CSAV®

MANAGEMENT ANALYSIS

Based on the Consolidated Financial Statements
as of and for the year ended December 31, 2020

COMPAÑÍA SUD AMERICANA DE VAPORES S.A. AND SUBSIDIARIES

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1. Financial Position Analysis

a) Statement of Financial Position

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

ASSETS	As of December 31, 2020	As of December 31, 2019	Change
	MMUS$	MMUS$	MMUS$
Current assets	82.2	72.6	9.6
Non-current assets	2,953.8	2,444.8	509.0
Total assets	**3,036.0**	**2,517.4**	**518.6**

LIABILITIES AND EQUITY	As of December 31, 2020	As of December 31, 2019	Change
	MMUS$	MMUS$	MMUS$
Current liabilities	135.2	108.0	27.2
Non-current liabilities	177.9	185.2	(7.3)
Total liabilities	313.1	293.2	19.9
Total equity	2,722.9	2,224.2	498.7
Total liabilities and equity	**3,036.0**	**2,517.4**	**518.6**

For improved understanding of this Management Analysis, bear in mind that on January 23, 2020, CSAV announced that it was gradually closing its car carrier business, a process which has been fully concluded, as explained in Note 2 b) and Note 35 of the Consolidated Financial Statements. The decision was made by CSAV to focus all economic and management efforts on developing its main asset—its interest in the German shipping company Hapag-Lloyd AG (HLAG). In addition, during the last quarter of 2017, CSAV closed its freight forwarder and logistics services business unit.

Therefore, as of December 31, 2019, the assets and liabilities related to the freight forwarder and logistics services businesses are classified as assets and liabilities held for sale in accordance with IFRS 5. As of December 31, 2020, assets and liabilities related to both the freight forwarder and logistics services businesses and the car carrier business have been classified as assets and liabilities held for sale.

Moving on to the balance sheet variations, as of December 31, 2020, **total assets** were up MMUS$ 518.6 with respect to December 31, 2019. This variation is explained by increases of MMUS$ 509.0 in non-current assets and MMUS$ 9.6 in current assets.

The rise of MMUS$ 509.0 in **non-current assets** can be explained by the increase of MMUS$ 569.7 in equity method investments, partially offset by decreases in deferred tax assets of MMUS$ 50.8,

in property, plant and equipment of MMUS$ 8.6 and in investment properties of MMUS$ 1.3, which are described below.

The variation in **equity method investments** during the year 2020 is related to CSAV's investment in the German shipping line HLAG. The following table presents the main movements in this account during 2020.

Account Movements Equity Method Investments	
	MMUS$
Balance as of January 1, 2020	**2,168.40**
Share of HLAG's net income	317.3
PPA amortization	(5.0)
Total movements in results	312.3
Purchase of shares	329.1
Share purchase adjustment to PPA	(103.9)
Sale of shares	(0.0)
Goodwill	103.9
Dividends received	(65.8)
Total movements in assets	263.3
Share of other comprehensive loss	(4.2)
Share of other equity changes	(1.7)
Total movements in equity	(5.9)
Movements during the period	569.7
Balance as of December 31, 2020	**2,738.10**

PPA: *Purchase Price Allocation*

The main variation in this account was to CSAV's share of HLAG's net income. For the year 2020, the German shipping company reported net income attributable to the owners of the company of MMUS$ 1,057.7. Based on CSAV's 30% interest as of each quarter end during the year, the Company reported a share of HLAG's net income of MMUS$ 317.3.

According to the accounting method that should be used for joint ventures under IFRS, in addition to reflecting in net income or loss its direct share of the net income or loss attributable to the owners of HLAG, CSAV must also record the effect on net income 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 acquisitions of HLAG shares after closing the business combination with United Arab Shipping Company (UASC) in 2017 and during the 2019-2020 period (in accordance with IFRS 3 and IAS 28), carried out to attain 30%. PPA amortization should also be multiplied by CSAV's respective share as of each quarter end. Accordingly, the amount recorded

each quarter for PPA was a loss of MMUS$ 1.3, giving accumulated PPA amortization for the year ended December 31, 2020 of a loss of MMUS$ 5.0.

Another effect explaining the rise in equity method investments is related to the investment made by CSAV on January 13, 2020, to finally increase its stake in HLAG to 30% (27.79% as of December 31, 2019) by acquiring a share package from Qatar Investment Authority (QIA) equivalent to 2.21% for MMUS$ 329.1.

The prior purchases made on German stock exchanges throughout 2019 and the final stake acquired in 2020, which concluded the share purchase process to obtain 30% of HLAG, involved a total investment of MMUS$ 450. This percentage is important because, according to German law, 30% makes CSAV the legal controller of HLAG even without a shareholder agreement. This puts the Company in a better position to reach its objective of maintaining influence and control over the future of the German shipping company.

To finance the MMUS$ 450 investment, CSAV placed MMUS$ 100 in new C series bonds in 2019 as part of the line of MMUS$ 150 registered that same year with the Financial Market Commission (CMF). The balance of the transaction (MMUS$ 350) was initially covered in the third quarter of 2019 with bridge loans from Banco Consorcio for MMUS$ 20 and its parent Quiñenco for MMUS$ 30. The latter was expanded to MMUS$ 330 during the first quarter of 2020 to purchase the last share package in January 2020.

In order to repay both bridge loans, shareholders voted at an extraordinary shareholders' meeting on May 19, 2020, to increase the Company's capital by MMUS$ 350 by issuing new shares. To achieve this objective, the Company's board decided to issue 14,523 million shares and offer them preferentially to CSAV shareholders at a price of US$ 0.0241 per share. That price was calculated by converting the average weighted price in pesos of transactions on Santiago Exchange from August 10-14, 2020, using the observed exchange rate as of August 17, 2020. This initial calculation was discounted by approximately 15% to create a special incentive to participate in the capital increase and cover potential market fluctuations. The subscription right was equal to 0.39468024203 shares for each share held as of August 21, 2020, the shareholder registry cut-off date for the capital increase.

The Pre-emptive Rights Period (POP for its acronym in Spanish) began on August 27, 2020, and ended on September 25, 2020, thus complying with the 30-calendar-day requirement mandated by Chilean regulations. This stage was successfully concluded with 98.23% of the offering being subscribed, equivalent to around 14,266 million shares, and MUS$ 343.8 raised.

Subsequently, and in light of the considerable shareholder interest in their pre-emptive rights, the Company's board decided to offer the remaining shares in a second pre-emptive rights period (known as the "Second Round") that lasted six calendar days, concluding on October 13th with a final total subscription of 99.93% of all shares issued.

To finalize the capital increase process, the unsubscribed balance of shares was offered to the market through two simultaneous open auctions on October 16, 2020, thus successfully raising the target funds of MMUS$ 350 for the capital increase.

Continuing with the analysis of equity method investments, in accordance with provisions in IAS 28 applicable to the process of acquiring an additional interest of 2.21% in HLAG that CSAV carried out in 2020 for MMUS$ 329.1, the Company recorded goodwill of MMUS$ 103.9 from acquiring these shares at an average price above the fair value of the assets, which amounted to MMUS$ 225.1 based on the purchase price allocation (PPA) analysis for HLAG, commissioned by CSAV from PricewaterhouseCoopers in 2020.

The aforementioned effects on the equity method investments were partially offset by a decrease of MMUS$ 65.8 because of dividends distributed by HLAG in the second quarter of 2020, charged to 2019 earnings, and its share of HLAG's comprehensive loss and other equity reserves of MMUS$ 5.9.

More information on the accounting balance of CSAV's investment in HLAG and all movements during the periods ended December 31, 2020 and December 31, 2019, can be found in Note 15 of the Consolidated Financial Statements .

Returning to the main variations in non-current assets, the decrease of MMUS$ 50.8 in **deferred tax assets** can be explained mainly by the net effect on taxes of the existing financing structure in euros that the CSAV Group used to invest in HLAG in Germany.

During 2020, the net effect of the variation in the euro/dollar exchange rate 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. This was partially offset by taxes on operating income, administrative expenses and interest on third-party loans.

The decrease in **property, plant and equipment** of MMUS$ 8.6 can be explained by the reclassification of right-of-use assets subject to operating lease agreements to current assets held for sale, in accordance with IFRS 16 "Leases" and their subsequent extinction because they are fully related to vessel charters from the already discontinued car carrier business.

Lastly, the decrease of MMUS$ 1.3 in **investment property** is related to the sale of offices not currently being used for operations completed during the second quarter of 2020.

Continuing with the analysis of the main variations in CSAV's balance sheet, the rise of MMUS$ 9.6 in **current assets** is explained by an increase in **cash and cash equivalents** of MMUS$ 28.0, which will be discussed in more depth in letter d) Cash Flow Analysis. However, the factors primarily explaining this increase are the dividend of MMUS$ 65.8 received from HLAG in the second quarter

of 2020 and drawdowns from two credit facilities--one from Banco Security for MMUS$ 35 and another from Banco BTG Pactual for MMUS$ 20--during the second quarter of 2020 to safeguard its liquidity in light of pandemic-related global conditions. This increased liquidity was temporarily used during the third quarter to prepay some of the Company's debt taken on during the capital increase process. These increases were partially offset by loan payments of MMUS$ 75, along with interest payments and operating expenses, which are discussed in greater detail in letter d) Cash Flow Analysis.

There was also a decrease in **trade and other receivables** with third parties and related parties of MMUS$ 16.2, a drop in **fuel inventory** of MMUS$ 1.9, a decrease in **current tax assets** of MMUS$ 0.1 and a decline in **non-financial assets** of MMUS$ 0.1. These four variations are explained primarily by the closing of the car carrier business, whereby balances were reclassified to **assets held for sale** and extinguished once the business was closed, thus reducing the account by MMUS$ 0.2.

As of December 31, 2020, **total liabilities** increased by MMUS$ 19.9 compared to December 31, 2019. This variation is explained by an increase of MMUS$ 27.2 in current liabilities, partially offset by a decrease of MMUS$ 7.3 in non-current liabilities.

The increase of MMUS$ 27.2 in **current liabilities** is explained largely by a rise in **other non-financial liabilities** of MMUS$ 62.6, related mainly to the commitment to pay MMUS$ 66.3 in minimum mandatory dividends in 2021, charged to 2020 earnings, and an increase in **other financial liabilities**of MMUS$ 11.0, explained by the reclassification to short-term of MMUS$ 50 in series B bonds issued by the Company in 2016, offset by repayment of the loan from Banco Consorcio (MMUS$ 35) and reclassification of financial lease liabilities from the car carrier business to liabilities held for sale.

These effects were offset by a decrease in **payables to related parties** of MMUS$ 30.3, related to bridge financing obtained in 2019 from its parent company Quiñenco for the capital increase, which was repaid in 2020, as indicated above. There were also decreases in several other accounts within current liabilities related to the car carrier business when that business was closed.

The decrease of MMUS$ 7.3 in **non-current liabilities** is explained mainly by the drop in **other non-current financial liabilities** of MMUS$ 8.6, due to the reclassification of MMUS$ 50 in series B bonds due to maturity, as explained above, and, also because of maturity, of a portion of the loan from Banco Itaú of MMUS$ 10, which has a total outstanding balance of MMUS$ 25. Both effects were offset by drawdowns from two credit facilities--one from Banco Security for MMUS$ 35 and another from Banco BTG Pactual for MMUS$ 20--during the second quarter of 2020, as mentioned above. There was also a decrease in **other non-current provisions** of MMUS$ 3.5, explained by maturity-related reclassifications as current and provisions used during the period.

The aforementioned effects were partly offset by a rise of MMUS$ 4.8 in **deferred tax liabilities**, related to the effect on taxes of the financing structure in euros that the CSAV Group used to invest in HLAG in Germany, similar to deferred tax assets.

In this case, the effect comes from income tax recorded on interest on that financing, which produced tax profits for CSAV in Chile, thus resulting in an income tax expense and greater deferred tax liabilities for the period.

As of December 31, 2020, **equity** increased by MMUS$ 498.7 compared to December 31, 2019. At an extraordinary shareholders' meeting held May 19, 2020, in addition to approving the capital increase mentioned above, shareholders approved a capital reduction of MMUS$ 1,230.0 to absorb the accumulated deficit of MMUS$ 1,228.9 and a reduction in other reserves of MMUS$ 1.1. Although, from an accounting perspective, this reclassification of equity accounts has no effect on the total balance of equity or on other line items in the financial statements, absorbing this loss will allow CSAV to once again distribute dividends of at least 30% of earnings, as established by law, beginning in 2021.

Breaking down the effects described in the prior paragraph, the variation in equity is explained by the increase in issued capital and share premium of a total of MMUS$ 349.1 due to the new shares issued for the capital increase concluded in the fourth quarter of 2020, in addition to **net income for the year** recorded in 2020, of MMUS$ 155.5, and a decrease in **other reserves** of MMUS$ 5.9. The latter can be explained almost entirely by CSAV's share of HLAG's other comprehensive loss and other equity reserves. More information on these changes in equity can be found in Note 28 f) of the Consolidated Financial Statements.

b) Income Statement Analysis

To improve comprehension of the Statement of Income for the nine months ended December 31, 2020, it is important to mention that the freight forward and logistics and car carrier businesses are presented as discontinued operations, restating results for the period ended December 31, 2019, with the classifications used since the first quarter of 2020, according to IFRS 5.

Net income attributable to owners of the company of MMUS$ 222.1 for the period ended December 31, 2020, represents an improvement of MMUS$ 97.5 over the same period in 2019. The following table compares the Consolidated Statement of Income for the years ended December 31, 2020 and 2019:

Consolidated Results	For the year ended December 31, 2020	For the year ended December 31, 2019	Change
	MMUS$	MMUS$	MMUS$
Share of income (loss) of equity method associates and joint ventures	312.3	147.8	164.5
Administrative and other operating expenses	(9.6)	(7.8)	(1.8)
EBITDA (EBITDA including associates)	302.8	140.1	162.7
Finance costs, net	(23)	(9.6)	(13.4)
Exchange differences	(1.5)	0	(1.5)
Income tax expense	(55.5)	(0.1)	(55.4)
Net income after tax from continuing operations	**222.7**	**130.3**	**(92.4)**
Loss after tax from discontinued operations	(0.6)	(5.7)	5.1
Net income for the year	**222.1**	**124.6**	**97.5**

Net income for the year is explained mainly by the Company's **share of net income (loss) of associates and joint ventures**, where CSAV recognized income of MMUS$ 312.3 for the year ended December 31, 2020, which is MMUS$ 164.5 greater than the figure recorded in 2019.

This increase is explained mainly by improved results from CSAV's direct interest in HLAG of MMUS$ 206.7 with respect to the same period in 2019, offset by lower badwill of MMUS$ 34.6 recorded as compared to 2019 on the share purchases in 2019 and greater PPA amortization of MMUS$ 7.6 for the investment in HLAG with respect to the same period last year.

Administrative and other operating expenses totaled MMUS$ 9.6 during 2020, up MMUS$ 1.8 from the same period last year, attributed mainly to lower sales of and lower rental income from investment property.

Net finance costs amounted to MMUS$ 23.0 as of December 31, 2020, marking an increase of MMUS$ 13.4 versus the same period last year, explained largely by greater financial debt during the period to acquire additional shares of HLAG. This debt was repaid after the capital increase carried out that same year.

For the year ended December 31, 2020, CSAV recognized an **income tax expense** of MMUS$ 55.5, representing an increase of MMUS$ 55.4 over the same period in 2019. This variation is explained mainly by a larger deferred tax expense in 2020 because of the variation in the euro-dollar exchange rate and its impact on the CSAV Group's financing structure for its investment in HLAG, as detailed in letter a) above.
The euro depreciated 2% with respect to the dollar in 2019, but reverted this trend in 2020 by appreciating 9%.

The **net loss from discontinued operations** of MMUS$ 0.6 for the year ended December 31, 2020, represents a smaller loss of MMUS$ 5.1 over the same period in 2019. This result reflects mainly the car carrier business, which had limited operations and was finally closed in 2020. The following table shows the results of the discontinued operations.

Net Loss from Discontinued Operations	For the year ended December 31, 2020	For the year ended December 31, 2019	Change
	MMUS$	**MMUS$**	**MMUS$**
Revenue	17.5	93.0	(75.5)
Cost of sales	(17.0)	(93.9)	76.9
Gross margin	**0.5**	**(0.9)**	**1.4**
Administrative expenses and other gains (losses)	(1.0)	(2.4)	1.4
Net finance costs and exchange differences	0.0	(0.8)	0.8
Income tax expense	(0.1)	(1.6)	1.5
Loss from discontinued operations	**(0.6)**	**(5.7)**	**5.1**

Revenue from discontinued operations totaled MMUS$ 17.5 for the year ended December 31, 2020, which represents a decrease of MMUS$ 75.5 over the same period in 2019, while **cost of sales** from discontinued operations reached MMUS$ 17.0 for the year 2020, down MMUS$ 76.9 from the same period last year. Both effects, as well as the remaining line items from discontinued operations, can be explained by a lower volume of vehicles transported as the business was being closed.

C) Cash Flow Analysis

The net change in **cash and cash equivalents** between December 31, 2019, and 2020, was a positive MMUS$ 28.0. The main variations in cash flows are explained as follows.

	For the year ended December 31, 2020	For the year ended December 31, 2019	Change
	MMUS$	MMUS$	MMUS$
Cash flows from operating activities	**(7.3)**	**27.4**	**(34.7)**
Proceeds from operating activities	25.7	92.4	(66.7)
Payments from operating activities	(31.6)	(65.0)	33.4
Income taxes and other	(1.4)	(0.0)	(1.4)
Cash flows from investing activities	**(261.3)**	**(109.5)**	**(151.8)**
Payments to acquire interests in joint ventures	(329.1)	(120.3)	(208.8)
Dividends received	65.8	8.0	57.8
Proceeds from the sale of properties	1.7	2.2	(0.5)
Interest received	0.3	0.6	(0.3)
Cash flows from financing activities	**298.1**	**111.5**	**186.6**
Proceeds from share issuance	349.0	0.0	349.0
Loans obtained from and paid to related parties, net	(30.0)	30.0	(60.0)
Loans secured	55.0	134.4	(79.4)
Loans paid	(45.0)	(10.0)	(35.0)
Interest and other payments	(23.1)	(10.3)	(12.8)
Repayment of finance lease liabilities	(7.8)	(32.6)	24.8
Effect of change in exchange rate	**(1.5)**	**(0.1)**	**(1.4)**
Increase in cash and cash equivalents	**28.0**	**29.3**	**(1.3)**

Cash flows from operating activities were a negative MMUS$ 7.3 for the year ended December 31, 2020, compared to a positive MMUS$ 27.4 for the same period last year, representing a negative variation of MMUS$ 34.7. However, to fully understand the Company's operations, this analysis must also include the variation in finance lease payments presented in cash flows from financing activities that are related to operating leases for vessels within CSAV's car carrier fleet, as a result of applying IFRS 16 "Leases". Upon including these payments, the variation is reduced to a negative MMUS$ 9.9, explained primarily by the fact that car carrier services were suspended while operating and administrative costs for that business were gradually adjusted.

Cash flows from investing activities were a negative MMUS$ 261.3 for the year ended December 31, 2020, requiring MMUS$ 151.8 more cash flows than the same period last year, explained by an increase in investments to acquire additional HLAG shares, a decrease in sales of investment property and lower interest received on time deposits, partially offset by more dividends received from HLAG, as described in preceding sections.

Cash flows from financing activities were a positive MMUS$ 298.1 for the year ended December 31, 2020. Compared to the positive cash flow of MMUS$ 111.5 during the same period last year, this year's figure represents a positive variation of MMUS$ 186.6, explained mainly by funds raised from issuing shares (MMUS$ 349.0 during the capital increase) and reduced payments on financial lease liabilities due to closing the car carrier business, as indicated above.

This was partly offset by a decrease of MMUS$ 79.4 in loans obtained and greater loan repayments of MMUS$ 35 during 2020 in comparison to 2019, explained by two bank loans secured in 2020 for a total of MMUS$ 55 compared to the issuance of the series C bond for MMUS$ 100 in 2019 and the 2020 repayment of the Banco Consorcio loan of MMUS$ 35.0, drawn down in 2019. In addition, we must consider the effect of the 2020 repayment of MMUS$ 30.0 on the MMUS$ 330 bridge loan from the parent company Quiñenco to finance additional acquisitions of HLAG shares to attain a 30% interest in January 2020. This portion was drawn down in 2019 and paid in 2020. There was also an increase in interest and other payments of MMUS$ 12.8.

d) Financial Ratios

As of December 31, 2020 and December 31, 2019, the main financial indicators are as follows:

Liquidity Ratios

Liquidity Ratios			As of December 31, 2020	As of December 31, 2019
Current Liquidity Ratio	=	Current Assets / Current Liabilities	0.608	0.672

- **Current Liquidity:** This ratio worsened slightly in comparison to December 2019 because of an increase in current liabilities (change of 25% / MMUS$ 27.2), offset by a rise in current assets (change of 13% / MMUS$ 9.6). The increase in current liabilities as of December 31, 2020, is explained mainly by the recording of MMUS$ 66.3 in dividends payable and the reclassification of MMUS$ 50 in bonds because of maturity, offset by MMUS$ 30 in repayments on the loan granted by the parent company Quiñenco in 2019. The increase in current assets is explained primarily by MMUS$ 65.8 in dividends received from HLAG, MMUS$ 55 draw down from loans, MMUS$ 75 in loan repayments and other payments of interest and operating expenses. All these increases are explained in point 1 letter a) of this report.

Indebtedness Ratios

Indebtedness Ratios			As of December 31, 2020	As of December 31, 2019
Leverage	=	Total Liabilities / Equity	0.115	0.132
Short-Term Leverage	=	Current Liabilities / Total Liabilities	0.432	0.368
Long-Term Leverage	=	Non-Current Liabilities / Total Liabilities	0.568	0.632
Financial Expense Coverage	=	Net Income before Taxes Less Finance Costs / Finance Costs	12.937	12.586

- **Leverage**: This ratio improved slightly with respect to December 2019, because the increase in equity (change of 22% / MMUS$ 498.7), as explained in section 1 a) of this report, was less than the increase in total liabilities (change of 7% / MMUS$ 19.9.), mainly because of variations in the investment in HLAG, as explained above.

- **Short-Term Leverage:** This ratio decreased with respect to December 2019, because the increase in current liabilities (change of 25% / MMUS$ 264.8), was greater than the increase in total liabilities (change of 7% / MMUS$ 19.9), as explained in section 1a) of this report.

- **Long-Term Leverage:** In contrast to the previous ratio, this indicator increased with respect to December 2019, because total liabilities increased (change of 7% / MMUS$ 19.9.), while non-current liabilities decreased (change of -4% / MMUS$ -7.3.), both of which are explained in section 1a) of this report.

- **Financial Expense Coverage:** This ratio improved in relation to December 2019, due to a rise in net income before taxes net of finance costs in 2020 versus 2019 (change of 119% / MMUS$ 163.8), partially offset by a rise in finance costs in 2020 compared to 2019 (change of 113% / MMUS$ -12.4), both of which were explained in section 1 b) of this report.

Profitability Ratios

Profitability Ratios			As of December 31, 2020	As of December 31, 2019
Return on Equity	=	Net Income Attributable to Owners of the Company / Average Equity	0.0898	0.0572
Return on Assets	=	Net Income Attributable to Owners of the Company / Average Assets	0.0800	0.0522
Dividend Yield	=	Dividends Paid in Last 12 Months / Market Value of Stock	-	-
Earnings per Share	=	Net Income Attributable to Owners of the Company / Number of Shares	0.0043	0.0034
Market Value of Stock =		[Chilean pesos]	28.7	27.4

Note: Average: (Value as of period end + Value 12 months prior to period end) / 2

- **Return on Equity:** This indicator improved slightly in comparison to December 2019, because net income attributable to the owners of the company of MMUS$ 222.1 in 2020 was greater than net income of MMUS$ 124.6 for the year 2019 (chg. of 78% / MMUS$ 97.5), partly offset by a rise in average equity (chg. 14% / MMUS$ 296.4).

- **Return on Assets:** This ratio improved slightly in relation to December 2019, due to higher net income attributable to the owners of the company, as explained above (chg. 78%, / MMUS$ 97.5), offset by an increase in average assets (chg. 16% / MMUS$ 389.1).

- **Dividend Yield:** This ratio remained constant because no dividends were distributed in 2020 or 2019.

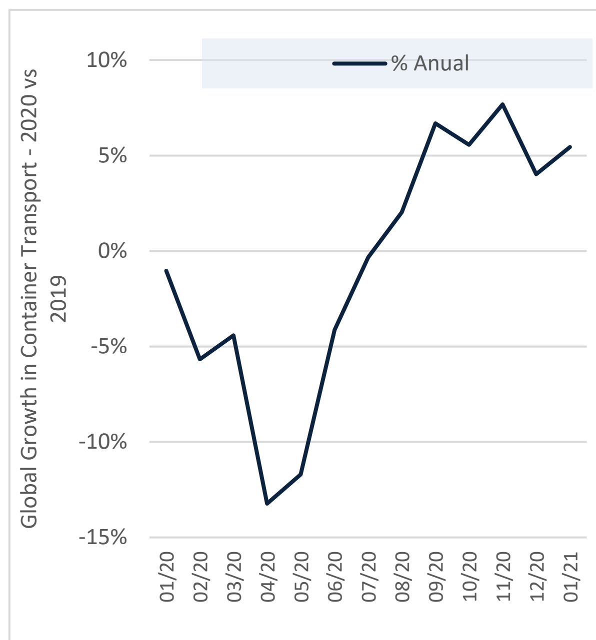
- **Earnings per Share:** Earnings per share improved slightly with respect to December 2019 as a result of the rise in net income (chg. de 78% / MMUS$ 97.5), offset by an increase in issued and subscribed shares because of the capital increase (chg. of 39% / MM 14,523 shares), as explained above.

- **Market Value of Stock:** The share value as of December 31, 2020, rose by 5% compared to December 2019.

2. Market Analysis

The container shipping industry was faced with complex, uncertain conditions in early 2020 as a result of the pandemic. CSAV has participated in this industry since 2014 through its investment in the German shipping company Hapag-Lloyd (accounted for as a joint venture using the equity method), in which it has a 30% stake as of December 31st.

The economy contracted sharply around the world as a result of various mobility restrictions mandated by local authorities in the different areas impacted by the pandemic to contain the spread of the coronavirus, while demand for shipping was seriously affected in the first half of 2020, with a record drop in transport volumes along the main trades with respect to prior years). Far East (Asia to Europe) and Transpacific (Asia to the US) routes experienced a cumulative reduction in demand for the first quarter of -14% and -7%, respectively.



Source: Clarksons Research (Mar-21)

Despite the above, and the lingering uncertainty surrounding the public health crisis, industry transport volumes began recovering in the second quarter thanks to adjustments to certain mobility restrictions and border closures in Europe and North America that allowed for operational continuity, even managing to surpass 2019 levels during the second half of the year. This helped offset the fall during the first six months of the year, resulting in a slightly negative percentage change in global demand for container transport with respect to the prior year.

As for global GDP growth projections for year-end 2020, the International Monetary Fund (IMF) forecast expected growth for the year of 3.3% in its in January 2020 report, before the coronavirus pandemic was declared. Subsequently, after successive downward adjustments projecting an economic contraction of -4.9% in June 2020, current forecasts as of January 2021 call for year-end global GDP of -3.5%, thanks to a better-than-expected second half in 2020.

Regarding global GDP growth for 2021, although outlooks for economic growth remain strong, anticipating a rise of 5.5% over last year thanks to the approval of several vaccines and the start of vaccination campaigns, second and third waves of the disease along with new strains of the virus are generating continued concerns with respect to this positive evolution.

On the supply side, important improvements have been seen in key industry indicators in recent years and several shipping lines had already begun to report better operating results in 2019. A steady drop in total fleet growth and increased rationalization following an intensive consolidation process in recent years and collaboration through operating alliances have all led to greater stability in the long-term supply-demand equilibrium, allowing the industry to make organic, effective adjustments to contractions in demand. Similarly, the abrupt drops in demand for shipping in 2020 as a result of the pandemic put the industry to the test. In response, shipping lines adopted diverse contingency measures to reduce docking, slow cruising speed, change routes and even cancel trips and expand the idle fleet.

On the other hand, the new environmental regulation known as “IMO 2020” took effect on January 1, 2020. Before the public health crisis, this change was expected to significantly increase operating costs for shipping lines because of anticipated price differences between the fuel consumed until December 31, 2019, and the new product. However, because of the fall in global demand, not only did the price of both fuels remain low during most of the year, but also the price difference allowed for an effective transition (in terms of compliance) with a lower impact on costs for operators.

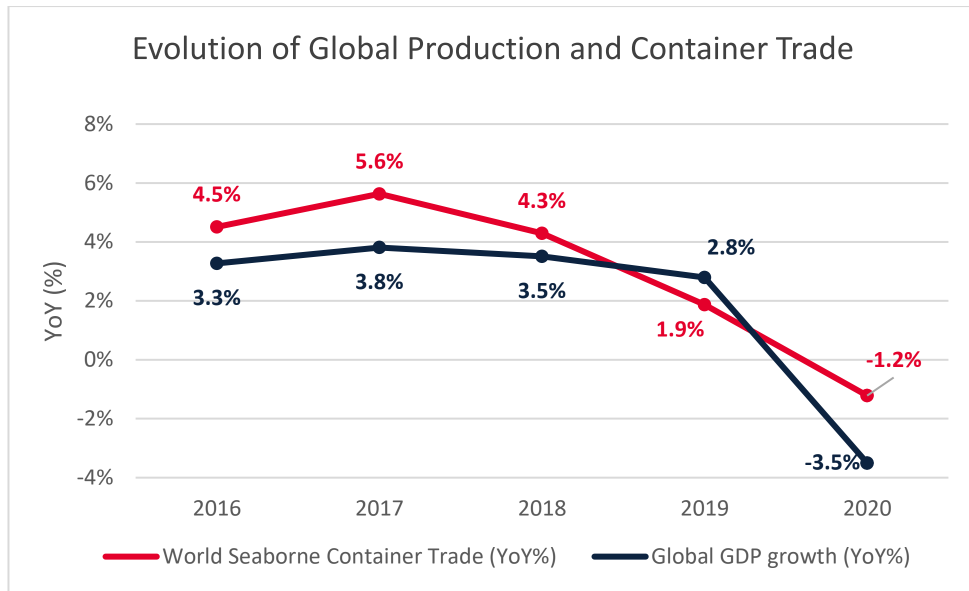
The industry, therefore, is understandably focused on the new paradigm of optimizing operating costs and boosting productivity, aiming for greater asset usage and more efficient fuel consumption. This is especially important to deal with the cost pressures inherent to a recovering market, in the markets for both vessel charters and maritime and port services.

With that being said, the industry's main indicators over the last year have been characterized by:

- **Recovering global economic conditions with lingering uncertainty**

Until just before the beginning of the consolidation process in the container shipping industry (initiated with the CSAV-HLAG merger in 2014), operators employed a strategy focused on growth and increasing market share, which was driven by globalization, technological development and manufacturers relocating to emerging economies. However, in today's hyper-connected economy, the industry has achieved a greater degree of maturity and international trade of goods--where container shipping accounts for the largest share in comparison to other modes of transportation--has a direct relationship of close to 1.0x times global GDP.

Between 2012 and 2018, global GDP grew consistently at around 3.5%, while container transport volumes reported positive annual growth slightly above global GDP during the same period. However, in 2018 amidst trade tensions between the United States and China, which impacted global economic conditions as of the middle of that year, we began to observe a slight reduction in annual GDP growth trends. This downward trend intensified in 2019 and fell even further by year-end 2020, with estimated economic contraction of -3.5% (an historical low) due to the consequences of COVID-19.



Source: Clarksons Research (Mar-21); International Monetary Fund (IMF), 'World Economic Outlook' (Jan-21)

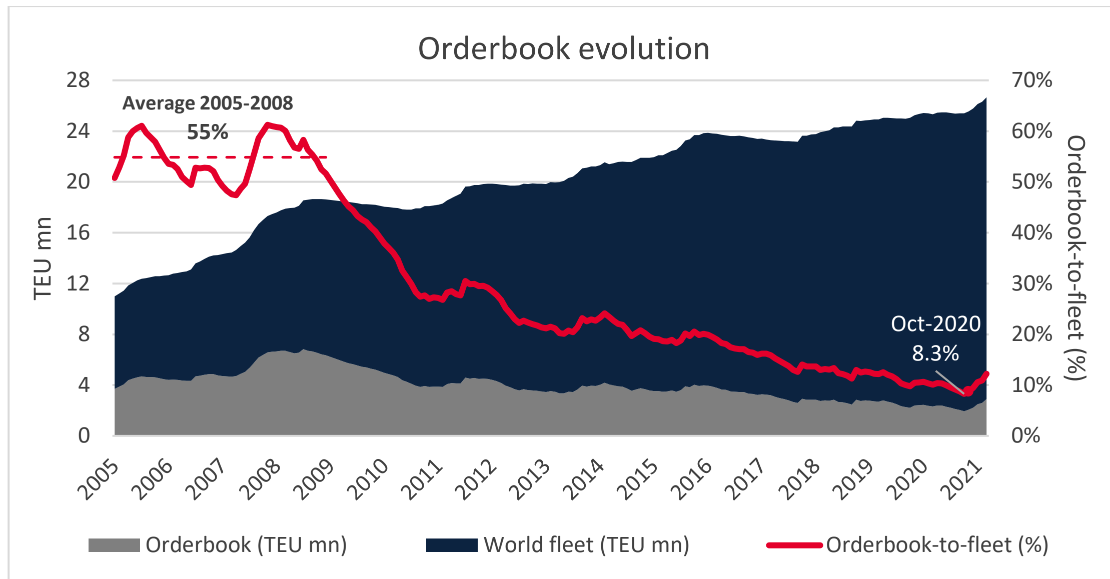
Clarksons Research estimates that container transport volumes fell 1.2% in 2020 compared to 2019, and forecasts growth in shipping demand of close to 5.7% in 2021. Similarly, the IMF recently updated its 2021 projections, anticipating growth of 5.5% as well as increased economic activity as a result of vaccinations and additional relief policies from some of the larger economies.

- **Healthy supply-side indicators help endure economic slowdown**

The industry has achieved controlled growth and a clear degree of maturity that allow for a healthier coexistence of supply and demand.

Growth in supply in upcoming years can be calculated by, on one hand, the total shipping capacity of the orderbook with respect to the total fleet, which represents the capacity that will be incorporated into the operative fleet within the next 24 to 30 months (the average construction and delivery time for vessels) and, on the other hand, the shipping capacity scrapped each year and, thus, no longer operating.

Between 2005 and 2008, this indicator averages around 55%, which brought about considerable oversupply in the market during the financial crisis of the last decade. Since then, there has been a significant decline in this factor, with a constantly decreasing percentage that keeps the orderbook at historically low levels. This rationalization is due to the long industry consolidation process by shipping companies via mergers and acquisitions and the formation of joint operating agreements and operating alliances along major global trades. Through these measures, they have achieved greater efficiency in the use of resources and a more rational growth plan and orderbook positioning consistent with the collective needs of global alliance members.



Source: Clarksons Research (Mar-21)

In October 2020 the orderbook to current fleet ratio was at a record low of 8.3%, which represents average annual growth of around 4% for the next two years, which would cover the transport needs generated by global GDP growth, but would not supply ships to replace vessels as they naturally depreciate.

In terms of fleet renewal, vessel scrapping has stayed low over the past few years because the global fleet is relatively new as a result of orderbook concentration and deliveries a few years back, and since vessels have an average useful life of 25 years. That gives an annual renewal rate of 4%, because of yearly vessel depreciation. Therefore, orderbook-total fleet equilibrium, based on current market conditions, must be around 15% (scrapping plus industry growth, cumulative for two periods). In late 2020 and early 2021, several operators announced the closing of vessel construction contracts, thus increasing the current orderbook-to-fleet ratio to almost 13% as of March 2021.

In this context, it deserves mentioning that Hapag-Lloyd confirmed construction of six 23,500 TEU vessels featuring high-efficiency, high-pressure, dual-fuel engines that run on LNG but can also burn conventional fuel if needed.

- **Effective fleet management kept supply-demand equilibrium**

In addition to the industry's gross growth (new vessel construction plus fleet renewal), one must consider the different initiatives adopted individually by shipping lines or collectively through operating alliances, in order to adjust to short-term fluctuations in demand. These initiatives include coordinating with shipyards to deliver vessels when required and actively managing operational capacity to efficiently deploy fleets (i.e., reducing cruising speeds, suspending voyages, increasing idle fleets and even restructuring services, as well as scrapping unused vessels). Thanks to better supply-demand equilibrium and improved intra-alliance coordination, these short-term

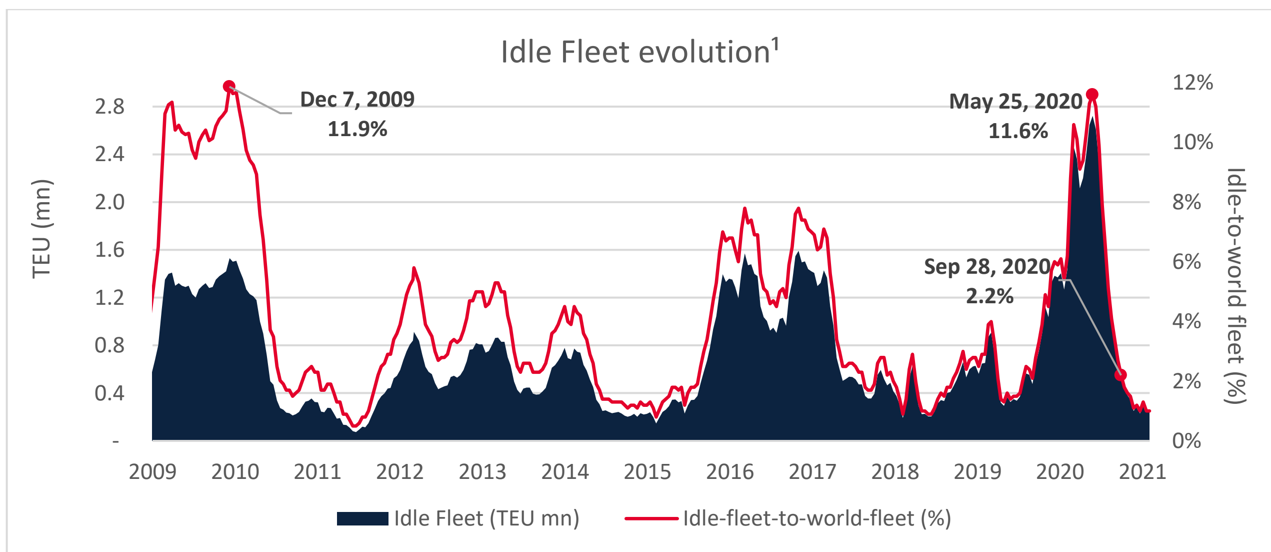
adjustment tools have recovered their efficacy over the past few years, and have proven themselves highly effective in critical periods such as 2020.

The idle fleet is a KPI that is sensitive to management variables and supply-demand equilibrium. It remained high from late 2015 to mid-2017 because of diverse factors such as the opening of the expanded Panama Canal in July 2016 and the ensuing considerable number of large, high-efficiency ships delivered in 2014 and 2015, thus resulting in the scrapping of a large number of smaller vessels.

In April 2017, the new global alliances began operating and, as a result, part of the idle fleet at that time was reincorporated into the active fleet. This, in addition to the industry's scrapping efforts in previous years, kept the indicator stable from mid-2017 to mid-2019.

In late 2019, due to the eminent start of the new "IMO 2020" fuel regulation in January 2020, a portion of the global fleet decided to dry dock for scrubber retrofitting as an option to comply with the new standard. Therefore, as these vessels suspended operations, the idle fleet indicator went up.

In addition, the effects of economic deceleration since early 2020 because of COVID-19, and the resulting drop in demand as explained above, led the industry to intensify capacity reduction measures between mid-February and late June in an effort to preserve supply-demand equilibrium without jeopardizing service or market stability, and thus demonstrating the industry's maturity.



NOTE:
[1] Until mid-November 2020 the "unemployed" fleet included vessels undergoing extraordinary repairs or being retrofit, but excluded ships that were idle for routine repairs. Since then, the "unemployed" fleet includes only those considered "commercially inactive" (excess capacity in the market or in the operator's fleet).

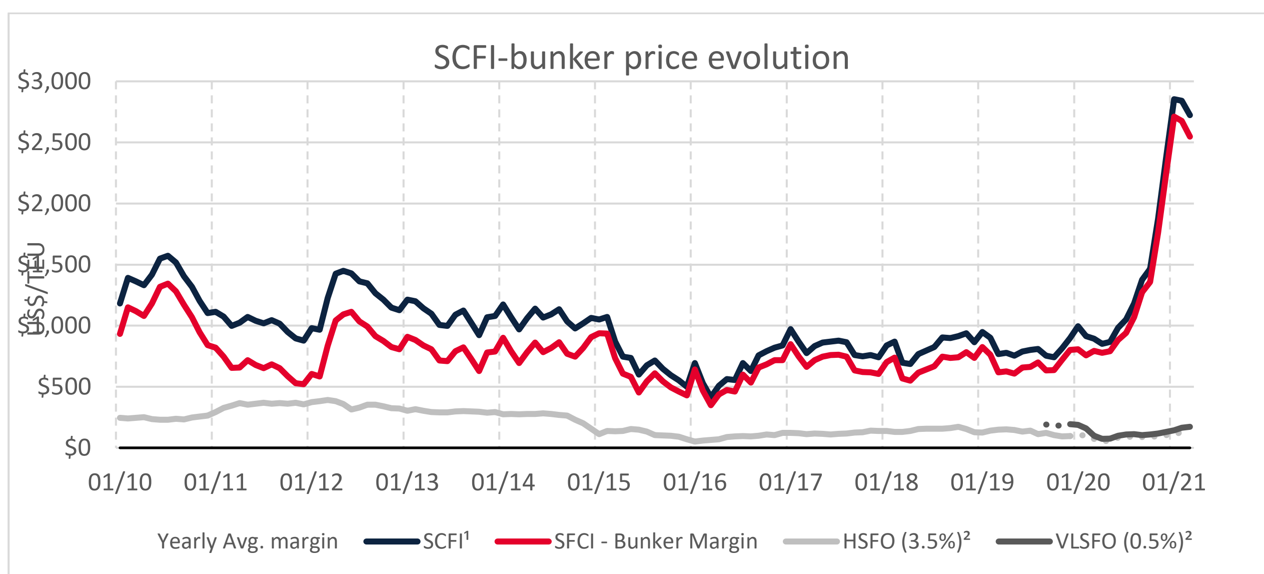
Source: Alphaliner Monthly Monitor (Feb-21)

With the partial and gradual opening of some economies in the third quarter of 2020, and in response to the urgency to quickly shore up supplies before a potential second wave of the disease, shipping began to recover and the industry reacted by restoring full shipping capacity. As a result, by late December 2020 the idle fleet had plummeted to below 2%.

- **Strong demand pushes freight rates up to record values**

The Shanghai Containerized Freight Index (SCFI) is an indicator of weekly trends in closing spot freight rates (shipments not subject to contracts with shipping lines) that reflects the effects on supply-demand equilibrium.

To properly analyze this indicator, one must also consider the effect of fuel prices on freight rates, where a moderate, yet steady, upward trend has been observed since 2016. Therefore, upon analyzing ex-bunker freight rates or the ex-bunker margin (net of fuel costs) with which companies must cover all other operating and finance costs, in recent years there has been a gradually lower differential between this indicator and general freight rates. The above can be attributed to increased operating efficiencies implemented by the industry and technological advances over the past few years that have boosted companies' general profitability, even though they have historically been below levels the industry could consider a sustainable equilibrium for obtaining a suitable return on its assets.



NOTES:
[1] Shanghai Containerized Freight Index.
[2] Average price of fuel (HSFO 380 or VLSFO) at the Port of Rotterdam, with the annual consumption factor (ton / TEU) recorded by Hapag Lloyd. Starting December 2019, VLSFO is used to calculate the ex-bunker margin because of the new IMO 2020 regulation.

Source: Clarksons Research (Mar-21)

The referenced ex-bunker margin was quite volatile pre-2017, peaking at around US$ 1,300 (nominal) in July 2010 and bottoming out at US$ 350 (nominal) in March 2016. However, between 2017 and the third quarter of 2020, the SCFI was relatively stable in comparison to the prior period,

demonstrating the seasonal nature of demand for container shipping services, reflected in a rise in freight rates in the peak season (normally between June and September) and a drop during slack season (normally the first few months of the year).

This relative stability was interrupted in the second half of 2020 by soaring demand as importers pressed to replenish products and raw material stocks once borders were open and before a possible second wave, as mentioned above, even leading to shipping container scarcity and vessel congestion at in-demand ports. Interestingly, the industry reincorporated its entire pre-pandemic active fleet, operating at 100% capacity.

This historical increase is due primarily to the high inelasticity of shipping demand from producers and importers of goods around the world, faced with limited shipping capacity during a given time, even though the industry is operating at full capacity. This rise has also proven that the logistic costs of shipping cargo are just one link in a longer logistics chain, representing a small portion of the total cost of transportation and, even more, of the commercial value of the transported good.

It also deserves mentioning that, although freight rates climbed sharply during the second half of 2020, which helped offset lower demand from the first half of the year and improve net income with respect to prior years, they still provide limited returns given the assets and capital invested by companies.

It is still too soon to decide what rate would be sustainable over time since there is no certainty as to, on one hand, COVID-19’s effect on the economy and the shipping industry beyond the first quarter of 2021 and, on the other hand, an increase in fuel prices because of greater economic reactivation and implementation of the new “IMO 2020” regulation in January 2020.

- **Rising fuel prices after falling because of economic deceleration**

Fuel is one of the most important inputs in the shipping industry and has a significant impact on operating costs. The price of fuel is commonly indexed to freight rates in customer contracts for shipping services.

As for historical trends, from 2011 until late 2014 the price of fuel remained relatively stable and high. After that, there was a sharp drop in 2015 to its historical lowest value. However, since early 2016, there has been a moderate but continuous increase in fuel prices, recovering a large part of ground lost in late 2014 by late 2018, applying constant pressure on operating costs and shipping rates considered to be in equilibrium.

As of year-end 2018, fuel prices showed high volatility, which later translated into a downward trend during the second half of 2019. This stemmed essentially from lower estimated demand and the effect of suppliers liquidating inventory of what was, until that time, the most widely used fuel for shipping operations. This is due to the application of the new sulfide air emissions regulation for

the shipping industry, “IMO 2020”, which mandates worldwide use of fuel with a maximum sulfur content of 0.5% (known as very low sulfur fuel oil or VLSFO), far below the 3.5% sulfur content of fuels previously used on long ocean voyages, starting January 1, 2020.

Therefore, as of year-end 2019, shipping industry operating costs were expected to increase during 2020 as a result of the higher price of the new low-sulfur product, which is more refined than regular fuel (HSFO 380), or because of the cost of installing scrubbers to reduce the level of sulfur in the fuel.

Either way, the new measures to reduce environmental impact have led the industry towards another change process, which will involve testing, evaluations and possible investment plans to comply with the new regulation in an efficient and sustainable manner.

As of year-end 2020, almost 26% of the total fleet of container ships has been fully retrofit, while other alternatives such as using LNG still account for less than 1% of the current fleet.

Regarding the price of the new fuel and as observed during the first half of 2020, the price of VLSFO fell sharply because of the global economic deceleration resulting from COVID-19. Although the price trend began to rally upwards in May, the industry is concerned about the recent implementation and future evolution of the new regulation and the price difference compared to HSFO 380.

- **Consolidation process complete, but still seeking efficiencies and new strategies**

Even though the container shipping industry still boasts a large number of players, especially in the segment of smaller-sized companies, a growing trend towards industry consolidation has been seen in the past few years.

The important wave of mergers and acquisitions in the industry began with the combination of the container shipping businesses of CSAV and HLAG, in 2014, which subsequently merged with the Arabic shipping line UASC in May 2017, positioning HLAG from that point forward among the five largest shipping companies in the world by hauling capacity.

Other important deals include the acquisition of the Chilean shipping line CCNI by German company Hamburg Süd and the subsequent purchase of Hamburg Süd by the Danish firm Maersk, which was concluded in November 2017, although they continue to operate under independent structures. In addition, to complete this acquisition Maersk had to dispose of its cabotage business in Brazil due to its high concentration in this business. That division was sold to CMA CGM, the French shipping line that previously purchased the Japanese company APL.

The main Asian shipping companies also engaged in important mergers and acquisitions. China Shipping merged with another Chinese firm, COSCO, which was subsequently acquired by Hong Kong’s Orient Overseas Container Lines (OOCL) in July 2018. Furthermore, an association to merge

the three largest Japanese lines (K-Line, NYK and MOL) into one entity was announced and began to operate jointly under the name Ocean Network Express (ONE) in 2018. However, despite completing the acquisition of OOCL and initiating operations at ONE, these companies are still independent entities and have not yet harnessed the potential synergies of full integration. This demonstrates that the large size of the shipping companies involved in these transactions lends greater complexity, higher costs and reduced efficiencies to such processes, generating a decreasing return from the benefits obtained from greater operating scales.

Another important milestone in this consolidation process was the bankruptcy and suspension of services in 2016 by Korean line Hanjin Shipping, the world's seventh largest container shipping company (measured by hauling capacity). This is the largest bankruptcy case in the history of the container shipping industry.

Following all these business combinations and Hanjin's bankruptcy, by early 2021 the ten largest global shipping operators accounted for almost 85% of installed capacity, while the five largest had close to 65%.

Although no new consolidations have been announced for the next few years, efforts continue for all industry players, now mainly focused on effectively integrating and generating post-merger synergies. The largest global operators have already reached sizes that will enable them to generate economies of scale, with the consequent effect on their costs, fleet optimization and a wider scope for their service network.

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

The current structure of alliances announced in 2016, which began to operate globally along most trades in the second quarter of 2017, account for almost 90% of total shipping capacity along the industry's main long-haul, east-west routes. The main changes in this reorganization process were the dissolution of the Ocean Three, G6 and CKYHE alliances to give rise to two new alliances: Ocean Alliance, led by CMA CGM and COSCO, and THE Alliance, of which HLAG is a member, as well as the 2M alliance between Maersk and MSC. During the second quarter of 2019, HMM's integration into THE Alliance was confirmed and the joint operation agreement was renewed in April 2020 for a period of 10 years.

3. Market Risk Analysis

In addition to being one of the main partners of the German shipping company, CSAV is also party to a shareholder agreement with two other partners. Although these three shareholders act as the controllers of HLAG, it is important to remember that this 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.

As described in Note 5 to these Consolidated Financial Statements, CSAV's investment in HLAG is presently its primary asset (90.18% of total assets as of December 31, 2020). 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.

The principal risks that the shipping industry faces stem mainly from deteriorating demand for shipping, an increase in slot supply or transport capacity, a drop in 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 latest figures published by the International Monetary Fund (IMF) forecast recovery with respect to the contraction experienced in 2020. However, it is still too early to estimate how these worldwide conditions will evolve and the specific impact on the container shipping industry in the long term.

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, even though--as described above--container ship construction levels are currently low.

In addition, fuel prices have been highly volatile in recent years and continue to show uncertainty with respect to their future evolution. In order to mitigate this risk, freight sales are indexed to variations in fuel prices.

Regarding the risk of interest rate fluctuations, as of December 31, 2020, 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.

In terms of risk of changes in exchange rates, as of December 31, 2020, 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.