

# ANALYSIS OF THE FINANCIAL POSITION AS OF 12.31.2016

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Abbreviations:

M\$	Million Chilean pesos
Th\$	Thousand Chilean pesos

## ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended December 31, 2016

### 1. REVIEW

As of December 31, 2016, Empresas Lipigas S.A. (the "Company") recorded earnings after taxes amounting to M\$ 38,738 with an increase of M\$ 2,618 (7.2%) with respect to the M\$ 36,120 recorded in the previous year.

Consolidated EBITDA reached M\$ 78,118, a 1.2% lower figure than the one recorded for the previous fiscal year which reached M\$ 79,046.

This result was generated by increased gross earnings amounting to M\$ 6,810, an increase of 5.1% regarding the previous fiscal year, resulting from increased gross margins in Chile and Peru. In the case of Chile, gross margin has been favored by an increase in sales volume added to a greater imported volume through the maritime terminal, although with lower margins. In the case of Peru, in 2016 margins include the margin of the commercialization operation of compressed natural gas (CNG) incorporated beginning February 2016 with the acquisition of Neogas Perú S.A. (currently Limagas Natural Perú S.A.) This greater gross margin was offset by an increase in other expenses by function, distribution costs and management expenses amounting to M\$ 10,291 (14.8%) which include the expenses of the commercialization operation of CNG in Peru.

Accumulated LPG sales volume as of December 2016 compared with the previous year increases 3.7% equivalent to 23,809 tons. In Chile volume grows 3.9%, in Colombia it slightly decreases by 0.2% and in Peru it grows 5.1%.

Natural gas sales (in its different formats) totaled 107 million m3, strongly increase compared to the 13.5 million m3 recorded during the previous fiscal year, due to the incorporation of CNG operations in Peru and the increased sales volume of liquefied natural gas (LNG) in Chile. LNG accumulated sales volume as of December 2016, amounted to 19.0 million m3, a 55.2% higher compared to those recorded during the previous year.

On the other hand, natural gas sales in Peru reached 87.0 million m3, which correspond to the acquisition and takeover of Neogas Perú beginning February 2016.

Revenue from ordinary activities amounted to M\$ 406,208, increasing 7.3% regarding the previous fiscal year. This increase essentially resulted from greater sales volume of liquefied gas of 23,809 tons and increased sales of natural gas in its different formats of 93.7 million cubic meters influenced by the incorporation of the Limagas Natural Perú S.A. operation.

Non-operating income was negative by M\$8,660 which is lower than the M\$ 15,328 loss recorded during the previous fiscal year. This variation resulted from lower disposals of property, plant and equipment, lower financial costs and lower results by indexation units.

## **MATERIAL DISCLOSURES DURING THE QUARTER**

A material disclosure was filed on November 17 reporting that the controlling shareholders of Empresas Lipigas S.A. informed that they have executed a Joint Participation agreement regarding their ownership interest in LV Expansión SpA, requiring them to act coordinately and by mutual agreement in all matters and decisions regarding the management and administration of LV Expansión SpA and indirectly with Empresas Lipigas S.A.

The Company's shares began trading on the Santiago Stock Exchange (*Bolsa de Comercio de Santiago*) on November 24, 2016.

On November 30, 2016 the Board of Directors agreed to pay an interim dividend charged to earnings for the 2016 fiscal year in the amount of \$ 43 per share which was paid beginning December 20, 2016.

On November 30, 2016 the Board of Directors agreed to the creation of a subsidiary in Colombia, whose name or company name is Rednova SAS ESP and whose corporate purpose will be to develop the network gas distribution business in different municipalities of the country, directly servicing users.

The controlling group reported on several acquisition of shares during the quarter. As of December 2016, the percentage of control amounted to 72.27% considering economic rights and to 79.01% considering political rights.

## 2. CONSOLIDATED FINANCIAL STATEMENTS

Income statement by function	01.01.2016 through 12.31.2016 M\$	01.01.2015 through 12.31.2015 M\$	10.01.2016 through 12.31.2016 M\$	10.01.2015 through 12.31.2015 M\$	Var. Jan - Dec (2016 - 2015)		Var. Oct - Dec (2016 - 2015)	
					M\$	%	M\$	%
Revenue	406,208	378,613	96,298	97,098	27,595	7.3 %	(800)	(0.8)%
Cost of sales	(266,484)	(245,699)	(63,974)	(65,163)	(20,785)	8.5 %	1,189	(1.8)%
<b>Gross Earnings</b>	<b>139,724</b>	<b>132,914</b>	<b>32,323</b>	<b>31,935</b>	<b>6,810</b>	<b>5.1 %</b>	<b>388</b>	<b>1.2 %</b>
Other income by function	276	188	(268)	47	88	46.9 %	(315)	(669.1)%
Other expenses by function	(20,500)	(19,104)	(6,225)	(6,455)	(1,396)	7.3 %	231	(3.6)%
Distribution costs	(33,452)	(27,035)	(7,191)	(6,007)	(6,417)	23.7 %	(1,184)	19.7 %
Administrative expenses	(25,961)	(23,483)	(6,198)	(4,981)	(2,478)	10.6 %	(1,217)	24.4 %
<b>Operating income</b>	<b>60,087</b>	<b>63,480</b>	<b>12,442</b>	<b>14,540</b>	<b>(3,392)</b>	<b>(5.3)%</b>	<b>(2,098)</b>	<b>(14.4)%</b>
Financial costs	(7,897)	(10,655)	(1,458)	(1,974)	2,758	(25.9)%	516	(26.2)%
Financial income	1,385	1,561	692	195	(176)	(11.3)%	497	255.5 %
Exchange differentials	386	(171)	41	(48)	557	(325.7)%	89	(186.0)%
Profit (loss) on indexation units	(3,150)	(4,270)	(555)	(1,320)	1,119	100.0 %	764	(57.9)%
Other gains (losses)	616	(1,793)	(368)	(261)	2,409	(134.4)%	(107)	41.0 %
<b>Earnings (loss) before taxes</b>	<b>51,428</b>	<b>48,152</b>	<b>10,794</b>	<b>11,131</b>	<b>3,276</b>	<b>6.8 %</b>	<b>(338)</b>	<b>(3.0)%</b>
Income tax expense	(12,689)	(12,032)	(2,670)	(4,064)	(658)	5.5 %	1,394	(34.3)%
<b>Profit (loss)</b>	<b>38,738</b>	<b>36,120</b>	<b>8,123</b>	<b>7,067</b>	<b>2,618</b>	<b>7.2 %</b>	<b>1,056</b>	<b>14.9 %</b>
Profit (loss) attributable to the owners of the controller	38,695	35,979	8,104	7,017	2,716	7.5 %	1,088	15.5 %
Profit (loss) attributable to non-controlling interests	43	141	19	50	(98)	(69.7)%	(31)	(61.5)%
<b>Profit (loss)</b>	<b>38,738</b>	<b>36,120</b>	<b>8,123</b>	<b>7,067</b>	<b>2,618</b>	<b>7.2 %</b>	<b>1,056</b>	<b>14.9 %</b>
<b>Depreciation and amortization</b>	<b>18,031</b>	<b>15,566</b>	<b>4,547</b>	<b>3,782</b>	<b>2,465</b>	<b>15.8 %</b>	<b>765</b>	<b>20.2 %</b>
<b>EBITDA</b>	<b>78,118</b>	<b>79,046</b>	<b>16,989</b>	<b>18,321</b>	<b>(927)</b>	<b>(1.2)%</b>	<b>(1,333)</b>	<b>(7.3)%</b>

Earnings after taxes for the 2016 fiscal year amounted to M\$ 38,738 a 7.2% increase regarding the M\$ 36,120 recorded for the end of period of the previous year. The main variations resulted from:

- Consolidated gross earnings reached M\$ 139,724 which is a 5.1% higher than the M\$ 132,914 recorded during the previous year. This increase resulted from an improved gross margin due to increased sales volume in Chile and Peru, partially offset by lower unit margins of the LPG business in Peru, where the drop in unit margins is offset by the

incorporation of margins generated by natural gas sales resulting from the acquisition of Neogas Perú S.A. (currently Limagas Natural Perú S.A), that was not present the previous year and which amounted to M\$ 6,835.

- Operating costs and expenses increased M\$ 10,291 due to higher expenses regarding salaries, freights, maintenance and greater advertising and promotional expenses. The expenses include the incorporation of expenses of the Limagas Natural Perú operation in the amount of M\$ 6,443 that were not present the previous year.
- Operating income reached M\$ 60,087 which is M\$ 3,392 (-5.3%) lower than the M\$ 63,480 recorded during the previous year.
- EBITDA (operating income before depreciation and amortization) for the 2016 fiscal year reached M\$ 78,118 which is 1.2% lower than the M\$ 79,046 of the previous year.

Earnings after taxes for the fourth quarter of the 2016 fiscal year amounted to M\$ 8,123, a 14.9% higher regarding the M\$ 7,067 recorded during the same period of the previous year. The main variations resulted from:

- Higher gross earnings in the amount of M\$ 388, due to greater sales volume in equivalent tons (+8.4%) mainly due to the contribution of the CNG operation in Peru that was not present during the fourth quarter of 2015, partially offset by lower unit margins in Chile and Peru and greater operating expenses in the amount of M\$2,171, influenced by the incorporation of expenses of the CNG operation in Peru in the amount of M\$ 1,813.
- Lower negative non-operating income in the amount of M\$1,760, originated by lower financial costs, greater financial income and lower negative results by indexation units. Lower income taxes are influenced by a lower income tax in the subsidiary Limagas Natural Perú S.A. resulting from ratifying sworn statements for previous years which originate a lower deferred liability.

## INCOME BY SEGMENT

From 10.01.2016 through 12.31.2016

M\$	Segments			Group Total
	Chile	Colombia	Peru	
Revenue	64,560	8,948	22,790	96,298
Purchases charged to cost of sales	(33,705)	(4,013)	(15,562)	(53,281)
Expenses charged to cost of sales	(3,494)	(1,590)	(1,063)	(6,147)
Depreciation and amortization	(3,433)	(464)	(649)	(4,547)
<b>Gross profit</b>	<b>23,928</b>	<b>2,880</b>	<b>5,515</b>	<b>32,323</b>
Other income by function	(268)	0	0	(268)
Other operating expenses	(13,254)	(1,339)	(5,021)	(19,613)
<b>Operating Income</b>	<b>10,406</b>	<b>1,542</b>	<b>494</b>	<b>12,442</b>
<b>EBITDA</b>	<b>13,839</b>	<b>2,006</b>	<b>1,143</b>	<b>16,989</b>

Accumulated as of 12.31.2016

Segments			Group Total
Chile	Colombia	Peru	
282,795	35,688	87,725	406,208
(147,022)	(18,794)	(59,250)	(225,066)
(15,564)	(2,930)	(4,893)	(23,387)
(13,317)	(1,821)	(2,893)	(18,031)
<b>106,892</b>	<b>12,143</b>	<b>20,689</b>	<b>139,724</b>
276	0	0	276
(54,284)	(8,642)	(16,986)	(79,913)
<b>52,884</b>	<b>3,501</b>	<b>3,703</b>	<b>60,087</b>
<b>66,201</b>	<b>5,322</b>	<b>6,596</b>	<b>78,118</b>

From 10.01.2015 through 12.31.2015

M\$	Segments			Group Total
	Chile	Colombia	Peru	
Revenue	67,825	10,114	19,159	97,098
Purchases charged to cost of sales	(35,770)	(5,843)	(13,587)	(55,200)
Expenses charged to cost of sales	(4,082)	(1,340)	(759)	(6,181)
Depreciation and amortization	(3,189)	(159)	(434)	(3,782)
<b>Gross profit</b>	<b>24,784</b>	<b>2,773</b>	<b>4,378</b>	<b>31,935</b>
Other income by function	47	0	0	47
Other operating expenses	(12,518)	(1,596)	(3,329)	(17,443)
<b>Operating Income</b>	<b>12,313</b>	<b>1,177</b>	<b>1,049</b>	<b>14,540</b>
<b>EBITDA</b>	<b>15,502</b>	<b>1,336</b>	<b>1,484</b>	<b>18,321</b>

Accumulated as of 12.31.2015

Segments			Group Total
Chile	Colombia	Peru	
279,510	35,813	63,291	378,613
(149,019)	(17,560)	(42,287)	(208,866)
(14,682)	(2,967)	(3,618)	(21,267)
(12,276)	(1,590)	(1,700)	(15,566)
<b>103,533</b>	<b>13,696</b>	<b>15,685</b>	<b>132,914</b>
188	0	0	188
(50,628)	(9,060)	(9,935)	(69,622)
<b>53,093</b>	<b>4,636</b>	<b>5,751</b>	<b>63,480</b>
<b>65,369</b>	<b>6,226</b>	<b>7,451</b>	<b>79,046</b>

Variation 4Q2016 vs. 4Q2015

M\$	Segments			Group Total
	Chile	Colombia	Peru	
Revenue	(3,265)	(1,166)	3,631	(800)
Purchases charged to cost of sales	2,064	1,829	(1,975)	1,919
Expenses charged to cost of sales	589	(250)	(304)	35
Depreciation and amortization	(244)	(306)	(215)	(765)
<b>Gross profit</b>	<b>(856)</b>	<b>108</b>	<b>1,137</b>	<b>388</b>
Other income by function	(315)	0	0	(315)
Other operating expenses	(736)	257	(1,692)	(2,171)
<b>Operating Income</b>	<b>(1,907)</b>	<b>365</b>	<b>(555)</b>	<b>(2,098)</b>
<b>EBITDA</b>	<b>(1,663)</b>	<b>671</b>	<b>(340)</b>	<b>(1,333)</b>

Accumulated variation as of 12.31.2016 vs. 12.31.2015

Segments			Group Total
Chile	Colombia	Peru	
3,286	(125)	24,434	27,595
1,996	(1,234)	(16,962)	(16,200)
(881)	37	(1,275)	(2,120)
(1,041)	(231)	(1,193)	(2,465)
<b>3,359</b>	<b>(1,552)</b>	<b>5,003</b>	<b>6,810</b>
88	0	0	88
(3,657)	417	(7,051)	(10,291)
<b>(209)</b>	<b>(1,135)</b>	<b>(2,048)</b>	<b>(3,392)</b>
<b>832</b>	<b>(904)</b>	<b>(855)</b>	<b>(927)</b>

**Chile:** EBITDA during the quarter was 10.7% lower regarding the same period of the 2015 fiscal year mainly due to lower margins from product imports.

Accumulated EBITDA for the year was 1.3% higher regarding the 2015 fiscal year. Gross earnings were 3.2% higher regarding the same period of the previous fiscal year, mainly due to increased sales volume and a stable unit margin. Expenses increased by 7.2% mainly due to greater expenses in salaries, freights and marketing.

**Colombia:** EBITDA during the quarter was 50.2% higher regarding the same period of the 2015 fiscal year due to greater unit margins recorded. The last quarter of 2015 was marked by a high level of price competition in the different segments, a situation that was not repeated during the last quarter of 2016.

Accumulated EBITDA for the year was 14.5% lower regarding the 2015 fiscal year mainly due to lower unit margins resulting from not being able to completely transfer cost increases to the public during the first half of the year. Additionally, the Colombian peso devalued by 7.0% against the Chilean peso.

**Peru:** EBITDA during the quarter was 22.9% lower regarding the same period of the 2015 fiscal year. This variation is negatively affected by lower volumes and lower unit margins from the LPG business. Additionally, the Peruvian sol devalued 6.6% on average during the period against the Chilean peso.

Accumulated EBITDA for the year was 11.5% lower regarding the 2015 fiscal year. The lower result was originated by lower unit margins from the LPG business, offsetting the cash flows incorporated by the CNG commercialization activity.

### 3. ANALYSIS OF THE CONSOLIDATED FINANCIAL POSITION

#### ASSETS

	12.31.2016 M\$	12.31.2015 M\$	Var.	
			M\$	%
Current assets	69,997	73,836	(3,839)	(5.32)
Non-current assets	304,646	266,086	38,560	14.5%
<b>Total assets</b>	<b>374,643</b>	<b>339,921</b>	<b>34,721</b>	<b>10.2%</b>

The assets of Empresas Lipigas S.A. as of December 31, 2016 recorded an increase of M\$ 34,721 or 10.2% regarding figures recorded as of December 31, 2015. The main variations correspond to:

- Current assets decreased M\$ 3,839 mainly by lower cash and cash equivalent due to the acquisition of CNG operation of Neogas Perú S.A. (currently Limagas Natural Perú S.A.), which

is offset by an increase in trade accounts and other current accounts receivable and in inventories.

- Non-current assets increased M\$ 38,560 mainly due to the incorporation of property, plant and equipment along with the goodwill and intangible assets generated by the acquisition of the CNG operation in February 2016.

## LIABILITIES

	12.31.2016 M\$	12.31.2015 M\$	Var.	
			M\$	%
Current liabilities	52,329	33,754	18,576	55.0%
Non-current liabilities	185,105	175,315	9,790	5.6%
<b>Total liabilities</b>	<b>237,434</b>	<b>209,068</b>	<b>28,366</b>	<b>13.6%</b>

The liabilities of Empresas Lipigas S.A. as of December 31, 2016 recorded an increase of M\$ 28,366 or 13.6% regarding figures recorded as of December 31, 2015. The main variations correspond to:

- Current liabilities increased M\$ 18,576. The main variations are generated by increased current financial liabilities due to the incorporation of short-term debt from the subsidiary Neogas Perú S.A. (currently Limagas Natural Perú S.A.) in the amount of M\$ 3,514, the increase in consolidated financial leases in the amount of M\$2,091, the increase of current trade accounts and other current accounts payable in the amount of M\$ 12,856, of which M\$9,302 correspond to an increase in accounts payable to LPG suppliers and that includes the incorporation of Neogas Perú S.A. for M\$ 1,104 and an increase in other suppliers for M\$2,542 also by the effect of Neogas Perú S.A.
- Non-current liabilities increased M\$ 9,790, mainly due to a higher non-current financial liability (M\$ 3,637) for the restatement of bonds issued in UFs (M\$ 2,508) and for the incorporation of the long-term debt from the acquired company, Neogas Perú S.A., the increase of other non-current financial liabilities (M\$ 2,623), and increased liabilities for deferred taxes (M\$ 2,642).

## EQUITY

The equity of Empresas Lipigas S.A. as of December 31, 2016 presents an increase of M\$ 6,356 regarding figures recorded as of December 31, 2015. The main variations are generated by an increase of accumulated earnings.



#### 4. ANALYSIS OF STATEMENT OF CASH FLOW

CONSOLIDATED STATEMENT OF DIRECT CASH FLOW	01.01.2016 through 12.31.2016 M\$	01.01.2015 through 12.31.2015 M\$	Var.	
			M\$	%
Cash flows provided by (used in) operating activities	68,864	72,727	(3,864)	(5.3%)
Cash flows provided by (used in) investing activities	(46,006)	(24,265)	(21,741)	89.6%
Net cash flows provided by (used in) financing activities	(35,708)	(26,693)	(9,015)	33.8%
Net Increase (decrease) in cash and cash equivalents, before effects of variation in foreign exchange rates	(12,850)	21,769	(34,619)	123.4%
Effects of variations in foreign exchange rate on cash and cash equivalents	(243)	(226)	(17)	7.5%
Net increase (decrease) in cash and cash equivalents	(13,093)	21,543	(34,636)	130.9%
Cash and cash equivalents - beginning of the period or fiscal year	31,215	9,672	21,543	222.7%
Cash and cash equivalents - end of the period or fiscal year	18,122	31,215	(13,093)	(87.7%)

Cash and cash equivalent as of December 31, 2016 recorded a balance of M\$ 18,122 decreasing M\$ 13,093 regarding the figure recorded for end of period of the previous year. Said variations are mainly explained by the following movements:

#### CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES

Operating activities generated a positive net cash flow amounting to M\$ 68,864 as of December 31, 2016 decreasing M\$ 3,864 with respect to the cash flow for the previous year. Collections from customers for the sale of goods and services increased due to greater revenues generated in the fiscal year, including the incorporation of the revenues generated by the subsidiary Limagas Natural Perú S.A., flows that were not present during the previous year. On the other hand, the previous cash flow is offset by higher payment to suppliers resulting from the supply of goods and services, including the operation of the subsidiary Limagas Natural Perú S., and the increased payment of income tax.

## CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES

Net cash flow used in investment activities as of December 31, 2016 was M\$ 46,006 increasing M\$ 21,741 regarding cash flow used in the previous year. The increase mainly resulted from the investment for the acquisition of Neogas Perú S.A. (M\$ 17,601), due to equipment purchases in Chile (M\$ 2,644) and due to greater investments in internal works and others in Peru (M\$ 2,446).

## CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES

Net cash flow used in financing activities as of December 31, 2016 is a negative M\$ 35,708 and presents a negative variation of M\$ 9,015 regarding the negative net cash flow of M\$ 26,693 for the previous year. The main difference resulted from a lower net increase of financial debt (M\$ 14,030), since in April 2015 the long-term bond issuance took place (which was used to pay existing bank liabilities), offset by lower dividend payments (M\$ 5,171).

## 5. FINANCIAL INDICATORS

### LIQUIDITY

Indicators	Units	12.31.2016	12.31.2015
Liquidity ratio <sup>(1)</sup>	Times	1.34	2.19
Acid-test ratio <sup>(2)</sup>	Times	1.02	1.79

(1) Liquidity ratio = Current Assets / Current Liabilities

(2) Acid-test ratio = (Current Assets - Inventories) / Current Liabilities

Liquidity indicators as of December 31, 2016 presented a decrease regarding December 2015, mainly from the increase in current financial liabilities originated by the incorporation of the Limagas Natural Perú S.A. operation, from the increase in accounts payable to suppliers and other accounts payable and a decrease in cash and cash equivalents.

### INDEBTEDNESS

Indicators	Units	12.31.2016	12.31.2015
Indebtedness ratio <sup>(1)</sup>	Times	1.73	1.60
Portion of current debts <sup>(2)</sup>	%	22.0%	16.1%
Portion on non-current debts <sup>(3)</sup>	%	78.0%	83.9%
Net financial debt / Equity <sup>(4)</sup>	Times	0.82	0.66

(1) Indebtedness ratio = Total liabilities / Equity.

(2) Portion of current debts = Current liabilities / Total liabilities.

(3) Portion on non-current debts = Non-current liabilities / Total liabilities.

(4) Net financial debt / Equity = (Other financial liabilities - cash and cash equivalent) / Equity.

Indebtedness ratio as of December 2016 is mainly affected by the increase in current net financial liabilities in the amount of M\$ 8,972 of which M\$ 5,463 are associated with the incorporation of Neogas Perú S.A. -currently Limagas Natural Perú S.A.- and an increase of trade accounts payable and other accounts payable in the amount of M\$12,856 .

Net indebtedness ratio over equity increases due to the increase of net financial debt resulting from the acquisition of Neogas Perú S.A. in February 2016.

## PROFITABILITY

Indicators	Units	12.31.2016	12.31.2015
Equity profitability <sup>(1)</sup>	%	28.2%	27.6%
Asset profitability <sup>(2)</sup>	%	10.3%	10.6%
EBITDA <sup>(3)</sup>	M\$	78,118	79,046
EAT <sup>(4)</sup>	M\$	38,738	36,120

(1) Equity profitability = Gain (Loss) LTM / Equity.

(2) Asset profitability = Gain (Loss) LTM / Total assets.

(3) EBITDA = Gross profit + other income by function, other expenses by function, distribution costs, and administrative expenses + depreciation and amortization (which is included in Cost of Sales)

(4) EAT = Earnings after taxes (LTM)

Equity profitability increased slightly regarding December 2015 mainly due to an increase in earnings in the amount of M\$ 2,618 during the past 12 months and an increase in equity in the amount of M\$ 6,356. Asset profitability has remained stable regarding December 2015. EBITDA slightly decreased regarding December 2015 due to higher operating expenses in freights, marketing and management, offset by the increase in gross margin. Earnings after taxes increased due to a higher gross margin, offset by higher expenses and improved non-operating income resulting from lower financial expenses, lower results by indexation units and lower expenses from disposals of property, plant and equipment.

## INVENTORIES

Indicators	Units	12.31.2016	12.31.2015
Inventory turnover <sup>(1)</sup>	Times	17.7	20.5
Inventory permanence <sup>(2)</sup>	Days	20.4	17.6

(1) Inventory turnover = Cost of sales / Inventory average (Beginning inventory + final inventory) / 2

(2) Inventory permanence = 360 days / Inventory turnover

Inventory turnover decreased regarding December 2015, mainly due to increased average inventory levels from the operation of the maritime terminal.

## 6. BUSINESS ANALYSIS

Empresas Lipigas S.A. participates in the Chilean market for LPG with its brand Lipigas. It has over 50 years of presence in the market reaching a moving annual average market share of 36.7% as of December 2016 according to data provided by Chile's Superintendence of Electricity and Fuels (*Superintendencia de Electricidad y Combustibles - SEC*).

For the distribution and commercialization of LPG in Chile, the Company has 14 storage and/or bottling plants, a maritime terminal in the commune of Quintero and 18 sales offices distributed throughout the country. In addition, it has an outsourced distribution network of more than 2,400 mobile sales points achieving nationwide coverage from the Region of Arica and Parinacota to the Region of Aysén.

It also has natural gas (NG) residential distribution networks in the city of Calama, enabling a continuous supply of this energy to nearly 3,000 homes, thus satisfying heating, hot water and cooking needs.

It has supply, sale and distribution operations of liquefied natural gas (LNG) shipped in trucks to industrial customers far from gas pipelines, which incorporate this type of fuel to their productive processes in industries of power generation, construction, food, manufacturing and others seeking to comply with environmental-regulatory standards given the benefits of LNG in this field, as well as lower costs with regard to other types of energy. Investments performed and territorial coverage reached - from the Region of Coquimbo to the Region of Los Lagos - place Empresas Lipigas as one of the major players in the industrial LNG market.

In 2010, Empresas Lipigas entered the Colombian market through Chilco Distribuidora de Gas y Energía S.A.S. E.S.P. This company commercializes LPG and participates in the Colombian market with its brands: Gas País and Lidergas.

It has presence in 27 of the 32 departments of the country, reaching a moving annual average market share of 14.2% as of December 2016, according to data from Colombia's Single Information System of the Superintendence of Public Services (*Sistema Único de Información de la Superintendencia de Servicios Públicos*.)

For the commercialization of LPG in Colombia, the Company has 15 bottling plants and an own distribution network that together with the third-party distribution network service approximately 450,000 customers.

In the year 2013, Empresas Lipigas S.A. enters the Peruvian market through the purchase of Lima Gas S.A., an LPG company. The decision was based mainly on the sustained growth of the LPG market and favorable conditions of the Peruvian economy.

Lima Gas participates in the Peruvian LPG market in the cylinder and bulk business and commercializes the product under two brands: Lima Gas and Caserito. Together, both brands reached a moving annual average market share of 8.8% as of December 2016, according to data provided by Peru's Energy and Mines Investment Regulator - *Osinergmin*.

Currently, Lima Gas has eight bottling plants and two distribution centers, enabling a relevant logistic capacity to supply LPG to its clients. The distribution network of bottled gas is composed of more than 400 distributors that supply LPG to end customers. In the case of bulk, direct distribution reaches over 2,000 clients.

In November, 2015, the Company reached an agreement to acquire Neogas Perú S.A. through an approximate 42 million dollar investment. Neogas Perú S.A. is a company dedicated to the distribution of compressed natural gas to industrial clients and supply service stations for automobiles. The Company took control over this new operation in February 2016. In November 2016, the company changed its name to Limagas Natural Perú S.A.

## **7. RISK MANAGEMENT**

Risk factors inherent to the Company's business are the markets in which it participates and the activity developed by the Company and its subsidiaries. The main risk factors that affect the business can be detailed as follows:

### **7.1 Credit risk**

Credit risk arises in losses that might occur as a result of a breach of the contractual obligations on behalf of counterparties of the Company's different financial assets.

The Company and its subsidiaries have credit policies that mitigate risks of non-collection of trade accounts receivable. These policies consist of establishing limits to the credit of each client based on their financial background and behavior, which is permanently monitored.

The Company's financial assets consist of cash and cash equivalents balance, commercial debtors and other accounts receivable, and other current and non-current financial assets.

Credit risk is mainly related to commercial debtors and other accounts receivable. The balance of cash and cash equivalent is also exposed to a lesser extent.

The exposure of cash and cash equivalents to credit risk is limited because cash is deposited in banks with a high credit rating. The Company's cash surplus investments are diversified among different financial institutions that also have high credit ratings.

As described in note 4.1, the Company has signed an agreement that commits to give advances to Oxiquim S.A. with which it has signed contracts for the provision of the service of reception, storage and dispatch of liquefied gas facilities already built at the maritime terminal property of that company. The Company has performed a solvency analysis of Oxiquim S.A., concluding that there are no significant non-collection risks. These advances are offset by the financial lease liability entered into with Oxiquim S.A. as a result of the beginning of operations in March 2015 of the maritime terminal.

The maximum exposure to credit risk is as follows:

<b>Financial Assets</b>	<b>Note</b>	<b>12.31.2016 Th\$</b>	<b>12.31.2015 Th\$</b>
Cash and cash equivalents	3	18,121,977	31,214,918
Trade receivables and other accounts receivable	7	31,580,348	25,394,451
Other financial assets, current	4	-	246,977
Other financial assets, non-current	4	1,866,935	523,819
<b>Total</b>		<b>51,569,260</b>	<b>57,380,165</b>

### **Policy on uncollectible debt**

Uncollectible provisions are determined according to the Company's policy on uncollectible debt.

This policy sets out the following criteria for provisions:

- Expired documents: provisioning balances more than 180 days due.
- Bounced checks: provisioning the total balance of the debt.
- Invoices and/or sales receipts:
  - o Balances more than 180 days due are provisioned
  - o If there is a debt of more than 180 days and the sum of the debt of more than 90 days is higher than 30% of the total debt, then the total debt is provisioned.
- Special provision:
  - a. A special provision is made, considering partial or total debt, should the Company detect clients are presenting payment inability, even when it has not been classified within the above criteria.
  - b. A special provision is made, considering partial or total debt, should a client refinance a relevant amount of its debt.

## **7.2 Liquidity Risk**

Liquidity risk refers to the possibility that an entity cannot cope with their short-term payment commitments.

Liquidity risk is handled through the proper management of assets and liabilities, optimizing daily cash surplus, investing in top quality financial instruments, thus, ensuring compliance with debt commitments upon maturity.

The Company maintains relationships with major financial institutions in the markets in which it operates. This allows counting on credit lines to deal with particular illiquidity situations.

Periodically, cash flow projections and analysis of the financial situation are performed, to acquire new financing or restructuring of existing debts on terms that are consistent with the Company's business cash flow generation, should the need arise.

Note 14 to the Consolidated Financial Statements presents an analysis of the Company's financial liabilities classified according to their expiration.

### 7.3 Market risk

It relates to the risk of fluctuation of fair values of financial assets and liabilities due to changes in market prices, and the risks associated with the demand and supply of commercialized products. The Company's exposure to market risks regarding financial assets and liabilities are the exchange rate and indexation unit risk, and interest rate risk. Also, the Company is exposed to risks related to commercialized products.

#### Exchange rate and indexation unit risk

This risk arises from the probability of loss due to the exchange rate fluctuations of the currencies in which financial assets and liabilities are denominated with respect to currencies other than the Company's functional currency:

- Purchases of goods and future payment commitments expressed in foreign currency: the Company's fund flows are constituted mainly by transactions in its functional currency and that of its subsidiaries. The Company covers the risk of purchase operations of liquefied gas and imports of goods or commitments of future payments in foreign currency through forwards.

As of December 31, 2016 and December 31, 2015, the balances of accounts in currencies other than the functional currency of the Company and its subsidiaries were as follows:

Originating transaction currency: US dollar

Current and non-current assets	Assets at 12.31.2016 Th\$	Assets at 12.31.2015 Th\$
Cash and cash equivalent	676,219	81,781
Other financial assets, current	-	246,977
Trade accounts and other accounts receivable, current	157,351	-
Other non-financial assets, non-current	425,214	17,468

Current and non-current liabilities	Liabilities at 12.31.2016 Th\$	Liabilities at 12.31.2015 Th\$
Other financial liabilities, current	283,354	-
Trade accounts and other accounts payable, current	10,322,451	2,651,490
Trade accounts and other accounts payable, non-current	175,645	-

- Foreign investments: as of December 31, 2016 the Company holds net foreign investments in Colombian pesos for an amount equivalent to Th\$ 28,172,175 (Th\$ 28,393,404 as of December 31, 2015) and in Peruvian soles for an amount equivalent to Th\$ 42,313,372 (Th\$ 23,426,258 as of December 31, 2015).

Fluctuations of the Colombian peso and the Peruvian sol to the Chilean peso would affect the value of these investments.

In the past, the evolutions of the Colombian peso and the Peruvian sol have been correlated with the Chilean peso. Company management has decided not to cover this risk, continuously monitoring the forecasted evolution for the different currencies.

- **Debt securities:** The Company's indebtedness corresponds to the placement of Series E bonds in the local market during the month of April 2015 (mnemonic code BLIPI-E), charged to the 30-year bond line registered in the Securities Register under number 801, for the amount of UF 3,500,000, proceeding to cancel most of the Company's bank liabilities in Chile. The placement rate was 3.40% for a face rate of 3.55%. Interest is payable semi-annually and the principal will be amortized in one single installment on February 4, 2040. This liability is denominated in Unidades de Fomento (UF), which is indexed to inflation in Chile and differs from the Company's functional currency (CLP). However, this risk is mitigated since most of the Company's profit margins are correlated to the variation in the UF.

- **Financial lease risk:** The Company signed a lease agreement with Oxiquim S.A. for a period of 25 years for the use of reception, storage and office facilities to be built by Oxiquim S.A., in the amount of UF 1,520,773. The annual interest rate is 3.0%. The nomination currency of this liability is the Unidad de Fomento (UF), which is indexed to inflation in Chile, and differs from the Company's functional currency (CLP). However, this risk is mitigated since most of the Company's profit margins are correlated to the variation in the UF.

- Sensitivity analysis regarding exchange rate variations and adjustment units

The Company estimates the following effects on results or and equity, resulting from variation of the exchange rate and indexation units:

Exchange rate variation	Increase Loss (Gain) Th\$	Decrease Loss (Gain) Th\$	Allocation
CLP/UF +/- 3%	4,158,780	(4,158,780)	Results: Indexation units
CLP/USD +/- 5%	26,515	(26,515)	Results: Exchange rate differences
CLP/USD +/- 5%	(41,679)	41,679	Results: Reserves for cash flow hedging
CLP/COP +/- 6%	1,690,331	(1,690,331)	Equity: Reserves for exchange rate translation differences
CLP/PEN +/- 1%	413,798	(413,798)	Equity: Reserves for exchange rate translation differences

### Interest rate risk

It refers to the sensitivity to interest rate fluctuations of the value of financial assets and liabilities.

The purpose of interest rate risk management is to achieve a balance in the financing structure, minimizing the cost of the debt with reduced volatility in the income statement.

As of December 31, 2016, 96% of the Group's financial debt is at fixed rates. As a result, the risk of fluctuations in market interest rates regarding the Company's cash flows is low.



Regarding the portion in variable rates, Management permanently monitors the outlook in terms of the expected evolution of interest rates.

The breakdown of financial liabilities, separated between fixed and variable interest rates is presented below as of December 31, 2016, and December 31, 2015:

Category	Note	Maturity in less than one year		Maturity in more than one year		Total	
		Fixed interest	Variable interest	Fixed interest	Variable interest	Fixed interest	Variable interest
		Th\$	Th\$	Th\$	Th\$	Th\$	Th\$
Other financial liabilities	14	11,767,514	451,531	114,023,884	4,375,210	125,791,397	4.826.742
<b>Total as of 12.31.2016</b>		<b>11,767,514</b>	<b>451,531</b>	<b>114,023,884</b>	<b>4,375,210</b>	<b>125,791,397</b>	<b>4,826,742</b>

Category	Note	Maturity in less than one year		Maturity in more than one year		Total	
		Variable interest	Fixed interest	Variable interest	Variable interest	Fixed interest	Variable interest
		Th\$	Th\$	Th\$	Th\$	Th\$	Th\$
Other financial liabilities	14	3,100,556	146,439	109,586,211	5,175,766	112,686,767	5.322.206
<b>Total as of 12.31.2015</b>		<b>3,100,556</b>	<b>146,439</b>	<b>109,586,211</b>	<b>5,175,766</b>	<b>112,686,767</b>	<b>5,322,206</b>

## Risks related to commercialized products

### a) LPG

The Company participates in the distribution of liquefied gas business in Chile, with coverage that extends between the Region of Arica and Parinacota and the Region of Aysén, reaching a moving average market share of 36.7% at December 2016, according to data provided by Chile's Superintendence of Electricity and Fuels (*Superintendencia de Electricidad y Combustibles - SEC*).

At the end of 2010 the Company entered the Colombian market through the purchase of assets from Grupo Gas País, currently achieving a presence in 25 of the 32 Colombian departments and reaching a moving average market share of 14.2% at December 2016, according to data from Colombia's Single Information System of the Superintendence of Public Services (*Sistema Único de Información de la Superintendencia de Servicios Públicos*).

Continuing with its internalization process in the LPG industry, in July 2013, the Company acquired 100% of Lima Gas S.A., a Peruvian-based LPG distributing company, which at December 2016 reached a moving average market share of 8.8%, according to data provided by Peru's Energy and Mines Investment Regulator - *Osinermin*.

#### a.1) Demand

The demand for residential LPG is not significantly affected by economic cycles since it is a basic consumption good in all countries where the Company operates. However, factors

such as temperature, precipitation levels and the price of LPG compared with other alternative fuels, could affect it. In some regions, demand has a high seasonality resulting from temperature variations.

Since it participates in a highly competitive market, the sales volume of the Company and its subsidiaries may be impacted by the business strategy of its competitors.

#### **a.2) Supply**

One of the risk factors in the business of commercializing LPG is the supply of LPG.

In the case of Chile, the Company has the ability to minimize this risk through a network of multiple suppliers such as Enap Refinerías S.A., Gasmar S.A., and the management performed when importing this fuel from Argentina and Peru, and by sea beginning March 2015.

In order to strengthen its strategic position in terms of LPG supply, in 2012, the Company entered into a series of agreements with Oxiquim S.A. to develop the construction of facilities for the reception, storage and dispatch of LPG at the terminal owned by that company located in the Quintero Bay, allowing the Company to have different seaborne supply sources beginning March 2015. To this end, the Company signed a lease agreement and an agreement for the provision of unloading, storage and dispatch services of LPG for a period of 25 years for the use of the facilities built by Oxiquim S.A. and which are available since March 2015.

For the Colombian market, the risk factor of commercializing LPG in terms of supply is minimized through the establishment of purchase quotas which are agreed upon with Ecopetrol S.A., which ensures the demand of distribution companies through public offerings. In addition to the agreements with Ecopetrol S.A., the Company also has purchase agreements with other local market actors.

For the Peruvian market, LPG supply presents a high concentration in Lima where half of this capacity is located. Since the nation's capital is the area of highest consumption, important supply facilities have been built to provide it with a greater level of reliability. In this sense, agreements have been entered into with Petroperú (which has two supply plants: Callao and Piura) and Pluspetrol. In addition to these agreements, the Company also has purchase agreements with other market actors.

#### **a.3) Prices**

LPG purchase prices are affected by the variations of international value of fuel prices and exchange rate variation of local currency with respect to the U.S. dollar. The Company does not foresee risks of not being able to transfer the variations of LPG costs to the sales price.

The Company maintains LPG inventories. The realization value of these inventories is affected by the variation of international prices of fuels that are the basis for establishing selling prices to customers. Variation in LPG international prices would produce a variation in the same direction and of similar magnitude in the realization price of inventories.

Generally, this risk is not covered by the Company, since it considers that the variations of international prices are offsetting over time. The Company permanently monitors the evolution and forecasts of international commodity prices. Since the maritime terminal began operating, the Company has decided to cover the risk of variation of the price of inventory realization of stored product at the maritime terminal through swaps related to LPG prices and currency forwards to hedge the effect of exchange rate variations of the U.S. dollar (currency used to express the reference price of inventories).

#### **b) Natural gas**

The demand for residential natural gas is not significantly affected by economic cycles since it is a basic consumption good. Regarding the risk of product supply for the operation that the Company owns in the North of Chile, it is covered with long-term agreements with a local supplier.

In Peru, Neogas Perú S.A. has entered into supply agreements to cover the demands of natural gas distributors in the regions where the Company operates.

#### **c) Liquefied natural gas**

The Company has agreements for the supply of liquefied natural gas (LNG) to industrial clients, including a "take or pay" clause. Such agreements contain formulas to establish the selling price that, in turn, transfer the agreed variation to the price of the agreements with the supplier of the product. To respond to commitments with customers, the Company entered into an LNG supply agreement with Enap Refinerías S.A., which includes the "take or pay" clause (with the same characteristics as of those signed with customers) offsetting the risk. ENAP S.A. in turn maintains supply agreements with the Quintero Terminal so as to comply with an Annual Supply Plan entered into by both parties.

### **7.4 Regulatory Risk**

The update of the Gas Services Law came into effect in February 2017, which collects the amendments made by Chile's National Congress during discussions of the project between 2015 and 2016.

The most relevant changes in the wake of the amendments to the concession network business is the establishment of a profitability cap of 3% above the capital cost rate for networks. The capital cost rate may not be lower than 6% with which maximum resulting profitability is 9%. Capital cost rate will be calculated every four years and must consider the systematic risk, the risk-free return, the market risk premium and an individual factor by concession zone which may not exceed one percent. In the case of networks built during the 15 years preceding the effective date of the amendments to the law and during the 10 years following the effective date of the amended law, a 5% profitability cap on the capital cost is established for a period of 15 years from its entry into operation, resulting in an 11% rate for the first 15 years of operation. In the event that the concessionaire exceeds the maximum profitability allowed, the National Energy Commission (CNE) will begin a tariff fixing process by Decree.

Lipigas currently has a natural gas operation in the city of Calama and it is developing projects in cities located in the South of Chile. The changes included in the law do not affect the evaluation of the natural gas projects currently being developed, since the company has included the previously mentioned profitability restrictions within the evaluation parameters

For the city of Calama, annual profitabilities are below the maximum range allowed by the law. In the last annual profitability review published by the CNE for the year 2015, the rate of return was 4%.

The freedom of fixing prices to consumers remains for non-concession networks. In addition it reaffirms that customers or consumers with residential gas services are entitled to change the distribution company. Given the above, a maximum period of five years is set for the validity of relationship contracts between residential gas customers and distributing companies for new real estate projects or should the transfer to another company involve the replacement and adaptation of existing client facilities due to the amendment of supply specifications, in order to enable the connection to the distribution network. In the other cases the maximum term of relationship contracts is two years.

Currently the residential bulk business is very competitive between the participants of the gas market. Additionally, LPG distributing companies must compete with other types of energy (natural gas, firewood, diesel, paraffin, etc.). The possibility that customers change the company that provides LPG supplies already existed before the amendments introduced by law. The service delivered to clients and the security both of supply and facilities, in addition to a competitive price, are relevant to the degree of customer satisfaction. Lipigas pretends to continue being a competitive energy option for those customers connected to LPG networks.

On February 10, 2016, Chile's Supreme Court accepted the query presented by Chile's National Consumers and Users Corporation (*Corporación Nacional de Consumidores y Usuarios – CONADECUS*) and ordered Chile's Court on Anti-Competition Cases (*Tribunal de Defensa de la Libre Competencia - TDLC*) to review the vertical and horizontal integration of the NG and LPG business. Chile's Court on Anti-Competition Cases in turn commissioned the analysis of the issue to Chile's National Economic Prosecutor (*Fiscalía Nacional Económica - FNE*). In April 2016, the FNE published its report stating what it thinks may be possible competition risks, focusing on the vertical integration of the companies and the existence of cross relations on the boards of directors of certain participants in the natural gas market and the liquefied gas market, Empresas Lipigas is not among those companies.

Significant changes in laws and regulations in the sectors in which the Company operates may adversely affect its business or the conditions thereof, can increase the Company's operating costs or impact the financial situation of the Company. Also, change of rules or their interpretation could require incurring costs that could affect financial performance or impact the financial situation of the Company.

## **7.5 Accident risk**

All human activities are exposed to dangers that can lead to accidents and certainly the fuel distribution industry is no exception. To minimize the likelihood that these hazards will become

unwanted situations, prevention and mitigation actions must be developed to reduce its consequences if hazards such as accidents or emergencies should exist.

For this, actions are continuously developed to ensure that all operations are carried out with high safety levels. Among these actions, the following can be mentioned:

- Training of collaborators and contractors regarding safe operations.
- Emergency response procedures with on-site service vehicles.
- Awareness actions on the safe handling of gas among clients and the community in general (firemen, associations, etc.).
- Maintain OHSAS 18001:2007 Occupational Health and Safety Assessment Series at 13 storage and bottling plants in Chile.
- Implementation of management systems based on the OHSAS standard and safety systems pursuant to the Peruvian law N° 29.783, there are two plants that have this certification.
- Certification of 15 plants in Colombia, under ISO 9001 quality standard for the operation and maintenance of LPG storage tanks and bottling service of LPG cylinders, pursuant to legal requirements.
- Strict compliance of health, safety and environmental standards at all our operations

Complementing the reinforcement actions of the safe handling of fuel, the Company has insurance coverage deemed consistent with the industry's standard practices.

#### **7.6 Reputation and corporate image risk**

The Company's business is associated with the management of fossil fuels, particularly LPG, and its commercialization to a wide-ranging customer base. If damage is caused by this product, it could lead to a deterioration of the Company's reputation and corporate image.

This risk is mitigated through the implementation of appropriate operating processes within the Company.

#### **7.7 Risk of litigation, penalties and fines**

The Company may be subject to litigation, penalties or fines resulting from its business. These potential impacts are mitigated from their inception, by complying with relevant regulations. Note 27 to the consolidated financial statements describe the principal litigation and sanctioning procedures currently underway involving the company or its subsidiaries.

The Company's main business in this area is regulated by the Superintendence of Electricity and Fuels (SEC) in Chile, the Regulatory Commission of Energy and Gas (CREG) in Colombia and the Ministry of Energy and Mines and the Energy and Mines Investment Regulator (Osinergmin) in Peru, which ensure compliance with the laws, decrees, rules, memorandum and resolutions that govern the activity.

The Company's legal team has procedures in place and has the knowledge required to act under the protection of current laws and avoid penalties and fines.

### **7.8 Risk of changes in regulatory, political, economic and social conditions in the countries of operation.**

Our financial and operating performance may be negatively affected by regulatory, political, economic and social conditions in countries in which we operate. In some of these jurisdictions, the Company is exposed to various risks such as potential renegotiation, nullification or forced modification of existing contracts, expropriation, foreign exchange controls, and changes in laws, regulations and political instability. The Company also faces the risk of having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce a judgment in another country.

Company management permanently monitors the evolution of the regulatory, political, economic and social conditions of the countries in which it operates.

### **7.9 Acquisition strategy risk.**

The Company has grown, in part, through a number of significant acquisitions, including:

- The assets of Gas País in 2010 through which the Company started operations in Colombia and
- Lima Gas S.A. in 2013 through which the Company entered the Peruvian LPG market.
- Neogas Perú S.A. (currently Limagas Natural Perú S.A.), through which the Company has presence in the natural gas market in Peru, since February 2016.

In the future, the Company will continue to be committed in several evaluations and pursuing other potential acquisitions, which could lead to the acquisition of other LPG and fuel distribution companies seeking to integrate them into our own operations.

Acquisitions involve known and unknown risks that could adversely affect the Company's future net sales and operating results. For example:

- Failing to precisely and appropriately identify companies, products or brands for acquisition;
- Experiencing difficulties in integrating the management, operations, technologies and distribution processes of the acquired companies or products;
- Failing to obtain the necessary regulatory approvals, including those of competition authorities, in the countries where acquisitions are being made;
- Entering new markets with which we are unfamiliar;
- Diverting management's attention from other business concerns;
- Acquiring a company that has known or unknown contingent liabilities that include, among others, patent infringement or product liability claims; and
- Incur in considerable additional indebtedness.

Any future or potential acquisitions, may result in substantial costs, disrupt our operations or materially adversely affect the Company's operating results.

Each acquisition carried out by the Company is analyzed in detail by multi-disciplinary teams with external consultants, if necessary, in order to analyze the consequences and mitigate the risks inherent in any new business acquisition.

#### **7.10 Risk of production, storage and transportation of LPG**

Operations carried out at the Company's plants involve safety risks and other operating risks, including the handling, storage and transportation of highly inflammable, explosive and toxic materials.

These risks could result in personal injury and death, severe damage to or destruction of property and equipment and environmental damage. Although the Company is very careful about the safety of our operations, a sufficiently large accident at one of our plants, facilities located at service stations or at client or storage facilities or during transportation or delivery of products being sold, could force to temporarily suspend operations at the location and result in significant remediation costs, loss of income and contingent liabilities, and adversely affect the Company's corporate image and reputation and that of its subsidiaries. In addition, insurance proceeds may not be available on a timely basis and may be insufficient to cover all losses. Equipment breakdowns, natural disasters and delays in obtaining imports of required replacement parts or equipment can also affect our distribution operations and consequently our operating results.

#### **7.11 Risk that our insurance coverage may be insufficient to cover losses that we might incur.**

The operation of any specialized distribution company specialized in logistic LPG operations and fuel distribution involves substantial risks of property damage and personal injury and may result in material costs and liabilities. Although the Company believes that current insurance levels are adequate, the occurrence of losses or other liabilities that are not covered by insurance or that exceed the limits of our insurance coverage could result in significant unexpected additional costs.

The Company permanently analyzes the risks which may be covered by insurance policies, both in the amount of possible losses for the Company as in the characteristics of the risks.

#### **7.12 Risk of possible climate change could lead to regulatory changes**

Due to concern over the risk of climate change, several countries have adopted, or are considering the adoption of, regulatory frameworks to, among other things, reduce greenhouse gas emissions. These could include adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. These requirements could reduce demand for hydrocarbons, as well as shifting hydrocarbon demand toward relatively lower-carbon sources. In addition many governments may provide tax advantages and other subsidies and mandates to make alternative energy sources more competitive against oil and gas. Governments may also promote research into new technologies to reduce the cost and increase the scalability of alternative energy sources, all of which could lead to a decrease in demand for our products. In addition, current and pending greenhouse gas regulations may substantially increase our compliance costs and, consequently, increase the price of the products that the Company distributes.

The Company permanently monitors the evolution of legislation on climate change.