disclosed when it is probable that an inflow of economic benefits to the Company occurs.

(m) Revenue recognition -

Revenues of the Company correspond mainly to:

Sale of goods -

Incomes are recognized to the extent that a performance obligation is satisfied by transferring the promised goods and services to the customer. An asset is transferred when the customer gains control over that asset.

Incomes will be recognized based on the transaction price that is assigned to that performance obligation, to which the Company expects to be entitled in exchange for transferring the goods and services promised to the customer, excluding the amounts collected on behalf of third parties.

Interest incomes -

These incomes are recognized when interests are accrued by using the effective interest rate method. Interest incomes are included in financial incomes in the income statements.

The Company has concluded that it is the owner in its sale agreements because it controls the goods or services before transferring them to the customer.

Notes to the financial statements (continued)

IFRS 15 "Revenues from contracts with customers" establishes a five-step model that will be applied to revenues from ordinary activities from contracts with customers, which include:

- identify the contract(s) with a customer.
- identify the performance obligations in the contract.
- determine the transaction price.
- allocate the transaction price to each performance obligation of the contract.
- Recognition of revenues from ordinary activities when (or as) the entity meets performance obligations

The accounting principles set out in IFRS 15 provide a more structured approach to measure and recognize incomes.

(n) Financing costs -

Financing costs that are directly attributable to acquisition, building or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are included in the cost of that asset. All other finance costs are recognized when occurred. Financing costs are interest and other costs the Company incurs in connection with the borrowings obtained.

(o) Income tax -

Current income tax -

Assets and liabilities for current income tax are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date of the period reported in Peru

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax -

Deferred income tax is recognized by using the liability method over temporary differences between the tax bases of assets and liabilities and their carrying amounts at the closing date of the reporting period.

Deferred income tax liabilities are recognized for all taxable temporary differences, except for taxable temporary differences related to investments in subsidiaries, when the opportunity of their reversal can be controlled, and it is probable that they will not be reversed in the near future.

Notes to the financial statements (continued)

Deferred income tax assets are recognized for all deductible temporary differences, and for the future compensation of unused tax credits and tax losses, to the extent that it is likely the existence of future available taxable profits against which such temporary differences can be compensated.

The carrying amount of the assets for deferred income tax is reviewed on each closing date of the reporting period and is reduced to the extent that the existence of sufficient future taxable income is no longer probable to allow these deferred income tax assets are used in whole or in part. Unrecognized deferred income tax assets are reviewed on each closing date of the reporting period and are recognized to the extent that it is likely the existence of future taxable profits that allow the recovery of such assets due to deferred income tax not previously recognized.

Assets and liabilities for deferred income tax are measured at the tax rates expected to be applicable in the year when the asset is made or the liability is canceled, based on the tax rates and tax rules that were approved as at the closing date of the reporting period.

Deferred income tax is recognized in relation to the item that originates it, either in incomes or directly in equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset assets and liabilities for income tax, and if deferred income taxes are related to the same tax authority and the same tax jurisdiction.

General Sales Tax -

Revenues from ordinary activities, expenses and assets are recognized excluding the amount of the general sales tax, except:

- (i) When the general sales tax incurred in an acquisition of assets or in the provision of services is not recoverable by the Tax Authority, in which case this tax is recognized as part of the acquisition cost of the asset or as part of the expense, as appropriate;
- (ii) The accounts receivable and payable that are already expressed including the amount of general sales tax.

The net amount of the general sales tax expected to be recovered from, or corresponding to be paid to the Tax Authority, is presented as an account receivable or an account payable in the statement of financial position, as appropriate.

Notes to the financial statements (continued)

- (p) Employees' profit sharing -
In accordance with legal standards from Peru, employees' profit sharing is calculated over the same basis for calculating current income tax and is presented in the income statement within the caption "Production cost", "Administrative expenses" and "Cost of distribution", as part of personnel expenses. In 2019 and 2018, the employees' profit sharing amounted to US\$3,126,000 and US\$5,005,000, respectively.
- (q) Employee benefits-
The Company has short-term obligations for employee benefits that include salaries, social contributions, bonuses, performance bonuses and profit sharing. These obligations are recorded every month, charged to the income statement, as they accrue.
- (r) Changes in accounting policies and disclosures -
In these financial statements, the Company has applied for the first time IFRS 16, effective for periods beginning on or after January 1, 2019.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

Following the provisions of IFRS 16, the entities have two options of methods on the date of adoption to implement the new standard:

- (a) the full retrospective method, which consists of applying IFRS 16 to each reporting period, as if the standard had always been in force, following the provisions of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- (b) the modified retrospective method, which consists of applying IFRS 16 and recording the cumulative effect of its initial application as of January 1, 2019 as an adjustment to the opening balance in net equity. In other words, comparative information is not restructured.

Translation of financial statements originally issued in Spanish - Note 32

Notes to the financial statements (continued)

The Company adopted IFRS 16 by using the modified retrospective method. As permitted by this method, the Company was not required to assess again whether a contract is, or contains, a lease on the date of initial application. Instead, the Company is allowed to:

- (a) apply this standard to contracts that were previously identified as leases by applying IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.
- (b) not to apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company also chose to use the recognition exemptions for lease contracts that, on the start date, have a lease term ending within the 12 months following the initial application date and do not have a purchase option (short-term leases), and lease contracts for which the asset has low value, see note 3(h).

The movement of "Right-of-use assets" for the year 2019 is as follows:

	US\$(000)
Cost -	
As of January 1, 2019	9,609
Additions	435
As of December 31, 2019	<u>10,044</u>
Accumulated amortization -	
As of January 1, 2019	-
Additions (c)	1,225
As of December 31, 2019	<u>1,225</u>
Net book value -	
As of December 31, 2019	<u>8,819</u>

The movement of "Lease liabilities" for the year 2019 is as follows:

	US\$(000)
As of January 1, 2019	9,609
Additions	435
Financial interest expenses, note 24	458
Lease payments	(1,498)
Others	(112)
As of December 31, 2019	<u>8,892</u>
By expiration:	
Current	982
No current	7,910
	<u>8,892</u>

Notes to the financial statements (continued)

The amortization allocation for 2019 is as follows:

	2019 US\$(000)
Administrative expenses, note 21	504
Costo of distribution, note 20	372
Costo of production, note 19	291
Cost incurred in non-production periods	58
	<hr style="width: 100%; border: 0.5px solid black;"/>
	1,225
	<hr style="width: 100%; border: 0.5px solid black;"/>

After the adoption of IFRS 16, the Company applies a single recognition and measurement approach for all leases, with the exemption of short-term leases and low-value assets, see note 3(h) "Leases" for the accounting policy from January 1, 2019.

The standard provides specific transition requirements and practical solutions, which have been applied by the Company and which are:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Leases previously classified as finance leases -

The Company did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases -

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases under IFRS 17, except for short-term leases and leases of low-value assets. Lease liability were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Notes to the financial statements (continued)

4. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to use judgments, estimates and assumptions that affect the reported amounts of incomes, expenses, assets and liabilities and the disclosure of contingent liabilities.

However, the uncertainties and professional judgment of these assumptions and estimates could result in amounts that require a material adjustment at the carrying value of the assets and liabilities.

The main significant estimates considered by Management of the Company in connection with the financial statements mainly relate to:

- Estimate of obsolescence allowance.
- Estimate of impairment of non-financial assets.
- Useful lives and recoverable amount of non-financial assets.
- Provision for contingencies.
- Income tax.
- Land revaluation.

The Management considers that the estimates included in the financial statements were made on the basis of its better knowledge of the relevant events and circumstances at the date of preparation thereof. However, the final results may differ from the estimates included in the financial statements.

5. New International Financial Reporting Standards (IFRS) not yet in force

There are no relevant standards and interpretations applicable to the Company that have been issued but are not yet in force as at the issuance date of the current financial statements.

6. Foreign Currency Transactions

Foreign currency transactions are recorded into the exchange rates of the free market published by the Superintendency of Banking, Insurance and Private Pension Fund Managers (Superintendencia de Banca y Seguros y AFP). As of December 31, 2019, the weighted average free market exchange rates for transactions in soles were US\$0.3020 for purchase and US\$0.3015 for sale (US\$0.2968 for purchase and 0.2959 for sale as of December 31, 2018).

Translation of financial statements originally issued in Spanish - Note 32

Notes to the financial statements (continued)

As of December 31, 2019 and 2018, the Company held the following assets and liabilities in soles:

	2019 S/(000)	2018 S/(000)
Assets		
Cash and cash equivalents	1,657	1,334
Trade and other receivables	34,099	54,719
Receivables from related parties	13,897	11,787
Tax credit for VAT	21,048	37,109
Income tax	15,393	-
	<u>86,094</u>	<u>104,949</u>
Liabilities		
Trade and other payables	102,030	22,486
Payables to related parties	106	90
Income tax payable	-	32,419
Provisions for contingencies	319	8,052
	<u>102,455</u>	<u>63,047</u>
Net asset (pasive) position	<u>(16,361)</u>	<u>41,902</u>

During 2019, the Company had a net exchange loss of US\$423,000 (US\$1,040,000 in 2018), which is presented in the statement of income.

The Management does not consider that the exchange rate risk could significantly impact on the profit and loss of the Company. As of December 31, 2019 and 2018, the Company does not have financial instruments covering the exchange risk of its operations in soles.

7. Cash and cash equivalents

(a) This item is made up by:

	2019 US\$(000)	2018 US\$(000)
Current accounts (b)	3,007	1,088
Fixed funds	10	8
Term deposits (c)	-	32,000
	<u>3,017</u>	<u>33,096</u>

(b) Current accounts are held in domestic banks, are mainly denominated in U.S. Dollars, which are freely available and do not accrue interest.

(c) As of December 31, 2018, the term deposits are denominated in soles and U.S. Dollars, have original maturities in less than three months and may be renewed when due. These deposits are held in local banks, which are remunerated at current market rates.

Notes to the financial statements (continued)

8. Trade and other receivables, net

(a) This item is made up by:

	2019 US\$(000)	2018 US\$(000)
Advances and loans to ship owners (b)	34,022	26,548
Advances and loans for maquila (c)	8,733	5,296
Trade accounts receivable (d)	8,435	10,101
Accounts receivable from shareholders	3,611	3,599
Accounts receivable from personnel	1,006	1,374
Third-party claims	778	558
Others	1,072	406
	<u>57,657</u>	<u>47,882</u>
Less - Impairment allowance (e)	(384)	(320)
	<u>57,273</u>	<u>47,562</u>
By expiration:		
Current	54,057	42,108
Non current	3,216	5,454
	<u>57,273</u>	<u>47,562</u>

(b) As of December 31, 2019 and 2018, it mainly corresponds to the advance granted to ship owners for unloading fish in the Company's plants. These balances are denominated in soles and U.S. Dollars, do not accrue interests and are supported by bills of exchange, and, in many cases, movable guarantees consisting of mortgages or trusts of vessels in favor of the Company. In opinion of the Management, the balance will be recovered in the short term.

(c) As of December 31, 2019 and 2018, it mainly corresponds to the advance granted to ship-owners and loans to ship-owners for maquila services of fishmeal and fish oil. Those balances are denominated in US dollars, do not accrue interests and do not have current maturities. In opinion of the Management, the balance will be recovered in the short term.

(d) Trade accounts receivable mainly consist of domestic and foreign sales, whose collections are mostly made by credit letters. These accounts receivable are mainly denominated in U.S. Dollars, have current maturities and do not accrue interests.

Notes to the financial statements (continued)

(e) The movement of the impairment allowance for the years 2019 and 2018 is as follows:

	2019 US\$(000)	2018 US\$(000)
Opening balance	320	328
Charge for the year	64	-
Recoveries	-	(8)
Closing balance	<u>384</u>	<u>320</u>

(f) As of December 31, 2019 and 2018, the aging analysis of trade receivables is as follows:

	2019 US\$(000)	2018 US\$(000)
Not past due nor impaired	7,439	9,047
Past due but not impaired		
Until 60 days	626	427
Between 61 and 180 days	128	448
Impaired	<u>242</u>	<u>179</u>
	<u>8,435</u>	<u>10,101</u>

9. Inventories, net

(a) This item is made up by:

	2019 US\$(000)	2018 US\$(000)
Finished goods -		
Fishmeal	43,851	57,162
Fish oil	9,752	12,498
Frozen fish	430	628
Others	100	-
	<u>54,133</u>	<u>70,288</u>
Supplies	5,934	6,135
Packaging and casing	1,475	1,027
Inventories in transit	166	-
Deferred costs (c)	-	3,017
	<u>61,708</u>	<u>80,467</u>
Less - Obsolescence allowance (d)	<u>(590)</u>	<u>(590)</u>
	<u>61,118</u>	<u>79,877</u>

Notes to the financial statements (continued)

- (b) As of December 31, 2019, the Company kept 18,140 MT and 3,690 MT of fishmeal and fish oil, respectively, as guarantee for short-term bank loans (as of December 31, 2018, 33,570 MT of fishmeal, as guarantee for short-term bank loans), see note 12(b).
- (c) The deferred costs correspond to those incurred during the closed season in plants and vessels. These costs are allocated to the cost of the next production and based on the normal production capacity of plants and vessels. As of December 31, 2018, it corresponds to the balance of the accumulated fixed costs after the first season of that year and, which were allocated to the cost of production of the second fishing season ending in april of the next year.
- (d) Obsolescence allowance is determined based on the assessment performed by the Company's operating areas, identifying obsolete materials and supplies.

As a result, the Company's Management considers that no additional provisions are required for obsolescence allowance as of December 31, 2019 and 2018.

Translation of financial statements originally issued in Spanish - Note 32

Notes to the financial statements (continued)

10. Property, vessels, machinery and equipment, net

(a) The movement of this item is as follows:

	Land US\$(000)	Building and constructions US\$(000)	Fishing vessels US\$(000)	Machinery and equipment US\$(000)	Transport units US\$(000)	Furniture and fixtures US\$(000)	Other equipment and computer equipment US\$(000)	Work in progress US\$(000)	Total US\$(000)
Cost -									
As of January 1, 2018	55,026	34,801	145,445	174,152	1,948	1,005	3,758	1,282	417,417
Additions (b)	-	-	-	-	-	-	-	22,560	22,560
Revaluations (c)	9,666	-	-	-	-	-	-	-	9,666
Transfers	-	1,546	8,354	12,081	309	46	301	(22,637)	-
Disposals	-	(2)	(3,972)	(1,529)	(243)	(1)	(53)	-	(5,800)
As of December 31, 2018	<u>64,692</u>	<u>36,345</u>	<u>149,827</u>	<u>184,704</u>	<u>2,014</u>	<u>1,050</u>	<u>4,006</u>	<u>1,205</u>	<u>443,843</u>
Additions (b)	-	-	-	-	-	-	-	26,198	26,198
Devaluations (c)	(284)	-	-	-	-	-	-	-	(284)
Transfers	-	1,148	10,851	12,441	531	91	433	(25,495)	-
Disposals	-	-	(6,416)	(1,771)	(20)	(262)	(112)	-	(8,581)
As of December 31, 2019	<u>64,408</u>	<u>37,493</u>	<u>154,262</u>	<u>195,374</u>	<u>2,525</u>	<u>879</u>	<u>4,327</u>	<u>1,908</u>	<u>461,176</u>
Accumulated depreciation -									
As of January 1, 2018	-	9,800	99,344	87,783	1,626	612	2,513	-	201,678
Additions (d)	-	1,336	7,801	10,527	119	86	438	-	20,307
Disposals	-	-	(3,513)	(1,200)	(241)	(1)	(48)	-	(5,003)
As of December 31, 2018	-	<u>11,136</u>	<u>103,632</u>	<u>97,110</u>	<u>1,504</u>	<u>697</u>	<u>2,903</u>	-	<u>216,982</u>
Additions (d)	-	1,214	8,794	11,562	168	98	402	-	22,238
Disposals	-	-	(5,853)	(1,351)	(20)	(260)	(102)	-	(7,586)
As of December 31, 2019	-	<u>12,350</u>	<u>106,573</u>	<u>107,321</u>	<u>1,652</u>	<u>535</u>	<u>3,203</u>	-	<u>231,634</u>
Net book value -									
As of December 31, 2019	<u>64,408</u>	<u>25,143</u>	<u>47,689</u>	<u>88,053</u>	<u>873</u>	<u>344</u>	<u>1,124</u>	<u>1,908</u>	<u>229,542</u>
As of December 31, 2018	<u>64,692</u>	<u>25,209</u>	<u>46,195</u>	<u>87,594</u>	<u>510</u>	<u>353</u>	<u>1,103</u>	<u>1,205</u>	<u>226,861</u>

Notes to the financial statements (continued)

(b) Additions -

During 2019 and 2018, the Company has made additions mainly in vessels and machinery for improvements in fishing vessels and in the production of fishmeal and fish oil.

(c) Revaluations -

The Company uses the revaluation model to measure its land. For this purpose, the Company hires an independent appraiser, with experience in the valuation of similar assets to determine the fair value.

The fair values were determined by using the valuation technique based on the market approach, this means that valuations performed by the independent appraiser were based on quoted prices in active markets by the nature, location and condition of each land. The date of the last revaluation was in November 2019.

If the land had been measured by using the cost model, as of December 31, 2019 and 2018, the carrying amount would have been the historic cost of US\$5,569,000. The cost attributed from the adoption of IFRS for the first time amounts to US\$9,329,000.

(d) Distribution of the year depreciation -

The depreciation allocation for 2019 and 2018 is as follows

	2019 US\$(000)	2018 US\$(000)
Cost of production, note 19	15,301	13,168
Costs incurred in non-production periods	5,847	5,067
Administrative expenses, note 21	640	626
Cost of distribution, note 20	450	549
Deferred costs	-	897
	<u>22,238</u>	<u>20,307</u>

(e) Works in progress -

As of December 31, 2019 and 2018, it mainly corresponds to improvements in its processing plants for indirect human consumption and in its fishing vessels. In opinion of the Management, all the works in progress will be completed during 2020.

(f) Assets in financial leasing -

As of December 31, 2019, the Company keeps fishing vessels, building and constructions, transport units and machinery and equipment through financial leasing contracts (as of December 31, 2018, the Company kept building and constructions and machinery and equipment through financial leasing contracts). As of December 31, 2019, the cost and accumulated depreciation amount to approximately US\$54,597,000 and US\$37,845,000 respectively (as of December 31, 2018, the cost and accumulated depreciation amount to approximately US\$53,482,000 and US\$36,964,000 respectively).

Notes to the financial statements (continued)

- (g) Guarantees granted -
As of December 31, 2019, the Company has made guarantees on plants and vessels for approximately US\$11,623,000. These guarantees support syndicated loans, see note 14.
- (h) The Company keeps insurance policies to safeguard its main fixed assets against fire and all risks, as well as the possible claims that may arise for the exercise of its activity. In Management's opinion, its insurance policies are consistent with the international practice applicable to the industry and the risk of eventual losses due to accidents considered in the insurance policy.

11. Intangible assets, net and goodwill

- (a) The movement of this item is as follows:

	Fishing licence (b) US\$(000)	Software US\$(000)	Total US\$(000)
Cost -			
As of January 1, 2018	114,105	5,005	119,110
Additions	-	1,510	1,510
As of December 31, 2018	114,105	6,515	120,620
Additions (b)	3,118	233	3,351
As of December 31, 2019	117,223	6,748	123,971
Accumulated amortization -			
As of January 1, 2018	-	2,291	2,291
Additions	-	390	390
As of December 31, 2018	-	2,681	2,681
Additions	-	429	429
As of December 31, 2019	-	3,110	3,110
Net book value -			
As of December 31, 2019	117,223	3,638	120,861
As of December 31, 2018	114,105	3,834	117,939

- (b) It corresponds to the fishing licence that the Company holds for the development of its activities. By virtue of its nature, fishing licence are considered intangible with indefinite useful lives, so they are not subject to amortization.

Fishing licence have been acquired along with purse-seine fishing vessels, through purchase processes and mergers with other companies, and have been determined on the basis of their estimated market values obtained from independent appraisers at the date of each transaction.

Notes to the financial statements (continued)

In April 2019, the Company acquired the "María Mercedes" fishing vessel through financial leasing, whose cost amounted to US\$3,350,000, which included the value of the anchovy fishing license and the fishing vessel for approximately US\$3,118,000 and US\$232,000, respectively.

- (c) Between 2007 and 2012, the Company made effective the acquisition of 100 percent of the shares representing the capital issued of multiples companies. The acquisitions of these companies were recorded following the purchase method, so adjustments were incorporated in their financial statements to reflect the acquired assets and liabilities at their fair values on the acquisition date. As a result of these acquisitions, the Company recognized a goodwill of US\$113,342,000.

As of December 31, 2019 and 2018, goodwill has been generated by the acquisition of the following companies:

Company	Acquisition year	US\$(000)
Corporación del Mar S.A.A.	2009	39,396
Walda S.A.C.	2012	15,190
Inversiones Poas S.A.C.	2012	13,586
Pesquera del Sur S.C.R. LTDA.	2012	10,366
Grupo Arrieta	2007	7,114
Grupo Queirolo	2007	6,533
Pesquera Ollanta S.A.C.	2011	4,656
Grupo Tassara	2007	3,292
Inversiones Pesquera Valentina S.A.C.	2012	3,252
Pesquera San Martin de Porras S.A.C.	2011	3,224
Others	2007	3,043
Pesquera Mar Adentro S.A.C.	2011	2,946
Grupo Cabo Peñas	2007	744
		113,342

- (d) Impairment testing -
Intangible assets with indefinite useful lives are analyzed for impairment by assigning them to three cash-generating units (hereinafter "CGU"), which include the following assets:

- Vessels (Fleet)
- Plants of Indirect Human Consumption
- Plants of Direct Human Consumption

Notes to the financial statements (continued)

The recoverable amount of the cash generating unit for the extraction and production of fishmeal and fish oil has been determined based on a calculation of the value in use, by using projections of cash flows derived from the financial budgets approved by the Management, and that cover a period of ten years.

Below, the main assumptions on which the Management has based the projections indicated above:

- (i) Price of fishmeal and fish oil: For its own fleet and third-party acquisitions, the model assumes 18 percent of the total value of fishmeal as raw material cost. For the plants, the model uses the average prices of fishmeal and fish oil of US\$1,450 and US\$1,892 per MT, respectively. The Management expects the prices to be stable and to increase consistently according to the market expectations and demand.
- (ii) Fishing quota: The Company has an anchovy fishing quota of 6.77 percent of the total biomass determined by the Peruvian Marine Institute based on the Law and Regulation on Maximum Catch Limits per Vessel. To this quota it is added the participation of third parties of 7.50 percent, reaching a total of 14.27 percent of participation. The Company's total quota for 2019 (first and second fishing season) amounted to 4,890,000 MT (3,716,700 MT in 2018).
- (iii) Discount rate: The discount rate before income tax applicable to cash flow projections was 10.21 percent, which is consistent with other rates used in the fishing sector.
- (iv) Costs: For vessels, extraction costs are considered, such as operating and maintenance costs. The costs incurred in periods of non-production are stable over time, updated only by inflation. Extraction costs are based on budgeted costs prepared by the Management. For plants, production costs are considered, where the model assumes that the total raw material comprises what the Company's vessels fished and is sold to their plants at market prices.

Sensitivity to changes of assumptions -

As of December 31, 2019, in order to generate impairment, the following assumptions should vary in the following way, keeping the rest constant:

- The discount rate should have been higher than 17.60 percent for vessels, 11.50 percent for Plants of Indirect Human Consumption, and 42.80 percent for Plants of Direct Human Consumption.
- The total quota allocated should be 3,039,000 MT for vessels and 2,886,000 MT for Plants of Indirect Human Consumption. For Plants of Direct Human Consumption, there should be a minimum quota for each type of product (jack mackerel, mackerel and giant squid) for a total of 26,900 MT.

Notes to the financial statements (continued)

- The minimum price should be US\$979 per MT for fishmeal and US\$1,216 per MT for fish oil for vessels; US\$1,413 per MT for fishmeal and US\$1,755 per MT for fish oil for Plants of Indirect Human Consumption. For Plants of Direct Human Consumption, a minimum price has been calculated for each type of product: horse mackerel and mackerel for US\$528 per MT and giant squid for US\$6176 per MT.

Taking into account the market conditions, the Management considers that the assumptions used as a basis for the analysis are reasonable and that the variations that would be required to generate impairment are not expected to happen. As a result, it is not necessary to record impairment estimates as of December 31, 2019 and 2018.

12. Short-term bank loans

- (a) This item is made up by:

	2019 US\$(000)	2018 US\$(000)
Banco de Crédito del Perú S.A.A.	23,966	35,000
Banco Interamericano de Finanzas S.A.	15,000	3,000
Banco Internacional del Perú S.A.A. - Interbank	14,750	-
Banco Santander del Perú S.A.	14,000	-
BBVA Banco Continental S.A.A.	10,884	15,000
Scotiabank Perú S.A.A.	3,211	17,000
	<u>81,811</u>	<u>70,000</u>

- (b) Bank loans correspond to short-term financing for working capital. They are denominated in U.S.Dollars, accrue interest at annual market rates and, most of them, are guaranteed by warrants, see note 9(b).
- (c) In 2019, interest expense accrued in 2019 related to short-term bank loans amounts to approximately US\$5,169,000 (US\$4,897,000 in 2018) and is presented in the "Financial expenses" caption of the statement of income, see note 24.

Notes to the financial statements (continued)

13. Trade and other payables

(a) This item is made up by:

	2019 US\$(000)	2018 US\$(000)
Trade payables (b)	37,036	37,757
Lease liabilities, note 3(r)	8,892	-
Advanced payments received	3,427	71
Financing interests	3,314	5,700
Workers' share	3,156	5,076
Accrued expenses (c)	1,973	4,203
Accounts payable to the Ministry of Production - PRODUCE, note 15(b)	1,616	-
Holidays payable	1,363	1,434
Taxes	442	1,074
Social contributions	312	516
Remuneration payable	257	933
Customer advances	245	388
Others	407	849
	<u>62,440</u>	<u>58,001</u>
By expiration:		
Current	54,530	58,001
No current	7,910	-
	<u>62,440</u>	<u>58,001</u>

(b) Trade payables arise from liabilities generated by services received from local suppliers, for the production and export of their finished products and the maintenance of their equipment. These liabilities are denominated in U.S. Dollars and Soles, do not accrue interests and no guarantees have been provided for these liabilities.

(c) Accrued expenses correspond to services received by the annual closing date and that, at such date, their billings were not received by the Company. These expenses are mainly related to natural gas, surveillance, electric power, certificates, insurance, and customs duty expenses.

Translation of financial statements originally issued in Spanish - Note 32

Notes to the financial statements (continued)

14. Long-term financial liabilities

(a) This item is made up by:

	Currency	2019 US\$(000)	2018 US\$(000)
Corporate bonds (b)	US\$	60,008	167,667
Syndicated loan (c)			
Cooperatieve Rabobank U.A.	US\$	36,027	-
DNB Bank ASA	US\$	27,020	-
Banco Santander del Perú S.A.	US\$	22,763	6,909
Banco de Crédito del Perú S.A.A.	US\$	12,446	6,909
Banco Internacional del Perú S.A.A. - Interbank	US\$	9,826	5,182
		<u>108,082</u>	<u>19,000</u>
Finance lease (e)			
BBVA Banco Continental S.A.	US\$	3,085	676
Banco de Crédito del Perú S.A.A.	US\$	2,281	745
Banco Internacional del Perú S.A.A. - Interbank	US\$	438	1,292
Banco Santander Perú S.A.	US\$	4	42
		<u>5,808</u>	<u>2,755</u>
		<u>173,898</u>	<u>189,422</u>
By expiration:			
Current		20,020	5,772
Not current		153,878	183,650
		<u>173,898</u>	<u>189,422</u>

(b) Bonds -

In January 2013, the Company made an international placement of Corporate Bonds under the 144A REGS format for a principal amount of US\$200,000,000, for a period of 7 years, payable at maturity and with an annual fixed interest rate of 7.375 percent. The interest is paid every semester, maturing in 2020.

On August 31, 2016, the repurchase of US\$30,000,000 was made by paying 76.5 percent of its nominal value and generating a net profit of US\$3,000,000, which was presented in the Company's income statement.

On February 6, 2018, it was agreed to extend the financing term of US\$60,900,000 of the outstanding bonds until 2025 and with an increase of 8 percent in the annual fixed interest rate.

On February 15, 2019, the bonds were repurchased for an amount of US\$109,078,000 with the funds obtained through the acquisition of the syndicated loan for US\$110,000,000, see note (c).

Translation of financial statements originally issued in Spanish - Note 32

Notes to the financial statements (continued)

As of December 31, 2019, the principal of bonds is shown net of the costs directly associated for US\$914,000 (US\$2,270,000 as of December, 2018).

During the effective period of the contract in which (i) the Bonds have Investment Grade Rating from two well-known risk-rating agencies and (ii) no payment default or event of default have occurred that have not been corrected, the Company will not be subject to the following provisions (together "Suspended Covenants") of the placement contract:

- Limitations on indebtedness and unqualified shares; limitations on restricted payments;
- Limitations on dividend restrictions and other payments affecting restricted subsidiaries;
- Limitations on transactions with affiliates;
- Limitations on sales of assets;
- Limitations on business activities;
- Limitations on consolidation, merger and sale of assets.

In the event that the Company has a grade below the investment grade, it will be subject to a number of restrictions included in the "Limitation of Indebtedness" section. All the debt that the Company incurs under this situation will be subject to a Debt Hedge Ratio (Total Debt/ EBITDA) of the last twelve months not higher than 3.5x.

If the Debt Hedge is above 3.5x, the Company may incur in "Allowed Indebtedness", which contains a number of debt authorizations among which we have: Debt to cover the working capital needs for the higher value between US\$70,000,000 or 14.5 percent out of total assets and debt through finance lease operations for a higher value between US\$20,000,000 or 4 percent out of total assets.

As of December 31, 2019 and 2018, the Company has not breached any covenant and expects to comply with such requirements in the following 12 months.

(c) Syndicated loan -

On January 15, 2019, the Company entered into a syndicated loan agreement for an approximate amount of US\$110,000,000, which was mainly destined for the repurchase of the bonds for US\$109,078,000 and for the payment of the previous syndicated loan for US\$19,000,000, in force as of December 31, 2018. The loan was disbursed in two tranches: one for US\$91,000,000 and the other for US\$19,000,000, for a period of 5 years with a Libor interest rate of 3 months plus an applicable margin calculated as follows:

- Financial debt ratio / EBITDA \geq 3.0 and $<$ 3.5; interest rate: Libor of 3 months + 4.35%
- Financial debt ratio / EBITDA \geq 2.25 and $<$ 3.0; interest rate: Libor of 3 months + 3.85%
- Financial debt ratio / EBITDA $<$ 2.25; interest rate: Libor of 3 months + 3.70%

The loan has a quarterly payment period and a payment term of five years, with expiration date on January 15, 2024 and is guaranteed with plants and vessels of the Company, see note 10(g).

Notes to the financial statements (continued)

As of December 31, 2019, the principal of the syndicated loan is shown net the costs directly associated for US\$1,918,000.

Financial guarantees -

According with the conditions of the syndicated loan, the Company must fulfill commitments related to the financial management throughout the term of the contracts of that financial obligation, which are supervised by the Company's Management. Those commitments correspond to financial guarantees that are monitored quarterly, six-monthly and annually, and must be calculated based on the Company's financial information.

As of December 31, 2019, the incomes obtained by the Company in relation to those financial guarantees are shown below:

	Established limits	Incomes obtained in 2019
Liquidity ratio not less than:	1.00	0.86
Debt ratio not higher than:	3.50	3.29
Debt service coverage ratio not less than:	1.20	1.31
Financial leverage ratio not higher than:	1.50	1.33

As of December 31, 2019, the Company does not meet the financial liquidity indicator required in the syndicated loan, so the Administrative Agent bank (DNB Bank ASA.) would be empowered to demand, execute and/or demand the immediate payment of the amount owed, as well as to execute the guarantees received. However, as at the date of this report, the Company has the waiver duly approved and granted by the Administrative Agent bank, so that the breach of the financial guarantees does not constitute "Default" or "Event of default", as established in the loan contract, for the period ended on December 31, 2019 and until the next measurement date, as applicable. As of December 31, 2018, the Administrative Agent had waived the compliance with the financial guarantees by the Company, because that credit was totally paid in February 2019.

(d) Cash flow hedge -

As at December 31, 2019, the Company has three swap agreements of interest rate designated as cash flow hedging and recorded at fair value, which are intended to eliminate exposure to variable interest rate risk. Each of the derivative financial instruments is associated with a third of the syndicated loan, which accrues a variable interest equivalent to the Libor rate of 3 months. The Company pays or receives quarterly (on each payment date of the loan interest) the difference between the market Libor rate applicable to the loan in such period and the fixed rate agreed in the hedging contracts. The cash flow effectively received or paid by the Company is recognized as a correction of the financial cost of the term for the loan hedged. In 2019, the Company recognized a financial income from these derivative financial instruments amounting to approximately US\$53,000 and is presented in "Financial costs" in the income statements, see note 24.

Notes to the financial statements (continued)

The effective portion of the variations in the fair value of the derivative financial instruments that qualify as hedges are recognized as assets or liabilities, having as counterpart the statement of comprehensive incomes. In 2019, the Company has recognized in "Unrealized income of derivate financial instruments" in other comprehensive incomes a positive effect due to changes in the fair value of the derivate financial instruments of approximately US\$608,000, which is presented net of the effect on deferred income tax.

- (e) The present values of the future minimum lease payments are as follows:

	2019		2018	
	Minimum payments US\$(000)	Current value of payments US\$(000)	Minimum payments US\$(000)	Current value of payments US\$(000)
Until 1 year	2,628	2,418	1,853	1,853
From 2 to 5 years	3,556	3,390	1,002	902
Total of minimum payments	6,184	5,808	2,855	2,755
Less - Interests	(376)	-	(100)	-
Current value of minimum payments	5,808	5,808	2,755	2,755

- (f) As of December 31, 2019 and 2018, the non-current portion of long-term financial obligations has the following maturities:

Expiration year	2019 US\$(000)	2018 US\$(000)
2020	-	113,510
2021	19,527	4,069
2022	18,885	7,060
2023	17,777	-
2024 from this point forward	97,689	59,011
	153,878	183,650

- (g) In 2019, interest expense accrued in 2019 related to bonds, syndicated loan and finance lease amounts to US\$5,847,000, US\$7,096,000 y US\$195,000 respectively (US\$12,888,000, US\$1,385,000 y US\$164,000 in 2018, respectively) and is presented in the "Financial expenses" caption of the statement of income, see note 24.

Notes to the financial statements (continued)

15. Provisions for contingencies

(a) The movement of this item is as follows:

	Labor process US\$(000)	Administrative process US\$(000)	Total US\$(000)
As of January 1, 2018	396	2,505	2,901
Deductions	-	(178)	(178)
Payments	(340)	-	(340)
As of December 31, 2018	56	2,327	2,383
Provisions of the year	40	-	40
Payments	-	(711)	(711)
Reclassifications (b)	-	(1,616)	(1,616)
As of December 31, 2019	96	-	96

(b) In 2018, the Company decided to apply the special regime according to D.S. 006-2018-PRODUCE, which establishes the Company may request the fractional payment of the fines filed by such entity, provided that the Company expressly recognizes the infraction and desists from the administrative appeal filed. Because these obligations no longer qualify for accounting purposes as a contingency during 2019, the Company reclassified US\$1,616,000 it had with the Ministry of Production - PRODUCE to the item "Trade and other accounts payable" in the statement of financial position, see note 13.

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Notes to the financial statements (continued)

16. Net deferred income tax liabilities

(a) The composition and movement of this item is as follows:

	Balance of at January 1, 2018 US\$(000)	Credit (debit) to the income statement US\$(000)	Debit to the statement of comprehensive income US\$(000)	Balance as of December 31, 2018 US\$(000)	Credit (debit) to the income statement US\$(000)	Credit (debit) to the statement of comprehensive income US\$(000)	Balance as of December 31, 2019 US\$(000)
Deferred assets							
Impairment of investment	547	(22)	-	525	10	-	535
Impairment of fixed assets	496	-	-	496	(11)	-	485
Provision for vacations payable	48	375	-	423	(21)	-	402
Tax loss	(226)	39	-	(187)	432	-	245
Others	1,653	(1,080)	-	573	901	-	1,474
	<u>2,518</u>	<u>(688)</u>	<u>-</u>	<u>1,830</u>	<u>1,311</u>	<u>-</u>	<u>3,141</u>
Deferred liabilities							
Cost and translation effect of intangibles	(25,076)	(439)	-	(25,515)	150	-	(25,365)
Revaluation of land	(13,481)	-	(2,851)	(16,332)	-	84	(16,248)
Higher value for attributed cost, differences in depreciation rates and translation effect of fixed assets	(14,839)	813	-	(14,026)	2,083	-	(11,943)
Cost of bond issuance	(432)	(53)	-	(485)	(3,438)	-	(3,923)
Valuation of derivative financial instruments	-	-	-	-	-	(255)	(255)
	<u>(53,828)</u>	<u>321</u>	<u>(2,851)</u>	<u>(56,358)</u>	<u>(1,205)</u>	<u>(171)</u>	<u>(57,734)</u>
Net deferred liabilities	<u>(51,310)</u>	<u>(367)</u>	<u>(2,851)</u>	<u>(54,528)</u>	<u>106</u>	<u>(171)</u>	<u>(54,593)</u>

(b) The benefit (expense) for income tax shown in the statement of income for the years 2019 and 2018 is composed as follows:

	2019 US\$(000)	2018 US\$(000)
Current	(8,300)	(13,172)
Deferred	<u>106</u>	<u>(367)</u>
	<u>(8,194)</u>	<u>(13,539)</u>

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Notes to the financial statements (continued)

- (c) The reconciliation between the effective income tax rate and the legal tax rate for the years 2019 and 2018 is as follows:

	2019 US\$(000)	%	2018 US\$(000)	%
Profit before income tax	14,544	100.00	42,869	100.00
Theoretical tax expense	(4,290)	(29.50)	(12,646)	(29.50)
Translation effect	(2,825)	(19.42)	192	0.44
Permanent additions	(1,079)	(7.42)	(1,085)	(2.52)
Expense for income tax	<u>(8,194)</u>	<u>(56.34)</u>	<u>(13,539)</u>	<u>(31.58)</u>

17. Net equity

- (a) Issued capital -

As of December 31, 2019 and 2018, the issued capital is represented by 295,536,144 common shares of S/1.00 par value, each one fully authorized, issued and paid. These belong to both legal entities domiciled and not domiciled in Peru.

The share structure of the Company as of December 31, 2019 and 2018; was as follows:

	2019	
	Number of shares	Total percentage of shares %
Shareholders		
Caleta de Oro Holding S.A.	196,774,596	66.58
Inversiones Odisea Limitada	27,156,338	9.19
Caleta de Oro Holding del Perú S.A.C.	25,000,000	8.46
Others	46,605,210	15.77
	<u>295,536,144</u>	<u>100.00</u>

- (b) Share premium -

In General Shareholders' Meeting held on October 4, 2010, it was approved the increase of the Company's capital through the local and international offer of up to 57,500,000 class "A" shares of S/1.00 par value.

The placement of 57,500,000 shares in the local and international market were incorporated in the Company's equity at a market value of S/4.75 each one, which represented an increase in the issued capital of US\$20,584,000 and the recognition of a share premium of US\$69,721,000, net of costs related to the issuance for US\$7,467,000.

Notes to the financial statements (continued)

(c) Legal reserve -

In accordance with the Corporations Act, the legal reserve is incorporated transferring at least 10 percent of net income each year, after deducting accumulated losses, until it reaches an amount equivalent to one fifth of the capital. In the absence of earnings or freely available reserves, the legal reserve must be applied to offset losses, but must be replaced. The legal reserve may be capitalized, but must also be replaced.

(d) Revaluation surplus -

It includes the revaluation of lands at amounts that have been determined by technical valuations performed by independent appraisers. The revaluation surplus, recorded net of its effect of the deferred income tax, is transferred to retained earnings when the underlying asset is withdrawn or sold.

(e) Dividend distribution -

In the General Shareholders' meeting held on March 26, 2019, a distribution of dividends for US\$20,000,000 (US\$0.068 per share) was approved, which was paid in cash in May, 2018.

18. Net sales

(a) This item is made up by:

	2019 US\$(000)	2018 US\$(000)
Fish flour	198,180	198,375
Fish oil	37,347	34,279
Fresh and frozen fish	18,427	5,614
Storage services of frozen products	7,026	1,315
Others	5,105	1,074
	<u>266,085</u>	<u>240,657</u>

(b) During 2019, approximately 138,108 MT and 19,633 MT of fishmeal and fish oil were sold, respectively (124,752 MT and 23,965 MT of fishmeal and fish oil were sold, respectively, during 2018).

(c) In 2019, 93 percent of the total sales of the Company went abroad (89 percent in 2018), see note 3(d).

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Notes to the financial statements (continued)

19. Cost of sales

The following is the equation of cost of sales:

	2019 US\$(000)	2018 US\$(000)
Opening balance of finished products, note 9	70,288	3,178
Cost of production:		
- Raw material, supplies and provisions used	99,998	126,786
- Manufacturing expenses	27,667	30,558
- Personnel expenses, note 22(b)	23,674	31,240
- Depreciation, note 10(d)	15,301	13,168
- Right-of-use assets amortization, note 3(r)	291	-
Final balance of finished products, note 9	(54,133)	(70,288)
	<u>183,086</u>	<u>134,642</u>
Costs incurred in non-production periods	19,151	15,736
	<u>202,237</u>	<u>150,378</u>

20. Cost of distribution

This item is made up by:

	2019 US\$(000)	2018 US\$(000)
Export services	5,881	4,296
Transportation of finished products	3,798	2,893
Personnel expenses, note 22(b)	1,493	1,381
Inspection and analysis	1,336	1,471
Security and vigilance	895	748
Commissions for sale of finished products	660	504
Stowage and packing	495	678
Depreciation, note 10(d)	450	549
Right-of-use assets amortization, note 3(r)	372	-
Storage of finished products	285	261
Others	1,627	1,499
	<u>17,292</u>	<u>14,280</u>

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Notes to the financial statements (continued)

21. Administrative expenses

This item is made up by:

	2019 US\$(000)	2018 US\$(000)
Personnel expenses, note 22(b)	5,202	5,242
Professional fees	1,365	773
Depreciation, note 10(d)	640	626
Services rendered by third parties	632	1,308
Security and vigilance	556	512
Right-of-use amortization, note 3(r)	504	
Communications	314	299
Maintenance and repairs	68	71
Insurance expenses	35	23
Taxes	19	7
Rental expenses	-	662
Others	1,262	877
	<u>10,597</u>	<u>10,400</u>

22. Personnel expenses

(a) The composition of the personnel expenses is as follows:

	2019 US\$(000)	2018 US\$(000)
Fishing participation	7,593	11,222
Employees remuneration	6,281	6,099
Workers' remuneration	4,663	4,299
Bonuses	3,698	3,791
Workers' share	3,126	5,005
Security, social security and others	3,022	2,935
Premium	1,842	2,099
Severance Compensation	1,807	1,994
Vacation	1,622	1,805
Others	1,942	2,701
	<u>35,596</u>	<u>41,950</u>

In 2019, the Company had an average of 1,287 workers (1,232 in 2018).

Notes to the financial statements (continued)

(b) Personal expenses have been recorded in the following captions of the statements of income:

	2019 US\$(000)	2018 US\$(000)
Cost of production, note 19	23,674	31,240
Administrative expenses, note 21	5,202	5,242
Cost of distribution, note 20	1,493	1,381
Costs incurred in non-production periods	5,227	4,087
	<u>35,596</u>	<u>41,950</u>

23. Other incomes and expenses

This item is made up by:

	2019 US\$(000)	2018 US\$(000)
Incomes		
Insurance indemnity	773	107
Reversal of provisions from previous years	424	1,268
Income from the sale of fuels and materials	220	571
Recovery of administrative penalties	-	91
Others	1,588	1,087
	<u>3,005</u>	<u>3,124</u>
Expenses		
Penalties of PRODUCE and others	1,633	941
Net cost for fixed assets disposals	995	797
Expenses for taxes assumed	402	719
Others	2,406	3,260
	<u>5,436</u>	<u>5,717</u>

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Notes to the financial statements (continued)

24. Financial expenses

This item is made up by:

	2019 US\$(000)	2018 US\$(000)
Interests of syndicated loan, note 14(g)	7,096	1,385
Bond interests, note 14(g)	5,847	12,888
Interests of short-term bank loans, note 12(c)	5,169	4,897
Intereses of lease liabilities, note 3(q)	458	-
Interests of finance leases, note 14(g)	195	164
Profit of derivative financial instruments, note 14(d)	(53)	-
	<u>18,712</u>	<u>19,334</u>

25. Transactions with related entities

(a) During 2019 and 2018, the Company has made the following transactions with related parties:

	2019 US\$(000)	2018 US\$(000)
Loans granted	437	807
Rebilling of network services and others	268	12
Expenses for renting offices and others	(5)	(17)

(b) As a result of these and other minor transactions, as of December 31, 2019 and 2018, the Company maintained the following balances with related parties:

	2019		2018	
	Accounts receivable US\$(000)	Accounts payable US\$(000)	Accounts receivable US\$(000)	Accounts payable US\$(000)
Comercializadora Global S.A.	2,248	-	2,089	-
Compañía Hotelera El Sausal S.A.	720	2	708	2
Complejo Agroindustrial Beta S.A.	607	17	588	17
Corporación del Mar S.A.	407	-	131	-
Corporación Exalmar S.A.	227	-	199	-
Caleta de Oro Holding del Perú S.A.C.	203	-	-	-
C.M.V. Servicios Ejecutivos S.A.	88	13	32	8
Caleta de Oro Holding S.A.C.	46	-	-	-
Inmobiliaria Seville S.A.	40	-	40	-
Torres del Río S.A.C.	5	-	-	-
Silk Holding Mangement Ltd.	4	-	-	-
	<u>4,595</u>	<u>32</u>	<u>3,787</u>	<u>27</u>

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Notes to the financial statements (continued)

	2019		2018	
	Accounts receivable US\$(000)	Accounts payable US\$(000)	Accounts receivable US\$(000)	Accounts payable US\$(000)
By expiration:				
Current	4,595	32	3,787	27
Not current	-	-	-	-
	<u>4,595</u>	<u>32</u>	<u>3,787</u>	<u>27</u>

- (c) Transactions carried out with related parties have been carried out under normal market conditions. Taxes that these transactions generated, as well as the calculation bases for the determination of these ones, are the usual ones in the industry and are settled according to current tax regulations. These balances do not bear interest and have no specific guarantees.
- (d) Expenses for participations, remunerations, and other items granted to the members of the Board of Directors and the Company's key Management for the years 2019 and 2018 amounted to US\$2,728,000 and US\$2,236,000, respectively, and are included in the "Administrative expenses" caption of the income statement.

26. Tax situation

- (a) The Company is subject to Peruvian taxation. As of December 31, 2019 and 2018, the applicable income tax rate on taxable income, after deducting the employees profit sharing, is 29.5 percent.

According to Legislative Decree No. 1261, legal entities not domiciled in Peru and natural persons are subject to the withholding of an additional tax on dividends received of 5 percent for the profits generated.

- (b) The Tax Authority is entitled to review and, if applicable, amend the annual income tax returns filed by the Company during the four years following the year of filing the tax return.

Income tax returns of the years 2016 to 2019 and the value added tax of the years 2015 to 2019 are pending audit by the Taxation Authority in Peru.

- (c) Due to the interpretations likely to be given by the Taxation Authority on current legal regulations, it is not possible to determine whether the reviews to be conducted will result or not in liabilities for the Company, therefore, any charge or additional tax payable that could result from these reviews will be charged to expenses in the years in which they are settled. However, in the opinion of Management of the Company and its legal advisors, any additional tax settlement would not be significant to the financial statements as of December 31, 2019 and 2018.

Notes to the financial statements (continued)

For determining the income tax and value added tax, transfer prices of transactions with their related parties and with companies resident in territories or countries with low or no taxation must be supported with documentation and information on the valuation methods used and the criteria considered for their determination. Based on the analysis of the Company's operations, the Management and its legal advisors believe that, as a consequence of the application of these standards, no significant contingencies will arise for the Company as of December 31, 2019 and 2018.

- (d) In 2018, the Tax Authority audited the income tax of 2015, without significant observations. As of December 31, 2018, the Management estimated that no significant liabilities will arise as a result of this review.
- (e) The Company has the benefit to exporters of the value added tax related to its exports. In this sense, the balance in favor of this benefit that results from the payments of the aforementioned tax in the purchase operations of the Company, can be offset against the tax resulting from its sales in the country, income tax or other taxes or request their return through non-negotiable checks.

The value adds tax balances to be recovered as of December 31, 2019 and 2018 amount to approximately US\$6,357,000 and US\$11,014,000, respectively, and are presented as part of the "Tax credit for VAT" caption in the statement of financial position.

During 2019, the Company has recovered approximately US\$21,129,000 for this concept (US\$18,547,000 during 2018), which were recorded with charge under the "Cash and cash equivalents" caption and installment to the "Tax credit for VAT" caption of the statement of financial position.

The Company pays customs duties on its imports, for which it is entitled to request the recovery of the drawback in relation to their exports of canned and frozen products. The recoveries related to this operation are recorded as income for the period in which it is carried out under "Other income" caption in the Company's income statement.

Notes to the financial statements (continued)

27. Basic and diluted earnings per share

(a) Basic -

Basic earnings per share is calculated by dividing the net income for the year by the weighted average number of shares outstanding during the period.

	2019 US\$(000)	2018 US\$(000)
Earnings attributable to the shareholders of the Company (in thousands of US\$)	6,350	29,330
Weighted average of common outstanding shares (thousands)	<u>295,536</u>	<u>295,536</u>
Basic earnings per share (US\$)	<u>0.021</u>	<u>0.099</u>

(b) Diluted -

The diluted earnings per share are equivalent to the basic loss per share. In 2019 and 2018, diluted earnings per common share have not been calculated because there are no potentially dilutive shares; that is, financial instruments or other contracts that give the right to obtain common shares.

28. Commitments and contingencies

(a) Guarantees granted -

As of December 31, 2019, the Company has letters of guarantee in favor of third parties issued by top banking entities, for S/2,717,000 and US\$730,000 (S/1,234,000 and US\$826,000 as of December 31, 2018) which mainly guarantee commercial and financial obligations.

(b) Contingency for legal demands -

In the normal course of its operations, the Company has been subject to various regulatory, legal (labor and administrative) and tax measures, which are recorded and disclosed in accordance with the International Financial Reporting Standards.

As of December 31, 2019 and 2018, the Company has recorded the necessary provisions required by the IFRS. In addition, the possible contingencies amount to approximately US\$3,678,000 as of December 31, 2019 (approximately US\$2,592,000 as of December 31, 2018).

Notes to the financial statements (continued)

29. Financial risk management objectives and policies

Due to the nature of its activities, the Company is exposed to market, credit, liquidity and capital management risks, which are managed by the Senior Management through a process of continuous identification, measurement and monitoring, subject to limits of risk and other controls. This risk management process is critical to the Company's continued profitability and each person within the Company is responsible for risk exposures related to their responsibilities.

The independent process of risk control does not include business risks such as changes in the environment, technology and industry. These are monitored through the Company's strategic planning process.

Credit risk -

Credit risk is the risk that counterparty does not comply with its obligations stated in a financial instrument or contract causing loss. The Management considers that the Company does not have significant credit risk on the trade receivables, trade receivables from ship owners and related parties since no significant difficulties of collection have arisen. With respect to the other receivables from grants to ship owners, the Management evaluates their condition, case by case, and obtains guarantees over vessels, properties and other assets, if necessary, to secure receivables.

The Company places its excess of liquidity in prestigious financial institutions, establishes conservative credit policies, and constantly evaluates the existing conditions in the market in which it operates. Consequently, the Management does not expect the Company to have material losses due to the performance of its counterparties.

Market risk -

Market risk is the risk of loss in balance sheet positions arising from movements in market prices. These prices include three types of risk: (i) exchange rate, (ii) interest rates and (iii) prices and others. The Company's financial instruments are affected by exchange rate and interest rate risks.

The sensitivity analyzes included in the following sections are related to the financial situation of the Company as of December 31, 2019 and 2018.

The sensitivity analyzes included in the following sections are related to the financial situation of the Company as of December 31, 2019 and 2018. These sensitivity analyzes were prepared on the assumption that the amount of net debt, the proportion of fixed interest to the floating and the debt, remain constant as of December 31, 2019 and 2018.

(i) Exchange Rate Risk -

The exchange rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in the exchange rates of currencies allocated to the functional currency.

Notes to the financial statements (continued)

The Company's exposure to exchange rate risk is mainly related to the Company's operating activities (when income or expenses are denominated in a currency other than the functional currency).

The following table shows the sensitivity analysis of soles (the only currency other than the functional currency in which the Company has a significant exposure as of December 31, 2019 and 2018), in its monetary assets and liabilities and its estimated cash flows. The analysis determines the effect of a reasonably possible change in the exchange rate of Sol, considering the other constant variables in the income statement before the income tax. A negative amount shows a net potential reduction in the income statement, while a positive amount reflects a net potential increase.

Sensitivity analysis	Increase / decrease in exchange rate %	Effect on pre-tax profit	
		2019 US\$(000)	2018 US\$(000)
Devaluation -			
Soles	5	(244)	625
Soles	10	(489)	1,249
Revaluation -			
Soles	5	244	(625)
Soles	10	489	(1,249)

(ii) Risk of interest rate -

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in market interest rates. The Company is exposed to the risk of changes in the market interest rates mainly related to its financial obligations at variable rates.

The Company manages its interest rate risk based on the experience of the Management, balancing the active and passive interest rates. In addition, when necessary, the Company enters into contracts of interest rate swaps to exchange variable interest rates by fixed rates. These contracts of interest rate swap are designated as hedges of the related debts.

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Information about financial instruments with fixed and variable interest rates is presented below:

	2019			
	Variable	Fixed interest	No interest	Total
	interest rate	rate		
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Financial assets				
Cash and cash equivalents	-	-	3,017	3,017
Trade and other receivables, net	-	-	57,273	57,273
Receivables from related parties	-	-	4,595	4,595
Financial liabilities				
Short-term bank loans	-	81,811	-	81,811
Trade and other payables (*)	-	-	53,106	53,106
Payables to related parties	-	-	32	32
Longt-term financial liabilities	108,082	65,816	-	173,898
2018				
	Variable	Fixed interest	No interest	Total
	interest rate	rate		
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Financial assets				
Cash and cash equivalents	-	-	33,096	33,096
Trade and other receivables, net	-	-	47,562	47,562
Receivables from related parties	-	-	3,787	3,787
Financial liabilities				
Short-term bank loans	-	70,000	-	70,000
Trade and other payables (*)	-	-	56,927	56,927
Payables to related parties	-	-	27	27
Longt-term financial liabilities	6,909	182,513	-	189,422

(*) The table above does not include taxes payable, see note 13.

As of December 31, 2019 and 2018, the only variable interest rate debt corresponds to the syndicated loan in force at each date, executed with local and foreign banks. As at December 31, 2019, the debt of the syndicated loan is hedged by the interest rate swaps subscribed by the Company in 2019, see note 14(d).

As indicated in the paragraph above, as of December 31, 2019, the Company is not exposed to a significant risk due to the variation in interest rates. As of December 31, 2018, the Company did not have financial instruments that hedged the interest rate risk.

Notes to the financial statements (continued)

(iii) Price risks -

The Company is not exposed to price risks because it does not have any financial instrument fluctuating as a consequence of variations in market prices.

Capital risk management -

The objectives of the Company in managing capital are to safeguard their ability to continue as going concern in order to generate returns to shareholders, benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors it's based on the leverage ratio, this ratio is calculated by dividing net debt by equity. Net debt is the total of financial obligations (including 'current and non-current debts' as shown in the statement of financial position) less cash and cash equivalents. The total capital corresponds to 'Equity' as shown in the statement of financial position plus net debt.

The Finance Management considers that the capital cost and the risk related to each type of capital are adequate as of December 31, 2019 and 2018.

Liquidity risk -

Liquidity is controlled by matching the maturities of its assets and liabilities, the obtaining of credit lines and/or maintaining surplus liquidity as investments, which allows the Company to carry out its activities normally.

The management of liquidity risk implies maintaining sufficient cash and availability of financing, through an adequate amount of credit sources and the ability to settle transactions mainly of indebtedness. In this regard, the Company's Management focuses its efforts on maintaining sources of financing through the availability of lines of credit. However, such lines may be unilaterally canceled by the bank. According to the information from the banks, the Management has estimated that, as of December 31, 2019 and 2018, unused credit lines amount to US\$193,000,000 .

As at December 31, 2019, the Company has a negative working capital of US\$21,614,000. However, in Management's opinion, this situation does not represent a risk in its operations because it has negotiation mechanisms with creditors and, if necessary, with the financial entities with which it works.

Translation of financial statements originally issued in Spanish - Note 32

Notes to the financial statements (continued)

The following table shows the maturity of the obligations assumed by the Company at the date of the statement of financial position and the amounts to be disbursed at maturity, based on the undiscounted payments that will be made:

As of December 31, 2019					
	1 año US\$(000)	Entre 1 y 2 años US\$(000)	Entre 2 y 3 años US\$(000)	Entre 3 y 6 años US\$(000)	Total US\$(000)
Short-term bank loans	81,811	-	-	-	81,811
Trade and other payables (*)	54,088	1,640	1,285	4,985	61,998
Payables to related parties	32	-	-	-	32
Long-term financial liabilities:					
Principal	20,020	19,527	18,885	115,466	173,898
Interest payment cash-flow	11,108	9,998	8,906	15,504	45,516
	<u>167,059</u>	<u>31,165</u>	<u>29,076</u>	<u>135,955</u>	<u>363,255</u>
As of December 31, 2018					
	1 año US\$(000)	Entre 1 y 2 años US\$(000)	Entre 2 y 3 años US\$(000)	Entre 3 y 6 años US\$(000)	Total US\$(000)
	70,000	-	-	-	70,000
Short-term bank loans	56,927	-	-	-	56,927
Trade and other payables (*)	27	-	-	-	27
Payables to related parties					
Long-term financial liabilities:					
Principal	5,772	113,989	4,066	65,595	189,422
	14,065	9,694	5,406	17,310	46,475
	<u>146,791</u>	<u>123,683</u>	<u>9,472</u>	<u>82,905</u>	<u>362,851</u>

(*) The table above does not include taxes payable, see note 13.

Translation of financial statements originally issued in Spanish - Note 32

Notes to the financial statements (continued)

Changes in liabilities coming from financing activities for the years 2019 and 2018 are detailed below:

	Balance as of January 1, 2019 US\$(000)	Proceeds US\$(000)	Financial leasings US\$(000)	Distribution US\$(000)	Payments US\$(000)	Other US\$(000)	Balance as of December 31,2019 US\$(000)
Short-term bank loans	70,000	275,211	-	-	(263,400)	-	81,811
Long-term financial liabilities	189,422	110,000	5,354	-	(130,878)	-	173,898
Payments of lease liabilities	9,609	435	-	-	(1,498)	346	8,892
Dividends payable	-	-	-	20,000	(20,000)	-	-
	<u>269,031</u>	<u>385,646</u>	<u>5,354</u>	<u>20,000</u>	<u>(415,776)</u>	<u>346</u>	<u>264,601</u>
	Balance as of January 1, 2018 US\$(000)	Proceeds US\$(000)	Financial leasings US\$(000)	Payments US\$(000)	Balance as of December 31,2018 US\$(000)		
Short-term bank loans	3,000	261,600	-	(194,600)	70,000		
Long-term financial liabilities	195,319	60,922	375	(67,194)	189,422		
	<u>198,319</u>	<u>322,522</u>	<u>375</u>	<u>(261,794)</u>	<u>259,422</u>		

Notes to the financial statements (continued)

30. Financial instruments by category

(a) Category of financial instruments-

The financial assets and liabilities of the Company are composed of:

	2019 US\$(000)	2018 US\$(000)
Financial assets -		
At amortized cost:		
Cash and cash equivalents	3,017	33,096
Trade and other receivables, net	57,273	47,562
Receivables from related parties	4,595	3,787
	<u>64,885</u>	<u>84,445</u>
Financial liabilities -		
At amortized cost:		
Short-term bank loans	81,811	70,000
Trade and other payables (*)	61,998	56,927
Payables to related parties	32	27
Long-term financial liabilities	173,898	189,422
	<u>317,739</u>	<u>316,376</u>

(*) The table above does not include taxes payable, see note 13.

(b) Credit quality of financial assets -

The credit quality of financial assets that are not expired or impaired can be evaluated on the external risk indexes (if available) or historical information that reflects compliance rates.

The credit quality of financial assets is as follows:

	2019 US\$(000)	2018 US\$(000)
Cash and cash equivalents:		
Banco de Crédito del Perú S.A.A. (A+)	1,410	545
Banco BBVA Perú (A+)	512	186
Banco Scotiabank Perú S.A.A. (A+)	402	18
Banco Internacional del Perú S.A.A. - Interbank (A)	185	142
Banco Santander del Perú S.A. (A+)	145	22,007
Banco Pichincha S.A. (A+)	14	10,014
Other	349	184
	<u>3,017</u>	<u>33,096</u>

Notes to the financial statements (continued)

The indices in table "A and AAA" represent the high quality credit indices. For banks located in Peru, the ratings were derived from the risk rating agencies authorized by the banking regulator, "The Superintendency of Banking, Insurance and Private Pension Fund Administrators (SBS)".

The credit quality of customers is evaluated in two categories (internal classification):

- A: Existing customers / related parties (with more than 6 months of business relationship) with no history of prior default; and
- B: Existing customers / related parties (with more than 6 months of business relationship) with previous history of default.

	2019 US\$(000)	2018 US\$(000)
Trade receivables, note 8		
Counterparties without external risk rating		
A	7,951	9,837
B	242	85
	<u>8,193</u>	<u>9,922</u>
Trade receivables from related entities, note 25(b)		
B	4,595	3,787
	<u>4,595</u>	<u>3,787</u>
Other receivables, nota 8 (*)		
A	34,022	26,548
	<u>34,022</u>	<u>26,548</u>

(*) Only corresponds to accounts receivable from fishing owners.

31. Fair value of financial instruments

The Company carries only fair derivative financial instruments at fair value, as explained in note 14(d); therefore, they are considered in Level 2 of the fair value hierarchy.

The other financial instruments are carried at amortized cost and their estimated fair value for disclosure in this note, as well as the level in the fair value hierarchy is described below:

Land is measured at the revalued value resulting from the technical valuations carried out by independent appraisers, which are based on current values in the market at the date of the financial statements (Level 2). For technical valuations, independent appraisers used the price per square meter. The prices were obtained from the lands observed in similar locations to measure the fair value of the land.

Notes to the financial statements (continued)

Level 1 -

- Cash and cash equivalents do not represent a significant credit risk or interest rate risk; therefore, their carrying amounts approximate their fair values.

- Because the trade receivables, other receivables and receivables from related parties are net of the allowance for impairment of receivables and mainly have maturities of less than three months, Management has considered that its fair value is not significantly different from their carrying amount.

- Because the trade payables, other payables and payables to related parties are current maturity, Management of Company estimates that its book values approximates its fair values.

Level 2 -

- For other financial liabilities, fair values were determined by comparing the market interest rates at the time of initial recognition with current market rates for similar financial instruments. Below is a comparison between the carrying amounts and fair values of these financial instruments:

	2019		2018	
	Book value US\$(000)	Fair value US\$(000)	Book value US\$(000)	Fair value US\$(000)
Bonds	60,008	62,900	167,667	173,206
Syndicated loan	108,082	105,745	19,000	23,108
Finance lease	5,808	5,878	2,755	2,727
	<u>173,898</u>	<u>174,523</u>	<u>189,422</u>	<u>199,041</u>

32. Explanation added for English translation

The accompanying financial statements were originally issued in Spanish and are presented on the basis of International Financial Reporting Standards, as described in note 2. Certain accounting practices applied by the Company that conform to those accounting principles may not conform to generally accepted accounting principles in other countries. In the event of a discrepancy, the Spanish language version prevails.

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