

QUARTERLY ANALYSIS

Based on the Interim Consolidated Financial Statements
As of March 31, 2018

COMPAÑÍA SUD AMERICANA DE VAPORES S.A. AND SUBSIDIARIES



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1. Analysis of Financial Position

a) Statement of Financial Position

The following table details the Company's main asset and liability accounts as of each period end:

| ASSETS | As of March 31, 2018 | As of December 31, 2017 | Change |
|---------------------|-------------------------|----------------------------|---------------|
| | MMUS\$ | MMUS\$ | MMUS\$ |
| Current assets | 63.8 | 68.8 | (5.0) |
| Non-current assets | 2,181.6 | 2,197.2 | (15.6) |
| Total assets | 2,245.4 | 2,266.0 | (20.6) |

| LIABILITIES AND EQUITY | As of March 31, 2018 | As of December 31, 2017 | Change |
|--|-------------------------|----------------------------|---------------|
| | MMUS\$ | MMUS\$ | MMUS\$ |
| Total current liabilities | 34.2 | 38.6 | (4.4) |
| Non-current liabilities | 109.9 | 109.9 | - |
| Equity attributable to owners of the company | 2,101.3 | 2,117.5 | (16.2) |
| Total liabilities and equity | 2,245.4 | 2,266.0 | (20.6) |

As of March 31, 2018, total assets decreased by MMUS\$ 20.6 compared to December 31, 2017. This change is explained by decreases of MMUS\$ 15.6 in non-current assets and MMUS\$ 5.0 in current assets, explained as follows.

For a better understanding of the figures in this report, bear in mind that in 2017 the Company decided to stop operating its logistics and freight forwarder business, as explained in Note 2 b) and Note 35 of these Interim Consolidated Financial Statements. As a result, in the financial statements as of December 31, 2017 and March 31, 2018, the assets and liabilities of the subsidiaries engaged in this business have been reclassified as assets and liabilities held for sale. In addition, on December 13, 2017, the Company sold its interest (100%, direct and indirect) in its subsidiary Norgistics Chile S.A. to a third party, thus disposing of its logistics and freight forwarder business in Chile. This involved deconsolidating, due to loss of control, the assets and liabilities related to this subsidiary in the Consolidated Financial Statements as of December 31, 2017.

Results from the logistics and freight forwarder business for the period ended March 31, 2018, are presented as discontinued operations and results for the period ended March 31, 2017, have been restated in accordance with IFRS 5.

The decrease of MMUS\$ 5.0 in current assets is explained mainly by reductions in cash and cash equivalents; trade and other receivables (due to greater collections, offset by the effect of applying

IFRS 15 and ceasing to record the corresponding adjustment for percentage of completion); and assets held for sale (explained by the closing of the logistics and freight forwarder subsidiaries). These factors were partially offset by a rise in other current financial assets, which is explained by an increase in prepaid charters.

The decrease of MMUS\$ 15.6 in non-current assets is explained by a decrease of MMUS\$ 6.3 in equity method investments and a decrease of MMUS\$ 9.3 in deferred tax assets, as explained in detail below. It is important to note that the Company reclassified property previously used by the logistics and freight forwarder business from property, plant and equipment to investment property.

The variation in equity method investments during the first quarter of 2018 is related to CSAV's investment in the German shipping line Hapag-Lloyd AG (hereinafter HLAG), and can be explained by the following factors: (i) a decrease because of the loss recorded in share of profit (loss) of equity method associates and joint ventures of MMUS\$ 11.3, which consisted of a loss of MMUS\$ 11.8 from CSAV's direct share of HLAG's results, based on its ownership interest, partially offset by profit of MMUS\$ 0.5 from PPA amortization on HLAG's results; (ii) an increase of MMUS\$ 2.0 due to CSAV's share of HLAG's other comprehensive income during the period; and (iii) an increase of MMUS\$ 3.1 from CSAV's share of other changes in HLAG's equity. The table below summarizes these movements.

| Detail of Movements in CSAV's Investment in HLAG | |
|--|----------------|
| | MMUS\$ |
| Balance as of December 31, 2017 | 1,932.3 |
| Share of HLAG's Loss | (11.8) |
| Effect of PPA on Results | 0.5 |
| Total Share of HLAG's Loss | (11.3) |
| Share of Other Comprehensive Income | 2.0 |
| Other Equity Reserves | 3.1 |
| Balance as of March 31, 2018 | 1,926.1 |

More information on the accounting balance of CSAV's investment in HLAG and all movements during the first quarter of 2018 and the year ended December 31, 2017, can be found in Note 15 of these Interim Consolidated Financial Statements.

Resuming the description of the main variations in non-current assets, the MMUS\$ 9.3 decrease in deferred tax assets can be attributed mainly to the appreciation of the euro given the financing structure (in euros) within the CSAV Group to finance the investment in HLAG. During the first quarter of 2018, the net effect of the variation in the euro/dollar exchange rate and interest on that financing generated tax profits for CSAV in Chile, thus resulting in an income tax expense and a decrease in deferred tax assets for the period.

As of March 31, 2018, total liabilities decreased by MMUS\$ 4.4 compared to December 31, 2017. This variation is fully explained by the decrease in current liabilities, with no significant variation in non-current liabilities.

The decrease of MMUS\$ 4.4 in current liabilities is due mainly to the variation of MMUS\$ 10.1 in other current provisions, explained largely by a portion (MMUS\$ 8.6) of the existing provision for investigations by antitrust authorities into the car carrier business being reclassified to trade and other payables. This was done because during the quarter the European Commission set the fine to be paid by CSAV in the next few months. Other factors included a decrease in employee benefit provisions, which is explained by other provisions for overhead and administrative expenses, and a decrease in liabilities classified as held for sale due to the closing of the logistics and freight forwarder business.

This was partially offset by an increase in trade and other payables of MMUS\$ 5.6, which is explained mainly by the reclassification mentioned in the preceding paragraph, and an increase in other non-financial liabilities of MMUS\$ 2.3, related mainly to applying IFRS 15 and ceasing to record the corresponding adjustment for percentage of completion, as explained in Note 3.17 and Note 29 of these Interim Consolidated Financial Statements.

As of March 31, 2018, equity decreased by MMUS\$ 16.2 compared to December 31, 2017. This change is explained by the loss of MMUS\$ 21.4 recorded for the first quarter of 2018, offset by an increase in other reserves of MMUS\$ 5.2, explained by an increase of MMUS\$ 5.1 in CSAV's share of HLAG's other comprehensive income and other equity reserves. More information on these changes in equity can be found in Note 28 f) of these Interim Consolidated Financial Statements.

b) Statement of Income

| | For the three months ended March 31, 2018 | For the three months ended March 31, 2017 | Change |
|--|--|--|------------|
| | MMUS\$ | MMUS\$ | MMUS\$ |
| Revenue | 20.0 | 22.6 | (2.6) |
| Cost of sales | (17.9) | (20.8) | 2.9 |
| Gross profit | 2.1 | 1.8 | 0.3 |
| Administrative expenses | (2.2) | (2.4) | 0.2 |
| Other operating income and expenses | 0.4 | 0.4 | - |
| Net operating income (loss) | 0.3 | (0.2) | 0.5 |
| EBITDA (EBITDA without associates) | 0.5 | 0.0 | 0.4 |
| Finance costs, net | (1.1) | (0.9) | (0.2) |
| Share of loss of equity method associates and joint ventures | (11.3) | (15.4) | 4.1 |
| Exchange differences and other non-operating expenses | - | - | - |
| Income tax expense | (9.3) | (5.5) | (3.8) |
| Loss after tax from continuing operations | (21.4) | (22.0) | 0.6 |
| Loss from discontinued operations | (0.0) | (0.1) | 0.1 |
| Loss attributable to owners of the company | (21.4) | (22.1) | 0.7 |

The **loss attributable to the owners of the company** of MMUS\$ 21.4 for the first quarter of 2018 represents an improvement of MMUS\$ 0.7 over the same period in 2017.

The Company recorded an **operating profit** of MMUS\$ 0.3 for the first quarter of 2018, up MMUS\$ 0.5 over the same period in 2017, explained mainly by an improvement in gross profit of MMUS\$ 0.3 and a decrease of MMUS\$ 0.2 in administrative expenses.

CSAV's income statement reflects **revenue** of MMUS\$ 20.0 for the first quarter of 2018, which represents a drop of MMUS\$ 2.6 over the same period in 2017. This is explained by a decrease in average freight rates and slot sales in the car carrier business, partially offset by an increase in transported volume.

The variation in freight rates mentioned above must also take into account the fact that a portion of rates are indexed to fuel price variations. As a result, the rise in average fuel prices during the first quarter of 2018 helped mitigate this reduction in rates.

Cost of sales amounted to MMUS\$ 17.9 for the first quarter of 2018, down MMUS\$ 2.9 over the same period in 2017. This decrease is related primarily to a smaller operating structure and a higher vessel usage rate, which has enabled the Company to absorb part of the growth in volume without increasing its fleet's installed capacity. The savings explained above have also allowed it to reverse

the increase in costs resulting from the rise in average fuel prices, up 24% over the first quarter of 2016. On the other hand, as mentioned above, since a portion of sales have fuel price indexation clauses, some of the negative effect on costs was partially offset by increased revenue.

Administrative expenses totaled MMUS\$ 2.2, falling by MMUS\$ 0.2 with respect to the first quarter of 2017. **Other operating income and expenses** also stayed constant with respect to the same period in 2017, totaling MMUS\$ 0.4.

In share of loss from equity-accounted associates and joint ventures, CSAV recorded a loss of MMUS\$ 11.3 for the first quarter of 2018, up MMUS\$ 4.1 from the same period in 2017. This difference is explained mainly by an improvement of MMUS\$ 9.2 in HLAG's results over 2017, partially offset by a smaller PPA amortization on the investment in HLAG of MMUS\$ 5.1 with respect to the same period last year.

According to the accounting method that should be used for joint ventures under IFRS, each quarter CSAV reflects in profit or loss its direct share of the profit or loss attributable to the owners of HLAG and also the effect on profit or loss of the amortization of PPAs, determined as of the closing of the business combination between CSAV and HLAG in December 2014 and the incremental acquisition of HLAG shares after closing the business combination with United Arab Shipping Company ("UASC") in 2017 (in accordance with IFRS 3 and IAS 28).

For the first quarter of 2018, this account consists of the loss attributable to the owners of the company reported by HLAG of MMUS\$ 46.3 plus the two amortizations applicable since the investment made in HLAG in 2014 and the increases in ownership after its merger with UASC, which resulted in an improved result of MMUS\$ 4.1 and a loss of MMUS\$ 16.5, respectively. The Company applied the equity method value (25.46%) to the results for the quarter and 22.58 and 2.89% to the respective PPAs. Thus, CSAV recorded a loss of MUS\$ 11.8 for its direct share of HLAG's results and profit of MUS\$ 0.5 for its share of the PPA amortization, recording a net loss of MUS\$ 11.3.

During the first quarter of 2018, CSAV recognized an **income tax expense** of MMUS\$ 9.3, reflecting an increase of MMUS\$ 3.8 over the same period in 2017. This variation is explained mainly by an increased deferred tax expense in 2018 of approximately MMUS\$ 7.0 because of the impact of the appreciating euro on the CSAV Group's financing structure for its investment in HLAG, as detailed in section a) above.

Therefore, the **loss attributable to the owners of the company** of MMUS\$ 21.4 for the first quarter of 2018 represents an improvement of MMUS\$ 0.7 over the same period in 2017.

c) Operating Results by Segment

CSAV reports two business segments as of March 31, 2018: Container Shipping and Other Transport Services. Each segment is described briefly below:

- Container Shipping: These are the container shipping services operated by HLAG, represented by the investment in that joint venture, plus certain assets and liabilities related to the container shipping business that are controlled by CSAV (deferred tax assets, financial liabilities to finance the investment and others).
- Other Transport Services: These are the vehicle transport (car carrier) services operated directly by CSAV. As a result of the Company's decision to stop operating its logistics and freight forwarder business during the fourth quarter of 2017, from that point on the results of that business unit are presented as discontinued operations and comparative information from prior periods is restated in accordance with IFRS 5.

The following chart shows the income statement by segment for the first quarter of 2018 (more details in Note 6 to the Interim Consolidated Financial Statements):

| Container Shipping | For the three months ended March 31, 2018 | For the three months ended March 31, 2017 | Change |
|--|---|---|------------|
| | MMUS\$ | MMUS\$ | MMUS\$ |
| Administrative expenses | (0.8) | (0.8) | - |
| Net operating loss | (0.8) | (0.8) | - |
| Finance costs, net | (1.3) | (1.1) | (0.2) |
| Share of loss of equity method associates and joint ventures | (11.3) | (15.4) | 4.1 |
| Exchange differences and other non-operating expenses | 0.1 | - | 0.1 |
| Income tax expense | (9.3) | (5.6) | (3.7) |
| Loss after tax from continuing operations | (22.6) | (22.9) | 0.3 |
| Profit (loss) from discontinued operations | - | - | - |
| Loss attributable to owners of the company | (22.6) | (22.9) | 0.3 |

For the first quarter of 2018, the container shipping segment reported a loss of MMUS\$ 22.6, which represents an improvement of MMUS\$ 0.3 over the same period last year, explained mainly by a rise in the Company's share of HLAG's result of MMUS\$ 4.1 and a gain of MMUS\$ 0.1 from exchange differences. These effects were partially offset by a larger tax expense of MMUS\$ 3.7, mainly due to the financing structure for the investment in HLAG, as explained in preceding sections, and greater finance costs of MMUS\$ 0.2 related to interest expense for financial liabilities for the investment in HLAG (corporate bonds and bank loans).

| Other Transport Services | For the three months ended March 31, 2018 | For the three months ended March 31, 2017 | Change |
|--|---|---|------------|
| | MMUS\$ | MMUS\$ | MMUS\$ |
| Revenue | 20.0 | 22.6 | (2.6) |
| Cost of sales | (17.9) | (20.8) | 2.9 |
| Gross profit | 2.1 | 1.8 | 0.3 |
| Administrative expenses | (1.4) | (1.6) | 0.2 |
| Other operating income and expenses | 0.4 | 0.4 | - |
| Net operating profit | 1.1 | 0.6 | 0.5 |
| Finance costs, net | 0.2 | 0.2 | - |
| Share of loss of equity method associates and joint ventures | - | - | - |
| Exchange differences and other non-operating expenses | (0.1) | - | (0.1) |
| Income tax benefit | - | 0.1 | (0.1) |
| Profit after tax from continuing operations | 1.2 | 0.9 | 0.3 |
| Loss from discontinued operations | - | (0.1) | 0.1 |
| Profit (loss) attributable to owners of the company | 1.2 | 0.8 | 0.4 |

For the first quarter of 2018, the other transport services segment reported profit of MMUS\$ 1.2, which represents an improvement of MMUS\$ 0.4 over the same period in 2017, due mainly to a larger gross profit of MMUS\$ 0.3, explained by a MMUS\$ 2.6 decrease in revenue, offset by a MMUS\$ 2.9 decrease in cost of sales, both explained in section b) above. The Company also reported an improvement of MMUS\$0.2 in administrative expenses, along with a larger income tax expense, up MMUS\$ 0.1, mainly because of the effect on taxable income of the improved margin described above.

2. Market Analysis

a) Container Shipping Segment

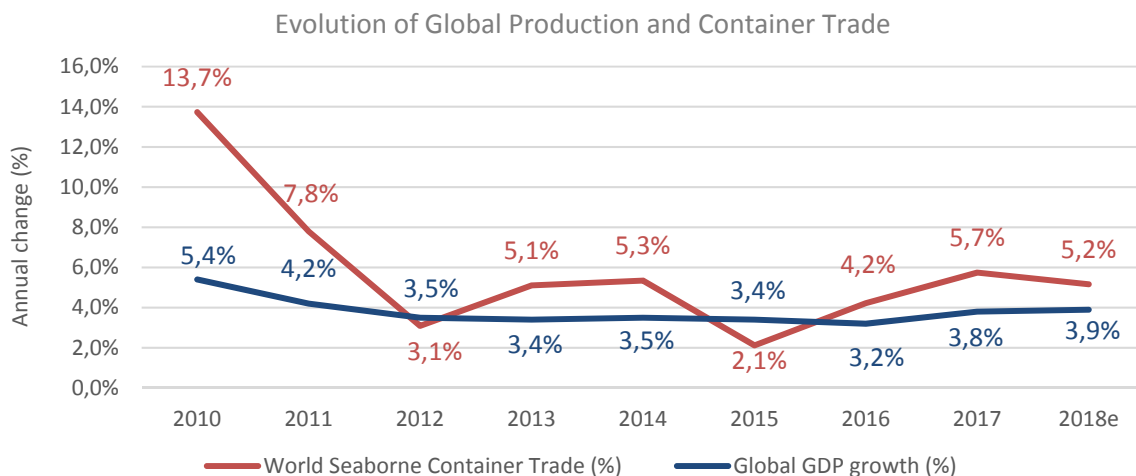
The Company participates in the container shipping business through its 24.46% stake in HLAG (accounted for as a joint venture using the equity method). Although CSAV jointly controls HLAG together with two other major partners, that joint venture has an independent management team that controls and manages its risks autonomously and in accordance with the standards of a publicly-listed and regulated company in Germany.

With that said, although the container shipping industry’s main indicators seem to have been evolving favorably in recent quarters, it continues to face a volatile, highly competitive market characterized by:

- **Volatile global trade.**

There is a direct relationship between global GDP growth and international trade in goods, which takes place mainly through ocean container shipping. Global GDP growth has diminished in recent years as compared to earlier in the same decade, and growth in the volume of container transport has also fallen, as shown in the figure below.

However, in April 2018 the International Monetary Fund (IMF) predicted global economic growth of 3.8% for 2017, the highest figure in the last six years, reflecting an improvement of 0.1 percentage points from the entity's most recent projections in January 2018 and 0.2 percentage points from October 2017 forecasts. This most recent IMF report estimates global GDP growth for 2018 of 3.9%, maintaining estimates published in its previous report and reflecting an increase of 0.2 percentage points over projections from the end of 2017. In 2016, global GDP growth hit its lowest levels seen in recent years. Therefore, these indicators and their projections are still highly volatile.



Source: International Monetary Fund - Global Economic Prospects April-18, Clarkson Research May-18.

In line with these projections, demand for container transport in 2017 grew 5.7% and is expected to grow 5.2% in 2018, due to a more vigorous global economy and increased trade. Projections rose slightly since late 2017 (5.4% for 2017 and 5.0% for 2018). However, they are considerably higher than forecasts from early 2017 (4.2% for 2017 and 4.6% for 2018), due to the increase in transported volume indexes for the industry starting in the second half of 2017.

The positive results for 2017 reported by the IMF are due to recovering growth in several economies, considered the most synchronized recovery seen since 2010, with economies in Europe and Asia performing particularly well. During the last few months of 2017, global trade increased sharply backed by recovering investment, especially in developed economies, and increased production in Asia, in line with stronger consumer confidence.

The recovery seen in 2017 is expected to continue in 2018, mainly because of growth in developed economies, backed by favorable expectations for global financial conditions and more quickly accelerating demand. These outlooks also include the positive economic effects of the tax reform implemented in the United States, which should strengthen internal demand and imports in the short term. Emerging markets should continue to enjoy the economic vigor and growth seen in 2017. Latin America should maintain its recovery trends with slight growth over 2017 and should not be significantly affected by the downgrading of Venezuela and upcoming elections in Brazil, Mexico and Colombia.

- **Excess capacity.**

The container shipping industry's excess installed capacity, which began during the 2008-2009 crisis, continues to significantly impact shipping lines and markets. Since then, most of the major global shipping companies have taken various significant measures to improve the balance between supply and demand. These measures have included suspending and restructuring transport services, suspending voyages, increasing idle fleets, reducing vessel speeds and scrapping unused vessels. Shipping companies are increasingly seeking joint operating agreements, operating alliances along the most important routes and greater industry consolidation through mergers and acquisitions.

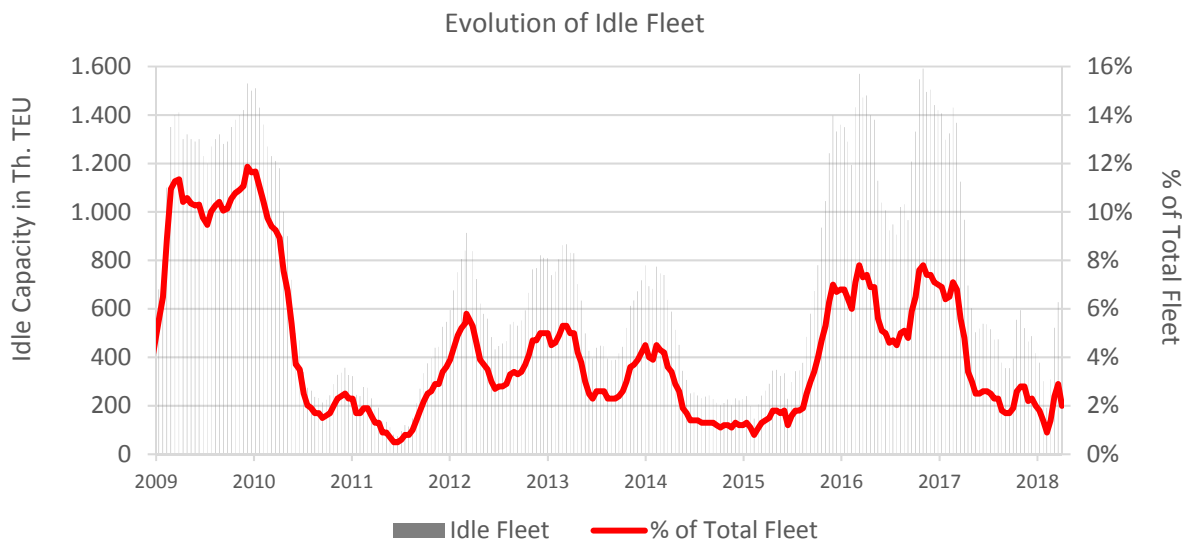
In this same spirit, today shipbuilding orders usually relate to vessel operators or very long-term charter contracts with those operators, and not to investors or non-operating ship owners, as was the case until recently. As a result, orders are presently part of an orderly growth plan and are aligned with joint venture agreements or global alliances in which these companies participate.

According to data from Alphaliner, vessels under construction total 12.1% of the current global operating fleet as of March 31, 2018, which remains within historically low levels. This is a reflection of the industry's efforts to contain growth, which have resulted in a drastic reduction in new construction orders estimated for 2018 in comparison to prior years, falling to record lows. It is

worth mentioning that 40% of these future deliveries fall within the largest ship category, with capacity over 18,000 TEU, which reflects the industry's focus towards increased operating efficiency and more coordinated fleet positioning along multiple routes operated by global alliances.

During 2016 and 2017, vessel scrapping levels remained high, reporting the first and third highest levels ever on record of around 3% and 2% of the existing global fleet, respectively, and continuing a downward trend in the average age of scrapped vessels. Following these intense years, trends slowed in 2018 with lower vessel scrapping levels during the first quarter, explained partly by strong efforts in recent years. Another important effect that partially explains this trend in recent years is the opening of the Panama Canal expansion in July 2016. This development strongly impacted vessel scrapping, which peaked in 2016, mainly in the Panamax segment (i.e. the largest vessels able to circulate through the old canal). This increase in vessel scrapping is explained by the entry of new, larger ships to replace smaller, less fuel-efficient vessels.

Although these initiatives have led shipping companies to rationalize asset use, with shipbuilding orders currently stabilized at lower levels, and excess capacity began to shrink in 2016 for the first time in the past five years as demand outgrew supply, weaker demand for shipping in recent years continues to generate excess capacity. In contrast, demand and supply growth remained in equilibrium in 2017. One indicator of this phenomenon, in addition to low, volatile freight rates, is the fact that in 2016 idle fleets reached their highest levels since the 2009 crisis. Idle fleet levels fell in 2017 with respect to the prior year due mainly to both high scrapping levels during the period and the industry's re-incorporation of part of its idle fleet for the industry's new configuration as a result of new operating alliances that began in April 2017.



Source: Alphaliner- Monthly Report April-18

The idle fleet is currently made up of 1,000 to 5,000 TEU vessels (many of them designed to meet the specifications of the old Panama Canal), which are being replaced by more efficient vessels that have been designed for the recently inaugurated new canal.

- **Low returns and stiff competition in the shipping market.**

Freight rates net of fuel costs (ex-bunker rates) are still below historical levels along most routes and are lower than levels that the industry could presently consider a sustainable equilibrium to obtain a suitable return on its assets.

In recent years, the SCFI index has varied significantly, reaching the lowest level in the index's history in early 2016. However, during 2017, this index reported a higher annual average price and considerably more stability in comparison to the last two years. It is also displaying a more seasonal nature than prior years, with the index increasing as the industry enters its peak season (June to September) and falling during the slack season. However, if we include the effect of fuel prices, which trended upwards during 2017 and had a higher average price than the last two years, ex-bunker freight rates are still below expectations for suitable returns.

In addition, rates along other routes did not evolve as favorably in 2017 as those from China, maintaining low average rates on many routes.

Rates deteriorated slightly in the first quarter of 2018, mainly in routes from Asia due primarily to the slack season that takes place during the first three months of the year because of the Chinese New Year and reduced transported volumes. There has also been a large number of new vessels delivered during the first quarter, in line with delivery projections, which are concentrated mainly in the first half of the year. As a result, this effect is expected to be reversed during the second half of the year, which also coincides with the beginning of the peak season and the resulting rise in transported volumes.

- **An industry undergoing consolidation.**

Currently, even though the container shipping industry still boasts a large number of players, especially in the segment of smaller-sized companies, industry consolidation is growing. The merger of the CSAV and HLAG container shipping businesses took place at the end of 2014. Since then further business combinations have occurred, including the acquisition of CCNI by Hamburg Süd, the merger of COSCO and China Shipping, the acquisition of APL by CMA CGM as well as the announcement of the merger of the three largest Japanese shipping companies (K-Line, NYK and MOL) into one single entity concluded in 2018 and the purchase of Hamburg Süd by Maersk announced in late 2016 and concluded in November 2017. Furthermore, as described above in this report, in late May 2017 HLAG announced the closing of its merger with UASC, which positioned it once again among the world's five largest shipping companies in terms of hauling capacity. In

addition, at the beginning of the second half of 2017 the Chinese shipping line COSCO, which had previously merged with China Shipping, announced its acquisition of Hong Kong-based Orient Overseas Container Lines (OOCL), which has not yet been completed.

During the third quarter of 2016, Hanjin Shipping—the seventh largest container shipping company at that time by hauling capacity and the largest Korean shipping line—filed for bankruptcy and suspended services. This is the largest bankruptcy case in the history of the container shipping industry.

Following all these business combinations and Hanjin's liquidation, estimates calculate that the ten largest global shipping operators will account for over 84% of installed capacity, whereas the five largest will have over 65%. The six largest operators should achieve economies of scale and size significantly larger than the remaining operators, with the resulting effect on their costs and the scope of their service networks, which will place more pressure on smaller operators to form alliances or transactions in order to improve their fleets, expand their coverage to a global scale and cut costs.

Likewise, in recent years shipping companies have expanded joint operating agreements and operating alliances in order to improve customer service levels and broaden the geographic coverage of their shipping services, while generating very significant economies of scale and network economies. These initiatives have been immensely important and have led to the formation of major global operating alliances.

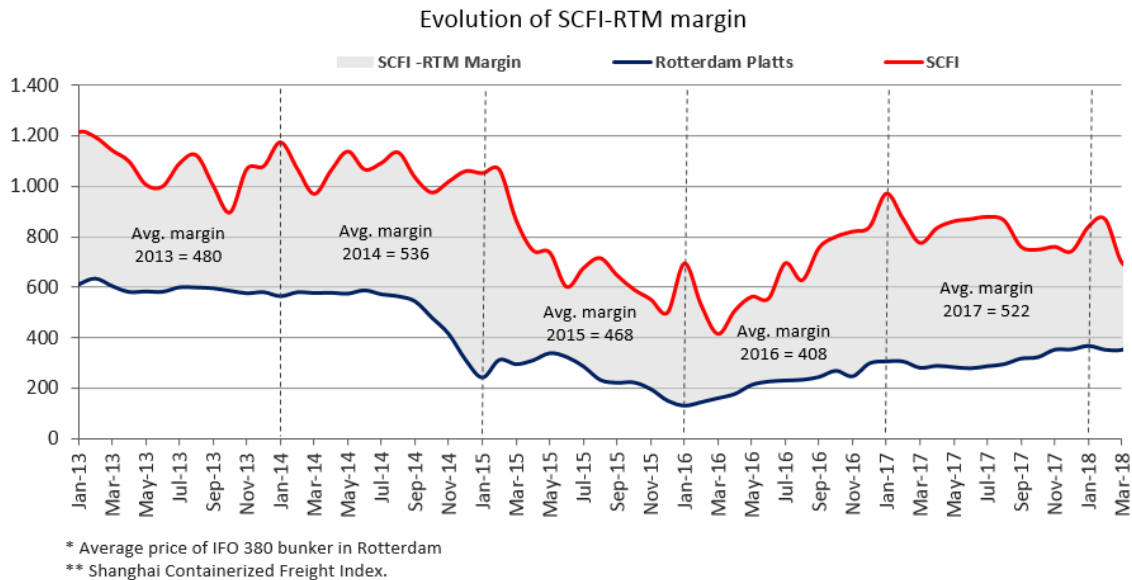
The new structure of alliances announced in 2016 began to operate along different routes around the world in the second quarter of 2017, accounting for almost 90% of total transport capacity along the industry's main long-haul, East-West routes. The main changes included the dissolution of the Ocean Three, G6 and CKYHE alliances in order to form two new alliances: Ocean Alliance and THE Alliance. HLAG is a member of the latter alliance. The 2M alliance maintained its present structure, but HMM was incorporated as a slot buyer.

- **Highly volatile fuel prices.**

Fuel is one of the industry's main consumables. Like other commodities, oil prices remained very high until late 2014, after which they fell drastically and then experienced a moderate recovery. In 2017, fuel prices increased sharply, although they stabilized during the second half of the year, recording an average price higher than figures seen in 2015 and 2016.

Therefore, the industry continues to streamline the use of resources and optimize its operations, focusing on reducing operating costs; improving productivity and asset use; and improving fuel consumption. In recent years, major global operators have prepared container ship investment plans designed to renew their fleets and better adapt to the new operating paradigms. They are

focusing on enhancing efficiency, achieving economies of scale, reducing fuel consumption and adapting fleets to the new Panama Canal and the main global routes.



Source: Shanghai Shipping Exchange, Index of average fuel price (IFO 380) at the Port of Rotterdam.

Currently, it could be said that the aforementioned technological change process is almost complete, with all major operators and global alliances shipping a very significant portion of their volumes in very large, efficient vessels. This explains, to a large extent, the decrease in new shipbuilding orders and the constant reduction in inventories of vessels under construction, as explained in preceding sections.

In summary, all container shipping industry players continue to face challenging conditions, albeit with significant improvements in some key indicators that lead to estimates of better outlooks for the future. Although consistent recovery has not been observed, upward trends have been seen in rates along several routes in 2017—mainly from the Far East. However, the industry has still not yet reached recovery levels seen in 2013 and 2014. In recent quarters, improvement has also been seen in fleet and supply-demand equilibrium indicators, which gives signs of improved outlooks for future stability and ex-bunker rates. These improvements have been partly reflected in improved operating results from many industry operators in 2017. Even so, the industry remains properly focused on the new paradigm associated with optimizing operating costs and collaborative operations through joint operating alliances and agreements, but with a growing, very dynamic trend toward consolidation. This is especially important to deal with the cost pressures that could be heightened by a potential market recovery in the markets for both vessel charters and maritime and port services.

b) Other Transport Services Segment

The diverse vehicle transport activities that CSAV directly operated during 2017 have also been affected by a drop in global demand for transportation and excess supply.

The global vehicle transport business has experienced volatile demand since the 2008 financial crisis, which is closely linked to the economies of import markets and changes in car manufacturing countries.

CSAV mainly transports vehicles from Asia, Europe, the USA and the east coast of South America to markets along the west coast of South America, with the largest volume going to Chile and Peru. Since 2014, these markets have been negatively affected by sluggish economic activity and also by negative consumer expectations regarding future economic conditions, with a very strong impact on vehicle imports and sales, which only recently began to improve in late 2016 and 2017.

In Chile and Peru, total sales of new light vehicles during the first quarter of 2018 reported a 12% rise over the same period last year (source: ANAC and AAP), recovering part of sales volumes lost in prior years. This increase in sales volumes gives the industry hope for improved use of installed capacity along these routes and, eventually, certain upward pressure on medium-term rates. It is important to remember that there is still considerable excess supply in the global vehicle transport industry and, if not effectively absorbed, shipping lines operating the local route may decide to increase capacity by allocating additional vessels from their fleets, thereby destroying the possibility of attaining supply-demand equilibrium and potentially restoring rates for the local markets where CSAV operates.

3. Analysis of Statement of Cash Flows

The main variations in cash flows are explained as follows.

| | For the three months ended March 31, 2018 | For the three months ended March 31, 2017 | Change |
|---|--|--|--------------|
| | MMUS\$ | MMUS\$ | MMUS\$ |
| Cash flows from operating activities | (3.5) | (2.2) | (1.3) |
| Operating cash flows | (3.5) | (2.3) | (1.2) |
| Income taxes and other | - | 0.1 | (0.1) |
| Cash flows from investing activities | 0.7 | 0.2 | 0.5 |
| Cash flows arising from the loss of control of subsidiaries | 0.5 | - | 0.5 |
| Interest received | 0.2 | 0.2 | - |
| Cash flows from financing activities | (0.9) | (0.8) | (0.1) |
| Interest payments | (0.9) | (0.8) | (0.1) |
| Effect of change in exchange rate | 0.1 | - | 0.1 |
| Decrease in cash and cash equivalents | (3.6) | (2.8) | (0.8) |

The net change in **cash and cash equivalents** between March 31, 2018 and March 31, 2017, was a negative MUS\$ 3.6, which represents a net deterioration of MUS\$ 0.8 over the same period in 2016.

Operating activities generated a negative net flow of MMUS\$ 3.5 for the first quarter of 2018, which represents a decrease of MMUS\$ 1.3 over the same period last year, explained mainly by the use of provisions, such as those for onerous contracts and administrative expenses, and by payments of non-recurring provisioned obligations with a total disbursement of non-recurring cash flows of MMUS\$ 3.2 during the period. Excluding these effects, recurring operating cash flows reported a net decrease of MMUS\$ 0.3.

Investing activities generated a positive net flow of MUS\$ 0.7 for the period ended March 31, 2018, which represents an improvement of MUS\$ 0.5 over the same period in 2017. Investing cash flows for the period are explained mainly by a payment of MMUS\$ 0.5 on the balance of the sale of the subsidiary Norgistics Chile S.A. completed in 2017 (for more information see Note 14 of the Financial Statements as of December 31, 2017) and a gain of MMUS\$ 0.2 related to interest earned on time deposits maintained by the Company.

Financing activities generated a negative net flow of MMUS\$ 0.9 for the period ended March 31, 2018, down MMUS\$ 0.1 from the same period last year, mainly explained by a rise in the Libor rate for interest payments on variable-rate financial liabilities made by the container shipping segment during the period.

4. Analysis of Market Risk

As described in Note 5 to these consolidated financial statements, CSAV's investment in HLAG is presently its primary asset (86% of total assets as of March 31, 2018). Therefore, although the market risks of the container shipping business are not directly reflected in the Company's cash flows, they are indirectly reflected since they affect HLAG's results and, consequently, the value of CSAV's investment in that joint venture, as well as expected cash flows from dividends and for capital needs. Therefore, even though CSAV contributed its entire container shipping business to HLAG through the business combination completed in 2014, the main business risks continue to be related to the container shipping industry.

As a result, it is important to mention that HLAG has an independent management team that controls and manages its risks autonomously and in accordance with the standards of a publicly-listed and regulated company in Germany.

The principal risks that the Company faces from both the container shipping segment and its direct operating segments (other transport services segment) stem mainly from the possibility of deteriorating demand for ocean transport, an increase in the supply of transport capacity, a drop in freight rates and a rise in oil prices. Other risks that may affect the industry include heightened competition for market share (volumes), asset obsolescence (technological risk), environmental risks and potential regulatory changes.

On the demand side, for the container shipping business risk comes primarily from global economic conditions and the impact of global economic slowdown. The IMF's estimates for year-end 2017 forecast a positive trend for global gross domestic product in the next few years, estimating growth of 3.8% for 2017, which reflects an increase of 0.1 percentage points over its January 2018 estimates. Therefore, forecasts do not call for any changes in projected demand that carry any important short-term risk. The IMF estimates that global trade (products and services) grew 4.9% in 2017 versus 2.3% in 2016, which seems to confirm a positive scenario of growth in transported volumes for this year.

On the supply side, there is the risk that new ship construction causes shipping supply to exceed future demand, thus exacerbating the imbalance between supply and demand and putting additional pressure on freight rates, although container ship construction levels are currently at historical lows, even considering several orders for new ships placed in recent months. In addition, the idle fleet has decreased considerably over the high levels seen in late 2016, due to vessel scrapping and the re-incorporation of many vessels into the currently operated fleet. These factors have reduced the risk of a significant increase in the supply-demand imbalance within the industry, given the possibility of re-incorporating the idle fleet into the operated fleet.

On the other hand, the main risk in the vehicle transport business stems from the weakness of key markets for CSAV (west coast of South America) and global balance of supply and demand for roll-on/roll-off (“RO-RO”) vessels. CSAV is a niche operator in this business.

In addition, the price of oil has dropped considerably since the third quarter of 2014. However, it rose throughout last year and continues to show some volatility as to how it will evolve in the future. In order to mitigate this risk, in the vehicle transport business a portion of freight sales is indexed to fuel price variations. The Company takes out fuel price hedges for fixed-price sales or unindexed portions as described in more detail in Note 5 to these consolidated financial statements.

Regarding the risk of interest rate fluctuations, only part of CSAV’s financial liabilities are currently at variable rates indexed to the Libor rate. The Company does not have any derivatives to hedge variations in the Libor rate.

Regarding exchange rate volatility, most of the Company's income and expenses are denominated in US dollars. As of March 31, 2018, the Company has certain assets and liabilities in other currencies, which are detailed in Note 33 to these consolidated financial statements. As of March 31, 2017, CSAV does not have any foreign currency hedges. It manages the risk of exchange rate changes on working capital by periodically converting any balances in local currency that exceed payment requirements in that currency into US dollars.

5. Financial Ratios

As of March 31, 2018, the main financial indicators are as follows:

a) Liquidity Ratios

| Liquidity Ratios | | As of March 31, 2018 | As of December 31, 2017 |
|-------------------------|---|-------------------------|----------------------------|
| Current Liquidity Ratio | = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ | 1.867 | 1.780 |
| Acid-Test Ratio | = $\frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}}$ | 1.136 | 1.098 |

- Current Liquidity:** This ratio increased in comparison to December 2017 because of the decrease in current liabilities (-12% / MMUS\$ 4.5), which was partially compensated by the decrease in current assets (-7% / MMUS\$ 5.0). The decrease in current liabilities is explained largely by the reversal of legal and operational provisions for the car carrier business and the process of closing the logistics and freight forwarder business. On the other hand, the decrease in current assets is related to decreases in cash and cash equivalents and trade and other receivables. We must also consider the impact of applying IFRS 15 and ceasing to record the corresponding adjustment for percentage of completion in current assets and current liabilities, which partly offsets both decreases by the same amount. These effects are explained in section 1 a) of this report.
- Acid-Test Ratio:** This ratio increased with respect to December 2017, because of a decrease in current liabilities (-12% / MMUS\$ 4.5), partially offset by a decrease in cash and cash equivalents (-9% / MMUS\$ 3.6), explained mainly by the negative operating cash flows because of the use of provisions and payment of non-recurring provisioned obligations during the first quarter of 2018 of MMUS\$ 3.5, both of which are explained in section 1 a) of this report.

b) Leverage Ratios

| Leverage Ratios | | | As of March 31, 2018 | As of December 31, 2017 |
|----------------------------|---|--|-------------------------|-------------------------------|
| Leverage | = | $\frac{\text{Total liabilities}}{\text{Equity}}$ | 0.069 | 0.070 |
| Short-Term Leverage | = | $\frac{\text{Current Liabilities}}{\text{Total liabilities}}$ | 0.237 | 0.260 |
| Long-Term Leverage | = | $\frac{\text{Non-Current Liabilities}}{\text{Total liabilities}}$ | 0.763 | 0.740 |
| Financial Expense Coverage | = | $\frac{\text{Profit (Loss) beforeTax and Interest}}{\text{Finance Costs}}$ | -9.149 | -25.129 |

- Leverage:** This ratio fell slightly with respect to December 2017, largely because of a decrease in total liabilities (MMUS\$ -4.4 / -3% chg.), as explained in section 1 a) of this report, which was partially offset by a decrease in equity (MMUS\$ 16.2/ 1% chg.) mainly because of variations in the investment in HLAG, as explained above.
- Short-Term Leverage:** This ratio fell with respect to December 2017, due to a decrease in current liabilities (MMUS\$ 4.5 / -12% chg.) explained in section 1a) of this report, partially offset by a decrease in total liabilities (MMUS\$ 4.4 / -3% chg.), also explained in section 1a).
- Long-Term Leverage:** This ratio rose slightly with respect to December 2017, due to a decrease in total liabilities (MMUS\$ 4.4 / -3% chg.) explained in section 1 a) of this report, and no significant change in non-current liabilities.
- Financial Expense Coverage:** This ratio increased with respect to December 2017, due to improved earnings before taxes and interest for the first quarter of 2018 (92% chg.), partially offset by a drop in financial costs for the quarter (7.8% chg.) with respect to December 2017.

c) Profitability Ratios

| Profitability Ratios | | As of March 31, 2018 | As of December 31, 2017 |
|-------------------------------|---|-------------------------|-------------------------------|
| Return on Equity | = $\frac{\text{Loss Attributable to Owners of the Company}}{\text{Average Equity}}$ | -0.0105 | -0.0912 |
| Return on Assets | = $\frac{\text{Loss Attributable to Owners of the Company}}{\text{Average Assets}}$ | -0.0098 | -0.0849 |
| Return on Operating Assets | = $\frac{\text{Net Operating Income}}{\text{Average Operating Assets}^*}$ | 0.0001 | 0.0007 |
| Dividend Yield | = $\frac{\text{Dividends Paid inLast 12 Months}}{\text{Market Value of Stock}}$ | 0.0000 | 0.0000 |
| Earnings (Loss) per Share | = $\frac{\text{Loss Attributable to Owners of the Company}}{\text{Number of Shares}}$ | -0.0006 | -0.0051 |
| Market Value of Stock (Ch\$) | = | 26.2 | 33.2 |

* Average Operating Assets: Total assets less deferred taxes and intangible assets.

- **Return on Equity:** This ratio increased over December 2017, due to a smaller loss attributable to the owners of the company of MMUS\$ 21.4 recorded for the first quarter of 2018 in comparison to the loss of MMUS\$ 188.1 for 2017 (MMUS\$ 166.7 / -89% chg.), which was partially offset by reduced average equity (MMUS\$ 19.0 / 1%).
- **Return on Assets:** This ratio increased in relation to December 2017, due to a smaller loss attributable to the owners of the company (MMUS\$ 166.7, / -89% chg.) explained above, which was offset by a drop in average assets (MMUS\$ 22.9 / 1% chg.).
- **Return on Operating Assets:** This ratio decreased in relation to December 2017, due to reduced net operating income of MMUS\$ 0.3 in March 2018 in comparison to MMUS\$ 1.3 in December 2017 (MMUS\$ 1.0 / -79% chg.), , partially offset by reduced average operating assets (MMUS\$ 15.5 / 1% chg.).
- **Dividend Yield:** This ratio remained constant because no dividends were distributed in 2017 and 2018.
- **Loss per Share:** Loss per share rose with respect to December 2017 because of improved results (MMUS\$ 166.7 / -89% chg.), as explained in the first indicator in this subgroup of ratios. The total number of shares issued and subscribed did not vary.
- **Market Value of Stock:** The share value fell by 21% compared to December 2017.

d) Activity Ratios

| Activity Ratios | | As of March 31, 2018 | As of December 31, 2017 |
|----------------------|--|-------------------------|----------------------------|
| Inventory Turnover | = $\frac{\text{Fuel Costs}}{\text{Average Inventories}}$ | 6.224 | 5.221 |
| Inventory Permanence | = $\frac{\text{Average Inventories} * 360}{\text{Fuel Costs}}$ | 57.837 | 68.946 |

- **Inventory Turnover:** This indicator increased with respect to December 31, 2017, as a result of a reduction in average inventory (MMUS\$ 0.6 / 16% chg.), and no significant variation in the cost of fuel.
- **Inventory Permanence:** Since inventory turnover increased, permanence decreased in relation to December 2017.