

ANALYSIS OF THE FINANCIAL POSITION AS OF 06.30.2016



Abbreviations:

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

ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2016

1. REVIEW

As of June 30, 2016, Empresas Lipigas S.A. (the "Company") recorded earnings after taxes amounting to M\$18,108, with an increase of M\$ 3,622 (25.0%), with respect to the M\$14,486 recorded in the same period of the same period of the previous year.

This result was generated by a higher gross margin of M\$8,802, with an increase of 15.1% compared to the same period of the previous year originated by improved margins in 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\$6,232 (19.2%), with respect to the M\$32,475 recorded the same period of the previous year.

Consolidated EBITDA reached M\$37,630, a figure 10.5% higher than the one recorded for the same period of the previous year which reached M\$34,057. The increase resulted from an improvement of gross margin in Chile and Peru, driven by increased sales volume and better unit margins. In the case of Chile, gross margin has been favored by an increase in sales volume and improved unit margins, added to a greater imported volume through the maritime terminal that initiated activities in March 2015.

Accumulated LPG sales volume as of June 2016 compared with the same period of the previous year increases 7.1% equivalent to 21,656 tons. In Chile volumes increased 6.6%, in Colombia 2.3% and in Peru they increased 11.5%.

Natural gas sales (in its different formats) reached 47.7 million m³ with a strong increase compared to the 6.2 million m³ recorded during the same period of the previous year due to the incorporation of Neogas operations in Peru and the increased sales volume of liquefied natural gas (LNG) in Chile. LNG accumulated sales volume as of June 2016, amounted to 9.5 million m³, 66.7% higher compared to those recorded during the same period of the previous year.

On the other hand, natural gas sales in Peru reached 37.7 million m³, which correspond to the acquisition and takeover of Neogas Perú beginning February 2016.

Revenue from ordinary activities amounted to M\$195,689, increasing 12.1% regarding the same period of the previous year. This increase was driven by increased sales volume of liquefied gas and natural gas which offset the lower unit sales prices in Chile and Peru, and that are related to the international variation of petroleum derived fuels.

Non-operating income was negative by M\$4,813 which is lower than the M\$8,002 loss recorded during the same period of the previous year. This variation resulted from lower disposals of property, plant and equipment and lower financial costs which are offset by higher results by adjustment units.

MATERIAL DISCLOSURES DURING THE QUARTER

On April 27, 2016, the General Shareholders' Meeting approved the distribution of an additional dividend charged against earnings for the fiscal year 2015 in the amount of CLP 2,979,449,693 equivalent to CLP 26.233 per share, which was paid on April 28, 2016.

On April 28, 2016 an interim dividend was paid in the amount of CLP 37.861 per share charged against earnings for the fiscal year 2016, which had been agreed during Board session held March 30, 2016.

On June 29, 2016, the Board of Directors agreed to pay an interim dividend charged against earnings for the fiscal year 2016 in the amount of CLP 77.482 per share, which was paid on July 20, 2016.

2. CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF INCOME BY FUNCTION	01.01.2016 through 06.30.2016	01.01.2015 through 06.30.2015	04.01.2016 through 06.30.2016	04.01.2015 through 06.30.2015	Var. Jan-Jun (2016-2015)		Var. Apr-Jun (2016-2015)	
	M\$	M\$	M\$	M\$	M\$	%	M\$	%
Revenue	195,689	174,560	110,252	95,038	21,128	12.1 %	15,213	16.0%
Cost of sales	(128,593)	(116,266)	(72,169)	(61,460)	(12,327)	10.6 %	(10,709)	17.4%
Gross Earnings	67,096	58,294	38,082	33,578	8,802	15.1 %	4,505	13.4%
Other income by function	363	528	312	274	(165)	(31.3)%	38	13.8%
Other expenses by function	(10,220)	(7,966)	(5,929)	(5,144)	(2,254)	28.3 %	(784)	15.2%
Distribution costs	(15,490)	(13,034)	(8,650)	(6,745)	(2,456)	18.8 %	(1,905)	28.2%
Administrative expenses	(12,996)	(11,475)	(6,645)	(5,581)	(1,522)	13.3 %	(1,064)	19.1%
Operating income	28,752	26,347	17,170	16,381	2,404	9.1 %	789	4.8%
Financial costs	(4,219)	(5,222)	(2,483)	(2,983)	1,004	(19.2)%	501	(16.8)%
Financial income	389	454	67	394	(65)	(14.3)%	(328)	(83.1)%
Exchange differentials	225	(78)	25	205	303	(387.0)%	(181)	(88.0)%
Profit (loss) on indexation units	(1,844)	(1,051)	(1,048)	(1,049)	(793)	100.0 %	1	(0.1)%
Other gains (losses)	636	(2,104)	653	(1,896)	2,740	(130.2)%	2,550	(134.5)%
Earnings (loss) before taxes	23,939	18,345	14,384	11,052	5,593	30.5 %	3,332	30.1%
Income tax expense	(5,831)	(3,859)	(3,640)	(2,092)	(1,972)	51.1 %	(1,548)	74.0%
Profit (loss)	18,108	14,486	10,744	8,960	3,622	25.0 %	1,784	19.9%
Profit (loss) attributable to the owners of the controller	18,087	14,443	10,756	8,931	3,645	25.2 %	1,825	20.4%
Profit (loss) attributable to non-controlling interests	20	44	(13)	29	(23)	(52.7)%	(42)	(145.6)%
Profit (loss)	18,108	14,486	10,744	8,960	3,622	25.0 %	1,784	19.9%
Depreciation and amortization	8,879	7,710	4,550	4,062	1,169	15.2 %	488	12.0%
EBITDA	37,630	34,057	21,720	20,443	3,573	10.5 %	1,277	6.2%

Earnings after tax amounted to M\$18,108 a 25.0% increase regarding the M\$14,486 recorded the same period of the previous year. The main variations resulted from:

- Consolidated gross margin reached M\$67,096 which is 15.1% higher than the M\$58,294 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. 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, lower LPG unit margins and the incorporation of margins generated by natural gas sales resulting from the acquisition of Neogas, which was not present the previous year (which amounted to M\$ 4,541)
- Operating costs and expenses increased M\$6,232 due to higher expenses regarding salaries, freights, maintenance and greater advertising and promotional expenses. The expenses include the incorporation of expenses of the Neogas Perú operation in the amount of M\$3,917 which were not present as of the previous year.
- Consolidated operating income reached M\$28,752 which is M\$2,404 (9.1%) higher than the M\$26,347 recorded during the same period of the previous year.

- Accumulated EBITDA (operating income before depreciation and amortization) during the first half of the 2016 fiscal year reached M\$37,630 representing a 10.5% increase regarding the M\$34,057 for the same period of the previous year.

3. INCOME BY SEGMENT

M\$	From 04.01.2016 through 06.30.2016				Accumulated as of 06.30.2016			
	Segments			Group Total	Segments			Group Total
	Chile	Colombia	Peru		Chile	Colombia	Peru	
Revenue	79,066	9,223	21,962	110,252	136,031	18,077	41,580	195,689
Purchases charged to cost of sales	(41,759)	(5,345)	(14,608)	(61,712)	(70,812)	(10,457)	(27,647)	(108,917)
Expenses charged to cost of sales	(4,205)	(280)	(1,422)	(5,907)	(7,882)	(637)	(2,278)	(10,797)
Gross profit	33,103	3,598	5,932	42,633	57,336	6,983	11,656	75,975
Other income by function	312	0	0	312	363	0	0	363
Other operating expenses	(14,274)	(2,609)	(4,342)	(21,224)	(25,694)	(5,036)	(7,977)	(38,707)
Depreciation and amortization	(3,286)	(468)	(797)	(4,550)	(6,520)	(895)	(1,464)	(8,879)
Operating Income	15,855	521	793	17,170	25,485	1,052	2,214	28,752
EBITDA	19,141	989	1,590	21,720	32,005	1,947	3,678	37,630

M\$	From 04.01.2016 through 06.30.2016				Accumulated as of 06.30.2016			
	Segments			Group Total	Segments			Group Total
	Chile	Colombia	Peru		Chile	Colombia	Peru	
Revenue	72,540	8,197	14,301	95,038	130,118	16,400	28,043	174,560
Purchases charged to cost of sales	(39,820)	(3,501)	(9,272)	(52,593)	(73,364)	(7,125)	(18,377)	(98,866)
Expenses charged to cost of sales	(3,800)	(373)	(632)	(4,805)	(7,303)	(738)	(1,649)	(9,690)
Gross profit	28,920	4,323	4,397	37,640	49,450	8,537	8,016	66,004
Other income by function	274	0	0	274	528	0	0	528
Other operating expenses	(12,343)	(2,636)	(2,491)	(17,471)	(22,663)	(5,425)	(4,387)	(32,475)
Depreciation and amortization	(3,156)	(493)	(413)	(4,062)	(5,915)	(975)	(820)	(7,710)
Operating Income	13,694	1,194	1,493	16,381	21,400	2,137	2,810	26,347
EBITDA	16,850	1,687	1,906	20,443	27,315	3,112	3,629	34,057

M\$	Variation 2Q2016 vs. 2Q2015				Accumulated variation as of 06.30.2016 vs. 06.30.2015			
	Segments			Group Total	Segments			Group Total
	Chile	Colombia	Peru		Chile	Colombia	Peru	
Revenue	6,526	1,026	7,661	15,213	5,913	1,678	13,537	21,128
Purchases charged to cost of sales	(1,939)	(1,844)	(5,336)	(9,119)	2,552	(3,333)	(9,270)	(10,050)
Expenses charged to cost of sales	(405)	93	(790)	(1,102)	(579)	101	(628)	(1,107)
Gross profit	4,183	(725)	1,535	4,993	7,886	(1,554)	3,639	9,971
Other income by function	38	0	0	38	(165)	0	0	(165)
Other operating expenses	(1,930)	27	(1,851)	(3,754)	(3,030)	389	(3,591)	(6,232)
Depreciation and amortization	(129)	25	(384)	(488)	(605)	80	(644)	(1,169)
Operating Income	2,161	(673)	(699)	789	4,085	(1,085)	(596)	2,404
EBITDA	2,290	(698)	(316)	1,277	4,691	(1,166)	49	3,574

4. ANALYSIS OF THE CONSOLIDATED FINANCIAL POSITION

ASSETS

	06.30.2016 M\$	12.31.2015 M\$	Var.	
			M\$	%
Currents assets	81,885	74,458	7,427	10.0%
Non-currents assets	299,777	266,086	33,692	12.7%
Total assets	381,663	340,544	41,119	12.1%

The assets of Empresas Lipigas S.A. as of June 30, 2016 recorded an increase of M\$41,119 or 12.1% regarding figures recorded as of December 31, 2015. The main variations correspond to:

- Current assets increased M\$7,427 mainly by the increase in trade accounts and other current accounts receivable and in inventories, an effect which is offset by the decrease in cash and cash equivalent given the acquisition of Neogas.
- Non-current assets increased M\$33,692 mainly due to the incorporation of property, plant and equipment along with the goodwill generated by the acquisition of Neogas in February 2016.

LIABILITIES

	06.30.2016 M\$	12.31.2015 M\$	Var.	
			M\$	%
Current liabilities	67,104	33,771	33,333	98.7%
Non-current liabilities	181,698	174,926	6,736	3.8%
Total liabilities	248,802	208,733	40,068	19.2%
Equity attributable to the owners of the controller	131,487	130,331	1,156	0.9%
Non-controlling interest	1,374	1,479	(106)	(7.1%)
Equity	132,861	131,811	1,051	0.8%
Total liabilities and equity	381,663	340,544	41,119	12.1%

The liabilities of Empresas Lipigas S.A. as of June 30, 2016 recorded an increase of M\$40,068 or 19.2% regarding figures recorded as of December 31, 2015. The main variations correspond to:

- Current liabilities increased M\$33,333. The main variations are generated by increased current financial liabilities due to the incorporation of short-term debt from the Neogas operation in the amount of M\$8,358, the increase of current trade accounts and other current accounts payable is due to the recognition of debt resulting from the existence of in-transit gas in the amount of M\$6,573, for LPG purchases in the amount of M\$5,708 and accounts payable of Neogas in the amount of M\$3,854, and an increase in accounts payable to related entities in the amount of M\$8,800 for the distribution of interim dividends charged against earnings for the fiscal year 2016 , which were paid during July 2016.
- Non-current liabilities increased M\$6,736, mainly due to a higher non-current financial liability for the incorporation of the long-term debt of Lima Gas resulting from the acquisition of Neogas (M\$2,789) and to the increase of other non-current financial liabilities (M\$1,810).

EQUITY

The equity of Empresas Lipigas S.A. as of June 30, 2016 presents an increase of M\$1,051 regarding figures recorded as of December 31, 2015. The main variations are generated by an increase of accumulated earnings.

5. ANALYSIS OF STATEMENT OF CASH FLOW

CONSOLIDATED STATEMENT OF DIRECT CASH FLOW	01.01.2016 through 06.30.2016 M\$	01.01.2015 through 06.30.2015 M\$	Var.	
			M\$	%
Cash flows provided by (used in) operating activities	27,640	23,760	3,880	16.3%
Cash flows provided by (used in) investing activities	(29,249)	(12,693)	(16,556)	130.4%
Net cash flows provided by (used in) financing activities	(8,288)	4,943	(13,231)	(267.7%)
Net Increase (decrease) in cash and cash equivalents, before effects of variation in foreign exchange rates	(9,897)	16,010	(25,907)	(120.9%)
Effects of variations in foreign exchange rate on cash and cash equivalents	(86)	(69)	(17)	24.8%
Net increase (decrease) in cash and cash equivalents	(9,983)	15,941	(25,924)	(96.2%)
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	21,232	25,613	(4,381)	(87.7%)

Cash and cash equivalents as of June 30, 2016 recorded a balance of M\$21,232 decreasing M\$4,381 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\$27,640 as of June 30, 2016, which increased M\$3,880 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. On the other hand, the previous cash flow is offset by higher payment to suppliers resulting from the supply of goods and services and the increased payment of income tax.

CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES

Net cash flow used in investment activities as of June 30, 2016 was M\$29,249 increasing M\$16,556 regarding cash flow used in the same period of the previous year. The increase mainly resulted from the investment performed in acquiring Neogas (M\$17,893).

CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES

Net cash flow used in financing activities as of June 30, 2016 is a negative M\$8,288 and presents a negative variation of M\$13,231 regarding the positive net cash flow of M\$4,943 for the same period of the previous year. The main difference resulted from a lower net increase of financial debt, since in April 2015 the long-term bond issuance took place (which was used to pay existing bank liabilities).

6. FINANCIAL INDICATORS

LIQUIDITY

Indicators	Units	06.30.2016	12.31.2015	06.30.2015
Liquidity ratio ⁽¹⁾	Times	1.22	2.20	1.54
Acid-test ratio ⁽²⁾	Times	0.95	1.81	1.23

(1) Liquidity ratio = Current Assets / Current Liabilities

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

Liquidity indicators as of June 30, 2016, presented a decrease regarding December 2015, mainly from the increase in current financial liabilities originated by the incorporation of the Neogas operation in Peru, from the increase in accounts payable to suppliers and from an increase in current accounts payable to related entities resulting from the distribution of interim dividends.

INDEBTEDNESS

Indicators	Units	06.30.2016	12.31.2015	06.30.2015
Indebtedness ratio ⁽¹⁾	Times	1.87	1.58	1.62
Portion of current debts ⁽²⁾	%	27.1%	16.2%	23.0%
Portion on non-current debts ⁽³⁾	%	72.9%	83.8%	77.0%
Net financial debt / Equity ⁽⁴⁾	Times	0.85	0.66	0.67

(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 June 30, 2016 is mainly affected by the increase in current net financial liabilities resulting from the incorporation of Neogas in the amount of M\$1,810, from increased accounts payable to suppliers in the amount of M\$15,817 and from the increase of current accounts payable to related entities (dividends pending payment) in the amount of M\$8,800).

PROFITABILITY

Indicators	Units	06.30.2016	12.31.2015	06.30.2015
Equity profitability ⁽¹⁾	%	29.9%	27.4%	23.7%
Asset profitability ⁽²⁾	%	10.4%	10.6%	9.1%
EBITDA ⁽³⁾	M\$	82,619	79,046	57,404
EAT ⁽⁴⁾	M\$	39,742	36,120	31,678

(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 regarding December 2015 mainly due to higher earnings in the amount of M\$3,622 during the past 12 months. Asset profitability has remained stable regarding December 2015. EBITDA and EAT of the last 12 months increased due to a greater gross margin.

INVENTORIES

Indicators	Units	06.30.2016	12.31.2015	06.30.2015
Inventory turnover ⁽¹⁾	Times	16.1	20.5	22.4
Inventory permanence ⁽²⁾	Days	22.4	17.6	16.1

(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 resulting from the start of operation of the maritime terminal.

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 36.4% as of May 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 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 26 of the 32 departments of the country, reaching a moving average market share of 14.1% as of May 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 together with a third-party distribution network service approximately over 430,000 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 average market share of 9.1% as of May 2016, according to data provided by Peru's Energy and Mines Investment Regulator - *Osinerghmin*.

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 an approximate 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 in 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 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:

Financial Assets	Note	06.30.2016 Th\$	03.31.2015 Th\$
Cash and cash equivalents	3	21,231,860	31,214,918
Trade receivables and other accounts receivable	7	35,426,725	25,394,451
Other current financial assets	4	2,399	246,977
Total		56,660,984	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 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.

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 June 30, 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 06.30.2016 Th\$	Assets at 12.31.2015 Th\$
Cash and cash equivalent	916,600	81,781
Other financial assets, current	2,399	246,977
Trade accounts and other accounts receivable, current	164,356	-
Other non-financial assets, non-current	1,255,853	17,468

Current and non-current liabilities	Liabilities at 06.30.2016 Th\$	Liabilities at 12.31.2015 Th\$
Other financial liabilities, current	2,,727,209	-
Trade accounts and other accounts payable, current	6,155,048	2,651,490
Other financial liabilities, non-current	365,956	-
Trade accounts and other accounts payable, non-current	8,722	-

- **Foreign investments:** as of June 30, 2016, the Company holds net foreign investments in Colombian pesos for an amount equivalent to Th\$29,648,309 (Th\$393,404 as of December 31, 2015) and in Peruvian soles for an amount equivalent to Th\$41,330,991 (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 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	Increase Loss (Gain) Th\$	Decrease Loss (Gain) Th\$	Allocation
CLP/UF	1,107,994	(1,107,994)	Results: Adjustment units
CLP/USD	660,713	(660,713)	Results: Exchange rate differences
CLP/USD	(108,336)	108,336	Equity: Reserves for cash flow hedges
CLP/COP	(2,964,831)	2,964,831	Equity: Reserves for exchange rate translation differences
CLP/PEN	(3,868,991)	3,868,991	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 June 30, 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 June 30, 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	14,543,360	619,606	114,409,122	4,874,293	128,952,481	5,493,900
Total as of 06.30.2016		14,543,360	619,606	114,409,122	4,874,293	128,952,481	5,493,900

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 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 36.4% at May 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 13.6% at June 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 June 2016 reached a market share of 8.8%.

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 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 (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, would 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.

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.

Note 27 to the consolidated financial statements describe the main claims filed against the Company.

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 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, 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.

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 our 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.