

ANALYSIS OF THE FINANCIAL POSITION AS OF 03.31.2016



Abbreviations:

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

ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended March 31, 2016

1. REVIEW

As of March 31, 2016, Empresas Lipigas S.A. (the “Company”) recorded earnings after taxes amounting to M\$7,364, with an increase of M\$ 1,838 (33.3%), with respect to the M\$5,526 recorded in the same period of the previous year.

This result was generated by a higher gross margin of M\$2,837, with an increase of 11.2% compared to the same period of the previous year originated in two of the Company’s operating segments (Chile and Peru). This increased gross margin was partially offset by an increase in other expenses by function, distribution costs and administrative expenses amounting to M\$1,019 (6.5%), with respect to the M\$15,644 recorded as of the same date of the previous year.

Consolidated EBITDA reached M\$15,910, a figure 18.4% higher than the one recorded for the same period of the previous year which reached M\$13,442. The increase resulted from gross margin improvement in Chile and Peru, driven by increased sales volume and better unit margins. In the case of Chile, gross margin has been favored by a lower deterioration in the realization value of inventories regarding the same period of the previous year and the integration of the margin generated by the import operation of the Quintero maritime terminal.

Accumulated LPG sales volume as of March 2016 compared with the same period of the previous year increases 5.0% equivalent to 6,984 tons. In Chile volumes increased 2.6%, in Colombia 2.0% and in Peru 13.2%.

Natural gas sales (in its different formats) reached 22.9 million m³ with a strong increase compared to the 6.1 million m³ recorded during the same period of the previous year.

On the one hand, operations in Chile for the supply of liquefied natural gas (LNG) to industrial customers via trucking continue consolidating, steadily increasing the sales volume achieved in 2015. Accumulated sales as of March 2016 reached 7.8 million m³, 34.6% higher compared to those recorded during the same period of the previous year.

On the other hand, natural gas sales in Peru reached 14.8 million m³, which correspond to the acquisition and takeover of Neogas Peru beginning February 2016.

Revenue from ordinary activities amounted to M\$85,437, increasing 7.4% regarding the same period of the previous year. This increase was driven by lower unit sales price in Chile and Peru

and offset by the already mentioned sales volume increase of liquefied petroleum gas (LPG) and natural gas.

Non-operating income was negative by M\$2,027 which is lower than the M\$2,501 loss recorded as of the same period of the previous year.

FIRST QUARTER MATERIAL DISCLOSURES

- On March 11, the market was informed that after complying with all the conditions set forth in the purchase and sale agreement for the shares of Neogas Perú S.A., 100% of the shares representing the share capital of Neogas Perú S.A. have been transferred to Lima Gas S.A., a subsidiary of Empresas Lipigas S.A. The control of the new operation materialized beginning February 2016.
- The following Board resolutions were reported on March 30:
 - o Convene a General Shareholders' Meeting to be held April 27, 2016
 - o Propose to the General Shareholders' Meeting the approval of interim dividends already paid against 2015 fiscal year in the amount of CLP 33,000,000,000 and the distribution of an additional dividend against earnings for the fiscal year 2015 in the amount of CLP 2,979,449,693 equivalent to CLP 26.23336 per share.
- On March 30, the Board of Directors of Empresas Lipigas S.A. agreed to pay an interim dividend charged against earnings for the fiscal year 2016 in the amount of CLP 37.86061 per share.

2. CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT BY FUNCTION	01.01.2016 through 31.03.2016 M\$	01.01.2015 through 31.03.2015 M\$	Var. Jan - Mar (2016 - 2015)	
			M\$	%
Net Sales	85,437	79,522	5,915	7.4 %
Cost of sales	(57,243)	(54,165)	(3,078)	5.7 %
Gross margin	28,194	25,357	2,837	11.2 %
Other income by function	51	83	(31)	(37.4)%
Other expenses by function	(4,292)	(4,035)	(257)	6.4 %
Distribution costs	(6,020)	(5,691)	(329)	5.8 %
Administrative expenses	(6,351)	(5,918)	(433)	7.3 %
Operating income	11,582	9,795	1,787	18.2 %
Financial costs	(1,736)	(2,239)	503	(22.5)%
Financial income	322	231	91	39.5 %
Exchange rate difference	200	(284)	484	(170.7)%
Results by adjustment units	(796)	(1)	(795)	100.0 %
Other gains (losses)	(17)	(208)	191	(91.7)%
Gains (losses) before taxes	9,555	7,294	2,261	31.0 %
Income tax expense	(2,191)	(1,767)	(423)	23.9 %
Gain (loss)	7,364	5,526	1,838	33.3 %
Gain (loss) attributable to the owners of the controller	7,331	5,511	1,820	33.0 %
Gain (loss) attributable to non-controlling interest	33	15	18	121.6 %
Gain (loss)	7,364	5,526	1,838	33.3 %
Depreciation and amortization	4,329	3,647	681	18.7 %
EBITDA	15,910	13,442	2,468	18.4 %

Earnings after tax amounted to M\$7,364 a 33.3% increase regarding the M\$5,526 recorded the same period of the previous year. The main variations resulted from:

- Consolidated gross margin reached M\$28,194 which is 11.2% higher than the M\$25,357 recorded the same period of the previous year. This increase resulted from an improved gross margin due to increased sales volume in Chile, Colombia and Peru and also due to the generation of better unit margins, including the effect of the beginning

seaborne import operations in March 2015 and a lower effect of the devaluation of inventory values regarding the same period of the previous fiscal year. In Colombia, margin is impacted by greater LPG purchase costs that were not able to be transferred to the public. In Peru improved gross margin was due to a combination of increased LPG sales volume, better LPG unit gross margin and the incorporation of margins generated by natural gas sales resulting from the acquisition of Neogas, which was not present the previous year.

- Operating costs and expenses increased M\$1,018 due to higher expenses regarding freights, salaries and maintenance.
- Consolidated operating income reached M\$11,582 which is M\$1,787 (18.2%) higher than the M\$9,795 recorded during the same period of the previous year.
- Accumulated EBITDA (operating income before depreciation and amortization) as of March 2016 reached M\$15,910 representing an 18.4% increase regarding the M\$13,442 for the same period of the previous year.

3. INCOME BY SEGMENT

AS OF 31.03.2016

M\$	Segments			Group Total
	Chile	Colombia	Peru	
Revenue	56,965	8,854	19,618	85,437
Purchases charged to cost of sales	(29,054)	(5,112)	(13,859)	(48,025)
Expenses charged to cost of sales	(3,677)	(357)	(856)	(4,890)
Gross profit	24,234	3,385	4,904	32,522
Other income by function	51	0	0	51
Other operating expenses	(11,420)	(2,427)	(2,816)	(16,663)
Depreciation and amortization	(3,234)	(427)	(668)	(4,329)
Operating Income	9,630	531	1,421	11,582
EBITDA	12,865	958	2,088	15,910

AS OF 31.03.2015

M\$	Segments			Group Total
	Chile	Colombia	Peru	
Revenue	57,578	8,203	13,742	79,522
Purchases charged to cost of sales	(33,544)	(3,624)	(9,105)	(46,273)
Expenses charged to cost of sales	(3,134)	(365)	(746)	(4,245)
Gross profit	20,899	4,214	3,891	29,004
Other income by function	83	0	0	83
Other operating expenses	(10,675)	(2,789)	(2,181)	(15,645)
Depreciation and amortization	(2,758)	(482)	(407)	(3,647)
Operating Income	7,549	943	1,303	9,795
EBITDA	10,307	1,425	1,710	13,442

VARIATION

M\$	Segments			Group Total
	Chile	Colombia	Peru	
Revenue	(613)	651	5,876	5,915
Purchases charged to cost of sales	4,491	(1,488)	(4,754)	(1,751)
Expenses charged to cost of sales	(543)	8	(110)	(645)
Gross profit	3,334	(829)	1,013	3,518
Other income by function	(31)	0	0	(31)
Other operating expenses	(745)	361	(634)	(1,018)
Depreciation and amortization	(476)	55	(261)	(681)
Operating Income	2,081	(412)	118	1,787
EBITDA	2,558	(468)	378	2,468

4. ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	03.31.2016 M\$	03.31.2015 M\$	Var.	
			M\$	%
Currents assets	72,202	74,458	(2,256)	(3.0%)
Non-currents assets	294,698	266,086	28,612	10.8%
Total assets	366,900	340,544	26,356	7.7%

The assets of Empresas Lipigas S.A. as of March 31, 2016 recorded an increase of M\$26,356 or 7.7% regarding figures recorded as of March 31, 2015. The main variations correspond to:

- Current assets decreased M\$2,256 mainly by the decrease in cash and cash equivalent given the acquisition of Neogas, and which is offset with an increase in trade accounts and other current accounts receivable and the by the decrease in current taxes.
- Non-current assets increased M\$28,612 mainly due to the incorporation of property, plant and equipment along with the goodwill generated by the acquisition of Neogas in February 2016.

LIABILITIES

	03.31.2016 M\$	12.31.2015 M\$	Var.	
			M\$	%
Current liabilities	49,351	33,771	15,580	46.1%
Non-current liabilities	184,112	174,926	9,150	5.2%
Total liabilities	233,463	208,733	24,730	11.8%
Equity attributable to the owners of the controller	131,925	130,331	1,593	1.2%
Non-controlling interest	1,513	1,479	33	2.2%
Equity	133,437	131,811	1,626	1.2%
Total liabilities and equity	366,900	340,544	26,356	7.7%

The liabilities of Empresas Lipigas S.A. as of March 31, 2016 recorded an increase of M\$24,730 or 11.8% regarding figures recorded as of December 31, 2015. The main variations correspond to:

- Current liabilities increased M\$15,580. The main variation is generated by increased current financial liabilities due the incorporation of short term debt from the Neogas operation, the increase of trade accounts and other accounts payable for LPG purchases and an increase in the accounts payable to related entities for the distribution of interim dividends charged against earnings for the fiscal year 2016 pending payment, which were paid during April 2016.
- Non-current liabilities increased M\$9,150, mainly due to a higher non-current financial liability for the incorporation of the long term debt of Neogas and to an increased liability for deferred taxes.

EQUITY

The equity of Empresas Lipigas S.A. as of March 31, 2016 presents an increase of M\$1,626 regarding figures recorded as of December 31, 2015. The main variations are generated by a decrease of other reserves and an increase of accumulated earnings.

5. ANALYSIS OF STATEMENT OF CASH FLOW

CONSOLIDATED STATEMENT OF DIRECT CASH FLOW	01.01.2016 through 31.03.2016 M\$	01.01.2015 through 31.03.2015 M\$	Var	
			M\$	%
Cash flows provided by (used in) operating activities	16,897	4,760	12,137	255.0%
Cash flows provided by (used in) investing activities	(21,743)	(5,891)	(15,851)	269.1%
Net cash flows provided by (used in) financing activities	(3,194)	(776)	(2,417)	311.4%
Net Increase (decrease) in cash and cash equivalents, before effects of variation in foreign exchange rates	(8,039)	(1,908)	(6,132)	835.5%
Effects of variations in foreign exchange rate on cash and cash equivalents	(142)	(38)	(104)	273.7%
Net increase (decrease) in cash and cash equivalents	(8,181)	(1,946)	(6,236)	1,109.2%
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	23,034	7,726	15,307	(87.7%)

Cash and cash equivalents as of March 31, 2016 recorded a balance of M\$23,034 increasing M\$15,307 regarding the figure recorded for the same 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\$16,897 as of March 31, 2016, which increased M\$12,137 with respect to the cash flow for the same period of the previous year. Collections from customers for the sale of goods and services increased due to better results generated in the period along with the incorporation of the revenues generated by Neogas, an aspect that was not present the previous year. Additionally, in the first quarter of the previous year inventories had increased by M\$6,841 due the beginning of operations of the maritime terminal, which implied a use of funds for this purpose.

CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES

Net cash flow used in investment activities as of March 31, 2016 was M\$21,743 increasing M\$15,851 regarding cash flow used in the same period of the previous year. The increase resulted from the investment performed in acquiring Neogas and in property, plant and equipment and intangibles.

CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES

Net cash flow used in financing activities as of March 31, 2016 is a negative M\$3,194 and presents a negative variation of M\$2,417 regarding the negative net cash flow of M\$776 for the same period of the previous year. The variation resulted mainly from loan payments, financial lease payments and interests.

6. FINANCIAL INDICATORS

LIQUIDITY

Indicators	Units	03.31.2016	03.12.2016	03.31.2015
Liquidity ratio ⁽¹⁾	Times	1.46	2.20	0.49
Acid-test ratio ⁽²⁾	Times	1.19	1.81	0.34

(1) Liquidity ratio = Current Assets /Current Liabilities

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

Liquidity indicators as of March 31, 2016, presented a decrease regarding December 2015, mainly from the decrease in cash and cash equivalents and an increase in current financial liabilities originated by the Neogas operation in Peru, along with increased accounts payable to LPG suppliers.

INDEBTEDNESS

Indicators	Units	03.31.2016	12.31.2015	03.31.2015
Indebtedness ratio ⁽¹⁾	Times	1.75	1.58	1.43
Portion of current debts ⁽²⁾	%	21.1%	16.2%	59.3%
Portion on non-current debts ⁽³⁾	%	78.9%	83.8%	40.7%
Net financial debt / Equity ⁽⁴⁾	Times	0.8	0.7	0.7

(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 March 31, 2016 is affected by the increase in net financial liabilities due to the acquisition of the Neogas operation.

PROFITABILITY

Indicators	Units	03.31.2016	12.31.2015	03.31.2015
Equity profitability ⁽¹⁾	%	28.4%	27.4%	18.9%
Asset profitability ⁽²⁾	%	10.3%	10.6%	7.8%
EBITDA ⁽³⁾	M\$	81,514	79,046	52,824
EAT ⁽⁴⁾	M\$	37,958	36,120	25,068

(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)

Profitability indicators as of March 2016 remain at similar levels to those recorded in December 2015.

INVENTORIES

Indicators	Units	03.31.2016	12.31.2015	03.31.2015
Inventory turnover ⁽¹⁾	Times	18.5	20.5	15.7
Inventory permanence ⁽²⁾	Days	19.4	17.6	22.9

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

(2) Inventory permanence = 360 days / Inventory turnover

Inventory permanence indicators remain at similar levels to those recorded in December 2015.

7. 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 average market share of 36.5% as of February 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 17 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 more than 3,500 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 26 of the 32 departments of the country, reaching a moving average market share of 14.0% as of February 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 16 bottling plants and an own distribution network that services over 65,500 customers in addition to those clients serviced through a third-party distribution network, totaling service to approximately 470,000 clients.

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 bottled and bulk business and commercializes the product under two brands: Lima Gas and Caserito. Together, both brands reached a moving average market share of 8.9% as of February 2016, according to data provided by Peru's State Energy and Mines Investment Regulator - Osingermin.

Currently, Lima Gas has eight bottling plants and two distribution centers, which allows for a relevant logistic capacity to supply LPG to its clients. The distribution network of bottled gas is composed of more than 350 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 a 42 million dollar investment. Neogas Perú S.A. is a company dedicated to the distribution of compressed natural to industrial clients and supply service stations for automobiles. The Company took control over this new operation in February, 2016.

8. 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:

8.1 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 different Company 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, sales receivables and other receivables, and other current and non-current financial assets.

Credit risk is mainly related to trade receivables 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 deposits are diversified among different financial institutions that also have high credit ratings.

As described under note 4.1 to the financial statements, 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 entity. The Company has performed a solvency analysis of Oxiquim S.A., concluding that there are no significant non-collection risks. These advances offset 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:

Financial Assets	Note	03.31.2016 Th\$	03.31.2015 Th\$
Cash and cash equivalents	3	23,033,594	31,214,918
Trade receivables and other accounts receivable	7	29,686,379	25,394,451
Other current financial assets	4	-	246,977
Total		52,719,973	56,856,346

Policy on uncollectable debt

Uncollectable provisions are determined according to the Company's policy on uncollectable 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 an unpaid balance of more than 180 days and the sum of the unpaid balance of more than 90 days is higher than 30% of the total unpaid balance, then the total balance is provisioned.
- Special provision:
 - a. A special provision is made, considering partial or total unpaid balance, 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 unpaid balance, should a client refinance a relevant amount of its debt.

8.2 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.

8.3 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 risk and interest rate risk. Also, the Company is exposed to risks related to commercialized products.

Exchange rate and adjustment 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 March 31, 2016 and December 31, 2015, the balances of accounts receivable and accounts payable in currencies other than the functional currency of the Company and its subsidiaries were as follows:

Originating transaction currency: US dollar

Trade accounts receivable and other accounts receivable, current as of 03.31.2016	Th\$ 196,279
Trade accounts and accounts payable, current as of 03.31.2016	Th\$10,181,900
Trade accounts and accounts payable, current as of 12.31.2015	Th\$ 2,651,490
Trade accounts and accounts payable, non-current as of 03.31.2016	Th\$ 1,051,591

- Foreign investments: as of March 31, 2016, the Company holds net foreign investments in Colombian pesos for an amount equivalent to Th\$28,385,228 (Th\$28,400,158 as of December 31, 2015) and in Peruvian soles for an amount equivalent to Th\$38,386,450 (Th\$21,452,740 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 that a 10% increase or decrease in the exchange rates and 1% in the value of the UF, to which it is exposed, would generate the following effects:

Exchange rate variation	Charge (Credit) Increase Th\$	Charge (Credit) Decrease Th\$	Allocation
CLP/UF	1,099,764	(1,099,764)	Results by adjustment units
CLP/USD	253,864	(253,864)	Exchange rate differences
CLP/USD	(264,723)	264,723	Reserves for cash flow hedges
CLP/COP	(2,838,523)	2,838,523	Reserves for exchange rate translation differences
CLP/PEN	(3,838,645)	3,838,645	Reserves for exchange rate translation differences

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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 March 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 March 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	8,202,956	354,327	116,449,309	5,030,039	124,652,265	5,384,366
Total as of 03.31.2016		8.202.956	354,327	116,449,309	5,030,039	124,652,265	5,384,366

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	3,117,134	147,357	110,159,512	5,207,592	113,276,646	5,354,949
Total as of 12.31.2015		3.117.134	147,357	110,159,512	5,207,592	113,276,646	5,354,949

Risks related to commercialized products

a) LPG

The Company participates in the distribution of liquefied petroleum gas business in Chile, with coverage that extends between the Region of Arica and Parinacota and the Region of Aysén, reaching a market share of 36.5% at February 2016.

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 market share of 14.0% at February 2016.

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 February 2016 reached a market share of 8.9%.

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 local 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 (NG) 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.

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.

8.4 Regulatory Risk

In May 2014, the Government unveiled the Energy Agenda of the government of Michelle Bachelet, President of the Republic of Chile, consisting of seven axes.

During 2015, Chile's National Energy Commission (*Comisión Nacional de Energía-CNE*) published its Profitability Review for distributing gas companies through concession networks, where it advises that the Company (due to its distribution of natural gas operation in the city of Calama) obtained a profitability of 4.9% in 2014, not exceeding the maximum 11% established by Chile's General Decree Law N°323 (DFL 323).

On January 29, 2015, the Executive Branch sent to Congress the draft amendment of DFL 323 of 1931 (General Gas Law) where among other changes, it establishes new criteria to be used in the methodology of determining maximum profitability of gas distribution concession networks. As already set up under DFL 323, profitability excess above the maximum allowed, will generate the beginning of a tariff-setting process.

The Company is only subject to the profitability control mechanism for the operation of the natural gas distribution network in the city of Calama.

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, among which Empresas Lipigas is not.

The LPG distribution market, in all its segments, is an extremely competitive market, since its inception, which is reflected in market share variations of the companies that participate in it. In vast areas of the country, LPG competes with the natural gas network. Moreover, the competition is given, not just among LPG and natural gas distribution companies, but with the rest of substitute energy sources (firewood and its derivatives, diesel, kerosene, electricity, etc.).

Empresas Lipigas permanently reviews its cost structure to optimize it and continue to be a competitive alternative to other energies. Given its ease of transportation and diversity of the different supply sources, LPG has proven to be a competitive, reliable and alternative energy that is available throughout the country.

Therefore, the establishment of reasonable profitability rates for the supply of gas in the concession network should not significantly affect the competitive situation on the market.

Also, in September of 2014, the TDLC rejected FNE's request to recommend to the authority the establishment of rules to regulate in Chile the mandatory transfer of LPG tanks or cylinders between companies, as well as the establishment of a regulation on the price of such transfers. The TDLC ruled that "the costs associated to the suggested recommendation of rule amendment may eventually be greater than the benefits in terms of increased competition between LPG suppliers".

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 its interpretation could require incurring costs that could affect financial performance or impact the financial situation of the Company.

8.5 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 dangers 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 between clients and the community in general (firemen, associations, etc.).

- Maintain OHSAS 18001:2007 Occupational Health and Safety Assessment Series at 11 of the 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.

8.6 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.

8.7 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, strictly following the relevant regulations.

The Company's main business in this area is regulated by the Superintendence of Electricity and Fuels (*Superintendencia de Electricidad y Combustibles-SEC*) in Chile, the Regulatory Commission of Energy and Gas (*Comisión de Regulación de Energía y Gas -CREG*) in Colombia and the Ministry of Energy and Mines and the Energy (*Ministerio de Energía y Minas*) and Mines Investment Regulator (*Organismo Supervisor de la Inversión en Energía y Minería-Osinergmin*) in Peru, which ensures compliance with the laws, decrees, rules, memorandum and resolutions related to electricity and fuels.

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.

The main litigation and sanctioning procedures currently underway involving the Company or its subsidiaries, are described in the notes to the financial statements.

8.8 Risk of changes in regulatory, political, economic and social conditions in the countries in which we operate.

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, 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.

8.9 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 its operations in Colombia and
- Lima Gas S.A. in 2013 through which the Company entered the Peruvian LPG market.
- Neogas 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 accurately identify suitable 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 countries where we are seeking to consummate acquisitions;
- 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 substantial 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.

8.10 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 we are very careful about the safety of our operations, a sufficiently large accident at one of our plants, facilities located at service stations or storage facilities or during transportation or delivery of products we sell could force us to suspend our operations in the local temporarily 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 or required replacement parts or equipment can also affect our distribution operations and consequently our operating results.

8.11 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 constantly 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.

8.12 Risk of possible climate change could lead to regulatory changes

Due to concern over the risk of climate change, a number of 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, as a result, increase the price of the products that the Company distributes.

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