

# ANALYSIS OF THE FINANCIAL POSITION AS OF 06.30.2020

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Abbreviations:

M\$     Million Chilean pesos

Th\$    Thousand Chilean pesos

## ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2020

### 1. SUMMARY

As of June 30, 2020 income after taxes of Empresas Lipigas S.A. (the “Company”) reached M\$ 14,515 with a decrease of M\$ 5,028 (-25.7%), compared to the M\$ 19,542 recorded in the same period of the previous year, due to lower operating income, mainly associated with the consequences of the health emergency that has been occurring since March.

Consolidated EBITDA reached M\$ 42,182, down 8.5% compared to the first half of 2019, which reached M\$ 46,124.

Gross earnings for the period reached M\$ 85,546 higher by M\$ 4,184 (+5.1%) regarding the same period of the previous year, due to the higher gross earnings in Chile and Colombia as a result of better unit margins. Peru's gross margin decreases mainly by lower sales volume both of liquefied gas and natural gas.

Accumulated LPG sales volume as of June 2020 compared to the same period of the previous year, decreases by 4.6%, equivalent to 15,582 tons. In Chile and Peru volume drops by 2.8% and 16.3%, respectively, mainly associated with lower sales in the commercial customer segment because of the quarantines imposed by health authorities of each country due to the COVID-19 pandemic, while in Colombia volume increased by 5.1% because of higher bottled sales.

Natural gas sales (in its different formats) totaled 55.4 million m<sup>3</sup>, down 11.7% from the 62.7 million m<sup>3</sup> as of June 2019, resulting from lower sales in Peru (-21.3%) due to lower consumption of industrial and vehicle natural gas customers. This was partially offset by higher NG sales in Chile (+2.7%) and in Colombia (+7.2%).

Revenue from ordinary activities amounted to M\$ 235,705, a decrease of 2.9% compared to the same period of the previous year. This decline was generated by lower revenues in Chile (-2.8%) and Peru (-5.7%) mainly associated with lower sales volumes. In Colombia, revenues increased by 0.5%.

Operating income at June 2020 decreased by M\$ 5,389 (-17.5%) from M\$ 30,873 in 2019 to M\$ 25,485 in 2020.

Negative non-operating income was M\$ 5,716 which is M\$ 1,632 higher than the loss of M\$ 4,085 recorded in the previous year. The main variations are caused by higher results by indexation units (+M\$ 1.181) due to higher inflation in Chile compared to the same period of the previous year, increased negative restatement of guaranty liabilities from clients of

M\$ 860, higher interest on debt securities (+M\$ 744) associated with the increase in long-term bond issuance debt in January, and higher expenses for the disposal of property, plant and equipment (+M\$ 443). This was partially offset by higher non-operating income (M\$ 378), lower interest expenses and bank expenses (M\$ 529) due to lower bank liabilities paid-off with funds from the issuance of long-term debt, higher interest income on financial instruments (M\$ 231) and income on the sale of property, plant and equipment (M\$ 181).

Earnings after taxes decreased by 25.7% due to the consequences of the health emergency since March caused by the COVID-19 pandemic and higher non-operating losses mainly affected by higher inflation in Chile compared to the first half of 2019 and greater adjustments in guaranty liabilities received from customers.

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

- On January 16, 2020, Empresas Lipigas S.A. issued bonds on the local market for 2,500,000 Unidades de Fomento. These bonds have a 25-year term and were placed at an annual coupon rate of 2.18%, with a spread of 138 basis points over the benchmark rate. Proceeds from the operation were allocated by fifty percent to paying off the bank debt. The remainder will be allocated to investment financing of both the Company and its subsidiaries.
- On March 4, 2020, the board of directors of Empresas Lipigas S.A. agreed to the payment of an interim dividend of CLP 68 per share that will be charged to the 2020 fiscal year earnings.
- On March 23, 2020, the controlling group of Empresas Lipigas S.A. informed the Company of the termination of the Shareholders' Agreement signed on September 26, 2017, the duration of which was set for three years, ending September 26, 2020. The members of the controlling group have considered that the Agreement successfully fulfilled the purpose for which it was created, which was to give continuity to the company after its listing of the on the stock exchange in November 2016, the first made in Chile in three years.
- On April 22, 2020, the Regular Shareholders' Meeting of Empresas Lipigas S.A. was held, and the following matters were agreed upon among others:
  1. Approve the annual report and financial statements for the fiscal year ended December 31, 2019 and the report of external auditors.
  2. Approve the distribution of earnings and distribution of a final dividend for the fiscal year and approve the payment of the balance of dividends amounting to CLP 2,044,341,270, equivalent to CLP 18 per share.

3. Agree on the renewal of the Company's Board of Directors, appointing directors and their respective alternates.
  4. Set remuneration of the Board of Directors and the Directors' Committee and their operating budget for the 2020 fiscal year.
  5. Appoint PriceWaterhouseCoopers as the external auditors for the 2020 fiscal year and Feller Rate and Humphreys as risk rating agencies for the 2020 fiscal year.
  6. Report and approve related transactions referred to in article 146 of Chilean Law No. 18,046.
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- On April 29, 2020 Empresas Lipigas S.A. held a Board of Directors session electing Mr. Juan Manuel Santa Cruz Munizaga as Chairman and Mr. Jaime García Rioseco as Vice-Chairman; and Mr. Jaime García Rioseco and Mr. José Miguel Barros van Hövell tot Westerfliet as independent directors and the director Mario Vinagre Tagle as members of the Directors' Committee.
  
  - On May 27, 2020, the Board of Directors of Empresas Lipigas S.A. agreed to the payment of an interim dividend of CLP 50 per share that will be charged to the 2020 fiscal year earnings.

## 2. CONSOLIDATED INCOME STATEMENT BY FUNCTION

INCOME STATEMENT BY FUNCTION	01.01.2019 to 06.30.2019 M\$	04.01.2020 to 06.30.2020 M\$	04.01.2019 to 06.30.2019 M\$	Var Jan - Jun (2020 - 2019)		Var Apr - Jun (2020 - 2019)	
				M\$	%	M\$	%
Revenue	242,784	122,443	134,404	(7,079)	(2.9)%	(11,961)	(8.9)%
Cost of sales	(161,423)	(76,126)	(87,973)	11,263	(7.0)%	11,847	(13.5)%
<b>Gross Earnings</b>	<b>81,362</b>	<b>46,317</b>	<b>46,431</b>	<b>4,184</b>	<b>5.1 %</b>	<b>(115)</b>	<b>(0.2)%</b>
Other income by function	163	17	79	(81)	(49.7)%	(62)	(78.4)%
Other expenses by function	(12,638)	(7,055)	(6,457)	(1,338)	10.6 %	(599)	9.3 %
Distribution costs	(21,943)	(13,159)	(11,543)	(2,871)	13.1 %	(1,616)	14.0 %
Administrative expenses	(16,070)	(11,558)	(7,855)	(5,283)	32.9 %	(3,702)	47.1 %
<b>Operating income</b>	<b>30,873</b>	<b>14,562</b>	<b>20,656</b>	<b>(5,389)</b>	<b>(17.5)%</b>	<b>(6,094)</b>	<b>(29.5)%</b>
Financial costs	(4,175)	(2,273)	(2,022)	(678)	16.2 %	(251)	12.4 %
Financial income	730	608	(22)	254	34.9 %	630	(2874.8)%
Exchange differentials	(21)	(75)	(48)	(143)	679.6 %	(27)	56.3 %
Profit (loss) on indexation units	(950)	(526)	(952)	(1,181)	100.0 %	427	(44.8)%
Other gains (losses)	331	301	63	116	35.1 %	238	380.8 %
<b>Earnings (loss) before taxes</b>	<b>26,789</b>	<b>12,597</b>	<b>17,674</b>	<b>(7,020)</b>	<b>(26.2)%</b>	<b>(5,077)</b>	<b>(28.7)%</b>
Income tax expense	(7,246)	(3,179)	(4,802)	1,993	(27.5)%	1,623	(33.8)%
<b>Profit (loss)</b>	<b>19,542</b>	<b>9,418</b>	<b>12,872</b>	<b>(5,028)</b>	<b>(25.7)%</b>	<b>(3,454)</b>	<b>(26.8)%</b>
Profit (loss) attributable to the owners of the controller	19,211	9,245	12,700	(5,099)	(26.5)%	(3,456)	(27.2)%
Profit (loss) attributable to non-controlling interests	331	173	172	71	21.4 %	1	0.6 %
<b>Profit (loss)</b>	<b>19,542</b>	<b>9,418</b>	<b>12,872</b>	<b>(5,028)</b>	<b>(25.7)%</b>	<b>(3,454)</b>	<b>(26.8)%</b>
<b>Depreciation and amortization</b>	<b>15,250</b>	<b>8,396</b>	<b>7,697</b>	<b>1,447</b>	<b>9.5 %</b>	<b>699</b>	<b>9.1 %</b>
<b>EBITDA</b>	<b>46,124</b>	<b>22,958</b>	<b>28,353</b>	<b>(3,942)</b>	<b>(8.5)%</b>	<b>(5,395)</b>	<b>(19.0)%</b>

Earnings after taxes accumulated at June 2020 reached M\$ 14,515 down 25.7% from the M\$ 19,542 recorded in the same period of the previous year.

- Consolidated gross earnings increased by M\$ 4,184 mainly due to higher gross earnings in Chile and Peru. Despite lower sales volumes, during the first half of the year there was a

lower loss effect caused by declining inventory prices that had occurred in 2019. In addition, in Chile there was an increase in the volume of direct sales to end-customers.

- Operating costs and expenses recorded an increase of M\$ 9,492 (18.7%). In Chile they are associated with increased remuneration expenses, extraordinary expenses associated with the COVID-19 pandemic (including donations) for M\$ 1,948, re-inspection of tanks and meters, external counseling, external services, logistics operator services and distributor exit commercial agreements (given the implementation of the strategy of increasing direct sales) and increased IT expenses. In Colombia, expenses increase by higher remuneration expenses, extraordinary expenses associated with the COVID-19 pandemic, maintenance, uncollectible customer account provisions, transportation expenses and revaluation of the Colombian peso. In Peru, there is a significant influence of the revaluation of the Peruvian Sol against the Chilean peso and increased expenses on legal counseling for the arbitration proceeding in the United States with an LNG supplier.
- Operating income reached M\$ 25,485, lower by M\$ 5,389 (-17.5%) compared to M\$ 30,873 recorded as of June 2019 caused by lower sales volumes and higher expenses.
- EBITDA (operating income before depreciation and amortization) as of June 2020 reached M\$ 42,182 that is lower by M\$ 3,942 (-8.5%) than the same period of the previous year.

Earnings after taxes for the second quarter 2020 reached M\$ 9,418 down 26.8% from the M\$ 12,872 recorded in the same period of the previous year.

- Consolidated gross earnings for the quarter decreased by M\$ 115 mainly due to lower gross earnings in Chile and Peru, partially offset by better gross margins in Colombia. In Chile, in 2019 there had been a negative effect in the gross margin because of declining prices. Comparatively to the previous year, during the quarter there is a positive effect of M\$ 1,060.
- Operating costs and expenses for the quarter recorded an increase of M\$ 5,917 (+22.9%). In Chile they are associated with increased remuneration expenses, extraordinary expenses associated with the COVID-19 pandemic (M\$ 1,948), external counseling and for logistics and distribution services of logistics operators. In Colombia, expenses increase because of higher remuneration expenses, extraordinary expenses associated with the COVID-19 pandemic, maintenance, uncollectible customer account provisions, transportation expenses and because of the revaluation of the Colombian peso. In Peru it is mainly influenced by the revaluation of the Peruvian sol against the Chilean peso.
- Operating income for the quarter reached M\$ 14,562, lower by M\$ 6,094 (-29.5%) than the M\$ 20,656 recorded in the second quarter of 2019 originated mainly from lower sales volumes and higher operating expenses derived from the health crisis.

- EBITDA (operating income before depreciation and amortization) of the second quarter of 2020 reached M\$ 22,958 lower by M\$ 5,395 (-19.0%) compared to the same period of the previous year.

## INCOME BY SEGMENT

From 04.01.2020 to 06.30.2020

M\$	Segments			Total Group
	Chile	Colombia	Peru	
Revenue	92,660	12,152	17,631	122,443
Purchases charged to cost of sales	(45,200)	(4,746)	(12,029)	(61,975)
Expenses charged to cost of sales	(6,182)	(1,023)	(1,202)	(8,407)
Depreciation and amortization	(4,323)	(650)	(772)	(5,744)
<b>Gross profit</b>	<b>36,954</b>	<b>5,734</b>	<b>3,628</b>	<b>46,317</b>
Other income by function	17	0	0	17
Other operating expenses	(21,949)	(3,112)	(4,059)	(29,120)
Depreciation and amortization	(1,916)	(291)	(445)	(2,652)
<b>Operating Income</b>	<b>13,107</b>	<b>2,331</b>	<b>(876)</b>	<b>14,562</b>
<b>EBITDA</b>	<b>19,346</b>	<b>3,271</b>	<b>341</b>	<b>22,958</b>

Accumulated at 06.30.2020

	Segments			Total Group
	Chile	Colombia	Peru	
Revenue	168,990	26,914	39,801	235,705
Purchases charged to cost of sales	(83,069)	(11,340)	(27,516)	(121,924)
Expenses charged to cost of sales	(11,903)	(2,266)	(2,655)	(16,824)
Depreciation and amortization	(8,651)	(1,239)	(1,522)	(11,411)
<b>Gross profit</b>	<b>65,368</b>	<b>12,069</b>	<b>8,109</b>	<b>85,546</b>
Other income by function	82	0	0	82
Other operating expenses	(39,924)	(6,510)	(8,424)	(54,858)
Depreciation and amortization	(3,777)	(629)	(879)	(5,285)
<b>Operating Income</b>	<b>21,749</b>	<b>4,930</b>	<b>(1,194)</b>	<b>25,485</b>
<b>EBITDA</b>	<b>34,177</b>	<b>6,798</b>	<b>1,207</b>	<b>42,182</b>

From 04.01.2019 to 06.30.2019

M\$	Segments			Total Group
	Chile	Colombia	Peru	
Revenue	98,546	13,704	22,154	134,404
Purchases charged to cost of sales	(50,017)	(7,718)	(15,924)	(73,659)
Expenses charged to cost of sales	(5,998)	(1,079)	(1,475)	(8,552)
Depreciation and amortization	(4,264)	(814)	(684)	(5,762)
<b>Gross profit</b>	<b>38,267</b>	<b>4,093</b>	<b>4,071</b>	<b>46,431</b>
Other income by function	76	0	2	78
Other operating expenses	(17,654)	(2,608)	(3,657)	(23,919)
Depreciation and amortization	(1,558)	(13)	(365)	(1,935)
<b>Operating Income</b>	<b>19,131</b>	<b>1,472</b>	<b>51</b>	<b>20,654</b>
<b>EBITDA</b>	<b>24,953</b>	<b>2,299</b>	<b>1,099</b>	<b>28,352</b>

Accumulated at 06.30.2019

	Segments			Total Group
	Chile	Colombia	Peru	
Revenue	173,814	26,782	42,188	242,784
Purchases charged to cost of sales	(90,260)	(15,338)	(29,524)	(135,122)
Expenses charged to cost of sales	(10,930)	(1,934)	(2,848)	(15,712)
Depreciation and amortization	(8,396)	(844)	(1,349)	(10,589)
<b>Gross profit</b>	<b>64,229</b>	<b>8,666</b>	<b>8,467</b>	<b>81,362</b>
Other income by function	160	0	3	163
Other operating expenses	(33,447)	(5,130)	(7,413)	(45,990)
Depreciation and amortization	(3,149)	(797)	(716)	(4,661)
<b>Operating Income</b>	<b>27,793</b>	<b>2,739</b>	<b>342</b>	<b>30,873</b>
<b>EBITDA</b>	<b>39,337</b>	<b>4,380</b>	<b>2,406</b>	<b>46,124</b>

Variation 2Q 2020 vs. 2Q 2019

M\$	Segments			Total Group
	Chile	Colombia	Peru	
Revenue	(5,886)	(1,552)	(4,524)	(11,961)
Purchases charged to cost of sales	4,816	2,972	3,895	11,683
Expenses charged to cost of sales	(185)	56	274	145
Depreciation and amortization	(59)	165	(88)	18
<b>Gross profit</b>	<b>(1,312)</b>	<b>1,641</b>	<b>(443)</b>	<b>(115)</b>
Other income by function	(59)	0	(2)	(61)
Other operating expenses	(4,295)	(504)	(402)	(5,201)
Depreciation and amortization	(358)	(278)	(80)	(717)
<b>Operating Income</b>	<b>(6,025)</b>	<b>859</b>	<b>(927)</b>	<b>(6,093)</b>
<b>EBITDA</b>	<b>(5,608)</b>	<b>972</b>	<b>(758)</b>	<b>(5,394)</b>

Accumulated variation at 06.30.2020 vs. 06.30.2019

	Segments			Total Group
	Chile	Colombia	Peru	
Revenue	(4,824)	132	(2,386)	(7,079)
Purchases charged to cost of sales	7,191	3,999	2,008	13,198
Expenses charged to cost of sales	(973)	(332)	193	(1,112)
Depreciation and amortization	(255)	(395)	(173)	(822)
<b>Gross profit</b>	<b>1,139</b>	<b>3,403</b>	<b>(358)</b>	<b>4,184</b>
Other income by function	(78)	0	(3)	(81)
Other operating expenses	(6,477)	(1,380)	(1,011)	(8,867)
Depreciation and amortization	(628)	168	(163)	(624)
<b>Operating Income</b>	<b>(6,044)</b>	<b>2,191</b>	<b>(1,535)</b>	<b>(5,389)</b>
<b>EBITDA</b>	<b>(5,161)</b>	<b>2,418</b>	<b>(1,199)</b>	<b>(3,942)</b>



**Chile:**

Second quarter EBITDA was lower by M\$ 5,608 (-22.5%) compared to the second quarter of the previous year, explained mainly by lower sales volume and greater operating expenses. LPG sales volumes decrease by 6.6% compared to the same period of the previous year, mainly in customers from the commercial segment, while sales volumes for natural gas and LNG increased by 18.6% and 12.5%, respectively due to the incorporation of new network customers and higher sales to an industrial customer that had decreased consumption in 2019. Total sales volume in equivalent LPG tons (including sales of natural gas in its different formats) decreased by 5.4%. Sales volume of bottled LPG decreased by 1.6%. However, direct sales grew by 17.7% compared to the second quarter of 2019, reaching 45% of total sales of the segment in the quarter. Moreover, bulk volume decreased by 14.4% associated mainly with the commercial segment that was strongly affected by health restrictions (quarantines, closing of restaurants, shopping malls, educational establishments, hotels, etc.) imposed by the Ministry of Health to combat the COVID-19 pandemic. This was partially offset by increased consumption by industrial customers. Gross margin is positively affected when comparing to the previous year because in 2019 there had been lower margins due to declines in the benchmark prices of oil by-products. The comparison is positive by M\$ 1,060. Operating expenses (excluding depreciation and amortization) increased by M\$ 4,295 (24.3%), mainly explained by higher remuneration expenses, extraordinary expenses associated with the COVID-19 pandemic (M\$ 1,948), external counseling and services of logistics operators (related to the increase in the direct sale of bottled LPG).

Accumulated EBITDA was lower by M\$ 5,161 (-13.1%) compared to the first half of the previous year, explained mainly by lower sales volumes and higher operating expenses for the second quarter as a result of the pandemic. LPG sales volume decreased by 2.8% compared to the same period of the previous year, while sales volume of natural gas and LNG increased by 23.3% and 0.5%, respectively. Total sales volume in equivalent LPG tons (including sales of natural gas in its different formats) decreased by 2.8%. Sales volume of bottled LPG remained compared to the same period of the previous year, but the percentage of direct sales to end-customers grew by 16.0%. Bulk volume decreased by 7.0% associated mainly to the commercial segment affected by health restrictions (quarantines, closing of restaurants, shopping malls, educational establishments, hotels, etc.) imposed by the Ministry of Health to combat the COVID-19 pandemic. This was partially offset by increased consumption by industrial customers. Gross margin is positively affected when comparing to the previous year because in 2019 there had been margin decreases due to price declines of oil by-products. The comparison is positive by M\$ 1,769. Operating expenses (excluding depreciation and amortization) increased by M\$ 6,477 (+19.4%), mainly explained by higher remuneration expenses, extraordinary expenses associated with the COVID-19 pandemic (M\$ 1,948), in re-inspection of tanks and meters, external counseling, external services, services of logistics operators, IT and commercial agreements with sub-distributors, expenses that largely

relate to the development of distribution chain integration strategies to the end-customer and to the strengthening of the area dedicated to the development of digital tools.

#### **Colombia:**

Second quarter EBITDA was higher by M\$ 972 (42.3%) compared to the same quarter of the previous year, variation explained by higher gross earnings recorded, given by higher unit gross margins and better gross margin of natural gas. LPG sales are down 2.0%. Sales in equivalent LPG tons decreased by 1.4%. Health restrictions affected the volume of commercial customers. This was partially offset by higher sales in the residential segment. Operating expenses (excluding depreciation and amortization) increased by M\$ 504 (19.3%), explained mainly by greater remuneration expenses, extraordinary expenses associated with the COVID-19 pandemic, maintenance, uncollectible customer account provisions and transportation expenses. The Colombian peso revalued by 1.5% against the Chilean peso compared to the same quarter of the previous year.

Accumulated EBITDA half was higher by M\$ 2,418 (55.2%) compared to the same period of the previous year, variation explained by higher gross earnings recorded, because of higher LPG sales volume (+5.1%) and natural gas sales volume (+7.2%), despite the decline in LPG sales in the second quarter. Better unit gross margins were also generated. Sales in equivalent LPG tons increased by 5.3%. Operating expenses (excluding depreciation and amortization) increased by M\$ 1,380 (26.9%), explained mainly by greater remuneration expenses, extraordinary expenses associated with the COVID-19 pandemic, maintenance, uncollectible customer account provisions and transportation expenses. The Colombian peso revalued by 4.0% against the Chilean peso compared to the same period of the previous year.

#### **Peru:**

Second quarter EBITDA decreases by M\$ 758 (-69.0%) compared to the same quarter of the previous year, mainly explained by lower LPG and natural gas sales volumes, 28.2% and 32.1% respectively, and by higher operating expenses (M\$ 402) mainly in legal counseling related to the arbitration proceeding taking place in the United States with an LNG supplier and by the revaluation of the Peruvian Sol against the Chilean peso. This was partially offset by lower remuneration expenses, personnel expenses, maintenance, external services and transportation expenses. LPG sales declined by 28.2% mainly affected by the industrial, commercial and automotive segments, and natural gas sales declined by 32.1% with lower sales in both industrial and vehicular gas customers, in all cases impacted since March by restrictions caused by the health crisis. The Peruvian Sol revalued significantly by 16.6% against the Chilean peso compared to the same quarter of the previous year.

Accumulated EBITDA decreases by M\$ 1,199 (-49.8%) compared to the same period of the previous year, mainly explained by lower LPG and NG sales volume of 16.3% and 21.3% respectively, and by higher operating expenses (M\$ 1,011) mainly in legal counseling for the aforementioned arbitration

proceeding and for the revaluation of the Peruvian Sol against the Chilean peso. The previous was partially offset by lower remuneration expenses, personnel expenses, maintenance, external services, marketing and transportation expenses. LPG sales declined by 16.3% and natural gas sales declined by 21.3% mainly due to lower consumption from commercial, industrial and vehicle customers, in all cases, impacted since March by health restrictions due to the COVID-19 pandemic. The Peruvian Sol revalued significantly by 17.1% against the Chilean peso compared to the same period of the previous year.

### 3. ANALYSIS OF THE CONSOLIDATED FINANCIAL POSITION

#### ASSETS

	06.30.2020 M\$	12.31.2019 M\$	Var.	
			M\$	%
Current assets	121,925	83,335	38,590	46.3%
Non-current assets	435,949	425,860	10,090	2.4%
<b>Total assets</b>	<b>557,875</b>	<b>509,195</b>	<b>38,957</b>	<b>9.6%</b>

The Company's assets as of June 30, 2020 record an increase of M\$ 48,680 equivalent to 9.6% compared to the figures recorded as of December 31, 2019. The main variations correspond to:

- Current assets increased by M\$ 38,590 mainly because of higher cash and cash equivalents M\$ 35,659 (balance of the long-term bond placement in January), higher trade accounts and other receivables M\$ 1,082 and higher inventories M\$ 2,046.
- Non-current assets increased by M\$ 10,090 of which M\$ 6,603 are explained by increased property, plant and equipment because of investments made during the period, M\$ 2,206 for higher other non-current receivables due to anticipated payments related to the construction of the Mejillones maritime terminal and M\$ 801 for increased other non-current non-financial assets.

#### LIABILITIES

	06.30.2020 M\$	12.31.2019 M\$	Var.	
			M\$	%
Current liabilities	74,885	64,227	10,608	16.5%
Non-current liabilities	313,755	272,575	41,179	15.1%
<b>Total liabilities</b>	<b>388,640</b>	<b>336,853</b>	<b>51,788</b>	<b>15.4%</b>

The Company's liabilities as of June 30, 2020 record an increase of M\$ 51,788 equivalent to 15.4% regarding figures recorded as of December 31, 2019. The main variations correspond to:

- Current liabilities increased by M\$ 10,608 of which M\$ 6,223 correspond to higher trade accounts and other accounts payable, M\$ 1,178 to current tax liabilities and M\$ 4,158 correspond to higher other current non-financial liabilities because of higher advance payments received from customers. This was partially offset by lower other current financial liabilities of M\$ 1,153.
- Non-current liabilities increased by M\$ 41,179, associated with the issuance of the long-term bond in the local market for UF 2.5 million. The bond was issued at a 25-year term and placed at an annual coupon rate of 2.18%, with a spread of 138 basis points over the benchmark rate. Proceeds from the operation were allocated by fifty percent to paying the Company's bank debt. The remainder will be allocated to investment financing of both the Company and its subsidiaries, and at the close of the first half generates the mentioned increase in current assets.

## EQUITY

The equity of the Company as of June 30, 2020 presents a decrease of M\$ 3,108 regarding the figure recorded as of December 31, 2019. The variation results from a decrease in accumulated earnings for M\$ 1,334 and lower other reserves for M\$ 1,423.

## 4. ANALYSIS OF STATEMENT OF CASH FLOW

CONSOLIDATED STATEMENT OF DIRECT CASH FLOW	01.01.2020 to 06.30.2020 M\$	01.01.2019 to 06.30.2019 M\$	Var	
			M\$	%
Cash flows provided by (used in) operating activities	49,881	46,349	3,531	7.6%
Cash flows provided by (used in) investing activities	(27,982)	(23,635)	(4,347)	18.4%
Net cash flows provided by (used in) financing activities	13,905	(24,517)	38,422	(156.7%)
Net Increase (decrease) in cash and cash equivalents, before effects of variation in foreign exchange rates	35,804	(1,802)	37,607	(130.7%)
Effects of variations in foreign exchange rate on cash and cash equivalents	(145)	(1)	(144)	13,299.2%
Net increase (decrease) in cash and cash equivalents	35,659	(1,803)	37,463	13,168.5%
Cash and cash equivalents - beginning of the period or fiscal year	17,040	13,883	3,157	22.7%
Cash and cash equivalents - end of the period or fiscal year	52,699	12,080	40,619	336.3%

Cash and cash equivalents as of June 30, 2020 recorded a balance of M\$ 52,699 increasing M\$ 40,619 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 M\$ 49,881 at June 30, 2020, which increased by M\$ 3,531 with respect to the cash flow of the previous year. The main variations

correspond to a decrease in working capital between periods which was partially offset by a decrease in the EBITDA generated of M\$ 3,942. During the first six months of 2019, working capital had decreased by M\$ 3,228, increasing operating cash flows. In 2020, the same variation is also a decrease in working capital of M\$ 8,886, which increases cash flows generated. The net variation is a higher cash flow of M\$ 5,658.

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

Net cash flow used in investment activities as of June 30, 2020 was M\$ 27,982 higher by M\$ 4,347 regarding the cash flow used in the same period of the previous year, mainly because of higher payments of long-term assets related to advanced payments for the construction of the Mejillones maritime terminal.

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

Net cash flow used in financing activities as of June 30, 2020 is positive by M\$ 13,905 and presents a positive variation of M\$ 38,422 regarding the negative net cash flow of M\$ 24,517 during the same period of the previous year. The main variation resulted from the collection of funds from the long-term bond issuance used for the payment of bank loans from both Chile and its subsidiaries. The variation between funds raised by the amounts from net loans from loan payments results in a higher cash flow of M\$ \$36,341.

### **5. FINANCIAL INDICATORS**

#### **LIQUIDITY**

Indicators	Units	06.30.2020	12.31.2019
Liquidity ratio <sup>(1)</sup>	Times	1.63	1.30
Acid-test ratio <sup>(2)</sup>	Times	1.31	0.96

(1) Liquidity ratio = Current Assets / Current Liabilities

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

Liquidity indicators as of June 30, 2020 present an increase regarding December 2019, given the increase in cash and cash equivalents.

#### **INDEBTEDNESS**

Indicators	Units	06.30.2020	12.31.2019
Indebtedness ratio <sup>(1)</sup>	Times	2.30	1.95
Portion of current debts <sup>(2)</sup>	%	19.3%	19.1%
Portion on non-current debts <sup>(3)</sup>	%	80.7%	80.9%
Net financial debt / Equity <sup>(4)</sup>	Times	0.96	0.92

(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 increases as of June 30, 2020 regarding the close of December 31, 2019, mainly because of the increase in other non-current financial liabilities related to the bond issuance made in January of this year and because of lower accumulated earnings and lower other reserves.

## PROFITABILITY

Indicators	Units	06.30.2020	12.31.2019
Equity profitability <sup>(1)</sup>	%	20.9%	23.5%
Asset profitability <sup>(2)</sup>	%	6.4%	7.9%
EBITDA <sup>(3)</sup>	M\$	100,405	104,347
EAT <sup>(4)</sup>	M\$	35,446	40,473

(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)

Equity profitability decreases regarding December 2019 mainly due to lower earnings of the last twelve months and asset profitability decreases mainly because of the increase in cash and cash equivalents and lower earnings of the last twelve months.

EBITDA regarding December 2019 decreases due to lower sales volume and higher operating expenses for the reasons previously mentioned.

Earnings after taxes decreases regarding December 2019 due to lower sales volume, higher operating expenses and higher negative non-operating income, mainly due to more negative results by indexation units and greater negative restatement of guaranty liabilities received from customers, in both cases, compared to the previous year.

## INVENTORIES

Indicators	Units	06.30.2020	12.31.2019
Inventory turnover <sup>(1)</sup>	Times	16.4	14.3
Inventory permanence <sup>(2)</sup>	Days	21.9	25.2

(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 2019, mainly due to decreased inventory.

## 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 35.7% as of December 2019 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 their 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 over 3,500 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 has been developing activities in the electricity generation 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 14.9% as of December 2019, 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 94,000 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-bottled and bulk business and commercializes the product mainly under three brands: Lima Gas, Zafiro and Caserito. Moving annual average market share reached 7.0% as of December 2019, according to data provided by Peru's Energy and Mines Investment Regulator - *Osinerghmin*.

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. Regarding bulk LPG, 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 at the end of 2018.

## **7. RISK MANAGEMENT**

Risk factors inherent to the Company's activity are those of the markets in which it participates, and the activity carried out by the Company and its subsidiaries. The Board of Directors and Management periodically review the Company's significant risk map to design and monitor compliance with risk mitigation measures deemed appropriate. The main risk factors affecting the business can be detailed as follows:

### **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 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 and to be built at the maritime terminals 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 of the Quintero maritime terminal facilities in March 2015 or recorded as trade debtors and other non-current accounts receivable, with regards to anticipated payments in the construction of the discharge, storage and dispatch facilities at the Mejillones terminal.

The maximum exposure to credit risk is as follows:

<b>Financial Assets</b>	<b>Note</b>	<b>06.30.2020 Th\$</b>	<b>12.31.2019 Th\$</b>
Cash and cash equivalents	3	52,699,459	17,040,145
Trade receivables and other accounts receivable, current	7	41,119,664	40,037,977
Accounts receivable, non-current	7	7,103,453	4,896,996
Other financial assets, current	4	56,217	-
Other financial assets, non-current	4	777,891	781,180
<b>Total</b>		<b>101,756,684</b>	<b>62,756,298</b>

#### **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 determined 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 is in arrears, 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 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 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:

- Purchases of goods and future payment commitments expressed in foreign currency: Company cash flows consist mainly of transactions in the Company's 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, 2020, and December 31, 2019, 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

<b>Current and non-current assets</b>	<b>Assets at 06.30.2020</b>	<b>Assets at 12.31.2019</b>
	<b>Th\$</b>	<b>Th\$</b>
Cash and cash equivalents	1,014,281	1,918,970
Other financial assets, current	56,217	-
Trade accounts and other accounts receivable, current and non-current	1,428,193	1,918,355

<b>Current and non-current liabilities</b>	<b>Liabilities at 06.30.2020</b>	<b>Liabilities at 12.31.2019</b>
	<b>Th\$</b>	<b>Th\$</b>
Other financial liabilities, current	100,692	409,278
Trade accounts and other accounts payable, current	13,509,636	9,828,059
Leasing liabilities, non-current	1,022,336	4,136,822

- Foreign investments: as of June 30, 2020, the Company holds net foreign investments in Colombian pesos for an amount equivalent to Th\$ 47,363,677 (Th\$ 46,517,556 as of December 31, 2019) and in Peruvian soles for an amount equivalent to Th\$ 61,005,838 (Th\$ 53,837,767 as of December 31, 2019).

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.

- Liabilities on debt securities: The Company's indebtedness for this concept corresponds to the placement of bonds in the Chilean market as follows: a) the first placement corresponds to Series E bonds 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. B) The second placement corresponds to Series G bonds carried out during January 2020 (mnemonic code BLIPI-G) charged to the 30-year bond line registered in Chile's CMF Securities Register under number 881, for UF 2,500,000. The placement rate was 2.18% annual for a face rate of 2.90%. Interests are paid semi-annually, and principal will be amortized paid in a single installment on November 5, 2044. These liabilities are 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. To date, the balance of those liabilities amount to UF 684,114. 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.
- Leasing 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 +/- 2.8%	5,355,110	(5,355,110)	Results: Results by indexation units
CLP/USD +/- 12.2%	29,102	(29,102)	Results: Exchange rate differences
CLP/USD +/- 12.2%	305,985	(305,985)	Equity: Reserves for cash flow hedging
CLP/COP +/- 0.0%	-	-	Equity: Reserves for exchange rate translation differences
CLP/PEN +/- 8.2%	(4,974,297)	4,974,297	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, 2020, 98.4% 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, 2020 and December 31, 2019:

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	5,594,954	2,689,142	205,941,126	664,561	211,536,080	3,353,703
<b>Total at 06.30.2020</b>		<b>5,594,954</b>	<b>2,689,142</b>	<b>205,941,126</b>	<b>664,561</b>	<b>211,536,080</b>	<b>3,353,703</b>

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	5,592,854	3,843,879	165,908,968	857,058	171,501,822	4,700,937
<b>Total at 12.31.2019</b>		<b>5,592,854</b>	<b>3,843,879</b>	<b>165,908,968</b>	<b>857,058</b>	<b>171,501,822</b>	<b>4,700,937</b>

## **Risks related to commercialized products**

### **a) LPG**

The Company participates in the distribution of liquefied gas business in Chile, with coverage that extends between the Region of Arica and Parinacota and the Region of Magallanes, reaching a market share of 35.7% at December 2019, 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 14.9% at December 2019, 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 2019 reached a market share of 7.0%, according to data provided by Peru's Energy and Mines Investment Regulator - *Osinerghmin*.

#### **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 substitute energies (natural gas, firewood, diesel, paraffin, electric power, etc.), and deep crises of economic activity, could affect it. In some regions, demand has a high seasonality resulting from temperature variations. Demand for commercial and industrial segments is most significantly impacted by economic cycles.

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.

Regarding 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 from other countries 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 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 covers a great part of 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 each local currency with respect to the U.S. dollar. Variation of raw material costs are considered when setting selling prices, although market competitive dynamics are always 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, although deep crises of economic activity, could affect it. Demand for commercial and industrial segments is most significantly impacted by economic cycles.

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 subsidiary Surcolombiana de Gas S.A. E.S.P. has 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 through supply agreements which the Company has entered into with several market producers and marketers.

The demand for LNG, mainly aimed at industrial customers, is impacted by economic cycles.

## **7.4 Regulatory Risk**

The amendments of the Gas Services Law (DFL 323) came into effect in February 2017 in Chile. 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. Regarding 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 2018, the profitability rate of return was 9.39%.

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, electric power, etc.). The possibility that customers change the company that provides LPG already existed before the amendments introduced by law. The service delivered to customers 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 2019, Chile's Antitrust Court issued its Resolution 51/2019 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 position 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 customers 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 N° 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 29 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 the countries where it operates. In the jurisdictions it operates, the Company is exposed to several 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 identify companies, products or brands precisely and appropriately 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 income 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 distribution company specializing in LPG logistics operations and fuel distribution involves substantial risks of property damage and personal injury and may result in significant 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.

#### **7.13. Risk of rioting**

The economic and social situation of the different countries where the Company operates could lead to protests that could prompt violent actions damaging facilities or hindering the operation. The Company remains alert regarding the evolution of these events, prioritizing the protection and safety of workers, collaborators and the communities where it operates. It also has insurance coverage for possible damage or theft of goods or facilities.

#### **7.14. Risk of epidemics or pandemics**

Rapidly spreading infectious diseases can have consequences for the Company's business. Authorities may impose restrictions that impact the activity of customers or the Company, decreasing its revenue stream or incurring additional costs. In turn, the protection of the safety of workers, employees and customers can lead to higher operating costs driven by health reasons or arising from the same restrictions.

The Board of Directors and Management monitor the evolution of epidemic or pandemic situations, privileging the safety of workers, collaborators, customers and communities in which the Company's activities are carried out. Special committees are formed composed of first line managers to quickly respond and coordinate safeguard measures.