

Annual Report Aguas Andinas 2003





water

In dreams, water represents the mother.

We are born in water, we grow up among water.

Water calms us, cleans us, purifies us.

When it is fresh it feeds us, when it is restless, salty and wild, it moves us and shows us its other face.

We like to go to sleep listening to the noise of water.

The sea, the river, the smooth rain on the tiles.

Mother water that rocks us.

Water runs across land like the blood of that elemental body.

Its affluents, its brooklets, the torrent of its rivers, collect the humidity from the air and take it to multiply life in the valley.

The Santiago Basin lives on clean and purified waters.

Water that descends from hills and ravines.

Water that is processed and purified for consumption.

A touch of clean water revives you. The lives of many depend on its merry flow. And the quality of the land depends on its abundance. Without such balance, we receive no water, neither they nor us.

We therefore need that living land, reanimated by water, on which the quality of the water we drink also depends.

Those animals, those plant species are custodians of our environment and are also its fruits.

We are all children of water.

Marco Antonio de la Parra

Extract from "El Agua de la Vida"



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HISTORY AGUAS ANDINAS

A 142 year road

We are a company devoted to provide, day by day, an essential element for the development of life and the care of environment.

1861. Our life begins with the creation of Empresa de Agua Potable de Santiago and the making of the first study for improving water collection in the Quebrada de Ramón.

1865. We build the first tanks for storing water.

1894. We start a construction plan with the building of the Vitacura plant for obtaining filtered waters from the River Mapocho and of a 20 thousand cubic meter tank in Antonio Varas Street.

1903. The Santiago Sewerage and Paving Law is promulgated, thus promoting the building of drinking water and sewage networks for the city.

1909. We install 1,112 residential connections and the first taps in the city.

1917. We inaugurate the Laguna Negra aqueduct which even today carries water 87 kilometers from the mountains.

1946. We open the Las Vizcachas plant to produce drinking water for Santiago.

1969. We inaugurate the Las Vizcachitas plant together with the Parallel Aqueduct.

1977. Our company becomes called Empresa

Metropolitana de Obras Sanitarias (EMOS).

1984. We open the Engineer Antonio Tagle Drinking Water Production Plant.

1989. EMOS becomes an open corporation and subsidiary of Corporación de Fomento de la Producción (CORFO).

1990. We begin the construction of the first water clearing projects in the region, like the Zanjón interceptor collector and the piping of the Canal A-H.

1993. We inaugurate the West Santiago Sewage Treatment Plant.

1997. We inaugurate our corporate building at Parque de los Reyes in Santiago.

1999. Under a privatization process, 51.2% of our company is acquired by Sociedad Inversiones Aguas Metropolitanas Ltda., controlled by the Agbar Group (50%) and Suez (50%), for US\$1,125 million. We inaugurate the La Florida Drinking Water Plant.

2000. We begin construction of the El Trebal Sewage Treatment Plant. Our company acquires 100% of Aguas Cordillera and 50% of Aguas Manquehue.

We start to apply the Plan Vita for orienting the organization toward a service of excellence to customers and improving efficiency and product quality.

2001. Name change: the company becomes called Aguas Andinas S.A. We start the operation of the El Trebal Sewage Plant and begin construction work on the La Farfana Sewage Treatment Plant. Our subsidiaries ANAM, Ecoriles and Gestión y Servicios are formed.

2002. We inaugurate the most advanced operating control system in Latin America. We acquire the remaining 50% of Aguas Manquehue.

We start the Eureka Plan to consolidate an on-line organization. We also inaugurate the new San José de Maipú and Paine Sewage Treatment Plants.

2003. We begin operating the La Farfana Sewage Treatment Plant, the largest of its kind in Latin America. We obtain the ISO 9000 certification for customer service.



Manzanillón (*Chrysanthemum maximum*) With delicate white and yellow flowers, the Manzanillón stands out in the fields with its slender figure.





LETTER FROM THE CHAIRMAN **ROQUE GISTAU**

Water is for the people

This year, we have been the promoters and protagonists of important environmental landmarks in the history of our capital and the whole country.

Queltehue

Inhabitats lakes, pools and fields. A bird noted for its shrill, metallic cry as a warning of danger. Measures up to 37 cms.

As Chairman of the Board of Aguas Andinas, I have the honor to submit for your consideration the Annual Report and Financial Statements of the Company for 2003.

All the projects and activities carried out this year fall within the strategic objectives set four years ago for consolidating Aguas Andinas as the leading company in the sector, oriented to the customer and respecting and caring for the environment, in order to offer future generations a basin with water resources managed efficiently and free of contamination.

We have been promoters and protagonists of important environmental landmarks in the history of our capital and of the whole country. In June, we closed the last sewage discharge of the Zanjón de la Aguada, bringing concrete benefits to the health and hygiene of neighbours in the sector and the whole of Santiago's population.

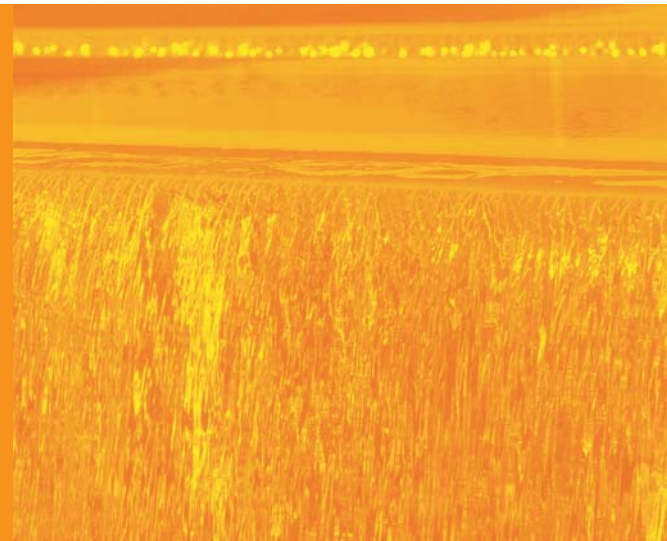
In September, we began the operation of the La Farfana Sewage Treatment Plant, one of the five largest in the world and the largest in Latin America.

With its start-up and together with the El Trebal Plant (in service since 2001), Aguas Andinas now treats over 70% of the waste waters of the people of the Santiago Basin.

In order to assure the quality of the operation and its environmental sustainability, the procedures for obtaining the ISO 14000 certification were begun during the second half of the year. This will be progressively introduced into all the sewage treatment plants.

All these efforts have been supported by a public relations campaign in order to inform our customers of the relevance of sewage treatment for the ecosystem

In this period, the investments have totalized Ch\$78,950 million of which 70% was for the treatment of sewage.



and quality of life of the citizens and to seek their collaboration for achieving better efficiency in the decontamination processes.

In the customers area, progress has been made in consolidating the zonal structure, bringing the organization closer to its customers to know their needs better and offer them more relevant solutions. To reinforce these objectives, the ISO 9000 certification has been obtained for the customer attention area to ensure very high-yielding service parameters.

Along the same line of becoming closer to the community, actions have been developed for directly helping poorer customers. These include plumbing workshops, information on the best handling of sewage networks and their maintenance, and facilities for rescheduling outstanding debts.

In the area of information and public education, we have continued and potentiated the guided visits to

our production facilities for students and other social groups, in order for them to appreciate the complexity of drinking water production and sewage treatment. In technology, we have progressed in the introduction of new facilities to be controlled and operated from the operative control center. The Geographic Information System, hydraulic models and remote control have been incorporated into an integrated corporate unit.

In this context, the Zaphyrus Project has been successfully introduced, a new management model for processes with a decided customer orientation. This model has been in operation in the Company since January 2004.

With respect to human resources, actions have been continued for increasing risk prevention and improving the working conditions of our personnel. These efforts have been recognized by important Chilean institutions. The SAP solution has also been

introduced for the integral management of human resources.

All these initiatives form part of a process for a continual improvement in performance, optimizing efficiency and having effects on the financial statements, which I shall refer to below.

Investment during the year totaled Ch\$78,950 million of which 70% was for the sewage treatment.

The Company's operating income was Ch\$74,936 million, representing 11.9% more than in the previous year. This is mainly explained by the coming into service of the La Farfana Plant, the increase in the business of non-sanitation subsidiaries and the efficiency obtained by the introduction of technology, integration of systems and modernization of procurement management.

Net income for the year was Ch\$59,659 million,

Plant of Sewage Treatment the
Farfana, one of the five of greater
size anywhere in the world and the
greater one in Latin America.



representing a 9.2% increase over the year before.

In order to finance its investment plan, the Company approached to the domestic financial market with the successful issue of bonds for 5.8 million Unidades de Fomento on conditions that demonstrate the high credit rating of our Company. This view of the Company's risk profile has been ratified by the credit-rating agencies which assigned it a rating of AA+ for this issue.

A capital reduction was made in December, as approved by the extraordinary shareholders' meeting held on October 14, 2003. This meant a payment to our shareholders of Ch\$22.87969 per share. In addition, an interim dividend of Ch\$3.12031 was paid on the same day with respect to the year 2003. It should be mentioned that the share price rose by 29.9% during 2003.

For all the above reasons, we can state that our

budgetary forecasts for 2003 were exceeded. And this was possible thanks to the efficiency and seriousness of the work carried out, the joint efforts of all those who work for the Company and the necessary stability of the regulatory framework covering water utilities which provides assurance for investors and facilitates the presence of solvent and reliable operators.

Thanks to these favorable conditions, it is possible in Chile to carry out the heavy investment plan that the Company is putting into practice with the object of recovering the natural water courses for Santiago, bringing to its inhabitants the consequent improvement in their life quality.

There are still some important stages of this plan to be completed. Santiago needs investments for the creation of a robust and occasionally redundant infrastructure for satisfactorily covering the growing demand of approximately 500 million m³ annually of

drinking water in our concession zone.

And we are doing everything for ensuring the promised service. On occasions, this basic objective is not free from incidents which resolution is also part of our duty and commitment. Because we are Aguas Andinas, a company with a true service vocation that works to improve the environment and quality of life of our customers, providing efficiently a vital element for personal and social development. We are conscious of our social responsibility and we are committed daily to the welfare of our workers and the whole community.

Thank you, shareholders and customers, for your trust in us, and you, the Company's directors, managers and all its personnel, for their efforts and continued dedication.



Roque Gistau
Chairman



BOARD OF DIRECTORS



Chairman

Roque Gistau

Engineer in Roads,
Canals and Ports



Round table



Vice Chairman
Charles Chaumin
Engineer



Director
Manlio Alessi Remedi
Economist



Director
Alfredo Noman Serrano
Industrial Engineer



Director
Bernardo Espinosa Bancalari
Lawyer



Director
Daniel Albarrán Ruiz-Clavijo Civil
Industrial Engineer



Director
Carlos Mladinic Alonso
Commercial Engineer

Alternate Directors

José Vila Bassas
Industrial Engineer

Ángel Simón Grimaldos
Engineer in Roads,
Canals and Ports

Roberto Hempel Holzapfel
Commercial Engineer

Jorge Bande Bruck
Economist

Jean Jacques Duhart
Civil Industrial Engineer





COMPANY'S OWNERSHIP

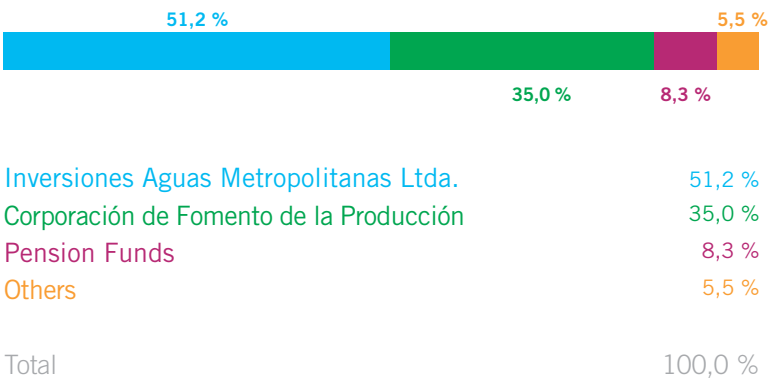
Solid support

The equity of Aguas Andinas at December 31, 2003 is divided into 6,118,965,160 shares distributed among 1,863 shareholders.

Araucaria

From the Araucariáceas family, Conifer class. Endemic species of Chile and Argentina. Beautiful evergreen tree, up to 50 m. in height.

Distribution by type of shareholder





Principal shareholders

The 12 largest shareholders in the Company, by number of shares at December 31, 2003, are as follows:

Principal shareholders

Name	Shares	Shares	Total	Percentage
	Series A	Series B	Shares	
Inversiones Aguas Metropolitanas Limitada	3,133,053,126	-	3,133,053,126	51,2
Corporación de Fomento de La Producción	-	2,140,491,748	2,140,491,748	35,0
AFP Provida S.A.	245,189,542	-	245,189,542	4,0
AFP Cuprum S.A.	81,362,234	-	81,362,234	1,3
AFP Habitat S.A.	67,037,014	-	67,037,014	1,0
AFP Summa Bansander S.A.	52,078,305	-	52,078,305	0,9
AFP Santa María S.A.	42,768,145	-	42,768,145	0,7
Celfin Gardeweg S.A. Corredores de Bolsa	22,232,833	-	22,232,833	0,4
AFP Planvital S.A.	16,541,420	-	16,541,420	0,3
Banchile Corredores de Bolsa S.A.	6,413,538	-	6,413,538	0,1
Cía. de Seguros de Vida la Construcción S.A.	5,849,286	-	5,849,286	0,1
Euroamerica Corredores de Bolsa S.A.	5,063,742	-	5,063,742	0,1
Other 1,851 shareholders	297,600,145	3,284,082	300,884,227	4,9
Totales	3,975,189,330	2,143,775,830	6,118,965,160	100.0%

We count with the support of world-wide leaders in the sector of drinking water and industry.



Strategic partners

The strategic partners of Aguas Andinas, through its controller Aguas Metropolitanas Ltda., are Agbar and Suez; companies with a vast experience in providing services for meeting people's basic needs. Agbar is the operator of Aguas Andinas.

Agbar

Agbar is the principal private company in the residential supply of drinking water in Spain. It has provided this service to the people of Barcelona and 22 of its suburbs for over 130 years, currently serving approximately 11 million people in Spain.

Agbar is also the head of the Agbar Group, absolute leader in the Spanish private drinking water market, with a 52% share.

This Group, formed by 163 companies, is one of the main operators in businesses such as the complete water cycle, health insurance, construction and installations, services related to the automobile industry and other businesses under development. It currently employs 37,706 people.

During 2003, the Agbar Group had earnings for approximately 2,800 million euros. It has international presence in eight countries and provides services to more than 24 million people.

Suez

Suez is one of the main services groups in the world. Originally Franco-Belgian and with over 182 years in business, it works in two large sectors: the

environment, in which it is world leader, and energy, in which it has a strategic position in Europe.

This group provides services to the water and sewage sector, meeting the needs of approximately 125 million customers. It has a strong position in Europe and in the American markets, employing over 185,000 people.

Its shares are quoted on the Euronext Paris, Euronext Brussels, Luxemburg, Zurich and New York stock exchanges.

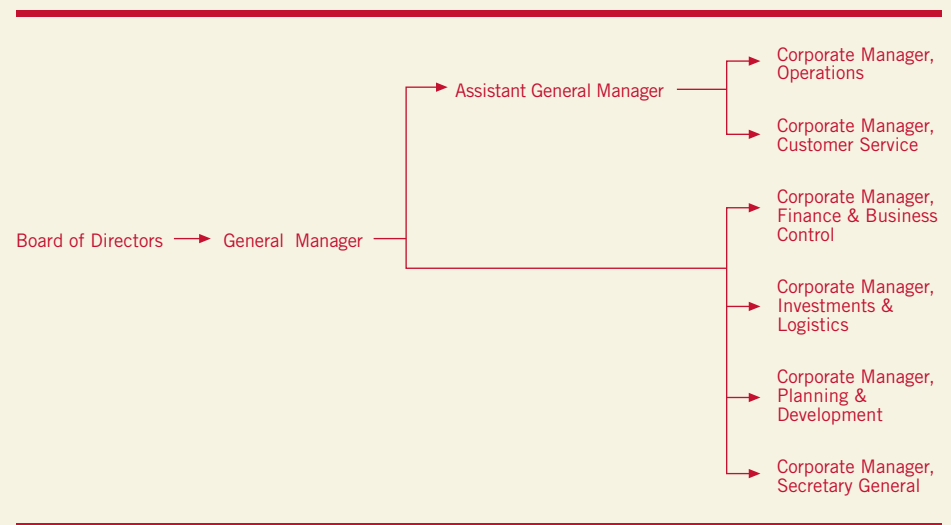
Suez produced sales in 2003 of 39,621 million euros.



ORGANIZATION AND ADMINISTRATION



► **General Manager**
Josep Bagué Prats
Economist



Working as a team



► **Assistant General Manager**

Laurent Brunet
Engineer

► **Corporate Manager, Finance & Business Control**

José Luis Murillo Collado
Economist

► **Corporate Manager, Planning & Development**

Joaquim Martí Marqués
Engineer in Roads, Canals & Ports

► **Corporate Manager, Operations**

Ignacio Escudero García
Telecommunications Engineer

► **Corporate Manager, Investments & Logistics**

Felipe Larrain Aspillaga
Civil Engineer

► **Corporate Manager, Secretary General**

Joaquín Villarino Herrera
Lawyer

► **Corporate Manager, Customer Service**

Víctor de la Barra Fuenzalida
Civil Engineer

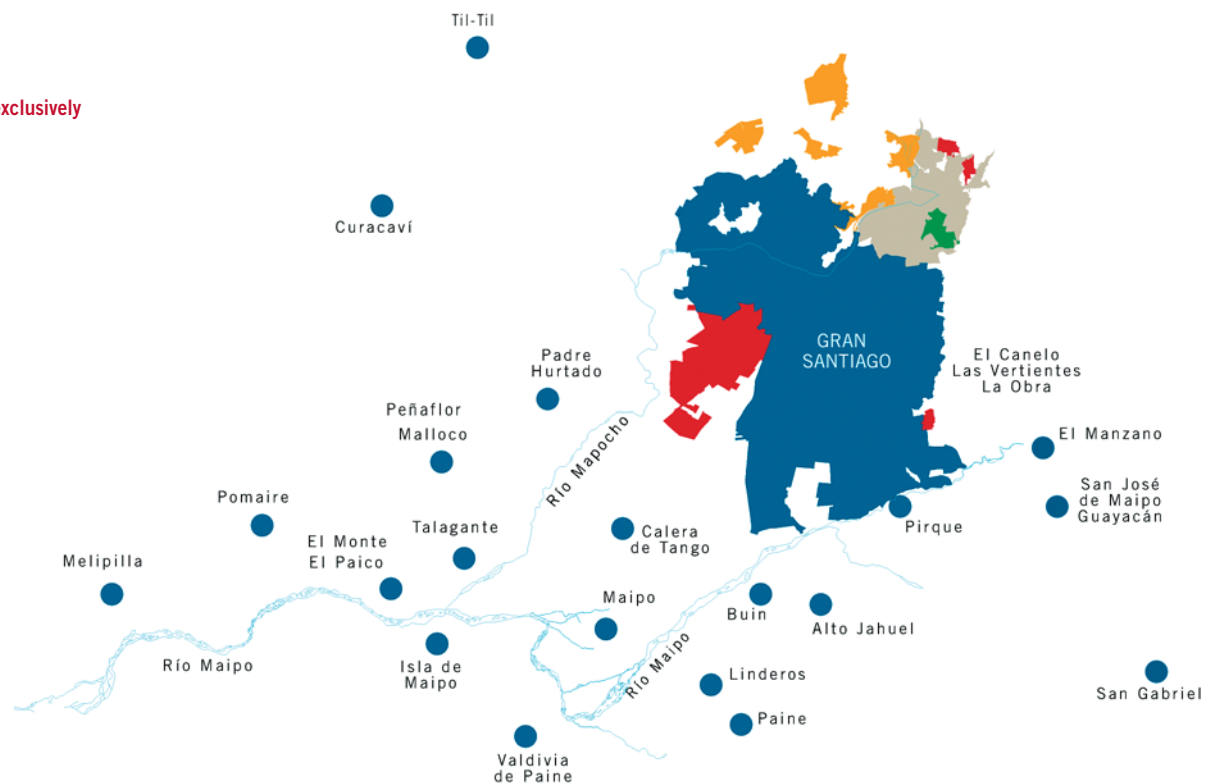


GEOGRAPHIC COVERAGE

Aguas Andinas is the main water public utility company in Chile and one of the largest in Latin America. Within an area of more than 15 thousand square kilometers that our concession zone in the Metropolitan Region covers, we provide service to approximately 6 million people who consume daily the drinking water that we distribute through our networks.

The Santiago basin is located in central Chile's intermediate depression, bordering to the north with the Chacabuco basin and to the south with Angostura de Paine.

- ▶ **Aguas Andinas**
- ▶ **Aguas Cordillera**
- ▶ **Aguas Manquehue**
- ▶ **Aguas Los Dominicos**
- ▶ **Sewage disposal concession exclusively**



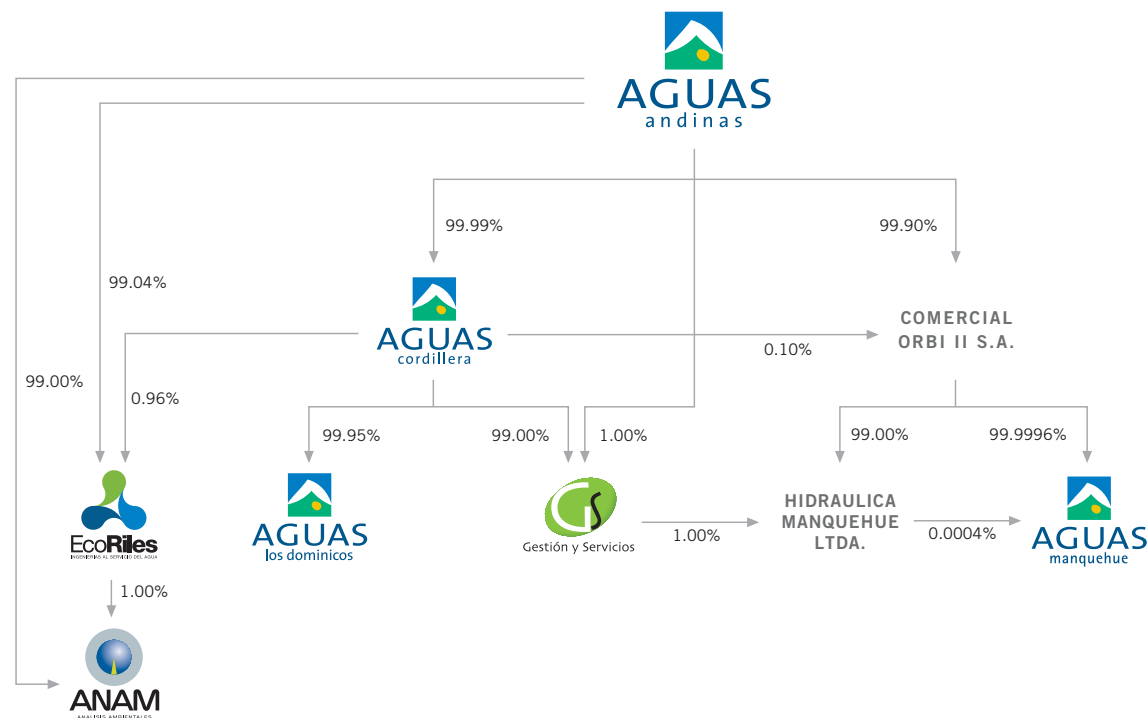
We are in a permanent and minute by minute contact with more than 6 million people, improving the quality of their lives, serving them daily with effort and dedication.



COMPANIES AND SUBSIDIARIES

Our main activity is to produce drinking water which we distribute to thousands of homes in the Santiago basin. We then recollect the waste waters and treat them before returning them to nature free of contamination, in a clear legacy for the inhabitants of the future.

Through the subsidiary companies, we provide services like the treatment of industrial waste, the sale of equipment and technical analyses related to our principal activity.







YEAR 2003

A service company

▶ We are currently **resolving urgent calls within 12 hours**. Just 4 years ago, these were resolved on average in 48 hours.

▶ We now **treat 70% of the sewage** generated by the Santiago basin. In 1999, this was only 3%.

▶ We have **quadrupled our total investments**. These reached over Ch\$325 billion in the period 2000-2004, while they amounted to almost Ch\$ 85 billion in the period 1995-1999.

▶ We have **increased the hours devoted to training by 125%**, compared to 1999, achieving over 64,000 hours during 2003.

For the last four years, our Company, Aguas Andinas, has worked to consolidate itself as a company with a true service vocation, proximity to its customers and concern for environmental care.

During that time, we have reinforced this commitment through work done in all areas of the Company, taking new steps along the way to make ourselves a modern and efficient organization.

Because this is what we want to be. This is why we have organized ourselves facing our customers, oriented toward them, where the most important thing is efficient performance in order to offer them every day the best service, with excellence, with quality, with proximity.

This would not be effective without being accompanied by intensive work in other fields. One of these is the important investment program we are carrying out. The large amounts involved in technology

and, above all, in the Decontamination Plan, enable us to contribute to the country's development and the welfare and health of the future generations.

Likewise, training and formation have played a fundamental role, an effort that has been facilitated thanks to the experience of our strategic partners who have allowed us to connect with a global knowledge network.

We have a solid financial situation which provides us with confidence in facing and funding the large investments already carried out and those we plan for the future.

Finally, we have continued to promote the Company's new image, a renovated appearance fully representing our true vocation: to serve our customers.

Picaflor or Colibrí It is part of the Trochilide family. Six species are known in Chile, found from the Huasco valley down to Tierra del Fuego. It flaps its wings more than seventy times a second and can fly in reverse. It feeds on the nectar and pollen of the flowers.





YEAR 2003

At the **service** of the people

We know that our role goes beyond just providing water... it consists of a service commitment with our customers and with nature. We are therefore always close to the people and their needs.

Colored Butterfly

(Vanessa carye)

Is one of the most common and is found throughout the country and in other parts of South America.

Drinking water is life. Thanks to its constant flow, people and the environment can grow and develop.

In Aguas Andinas, we are conscious of our great responsibility. We know that we deliver a vital element, an essential service that should never lack or fail, that should be available 24 hours a day, every day of the year.

This is why our company has an expressed service vocation. We are aware in all the initiatives that we carry out that our object in life is to serve our customers. And to serve them with vocation, that is guaranteeing the maximum product quality and continuity of service, together with a close and warm attitude to all our customers.

A service of excellence, efficient in the use of resources and with the best quality. This is our commitment with the 6 million inhabitants of the Santiago basin. We have worked with effort for this.

Our job was well done but we know that our service requires concern, work and effort 24 hours a day, 365 days of the year. This year 2003 reflects not only one more year's work in Aguas Andinas but a year of evolution, of continuous improvement, in which the tasks have been carried out and in which we can be satisfied of having improved the service we provide and offering full life to six million people in the Santiago basin.

Zonal division



	Commercial	Agencies
▶ Antilco	476,709	6
▶ Cordillera	100,182	2
▶ Maipo	90,083	3
▶ Mapocho	397,592	4
▶ Mapue	299,194	3
	1,363,760	18

Integral service

During 2003, Aguas Andinas continued working on an integral customer attention system on the basis of the zonal division of its business. With the consolidation of this structure, we have been able to standardize processes, detect opportunities for improvements and thus optimize our service.

Our information tools at the customer's service have also played a fundamental role and we have improved and up-dated these during the year. These include the Requirements Attention System, the Geographic Information System, the Fonoservicio and the Operative Control Center.

Our Telephonic Attention Service, which attends at all hours throughout the year, functions on line with the Operation Control Center which enables us to

improve our response times to customer needs. In fact, 84% of requirements are resolved on the first contact and the average response time for emergencies is less than 12 hours.

To optimize the attention of our commercial agencies, we introduced new self-service consult modules and implemented an electronic administration and control of attention system which enabled us to reduce waiting times to an average 5.6 minutes and attention to 4.3 minutes. We also launched Fonopago (payment by telephone using a credit card), very useful and convenient for all our customers, and improved our way of communicating and providing information to customers.

This integral attention system also has high quality standards, accredited by the ISO 9,000 certification

obtained during the year. As part of our concern to provide a service of excellence, efforts have continued in renewing and renovating the supply networks. And especially in providing new drinking water and sewerage facilities, thus meeting the growing needs of the inhabitants of the Santiago basin. In mid year, we carried out an assistance program for poor families. Working in teams, maintenance work was done on networks, workshops were given and easy terms were offered for rescheduling debts. And the results were excellent: more than 3,600 customers settled their debt, 1,900 applicants were generated for the drinking water subsidy, around 10 thousand meters of sewers were cleaned and courses were given on the basic elements of plumbing, as a clear example of what an integral service means to Aguas Andinas.

Our Telephonic Attention Service, on line with the Operation Control Center, has all the information necessary for giving a fast and efficient response to our customers.



ISO 9000 certification for customer attention

The ISO 9000 certification for customer attention was achieved in 2003. This supports the constant concern we have to offer excellent attention to every one of our customers, with the highest quality standards.

The ISO 9000 certification means that we have clearly defined our processes and their control indicators, and that we are capable of providing our customers with a service that meets their expectations.

On the other hand, the methods used to achieve this certification have improved our way of working and have allowed us to consolidate the bases of development of a business culture at all levels of responsibility.

We took the decision to reach this standard because for us, people are first: we work daily for them and we perfect our processes only to offer a better service to the 6 million inhabitants of the Santiago basin.





AT THE SERVICE OF THE PEOPLE

ISO 9000 certification for attending customers

At December 31, 2003, our Company, Aguas Andinas, had a total of 1,263,578 customers for drinking water and 1,230,902 for sewage services. This represented a growth of 2.38% and of 2.43% respectively compared to the year before. At the Group level (comprising Aguas Andinas, Aguas Cordillera, Aguas Los Dominicos and Aguas Manquehue), the number of customers with drinking water was 1,363,760 and with sewage services 1,327,824.

Consolidated number of customers

	2000	2001	2002	2003
Drinking water	1,180,400	1,303,880	1,331,851	1,363,760
Sewerage	1,149,600	1,268,457	1,296,004	1,327,824

Number of customers (2003)

Number of customers	Aguas Andinas	Aguas Cordillera(*)	Aguas Manquehue	Total Consolidated
Drinking water	1,263,578	96,162	4,020	1,363,760
Sewerage	1,230,902	93,250	3,672	1,327,82

(*) includes Aguas Los Dominicos.

Concerned about offering the best service to our customers, continually improving quality, we obtained the ISO 9000 certification this year for the attention process.



Average monthly consumption per customer

Consolidated average consumption (m³ per month)

	2000	2001	2002	2003
Drinking water	28.5	30.1	29.8	29.2
Sewerage	29.3	30.5	30.2	29.6

Average consumption year 2003 (m³ per month)

	Aguas Andinas	Aguas Cordillera (*)	Aguas Manquehue	Total
Drinking water	26.9	54.8	141.2	29.2
Sewerage	27.5	54.0	128.9	29.6

(*) includes Aguas Los Dominicos.



AT THE SERVICE OF THE PEOPLE

Sanitary regulations

The current legislation provides that water utility suppliers are subject to the supervision and regulatory authority of the Superintendence of Sanitary Services (SISS). The SISS is a functionally decentralized service with its own legal personality and equity, and subject to the vigilance of the President of the Republic

through the Ministry of Public Works. It has, among other things, the function of regulating the providers of sanitation services in compliance with the respective regulations.

Sanitary legislation

Sanitary services companies like Aguas Andinas are subject to the provisions of a combination of laws and regulations governing the functioning of the sector. The principal legal bodies are:

- The General Sanitary Services Law (DFL MOP 382, 1988). Contains the principal provisions governing the system of concessions and the business of sanitation service providers.
- Regulations of the General Sanitary Services Law (DS MOP 121, 1991). Contains the regulations

permitted under the General Sanitary Services Law.

- Sanitary Services Tariffs Law (DFL MOP 70, 1988). Contains the principal provisions governing the setting of tariffs for drinking water and sewage, and reimbursable contributions.
- Regulations to the Sanitary Services Tariffs Law (DS MINECON 453, 1990). Contains the regulations permitted under the Sanitary Services Tariffs Law, including the method for calculating tariffs and the administrative procedures.

- Law creating the Superintendency of Sanitary Services (Law 18,902, 1990). Establishes the functions of the Superintendency of Sanitary Services.
- Law covering the subsidy payable for consumption of drinking water and sewerage services (Law 18,778, 1989). Establishes a subsidy on the payment for consumption of drinking water and sewerage services.
- Regulations to the subsidy law (DS HACIENDA 195, 1998). Contains the regulations for applying Law of Subsidies.

We introduce in every process all the elements that enable the provision of an integral and efficient attention to all our customers.



Tariffs

The current tariffs of Aguas Andinas have been in force since March 1, 2000, in accordance with Decree 76 of the Ministry of Economy, and cover a period of five years.

With the start-up of the La Farfana Sewage Treatment Plant on September 20, 2003, the corresponding tariff charges authorized by the Superintendency of Sanitary Services began their application. This implied an increase of 46.9 Ch\$ per m3 (without VAT) in the

sewerage service. As this is a service related to the basin, the charge affects all customers in Greater Santiago.

On the other hand, the tariff-setting process of Aguas Andinas began in October and its result will be applicable to the March 2005 to February 2010 period.

Average tariff 2003 (without VAT in Ch\$ per m³)

	Aguas Andinas	Aguas Cordillera	Aguas Manquehue
Drinking water	208.1	254.3	339.7
Sewerage	117.6	112.4	131.5



AT THE SERVICE OF THE PEOPLE

Management of new concessions

The city of Santiago and its surrounding suburbs and towns are in a constant growth that increases the needs for drinking water and sewerage services year by year.

Because of this and as a way of satisfying the progressive needs of the inhabitants of the Santiago basin, our Company in 2003 obtained two concession expansions. The first in Villa Colonial in the municipality of Melipilla with an area of 6.1 hectares and 400 new services, and the second at Rinconada de Maipú, with an area of 112 hectares and 6,018 new services.

Likewise, Santiago is in the process of approving a request for expansion of the Santa Laura concession in the suburb of Quilicura, covering an area of 19 hectares and 1,393 new services.

The towns of Padre Hurtado and Peñaflor are processing expansion requests for a total area of 3.5 hectares and 133 new services.

Aguas Cordillera obtained an expansion of its Lo Curro concession with an area of 36.7 hectares and 30 services.

Finally, Aguas Manquehue is processing the concession of an area in Los Trapenses with a surface of 10.7 hectares and 48 new services.

We are at the service of the Santiago basin,
developing the investments necessary for
meeting the demanding needs of a society
in constant growth.



Rural drinking water

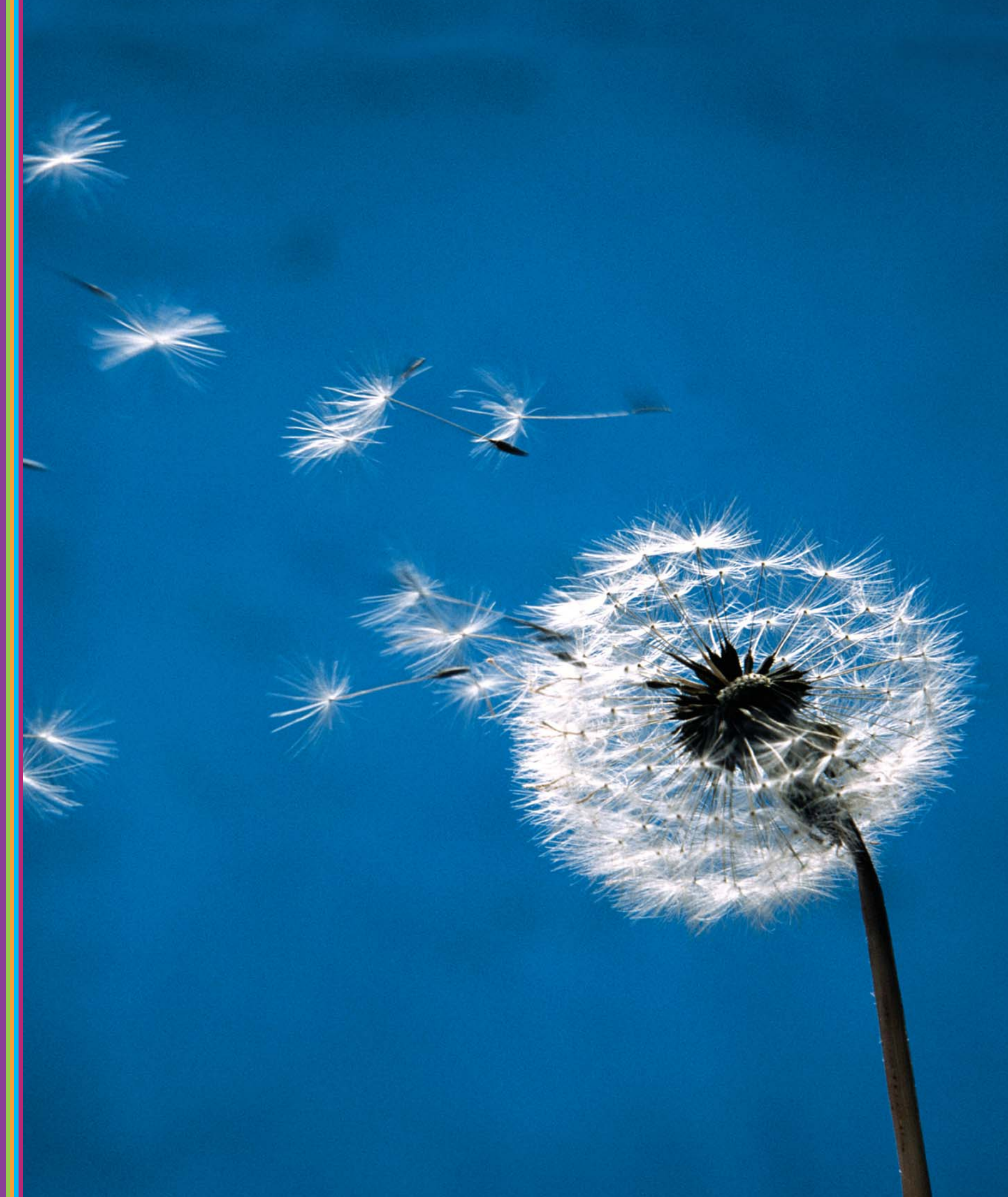
Under agreements signed with the Hydraulic Works Department of the Ministry of Public Works and the Metropolitan regional government, our Company, Aguas Andinas, acts as Technical Unit, carrying out the studies, projects and works in the development of the Rural Drinking Water Plan.

During 2003, a total of 472 million pesos has been invested, basically in service improvement works in the following areas:

The Rural Drinking Water Program currently benefits 36,075 homes with an estimated population of 216,450, reaching a coverage of around 100% of the localities called concentrated rural.

Also in 2003, we assumed the carrying out of a Training Project for Leaders and Employees of the Rural Drinking Water Services, designed to improve their level of self-directed performance.

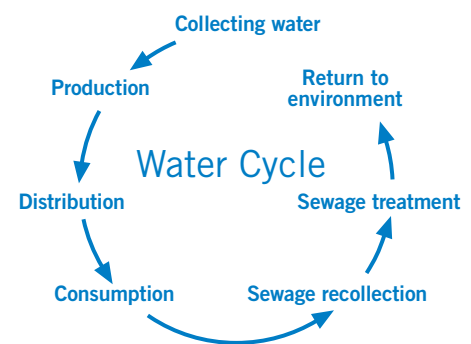
Service improvement works	M\$359,159
Designs	M\$18,875
Construction of soundings	M\$94,101





YEAR 2003

Managing the integral water cycle



Drinking is an essential element for life and the development of people who require a complex and integral process so that we can consume it without concerns and use it in most daily activities. This is what we do every day in Aguas Andinas.

We manage the integral water cycle. We collect water in its original state to produce drinking water (suitable for human consumption) and distribute it to every home in the Santiago basin. We then recollect the waste waters and treat and decontaminate them. We finally return them, clean and transparent, to nature.

To carry out this cycle rigorously, we in Aguas Andinas

have the necessary infrastructure, the most advanced technology and highly-trained personnel, thanks to the large investments we have made. Otherwise, it is impossible to cover the growing demand for drinking water of some 6 million people whom we supply and which almost reaches 500 million m³ a year.

As a way of constantly improving our performance, we formed a Corporate Operations Management in 2003 in order to efficiently manage each of the facilities of the integral water cycle through an overall view of the process.

We have also consolidated the work of our Operative

Control Center which allows us to monitor our installations, detect anomalies in the network, centralize decision taking and optimize and plan the operating resources.

Regarding information systems, the integration of the Geographic Information System, the hydraulic models and remote control has been completed. We have also defined an Information Systems Plan for the next five years.

Diente de León A feathery plant that breaks off at the touch and grows abundantly in meadows in the autumn.

As well as in the most developed cities of the world, Santiago has 100% coverage in drinking water, 98% in sewage services and 70% in waste water treatment.



YEAR 2003

A new management model

An important landmark of the year was the launching of the Zaphyrus Project which introduces a new organizational management model that implies orienting all Company processes to face customers. Zaphyrus is implemented on the SAP system which was already being used by the Procurement and Finance areas.

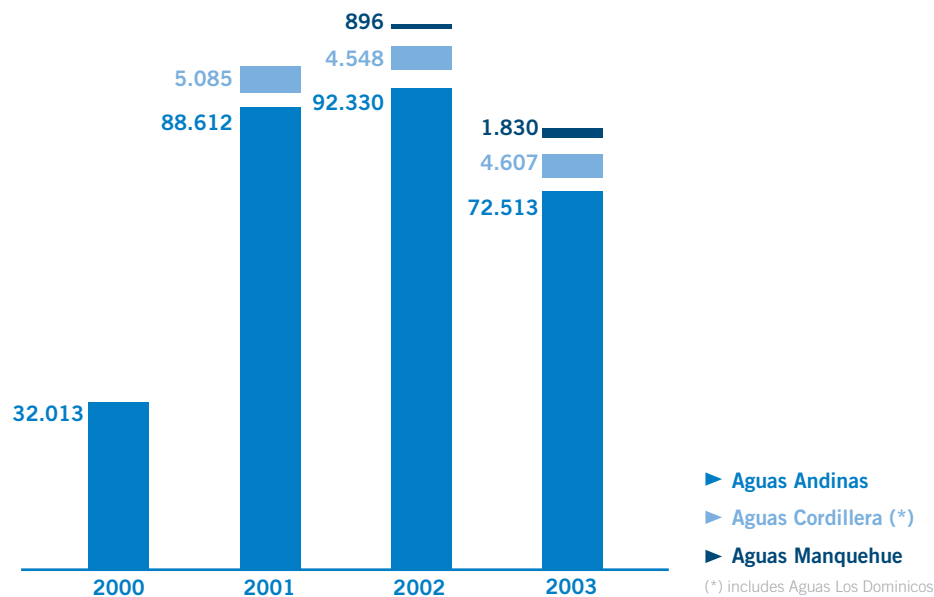
The introduction of this information technology combined with advanced operating practices will lead to more efficient and profitable procedures, for

planning and carrying out our activities effectively and having timely and detailed information to maximize our time and facilitate committed work.

Zaphyrus required a great effort. More than 8 thousand hours of formation, close to a thousand people trained, hundreds of hours of work in order for the project to rigorously meet its set timetable. The program was launched with great success on January 1, 2004.

New investment in infrastructure

Annual Investment Evolution
(Ch\$ nominal millions)



We invested a total of Ch\$78,950 million in 2003 of which Ch\$72,513 million corresponded to Aguas Andinas, Ch\$4,607 million to Aguas Cordillera and los Dominicos, and Ch\$1,830 million to Aguas Manquehue.

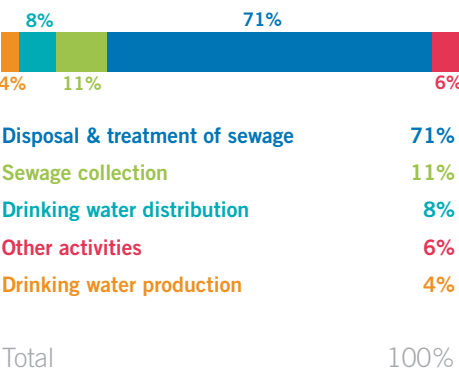
The main investments were in sewage collection and treatment works totaling Ch\$64,592 million of which Ch\$56,290 million were for decontamination works. Notable among these was the Farfana Sewage Treatment Plant.

Part of this investment was used to build new treatment plants like El Monte, Valdivia de Paine and Chamisero; and for the improvement of existing ones like the Esmeralda and Cexas plants.

We invested around Ch\$9,614 million in drinking water facilities of which 66.5% relate to distribution works. Part was used to install and repair networks, centralized control, construction of the new El Peral drinking water system, expansion of the Low and Middle Lo Cañas and Melipilla West drinking water systems, and the improvement of the Low Antonio Varas, Quilicura, High and Low Peñalolén, Pirque, Lo Curro and Los Trapenses drinking water systems.

Regarding investments in drinking water production, the most important projects of Aguas Andinas were the improvement of production facilities, the expansion of the Cerro Negro system, acquisition of water rights to the River Maipo and the placing of soundings in Chamisero.

Investment per Concession
2003



The remaining 6%, equivalent to Ch\$4,744 million, related to other investment projects including the information technology development project.

Of the Group's total investments, 87% relate to expansion projects totaling Ch\$68,704 million.



MANAGING THE INTEGRAL WATER CYCLE

Production

Drinking water is essential for life. It is an indispensable element for the industrial processes, a fundamental pillar for agriculture and every daily activity. It is vital and at the same time scarce. Thus its importance, and the respect and care we owe it.

During 2003, our drinking water production, measured as it leaves the plants, was 648.4 million m^3 , of which 554.8 million m^3 were surface waters and 93.6 million m^3 a underground waters.

The rivers Maipo and Mapocho are the main sources of basic water we use for the production process. There are also natural aquifers supplying underground water which are within our concession area.

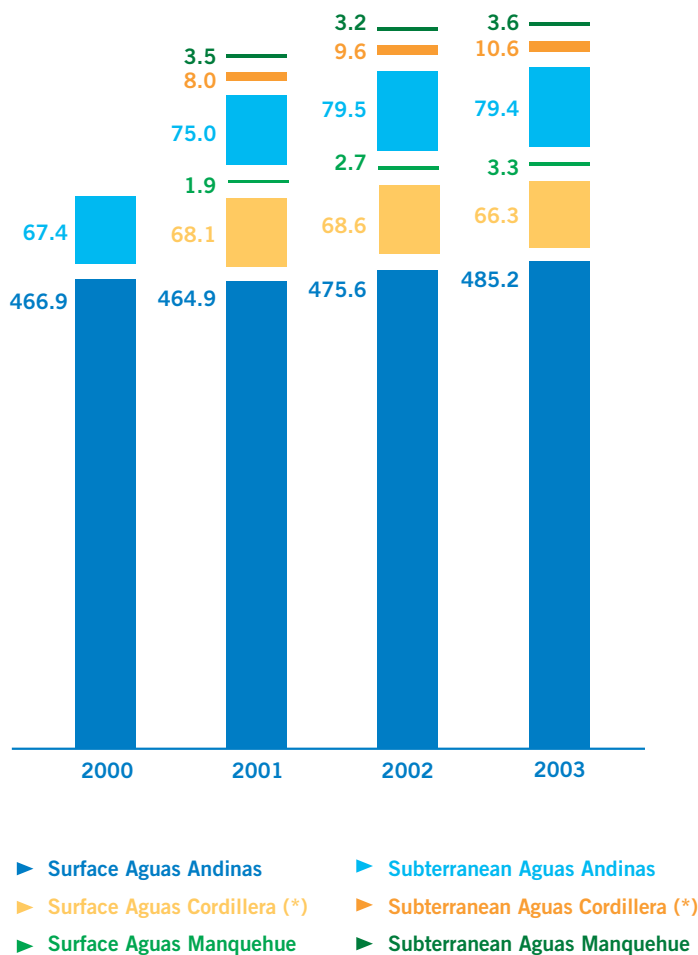
Our 3 largest water reserves are held in the El Yeso reservoir, with a capacity for 260 million m^3 ; La Laguna Negra, with 600 million m^3 and La Laguna Lo Encañado, with 50 million m^3 .

Our main drinking water production plants are the Las Vizcachas complex and the La Florida plant. The first has a maximum production capacity of 15 m^3/s , enough to cover over 50% of the Group's total production. Second in capacity is the La Florida plant which produces 4 m^3/s , representing close to 18% of total production. There are also another 12 smaller drinking water plants including Padre Hurtado, Lo Gallo, San Enrique and El Sendero.

We operate 16 drinking water production plants to meet the demand of over 6 million inhabitants in the Santiago basin.



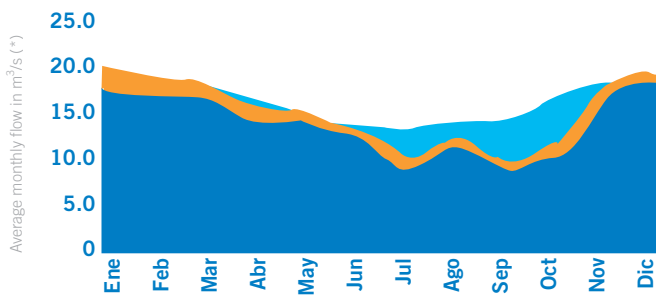
Production by kind of source (millions of m³)



(*) includes Aguas Los Dominicos

Contribution of El Yeso

Year after year, our drinking water production is backed by the El Yeso reservoir which meets a fundamental role in regulating the contribution made by surface waters. This reservoir, a key source for the Company, ensures the supply of drinking water to the 6 million inhabitants of the Santiago basin, including during periods of drought. We are therefore making constant investments in maintaining its installations in good condition.



(*)Production Aguas Andinas, Greater Santiago concession, 2003.

- Contribution El Yeso reservoir
- Subterranean production
- Surface production without reservoir



MANAGING THE INTEGRAL WATER CYCLE

Distribution

The drinking water pipeline networks play a very important role in supplying, continually and with the right pressure, close to 6 million inhabitants of the Santiago basin. This large extension of underground pipeline therefore has to be subjected to a periodic maintenance plan to guarantee its good condition and preservation.

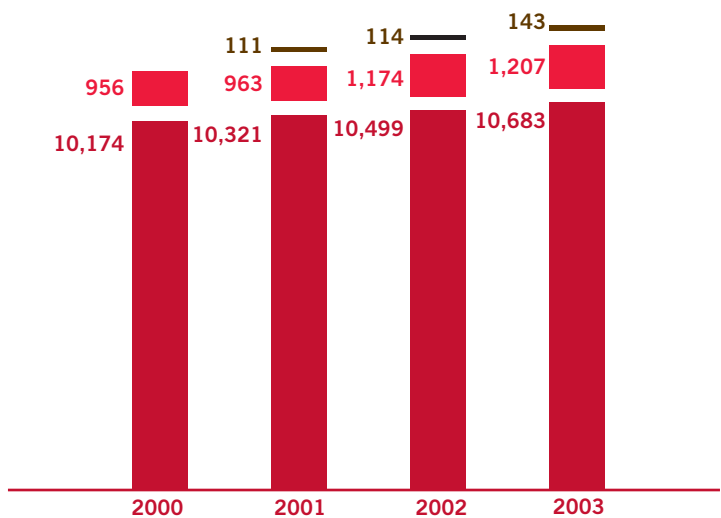
During the year, Aguas Andinas increased the length of the distribution network by 184 thousand meters.

Together with the networks of Aguas Cordillera, Aguas Los Dominicos, Aguas Manquehue, Aguas Andinas today has a total of 12,033 kilometers.

We maintain and are expanding an underground distribution network of more than 12,000 kilometers for ensuring the every day supply of drinking water for the millions of people we serve.



Length of the distribution network (kms.)



- **Aguas Andinas**
- **Aguas Cordillera (*)**
- **Aguas Manquehue**

(*) includes Aguas Los Dominicos

The operation and functioning of the drinking water network is monitored and managed from the Operative Control Center. There is also a Preventive Manitenence Program that ensures the proper maintenance of each of the network’s installations, renovating the infrastructure with the latest materials and technologies. During 2003, a total of 15 thousand meters of tubes were renewed.



MANAGING THE INTEGRAL WATER CYCLE

Collection

The purpose of the sewage collection network is to evacuate waste domestic and industrial waters to their final disposal point, like sewage treatment plants.

During 2003, Aguas Andinas increased its sewer network by 199 thousand meters.

Altogether, the networks of Aguas Cordillera, Aguas Los Dominicos, Aguas Manquehue and Aguas Andinas have a total length of 9,720 kilometers.

This underground sewer network is undoubtedly of

vital importance to the health of those who live in the city as it avoids direct contact with contaminated waters and so reduces the risk of contagious illnesses.

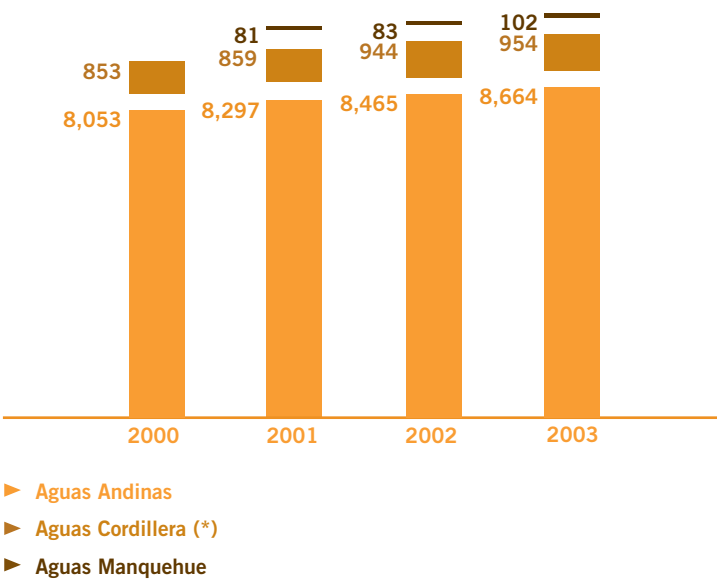
This network is permanently revised and maintained to ensure a continual service without risks to our customers' health. As part of the Sewage Network Improvement Project, we thus renewed 15 thousand meters in different parts of the system.

We also continued with the Preventive Maintenance

We manage 9,700 kilometers of underground sewers that take waste waters to the sewage treatment plants.



Length of the Sewer Network (kms.)



(*) Includes Aguas Los Dominicos.

Program, cleaning 249 thousand meters of sewers and inspecting 14 thousand meters of residential drains and junctions with high-technology equipment.

Among the technological developments of 2003 is the Sewage Flow Measuring Network, which purpose is to measure and control the entrance of water into the El Trebal and La Farfana treatment plants. This network, which came into operation in late December, is composed of ultrasonic flow-meters in the sewers that provide information on the flows of waste waters in real time to the Operative Control Center. This information, apart from permitting the operative management of the collection, provides relevant data for planning and modeling the network.



MANAGING THE INTEGRAL WATER CYCLE

Treatment

Thanks to the technology introduced into each of the processes of the sewage treatment plants, the water used by people and industry are returned to the rivers and natural water courses that cross the city clean and in optimum conditions for irrigation.

With the coming into operation of La Farfana, and together with the El Trebal plant, Aguas Andinas currently decontaminates more than 70% of the waste waters generated by the inhabitants of the Santiago basin.

The La Farfana Sewage Treatment Plant, operating

since September 2003, is the largest of its kind in Latin America and one of the 5 largest in the world. The plant is designed to treat an average flow of $8.8\text{m}^3/\text{s}$ which is the equivalent of 50% of all the waste waters generated by the inhabitants of the Metropolitan Region, corresponding to an estimated population of 3.3 million people. In addition, La Farfana absorbed the sewage treatment that was processed at the Santiago West plant which ceased its operations in September.

The El Trebal Sewage Treatment Plant, in operation since October 2001, cleans the waste waters of

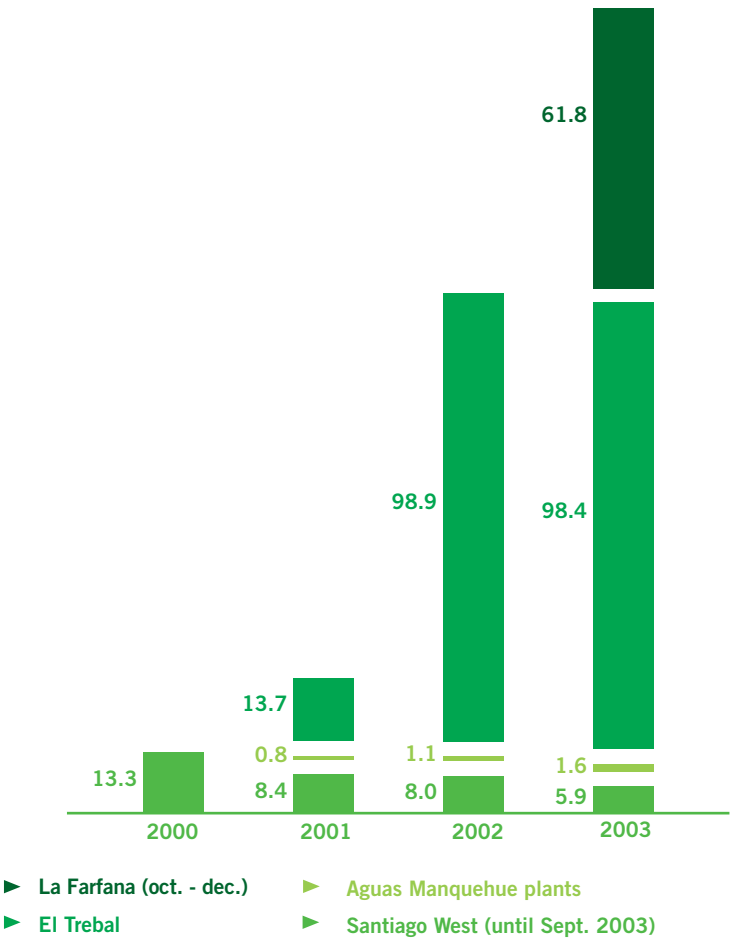
approximately 1.7 million inhabitants of south and south-west Santiago, and has a treatment capacity of $4.4\text{m}^3/\text{s}$.

During 2003, the volume of sewage treated in The Greater Santiago was 167 million m^3 and the production of dehydrated muds was 22,313 tons.

With the start-up of the La Farfana plant, we complete the decontamination of more than 70% of the sewage generated by the inhabitants of the Santiago basin.



Greater Santiago sewage treatment (millions of m³)



The outlying districts of the Metropolitan Region have 6 sewage treatment plants operating: San José de Maipo, Paine, Cexas-Melipilla, Esmeralda, Pomaire and Til-Til (Los Olivos). They have a combined treatment capacity of an average flow of 197 liters per second.

During 2003, the volume of sewage treated by these plants was 6.3 million m³ and mud production was 479 tons.

New plants at Valdivia de Paine, Talagante and El Monte are under construction.

Sewage treatment
Outlying districts
(millions of m³)







YEAR 2003

Progressing with responsibility

We want to progress. And for this, we know it is indispensable to respect the environment, be concerned about the people who work for the Company and social responsibility to the whole community.

Cóndor

(*Vultur gryphus*)

Large bird of prey that inhabits the Andes peaks and can fly at heights of up to 10,000 m.

Care and respect for the environment, concern for our personnel and the social responsibility we have as a Company are basic principles in the business of Aguas Andinas.

We are aware that progress is only such to the degree that it is sustainable in the type of service we offer, as it makes possible the development of the people and society.

This is why we must continue working to make ourselves a leading company in environmental matters and social responsibility. We place people in the top

place and our purpose is to work in the service of a society that has thousands of faces, dreams, hopes and expectations.

Our great commitment to the community, related to the mission of providing an essential top-quality service to all our customers, translates into a contribution to the improvement of the quality of life of all the inhabitants of the Santiago basin.



PROGRESSING WITH RESPONSIBILITY

Care for the environment

Environmental policy

Our mission is give full life to the inhabitants and environment of the Santiago basin. This forces us as a Company to maintain a policy of constant commitment to our customers, oriented to providing services that meet their needs and expectations on the basis of compliance with environmental legislation and regulations and respect for and conservation of the environment.

This commitment leads us to continually improve our processes and services, integrating a network of

stable relations and mutual convenience with customers, shareholders, employees, suppliers and public and community organisms, sharing the objectives of sustainability and development.

Our environmental policy is based on the commitment to the environment in all the activities we carry out as a company, through a corporate culture oriented to collaboration with the society in which we work.

We choose to ensure the most important thing for future generations: a basin with its water resources



Progress of the decontamination plan

Since September 2003, the Farfana Sewage Treatment Plant, together with the El Trebal Plant, decontaminated more than 70% of all capital's waste waters, providing direct benefits to the environment and the inhabitants of the Santiago basin. Just three years ago, less than 3% of these waters were treated, showing the important investment effort made by our Company.

All the water treated by La Farfana plant is suitable for irrigation, thus ending the contamination and effectively reducing the risks of enteric illnesses, recovering rivers and natural water courses for the community and decidedly contributing to the quality of life for future generations.

In order to reach the target of decontaminating all the waste waters, there remains just the building of the Los Nogales plant in Santiago, which is planned to start operating in 2009 and which will permit the

cleaning of the waters of the River Mapocho that runs through the city, and other plants planned for the outlying districts.

District plants are already operating at San José de Maipo, Paine, Cexas, Esmeralda and Pomaire. During 2003, construction began on the treatment plants of Valdivia de Paine, Talagante and El Monte. The Decontamination Plan considers the building of a total of 13 treatment plants to benefit over 610 thousand inhabitants in outlying districts.

The Santiago Basin Water Decontamination Plan carried out by our Company will permit the decontamination of all the waste waters generated by its 6 million inhabitants, decidedly contributing to improving the quality of life and the environment.

This country project, undoubtedly the most important

in Chilean environmental history, will require an investment of approximately 700 million dollars, involving the construction of 16 treatment plants among other installations.

In the next decade, Santiago and its surroundings will be treating all its waste waters, leaving our capital meeting international standards for water treatment and equaling the most important cities in the developed world. This will decontaminate the environment and improve the quality of life of the population, especially the middle and lower-income sectors.



PROGRESSING WITH RESPONSIBILITY

Great benefits for the country and its inhabitants

Social, economic, health and welfare related: the benefits contemplated in the Decontamination Plan of the Santiago basin waste waters are many for all its inhabitants.

- ▶ **Decontaminate** the environment and improve **the quality of life** of the people.
- ▶ Recover more than 130 thousand hectares for **farming**, with irrigation using **decontaminated water**.
- ▶ Notably **reduce** enteric **illnesses** like typhus, hepatitis and cholera.
- ▶ Permit important **social and economic savings** by improving the health conditions of the population and its surroundings.
- ▶ **Recover** new **green areas** for family recreation.
- ▶ Permit access to the most demanding **export markets** thanks to the environmental standards achieved.
- ▶ **Increase the country's competitiveness** when signing economic agreements.
- ▶ **Create** more than 10 **thousand** direct and indirect jobs as a result of the building works included in this plan.
- ▶ Place **Santiago** at the same level as the **large capitals** of the world. Within the concern and commitment for the environment acquired by our Company, research and development play an important part.

Environmental landmarks

There were two important achievements in the country's environmental history during 2003 which have allowed us to provide an important advance in the process of decontaminating and recovering the Santiago basin for all its inhabitants.

In June, we closed the last waste water discharge on the Zanjón de la Aguada; a natural water course that was for a long time synonymous with contamination and insanitariness. The waste waters that were poured into this course are being carried by the La Farfana pipe to the plant of that name for its treatment.

This brings concrete benefits to the health and hygiene of Santiago and above all to people living near the Zanjón de la Aguada who have seen their quality of life change radically.

Similarly, on August 29, 2003, the President of the Republic inaugurated the La Farfana Sewage Treatment Plant, considered as the principal achievement in the environmental history of Chile.

Great benefits for the country and its inhabitants



Research and development

Within the concern and commitment for the environment acquired by our Company, research and development play an important role.

In order to use these byproducts efficiently, our Company has prepared two studies on the matter. One with the Institute of Agricultural Research (INIA) and the other with the Agriculture and Livestock Service (SAG), both entities reporting to the Ministry of Agriculture. The INIA Project has shown that the biosolids are a good fertilizer for the soil, while the SAG study resolved that the addition of biosolids increases the productivity of crop yields.

In order to value this byproduct, our Company and INIA carried out site tests in the spring of 2003 at 11 farms in the Metropolitan Region, using them as fertilizer due to their rich contribution in fertilizers, micro-nutrients and organic material. And the response was the farmers' willingness to use this byproduct on their farms.

ISO 14000

During the second half of 2003, we began the process of ISO 14000 certification that will introduce a Quality and Environmental Integrated Management System for the sewage treatment plants.

We shall therefore be able to ensure our permanent commitment to our customers, oriented to providing them with services that satisfy their needs and expectations, as well as respect for and conservation of the environment.

The ISO 14000 certification will cover the processes related to 9 purification plants and the disposal of the muds produced as part of the treatment process.



PROGRESSING WITH RESPONSIBILITY

Working at the service of the people

The people working in Aguas Andinas are a key and fundamental piece for the Company's project that we wish to be. They are part of the culture and style of our Company which is characterized for its efficiency, team work and professionalism.

We have been especially concerned about preparing and promoting mechanisms that develop and consolidate committed people who are constantly seeking the improvement of their skills, thanks to the

formation and training provided by the Company. So that they work with motivation and enthusiasm, responding to the expectations and responsibilities of each job and work position.

With the contribution from everyone, it is possible to achieve the objectives set by Aguas Andinas relating to efficient performance and providing a service of excellence and quality to its customers.



PROGRESSING WITH RESPONSIBILITY

Formation and training

All of us who belong to Aguas Andinas should constantly be up-dating our knowledge, incorporating technological and scientific advances, in order to continue improving the quality and service standards that we provide to all the inhabitants of the Santiago basin.

We have therefore prepared a formation plan which contains new training tools like e-learning (learning over the intranet) and the possibility of being awarded with scholarships jointly financed by the Company and the employee.

During 2003, the training of our personnel was basically focused on the development of their skills towards the facing of new technologies, especially the introduction of SAP at all levels.

We are also focused on the formation of service quality, particularly with courses for the implementation of the ISO 9000 standard and the development of skills and knowledge for improving the performance of executives, department heads and professionals.

Training hours increased by 8% compared to the previous year to a total of 64,714 hours, with an average of 44 hours training per employee.

The main subject areas were information technology, with 29% of total hours, and technical subjects with 22%, focused mainly on the operating areas.

Other areas were administration with 20%; safety, hygiene and health with 5%; languages with 3%;

commercial 1%; and general knowledge with 20%.

The total courses given at the Group level was 1,061, of which 587 were for Aguas Andinas, 278 for Aguas Cordillera, 71 for Aguas Manquehue and 125 for other subsidiaries.

The 2003 performance evaluation process was begun in December, with an increase from 200 to 399 persons evaluated. The process provides a more complete idea of the professional characteristics of those working for Aguas Andinas and thus enables us to take better advantage of their skills and abilities.



PROGRESSING WITH RESPONSIBILITY

A healthy and safe working environment

For our Company, safety and occupational health are priority matters, being conditions and factors that affect the welfare of the employees, fee-earning personnel, contractor personnel, visitors and any other person on the premises.

Compliance with the Occupational Health and Safety Policy is an imperative that is in the direct benefit of our workers and customers. We know that accidents are avoidable and that risks can be prevented.

The actions taken to control operating risks have to be systematic, integrated with normal duties, in a continuous improvement process.

The management of Aguas Andinas urges all its workers and contractors to play an active part in the Occupational Health and Safety System. Our responsibility is to have an accident-free Company, with trained and committed people.

During 2003, we organized activities for strengthening a preventive culture within the Company, divulge prevention as a personal value and create a preventive management system.

The sensibility plan was carried out by advisers from the Universidad Politécnica de Catalunya who, in June, ran various working sessions mainly showing the advantages of prevention within the Company.

With assistance from the Chilean Safety Association (ACHS), we organized various communications and diffusion campaigns in all the zonal divisions, providing on-site training and recognizing outstanding workers and zones.

We can say with satisfaction that we have achieved during the year a considerable reduction in the accident and injury rates, thus meeting the expected targets.

We are convinced that people are key to achieving the company project we want. We therefore invest in the development of everyone's skills and abilities.



Public recognitions “Quality of working life”

2003 was a year of important public distinctions for Aguas Andinas, reflecting the Company's concern for the good quality of working life.

The Company was chosen as being among the 8 best companies in labor relations in Chile, according to a ranking prepared by the Fundación Carlos Vial Espantoso. The Fundación Chile Unido and the magazine Ya (of the El Mercurio newspaper) also chose the 5 best companies for working mothers, one of which was Aguas Andinas. This novel recognition was evaluated on the basis of working flexibility, promotion and maternity practices, benefits, services and the company's culture.

The National Training and Employment Service (SENCE), part of the Ministry of Work, identified Aguas Andinas from among the 20 companies that provided most training in Chile.

Finally, Aguas Andinas received recognition from Programa Chile para la Inserción Laboral de la Población Ciega for granting work opportunities to blind people.

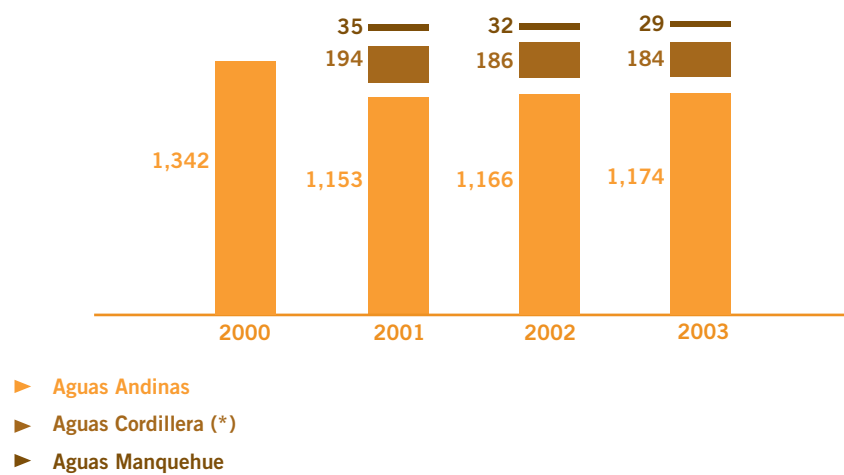


PROGRESSING WITH RESPONSIBILITY

Employee numbers

At December 2003, the Group's personnel totaled 1,476 people of which 1,174 relate to Aguas Andinas, 184 to Aguas Cordillera, 29 to Aguas Manquehue and 89 to other companies.

Employee numbers in the Group's sanitation companies



We are more than 1,400
people working to give a
better service.



Total employees

	Aguas Andinas	Aguas Cordillera (*)	Aguas Manquehue	Others (**)	Group
Managers & Senior Executives	47	6	1	2	56
Professionals & Technicians	456	57	5	26	544
Workers	671	121	23	61	876
Total	1,174	184	29	89	1,476

(*) Includes Aguas Los Dominicos.

(**)Otras corresponde a Anam, Ecoriles y Gestión y Servicios.



PROGRESSING WITH RESPONSIBILITY

Socially responsible

A socially-responsible company is one that integrates harmoniously ethical values respect, the people, the community and the environment, in the context of their daily operations and in the operative and strategic decision-making processes.

For Aguas Andinas, social responsibility is a fundamental commitment associated with our mission of being a company that delivers an essential service to customers, contributing to improving the quality of life of all the inhabitants of the Santiago basin.

Our social responsibility therefore is based on actions that permit generating value and progress for the country, contributing to society's progress and preserving the environment for future generations.

During 2003, the social-responsibility activities at the internal level were centered on the constant training of our workers. We also considered as a future challenge the preparation of code of ethics for defining values and expected conducts that all employees of the Company should follow.

At the external level, community contribution programs were continued, with plumbing and good use of the sewage system workshops which increased in coverage and number of persons attending.

Projects of a environmental educational character were intensified, notable being La Aventura del Agua, visits to the plants and the provision of a educational CD to schools in the Metropolitan Region.

We orient our efforts to benefit the people, not only providing an essential service but also promoting values and conduct that contribute to the quality of life in the Santiago basin.



- ▶ La Aventura del Agua, a puppet show that educates children on the value and respect for this resource, was seen by **more than 14 thousand** school children from the Metropolitan Region.
- ▶ During 2003, **more than 2,600 people**, including housewives and heads of families, learned the **basic notions of plumbing**.
- ▶ Almost **8 thousand people** visited **our plants** and saw the drinking water and decontamination processes, in a clear contribution to the country's education.





FINANCIAL PERFORMANCE

Optimizing our resources

Important challenges marked our financial performance in 2003. These include the financing of significant investment commitments like the completion of the construction of the La Farfana Sewage Treatment Plant.

Drinking water

Santiago needs to take care of this resource, whether by being conscious about its use and its rational consumption or by its later treatment.

Important challenges marked our financial performance in 2003. These include the financing of significant investment commitments like the completion of construction of the La Farfana Sewage Treatment Plant.

The main financing activities were the issue of bonds on the domestic market and the drawing of bank debt. These transactions were closed on favorable conditions that enabled us to take advantage of the benefits of low interest rates in the market.

Another important aspect was that we continued with a proactive policy of monitoring and management of the company's operating and financial risks. This, added to the industry's characteristics, explains why Aguas Andinas has one of the best credit ratings granted to a private-sector company in Chile.

Finally, the positive result for the year 2003 not only has allowed us to distribute interim dividends but is also reflected in a considerable increase in the share price during the year.



Risk Factors

Our Company enjoys a favorable position in terms of risk, mainly due to the particular characteristics of the sanitation sector, as well as the proactive risk management policy, in which we have used the wide experience of our controllers.

Operating aspects

Regulatory framework. Our Company operates within a stable regulatory framework that allows us to develop our businesses and operations with a long-term perspective. These regulations also contemplate the setting of tariffs for our services for 5-year periods. The present tariffs are set by the Ministry of Economy Decree 76 and in force until March 1, 2005. It should be noted that the new tariff process of Aguas Andinas began in October 2003 and the result will be applicable for the period from March 2005 to February 2010.

Customers. We currently serve 1,363,760 customers in our concession area whose principal supplier is Aguas Andinas and its subsidiaries. The main 100 customers represented just 4.8% of total sales for 2003.

Weather conditions. Our important water reserves, like El Yeso, Laguna Negra and Lo Encañado reservoirs, and the contingency plans we have developed, allow us to reduce the potential negative impacts of adverse weather conditions on our operations.

Financial Aspects

Currency risk. Our revenues are largely linked to the local currency trends. Our debt is therefore mainly denominated in the same currency and we maintain no significant debt in foreign currency.

Interest rates. With respect to the interest rate risk, Aguas Andinas maintains 82% of its debt at fixed rates, comprising 75% in medium and long-term bond issues and 7% in reimbursable financial contributions. The remaining 18% of debt is at variable rates and relates to loans from local banks.

This whole favorable situation has meant that the credit rating agencies have granted a rating for the long-term debt of AA+. In the case of the shares, Feller Rate granted us a first class level 3 rating while Humphreys gave us a rating of first class level 2.

FINANCIAL PERFORMANCE

Investment and Financing Policy

The investments made by Aguas Andinas relate to the replacement of existing operating assets, the implementation of technological developments that provide an increase in efficiency of the present infrastructure and, mainly, the investment in expansion, corresponding to the works under our long-term development plan.

During 2003, our principal investments related to sewage collection, disposal and treatment works, particularly the start-up of the La Farfana Sewage Treatment Plant. Construction also began of the new decontamination plants at El Monte, Talagante, Valdivia de Paine and Chamisero, and improvements to existing ones like Esmeralda and Cexas.

Our investments in drinking water were concentrated on the installation and repair of networks, centralized control and systems improvements.

Financing. In May 2003, the Company made an issue of indexed bearer bonds amounting to 5.8 million UF, with a term of 6 years and an annual interest rate of 4.25%.

During the year, we obtained financing through Reimbursable Financial Contributions (AFR) of Ch\$12,807 million issued at fixed rates.

In December 2003, we drew loans from local banks amounting to Ch\$52,600 million. These are in local currency, with variable interest rates and mature in 8 years time.

Distributable earnings	ThCh\$
Net income for the year 2003 (*)	59,659,091
Reserve for future dividends	630,388
Distributable income before interim dividends	60,289,479
Interim dividends against 2003 net income	(19,035,815)
Remaining distributable income	41,253,664
% dividends distributed against distributable income	31.6%

(*) Net income for the year adjusted for negative goodwill of ThCh\$ 64.



Dividend policy

The 13th ordinary shareholders’ meeting agreed a dividend policy of distributing all net income, being the obligatory 30% of net income plus the remaining 70% as an additional dividend.

This policy will be maintained while compatible with the investment and financing policies determined for each year.

Dividends paid per share

Ch\$ per share	2000	2001	2002	2003
Book value	74.47	75.34	78.50	57.14
Net income	6. 75	6.90	8.84	9.75
Dividends paid	5.0620 ⁽¹⁾	6.7938 ⁽²⁾	7.7802 ⁽³⁾	9.18021 ⁽⁴⁾

(Figures in currency of date of payment)

(1) Includes two items: a dividend of Ch\$2.282 per share, being Ch\$2.1667 for the distribution of earnings for 1999 plus Ch\$0.1153 for distribution of Reserves for Future Dividends paid on May 17, 2000, and an interim dividend of Ch\$2.78 per share against the profits for 2000, paid on December 20, 2000.

(2) Includes two items: a dividend of Ch\$4.0138 per share, being Ch\$3.9726 for distribution of earnings for 2000 plus Ch\$0.0412 for distribution of Reserves for Future Dividends paid on May 18, 2001, and an interim dividend of Ch\$2.78 per share against profits for 2001, paid on September 28, 2001.

(3) Includes two items: a dividend of Ch\$4.9802 per share, being the distribution of earnings for 2001, paid on May 3, 2002, and an interim dividend of Ch\$2.80 per share against the profits of 2002, paid on December 20, 2002.

(4) Includes two items: a dividend of Ch\$6.0599 per share, being the distribution of earnings for 2002, paid on May 7, 2003, and an interim dividend of Ch\$3.12031 per share against the profits for 2003, paid on December 10, 2003.

Capital reduction

In order to optimize the capital structure while maintaining a solid financial situation in line with its investment commitments and credit rating, the Company in December 2003 reduced its capital.

This transaction, which was approved by the extraordinary shareholders’ meeting held on October 14, 2003, resulted in the payment to our shareholders of Ch\$22.87969 per share on December 10, 2003

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FINANCIAL PERFORMANCE

Share ownership

The capital of Aguas Andinas is divided into 6,118,965,160 shares of no par value. At December 31, 2003, 51.2% is held by Inversiones Aguas

Metropolitanas Ltda., 35.0% by CORFO, 8.3% by Pension Funds and 5.5% by other minority shareholders.

Share transactions

During 2003, CORFO, the Company's second largest shareholder, sold shares mainly through bids on the Santiago Stock Exchange.

These transactions relate to 69,415,091 shares of the B series, representing 1.134% of the total subscribed and paid shares.

Quarterly Statistics Aguas-B 2003 (1)

Date	Average Price (Ch\$)	No. of Shares	Amount (Ch\$)
August 19	140.00	69,403,157	9,716,441,980
Year 2003		69,403,157	9,716,441,980

(1) During 2003, there were other minor transactions by CORFO related to the payment in shares of workers' severance indemnities prior to the privatization of the Company. The total amount of these transactions was ChTh\$190 with an average price of Ch\$15.89.

Quarterly Statistics Aguas-B 2002

Date	Average Price (Ch\$)	No. of Shares	Amount (Ch\$)
December 06	140.00	9,997,931	1,399,710,340
December 09	140.00	6,771,031	947,944,340
December 12	140.00	476,000,000	66,640,000,000
Year 2002		492,768,962	68,987,654,680



Transactions on the secondary market

Santiago Stock Exchange

Quarterly Statistics Aguas-A

2001	Avg. Price (Ch\$)	No.of Shares	Amount (Ch\$)
Total 1st qtr.	\$121.99	3,329,350	406,160,860
Total 2nd qtr.	\$157.09	2,529,980	397,422,988
Total 3rd qtr.	\$200.22	1,816,504	363,706,384
Total 4th qtr.	\$193.63	1,451,249	281,004,523
Year 2001	\$158.8	9,127,083	1,448,294,755

2002	Avg. Price (Ch\$)	No.of Shares	Amount (Ch\$)
Total 1st qtr.	\$189.31	1,551,290	293,669,516
Total 2nd qtr.	\$179.37	1,520,125	272,668,864
Total 3rd qtr.	\$171.54	887,613	152,256,980
Total 4th qtr.	\$140.02	506,558,582	70,928,159,211
Year 2002	\$140.34	510,517,610	71,646,754,571

2003	Avg. Price (Ch\$)	No.of Shares	Amount (Ch\$)
Total 1st qtr..	\$130.14	24,857,214	3,235,039,325
Total 2nd qtr.	\$145.92	36,517,117	5,328,573,648
Total 3rd qtr.	\$144.83	118,463,042	17,157,566,996
Total 4th qtr.	\$181.98	81,211,953	14,779,098,271
Year 2003	\$155.14	261,049,326	40,500,278,240

Brokers Exchange – Securities Exchange

Quarterly Statistics Aguas-A

2001	Avg. Price (Ch\$)	No.of Shares	Amount (Ch\$)
Total 1st qtr.	\$120.41	115,999	13,967,225
Total 2nf qtr.	\$144.87	142,637	20,663,675
Total 3rd qtr.	\$204.94	82,801	16,968,852
Total 4th qtr.	\$188.20	205,323	38,641,304
Year 2001	\$165.05	546,760	90,241,056

2002	Avg. Price (Ch\$)	No.of Shares	Amount (Ch\$)
Total 1st qtr.	\$191.92	162,664	31,218,508
Total 2nf qtr.	\$180.42	55,625	10,035,675
Total 3rd qtr.	\$170.77	164,225	28,045,321
Total 4th qtr.	\$145.53	124,809	18,163,379
Year 2002	\$172.40	507,323	87,462,883

2003	Avg. Price (Ch\$)	No.of Shares	Amount (Ch\$)
Total 1st qtr.	\$136.13	43,184	5,878,755
Total 2nd qtr.	\$147.00	24,578	3,612,966
Total 3rd qtr.	\$140.54	83,750	11,769,868
Total 4th qtr.	\$181.18	771,354	139,755,095
Year 2003	\$174.47	922,866	161,016,684

FINANCIAL PERFORMANCE

Chilean Electronic Stock Exchange

Quarterly Statistics Aguas-A

2001	Avg. Price (Ch\$)	No.of Shares	Amount (Ch\$)
Total 1st qtr.	\$123.79	80,805	10,002,888
Total 2nd qtr.	\$162.42	106,145	17,240,104
Total 3rd qtr.	\$187.17	106,807	19,991,306
Total 4th qtr.	\$187.28	115,265	21,586,428
Year 2001	\$168.26	409,022	68,820,726
2002	Avg. Price (Ch\$)	No.of Shares	Amount (Ch\$)
Total 1st qtr.	\$190.29	82,500	15,698,750
Total 2nd qtr.	\$183.00	5,400	988,200
Total 3rd qtr.	\$179.74	15,009	2,697,790
Total 4th qtr.	\$142.66	1,964,904	280,306,133
Year 2002	\$144.93	2,067,813	299,690,873
2003	Avg. Price (Ch\$)	No.of Shares	Amount (Ch\$)
Total 1st qtr.	\$134.56	8,376,459	1,127,169,909
Total 2nd qtr.	\$155.26	6,587,444	1,022,773,336
Total 3rd qtr.	\$150.80	943,008	142,204,404
Total 4th qtr.	\$185.43	757,143	140,393,389
Year 2003	\$145.98	16,664,054	2,432,541,038

Real estate,
equipment and
insurance

The principal real estate and equipment for the provision of drinking water production, distribution, sewage collection and treatment services are owned by the Company and are in good working condition.

Our Company has current insurance cover for all its assets (infrastructure, buildings and contents) its installations for drinking water production, distribution, sewage collection and treatment, offices and warehouses. The cover of this insurance is mainly related to risks of nature and fire.





RELEVANT EVENTS

Let us share some of the year's highlights

El Plomo Mountain

Ages ago, this was the mountain where the Incas carried out their rituals. It is today the most visible from Greater Santiago, at an altitude of 5,430 m.

- ▶ The Company's board reported that at its meeting on September 9, 2003, it agreed to call an extraordinary shareholders' meeting for October 14, 2003. The purpose was to submit to the meeting the board's proposal to reduce the Company's capital by up to Ch\$140,000 million (one hundred and forty billion pesos).
 - ▶ The Company's board reported that on October 14, 2003, the 12th extraordinary shareholders' meeting of Aguas Andinas resolved the following:
 - a. To modify the 5th clause and 1st Transitory clause of the bylaws in order to reduce the capital by Ch\$140,000 million (one hundred and forty billion pesos), maintaining the number of subscribed and paid shares of the Company and the series into which they are divided and their privileges.
 - b. To distribute the approved capital reduction to shareholders pro rata to their shares, being Ch\$22.87969 per share which should be paid by December 31, 2003.
 - ▶ The Company's board reported that at its meeting held on December 9, 2003, Juan Carlos Fontana presented his resignation as a director and vice-chairman of Aguas Andinas. Alain Chaigneau and Manlio Alessi also presented their resignations as alternate directors.
- In accordance with clause 32 of the Corporations Law, the board at the same meeting named Manlio Alessi as a director in replacement of Juan Carlos Fontana. The board then elected Charles Chaumin as vice-chairman of the Company.



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BOARD OF DIRECTORS AND MANAGEMENT

Directors’ remuneration

In accordance with Law 18,046, the ordinary shareholders’ meeting held on April 15, 2003 agreed the directors’ remuneration for 2003.

The remuneration is divided into two kinds: a fixed monthly fee of UF50 for all directors, UF100 for the chairman and UF75 for the vice-chairman; and a

variable one payable for attendance at meetings, of UF80 for the chairman, UF60 for the vice-chairman and UF40 for directors.

The detail of the amounts paid is shown below.

Directors’ remuneration

Directors	Position	(ThCh\$) Meeting		(ThCh\$)	
		2003	2002	2003	2002
Roque Gistau Gistau	Chairman	20,315	5,073	17,625	4,059
Adolfo Ramiro Fernández	Chairman	-	15,221	-	14,882
Juan Carlos Fontana	Vice chairman	15,236	15,221	12,202	12,177
Alfredo Noman Serrano	Director	10,158	10,147	4,748	8,117
Pedro Butazzoni Alvarez	Director	-	8,456	-	7,441
Julio Gibrán Harcha Sarras	Director	3,372	10,147	2,028	9,471
Bernardo Espinosa Bancalari	Director	10,158	10,146	8,813	9,471
Carlos Mladinic Alonso	Director	10,158	2,537	8,813	2,029
Daniel Albarrán Ruiz - Clavijo	Director	10,158	2,537	6,105	-
Manlio Alessi Remedi	Director	10,157	10,146	1,356	4,735
Roberto Hempel Holzapfel	Alternate Director	10,157	6,765	-	-
Agustín Insulza Salinas	Alternate Director	-	1,691	-	-
Oscar Santelices Altamirano	Alternate Director	-	7,610	-	-
Carlos Rivas Gómez	Alternate Director	1,694	10,146	-	-
Jean Duhart Saurel	Alternate Director	6,785	-	679	-
Jorge Bande Bruck	Alternate Director	6,785	-	-	-
Total		115,133	115,843	62,369	72,382

Note: The expenses of the directory of the period promoted a Ch\$2,27 millones.

BOARD OF DIRECTORS AND MANAGEMENT

Committee remuneration

		Remuneration (ThCh\$)	
Director	Position	2002	2003
Roque Gistau Gistau	Director	8,807	1,522
Alfredo Noman Serrano	Director	-	8,287
Julio Gibran Harcha Sarraz	Director	2,700	9,470
Bernardo Espinosa Bancalari	Director	-	7,949
Carlos Mladinic Alonso	Director	8,807	1,522
Daniel Albarrán Ruiz - Clavijo	Director	5767	-
Total		26,081	28,750

At the ordinary board meeting held on April 29, 2003, the members of the directors' committee were elected, these being Roque Gistau Gistau, Daniel Albarrán and Carlos Mladinic.

The activities of this committee have been those referred to in the law and expenses incurred in advisory services amounted to Ch\$12 million.



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Managers and Senior Executives

At December 2003, the total number of managers and senior executives was 47 professionals. The total remuneration received by the managers and senior executives during the year was Ch\$4,681 million. Severance indemnities received by managers and

senior executives was Ch\$184 million in 2003. The incentive policy for executives is based on meeting the general objectives of the Company and individual performance.

Name	Position	Profession
Bagué Prats, Josep	General Manager	Economist
Brunet, Laurent	Assistant General Manager	Engineer
De la Barra Fuenzalida, Víctor	Corporate Manager	Civil Engineer
Escudero García, Ignacio	Corporate Manager	Telecommunications Engineer
Larrain Aspillaga, Felipe	Corporate Manager	Civil Engineer
Martí Marqués, Joaquim	Corporate Manager	Engineer Roads, Canals & Ports
Murillo Collado, José Luis	Corporate Manager	Economist
Villarino Herrera, Joaquín	Corporate Manager	Lawyer
Boulanger, Gilles	Manager	Industrial Engineer
Donoso Moscoso, Enrique	Manager	Civil Engineer
Figueroa Ramírez, Sergio Martín	Manager	Construction Engineer
Fuentes Contreras, Luis	Manager	Civil Engineer
Hernández Rodríguez, Guillermo	Manager	Civil Engineer
Lagarde, Jean Louis	Manager	Economist
Larraín Sánchez, Camilo	Manager	Lawyer
Lesty, Yves	Manager	Sanitation Engineer
Martín Sancho, Miguel Angel	Manager	Ind. Eng. Electricity-Electronics
Martínez León, Antonio	Manager	Engineer Roads, Canals & Ports
Mena Ramírez, Hernán	Manager	Commercial Engineer
Ribera Nebot Joan	Manager	Degree in Physics
Riffo Aranda Jorge Alejandro	Manager	Civil Engineer in Civil Works
Romero Arriaza, Alejandro	Manager	Civil Engineer

BOARD OF DIRECTORS AND MANAGEMENT

Name	Position	Profesión
Villarino Krumm, Salvador	Manager	Civil Engineer
Yarur Sairafi, Iván	Manager	Civil Industrial Engineer
Acevedo Walker, Sebastián	Assistant Manager	Civil Engineer
Alvano Contador, Paola	Assistant Manager	Commercial Engineer
Auger Hernández, Mario Alejandro	Assistant Manager	Civil Engineer
Cruzat Torres Enrique Alberto	Assistant Manager	Civil Engineer
Dupré Silva, Víctor	Assistant Manager	Civil Engineer
Estay Caballero, Ricardo	Assistant Manager	Civil Engineer
Faúndez Pérez, Luis	Assistant Manager	Civil Engineer
Garcés Arancibia, Fernando	Assistant Manager	Civil Industrial Engineer
Garcés Duran, Christian Raúl	Assistant Manager	Commercial Engineer
Gil Pla, Ramón	Assistant Manager	Degree in Business Admin.
Grau Mascayano, Francisco	Assistant Manager	Civil Engineer
Kent Geell, Natalia	Assistant Manager	Civil Industrial Engineer
Koning Besa Hernán Vicente	Assistant Manager	Civil Engineer
Maturana Vaughan, Renato	Assistant Manager	Civil Engineer
Muñoz Anrique, Julio Raúl	Assistant Manager	Civil Industrial Engineer
Ocariz Martín, Hernán Alfonso	Assistant Manager	Civil Engineer
Pinaud Wehrli Jorge Bernardo	Assistant Manager	Civil Industrial Engineer
Salazar Muñoz Cristian Andrés	Assistant Manager	Civil Industrial Engineer
Sanhueza Navarrete, Juan Carlos	Assistant Manager	Civil Engineer
Soto Perretta, Pedro Andrés	Assistant Manager	Civil Engineer
Tapia Donoso, Juan Luis	Assistant Manager	Civil Engineer
Witto Arentsen, Reinaldo Javier	Assistant Manager	Informatio Technology Engineer
Yuras Maltes, Evans Patricio	Assistant Manager	Business Admin.. Engineer



MAIN CUSTOMERS AND SUPPLIERS

Relations of trust

Nature has taught us that trust and respect for those who interact with us are the basis for making satisfactory relationships to the mutual benefit.

Customers for Drinking Water and Sewage

- Agrícola Industrial Lo Valledor AASA S.A.
- Cervecera CCU Chile Ltda.
- Comudef
- Ejército de Chile
- Gendarmería de Chile
- Ilustre Municipalidad de Santiago
- Pontificia Universidad Católica de Chile
- Soprole S.A.
- Universidad de Santiago
- Universidad de Chile

Suppliers

- Abengoa Chile S.A.
- ACSA Agbar Construcciones S.A. agencia en Chile (*)
- Aguas de Levante S.A. Chile (*)
- Captagua Ingeniería S.A.
- Chilectra S.A.
- Copergo Ltda.
- Comercializadora Surquímica Ltda.
- Empresa Constructora Modelo S.A.
- Enrique Leiva Olmedo y Cía. Ltda.
- Occidental Chemical Chile Ltda.

(*) These companies are related indirectly to Aguas Andinas through one of the principal shareholders.

DECLARATION OF RESPONSIBILITY

The directors of AGUAS ANDINAS S.A. and the general manager, signatories to this declaration, make themselves responsible under oath with respect to the accuracy of the information contained in this annual report, in accordance with General Rule No 30 of the Superintendency of Securities and Insurance.



Roque Gistau

Chairman



Charles Chaumin

Vice Chairman



Alfredo Noman Serrano

Director



Manlio Alessi Remedi

Director



Carlos Mladinic Alonso

Director



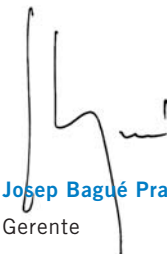
Bernardo Espinosa Bancalari

Director



Daniel Albarrán Ruiz Clavijo

Director



Josep Bagué Prats

Gerente

THE COMPANY

Our information

Name	Aguas Andinas S.A.
Mailing Address	Avenida Presidente Balmaceda N° 1398, Santiago, Chile
Zip Code	8340083
Auditors	Deloitte
Kind of Entity	Sociedad Anónima Abierta
Fax	(56-2) 694 27 77
Web Site	www.aguasandinas.cl

Investor Relations

Electronic mail	inversionista@aguasandinas.cl
Telephone	(56-2) 694 2648 – 694 2306

Legal aspects

The Company is registered at the Superintendency of Securities and Insurance with N°18.777.

Incorporation

Aguas Andinas S.A. was incorporated by means of a public deed dated May, 31 1989 in Santiago, before the Notary public Mr. Raúl Undurraga Laso. An abstract thereof was published in the Official Gazette of June 10, 1989, and was recorded at the Registry of Commerce on page 13.981, N°7.040 of 1989, of the Santiago Real Estate Registrar.



ANNUAL REPORT AGUAS ANDINAS 2003

79	Report of Independent Accountants
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85	Notes to the Consolidated Financial Statements
130	Management Discussion and Analysis for Aguas Andinas S.A. and Subsidiaries



REPORT OF THE INDEPENDENT ACCOUNTANTS

Deloitte.

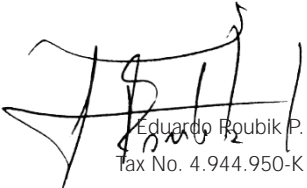
To the Shareholders and Directors of Aguas Andinas S.A.

We have audited the accompanying consolidated balance sheets of Aguas Andinas S.A. and subsidiaries as at December 31, 2003 and 2002 and the related statements of income and of cash flows for the years then ended. These financial statements (including the notes thereto) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The accompanying Management Analysis of these financial statements and Material Information do not form an integral part of these financial statements so this report does not cover these.

We conducted our audits in accordance with generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also involves assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aguas Andinas S.A. and subsidiaries as at December 31, 2003 and 2002 and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in Chile.

January 14, 2004


Eduardo Roubik P.
Tax No. 4.944.950-K



CONSOLIDATED BALANCE SHEETS

at december 31, 2003 and 2002

Assets	2003 ThCh\$	2002 ThCh\$
Current Assets		
Cash & banks	686,031	330,594
Time deposits	-	15,850,781
Marketable securities (net)	-	1,632,540
Trade accounts receivable (net)	33,260,805	30,121,593
Notes receivable (net)	1,305,413	696,894
Sundry debtors (net)	1,246,871	1,915,182
Notes & accounts receivable from related companies	62,674	26,113
Inventories (net)	1,499,646	2,119,242
Taxes recoverable	715,803	2,808,840
Prepaid expenses	343,965	231,547
Deferred taxes	306,084	474,162
Other current assets	6,994,109	31,635,008
Total current assets	46,421,401	87,842,496
Fixed Assets		
Land	28,842,907	27,782,559
Buildings & infrastructure	880,981,201	851,975,289
Machinery & equipment	95,752,260	57,198,076
Other fixed assets	15,835,059	15,271,275
Technical revaluation of fixed assets	4,590,039	4,585,498
Accumulated depreciation	(464,949,748)	(445,330,575)
Total fixed assets	561,051,718	511,482,122
Other Assets		
Goodwill	62,110,290	65,847,717
Negative goodwill	(1,143)	(1,207)
Long-term debtors	10,502,479	9,589,118
Intangible assets	38,712,281	37,543,785
Amortization	(4,083,681)	(3,120,354)
Others	13,274,021	9,395,912
Total other assets	120,514,247	119,254,971
Total activos	727,987,366	718,579,589

The accompanying Notes 1 to 33 form an integral part of these consolidated financial statements

CONSOLIDATED BALANCE SHEETS

at december 31, 2003 and 2002

Liabilities	2003 ThCh\$	2002 ThCh\$
Current Liabilities		
Long term borrowings from banks & financial institutions - short-term portion	682,509	545,601
Bonds payable – short-term portion	3,880,377	3,464,277
Accounts payable	11,937,082	20,342,718
Notes payable	275,278	160,982
Sundry creditors	998,280	1,675,693
Notes & accounts payable to related companies	20,455,135	31,724,114
Accruals	16,990,264	11,274,909
Withholdings	5,965,116	3,371,614
Income tax	546,258	-
Unearned income	1,450,006	931,522
Other current liabilities	5,551	4,330
Total current liabilities	63,185,856	73,495,760
Long-Term Liabilities		
Borrowings from banks & financial institutions	53,185,644	1,127,397
Bonds payable	225,328,490	128,958,350
Notes payable	21,500,584	17,106,404
Sundry creditors	3,032,133	3,642,435
Accruals	7,735,037	6,478,507
Deferred taxes	2,707,978	1,732,013
Other long-term liabilities	1,656,692	886,531
Total long-term liabilities	315,146,558	159,931,637
Minority interest	7,758	7,584
Shareholders' Equity		
Paid capital	122,680,896	261,980,896
Share premium	185,712,570	185,712,570
Reserve for future dividends	630,388	240,754
Net income for the year	59,659,155	54,653,257
Interim dividends	(19,035,815)	(17,442,869)
Total shareholders' equity	349,647,194	485,144,608
Total Liabilities & Shareholders' Equity	727,987,366	718,579,589

The accompanying Notes 1 to 33 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

at december 31, 2003 and 2002

	2003 ThCh\$	2002 ThCh\$
Sales	168,397,684	152,378,524
Cost of sales	(59,581,080)	(54,727,425)
Operating margin	108,816,604	97,651,099
Administrative & selling expenses	(33,880,679)	(30,661,913)
Operating income	74,935,925	66,989,186
Non-operating result		
Financial income	6,431,111	3,319,324
Other non-operating income	5,405,694	4,657,369
Amortization of goodwill	(3,737,426)	(3,879,090)
Financial expenses	(7,745,139)	(3,636,004)
Other non-operating expenses	(757,063)	(895,818)
Price-level restatements	(769,132)	(629,062)
Exchange differences	3,081	(59,620)
Non-operating expense, net	(1,168,874)	(1,122,901)
Income before income tax & minority interest	73,767,051	65,866,285
Income tax	(14,106,874)	(11,212,039)
Income before minority interest	59,660,177	54,654,246
Minority interest	(1,086)	(1,053)
Income before amortization of negative goodwill	59,659,091	54,653,193
Amortization negative goodwill	64	64
Net income for the year	59,659,155	54,653,257

The accompanying Notes 1 to 33 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

at december 31, 2003 and 2002

	2003 ThCh\$	2002 ThCh\$
Net cash flow from operating activities		
Collection of trade accounts receivable	198,669,819	178,744,619
Financial income received	2,540,501	1,383,051
Other income received	2,256,462	1,795,294
Payment to suppliers & personnel	(69,666,022)	(67,404,461)
Interest paid	(5,692,042)	(3,414,496)
Income tax paid	(12,296,269)	(11,580,638)
Other payments made	(1,842,944)	(231,499)
VAT & similar payments	(7,040,303)	(11,524,477)
Total net cash flow from operating activities	106,929,202	87,767,393
Net cash flow from financing activities		
Loans obtained	54,963,982	-
Bonds issued	96,368,898	65,007,744
Other sources of finance	12,276,281	4,486,038
Payment of dividends	(55,946,158)	(48,816,867)
Capital reduction	(140,000,000)	-
Loan repayments	(2,906,654)	(431,915)
Bonds paid	(1,696,760)	(1,638,095)
Payment of bond issue & placement costs	(2,797,809)	(109,267)
Other financing disbursements	(6,583,010)	(10,295)
Total net cash flow from financing activities	(46,321,230)	18,487,343
Net cash flow from investing activities		
Sales of fixed assets	1,389,527	1,580,605
Sales of other investments	-	175,953
Other investment income	12	-
Acquisition of fixed assets	(98,513,104)	(93,848,557)
Payment of capitalized interest	(4,164,882)	(1,052,768)
Permanent investments	-	(6,657,684)
Investment in financial instruments	-	(134,532)
Other investment disbursements	(1,250,088)	(5,883,653)
Total net cash flow from investing activities	(102,538,535)	(105,820,636)
Total net cash flow for the year	(41,930,563)	434,100
Effect of inflation on cash & cash equivalents	229,899	(4,024)
Net change in cash & cash equivalents	(41,700,664)	430,076
Opening balance of cash & cash equivalents	49,370,348	48,940,272
Closing balance of cash & cash equivalents	7,669,684	49,370,348

The accompanying Notes 1 to 33 form an integral part of these consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

at december 31, 2003 and 2002

	2003 ThCh\$	2002 ThCh\$
Reconciliation of net cash flow from operating activities with net income for the year		
Net income for the year	59,659,155	54,653,257
Result of asset sales	(1,173,374)	(1,207,863)
Loss on sale of fixed assets	(1,173,374)	(1,207,863)
Charges (credits) to income not representing cash flows	34,721,652	35,228,375
Depreciation for the year	26,180,173	24,783,243
Amortization of intangible assets	957,291	857,586
Write-offs & provisions	3,643,790	4,296,892
Amortization of goodwill	3,737,426	3,879,090
Amortization negative goodwill	(64)	(64)
Net price-level restatements	769,132	629,062
Net exchange differences	(3,081)	59,620
Other credits to income not representing cash flows	(2,320,065)	(176,005)
Other charges to income not representing cash flows	1,757,050	898,951
Changes in assets affecting cash flows (increases) decreases	(6,724,284)	4,269,076
Trade accounts receivable	(9,600,315)	(5,411,492)
Inventories	1,019,267	(560,269)
Other assets	1,856,764	10,240,837
Changes in liabilities affecting cash flows increases (decreases)	20,444,967	(5,176,505)
Accounts payable related to operating income	306,625	(15,023,230)
Interest payable	304,316	149,056
Income tax payable (net)	506,254	(1,217,389)
Other accounts payable related to non-operating results	1,467,333	993,443
VAT & other similar payables (net)	17,860,439	9,921,615
Minority interest	1,086	1,053
Net cash flow from operating activities	106,929,202	87,767,393

The accompanying Notes 1 to 33 form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

1.- Registration in the Securities Register

Aguas Andinas S.A., Aguas Cordillera S.A., Aguas Los Dominicos S.A. and Aguas Manquehue S.A. are registered in the Securities Register of the Superintendency of Securities and Insurance (Nos.0346, 0369, 0389 and 0402 respectively). These companies are therefore subject to the regulatory authority of that Superintendency.

2.- Principal accounting principles applied

a) Accounting period

These financial statements cover the years ended December 31, 2003 and 2002.

b) Preparation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Chile, as published by the Chilean Institute of Accountants, and the instructions of the Superintendency of Securities and Insurance.

Should there be differences between the two, the instructions of the Superintendency of Securities and Insurance shall prevail.

c) Presentation

For comparison purposes, the financial statements at December 31, 2002 and their respective notes are shown restated off-the-books by 1.0%, corresponding to the variation in the consumer price index during the twelve months of 2003, with a one-month time lag.

Some items of the financial statements have also been reclassified for comparative purposes.

d) Bases of consolidation

The consolidated financial statements include the assets, liabilities, results and cash flows of the Company and its subsidiaries. Transactions between

these consolidated companies have been eliminated and the participation of the minority investors has been recognized and shown as Minority interest.

e) Price-level restatements

The financial statements have been restated for monetary correction in accordance with generally accepted accounting principles, in order to reflect changes in the purchasing power of the currency during 2003 and 2002, which were 1.0% and 3.0% respectively, with a one-month time lag. The balances of income statement accounts were also restated to express them at year-end values.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Sociedades incluidas en la consolidación

Tax No.	Name	31/12/2003		Percentage Holding	31/12/2002
		Direct	Indirect	Total	Total
80311300-9	Aguas Cordillera S.A.	99,9900	0,0000	99,9900	99,9900
96945210-3	Ecoriles S.A.	99,0380	0,9620	100,0000	100,0000
96828120-8	Gestión y Servicios S.A.	1,0000	99,0000	100,0000	100,0000
96568220-1	Aguas Los Dominicos S.A.	0,0000	99,9497	99,9497	99,9497
96967550-1	Análisis Ambientales S.A.	99,0000	1,0000	100,0000	100,0000
96809310-K	Comercial Orbi II S.A.	99,9000	0,1000	100,0000	100,0000
89221000-4	Aguas Manquehue S.A.	0,0000	100,0000	100,0000	100,0000
87538200-4	Hidráulica Manquehue Limitada	0,0000	100,0000	100,0000	100,0000

f) Currency translation

Assets and liabilities in Unidades de Fomento and/or foreign currencies are shown at their respective values and/or exchange rates at the end of each year, at the following rates:

	2003	2002
	Ch\$	Ch\$
US dollars	593,80	718,61
Unidad de Fomento	16,920,00	16,744,12
Euro	744,95	752,55

g) Time deposits

Time deposits are shown at their investment amount plus indexation adjustments and interest accrued through December 31, 2002.

h) Marketable Securities

Investments in mutual fund units are shown at their redemption value at year-end.

i) Inventories

Materials are shown at their restated cost which does not exceed their respective replacement costs at each year-end.

There is an allowance for obsolescence of dispensable materials whose permanence in stock exceeds one year.

j) Estimate of doubtful accounts

The estimate of doubtful accounts depends of the age of the debts and their history of recovery, as follows:

A 100% provision is made for those customers overdue for more than 8 months.

Debts that are transformed into payment agreements are subject to a 20% provision on the respective balance.

A 100% provision is made for Notes receivable once overdue.

k) Fixed assets

Fixed assets are shown at their book values transferred by the predecessor entity, which were determined as follows: 1) acquisitions prior to 1978, at the restated appraisal value made by independent consultants contained in a technical study made in 1977, and 2) acquisitions after 1977, at their restated cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

The subsidiary Aguas Cordillera S.A. shows its specific accounts at cost plus the incremental value of a technical appraisal, both restated.

The other subsidiaries show fixed assets at restated cost.

The fixed assets include the principal renovations and improvements but not maintenance and minor repair costs which are charged to income in the year in which they are incurred.

Work in progress includes financing costs incurred until the assets are in a condition to be used, in accordance with Technical Bulletin No.31 of the Chilean Institute of Accountants

The cost of some work in progress also includes direct remuneration, consultancy fees and other identifiable inherent costs.

l) Depreciation of fixed assets

Depreciation is calculated using the straight-line method on the restated book values and over the remaining useful lives of the assets.

m) Leased assets

Financial leases are recorded following Technical Bulletin No.22 of the Chilean Institute of Accountants.

Leased assets are valued and depreciated in the same way as other fixed assets.

These assets do not legally belong to the company until it has exercised its purchase option, and it also cannot freely dispose of them.

n) Intangible assets

Water rights, rights of way and other rights are shown at their restated cost, net of amortization, in accordance with Technical Bulletin No.55 of the Chilean Institute of Accountants.

Intangible assets are being amortized over a period of 40 years from the date of acquisition or as from 1998 as it is believed that they will provide benefits during that period.

o) Goodwill and negative goodwill

Goodwill represents the excess paid over the proportional equity value on the purchase of shares in Aguas Cordillera S.A. and Comercial Orbi II S.A. Negative goodwill represents the excess of net assets over the purchase price of shares in Hidráulica Manquehue Ltda. This goodwill and negative goodwill is being amortized over a maximum term of 20 years from the date of acquisition as it is estimated that this is the recovery period of the investment.

p) Operations under resale agreements

The purchase of securities under resale agreements is valued as a fixed-yield investment and is shown in Other current assets, in accordance with Circular 768 of the Superintendency of Securities and Insurance.

q) Bonds payable

This is the obligation for the placement of bonds issued by the Company in the domestic market, at their nominal value plus indexation adjustments and interest accrued to the year-end. The discount incurred on the placement of the bonds is deferred over their term, in accordance with Circular 1,370 of the Superintendency of Securities and Insurance.

r) Income tax and deferred taxes

The Company provided for income tax in accordance with current legislation and the criteria used in determining taxable income consider amounts received and accrued at year-end. According to Technical Bulletin No.60 and complements of the Chilean Institute of Accountants and Circular 1,466 of the Superintendency of Securities and Insurance, the Company records the effects of deferred taxes on timing differences, tax losses that imply a tax benefit and other events that create differences between the financial and tax treatment, recording their effects in the accounts as from the year ended December 31, 1999.

At the beginning of 2000, the subsidiaries booked deferred taxes arising from these accumulated timing differences as asset and liability accounts by a credit or charge respectively to complementary accounts; these are amortized by affecting the tax charge for the year over the weighted average term for their reversal. These complementary accounts are shown deducted from the corresponding assets and liabilities



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

for deferred taxes that gave rise to these accounts.

s) Severance indemnities

In Aguas Andinas S.A., a provision was made for the severance indemnity at present value until July 2002, for each of the collective agreements in force. This provision will remain fixed as of that date and will only be adjusted quarterly for changes in the consumer price index, because, as from August 2002, new collective agreements came into effect which state that the severance indemnity will be that in the Labor Code. There are also individual contracts which are accounted for based on their terms.

In Aguas Cordillera S.A., the provision for severance indemnities was made at their present value up until November and December 2002 for each of the contracts in force. This provision will remain fixed as of those dates and will only be adjusted quarterly for changes in the consumer price index, because, as from December 2002 and January 2003, new collective agreements came into effect which state that the severance indemnity will be that in the Labor Code. There are also individual contracts which are accounted for based on their conditions .

Advances paid to personnel against these funds, in Aguas Andinas S.A. and Aguas Cordillera S.A., are shown as Long-term debtors. They will be imputed against the final settlement after indexation adjustment, as stipulated in the agreements mentioned.

t) Sales

The Company's business-related sales are recorded on the basis of consumption read and billed to each customer, divided into groups for monthly invoicing, valued according to the tariffs which are set by the Superintendency of Sanitation Services for a period of five years.

Also booked is consumption read but unbilled, based on the average tariffs of each invoicing group.

u) Computer software

The software was acquired by the Company as packets and are shown in Other fixed assets, in accordance with Circular 981 of the Superintendency of Securities and Insurance.

v) Research and development expenses

Expenses incurred in research and development project studies which are not employed in some project are charged directly to income for the year. Otherwise, they form part of the costs of the corresponding projects.

w) Statement of cash flows

The Company considers as cash and cash equivalents its balances in cash, in unrestricted bank current accounts, time deposits and mutual funds whose redemption will be made within 90 days of placement, and investments under resale agreements that have no risk of significant loss at the time of redemption. The last-named are classified under the heading

Other current assets.

Cash flows from operating activities include the Company's business revenues and expenses and all other income and expense that are treated as non-operating in the Statement of income.

3.- Accounting changes

The accounting principles and criteria described in Note 2 were applied consistently during 2003 and 2002.

4.- Short and long-term debtors

Trade accounts receivable relate to the billings for consumption of potable water, sewage services, sewage treatment and other associated services, with balances classified as short or long term.

The balance of Trade accounts receivable includes a provision for revenue earned at December 31, 2003 and 2002 of ThCh\$11,306,767 and ThCh\$10,531,798 respectively for consumption read but unbilled at the end of each year.

Aguas Andinas S.A. balance of debtors at December 31, 2003 is broken down. into residential 78.54%,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

commercial 17.83% and industrial and others 3.63%, while at December 2002 the break down was residential 79.10%, commercial 17.47% and industrial and others 3.43%.

In the case of Aguas Cordillera S.A., the break down is residential 82.66%, commercial 16.98% and industrial and others 0.36%, while at December 2002, the break down was residential 83.82%, commercial 15.85% and industrial and others 0.33%.

In the case of Aguas Los Dominicos S.A., the customers are broken down into residential 90.02%, commercial 9.94% and industrial and others 0.04%, compared to residential 90.04%, commercial 9.88% and industrial and others 0.08% at December 2002. For Aguas Manquehue S.A. the split is residential 66.69%, commercial 31.98% and industrial and

others 1.33%, against residential 64.50%, commercial 34.44% and industrial and others 1.06% at December 2002.

An allowance for doubtful accounts has been made as explained in Note 2 j).

Of the allowances at December 31, 2003 and 2002, ThCh\$2,123,890 and ThCh\$1,428,529 were charged to income for the respective years.

Debts of ThCh\$1,169,950 and ThCh\$381,761 respectively were written off against that allowance at December 31, 2003 and 2002.

The principal component of Long-term debtors is advances against severance indemnities, as indicated in Note 2 s).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

	Up to 90 days		Current		Subtotal	Total current (net)		Long term	
	2003	2002	2003	2002		2003	2002	2003	2002
	ThCh\$	ThCh\$	ThCh\$	ThCh\$		ThCh\$	ThCh\$	ThCh\$	ThCh\$
Trade accounts receivable	42,085,159	38,850,956	1,631,671	1,307,737	43,716,830	33,260,805	30,121,593	1,017,879	919,149
Allowance for doubtful accounts	-	-	-	-	10,456,025	-	-	-	-
Notes receivable	848,221	596,896	550,860	191,169	1,399,081	1,305,413	696,894	197,623	384,674
Allowance for doubtful accounts	-	-	-	-	93,668	-	-	-	-
Sundry debtors	1,260,341	1,812,131	21,081	137,948	1,281,422	1,246,871	1,915,182	9,286,977	8,285,295
Allowance for doubtful accounts	-	-	-	-	34,551	-	-	-	-
Total long-term debtors								10,502,479	9,589,118

5. Balances and transactions with related entities

Transactions with the parent.

Notes and accounts payable

There is a service contract entered into in 2001 and expressed in UF, with Inversiones Aguas Metropolitanas Ltda. and which has a 5-year term, with monthly invoicing for the services provided.

Transactions with indirectly related companies.

Notes and accounts receivable

The account receivable from Constructora ACSA

Ltda. relates to the sale of materials at 30 days interest free.

There is also an account receivable from Aguas Décima S.A. for laboratory services and sales of materials at 30 days interest free.

The debt of Aguas Argentinas, Ondeo Puerto Rico and Aguas de Saltillo relates to expense reimbursements.

The account receivable with Degrémont Agency in Chile S.A. relates to laboratory contract services payable at 30 days interest free.

Notes and accounts payable

The construction contract for the La Farfana Sewage treatment Plant was awarded under a public tender to Degrémont Agency Chile S.A. This is a turnkey contract with a performance guarantee. Payments under this contract are based on the work progress and are denominated in Unidades de Fomento.

The debt with Aguas de Levante S.A. relates to the purchase of materials, at 30 days interest free.

The debt with Acsa Agbar Construcción S.A. relates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

to a contract for the renewal and installation of sewers.

Balances and transactions with related companies:

There was a contract for the purchase of chemical materials with Nalco Química Chile Ltda. in 2002.

Notes and accounts receivable

In 2002, there was a contract for installation of an environmental monitoring network with Adasa Sistema S.A. Agency in Chile.

Tax No.	Company	Short Term		Long Term	
		2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$
77.030.800-3	Constructora ACSA Ltda.	27,174	24,024	-	-
1-9	Aguas Argentina	15,121	1,165	-	-
96.703.230-1	Aguas Décima S.A.	8,592	924	-	-
1-9	Aguas de Saltillo	5,882	-	-	-
59.066.560-6	Degrémont Agencia en Chile S.A.	3,001	-	-	-
1-9	Ondeo Puerto Rico	2,904	-	-	-
Totales		62,674	26,113	-	-

Notes and accounts payable

Tax No.	Company	Short Term		Long Term	
		2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$
59.066.560-6	Degrémont Agencia Chile S.A.	18,501,302	29,756,513	-	-
77.274.820-5	Inversiones Aguas Metropolitana Ltda.	1,450,591	1,628,927	-	-
59.094.680-K	Aguas de Levante S.A.	345,898	134,536	-	-
59.096.940-0	Acsa Agbar Construcción S.A.	157,344	-	-	-
59.097.460-9	Adasa Sistema S.A.	-	203,484	-	-
85.417.200-K	Nalco Química Chile Ltda.	-	654	-	-
Total		20,455,135	31,724,114	-	-



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Transactions

Company	Tax No.	Relationship	Transaction	2003		2002	
				Amount	Effect on	Amount	Effect on
				(charge)/credit	results	(charge)/credit	results
				ThCh\$	ThCh\$	ThCh\$	ThCh\$
Inversiones Aguas Metropolitanas Ltda.	77.274.820-5	Parent	Advisory services	5,268,535	(5,268,535)	4,267,956	(4,267,956)
Inversiones Aguas Metropolitanas Ltda.	77.274.820-5	Parent	Dividends paid	28,762,022	-	24,619,538	-
Inversiones Aguas Metropolitanas Ltda.	77.274.820-5	Parent	Capital reduction payt.	71,683,348	-	-	-
Degrémont S.A. Agencia Chile	59.066.560-6	Related	Treatment plant construction	73,357,562	-	84,020,989	-
Aguas de Levante S.A.	59.094.680-K	Related	Purchase of materials	1,182,844	1,008,285	172,446	-
ACSA AGBAR Construcción S.A.	59.096.940-0	Related	Works construction	606,753	-	-	-
ACSA AGBAR Construcción S.A.	59.096.940-0	Related	Sale of materials	87,527	-	27,438	-

6. Deferred taxes and income tax

At December 31, 2003 and 2002, taxable income and other concepts are as follows:

		2003	2002
		ThCh\$	ThCh\$
a)	Taxable income	77,910,824	65,323,825
b)	Balance tax profits	48,496,923	37,207,460
c)	15% credit for shareholders	615,518	631,319
	16% credit for shareholders	333,349	5,380,389
	16.5% credit for shareholders	6,186,702	-
d)	Tax losses *	3,671	51,230

* The tax losses relate to the subsidiaries Hidráulica Manquehue Ltda. and Comercial ORBI II S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

	2003				2002			
	Deferred taxes		Deferred taxes		Deferred taxes		Deferred taxes	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Provision doubtful accounts	67,514	1,784,678	-	-	87,061	1,690,107	-	-
Unearned income	78,929	168,249	-	-	51,190	18,256	-	-
Provision for vacations	128,856	89,758	-	-	153,244	-	-	-
Leased assets	-	-	47,688	-	-	-	-	20,324
Depreciation fixed assets	-	-	-	3,441,726	-	-	-	2,779,203
Severance indemnities	42,504	-	-	-	15,553	-	-	-
Other events	7,825	-	-	-	170,222	16,024	508	-
Provision profit sharing	-	-	21	-	15,418	-	3,494	-
Obsolete materials	36,367	115,512	-	-	10,589	145,046	-	-
Investments expenses in related companies	-	-	-	103,085	-	-	-	113,900
Software	-	-	-	80,121	-	-	-	188,583
Bond placement discount	-	-	-	1,942,652	-	-	-	1,193,805
Tax losses	-	624	-	-	142	8,562	-	-
Litigation	3,810	164,266	-	-	3,626	180,069	-	-
Fixed asset obsolescence	-	53,179	-	-	-	10,472	-	-
Deferred expenses	-	-	15,028	93,076	-	-	31,692	118,142
Water rights	-	35,040	-	-	-	35,040	-	-
AFR KWH	3,016	-	-	-	2,953	-	-	-
Complementary accounts-net of amortization	-	-	-	(542,000)	-	-	-	(578,368)
Provision for valuation	-	-	(624)	-	-	(142)	-	-
Total	368,821	2,410,682	62,737	5,118,660	509,856	2,103,576	35,694	3,835,589

Income tax

	2003	2002
	ThCh\$	ThCh\$
Current tax charge (provision for tax)	(12,855,286)	(10,407,601)
Tax charge adjustment (previous year)	(77,006)	(20,445)
Effect on assets or liabilities of deferred taxes for the year	(1,107,193)	(507,830)
Tax benefit of tax losses	-	6,755
Effect of amortization of complementary deferred assets and liabilities accounts	(36,368)	(251,269)
Effects on assets or liabilities of deferred taxes for changes in the valuation provision	485	142
Other charges or credits	(31,506)	(31,791)
Total	(14,106,874)	(11,212,039)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

7. Other current assets

The detail of these at each year-end is as follows:

	2003 ThCh\$	2002 ThCh\$
Resale agreement commitments		
Instrumentos del Banco Central de Chile	6,983,653	31,556,433
Collection agreements	7,165	48,013
Guarantees for paving rights	2,165	23,311
Others	1,126	7,251
Total	6,994,109	31,635,008

8. Information on purchase and sale commitments, sales under repurchase agreements and purchases under resale agreements of securities

These include agreements in pesos relating to fixed-income securities under resale agreements, as follows.

Code	Dates Start	Maturity	Counterparty	Original currency	Subscription value ThCh\$	Rate	Final value ThCh\$	Identification of instruments	Market value ThCh\$
CRV	29-12-2003	12-01-2004	Banco BBVA	Pesos	2,306,900	2.52% Anual	2,309,161	PRBC	2,307,223
CRV	30-12-2003	09-01-2004	Banco de Chile	Pesos	841,700	2.76% Anual	842,345	PRBC	841,764
CRV	22-12-2003	12-01-2004	Banco Santander Santiago	Pesos	162,000	2.64% Anual	162,249	PRBC	162,107
CRV	29-12-2003	12-01-2004	Banco Santander Santiago	Pesos	884,900	2.52% Anual	885,767	PRBC	885,024
CRV	30-12-2003	09-01-2004	Banco de Chile	Pesos	1,749,100	2.76% Anual	1,750,441	PRBC	1,749,234
CRV	29-12-2003	12-01-2004	Banco Santander Santiago	Pesos	549,000	2.52% Anual	549,538	PRBC	549,077
CRV	22-12-2003	08-01-2004	Banco Santander Santiago	Pesos	320,000	2.64% Anual	320,399	PRBC	320,211
CRV	30-12-2003	09-01-2004	Banco de Chile	Pesos	169,000	2.76% Anual	169,130	PRBC	169,013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

9. Fixed Assets

These comprise the following:

	2003 ThCh\$	2002 ThCh\$
Land	28,842,907	27,782,559
Land	28,842,907	27,782,559
Buildings & infrastructure	456,834,694	441,521,892
Gross value	880,981,201	851,975,289
Accumulated depreciation	(424,146,507)	(410,453,397)
Machinery & equipment	68,004,615	33,926,704
Gross value	95,752,260	57,198,076
Accumulated depreciation	(27,747,645)	(23,271,372)
Other fixed assets	3,269,704	4,135,063
Gross value	15,835,059	15,271,275
Accumulated depreciation	(12,565,355)	(11,136,212)
Technical appraisal	4,099,798	4,115,904
Technical appraisal land	5,096,620	5,091,578
Technical appraisal distribution networks	1,428,798	1,427,385
Accumulated depreciation	(1,352,843)	(1,279,846)
Technical appraisal sewers	(343,806)	(343,466)
Accumulated depreciation	206,768	193,553
Technical appraisal civil works	(1,177,397)	(1,176,233)
Accumulated depreciation	327,683	306,664
Technical appraisal machinery & equipment	(414,176)	(413,766)
Accumulated depreciation	328,151	310,035
Total net fixed assets	561,051,718	511,482,122



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Depreciation for the year

At December 31, 2003 and 2002, the charge for the depreciation of fixed assets is the following:

Depreciation in:	2003 ThCh\$	2002 ThCh\$
Cost of sales	23,537,283	22,129,110
Administrative & selling expenses	2,642,890	2,654,133
Total	26,180,173	24,783,243

Assets bought under financial leases are shown in Other fixed assets as follows:

Description	Date	Gross Value ThCh\$	Accumulated depreciation ThCh\$	Net value ThCh\$	No. of Installments
Telecommunications	31-12-2001	465,724	97,026	368,698	36
Total		465,724	97,026	368,698	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. Goodwill and Negative Goodwill

At December 31, 2003 and 2002, the balances of this account, representing the difference between the acquisition value and the equity value of the company acquired, are as follows:

Goodwill

		2003		2002	
Tax No.	Company	Amount amortization for year ThCh\$	Balance goodwill ThCh\$	Amount amortization for year ThCh\$	Balance goodwill ThCh\$
80.311.300-9	Aguas Cordillera S.A.	3,536,955	58,654,494	3,682,896	62,191,448
96.809.310-K	Comercial Orbi II S.A.	200,471	3,455,796	196,194	3,656,269
Total		3,737,426	62,110,290	3,879,090	65,847,717

Negative Goodwill

		2003		2002	
Tax No.	Company	Amount amortization for year ThCh\$	Balance negative goodwill ThCh\$	Amount amortization for the year ThCh\$	Balance negative goodwill ThCh\$
87.538.200-4	Hidráulica Manquehue Ltda.	64	1,143	64	1,207
Total		64	1,143	64	1,207



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11. Intangible Assets

The balances at December 31, 2003 and 2002 of restated disbursements on intangible assets (Note 2 n) are:

	2003 ThCh\$	2002 ThCh\$
Water rights	17,931,692	17,419,563
Leased water rights (1)	512,406	-
Rights of way	13,916,924	13,772,963
Other rights (2)	6,351,259	6,351,259
Sub total	38,712,281	37,543,785
Accumulated amortization water rights	(2,270,374)	(1,821,233)
Accumulated amortization leasing (1)	(10,675)	-
Accumulated amortization rights of way	(1,566,818)	(1,219,730)
Amortization other rights (2)	(235,814)	(79,391)
Sub total	(4,083,681)	(3,120,354)
Total net intangible assets	34,628,600	34,423,431
Amortization for the year:		
Water rights	442,321	436,216
Other rights	157,210	79,391
Rights of way	347,088	341,979
Leased water rights	10,672	-
Total amortization	957,291	857,586

(1) Water rights bought under financial leases were recorded as Intangible assets. They were acquired under a contract signed on March 14,, de 2003, for a period of 48 months.

(2) The other rights relate to the purchase of gratuitous rights to water consumption from the Municipality of Santiago, which are being amortized over 40 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. Other assets

The detail of these is as follows:

	2003 ThCh\$	2002 ThCh\$
MBond placement discount	11,563,187	7,088.854
Fixed asset purchase advance payment	658,652	1,037,273
Prepaid expenses	564,463	605,670
Return of reimbursable contributions KW/H	356,019	420,688
Long-term inventories	3	132,567
Others	131,697	110,860
Total	13,274,021	9,395,912

13. Borrowings from banks and financial institutions - short term

The detail of these is as follows:

Tax No	Bank or Financial Institution	UF 2003 ThCh\$	2002 ThCh\$	Non-indexed Ch\$ 2003 ThCh\$	2002 ThCh\$	Total 2003 ThCh\$	2002 ThCh\$
97.053.000-2	Banco Security	153,785	155,251			153,785	155,251
97.006.000-6	Banco Crédito e Inversiones	390,564	390,350			390,564	390,350
97.004.000-5	Banco de Chile	-	-	30,653	-	30,653	-
97.036.000-K	Banco Santander-Santiago	-	-	26,803	-	26,803	-
97.032.000-8	Banco BBVA	-	-	80,704	-	80,704	-
Total		544,349	545,601	138,160	-	682,509	545,601
Total principal outstanding		542,709	542,433			542,709	542,433
Average annual interest rate		3.64%	3.81%	4.3%			

Percentage in local currency (%) 100%



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. Borrowings from banks and financial institutions - long term

The following is a detail of long-term bank loans.

Tax No.	Bank or Fin. Inst.	Currency/ Indexation unit	Years to maturity				2003 Total long term at close of year ThCh\$	Average annual interest rate	2002 Total long term at close of year ThCh\$
			1 to 2 years ThCh\$	2 to 3 years ThCh\$	3 to 5 years ThCh\$	5 to 10 years ThCh\$			
97.004.000-5	Banco de Chile	Non-indexed Ch\$	1,900,000	1,900,000	3,800,000	3,800,000	11,400,000	4.40%	-
97.036.000-K	Banco Santander - Santiago	Non-indexed Ch\$	0	2,040,000	4,080,000	4,080,000	10,200,000	4.30%	-
97.032.000-8	Banco BBVA	Non-indexed Ch\$	3,444,444	6,888,889	13,777,778	6,888,889	31,000,000	4.26%	-
97.006.000-6	Banco Crédito e Inversiones	UF	390,429	195,215	-	-	585,644	3.95%	975,193
97.053.000-2	Banco Security	UF	-	-	-	-	-	-	152,204
Total			5,734,873	11,024,104	21,657,778	14,768,889	53,185,644		1,127,397
Percentage in local currency (%) 100%									

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

15. Bonds payable

Included are the balances of obligations for bond issues made by Aguas Andinas S.A. and the subsidiary AguaCordillera S.A. in the domestic market.

Aguas Andinas S.A.

Included are the balances of bonds issued by the Company in September 2001, December 2002 and May 2003 in the domestic market.

In September 2001, two series of bonds were issued: Series A for U.F.1.2 million repayable in the fifth year subsequent to their issue and Series B for U.F.1.8 million at 21 years term with repayments starting in 2008.

On October 10, 2002, the Superintendency of Securities and insurance certified the registration of bonds for up to U.F.10 million. Of this amount, Series C bonds were issued with a nominal value of U.F.4.2 million and Series D with a nominal value of U.F.5.8 million.

In December 2002, Series C bonds for U.F.4.0 million were placed, with semi-annual repayments starting in June 2005 and through December 2010.

On May 7, 2003, the Company placed the Series D bonds which in the domestic market and which were fully subscribed. This series has semi-annual repayments starting on June 1, 2005.

The respective accrued interest is shown in short-term liabilities.

Aguas Cordillera S.A.

Included are the balances of bonds issued by the company in the domestic market.

Accrued interest on the bonds at the end of each year is shown under Bonds payable in Current liabilities.

The Series A, B, C, D and E are unsecured except for the right to a general pledge over the company's assets.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

The summary of these obligations at each year end is as follows:

Registration or Identification No. of instrument	Series	Nominal amount outstanding	Indexation unit	Interest rate	Final maturity	Payment of interest	Payment of principal	Par value		Placement in Chile or foreign
				%				2003	2002	
								ThCh\$	ThCh\$	
Bonds current portion of long term										
141	SERIE A	20,420	UF	7.00%	01.10.2005	Semi-annual	Semi-annual	357,806	340,590	National
154	SERIE B	5,248	UF	7.00%	01.07.2006	Semi-annual	Semi-annual	98,620	95,618	National
163	SERIE C	38,682	UF	6.00%	01.01.2006	Semi-annual	Semi-annual	705,072	685,934	National
167	SERIE D	43,819	UF	6.00%	01.04.2007	Semi-annual	Semi-annual	782,733	750,734	National
187	SERIE E	-	UF	6.50%	01.01.2009	Annual	Annual	329,940	329,775	National
266	BEMOS A1	-	UF	6.00%	01.09.2006	Semi-annual	Maturity	125,051	124,989	National
266	BEMOS A2	-	UF	6.00%	01.09.2006	Semi-annual	Maturity	275,113	274,977	National
266	BEMOS B1	-	UF	6.25%	01.09.2022	Semi-annual	2008 semi-ann.	243,010	242,889	National
266	BEMOS B2	-	UF	6.25%	01.09.2022	Semi-annual	2008 semi-ann.	381,874	381,683	National
305	BAGUA C1	-	UF	4.25%	01.12.2010	Semi-annual	2005 semi-ann.	59,302	59,272	National
305	BAGUA C2	-	UF	4.25%	01.12.2010	Semi-annual	2005 semi-ann.	177,905	177,816	National
305	BAGUA D1	-	UF	4.25%	01.06.2009	Semi-annual	2005 semi-ann.	118,604	-	National
305	BAGUA D2	-	UF	4.25%	01.06.2009	Semi-annual	2005 semi-ann.	225,347	-	National
Total short-term portion								3,880,377	3,464,277	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Registration or Identification No. Of instrument	Series	Nominal amount placed outstanding	Indexation unit	Interest rate %	Final maturity	Payments of interest	Payments of principal	Par value 2003 ThCh\$	2002 ThCh\$	Placement in Chile or foreign
Long-term bonds										
141	SERIE A	21,849	UF	7.00%	01.10.2005	Semi-annual	Semi-annual	369,689	714,835	National
154	SERIE B	11,624	UF	7.00%	01.07.2006	Semi-annual	Semi-annual	196,677	285,333	National
163	SERIE C	62,418	UF	6.00%	01.01.2006	Semi-annual	Semi-annual	1,056,106	1,709,753	National
167	SERIE D	121,396	UF	6.00%	01.04.2007	Semi-annual	Semi-annual	2,054,018	2,794,044	National
187	SERIE E	300,000	UF	6.50%	01.01.2009	Annual	Annual	5,076,000	5,073,457	National
266	BEMOS A1	375,000	UF	6.00%	01.09.2006	Semi-annual	Maturity	6,345,000	6,341,835	National
266	BEMOS A2	825,000	UF	6.00%	01.09.2006	Semi-annual	Maturity	13,959,000	13,952,038	National
266	BEMOS B1	700,000	UF	6.25%	01.09.2022	Semi-annual	2008 semi-ann.	11,844,000	11,838,093	National
266	BEMOS B2	1,100,000	UF	6.25%	01.09.2022	Semi-annual	2008 semi-ann.	18,612,000	18,602,717	National
305	BAGUA C1	1,000,000	UF	4.25%	01.12.2010	Semi-annual	2005 semi-ann.	16,920,000	16,911,561	National
305	BAGUA C2	3,000,000	UF	4.25%	01.12.2010	Semi-annual	2005 semi-ann.	50,760,000	50,734,684	National
305	BAGUA D1	2,000,000	UF	4.25%	01.06.2009	Semi-annual	2005 semi-ann.	33,840,000	-	National
305	BAGUA D2	3,800,000	UF	4.25%	01.06.2009	Semi-annual	2005 semi-ann.	64,296,000	-	National
Total long term								225,328,490	128,958,350	



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

16. Accruals and Write-Offs

The detail of accruals at December 31, 2003 and 2002 is the following:

Provisions for:	Current liabilities		Long-term liabilities	
	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$
Services accrued	9,955,616	3,751,344	-	-
Bonus (1) & profit sharing	2,871,199	2,492,207	-	-
Severance indemnities (Note 17)	1,435,350	2,626,895	7,701,534	6,470,890
Accrued vacations	1,285,967	879,161	-	-
Litigation pending	990,603	1,072,943	-	-
Other benefits to personnel	34,174	251,210	-	-
Furniture & others	213,922	97,031	-	-
Abandoned projects	162,377	-	-	-
Others	41,056	104,118	33,503	7,617
Total	16,990,264	11,274,909	7,735,037	6,478,507

(1) In Aguas Andinas S.A., shown net of advances paid during 2003 and 2002 of ThCh\$249,615 and ThCh\$415,239 respectively.

In August 2002, the new collective labor agreement came into force which establishes an annual bonus of 4.75 monthly minimum salaries for each employee, payable monthly in one-twelfths. This will be paid regardless of whether or not the Company has made profits. Employees with individual contracts will be adjusted to the stipulations in the agreement.

The amounts written off are shown in Note 4 (Trade accounts receivable).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. Severance Indemnities

In 2003 and 2002, the movements in the severance indemnities accrual (including the short term portion) are as follows:

	2003 ThCh\$	2002 ThCh\$
Opening balance	9,007,707	8,736,501
Increase in accrual	450,469	770,771
Payments during the year	(455,762)	(674,260)
Price-level restatement	134,470	264,773
Total	9,136,884	9,097,785

Severance indemnities have been calculated as described in Note 2 s).

18. Minority interest

A continuación, se presenta la proporción que pertenece al interés minoritario:

	Percentage of Minority interest %		Minority interest in equity		Minority interest in result	
	2003	2002	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$
Aguas Los Dominicos S.A.	0.0503	0.0503	2,812	2,623	(243)	(183)
Aguas Cordillera S.A.	0.0100	0.0100	4,946	4,961	(843)	(870)
Total			7,758	7,584	(1,086)	(1,053)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. Movement in equity accounts

Reclassification: relates to the reclassification of the premium obtained on placing shares in 1999 associated with the capital increase approved by the extraordinary shareholders' meeting held on March 29 in that year.

An extraordinary shareholders' meeting was held on October 14, 2003 which approved a reduction in the Company's capital of Ch\$140,000,000, while maintaining the same number of subscribed and paid shares.

During 2003 and 2002, the equity accounts have shown the following movement:

	2003						2002				
	Reserves			Result			Reserv		Result		
	Paid capital ThCh\$	Share premium ThCh\$	future dividends ThCh\$	Interim dividends ThCh\$	for the year ThCh\$	Paidl capital ThCh\$	Share premium ThCh\$	future dividends ThCh\$	Interim dividends ThCh\$	for the year ThCh\$	
Opening balance	259,387,025	183,873,832	238,370	(17,270,167)	54,112,136	430,350,347	-	172,061	(17,163,820)	47,637,684	
Distribution previous year's results	-	-	36,841,969	17,270,167	(54,112,136)	-	-	30,473,864	17,163,820	(47,637,684)	
Final dividend previous year	-	-	(37,080,317)	-	-	-	-	(30,473,670)	-	-	
Reclassification	-	-	-	-	-	(178,518,283)	178,518,283	-	-	-	
Capital reduction	(140,000,000)	-	-	-	-	-	-	-	-	-	
Restatement of capital	3,293,871	1,838,738	630,366	57,279	-	7,554,961	5,355,549	66,115	(137,065)	-	
Net income for year	-	-	-	-	59,659,155	-	-	-	-	54,112,136	
Interim dividends	-	-	-	(19,093,094)	-	-	-	-	(17,133,102)	-	
Closing balance	122,680,896	185,712,570	630,388	(19,035,815)	59,659,155	259,387,025	183,873,832	238,370	(17,270,167)	54,112,136	
Restated balances						261,980,896	185,712,570	240,754	(17,442,869)	54,653,257	

Number of shares

Series	No. Shares subscribed	No. Shares paid	No. Shares with voting rights
A	3,975,189,330	3,975,189,330	3,975,189,330
B	2,143,775,830	2,143,775,830	2,143,775,830

Capital (amount – ThCh\$)

Series	Capital subscribed	Capital paid-in
A	79,699,717	79,699,717
B	42,981,179	42,981,179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. Other non-operating income and expenses

A detail is as follows:

	2003 ThCh\$	2002 ThCh\$		2003 ThCh\$	2002 ThCh\$
Other non-operating income			Other non-operating expenses		
Income from agreements & others (1)	1,657,056	1,561,338	Donaciones	348,758	288,185
Services to third parties (2)	1,279,016	796,013	Proyectos desechados	290,154	168,344
Sale of fixed assets	1,173,374	1,207,863	Mermas en activos	91,952	70,475
Fines on suppliers & contractors	400,187	414,233	Multas	24,260	10,717
Services to customers	227,215	92,326	Obsolescencia de activos	-	265,198
Property rentals	215,325	187,499	Asesorías	-	47,685
Refund social-security contributions	127,042	-	Descuentos por convenios	-	10,194
Rights of way received	115,039	-	Otros	1,939	35,020
Insurance refund	51,966	4,849			
Sale of meter shells	12,592	65,523			
Others	146,882	327,725			
Total other income	5,405,694	4,657,369	Total other expenses	757,063	895,818

(1) Relate mainly to agreements signed with real-estate developers under which Aguas Andinas S.A., Aguas Cordillera S.A. and Aguas Manquehue S.A. are obliged to add to their concession zones certain areas and to provide the public sanitation services to these indefinitely.

(2) Services to third parties refer to services associated with the main business, principally engineering.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. Price-Level Restatements

The detail of these, calculated as described in Note2 e), is as follows:

	Indexation unit	2003 ThCh\$	2002 ThCh\$
Assets (charges) / credits			
Inventories	CPI	70,913	67,721
Fixed assets	CPI	5,474,161	13,779,188
Time deposits	CPI	-	181,961
Goodwill	CPI	740,041	2,183,097
Other non-monetary assets	UF	(278,126)	342,899
Other non-monetary assets	CPI	432,138	909,115
Expense & cost accounts	CPI	(13,487)	1,205,813
Total (charges) credits		6,425,640	18,669,794
Liabilities (charges) / credits			
Shareholders' equity	CPI	(5,820,254)	(12,967,956)
Minority interest	CPI	(82)	(242)
Non-monetary liabilities	UF	(60,539)	(52,966)
Bonds payable	UF	(826,496)	(1,779,050)
Accounts payable	CPI	-	(160,822)
Notes payable	UF	(142,752)	(399,423)
Bank borrowings	UF	(17,213)	(25,820)
Monetary liabilities	UF	(39,142)	(80,134)
Non-monetary liabilities	CPI	(176,793)	(499,366)
Income accounts	CPI	(111,501)	(3,333,077)
Total (charges) credits		(7,194,772)	(19,298,856)
(Loss) from price-level restatements		(769,132)	(629,062)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

22. Exchange Differences

Exchange differences in 2003 and 2002 are:

	Currency	Amount	
		2003 ThCh\$	2002 ThCh\$
Assets (charges) / credits			
Cash & banks	Dollar	(7,355)	8,319
Financial investments	Dollar	202,786	458,799
Other assets	Dollar	(22,455)	(26,478)
Other assets	Euro	(152)	184
Inventories	Euro	4,712	(12,505)
Total (charges) credits		177,536	428,319
Liabilities (charges) / credits			
Accounts payable	Dollar	(198,527)	(361,266)
Accounts payable	Euro	(3,285)	(47,326)
Sundry creditors	Dollar	19,848	(50,300)
Other liabilities	Dollar	7,098	(29,047)
Other liabilities	Euro	411	-
Total (charges) credits		(174,455)	(487,939)
(Loss) gain from exchange differences		3,081	(59,620)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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In September 2001, December 2002 and May 2003, the Company issued and placed bonds in the domestic market. In accordance with Circular 1,370 of the Superintendency of Securities and Insurance, the related costs, and the discount on the placement of the bonds were deferred and are shown in Other assets. The detail of these is as follows:

23. Share and bond issue placement costs

In September 2001, December 2002 and May 2003, the Company issued and placed bonds in the domestic market. In accordance with Circular

1,370 of the Superintendency of Securities and Insurance, the related costs, and the discount on the placement of the bonds were deferred

and are shown in Other assets. The detail of these is as follows:

2003					
	Discount	Deferred costs	Accumulated amortization	Period	Amortization for year
	ThCh\$	ThCh\$	ThCh\$		ThCh\$
Bonds seriesA	422,873	330,542	349,614	5	152,190
Bonds seriesB	2,157,670	495,813	293,171	21	127,620
Bonds seriesC	2,651,297	1,173,250	506,213	8	482,849
Bonds seriesD	1,722,008	2,463,593	449,229	6	449,229
Total	6,953,848	4,463,198	1,598,227		1,211,888
2002					
	Discount	Deferred Costs	Accumulated amortization	Period	Amortization for year
	ThCh\$	ThCh\$	ThCh\$		ThCh\$
Bonds series A	427,102	333,847	197,424	5	152,190
Bonds seriesB	2,179,247	500,771	165,551	21	127,620
Bonds seriesC	2,677,809	1,184,983	23,364	8	23,364
Total	5,284,158	2,019,601	386,339		303,174

The deferred costs refer to payments made to credit rating agencies, stamp taxes and other general expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

24. Statement of cash flows

In the Statement of cash flows, cash equivalents consist of financial investments including securities purchased under resale agreements with terms

of less than 90 days.

The detail of cash and cash equivalents is as follows:

	2003 ThCh\$	2002 ThCh\$
Cash & banks	686,031	330,594
Time deposits	-	15,850,781
Marketable securities (mutual funds)	-	1,632,540
Other current assets (purchases under resale agreements)	6,983,653	31,556,433
Balance of cash and cash equivalents	7,669,684	49,370,348

Other sources of finance

This relates exclusively to the collection of reimbursable financial contributions from the Company's customers, as established in regulations (Law 70, 1988).

Other financing disbursements

These include prepayments of notes (at over 10-year term) issued for reimbursable financing contributions.

Other investment disbursements

These relate to the payment of an installment on the purchase of water rights to the first section of the River Maipo.

Investment activities that commit future cash flows for Aguas Andinas S.A. and Subsidiaries relate to construction works in progress amounting to ThCh\$23,067,417 and ThCh\$37,257,989 at December 31, 2003 and 2002 respectively.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

25. Contingencies and Restrictions

Parent Company

a) Direct guarantees

Performance bonds have been issued in favor of the Superintendency of Sanitation Services and other institutions for ThCh\$6,915,881 and ThCh\$7,176,924 at December 31, 2003 and 2002 respectively to guarantee the provision of services and development programs in the Company's concession areas.

b) Lawsuits pending

Based on the reports of lawyers responsible for the defense of the Company, it is unlikely that the final outcome of these lawsuits will be unfavorable to the Company. The Company has made no provision for these, which are:

Court: 15th Civil of Santiago;
Case file: 1337-1996

Aguas Andinas S.A. was sued by an individual for not having been able to exploit mining deposits on land that was expropriated by the Treasury for the construction of the El Yeso reservoir. At the time of the expropriation, Aguas Andinas S.A. was not the owner of the reservoir, which was transferred to it in 1990. The amount involved is ThUS\$3,000. Judgment

in the first instance ordered the Treasury to indemnify the plaintiffs and the demand against Aguas Andinas S.A. was dismissed. The Treasury appealed against this decision.

It is therefore most improbable that a judgment in the second instance would order Aguas Andinas S.A. to pay any sum.

Court: 11th Civil of Santiago;
Case file: 5716-1999

Aguas Andinas S.A. was sued severally for damages suffered to a gas pipe as a result of works carried out by a gas company. Aguas Andinas S.A. alleges that it is not responsible for this matter as it has no relationship whatsoever with the cause of the damage and the works are not owned by it nor are its responsibility. The amount payable in the event of an unfavorable result would be ThCh\$85,816, plus indexation and interest. Aguas Andinas S.A. and the other defendants have answered the demand and the discussion stage is completed. It is believed that the possibilities of success in this case are high as there is no relationship between the damages caused and any action or omission attributable to Aguas Andinas S.A.

Court: 4th Civil of Santiago;
Case file: 2235-2001

A company sued Aguas Andinas S.A. alleging that

the Company occupied its property without authorization for the construction there of the El Trebal Treatment Plant. Aguas Andinas S.A. alleges having obtained the rights of way from third parties. The amount of the demand is not determined as no indemnity has been sought, only the return of the land. Judgment in favor of Aguas Andinas S.A. was given in the first instance, rejecting the demand in all its parts and with costs. The plaintiff has appealed.

Court: 29th Civil of Santiago;
Case file: 1400-2001

An individual alleging having suffered an enormous damage on the sale of 8.1 has., sued Aguas Andinas S.A. of land for the construction of the El Trebal plant. Aguas Andinas S.A. alleges having paid a just price. The amount sought is ThCh\$120,000 approximately. Judgment in the first instance rejected the demand in all its parts.

Court: 14th Civil of Santiago;
Case file: 169-2003

A company sued Aguas Andinas S.A. seeking the nullity of Sociedad Gestión y Servicios S.A. in which Aguas Andinas S.A. has a 1% shareholding. The amount involved is not determined. The case is still pending.

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The Company is a party to other lawsuits of lesser amounts (in favor and against). Based on the reports of the Company's internal and external lawyers, who state that there is a high probability that the outcomes will be favorable, the Company has made no provisions for these outcomes.

c) Accrued lawsuits

The Company is a party to other lawsuits for which it has made provisions which currently amount to ThCh\$966,271 (ThCh\$1,051,107 in 2002).

d) Bond issue covenants

The Company has restrictions and obligations arising from the issue of bonds on the domestic market; these are:

1. Send to the bond-holders representative a copy of the Company's unconsolidated and consolidated financial statements, and of the subsidiaries registered in the Superintendency of Securities and Insurance, on a quarterly and annual (audited) basis within the same time limits set by the Superintendency of Securities and Insurance, and all public information reported to that Superintendency.
- 2.-Record in its books provisions for adverse contingencies that, in the management's opinion, should be reflected in its financial statements.
3. Maintain insurance cover that reasonably protects

its assets including its main offices, buildings, plants, inventories, office furniture and equipment and vehicles, in accordance with normal practices for similar businesses.

4. The Company obliges itself to monitor that its transactions with its subsidiaries and other related parties are carried out on equitable conditions similar to those normally prevailing in the market.

5. A debt level not greater than 1.5:1, measured on the figures in the consolidated and unconsolidated balance sheets, defined as the debt to equity ratio.

6. Not sell, assign or transfer essential assets (public-utility concessions granted by the S.I.S.S for Greater Santiago), except for contributions or transfers of essential assets to its subsidiaries.

e) Covenants for bank loans

The Company has obligations and restrictions contained in loan agreements with local banks, as follows:

1. A debt ratio not greater than 1.5:1, calculated on the figures in the consolidated and unconsolidated balance sheets, defined as the debt to equity ratio
- 2.- Prohibition on the disposal or loss of ownership over essential assets.

3. Send copies of the Company's unconsolidated and consolidated financial statements on a quarterly and annual (audited) basis within five days of sending these to the Superintendency of Securities and Insurance.

4. Record in its books provisions for adverse contingencies that, in the management's opinion, should be reflected in its financial statements.

5. Maintain insurance cover that reasonably protects its assets including its main offices, buildings, plants, inventories, office furniture and equipment and vehicles, in accordance with normal practices for businesses of the Company's kind.

6. Send a certificate signed by the Company's general manager declaring compliance with the covenants under the loan agreements.

7. Prohibit dividend distributions over the minimum obligatory level should there be a delay in the payment of any loan installment.

8. Maintain a financial expenses coverage ratio of at least 3:1 calculated on the figures in the consolidated and unconsolidated balance sheets, defined as the operating income plus depreciation and amortization of intangibles for the year divided by financial expenses.



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Aguas Cordillera S.A.

Performance bonds have been issued in favor of the municipalities of Superintendency of Las Condes, Vitacura and Lo Barnechea totaling ThCh\$41,570 and ThCh\$42,091 at December 31, 2003 and 2002 respectively to guarantee the carrying out of public works.

Performance bonds and policies have been given in favor of the Superintendency of Sanitation Services and other institutions for ThCh\$1,404,279 and ThCh\$1,417,087 at December 31, 2003 and 2002 respectively to guarantee the provision of services and development programs in the Company's concession areas.

Other performance bonds have been given in favor of third parties amounting to ThCh\$3,215 and ThCh\$1,015 respectively at December 31, 2003 and 2002.

Lawsuits and demands:

Based on the reports of lawyers responsible for the defense of the Company, it is unlikely that the final outcome of these lawsuits will be unfavorable to the Company. The Company has made no provision for these, which are:

Case file: 511-96, Sixth Civil Court of Santiago.

A demand has been made against the company requiring compliance with obligations deriving from an aqueduct right of way and an indemnity for alleged damages caused to the property by a fracture to a potable water main. Amount demanded approximately UF 150. Case is awaiting final judgment in the second instance following an initially unfavorable sentence for the company. There are moderate probabilities of obtaining the nullity of the judgment in the second instance.

Case file: 4693-99, 11th Civil Court of Santiago.

There is a demand for an indemnity for alleged damages made by 79 neighbors in Lo Barnechea due to supply problems in October and November 1996. The demand is for ThCh\$125,000 for material damages and ThCh\$1,170,000 for moral damages. The appeals court accepted the company's appeal because of the inept presentation by the plaintiffs, who have not yet reformulated the demand. The company has good possibilities of winning the case.

Case file: 1158-2002, 8th Civil Court of Santiago.

Demand for moral damages deriving from the dismissal of an employee of the company, which was declared as unjustified by the Supreme Court. ThCh\$140,000 is demanded.

Notification has still not been made. There are probabilities that the demand against the company will not be accepted.

The company is a party to other lawsuits of lesser amounts for which there are good probabilities of a favorable outcome.

The company has made provisions of ThCh\$24,332 (ThCh\$21,835 2002). for those lawsuits with a low possibility of winning its case.

Restrictions

Aguas Cordillera S.A. has restrictions and obligations arising from the issue of bonds on the domestic market; these are:

- Send to the bond-holders representative copies of all relevant information required by the Superintendency of Securities and Insurance.
- Notify the bond-holders representative notifications of ordinary and extraordinary shareholders' meetings. se contingencies that, in the management's opinion, should be reflected in its financial statements.
- Not invest in instruments issued by related entities or carry out operations with them that are outside the normal business on conditions that are more unfavorable to the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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d) Inform the bond-holders representative of any reduction in its shareholdings in subsidiaries of more than 5% of their capital and any other reduction signifying losing control by the company.

e) Maintain the following financial ratios calculated quarterly on the unconsolidated and consolidated financial statements presented in the form and term required by the Superintendency of Securities and Insurance.

Debt ratio. Defined as short and long-term liabilities compared to shareholders' equity, to be no higher than 1.5:1. Minority interest shall be considered as part of shareholders' equity in the case of the consolidated financial statements.

Maintain assets available to be used as collateral free of all encumbrances in at least 1.2 times unsecured liabilities.

Maintain insurance cover that reasonably protects the company's assets

Record in its books provisions for adverse contingencies that, in the management's opinion, should be reflected in its financial statements. Send to the bond-holders representative a setter signed by the company's legal representative confirming compliance with the covenants indicated. Use the proceeds as stipulated in letter M of the sixth

clause of the bond-issue contract.

Not sell, assign or transfer operating assets that might significantly diminish the company's production capacity, except that contributed to subsidiaries.

Aguas Los Dominicos S.A.

Performance bonds and policies have been issued in favor of the Superintendency of Sanitation Services and other institutions for ThCh\$238,621 and ThCh\$238,502 at December 31, 2003 and 2002 respectively to guarantee the provision of services and development programs in the company's concession areas.

At December 31, 2003 and 2002, there were no mortgages, encumbrances or prohibitions affecting the ownership title to the assets of the company.

Aguas Manquehue S.A.

Guarantees given:

Performance bonds and policies have been issued in favor of the Superintendency of Sanitation Services and other institutions for ThCh\$763,188 and ThCh\$679,963 at December 31, 2003 and 2002 respectively to guarantee the provision of services and development programs in the company's concession areas.

At December 31, 2003 and 2002, there were no mortgages, encumbrances or prohibitions affecting the ownership title to the assets of the company.

Anam S.A.

Performance bonds have been granted in favor of Polpaico S.A. for ThCh\$1,200 to cover its participation in a services tender process.

Gestión y Servicios S.A.

Performance bonds have been issued in favor of Necso Sacyr S.A. for ThCh\$6,407 to guarantee participation in services tender processes.



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at december 31, 2003 and 2002

Beneficiary of guarantee	Deudor		Type of guarantee	Sums pending payment at date of financial statements	
	Name	Relationship		2003 ThCh\$	2002 ThCh\$
S.I.S.S.	Aguas Andinas S.A.	Parent	Performance bond	6,799,574	7,146,260
Empresa Ferrocarriles	Aguas Andinas S.A.	Parent	Performance bond	2,232	2,232
Enersis S.A.	Aguas Andinas S.A.	Parent	Performance bond	8,460	8,454
I. Municipalidad de Providencia	Aguas Andinas S.A.	Parent	Performance bond	16,050	15,677
I. Municipalidad Las Condes	Aguas Andinas S.A.	Parent	Performance bond	1,000	1,010
I. Municipalidad de Santiago	Aguas Andinas S.A.	Parent	Performance bond	15,736	-
I. Municipalidad de Pudahuel	Aguas Andinas S.A.	Parent	Performance bond	-	2,548
Dirección de Vialidad	Aguas Andinas S.A.	Parent	Performance bond	-	743
Serviu Metropolitano	Aguas Andinas S.A.	Parent	Performance bond	72,829	-
I. Municipalidad de Las Condes	Aguas Cordillera S.A.	Subsidiary	Performance bond	3,500	4,040
S.I.S.S.	Aguas Cordillera S.A.	Subsidiary	Performance bond	832,640	1,417,087
S.I.S.S.	Aguas Cordillera S.A.	Subsidiary	Performance bond	571,639	-
I. Municipalidad de Lo Barnechea	Aguas Cordillera S.A.	Subsidiary	Performance bond	4,230	4,228
I. Municipalidad de Vitacura	Aguas Cordillera S.A.	Subsidiary	Performance bond	33,840	33,823
Enersis S.A.	Aguas Cordillera S.A.	Subsidiary	Performance bond	1,015	1,015
Cía. Minera Disputada las Condes	Aguas Cordillera S.A.	Subsidiary	Mortgage	-	1,143,130
Dirección Regional de Vialidad	Aguas Cordillera S.A.	Subsidiary	Performance bond	2,200	-
S.I.S.S.	Aguas Los Dominicos S.A.	Subsidiary	Performance bond	238,621	238,502
S.I.S.S.	Aguas Manquehue S.A.	Subsidiary	Performance bond	763,188	350,086
Servicios Sanitarios Polpaico	Anam S.A.	Subsidiary	Performance bond	1,200	-
S.I.S.S.	Aguas Manquehue S.A.	Subsidiary	Performance Bond	-	329,877
Necso Sacyr S.A.	Gestión y Servicios S.A.	Subsidiary	Performance bond	6,407	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

26. Guarantees received from third parties

Aguas Andinas S.A.:

At December 31, 2003 and 2002, the Company has received documents in guarantee for ThCh\$18,216,812 and ThCh\$23,899,722 respectively arising principally under works contracts with construction companies for contract compliance. There are also other guarantees for service and materials purchase contracts covering due compliance.

The following is a detail of the most important guarantees received at December 31, 2003:

Contractor	Amount ThCh\$	Expiry Date
ITT Sanitaire	195,778	23-09-2005
ITT Sanitaire	195,779	30-04-2004
Rentaequipos Leasing S.A.	209,370	31-08-2004
Claro Vicuña Valenzuela S.A.	239,779	30-06-2006
Compañía de Petróleo de Chile S.A.	281,996	21-03-2004
OTV S.A.	599,420	28-02-2004
Constructora El Dial S.A.	822,470	28-12-2004
Cadagua S.A.	1,091,052	11-02-2007
Degrémont S.A. Chile Agency	6,622,821	15-11-2005
Total	10,258,465	

Aguas Cordillera S.A.:

At December 31, 2003 and 2002, the company had performance bonds for ThCh\$553,371 and ThCh\$1,482,600 respectively received from contractors and third parties to cover their obligations under works construction, services and other contracts.

The following is a detail of the most important performance bonds outstanding at December 31, 2003:

Contractor	Amount ThCh\$	Expiry Date
ACSA Agbar Construcción Ltda.	101,402	25-11-2004
Ingeniería y Const.Oyarzún y Moreno Ltda.	48,466	30-12-2004
Inmobiliaria Manquehue Oriente S.A.	48,324	03-04-2004
Inmobiliaria y Const. Nueva Pacifico Sur Ltda.	34,456	07-04-2004
Jara Gumucio S.A.	33,620	10-08-2004
Inmobiliaria y Const. Nueva Pacifico Sur Ltda.	25,380	01-09-2005
Sondaje Ltda.	25,235	02-03-2004
Captagua Ingeniería S.A.	24,958	02-03-2004
Construcciones y Montajes S.A.	20,868	01-06-2004
Total	362,709	



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at december 31, 2003 and 2002

Aguas Manquehue S.A.

At December 31, 2003 and 2002, the company had performance bonds for ThCh\$227,380 and ThCh\$494,424 respectively received from construction contractors to cover their obligations.

The following is a detail of the most important performance bonds outstanding at December 31, 2003:

Contractor	Amount ThCh\$	Expiry Date
Inlac S.A.	7,326	11-03-2004
Ecopreneur Chile S.A.	6,000	30-09-2004
Soc.Constructora Rupanco S.A.	33,945	30-03-2005
Soc.Constructora Rupanco S.A.	13,303	31-05-2005
Ing.y Const.Oyarzún y Moreno Ltda.	18,438	03-05-2005
Ing.y Const.Eugenio Díaz	5,139	30-06-2005
Hacienda Chicureo Inmobiliaria S.A.	118,440	31-12-2005
Total	202,591	

Aguas Los Dominicos S.A.

At December 31, 2003 and 2002, the company had performance bonds for ThCh\$1,390 and ThCh\$5,783 respectively received from contractors and third parties to cover their obligations under construction, services and other contracts

Contractor	Amount ThCh\$	Expiry Date
Soc. Const. Rodríguez y Rivera Ltda.	1,390	28-02-2004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Análisis Ambientales S.A.

Contractor	Amount ThCh\$	Expiry Date
Rentaequipos Leasing S.A.	2,646	31-01-2004

Ecoriles S.A.

Contractor	Amount ThCh\$	Expiry Date
Ondeo Degrémont S.A.	21,496	18-07-2004

Gestión y Servicios

Contractor	Amount ThCh\$	Expiry Date
Indus. Tecnología Hidráulica Ltda.	33,931	31-10-2004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. Local and foreign currencies

The Company shows the following assets and liabilities in local and foreign currency at December 31, 2003 and 2002

	Currency	2003 ThCh\$	Amount 2002 ThCh\$
Current assets			
Cash & banks	Non-indexed Ch\$	685,843	323,813
Cash & banks	Dollar	188	6,781
Time deposits	Non-indexed Ch\$	-	15,850,781
Marketable securities	Non-indexed Ch\$	-	1,632,540
Trade accounts receivable	Non-indexed Ch\$	33,260,805	30,121,593
Sundry debtors	Indexed Ch\$	36,202	1,084,426
Sundry debtors	Non-indexed Ch\$	1,204,145	830,756
Sundry debtors	Euro	3,337	-
Sundry debtors	Dollar	3,187	-
Notes receivable related companies	Non-indexed Ch\$	62,674	26,113
Notes receivable	Non-indexed Ch\$	337,008	136,070
Notes receivable	Indexed Ch\$	968,405	560,824
Inventories	Indexed Ch\$	1,499,646	2,119,242
Prepaid expenses	Indexed Ch\$	343,965	231,547
Deferred taxes	Indexed Ch\$	306,084	474,162
Taxes recoverable	Indexed Ch\$	715,803	2,808,840
Other current assets	Non-indexed Ch\$	6,994,109	20,815,113
Other current assets	Dollar	-	6,958,884
Other current assets	Indexed Ch\$	-	3,861,011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Assets

	Currency	Amount 2003 ThCh\$	2002 ThCh\$
Fixed assets			
Fixed assets	Indexed Ch\$	561.051.718	511.482.122
Other assets			
Investment related companies	Indexed Ch\$	-	-
Goodwill	Indexed Ch\$	62.110.290	65.847.717
Negative goodwill	Indexed Ch\$	(1.143)	(1.207)
Long-term debtors	Non-indexed Ch\$	440.747	919.151
Long-term debtors	Indexed Ch\$	10.061.732	8.669.967
Intangible assets (net)	Indexed Ch\$	34.628.600	34.423.431
Others	Indexed Ch\$	13.202.698	9.397.300
Others	Non-indexed Ch\$	71.323	8.612
Total assets:			
	Non-indexed Ch\$	43.056.654	70.664.542
	Dollar	3.375	6.965.665
	Indexed Ch\$	684.924.000	640.959.382
	Euro	3.337	-



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

	Currency	Up to 90 days				90 days to 1 year			
		2003		2002		2003		2002	
		Amount	Average annual interest rate	Amount	Average annual interest rate	Amount	Average annual interest rate	Amount	Average annual interest rate
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Bonds payable	Indexed Ch\$	2,416,296	5.5-6.5	2,017,429	6.5-5.5	1,464,081	6.5	1,446,848	6.5-5.5
Borrowings from banks & financial institutions	Indexed Ch\$	215,940	4.32-3.64	79,150	4.58	466,569	3.64	466,451	3.55
Accounts payable	Non-indexed Ch\$	11,454,596	-	13,860,741	-	-	-	-	-
Accounts payable	Indexed Ch\$	335,617	-	619,486	-	-	-	-	-
Accounts payable	Euro	54,845	-	35,719	-	-	-	-	-
Accounts payable	Dollar	92,024	-	5,826,772	-	-	-	-	-
Notes payable	Indexed Ch\$	40,303	6.15-7.31	40,372	6.15-7.31	234,975	6.15-7.31	120,610	6.15-7.31
Sundry creditors	Non-indexed Ch\$	17,075	-	12,546	-	-	-	-	-
Sundry creditors	Indexed Ch\$	779,913	7.7	55,355	7.7	197,589	7.25	464,663	7.29
Sundry creditors	Dollar	-	-	-	-	3,703	-	1,143,129	-
Provisions	Non-indexed Ch\$	16,829,262	-	11,113,148	-	63,182	-	157,055	-
Provisions	Indexed Ch\$	97,820	-	4,706	-	-	-	-	-
Withholdings	Non-indexed Ch\$	5,965,116	-	3,371,614	-	-	-	-	-
Income tax	Non-indexed Ch\$	546,258	-	-	-	-	-	-	-
Notes & accounts payable to related companies	Non-indexed Ch\$	20,455,135	-	31,724,114	-	-	-	-	-
Other current liabilities	Non-indexed Ch\$	5,551	-	4,330	-	-	-	-	-
Unearned income	Indexed Ch\$	549,820	-	912,355	-	329,186	-	19,167	-
Unearned income	Non-indexed Ch\$	571,000	-	-	-	-	-	-	-
Total current liabilities:									
	Indexed Ch\$	4,435,709		3,728,853		2,692,400		2,517,739	
	Non-indexed Ch\$	55,843,993		60,086,493		63,182		157,055	
	Euro	54,845		35,719		-		-	
	Dollar	92,024		5,826,772		3,703		1,143,129	

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Long-term liabilities 2003

		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years	
		Average	Average	Average	Average	Average	Average	Average	Average
		annual	annual	annual	annual	annual	annual	annual	annual
		interest	interest	interest	interest	interest	interest	interest	interest
		rate	rate	rate	rate	rate	rate	rate	rate
		%	%	%	%	%	%	%	%
		ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Borrowings from banks &									
Financial institutions	Indexed Ch\$	16,758,977	4.32-3.95	21,657,778	4.32	14,768,889	4.32	-	-
Bonds payable	Indexed Ch\$	81,214,409	4.6-6.5	59,569,557	4.92-6.5	59,197,241	5.68-6.5	25,347,283	6.25
Notes payable	Indexed Ch\$	5,035,847	7.31-5.6	422,546	7.31-5.6	2,787,533	7.31-5.6-2.76	13,254,658	7.31-5.6-4.04
Sundry creditors	Indexed Ch\$	1,387,792	-	948,082	-	696,259	-	-	-
Provisions	Indexed Ch\$	205,230	-	205,230	-	513,071	-	6,778,003	-
Deferred taxes	Indexed Ch\$	248,097	-	325,913	-	814,782	-	1,319,186	-
Other liabilities	Indexed Ch\$	863,762	7.6	432,777	7.6-6.98	340,977	7.6-6.98	19,176	-
Provisions	Non-indexed Ch\$	4,850	-	4,850	-	23,803	-	-	-
Total long-term liabilities									
	Indexed Ch\$	105,714,114		83,561,883		79,118,752		46,718,306	
	Non-indexed Ch\$	4,850		4,850		23,803		-	



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at december 31, 2003 and 2002

Long-term liabilities 2002

	Currency	1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years	
		Amount	Average annual interest rate	Amount	Average annual interest rate	Amount	Average annual interest rate	Amount	Average annual interest rate
			%		%		%		%
		ThCh\$		ThCh\$		ThCh\$		ThCh\$	
Bonds payable	Indexed Ch\$	15,300,750	6.5-4.25	46,856,958	6.5-5.13	39,960,336	6.5-5.25	26,840,306	6.25
Notes payable	Indexed Ch\$	574,347	7.31-6.46	4,751,812	7.31-6.83	542,387	7.31-7.56	11,237,858	7.31-4.83
Creditors	Indexed Ch\$	1,795,334	7.29	942,332	-	904,769	-	-	-
Provisions	Indexed Ch\$	203,790	-	203,790	-	517,095	-	5,553,832	-
Deferred taxes	Indexed Ch\$	216,891	-	216,891	-	641,939	-	656,292	-
Other long-term liabilities	Indexed Ch\$	302,853	7.6	172,841	7.6-7.31	340,464	7.6-7.31	70,373	7.6
Borrowings from banks & financial institutions	Indexed Ch\$	932,280	3.55	195,117	3.03	-	-	-	-
Total long-term liabilities									
	\$ reajustables	19,326,245		53,339,741		42,906,990		44,358,661	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

28. Sanctions

a) Superintendency of Securities and Insurance.

During 2003 and 2002, no sanctions of any kind have been applied to the Company or its directors and executives, except for the censure sanction applied on April 22, 2002 to the general manager of the subsidiary Aguas Manquehue S.A., Francisco Javier Urrutia Herrera, for non-compliance with the obligation contained in Section III of Circular 1,481 of May 25, 2000, corresponding to the sending of a list of the principal shareholders in January 2002, as stated in Resolution No.205.

b) From other administrative authorities.

In 2003, the Superintendency of Sanitation Services applied a minor fine to Aguas Andinas S.A. with respect to measurements taken at the Paine Sewage Treatment Plant, for which an appeal was made. The Company was not fined at all during 2002.

On May 12, 2003, the Superintendency of Sanitation Services fined Aguas Manquehue S.A., in Resolution No.1153, for non-compliance with rule NCH N°409 Of 84.

On May 19, 2003, the Superintendency of Sanitation

Services fined Aguas Manquehue S.A., in its Resolution No.1,194, for non-compliance with rule NCH NO 1333 Of 78. This fine has been challenged by the company at the 29th Civil Court of Santiago, file N° 2829-2003, and is pending notification of this to the Superintendency of Sanitation Services. SESMA applied a fine of UTM1,000 to Aguas Andinas S.A., in accordance with Law 144/61 of the Ministry of Health which sets standards for avoiding atmospheric emanations or contaminants of any kind. A claim for reversal has been made in accordance with clause 50 of Law 19,880.

No other sanctions of any kind have been applied to the Company and its subsidiaries, or to their directors or executives, during 2003 and 2002.

29. Subsequent events

Aguas Andinas S.A.and Subsidiaries

At the issue date of these financial statements, the Company's management is unaware of any subsequent events that significantly affect the financial

situation and results of the Company at December 31, 2003.

30. Environment

Aguas Andinas S.A.

The principal projects of the Company during 2003 for improving the environment refer to the construction of the sewage treatment plants.

The principal investments made in 2003 and 2002 have been the construction of the La Farfana treatment plant which will allow the treatment of 50% of Santiago's sewage. The investment made during those periods was ThCh\$51,991,159 and ThCh\$68,700,073 respectively.

Aguas Manquehue S.A.

The principal projects of the company during 2003 for improving the environment refer to the expansion of the sewage treatment plant.

Investment in this respect in 2003 amounts to ThCh\$265,889.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

31. Long-term notes payable

This heading includes promissory notes signed by the Company in repayment of reimbursable financing contributions, amounting to ThCh\$21,500,584 and ThCh\$17,106,404 at December 31, 2003 and 2002.

32. Transfer of ownership of sanitation works

Under an agreement signed on June 30, 1998 between the Metropolitan regional government and Aguas Andinas S.A., ownership of the sanitary works constructed or acquired with resources of the Regional Development National fund was transferred to the Company.

The works transferred under this agreement, which constitute third-party contributions, are covered by the provisions of Law 70 of the Ministry of Public Works of 1988 and Clause 36 of the respective regulation of MINECON Decree 453 of 1989.

At December 31, 1998, these works were incorporated into the Company's assets at a nominal value of Ch\$1 for each asset, as there is a prohibition on considering these assets transferred by the regional government as an investment for purposes of tariff setting, on

which the Company cannot earn a return on them and they do not represent any additional operating benefits for the Company in addition to those already obtained since their start-up.

Neither does the income-costs correlation alter with respect to previous years as the Company made no disbursements.

The maximum tariff contemplated for this type of contribution refers only to cover of the required operating and maintenance costs.

According to the instructions of the Superintendency of Securities and Insurance, in its Resolution 01489 of March 20, 2000, the estimated technical value of these works was determined for information purposes.

At that time, this amounted to ThCh\$1,507,690 and its depreciation, determined on the basis of its time in use, amounts to ThCh\$388,857.

The principal criteria used in the valuation of these works included earth movement, supply pipes, potable water and sewage chambers and the labor costs, all at December 2003. The average useful life of these assets is 406 months and their remaining average useful life at December 2003 is 317 months.

33. Reimbursable contributions

Clause 16 of Law 70 published in the Official Gazette on December 30, 1998 and clause 42 of Law 453, set out the rules for requesting reimbursable financial

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

contributions for capacity and extension of the corresponding service to whoever asks to be incorporated as a customer or requires a service expansion.

Under these regulations, at December 31, 2003 and 2002, works have been received under reimbursable financing contribution contracts for extensions, for a value of ThCh\$8,808,837 and ThCh\$8,671,071 respectively. These works are shown as Fixed assets

of the Company and the contributions have already been reimbursed.

On the other hand, at December 31, 2003 and 2002, there were signed contracts for reimbursable contributions for extensions booked in memorandum accounts. The number of contracts signed is 8 for ThCh\$139,519 and 14 for ThCh\$276,346 respectively whose works have not yet been handed to the Company for its inspection and later reception.

In accordance with Circular 2,820 of December 11, 2003 of the Superintendency of Sanitation Services, the following shows the state of progress of the reimbursable contributions being carried out:

Name of works	Advance %	DAccrued ThCh\$
Clotario Blest Urbanization	100%	24,632
Villa Inela and San José Street	60%	10,075
Vista Hermosa urbanization sector 1.2.3 & 4	100%	8,842
Casagrande P5 eco-suburb Stage 2	40%	6,520
Feeder matrix adjoining Oceánica housing	100%	47,020
Santa Rosa industrial plot	85%	15,629
Huechuraba industrial complex	100%	6,086
Pasaje Santa Rosa	95%	1,386
Total		120,190



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Material Information

Aguas Andinas S.A.

The board of the Company reported that at its meeting of September 9, 2003, it had agreed to call an extraordinary shareholders' meeting for October 14, 2003, to propose a capital reduction of up to Ch\$140.000 million (one hundred and forty billion pesos).

The board of the Company reported that the 12th extraordinary shareholders' meeting was held on October 14, 2003 and resolved the following:

a) To modify the Fifth clause and First transitory clause of the bylaws to reduce the capital by Ch\$140,000 million (one hundred and forty billion pesos), maintaining the number of subscribed and paid shares of the Company as well as the series into which they are divided and their privileges.

b) To distribute the approved capital reduction to

shareholders pro rata to their shares, this being Ch\$22.87969 per share.

c) To establish the payment mechanism for this capital distribution to shareholders, delegating to the Company's board the power to set the exact date for payment, but not later than December 31, 2003.

The board of the Company reported that at its meeting of December 9, 2003, Juan Carlos Fontana presented his resignation as director and vice-chairman of the Company. Alain Chaigneau and Manlio Alessi also presented their resignations as alternate directors. In accordance with clause 32 of the Corporations Law, the board at the same meeting appointed Manlio Alessi as a director in replacement of Juan Carlos Fontana, and then elected Charles Chaumin as vice-chairman of the Company.

Aguas Cordillera S.A.

On February 28, 2003, it was reported that Víctor

Selman Biester had presented his resignation as director which was accepted by the board at its meeting held on February 28, 2003. Isabel Pinochet Ulloa was appointed as director in his place.

The board of Aguas Cordillera S.A., at its meeting of November 12, 2003, was informed of and accepted the resignation of the Company's general manager, Marcelo Dutilh Labbé, as from that date. The same meeting named Felipe Larrain Aspillaga as the new general manager of the Company from that date.

Aguas Los Dominicos S.A.

On February 28, 2003, it was reported that Víctor Selman Biester had presented his resignation as director which was accepted by the board at its meeting held on February 28, 2003. Isabel Pinochet Ulloa was appointed as director in his place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Aguas Manquehue S.A.

On February 28, 2003, it was reported that Victor Selman Biester had presented his resignation as director which was accepted by the board at its meeting held on February 28, 2003. Isabel Pinochet Ulloa was appointed as director in his place.

It was reported on October 15, 2003 that an agreement had been signed between Aguas Manquehue S.A. and Hacienda Chicureo Inmobiliaria S.A. on October 8, 2003. This contract is of the type regulated by clause 44 of Law 18,046 because of the interest of the director of the company, Carlos Alberto Rabat Vilaplana. The board of the company therefore took note of and expressly approved the contract at its meeting held on March 28, 2003.

The board of Aguas Manquehue S.A., at its meeting of November 12, 2003, was informed of and accepted the resignation of the Company's general manager,

Marcelo Dutilh Labbé, as from that date. The same meeting named Felipe Larrain Aspillaga as the new general manager of the Company from that date.

At the closing of the financial statements at December 31, 2003, no other material information had been reported.



MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

1. Summary

Results

The net income of Aguas Andinas at December 31, 2003 was Ch\$59,659 million, representing an increase of 9.16% compared to the year before. This is mainly explained by an improved operating income due to the start-up of the La Farfana plant and other matters described below.

The Company's operating income was Ch\$74,936 million, representing an 11.9% increase over the previous year. This was mainly due to the coming into operation of the La Farfana plant in September 2003, an increase in the business of the non-sanitation subsidiaries and the impact of efficiencies achieved through the introduction of new technology in operating systems and the modernization of procurement management.

The negative non-operating result was 4% or Ch\$46 million higher, mainly due to higher financial expenses

of Ch\$4,109 million arising from the higher indebtedness required to finance investments. This was mainly offset by higher financial income of Ch\$3,312 million and smaller increases in services for third parties, income from agreements signed with real estate developers and others.

Start of Operations of the La Farfana plant

On September 20, two months ahead of schedule, the La Farfana sewage treatment plant came into service. This plant has a capacity for 8.8 m³/s, is the fifth largest plant in the world and took approximately 2 years to build. La Farfana will permit the decontamination coverage of the Greater Santiago basin to increase from 23% to more than 70%.

Capital Reduction

In December 2003, the Company made a capital reduction in order to optimize its capital structure

while maintaining a solid financial situation in line with its investment commitments and credit rating. This transaction was agreed at the extraordinary shareholders' meeting held on October 14, 2003 and represented the payment to shareholders of Ch\$22.87969 per share on December 10, 2003.

Tariff process

The tariff process of Aguas Andinas began in October 2003, the result of which will be applied for the period from March 2005 to February 2010.

MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

2. Balance sheet

The principal assets and liabilities at December 31, 2003 and 2002 are as follows:

	Ch\$ million Dec. 2003	Ch\$ million Dec. 2002	Variation Dec. 2003 Dec. 2002 %
Balance sheet			
Current assets	46,421	87,842	(47.15)%
Fixed assets	561,052	511,482	9.69%
Other Assets	120,514	119,255	1.06%
Total Assets	727,987	718,579	1.31%
Current liabilities	63,186	73,495	(14.03)%
Long-term liabilities	315,146	159,931	97.05%
Total liabilities	378,332	233,426	62.08%
Minority interest	8	8	2.29%
Shareholders' equity	349,647	485,145	(27.93)%
Total Liabilities	727,987	718,579	1.31%



MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

2.1 Assets

1.1. Current assets are Ch\$41,421 million below the level of 2002, mainly due to the reduction in financial investments of Ch\$42,055 million which were used to pay for works, dividends and the capital reduction.

Net fixed assets increased by Ch\$49,570 million, in Buildings and infrastructure by Ch\$29,006 million and Machinery and equipment by Ch\$38,554 million.

The main reason was the construction of the La Farfana Sewage Treatment Plant which will treat 50% of the sewage of the Metropolitan Region. The increase in fixed assets was offset by increased accumulated depreciation of Ch\$19,619 million.

There was an increase in Other assets of Ch\$1,259 million, the main changes being in Others for Ch\$3,878 million (discount on the bond issue made in May 2003); Trade accounts receivable for Ch\$913 million, partially offset by a reduction in Goodwill of Ch\$3,737 million.

2.2 Liabilities

Current liabilities declined by Ch\$10,309 million compared to 2002, the principal reduction being in Notes and accounts payable to related companies.

There was an increase in long-term liabilities of Ch\$155,214 million, mainly due to Bonds payable of Ch\$96,370 million and Borrowings from banks and financial institutions of Ch\$52,058 million and Notes payable of Ch\$4,394 million relating to reimbursable financial contributions.

Regarding the new financing, the Company in May 2003 made an issue of indexed, bearer bonds amounting to UF 5.8 million of the series "D", having a 6-year term and an annual interest rate of 4.25%.

The Company also in December drew down loans from local banks amounting to Ch\$52,600 million denominated in local currency with a variable interest rate and an 8-year maturity. Finally, we obtained financing during the year from reimbursable financial

contributions of Ch\$12,807 which were issued at a fixed rate with an average maturity of 12 years.

Shareholders' equity declined by Ch\$135,498 million due to the capital reduction of Ch\$140,000 million (in order to optimize the Company's financing structure), offset by the increased net income for the year of Ch\$5,006 million.

MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

3. Financial indicators

Indicators	Unit	Dec-03	Dec-02	Variation %
Liquidity				
Current ratio	times	0.73	1.20	(39.16)%
Acid test	times	0.12	0.67	(82.09)%
Debt				
Debt ratio	%	108.20	48.12	124.85 %
Short-term debt	%	16.70	31.49	(46.96)%
Long-term debt	%	83.30	68.51	21.58 %
Financ.exp. cover	times	10.52	19.11	(44.95)%
Activity				
Inventory rotation	times	32.9	33.7	(2.37)%
Inventory permanence	Days	10.9	10.7	1.87 %
Profitability				
Return on equity (average)	%	14.29	11.33	26.13 %
Return on assets (average)	%	8.25	8.12	1.60 %
Return on operating assets (average)	%	13.13	13.35	(1.64)%
Earnings per share	\$	9.75	8.93	9.18 %
Dividend yield	%	5.00	5.70	(12.28)%

The Company's current ratio fell by 39.16% mainly due to the reduction in financial investments in Current assets.

Total debt increased by 124.85%, mainly due to the bond issue made in May 2003 and the drawing of bank loans by Aguas Andinas S.A. in December 2003.

The inventory rotation indicator declined by 2.37% as a result of the increase in cost of sales.

In calculating the return on operating assets, operating income was divided by the sum of fixed assets (average) and net intangible assets (average). This indicator does not change significantly from year to year as the increase in fixed assets is compensated by an increase in the Company's net income.

The return on average equity shows an increase of 26.13%, mainly due to the reduction in equity following the capital reduction made in December 2003 of Ch\$140,000 million.



MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

4. Analysis of the statement of income

The principal items of the Statement of income at December 31, 2003 and 2002 are:

	Ch\$ millions Dec. 2003	Ch\$ millions Dec. 2002	Variation %
Statement of income			
Sales	168,397	152,379	10.51%
Cost of sales	(59,581)	(54,727)	8.87%
Administrative & selling expenses	(33,880)	(30,662)	10.50%
EBITDA	108,649	95,142	14.20%
Operating income	74,936	66,990	11.86%
Financial expenses	(7,745)	(3,636)	113.01%
Non-operating result	(1,169)	(1,123)	4.00%
Net income	59,659	54,653	9.16%

At December 31, 2003, net income improved by 9.16% over the previous year. This increase is the result of 11.86% higher Operating income, a reduction of 4.00% in Non-operating loss, offset by 25.82% higher Income tax.

MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

5. Difference between the book and economic values of the principal assets

Aguas Andinas S.A., Aguas Cordillera S.A., Aguas Los Dominicos S.A. and Aguas Manquehue S.A.:

The fixed assets are valued in accordance with generally accepted accounting principles and standards and the instructions of the Superintendency of Securities and Insurance. We therefore believe that there should not be any significant differences between the economic or market value and the book value of the assets, taking into account also that stated in Note 2k) to the financial statements at December 31, 2003.

However, Aguas Andinas S.A. has seventy-five plots of land that were transferred to it gratuitously by the Chilean Treasury and are booked at Ch\$1. There are also fixed assets with exhausted accounting useful lives, which are shown at Ch\$1, even though they continue in operation. There are also transfers, constituting third-party contributions, covered by the regulations to Law 70 of the Ministry of Public Works of 1988 and the provisions of clause 36 of the respective Regulation of D.S. MINECON 453 of 1989, which are explained in Note 32. The Company has

water rights to various natural sources, particularly Laguna Negra, Laguna Lo Encañado and Quebrada de Ramón which were acquired gratuitously and with no value in the books.

Aguas Cordillera S.A., in accordance with the 3rd Transitory clause of Decree Law 382 of 1988, the General Sanitation Services Law, extracted from its accounts in 1989 those assets financed by third parties and fiscal assets. With the application of this law, the company maintains an off-the-books control of these assets and the calculation of price-level restatements of these assets therefore does not affect its financial statements in any way. It is because these assets form part of the sanitation infrastructure it has to operate and maintain that it carries out this off-the-books control.

On the other hand, the production of flows of underground origin is supplied from various wells located in the Metropolitan Region for which Aguas Andinas S.A. and subsidiaries have the water-rights concession granted to it gratuitously by the water authority department of the Ministry of Public Works.

In summary, and as mentioned above, Aguas Andinas S.A. and subsidiaries have no significant differences between the economic or market value and the book value except for the instances mentioned in the previous paragraphs. The principal assets of the Company relate to sanitation infrastructure works which have an exclusive purpose and are recorded according to accounting principles generally accepted in Chile.

Hidráulica Manquehue Ltda., Orbi II S.A., Ecoriles S.A., Anam S.A. and Gestión y Servicios S.A.:

These companies are recently formed and newly operating and show no differences between their market and book values as their assets have been booked at their restated cost.



MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

6. Market analysis

The Company and its subsidiaries have no market risk as, due to the nature of their services and current legislation, they have no competition in their concession areas.

Aguas Andinas S.A. currently has a 100% coverage in potable water, 99.9% in sewage services and more than 70% in sewage treatment.

Aguas Cordillera S.A. currently has a 100% coverage in potable water and 98.1% in sewage services.

Aguas Manquehue S.A. currently has a 100% coverage in potable water and 99.3% in sewage services.

Aguas Los Dominicos S.A. currently has a 99.90% coverage in potable water and 96.4% in sewage services.

	Sales Volumes (in Thm3) (*)		Customers N° (**)	
	2003	2002	2003	2002
Total Consolidated				
Total Potable Water	471,502	468,007	1,363,760	1,331,851
Sewage	465,403	463,422	1,327,824	1,296,004
Aguas Andinas S.A.				
Total Potable Water	402,741	401,287	1,263,578	1,234,246
Sewage	400,420	400,526	1,230,902	1,201,693
Aguas Cordillera S.A.				
Total Potable Water	62,430	61,105	96,162	93,988
Sewage	59,692	58,294	93,250	91,052
Aguas Manquehue S.A.				
Total Potable Water	6,331	5,614	4,020	3,617
Sewage	5,291	4,602	3,672	3,259

(*) Sales volume figures relate to the total of m³ invoiced in 2003.

(**) The number of customers relates to the number at the end of 2003.

MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

7. The principal operating, investment and financial cash flows

	Ch\$ million Dec. 2003	Ch\$ million Dec. 2002	Variation Dec. 2003 Dec. 2002 %
Operating flow	106,929	87,767	21.83 %
Financing flow	(46,321)	18,487	(350.56)%
Investment flow	(102,538)	(105,820)	(3.10)%
Net flow for the year	41,930	434	9.561.29 %
Effect of Inflation on cash	230	(4)	5.850.00 %
Change in cash	(41,700)	430	(9.797.67)%
Opening balance of cash	49,370	48,940	0.88 %
Closing balance of cash	7,670	49,370	(84.46)%

At December 31, 2003, there was a 21.83% increase in operating cash flow compared to 2002 mainly due to a smaller payment of VAT of Ch\$4,484 million because of the heavy investments, and the increase in collections of trade receivables of Ch\$19,925 million.

The financing cash flow decreased by 350.56% because of the capital reduction of Ch\$140,000 million, offset by new loans of Ch\$54,964 million

and the bond issue in May causing a rise in bonds payable of Ch\$96,369 million.

The investment cash flow fell by 3.10%, mainly explained by the increase in acquisitions of fixed assets of Ch\$4,664 million and an increase in interest payments of Ch\$3,112 million, offset by a change in Permanent investments of Ch\$6,657 million.



MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

8. Market risk analysis

Our Company shows a favorable position in terms of risk, mainly because of the particular characteristics of the sanitation sector and a proactive policy in risk management.

Operating aspects

Regulatory framework. Our Company operates within a stable regulation that allows us to develop our business and operations with a long-term view. This regulation contemplates the setting of tariffs for our services for 5-year periods. The present tariffs are set by MINECON Decree 76 and are in force until March 1, 2005.

Customers. We currently serve 1,363,760 customers in our concession area whose principal supplier is Aguas Andinas and its subsidiaries. The principal 100 customers represent just 4.8% of total sales in 2003.

Weather conditions. Our large reserves of water, like the El Yeso reservoir, Laguna Negra and Lo Encañado, together with the contingency plans we have developed, allow us to reduce the potential negative impacts that adverse weather conditions might cause to our operations.

Financial Aspects

Currency risk. Our sales are largely related to the local currency. Our debt therefore is mainly denominated in the same currency and no significant debt is carried in foreign currency.

Interest rates. With respect to the interest rate risk, we in Aguas Andinas maintain 82% of our debt at fixed rates, composed 75% by medium and long-term bond issues and 7% by reimbursable financial contributions, a situation that compares with all the debt at fixed rates at December 2002. On the other

hand, the remaining 18% of the debt is at variable rates and refers to local banks loans. The Company maintains a policy of monitoring and managing interest rates in order to optimize the cost of finance and constantly evaluates the available hedging instruments in the market.

This whole favorable situation has led to the credit-rating agencies granting us an AA+ credit rating for long-term debt. In the case of the shares, Feller Rate has given us a first class level 3 rating and Humphreys a first class level 2 rating.



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REPORT OF INDEPENDENT ACCOUNTANTS

Deloitte.

To the Shareholders and Directors of Aguas Andinas S.A.

We have audited the accompanying balance sheets of Aguas Andinas S.A. as at December 31, 2003 and 2002 and the related statements of income and of cash flows for the years then ended. These financial statements (including the notes thereto) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The accompanying Management Analysis of these financial statements and Material Information do not form an integral part of these financial statements so this report does not cover these.

We conducted our audits in accordance with generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also involves assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

These financial statements have been prepared to show the individual financial situation of Aguas Andinas S.A., based on the criteria described in Note 2, before proceeding to the line-by-line consolidation of the financial statements of the subsidiaries listed in Note 10. For a proper interpretation therefore of these individual financial statements, they should be read and analyzed together with the consolidated financial statements of Aguas Andinas S.A. and subsidiaries which are required by accounting principles generally accepted in Chile.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aguas Andinas S.A. as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles described in Note 2.



Eduardo Roubik P.
Tax No. 4.944.950-K

January 14, 2004



BALANCE SHEETS

at december 31, 2003 and 2002

Assets	2003 ThCh\$	2002 ThCh\$
Current Assets		
Cash & banks	346,203	231,082
Time deposits	-	15,850,781
Marketable securities (net)	-	1,632,540
Trade accounts receivable (net)	26,132,386	24,311,108
Notes receivable (net)	497,969	359,363
Sundry debtors (net)	390,553	628,901
Notes & accounts receivable - related companies	3,077,250	2,220,235
Inventories (net)	907,345	1,520,784
Taxes recoverable	144,664	2,499,219
Prepaid expenses	179,735	96,119
Deferred taxes	112,480	314,604
Other current assets	3,159,043	26,636,378
Total current assets	34,947,628	76,301,114
Fixed Assets		
Land	23,308,638	22,242,373
Buildings & infrastructure	809,374,457	785,062,199
Machinery & equipment	88,499,236	50,798,395
Other fixed assets	14,755,291	14,291,627
Accumulated depreciation	(443,529,093)	(427,011,381)
Total fixed assets	492,408,529	445,383,213
Other Assets		
Investments in related companies	60,852,366	59,318,757
Goodwill	62,106,367	65,843,576
Long-term debtors	7,401,656	7,787,957
Long-term deferred taxes	20,618	404,133
Intangible assets	15,501,119	15,167,329
Amortization	(1,265,892)	(882,998)
Others	12,672,827	8,625,321
Total other assets	157,289,061	156,264,075
Total Assets	684,645,218	677,948,402
The accompanying Notes 1 to 31 form an integral part of these financial statements		

BALANCE SHEETS

at december 31, 2003 and 2002

Liabilities	2003 ThCh\$	2002 M\$
Current Liabilities		
Long term borrowings from banks & financial institutions – short-term portion	138,160	-
Bonds payable - short-term portion	1,606,206	1,261,626
Accounts payable	9,632,311	18,241,027
Sundry creditors	156,506	195,783
Noted & accounts payable to related companies	20,325,365	31,795,096
Accruals	14,358,389	10,090,580
Withholdings	4,929,591	2,454,094
Income tax	314,768	-
Unearned income	790,382	927,344
Total current liabilities	52,251,678	64,965,550
Long term		
Borrowings from banks & financial institutions	52,600,000	-
Bonds payable	216,576,000	118,380,928
Notes payable	6,021,274	2,771,702
Sundry creditors	437,894	752,546
Accruals	6,778,001	5,553,832
Other long-term liabilities	333,177	379,236
Total long-term liabilities	282,746,346	127,838,244
Shareholders' equity		
Paid-in capital	122,680,896	261,980,896
Share premium	185,712,570	185,712,570
Reserve for future dividends	630,388	240,754
Net income for the year	59,659,155	54,653,257
Interim dividends	(19,035,815)	(17,442,869)
Total shareholders' equity	349,647,194	485,144,608
Total liabilities & shareholders' equity	684,645,218	677,948,402

The accompanying Notes 1 to 31 form an integral part of these financial statements



STATEMENTS OF INCOME

at december 31, 2003 and 2002

	2003 ThCh\$	2002 ThCh\$
Sales	142,347,615	129,424,332
Cost of sales	(48,645,916)	(46,008,539)
Operating margin	93,701,699	83,415,793
Administrative & selling expenses	(30,314,337)	(27,428,187)
Operating income	63,387,362	55,987,606
Non-operating result		
Financial income	5,268,873	2,863,011
Equity in income of related companies	10,104,968	9,882,528
Other non-operating income	3,548,726	2,053,876
Equity in loss of related companies	-	(20,846)
Amortization of goodwill	(3,737,209)	(3,878,872)
Financial expenses	(5,915,403)	(1,841,390)
Other non-operating expenses	(568,790)	(758,871)
Price-level restatements	(699,246)	(511,096)
Exchange differences	(5,470)	(9,308)
Non-operating income	7,996,449	7,779,032
Income before income tax	71,383,811	63,766,638
Income tax	(11,724,656)	(9,113,381)
Net income for the year	59,659,155	54,653,257

The accompanying Notes 1 to 31 form an integral part of these financial statements

STATEMENTS OF CASH FLOWS

at december 31, 2003 and 2002

	2003 ThCh\$	2002 ThCh\$
Net cash flow from operating activities		
Collection of trade account receivables	167,201,149	154,721,868
Financial income received	2,335,004	1,104,995
Dividends & other distributions received	8,632,645	8,118,704
Other income received	597,516	740,127
Payments to suppliers & personnel	(56,611,569)	(58,110,539)
Interest paid	(4,851,512)	(2,022,119)
Income tax paid	(10,477,475)	(9,862,219)
Other expenses paid	(1,755,674)	(187,751)
VAT & similar payments	(4,319,599)	(8,835,411)
Total net cash flow from operating activities	100,750,485	85,667,655
Net cash flow from financing operations		
Loans obtained	54,963,982	-
Bonds issued	96,368,898	65,007,744
Other loans from related companies	-	7,032,660
Other sources of finance	8,970,678	2,208,207
Payment of dividends	(55,946,104)	(48,816,821)
Capital reduction	(140,000,000)	-
Loan repayments	(2,363,982)	-
Payment of other loans from related companies	-	(7,032,660)
Payment of bond issuance & placement costs	(2,797,809)	(109,267)
Other financing disbursements	(4,280,512)	-
Total net cash flow from financing activities	(45,084,849)	18,289,863
Net cash flow from investing activities		
Sales of fixed assets	1,302,805	612,031
Collection of other loans to related companies	2,333,647	793,791
Acquisition of fixed assets	(94,117,425)	(90,178,182)
Payment of capitalized interest	(4,164,882)	(1,052,768)
Permanent investments	-	(6,646,363)
Other loans to related companies	(1,990,343)	(2,012,007)
Other investment disbursements	(101,975)	(5,855,088)
Total net cash flow from investment activities	(96,738,173)	(104,338,586)
Total net cash flow for the year	(41,072,537)	(381,068)
Effect of inflation on cash & cash equivalents	295,015	132,513
Net change in cash & cash equivalents	(40,777,522)	(248,555)
Opening balance of cash & cash equivalents	44,272,712	44,521,267
Closing balance of cash and cash equivalents	3,495,190	44,272,712

The accompanying Notes 1 to 31 form an integral part of these financial statements



STATEMENTS OF CASH FLOWS

at december 31, 2003 and 2002

	2003 ThCh\$	2002 ThCh\$
Reconciliation of net cash flow from operating activities with net income for the year		
Net income for the year	59,659,155	54,653,257
Result of asset sales	(1,169,332)	(291,657)
Gain on sale of fixed assets	(1,169,332)	(291,657)
Charges (credits) to income not representing cash flows	20,201,886	20,509,177
Depreciation for the year	22,951,299	21,776,680
Amortization of intangible assets	383,681	293,485
Write-offs & provisions	2,688,297	3,380,078
Equity in income of related companies	(10,104,968)	(9,882,528)
Equity in loss of related companies	-	20,846
Amortization of goodwill	3,737,209	3,878,872
Net price-level restatements	699,246	511,096
Net exchange differences	5,470	9,308
Other credits to income not representing cash flows	(1,658,880)	-
Other charges to income not representing cash flows	1,500,532	521,340
Changes in assets affecting cash flows (increase) decrease	3,628,748	5,463,877
Trade accounts receivable	(6,324,245)	(2,386,311)
Inventories	966,801	(528,077)
Other assets	8,986,192	8,378,265
Changes in liabilities affecting cash flows increase (decrease)	18,430,028	5,333,001
Accounts payable related to operating income	(1,150,121)	(4,723,595)
Interest payable	(187,098)	(539,166)
Income tax payable (net)	665,108	(748,836)
Other accounts payable related to the non-operating result	1,476,072	994,178
VAT & similar payables (net)	17,626,067	10,350,420
Net cash flow from operating activities	100,750,485	85,667,655

The accompanying Notes 1 to 31 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

1. Registration in the Securities Register

The Company is registered in the Securities Register of the Superintendency of Securities and Insurance (No,0346) and is subject to the regulatory authority of that Superintendency,

2. 2. Principal accounting principles applied

a) Accounting period

These financial statements cover the years ended December 31, 2003 and 2002.

Should there be differences between the two, the instructions of the Superintendency of Securities and Insurance shall prevail.

b) Preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Chile, as published by the Chilean Institute of Accountants, and the instructions of the Superintendency of Securities and Insurance except for investments in subsidiaries which are shown in one line in the balance sheet at their equity value and have not therefore been consolidated line by line. This treatment does not modify net income for the year or shareholders' equity.

These financial statements have been issued for the purpose of an individual analysis of the Company and thus should be read together with the consolidated financial statements which are required by accounting principles generally accepted in Chile.

c) Presentation

For comparison purposes, the financial statements at December 31, 2002 and their respective notes are shown restated off-the-books by 1,0%, corresponding to the variation in the consumer price

index during the twelve months of 2003, with a one-month time lag.

Some items of the financial statements have also been reclassified for comparative purposes.

d) Price-level restatements

The financial statements have been restated for monetary correction in accordance with generally accepted accounting principles, in order to reflect changes in the purchasing power of the currency during 2003 and 2002, which were 1,0% and 3,0% respectively, with a one-month time lag. The balances of income statement accounts were also restated to express them at year-end values.



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

e) Currency translation

Assets and liabilities in Unidades de Fomento and/or foreign currencies are shown at their respective values and/or exchange rates at the end of each year, at the following rates:

	Ch\$	Ch\$
US dollar	593,80	718,61
Unidad de Fomento	16,920,00	16,744,12
Euro	744,95	752,55

f) Time deposits

Time deposits are shown at their investment amount plus indexation adjustments and interest accrued through December 31, 2002.

g) Marketable Securities

Investments in mutual fund units are shown at their redemption value at year-end.

h) Inventories

Materials are shown at their restated cost which does not exceed their respective replacement costs at each year-end.

There is an allowance for obsolescence of dispensable materials whose permanence in stock exceeds one year.

i) Estimate of doubtful accounts

The estimate of doubtful accounts depends of the age of the debts and their history of recovery, as follows:

A 100% provision is made for those customers overdue for more than 8 months.

Debts that are transformed into payment agreements are subject to a 20% provision on the respective balance.

A 100% provision is made for Notes receivable once overdue.

j) Fixed assets

Fixed assets are shown at their book values transferred by the predecessor entity, which were determined as follows: 1) acquisitions prior to 1978, at the restated appraisal value made by independent consultants contained in a technical study made in 1977, and 2) acquisitions after 1977, at their restated cost.

The fixed assets include the principal renovations and improvements but not maintenance and minor repair costs which are charged to income in the year in which they are incurred.

Work in progress includes financing costs incurred until the assets are in a condition to be used, in accordance with Technical Bulletin N°31 of the Chilean Institute of Accountants.

The cost of some work in progress also includes direct remuneration, consultancy fees and other identifiable inherent costs.

k) Depreciation of fixed assets

Depreciation is calculated using the straight-line method on the restated book values and over the remaining useful lives of the assets.

l) Leased assets

Financial leases are recorded following Technical Bulletin No.22 of the Chilean Institute of Accountants.

Leased assets are valued and depreciated in the same way as other fixed assets.

These assets do not legally belong to the company until it has exercised its purchase option, and it also cannot freely dispose of them.

m) Intangible assets

Water rights, rights of way and other rights are shown at their restated cost, net of amortization, in accordance with Technical Bulletin N°55 of the Chilean Institute of Accountants.

Intangible assets are being amortized over a period of 40 years from the date of acquisition or as from 1998 as it is believed that they will provide benefits during that period.

n) Investments in related companies

Investments in related Chilean companies in which the Company is able to exercise a significant influence over the investee, are presented under the equity method of accounting on the basis of their respective

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

financial statements at December 31, 2003 and 2002. The participation in the results of each year is recognized on the accrual basis.

o) Goodwill

Goodwill represents the excess paid over the proportional equity value on the purchase of shares in Aguas Cordillera S.A. and Comercial Orbi II S.A. This goodwill is being amortized over a maximum period of 20 years from the date of acquisition as it is estimated that this is the recovery period of the investment.

p) Operations under resale agreements

The purchase of securities under resale agreements is valued as a fixed-yield investment and is shown in Other current assets, in accordance with Circular 768 of the Superintendency of Securities and Insurance.

q) Bonds payable

This is the obligation for the placement of bonds issued by the Company in the domestic market, at their nominal value plus indexation adjustments and interest accrued to the year-end. The discount incurred on the placement of the bonds is deferred over their term, in accordance with Circular 1,370 of the Superintendency of Securities and Insurance,

r) Income tax and deferred taxes

The Company provided for income tax in accordance

with current legislation and the criteria used in determining taxable income consider amounts received and accrued at year-end. According to Technical Bulletin N°60 and complements of the Chilean Institute of Accountants and Circular 1,466 of the Superintendency of Securities and Insurance, the Company records the effects of deferred taxes on timing differences, tax losses that imply a tax benefit and other events that create differences between the financial and tax treatment, recording their effects in the accounts as from the year ended December 31, 1999.

s) Severance indemnities

A provision was made for severance indemnity at present value until July 2002, for each of the collective agreements in force. This provision will remain fixed as of that date and will only be adjusted quarterly for changes in the consumer price index, because, as from August 2002, new collective agreements came into effect which state that the severance indemnity will be that in the Labor Code. There are also individual contracts which are accounted for based on their conditions.

Advances paid to personnel against these funds are shown as Long-term debtors. They will be imputed against the final settlement after indexation adjustment, as stipulated in the agreements mentioned.

t) Sales

The Company's business-related sales are recorded on the basis of consumption read and billed to each customer, divided into groups for monthly invoicing, valued according to the tariffs which are set by the Superintendency of Sanitation Services for a period of five years.

Also booked is consumption read but unbilled, based on the average tariffs of each invoicing group.

u) Computer software

The software was acquired by the Company as packets and is shown in Other fixed assets, in accordance with Circular 981 of the Superintendency of Securities and Insurance.

v) Research and development expenses

Expenses incurred in research and development project studies which are not employed in some project are charged directly to income for the year. Otherwise, they form part of the costs of the corresponding projects.

w) Statement of cash flows

The Company considers as cash and cash equivalents its balances in cash, in unrestricted bank current accounts, time deposits and mutual funds whose redemption will be made within 90 days of placement, and investments under resale agreements that have no risk of significant loss at the time of redemption,



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

The last-named are classified under the heading Other current assets.

Cash flows from operating activities include the Company's business revenues and expenses and all other income and expense that are treated as non-operating in the Statement of income.

3. Accounting changes

The accounting principles and criteria described in Note 2 were applied consistently during 2003 and 2002.

4. Short and long term debtors

Trade accounts receivable relate to the billings for consumption of potable water, sewage services, sewage treatment and other associated services, with balances classified as short or long term.

The balance of Trade accounts receivable includes a provision for revenue earned at December 31, 2003 and 2002 of ThCh\$9,767,706 and ThCh\$8,811,620 respectively for consumption read but unbilled at the end of each year.

The balance of debtors at December 31, 2003 is broken down into residential 78.54%, commercial 17.83% and industrial and others 3.63%, while at

December 2002 the break down was residential 79.10%, commercial 17.47% and industrial and others 3.43%.

An allowance for doubtful accounts has been recorded as explained in Note 2 i). Of the allowances made at December 31, 2003 and 2002, ThCh\$2,106,223 and ThCh\$3,366,414 were charged to income of the respective years.

Debts of ThCh\$1,008,846 and ThCh\$381,761 respectively were written off against that allowance at December 31, 2003 and 2002.

The principal component of Long-term debtors is advances against severance indemnities, as indicated in Note 2 s).

	Up to 90 days		Current		Sub total	Total current (net)		Long term	
	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$		2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$
Trade accounts receivable	34.737.946	32.706.610	1.522.690	1.166.248	36.260.636	26.132.386	24.311.108	1.017.879	919.149
Allowance for doubtful accounts	-	-	-	-	10.128.250	-	-	-	-
Notes receivable	312.463	258.502	245.466	162.324	557.929	497.969	359.363	197.623	384.674
Allowance for doubtful accounts	-	-	-	-	59.960	-	-	-	-
Sundry debtors	398.684	544.907	4.103	96.350	402.787	390.553	628.901	6.186.154	6.484.134
Allowance doubtful accounts	-	-	-	-	12.234	-	-	-	-
Total long-term debtors								7.401.656	7.787.957

at december 31, 2003 and 2002

5. Balances and transactions with related entities

Transactions with Aguas Group companies

Notes & accounts receivable

The transactions with Aguas Cordillera S.A. relate to contracted services which are settled 30 days after invoicing free of interest, except in the sewage interconnection granted to Aguas Cordillera S.A. whose tariff is set by the tariff decree and includes an interest free indexation clause,.

Gestión y Servicios S.A. y Ecoriles S.A. relates to sales of materials while Aguas Manquehue S.A. relates to the sale of services whose payment term varies between 30 and 90 days.

Loans have been granted in Unidades de Fomento

to Gestión y Servicios S.A., Análisis Ambientales S.A., Ecoriles S.A. and Comercial Orbi II S.A. at an interest rate calculated on the monthly average of 90 day TAB for the previous month plus 2% payable semi-annually. The term of these loans does not exceed one year.

The accounts receivable from Aguas Los Dominicos S.A. relate to collections.

Notes and accounts payable

Aguas Cordillera S.A. is owed a rental guarantee equivalent to 296.95 U.F. which is shown restated.

There is a potable water and sewage interconnection

contract with payment at 30 days, free of interest.

There is a contract with Ecoriles S.A. for sewage treatment services with a term of 60 days, free of interest.

Análisis Ambientales S.A. provides chemical and bacteriological analysis services, with payment at 30 days free of interest.

Gestión y Servicios S.A. relates to purchases of materials, with payment at 30 days free of interest.

The debts with Aguas Los Dominicos S.A. and Aguas Manquehue S.A. relate to collections.



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Transactions with the Parent

Notes and accounts payable

There is a service contract entered into in 2001 and expressed in UF, with Inversiones Aguas Metropolitanas Ltda. and which has a 5-year term, with monthly invoicing for the services provided.

Transactions with indirectly related companies

Accounts payable and receivable

The construction contract for the La Farfana Sewage treatment Plant was awarded under a public tender to Degremont Agency Chile S.A. This is a turnkey

contract with a performance guarantee. Payments under this contract are based on the work progress and are denominated in Unidades de Fomento.

The debt with Aguas de Levante S.A. relates to the purchase of materials, at 30 days free of interest.

The debt with ACSA AGBAR Construcción S.A., Agency in Chile, relates to a contract for the renewal and installation of sewers.

The debt of Aguas Argentinas, Aguas de Saltillo and Ondeo Puerto Rico relate to expense reimbursements.

There was a contract for the purchase of chemical materials with Nalco Química Chile Ltda. in 2002.

In 2002, there was a contract for installation of an environmental monitoring network with Adasa Sistema S.A. Agency in Chile.

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Balances & Transactions with Related Companies

Notes and accounts receivable

Tax No.	Company	Short Term		2003 ThCh\$	Long Term	2002 ThCh\$
		2003 ThCh\$	2002 ThCh\$			
80.311.300-9	Aguas Cordillera S.A.	1,693,509	777,159	-	-	-
96.828.120-8	Gestión y Servicios S.A.	887,216	485,508	-	-	-
96.945.210-3	Ecoriles S.A.	379,593	67,442	-	-	-
96.967.550-1	Análisis Ambientales S.A.	48,389	267,909	-	-	-
89.221.000-4	Aguas Manquehue S.A.	3,934	589,048	-	-	-
96.809.310-K	Comercial Orbi II S.A.	30,703	28,939	-	-	-
96.568.220-1	Aguas Los Dominicos S.A.	9,999	3,065	-	-	-
1-9	Aguas Argentinas	15,121	1,165	-	-	-
1-9	Aguas de Saltillo	5,882	-	-	-	-
1-9	Ondeo Puerto Rico	2,904	-	-	-	-
	Total	3,077,250	2,220,235	-	-	-

Notes and accounts payable

Tax No.	Company	Short Term		2003 ThCh\$	Long Term	2002 ThCh\$
		2003 ThCh\$	2002 ThCh\$			
80.311.300-9	Aguas Cordillera S.A.	24,097	45,772	-	-	-
96.828.120-8	Gestión y Servicios S.A.	21,144	8,385	-	-	-
96.967.550-1	Análisis Ambientales S.A.	187,243	78,235	-	-	-
92.108.000-K	Aguas Los Dominicos S.A.	1,082	382	-	-	-
89.221.000-4	Aguas Manquehue S.A.	1,013	7,916	-	-	-
77.274.820-5	Inversiones Aguas Metropolitana Ltda.	1,450,591	1,628,927	-	-	-
59.066.560-6	Degrémont Agencia Chile S.A.	18,501,302	29,756,513	-	-	-
59.094.680-K	Aguas de Levante S.A.	44,002	64,828	-	-	-
59.096.940-0	Acsa Agbar Construcción S.A.	94,891	-	-	-	-
85.417.200-K	Nalco Química Chile Ltda.	-	654	-	-	-
59.097.460-9	Adasa Sistema S.A. Agencia Chile	-	203,484	-	-	-
	Total	20,325,365	31,795,096	-	-	-



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Transactions with related entities				2003		2002	
Company	Tax No.	Relationship	Transaction	Amount ThCh\$	Effect on results (charge)/credit ThCh\$	Amount ThCh\$	Effect on results (charge)/credit ThCh\$
Inversiones Aguas Metropolitanas Ltda.	77.274.820-5	Parent	Advisory services	5,268,535	(5,268,535)	4,267,956	(4,267,956)
			Dividends paid	28,762,022	-	24,619,538	-
			Capital reduction paid	71,683,348	-	-	-
Aguas Cordillera S.A.	80.311.300-9	Subsidiary	Sewer interconnections	3,997,360	3,997,360	2,699,471	2,699,471
			Drinking water interconnections	97,395	97,395	-	-
			Rentals	60,171	60,171	58,904	58,904
			Dividends received	8,632,645	-	7,297,991	-
			Sale of materials	87,926	-	134,293	-
			Loans received	-	-	7,039,700	-
			Payment of loans & interest	-	-	7,039,700	(2,455)
Gestión y Servicios S.A.	96.828.120-8	Subsidiary	Sale of materials	525,151	-	527,926	-
			Loans granted	1,056,000	-	513,080	-
			Collection of loans & interest	768,000	18,497	300,179	10,486
			Purchase of materials	35,572	-	42,244	-
Ecoriles S.A.	96.945.210-3	Subsidiary	Loans granted	401,785	-	244,736	-
			Collection of loans & interest	197,000	8,585	-	-
			Sewage treatment	160,646	(160,646)	75,648	(75,648)
			Capital contribution	-	-	252,500	7,764
Análisis Ambientales S.A.	96.967.550-1	Subsidiary	Loans granted	337,000	-	447,430	-
			Collection of loans & interest	581,019	7,739	273,725	3,801
			Laboratory services	770,437	(770,437)	431,763	(431,763)
			Capital contribution	-	-	185,121	-
			Sale of fixed assets	-	-	98,511	-
			Rentals	20,277	20,277	20,294	20,294
Comercial ORBI II S.A.	96.809.310-k	Subsidiary	Dividends received	-	-	774,044	-
			Loans granted	-	-	28,785	-
Aguas Manquehue S.A.	89.221.000-4	Subsidiary	Collection of loans & interest	679,200	6,639	208,746	1,022
		Subsidiary	Loans granted	100,000	-	793,939	-
Aguas de Levante S.A.	59.094.680-k	Related	Purchase of materials	588,374	-	121,311	-
Degrémont S.A.							
Agencia Chile	59.066.560-6	Related	Construction treatment plant	73,273,428	-	83,546,607	-
ACSA AGBAR							
Construcción S.A.	59.096.940-0	Related	Tube renewal contract	1,169,779	(5,585)	-	-

At December 31, 2003 and 2002, taxable income and other concepts are as follows:



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

The detail of timing differences is as follows:

	2003 Deferred taxes				2002 Deferred taxes			
	Assets		Liabilities		Assets		Liabilities	
	Short term ThCh\$	Long term ThCh\$	Short term ThCh\$	Long term ThCh\$	Short term ThCh\$	Long term ThCh\$	Short term ThCh\$	Long term ThCh\$
Provision doubtful accounts	-	1,784,678	-	-	-	1,690,107	-	-
Unearned income	32,270	32,159	-	-	51,190	18,255	-	-
Provision for vacations	89,758	89,758	-	-	128,090	-	-	-
Leased assets	-	-	37,024	-	-	-	-	20,324
Depreciation fixed assets	-	-	-	-	-	-	-	21,084
Severance indemnities	42,504	-	-	-	15,554	-	-	-
Other events	-	-	-	-	151,462	16,022	-	-
Obsolete materials	-	115,512	-	-	-	145,046	-	-
Litigation	-	164,266	-	-	-	180,069	-	-
Investment costs related companies	-	-	-	103,085	-	-	-	113,900
Software	-	-	-	80,121	-	-	-	188,583
Bond placement discount	-	-	-	1,942,652	-	-	-	1,193,805
Deferred expenses	-	-	15,028	93,076	-	-	31,692	118,142
Obsolescence fixed assets	-	53,179	-	-	-	10,472	-	-
Others								
Complementary accounts-net of amortization	-	-	-	-	-	-	-	-
Provision for valuation	-	-	-	-	-	-	-	-
Total	164,532	2,239,552	52,052	2,218,934	346,296	2,059,971	31,692	1,655,838

Income tax	2003 ThCh\$	2002 ThCh\$
Current tax charge (tax provision)	(11,021,072)	(9,092,927)
Adjustment tax charge (previous year)	(89,234)	(38,662)
Effect on assts or liabilities of deferred tax for year	(585,639)	48,538
Other charges or credits to the account	(28,711)	(30,330)
Total	(11,724,656)	(9,113,381)

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

7. Other current assets

These comprise:

	2003 ThCh\$	2002 ThCh\$
Securities purchased under resale agreements - Central Bank of Chile paper	3,148,987	26,558,309
Agreements receivable	7,165	48,013
Paving right guarantees	2,165	23,311
Others	726	6,745
Total	3,159,043	26,636,378

8. Information on purchase and sale commitments, sales under repurchase agreements and purchases under resale agreements of securities

These include agreements in pesos relating to fixed-income securities under resale agreements, as follows.

Code	Start	Dates Maturity	Counterparty	Original currency	Subscription value ThCh\$	Rate	Final value ThCh\$	Identification of instruments	Market value ThCh\$
CRV	29-12-2003	12-01-2004	Banco BBVA	Pesos	2,306,900	2.52% Annual	2,309,161	PRBC	2,307,223
CRV	30-12-2003	09-01-2004	Banco de Chile	Pesos	841,700	2.76% Annual	842,345	PRBC	841,764



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

9. Fixed assets

These comprise:

	2003 ThCh\$	2002 ThCh\$
Land	23,308,638	22,242,373
Land	23,308,638	22,242,373
Buildings & infrastructure	402,703,435	389,656,328
Gross value	809,374,457	785,062,199
Accumulated depreciation	(406,671,022)	(395,405,871)
Machinery & equipment	63,750,421	29,915,746
Gross value	88,499,236	50,798,395
Accumulated depreciation	(24,748,815)	(20,882,649)
Other fixed assets	2,646,035	3,568,766
Gross value	14,755,291	14,291,627
Accumulated depreciation	(12,109,256)	(10,722,861)
Total net fixed assets	492,408,529	445,383,213

Depreciation for the year

At December 31, 2003 and 2002, the charge to income for depreciation of fixed assets is as follows:

	2003 ThCh\$	2002 ThCh\$
Cost of sales	20,503,118	19,330,688
Administrative & selling expenses	2,448,181	2,445,992
Total	22,951,299	21,776,680

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Assets bought under financial leases are shown under Fixed assets, and comprise the following:

Description	Date	Gross Value ThCh\$	Accumulated depreciation ThCh\$	Net value ThCh\$	No, of installments
Telecommunications	31/12/2001	465,724	97,026	368,698	36
Total		465,724	97,026	368,698	

10. Investments in related companies

These are shown in an accompanying appendix.

On January 30, 2002, the company acquired 49.9% of Comercial ORBI II S.A., a company that directly and indirectly controls 100% of Aguas Manquehue S.A., thus giving Aguas Andinas S.A. a direct and indirect holding in the latter of 99.9%.

As a result of this purchase, goodwill of ThCh\$2,157,224 resulted and which will be amortized over 20 years.

Aguas Andinas S.A., in May 2002, paid in subscribed capital of Análisis Ambientales S.A. through a contribution of fixed assets.

On December 18, 2002, the extraordinary shareholders' meeting of Ecoriles S.A. approved a capital increase of ThCh\$250,000 (historical pesos) with which Aguas Andinas S.A. increased its shareholding in this company from 75% to 99.038%.

Tax No.	Company	Country	N° of shares	Percentage holding		Equity of company		Result for year		Accrued results		Equity value		Book value	
				2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
				%	%	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
80.311.300-9	Aguas Cordillera S.A.	Chile	137,999,999	99.990	99.990	49,457,275	49,610,860	8,418,633	8,718,984	8,417,792	8,718,112	49,452,330	49,605,899	49,452,330	49,605,898
96.809.310-K	Comercial Orbi II S.A.	Chile	999	99.900	99.900	10,574,050	9,338,081	1,235,969	1,164,452	1,234,733	1,163,288	10,563,477	9,328,743	10,563,477	9,328,744
96.945.210-3	Ecoriles S.A.	Chile	2,575	99.038	99.038	421,090	200,391	220,699	(12,963)	218,576	(12,839)	417,040	198,463	417,040	198,463
96.967.550-1	Análisis Ambientales S.A.	Chile	990	99.000	99.000	418,998	185,952	233,046	(8,088)	230,716	(8,007)	414,808	184,092	414,808	184,092
96.828.120-8	Gestión y Servicios S.A.	Chile	1,000	1.000	1.000	471,098	155,954	315,143	112,846	3,151	1,128	4,711	1,560	4,711	1,560
Total												60,852,366	59,318,757	60,852,366	59,318,757



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

11. Goodwill

At December 31, 2003 and 2002, the balances of goodwill, representing the difference between the acquisition value and the equity value of the acquired company, are as follows:

Tax No.	Company	2003 Amount		2002 Amount	
		amortization for year ThCh\$	Balance goodwill ThCh\$	amortization for year ThCh\$	Balance goodwill ThCh\$
80.311.300-9	Aguas Cordillera S,A,	3,536,955	58,654,494	3,682,896	62,191,448
96.809.310-K	Comercial Orbi II S,A,	200,254	3,451,873	195,976	3,652,128
Total		3,737,209	62,106,367	3,878,872	65,843,576

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

12. Intangible assets

The balances at December 31, 2003 and 2002 of restated disbursements on intangible assets (Note 2 m) are:

	2003 ThCh\$	2002 ThCh\$
Water rights	3,442,060	3,228,444
Rights of way	5,707,800	5,587,626
Other rights (1)	6,351,259	6,351,259
Sub total	15,501,119	15,167,329
Accumulated amortization water rights	(405,800)	(321,387)
Accumulated amortization rights of way	(624,278)	(482,220)
Amortization other rights (1)	(235,814)	(79,391)
Sub otal	(1,265,892)	(882,998)
Net total intangible assets	14,235,227	14,284,331
Amortization for year:		
Water rights	84,413	76,747
Rights of way	142,058	137,347
Other rights (1)	157,210	79,391
Total amortization	383,681	293,485

(1) The other rights correspond to the purchase of gratuitous rights of potable water consumption from the Municipality of Santiago, which are being amortized over 40 years.



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at december 31, 2003 and 2002

13. Borrowings from banks and financial institutions - short term

Se presentan en este rubro la provisión de intereses devengados de préstamos con bancos clasificados en el corto plazo.

Tax no.	Bank or Financial Institution	Non-indexed Ch\$		Total	
		2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$
97.004.000-5	Banco de Chile	30,653	-	30,653	-
97.036.000-K	Banco Santander - Santiago	26,803	-	26,803	-
97.032.000-8	Banco BBVA	80,704	-	80,704	-
Total		138,160	-	138,160	-
Average annual interest rate	4.3%				
Percentage in local currency	100%				

14. Borrowings from banks and financial institutions - long term

The following is a detail of long-term bank loans.

Tax No.	Bank or Fin. Inst.	Currency/ Indexation unit	Years to maturity				2003 Total long term at year end ThCh\$	Average annual interest rate	2002 Total long term at year end
			1 to 2 years ThCh\$	2 to 3 years ThCh\$	3 to 5 years ThCh\$	5 to 10 years ThCh\$			
97.004.000-5	Banco de Chile	Non-indexed Ch\$	1,900,000	1,900,000	3,800,000	3,800,000	11,400,000	4.40%	
97.036.000-K	Banco Santander - Santiago	Non-indexed Ch\$	-	2,040,000	4,080,000	4,080,000	10,200,000	4.30%	
97.032.000-8	Banco BBVA	Non-indexed Ch\$	3,444,444	6,888,889	13,777,778	6,888,889	31,000,000	4.26%	
Total			5,344,444	10,828,889	21,657,778	14,768,889	52,600,000		

Percentage in local currency 100%

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

15. Bonds payable

Included are the balances of bonds issued by the Company in September 2001, December 2002 and May 2003 in the domestic market.

In September 2001, two series of bonds were issued: Series A for U.F.1.2 million repayable in the fifth year subsequent to their issue and Series B for U.F.1.8 million at 21 years term with repayments starting in 2008.

On October 10, 2002, the Superintendency of Securities and Insurance certified the registration of bonds for up to U.F.10 million. Of this amount, Series C bonds were issued with a nominal value of U.F.4.2 million and Series D with a nominal value of U.F.5.8 million.

In December 2002, Series C bonds for U.F.4.0 million were placed, with semi-annual repayments starting in June 2005 and through December 2010.

On May 7, 2003, the Company placed the Series D bonds in the domestic market and which were fully subscribed. This series has semi-annual repayments starting on June 1, 2005.

The respective accrued interest is shown in short-term liabilities.

Registration N° of instrument	Series	Placement in Chile or abroad Nominal unit outstanding	Indexation amount	Interest rate %	Final maturity	Payment of interest	Payment of principal	Par value		
								2003 M\$	2002 M\$	
Bonds current portion of long term										
266	BEMOS A1	-	UF	6.00%	01,09,2006	Semi-annual	Maturity	125,051	124,989	National
266	BEMOS A2	-	UF	6.00%	01,09,2006	Semi-annual	Maturity	275,113	274,977	National
266	BEMOS B1	-	UF	6.25%	01,09,2022	Semi-annual	2008 semi-ann.	243,010	242,889	National
266	BEMOS B2	-	UF	6.25%	01,09,2022	Semi-annual	2008 semi-ann.	381,874	381,683	National
305	BAGUA C1	-	UF	4.25%	01,12,2010	Semi-annual	2005 semi-ann.	59,302	59,272	National
305	BAGUA C2	-	UF	4.25%	01,12,2010	Semi-annual	2005 semi-ann.	177,905	177,816	National
305	BAGUA D1	-	UF	4.25%	01,06,2009	Semi-annual	2005 semi-ann.	118,604	-	National
305	BAGUA D2	-	UF	4.25%	01,06,2009	Semi-annual	2005 semi-ann.	225,347	-	National
Total short-term portion								1,606,206	1,261,626	
Long-term bonds										
266	BEMOS A1	375,000	UF	6.00%	01,09,2006	Semi-annual	Maturity	6,345,000	6,341,835	National
266	BEMOS A2	825,000	UF	6.00%	01,09,2006	Semi-annual	Maturity	13,959,000	13,952,038	National
266	BEMOS B1	700,000	UF	6.25%	01,09,2022	Semi-annual	2008 semi-ann.	11,844,000	11,838,093	National
266	BEMOS B2	1,100,000	UF	6.25%	01,09,2022	Semi-annual	2008 semi-ann.	18,612,000	18,602,717	National
305	BAGUA C1	1,000,000	UF	4.25%	01,12,2010	Semi-annual	2005 semi-ann.	16,920,000	16,911,561	National
305	BAGUA C2	3,000,000	UF	4.25%	01,12,2010	Semi-annual	2005 semi-ann.	50,760,000	50,734,684	National
305	BAGUA D1	2,000,000	UF	4.25%	01,06,2009	Semi-annual	2005 semi-ann.	33,840,000	-	National
305	BAGUA D2	3,800,000	UF	4.25%	01,06,2009	Semi-annual	2005 semi-ann.	64,296,000	-	National
Total long term								216,576,000	118,380,928	



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

16. Accruals and write-offs

The detail of these is as follows:

Accrual for:	Current liabilities		Long-term liabilities	
	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$
Severance indemnities (Note 17)	1,332,735	2,525,000	6,778,001	5,553,832
Bonus (1) & profit sharing	2,646,232	2,492,207	-	-
Services	8,357,172	3,242,709	-	-
Vacations	1,055,979	756,710	-	-
Other personnel benefits	-	22,847	-	-
Pending litigation	966,271	1,051,107	-	-
Total	14,358,389	10,090,580	6,778,001	5,553,832

(1) Se presentan netos de anticipos pagados durante los ejercicios terminados at december 31, 2003 and 2002 por M\$249,615 y M\$415,239, respectivamente.

In August 2002, the new collective labor agreement came into force which establishes an annual bonus of 4.75 monthly minimum salaries for each employee, payable monthly in one-twelfths. This will be paid regardless of whether or not the Company has made profits. Employees with individual contracts will be adjusted to the stipulations of this agreement.

The amounts written off are shown in Note 4 (Trade accounts receivable).

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

17. Severance indemnities

At December 31, 2003 and 2002, the movements in the severance indemnities accrual (including the short-term portion) are as follows:

	2003 ThCh\$	2002 ThCh\$
Opening balance	7,998,844	8,040,371
Increase in accrual	426,726	462,486
Payments in the year	(423,203)	(667,485)
Price-level restatement	108,369	243,460
Total	8,110,736	8,078,832

La indemnización por años de servicios ha sido calculada de acuerdo a lo señalado en Nota 2 s).

18. Movement in equity accounts

Reclassification: relates to the reclassification of the premium obtained on placing shares in 1999 associated with the capital increase approved by the extraordinary shareholders' meeting held on March 29 in that year.

An extraordinary shareholders' meeting was held on October 14, 2003 which approved a reduction in the Company's capital of Ch\$140,000,000, while maintaining the same number of subscribed and paid shares.



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

	Paid capital ThCh\$	Share premium ThCh\$	2003 Reserves future dividends ThCh\$	Interim dividends ThCh\$	Result for the year ThCh\$	Paid capital ThCh\$	Share premium ThCh\$	2002 Reserve future dividends ThCh\$	Interim dividends ThCh\$	Result for the year ThCh\$
Opening balance	259,387,025	183,873,832	238,370	(17,270,167)	54,112,136	430,350,347	-	172,061	(17,163,820)	47,637,684
Distribution previous year's results	-	-	36,841,969	17,270,167	(54,112,136)	-	-	30,473,864	17,163,820	(47,637,684)
Final dividend previous year	-	-	(37,080,317)	-	-	-	-	(30,473,670)	-	-
Reclassification	-	-	-	-	-	(178,518,283)	178,518,283	-	-	-
Capital reduction	(140,000,000)	-	-	-	-	-	-	-	-	-
Restatement of capital	3,293,871	1,838,738	630,366	57,279	-	7,554,961	5,355,549	66,115	(137,065)	-
Net income for year	-	-	-	-	59,659,155	-	-	-	-	54,112,136
Interim dividends	-	-	-	(19,093,094)	-	-	-	-	(17,133,102)	-
Closing balance	122,680,896	185,712,570	630,388	(19,035,815)	59,659,155	259,387,025	183,873,832	238,370	(17,270,167)	54,112,136
Restated balancesd						261,980,896	185,712,570	240,754	(17,442,869)	54,653,257
Number of shares Series			No, of shares subscribed		No, of shares paid		No, of shares with voting rights			
A			3,975,189,330		3,975,189,330		3,975,189,330			
B			2,143,775,830		2,143,775,830		2,143,775,830			
Capital (amount – ThCh\$) Series			Capital		Capital subscribed		paid-in			
A			79,699,717		79,699,717					
B			42,981,179		42,981,179					

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

19 Other non-operating income and expenses

A detail is as follows:

	2003 ThCh\$	2002 ThCh\$
Other non-operating income		
Sales of fixed assets	1,169,332	291,657
Services for third parties (1)	1,068,724	768,465
Fines on suppliers & contractors	352,032	382,400
Services to customers	233,751	96,371
Agreement & other income (2)	178,078	124,393
Real estate rental	149,478	126,856
Reimbursement social-security contributions	127,042	-
Rights of way received	115,039	-
Insurance refund	31,479	4,849
Sale of meter shells	12,592	65,523
Others	111,179	193,362
Total other income	3,548,726	2,053,876

	2003 ThCh\$	2002 ThCh\$
Other non-operating expenses		
Donations	348,758	288,185
Asset obsolescence	-	248,658
Abandoned projects cancelled	128,172	168,344
Asset shortages	76,141	25,742
Fines	14,736	6,379
Others	983	21,563
Total other expenses	568,790	758,871

(1) Services for third parties relates to those services associated with the business, mainly engineering services.

(2) Mainly relate to agreements signed with real-estate developers under which the Company is obliged to add certain areas to its concession zone and to provide the public sanitation services there indefinitely.



NOTES TO THE FINANCIAL STATEMENTS

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20. Price-level restatements

The detail of price-level restatements, calculated as stated in Note 2 d), is:

	Indexation unit	2003 ThCh\$	2002 ThCh\$
Assets (charges) / credits			
Inventories	CPI	38,178	59,062
Fixed assets	CPI	4,762,984	11,380,213
Investments in related companies	CPI	647,737	1,448,937
Financial investments	CPI	-	181,960
Goodwill	CPI	740,041	2,183,097
Other non-monetary assets	UF	(286,850)	244,614
Other non-monetary assets	CPI	194,237	719,931
Expense & cost accounts	CPI	(12,735)	971,307
Total (charges) credits		6,083,592	17,189,121
Pasivo (cargos) / abonos			
Patrimonio	IPC	(5,820,254)	(12,967,956)
Obligaciones con el público (bonos)	UF	(704,491)	(1,419,709)
Pasivos no monetarios	IPC	(125,067)	(277,791)
Pasivos monetarios	UF	(39,142)	(80,134)
Pasivos no monetarios	UF	(7,723)	(22,572)
Cuentas por pagar	IPC	-	(160,822)
Cuentas de ingresos	IPC	(86,161)	(2,771,233)
Total (cargos) abonos		(6,782,838)	(17,700,217)
(Pérdida) utilidad por corrección monetaria		(699,246)	(511,096)

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

21. Exchange differences

Las diferencias de cambio originadas en los ejercicios terminados at december 31, 2003 and 2002, son las siguientes:

	Currency	Amount 2003 ThCh\$	2002 ThCh\$
Assets (charges) / credits			
Cash & banks	Dollar	(7.355)	8.319
Financial investments	Dollar	202.786	419.202
Other assets	Dollar	(1.057)	497
Other assets	Euro	(152)	184
Total (charges) credits		194.222	428.202
Liabilities (charges) / credits			
Accounts payable	Dollar	(203.899)	(360.610)
Accounts payable	Euro	(3.302)	(47.053)
Other liabilities	Dollar	7.098	(29.755)
Other liabilities	Euro	411	(92)
Total (charges) credits		(199.692)	(437.510)
(Loss) on exchange differences		(5.470)	(9.308)



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

22. Share and bond issue placement costs

In September 2001, December 2002 and May 2003, the Company issued and placed bonds in the domestic market. In accordance with Circular 1,370 of the Superintendency of Securities and Insurance,

the related costs, and the discount on the placement of the bonds, were deferred and are shown in Other assets. The detail of these is as follows:

	Discount ThCh\$	Defered costs ThCh\$	2003	Period	Amortization for year ThCh\$
			Accumulated amortization ThCh\$		
Bonds seriesA	422.873	330.542	349.614	5	152.190
Bonds seriesB	2.157.670	495.813	293.171	21	127.620
Bonds seriesC	2.651.297	1.173.250	506.213	8	482.849
Bonds seriesD	1.722.008	2.463.593	449.229	6	449.229
Total	6.953.848	4.463.198	1.598.227		1.211.888

	Discount ThCh\$	Deferred Costs ThCh\$	2002	Period	Amortization for year ThCh\$
			Accumulated amortization ThCh\$		
Bonds series A	427.102	333.847	197.424	5	152.190
Bonds seriesB	2.179.247	500.771	165.551	21	127.620
Bonds seriesC	2.677.809	1.184.983	23.364	8	23.364
Total	5.284.158	2.019.601	386.339		303.174

The deferred costs refer to payments made to credit rating agencies, stamp taxes and other general expenses.

NOTES TO THE FINANCIAL STATEMENTS

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23. Statement of cash flows

In the Statement of cash flows, cash equivalents consist of financial investments including securities purchased under resale agreements with terms of less than 90 days. The detail of cash and cash equivalents is as follows:

	2003 ThCh\$	2002 ThCh\$
Cash & banks	346.203	231.083
Time deposits	-	15.850.780
Marketable securities (mutual funds)	-	1.632.540
Other current assets (purchases under resale agreements)	3.148.987	26.558.309
Balance of cash & cash equivalents	3.495.190	44.272.712

Investment activities that commit future cash flows relate to construction works in progress amounting to ThCh\$22,212,107 and ThCh\$36,098,613 at December 31, 2003 and 2002 respectively.



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

24. Contingencies and restrictions

a) Direct guarantees

Performance bonds have been issued in favor of the Superintendency of Sanitation Services and other institutions for ThCh\$6,915,881 and ThCh\$7,176,924 at December 31, 2003 and 2002 respectively to guarantee the provision of services and development programs in the Company's concession areas.

b) Lawsuits pending

Based on the reports of lawyers responsible for the defense of the Company, it is unlikely that the final outcome of these lawsuits will be unfavorable to the Company. The Company has made no provision for these, which are:

Court: 15th Civil of Santiago;

Case file: 1337-1996

Aguas Andinas S.A. was sued by an individual for not having been able to exploit mining deposits on land that was expropriated by the Treasury for the construction of the El Yeso reservoir. At the time of the expropriation, Aguas Andinas S.A. was not the owner of the reservoir, which was transferred to it in 1990. The amount involved is ThUS\$3,000. Judgment in the first instance ordered the Treasury to indemnify the plaintiffs and the demand against Aguas Andinas S.A. was dismissed. The Treasury appealed against this decision. It is therefore most improbable that a judgment in the second instance would order Aguas Andinas S.A. to pay any sum.

Court: 11th Civil of Santiago;

Case file: 5716-1999

Aguas Andinas S.A. was sued severally for damages suffered to a gas pipe as a result of works carried out by a gas company. Aguas Andinas S.A. alleges that it is not responsible for this matter as it has no relationship whatsoever with the cause of the damage and the works are not owned by it nor are its responsibility. The amount payable in the event of an unfavorable result would be ThCh\$85,816, plus indexation and interest. Aguas Andinas S.A. and the other defendants have answered the demand and the discussion stage is completed. It is believed that the possibilities of success in this case are high as there is no relationship between the damages caused and any action or omission attributable to Aguas Andinas S.A.

Court: 4th Civil of Santiago;

Case file: 2235-2001

A company sued Aguas Andinas S.A. alleging that the Company occupied its property without authorization for the construction thereon of the El Trebal Treatment Plant. Aguas Andinas S.A. alleges having obtained the rights of way from third parties. The amount of the demand is not determined as no indemnity has been sought, only the return of the land. Judgment in favor of Aguas Andinas S.A. was given in the first instance, rejecting the demand in all its parts and with costs. The plaintiff has appealed.

Court: 29th Civil of Santiago;

Case file: 1400-2001

An individual alleging having suffered an enormous damage on the sale of 8.1 has sued Aguas Andinas S.A. of land for the construction of the El Trebal plant. Aguas Andinas S.A. alleges having paid a just price. The amount sought is ThCh\$120,000 approximately. Judgment in the first instance rejected the demand in all its parts.

Court: 14th Civil of Santiago;

Case file: 169-2003

A company sued Aguas Andinas S.A. seeking the nullity of Sociedad Gestión y Servicios S.A. in which Aguas Andinas S.A. has a 1% shareholding. The amount involved is not determined. The case is still pending.

The Company is a party to other lawsuits of lesser amounts (in favor and against). Based on the reports of the Company's internal and external lawyers, who state that there is a high probability that the outcomes will be favorable, the Company has made no provisions for these outcomes.

c) Accrued lawsuits

The Company is a party to other lawsuits for which it has made provisions which currently amount to ThCh\$966,271 (ThCh\$1,051,107 in 2002).

NOTES TO THE FINANCIAL STATEMENTS

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d) Bond issue covenants

The Company has restrictions and obligations arising from the issue of bonds on the domestic market; these are:

1. Send to the bond-holders representative a copy of the Company's unconsolidated and consolidated financial statements, and of the subsidiaries registered in the Superintendency of Securities and Insurance, on a quarterly and annual (audited) basis within the same time limits set by the Superintendency of Securities and Insurance, and all public information reported to that Superintendency.

2. Record in its books provisions for adverse contingencies that, in the management's opinion, should be reflected in its financial statements.

3. Maintain insurance cover that reasonably protects its assets including its main offices, buildings, plants, inventories, office furniture and equipment and vehicles, in accordance with normal practices for similar businesses.

4. The Company obliges itself to monitor that its transactions with its subsidiaries and other related parties are carried out on equitable conditions similar to those normally prevailing in the market.

5. A debt ratio not greater than 1.5:1, calculated on the figures in the consolidated and unconsolidated balance sheets, defined as the debt to equity ratio.

6. Not sell, assign or transfer essential assets (public-utility concessions granted by the S.I.S.S for Greater Santiago), except for contributions or transfers of essential assets to its subsidiaries.

e) Covenants for bank loans

The Company has obligations and restrictions contained in loan agreements with local banks, as follows:

A debt ratio not greater than 1.5:1, calculated on the figures in the consolidated and unconsolidated balance sheets, defined as the debt to equity ratio
Prohibition on the disposal or loss of ownership over essential assets.

Send copies of the Company's unconsolidated and consolidated financial statements on a quarterly and annual (audited) basis within five days of sending these to the Superintendency of Securities and Insurance.

Record in its books provisions for adverse contingencies that, in the management's opinion, should be reflected in its financial statements.

Maintain insurance cover that reasonably protects its assets including its main offices, buildings, plants, inventories, office furniture and equipment and vehicles, in accordance with normal practices for businesses of the Company's kind.

Send a certificate signed by the Company's general manager declaring compliance with the covenants under the loan agreements.

Prohibit dividend distributions over the minimum obligatory level should there be a delay in the payment of any loan installment.

Maintain a financial expenses coverage ratio of at least 3:1 calculated on the figures in the consolidated and unconsolidated balance sheets, defined as the operating income plus depreciation and amortization of intangibles for the year, divided by financial expenses.



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Direct guarantees

Beneficiary of guarantee Name	Debtor Relationship	Type of guarantee	Sums pending payment at date of financial statements	
			2003 ThCh\$	2002 ThCh\$
S.I.S.S.	Aguas Andinas S.A.	Boleta de Garantía	6,799,574	7,146,260
Empresa Ferrocarriles	Aguas Andinas S.A.	Boleta de Garantía	2,232	2,232
Enersis S.A	Aguas Andinas S.A.	Boleta de Garantía	8,460	8,454
Municipalidad de Providencia	Aguas Andinas S.A.	Boleta de Garantía	16,050	15,677
Municipalidad de Las Condes	Aguas Andinas S.A.	Boleta de Garantía	1,000	1,010
Municipalidad de Santiago	Aguas Andinas S.A.	Boleta de Garantía	15,736	-
Municipalidad de Pudahuel	Aguas Andinas S.A.	Boleta de Garantía	-	2,548
Dirección Regional de Vialidad	Aguas Andinas S.A.	Boleta de Garantía	-	743
Serviu Metropolitano	Aguas Andinas S.A.	Boleta de Garantía	72,829	-

25. Guarantees received from third parties

At December 31, 2003 and 2002, the Company has received documents in guarantee for ThCh\$18,216,812 and ThCh\$23,899,722 respectively arising principally under works contracts

with construction companies for contract compliance. There are also other guarantees for service and materials purchase contracts covering due compliance.

The following is a detail of the most important guarantees received at December 31, 2003:

	Amount ThCh\$	Expiry date
ITT Sanitaire	195,778	23-09-2005
ITT Sanitaire	195,779	30-04-2004
Rentaequipos Leasing S.A.	209,370	31-08-2004
Claro Vicuña Valenzuela S.A.	239,779	30-06-2006
Compañía de Petróleo de Chile S.A.	281,996	21-03-2004
OTV S.A.	599,420	28-02-2004
Constructora El Dial S.A.	822,470	28-12-2004
Cadagua S.A.	1.091,052	11-02-2007
Degrémont S.A. Agencia Chile	6.622,821	15-11-2005
Total	10,258,465	

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

26. Local and foreign currencies

The Company shows the following assets and liabilities
in local and foreign currency at December 31, 2003
and 2002

Assets	Currency	2003 ThCh\$	Amount 2002 ThCh\$
Current assets			
Cash & banks	Non-indexed Ch\$	346,015	224,302
Cash & banks	Dollar	188	6,781
Time deposits	Non-indexed Ch\$	-	15,850,780
Marketable securities	Non-indexed Ch\$	-	1,632,540
Trade accounts receivable	Non-indexed Ch\$	26,132,386	24,311,108
Sundry debtors	Indexed Ch\$	7,411	-
Sundry debtors	Dollar	3,187	1,508
Sundry debtors	Euro	3,337	1,910
Sundry debtors	Non-indexed Ch\$	376,618	625,483
Notes receivable	Non-indexed Ch\$	66,491	91,495
Notes receivable	Indexed Ch\$	431,478	267,868
Notes & accounts receivable from related companies	Non-indexed Ch\$	952,734	916,821
Notes & accounts receivable from related companies	Indexed Ch\$	2,124,516	1,303,414
Inventories	Indexed Ch\$	907,345	1,520,784
Taxes recoverable	Indexed Ch\$	144,664	2,499,219
Prepaid expenses	Indexed Ch\$	179,735	96,119
Deferred taxes	Indexed Ch\$	112,480	314,604
Other current assets	Indexed Ch\$	-	22,789
Other current assets	Non-indexed Ch\$	3,159,043	20,814,607
Other current assets	Dollar	-	5,798,982
Fixed assets			
Fixed assets	Indexed Ch\$	492,408,529	445,383,213
Other assets			
Investment related companies	Indexed Ch\$	60,852,366	59,318,757
Goodwill	Indexed Ch\$	62,106,367	65,843,576
Long-term debtors	Non-indexed Ch\$	200,301	376,901
Long-term debtors	Indexed Ch\$	7,201,355	7,411,056
Deferred taxes	Indexed Ch\$	20,618	404,133
Intangible assets (net)	Indexed Ch\$	14,235,227	14,284,331
Others	Indexed Ch\$	12,672,827	8,625,321
Total assets:			
	Non-indexed Ch\$	31,233,588	64,844,037
	Dollar	3,375	5,807,271
	Indexed Ch\$	653,404,918	607,295,184
	Euro	3,337	1,910



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Current liabilities

	Currency	Up to 90 days		90 days to 1 year					
		2003	Average annual interest rate	2002	Average annual interest rate	2003	Average annual interest rate	2002	Average annual interest rate
		Amount ThCh\$	%	Amount ThCh\$	%	Amount ThCh\$	%	Amount ThCh\$	%
LIABILITIES									
Borrowings from banks long term - short-term portion	Non-indexed Ch\$	138,160	4.32	-	-	-	-	-	-
Bonds payable – short-term portion	Indexed Ch\$	1,606,206	5.50	1,261,626	5.50	-	-	-	-
Accounts payable	Dollar	86,391	-	5,826,772	-	-	-	-	-
Accounts payable	Euro	18,756	-	19,407	-	-	-	-	-
Accounts payable	Non-indexed Ch\$	9,202,704	-	11,775,362	-	-	-	-	-
Accounts payable	Indexed Ch\$	324,460	-	619,486	-	-	-	-	-
Sundry creditors	Indexed Ch\$	54,276	7.70	55,355	7.70	85,155	7.25	127,882	7.29
Sundry creditors	Non-indexed Ch\$	17,075	-	12,546	-	-	-	-	-
Notes & accounts payable to related companies	Indexed Ch\$	5,024	-	1,792,854	-	-	-	-	-
Notes & accounts payable to related companies	Indexed Ch\$	20,320,341	-	30,002,242	-	-	-	-	-
Accruals	Non-indexed Ch\$	14,358,389	-	10,090,580	-	-	-	-	-
Withholdings	Non-indexed Ch\$	4,929,591	-	2,454,094	-	-	-	-	-
Income tax	Non-indexed Ch\$	-	-	-	-	314,768	-	-	-
Unearned income	Non-indexed Ch\$	571,000	-	607,726	-	-	-	-	-
Unearned income	Indexed Ch\$	200,107	-	300,451	-	19,275	-	19,167	-
Total current liabilities:									
	Non-indexed Ch\$,537,260		54,942,550		314,768		-	-
	Indexed Ch\$	2,190,073		4,029,772		104,430		147,049	-
	Dollar	86,391		5,826,772		-		-	-
	Euro	18,756		19,407		-		-	-
		-		-		-		-	-

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Long-term liabilities 2003

		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years	
Currency		Amount	Average annual interest rate	Amount	Average annual interest rate	Amount	Average annual interest rate	Amount	Average annual interest rate
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Long-term liabilities									
Borrowings from banks	Non-indexed Ch\$	16,173,333	4.32	21,657,778	4.32	14,768,889	4.32	-	-
Bonds payable	Indexed Ch\$	76,703,994	4.60	56,596,483	4.92	57,928,240	5.68	25,347,283	6.25
Notes payable	Indexed Ch\$	-	-	-	-	1,959,963	2.76	4,061,311	4.04
Sundry creditors	Indexed Ch\$	437,894	-	-	-	-	-	-	-
Severance indemnities	Indexed Ch\$	-	-	-	-	-	-	6,778,001	-
Other liabilities	Indexed Ch\$	179,769	-	38,352	-	95,880	-	19,176	-
Total long-term liabilities									
	\$ reajustables	77,321,657		56,634,835		59,984,083		36,205,771	-
	\$ no reajustables	16,173,333		21,657,778		14,768,889		-	-

Long-term liabilities 2002

		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years	
	Currency	Amount	Average annual interest rate	Amount	Average annual interest rate	Amount	Average annual interest rate	Amount	Average annual interest rate
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Long-term liabilities									
Bonds payable	Indexed Ch\$	11,274,377	4.25	42,842,627	5.13	37,423,617	5.25	26,840,307	6.25
Notes payable	Indexed Ch\$	-	-	-	-	-	-	2,771,702	4.83
Sundry creditors	Indexed Ch\$	752,546	7.29	-	-	-	-	-	-
Severance indemnities	Indexed Ch\$	-	-	-	-	-	-	5,553,832	-
Other liabilities	Indexed Ch\$	206,739	-	38,333	-	95,832	-	38,332	-
Total long-term liabilities									
	Indexed Ch\$	12,233,662		42,880,960		37,519,449		35,204,173	-



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

27. Sanctions

a) Superintendency of Securities and Insurance

Neither the Company nor its directors or executives were sanctioned during 2003 and 2002.

b) Other administrative authorities.

In 2003, the Superintendency of Sanitation Services applied a minor fine to Aguas Andinas S.A. with respect to measurements taken at the Paine Sewage Treatment Plant, for which an appeal was made. The Company was not fined at all during 2002.

SESMA applied a fine of UTM1, 000 to the Company, in accordance with Law 144/61 of the Ministry of

Health which sets standards for avoiding atmospheric emanations or contaminants of any kind. A claim for reversal has been made in accordance with clause 50 of Law 19,880.

No other sanctions of any kind have been applied to the Company, or to its directors or executives, during 2003 and 2002.

28. Subsequent events

At the issue date of these financial statements, the Company's management is unaware of any subsequent events that significantly affect the financial situation and results of the Company at December 31, 2003.

29. Environment

The principal projects of the Company during 2003 for improving the environment refer to the construction of the sewage treatment plants.

The principal investments made in 2003 and 2002 have been the construction of the La Farfana

treatment plant which will allow the treatment of 50% of Santiago's sewage. The investment made during those periods was ThCh\$51,991,159 and ThCh\$68,700,073 respectively.

NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

30. Transfer of ownership of sanitation works

Under an agreement signed on June 30, 1998 between the Metropolitan regional government and Aguas Andinas S.A., ownership of the sanitary works constructed or acquired with resources of the Regional Development National fund was transferred to the Company.

The works transferred under this agreement, which constitute third-party contributions, are covered by the provisions of Law 70 of the Ministry of Public Works of 1988 and Clause 36 of the respective regulation of MINECON Decree 453 of 1989.

At December 31, 1998, these works were incorporated into the Company's assets at a nominal

value of Ch\$1 for each asset, as there is a prohibition on considering these assets transferred by the regional government as an investment for purposes of tariff setting, on which the Company cannot earn a return on them and they do not represent any additional operating benefits for the Company in addition to those already obtained since their start-up.

Neither does the income-costs correlation alter with respect to previous years as the Company made no disbursements.

The maximum tariff contemplated for this type of contribution refers only to cover of the required operating and maintenance costs.

According to the instructions of the Superintendency of Securities and insurance, in its Resolution 01489 of March 20, 2000, the estimated technical value of these works was determined for information purposes. At that time, this amounted to ThCh\$1,507,690 and its depreciation, determined on the basis of its time in use, amounts to ThCh\$388,857.

The principal criteria used in the valuation of these works included earth movement, supply pipes, potable water and sewage chambers and the labor costs, all at December 2003. The average useful life of these assets is 406 months and their remaining average useful life at December 2003 is 317 months.

31. Reimbursable contributions

Clause 16 of Law 70 published in the Official Gazette on December 30, 1998 and clause 42 of Law 453, set out the rules for requesting reimbursable financial contributions for capacity and extension of the corresponding service to whoever asks to be incorporated as a customer or requires a service expansion.

Under these regulations, at December 31, 2003 and 2002, works have been received under reimbursable financing contribution contracts for extensions, for

a value of ThCh\$8,808,837 and ThCh\$8,671,071 respectively. These works are shown as Fixed assets of the Company and the contributions have already been reimbursed.

On the other hand, at December 31, 2003 and 2002, there were signed contracts for reimbursable contributions for extensions booked in memorandum accounts. The number of contracts signed is 8 for ThCh\$139,519 and 14 for ThCh\$276,346 respectively whose works have not yet been handed

over to the Company for its inspection and later reception.

In accordance with Circular 2,820 of December 11, 2003 of the Superintendency of Sanitation Services, the following shows the state of progress of the reimbursable contributions being carried out:



NOTES TO THE FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Name of works	Advance %	Accrued ThCh\$
Clotario Blest urbanization	100%	24.632
Villa Inela and San José Street	60%	10.075
Vista Hermosa urbanization sector 1.2.3 & 4	100%	8.842
Casagrande P5 Ecosuburb Stage 2	40%	6.520
Feeder matrix Oceánica housing complex	100%	47.020
Santa Rosa industrial plot	85%	15.629
Huechuraba industrial complex	100%	6.086
Pasaje Santa Rosa	95%	1.386
Total		120.190

Material Information

The board of the Company reported that at its meeting of September 9, 2003, it had agreed to call an extraordinary shareholders' meeting for October 14, 2003, to propose a capital reduction of up to Ch\$140.000 million (one hundred and forty billion pesos).

The board of the Company reported that the 12th extraordinary shareholders' meeting was held on October 14, 2003 and resolved the following:

a) To modify the Fifth clause and First transitory clause of the bylaws to reduce the capital by Ch\$140.000 million (one hundred and forty billion pesos), maintaining the number of subscribed and

paid shares of the Company as well as the series in which they are divided and their privileges.

b) To distribute the approved capital reduction to shareholders pro rata to their shares, thus being Ch\$22.87969 per share.

c) To establish the payment mechanism for this capital distribution to shareholders, delegating to the Company's board the power to set the exact date for payment, but not later than December 31, 2003.

The board of the Company reported that at its meeting of December 9, 2003, Juan Carlos Fontana presented his resignation as director and vice-chairman of the

Company. Alain Chaigneau and Manlio Alessi also presented their resignations as alternate directors. In accordance with clause 32 of the Corporations Law, the board at the same meeting appointed Manlio Alessi as a director in replacement of Juan Carlos Fontana, and then elected Charles Chaumin as vice-chairman of the Company.



MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

al 31 de diciembre de 2003 y 2002

1. Balance Sheet

The principal assets and liabilities at December 31, 2003 and 2002 are:

	Ch\$ millions Dec. 2003	Ch\$ millions Dec. 2002	Variation Dec. 2003 Dec. 2002 %
Assets			
Current Assets	34,948	76,301	(54.20)%
Fixed Assets	492,408	445,383	10.56 %
Other Assets	157,289	156,264	0.66 %
Total Assets	684,645	677,948	

1.1 Assets

Current assets are Ch\$41,353 million below the level of 2002, mainly due to the reduction in financial investments of Ch\$40,893 million which were used to pay for works, dividends and the capital reduction.

Net fixed assets increased by Ch\$47,025 million, in Buildings and infrastructure by Ch\$24,312 million and Machinery and equipment by Ch\$37,701 million.

The main reason was the construction of the La Farfana Sewage Treatment Plant which will treat 50% of the sewage of the Metropolitan Region. The increase in fixed assets was offset by increased accumulated depreciation of Ch\$16,518 million.

There was a slight increase in Other assets of Ch\$1,025 million, due to the increase in investments

in related companies of Ch\$ 1,536 million. Others for Ch\$4,048 million (mainly the discount on the bond issue made in May 2003), partially offset by a reduction in Goodwill of Ch\$3,737 million.

MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

	Ch\$ millions Dec. 2003	Ch\$ millions Dec. 2002	Variation Dec. 2003 Dec. 2002 %
Liabilities			
Current Liabilities	52,252	64,965	(19.57)%
Long-Term Liabilities	282,746	127,838	121.18 %
Shareholders' equity	349,647	485,145	(27.93)%
Total Liabilities	684,645	677,948	

1.2 Liabilities

Current liabilities declined by Ch\$12,714 million compared to 2002, the principal reduction being in Notes and accounts payable to related companies of Ch\$11,740 million.

There was a strong increase in long-term liabilities of Ch\$154,908 million, mainly due to Bonds payable of Ch\$98,195 million (a domestic bond issue made in May) and Borrowings from banks and financial

institutions of Ch\$52,600 million and Long-term notes payable of Ch\$3,249 million relating to reimbursable financial contributions for capacity and extensions.

Shareholders' equity declined by Ch\$135,498 million due to the capital reduction of Ch\$140,000 million (in order to optimize the Company's financing

structure), offset by the increased net income for the year of Ch\$5,006 million.



MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

2. Financial Indicators

Indicators	Unit	Dec-03	Dec-02	Variation %
Liquidity				
Current ratio	(times)	0.67	1.17	(42.74)%
Acid test	(times)	0.07	0.68	(89.71)%
Debt				
Debt ratio	(%)	95.81	39.74	141.09 %
Short-term debt	(%)	15.60	33.70	(53.71)%
Long-term debt	(%)	84.40	66.30	27.30 %
Finance. Exp. cover	(times)	13.07	35.63	(63.32)%
Activity				
Inventory rotation	(times)	40.07	38.96	2.85 %
Inventory permanence	(Days)	8.98	9.24	(2.81)%
Profitability				
Return on equity (average)	(%)	14.29	11.33	26.13 %
Return on assets (average)	(%)	8.76	8.61	1.74 %
Earnings per share	(\$)	9.75	8.93	9.18 %
Dividend yield	(%)	5.00	5.70	(12.28)%
Return on operating assets (average)	(%)	13.12	13.25	(0.98)%

The Company's current ratio fell by 42.74% mainly due to the reduction in financial investments in Current assets.

Total debt increased by 141.09%, mainly due to the bond issue made in May 2003 and the drawing of bank loans in December 2003.

In calculating the return on operating assets, operating income was divided by the sum of fixed assets (average) and net intangible assets (average). This indicator does not change significantly from year to year as the increase in fixed assets is compensated by the increase in the Company's net income.

The return on average equity shows an increase of 26.13%, mainly due to the reduction in equity following the capital reduction made in December 2003 of Ch\$140,000 million.

MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

3. Analysis of Statement of Income

The principal items in the statement of income are:

	Ch\$ millions Dec, 2003	Ch\$ millions Dec, 2002	Variation %
Statements of income			
Sales	142,347	129,424	9.99
Cost of sales	(48,646)	(46,008)	5.73
Admin, & sales	(30,314)	(27,428)	(10.52)
Operating income	63,387	55,988	13.22
ERBITDA	100,634	87,678	14.78
Financial expenses	(5,915)	(1,841)	221.29
Non-operating result	7,996	7,779	2.79
Net income for the year	59,659	54,653	9.16

At December 31, 2003, net income improved by 9.16% over the previous year. This increase is the result of a 13.22% higher Operating income and a 2.79% higher non-operating income, offset by 25.82% higher Income tax.

Operating income increased by 13.22% over the year before, the result of a slight increase in sales

(9.99%), mainly in sewage services as a result of the start-up of the La Farfana Treatment Plant, partially offset by a higher cost of sales of 5.73%, for the same reason.

The non-operating income improved by 2.79% mainly due to financial income of Ch\$2,406 million, other non-operating income of Ch\$1,495 million (mainly

due to gains on fixed asset sales and engineering service income), increased income on investments in related companies of Ch\$223 million and others, partially offset by an increase in financial expenses of Ch\$4,074 million (higher debt).



MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

4. Differences between book values and economic values of the principal assets

The fixed assets are valued in accordance with generally accepted accounting principles and standards and the instruction of the Superintendency of Securities and Insurance. We therefore believe that there should not be any significant differences between the economic or market value and the book value of the assets, taking into account also that stated in Note 2 j) to the financial statements at December 31, 2003.

However, Aguas Andinas S.A. has seventy-five plots of land that were transferred to it gratuitously by the Chilean Treasury and are booked at Ch\$1. There are also fixed assets with exhausted accounting useful lives, which are shown at Ch\$1, even though they continue in operation. There are also transfers, constituting third-party contributions, covered by the regulations to Law 70 of the Ministry of Public Works

of 1988 and the provisions of clause 36 of the respective Regulation of D.S. MINECON 453 of 1989, which are explained in Note 30.

The Company has water rights to various natural sources, particularly Laguna Negra, Laguna Lo Encañado and Quebrada de Ramón which were acquired gratuitously and with no value in the books.

On the other hand, the production of flows of underground origin is supplied from various wells located in the Metropolitan Region for which Aguas Andinas S.A. has the water-rights concession granted to it gratuitously by the water authority department of the Ministry of Public Works.

In summary, and as mentioned above, Aguas Andinas S.A. shows no significant differences between the

economic or market value and the book value except for the instances mentioned in the previous paragraphs. The principal assets of the Company relate to sanitation infrastructure works which have an exclusive purpose and are registered according to accounting principles generally accepted in Chile.

MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

5. Market analysis

The Company has no market risk as, due to the nature of their services and current legislation, they have no competition in their concession areas.

Aguas Andinas S.A. currently has a 100% coverage in drinking water, 99.9% in sewage services and more than 70% in sewage treatment.

6. Analysis of statement of direct cash flows.

	Ch\$ millions Dec. 2003	Ch\$ millions Dec. 2002	Variation %
Operating activities	100,750	85,668	17.61
Financing activities	(45,085)	18,290	(346.50)
Investment activities	(96,738)	(104,339)	(7.28)
Net cash flow for year	(41,073)	(381)	(10,680.32)
Closing balance of cash & cash equivalents	3,495	44,272	(92.11)

At December 31, 2003, there was a 17.61% increase in operating cash flow compared to 2002 mainly due to a smaller payment of VAT of Ch4, 310 million and the increase in collections of trade receivables of Ch\$12,479 million.

The financing cash flow decreased by 346.50% because of the capital reduction of Ch\$140,000 million, offset by new loans of Ch\$54,964 million and the increase in bonds payable of Ch\$31,361million.

The investment cash flow fell by 7.28%, mainly explained by the increase in acquisitions of fixed assets of Ch\$3,939 million and an increase in interest payments of Ch\$3,112 million, offset by a change in Permanent investments of Ch\$6,646 million.



MANAGEMENT DISCUSSION AND ANALYSIS FOR AGUAS ANDINAS S.A. AND SUBSIDIARIES

at december 31, 2003 and 2002

7. Market risk analysis

Our Company shows a favorable position in terms of risk, mainly because of the particular characteristics of the sanitation sector and a proactive policy in risk management.

Operating aspects

Regulatory framework. Our Company operates within a stable regulation that allows us to develop our business and operations with a long-term view. This regulation contemplates the setting of tariffs for our services for 5-year periods. The present tariffs are set by MINECON Decree 76 and are in force until March 1, 2005.

Customers. We currently serve 1,263,758 customers in our concession area whose supplier is Aguas Andinas. The principal 100 customers represent just 4.8% of total sales in 2003.

Weather conditions. Our large reserves of water, like the El Yeso reservoir, Laguna Negra and Lo Encañado, together with the contingency plans we have developed, allow us to reduce the potential negative impacts that adverse weather conditions might cause to our operations.

Financial Aspects

Currency risk. Our sales are largely related to the local currency. Our debt therefore is mainly denominated in the same currency and no significant is maintained in foreign currency.

Interest rates. With respect to the interest rate risk, we in Aguas Andinas maintain 81% of our debt at fixed rates, composed 79% by medium and long-term bond issues and 2% by reimbursable financial contributions, a situation that compares with all the debt at fixed rates at December 2002. On the other hand, the remaining 19% of the debt is at variable rates and refers to local banks loans. The Company maintains a policy of monitoring and managing interest rates in order to optimize the cost of finance and constantly evaluates the available hedging instruments in the market.

This whole favorable situation has led to the credit-rating agencies granting us an AA+ credit rating for long-term debt. In the case of the shares, Feller Rate has given us a first class level 3 rating and Humphreys a first class level 2 rating.



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SUMMARIZED FINANCIAL STATEMENTS



SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

A. Aguas Cordillera S.A. and Subsidiaries

A.1 General Information

Name	: Aguas Cordillera S.A.
Type of entity	: Corporation subject to rules for open corporations in accordance with clause 8 of M.O.P. Law 382 of 1988.
Address	: Av. Presidente Balmaceda N° 1398 - Santiago
Telephone	: (56 2) 940 40 71
Fax	: (56 2) 694 23 17
PO Box	: 1818 Santiago – Centro
Tax N°.	: 80.311.300-9
External Auditors	: Deloitte & Touche Sociedad de Auditores Consultores Ltda.
Securities Registry	: N° 0369
Subscribed & paid capital	: Ch\$36,740,940,544

SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Objectives

The establishment, construction and exploitation of the public utility of the production and distribution of potable water, the collection and evacuation of sewage and other services related to those businesses in the suburbs of Vitacura, Las Condes and Lo Barnechea, its concession zone.

Board of Directors

Chairman	Josep Bagué Prats	(General Manager, Aguas Andinas S.A.)
Vice Chairman	Laurent Brunet	(Asst. General Manager, Aguas Andinas S.A.)
Directors	Joaquín Villarino Herrera	(Senior executive, Aguas Andinas S.A.)
	Luis Manuel Rodríguez Cuevas	
	Igor Garafulic Olivares	
General Manager	Felipe Larrain Aspíllaga	(Senior executive, Aguas Andinas S.A.)

Constitution documents

The company was constituted as a corporation with the name of Empresa de Agua Potable Lo Castillo S.A. by public deed dated September 29, 1989 signed before the Santiago notary, Raúl Undurraga Laso; an extract of this is inscribed in folio 25.604, N° 12.970 of the Trade Register for 1989, rectified by inscriptions in folio 29.359, N° 15.866 and folio 30.720, N° 16.574, both in the Santiago Trade Register for 1989, and published in the Official Gazette of September 30, 1989. In May 1997, it changed its name to its present one, Aguas Cordillera S.A.

Other managers and senior executives

Alfonso Silva González
Marcelino Garay Madariaga
Mario Rodríguez Carrillo
Antonia Blanco Evans
Carolina Zárate Suárez
Alberto Sola Berríos.

Percentage holding of Parent

99.99%

Percentage of Parent's assets represented by the investment

7.22%

Relationship with Parent

During the year 2003, the company had a sewage waters interconnection contract, rental contracts and a potable water and sewage waters and materials sales contract with its Parent. It is expected to maintain similar commercial relations in the future.



SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

A.2 Summarized financial statements

Aguas Cordillera S.A. and Subsidiaries

	2003 ThCh\$	2002 ThCh\$
Assets		
Current Assets	12,491,303	12,501,182
Fixed Assets net	59,193,673	57,680,227
Other Assets	18,419,137	18,548,630
Total Assets	90,104,113	88,730,039
Liabilities		
Current Liabilities	11,292,260	8,891,131
Long-Term Liabilities	29,347,055	30,223,866
Minority interest	7,523	4,182
Shareholders' equity	49,457,275	49,610,860
Total Liabilities & Shareholders' Equity	90,104,113	88,730,039
Statement of income		
Sales	26,293,966	22,885,392
Cost of sales	(16,587,990)	(12,915,426)
Operating income	9,705,976	9,969,966
Non-operating result	691,656	600,260
Income tax	(1,975,669)	(1,849,996)
Minority interest	(3,394)	(1,310)
Amortization negative goodwill	64	64
Net income for the year	8,418,633	8,718,984

SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Aguas Cordillera S.A. and Subsidiaries

	2003 ThCh\$	2002 ThCh\$
Statement of cash flows		
Net cash flow from operating activities	12,294,418	9,406,640
Net cash flow from financing activities	(9,375,899)	(6,492,749)
Net cash flow from investment activities	(4,171,321)	(1,665,905)
Total net cash flow for the year	(1,252,802)	1,247,986
Effect of Inflation on cash	(63,101)	(124,451)
Change in cash	(1,315,903)	1,123,535
Opening balance of cash	4,974,103	3,850,568
Closing balance of cash	3,658,200	4,974,103
Reconciliation of net operating cash flow with net income for the year		
Net income for the year	8,418,633	8,718,984
Gain on asset sales	(140)	(916,801)
Charges (credits) to income not representing cash flows	3,584,481	4,185,363
Change in assets affecting operating cash flows	(1,228,926)	(1,353,155)
Change in liabilities affecting operating cash flows	1,516,976	(1,229,061)
Income of the minority interest	3,394	1,310
Net operating cash flow	12,294,418	9,406,640



SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

B. Aguas Manquehue S.A

B.1 General Information

Name	: Aguas Manquehue S.A.
Type of entity	: Corporation subject to the rules for public corporations in accordance with clause 8 of M.O.P. Law 382 of 1988.
Address	: Avda. Presidente Balmaceda N° 1398 - Santiago
Telephone	: (56-2) 940 40 71
Fax	: (56-2) 694 23 17
Tax N°.	: 89.221.000-4
External Auditors	: Deloitte & Touche Sociedad de Auditores Consultores Ltda.
Securities Registry	: N° 0402
Subscribed & paid capital	: Ch\$ 7,108,476,201

SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Objectives

The establishment, construction and explotation of the public utility of the production and distribution of drinking water, the collection and evacuation of sewage and other services related to those businesses in the suburbs of Vitacura, Las Condes, Lo Barnechea, Colina and Lampa, its concession zone.

Constitution documents

The company was constituted with the name of Empresa de Agua Potable Manquehue Ltda. by public deed dated November 25, 1982 before the Santiago notary, Raúl Perry Pefaur.

The company was reconstituted by public deed dated April 8, 1983, signed before the Santiago notary, Mario Farren Cornejo, whose extract was inscribed in the Santiago Trade Register for 1983 (folio 5850 N° 3212) and Published in the Official Gazette on April 26, 1983.

Later, in accordance with Law (D.F.L.) 382 of December 30, 1988, it was agreed to convert it to a corporation with the name of Empresa de Agua Potable Manquehue S.A. by public deed dated January 16, 1990.

By public deed dated June 23, 1998, the company changed its name to Aguas Manquehue S.A.

Board of Directors

Chairman	Josep Bagué Prats	(General Manager, Aguas Andinas S.A.)
Vice Chairman	Laurent Brunet	(Asst. General Manager, Aguas Andinas S.A.)
Directors	Carlos Alberto Rabat Vilaplana	
	Luis Manuel Rodríguez Cuevas	
	Igor Garafulic Olivares	
General Manager	Felipe Larrain Aspillaga	(Senior executive, Aguas Andinas S.A.)



SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

B.2 Summarized financial statements

Aguas Manquehue S.A.

	2003 ThCh\$	2002 ThCh\$
Assets		
Current Assets	2,585,484	2,181,023
Fixed Assets net	7,774,371	7,022,682
Other Assets	5,742,892	4,166,965
Total Assets	16,102,747	13,370,670
Liabilities		
Current Liabilities	2,380,887	1,748,710
Long-Term Liabilities	3,120,839	2,261,483
Shareholders' Equity	10,601,021	9,360,477
Total Liabilities & Shareholders' Equity	16,102,747	13,370,670
Statement of income		
Sales	2,903,651	2,549,386
Cost of sales	(1,745,826)	(1,673,642)
Operating income	1,157,825	875,744
Non-operating result	397,488	527,925
Income tax	(314,769)	(260,250)
Net income for the year	1,240,544	1,143,419

SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Aguas Manquehue S.A.

	2003 ThCh\$	2002 ThCh\$
Statement of cash flows		
Net cash flow from operating activities	2,138,661	1,329,819
Net cash flow from financial activities	(797,054)	(941,786)
Net cash flow from investment activities	(908,468)	(866,188)
Total net cash flow for the year	433,139	(478,155)
Effect of Inflation on cash	(1,311)	(11,782)
Net change in cash	431,828	(489,937)
Opening balance of cash	72,632	562,569
Closing balance of cash	504,460	72,632
Reconciliation of net operating cash flow and net income for the year		
Net income for the year	1,240,544	1,143,419
(Gain) loss on asset sales	(3,900)	595
Charges (credits) to income not representing cash flows	642,876	613,470
Asset changes affecting operating cash flows	167,594	(392,768)
Liability changes affecting operating cash flows	91,547	(34,897)
Net operating cash flow	2,138,661	1,329,819



SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

C. Análisis Ambientales S.A.

C.1 General Information

Name	: Análisis Ambientales S.A.
Type of entity	: Closely-held corporation governed by its constitution bylaws and applicable legislation.
Address	: Avda. Camilo Henríquez N° 540, Puente Alto
Telephone	: (56-2) 694 32 71
Fax	: (56-2) 694 32 79
Tax No.	: 96.967.550-1
External Auditors	: Deloitte & Touche Sociedad de Auditores Consultores Ltda.
Subscribed & paid capital	: Ch\$ 206,973,425

SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Objectives

The carrying out of all kinds of physical, chemical and biological analyses of water, air and solids, including soils, mud and residues, and any other element that is related directly or indirectly to the environment.

Board of Directors

Chairman	Josep Bagué Prats	(General Manager, Aguas Andinas S.A.)
Directors	Laurent Brunet	(Asst. General Manager, Aguas Andinas S.A.)
	Santiago Hernando Pérez	
Alternate directors	Jean Louis Lagarde	(Senior executive, Aguas Andinas S.A.)
	Joaquín Villarino Herrera	(Senior executive, Aguas Andinas S.A.)

Constitution documents

Análisis Ambientales S. A. was constituted under public deed dated August 20, 2001 before the notary Ivan Torrealba Acevedo and its extract was published in the Official Gazette of September 20, 2001, with the trading names of ANAM S.A.

General Manager

Guillermo Gitman Teplizky

Percentage holding of Parent

99.00%

Percentage of Parent's assets represented by the investment

ThCh\$414,808 out of ThCh\$684,645,218.

Commercial relationship with Parent

During the year 2003, the company had a laboratory and rental services contract with its Parent. It is expected to maintain a similar relationship in the future.



SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

C.2 Summarized financial statements

Análisis Ambientales S.A.

	2003 ThCh\$	2002 ThCh\$
Assets		
Current Assets	271,802	173,445
Fixed Assets net	360,121	358,281
Other Assets	-	-
Total Assets	631,923	531,726
Liabilities		
Current Liabilities	212,925	345,774
Long-Term Liabilities	-	-
Shareholders' Equity	418,998	185,952
Total Liabilities & Shareholders' Equity	631,923	531,726
Statement of income		
Sales	1,015,523	611,710
Cost of sales	(726,083)	(608,266)
Operating income	289,440	3,444
Non-operating result	(9,294)	(12,117)
Income tax	(47,100)	585
Net income for the year	233,046	(8,088)

SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Análisis Ambientales S.A.

	2003 ThCh\$	2002 ThCh\$
Statement of cash flows		
Net cash flow from operating activities	274,959	2,490
Net cash flow from financing activities	(243,799)	181,189
Net cash flow from investment activities	(59,303)	(154,783)
Total net cash flow for the year	(28,143)	28,896
Effect of inflation on cash	(387)	641
Net change in cash	(28,530)	29,537
Opening balance of cash	32,553	3,016
Closing balance of cash	4,023	32,553
Reconciliation of net operating cash flow and net income for the year		
Net income for the year	233,046	(8,088)
(Gain) loss on asset sales	(2)	-
Charges (credits) to income not representing cash flows	81,900	55,310
Asset changes affecting operating cash flows	46,365	12,435
Liability changes affecting operating cash flows	(86,350)	(57,167)
Net operating cash flow	274,959	2,490



SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

D. Ecoriles S.A.

D.1 General Information

Name	: Ecoriles S.A.
Type of entity	: Closely held corporation governed by its constitution bylaws and applicable legislation.
Address	: Av. Presidente Balmaceda N° 1398 - Santiago
Telephone	: (56-2) 694 22 29
Fax	: (56-2) 694 22 44
Tax No.	: 96.945.210-3
External Auditors	: Deloitte & Touche Sociedad de Auditores Consultores Ltda.
Subscribed & paid capital	: Ch\$ 263,225,493

SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Objectives

The treatment of liquid residues and all activities related to the treatment of waste and residual waters, through the provision of technical advice and training, design and construction services, and the commercialization of equipment, maintenance and operation of all kinds of installations.

Board of directors

Chairman	Josep Bagué Prats	(General Manager, Aguas Andinas S.A.)
Directors	Laurent Brunet	(Asst. General Manager, Aguas Andinas S.A.)
	Santiago Hernando Pérez	
General Manager	Lionel Quezada Miranda	

Constitution documents

Ecoriles S. A. was constituted by public deed dated December 15, 2000 before the notary Juan Ricardo San Martín Urrejola and its extract was published in the Official Gazette on January 16, 2001.

Percentage holding of Parent

99.038%

Percentage of Parent's assets represented by the investment

ThCh\$417,040 out of ThCh\$684,645,218.

Comercial relationship with Parent

During 2003, the company had a service contract for the treatment of excess load. It is expected to maintain a similar relationship in the future.



SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

D.2 Summarized financial statements

Ecoriles S.A.

	2003 ThCh\$	2002 ThCh\$
Assets		
Current Assets	630,091	234,770
Fixed Assets net	397,959	68,069
Other Assets	4,190	10,417
Total Assets	1,032,240	313,256
Liabilities		
Current Liabilities	611,150	112,865
Long-Term Liabilities	-	-
Shareholders' Equity	421,090	200,391
Total Liabilities & Shareholders' Equity	1,032,240	313,256
Statement of income		
Sales	1,277,960	379,760
Cost of sales	(1,005,861)	(383,524)
Operating income	272,099	(3,764)
Non-operating result	(8,808)	(12,456)
Income tax	(42,592)	3,257
Net income (loss) for the year	220,699	(12,963)

SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Ecoriles S.A.

	2003 ThCh\$	2002 ThCh\$
Statement of cash flows		
Net cash flow from operating activities	112,236	(167,227)
Net cash flow from financing activities	204,067	205,006
Net cash flow from investment activities	(319,463)	(35,477)
Total net cash flow for the year	(3,160)	2,302
Effect of inflation on cash	(78)	(149)
Net change in cash	(3,238)	2,153
Opening balance of cash	3,937	1,784
Closing balance of cash	699	3,937
Reconciliation of net operating cash flow and net income for the year		
Net income for the year	220,699	(12,963)
Charges (credits) to income not representing cash flows	35,240	5,632
Asset changes affecting operating cash flows	(554,921)	(131,174)
Liability changes affecting operating cash flows	411,218	(28,722)
Net operating cash flow	112,236	(167,227)



SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

E. Comercial Orbi II S.A. and Subsidiaries

E.1 General Information

Name	: Comercial Orbi II S.A.
Type of entity	: Closely held corporation subject to the Corporations Law 18,046.
Address	: Avda. Santa Maria N° 6910-A, Vitacura
Telephone	: (56-2) 940 40 71
Fax	: (56-2) 694 23 17
Tax N°.	: 96.809.310-K
External Auditors	: Deloitte & Touche Sociedad de Auditores Consultores Ltda.
Subscribed & paid capital	: Ch\$ 2,410,484,123

SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Objectives

The making of investments of all kinds.

Constitution documents

The company was constituted by public deed dated April 22, 1996 before the notary René Benavente Cash, from the division of Comercial ORBI S.A. as approved by its extraordinary shareholders’ meeting.

Board of Directors

Chairman	Josep Bagué Prats	(General Manager, Aguas Andinas S.A.)
Directors	Laurent Brunet	(Asst. General Manager, Aguas Andinas S.A.)
	Carlos Alberto Rabat Vilaplana	
	Luis Manuel Rodríguez Cuevas	
	Carlos Gaete Winkelman	(Executive Aguas Andinas S.A.)
	Felipe Larrain Aspillaga	(Senior executive, Aguas Andinas S.A.)
	Joaquín Villarino Herrera	(Senior executive, Aguas Andinas S.A.)
General Manager	Felipe Larrain Aspillaga	(Senior executive, Aguas Andinas S.A.)

Parent company shareholding

99.90%

Investment as percentage of Parent’s assets

1.54%

Commercial relationship with parent

The Company, through its subsidiary Aguas Manquehue S.A., has a meter reading and billing distribution contract with its parent. Similar commercial



SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

E.2 Summarized financial statements

Comercial Orbi II S.A. and Subsidiaries

	2003 ThCh\$	2002 ThCh\$
Assets		
Current Assets	1,484,578	1,147,242
Fixed Assets net	8,691,436	7,992,330
Other Assets	5,743,410	4,179,187
Total Assets	15,919,424	13,318,759
Liabilities		
Current Liabilities	2,221,846	1,695,699
Long-Term Liabilities	3,120,839	2,282,213
Minority interest	2,688	2,766
Shareholders' equity	10,574,051	9,338,081
Total Liabilities & Shareholders' Equity	15,919,424	13,318,759
Statement of income		
Sales	2,903,651	2,549,386
Cost of sales	(1,711,617)	(1,638,887)
Operating income	1,192,034	910,499
Non-operating result	360,714	506,874
Income tax	(316,856)	(252,777)
Minority interest	77	(144)
Net income for the year	1,235,969	1,164,452

SUMMARIZED FINANCIAL STATEMENTS

at december 31, 2003 and 2002

Comercial Orbi II S.A. and Subsidiaries

	2003	2002
	ThCh\$	ThCh\$
Statement of cash flows		
Net cash flow from operating activities	2,129,749	980,629
Net cash flow from financing activities	(795,202)	(592,308)
Net cash flow from investment activities	(908,468)	(852,335)
Total net cash flow for the year	426,079	(464,014)
Effect of inflation on cash	(1,552)	(12,581)
Net change in cash	424,527	(476,595)
Opening balance of cash	87,045	563,640
Closing balance of cash	511,572	87,045
Reconciliation of net operating cash flow and net income for the year		
Net income for the year	1,235,969	1,164,452
(Gain) loss on asset sales	(3,900)	595
Charges (credits) to income not representing cash flows	707,569	658,647
Asset changes affecting operating cash flows	17,092	281,183
Liability changes affecting operating cash flows	173,096	(1,124,392)
Income of the minority interest	(77)	144
Net operating cash flow	2,129,749	980,629

Note: The complete Financial Statements of the Subsidiaries are publicly available in the offices of the reporting entity and the S.V.S. (Superintendency of Securities and Insurance)

DIRECTION AND EDITION

Comité Memoria Aguas Andinas

DESIGN AND PRODUCTION

FutureBrand

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IMPRESION

Morgan