

# ANALYSIS OF THE FINANCIAL POSITION AS OF 03.31.2022

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Abbreviations:

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

## ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended March 31, 2022

### 1. SUMMARY

The results of Empresas Lipigas S.A. (or the Company) continue to be impacted by the effects of the strong increase in international fuel prices, which has increased the cost of products and pressured margins. This has been compounded by persistent inflation that has been affecting the rest of the expenses and inputs since the second half of 2021 until today.

As of March 31, 2022, income after taxes was M\$ 1,527, a decrease of M\$ 3,894 (-71.8%), compared to the M\$ 5,421 recorded in the previous year, due to higher operating expenses and higher negative non-operating income.

Consolidated EBITDA reached M\$ 18,068, 9.1% lower than the previous year's figure of M\$ 19,876, mainly due to lower results in Chile and Colombia associated with lower unit margins affected by the accelerated increase in the cost of liquefied petroleum gas (LPG) and higher operating expenses. This was partially offset by better results in Peru due to higher unit gross margins and higher sales volume.

Operating income as of March 2022 decreased by M\$ 3,638 (-33.0%) from M\$ 11,031 in 2021 to M\$ 7,393 in 2022.

Gross profit for the period reached M\$ 42,070, slightly lower by M\$ 180 (-0.4%) than in the previous year, due to the lower gross margin in Chile and Colombia as a result of lower unit margins affected by the continued rise in the price of LPG. This was partially offset by a higher gross margin in Peru due to higher sales volume, mainly of natural gas (NG), and higher unit margins.

Accumulated LPG sales volume through March 2022 compared to the previous year increased by 2.4%, equivalent to 3,847 tons. In Chile, Colombia and Peru, volume increases by 1.7%, 6.8% and 0.9%, respectively. In Chile, volume increased mainly due to higher sales to end customers of bottled products and to commercial and industrial customers.

Sales of natural gas (in its different formats) totaled 37.5 million m<sup>3</sup>, increasing by 18.1% compared to 31.7 million m<sup>3</sup> as of March 2021, as a result of higher sales in Chile (+9.2%) and Peru (+28.4%). This was partially offset by lower NG sales in Colombia (-1.9%) associated with lower average consumption per household.

Revenues from ordinary activities amounted to M\$ 175,610, an increase of 34.9% over the previous year. In general, this increase is due to the increase in the international prices of oil by-products to which the sales prices are referenced. Additionally, in Chile the increase in

revenues (+30.1%) is also influenced by higher sales to end customers of bottled LPG, industrial and commercial, in Colombia (+30.5%) by higher sales volume of LPG to commercial customers, and in Peru (+59.3%) by higher sales volume of NG and, to a lesser extent, of LPG.

Negative non-operating income was M\$ 5,226, M\$ 1,722 higher than the M\$ 3,504 loss recorded in the same period of the previous year. The main variations are due to a higher expense for the restatement of the liability for guarantees received from customers of M\$ 891, a loss on exchange rate differences of M\$ 966 and lower other non-operating income of M\$ 202. The above was partially offset by higher gains on restatement of prepayments of M\$ 384. The higher financial costs of the hedging contracted for the debt for bonds issued in UF of M\$ 1,491 included under the Financial costs item were offset by a lower negative result for indexation units related to this debt of M\$ 1,810.

Income tax expense decreased from M\$ 2,106 to M\$ 639, influenced by lower operating and non-operating income.

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

- On March 2, 2022, the Board of Directors of Empresas Lipigas S.A. agreed to pay an interim dividend charged to the earnings of the 2022 fiscal year, of CLP 45 per share, which was paid beginning March 28, 2022.
- On March 15, 2022, Mr. Francisco J. Courbis Grez resigned as director of Empresas Lipigas S.A. He was replaced until the end of his term by his alternate director Mr. Ignacio Binimelis Yaconi.
- On April 27, 2022, the General Shareholders' Meeting of Empresas Lipigas S.A. was held, at which the following matters, among others, were agreed upon:
  - The approval of the annual report and financial statements for the fiscal year ended December 31, 2021.
  - The distribution of earnings and the distribution of dividends for the fiscal year, approving the interim dividends paid during the year 2021 against the earnings for the fiscal year and the payment of a final dividend of CLP 17 per share.
  - The Report of the Directors' Committee was presented.
  - To set the remuneration of the Board of Directors, the Directors' Committee and others and their expense budgets for the 2022 fiscal year.
  - Appoint the external auditors and risk rating companies for the 2022 fiscal year.
  - To account for the related operations referred to in Article 146 of Law 18,046.
  - Designation of newspaper for corporate publications.

- On April 1, 2022, Mr. Jaime Garcia Rioseco resigned as director of Empresas Lipigas S.A. He was replaced until the end of his term by his alternate director, Mrs. Tina Rosenfeld Kreissemeier.
- On April 28, 2022, Mr. José Miguel Barros Von Hovell Tot Westerfler submitted his resignation as director of Empresas Lipigas S.A.

## 2. CONSOLIDATED INCOME STATEMENT BY FUNCTION

INCOME STATEMENT BY FUNCTION	01.01.2022 to 03.31.2022 CLP (million)	01.01.2021 to 03.31.2021 CLP (million)	Var Jan - Mar (2022 - 2021)	
			CLP (million)	%
Revenue	175,610	130,151	45,460	34.9 %
Cost of sales	(133,540)	(87,900)	(45,640)	51.9 %
<b>Gross Earnings</b>	<b>42,070</b>	<b>42,250</b>	<b>(180)</b>	<b>(0.4)%</b>
Other income by function	154	247	(92)	(37.5)%
Other expenses by function	(9,335)	(8,016)	(1,319)	16.4 %
Distribution costs	(14,194)	(12,504)	(1,690)	13.5 %
Administrative expenses	(11,303)	(10,946)	(357)	3.3 %
<b>Operating income</b>	<b>7,393</b>	<b>11,031</b>	<b>(3,638)</b>	<b>(33.0)%</b>
Financial costs	(5,083)	(2,457)	(2,627)	106.9 %
Financial income	207	285	(78)	(27.5)%
Exchange differentials	(907)	59	(966)	(1636.3)%
Profit (loss) on indexation units	580	(1,751)	2,331	(133.1)%
Other gains (losses)	(22)	359	(381)	(106.1)%
<b>Earnings (loss) before taxes</b>	<b>2,166</b>	<b>7,526</b>	<b>(5,360)</b>	<b>(71.2)%</b>
Income tax expense	(639)	(2,106)	1,466	(69.6)%
<b>Profit (loss)</b>	<b>1,527</b>	<b>5,421</b>	<b>(3,894)</b>	<b>(71.8)%</b>
Profit (loss) attributable to the owners of the controller	1,395	5,230	(3,836)	(73.3)%
Profit (loss) attributable to non-controlling interests	132	190	(58)	(30.5)%
<b>Profit (loss)</b>	<b>1,527</b>	<b>5,421</b>	<b>(3,894)</b>	<b>(71.8)%</b>
<b>Depreciation and amortization</b>	<b>10,676</b>	<b>8,846</b>	<b>1,830</b>	<b>20.7 %</b>
<b>EBITDA</b>	<b>18,068</b>	<b>19,876</b>	<b>(1,808)</b>	<b>(9.1)%</b>

Accumulated income after taxes as of March 2022 amounted to M\$ 1,527, 71.8% lower than the M\$ 5,421 recorded in the same period of the previous year.

- Gross profit at the consolidated level decreased slightly by M\$ 180, mainly due to a decrease in gross profit in Chile due to a lower unit gross margin associated with the sustained increase in the price of LPG worldwide, which put pressure on unit margins. This was partially offset by a higher sales volume in the bottled, industrial and commercial segments and an increase, as mentioned above, in the share of direct sales to bottled end customers. In Colombia, gross profit decreased slightly due to lower unit gross margins, offset by higher

LPG sales volume in all channels. The decrease in gross profit in Chile and Colombia was offset by higher gross profit in Peru.

- Operating costs and expenses increased by M\$ 3,366 (+10.7%). In Chile, they are associated with higher expenses mainly in freight, remuneration, personnel expenses and payments for logistics operator services (related to the increase in bottled direct sales). In Colombia, expenses increased due to higher remuneration, external consulting, taxes and transportation expenses. In Peru, expenses increased due to higher remuneration, fees, transportation expenses and the revaluation of the Peruvian sol.
- Operating income reached M\$ 7,393, which is M\$ 3,638 (-33.0%) lower than the M\$ 11,031 recorded as of March 2021.
- EBITDA (operating income before depreciation and amortization) as of March 2022 reached M\$ 18,068, which is M\$ 1,808 (-9.1%) lower than the previous year due to lower results in Chile and Colombia.

## INCOME BY SEGMENT

CLP million	Accumulated at 03.31.2022			
	Segments			Total Group
	Chile	Colombia	Peru	
Revenue	119,933	21,856	33,822	175,610
Purchases charged to cost of sales	(78,485)	(14,176)	(25,934)	(118,594)
Expenses charged to cost of sales	(5,535)	(1,332)	(1,374)	(8,241)
Depreciation and amortization	(5,219)	(785)	(702)	(6,705)
<b>Gross profit</b>	<b>30,694</b>	<b>5,564</b>	<b>5,812</b>	<b>42,070</b>
Other income by function	28	116	10	154
Other operating expenses	(23,526)	(3,614)	(3,721)	(30,862)
Depreciation and amortization	(3,109)	(414)	(447)	(3,971)
<b>Operating Income</b>	<b>4,088</b>	<b>1,651</b>	<b>1,653</b>	<b>7,393</b>
<b>EBITDA</b>	<b>12,416</b>	<b>2,850</b>	<b>2,803</b>	<b>18,068</b>

CLP million	Accumulated at 03.31.2021			
	Segments			Total Group
	Chile	Colombia	Peru	
Revenue	92,180	16,745	21,225	130,151
Purchases charged to cost of sales	(50,188)	(9,282)	(14,852)	(74,322)
Expenses charged to cost of sales	(5,325)	(1,162)	(1,162)	(7,648)
Depreciation and amortization	(4,702)	(607)	(620)	(5,930)
<b>Gross profit</b>	<b>31,965</b>	<b>5,694</b>	<b>4,591</b>	<b>42,250</b>
Other income by function	17	105	124	247
Other operating expenses	(22,298)	(3,208)	(3,044)	(28,550)
Depreciation and amortization	(2,206)	(330)	(380)	(2,916)
<b>Operating Income</b>	<b>7,478</b>	<b>2,260</b>	<b>1,292</b>	<b>11,031</b>
<b>EBITDA</b>	<b>14,386</b>	<b>3,198</b>	<b>2,292</b>	<b>19,876</b>

CLP million	Accumulated variation 03.31.2022 vs. 03.31.2021			
	Segments			Total Group
	Chile	Colombia	Peru	
Revenue	27,753	5,110	12,596	45,460
Purchases charged to cost of sales	(28,297)	(4,893)	(11,082)	(44,272)
Expenses charged to cost of sales	(211)	(169)	(212)	(592)
Depreciation and amortization	(517)	(177)	(81)	(775)
<b>Gross profit</b>	<b>(1,271)</b>	<b>(130)</b>	<b>1,221</b>	<b>(180)</b>
Other income by function	11	11	(114)	(92)
Other operating expenses	(1,228)	(406)	(678)	(2,311)
Depreciation and amortization	(903)	(84)	(68)	(1,055)
<b>Operating Income</b>	<b>(3,391)</b>	<b>(609)</b>	<b>361</b>	<b>(3,638)</b>
<b>EBITDA</b>	<b>(1,971)</b>	<b>(348)</b>	<b>511</b>	<b>(1,808)</b>

### Chile:

Accumulated EBITDA through March 2022 was lower by M\$ 1,971 (-13.7%) compared to the previous year, explained by a lower gross margin and higher operating expenses.

LPG sales volume increased by 1.7% with respect to the previous year. Bottled LPG sales volume increased by 2.2% and direct sales grew by 13.1% compared to March 2021, reaching 62.7% of the segment's total sales, resulting in higher margins offset by higher distribution expenses. Likewise, sales volume in the industrial and commercial customer segments increased with respect to March

2021 by 4.4% and 25.4%, respectively, showing their recovery with respect to the previous year impacted by the pandemic. Network natural gas sales volume increased by 13.8% associated with higher consumption by several customers and LNG volume increased by 8.8% due to higher consumption by an industrial customer and the entry of the new LNG service station in Linares. Total sales volume in LPG equivalent tons (including sales of natural gas in its different formats) increased by 2.4%.

Gross margin is lower compared to the previous year mainly due to a lower unit gross margin affected by the continued rise in the price of LPG, partially offset by a higher share of bottled sales to end customers and higher consumption by commercial and industrial customers.

Operating expenses (excluding depreciation and amortization) increased by M\$ 1,228 (+5.5%), mainly explained by higher freight expenses, remuneration, personnel expenses and payments for logistics operators' services (related to the increase in direct sales of bottled products). This was partially offset by lower expenses for external consulting services.

#### **Colombia:**

Accumulated EBITDA through March 2022 was lower by M\$ 348 (-10.9%) compared to the same period of the previous year, a variation mainly explained by higher operating expenses and lower unit gross margin associated with the higher cost of LPG.

LPG sales volume increased by 6.8%. Sales in LPG equivalent tons increased by 6.3%.

Gross profit decreased by 2.3% due to lower unit margins associated with higher raw material prices.

Operating expenses (excluding depreciation and amortization) increased by M\$ 406 (+12.7%), mainly explained by higher remuneration, external consulting, taxes and transportation expenses.

The Colombian peso revalued by 1.7% against the Chilean peso compared to the previous year.

#### **Peru:**

EBITDA through March 2022 increased by M\$ 511 (+22.3%) compared to the same period of the previous year due to higher LPG unit gross margin and higher NG sales volume. In the case of Peru, the Peruvian government's decision to incorporate both bottled and bulk LPG into the Fuel Price Stabilization Fund (*FEPC*) allowed to mitigate part of the price increases impacted by international prices and improve unit margins. LPG sales increased by 0.9%. Natural gas sales increased by 28.4% with higher sales due to the lifting of pandemic-related restrictions.

Gross profit increased by 26.6% due to higher unit margins and higher sales volume, mainly of NG.

Operating expenses (excluding depreciation and amortization) increased by M\$ 678 (+22.3%), mainly explained by higher remuneration, transportation and maintenance expenses for the NG fleet, and by the revaluation of the Peruvian sol against the Chilean peso.

The Peruvian sol revalued by 7.4% against the Chilean peso compared to the same period of the previous year.



### 3. ANALYSIS OF THE CONSOLIDATED FINANCIAL POSITION

#### ASSETS

	03.31.2022	12.31.2021	Var.	
	M\$	M\$	M\$	%
Current assets	158,482	151,281	7,201	4.8%
Non-current assets	495,088	472,702	22,386	4.7%
<b>Total assets</b>	<b>653,570</b>	<b>623,983</b>	<b>29,586</b>	<b>4.7%</b>

The Company's assets as of March 31, 2022 recorded an increase of M\$ 29,586, equivalent to 4.7% with respect to the figures recorded as of December 31, 2021. The main variations correspond to:

- Current assets increase by M\$ 7,201 mainly due to higher trade debtors and other current accounts receivable by M\$ 10,185, higher inventory by M\$ 12,049 due to higher LPG and raw material in transit, both items impacted by the increase in the cost of LPG. The above was partially offset by lower cash and cash equivalents by M\$ 16,661.
- Non-current assets increased by M\$ 22,386, of which M\$ 10,531 correspond to the increase in property, plant and equipment, mainly associated with lease contracts for LPG supply trucks which were recorded as assets and higher other non-current financial assets by M\$ 11,732, which includes the recording at market value of the hedging derivative of the UF variation of the financial debt.

## LIABILITIES

	03.31.2022	12.31.2021	Var.	
	M\$	M\$	M\$	%
Current liabilities	101,087	93,077	8,010	8.6%
Non-current liabilities	378,450	362,092	16,358	4.5%
<b>Total liabilities</b>	<b>479,537</b>	<b>455,169</b>	<b>24,368</b>	<b>5.4%</b>

The Company's liabilities as of March 31, 2022 show an increase of M\$ 24,368, equivalent to 5.4% with respect to the figures recorded as of December 31, 2021. The main variations correspond to:

- Current liabilities increased by M\$ 8,010, of which M\$ 4,990 correspond to higher trade accounts and other accounts payable and M\$ 2,524 to higher lease liabilities. Additionally, M\$ 1,107 million correspond to other non-current non-financial liabilities due to higher prepayments received from customers for coupon sales. The above is partially offset by lower provisions for current employee benefits by M\$ 1,203.
- Non-current liabilities increased by M\$ 16,358, of which M\$ 4,435 correspond to higher non-current other financial liabilities due to an increase in non-current debt securities liabilities as a result of higher inflation. Additionally, M\$ 3,143 correspond to higher other non-current non-financial liabilities mainly associated with the increase in the liability for cylinder warranties, M\$ 7,070 correspond to higher non-current lease liabilities (related to the increase in non-current assets due to lease contracts being recorded as assets) and to an increase in deferred tax liabilities by M\$ 1,428.

## EQUITY

The Company's equity as of March 31, 2022 presents an increase of M\$ 5,218 with respect to the figures recorded as of December 31, 2021. The variation is due to an increase in other reserves by M\$ 9,044, mainly explained by the increase in cash flow hedging reserves by M\$ 8,884, which includes the mark-to-market of derivatives for hedging the UF debt, partially offset by lower retained earnings of M\$ 3,716.

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

CONSOLIDATED STATEMENT OF DIRECT CASH FLOW	01.01.2022 to 03.31.2022 CLP (million)	01.01.2021 to 03.31.2021 CLP (million)	Var.	
			CLP (million)	%
Cash flows provided by (used in) operating activities	407	17,502	(17,095)	(97.7%)
Cash flows provided by (used in) investing activities	(5,469)	(5,603)	135	(2.4%)
Net cash flows provided by (used in) financing activities	(11,630)	(11,037)	(593)	5.4%
Net Increase (decrease) in cash and cash equivalents, before effects of variation in foreign exchange rates	(16,692)	862	(17,554)	(94.7%)
Effects of variations in foreign exchange rate on cash and cash equivalents	31	(558)	589	(105.6%)
Net increase (decrease) in cash and cash equivalents	(16,661)	304	(16,965)	(200.3%)
Cash and cash equivalents - beginning of the period or fiscal year	45,778	62,317	(16,539)	(26.5%)
Cash and cash equivalents - end of the period or fiscal year	29,117	62,621	(33,503)	(53.5%)

Cash and cash equivalents as of March 31, 2022 recorded a balance of M\$ 29,117, decreasing by M\$ 33,503 with respect to the balance as of March 31 of the previous year.

The variations in the statement of cash flow are mainly explained by the following movements:

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

There was a positive net cash flow generated by the operation of M\$ 407 as of March 31, 2022, which decreased with respect to the previous year's cash flow by M\$ 17,095. The main variations correspond to an increase in working capital between periods and a decrease in EBITDA generated of M\$ 1,808. As of March 2021, working capital had increased by M\$ 3,269, decreasing the cash flows generated by the operation. In 2022, the same variation is an increase in working capital of M\$ 20,488, which decreases the flows generated. The net variation is a lower cash flow of M\$ 17,036. This variation is mainly due to a higher increase in accounts receivable and inventories (both impacted mainly by the higher price of commercialized products).

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

Net cash flow used in investing activities as of March 31, 2022 was M\$ 5,469, which was slightly lower by M\$ 135 compared to the 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 March 31, 2022 is negative by M\$ 11,630 and presents a negative variation of M\$ 593 in relation to the negative net cash flow of M\$ 11,037 in the previous

year. The main variation is due to higher lease payments and interest paid, partially offset by higher collection of funds through short-term loans (M\$ 1,182).

## 5. FINANCIAL INDICATORS

### LIQUIDITY

Indicators	Units	03.31.2022	12.31.2021
Liquidity ratio <sup>(1)</sup>	Times	1.57	1.63
Acid-test ratio <sup>(2)</sup>	Times	1.07	1.22

(1) Liquidity ratio = Current Assets /Current Liabilities

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

Liquidity indicators as of March 31, 2022 decrease compared to December 2021 mainly due to the increase in trade accounts and other current accounts payable, lease liabilities, other current non-financial liabilities and the decrease in cash and cash equivalents, which offset the increase in current assets mainly from trade accounts and other accounts receivable and inventories.

## INDEBTEDNESS

Indicators	Units	03.31.2022	12.31.2021
Indebtedness ratio <sup>(1)</sup>	Times	2.76	2.70
Portion of current debts <sup>(2)</sup>	%	21.1%	20.4%
Portion on non-current debts <sup>(3)</sup>	%	78.9%	79.6%
Net financial debt / Equity <sup>(4)</sup>	Times	1.24	1.15

(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 increased slightly at March 31, 2022 compared to the end of December 2021, mainly due to an increase in current trade accounts and other accounts payable, current and non-current lease liabilities, higher non-current other financial liabilities, an increase in deferred tax liabilities and current and non-current other non-financial liabilities.

The net financial debt/equity ratio increases due to an increase in current and non-current liabilities mentioned above and a decrease in cash and cash equivalents.

## PROFITABILITY

Indicators	Units	03.31.2022	12.31.2021
ROE <sup>(1)</sup>	%	24.2%	27.2%
ROA <sup>(2)</sup>	%	6.4%	7.4%
EBITDA <sup>(3)</sup>	M\$	103,228	105,036
EAT <sup>(4)</sup>	M\$	42,105	45,999

(1) Return on Equity = Gain (Loss) LTM / Equity.

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

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

(4) EAT = Earnings after taxes (LTM)

Return on equity and return on assets decreased compared to December 2021 mainly due to a decrease in profits for the last twelve months, impacted by the decrease in operating income and lower non-operating income. In addition to the above, equity and assets increased affecting the return on equity and return on assets, respectively.

EBITDA decreased compared to December 2021 mainly due to lower unit sales margins and higher operating expenses.

Income after taxes decreased compared to December 2021 due to lower operating and non-operating income, influenced by a higher expense for the restatement of customer guarantee

liabilities and loss from exchange rate differences, as described in the analysis of the income statement.

## INVENTORY

Indicators	Units	03.31.2022	12.31.2021
Inventory turnover <sup>(1)</sup>	Times	12.0	16.1
Inventory permanence <sup>(2)</sup>	Days	30.0	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 decreased compared to December 2021 mainly due to an increase in average inventory, affected by the increase in the cost of LPG.

## 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 an annual average market share of 34.5% as of December 2021 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, two maritime terminals located in the communes of Quintero and Mejillones, 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 more than 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 market for generating and commercializing electricity, including the acquisition in September 2021 of Four Trees Energía Distribuida, a company dedicated to distributed solar generation.

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 the brand *Gas País*.

It has presence in 25 of the 32 departments of the country, reaching an annual average market share of 15.8% as of December 2021, 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 110,000 customers.

In 2021, the company Chilco Net S.A.S. was incorporated to offer customers in small cities and intermediate cities in the interior of Colombia, high-speed internet service as a complementary product to the provision of network gas.

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. It has an annual average market share of 7.0% as of December 2021, 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 LPG 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 conducted by the Company and its subsidiaries. The Board of Directors and Management periodically review the Company's significant risks' 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 from 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, other financial assets 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 and other financial assets are 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. Investments classified as financial assets correspond to liabilities issued by companies with AA- or higher ratings. Other non-current financial assets correspond to funds of restricted availability related to guaranty deposits for the delivery of cylinders to clients in Colombia and to hedging instruments contracted with high-credit quality financial institutions.

There are no significant guarantees to cover the credit risk, so the maximum exposure to credit risk approximates its book value. Such value of financial assets is as follows:

<b>Financial Assets</b>	<b>Note</b>	<b>03.31.2022 Th\$</b>	<b>12.31.2021 Th\$</b>
Cash and cash equivalents	3	29,117,395	45,778,257
Trade receivables and other accounts receivable, current	7	63,939,372	53,754,590
Trade receivables and other accounts receivable, non-current	7	3,444,215	2,996,032
Other financial assets, current	4	1,244,651	2,945,567
Other financial assets, non-current	4	29,848,625	18,116,877
<b>Total</b>		<b>127,594,258</b>	<b>111,140,019</b>

The subsidiaries in Peru and Colombia have contracted insurance policies covering the credit risk of commercial customers for the following amounts, respectively: ThPEN 13,311, equivalent to Th\$ 2,854,544 and ThCOP 18,870,500 equivalent to Th\$ 3,962,805.

#### **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 thereof, 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.
  - o 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. The Company's exposure to market risks with respect to its financial assets and liabilities are exchange rate risk, indexation units and interest rate risk. In addition, the Company is exposed to risks related to the demand and supply of 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 functional currency of the Company and its subsidiaries:

### Purchases of goods and future payment commitments denominated in foreign currency:

The Company's cash flows are mainly comprised of transactions in the Company's functional currency and those of its subsidiaries. The Company and its subsidiaries hedge the risk of transactions involving the purchase of LPG by sea until it enters the Chilean market, and imports of goods or future payment commitments denominated in foreign currency by contracting forward currency purchase transactions (forwards) in order to hedge significant commitments in currencies other than the functional currency of each company.

As of March 31, 2022 and December 31, 2021, the balances of accounts in currencies other than the functional currency of the Company and its subsidiaries were as follows:

Originating transaction currency: U.S. dollar

<b>Current and non-current assets</b>	<b>Assets at 03.31.2022 Th\$</b>	<b>Assets at 12.31.2021 Th\$</b>
Cash and cash equivalents	14,913,844	14,740,126
Trade accounts and other accounts receivable, current and non-current	1,538,935	1,687,126

<b>Current and non-current liabilities</b>	<b>Liabilities at 03.31.2022 Th\$</b>	<b>Liabilities at 12.31.2021 Th\$</b>
Other financial liabilities, current	322,599	129,345
Trade accounts and other accounts payable, current	29,543,047	23,847,368
Other financial liabilities, non-current	747,172	829,738
Trade accounts and other accounts payable, non-current	1,185,187	1,150,611

Foreign investments: as of March 31, 2022, the Company holds net foreign investments in Colombian pesos for an amount equivalent to Th\$ 56,221,483 (Th\$ 55,527,366 as of December 31, 2021) and in Peruvian soles for an amount equivalent to Th\$ 51,875,192 (Th\$ 49,866,050 as of December 31, 2021).

Fluctuations of the Colombian peso and the Peruvian sol with respect to the Chilean peso affect the value of these investments, generating variations in equity.

In the past, the evolution of the Colombian peso and the Peruvian sol have been correlated with the Chilean peso. Management has decided not to hedge this risk, permanently monitoring the forecasted evolution of 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).

As of March 31, 2022, the Company holds derivative instruments to hedge the UF readjustment risk for bonds placed in the local market, as described in note 2.13.1.e) to the financial statements.

Financial lease liabilities: The Company signed a lease agreement with Oxiquim S.A. for a term of 25 years for the use of the reception, storage and dispatch facilities to be built by Oxiquim S.A. in the Quintero Bay. To date, the balance of these liabilities amounts to UF 638,231. The annual interest rate is 3.0%. Additionally, the Company signed a new lease agreement with Terminal Marítimo Oxiquim Mejillones S.A. (a subsidiary of Oxiquim S.A.) for a term of 20 years for the use of the reception, storage and dispatch facilities to be built by Terminal Marítimo Oxiquim Mejillones S.A. in the Mejillones bay. To date, the balance of these liabilities amounts to UF 357,567. The annual interest rate is 0.84%. The nomination currency of both liabilities is the Unidad de Fomento (UF), which is indexed to inflation in Chile and differs from the Company's functional currency (CLP). However, most of the Company's profit margins in Chile are correlated to the variation of the UF, so this risk is mitigated.

Leasing liabilities: The Company has entered into agreements for terms ranging from 3 to 18 years for the use of property, technology and vehicles with various suppliers for UF 718,155. The average annual interest rate is 1.6%. The nomination currency of these liabilities is the Unidad de Fomento

(UF), which is indexed to inflation in Chile and differs from the Company's functional currency (CLP). However, most of the Company's profit margins in Chile are correlated to the variation of the UF, so this risk is mitigated.

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/USD +/- 3.6%	13,129	(13,129)	Results: Exchange rate differences
CLP/USD +/- 3.6%	585,276	(585,276)	Equity: Reserves for cash flow hedging
CLP/COP +/- 0.0%	-	-	Equity: Reserves for exchange rate translation differences
CLP/PEN +/- 7.3%	(3,786,116)	3,786,116	Equity: Reserves for exchange rate translation differences

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

The portion of unhedged financial liabilities (indexed to the UF) has no effect on equity or results.

### Interest rate risk

It refers to the sensitivity to interest rate fluctuations of the value of financial assets and liabilities. The purpose of interest rate risk management is to achieve a balance in the financing structure, minimizing the cost of the debt with reduced volatility in the income statement.

As of March 31, 2022, 98.34% of the Company'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 March 31, 2022 and December 31, 2021:

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	6,627,385	2,674,055	233,491,843	1,381,832	240,119,228	4,055,887
<b>Total at 03.31.2022</b>		<b>6,627,385</b>	<b>2,674,055</b>	<b>233,491,843</b>	<b>1,381,832</b>	<b>240,119,228</b>	<b>4,055,887</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	7,588,617	1,285,536	229,009,363	1,428,906	236,597,980	2,714,442
<b>Total at 12.31.2021</b>		<b>7,588,617</b>	<b>1,285,536</b>	<b>229,009,363</b>	<b>1,428,906</b>	<b>236,597,980</b>	<b>2,714,442</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 34.5% at December 2021, 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 Group Gas País, currently achieving a presence in 25 of the 32 Colombian departments and reaching a market share of 15.8% at December 2021, 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 2021 reached a market share of 7.0%, according to data provided by Peru's Energy and Mines Investment Regulator (*Organismo Supervisor de la Inversión en Energía y Minería del Perú - Osinergmin*.)

### **a.1) Demand**

As a basic consumer good, in all the countries where the Company operates, the demand for residential LPG is less affected by economic cycles. However, factors such as temperature, rainfall, the price of LPG in relation to other substitute energies (natural gas, firewood, diesel, kerosene, electricity, etc.), the price level of the input itself in relation to household disposable income, and deep economic activity crises could affect demand. In some regions, demand is highly seasonal resulting from temperature variations. The economic cycles have a significant impact on the demand from commercial and industrial segments.

As the Company participates in a highly competitive market, the business strategies of its competitors may affect its sales volume.

### **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 carried out when importing this fuel from Argentina and other countries by sea.

In order to strengthen its strategic positioning in terms of raw material supply, in 2012 the Company signed a series of contracts with the company Oxiquim S.A. to develop the construction of LPG reception, storage and dispatch facilities at the terminal owned by said company located in the Quintero bay which, as of March 2015, allows the Company to have several sources of supply by sea. Additionally, in 2019 the Company signed a series of contracts with the company Oxiquim S.A. to develop the construction of LPG reception, storage and dispatch facilities at the terminal owned by said company located in the Mejillones bay which, as of its operation in April 2021, reinforces its strategic positioning in terms of raw material supply.

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 variation in the international value of fuel prices and by variations in the exchange rate of each local currency with respect to the U.S. dollar. Variations in raw material costs are considered when setting selling prices, although competitive market dynamics are always taken into account. Cycles of high prices of petroleum-based fuels affect the possibility of transferring to price the variations in fuel and other input costs.

The Company maintains LPG inventories. The realization value of these inventories is affected by the variation in international fuel prices, which are the basis for establishing sales prices to customers. A variation in the international prices of LPG would produce a variation in the same direction and of similar magnitude in the realization price of inventories. In general, the Company does not cover this risk since it is considered that variations in international prices are offset over time. The Company permanently monitors the evolution and forecasts of the evolution of international product prices. Since the beginning of the operation of the maritime terminal located in the Quintero Bay, the Company has decided to hedge the risk of variation in the realization price of the product inventory stored in the maritime terminals by contracting swaps related to the prices of LPG and currency forwards to hedge the effect of the variation in the exchange rate of the US dollar (currency used to express the reference price of inventories).

### **b) Natural gas**

As a basic consumer good, residential demand for natural gas is less affected by economic cycles, although deep economic crises could have an adverse effect. Demand from the commercial and industrial segments is more significantly impacted by economic cycles.

With respect to the risk of product supply for the Company's operations in the north and south of Chile, both are covered by long-term agreements signed with different suppliers.

In Peru, the subsidiary Limagas Natural Perú S.A. has signed supply agreements with natural gas distributors in different regions to cover the demand needs.

In Colombia, the subsidiary Surcolombiana de Gas S.A. E.S.P. has signed supply agreements with natural gas commercialization companies in different regions to cover the demand needs.



**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 signed LNG supply agreements with industrial customers, which are supplied with supply agreements that the Company has signed with different producers and commercializing companies in the market.

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.

The most relevant changes affect businesses in networks under concession, with the most meaningful change being the establishment of a profitability cap of 3% above the capital cost rate for the supply of gas through networks under concession. 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 all natural gas distribution operations in networks under concession, annual returns are below the maximum range allowed by law.

The freedom of fixing prices to customers remains for networks not under concession. 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 November 2020, the Chilean National Economic Prosecutor's Office (Fiscalía Nacional Económica - FNE) announced the initiation of a Gas Market Study (Study), in order to determine the proper operation of the gas market from the point of view of free competition. The Company collaborated throughout the process with the FNE, providing information and studies and opinions of international experts on the operation of the liquefied gas market in Chile.

On December 29, 2021, the FNE published its conclusions by issuing a Gas Market Study, in which an analysis of the operation of the market and recommendations for amendments to the operation of the market are made. In no case does the FNE conclude that there are any infringements to free competition regulations. However, with respect to bottled LPG, it makes three recommendations, among which is to prohibit by any means, whether direct or indirect, the participation of wholesale distributors in the LPG retail distribution market and the exclusivity agreements between bottling wholesalers and retail distributors.

Regarding the final report of the Gas Market Study in Chile, issued by the National Economic Prosecutor's Office (FNE), Empresas Lipigas considers the following:

- At Lipigas we are in favor of initiatives that increase competition and benefit consumers. However, the FNE's recommendations go in the opposite direction. The Prosecutor's Office is wrong in its final analysis and insists on an erroneous diagnosis that does not solve the problem and that will be directly detrimental to consumers.
- Regarding the diagnosis, for example, the FNE speaks of a 15% overpricing in gas at the industry level, which is wrong. In the case of Lipigas, the error is even greater, since in its calculation the FNE only incorporates a smaller portion of the real costs and does not consider company investments that benefit consumers, such as the development of maritime terminals to ensure energy security, the modernization of bottling plants, investment in modern truck fleets that provide supply continuity, the development of advanced logistics and the digitization of processes for greater efficiency, among other

costs and investments. In fact, the company invests more than 30 billion Chilean pesos a year in the LPG business, which the FNE does not consider either. The problem is that the FNE's erroneous diagnosis generates false expectations of a price reduction, which in Chile depends on the international price of gas and leads to measures that could harm people.

- As for the FNE's recommendation to remove wholesalers from retail distribution, this measure will harm consumers. Removing players from the market does not increase competition, but rather decreases it. Especially if players that can charge less because they are more efficient are removed. As the data show, the cylinders sold by Lipigas direct distribution are cheaper than those currently distributed by third-party retailers and offer a better quality of service to consumers. The best way to meet the FNE's objectives is to maintain the direct distribution of gas companies in coexistence with multi-brand distributors, which would give people more options from which to choose.
- We know that the price of gas -and the increase in prices in general- is affecting the pockets of families, which is a matter of concern and has led us to develop solutions such as a non-delivery service called *LipiVecino*, which saves CLP 3,000 for a 15-kilo load. But the real underlying problem is that the international price of gas has more than doubled compared to what it was at the beginning of 2021 and, unless action is taken, prices will continue to put pressure on current and future industry players, as well as consumers.

In January 2022, the Executive Branch submitted to the Honorable House of Representatives a bill on the improvement of the gas market, which incorporated the recommendations included in the Study issued by the FNE. This bill was withdrawn by the new administration that took office in March 2022. The new administration has announced that it will present a bill to monitor competition in the LPG market.

The Company is completely willing to participate in the parliamentary discussion process by making suggestions for amendments to the bill presented in order to ensure that the changes benefit consumers so that they have more and better alternatives from which to choose and continue receiving a service that has been recognized by several surveys as one of the best services of its kind in Chile.

Significant changes in laws and regulations in the sectors in which the Company operates may adversely affect its business or the conditions thereof, 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 hazards 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 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. The controls implemented are constantly

reviewed and people are trained to avoid these risks. The Company has established complaint lines and investigation procedures to determine actions that deviate from its Code of Conduct.

#### **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 28 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. The controls implemented are constantly reviewed and people are trained to avoid contractual and regulatory breaches.

#### **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. 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 where it is present, to mitigate the risks described.

#### **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.

Going forward, the Company will continue to engage in a number of assessments and pursue other possible acquisitions, which could result in the acquisition of other companies or operations, seeking to incorporate them into existing 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 performed 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 conducted 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 for liquefied or natural 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. Also, despite having broad insurance coverage, it 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, therefore Management considers that 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 Risks relating to climate change**

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.

In addition, climate change could force changes in consumer behavior and operating conditions that increase consumer costs (e.g., a higher likelihood of tidal surges that may impede normal port operations).

The Company permanently monitors the evolution of regulations related to climate change and its consequences on consumer behavior and operations and analyzes alternative fuels with a

lower carbon footprint that can be commercialized as a substitute for or in combination with fossil fuels.

#### **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 natural or health catastrophes**

In the countries in which the Company is present, catastrophic situations eventually occur such as floods, tsunamis or earthquakes, which force us to operate in contingency to maintain the supply to our customers. Previous experiences, in addition to emergency and contingency plans, periodically monitored, allow to mitigate this risk.

On the other hand, 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 such situations, privileging the safety of workers, collaborators, customers and communities in which the Company's activities are conducted. Special committees are formed composed of first line managers to quickly respond and coordinate safeguard measures.

#### **7.15. Cybersecurity risk**

The world is on a fast-paced path of digitization, whereby robotics, digitization and the Internet are rapidly integrating into the operating environment, bringing with them changes in cybersecurity risks. Companies of all sizes and sectors have seen an increase in cyberattack incidents and attempts. In addition, considering a business context in which the security of systems has been decentralized with the mobility of employees, having a cybersecurity strategy that includes this situation has become essential.

Aware of these risks, Management constantly monitors and updates the different cybersecurity risks and implements actions to mitigate them, evaluating the impact on the organization and the probability of occurrence according to scales defined for it. Thus, to closely examine the level of risk, a complete analysis has recently been developed that has allowed to determine the level



of maturity and alignment of the organization, using the requirements established in ISO 27.001:2013 as a basis, and an action plan has been initiated that will allow a higher level of risk mitigation to be achieved, targeting the last quarter of 2022 for completion of this action plan.

#### **7.16. Risk of fraud**

The Company has relationships with a number of customers, suppliers and third parties. Such relationships materialize to a large extent in cash flows from transactions carried out and are based on assets owned by the Company. The Company may be subject to fraudulent actions that could represent financial losses or misuse of its assets. The Company has procedures in place that include controls to prevent fraud. Compliance with these procedures is monitored by the financial control areas of Management. Additionally, the Internal Audit area reviews the strength of the controls contained in the procedures, their execution and compliance.