ANALYSIS
OF THE
FINANCIAL POSITION
AS OF 06.30.2019

Abbreviations:

M$ Million Chilean pesos

Th$ Thousand Chilean pesos

ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS
For the period ended June 30, 2019

Important note: For the year 2019, Empresas Lipigas has adopted the amendments established by the International Financial Reporting Standard No.16 (IFRS 16), implying that the distinction between financial and operating leases disappears, thus practically all leases follow the same recording model. A more detailed description of the effects of the adoption of IFRS 16 is included in note 2.2 of the interim consolidated financial statements as of June 30, 2019. This causes the comparison between periods to be difficult because the results of 2018 do not incorporate the above-mentioned effect. To facilitate the understanding of the Company's results, the present report identifies those variations resulting from the adoption of IFRS 16.

1. SUMMARY

As of June 30, 2019, Empresas Lipigas S.A. (the "Company") recorded earnings after taxes amounting to M$ 19,542, with an increase of M$ 1,295 (7.1%), compared to the M$ 18,247 recorded in the same period of the previous year. Excluding the effects of adopting IFRS 16, earnings after taxes would have been M$ 19,304 (5.8% higher than the same period of the previous year).

Consolidated EBITDA reached M$ 46,124, 16.6% higher than that obtained in the same period of the previous year, which amounted to M$ 39,562. Excluding the effects of adopting IFRS 16, consolidated EBITDA would have reached M$ 42,197 (6.7% higher than the first half of the previous year).

Gross earnings for the period reached M$ 81,362, higher by M$ 7,591 (10.3%) than the same period of the previous year. Excluding the effects of adopting IFRS 16, gross earnings would have been M$ 81,230, higher by M$ 7,459 (10.1%) than the same period of the previous year, due to higher gross earnings in the three countries resulting from higher sales volumes and higher unit gross earnings. Excluding the effects of adopting IFRS 16, gross earnings would increase in Chile by 9.7%, in Colombia by 15.6% and in Peru by 8.0 %.
Accumulated LPG sales volume as of June 2019 compared to the previous year increased by 1.5%, equivalent to 5,007 tons. In Colombia and Peru, volume grows by 9.1% and 3.1% respectively, while in Chile it decreases slightly by 0.3%, mainly due to lower consumption of industrial customers.

Natural gas sales (in its different formats) totaled 62.7 million m3, increasing 9.9% compared to the 57.0 million m3 recorded during the first half of 2018, resulting from greater sales in Limagas Natural in Peru, which increased by 9.4%, and the incorporation of the Surgas operation in Colombia since the last quarter of 2018, which contributes 3.8 million m3 in the first half. The aforementioned is partially offset by lower LNG sales in Chile.

Revenue from ordinary activities amounted to M$ 242,784, with an increase of 2.2% over the previous year. This increase was mainly generated by the increase in LPG sales volume in Colombia and Peru, NG in Peru, and a greater proportion of sales to end-customers in Chile.

Operating income for the first half increased by M$ 2,175 (7.6%), from M$ 28,699 to M$ 30,873. Excluding the effects of adopting IFRS 16, operating income would have increased by M$ 1,830 (6.4%).

Negative non-operating income was M$ 4,085, which is M$ 1,341 higher than the loss recorded in the previous year. The main variations result from higher negative restatements of guaranty liabilities received from clients for M$ 385, higher interest for financial liabilities for M$ 259 and lower charges of penalties to clients for M$ 320. The effect of adopting IFRS 16 in 2019 results in higher financial costs of M$ 241 associated with the new right of use contract liabilities.

Earnings after taxes increased by 7.1%, mainly due to higher operating income that is offset by higher non-operating loss, in addition to a lower income tax resulting from the effective tax rate previous year regarding the one recorded in the first half of 2019.

MATERIAL DISCLOSURES DURING THE QUARTER AND AS OF THE DATE OF ISSUANCE OF THIS ANALYSIS

On April 25, 2019, the General Shareholders Meeting agreed upon the following matters:

- Approval of the Annual Report, Balance Sheet, Consolidated Income Statement and the opinion of external auditors, corresponding to the fiscal year ended December 31, 2018.
- Approval of the distribution of a final dividend charged against distributable net earnings of the 2018 fiscal year in the amount of CLP 42 per-share.
- Approval of the appointment of PwC as external auditors of the Company for the 2019 fiscal year.
- Other matters pertaining to the General Shareholders' Meeting were also addressed.

On May 14, 2019, the resignation of director Mario Vinagre Muñoz was reported.

On May 22, 2019, the Consolidated Results for the First Quarter of 2019 were reported.

On May 30, 2019, it was reported that the Board of Directors approved an interim dividend charged against 2019 earnings in the amount of CLP 65 per share, which was paid on June 26, 2019.

2. CONSOLIDATED INCOME STATEMENT BY FUNCTION

INCOME STATEMENT BY FUNCTION	01.01.2019 al 06.30.2019 M$	01.01.2018 al 06.30.2018 M$	04.01.2019 al 06.30.2019 M$	04.01.2018 al 06.30.2018 M$	Var Jan-Jun (2019 - 2018) M$	Var Jan-Jun (2019 - 2018) %	Var Apr-Jun (2019 - 2018) M$	Var Apr-Jun (2019 - 2018) %
Revenue	242,784	237,643	134,404	134,329	5,141	2.2 %	75	0.1 %
Cost of sales	(161,423)	(163,872)	(87,973)	(90,883)	2,450	(1.5)%	2,910	(3.2)%
Gross Earnings	**81,362**	**73,771**	**46,431**	**43,446**	**7,591**	**10.3 %**	**2,985**	**6.9 %**
Other income by function	163	125	78	66	38	30.5 %	12	18.2 %
Other expenses by function	(12,638)	(11,732)	(6,457)	(6,283)	(906)	7.7 %	(174)	2.8 %
Distribution costs	(21,943)	(19,634)	(11,543)	(10,867)	(2,309)	11.8 %	(676)	6.2 %
Administrative expenses	(16,070)	(13,831)	(7,855)	(7,065)	(2,239)	16.2 %	(791)	11.2 %
Operating income	**30,873**	**28,699**	**20,654**	**19,298**	**2,175**	**7.6 %**	**1,356**	**7.0 %**
Financial costs	(4,175)	(3,048)	(2,022)	(1,647)	(1,127)	37.0 %	(375)	22.7 %
Financial income	730	927	(20)	261	(197)	(21.3)%	(281)	(107.8)%
Exchange differentials	(21)	54	(48)	(24)	(75)	(138.7)%	(24)	100.9 %
Profit (loss) on indexation units	(950)	(1,562)	(952)	(831)	612	100.0 %	(122)	14.7 %
Other gains (losses)	331	884	63	401	(553)	(62.5)%	(339)	(84.4)%
Earnings (loss) before taxes	**26,789**	**25,955**	**17,674**	**17,458**	**834**	**3.2 %**	**216**	**1.2 %**
Income tax expense	(7,246)	(7,708)	(4,802)	(4,939)	462	(6.0)%	137	(2.8)%
Profit (loss)	**19,542**	**18,247**	**12,872**	**12,519**	**1,295**	**7.1 %**	**353**	**2.8 %**
Profit (loss) attributable to the owners of the controller	19,211	18,194	12,700	12,496	1,017	5.6 %	205	1.6 %
Profit (loss) attributable to non-controlling interests	331	53	172	23	278	523.9 %	148	631.5 %
Profit (loss)	**19,542**	**18,247**	**12,872**	**12,519**	**1,295**	**7.1 %**	**353**	**2.8 %**
Depreciation and amortization	**15,250**	**10,863**	**7,697**	**5,439**	**4,387**	**40.4 %**	**2,259**	**41.5 %**
EBITDA	**46,124**	**39,562**	**28,352**	**24,737**	**6,562**	**16.6 %**	**3,615**	**14.6 %**

Earnings after taxes for the first half of 2019 amounted to M$ 19,542 an increase of 7.1% regarding the M$ 18,247 recorded for the same period of the previous year. Excluding the effects of adopting IFRS 16, earnings for the first half would have reached M$ 19,304 (5.8% higher compared to the first half of the previous year).

- Consolidated gross earnings increased by M$ 7,591, which is composed of a positive variation of M$ 132 associated to the effects of incorporating IFRS 16 and a positive variation of M$ 7,459 mainly due to higher gross earnings in the three countries
- Operating costs and expenses recorded an increase of M$ 5,454 (12.1%), which are composed of a decrease of M$ 214 associated to the effects of incorporating IFRS 16 and an increase of M$ 5,668 due to an increase in expenses. The main increases in expenses (excluding the effects of adopting IFRS 16) are associated with the increase in the proportion of direct sales in Chile,

which include freight and promotional campaigns. Other expenses that increase in Chile correspond to consultancies, tank reinspection and remuneration, as well as a greater expense for connecting clients to natural gas networks. In Colombia, expenses increased due to the incorporation of the Surgas operation and an increase in remuneration and maintenance expenses. In Peru, there is a greater freight expense associated with the natural gas business due to higher sales volume.

- Operating income reached M$ 30,873 which is M$ 2,175 (+7.6%) higher than the M$ 28,699 recorded during the first half of 2018. Of this variation, M$ 345 are explained by the effects of adopting IFRS 16, while M$ 1,830 originate from higher gross earnings during the semester, partially offset by higher expenses.
- EBITDA (operating income before depreciation and amortization) for the first half of 2019 reached M$ 46,124, a figure M$ 6,562 (16.6%) higher than the same period of the previous year. Of this variation, M$ 3,926 are explained by the effects of adopting IFRS 16, and M$ 2,636 are explained by improved cash flow generation.

Earnings after taxes for the second quarter of 2019 amounted to M$ 12,872 an increase of 2.8% regarding the M$ 12,519 recorded for the same period of the previous year. Excluding the effects of adopting IFRS 16, earnings for the second quarter would have reached M$ 12,499 (0.2% lower compared to the second quarter of the previous year).

- Consolidated gross earnings increased by M$ 2.985, which is composed of a variation of M$ 147 associated to the effects of incorporating IFRS 16 and a variation of M$ 2,837 mainly due to higher unit gross earnings in Chile and Peru and improved volumes in Colombia.
- Operating costs and expenses recorded an increase of M$ 1,641 (6.8%), which are composed of a decrease of M$ 18 associated to the effects of incorporating IFRS 16 and an increase of M$ 1,659 due to an increase in expenses. The main increases in expenses (excluding the effects of adopting IFRS 16) in Chile are associated with the increase in freight due to a larger proportion of sales to end-customers and higher expenses for tank reinspection and, greater freight expenses in Peru.
- Operating income reached M$ 20,654 which is M$ 1,356 (+7.0%) higher than the M$ 19,298 recorded during the second quarter of 2018. Of this variation, M$ 166 are explained by the effects of adopting IFRS 16, while M$ 1,190 originate from higher gross earnings during the quarter, partially offset by higher expenses.
- Non-operating income records a negative variation of M$ 1,140 compared to the same quarter the previous year. The main variations originate in a higher negative income by adjustment unit for M$ 590 due to higher inflation in Chile, a greater negative restatement from guaranty liabilities received from clients for M$ 344 and for lower net income from the sale of items of property, plant and equipment for M$ 296 . The effect of adopting IFRS 16 in 2019 results in a lower financial cost of M$ 126 since, although there is a M$ 344 increase in financial costs due

to higher interests associated with the new right-of use contract liabilities, the different accounting treatment of financial lease restatements results in a positive effect of M$ 469.

- EBITDA (operating income before depreciation and amortization) for the second quarter of 2019 reached M$ 28,352, a figure M$ 3,615 (14.6%) higher than the same period of the previous year. Of this variation, M$ 1,965 are explained by the effects of adopting IFRS 16, and M$ 1,650 are explained by improved cash flow generation.

INCOME BY SEGMENT

Income statements including the effects of adopting IFRS 16.

M$	From 04.01.2019 to 06.30.2019				Accumulated at 06.30.2019			
	Segments			Total Group	Segments			Total Group
	Chile	Colombia	Peru		Chile	Colombia	Peru	
Revenue	98,546	13,704	22,154	134,404	173,814	26,782	42,188	242,784
Purchases charged to cost of sales	(50,017)	(7,718)	(15,924)	(73,659)	(90,260)	(15,338)	(29,524)	(135,122)
Expenses charged to cost of sales	(5,998)	(1,079)	(1,475)	(8,552)	(10,930)	(1,934)	(2,848)	(15,712)
Depreciation and amortization	(4,264)	(814)	(684)	(5,762)	(8,396)	(844)	(1,349)	(10,589)
Gross profit	**38,267**	**4,093**	**4,071**	**46,431**	**64,229**	**8,666**	**8,467**	**81,362**
Other income by function	76	0	2	78	160	0	3	163
Other operating expenses	(17,654)	(2,608)	(3,657)	(23,919)	(33,447)	(5,130)	(7,413)	(45,990)
Depreciation and amortization	(1,558)	(13)	(365)	(1,935)	(3,149)	(797)	(716)	(4,661)
Operating Income	**19,131**	**1,472**	**51**	**20,654**	**27,793**	**2,739**	**342**	**30,873**
EBITDA	**24,953**	**2,299**	**1,099**	**28,352**	**39,337**	**4,380**	**2,406**	**46,124**

M$	From 04.01.2018 to 06.30.2018				Acumulated at 06.30.2018			
	Segments			Total Group	Segments			Total Group
	Chile	Colombia	Peru		Chile	Colombia	Peru	
Revenue	101,980	11,447	20,902	134,329	176,133	22,479	39,031	237,643
Purchases charged to cost of sales	(57,521)	(6,096)	(15,144)	(78,760)	(100,013)	(12,461)	(28,016)	(140,490)
Expenses charged to cost of sales	(5,198)	(979)	(1,346)	(7,523)	(9,878)	(1,887)	(2,415)	(14,180)
Depreciation and amortization	(3,914)	(323)	(363)	(4,599)	(7,694)	(667)	(841)	(9,202)
Gross profit	**35,347**	**4,049**	**4,050**	**43,446**	**58,547**	**7,465**	**7,759**	**73,771**
Other income by function	66	0	0	66	125	0	0	125
Other operating expenses	(17,322)	(2,572)	(3,480)	(23,374)	(31,864)	(4,799)	(6,873)	(43,536)
Depreciation and amortization	(357)	(233)	(250)	(840)	(695)	(434)	(532)	(1,661)
Operating Income	**17,734**	**1,244**	**321**	**19,298**	**26,113**	**2,232**	**354**	**28,699**
EBITDA	**22,005**	**1,800**	**933**	**24,737**	**34,502**	**3,333**	**1,727**	**39,562**

M$	Variation 2Q19 vs. 2Q18				Accumulated variation as of 06.30.2019 vs. 06.30.2018			
	Segments			Total Group	Segments			Total Group
	Chile	Colombia	Peru		Chile	Colombia	Peru	
Revenue	(3,434)	2,258	1,252	75	(2,318)	4,303	3,157	5,141
Purchases charged to cost of sales	7,504	(1,622)	(781)	5,102	9,754	(2,878)	(1,508)	5,368
Expenses charged to cost of sales	(799)	(100)	(129)	(1,029)	(1,052)	(47)	(433)	(1,531)
Depreciation and amortization	(350)	(492)	(321)	(1,163)	(702)	(177)	(508)	(1,387)
Gross profit	**2,920**	**44**	**21**	**2,985**	**5,682**	**1,201**	**708**	**7,591**
Other income by function	10	0	2	12	35	0	3	38
Other operating expenses	(332)	(36)	(177)	(545)	(1,583)	(331)	(540)	(2,454)
Depreciation and amortization	(1,201)	220	(115)	(1,096)	(2,453)	(363)	(184)	(3,000)
Operating Income	**1,397**	**228**	**(270)**	**1,356**	**1,680**	**507**	**(12)**	**2,175**
EBITDA	**2,948**	**500**	**167**	**3,615**	**4,835**	**1,047**	**679**	**6,562**

Income statements excluding the effects of adopting IFRS 16 in the 2019 period.

M$	From 04.01.2019 to 06.30.2019 Segments				Accumulated at 06.30.2019 Segments			
	Chile	Colombia	Peru	Total Group	Chile	Colombia	Peru	Total Group
Revenue	98,546	13,704	22,154	134,404	173,814	26,782	42,188	242,784
Purchases charged to cost of sales	(50,017)	(7,736)	(15,940)	(73,693)	(90,260)	(15,357)	(29,555)	(135,172)
Expenses charged to cost of sales	(6,163)	(1,264)	(1,638)	(9,066)	(11,260)	(2,293)	(3,154)	(16,707)
Depreciation and amortization	(4,098)	(681)	(582)	(5,361)	(8,073)	(505)	(1,097)	(9,675)
Gross profit	**38,267**	**4,022**	**3,994**	**46,284**	**64,221**	**8,627**	**8,382**	**81,230**
Other income by function	76	0	2	78	160	0	3	163
Other operating expenses	(18,999)	(2,629)	(3,708)	(25,336)	(36,170)	(5,171)	(7,530)	(48,871)
Depreciation and amortization	(272)	27	(293)	(537)	(573)	(797)	(624)	(1,994)
Operating Income	**19,073**	**1,421**	**(5)**	**20,489**	**27,637**	**2,660**	**231**	**30,528**
EBITDA	**23,442**	**2,075**	**869**	**26,387**	**36,284**	**3,962**	**1,952**	**42,197**

M$	From 04.01.2018 to 06.30.2018 Segments				Acumulated at 06.30.2018 Segments			
	Chile	Colombia	Peru	Total Group	Chile	Colombia	Peru	Total Group
Revenue	101,980	11,447	20,902	134,329	176,133	22,479	39,031	237,643
Purchases charged to cost of sales	(57,521)	(6,096)	(15,144)	(78,760)	(100,013)	(12,461)	(28,016)	(140,490)
Expenses charged to cost of sales	(5,198)	(979)	(1,346)	(7,523)	(9,878)	(1,887)	(2,415)	(14,180)
Depreciation and amortization	(3,914)	(323)	(363)	(4,599)	(7,694)	(667)	(841)	(9,202)
Gross profit	**35,347**	**4,049**	**4,050**	**43,446**	**58,547**	**7,465**	**7,759**	**73,771**
Other income by function	66	0	0	66	125	0	0	125
Other operating expenses	(17,322)	(2,572)	(3,480)	(23,374)	(31,864)	(4,799)	(6,873)	(43,536)
Depreciation and amortization	(357)	(233)	(250)	(840)	(695)	(434)	(532)	(1,661)
Operating Income	**17,734**	**1,244**	**321**	**19,298**	**26,113**	**2,232**	**354**	**28,699**
EBITDA	**22,005**	**1,800**	**933**	**24,737**	**34,502**	**3,333**	**1,727**	**39,562**

M$	Variation 2Q19 vs. 2Q18 Segments				Accumulated variation as of 06.30.2019 vs. 06.30.2018 Segments			
	Chile	Colombia	Peru	Total Group	Chile	Colombia	Peru	Total Group
Revenue	(3,434)	2,258	1,252	75	(2,318)	4,303	3,157	5,141
Purchases charged to cost of sales	7,504	(1,640)	(797)	5,067	9,753	(2,896)	(1,540)	5,317
Expenses charged to cost of sales	(965)	(286)	(293)	(1,543)	(1,382)	(406)	(739)	(2,526)
Depreciation and amortization	(184)	(359)	(219)	(761)	(379)	162	(256)	(473)
Gross profit	**2,920**	**(27)**	**(56)**	**2,837**	**5,674**	**1,163**	**622**	**7,459**
Other income by function	10	0	2	12	35	0	3	38
Other operating expenses	(1,677)	(56)	(228)	(1,961)	(4,306)	(372)	(656)	(5,335)
Depreciation and amortization	85	260	(43)	302	122	(363)	(92)	(333)
Operating Income	**1,339**	**177**	**(325)**	**1,190**	**1,525**	**428**	**(123)**	**1,830**
EBITDA	**1,437**	**276**	**(64)**	**1,650**	**1,782**	**629**	**225**	**2,635**

Chile: EBITDA during the second quarter was higher by M$ 2,948 (13.4%) compared to the second quarter of the previous year, of which M$ 1,511 (6.9%) are explained by the effects of adopting IFRS 16. The remaining variation of M$ 1,437 (6.5%) is mainly explained by higher unit gross earnings. During the quarter, due to the drop in international prices of oil by-products, there was a lower margin effect of M$ 1,193 compared to the previous year. LPG sales volumes decreased 1.1% over the same period of the previous year. Sales volumes of bottled LPG increased by 4.7% while bulk LPG volumes decreased 9.1% mainly due to lower consumption of industrial customers. Total volume in equivalent tons decrease slightly by 1.3%. Operating expenses increased M$ 332 (1.9%), explained by a decrease of M$ 1,345 due to the adoption of IFRS 16 and a positive variation of M$ 1,677 mainly explained by the increased proportion of direct sales, which translates into increased expenses in freight and also due to higher expenses in tank reinspection. Other increased expenses correspond to promotional campaigns, consultancies, and remuneration expenses.

Accumulated EBITDA was higher by M$ 4,835 (14.0%) compared to the first half of the previous year, of which M$ 3,054 are explained by the effects of adopting IFRS 16. The remaining variation of M$ 1,782 (5.2%) is mainly explained by higher unit gross earnings and a greater proportion of direct sales to end-customers. During the first half, due to the drop in international prices of oil by-products, there was a lower margin effect of M$ 1,455 compared to the previous year. LPG sales volumes decreased slightly by 0.3% over the same period of the previous year. Sales volumes of bottled LPG increased by 4.8% while bulk LPG volumes decreased 6.9% mainly due to lower consumption of industrial customers. On the other hand, total volume in equivalent tons decrease by 0.7% resulting from lower LNG sales to industrial customers because some of them had lower consumption. Operating expenses increase M$ 1,583 (5.0%), explained by a decrease of M$ 2,723 due to the adoption of IFRS 16 and a positive variation of M$ 4,306 mainly explained by the increased proportion of direct sales, which translates into increased expenses in freight and external services. Other increased expenses in Chile correspond to promotional campaigns and consultancies, remunerations and tank reinspection, as well as expenses associated to the incorporation of new customers to natural gas networks.

Colombia: EBITDA during the quarter was higher by M$ 500 (27.8%) regarding the second quarter of the previous year, M$ 224 (12.4%) of which are explained by the effects of adopting IFRS 16. The remaining variation of M$ 276 (15.3%) are explained by higher gross earnings recorded given higher LPG sales volume by 10.0%, the incorporation of the natural gas sales from the Surgas subsidiary and operating expenses in line with the same period of the previous year. Operating expenses increased by M$ 36 (1.4%) explained by a M$ 20 decrease given the adoption of IFRS 16 and a M$ 56 increase, mainly explained by greater expenses due to the incorporation of the Surgas operation and greater expenses in salaries and leases. The Colombian peso devalued by 4.2% against the Chilean peso compared to the same quarter of the previous year.

Accumulated EBITDA was higher by M$ 1,047 (31.4%) regarding the first half of the previous year, M$ 418 (12.5%) of which are explained by the effects of adopting IFRS 16. The remaining variation of M$ 629 (18.9%) is explained by higher gross earnings recorded given greater unit gross earnings, higher LPG sales volume by 9.1% and the incorporation of natural gas sales of the Surgas subsidiary. Margin generated by the Surgas subsidiary operation, which consolidates since the fourth quarter of 2018, is included within this increase. Operating expenses increased by M$ 331 (6.9%) explained by a M$ 41 decrease given the adoption of IFRS 16 and a M$ 372 increase, mainly explained by increased expenses due to the incorporation of the Surgas operation and greater expenses in salaries and maintenance. The Colombian peso devalued by 1.7% against the Chilean peso.

Peru: EBITDA during the quarter increased by M$ 167 (17.9%) compared to the second quarter of the previous year, M$ 230 of which are explained by the effects of adopting IFRS 16. Excluding the effects of adopting IFRS 16, EBITDA presents a negative variation of M$ 64 (-6.8%), mainly explained by greater unit gross earnings and higher LPG volumes, which increased by 6.5%. Natural gas sales slightly decrease by 3.6% during the quarter. Operating expenses increase by M$ 177 (5.1%) explained by a M$ 51 decrease due to the adoption of IFRS 16 and a M$ 228 increase mainly explained by greater freight expenses associated to a greater activity of natural gas. The Peruvian Sol revalued by 8.1% against the Chilean peso compared to the same quarter of the previous year.

Accumulated EBITDA increased by M$ 679 (39.3%) compared to the first half of the previous year, of which M$ 454 (26.3%) are explained by the effects of adopting IFRS 16. The remaining variation of M$ 225 (13.0%) are explained by higher unit gross earnings and higher volumes of the natural gas and LPG business. LPG sales increase by 3.1% which increase is influenced by greater bulk sales that offset the lower bottled sales that continue to be impacted by informal competitors. Natural gas sales increased by 9.4%. Operating expenses increase by M$ 540 (7.9%) explained by a M$ 117 decrease due to the adoption of IFRS 16 and a positive variation of M$ 656 mainly explained by greater freight expenses associated to an increase in the activity of natural gas. The Peruvian Sol revalued by 8.0% against the Chilean peso.

3. ANALYSIS OF THE CONSOLIDATED FINANCIAL POSITION

ASSETS

	06.30.2019 M$	12.31.2018 M$	Var. M$	Var. %
Current assets	82,984	84,569	(1,585)	(1.9%)
Non-current assets	404,940	360,201	44,739	12.4%
Total assets	**487,924**	**444,770**	**43,154**	**9.7%**

The assets of Empresas Lipigas S.A. as of June 30, 2019 record an increase of M$ 43,154 or 9.7% regarding figures recorded as of December 31, 2018. The main variations correspond to:

- Current assets decrease M$ 1,585 mainly by lower inventories for M$ 6,335 and a decrease in cash and cash equivalents for M$ 1,803. This was partially offset by trade receivables and other accounts receivable. There is no effect over current assets for adopting IFRS 16.
- Non-current assets increase M$ 44,739, M$ 33,768 of which are explained by the incorporation of right-of-use assets in adopting IFRS 16. The remaining variation of M$ 10,971 are explained by an increase in property, plant and equipment in Chile (mainly, natural gas networks and cylinders).

LIABLITIES

	06.30.2019 M$	12.31.2018 M$	Var. M$	Var. %
Current liabilities	105,201	86,317	18,884	21.9%
Non-current liabilities	225,115	200,731	24,384	12.1%
Total liabilities	**330,316**	**287,048**	**43,268**	**15.1%**

The liabilities of Empresas Lipigas S.A. as of June 30, 2019 record an increase of M$ 43,268 or 15.1% regarding figures recorded as of December 31, 2018. The main variations correspond to:

- Current liabilities increased by M$ 18,884, M$ 6,377 of which are explained by increased current financial liabilities associated with future lease installments payable given the adoption of IFRS 16. The remaining increase (M$ 12,507) is mainly explained by higher current financial liabilities in Chile for M$ 2,389 and in Peru due to the transfer of non-current liabilities for M$ 5,277.
- Non-current liabilities increased by M$ 24,384, where the adoption effect of IFRS 16 for future installments payable for leased goods meant an increase of M$ 27,153. Excluding the effect

of adopting IFRS 16, non-current liabilities decreased by M$ 2,769 mainly due to lower non-current financial liabilities in Peru that went to current for M$ 5,277.

EQUITY

The equity of Empresas Lipigas S.A. as of June 30, 2019 records a slight decrease of M$ 114 regarding the figure recorded as of December 31, 2018. The variation is generated by lower accumulated earnings that is partially offset by greater participation of non-controlling parties.

4. ANALYSIS OF STATEMENT OF CASH FLOW

CONSOLIDATED STATEMENT OF DIRECT CASH FLOW	01.01.2019 to 06.30.2019 M$	01.01.2018 to 06.30.2018 M$	Var.	
			M$	%
Cash flows provided by (used in) operating activities	**46,402**	**20,793**	**25,609**	**123.2%**
Cash flows provided by (used in) investing activities	**(23,635)**	**(23,848)**	**213**	**(0.9%)**
Net cash flows provided by (used in) financing activities	**(24,570)**	**8,351**	**(32,921)**	**(394.2%)**
Net Increase (decrease) in cash and cash equivalents, before effects of variation in foreign exchange rates	**(1,802)**	**5,297**	**(7,099)**	**(271.9%)**
Effects of variations in foreign exchange rate on cash and cash equivalents	(1)	(30)	29	(96.4%)
Net increase (decrease) in cash and cash equivalents	**(1,803)**	**5,267**	**(7,070)**	**(368.3%)**
Cash and cash equivalents - beginning of the period or fiscal year	13,883	6,930	6,954	100.3%
Cash and cash equivalents - end of the period or fiscal year	**12,080**	**12,196**	**(116)**	**(1.0%)**

Cash and cash equivalents as of June 30, 2019 recorded a balance of M$ 12,080 decreasing M$ 116 regarding the balance at the end of the same period of the previous year. The following movements mainly explain said variations:

CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES

Operating activities generated a positive net cash flow amounting to 46,402 MM $ as of June 30, 2019, which increased with respect to the cash flow of the same period of the previous year by M$ 25,609. The main variations correspond to the increase in the cash flow for improved results and the different variation of working capital between periods. In the first six months of 2018, working capital had increased by M$ 15,144, decreasing the cash flows generated by operating activities. In 2019, the same variation is a decrease in working capital of M$ 3,228 which increases the cash flows generated. The net variation is a greater cash flow of M$ 18,372. This variation is mainly due to a smaller increase in the balance of trade debtors and other accounts receivable and a decrease in the balance of inventories due to the decrease in sales prices of products in 2019 below 2018, and an increase in trade accounts and other accounts payable in 2019 unlike the decrease occurred in 2018. Cash flows from operating activities is affected by the adoption of IFRS 16 since items considered as supplier payments in 2018 for provision of services, are considered as financial liability payments in 2019. This difference means a greater cash flow of M$ 3,219.

CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES

Net cash flow used in investment activities as of June 30, 2019 was M$ 23,635 which was slightly lower by M$ 213 regarding cash flow used in the same period of the previous year.

CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES

Net cash flow used in financing activities as of June 30, 2019 is negative by M$ 24,570 and presents a negative variation of M$ 32,921 regarding the positive net cash flow of M$ 8,351 of the previous year. The main variations resulted from a short term loan in Chile for M$ 30,000 during the first half of 2018. In addition, there is an impact resulting from higher payments of financial leases (influenced by the application of IFRS 16 in 2019) in the amount of M$ 3,123.

5. FINANCIAL INDICATORS (*including IFRS 16 effects)

LIQUIDITY

Indicators	Units	06.30.2019*	06.30.2019	12.31.2018
Liquidity ratio (1)	Times	0.79	0.84	0.98
Acid-test ratio (2)	Times	0.64	0.68	0.72

(1) Liquidity ratio = Current Assets /Current Liabilities

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

Ratios decrease mainly because of the increase in current debt by incorporating liabilities corresponding to the adoption of IFRS 16.

Excluding the effects of adopting IFRS 16, liquidity indicators as of June 30, 2019 present a decrease regarding December 2018, given the slight decrease in current assets due to the effect of lower inventories, while current liabilities increase due to greater short-term financial indebtedness.

INDEBTEDNESS

Indicators	Units	06.30.2019*	06.30.2019	12.31.2018
Indebtedness ratio (1)	Times	2.10	1.89	1.82
Portion of current debts (2)	%	31.8%	33.3%	30.1%
Portion on non-current debts (3)	%	68.2%	66.7%	69.9%
Net financial debt / Equity (4)	Times	1.20	0.99	0.95

(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.

Excluding the effects of adopting IFRS 16, indebtedness ratio increases as of June 30, 2019 regarding the close of December 31, 2018, mainly because of an increase in current liabilities.

Excluding the effects of adopting IFRS 16, net indebtedness ratio over equity slightly increases due to the higher level of financial liabilities.

PROFITABILITY

Indicators	Units	06.30.2019*	06.30.2019	12.31.2018
Equity profitability (1)	%	27.2%	27.1%	26.4%
Asset profitability (2)	%	8.8%	9.4%	9.4%
EBITDA (3)	M$	92,309	88,379	85,747
EAT (4)	M$	42,938	42,700	41,643

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

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

(3) EBITDA = Operating income + depreciation and amortization (LTM)

(4) EAT = Earnings after taxes (LTM)

Excluding the effects of adopting IFRS 16, equity profitability increases regarding December 2018 mainly due to greater net earnings. Asset profitability remains in the same level. There is an increase in EBITDA and earnings after taxes regarding December 2018 due to higher operating income.

INVENTORIES

Indicators	Units	06.30.2019*	06.30.2019	12.31.2018
Inventory turnover (1)	Times	18.0	18.0	16.1
Inventory permanence (2)	Days	20.0	20.0	22.3

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

(2) Inventory permanence = 360 days / Inventory turnover

Inventory turnover increases regarding December 2018, mainly due to decreased average inventory levels at the maritime terminal in a greater proportion than the decrease in the cost of sales.

6. BUSINESS ANALYSIS

Empresas Lipigas S.A. participates in the Chilean market for LPG with its brand Lipigas. It has over 60 years of presence in the market reaching a moving annual average market share of 36.5% as of December 2018 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 20 sales offices distributed throughout the country. In addition, it has an outsourced distribution network of more than 2,500 mobile sales points achieving nationwide coverage from the Region of Arica and Parinacota to the Region of Magallanes.

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. Beginning 2017 it started supplying natural gas to clients in the cities of Puerto Montt and Osorno, where it currently has 2,700 customers.

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 regarding 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.

Since 2017 it develops activities in the power generating and commercialization 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 25 of the 32 departments of the country, reaching a moving annual average market share of 13.9% as of December 2018, 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, it has 16 bottling plants and an own distribution network that together with the third-party distribution network service approximately 500,000 customers. In 2017 it began supplying network liquefied gas to clients from 12 municipalities in the interior of Colombia. In 2018, the Company acquired control of the subsidiary Surcolombiana de Gas S.A.S. Currently supplying network gas to approximately 90,000 customers.

Empresas Lipigas S.A. enters the Peruvian market in 2013 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 mainly under three brands: Lima Gas, Zafiro and Caserito. Moving annual average market share reached 7.2% as of December 2018, according to data provided by Peru's Energy and Mines Investment Regulator - *Osinergmin*.

Currently, Lima Gas has eight bottling plants and two distribution centers, enabling a relevant logistic capacity to supply LPG to its clients. The distribution network of bottled gas is composed of approximately 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. (currently Limagas Natural Perú S.A.), a company dedicated to the distribution of CNG and LNG to industrial clients and supply service stations for automobiles. The Company acquired control over this new operation in February 2016. Commercialization of LNG began since late 2018.

7. RISK MANAGEMENT

Risk factors inherent to the Company's activity are the markets in which it participates, and the activity developed by the Company and its subsidiaries. The Board of Directors and Management periodically review the map of the Company’s significant risks in order to design and monitor the compliance of measures for mitigating risks that are sought to be fit. The following is a breakdown of the main risk factors that affect the business:

7.1 Credit risk

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

The Company has 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, trade accounts and other accounts receivable and other non-current financial assets.

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

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

As described in Note 4.1 of the consolidated 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 LPG at facilities already built at the maritime terminal property of that company. The Company has performed a solvency analysis of Oxiquim S.A., concluding that there are no significant non-collection risks. These advances are offset by the financial lease liability entered into with Oxiquim S.A. because of the beginning of operations in March 2015 of the maritime terminal.

The maximum exposure to credit risk is as follows:

Financial Assets	Note	06.30.2019 Th$	12.31.2018 Th$
Cash and cash equivalents	3	12,079,990	13,883,383
Trade receivables and other accounts receivable, current and non-current	7	48,317,142	43,898,807
Other financial assets, current	4	899	174,549
Other financial assets, non-current	4	566,303	548,821
Total		**60,964,334**	**58,505,560**

Policy on uncollectible debt

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

This policy is in accordance with IFRS 9, where the recognition of uncollectible client accounts is based on the expected losses of these, establishing the following criteria to make the provisions:

- Segmentation: clients are grouped by business lines according to the Company’s sales channels.
- Risk Variables: the business line and arrearage are considered.
  - The business line because it groups different segments of clients which are possible to identify and group for risk analysis purposes.
  - Arrearage because it is directly associated with the levels of recovery and maturity of the debt, the longer the payment term, it is considered more difficult to recover.
- Simplified statistical model: the payment period of accounts receivable for this type of business is not more than 12 months. For the same reason we opted for a simplified model, which is one of the alternatives recommended by IFRS 9, when it relates to lower than one-year debts.
- Significant payment risk increase:
  a. A special provision is made, considering partial or total debt, should a client be found to have an inability to pay due to significant risk increase, even if it does not classify within the above criteria.
  b. A special provision is made, considering partial or total debt, should a client refinance its debt for relevant amounts.

7.2 Liquidity Risk

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

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

The Company maintains relationships with major financial institutions in the markets in which it operates. This allows counting on credit lines to deal with specific 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 of the consolidated financial statements presents an analysis of the Company's financial liabilities classified according to their maturity.

7.3 Market risk

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

Exchange rate and indexation unit risk

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

- <u>Purchases of goods and future payment commitments expressed in foreign currency</u>: Company cash flows consist mainly of transactions in its functional currency and those of its subsidiaries. The Company and its subsidiaries cover 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, 2019, and December 31, 2018, 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 06.30.2019 Th$	Assets at 12.31.2018 Th$
Cash and cash equivalents	1,500,184	1,003,375
Other financial assets, current	899	174,549
Trade accounts and other accounts receivable, current and non-current	5,716	1,740,604

Current and non-current liabilities	Liabilities at 06.30.2019 Th$	Liabilities at 12.31.2018 Th$
Other financial liabilities, current	-	47,627
Trade accounts and other accounts payable, current	7,692,142	11,901,570

- <u>Foreign investments</u>: as of June 30, 2019, the Company holds net foreign investments in Colombian pesos for an amount equivalent to Th$ 40,834,932 (Th$ 40,158,154 as of December 31, 2018) and in Peruvian soles for an amount equivalent to Th$ 51,590,412 (Th$ 48,120,995 as of December 31, 2018).

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

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

- <u>Debt securities</u>: The Company's indebtedness for this concept corresponds to the placement of Series E bonds in the Chilean market carried out during April 2015 (mnemonic code BLIPI-E), charged to the 30-year bond line registered in Chile's CMF Securities Register under number 801, for UF 3,500,000. The placement rate was 3.44% annual for a face rate of 3.55%. Interest is paid semi-annually, and the principal will be amortized in a 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 in Chile are correlated to the variation in the UF.

- Financial lease liabilities: The Company signed a lease agreement with Oxiquim S.A. for a period of 25 years for the use of reception, storage and dispatch facilities to be built by Oxiquim S.A., in the amount of UF 1,572,536. 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 in Chile are correlated to the variation in the UF.

- Right-of-use liabilities: With the entry into force of IFRS 16 "Leases", the Company has entered into agreements for periods ranging from 3 to 18 years for the use of real estate, technology and vehicles with several suppliers for the amount of UF 614,332. The average annual interest rate is 1.7%. 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 in Chile are correlated to the variation in the UF.

- Sensitivity analysis regarding exchange rate variations and indexation units.

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

Exchange rate Variation (*)	Increase Loss (Gain) Th$	Decrease Loss (Gain) Th$	Allocation
CLP/UF +/- 2.52%	2,441,539	(2,441,539)	Results: Results by indexation units
CLP/USD +/- 1.03%	43	(43)	Results: Exchange rate differences
CLP/USD +/- 1.03%	15,557	15,557	Equity: Reserves for cash flow hedging
CLP/COP +/- 4.35%	(1,776,320)	1,776,320	Equity: Reserves for exchange rate translation differences
CLP/PEN +/- 0.23%	(118,658)	118,658	Equity: Reserves for exchange rate translation differences

***** Percentages equivalent to the annual average of the evolution of the last two years.

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.

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As of June 30, 2019, 98.30% of the Group's financial debt is at fixed rates. As a result, the risk of fluctuations in market interest rates is low regarding cash flows. 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, 2019 and December 31, 2018:

Category	Note	Maturity in less than one year		Maturity in more than one year		Total	
		Fixed Rate Th$	Variable Interest Th$	Fixed Rate Th$	Variable Interest Th$	Fixed Rate Th$	Variable Interest Th$
Other financial liabilities	14	51,183,408	2,517,232	146,270,225	900,600	197,453,633	3.417.832
Total at 06.30.2019		**51.183.408**	**2,517,232**	**146,270,225**	**900,600**	**197,453,633**	**3,417,832**

Category	Note	Maturity in less than one year		Maturity in more than one year		Total	
		Fixed Rate Th$	Variable Interest Th$	Fixed Rate Th$	Variable Interest Th$	Fixed Rate Th$	Variable Interest Th$
Other financial liabilities	14	37,050,270	1,386,809	123,698,861	1,736,251	160,749,131	3.123.060
Total at 12.31.2018		**37.050.270**	**1,386,809**	**123,698,861**	**1,736,251**	**160,749,131**	**3,123,060**

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 Magallanes, reaching a market share of 36.5% at December 2018, according to data provided by Chile's Superintendence of Electricity and Fuels *(Superintendencia de Electricidad y Combustibles - SEC)*.

At the end of 2010, the Company entered the Colombian market through the purchase of assets from Grupo Gas País, currently achieving a presence in 25 of the 32 Colombian departments and reaching a market share of 13.9% at December 2018, according to data from Colombia's Single Information System of the Superintendence of Public Services (*Sistema Único de Información de la Superintendencia de Servicios Públicos*.)

Continuing with its internalization process in the LPG industry, in July 2013, the Company acquired 100% of Lima Gas S.A., a Peruvian-based LPG distributing company, which at December 2018 reached a market share of 7.2%, according to data provided by Peru's Energy and Mines Investment Regulator - *Osinergmin*.

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 fuels and substitute energies (natural gas, firewood, diesel, paraffin, electric power, etc.), could affect it. In some regions, demand has a high seasonality resulting from temperature variations.

Since it participates in a highly competitive market, the business strategy of its competitors may impact the sales volume of the Company.

a.2) Supply

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

In 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.

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 players and imports product by sea through facilities located in Cartagena.

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

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 significant risks of not being able to transfer the variations of LPG costs to the selling price, however market competitive dynamics should always be considered.

The Company maintains LPG inventories. The realization value of these inventories is affected by the variation of international fuel prices 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, the Company does not cover this risk, 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, located in the Quintero Bay, 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

Residential demand for natural gas is not significantly affected by economic cycles since it is a basic consumption good. Regarding the risk of product supply for the operations that the Company owns in the north and south of Chile, both are covered with long-term agreements with different suppliers.

In Peru, the subsidiary Limagas Natural Perú S.A. has entered into supply agreements with natural gas distributors from several regions to meet demand requirements.

In Colombia, the subsidiaries Surcolombiana de Gas S.A. E.S.P. and Rednova S.A.S. E.S.P. have entered into supply agreements with natural gas commercializing companies from several regions to meet demand requirements.

c) Liquefied natural gas

The Company has agreements for the supply of liquefied natural gas (LNG) to industrial clients in Chile, 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 has entered into LNG supply agreements with several suppliers, which include the "take or pay" clause (with similar characteristics to those signed with customers, which mitigate the risk).

In Peru, the Company has entered into LNG supply agreements with industrial customers, which are supplied from a liquefaction plant with which the Company has entered into supply agreements.

7.4 Regulatory Risk

The amendments of the Gas Services Law (DFL 323) came into effect in February 2017. The most relevant changes affect concession network businesses, with the most relevant being the establishment of a profitability cap of 3% above the capital cost rate for the supply of gas through concession networks. The capital cost rate may not be lower than 6% with which resulting profitability is 9% for new networks. In the case of networks built during the 15 years preceding the effective date of the amendments to the law and during the 10 years following the effective date of the amended law, a 5% profitability cap on the capital cost is established for a period of 15 years from its entry into operation, resulting in an 11% rate for the first 15 years of operation.

The Company currently has a natural gas operation in the city of Calama and has begun supplying natural gas in cities located in the south of Chile. The changes included in the law do not affect the evaluation of the natural gas projects currently being developed, since the Company has included the previously mentioned profitability restrictions within the evaluation parameters. For the city of Calama, annual profitability is below the maximum range allowed by the law. In the last annual profitability review published by the CNE for the year 2017, the profitability rate of return was 3.9%. The freedom of fixing prices to consumers remains for non-concession networks. In addition, it reaffirms that customers or consumers with residential gas services are entitled to change the distribution company. Given the above, a maximum period of five years is set for the validity of relationship contracts between residential gas customers and distributing companies for new real estate projects or should the transfer to another company involves the replacement and adaptation of existing client facilities due to the amendment of supply specifications, in order to enable the connection to the distribution network. In the other cases, the maximum term of the contracts is two years.

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

In January 2018, Chile's Antitrust Court issued its Resolution 51/2018 concerning, inter alia, the analysis of existing property relations between the different companies operating in the relevant gas market (LPG and LNG), in order to avoid anti-competitive risks. The measures included in that resolution do not affect the Company.

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 affect the financial situation of the Company. In addition, change of rules or their interpretation could require incurring costs that could affect financial performance or impact the financial situation of the Company.

7.5 Accident risk

All human activities are exposed to dangers that can lead to accidents and certainly, the fuel distribution industry is no exception. To minimize the likelihood that these hazards will become unwanted situations, prevention and mitigation actions must be developed to reduce its consequences if hazards such as accidents or emergencies should exist.

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

- Training of collaborators and contractors regarding safe operations.
- Emergency response procedures with on-site service vehicles.
- Awareness actions on the safe handling of gas among clients and the community in general (firefighters, associations, etc.).
- Maintain OHSAS 18001:2007 Occupational Health and Safety Assessment Series at 13 storage and bottling plants in Chile and at the main offices.

- Implementation of management systems based on the OHSAS standard and safety systems pursuant to the Peruvian law No. 29,783; there are five plants that have this certification.
- Certification of 15 plants in Colombia, under ISO 9001 quality standard for the operation and maintenance of LPG storage tanks and bottling service of LPG cylinders, pursuant to legal requirements.
- Strict compliance of health, safety and environmental standards at all our operations

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

7.6 Reputation and corporate image risk

The Company's business is associated with the management of fossil fuels, particularly LPG, and its commercialization to a wide-ranging customer base. This business is subject to specific regulations in each of the countries where the Company operates. In addition, the Company is subject to several provisions relating to compliance with tax, environmental, labor, antitrust, and corporate regulations, among others. Should damage result from the commercialized products or in the event of observations from inspection bodies in compliance with the provisions that are applicable to the Company, this could lead to a deterioration of the Company's reputation and corporate image.

This risk is mitigated through the appropriate operating processes and compliance with regulations implemented within the Company.

7.7 Risk of litigation, penalties and fines

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

The Company's main businesses are regulated by the Superintendence of Electricity and Fuels (*SEC*) in Chile, the Regulatory Commission of Energy and Gas (*CREG*) in Colombia, and the Ministry of Energy and Mines and the Energy and Mines Investment Regulator (*Osinergmin*) in Peru, which ensure compliance with the laws, decrees, rules, memorandum and resolutions that govern the activity. In addition, different agencies in different countries are responsible for the control of compliance with the provisions related to tax, environmental, labor, antitrust, and corporate regulations, among others.

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

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

The Company's 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 amendment of 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 in the countries of operation.

7.9 Acquisition strategy risk.

The Company has grown, in part, through several significant acquisitions, including:

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

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

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

- Failing to precisely and appropriately identify companies, products or brands for acquisition;
- Facing 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 anti-trust authorities, in the countries where acquisitions are being made;
- Entering new markets with which we are unfamiliar;

- Diverting management's attention from other business concerns;
- Acquiring a company that has known or unknown contingent liabilities that include, among others, patent infringement or product liability claims; and
- Incur in considerable additional indebtedness.

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

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

7.10 Risk of production, storage and transportation of gas

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

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

7.11 Risk that insurance coverage may be insufficient to cover losses that may be incurred

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.

The Company permanently analyzes the risks that may be covered by insurance policies, both in the amount of possible losses for the Company as in the characteristics of the risks, so current insurance levels are appropriate. Notwithstanding the previous, the occurrence of losses or other liabilities that are not covered by the insurance or that exceed coverage limits may result in additional unexpected and significant costs.

7.12 Risk of regulatory changes resulting for the mitigation of the climate change effects

Due to concern over risks of climate change, several countries have adopted, or are considering the adoption of, regulatory frameworks to, among other measures, reduce greenhouse gas emissions. These could include adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates to develop the generation of renewable energy. These requirements could reduce demand for fossil fuels, replacing them with energy sources of relatively lower-carbon sources. In addition, some 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 the demand for our products. In addition, current and pending greenhouse gas regulations may substantially increase our compliance costs and, consequently, increase the price of products distributed by the Company.

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