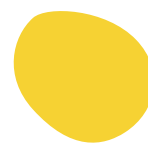


Annual Report
2005





Water, always

In your life, dreams and hopes.

In today's opportunities and tomorrow's challenges.

You may always rely on us and be sure we will be there
all the time, everywhere, supplying water.

For you to fully realize your life: water, always.





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Present in your life

With a 144-year long record of service, we are present in the development of our customers –the inhabitants in the Santiago Basin– providing them the best quality water, a reliable supply, and an outstanding service.

1861

Our history begins with the foundation of Empresa de Agua Potable de Santiago and the preparation of the first study on the improvement of water abstraction from the San Ramón Stream.

1865 We build the first water storage tanks.

1894 We begin a works program with the construction of the Vitacura drains to obtain filtered water from the Mapocho River, and a 20,000-cubic metre tank located on Antonio Varas Street.

1903 The Santiago Sewage and Pavement Law is enacted, driving the construction of the city's sewage and potable water networks.

1909 We install 1,112 service connections to a main and the first hydrants ever in Santiago.

1917 We inaugurate the Laguna Negra Aqueduct, which through its 87-km long extension transports water from the mountain range.

1946 We put into operation Las Vizcachas Plant for purposes of producing potable water for Santiago.

1969 We inaugurate Las Vizcachitas Plant, next to the Paralelo Aqueduct.

1977 Our company changes its corporate name to Empresa Metropolitana de Obras Sanitarias (EMOS).

1984 We inaugurate the Ingeniero Antonio Tagle Water Production Plant.

1989 EMOS is transformed into an open stock corporation, subsidiary of Corporación de Fomento de la Producción (CORFO).

1990 We begin the construction of the first water sanitation works in the region, such as the Zanjón Intercepting Sewer and the piping of A-H Canal.

1993 We inaugurate the Santiago West Sewage Treatment Plant.

1997 We inaugurate our Corporate Building located at Parque de los Reyes in the municipal district of Santiago.

1999 Through a privatization process, a 51.2 percent ownership interest in the company is acquired by Sociedad Inversiones Aguas Metropolitanas Ltda., formed by the Agbar and Suez Holding. The same year we inaugurate La Florida Water Production Plant.

2000 We begin construction of El Trebal Sewage Treatment Plant. The company acquires 100 percent of the ownership interest in Aguas Cordillera and 50 percent in Aguas Manquehue. We begin to apply the Vita Plan, the aim of which is to gear the organization up for service excellence and improved product efficient and quality.

2001 Change of corporate name: the company becomes Aguas Andinas S.A. We begin to operate El Trebal Sewage Treatment Plant and initiate the construction of La Farfana Sewage Treatment Plant. Our subsidiaries ANAM and EcoRiles are incorporated, and Aguas Maipo S.A, incorporated in 1997, becomes Gestión y Servicios S.A.

2002 We inaugurate Latin America's most advanced Operational Control System. We acquire the remaining 50 percent ownership interest in Aguas Manquehue. We launch the Eureka Plan, the purpose of which is to consolidate an on-line organization. In addition, we inaugurate the new Sewage Treatment Plants of San José de Maipo and Paine.

2003 We put into operation La Farfana Sewage Treatment Plant, the largest of its kind in Latin America. We receive the ISO 9000 certification for customer service.

2004 We put into operation the Valdivia de Paine and El Monte Sewage Treatment Plants. Likewise, we implement a new SAP platform-based organizational model

2005

We receive the OHSAS certification for occupational safety and health. We begin to equip the Aguas de Ramón Nature Park and put into operation the Talagante and Curacaví Sewage Treatment Plants.

To our customers

We are driven by the challenge of providing the best, ever closer and reliable service to our customers. We work on a daily basis to meet such challenge, seeking to manage the water cycle in the Santiago Basin with the highest efficiency and quality.

In my capacity of Chairman of the Board of Aguas Andinas, it is my distinct honour to submit to your consideration our corporate Annual Report and Financial Statements for the 2005 fiscal year.

During this reporting period, we have strengthened the commitment assumed six years ago, when we took over the concession of Aguas Andinas, a corporation that today presents important levels of coverage: 100 percent in potable water, 98 percent in sewerage and 67 percent in sewage treatment.

The year 2005 was characterised by the completion of the fourth tariff-setting process, which determined the tariff rates in effect from March 2005 through February 2010. These new rates ensure the availability of resources for the next years, thus permitting the company to continue making the necessary investments that will ensure the provision of our services to all the inhabitants of Santiago and surrounding areas.

Customer service was and will continue to be our priority. Aguas Andinas is a service company and therefore is permanently enhancing its processes and investing in technology, seeking thus to provide a service of excellence. For this reason, in 2005, corporate managers and officers held various meetings with customers to listen to their concerns and, at the same time, inform them about our company's plans and improvements.

In line with the above, we trained all contractors who have direct contact with our users, so that their daily service gets better and better and customers' expectations are met. The preceding is supported by a constant improvement in procedures and service levels, whether in person or via telephone.

As regards our operations, we extended the coverage and capacity of our Operational Control Centre to ensure a reliable, uninterrupted and superior quality supply. Likewise, we continued with our planning process, seeking to foresee any potential opportunities for improvement in our company in the medium term.

Potable water distribution is undergoing permanent expansion due to the increasing population density in some areas of the Metropolitan Region. For this reason, La Ballena Potable Water System was constructed in 2005, seeking

therewith to provide a better potable water service to residents of Puente Alto, Lo Gallardo, and Casas Viejas.

On the other hand, construction of the Talagante Sewage Treatment Plant was completed. This plant treats the sewage generated by five rural municipal districts that discharge their waters into the Mapocho River. The Curacavi Plant works also present significant progress, being in their final stage of construction and just a few days off to commencement of operations. This plant will benefit some 16 thousand people from neighbouring rural communities, enabling also to clean up the Puangue Creek.

In line with our concern for a sustainable development, during this reporting period we renewed our commitment to customers, workers, the environment and the community. During 2005 our company kept its ISO 9001 and ISO 14001 certifications obtained in past years, adding to them the OHSAS 18001 certification for our Occupational Health and Safety Management System, with which we become the first sanitation company in Chile to concurrently possess these three certifications.

Finally, we started in November one of our much longed-for projects: the Aguas de Ramón Nature Park, our pride and joy as it will permit us to promote nature conservation and environmental education among the inhabitants in the Santiago Basin. The Park covers 3,300 hectares and includes 30 kilometres of trails for visitors to tour the area assisted by expert guides familiar with the flora and fauna of the Metropolitan Region's foothills. Thus, the Park will become the largest in the region, a new green lung for the capital city, encouraging outdoors life and nature conservation. Completion of works thereat is scheduled for the first semester of 2006.

All such actions enable us to implement continuous improvement and more efficient operations and management, as may be observed in the 2005 Financial Statements of our company, to which I refer next.

Investments in the period totalled \$30,153 million. Of this amount, approximately 53.5 percent went into water distribution and production works, while sewage collection and disposal accounted for 35.7 percent, and other activities for the remaining 10.1 percent.

The fiscal year was characterised by the entry into force of the new tariff rates as of March 2005 and the financial restructuring process carried out during the reporting period.

As part of the financial restructuring process carried out during this reporting period, we redeemed and refinanced bonds through new issues (bonds series E and F). This process meant that our company improved its financial soundness, minimized risks and reduced costs. Both issues were rated with an AA+ by risk rating agencies.

Operating income was \$101,501 million, up 17.2 percent from the previous year. This rise is principally explained by the entry into force of the new tariff rates as of March 2005, and by higher income obtained from non-sanitation subsidiaries.

Moreover, net income was \$75,945 million, a 17.3 percent increase as compared with net income obtained the previous year.

I cannot conclude my report without noting the secondary offering of shares of our parent company Inversiones Aguas Metropolitanas S.A., which turned out to be the largest public initial offering in the history of the local stock market. We believe that the success achieved by the listing of this company, whose only assets are shares of Aguas Andinas, reflects the confidence of local and international investors in Aguas Andinas.


Based on the above, we may affirm that 2005 has been favourable for our shareholders, workers and customers' expectations. Figures show that we are in the right track; that, once again, we have managed to improve our operational

efficiency standards thanks to the seriousness and professionalism of our management in Aguas Andinas.

Such achievements are the result of the efforts made by a committed team, comprised of diverse but highly-trained people, all of them dedicated and hard workers, motivated by the important responsibility entrusted to Aguas Andinas: to supply with a vital element for life all the inhabitants in the Santiago Basin —a mission which we may summarize as to provide peace of mind to our customers.

Sincerely yours,



 **ALFREDO NOMAN SERRANO**
Chairman



Forward-looking approach

ALTERNATE DIRECTORS

Ángel Simón Grimaldos
Roads, Canals and Ports Engineer

José Vila Bassas
Industrial Engineer

Lluís María Puiggari Llanza
Industrial Engineer

Jean Michel Desloges
Commercial Engineer

Jorge Bande Bruck
Economist

Claudio Maggi Campos
Industrial Civil Engineer

Roberto Hempel Holzapfel
Commercial Engineer



CHAIRMAN

Alfredo Noman Serrano
Industrial Engineer



VICE-CHAIRMAN

Josep Bagué Prats
Economist



DIRECTOR

Carlos Mladinic Alonso
Commercial Engineer



DIRECTOR

Fernando Rayón Martín
Roads, Canals and Ports
Engineer



DIRECTOR

Daniel Albarrán Ruiz-Clavijo
Industrial Civil Engineer



DIRECTOR

Alain Chaigneau
Economist



DIRECTOR

Bernardo Espinosa Bancalari
Attorney-at-law

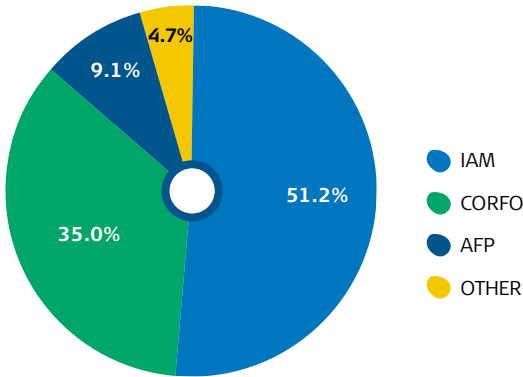


On solid foundations

At 31 December 2005, the capital of Aguas Andinas was divided into 6,118,965,160 fully subscribed and paid-in shares, distributed among 1,672 shareholders.

Ownership Structure at 31 December 2005

Inversiones Aguas Metropolitanas S.A.	3,133,053,126	51.2%
Corporación de Fomento de la Producción	2,140,487,777	35.0%
Pension Fund Administrators (AFPs)	556,928,048	9.1%
Other	288,496,209	4.7%
Total	6,118,965,160	100.0%



List of major shareholders

At 31 December 2005, the twelve major shareholders were:

Name or Corporate Name	Taxpayer ID No.	Shares Serie A	Shares Serie B	Total Shares	Percentage
Inversiones Aguas Metropolitanas S.A.	77,274,820-5	3,133,053,126	0	3,133,053,126	51.2%
Corporación de Fomento de la Producción	60,706,000-2	0	2,140,487,777	2,140,487,777	35.0%
AFP Provida S.A.	98,000,400-7	212,450,744	0	212,450,744	3.5%
AFP Habitat S.A.	98,000,100-8	140,033,275	0	140,033,275	2.3%
AFP Cuprum S.A.	98,001,000-7	87,696,609	0	87,696,609	1.4%
AFP Santa María S.A.	98,000,000-1	50,773,524	0	50,773,524	0.8%
AFP Bansander S.A.	98,000,600-k	46,627,476	0	46,627,476	0.8%
AFP Planvital S.A.	98,001,200-k	19,346,420	0	19,346,420	0.3%
Banchile Corredores de Bolsa S.A.	96,571,220-8	10,581,789	0	10,581,789	0.2%
Bice Vida Compañía de Seguros S.A.	96,656,410-5	7,511,442	0	7,511,442	0.1%
BancoEstado S.A. Corredores de Bolsa	96,564,330-3	3,892,381	0	3,892,381	0.1%
Celfin Capital S.A. Corredores de Bolsa	84,177,300-4	3,501,070	0	3,501,070	0.1%
Other (1,660 shareholders)		260,175,163	2,834,364	263,009,527	4.2%
Totales		3,975,643,019	2,143,322,141	6,118,965,160	100.00%

Our strategic partner and controlling shareholder Agbar has been supplying households with potable water for more than 130 years.

Strategic partner

As from November 2005 the company is controlled by Sociedad General de Aguas de Barcelona (Agbar), through its interest share of 56.6 percent in the capital stock of Inversiones Aguas Metropolitanas S.A.

In turn, Inversiones Aguas Metropolitanas S.A. (IAM) controls Aguas Andinas with an interest share of 51.2 percent in its capital stock.

Agbar

Sociedad General de Aguas de Barcelona S.A. (Agbar) is the leading private water utility company in Spain. It has been supplying households for more than 130 years, providing service to more than 15 million customers in over 900 towns and cities with populations ranging from 1,000 to more than 3 million. In turn, the Agbar Group is one of the most important Spanish holdings and participates in a broad range of industrial sectors, such as inspection and certification, maintenance, and health care, among other. Internationally, the Agbar Group is present in eight countries and provides service to over 20 million people.

Everybody's commitment



CHIEF EXECUTIVE OFFICER
Felipe Larrain Aspillaga
Civil Engineer



GENERAL SECRETARY
Joaquín Villarino Herrera
Attorney-at-law



CHIEF FINANCIAL AND MANAGEMENT
CONTROL OFFICER
Iván Yarur Sairafi
Industrial Civil Engineer



CORPORATE CUSTOMER SERVICE
MANAGER
Víctor de la Barra Fuenzalida
Industrial Civil Engineer



CORPORATE OPERATIONS MANAGER
Ignacio Escudero García
Telecommunications Engineer



General Management

General Secretariat



Corporate Customer Service Management

Corporate Communications and Organizational Development Management

Corporate Finance and Administration Control Management

Corporate Investments and Logistics Management

Corporate Planning and Development Management

Corporate Operations Management

Corporate Sanitation Management

Technical Secretariat



CORPORATE COMMUNICATIONS AND ORGANIZATIONAL DEVELOPMENT MANAGER

Jonás de Miguel Gómez
Industrial Engineer



CORPORATE INVESTMENTS AND LOGISTICS MANAGER

Albert Martínez Lacambra
Economist



CORPORATE PLANNING AND DEVELOPMENT MANAGER

Josep Maria Verdejo Rabassó
Computer Sciences Graduate



CORPORATE SANITATION MANAGER

Enrique Donoso Moscoso
Civil Engineer



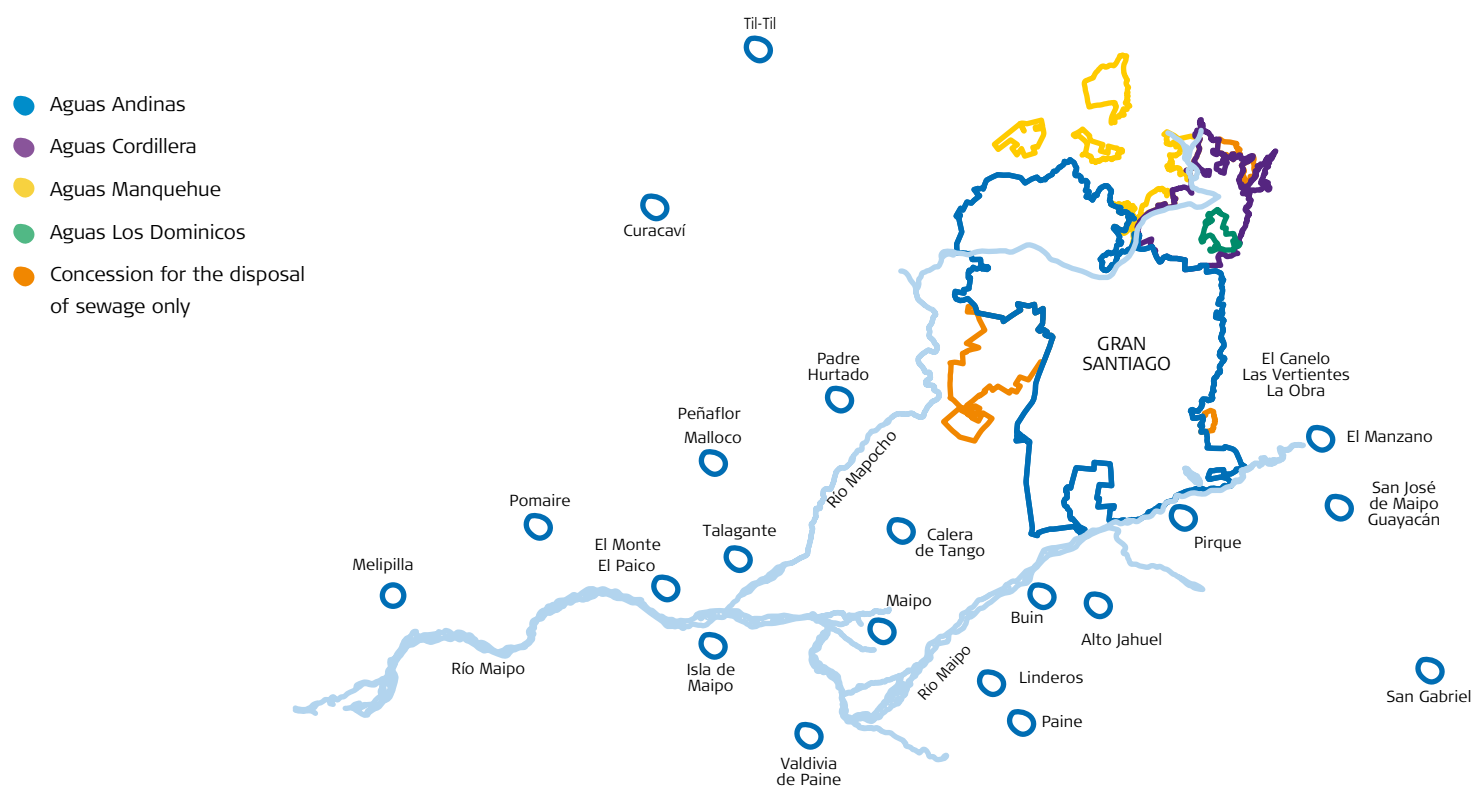
TECHNICAL SECRETARIAT

Joaquim Martí Marqués
Roads, Canals and Ports Engineer

Very close to you

A concession area covering more than 70 thousand hectares makes us the leading sanitation company in the country.

In the Santiago Basin, on our 70,000-hectare concession area in the Metropolitan Region, we service some 5.3 million people, distributed between Greater Santiago and its peripheral localities. This makes us the largest sanitation company in the country and one of the largest in Latin America.



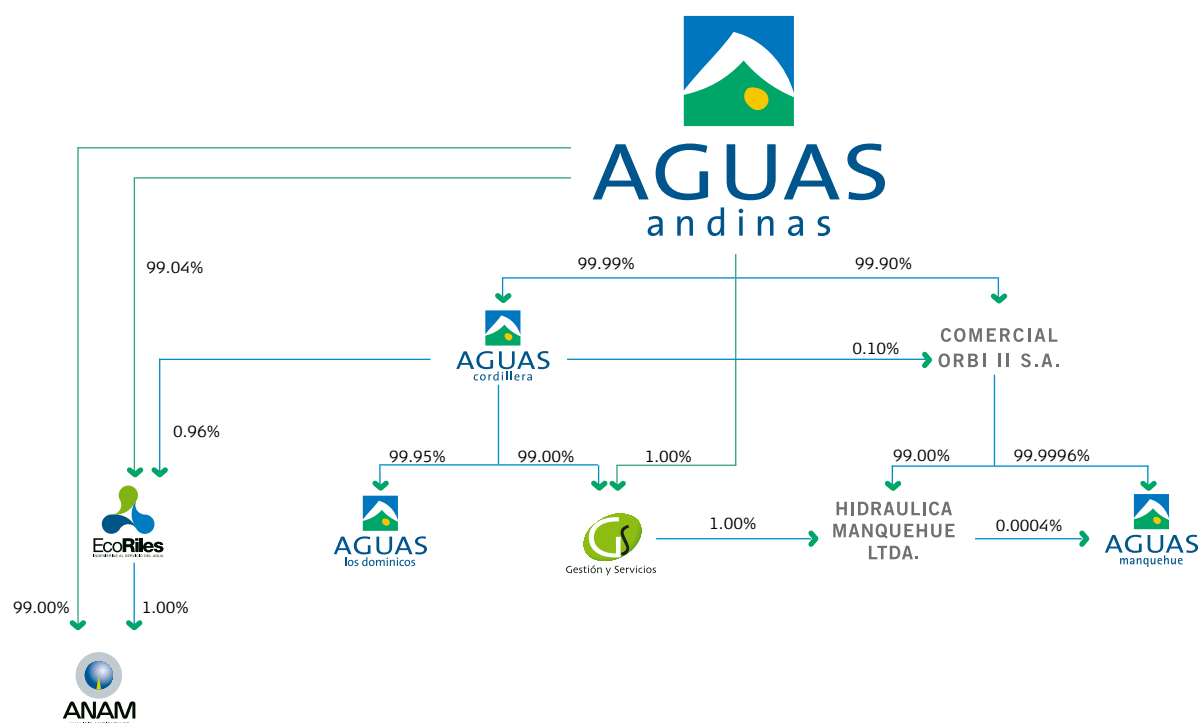
The Santiago Basin is located in Central Chile's intermediate depression, limiting to the north with Cuesta Chacabuco and to the south with Angostura de Paine.



Companies in the Holding

Our company, Aguas Andinas, is controlled by Inversiones Aguas Metropolitanas S.A., which holds 51.2 percent of our capital stock. In turn, Aguas Andinas leads and is a member of the Aguas Group, a holding of related companies that provides comprehensive services to its customers.

Through its sanitation subsidiaries, the holding provides water production and distribution services, as well as sewage collection and treatment services. And, through its non-sanitation subsidiaries, it provides other sanitation-related services, such as treatment of liquid industrial residues, marketing of equipment, and lab analyses.





More water, more life... always

We are always with our customers providing an essential and basic service that allows them to lead their lives in peace and harmony.

We work at consolidating ourselves as a company with genuine vocation for service, close to its customers, committed to them. In the year 2005 we have boosted this spirit by improving our communications channels and holding regular meetings with our customers.

Likewise, we have further improved our management of the water cycle in order to provide an efficient, reliable and safe service. To this end, we made sizable investments in infrastructure and maintenance, which enable us to ensure an uninterrupted supply and to continue developing our sanitation plan.

All such work is, in addition, supported by our people, who perform their daily duties with professionalism and excellence. In this field, during the 2005 fiscal year we reached a corporate milestone: we received the OHSAS certification, which, together with the ISO 9000 and ISO 14000 accreditations, attest to our efforts and commitment to provide a quality service under a continuous improvement process.

- Our coverage standards distinguish us: **100 percent in potable water supply and 98 percent in sewage services** within our concession area.
- At present **we treat 67 percent of the sewage** generated in the Santiago Basin.
- We have invested **366 billion pesos** during the period 2000-2005. And investments continue.
- We supply peace of mind to our **1,502,634 customers potable water**, which makes us the largest sanitation company in the country.



Always with our customers

We have a clear goal: to become a company increasingly in touch with and close to its customers.

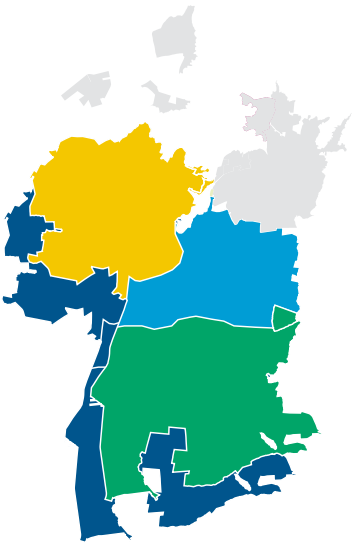
The ongoing concern for improving our service has led us to incorporate new concepts and update procedures during the 2005 fiscal year with the ultimate purpose of being closer to our customers.


In line with the foregoing and to get first-hand knowledge of their needs, we met with our customers at sessions where company officers also

participated. Thus, we listened to their concerns and had the chance to inform them about our commitments and future plans. In addition, we aligned and trained everyone who has direct contact with customers for daily service to be increasingly satisfying to them. All this together with continuous improvement in our customer service levels.



Zoning



Zones		Customers*
Antilco		488,645
Cordillera		115,618
Mapocho		451,214
Mapu�		350,022
Maipo		97,135
		1,502,634

A close, agile service

Strengthening our commitment to service quality, during the year 2005 we developed activities and plans aimed at further improving service, with the purpose of providing a closer, more efficient and reliable one, and thereby increase customers' satisfaction levels.

In line with the above, we implemented a new service concept called **Comprehensive Service**, whereunder customers are assisted by a single interlocutor during the whole process. Thus, the Executive –whether at the Commercial Agency or at our Call Centre, depending on the entry channel– receives the inquiry and is responsible for its follow up and handling from beginning to end.

We also updated our customer service procedures. As a result thereof, we incorporated the **"service closure"**, an additional stage comprising completion and closing of each customer requirement, which enables us to ensure customer's satisfaction with the solution and measure his/her level of satisfaction.

* The term "customer" means the individual or entity that lives and/or resides in the property receiving water distribution or sewage collection utility services.

During the year 2005 we continued improving telephone service levels: we responded to 83 percent of requests during the first contact and solved 80 percent of urgent complaints in less than 4.5 hours.

In addition, we incorporated a procedure called "debt notification," which is an alternative way of informing customers on their debt, giving them the opportunity to settle the situation.

With the purpose of improving our customer service, we offered training and coaching courses for contractors, directed in particular to those responsible for meter reading and cut-off and reconnection services resulting from late payment of bills. At these training courses we distributed contact protocols defining the appropriate manner of interacting with customers.

Moreover, during the 2005 fiscal year we held meetings with customers of the Antilco, Cordillera, Mapué and Mapocho Zones. Senior officers and managers met with customers that had experienced problems with the service. The idea was to listen to customers' concerns and opinions, dispel their doubts and solve their problems, and in the process inform them about corporate improvement plans and commitments. Due to the excellent results of these meetings, we intend to continue with this initiative during 2006, wherefor we intend to schedule a monthly meeting in each Metropolitan Region concession zone. In

addition, we expect to invite other areas of the company to participate in such meetings.

After an in-depth analysis of service rendered, in 2005 we established the bases for the development of a Service Quality project during this year, which considers action at two levels: people and processes. The proposed objective is to change our organization by building a culture of service, and develop a new service style whereunder the customer will be the focus of our activity. Further, we will provide appropriate tools for customer management, consistent with the established quality standards.




Lastly, during the 2005 fiscal year we launched the Algol Project, an initiative developed jointly with Aguas de Barcelona, the purpose of which is to enhance customer management by updating our commercial management computer systems and improve service by anticipating customers' needs. In the year 2006 we will execute the first stage of the project, which will provide us a critical vision of our activity and allow us to implement the required improvements.


We supply potable water to 1,502,634 customers, which makes us the largest sanitation company in the country.


Our customers


At 31 December 2005, the number of customers to which Aguas Andinas supplied potable water reached 1,387,016, up 2.15 percent from the previous year. The number of sewage customers reached 1,360,635, representing a 2.25 percent increase as compared with 2004.

On a consolidated basis, that is, considering Aguas Andinas, Aguas Cordillera, Aguas Los Dominicos and Aguas Manquehue, the number of potable water customers was 1,502,634, while sewage customers were 1,474,391.

Number of customers on a consolidated basis						
 	2001	2002	2003	2004		2005
Potable water	1,376,184	1,401,325	1,435,723	1,467,114		1,502,634
Sewage	1,346,064	1,371,525	1,404,739	1,437,806		1,474,391

Number of customers year 2005				
	Aguas Andinas	Aguas Cordillera (*)	Aguas Manquehue	Total 
Potable water	1,387,016	110,636	4,982	1,502,634
Sewage	1,360,635	108,919	4,837	1,474,391

Consolidated average consumption (m³/month/customer)					
	2001	2002	2003	2004	2005
Potable water	29.4	29.2	28.7	27.6	27.2
Sewage	30.0	29.9	29.3	28.1	27.7

Average consumption year 2005 (m³/month/customer)				
	Aguas Andinas	Aguas Cordillera (*)	Aguas Manquehue	Total 
Potable water	25.1	48.0	117.7	27.2
Sewage	25.8	47.7	109.7	27.7

(*) Includes Aguas Los Dominicos.



Management of new concessions

Due to the population growth that Santiago and its peripheral localities have recorded, during 2005 our company filed three concession expansion applications, which are being reviewed by the Superintendency of Sanitation Services.

The first expansion application refers to El Trébol, located in the municipal district of Padre Hurtado, with a surface of 6.9 hectares and 400 new services; the second refers to Vizcachas III, located in the municipal district of Puente

Alto, with a surface of 5.6 hectares and 153 new services; and the third refers to Bosques de San Luis, located in the municipal district of Quilicura, with a surface of 5.9 hectares and 485 new services.

In turn, Aguas Cordillera obtained an approval to expand its concession in the Farellones Road area, Plot A, Yerba Loca Estate, in the municipal district of Las Condes, with a surface of 4.1 hectares and 42 new services.

We are at the service of all inhabitants in the Santiago Basin, satisfying their ever-increasing needs for potable water, sewage and sanitation services.


Rural potable water

Under agreements subscribed with the Water Affairs Department of the Ministry of Public Works, Aguas Andinas is part of the Rural Potable Water Plan, a project that delivers prosperity and development to residents in rural areas.

Among its activities, the company provides training and technical support for the maintenance and execution of works in remote locations where no distribution or collection networks exist, acting as a technical unit in charge of executing studies and projects.

Some 39,123 households benefit from the Rural Potable Water Plan, which means an estimated population of 234,738 inhabitants, reaching a coverage of approximately 100 percent in concentrated rural localities.

In 2005 investments for more than 838 million pesos were arranged, mainly for activities related to service improvement.

	
Service improvement works	M\$784,549
Designs	M\$ 53,349

Sanitation regulations

Current legislation in the country establishes that sanitation service providers are subject to the supervision and regulation of the Superintendency of Sanitation Services (SISS), a functionally decentralized body with legal capacity and own capital, under the authority of the President of the Republic through the Ministry of Public Works.

Likewise, sanitation companies are governed by the provisions of a set of laws and regulations that regulate this sector's operation.

The main bodies of law regulating the activities in the sector are:





- **General Sanitation Services Law (Statutory Decree No. 382 of the Ministry of Public Works of 1988).** Contains the main provisions governing the concession regime and the activity of sanitation service providers.
- **Regulations under the General Sanitation Services Law (Executive Order No. 1199/2004 of the Ministry of Public Works, published in November 2005).** Establish the regulatory provisions that permit the application of the General Sanitation Services Law (supersede Executive Order No. 121 of the Ministry of Public Works of 1991).
- **Sanitation Services Tariff Law (Statutory Decree No. 70 of the Ministry of Public Works of 1988).** Contains the provisions that govern potable water and sewage tariff setting and reimbursable financial contributions.
- **Regulations under the Sanitation Services Tariff Law (Executive Order No. 453 of the Ministry of Economic Affairs of 1990).** Contain the regulatory provisions that permit application of the Sanitation Services Tariff Law, including the method used for calculating tariffs and administrative procedures.
- **Law that creates the Superintendency of Sanitation Services (Law No. 18,902 of 1990).** Establishes the functions of this body.
- **Law on Subsidy for Water Consumption and Sewage Service Payment (Law No. 18,778 of 1989).** Establishes a subsidy for the payment of potable water consumption and sewage services.
- **Regulations under the Law on Subsidy (Executive Order No. 195 of the Ministry of Economic Affairs of 1998).** Contain the regulatory provisions for the application of the Law on Subsidy.



The new tariffs ensure availability of resources until February 2010, permitting us to make the required investments in infrastructure and technology, thus guaranteeing supply to all inhabitants in the Santiago Basin.

Tariffs

These new rates, which ensure the availability of resources until the year 2010, were established as a result of a thorough technical process in which both the company and the Superintendency of Sanitation Services participated.

Average Tariff year 2005 (excl. VAT, in Ch\$/m³)				
	 Aguas Andinas	 Aguas Cordillera	 Aguas Los Dominicos	Aguas Manquehue
Potable water	230.39	275.36	289.61	370.89
Sewage	186.89	143.31	159.80	121.86

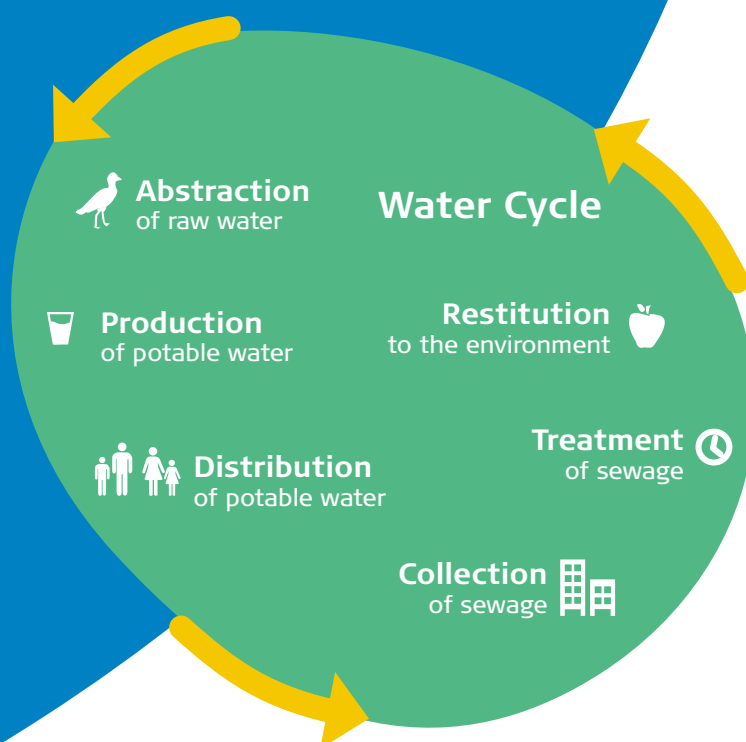
NOTE: Average tariffs are those billed to customers of each company. Potable water tariffs include the fixed charge and other costs associated with other amounts billed, such as cut-off and reconnection services.

The new tariffs became effective as of 1 March 2005 for Aguas Andinas, as of 30 June 2005 for Aguas Cordillera and Aguas Los Dominicos, and as of 19 May 2006 for Aguas Manquehue.



We deliver the best for you life

We work night and day to supply the best quality water to all inhabitants in the Santiago Basin.



Every day of the year, 24 hours a day, pure and crystalline potable water is available to satisfy our customers' demand. But this does not happen by chance. Behind this vital service are the development of complex processes and hundreds of people, who work untiringly all day long in the management of the water cycle.

Thus, we are able to produce the best quality potable water, deliver it to households with the appropriate pressure, and collect it with maximum safety for its subsequent treatment using state-of-the-art technology. Therefore, we are also continuously improving our processes, maintaining our infrastructure, and assigning the very best professionals to perform these tasks.

For our customers to always enjoy water with peace of mind.



Operational Control Centre

Operational Control Centre —increased coverage and capacity

The functions and capabilities of the Operational Control Centre (OCC) are fundamental to ensuring a reliable, uninterrupted and quality water supply. This tool allows us to operate and monitor our facilities from a centralized position and with a global view, controlling processes in real time, especially those related to the Water Cycle management.

In the year 2005 we improved the OCC's automatic control system. With the purpose of enhancing its capacity and future expansion, and providing it more flexibility and coverage, some tasks were performed in servers and automatic control and remote measuring software, among them replacement of servers, incorporating to them equipment with greater capacity and functionalities under a redundant operational scheme; access to operations monitoring and control systems via Internet; and unification of the automatic control and remote measuring softwares.

Further, during the fiscal year we expanded our telecontrolled facilities. In Production, we incorporated to the OCC information on flow rate and

water quality at the inlet and outlet of 5 water production plants of Aguas Cordillera and plants of Aguas Los Dominicos. In addition, we integrated to its supervision, under the day operation modality, 4 water production plants of Aguas Andinas, Aguas Cordillera and Aguas Manquehue, making the automatic operation of said plants feasible during evening hours.

We also developed the Toma Independiente intake telecontrol project, permitting us to know the quality and quantity of inflowing water, and remotely control water inflow rate. In addition, we implemented telemeasuring in the underground water level monitoring network of Greater Santiago and localities, consisting in the implementation of 9 piezometers.

In the Treatment field, on the other hand, we executed sewage flow rate measuring network projects in the tributary areas of La Farfana and El Trebal; by-pass flow rate measuring at the activated sludge treatment plants; and telecontrol of the intake gate to La Farfana's outfall.



Geographical Information System

Our Geographical Control System (GIS) manages the geographical position and descriptive attribution of the infrastructure in all its cycles, as well as the location of each of our customers together with a planimetric base related to the urban space. This system supports customer service and the different processes involved in potable water and treatment operations. In addition, it is one of the main information sources for planning and for reporting to the regulatory authority.

Its latest developments consider the incorporation of an Orthophoto —covering the totality of the concession area—, homogenization of localities, improvement of supply cut-off and faucet maintenance applications, development of an application for the automated printing of site sheets, and the incorporation of site notebooks with SIG and GPS sheets for the execution of the intercepting sewers cleaning plan.

Development of sewage models

In the year 2005 we built mathematical models of sewage networks for use throughout the company. These models are tools designed to support planning, management and operational tasks, and include the infrastructure and operational characteristics of networks, such as intercepting sewers, gates and elevating plants.

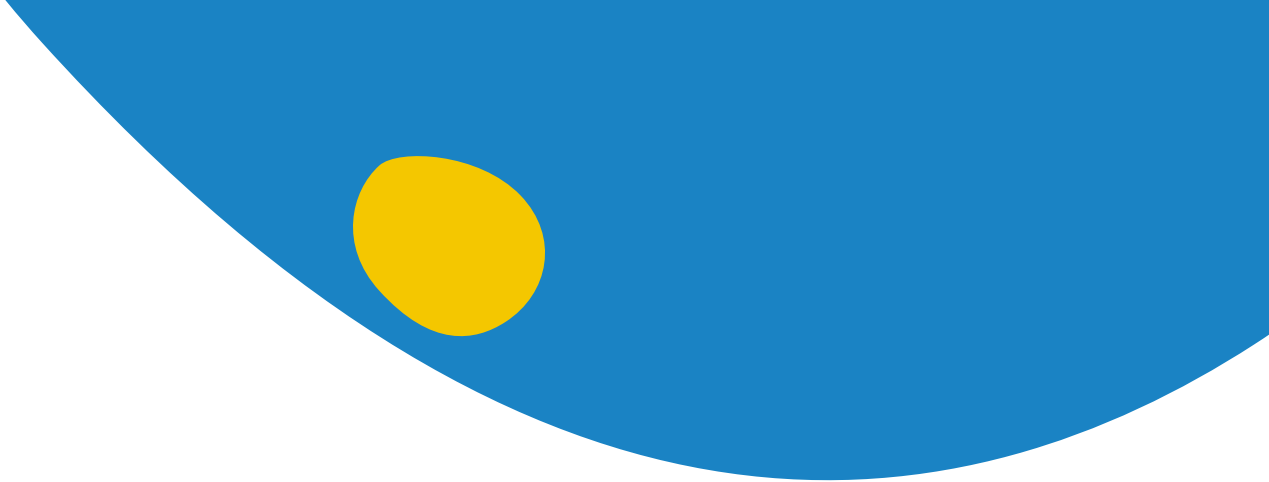
Operational safety and efficiency is a
commitment assumed by Aguas Andinas
with all customers.

We plan for the future

During the year 2005 we consolidated the elaboration of **Aguas Andinas' General Plans**, which seek to forecast possible structural and functional deficiencies in the company, and propose actions and solutions for any detected problem. Plans elaborated during the fiscal year were the General Production Plan, General Transportation Plan, General Networks Plan and General Sewerage Plan.

Also in the year 2005 we elaborated the **Systems Plan** for the period 2006-2010, which describes the company's infrastructure and its voice and data communications systems, makes a diagnosis of the same, and provides an action plan with comprehensive solutions to satisfy needs in a 5-year horizon.

On the other hand, during the fiscal year the Superintendency of Sanitation Services approved the updated corporate **Development Plans**, which contemplate an investment of UF12 million for the period 2006 - 2010.



New Investments

During the year 2005 our investment plan amounted to Ch\$30,153 million, whereof investments in sanitation subsidiaries account for Ch\$29,924 million and investments in non-sanitation subsidiaries for Ch\$229 million.

The principal investments, for a total of Ch\$ 16,123 million, were made in potable water facilities. Of said amount, Ch\$10,378 million were allocated to distribution works, mainly the ongoing renovation of potable water networks —demanding a total of Ch\$5,337 million— and the construction of the potable water system La Ballena, which required an approximate investment of Ch\$710 million.

The most relevant projects in water production and transportation were the works of the San Carlos de Apoquindo system, which amounted to Ch\$1,726 million, and the modification of the flocculators at Vizcachas Plant, with Ch\$ 586 million invested during the fiscal year, which will allow us to increase our water production capacity.

A total amount of Ch\$10,788 million was invested in sewage disposal and collection, of which Ch\$6,249 million were specifically allocated to treatment works. Among them we may note the Talagante Sewage Treatment Plant, the construction of which was completed during 2005, involving an amount of Ch\$3,279 during the period and demanding a total investment of Ch\$11.546 million. In addition, we reached the final stage of the Curacaví Sewage Treatment Plant, which presents a 90 percent progress status, involving an investment of Ch\$ 2,308 million.

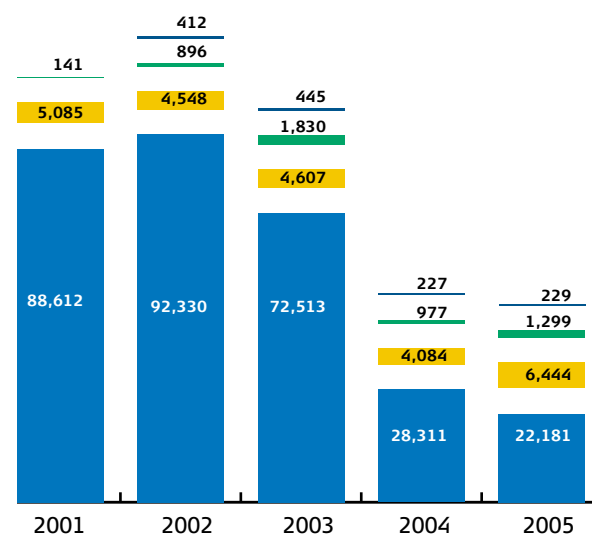
An amount of Ch\$4,259 million was invested in collection works. The most noteworthy among them are the ongoing sewage system renovation projects, which demanded an investment of Ch\$1,514 million; and the construction of the Intercepting Sewer Las Palmeras – Malloco Peñaflor, now in its final stage with a 90 percent progress status and a total investment of Ch\$647 million.

Investment in other sanitation activities account for the remaining 10 percent,

equivalent to Ch\$3,023 million, of total investment in the period. Such other projects include the ongoing development of IT capabilities, where the highlight is the enhancement of the SAP tool in the SAP R3 and SAP BW IT projects, with an investment totalling Ch\$327 million.

Of total consolidated investments, expansion projects account for 62 percent, equivalent to Ch\$18,741 million.

Investments (MM\$)

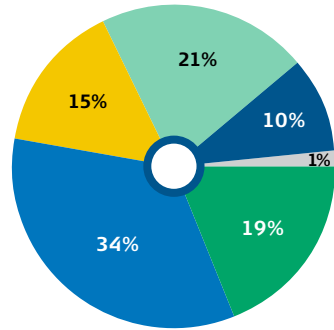


- Aguas Andinas
- Aguas Cordillera (*)
- Aguas Manquehue
- Filiales no sanitarias


(*) Includes Aguas Los Dominicos.

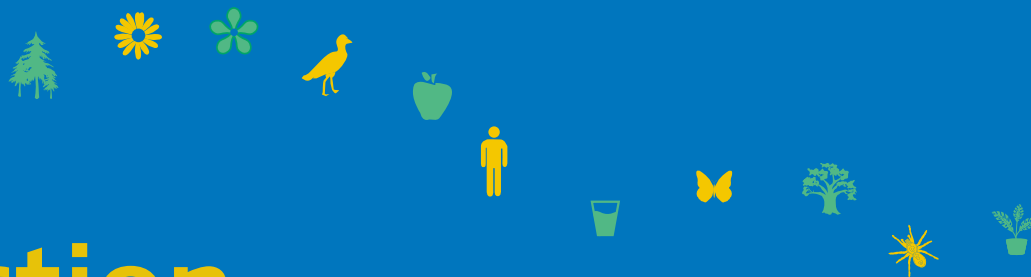


Investment made by sanitation companies, year 2005



- Potable Water Production
- Potable Water Distribution
- Sewage Collection
- Sewage Disposal
- Other sanitaries activities
- Non - sanitary subsidiaries

MMS 	
Potable water production	5,745
Potable water distribution	10,378
Sewage collection	4,529
Sewage disposal	6,249
Other sanitaries activities	3,023
Non - sanitary subsidiaries	229
Total	30,153



Abstraction and production

We abstract the necessary hydric resources to produce quality potable water, always thinking of our customers.

Sources, reserves and plants

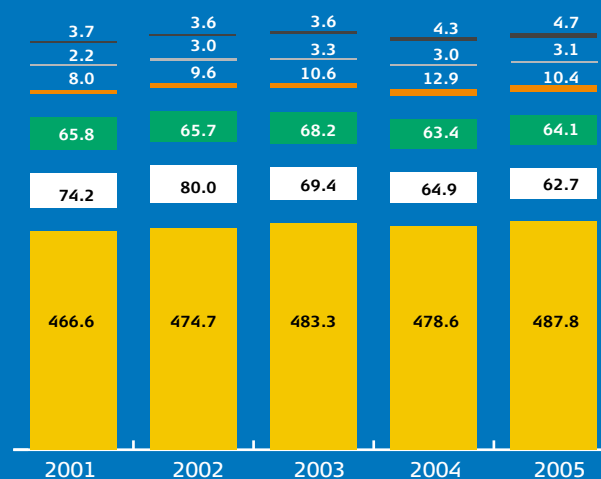
The Maipo and Mapocho rivers are our main sources of raw water, while natural aquifers, which contribute groundwaters and flow through the company's concession area, are our secondary sources.

Moreover, Aguas Andinas has important water reserves that provide additional water resources when the above abstraction sources are insufficient. Our three largest water reserves are El Yeso Reservoir, with a capacity of 250 million cubic metres; Laguna Negra, with a capacity of 600 million cubic metres; and Laguna Lo Encañado, with a capacity of 50 million cubic metres.

On the other hand, our main production plants are Las Vizcachas Complex and La Florida Plant. The first has a maximum production capacity of 15 m³/sec, representing more than 50 percent of our total production, while La Florida Plant produces about 4 m³/sec, representing approximately 18 percent of production. In addition, we have 12 other smaller plants, among which the most noteworthy are Padre Hurtado, Lo Gallo, San Enrique and El Sendero.

Production by type of source (millions of cubic metres)

In the year 2005 our total water production, as measured at the plant outlets, was 635.3 million cubic metres, of which 555.0 million cubic metres came from surface water and 80.3 million cubic metres from groundwater sources.



- Aguas Andinas Surface Water
- Aguas Cordillera Groundwater Sources
- Aguas Andinas Groundwater Sources
- Aguas Manquehue Surface Water
- Aguas Cordillera Surface Water
- Aguas Manquehue Groundwater Sources



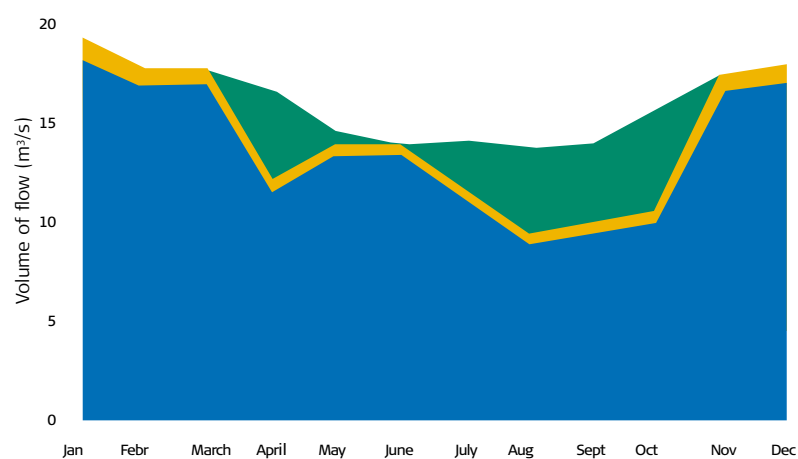
El Yeso Reservoir —ensuring supply

El Yeso Reservoir supports our company's water production. This large infrastructure has a capacity of 250 million cubic metres, allowing us to regulate the contribution from surface water sources, even during draught periods, thus ensuring supply of potable water to our customers.

Improving our facilities

During the year 2005 we carried out an important improvement plan at our potable water treatment plants (PWTP), achieving significant progress in different processes, such as the replacement of filters at La Dehesa Plant and the increase in hydraulic capacity of the Flocculator at Vizcachas PWTP. Finally, in the area of operational safety, we carried out the Neutralization Tower (gas-chloride) project at Las Vizcachas Complex PWTP.

Contribution of El Yeso Reservoir to Water Production for Greater Santiago, year 2005



(*) Aguas Andinas' production Greater Santiago concession, year 2005.

- Surface water production without the reservoir
- Production from groundwater sources
- Contribution from El Yeso Reservoir



Our large potable water distribution network comprises more than 12 thousand kilometres of underground piping.

Distribution

To supply potable water without interruption and at the adequate pressure to the 5.3 million inhabitants in the Santiago Basin is the important role played by our potable water distribution network.

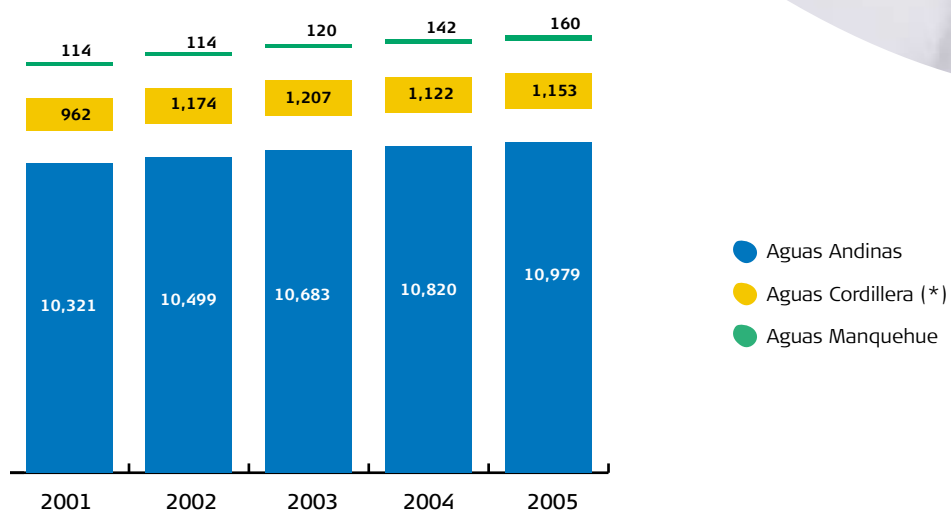
This vast underground piping system, which at consolidated level exceeds 12,000 kilometres in length, is constantly monitored by the Operational Control Centre to guarantee proper functioning and operation. Therefore, a preventive Maintenance Program

is carried out on a regular basis to ensure its conservation and optimal quality, renewing infrastructure and replacing ducts with high-density polyethylene pipes.

During the year 2005 and consistent with customers' demand, the length of Aguas Andinas' distribution network was increased by 209 kilometres. At consolidated level, the network has a total length of 12,292 kilometres.



Length of distribution network (Km)



Note: Data as provided by the SISS.

(*) Includes Aguas Los Dominicos



Collection

The sewage system performs a vital task for the community: to collect and transport sewage to treatment plants for its subsequent decontamination.

To collect and transport sewage to treatment plants or final disposal facilities is the vital task performed by our sewage system.

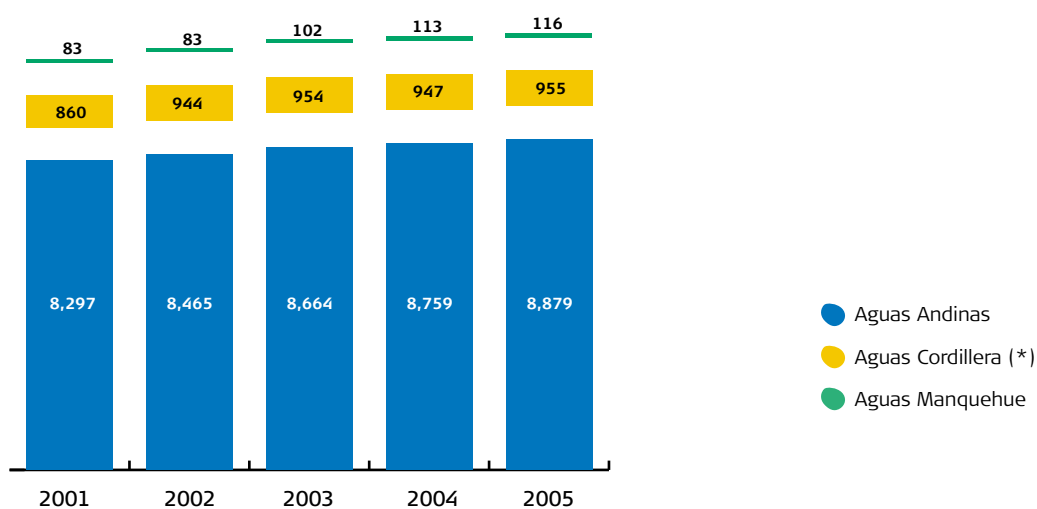
During 2005 Aguas Andinas increased its sewage collection network by 120 kilometres, thus reaching a total consolidated length of 9,950 kilometres.

To ensure an uninterrupted service, free from health risks for the inhabitants of the Metropolitan Region, we perform regular checks and maintenance to keep it in optimal working order. Thus, as part of our Sewage System Improvement Project, during the year 2005 we renovated different sectors of the system.

In addition, under the Preventive Maintenance Program, we cleaned 581 kilometres of intercepting sewers and thoroughly inspected the network, prioritizing the most critical areas. For the performance of such tasks we use advanced technology equipment, such as robots —which allow teleinspection— and jet trucks, which vacuum and clean the sewage system.



Length of collection network (Km)



(*) Includes Aguas Los Dominicos



Treatment

At present, Aguas Andinas treats more than 67 percent of the sewage generated in the Santiago Basin. This has implied great benefits for the population's health.

What was only a project until a few years ago is today a reality. The complex process of treating sewage is now performed in the Metropolitan Region, with levels in excess of 70 percent of sewage treatment.

In Greater Santiago, sewage treatment plants in operation are El Trebal and La Farfana.

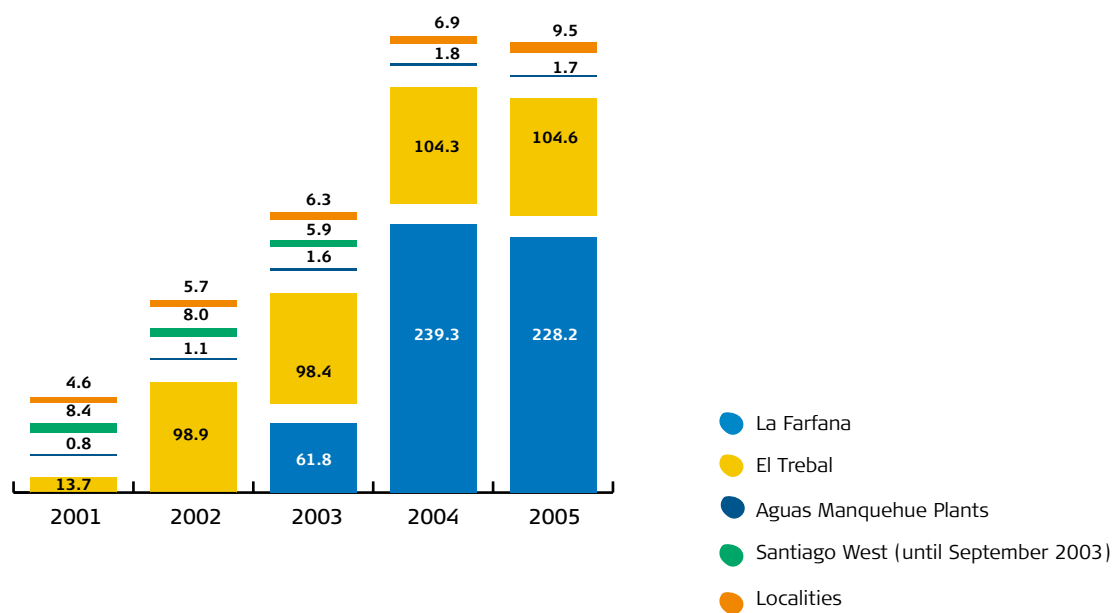
The first such plant has a treatment capacity of 4.4 m³/sec, treating the sewage generated by 1.7 million equivalent inhabitants in the south and southwest areas of Santiago. La Farfana, on the other hand, has a capacity to treat an average flow rate of 8.8 m³/sec, and is able to treat the sewage generated by a population of 3.3 million equivalent inhabitants.

In late 2005 we put into operation two new sewage treatment plants in peripheral localities, namely Talagante and Curacaví. Their treatment capacity is 408 l/sec and 40 l/sec, respectively.

Both facilities were added to the eight treatment plants already in operation in peripheral localities, with an aggregate treatment capacity of 344 l/sec. Thus, during the 2005 fiscal year, the volume of sewage treated in localities reached 9.5 million cubic metres.

Moreover, the final stage of the tender process for the future treatment plants of Melipilla and Til Til was completed in late 2005. Construction at both sites will commence during the first quarter of 2006. The facilities will have a treatment capacity of 192 l/sec and 13 l/sec, respectively.

Sewage Treatment in Greater Santiago (millions of m³)





We go one step further

Under the sustainable development premise, we improve on a daily basis, always in harmony with the environment, our workers and the community at large.



Protection of the environment and nature, concern for our workers, and social responsibility to our customers and the community are the fundamental principles on which company operations are founded.

In line with this spirit, during the year 2005 we renewed the **ISO 9001** and **ISO 14001** certifications obtained in 2003 and 2004, which allowed us to deepen our continuous improvement policy. In addition to the foregoing, we obtained accreditation for our Occupational Health and Safety Management System

under the **OHSAS 18001** international standard, which led us to strengthen our commitment to provide an optimal working place with the necessary conditions for protecting people's health and wellbeing.

Thus, Aguas Andinas became the first sanitation company in the country to simultaneously obtain these three certifications. Such an achievement would not have been possible without the teamwork and effort of many people and areas of our company.



At home

People working for Aguas Andinas are the company's most important asset. Their talents and skills allow us to operate with efficiency and quality.

Excellence and professionalism are part of our company's culture. Thus, in Aguas Andinas we have an excellent workteam committed to providing quality service to our customers.

For such reason, we want our personnel to realize their full potential, and to that end we promote their personal and professional development. Likewise, we strive to provide a safe and cordial workplace, permitting our people to relate with each other in an environment with a good quality of labour life.

A healthy and safe labour environment

A permanent concern for Aguas Andinas is to provide a workplace with optimal safety conditions that protect the health and wellbeing of all people. This commitment was strengthened when we received the OHSAS 18001 international certification for our Occupational Health and Safety Management System.

This accreditation establishes the fundamental requirements for a company to implement a health and safety management system, and be henceforth authorized to set its own objectives in this matter. Therefore, the OHSAS certification fully reflects our policy of continuous improvement and our untiring efforts to do things the best way.

Comprehensive development and growth

During the year 2005 we initiated a series of improvements aimed at actively contributing to the development and growth of people working for Aguas Andinas. In this line, we established an internal mobility culture, which provides vertical and horizontal change opportunities within the company. As a result of the foregoing, during the reporting period 163 persons were transferred to other areas or positions, facing new challenges and opportunities.

In line with this spirit, we incorporated new measurement variables in our Performance Management System, CRECER 2005, thereby enriching the process and making it possible to achieve higher goals as regards personal development. This system allows us to guide performance and focus efforts on those areas where deficiencies are detected. In 2005, 495 persons participated in the process, and next year we expect to extend coverage across the whole organization.

On the other hand, implementation of the Trainee Program allowed us to incorporate a group of recently graduated professionals, which will make it easier for us to fill from the bottom any future vacancies in the organization and provide even more in-house career development opportunities.

Finally, we have continued supporting our personnel's further education. During the fiscal year, 48 employees took technical or university courses thanks to the support provided by the company.



More than 66 thousand training hours were provided during 2005, which means that 1,267 people had the opportunity to broaden their knowledge.

Education and training

This past year 1,267 people participated in different programs, completing 66,402 training hours, in which both our workers and subcontractors participated.

Emphasis was placed on the issue of risks prevention, with 4,705 training hours for 472 people. In addition, we began a Maintenance Diploma and the application of Technical Modules for the areas of Operations and Treatment, with the participation of 181 workers.

It is worth mentioning that, for the first time ever, we included subcontractors in our educational and training programs; this was done with the purpose of strengthening their relationship with and commitment to the company. Thus, in the year 2005 we implemented a program for 200 subcontractors, especially directed to those who have contact with our customers, notably among them personnel responsible for meter-reading, cut-off and reconnection services, and call centre service.

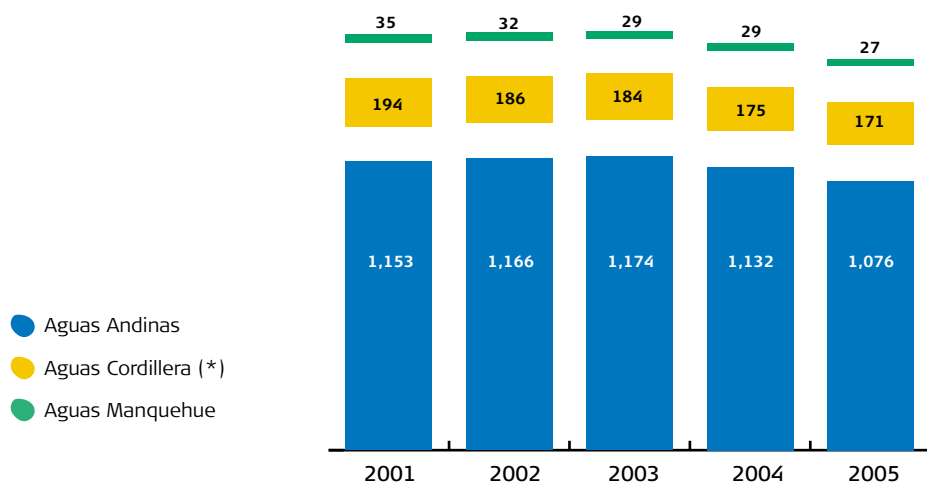
We are a team of professionals, technicians and experts who work at ensuring that inhabitants in the Metropolitan Region enjoy their lives with peace of mind.

Personnel

At 31 December 2005, Aguas Andinas had 1,076 employees. At a consolidated level, employees were 1,397.

Total Personnel		
	Aguas Andinas	Consolidated
Managers and Senior Officers	57	62
Professionals and Technicians	635	800
Workers	384	535
Total	1,076	1,397

Personnel in sanitation subsidiaries



(*) Includes Aguas Los Dominicos.

We advance together

Our evolution should go hand in hand with the community and our country's progress. Accordingly, we support specific actions that contribute to society's development.

For Aguas Andinas, corporate social responsibility is a fundamental commitment, inextricably linked to our company's mission of providing an essential service to customers, thereby contributing to improving the quality of life of all inhabitants in the Santiago Basin.

Accordingly, we carry out specific actions that help value and respect the environment, and contribute to the community's development and welfare.

- In the year 2005 we built three Water Squares in the municipal districts of Peñalolén, San Joaquín, and Talagante. This involved the creation of green and leisure areas for local residents, substantially improving their quality of life.
- A total of 31,510 children enjoyed and learned with the puppet-show "The Adventure of Water" presented at schools and community centres in the Metropolitan Region.
- During the year 2005 more than 2,700 people acquired basic plumbing skills at workshops organized by the company.

Water Squares

An invaluable contribution to the improvement of our customers' quality of life is the construction of Water Squares, a project developed jointly by the company and municipalities and community organizations.

Located mainly in areas where leisure and recreation possibilities are scarce, Water Squares have playgrounds, trees, lighting and a waterspout, for neighbourhood children, teenagers and adults to enjoy.

Since the inception of this project in 2004, we have created more than 13 thousand square metres of green areas that have directly benefited over 20 thousand people from different districts in the Metropolitan Region.

In particular, during 2005, three Water Squares were inaugurated, delivering healthy recreation to the communities of Peñalolén, San Joaquín and Talagante. Due to the valuable contribution that these Water Squares represent, we expect to build another four new squares during 2006.

Community programs

Aguas Andinas has two community engagement programs, namely **Acuaciclo** and **Acuayuda**, the aim of which is to promote values and behaviours that contribute to improving the quality of life of the inhabitants in the Santiago Basin.

Acuaciclo, is a program especially developed for schoolchildren, the aim of which is to contribute to the environmental education of future generations, teaching them to value water resources and understand the importance of Nature in our lives. The activities carried out during 2005 were the puppet-show "The Adventure of Water," which was seen by over 31 thousand children; the itinerant "Water Exhibition," presented at 33 different schools; guided tours of our plants for schoolchildren; and the interactive CD "The Water Cycle in the Santiago Basin," which was distributed to all schools in the Metropolitan Region.

This program received the **BIG Gold Award** in the category Utility Services. This important recognition highlighted the strategy, creativity and results obtained from this direct marketing proposal, ratifying efforts made by Aguas Andinas to disseminate the value of the environment among schoolchildren.

On the other hand, the aim of **Acuayuda** is to inform about and educate the community in the water cycle, to cement ties with our customers, and to have a direct communications channel with the community. Among the actions carried out during the fiscal year we may note the plumbing workshops in which 2,730 people were trained; the "Water at Home" program, which promotes responsible use of water and sewage system in low-income sectors; and the visits paid by community organizations to our treatment plants, which allowed 1,909 people to tour our sewage treatment facilities.



Donation to Hogar de Cristo

Thanks to the contribution made by our company, the Manresa Therapeutic Community, run by Fundación Paréntesis of Hogar de Cristo, has been able to build a new sewage treatment plant, whereat the sewage generated by approximately 700 people will be treated and then returned as clean water to the Lampa Creek, whose waters are used for agricultural irrigation.

According to the characteristics of the project, works are executed by youngsters in rehabilitation in said institution. This seeks to facilitate their reintegration into the family group, society and the labour market. The plant, with a cost of Ch\$60 million, is scheduled to commence operations in May 2006, and involves in addition the renovation and adaptation of a portion of the sewerage inside the therapeutic centre.



Towards the community –Good Neighbour Policy

With the purpose of building permanent and close ties with the communities, especially those living near the Sewage Treatment Plant La Farfana, we have begun to develop a Good Neighbour Policy, which has enabled us to maintain a direct communications channel with the inhabitants of these areas, and to timely detect any eventual concern that neighbours may raise.

In this context, during the fiscal year 2005 we implemented a series of measures for the benefit of the communities and surrounding municipal districts. One of these measures was the arrangement of roundtables with different community

organizations from the municipal districts of Pudahuel and Maipú. These sessions allowed us to talk to the local people and learn about their concerns.

Likewise, we organized the so-called **technical sessions**, the purpose of which was to discuss the processes and operation of treatment facilities and solve the communities' technical concerns. Representatives of the Santiago West Inter-communal Social Organization, an institution formed by different groups from the municipal districts of Maipú and Pudahuel, participated in these sessions.

We want to be closer to the community by establishing direct information channels, as well as ties based on cooperation and trust.

In line with this spirit, we implemented **Fono-Farfana**, a dedicated telephone number set up to receive suggestions and inquiries regarding this treatment plant. For information purposes, an explanatory brochure was distributed door-to-door.

Under the social responsibility policy implemented by the company, we boosted La Farfana **visitors' program**. Thus, during the fiscal year more than 800 people living near the facilities had the opportunity to tour the plant and learn about the different sanitation stages and the complex processes involved therein.

As another community engagement action in the environmental field, during the reporting period we organized two **international conferences** on aspects related to sewage treatment. One of these conferences dealt with the emission and measurement of odours and gases, and showed the European experience in this regard, while the second focused on biosolids and stabilization and disposal thereof, among other subjects. International and local speakers, as well as authorities from the municipal districts of Maipú, Pudahuel and Til-Til, and, particularly, community representatives participated in both conferences.

Consistent with our corporate mission, Aguas Andinas constantly collaborates with the community in the development of initiatives aimed at improving their natural surroundings, as well as their social and cultural environment. In this context, we established a **Social Fund** for the communities living near La

Farfana plant, and subscribed cooperation agreements with organization from Pudahuel and Maipú.

Further, we designed the **Bases for a Competitive Social Fund**, the aim of which is to support environmental improvement initiatives in the areas under La Farfana's direct impact. The idea is to contribute to the improvement of the people's quality of life, strengthen their participation in local environmental management actions, and promote territorial initiatives related to environmental management and protection.

Lastly, in the year 2005 we supported and collaborated with different sports, social and environmental activities organized by these communities.

Beneficial use of biosolids

In line with our concern for the environment, in the year 2005 we continued carrying out pilot experiences concerning the use of biosolids in agricultural and animal husbandry activities.

Digested and stabilized sludges —called biosolids— are a by-product of sewage treatment and comply with basic principles of sustainability. They permit the use of nutrients and organic matter in agriculture and afforestation, and the recovery of degraded and environmentally unsound soils, such as dump sites and abandoned mine reservoirs, among other benefits.



In tune with our environment

Environmental protection and conservation is a central concern for Aguas Andinas, as reflected in our decision-making process and corporate activities.

Better health conditions, more green areas, better quality of life. These are some of the benefits derived from the Water Treatment Plan for the Santiago Basin, a project being executed by the company.

To offer a rich life to the Santiago Basin's inhabitants and environment is our mission as a company. This leads us to have a permanent commitment to the environment in which we live, promoting its protection and conservation.

Likewise, under our corporate environmental policy we are required to achieve continuous improvements in our processes and services, through the concepts of sustainability and development.

Aguas de Ramón Nature Park

With the idea of creating a new green lung for Greater Santiago and promoting the values of outdoors life and protection of the ecosystem, in November 2005 we began to develop the project **Aguas de Ramón Nature Park**, a 3,300-hectare foothill area that will enable nature conservation and promotion of environmental education in what is to become the largest park in the Metropolitan Region.

At this site, assigned at no cost by CORFO, our company and the "Protege" Association of Municipalities will develop a modern and advanced information centre where people will virtually get to know the basin, its ecological processes and its importance for the environmental balance. In addition, we will prepare didactic material and perform activities related to water preservation, directed in particular to students, children and families. Further, the Aguas de Ramón Nature Park, to be inaugurated during the first half of 2006, will have 30 kilometres of trails for visitors to stroll through the area assisted by guides familiar with the local flora and fauna.

Sanitation plan benefits

Thanks to the progress achieved so far by the Water Treatment Plan for the Santiago Basin, a country project that is being executed by our company, the inhabitants of the capital city and peripheral localities are already enjoying the manifold benefits of this environmental milestone, the most important in the history of Chile.

Some noteworthy benefits are:

- To be able to live in an environment with unpolluted water resources, thereby substantially improving people's quality of life.
- To irrigate over 130 thousand hectares of agricultural fields in the Metropolitan Region with pollution-free waters (not with sewage any longer).
- To afford people better health conditions by substantially decreasing the spread of enteric diseases, such as typhoid fever, hepatitis and cholera.
- To recover and develop new green areas for family recreational purposes.
- To increase the country's competitiveness and grant it access to the most demanding international markets.
- To make it possible for Santiago, Chile's capital city, to have world-class environmental and sanitation standards, comparable to those existing in leading cities around the world.



Supporting our work

The Aguas Holding includes some related companies whose function is to support the management of our sanitation companies and provide assistance to the sustainable development of the country's industries.

EcoRiles

EcoRiles renders to different industries full advisory services on processes that generate waste waters and on environmental problems associated with liquid industrial residues.

From 2002 to date EcoRiles has consolidated its positions as the leading actor in the operation of liquid industrial residue plants thanks to its ability to take advantage of the opportunities provided by the legal framework and market trends. The foregoing is clearly reflected in the high growth rates recorded during the period, with revenues of M\$3,000 in 2005.

Likewise, future growth prospects are high, as Executive Decree No. 90, which regulates the discharge of liquid industrial waste to surface waters in the country, will become effective in September 2006.

Gestión y Servicios

This company markets materials and provides comprehensive solutions for construction, renovation and maintenance works in water and sewage networks.

This subsidiary of the Aguas Holding has a broad and varied range of products, which are constantly adapted to new technological developments. Also, a strict selection process guarantees the quality of said products.

During the year 2005 Gestión y Servicios consolidated its leading position in the materials supply market for the Chilean sanitation sector, and ended the fiscal year with a turnover exceeding M\$5,500.

Anam

Anam is a laboratory engaged in the development of environmental analyses, complying with international quality standards.

During the year 2005 Anam consolidated its position in the market, becoming the reference water lab for the most important agro-industrial and mining companies in the country. Thus, in the year 2005 Anam's commercial activity in companies not belonging to the Holding was four times higher than in 2004, increasing thereby its contribution to total company revenues.

As part of its development, Anam implemented a modern logistics and sampling operational centre, which allows it to comply with the new IN411 standard. Anam is the first Chilean lab to request such accreditation.



We optimized our financial structure

During the fiscal year we completed the tariff processes for all the companies in the holding, thereby ensuring corporate revenues until the year 2010. Likewise, we successfully refinanced of our financial liabilities.

During the first half of 2005 we completed the tariff-setting processes for all the companies in the holding —Aguas Andinas, Aguas Cordillera, and Aguas Manquehue—, whose corresponding tariff decrees began to be applied in March, May and June, respectively. These processes determined the tariff rates presently in effect, which ensure holding revenues until February 2010.

Likewise, the fiscal year was marked by the restructuring of our indebtedness. In the second half of the year, we successfully refinanced 36 percent of our company's financial liabilities, which allowed us to substantially improve our maturity profile for the next years. Thus, we redeemed in advance obligations with the public (bonds) for an amount of UF1.6 million, which average cost was 6.02 percent plus UF, by refinancing them with a new bond issuance of 4.54 percent plus UF. In addition, we refinanced UF5 million through a bond exchange, thereby improving its average duration from 2.3 to 8.7 years.

In addition, we obtained funding through reimbursable contributions for an amount of M\$12,108, issued in UFplus a fixed rate.

These transactions, added to the low operational risk of the industry and our low indebtedness ratio, allowed us to ratify our favourable risk rating by specialized firms, which assigned us an AA+ rating, one of the best ratings for a private company in the local market.

Likewise, the company was able to finance without problems its 2005 investment plan. During the period the company constructed two new sanitation plants —Talagante and Curacaví—, replaced existing operational assets, implemented technological developments and completed other expansion works.

Risk factors

The company presents a favourable risk situation due to the unique characteristics of the sanitation sector and our proactive risk control policy.

Operating aspects

New investments

Our company is required to make important investments under the development programs agreed with the Superintendency of Sanitation Services (SISS). Implementation and control of said investments demand significant economic, administrative and technical resources.

This risk is mitigated by the fact that tariffs include the costs of the new investments, ensuring a minimum return thereon. Likewise, the experience of our controlling group, Sociedad General de Aguas de Barcelona S.A. (Agbar), provides the necessary know-how to carry out said investment plans.

Regulated market

Due to its monopolistic status, the sanitation industry is highly regulated by the State and is exposed to regulatory changes. The current legal framework regulates both the exploitation of the concessions and the tariff rates charged to customers, which are set every five years.

The fourth tariff-setting process of Aguas Andinas, which established the tariffs to be applied from March 2005 through February 2010, was completed in January 2005; tariffs were determined based on technical, objective and independent analyses.

Climatic conditions

The processes of abstraction and production of water depend to a large extent on the climatic conditions prevailing in the hydrographic basins. Factors such as precipitations, dragging of sediments, flow rates and water turbidity determine the quantity, quality and reliability of raw water available for water production.

At present, Aguas Andinas has sufficient water rights to ensure adequate water production, even under adverse climatic conditions. This was clearly demonstrated in 1998 and 1999 when the country suffered important draught conditions. Moreover, the company has the necessary technical and human resources for overcoming critical situations resulting from intense precipitations, such as those observed during the past winter season. It is worth mentioning that none of these two extreme situations had a negative impact on potable water supply.

Customers

At present we service 1,502,634 customers potable water that reside within our concession area and whose main suppliers are Aguas Andinas and its subsidiaries. The top 100 customers represented only 7.5 percent of total sales in 2005.

Financial aspects

Currency risk

Our revenues are linked to the evolution of the local currency. Therefore, most of our credits were obtained in local currency, and we have no significant obligations in foreign currencies.

Interest rate

The company maintains 77.95 percent of its indebtedness at a fixed rate, of which 86.51 percent comprises medium and long-term bonds; 4.89 percent reimbursable financial contributions; and 8.6 percent short-term loans. The remaining 22.05 percent of its indebtedness is maintained at a variable interest rate, and corresponds to credits obtained from local banks.

Due to the foregoing, the risk rating firms rated our long-term debt obligations with an AA+, while our stock has a first class level 3 rating by Feller Rate and a first class level 2 rating by Humphreys.

Investments

Investments during the fiscal year were made in replacement of existing operational assets, implementation of technological developments and, to a large extent, expansion projects, in line with our long-term development plan.

During the 2005 fiscal year, two Sewage Treatment Plants, one in Talagante and the other in Curacaví, were constructed. As regards potable water, investments were made in installation and repair of networks, centralized control and improvement of systems.

Funding

As part of our financial restructuring process, during the fiscal year we redeemed and refinanced bonds through new issuances.

On 30 August 2005 the Board of Directors of Aguas Andinas approved the issuance of series E and F bonds to refinance corporate liabilities.

On 1 September we redeemed in advance series A, sub-series A1 and A2 bonds for an amount of UF1.2 million, which were paid at their nominal value plus the interests accrued as of that date.

On 7 December we informed on the mandatory redemption of series D bonds, which is to take place on 6 January 2006. Alternatively, on 15 December 2005 the company offered a voluntary redemption of Series D bonds through an exchange offer of Series D bond for the new Series F bonds, to be consummated on 3 January 2006. The exchange ratio offered was 0.867034 Series D bonds for each series F bond. The issuance of the new Series F bonds amounts to UF5 million, at a 21-year term, with an annual nominal interest rate of 4.15

percent, and semi-annual interest payment coupons amortizable as from the year 2008.

Finally, on 23 December we placed Series F bonds for an amount of UF1.65 million, maturing on 1 January 2012, payment of principal at maturity and nominal interest rate of 4 percent.

Both issuances received an AA+ rating from Humphreys and Feller Rate.

In addition, Aguas Andinas provided to its subsidiary Aguas Cordillera the necessary funds for redeeming in advance Series B and E Bonds, maturing on 1 January 2006. The total redemption amount was calculated on the basis of the nominal current value thereof, plus the interests accrued as of said date.

On the other hand, during the fiscal year Aguas Andinas obtained funding through reimbursable financial contributions for an amount of M\$12,108, which were issued at a fixed rate.

Dividend policy

At the 15th Extraordinary Shareholders' Meeting the Board of Directors agreed to distribute as dividends 100 percent of the company's net income, of which 30 percent represents mandatory dividends payable and the remaining 70 percent additional dividends.

This dividend policy will remain in full force and effect as long as it is consistent with the investment and funding policies established for the relevant fiscal year.



Dividends paid per share				
Ch\$ per share	2002	2003	2004	2005
Return	8.84330	9.75000	10.21000	12.41000
Dividends Paid	7.78020 ¹	9.18021 ²	6.63892 ³	13.71480 ⁴

(Figures in Chilean pesos at the date of payment).

- 1 Includes two items: a dividend of \$4.9802 per share —corresponding to the distribution of 2001 net income, which was paid on 3 May 2002, and an interim dividend of \$2.80 per share on account of 2002 net income, which was paid on 20 December 2002.
- 2 Includes two items: a dividend of \$6.0599 per share —corresponding to the distribution of 2002 net income, which was paid on 7 May 2003— and an interim dividend of \$3.12031 per share on account of 2003 net income, which was paid on 10 December 2003.
- 3 Includes a dividend of \$6.63892 per share, corresponding to the distribution of 2003 net income, which was paid on 15 May 2004.
- 4 Includes two items: a dividend of \$10.2148 per share —corresponding to the distribution of 2004 net income, which was paid on 5 May 2005— and an interim dividend of \$3.5 per share on account of 2005 net income, which was paid on 27 September 2005.

Distributable net income	ThCh\$
2005 fiscal year net income (*)	75,944,616
Reserve for future dividends	501,766
Interim dividends on account of 2005 fiscal year net income	(21,887,539)
Balance of distributable net income	54,558,843
% of dividends paid on distributable net income	28.82%

(*) Net income deducted as a result of negative goodwill generated by the subsidiary Gestión y Servicios S.A., equivalent to M\$67.

Stock Status

Capital Stock

The capital stock of Aguas Andinas S.A. is divided into 6,118,965,160 fully subscribed and paid-in shares, of which, at 31 December 2005, 3,975,643,019 (64.97 percent) were Series "A" shares, and 2,143,322,141 (35.03 percent) Series "B" shares.

Stock transactions made by majority shareholders

During the year 2005 CORFO, the second largest shareholder of the company, sold shares through off-stock market private transactions.

These transactions involved 698 Series "B" shares.

Quarterly Statistics Aguas-B 2003 (1)

Month	Average Price (Ch\$)	Units	Amount (Ch\$)
August 19	140,00	69,403,157	9,716,441,980
Year 2003		69,403,157	9,716,441,980

(1) During the year 2003 CORFO made minor transactions, which amounted to M\$190, at a price of 15.89.

Quarterly Statistics Aguas-B 2004 (2)

Month	Average Price (Ch\$)	Units	Amount (Ch\$)
March 30	15.89	1,804	28,666
July 30	15.89	1,469	23,342
Year 2004		3,273	52,008

(2) During the year 2004 CORFO made minor transactions, which amounted to M\$52, at a price of 15.89.

Quarterly Statistics Aguas-B 2005 (3)

Month	Average Price (Ch\$)	Units	Amount (Ch\$)
April 30	15.89	698	11,091
Year 2005		698	11,091

(3) During the year 2005 CORFO made minor transactions, which amounted to M\$11, at a price of 15.89.

Secondary market transactions

Santiago Stock Exchange

2003	Average Price (Ch\$)	Units	Amount (Ch\$)
Total 1st quarter	\$130.14	24,857,214	3,235,039,325
Total 2nd quarter	\$145.92	36,517,117	5,328,573,648
Total 3rd quarter	\$144.83	118,463,042	17,157,566,996
Total 4th quarter	\$181.98	81,211,953	14,779,098,271
Year 2003	\$155.14	261,049,326	40,500,278,240
2004	Average Price (Ch\$)	Units	Amount (Ch\$)
Total 1st quarter	\$157.16	20,467,844	3,216,695,749
Total 2nd quarter	\$153.79	31,535,071	4,849,627,156
Total 3rd quarter	\$164.57	23,260,462	3,828,073,732
Total 4th quarter	\$168.51	24,616,616	4,148,203,544
Year 2004	\$160.62	99,879,993	16,042,600,181
2005	Average Price (Ch\$)	Units	Amount (Ch\$)
Total 1st quarter	167.71	18,034,975	3,024,680,836
Total 2nd quarter	180.32	86,581,539	15,612,200,079
Total 3rd quarter	194.72	24,925,553	4,853,431,586
Total 4th quarter	180.39	27,769,195	5,009,287,001
Year 2005	181.17	157,311,262	28,499,599,502

Brokers' Exchange			
2003	Average Price (Ch\$)	Units	Amount (Ch\$)
Total 1st quarter	\$136.13	43,184	5,878,755
Total 2nd quarter	\$147.00	24,578	3,612,966
Total 3rd quarter	\$140.54	83,750	11,769,868
Total 4th quarter	\$181.18	771,354	139,755,095
Year 2003	\$174.47	922,866	161,016,684
2004	Average Price (Ch\$)	Units	Amount (Ch\$)
Total 1st quarter	\$178.52	3,194,688	570,316,952
Total 2nd quarter	\$148.57	119,145	17,701,892
Total 3rd quarter	\$163.19	88,088	14,375,047
Total 4th quarter	\$171.73	277,491	47,652,929
Year 2004	\$176.67	3,679,412	650,046,820
2005	Average Price (Ch\$)	Units	Amount (Ch\$)
Total 1st quarter	\$167.05	210,321	35,134,449
Total 2nd quarter	\$186.19	639,997	119,166,504
Total 3rd quarter	\$195.05	327,047	63,791,365
Total 4th quarter	\$181.64	165,181	30,004,895
Year 2005	\$182.00	1,342,546	248,097,213

Electronic Stock Exchange			
2003	Average Price (Ch\$)	Units	Amount (Ch\$)
Total 1st quarter	\$134.56	8,376,459	1,127,169,909
Total 2nd quarter	\$155.26	6,587,444	1,022,773,336
Total 3rd quarter	\$150.80	943,008	142,204,404
Total 4th quarter	\$185.43	757,143	140,393,389
Year 2003	\$145.98	16,664,054	2,432,541,038
2004	Average Price (Ch\$)	Units	Amount (Ch\$)
Total 1st quarter	\$167.04	240,137	40,111,415
Total 2nd quarter	\$155.44	2,688,111	417,828,628
Total 3rd quarter	\$164.01	52,529	8,615,521
Total 4th quarter	\$165.51	5,033,038	833,011,250
Year 2004	\$162.17	8,013,815	1,299,566,814
2005	Average Price (Ch\$)	Units	Amount (Ch\$)
Total 1st quarter	\$165.17	52,393	8,653,780
Total 2nd quarter	\$180.90	11,590,851	2,148,414,236
Total 3rd quarter	\$198.72	4,233,858	815,436,414
Total 4th quarter	\$185.58	2,007,387	376,145,625
Year 2005	\$187.24	17,884,489	3,348,650,055

Material facts

- On 22 March 2005 the Superintendency of Securities and Insurance was informed that the Board of Directors, at its regular meeting held on the same date, had accepted the resignation of Mr. Roque Gistau Gistau to his position of Standing Director of the company.
- On 21 April 2005 the Superintendency of Securities and Insurance was informed that at the Ordinary Shareholders' Meeting of Aguas Andinas S.A., held on the same date, shareholders decided to remove the totality of the members of the Board and to elect for a full statutory period the following persons to fill in the positions of standing and alternate directors:

Standing Directors	Alternate Directors
Alfredo Noman Serrano	Ángel Simón Grimaldos
Josep Bagué Prats	José Vila Bassas
Fernando Rayón Martín	Lluís Maria Puiggari Lanza
Alain Chaigneau	Jean Michel Desloges
Carlos Mladinic Alonso	Jorge Bande Bruck
Daniel Albarrán Ruiz-Clavijo	Claudio Maggi Campos
Bernardo Espinosa Bancalari	Roberto Hempel Holzapfel

- On 15 July 2005 the Superintendency of Securities and Insurance was informed that Inversiones Aguas Metropolitanas Limitada, controlling shareholder of Aguas Andinas S.A. and holder of 3,133,053,126 (Series A) shares issued by Aguas Andinas S.A., had informed on 14 July that its partners —Ondeo Services Chile S.A. and Inversiones Aguas del Gran Santiago S.A.— agreed to transform Inversiones Aguas Metropolitanas Limitada into an open stock corporation under the applicable open stock corporations legislation, and retain, after transformation thereof, the joint control over the same through a shareholders' agreement.

In addition, the controlling shareholder informed of its intention of requesting registration of the transformed company and its shares in the Register of Securities maintained by the Superintendency of Securities and Insurance, which, as indicated in the correspondence, will enable them to place said shares in the market if conditions are favourable.

- On 19 July 2005 the Superintendency of Securities and Insurance was informed that the Board of Directors, at its regular meeting held on the same date, agreed to redeem in advance all Series A, sub-series A1 and A2 bonds, which issuance is recorded in the Register of Securities maintained by said Superintendency under number 266 of 13 August 2001, as established in Articles 104, letter d, and Article 130 of the Stock Market Law and clause 3(13) of the bonds issuance agreement, evidenced in public instrument of 19 June 2001, granted before the Santiago Notary Public Mr. Iván Torrealba Acevedo, as amended by public instrument of 2 August 2001, granted before the Santiago Notary Public Mr. Juan Ricardo San Martín Urrejola.

According to the above, the advance redemption will take place on 1 September 2005. Bonds will be redeemed at their nominal value, plus the interests accrued as of said date. The Board expressly authorized the General Manager Mr. Felipe Larrain Aspillaga to make the arrangements that according to the law and to the aforementioned agreement are required for the redemption and advance payment of such bonds.

- On 19 July 2005, the Superintendency of Securities and Insurance was informed that the Board of Directors, at its regular meeting held on the same date, agreed to distribute \$21.416.378.060 on account of 2005 net income, as an interim dividend. Dividend number 41 of the company will amount to \$3.5 per share, and be payable to shareholders as from 27 September 2005.



- On 30 August 2005 the Superintendency of Securities and Insurance was informed that the Board of Directors, at its regular meeting held on the same date, agreed to issue two new series of bonds under the bonds issuance agreement recorded with said Superintendency under No. 305 of 10 October 2002. Both series, in the aggregate, will not exceed UF5,200,000. The purpose of these new series will be the refinancing of company's liabilities.
- On 23 November 2005 the company informed the Superintendency of Securities and Insurance, with the status of material fact, the following: In relation to the secondary offer of common shares of its parent company Inversiones Aguas Metropolitanas S.A. (IAM), which the shareholders are offering in Chile and abroad, Aguas Andinas S.A. was informed by IAM that as of this date the aforementioned transaction was legally completed and, therefore:
 - (i) Ondeo Services Chile S.A. is no longer a shareholder of IAM.
 - (ii) Inversiones Aguas del Gran Santiago S.A. retains a 56.6 percent ownership interest in IAM, which may be reduced to 50.1 percent if UBS Securities LLC exercises in full the purchase option established in its favour in the stock purchase agreement, on or before 18 December 2005.
 - (iii) The shareholders' agreement between Inversiones Aguas del Gran Santiago S.A. and Ondeo Services Chile S.A. in IAM has been terminated.
 - (iv) As a result of the foregoing, Inversiones Aguas del Gran Santiago S.A. is the sole controlling entity of IAM and, therefore, of Aguas Andinas S.A.
 - (v) On the other hand, Inversiones Aguas del Gran Santiago S.A. is controlled by Agbar Chile S.A., which in turn is controlled by Sociedad General de Aguas de Barcelona S.A. ("Agbar"). Agbar is a Spanish company, whose majority shareholder is Holding de Infraestructuras y Servicios Urbanos, S.A. ("Hisusa"), with an interest share of 47.197 percent in the capital stock of Agbar.
 - (vi) The shareholders of Hisusa are the French company Suez S.A., through an affiliate, with an interest share of 51 percent, and la Caixa d'Estalvis i Pensions de Barcelona, through an affiliate, with an interest share of 49 percent. In addition, Suez S.A., through an affiliate, has an interest share in Agbar of 1.449 percent.
- On 29 November 2005 the Superintendency of Securities and Insurance was informed that the Board of Directors, at its regular meeting held on the same date, decided the following:
 - (i) To supplement and amend decisions made at the Board meeting held on 30 August 2005, whereat the Board approved the issuance of Series E and F bonds, under the bond line recorded with the Superintendency of Securities and Insurance under No. 305 of 10 October 2002. The Board also agreed to extend the maturity term of the Series F bonds for up to a maximum of 21 years and to eliminate the restriction that placement of Series E and F Bonds may not exceed UF5,200,000.
 - (ii) To redeem in advance the total number of Series D bonds, as established in the relevant issuance agreement, on such date as the legal representatives may decide.

Board of Directors and Management

Board of Directors' Fees

Pursuant to provisions in Law No. 18,046, at the Ordinary Shareholders' Meeting held on 21 April 2005, shareholders approved the remuneration of the members of the Board and the Committee of Directors, as well as their budget and expenses for the 2005 fiscal year.

Directors receive two types of remuneration: one monthly fixed remuneration amounting to UF100 for the Chairman, UF75 for the Vice-Chairman, and UF50 for each standing and alternate director; and a variable remuneration that is paid for the attendance to each meeting amounting to UF80 for the Chairman, UF60 for the Vice-Chairman, and UF40 for standing directors or alternate directors.

During 2005 members of the Committee of Directors received the following remunerations: a monthly fixed remuneration of UF25 for each standing and alternate director, and a variable remuneration for the attendance to each session of UF20. In addition, an expense budget of UF5,400 was approved for this Committee.

The following table shows the detail of the amounts paid:

Board of Directors' Fees (ThCh\$)							
Directors	Position	Remuneration		Meeting		Committee of Directors	
		2005	2004	2005	2004	2005	2004
Alfredo Noman Serrano	Chairman	21,465	13,427	17,208	12,184	10,028	1,611
Roque Gistau Gistau	Standing Director	2,701	18,800	720	15,771	0	8,058
Manlio Alessi Remedi	Standing Director	3,593	10,742	1,439	6,452	0	0
Bernardo Espinosa Bancalari	Standing Director	10,733	10,742	8,604	9,318	0	0
Carlos Mladinic Alonso	Standing Director	10,733	10,742	8,604	9,318	10,028	8,670
Daniel Albarrán Ruiz-Clavijo	Standing Director	10,733	10,742	8,604	8,600	9,667	8,670
Roberto Hempel Holzapfel	Alternate Director	10,733	10,742	0	0	0	0
Jean Duhart Saurel	Alternate Director	3,593	10,742	0	0	0	0
Jorge Bande Bruck	Alternate Director	10,733	10,742	0	0	0	0
Claudio Maggi Campos	Alternate Director	7,139	0	0	0	0	0
Total		92,156	107,421	45,179	61,643	29,723	27,009

Expenses of the Board of Directors during the period amounted to \$1.0 million.

Report by Committee of Directors

At 31 December 2005 members of the Committee of Directors of Aguas Andinas S.A. were the independent Directors from the controlling entity Messrs. Carlos Mladinic Alonso and Daniel Albarrán Ruiz-Clavijo, and the Director related to the controlling entity and Chairman of the Board Mr. Alfredo Noman Serrano.

The Committee appointed Mr. Carlos Mladinic Alonso as its Chairman.

Since its creation, the Committee holds regular meetings once a month to discuss thereat matters set forth in Article 50 bis of Law No. 18,046.

Main activities during the year

The following were main activities performed by the Committee during the fiscal year ended at 31 December 2005:

1. Review of the remuneration systems and compensation plans for managers and senior officers of Aguas Andinas S.A.
2. Review of the antecedents and report to the Board on the public tender concerning the supply of household water meters to Aguas Andinas and its related companies, and award of 36 percent of the total supply to the related company Aguas de Levante S.A.

3. Review of the external auditors' reports, balance sheets and financial statements of Aguas Andinas S.A. for the period ended at 31 December 2004, to be submitted by management to shareholders, and opinion thereon prior submission to shareholders' meeting for approval.
4. Proposal to the Board of Directors concerning the appointment of external auditors to Aguas Andinas, as suggested to the 2005 ordinary shareholders' meeting.
5. Proposal to the Board of Directors on the appointment of private risk rating firms, as suggested to the 2005 shareholders' meeting.
6. Evaluation of the status of tenders and contracts of Aguas Andinas regarding the participation of related companies during the 2004 fiscal year.
7. Review of the 2004 annual report on contract for the incorporation of advanced management and operational systems and procedures (technological contribution), subscribed between Aguas Andinas S.A. and Inversiones Aguas Metropolitanas S.A.
8. Prior approval of trade current accounts, or accounts payable and receivable, between Aguas Andinas S.A. and its related companies up to a maximum amount equivalent to US\$40,000, with at least one quarterly settlement and payment of said accounts, plus the applicable adjustability, by the end of March, June, September and December of each year.
9. Review of the antecedents and report on public tender concerning "Maintenance and Supply Services for Radiocommunications and Transmission Networks of Aguas Andinas S.A.", which opening took place on 31 January 2005, and was awarded to the related company Omnilogic.
10. Review of the antecedents and preparation of a report for the Board of Directors on the contents and general conditions of the agreements subscribed between Aguas Andinas S.A. and Degremont in respect of the

amendment and extension of the contract concerning the operation of the Sewage Treatment Plant La Farfana, PLF-01, Engineering, Equipment Supply, Civil Works and Other Services, Sewage Treatment Plant La Farfana, subscribed with the related company Ondeo Degremont.

11. Review of the antecedents and preparation of a report for the Board of Directors on proposed "sludge screening" improvements works in the Sewage Treatment Plant La Farfana to be executed by Degremont at the request of Aguas Andinas S.A.
12. Review of the antecedents and preparation of a report for the Board of Directors on draft amendment to "Contract PLF-01, Engineering, Equipment Supply, Civil Works and Other Services, Sewage Treatment Plant La Farfana, between Empresa Metropolitana de Obras Sanitarias —EMOS S.A.— and Degremont S.A. Agencia Chile".
13. Review of the antecedents and preparation of a report for the Board of Directors regarding the rental agreement with Inversiones Aguas Metropolitanas S.A., parent company of Aguas Andinas S.A., concerning office space in the corporate building.
14. Review of the antecedents and preparation of a report for the Board of Directors on current accounts between Aguas Andinas S.A. and its subsidiaries, within the so-called Aguas Holding.

Budget and expenses of the Committee of Directors

At the Ordinary Shareholders' Meeting held in April 2005, an annual budget of UF5,400 was approved for the Committee of Directors, of which only UF686, representing 12.2 percent, were spent.

The only payment made by the Committee was the fees of the legal counsel and secretary to the committee, which were a monthly gross amount of \$1,000,000, equivalent to UF686.



Managers and senior officers

At December 2005 the managers and senior officers’ payroll included 57 professionals. The total remuneration received by them during the 2005 fiscal year amounted to \$4,231 million, while indemnifications for years of service amounted to \$31 million.

The incentive policy for executives is based on the achievement of general corporate objectives and individual performance.

Name	Tax Payer ID	Position	Profession
Larrain Aspillaga, Felipe	6.922.002-9	General Manager	Civil Engineer
Villarino Herrera, Joaquín	9.669.100-9	General Secretary	Attorney-at-Law
De la Barra Fuenzalida, Víctor	4.778.218-K	Corporate Manager	Industrial Civil Engineer
De Miguel Gomez, Jonás	21.857.732-6	Corporate Manager	Industrial Engineer
Donoso Moscoso, Enrique	7.082.548-1	Corporate Manager	Civil Engineer
Escudero García, Ignacio	21.282.285-K	Corporate Manager	Telecommunications Engineer
Martínez Lacambra, Albert	48.098.679-5	Corporate Manager	Economic and Entrepreneurial Sciences Graduate
Verdejo Rabasso, Josep María	48.100.117-K	Corporate Manager	Computer Sciences Graduate
Yarur Sairafi, Iván	8.534.007-7	Corporate Manager	Industrial Civil Engineer
Martí Marques, Joaquim	21.176.172-4	Technical Secretariat	Road, Canals and Ports Engineer
Auger Hernández, Mario Alejandro	7.746.808-0	Manager	Civil Engineer
Cruzat Torres, Enrique Alberto	8.548.720-5	Manager	Civil Engineer
Figueroa Ramírez, Sergio Martín	6.449.688-3	Manager	Construction Engineer
Fredes Echeverría, Santiago	12.462.702-8	Manager	Industrial Civil Engineer
Fuentes Contreras, Luis	6.190.810-2	Manager	Civil Engineer
Juanmarti Balust, Antoni	21.850.134-6	Manager	Road, Canals and Ports Engineer
Larraín Sánchez, Camilo	10.436.775-5	Manager	Attorney-at-Law
Ocariz Martín, Hernán Alfonso	6.613.091-6	Manager	Civil Engineer
Olivero Aliaga, Jorge	10.874.987-3	Manager	Industrial Civil Engineer
Ribera Nebot, Joan	21.256.409-5	Manager	Physics Graduate

Name	Tax Payer ID	Position	Profession
Rodríguez Mingo, Eugenio	6.379.051-6	Manager	Commercial Engineer
Romero Arriaza, Alejandro	4.432.604-3	Manager	Civil Engineer
Scholem Appel, Renee	14.728.449-7	Manager	Psychologist
Segovia Pastor, Javier	21.887.638-6	Manager	Chemistry Graduate
Soto Perretta, Pedro Andrés	7.117.991-5	Manager	Civil Engineer
Villarino Krumm, Salvador	10.331.997-8	Manager	Civil Engineer
Acevedo Torre, Jorge Fernando	6.084.916-1	Assistant Manager	Mechanical Engineer
Acevedo Walker, Sebastián	6.639.714-9	Assistant Manager	Civil Engineer
Alarcón Araya, Carlos Ernesto	6.441.640-5	Assistant Manager	Construction Engineer
Alvano Contador, Paola	8.824.728-0	Assistant Manager	Commercial Engineer
Brzovic Cordero, Paula Andrea	9.871.863-K	Assistant Manager	Chemical Civil Engineer
Commentz Carrasco, Eduardo	14.243.656-6	Assistant Manager	Industrial Civil Engineer
Concha Mathiesen, Mariana	10.835.135-7	Assistant Manager	Civil Engineer
Dupré Silva, Víctor	6.816.920-8	Assistant Manager	Civil Engineer
Estay Caballero, Ricardo	6.027.966-7	Assistant Manager	Civil Engineer
Faúndez Pérez, Luis	8.043.598-3	Assistant Manager	Civil Engineer
Ferruz Bunster, Carlos Cristián	8.671.225-3	Assistant Manager	Electrical Civil Engineer
Garcés Durán, Christian Raúl	8.153.554-K	Assistant Manager	Commercial Engineer
Gil Pla, Ramón	14.762.089-6	Assistant Manager	Business Administration Graduate
Grau Mascayano, Francisco	5.868.028-1	Assistant Manager	Civil Engineer
Kent Geell, Natalia	8.668.841-6	Assistant Manager	Civil Engineer Industrial
König Besa, Hernán Vicente	9.656.371-K	Assistant Manager	Civil Engineer
Lartundo Pavez, Rafael	10.912.542-3	Assistant Manager	Public Administrator
López Del Campo, Verónica	7.061.767-6	Assistant Manager	Civil Engineer
Luci Ghiardo, Bruno Antonio	7.044.631-6	Assistant Manager	Civil Constructor
Martínez Solari, Oscar Luis	11.829.094-1	Assistant Manager	Industrial Civil Engineer
Meyer Briceño, Adolfo	5.159.829-6	Assistant Manager	Construction Engineer
Muñoz Anrique, Julio Raúl	6.364.977-5	Assistant Manager	Industrial Civil Engineer
Norambuena Duncan, Patricio	6.640.538-9	Assistant Manager	Construction Engineer
Ortega Zamorano, América del Pilar	7.493.606-7	Assistant Manager	Civil Engineer
Pinaud Wehrli, Jorge Bernardo	10.373.349-K	Assistant Manager	Industrial Civil Engineer
Riquelme Hernández, Alejandro	10.200.262-8	Assistant Manager	Accountant-Auditor
Salazar Muñoz, Cristián Andrés	10.753.300-1	Assistant Manager	Industrial Civil Engineer
Salazar Villalobos, Víctor	10.380.974-6	Assistant Manager	Industrial Civil Engineer
Sanhueza Navarrete, Juan Carlos	8.641.413-9	Assistant Manager	Civil Engineer
Tapia Donoso, Juan Luis	6.669.733-9	Assistant Manager	Civil Engineer
Witto Arentsen, Reinaldo Javier	8.796.191-5	Assistant Manager	Computer Sciences Engineer

Customers and suppliers

Potable water and sewage customers	Suppliers
<div>Agrícola Industrial Lo Valledor S.A. Cervecera CCU Chile Ltda. Embotelladoras Chilenas Unidas S.A. Gendarmería de Chile Ilustre Municipalidad de Santiago Industrial Ochagavía Ltda. Pontificia Universidad Católica de Chile Soprole S.A. Universidad de Chile Universidad de Santiago de Chile</div>	<div>Cía. Americana de Multiservicios Claro, Vicuña, Valenzuela S.A. Chilectra S.A. Cadagua Agencia en Chile Copergo Ltda. Degremont S.A. Agencia Chile (*) Ingeniería y Construcción M.S.T. S.A. Ingeniería y Construcción Oyarzún Moreno Ltda. Inversiones Aguas Metropolitanas S.A. (**) KDM S.A.</div>

(*) Company indirectly related through one of its principal shareholders.

(**) Controlling shareholder.

Properties, equipment and insurance

The main real properties and equipment used for the production and distribution of water and collection and treatment of sewage are owned by the company and are in good working order.

Our company maintains in force the necessary insurance policies to cover all its assets —infrastructure, building and contents— such as water production and distribution facilities, sewage collection and treatment facilities, offices and warehouses. These insurance policies mainly cover nature perils and fire.

Statement of liability

The undersigned Directors and General Manager of AGUAS ANDINAS S.A. state under oath that the information contained in this Annual Report is true and accurate, assuming full liability therefor, in accordance with provisions in General Rule No. 30 issued by the Superintendency of Securities and Insurance.



CHAIRMAN OF THE BOARD

Alfredo Noman Serrano
TIN 21.663.123-4
Chairman of the Board



DIRECTOR

Carlos Mladinic Alonso
TIN 6.100.558-7
Standing Director



DIRECTOR

Bernardo Espinosa Bancalari
TIN 7.396.732-5
Standing Director



DIRECTOR

Daniel Albarrán Ruiz-Clavijo
TIN 6.022.851-5
Standing Director



GENERAL MANAGER

Felipe Larrain Aspillaga
TIN 6.922.002-9
General Manager

Aguas Andinas

Open Stock Corporation

Corporate information



Name: Aguas Andinas S.A.

Legal Domicile: Avenida Presidente Balmaceda No. 1.398, Santiago, Chile

Taxpayer ID No.: 61.808.000 - 5

Telephone: (56-2) 688 10 00

Fax: (56-2) 694 27 77

e-mail: comunicaciones@aguasandinas.cl

P.O. Box: 1537 Santiago

Corporate Purpose: Abstraction, purification and distribution of potable water, and collection and disposal of sewage.

Call centre: (56-2) 731 24 82

Record in the Securities Register: No. 0346

Web Site: www.aguasandinas.cl.

Incorporation of Company

Aguas Andinas S.A. was incorporated as an open stock corporation by public instrument dated 31 May 1989, granted before the Santiago Notary Public Mr. Raúl Undurraga Laso. An excerpt of its by-laws was published in the Official Gazette of 10 June 1980, and recorded in the 1989 Register of Commerce of the Santiago Real Estate Registrar in page No. 13.981, under No. 7.040.

Legal aspects

The company is recorded in the Register of Securities of the Superintendency of Securities and Insurance, under No. 0346, as provided for in Law No. 18,777. As a sanitation company it is supervised by the Superintendency of Sanitation Services, as provided for in Law No. 18,902 and Statutory Decrees Nos. 382 and 70, both of 1988.

Contacts for shareholders and investors' information

Investors' Relations

Information to Shareholders

Depósito Central de Valores

Address: Huérfanos 770 piso 22

Telephone: (56-2) 393 90 03

Fax: (56-2) 393 91 01

Address: Avenida Presidente Balmaceda No. 1.398 piso 14

Telephone: (56-2) 496 23 06

Fax: (56-2) 496 23 09

e-mail: inversionistas@aguasandinas.cl



CONSOLIDATED

Financial Statements

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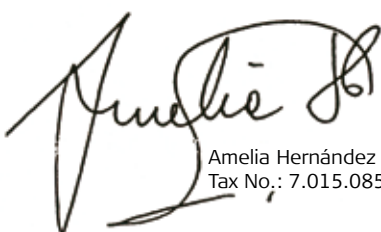
To the Shareholders and Directors,
Aguas Andinas S.A.

We have audited the accompanying consolidated balance sheets of Aguas Andinas S.A. and Subsidiaries as at December 31, 2005 and 2004 and the related consolidated statements of income and of cash flows for the years then ended. These consolidated financial statements (including the notes thereto) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The accompanying management analysis and material information do not form an integral part of these financial statements, therefore 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 present fairly, in all material respects, the financial position of Aguas Andinas S.A. and Subsidiaries as at December 31, 2005 and 2004 and the results of their operations and cash flows for the years then ended, in accordance with the accounting principles generally accepted in Chile.





Amelia Hernández H.
Tax No.: 7.015.085-9

January 30, 2006 except Note 29 whose date is February 28, 2006

Assets 	2005 ThCh\$	2004 ThCh\$
Current		
Cash and banks	165,838	112,871
Time deposits	400,832	37,593,369
Marketable securities	1,454,742	1,721,146
Trade accounts receivable (net)	37,129,423	31,530,871
Notes receivable (net)	980,804	1,385,248
Sundry debtors (net)	6,347,181	877,696
Note and accounts receivable from related companies	23,164	46,780
Inventories (net)	932,671	1,380,802
Taxes recoverable	364,275	2,321,812
Prepaid expenses	470,136	320,222
Deferred taxes	797,673	686,061
Other current assets	21,674,411	2,801,161
Total current assets	70,741,150	80,778,039
Fixed assets		
Land	33,363,944	33,137,544
Buildings and infrastructure	963,370,439	949,534,119
Machinery and equipment	109,908,013	108,315,554
Other fixed assets	19,685,877	18,720,691
Revaluation of fixed assets	4,817,410	4,866,608
Accumulated depreciation	(539,715,318)	(518,685,809)
Total fixed assets	591,430,365	595,888,707
Other assets		
Goodwill	58,017,376	61,986,149
Negative goodwill	(1,079)	(1,146)
Long-term debtors	8,385,371	10,618,430
Intangible assets	42,532,489	41,485,615
Amortization	(6,421,306)	(5,366,387)
Others	9,605,089	10,353,706
Total other assets	112,117,940	119,076,367
Total assets	774,289,455	795,743,113

The accompanying Notes 1 to 32 form an integral part of these consolidated financial statements

 Liabilities and shareholders' equity 	2005 ThCh\$	2004 ThCh\$
Current:		
Borrowings from banks and financial Institutions at short term	20,246,232	-
Borrowings from banks and financial Institutions at long term current portion	6,473,654	607,046
Bonds payable - current portion	105,500,251	34,363,650
Accounts payable	17,952,864	15,757,863
Notes payable	1,233,733	4,975,794
Sundry creditors	1,286,530	1,299,807
Notes and accounts payable to related companies	3,725,437	9,944,439
Provisions	15,566,607	15,326,979
Withholdings	6,648,288	5,535,906
Income tax	1,673,443	-
Unearned income	1,459,610	993,018
Other current liabilities		
Total liabilities Currents	181,766,649	88,804,502
Long term:		
Borrowings from banks and financial institutions	62,166,667	70,758,588
Bonds payable	109,945,915	206,686,783
Notes payable	25,461,254	23,611,737
Sundry creditors	1,597,165	2,104,113
Provisions	7,872,690	6,493,272
Deferred taxes	2,640,894	3,228,146
Other long-term liabilities	792,814	1,188,688
Total long-term liabilities	210,477,399	314,071,327
Minority interest	3,475	3,338
Shareholders' equity:		
Paid-in capital	130,274,844	130,274,844
Share premium	197,208,178	197,208,178
Reserve for future dividends	501,766	627,345
Net income for the year	75,944,683	64,753,579
Interim dividends	(21,887,539)	-
Total shareholders' equity	382,041,932	392,863,946
Total liabilities and shareholders' equity	774,289,455	795,743,113

The accompanying Notes 1 to 32 form an integral part of these consolidated financial statements

Consolidated statements of income		2005 ThCh\$	2004 ThCh\$
Operating income			
Revenues from operations		215,106,141	195,432,581
Cost of operations		(86,669,313)	(83,050,278)
Operating margin		128,436,828	112,382,303
Administrative and selling expenses		(26,936,072)	(25,768,639)
Operating income		101,500,756	86,613,664
Non-operating results			
Financial income			
Other non-operating income		5,467,191	4,833,304
Amortization of goodwill		5,870,123	7,189,630
Financial expenses		(3,968,773)	(3,968,773)
Other non-operating expenses		(17,739,780)	(17,171,341)
Price-level restatements		(558,670)	(660,848)
Foreign exchange differences		1,772,907	1,604,876
		21,838	(807)
Non-operating results		(9,135,164)	(8,173,959)
Income before income tax and extraordinary items		92,365,592	78,439,705
Income tax		(16,420,629)	(13,685,772)
Minority interest		(347)	(421)
Amortization of negative goodwill		67	67
Net income for the year		75,944,683	64,753,579

The accompanying Notes 1 to 32 form an integral part of these consolidated financial statements

Consolidated statements of cash flows


2005
ThCh\$

2004
ThCh\$

NET CASH FLOW FROM OPERATING ACTIVITIES

Collection of trade account receivables	256,337,157	243,236,407
Financial income received	1,007,653	668,604
Other income received	2,715,971	4,999,470
Payments to suppliers and personnel	(92,960,117)	(98,201,993)
Interest paid	(13,876,638)	(13,174,039)
Income tax paid	(14,047,743)	(15,756,680)
Other expenses paid	(463,137)	(1,240,237)
VAT and similar payments	(25,518,493)	(23,969,484)

Net total cash flow from operating activities
113,194,653
96,562,048
NET CASH FLOW FROM FINANCING ACTIVITIES:

Loans drawn	73,096,460	16,428,005
Bonds issued	28,869,483	-
Other sources of finance	15,770,382	17,935,009
Dividend payments	(85,996,252)	(42,954,463)
Loan repayments	(53,255,984)	(592,034)
Bond repayments	(60,607,144)	(1,937,115)
Other financing disbursements	(15,199,198)	(10,741,760)

Net total cash flow from financing activities
(97,322,253)
(21,862,358)
Net cash flow from investment activities:

Sales of fixed assets	1,684,297	1,971,947
Other investment income	-	-
Acquisition of fixed assets	(32,819,985)	(42,736,734)
Payment of capitalized interest	(684,729)	(474,198)
Other investment disbursements	(960,046)	(490,620)

Total net cash flow from investment activities
(32,780,463)
(41,729,605)
Net total cash flow for the year
(16,908,063)
32,970,085

Effect of inflation on cash and cash equivalents

(982,789)

(650,320)

Net change in cash and cash equivalents
(17,890,852)
32,319,765

Opening balance of cash and cash equivalents

40,464,201

8,144,436

Closing balance of cash and cash equivalents
22,573,349
40,464,201

The accompanying Notes 1 to 32 form an integral part of these consolidated financial statements

Reconciliation of net cash flow from operating activities with net income for the year	2005 ThCh\$	2004 ThCh\$
Net income for the year	75.944.683	64.753.579
Result of asset sales	(1.584.524)	(841.478)
Gain on sale of fixed assets	(1.584.524)	(841.478)
Charges (credits) to income not representing cash flows	37.347.176	38.895.926
Depreciation for the year	32.986.475	33.449.325
Amortization of intangible assets	1.054.831	1.042.710
Write-offs and provisions	1.362.456	3.355.191
Amortization - goodwill	3.968.773	3.968.773
Amortization - negative goodwill	(67)	(67)
Price-level restatements (net)	(1.772.907)	(1.604.876)
Exchange differences (net)	(21.838)	807
Other credits to income not representing cash flows	(2.882.711)	(3.057.570)
Other charges to ioncome not representing cash flows	2.652.164	1.741.633
Changes in assets affecting cash flows - (increases) decreases	(4.115.224)	3.128.303
Trade accounts receivable	(3.093.329)	1.378.159
Inventories	341.235	1.089.262
Other assets	(1.363.130)	660.882
Changes in liabilities affecting cash flows - increases (decreases)	5.602.195	(9.374.703)
Accounts payable related to operating income	(5.147.735)	(7.056.806)
Interest payable	928.710	1.767.572
Income tax payable (net)	2.109.361	(2.673.178)
Other accounts payable related to the non-operating result	3.287.122	(3.210.287)
Vat and similar payables (net)	4.424.737	1.797.996
Profit of the minority interest	347	421
Net cash flow from operating activities	113.194.653	96.562.048

The accompanying Notes 1 to 32 form an integral part of these consolidated financial statements

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 under numbers 0346,0369, 0389 and 1402 respectively in the Securities Register of the Superintendency of Securities and Insurance and are subject therefore to the regulatory authority of that Superintendency.

2.- Accounting principles applied

a) Accounting period

These financial statements are presented as of December 31, 2005 and 2004. For the balance sheet and for the years ended December 31, 2005 and 2004 for the statements of income and the statements of cash flows relate to the years between January 1 and December 31, 2005 and 2004 respectively.

b) Preparation

These 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.

In the event of differences between generally accepted accounting principles, as published by the Chilean Institute of Accountants, and the instructions of the Superintendency of Securities and Insurance, the instructions of the Superintendency of Securities and Insurance prevail.

c) Presentation

For comparison purposes, the financial statements at December 31, 2004 and their respective notes have been price-level restated by 3.6%. This percentage corresponds to the variation in the Consumer Price Index during the last twelve months of 2005, with a one-month time lag.

For comparison purposes, re-classifications have been made to the financial statements of 2004.


d) Consolidation

The consolidated financial statements comprise the assets, liabilities, results and cash flows of the Company and its subsidiaries. The transactions between the consolidated companies have been eliminated and the participation of the minority investors has been recognized as minority interest.

e) Price-level restatements

The consolidated financial statements have been price -level restated by 3.6% in 2005 and 2.5% in 2004 to reflect the effects of variations in the purchasing power of the local currency during each year, in accordance with accounting principles generally accepted in Chile.

Companies included in the consolidation

Tax No	Company		Direct	Percentage holding		2004 Total
				2005 Indirect	Total	
80.311.300-9	Aguas Cordillera S.A.		99.9999	0.0000	99.9999	99.9999
96.945.210-3	Ecoriles S.A.		99.0385	0.9615	100.000	100.000
96.828.120-8	Gestión y Servicios S.A.		1.0000	99.0000	100.000	100.000
96.568.220-1	Aguas Los Dominicos S.A.		0.0000	99.9497	99.9497	99.9497
96.967.550-1	Análisis Ambientales S.A.		99.0000	1.0000	100.000	100.000
96.809.310-K	Comercial Orbi II S.A.		99.9000	0.1000	100.000	100.000
89.221.000-4	Aguas Manquehue S.A.		0.0000	100.0000	100.000	100.000
87.538.200-4	Hidráulica Manquehue Limitada		0.0000	100.0000	100.000	100.000

Income statement balances were also restated to express them at year-end values.

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 each year end, at the following rates:

	2005	2004
	Ch\$	Ch\$
US dollar	512,50	557,40
Unidad de fomento	17,974,81	17,317,05
Euro	606,08	760,13

g) Time deposits

Time deposits are shown at cost plus indexation adjustments and accrued interest to the end of the year.

h) Marketable securities

Marketable securities reflect the to investments in units in mutual funds made by the Company. These are presented at their redemption value as at the closing date of these financial statements.

i) Inventories

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

There is an allowance for obsolescence for slow-moving items remaining in inventory for more than one year.

j) Estimate of doubtful accounts

The estimate of doubtful accounts depends on the age of the accounts receivable and its history of collectibility, as follows:

For Aguas Andinas S.A., Aguas Cordillera S.A., Aguas Los Dominicos S.A. and Aguas Manquehue S.A., a 100% allowance is made for customers with debts past - due for over eight months.

For Aguas Andinas S.A. and Aguas Cordillera S.A., an allowance of 20% of consumption debts converted into repayment plans is established for cases classified as "non-government subsidized". For cases classified as "government

subsidized" customers, an allowance of 40% is made. In the case of the other subsidiaries, an allowance for 20% of the agreed balance is made. For the subsidiaries Gestión y Servicios S.A., Anam S.A. and Ecoriles S.A., allowances are made for 100% of all debts outstanding for more than 120 days.

A 100% allowance is made for past-due notes receivable.

k) Fixed assets

For the Company the fixed assets transferred by the predecessor entity are shown at their appraisal values determined by independent consultants in accordance with a technical study made in 1977 and restated for inflation. Acquisitions after 1977 are shown at their restated cost.

The subsidiary Aguas Cordillera S.A. shows its specific accounts at cost, plus the incremental value of a technical appraisal, made in 1977, both price-level restated.

The other subsidiaries record their fixed assets at their restated cost.

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

Furthermore direct remunerations, consultancy costs and other inherent and identifiable expenses are also included in the cost of some works.

l) Depreciation of fixed assets

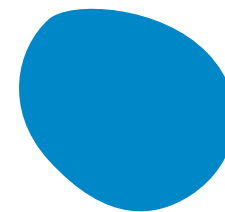
Depreciation is calculated using the straight-line method on the restated book values over the remaining useful lives of the respective assets.

m) Leased assets

Leasing contracts classified as capital leases are recorded in accordance with Technical Bulletin No.22 of the Chilean Institute of Accountants.

Leased assets are valued and depreciated according to the same norms indicated for the remainder of the fixed assets.

The assets acquired this way are not legally owned by the Company until it has exercised its purchase option furthermore, the Company may not freely dispose of them.



n) Intangible assets

Water rights, easements 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 when the literature pertaining to intangible assets was effective 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 book value on the purchase of shares in Aguas Cordillera S.A. and Comercial Orbi II S.A.. Negative goodwill represents the deficit paid and the proportional equity book on the purchase of shares in Hidráulica Manquehue Ltda. Goodwill and negative goodwill are amortized during a period of 20 years from the date of acquisition because it is estimated that the related investment will be recovered over this period.

p) Operations under resale agreements.

The equisitions securities under resale agreements are valued as fixed-rate investments and are 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, shown at their nominal value plus indexation adjustments and interest accrued to the year-end. The discount incurred and the issue costs on the placement of the bonds are deferred and amortized over their term, in accordance with Circular 1,370 of the Superintendency of Securities and Insurance.

The costs of placing bonds on the domestic market incurred by the subsidiary, Aguas Cordillera S.A., in the years 1991, 1992, 1993, 1994 and 1995 were charged to results in the respective periods.

r) Income tax and deferred taxes

The Company has provided for income tax on the basis of its net taxable income determined in accordance with the provisions conditions established in the Income Tax Law. According to Technical Bulletin No.60 and other instructions from the Chilean Institute of Accountants and Circular 1,466 of the Superintendency of Securities and Insurance, the Company records the effects of deferred taxes resulting from timing differences, tax benefits related to tax loss carry-forwards and other events that create differences between the financial and tax treatment.

The subsidiaries recorded these effects as from the beginning of the year 2000, recording deferred taxes arising on the accumulated timing differences in asset and liability accounts with credits and charges, respectively, to complementary accounts which are amortized, affecting income tax for the year, over the weighted average reversal period. These complementary accounts are shown deducted from the corresponding deferred tax assets and liabilities that originated them.

s) Severance payments

For Aguas Andinas S.A. in August 2002 and for Aguas Cordillera S.A. in December 2002 and January 2003, new collective contracts came into force whose clause referring to severance payments stated that this will be paid as indicated in the Labor Code, while the amount accrued by the workers to those dates remained fixed and is adjusted quarterly in line with the Consumer Price Index. It also established that, for Aguas Andinas S.A., workers who retire from the company, within 120 days of having reached the legal retirement age, will continue to accrue this benefit after August 2002, while, for Aguas Cordillera S.A., the agreements state that workers who retire from the company on having reached the legal retirement age, will continue to accrue this benefit after December 2002 and January 2003 respectively.

The Company's obligation for the accrued indemnity for workers up to July 2002 for Aguas Andinas S.A. and up to November and December 2002 for Aguas Cordillera S.A., is shown at its present value, and the obligation for the additional indemnity that it is estimated will accrue to the workers who retire from the company is provided for at its present value, calculated according to the accrued cost of the benefit method and at an annual discount rate of 4.8%.

There are also individual contracts which are shown at the present value according to their terms.

Advances granted to personnel against such funds are shown as long-term debtors. These, restated, will be deducted from the final settlement, as stated in the respective contracts.

t) Sales

The income from sales of the water treatment subsidiaries are recorded on the basis of the consumption read and billed to each customer, divided into monthly billing groups and valued in accordance with the tariff fixed by the Superintendency of Sanitation Services (SISS) for five-year period.

Consumption read but not billed at the year-end is also shown valued at the tariff charge for each invoicing group.

u) Computer software

The computer software was acquired as computer packages and is shown in Other Fixed Assets, in accordance with Circular 981 of the Superintendency of Securities and Insurance.

3.- Accounting changes

The following changes in accounting estimates were made during 2005:

The Company has collective labor contracts with its employees which provide for indemnities in accordance with the Labor Code and an additional indemnity if they retire while being employed.

To calculate this additional indemnity, the Company uses the present value of such obligations based on the accrued cost method for those who are covered by the collective contract and who it believes will remain employed until retirement age. The discount rate used for this calculation has been changed from 6.5% at December 2004 to 4.8% at December 2005, in accordance with study made by the company.

The effect of this change on the results for 2005 amounts to a greater charge of ThCh\$68,771.

v) Research and development expenses

Expenses incurred in research and development which do not result in viable projects, are charged directly to income for the year. Otherwise, they form part of the costs of the corresponding project and are capitalized.

w) Statement of cash flows

The Company considers as cash and cash equivalents its balances in cash, in unrestricted bank checking accounts, time deposits, marketable securities and resale agreements whose redemption will take place within 90 days from the date the investment was made and that carry no significant loss risk at the time of redemption.

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

For the subsidiaries Gestión y Servicios S.A., Anam S.A. and Ecoriles S.A., in view of the past experience of the trade debtors, it has been decided to modify the method for calculating non-payment, by reducing the past-due terms from 240 to 120 days.

The effect of this change on the results for 2005 amounts to a charge of ThCh\$26,100.

There have been no other accounting changes that should be mentioned during the period ended December 31, 2005.

4.- Short and long-term debtors

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

The balance of trade accounts receivable includes an allowance for revenue accrued as at December 31, 2005 and 2004 of ThCh\$13,527,331 and ThCh\$12,466,977 respectively, corresponding to unbilled meter readings at the end of each year.

The debtors balance at December 31, 2005 of the Aguas Andinas S.A. is split into Residential 80.13%, Commercial 16.72%, Industrial and others 3.15%, compared to Residential 78.93%, Commercial 17.64%, Industrial and others 3.43% at December 31, 2004.

For Aguas Cordillera S.A. the split is Residential 82.38%, Commercial 17.33%, Industrial and others 0.29%, compared to Residential 82.30%, Commercial 17.44%, Industrial and others 0.26% at December 2004.

For Aguas Los Dominicos S.A., the split is Residential 87.42%, Commercial 12.54%, Industrial and others 0.04%, compared to Residential 89.27%, Commercial 10.69%, Industrial and others 0.04% in 2004.

For Aguas Manquehue S.A., the split is Residential 69.76%, Commercial 30.23%, Industrial and others 0.01%, compared to Residential 69.92%, Commercial 29.95%, Industrial and others 0.13% in 2004.

Allowances have been made for doubtful accounts as follows:


a) An allowance for doubtful accounts has been made as explained in Note 2 j), amounting to ThCh\$11,992,334 and ThCh\$12,175,279 respectively at December 31, 2005 and 2004. ThCh\$444,293 and ThCh\$819,425 respectively were charged to income for the years 2005 and 2004. Of the allowance at December 31, 2005 and 2004, debts of ThCh\$12,117 and ThCh\$7,469 respectively were written off.

b) Allowances for repayment agreements relate to agreements for the repayment of debts signed with customers of Aguas Andinas S.A. and Aguas Cordillera S.A., by which they can obtain a commercial discount if they fully comply with the agreement. This allowance is ThCh\$2,346,833 and the charge to income at December 31, 2005 was ThCh\$530,833 (ThCh\$1,881,376 at December 31, 2004 and a charge to income for that year of ThCh\$2,161,023).

Notes receivable is comprised mainly of promissory notes signed by our clients as a result of agreements with property developers.

The balance of short-term sundry debtors relates mainly to funds reserved to prepay all the bonds Series B, D and E and the payment on maturity of the Series C bonds that are in the possession of the bond-holding bank as stipulated in the prepayment clause and in accordance with the resolution of the board to proceed with the prepayment of all these bonds as from January 2, 2006. The long-term debtors correspond to agreements signed with property developers and advances against severance payments.

The principal component of long-term debtors relates to advances against severance payments, as indicated in Note 2 s) and trade accounts receivable net of corresponding provision.

Item		Up to 90 days		90 days to 1 year		Subtotal 2005 ThCh\$	Total current (net)		Long term	
		2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$		2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
Trade accounts receivable		36,292,656	31,383,100	2,644,030	2,044,399	38,936,686	37,129,423	31,530,871	798,331	1,895,811
Estimate of doubtful accounts		-	-	-	-	1,807,263	-	-	-	-
Notes receivable		535,933	916,048	630,190	601,664	1,166,123	980,804	1,385,248	170,102	189,659
Estimate of doubtful accounts		-	-	-	-	185,319	-	-	-	-
Sundry debtors		6,309,429	413,259	85,482	519,149	6,394,911	6,347,181	877,696	7,416,938	8,532,960
Estimate of doubtful accounts		-	-	-	-	47,730	-	-	-	-
Total long-term debtors									8,385,371	10,618,430

5.- Balances and transactions with related entities

Transactions with the parent company

* Notes and accounts receivable

There is a premises rental agreement, expressed in Unidades de Fomento, with Inversiones Aguas Metropolitana S.A., with payment due at 30 days.

* Notes and Accounts Payable

There is a services contract in Unidades de Fomento, signed in 2001, with Inversiones Aguas Metropolitana S.A. for a 5-year term, with monthly invoicing for the services provided. Payment is at 60 days.

Transactions with indirectly related companies

* Accounts Receivable

The debts of Aguas Decima S.A., Ondeo Degrémont S.A. and Brisaguas S.A. relate to chemical and bacteriological laboratory analysis services, payable at 30 days without interest.

The debts of Constructora Acsa Ltda. and Aguas de Levante S.A. relate to sales of materials, payable at 30 days without interest.

The debts of Aguas Argentinas and Aguas de Saltillo shown in 2004 related to expense reimbursements.

* Accounts Payable

The construction and operative contract for the La Farfana Sewage Treatment Plant was awarded in a tender to Degrémont S.A. Agencia en Chile. This is a turnkey contract with a results guarantee. Payments are expressed in Unidades de Fomento. Construction was completed in September 2003 and payments have been made for the plant operation since October 2003.

There is a materials purchase contract with Aguas de Levante S.A., with payments due at 30 days.

The debt with Acsa Agbar Construcción S.A. relates to a retention stipulated in a tube renewal contract.


The debt with Omnilogic Telecomunicaciones Chile relates to radio-communications and transmission network maintenance services, with payments at 30 days.

The debt with Brisaguas S.A. relates to collections payable under contract.

The debt of Constructora Acsa Ltda. relates to the purchase of materials at 30 days, without interest and with payment at 60 days.

In 2004, there was debt in favor of Clavegueram de Barcelona S.A. for expense reimbursements.

Accounts receivable

Tax No	Company		Short term		Long term	
			2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
77.030.800-3	Constructora Acsa Ltda.		637	659	-	-
1-9	Aguas Argentinas		-	14,582	-	-
96.703.230-1	Aguas Décima S.A.		6,007	3,567	-	-
1-9	Aguas de Saltillo		-	6,095	-	-
59.066.560-6	Ondeo Degrémont S.A.		12,709	20,882	-	-
96.864.190-5	Brisaguas S.A.		506	995	-	-
59.094.680-K	Aguas de Levante S.A.		2,068	-	-	-
77.274.820-5	Inversiones Aguas Metropolitanas S.A.		1,237	-	-	-
Total			23,164	46,780	-	-

Accounts payable

Tax No	Company		Short term		Long term	
			2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
59.066.560-6	Degrémont S.A. Agencia en Chile		1,736,195	8,248,264	-	-
77.274.820-5	Inversiones Aguas Metropolitanas S.A.		1,330,438	1,446,733	-	-
59.094.680-K	Aguas de Levante S.A.		575,166	165,041	-	-
59.096.940-0	Acsa Agbar Construcción S.A.		65,100	67,444	-	-
96.864.190-5	Brisaguas S.A.		17,711	11,601	-	-
96.847.530-4	Omnilogic Telecomunicaciones Chile S.A.		827	-	-	-
1-9	Clavegueram de Barcelona S.A.		-	3,956	-	-
77.030.800-3	Constructora Acsa Ltda.		-	1,400	-	-
Total			3,725,437	9,944,439	-	-

Transaction

Company		Tax No	Relationship	Transaction	2005		2004	
					Amount ThCh\$	Effect on results (charge)/credit ThCh\$	Amount ThCh\$	Effect on results (charge)/credit ThCh\$
Inversiones Aguas Metropolitanas S.A.		77.274.820-5	Parent	Advisory services	4,738,663	(4,738,663)	5,340,757	(5,340,757)
Degrémont S.A. Agencia en Chile		59.066.560-6	Related	Payment construction debt	5,545,847	-	11,951,462	-
Aguas Levante S.A.		59.094.680-K	Related	Purchase materials	1,951,487	(1,887,889)	1,059,530	(727,999)
Acsa Agbar Construcción S.A.		59.096.940-0	Related	Tube renewal contract	-	-	1,447,232	-
Constructora Acsa Ltda.		77.030.800-3	Related	Sale of materials	-	-	73,875	73,875
Inversiones Aguas Metropolitanas S.A.		77.274.820-5	Parent	Dividends paid	42,969,197	-	21,548,892	-
Degrémont S.A. Agencia en Chile		59.066.560-6	Related	Plant operation	2,671,605	(2,671,605)	6,528,534	(6,528,534)
Corfo		60.706.000-2	Related	Dividends paid	29,356,363	-	14,722,122	-

6.- Deferred taxes and income tax

At December 31, 2005 and 2004, the detail of taxable income and other concepts is as follows:

	2005 ThCh\$	2004 ThCh\$
a) Taxable income	100,272,965	79,182,726
b) Tax Loss (*)	0	3,601
c) Balance of Taxed Earnings Fund	78,492,700	76,375,147
d) 15% credit for shareholders	244,292	393,150
16% credit for shareholders	346,205	354,690
16.5% credit for shareholders Crédito	792,304	795,170
17% credit for shareholders	11,360,593	11,382,601

* The tax loss relates to the subsidiaries Hidráulica Manquehue Ltda. and Comercial Orbi II S.A.

Deferred taxes

Concept	2005				2004			
	Deferred tax assets		Deferred tax liabilities		Deferred tax assets		Deferred tax 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\$
Allowance for doubtful accounts	346,853	1,691,844	-	-	354,245	1,715,551	-	-
Unearned income	215,715	73,124	-	-	162,886	126,075	-	-
Provision for vacations	154,394	107,576	-	-	153,741	102,526	-	-
Leased assets	-	-	97,061	4,983	-	-	84,035	-
Depreciation fixed assets	-	300,121	-	4,666,012	-	-	-	4,255,424
Severance payments	83,754	17,110	-	-	39,452	-	-	-
Other events	2,491	90,499	10,645	-	-	104,006	-	-
Provision profit sharing	-	-	21	-	1,715	-	22	-
Expenses in investments inrelated companies	-	-	-	90,629	-	-	-	100,344
Software	-	-	-	128,271	-	-	-	155,396
Bond placement discount	-	-	186,126	1,297,634	-	-	296,809	1,425,648
Tax losses	-	-	-	-	-	612	-	-
Litigation	11,840	659,208	-	-	4,749	164,397	-	-
Obsolescence fixed assets	-	9,977	-	-	-	10,336	-	-
Deferred expenses	-	-	11,684	88,529	-	-	10,499	88,365
Water rights	-	37,209	-	-	-	37,209	-	-
AFR KWH	3,018	-	-	-	3,125	-	-	-
Allowance real estate	36,366	-	-	-	37,677	-	-	-
Provision payment agreements	248,779	150,183	-	-	319,836	-	-	-
Complementary accounts-net of amortization	-	-	-	(498,313)	-	-	-	(536,931)
Valuation allowance	-	-	-	-	-	(612)	-	-
Total	1,103,210	3,136,851	305,537	5,777,745	1,077,426	2,260,100	391,365	5,488,246

Income Tax

	2005 ThCh\$	2004 ThCh\$
Current tax charge (provision for tax)	(17,046,404)	(13,461,063)
Tax charge adjustment (previous year)	(45,765)	(202,160)
Effect on assets and liabilities for deferred taxes for the year	736,870	47,053
Effect of amortization of deferred asset & liability complementary accounts	(38,618)	(38,618)
Effect on assets or liabilities of deferred tax evaluation provision	612	51
Other charges or credits to the account	(27,324)	(31,035)
Total	(16,420,629)	(13,685,772)

7.- Other current assets

The detail of these is as follows:

Other current assets	2005 ThCh\$	2004 ThCh\$
Instruments of Central Bank of Chile	20,551,937	1,036,815
Bond placement discount	1,094,860	1,745,937
Others	23,723	10,342
Guarantees	3,891	-
Payment agreements receivable	-	8,067
Total Other Current Assets	21,674,411	2,801,161

8.- Information on purchase and sale commitments, and repurchase and resale agreements, covering securities

Details of the agreements at December 31, 2005 is as follows:

Code	Dates		Counterparty	Currency Origin	Amount subscribed ThCh\$	Rate	Final value ThCh\$	Instrument	Market value ThCh\$
CRV	30/12/05	05/01/06	Banco de Chile	Pesos	237,000	4.44% ANUAL	237,176	BCD	237,029
CRV	30/12/05	06/01/06	Banco de Chile	Pesos	500,000	4.44% ANUAL	500,432	PDBC	500,062
CRV	30/12/05	06/01/06	Banco de Chile	Pesos	173,160	4.44% ANUAL	173,309	PDBC	173,181
CRV	29/12/05	05/01/06	Banco Santander	Pesos	8,571,000	4.42% ANUAL	8,578,000	BCD	8,573,000
CRV	29/12/05	06/01/06	Banco BBVA	Pesos	10,000,000	4.42% ANUAL	10,008,167	PDBC	10,002,333
CRV	29/12/05	06/01/06	Banco de Chile	Pesos	938,200	4.44% ANUAL	938,894	PDBC	938,316
CRV	30/12/05	06/01/06	Banco Santander	Pesos	128,000	4.44% ANUAL	128,111	BCP	128,016

9.- Fixed assets

The composition of these is as follows:

Item	2005 ThCh\$	2004 ThCh\$
Land	33,363,944	33,137,544
Land	33,363,944	33,137,544
Buildings and infrastructure	487,112,232	484,378,525
Gross value	963,370,439	949,534,119
Accumulated depreciation	(476,258,207)	(465,155,594)
Machinery and equipment	63,607,302	68,927,389
Gross value	109,908,013	108,315,554
Accumulated depreciation	(46,300,711)	(39,388,165)
Other fixed assets	2,975,960	5,124,415
Gross value	19,685,877	18,720,691
Accumulated depreciation	(16,709,917)	(13,596,276)
Incremental value technical appraisal, net	4,370,927	4,320,834
Greater appraisal value of land	5,404,013	5,404,013
Greater appraisal value of distribution networks	1,463,393	1,515,741
Accumulated depreciation	(1,459,207)	(1,511,258)
Lower appraisal value of main sewers	(364,726)	(364,727)
Accumulated depreciation	246,980	233,165
Lower appraisal value of civil works	(1,248,825)	(1,249,041)
Accumulated depreciation	391,165	369,502
Lower appraisal value of machinery and equipment	(436,445)	(439,378)
Accumulated depreciation	374,579	362,817
Total net fixed assets	591,430,365	595,888,707

Depreciation for the year

At December 31, 2005 and 2004, the charge to income for depreciation of property, plant and equipment is as follows:

Depreciation in:	2005 ThCh\$	2004 ThCh\$
Cost of sales	30,337,664	30,655,530
Administrative and selling expenses	2,648,811	2,793,795
Total	32,986,475	33,449,325

Aguas Andinas S.A. has seventy-five plots of land that were transferred free of charge by the Chilean State and are booked at a value of Ch\$1 each. There are also fixed assets with an expired accounting useful life and are therefore shown valued at Ch\$1 even though they are still in operation. There are also amounts which are contributions from third parties and these are governed by Decree Law 70 of 1988 of the Ministry of Public Works and by the provisions of clause 36 of D.S. MINECON Regulation 453 of 1989. These are explained in Note 32.


In 1989 and in accordance with Transitory Clause 3 of Decree Law 382 of 1988, the General Law on Sanitation Services, Aguas Cordillera S.A. removed from its accounts all assets financed by third parties and Chilean state assets.

As a result of the application of this regulation, the Company maintains a physical control over those assets, however the calculations of price-level restatement and depreciation of these assets do not affect its financial statements in any way. It carries out this off-the-books control as these assets form part of the sanitation infrastructure that it has to operate and maintain.


10.- Goodwill and Negative Goodwill

As at December 31, 2005 and 2004, the balances of this account represent the difference between the acquisition value and the proportional equity value of the acquired company at the time of purchase, as follows:

Goodwill

Tax No	Company		2005		2004	
			Amortization for the year ThCh\$	Balance goodwill ThCh\$	Amortization for the year ThCh\$	Balance goodwill ThCh\$
80.311.300-9	Aguas Cordillera S.A.		3,755,892	54,773,424	3,755,892	58,529,315
96.809.310-K	Comercial Orbi II S.A.		212,881	3,243,952	212,881	3,456,834
Total			3,968,773	58,017,376	3,968,773	61,986,149

Negative goodwill

Tax No	Company		2005		2004	
			Amortization for the year ThCh\$	Balance goodwill ThCh\$	Amortization for the year ThCh\$	Balance goodwill ThCh\$
87.538.200-4	Hidráulica Manquehue Ltda.		67	1,079	67	1,146
Total			67	1,079	67	1,146

LEASING

For Aguas Andinas S.A., assets under financial leases were acquired from GTD Telesat S.A. and shown in Other fixed assets, under an agreement for a 48-month term and an amount of ThCh\$61,182.

For Aguas Cordillera S.A., the assets under financial leases were acquired from Teletronic S.A. and shown in Other fixed assets, under an agreement for a 48-month term and an amount of ThCh\$15,930.

11.- Intangible assets

The balances as at December 31, 2005 and 2004 of the restated costs of intangible assets (Note 2 n) are:

Item	2005 ThCh\$	2004 ThCh\$
Water rights	20,300,320	19,316,472
Leased water rights (1)	528,745	528,745
Easements	14,959,022	14,895,996
Other rights (2)	6,744,402	6,744,402
Sub total	42,532,489	41,485,615
Accumulated amortization water rights	(3,397,219)	(2,900,504)
Accumulated amortization leasing (1)	(24,750)	(11,250)
Accumulated amortization easements	(2,409,202)	(2,035,611)
Amortization other rights (2)	(590,135)	(419,022)
Sub total	(6,421,306)	(5,366,387)
Total intangible assets (net)	36,111,183	36,119,228
Amortization for the year shown in cost of sales:		
Water rights	496,712	488,832
Other rights	13,500	13,462
Easements	373,592	387,345
Leased water rights	171,027	153,071
Total amortization	1,054,831	1,042,710

(1) The rights to the use of water acquired under the financial leasing agreement signed on March 14, 2003 for a period of 48 months were recorded as Intangible Assets.

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

The Company has water rights to various natural sources, including Laguna Negra, Laguna Lo Encañado and Quebrada de Ramón, which were acquired gratuitously and have no value on the books.

The production of water supplies from various wells located in the Metropolitan Region, for which Aguas Andinas S.A. and subsidiaries have the water rights concessions, was granted to them gratuitously by the Water Department of the Ministry of Public Works.

12.- Other (Asset)

The detail of these is as follows:

	2005 ThCh\$	2004 ThCh\$
Bond placement discount and issue costs	7.633.143	8.497.485
Advances on purchases of fixed assets and intangible assets	827.434	-
Prepaid insurance	458.245	521.175
Refund of reimbursable contributions KW/H	296.915	353.925
Others	389.352	981.121
Total	9.605.089	10.353.706

13.- Borrowings from banks at short term

Included in this section are the loans that mature during the next twelve months and the provision for accrued interest on bank borrowings classified as short term:

Tax No	Bank	UF	2005 ThCh\$	2004 ThCh\$	Non-indexed Ch\$	Total	2005 ThCh\$	2004 ThCh\$
					2005 ThCh\$	2004 ThCh\$		
a) Short term								
97.004.000-5	Banco de Chile		10,181,495		10,048,567	-	20,230,062	-
97.036.000-k	Banco Santander - Santiago		-		16,170	-	16,170	-
	Total		10,181,495		10,064,737	-	20,246,232	-
	Principal outstanding		10,155,727		10,000,000	-	20,155,727	-
Average annual interest rate			0.95%		5.64%	-	-	-
b) Long term, current portion:								
97.036.000-k	Banco Santander - Santiago		-		91,007	53,987	91,007	53,987
97.032.000-8	Banco BBVA		-		4,223,666	108,119	4,223,666	108,119
97.006.000-6	Banco Crédito Inversiones		207,425	414,046	1,951,556	30,894	2,158,981	444,940
	Total		207,425	414,046	6,266,229	193,000	6,473,654	607,046
	Principal outstanding		207,384	413,976	5,933,333	193,000	6,140,717	606,976
Average annual interest rate			7.03%	4.08%	7.29%	4.17%		
Percentage in local currency 100%								

14.- Borrowings from banks at long term

This heading covers bank loans with maturities of more than one year.

Tax No	Bank	Currency / indexation unit	Years of Maturity				End 2005		End 2004
			1 to 2 ThCh\$	2 to 3 ThCh\$	3 to 5 ThCh\$	5 to 10 ThCh\$	Total long term at close of the year ThCh\$	Average annual interest rate	Total long term at close of the year ThCh\$
97.006.000-6	Banco Crédito e Inversiones	UF	-	-	-	-	-		206,988
97.004.000-5	Banco de Chile	\$no reajustable	1,900,000	1,900,000	3,800,000	1,900,000	9,500,000	7.26%	11,810,400
97.036.000-K	Banco Santander - Santiago	\$no reajustable	4,080,000	4,080,000	12,240,000	-	20,400,000	7.30%	21,134,400
97.032.000-8	Banco BBVA	\$no reajustable	8,066,667	8,066,667	16,133,333	-	32,266,667	7.40%	37,606,800
Total			14,046,667	14,046,667	32,173,333	1,900,000	62,166,667		70,758,588

Percentage in local currency 100%

15.- Bonds payable (short and long term)

This heading covers the amounts owing under bond issues made by the Company and the subsidiary Aguas Cordillera S.A. on the domestic market.

Aguas Andinas S.A.

Included are the balances due of bonds issued by the Company in September 2001, December 2002, May 2003 and December 2005 on the domestic market.

In September 2001, two Series of bonds were issued: Series A for U.F.1.2 million fully repayable in the fifth year subsequent to their issue and Series B for U.F.1.8 million for a 21-year term with repayments commencing 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 beginning in June 2005 and extending through to December 2010.

On May 7, 2003, the company placed Series D bonds on the domestic market and these were fully subscribed. This Series has be re repaid in semi-annual installments starting on June 1, 2005.

On December 23, 2005, the Series E bonds were placed for U.F. 1.65 million, with repayment in June 2012.

The respective accrued interest is shown in current liabilities.

The bond issues carry no special collateral except for the general pledge over the Company's assets.

On December 9, 2005, the Superintendency of Securities and Insurance approved a new bond issue totaling U.F. 5.0 million, in order to finance the prepayment of the Series D bonds and refinance other obligations of Aguas Andinas S.A.

Aguas Cordillera S.A.


Included here are the balances outstanding of bonds issued by the Company on the domestic market.

The short term shows all the debt corresponding to the Series B, C and E in accordance with the board resolution to proceed with the redemption of all the bonds Series B and E on January 2, 2006.

The respective interest accrued on these bonds as at the close of each year is shown in Bonds payable in current liabilities.

The bond issues made by the Parent and the subsidiary carry no special collateral other than a general lien over the assets of the company.

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

Inscription No. or identification of instrument	 Series	Nominal amount placed outstanding	Indexation unit of bond	Interest rate %	Final maturity	Payments of		Par value		Placement in Chile or abroad
						Interest	Principal	2005 ThCh\$	2004 ThCh\$	
Long term bonds - current portion										
266	BEMOS A1	-	UF	6.00%	01.09.2006	01.09.2005	01.09.2005	-	132,594	Chile
266	BEMOS A2	-	UF	6.00%	01.09.2006	01.09.2005	01.09.2005	-	291,705	Chile
266	BEMOS B1	-	UF	6.25%	01.09.2022	Semi-annual	2008 Semi-annual	258,160	257,667	Chile
266	BEMOS B2	-	UF	6.25%	01.09.2022	Semi-annual	2008 Semi-annual	405,680	404,905	Chile
305	BAGUA C1	166,667	UF	4.25%	01.12.2010	Semi-annual	2005 Semi-annual	3,048,303	3,052,957	Chile
305	BAGUA C2	500,000	UF	4.25%	01.12.2010	Semi-annual	2005 Semi-annual	9,144,902	9,158,868	Chile
305	BAGUA D1	1,655,173	UF	4.25%	01.06.2009	04.01.2006	04.01.2006	29,855,691	6,312,117	Chile
305	BAGUA D2	3,144,827	UF	4.25%	01.06.2009	04.01.2006	04.01.2006	56,725,798	11,993,035	Chile
141	Series A	-	UF	7.00%	01.10.2005	01.10.2005	01.10.2005	-	398,729	Chile
154	Series B	6,009	UF	7.00%	01.07.2006	02.01.2006	02.01.2006	111,719	107,919	Chile
163	Series C	21,415	UF	6.00%	01.01.2006	02.01.2006	02.01.2006	396,301	768,718	Chile
167	Series D	-	UF	6.00%	01.04.2007	01.10.2005	01.10.2005	-	865,490	Chile
187	Series E	285,000	UF	6.50%	01.01.2009	02.01.2006	02.01.2006	5,455,804	618,946	Chile
305	BAGUA E1	-	UF	4.00%	01.06.2012	Semi-annual	Maturity	97,893	-	Chile
Total short-term portion								105,500,251	34,363,650	
Long-term bonds										
266	BEMOS A1	-	UF	6.00%	01.09.2006	Semi-annual	Maturity	-	6,727,674	Chile
266	BEMOS A2	-	UF	6.00%	01.09.2006	Semi-annual	Maturity	-	14,800,882	Chile
266	BEMOS B1	700,000	UF	6.25%	01.09.2022	Semi-annual	2008 Semi-annual	12,582,367	12,558,325	Chile
266	BEMOS B2	1,100,000	UF	6.25%	01.09.2022	Semi-annual	2008 Semi-annual	19,772,291	19,734,510	Chile
305	BAGUA C1	666,666	UF	4.25%	01.12.2010	Semi-annual	2005 Semi-annual	11,983,200	14,950,384	Chile
305	BAGUA C2	2,000,000	UF	4.25%	01.12.2010	Semi-annual	2005 Semi-annual	35,949,620	44,851,159	Chile
305	BAGUA D1	-	UF	4.25%	01.06.2009	Semi-annual	2005 Semi-annual	-	29,694,568	Chile
305	BAGUA D2	-	UF	4.25%	01.06.2009	Semi-annual	2005 Semi-annual	-	56,419,665	Chile
154	Series B	-	UF	7.00%	01.07.2006	02.01.2006	02.01.2006	-	107,796	Chile
163	Series C	-	UF	6.00%	01.01.2006	02.01.2006	02.01.2006	-	384,187	Chile
167	Series D	-	UF	6.00%	01.04.2007	01.10.2005	01.10.2005	-	1,344,612	Chile
187	Series E	-	UF	6.50%	01.01.2009	02.01.2006	02.01.2006	-	5,113,021	Chile
305	BAGUA E1	1,650,000	UF	4.00%	01.06.2012	Semi-annual	Maturity	29,658,437	-	Chile
Total long term								109,945,915	206,686,783	

16.- Provisions and write-offs

The detail of provisions as at December 31, 2005 and 2004 is as follows:

	Current liabilities		Long-term liabilities	
	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
Services accrued	8,488,833	6,557,238	-	-
Bonus (1) and profit sharing	3,047,303	3,135,593	-	-
Severance payments (Note 17)	1,121,012	2,699,832	7,823,326	6,437,203
Accrued vacations	1,540,998	1,507,455	-	-
Litigation pending	947,338	1,009,529	-	-
Other personnel benefits	3,849	2,953	-	-
Asset disposals	213,922	221,623	-	-
Rejected projects	162,377	168,223	-	-
Others	40,975	24,533	49,364	56,069
Total	15,566,607	15,326,979	7,872,690	6,493,272

(1) In Aguas Andinas S.A., these are shown net of advances made during the years ended December 31, 2005 and 2004 for ThCh\$224,693 and ThCh\$201,155 respectively.

The amounts written off are shown in Note 4 (Short and long term receivables)

17.- Severance payments

At December 31, 2005 and 2004, the movement in the provisions for severance indemnities (including the short-term portion) is as follows:


	2005 ThCh\$	2004 ThCh\$
Opening balance	8,819,531	9,465,812
Increase in provision	1,609,529	275,753
Payments in the year	(1,840,164)	(864,690)
Price-level restatement	355,442	260,160
Total	8,944,338	9,137,035

The charge to income for these items, including the indemnities related to clause 161 of the Labor Code, at December 31, 2005 and 2004 amounts to ThCh\$1,816,257 and ThCh\$805,974 respectively.

The severance indemnity has been calculated in accordance with the explanation in Note 2 s).

18.- Minority interest

The Minority interest is as follows:

Name		Percentage of minority interest		Minority interes in equity		Minority interes in result	
		2005 %	2004 %	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
Aguas Los Dominicos S.A.		0.05038	0.05038	3,469	3,334	(346)	(420)
Aguas Cordillera S.A.		0.00001	0.00001	6	4	(1)	(1)
Total				3,475	3,338	(347)	(421)

19.- Movement in equity accounts



The ordinary shareholders' meeting held on April 21, 2005 resolved to distribute 100% of the Company's net income for 2004. The dividend amounted to ThCh\$62,504,005 (historic pesos), equivalent to Ch\$10.2148 per share. The payment was made on May 5, 2005.

A board meeting held on July 19, 2005 agreed to pay an interim dividend of ThCh\$21,416,378 (historic pesos), equivalent to Ch\$3.5 per share, against the net income for 2005. This payment was made on September 27, 2005.


In 2004, 100% of the net income for 2003 was distributed, after deducting the interim dividend paid in December 2003. The dividend amounted to ThCh\$40,623,320 (historic pesos), equivalent to Ch\$6.6389 per share. This payment was made on May 14, 2004.

Paid Capital: As established in clause 10 of the Corporations Law 18,046, the proportional amount of the restatement of capital was added to capital, this being divided at December 31, 2005 into 6,118,965,160 subscribed and paid shares.


The equity accounts have shown the following movement during 2005 and 2004:

Item		Paid capital ThCh\$	Reserve restatement of capital ThCh\$	Retained earnings ThCh\$	Retained earnings ThCh\$	Result for the year ThCh\$
2005						
Opening balance		125,747,919	190,355,384	605,545		62,503,455
Distribution prior year's result				62,503,455		(62,503,455)
Final dividend previous year				(62,504,005)		
Restatement of capital		4,526,925	6,852,794	(103,229)	(471,161)	
Interim dividends					(21,416,378)	
Net income for the year						75,944,683
Closing balance		130,274,844	197,208,178	501,766	(21,887,539)	75,944,683
Item		Paid capital ThCh\$	Reserve restatement of capital ThCh\$	Retained earnings ThCh\$	Retained earnings ThCh\$	Result for the year ThCh\$
2004						
Opening balance		122,680,896	185,712,570	630,388	(19,035,815)	59,659,155
Distribution prior year's result				40,623,340	19,035,815	(59,659,155)
Final dividend previous year				(40,623,320)		
Restatement of capital		3,067,023	4,642,814	(24,863)		
Interim dividends						62,503,455
Net income for the year						
		125,747,919	190,355,384	605,545	-	62,503,455
Closing balance						
Balances restated		130,274,844	197,208,178	627,345	-	64,753,579

Number of shares


Series		No. Subscribed shares	No. paid shares	No. shares with voting rights
A		3,975,643,019	3,975,643,019	3,975,643,019
B		2,143,322,141	2,143,322,141	2,143,322,141



Capital (Amount - ThCh\$)

Series	Subscribed capital		Paid capital
A	84,642,789		84,642,789
B	45,632,055		45,632,055

20.- Other non-operating income and expenses

The detail of these at December 31, 2005 and 2004 is as follows:

Other non-operating income	 2005 ThCh\$	2004 ThCh\$
Income from agreements and others (1)	867,232	2,760,750
Services to third parties (2)	1,555,013	2,006,570
Fines and indemnities from Suppliers and contractors (3)	1,133,154	634,735
Gain on sale of fixed assets (4)	1,584,524	841,478
Services to customers	292,245	443,652
Property rentals	253,732	263,982
Insurance claim	8,380	58,800
Recognition of expired obligations	19,602	-
Refund social security contributions	24,952	71,253
Others	131,289	108,410
Total other income	5,870,123	7,189,630

Other non-operating expenses	  2005 ThCh\$	2004 ThCh\$
Donations	101,962	105,392
Rejected projects	29,649	115,907
Shrinkage of assets	164,285	143,445
Project preparation	1,962	-
Obsolete materials	188,797	-
Fines	956	6,167
Sale of materials	21,917	273,226
Others	49,142	16,711
Total other expenses	558,670	660,848

(1) Mainly relate to agreements signed with real state developers under which Aguas Andinas S.A., Aguas Cordillera S.A. and Aguas Manquehue S.A. are obliged to add certain areas to their concession zones and to provide the public sanitation services there indefinitely.


(2) Services for third parties relates to those services associated with the business, mainly engineering services.

(3) Includes a transaction with Degremont for discrepancies in the application and interpretation of the La Farfana treatment plant construction contract.

(4) Includes income from the expropriation of land.

21.- Price-level restatements

The detail of price-level restatements, calculated as stated in Note 2 e), is the following:

	Indexation unit	2005 ThCh\$	2004 ThCh\$
Assets (charges) / credits			
Inventories	IPC	48,940	38,499
Fixed assets	IPC	20,630,842	14,708,896
Other non-monetary assets	IPC	511,462	791,624
Goodwill (net)	IPC	2,153,822	1,608,555
Other monetary assets	IPC	588,620	96,750
Other monetary assets	UF	199,010	30,304
Intangible assets	IPC	1,287,829	980,960
Other non-monetary assets	UF	92,946	47,827
Expense and cost accounts	IPC	2,175,606	1,479,009
Total credits		27,689,077	19,782,424
Liabilities (charges) / credits			
Shareholders' equity	IPC	(10,805,329)	(7,961,633)
Minority interest	IPC	(108)	(141)
Bonds payable	UF	(7,801,226)	(5,486,180)
Notes payable	UF	(663,499)	(425,421)
Borrowings from banks	UF	(17,096)	(20,928)
Monetary liabilities	UF	(448,963)	(242,751)
Non-monetary liabilities	UF	(163,456)	(167,253)
Monetary liabilities	IPC	(599,097)	(306,122)
Non-monetary liabilities	IPC	(159,425)	(98,747)
Income accounts	IPC	(5,257,971)	(3,468,372)
Total (charges)		(25,916,170)	(18,177,548)
Gain from price-level restatements		1,772,907	1,604,876

22.- Foreign exchange differences

The exchange differences arising during the years ended December 31, 2005 and 2004 were as follows:

Item	Currency	2005 ThCh\$	2004 ThCh\$
Assets (charges) / credits			
Cash and banks	Dollar	(799)	410
Other assets	Dollar	(2,969)	(361)
Other assets	Euros	(316)	149
Inventories	Dollar	16,991	688
Inventories	Euros	5,541	(4,117)
Cash and banks	Euros	32	(457)
Total (charges) credits		18,480	(3,688)
Liabilities (charges) / credits			
Accounts payable	Dollar	2,843	3,918
Accounts payable	Euros	(2,974)	(2,139)
Sundry creditors	Dollar	-	(855)
Other liabilities	Dólar	337	1,169
Other liabilities	Euros	3,152	788
Total credits		3,358	2,881
Gain (loss) from exchange differences		21,838	(807)

23.- Share and bond issue and placement costs

During the months of September 2001, December 2002, May 2003 and December 2005, the Company issued and placed bonds on the domestic market. In accordance with Circular 1,370 of the Superintendency of Securities and Insurance, the related cost that correspond to payments to the risk relating to credit-rating agencies, stamp tax and other general expenses were capitalized.

These expenses are recorded in Other Assets and are broken down as follows:

Bonds	Gross capitalized costs		Amortization period years
	2005 ThCh\$	2004 ThCh\$	
Serie A	-	354,513	5.0
Serie B	531,769	531,769	21.0
Serie C	1,258,333	1,258,333	8.0
Serie D	2,600,393	2,600,393	6.0
Serie E	117,657	-	6.5
Total	4,508,152	4,745,008	

The Series A bonds were prepaid during September 2005, so the balance of the capitalized costs at that date was charged to income for 2005.

24.- Statement of cash flows

In the Statement of Cash Flows, cash equivalents consist of financial investments, including time deposits, marketable securities and resale agreements with terms of less than 90 days from their investment dates. The detail of the balance of cash and cash equivalents is as follows:

	2005 ThCh\$	2004 ThCh\$
Cash and banks	165,838	112,871
Time deposits	400,832	37,593,369
Marketable securities	1,454,742	1,721,146
Other current assets (Note 7) (Instruments of Central Bank of Chile)	20,551,937	1,036,815
Balance of cash and cash equivalents	22,573,349	40,464,201

Financing cash flow:

The financing cash flows generated in 2005 and 2004 under the heading of Other sources of finance, represent the collection of reimbursable financing contributions from customers, according to current legislation (Decree Law N° 70 of 1988).

Investment activities committing future cash flows relate to construction works whose amounts at December 31, 2005 and 2004 were ThCh\$11,285,708 and ThCh\$17,001,461 respectively.

The item Bonds payable shows the funds reserved for prepaying the whole of the Series B, D and E bonds which are being held by the bank holding the bonds in accordance with the bond prepayment clause and the board resolution to prepay all these bonds as from January 2, 2006.

Other financing disbursements

The item Other financing disbursements shows the prepayments of promissory notes issued for reimbursable financing contributions at more than a 10 or more year term.

Investment activities committing future cash flows for the subsidiaries relate to construction works whose amounts at December 31, 2005 and 2004 were ThCh\$14,523,382 and ThCh\$18,181,643 respectively.

25.- Contingencies and Restrictions

a) Direct guarantees

Performance bonds and guarantee policies have been given to third parties for ThCh\$13,717,089 and ThCh\$10,542,333 at December 31, 2005 and 2004 respectively, as shown in the table.

b) Lawsuits pending

The following are the principal lawsuits of the consolidated group companies:

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

Aguas Andinas S.A. was sued by a private 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 as this was transferred to it in 1990. The amount is not determined. Judgment in the first instance ordered the Treasury to indemnify the plaintiff and the demand against Aguas Andinas S.A. was dismissed. The Treasury has appealed against this decision.

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

Aguas Andinas S.A. was sued severally by a gas company for damages to a pipeline made by a construction company. Aguas Andinas S.A. alleges that it has no responsibility in this incident as it has no relationship whatsoever with the cause of the damage. The amount demanded is ThCh\$85,816, plus indexation and interest. Sentence has been passed at the first instance rejecting the suit against Aguas Andinas S.A. accepting only a part of the suit against the construction company for a far lower figure. The gas company has appealed and asked that the suit be entirely accepted, also against Aguas Andinas S.A.

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

A company sued Aguas Andinas S.A. alleging that it had occupied its property without authorization for the construction of the El Trebal Treatment Plant. Aguas Andinas S.A. alleges that it obtained the easements 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 suit and with costs. The plaintiff has appealed against this judgment.

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

An individual sued Aguas Andinas S.A. alleging having suffered enormous damage on the sale of 8.1 hectares of land for the construction of part of the El Trebal

Plant. Aguas Andinas S.A. claims to have paid a fair price. The amount sought is approximately ThCh\$120,000.

Judgment in the first instance rejected the suit. The plaintiff has appealed.

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

A company sued Aguas Andinas S.A. seeking the absolute nullity of Company Gestión y Servicios S.A. in which Aguas Andinas S.A. has a 1% shareholding.

Final sentence was given on March 2, 2005 denying the suit and condemning the plaintiff to pay the costs. The plaintiff has appealed.

Court: 11th Civil Court of Santiago; Case file: 3541-2004

Aguas Andinas S.A. was sued for the payment of an indemnity for extra-contractual liability for environmental damage in breach of Law N°19,300. It is claimed that the failure to arrive at a prompt and adequate solution to the emission of bad odors from the Santiago Poniente Plant and subsequently from the La Farfana Plant, caused the prolonged suffering or moral damage to the neighbors, in addition to enormous financial damage as a result of the drop in the value of their properties. Amount involved: U.F. 506,594. Current status: First instance – discussion period. Exceptions were presented in order to correct irregularities in the suit and in the procedure that led to the damages under Law 19,300. There is a moderate possibility of success in this case as the suit lacks a solid foundation. In any case, the result will depend on the proof of damages submitted. The process has not yet commenced.

Court: 19th Civil Court of Santiago; Case file: 2632-2004

A private individual is requesting the reversal of the sale of some water rights to Aguas Andinas S.A. through a third party, sustaining that this has violated his rights. He is demanding the restitution of the water rights that were acquired for U.F. 5,525. The evidence stage is pending. According to information at hand, this suit will not be successful.

11th Civil Court of Santiago; Case No.13.214 - 2004

Aguas Andinas S.A. was sued for damages and extra-contractual liability for environmental damage, an offense under Law 19,300. It is claimed that the failure to arrive at a prompt and adequate solution to the emission of bad odors from the Santiago Poniente Plants and subsequently from the La Farfana Plant, caused the prolonged suffering or moral damage to the neighbors, in addition to an enormous financial damage as a result of the drop in the value of their properties.

Amount demanded: U.F. 492,607 plus indexation and interest. Current status: First instance - discussion period. Exceptions were presented in order to correct irregularities in the suit and in the procedure that led to the damages under Law 19,300. There is a moderate possibility of success; the result will depend on the proof of damages submitted. The court process has not yet commenced.

18th Civil Court of Santiago; Case No. 322-2005

Aguas Andinas S.A. was sued for technical faults and defects at the La Farfana Sewage Plant, causing bad odors that have affected the physical and psychological health of the neighbors.

Amount demanded: ThCh\$3,890,000 plus indexation and interest.

It is believed that it is improbable that damage can be shown to have affected or put at risk the psychological or physical health of the plaintiffs from the bad odors. Even so, the success of the demand will depend on the evidence. The proceedings have not yet begun.

Court: 1st Labor Court of Santiago; Case No. 5901-2005

Aguas Andinas S.A. was sued subsidiarily for damages as a result of an accident and the death of 4 workers.

Amount demanded: ThCh\$2,400,000

State of the case: Discussion period.

Estimated outcome: Impossible to determine.

Case No.4693-99, 11th Civil Court of Santiago. Demand for damages made by 79 inhabitants of the district of Lo Barnechea concerning supply problems on October and November 1996. The demand is for ThCh\$728,626. The Appeals Court accepted the Company's appeal, alleging the delaying exception of ineptitude of the opposing libel. The plaintiffs reformulated the demand. Discussion period ending. There are good probabilities that the Company will win the case.

Case No. 1158-2002, 8th Civil Court of Santiago. Demand for moral damages following dismissal for dishonesty by a former employee of the Company, which was declared as unjustified by the Supreme Court. Demand ThCh\$140,000. State: sentence favorable to the Company. The plaintiff presented an appeal. It is probable that the court will confirm the judgment in the first instance.

Arbitration. Arbitration proceedings concerning the agreement signed on November 10, 1980 before the notary Raúl Undurraga Laso. It is sought that the Company design and construct a device for supplying 30 liters per second

at the foot of the La Dehesa Dam. Amount of approximately UF 30,000. State: demand recently notified.

Case No. 2829-2003, 7th Civil Court of Santiago. Claim against Resolution 1194 of May 19, 2003 that applied a fine of 26 UTM concerning discharges from the Los Trapenses sewage treatment plant on July 16, 2002 that exceeded the 1,000 fecal coliforms limit for every hundred millimeters of discharge waters.

Case No. 1134-2004, 7th Civil Court of Santiago. Non-compliance with written orders and instruction of the Superintendency of Sanitation Services (SISS), by not sending on time information for the "sewage treatment coverage" and "drinking water production" process.

Case No. 1189-2004, 19th Civil Court of Santiago

Claim of fine for non-compliance of the written orders and instruction of the SISS by not sending on time information for the "sewage treatment coverage" and "drinking water production" process.

Resolution 426 of February 9, 2004 for 10 UTA. State: Sentence unfavorable; appeal made.

The Company is party to other more minor lawsuits brought by and against them.

The management, together with their legal advisers, consider that the above lawsuits will have no material effect on the financial statements. Nevertheless, provisions have been made, as shown in Note 16.

c) Bond issue covenants

The Company has the following restrictions and obligations arising from the issuance of bonds on the domestic market:

1.- Send to the representative of the bond-holders a copy of the Company's quarterly and annually audited unconsolidated and consolidated financial statements and of the subsidiaries registered with the Superintendency of

Securities and Insurance, within the same time limits set by the Superintendency of Securities and Insurance together with all the public information reported to that Superintendency.

2.- Record in its books any provisions for adverse contingencies that may arise and which, in management's opinion, should be reflected in its own and/or its subsidiaries' financial statements.

3.- Maintain insurance coverage that reasonably protects its assets including its main offices, buildings, plants, office furniture and equipment and vehicles, in accordance with normal practices for similar businesses.

4.- The Company promises to ensure that its transactions with its subsidiaries and other related parties are carried out in equitable conditions similar to those normally prevailing in the market.

5.- Maintain a debt ratio no greater than 1.5:1, calculated on the figures in the consolidated and unconsolidated balance sheets, defined as the ratio of liabilities to shareholders' equity.

6.- The Company may 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 subsidiary companies.

Aguas Andinas S.A. has the following obligations and restrictions contained in loan agreements with several local banks:

1. A debt ratio not greater than 1.5:1, calculated on the figures in the consolidated and unconsolidated balance sheets, defined as the ratio of liabilities to shareholders' equity.

2. Prohibition on the disposal or loss of title over essential assets except for contributions or transfers of essential assets to subsidiaries.

3. Send to the different banks with which the Company has credit facilities, a copy of its quarterly and audited annual unconsolidated and consolidated financial statements within a maximum of five days from the time they are sent to the Superintendency of Securities and Insurance.

4. Record in its books any provisions for adverse contingencies that may arise and which, in the management's opinion, should be reflected in the financial statements of the Company.

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 similar businesses.

6. Send a certificate issued by the general manager of the Company confirming compliance with the obligations assumed in the loan agreement.

7. Prohibition on the payment of dividends if there is a case of past due payments or delays in the payment of some loan instalment, except for the obligatory minimum dividend.

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

9. Prohibition on the liquidation or dissolution of the Company, its operations or the business in which it engages; or to participate in any action or contract with the purpose of creating a merger or a consolidation, except in the case of a merger with its current subsidiaries.

10. The Company promises to ensure that its transactions with its subsidiaries and other related parties are carried out in equitable conditions similar to those normally prevailing in the market.

Aguas Cordillera S.A. has the following covenants relating to its bond issues on the domestic market:

1.- Send to the bond-holders' representative a copy of any material information as required by the Superintendency of Securities and Insurance.

2.- Notify the bond-holders' representative of notifications of ordinary and extraordinary shareholders' meetings.

3.- Not to invest in instruments issued by related parties nor carry out with them any operations outside the normal course of business, on conditions that are more unfavorable to the issuer.

4.- Inform the bond-holders' representative about any reduction in its holdings in its subsidiaries of more than 5% of that capital and any other reduction that means a loss of control of the company.

5.- Maintain a debt ratio, defined as short and long-term liabilities to shareholders' equity, no greater than 1.5:1. In the case of the consolidated financial statements, the minority interest shall be considered as part of shareholders' equity. The debt ratio will be measured and calculated quarterly on the non-consolidated and consolidated financial statements, presented in the form and within the term required by the Superintendency of securities and Insurance.

6.- Maintain assets suitable for providing collateral, free of all liens, for at least 1.2 times the unsecured liabilities.

7.- Maintain insurance cover to reasonably protect its assets.


8.- Make provisions for the adverse contingencies which the management and/or the external auditors relieve should be reflected in the financial statements.

9.- Send to the bond-holders' representative a letter signed by the legal representative confirming compliance with the ratios stated.

10.- Use the funds as indicated in letter M of the sixth clause of the bond issue indenture.

11.- Not to sell, assign or transfer operating assets that could significantly affect the productive capacity of the company, except for transfers to subsidiaries.

Direct guarantees

Creditor of guarantee		Debtor	Type of guarantee	Balances pending payment at year end	
				2005 ThCh\$	2004 ThCh\$
S.I.S.S.		Aguas Andinas S.A.	Guarantee policy	7,848,688	7,101,424
Empresa de Ferrocarriles		Aguas Andinas S.A.	Performance bond	2,373	2,368
Enersis S.A.		Aguas Andinas S.A.	Performance bond	8,987	8,970
I. Municipalidad de Providencia		Aguas Andinas S.A.	Performance bond	20,258	33,262
I. Municipalidad de Las Condes		Aguas Andinas S.A.	Performance bond	1,000	1,036
I. Municipalidad de Santiago		Aguas Andinas S.A.	Performance bond	16,709	16,676
I. Municipalidad de Peñaflo		Aguas Andinas S.A.	Performance bond	-	60
Serviu Metropolitano		Aguas Andinas S.A.	Performance bond	1,801,305	-
Direccion Regional de Vialidad		Aguas Andinas S.A.	Performance bond	2,218	8,605
I. Municipalidad de Vitacura		Aguas Cordillera S.A.	Performance bond	35,435	35,878
I. Municipalidad de Lo Barnechea		Aguas Cordillera S.A.	Performance bond	6,429	4,485
Enersis S.A.		Aguas Cordillera S.A.	Performance bond	1,063	1,076
S.I.S.S.		Aguas Cordillera S.A.	Performance bond	1,656,367	852,433
S.I.S.S.		Aguas Cordillera S.A.	Guarantee policy	643,658	637,342
S.I.S.S.		AguasLos Dominicos S.A.	Performance bond	253,497	252,988
Constructora Norte Sur S.A.		Aguas Andinas S.A.	Performance bond	441,515	716,954
I. Municipalidad de Las Condes		Aguas Cordillera S.A.	Performance bond	1,500	3,626
S.I.S.S.		Aguas Manquehue S.A.	Performance bond	372,097	371,350
S.I.S.S.		Aguas Manquehue S.A.	Guarantee policy	475,074	474,120
Conama		Anam S.A.	Performance bond	53,613	10,427
Direccion Obras Hidraulicas		Aguas Andinas S.A.	Performance bond	6,778	5,180
Serviu Metropolitano		Aguas Cordillera S.A.	Performance bond	59,282	-
Direccion Chile de Obras		Aguas Andinas S.A.	Performance bond	8,306	-
I. Municipalidad de Maipu		Aguas Andinas S.A.	Performance bond	937	-
Polpaico S.A.		Anam S.A.	Performance bond	-	1,243
Essat S.A.		Anam S.A.	Performance bond	-	1,036
Esval S.A.		Anam S.A.	Performance bond	-	1,794
Total				13,717,089	10,542,333

26.- Guarantees received from third parties

At December 31, 2005 and 2004, la Company ha recibido documentos en garantía por ThCh\$17.052.967 y ThCh\$19.849.653 respectivamente, que se originan principalmente por contratos de obras con empresas constructoras para garantizar el fiel cumplimiento del contrato. Además, existen otras garantías por contratos de servicios y adquisición de materiales que garantizan la entrega oportuna de estos.

The following is a detail of the more significant bank guarantees received as at December 31, 2005:


Aguas Andinas S.A.

Contractor		Amount ThCh\$	Maturity date
Navarrete y Diaz Cumsille Ing. Civ. S.A.		97,468	31/03/06
Jara Gumucio S.A.		100,000	10/02/06
Renta Equipos Leasing		100,138	11/07/06
Constructora Belfi-Bcf Ltda.		107,849	28/02/07
Ing. y Const Vial y Vives Ltda.		116,393	30/06/06
Constructora Cba Ltda.		118,634	31/12/06
Ing. y Const Incolur Ltda.		120,000	15/03/06
Degrémont S.A. Banque Francaise du Cemme		120,000	15/03/06
Gtech Corporation Chile		122,229	27/10/06
Cia. Americana de Multiservicios S.A.		136,964	31/05/06
Cia. Americana de Multiservicios S.A.		179,748	03/05/07
Chilectra S.A.		179,748	01/08/06
Constructora Vespucio Norte S.A.		215,698	30/06/06
Constructora Norte Sur S.A.		216,219	30/08/06
Itt Sanitaire		224,541	30/10/07
Itt Sanitaire		224,541	28/02/06
Claro,Vicuña Valenzuela S.A.		233,424	15/02/07
Claro,Vicuña Valenzuela S.A.		254,053	30/06/06
KDM S.A.		269,622	10/01/07
Jara Gumucio S.A.		289,394	20/07/06
Cia. de petróleo de Chile S.A.		302,243	22/03/06
Constructora Con-Pax S.A.		314,020	08/09/06
Sacyr Chile S.A.		321,012	23/01/06
Necso Entrecanales C. Chile S.A.		321,012	23/01/06
Cadagua S.A.		1,158,171	11/02/07
Degrémont S.A. Agencia en Chile		2,193,631	30/08/07
Total		8,036,752	


Aguas Cordillera S.A.

Contractor		Amount ThCh\$	Maturity date
Icafal Ing. y Construcción S.A.		256,400	30/09/07
Socovesa Ing. y construcción S.A.		140,000	27/02/06
ACSA AGBAR Construcción Ltda.		107,723	25/05/06
Ingeniería y Constructora Oyarzún y Moreno Ltda.		85,067	17/07/06
Constructora Trébol Ltda.		71,677	28/02/07
Ingeniería y Construcción MST S.A.		58,333	30/04/07
Constructora Cosal S.A.		56,204	01/02/07
Inlac S.A.		54,068	15/02/07
Inmobiliaría Manquehue Oriente S.A.		51,336	03/04/06
Degremont Ltda.		48,351	09/01/07
Marcelino Carrasco Bahamondes y Cia.		44,937	03/05/07
Inlac S.A.		39,508	01/04/06
Captagua Ingeniería. S.A.		38,547	20/08/07
Soc. Constructora Rupanco S.A.		33,770	31/07/07
Inmob. y Const. Nueva Pacífico Sur Ltda.		32,716	17/08/07
Captagua Ingeniería. S.A.		31,770	26/03/07
Empresa Constructora Modelo S.A.		29,045	30/09/06
Inmobiliaría y Const.Nueva Pacífico Sur Ltda.		26,962	01/09/06
Adolfo Yudin Royo		24,964	20/07/07
Ernst Welzel Tautz		24,911	01/06/06
Jara Gumucio S.A.		22,214	30/05/07
Constructora y Comercial el Alba S.A.		21,031	30/01/07
Total		1,299,534	

Aguas Los Dominicos S.A.

Contractor		Amount ThCh\$	Maturity date
Ing. Consultores Asociados Ltda.		327	02/05/06
Servicios y Asesorías prof. S. A.		3,000	30/06/08
D y T Ingeniería Ltda.		576	15/05/06
Total		3,903	




Aguas Manquehue S.A.

Contractor		Amount ThCh\$	Maturity date
Inmobiliaria y Const.Nueva Pacifico Sur Ltda.		12,490	23/01/06
Ingeniería y Constructora Eugenio Díaz		64,300	25/01/06
Dalco Ingeniería Ltda.		18,235	04/04/06
Inmobiliaria y Const.Nueva Pacifico Sur Ltda.		6,091	19/04/06
Dalco Ingeniería Ltda.		21,150	02/01/07
Ingeniería y Constructora Eugenio Díaz		27,552	25/03/07
Empresa Constructora Olbertz Ltda.		24,524	10/07/07
Total		174,342	

Ecoriles S.A.

Contractor	 	Amount ThCh\$	Maturity date
Sodexho Chile S.A.		1,200	22/07/06
Total		1,200	

Anam S.A.

Contractor	  	Amount ThCh\$	Maturity date
Perkin Elmer Chile Ltda.		12,838	29/05/06
Total		12,838	


Gestión y Servicios S.A.

At December 31, 2005 and 2004, the Company has received no performance bonds from third parties.


27.- Local and Foreign Currencies

The Company has the following assets and liabilities in local and foreign currency as at December 31, 2005 and 2004:

Assets

Item	Currency	 2005 ThCh\$	2004 ThCh\$
Current Assets			
Cash and banks	Non-indexed pesos	162,572	108,522
Cash and banks	Dollar	3,266	4,349
Marketable securities	Non-indexed pesos	1,454,742	1,350,223
Trade accounts receivable	Non-indexed pesos	37,129,423	31,530,871
Notes receivable	Non-indexed pesos	324,652	743,927
Notes receivable	Indexed Ch\$	656,152	641,321
Sundry debtors	Indexed Ch\$	74,022	70,937
Notes receivable rel. cos.	Non-indexed pesos	23,164	46,780
Inventories	Indexed Ch\$	932,671	1,380,802
Recoverable taxes	Indexed Ch\$	364,275	2,321,812
Sundry debtors	Euros	1,291	2,299
Prepaid expenses	Indexed Ch\$	464,489	320,222
Deferred taxes	Indexed Ch\$	797,673	686,061
Other current assets	Non-indexed pesos	20,579,551	1,055,224
Sundry debtors	Dollar	1,174	2,118
Sundry debtors	Non-indexed pesos	6,270,694	802,342
Time deposits	Non-indexed pesos	400,832	37,593,369
Prepaid expenses	Non-indexed pesos	5,647	0
Marketable securities	Indexed Ch\$	0	370,923
Other current assets	Indexed Ch\$	1,094,860	1,745,937
Fixed assets			
Fixed assets	Indexed Ch\$	591,430,365	595,888,707
Other assets			
Goodwill	Indexed Ch\$	58,017,376	61,986,149
Negative goodwill	Indexed Ch\$	(1,079)	(1,146)
Long-term debtors	Non-indexed pesos	1,041,026	2,159,110
Long-term debtors	Indexed Ch\$	7,344,345	8,459,320
Intangible assets (net)	Indexed Ch\$	36,111,183	36,119,228
Other long-term assets	Indexed Ch\$	8,917,798	10,271,353
Other long-term assets	Non-indexed pesos	687,291	82,353
Total assets			
	Non-indexed pesos	68,079,594	75,472,721
	Dollar	4,440	6,467
	Indexed Ch\$	706,204,130	720,261,626
	Euros	1,291	2,299

Current assets

Account		Currency	Up to 90 days				90 days to 1 year			
			2005		2004		2004		2004	
			Amount ThCh\$	Average annual interest rate %	Amount ThCh\$	Average annual interest rate %	Amount ThCh\$	Average annual interest rate %	Amount ThCh\$	Average annual interest rate %
Current portion of bonds payable		Indexed Ch\$	93,517,041	4.39%	2,158,064	5.59%	11,983,210	4.25%	32,205,586	4.79%
Borrowings from banks current portion		Indexed Ch\$	10,181,495	0.95%	-	-	-	-	-	-
Accounts payable		Non-indexed Ch\$	17,792,409	-	15,330,072	-	-	-	-	-
Accounts payable		Indexed Ch\$	21,248	-	182,256	-	-	-	-	-
Accounts payable		Euros	7,430	-	60,334	-	-	-	-	-
Accounts payable		Dollar	131,777	-	185,201	-	-	-	-	-
Notes payable		Indexed Ch\$	855,706	8.00%	34,269	5.45%	307,123	5.09%	4,941,525	5.95%
Sundry creditors		Non-indexed Ch\$	65,590	-	74,286	-	-	-	-	-
Sundry creditors		Indexed Ch\$	984,231	4.34%	991,278	-	236,709	4.34%	234,243	-
Provisions		Non-indexed Ch\$	11,455,054	-	15,304,908	-	4,040,070	-	-	-
Withholdings		Non-indexed Ch\$	6,648,288	-	5,535,906	-	-	-	-	-
Income tax		Non-indexed Ch\$	1,267,637	-	-	-	405,806	-	-	-
Notes and accounts payable to related companies		Non-indexed Ch\$	3,725,437	-	7,316,151	-	-	-	-	-
Unearned income		Indexed Ch\$	810,455	-	372,827	-	238,965	-	238,924	-
Unearned income		Non-indexed Ch\$	410,190	-	381,267	-	-	-	-	-
Provisions		Indexed Ch\$	67,706	-	22,071	-	3,777	-	-	-
Notes payable		Non-indexed Ch\$	12,661	-	-	-	58,243	-	-	-
Borrowings from banks current portion		Non-indexed Ch\$	10,064,737	5.64%	-	-	-	-	-	-
Borrowings from banks current portion of L/T		Non-indexed Ch\$	-	-	607,046	4.17%	6,266,229	7.29%	-	-
Borrowings from banks current portion of L/T		Indexed Ch\$	-	-	-	-	207,425	7.03%	-	-
Notes and accounts payable to related companies		Euros	-	-	4,105	-	-	-	-	-
Notes and accounts payable to related companies		Indexed Ch\$	-	-	1,156,098	-	-	-	1,468,085	-
Total current liabilities										
		Indexed Ch\$	106,437,882	-	4,916,863	-	12,977,209	-	39,088,363	-
		Non-indexed Ch\$	51,442,003	-	44,549,636	-	10,770,348	-	-	-
		Euros	7,430	-	64,439	-	-	-	-	-
		Dollar	131,777	-	185,201	-	-	-	-	-

Long-term liabilities 2005

Item	Currency	1 to 3 years		3 to 5 years		5 to 10 years		More than 10	
		Amount ThCh\$	Average annual interest rate %	Amount ThCh\$	Average annual interest rate %	Amount ThCh\$	Average annual interest rate %	Amount ThCh\$	Average annual interest rate %
Bonds payable	Indexed Ch\$	24,175,158	4.27%	25,218,832	4.35%	37,660,077	4.48%	22,891,848	6.25%
Notes payable	Indexed Ch\$	473,509	6.92%	423,037	7.45%	12,046,581	5.79%	12,518,127	3.91%
Sundry creditors	Indexed Ch\$	582,537	4.34%	496,954	-	517,674	-	-	-
Provisions	Indexed Ch\$	242,024	-	242,024	-	605,057	-	6,783,585	-
Deferred taxes	Indexed Ch\$	399,393	-	399,393	-	998,482	-	843,626	-
Borrowings from banks	Non-indexed Ch\$	28,093,335	7.29%	32,173,332	7.29%	1,900,000	7.40%	-	-
Other liabilities	Indexed Ch\$	430,293	8.28%	112,617	8.60%	249,904	9.09%	-	-
Total long-term liabilities									
	Indexed Ch\$	26,302,914	-	26,892,857	-	52,077,775	-	43,037,186	-
	Non-indexed Ch\$	28,093,335	-	32,173,332	-	1,900,000	-	-	-

Long-term liabilities 2004

Item	Currency	1 to 3 years		3 to 5 years		5 to 10 years		More than 10 years	
		Amount ThCh\$	Average annual interest rate %	Amount ThCh\$	Average annual interest rate %	Amount ThCh\$	Average annual interest rate %	Amount ThCh\$	Average annual interest rate %
Bonds payable	Indexed Ch\$	86,934,178	4.83%	76,193,943	4.31%	18,557,714	4.96%	25,000,948	6.25%
Notes payable	Indexed Ch\$	941,033	6.94%	411,741	7.30%	10,201,277	5.09%	12,057,686	4.06%
Long-term creditors	Indexed Ch\$	764,873	-	600,992	-	738,248	-	-	-
Provisions	Indexed Ch\$	219,663	-	219,663	-	549,162	-	5,504,784	-
Deferred taxes	Indexed Ch\$	358,282	-	358,282	-	893,471	-	1,618,111	-
Other long-term liabilities	Indexed Ch\$	692,638	6.73%	192,771	8.49%	303,279	8.99%	-	-
Borrowings from banks	Non-indexed Ch\$	20,906,268	4.17%	29,104,693	4.17%	20,747,627	4.18%	-	-
Total long-term liabilities									
	Indexed Ch\$	89,910,667	-	77,977,392	-	31,243,151	-	44,181,529	-
	Non-indexed Ch\$	20,906,268	-	29,104,693	-	20,747,627	-	-	-

28.- Sanctions

a) Superintendency of Securities and Insurance:

Neither the Company its subsidiaries, nor its directors or executives, were sanctioned during the periods covered by the financial statements.

b) Other administrative authorities:

Aguas Andinas S.A.

2005

The Superintendency of Sanitation Services (SISS) applied the following fines:

With Resolution SISS 2807-2005, it applied a fine of 25 UTA, paid on December 30, 2005, for the non-compliance with number 6 of Chapter VII of the Invoicing Manual.

By Resolution SISS 710-2005, it applied a fine for non-compliance with written instructions given by the Superintendency in its Official Letter No.1908 and in Chapter XI of the Invoicing Manual. Amount payable 40 "UTA" ("Annual Tax Units" - an official monetary unit). State of the case: awaiting judgment. Estimated result: it is intended to obtain a reduction in the fine.

ii) The COREMA RM (regional environmental authority) applies a fine of 300 UTM (monthly tax units) by its Resolution 069/2005 of February 17, 2005, as a result of bad odors emanating from the La Farfana treatment plant. 10% of the fine was paid to initiate an appeal in the courts. The summary judgment of the fine appeal was made before the 27th Civil Court of Santiago, case No. 6857-2005, which is at the evidence stage.

2004

i) The Superintendency of Sanitation Services (SISS) applied the following fines:

With Resolution 415 dated February 9, 2004, the SISS fined the Company for not complying with written orders and instructions to remit, within the established term, information for the "Cover of the treatment of sewage" and "Production of drinking water" processes. A summary complaint judgment took place in the 29th Civil Court of Santiago (case file No.1189-2004). State of the case: demand rejected in the first instance. Appeal made. The amount of the sanction is 30 Annual Taxation Units (UTA).

The Company was sanctioned when the SISS detected a failure to comply with the parameters established on fecal coliforms during a self-evaluation carried out during the second quarter of the year 2003 at the Paine sewage treatment plant. A summary complaint judgment took place in the 29th Civil Court of Santiago (case file: 1434-2004). In the second instance stage, the appeal against the sanction is pending. The amount of the sanction is 26 Annual Taxation Units (UTA).

By SISS Resolution 2796, the Company was fined for not complying with written orders and instructions issued by the SISS under Official Memoranda Nos. 1207 and 1456. A summary complaint judgment took place in the 29th Civil Court of Santiago (Case file: 11263-2004). The amount of the sanction is 100 Annual Taxation Units (UTA). Judgment has been given and the SISS has withdrawn the fine.

By SISS Resolution 2858, the Company was fined for not complying with written orders and instructions issued by the SISS under Official Memorandum 2774 and included in the development plan for Curacaví. A summary complaint judgment took place in the 29th Civil Court of Santiago (Case file: 11711-2004). The case is in the sentencing period. The amount of the sanction is 51 Annual Taxation Units (UTA).

On October 20, 2004, the SISS instructed Aguas Andinas S.A. to suspend customer billings for sewage treatment at the La Farfana Plant due to an alleged breach of compliance with the Environmental Rating Resolution for that plant and in accordance with SISS Ordinance 690/04 on the handling of sludge. The impact of this suspension covered the period between October 20 and November 20, which resulted in a loss of revenues amounting to approximately Ch\$2,325 million.

ii) SESMA applied the following fines:

By its Resolution 5180 of December 15, 2003, a fine of 1,000 UTM (Monthly Taxation Units) was applied due to bad odors emanating from the La Farfana plant. The fine was paid in order to be able to bring a claim before the courts. This was presented to the 17th Civil Court of Santiago (Case No.2999-2004). State of the case: awaiting start of evidence stage.

In its Resolution 4838 of October 19, 2004, confirmed by Resolution 782 of February 2, 2005, SESMA, the national environmental authority, fined the Company with 2,000 Monthly Taxation Units (UTM) for breach of Law 144/61 issued by the Ministry of Health, which sets standards for avoiding atmospheric emanations or contaminants of any kind. The fine was paid in order to bring a claim before the court. This was presented to the 17th Civil Court of Santiago (Case No.4566-2005). State of the case: evidence stage pending.

In its Resolution 4838 of October 19, 2004, confirmed by Resolution 782 of February 2, 2005, SESMA, the national environmental authority, fined the Company with 2,000 Monthly Taxation Units (UTM) for breach of Law 144/61 issued by the Ministry of Health, which sets standards for avoiding atmospheric emanations or contaminants of any kind. The fine was paid in order to bring a claim before the court. This was presented to the 17th Civil Court of Santiago (Case No.4566-2005). State of the case: evidence stage pending.

iii) The COREMA RM (regional environmental authority) fined the Company on May 28, 2004 (Resolution 177) with 1,000 Monthly Taxation Units (UTM) for bad odors emanating from the La Farfana Plant. 5% of the fine was duly paid in order to commence an appeal through the law courts (28th Civil Court of Santiago - Case No.6593-2004). State of the case: in the evidence stage.

Aguas Cordillera S.A.

With Resolution 425 dated February 9, 2004, the Superintendency of Sanitation Services fined the Company for not complying with its written orders and instructions to remit, within the established term, information on the "Cover of the treatment of sewage" and "Production of drinking water" processes.

This fine is being appealed by the Company in the 4th Civil Court of Santiago (Case File N°1195-2004). Current status: Unfavorable sentence; appealed against.

The Superintendency of Sanitation Services fined the Company under its Resolution 2734 for not complying with its written orders contained in Official Memorandum 2774 and in the development plan.

This fine is being appealed by the Company in the 29th Civil Court of Santiago (Case File N°11,129). Current status: Unfavorable sentence; appealed against.

Aguas Manquehue S.A.

On May 19, 2003, the Superintendency of Sanitation Services fined the Company under its Resolution 1194 for failure to comply with the NCH 1333 Of 78 standard.

The Company paid the fine and this case is under appeal in the 7th Civil Court of Santiago (Case file N°2829-2003). The appeal was granted against the sentence that rejected the demand.

By Resolution 424 dated February 9, 2004 the Superintendency of Sanitation Services fined the Company for not complying with its written orders and instructions to remit, within the established term, information on the "Cover of the treatment of sewage" and "Production of drinking water" processes.

This fine is being appealed against by the Company in the 7th Civil Court of Santiago (Case File N°1134-2004). Current status: Unfavorable sentence; appealed against.

Aguas Los Dominicos S.A.

By Resolution 426 dated February 9, 2004, the Superintendency of Sanitation Services fined the Company for not complying with its written orders and instructions to remit, within the established term, information on the "Cover of the treatment of sewage" and "Production of drinking water" processes.

This fine is being appealed by the Company in the 19th Civil Court of Santiago (Case File N°1189-2004). Current status: Unfavorable sentence; appealed against.

During the years covered by these financial statements, no other sanctions have been applied to the Company, its directors or executives.

29.- Subsequent events

Aguas Andinas S.A.

On December 9, 2005, the Company inscribed with the Superintendency of Securities and Insurance (Ord. No.12,877) a new bond issue under the line inscribed with the Superintendency under the No.305 on October 10, 2002.

This bond issue corresponds to the Series F for U.F.5,000,000, with a nominal interest rate of 4.15% and a term of 21 years. Equal repayments will be due from June 1, 2008 to December 1, 2026.

These bonds were placed on January 3 and 4, 2006, for a total amount of U.F. 5,000,000.

The board meeting held on February 28, 2006 agreed to call ordinary shareholders' meetings for April 25, 2006 of Aguas Cordillera S.A., Aguas Los Dominicos S.A. and Aguas Manquehue S.A., and April 26, 2006 for Aguas Andinas S.A..

At the date of issue of these financial statements, the management of the Company and its subsidiaries are unaware of any other subsequent events that might significantly affect the financial position and/or results of the Company and its subsidiaries at December 31, 2005.

30.- The Environment

Aguas Andinas S.A. and subsidiaries

The principal investments made by the subsidiaries for improving the environment during 2005 and 2004 have been the construction of the sewage treatment plants detailed below:

Name of works	2005 ThCh\$	2004 ThCh\$
La Farfana treatment plant	5,860,983	12,087,105
Talagante treatment plant	5,358,736	2,376,293
Curacaví treatment plant	942,752	121,798
El Monte treatment plant	225,281	730,546
Esmeralda Melipilla treatment plant (improvement)	215,327	61,055
Cexas and Esmeralda treatment plants remote control	40,560	23,687
El Trebal treatment plant	38,608	44,951
Quality and environmental plan	22,255	-
Los Nogales treatment plant	22,159	2,655,352
Buin Maipo treatment plant	7,142	1,706
Repair of mixed sludge chambers	6,697	-
Handling of treatment plant sludge	3,509	147,711
Valdivia de Paine treatment plant	44	64,122
Prevention and neutralization of plant chlorine leakages	-	36,708
Total	12,744,053	18,351,034

31.- Notes payable at long term

Clause 14 of Decree Law 70 published in the Official Gazette on March 30, 1998 and clause 42 of Supreme Decree 453 set out the rules for demanding reimbursable financial contributions for capacity and for the provision of the corresponding service to whoever asks to be incorporated as a customer or requires a service expansion.

The debt for reimbursable contributions is shown in Long-term notes payable for ThCh\$25,461,254 and ThCh\$23,611,737 at December 31, 2005 and 2004 respectively.

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 sanitation works constructed or acquired with resources of the National Regional Development Fund was transferred to the company. The assets transferred under this agreement, which constitute contributions from third parties, are governed by Decree Law 70 issued by the Ministry of Public Works in 1988 and the provisions of clause 36 of the respective MINECON Law 453 of 1989.

At December 31, 1998, these assets were incorporated into the Company's fixed assets at a nominal value of Ch\$1 for each one, as there is a prohibition on considering these assets transferred by the regional government as an investment for purposes of tariff setting, so the Company cannot earn a return on them and they do not represent any additional operating profit-generating operations for the Company in addition to those already obtained since they started operations.

Furthermore, the cost benefit is not altered with respect to previous years as the Company made no disbursements. The maximum tariff contemplated for this type of contribution is intended only to cover the operating and maintenance costs required.

According to the instructions of the Superintendency of Securities and Insurance, in its Resolution 01489 of March 22, 2000, the estimated technical value of these works was determined for information purposes. This now amounts to ThCh\$1,601,098 and its depreciation, determined on the basis of its time in use, amounts to ThCh\$531,862.

The principal criteria used in the valuation of these works include earth movement, supply pipes, drinking water and sewage chambers and labor costs, all as at December 2005. The average useful life of these assets is 406 months and their remaining average useful life as at December 2005 is 292 months.

Material information

Aguas Andinas S.A.

- At a board meeting held on March 22, 2005, the resignation was noted of Roque Gistau Gistau as a director of the Company.
- The ordinary shareholders' meeting of Aguas Andinas S.A. held on April 21, 2005 revoked the board of directors and elected, for the fully statutory period, the following persons as directors and alternate directors:

DIRECTORS

Alfredo Noman Serrano
Josep Bagué Prats
Fernando Rayón Martín
Alain Chaigneau
Carlos Mladinic Alonso
Daniel Albarrán Ruiz Clavijo
Bernardo Espinosa Bancalari

ALTERNATE DIRECTORS

Angel Simón Grimaldos
José Vila Bassas
Lluís María Puiggari Lanza
Jean Michel Desloges
Jorge Bande Bruck
Claudio Maggi Campos
Roberto Hempel Holzapfel

- On July 14, 2005, INVERSIONES AGUAS METROPOLITANAS LIMITADA, controlling shareholder in AGUAS ANDINAS S.A., the holder of 3.133.053.126 Series A shares issued by AGUAS ANDINAS S.A., advised that its partners, ONDEO SERVICES CHILE S.A. and INVERSIONES AGUAS DEL GRAN SANTIAGO S.A., had agreed to transform INVERSIONES AGUAS METROPOLITANAS LIMITADA into a corporation governed by the regulations applicable to open corporations, preserving the joint control over it under a shareholders' agreement, following the transaction.

It was also advised that they agreed to request the inscription of the transformed company and its shares in the Securities Register of the SVS which, according to the correspondence, would prepare them for placing the shares on the market should conditions be suitable.

- On July 19, 2005, the board of the Company agreed to prepay all the bonds of Series A, sub-Series A1 and A2, whose issue is inscribed in the Securities Register of the SVS with the number 266 on August 13, 2001, in accordance with clauses 104 d) and 130 of the Securities Market Law, and the clause 3, 13 of the bond issue indenture recorded in public deed dated June 19, 2001, before the Santiago notary Iván Torrealba Acevedo, modified by public deed dated August 2, 2001 before the Santiago notary Juan Ricardo San Martín Urrejola.

Accordingly, the prepayment was made on September 1, 2005. The bonds were redeemed at their nominal value plus accrued interest to the date of their redemption.

The board expressly authorized the chief executive officer, Felipe Larrain Aspillaga, to follow all the procedures required by law and the contract that are necessary for the redemption and prepayment of these bonds.

- On July 19, 2005, the board of the Company agreed to distribute Ch\$21,416,378,060 as an interim dividend against the net income for 2005. The Company's dividend No.41 amounts to Ch\$3.5 per share and is payable from September 27, 2005.

· The board of the Company on August 30, 2005 agreed to the issue of two new Series of bonds against the line of bonds issue contract registered with the SVS under No.305 on October 10, 2002. Both Series together will not exceed 5,200,000 Unidades de Fomento. The purpose of these new Series of bonds will be the refinancing of the company's liabilities.

- On November 23, 2005, the Company reported that regarding the secondary common share offering of its parent, Inversiones Aguas Metropolitanas S.A. (IAM) that its shareholders are carrying out in Chile and abroad, Aguas Andinas S.A. has been informed by IAM that today the transaction referred to has been legally finalized, and consequently:

(i) Ondeo Services Chile S.A. has ceased to be a shareholder of IAM;

(ii) Inversiones Aguas del Gran Santiago S.A. maintains a 56.6% shareholding in IAM, which holding could reduce to 50.1% should UBS Securities LLC exercise the whole of its purchase option set out in the respective share purchase agreement, for which it has a term until December 18, 2005;

(iii) The shareholders' agreement between Inversiones Aguas del Gran Santiago S.A. and Ondeo Services Chile S.A. has been terminated as the latter is no longer a shareholder in IAM;

(iv) Inversiones Aguas del Gran Santiago S.A. therefore remains as the sole controller of IAM, and thus of Aguas Andinas S.A.;

(v) Inversiones Aguas del Gran Santiago S.A. is controlled by Agbar Chile S.A., which in turn is controlled by Company General de Aguas de Barcelona S.A. ("Agbar"). Agbar is a Spanish company whose largest shareholder is Hisusa, Holding de Infraestructuras y Servicios Urbanos, S.A. ("Hisusa"), with a holding of 47.197% of the share capital of Agbar; and

(vi) The shareholders of Hisusa are the French company Suez, S.A. (through a subsidiary), with 51%, and Caixa d'Estalvis i Pensions de Barcelona (through a subsidiary), with 49%. Suez, S.A. also, through a subsidiary, has a 1.449% shareholding in Agbar.

- The board meeting held on November 29, 2005 agreed the following.

i. To complement and modify the board resolutions of August 30, 2005 when the issue of the Series E y F bonds was authorized against the line of bonds registered with the SVS under No.305 of October 10, 2002. Among other matters, it was agreed to extend the maturity date of the Series F to a maximum

of 21 years and eliminate the limitation, with respect to the placement of the Series E and F bonds, that they should jointly not exceed 5,200,000 Unidades de Fomento.

ii. To proceed with the prepayment of all the Series D bonds as established in the respective issue indenture, delegating on certain persons the determination of the date on which this will be carried out.

Aguas Cordillera S.A.

The ordinary shareholders' meeting of Aguas Cordillera S.A., held on April 21, 2005, renewed the directors, the following being elected:

Felipe Larrain Aspillaga
Joaquín Villarino Herrera
Ignacio Escudero García
Luis Manuel Rodríguez Cuevas
Igor Garafulic Olivares

On July 19, 2005, the board of the Company unanimously agreed to prepay all the bonds Series B, D and E, in accordance with the provisions of clauses 104 d) and 130 of the Securities Market Law and the pertinent clauses of each indenture, whose issues are identified below:

1.- Series B bonds: By public deed dated October 30, 1991 before the notary Raúl Undurraga Laso, a bond issue indenture was signed for the Series B, sub-Series B1, B2 and B3, modified by public deed dated March 21, 2002 before the notary José Musalem Saffie. The issue is inscribed in the Securities Register of the SVS with the number 154, dated February 7, 1992.

2.- Series D bonds: By public deed dated May 24, 1993 before the notary Raúl Undurraga Laso, a bond issue indenture was signed for the Series D, sub-Series D1, D2 and D3, modified by public deed dated August 6, 1998 before the notary José Musalem Saffie. The issue is inscribed in the Securities Register of the SVS with the number 167, dated August 10, 1993.

3.- Series E bonds: By public deed dated May 18, 1995 before the notary Gonzalo de la Cuadra Fabres, a bond issue indenture was signed for the Series E, sub-Series E1, E2 and E3, modified by public deed dated February 11, 1997 before the notary Rene Benavente Cash. The issue is inscribed in the Securities Register of the SVS with the number 187, dated August 11, 1995.

The prepayment of the Series B and E bonds will be made on January 1, 2006 and of the Series D bonds on October 1, 2005. The bonds will be prepaid at an amount equivalent to the principal outstanding plus accrued interest to the effective date of prepayment.

The board expressly authorized the chief executive officer, Víctor de la Barra, to follow all the procedures according to the law and the contract that are necessary for effecting the prepayment and redemption of the bonds mentioned.

Aguas los Dominicos S.A.

On April 21, 2005, the ordinary shareholders' meeting resolved the following:

The renewal of the board of directors, the following being elected:

Felipe Larrain Aspillaga
Joaquín Villarino Herrera
Camilo Larraín Sánchez
Luis Manuel Rodríguez Cuevas
Igor Garafulic Olivares

Aguas Manquehue S.A.

On April 21, 2005, the ordinary shareholders' meeting resolved the following:

The renewal of the board of directors, the following being elected:

Felipe Larrain Aspillaga
Joaquín Villarino Herrera
Luis Manuel Rodríguez Cuevas
Carlos Alberto Rabat Vilaplana
Igor Garafulic Olivares

On July 19, 2005, and as resolved at the ordinary shareholders' meeting for 2005, the board of the Company set the date for the payment of the final dividend for September 26, 2005.

The Company and its subsidiaries have no other material information to report at the close of the financial statements at December 31, 2005.

Reasoned Analysis Aguas Andinas and Subsidiaries

I.- General Aspects

Shareholdings

The capital of Aguas Andinas S.A. is divided into 6,118,965,160 shares of no par value. At December 31, 2005, our principal shareholders were Inversiones Aguas Metropolitanas S.A., with 51.2%, and CORFO, with 35%, of the share capital.

Sales

Our sales derive mainly from the regulated services we provide in the production and distribution of drinking water, the collection, treatment and disposal of sewage, other regulated services (that include revenues from supply cut-off and re-connection charges and charges related to certain liquid industrial waste discharge monitoring activities and fixed charges.

Sales for 2005 amounted to Ch\$215,106 million, 10.1% (Ch\$19,674 million) higher than in 2004. The net income of Aguas Andinas S.A. at December 31, 2005 was Ch\$75,945 million, Ch\$11,191 million (17.3%) more than in 2004.

The EBITDA (operating income plus depreciation and amortization) as a percentage of sales was 63.0% in 2005 (62.0% in 2004).

Operating costs and expenses

Our costs and operating expenses are composed of the cost of sales and administration and selling expenses. The most important items in the cost of sales are depreciation, which represented 36%; the outsourcing of certain services to contractors, which represented 34%; and personnel, which represented 16% in 2005. The most important items of administration and selling expenses is personnel, which represented 45%; outsourced services, which represented 31%; and general expenses, which represented 12%, in 2005.

The cost of sales and administration and selling expenses increased by Ch\$3,619 million (4.4%) and Ch\$1,167 million (4.5%) respectively.

Tariffs

The most important factor in determining the results of our business and our financial situation is the tariffs set for our regulated sales and services. As a natural monopoly, we are regulated by the SISS and our tariffs are set in accordance with the Sanitation Services Tariffs Law, Decree Law 70 of 1988.

Our tariff levels are reviewed every five years and, during that time, are subject to additional adjustments linked to polynomial of indexation if the accumulated change since the previous adjustment is 3 % or more, according to calculations made as a function of various inflation indices. The adjustments are specifically applied as a function of a formula that includes the Consumer Price Index, the Wholesale Price Index for Imported Industrial Goods and the Wholesale Price Index for National Industrial Goods, all measured by the Chilean National Institute of Statistics. Tariffs are also subject to adjustment to reflect additional services previously authorized by the SISS.

During 2005, the tariff negotiation process was concluded for the period 2005-2010. The tariff increases approved by Decree 100 for Aguas Andinas S.A., Decree 179 for Aguas Cordillera S.A., Decree 149 for Aguas Manquehue S.A and Decree 178 for Aguas Los Dominicos S.A ., of the Ministry of the Economy came into effect on March 1, June 30 , May 19 and June 30, 2005 respectively.

Market Risk

Our Company shows a favorable situation in terms of risk, mainly due to the special characteristics of the sanitation sector, but our business is seasonal and our operating results can fluctuate from one quarter to another. We tend to see the greatest demand and sales during the Chilean summer months (December to March) and the weakest demand and sales in the winter (June to September). In general, demand for water is greater in the warmer months than in the more temperate ones mainly due to the additional water needs for watering systems and other outside uses of water.

Adverse weather conditions can eventually affect the optimum delivery of sanitation services because the processes of capturing and producing drinking water depend to a large degree on weather conditions in the water basins. Factors like rainfall (snow, sleet, rain and fog), temperature, humidity, the flow of sediments, river flows and transparency, determine the quality and continuity of crude water available at each sluiceway that is capable of being treated at the drinking water plant. In the event of drought, we have large water reserves held in the El Yeso, Laguna Negra and Lo Encañado reservoirs, apart from the contingency plans we have developed, which enable us to reduce the eventual negative impacts that might be caused by adverse weather conditions for our operations.

Capital investment

One of the variables that most affects the result of our business and financial situation is capital investments. These are of two types:

Committed investments: We have to agree an investment plan with the SISS which states the investments we have to make during the following 15 years.

The investment plan specifically reflects a commitment on our part to carry out certain projects related to the maintenance of certain quality standards and coverage. This investment plan is revised every five years, and Aguas Andinas can request modifications to it when certain relevant facts are ascertained.


Un-committed investments: These are investments that are not contemplated in the investment plan and which we make voluntarily to ensure the quality of our services and replace obsolete assets. These generally relate to the replacement of network infrastructure and other assets, the acquisition of water rights and investments in non-regulated businesses.

As required by Chilean regulations, interest on capital investments in works in progress is capitalized. Changes to our capital investment plan therefore affect the interest credited in our income statement and consigned as works in progress in Fixed assets in the balance sheet.

II.- Comparative analysis and explanation of changes:

Balance Sheet

The composition of assets and liabilities at December 31, 2005 y 2004 is as follows:

Assets		2005 Ch\$ millions	2004 Ch\$ millions	Change %
Current assets		70,741	80,778	(12.43)
Fixed assets (net)		591,430	595,889	(0.75)
Other assets		112,118	119,076	(5.84)
Total		774,289	795,743	(2.70)


Current assets are Ch\$10,037 million lower than the year before, mainly due to a decrease in financial investments of Ch\$17,944 million and recoverable taxes of Ch\$1,958 million, compensated by an increase in trade accounts receivable of Ch\$5,599 million and sundry debtors of Ch\$5,469 million, this item is explanation for the rescue the Bonos Series B and B of Aguas Cordillera S.A.

The Company's fixed assets increased by 1.49% (Ch\$16,571 million) in gross terms compared to the year before, from Ch\$1,114,575 to Ch\$1,131,146 million. The most important increase was in Buildings and infrastructure of Ch\$13,836 million, machinery and equipment of Ch\$1,593 million and Other fixed assets of Ch\$965 million, due to investments being made in sanitation and support infrastructure.

The charge for depreciation at December 2005 amounts to Ch\$32,986 million, 1.4% below the level of 2004 (Ch\$33,449 million). This is mainly due to the end of the useful life of operating assets during this year. Also, because of works that have come into operation during the last year and were carried out in previous years, accumulated depreciation increased by Ch\$21,029 million, 4.1% higher than the previous year.

Including the above effects, fixed assets in net terms declined by Ch\$4,459 million compared to December 2004.

Other assets fell by Ch\$6,958 million, the principal changes being a reduction in goodwill of Ch\$3,969 million and long-term debtors of Ch\$2,233 million.

Liabilities		2005 Ch\$ millions	2004 Ch\$ millions	Change %
Current liabilities		181,767	88,805	104.68
Long-term liabilities		210,477	314,071	(32.98)
Total liabilities		392,244	402,876	(2.64)
Minority interest		3	3	-
Shareholders' equity		382,042	392,864	(2.75)
Total		774,289	795,743	(2.70)

The changes in the composition of total liabilities between short and long term are mainly explained by Company's decision to prepay the Series D bonds, which was done on January 9, 2006. This means that this is shown in current liabilities as Bonds payable – current portion for Ch\$68,276 million at December 31, 2005.

Current liabilities increased by Ch\$92,962 million due to the following factors: i) increase in bonds payable (current portion) of Ch\$71,136 million and bank borrowings of Ch\$5,867 million, mainly explained by the transfer from long term of these obligations; and ii) an increase in short-term bank borrowings of Ch\$20,246 million relating to bank loans drawn during the second half of 2005. This was partially offset by the decrease in notes and accounts payable to related companies of Ch\$6,219 million.

Long-term liabilities declined by Ch\$103,594 million because of the following: i) a reduction in bonds payable of Ch\$96,740 million mainly due to the transfer to short term of the Series D bonds (prepayment), the annual amortization of the Series C bonds and the prepayment of the Series A bonds in September 2005, partly compensated by the issue of Series E bonds in December 2005; and ii) a reduction in bank borrowings of Ch\$8,592 million following the transfer to short term of bank loan maturities.

Shareholders' equity compared to 2004 fell by Ch\$10,822 million following the payment in September 2005 of interim dividends of Ch\$21,888 million, partially offset by the Ch\$11,191 million increase (17.28%) in net income for the year.

Financial indicators

		Unit	2005	2004	Change %
Liquidity Ratios					
Current ratio	(times)		0.39	0.91	(57.14)
Razón ácida	(times)		0.12	0.46	(73.91)
Debt					
Debt ratio	(%)		102.67	102.55	0.12
Short-term debt	(%)		46.34	22.04	110.25
Long-term debt	(%)		53.66	77.96	(31.17)
Financial expense coverage	times		6.21	5.57	11.49
Activity					
Inventory turnover	(times)		74.93	51.29	46.09
Inventory permanence	(days)		4.80	7.02	(31.02)
Profitability					
Return on average equity	(%)		19.60	16.95	15.63
Return on assets (average)	(%)		9.81	8.14	20.52
Earnings per share	(\$)		12.41	10.58	17.30
Dividend yield	(%)		7.60	4.00	90.00
Return on operating assets	(%)		16.12	13.70	17.66


Current liabilities increased by 104.68% and current assets decreased by 12.43%, so the Company's liquidity fell by 57.14% compared to 2004. Current liabilities mainly increased in the headings of bank borrowings and bonds payable. In net terms, the debt level improved slightly by 0.12% due to new short-term borrowings from domestic banks, the new bond issue in December (Series E of Aguas Andinas S.A. and the reduction in equity due to the combined effect of interim dividend payments and a higher net income for the year, compensated by the reduction in bonds payable, due to the repayment of installments of the Series C and D bonds and the prepayment of the Series A bonds.

For the calculation of the return on operating assets, the operating income is divided by the sum of fixed assets (average) and net intangible assets (average). This ratio improved by 17.66% following the 17.19% improvement in operating income.

The return on average equity shows a 15.63% increase, mainly because of the 17.28% increase in profits compared to the previous year.

Statement of income


The following table shows the most important items of the statement of income for the years ended December 31, 2005 and 2004:

Statement of income		2005 Ch\$million	2004 Ch\$million	Change %
Sales		215,106	195,432	10.07
Cost of sales (less)		86,669	83,050	4.36
Administrative & selling expenses (less)		26,936	25,769	4.53
Operating income		101,501	86,614	17.19
Non-operating result		(9,135)	(8,174)	11.76
Net income for the year		75,945	64,754	17.28
Financial expenses (less)		17,740	17,171	3.31
EBITDA		144,147	130,103	10.79

(EBITDA = income before taxes, depreciation, amortization & interest)

Sales

Aguas Andinas produced consolidated sales of Ch\$215,106 million in 2005, 10.1% more than the Ch\$19,674 million in 2004. This variation is explained as follows:

	2005		2004	
	sales Ch\$ millions	share %	sales Ch\$ millions	share %
Drinking water	102,096	47.5%	99,482	50.9%
Sewage	89,362	41.5%	75,936	38.9%
Other regulated revenues	9,064	4.2%	7,414	3.8%
Non-regulated business	14,583	6.8%	12,601	6.4%
Total	215,106	100.0%	195,433	100.0%

Under the heading of regulated services, the main variations are:

a) Drinking water: this covers drinking water production and distribution services. These show an increase of Ch\$2,615 million (2.6%) as a result of 2.9 million m3 of greater volumes and a higher average tariff applied. The higher sales volume is explained by the combination of a growth in customers of 2.3% and a reduction in unit consumption by -1.6%; while the higher average tariff followed the accumulated effect of indexation adjustments and the application of the new tariff decree (2005-2010).

b) Sewage: this covers the collection, treatment and disposal sewage and inter-connection of sewage systems. These show an increase of Ch\$13,427 (17.7%) as a result of i) higher collection revenues of Ch\$10,885 million following the higher average tariff applied and a higher sales volume of 2.9 million m3, ii) higher treatment revenues of Ch\$2,791 million due to the increased average tariff applied and a greater sales volume of 2.9 million m3, and iii) less income from sewage interconnections of Ch\$(249) million due to a reduced average tariff applied and a higher sales volume of 1.2 million m3. The changes in the average tariffs are explained by the accumulated effect of indexation adjustments and the application of the new tariff decree (2005-2010).

c) Other Regulated Revenues: this includes customers' fixed charges, supply cut-off and re-connection services, the control of liquid industrial waste discharges and provisions for non-billed consumption and discounts granted on payment agreements. These revenues show an increase of Ch\$1,650 million, basically explained by a lower provision for discounts on repayment agreements.

In the case of non-regulated services, the principal variations are:

d) Sanitation services: increase of Ch\$700 million, related to the growth of domicile connection installations services, repairs, calibrations and other service.

e) Non-sanitation services: increase of Ch\$302 million in sales of laboratory services (sampling and analysis, ANAM S.A.), of Ch\$378 million in liquid waste treatment plant operation services and the treatment of excess organic load for industrial companies (Ecoriles S.A., for new contracts) and of Ch\$601 million in sales of water network systems (Gestión y Servicios S.A.).

Cost of Sales

The consolidated cost of sales of Aguas Andinas S.A. was Ch\$113,605 million, Ch\$4,786 million (4.4%) more than the year before. This increase is mainly explained by the following:

* Operating costs increased by Ch\$3,619 million (4.4%) to Ch\$86,669 million, compared to Ch\$83,050 million the previous year. This is mainly explained by:

a) Increase of Ch\$1,595 million in sludge removal, basically explained by the total removal of the sludge produced at the La Farfana plant and its transportation and disposal at a sanitary land-fill.

b) Increase of Ch\$555 million in severance payments, principally the result of dismissals that were part of a restructuring program in May.

c) Increase of Ch\$403 million in materials, basically due to greater activity in the subsidiary Gestión y Servicios and the increase in fuel costs

d) Increase of Ch\$297 million in electricity costs, mainly to the rise in electricity charges.

* Administrative and selling expenses increased by Ch\$1,167 million, equivalent to 4.5%, to reach Ch\$26,936 million, compared to Ch\$25,769 million the year before. This was due basically to higher expenses in severance payments, commercial and administrative services and general expenses.

Operating Income

Because of the factors mentioned above, the consolidated operating income of Aguas Andinas S.A. for 2005 was Ch\$101,501 million, Ch\$14,887 million more than that obtained in 2004. As a percentage of net sales, the margin increased from 44.3% in 2004 to 47.2% in 2005.

Non-Operating Result

The consolidated non-operating result of Aguas Andinas S.A. amounted to Ch\$(9,135) million, Ch\$(961) million less than in 2004.

The principal variations are explained in Other net non-operating income (expenses) which reduced by Ch\$(1,217) million.

Income Tax

The provision for income tax for 2005 is Ch\$2,735 million higher than the previous year, related to the better pre-tax income.

Net Income for the Year

As a result of the factors indicated above, the consolidated net income of Aguas Andinas S.A. for 2005 amounted to Ch\$75,945 million, Ch\$11,191 million greater than for 2004.

Statement of direct cash flows

	2005 Ch\$ millions	2004 Ch\$ millions	Change %
Operating activities	113,195	96,562	17.23
Financing activities	(97,322)	(21,862)	(345.16)
Investment activities	(32,780)	(41,730)	21.45
Net cash flow for the year	(16,908)	32,970	(48.72)
Closing balance of cash	22,573	40,464	(44.21)

The positive operating cash flow in 2005 was Ch\$16,633 million greater than the previous year, the principal variations being the increase in the collection of trade accounts receivable of Ch\$13,101 million due to the higher sales in 2005 and reduced payments to suppliers and personnel of Ch\$5,241 million.

Final dividends for the year 2004 were paid during 2005 plus interim dividends paid against the net income for 2005. The Series A the bonds of Aguas Andinas S.A. | were prepaid in September and repayments of installments of principal were made on the Series C and D bonds. In addition some bank loans drawn

during the year were repaid. The financing cash flow therefore reduced by Ch\$75,640 million. These payments were financed by the increase in bank borrowings, the placement of a new bond issue (Series E) at a 6.5-year term in December 2005 and part of cash flow balance from 2004.

The investment cash flow increased by Ch\$8,949 million over 2004 due mainly to reduced acquisitions of assets during 2005, compensated partly by reduced income from sales of fixed assets.

Difference between the book and economic values of the principal assets

The fixed assets are shown valued in accordance with generally accepted accounting principles and regulations and the instructions of the Superintendency of Securities and Insurance. It is therefore believed that there should not be significant differences between the economic or market value and the book value of the assets, taking into account also that stated in Note 2 k) of the financial statements at December 31, 2005.

However, Aguas Andinas S.A. has seventy five plots of land recorded that were transferred to it gratuitously by the Chilean Treasury and are booked at Ch\$1. There are also fixed assets with an exhausted accounting useful life but which are still in operation.

There are also transfers constituting third-party contributions covered by Decree Law 70 of the Ministry of Public Works of 1988 and the provisions of clause 36 of the respective regulations (MINECON 453 of 1989) which are explained in Note 32.

The Company has water rights to various natural sources including Laguna Negra, Laguna Lo Encañado and Quebrada de Ramón. These rights were acquired gratuitously and no value has been assigned to them in the accounts.

The production of underground streams are fed by various wells located in the Metropolitan Region, for which Aguas Andinas S.A. has the water rights concessions that were granted to it gratuitously by the Water Authority as part of the Ministry of Public Works.

Aguas Cordillera S.A., in accordance with transitory clause 3 of Decree 382 of 1988, the General Sanitation Services Law, ceased in 1989 to book the assets financed by third parties and fiscal assets. As a result, the company keeps an off-the-books control of these assets and the calculation of price-level restatements and depreciation of these assets does not therefore affect its financial statements in any way. It has to keep this off-the-books control as the assets form part of the sanitation infrastructure that it has to operate and maintain.

The subsidiary Aguas Cordillera S.A. has rights to underground streams that feed various wells located in its concession area, for which it has the water rights concessions that were granted to it gratuitously by the Water Authority as part of the Ministry of Public Works and are therefore assigned no value.

The subsidiary Aguas Manquehue S.A. has rights to underground streams that feed various wells located in its concession area, for which it has the water rights concessions that were granted to it gratuitously by the Water Authority as part of the Ministry of Public Works and are therefore assigned no value.

In summary, and as indicated above, Aguas Andinas S.A. and its subsidiaries have no significant differences between the economic or market value and the book value of their assets, except the items mentioned in the preceding paragraphs. The principal assets of the Company relate to sanitation infrastructure works which have an exclusive use and are shown in accordance with generally accepted accounting principles in Chile.

Hidráulica Manquehue Ltda., Orbi II S.A., Ecoriles S.A., Anam S.A. and Gestión y Servicios S.A. are recently-formed companies and have no differences between the market and the book value of their assets, as they are booked at their restated cost.

Market Analysis

The Company shows no change in the market in which it participates as, due to the nature of its services and the current legislation, it has no competition in its concession area.

Aguas Andinas S.A. currently has 100% coverage in drinking water, 98.3% in sewage services and close to 70% in sewage treatment.

Aguas Cordillera S.A. currently has 100% coverage in drinking water and 98.2% in sewage services.

Aguas Los Dominicos S.A. currently has 99.9% coverage in drinking water and 96.9% in sewage services.

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

Sales Volumes			
Values in thousands of m³ invoiced	2005	2004	Change (%)
Drinking water	463,070	460,187	0.6%
Sewage collection	460,319	457,369	0.6%
Sewage treatment & disposal	399,859	396,941	0.7%
Sewage interconnection services	109,793	108,562	1.1%
Customers (*)			
Figures at Dec. 31	2005	2004	Change (%)
Drinking water	1,502,634	1,467,114	2.4%
Sewage	1,474,391	1,437,806	2.5%
(*) relate to individuals and entities that receive sanitation services related to drinking water or sewage services.			

Financial Aspects

Currency risks

Currency risks: our revenues are largely linked to the local currency. Our debt therefore is mainly denominated in that same currency so we do not have significant debt in foreign currency.

Interest Rates

At December 31, 2005, Aguas Andinas had 79% of its debt at fixed rates and 21% at variable rates. The fixed-rate debt is comprised of bonds payable (82%), local bank loans (8%) and reimbursable financial contributions (10%), while the variable-rate debt relates to local bank loans

At December 31, 2004, 79% of the debt was at fixed rates, comprising bonds payable (71%) and reimbursable financial contributions (8%). The remaining 21% related to loans from local banks

The Company follows a policy of monitoring and managing interest rates in order to optimize financing costs and of constantly evaluating hedging instruments available in the financial market.

This favorable situation has led the credit-rating agencies to assign a credit rating of AA+ to our long-term debt. In the case of the shares, Feller Rate granted us a rating of First class Level 3, while Humphreys gave a rating of First class Level 2.



Individual

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

We have audited the accompanying balance sheets of Aguas Andinas S.A. as at December 31, 2005 and 2004 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 and material information do not form an integral part of these financial statements, therefore 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 reflect the unconsolidated 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 unconsolidated 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 in the first paragraph present fairly, in all material respects, the financial position of Aguas Andinas S.A. as at December 31, 2005 and 2004 and the results of its operations and cash flows for the years then ended, in accordance with the principles described in Note 2.



Amelia Hernández H.
Tax No.: 7.015.085-9

January 30, 2006 except Note 28 whose date is February 28, 2006

 Assets	 	2005 ThCh\$	2004 ThCh\$
CURRENT:			
Cash and banks		79,099	65,031
Time deposits		-	32,930,293
Trade accounts receivable (net)		-	697,905
Accounts receivable (net)		28,771,328	25,031,126
Notes receivable (net)		222,109	164,937
Sundry debtors (net)		321,604	345,671
Notes and accounts receivable from related companies		5,165,947	2,419,980
Inventories (net)		278,273	439,890
Taxes recoverable		194,892	2,013,066
Prepaid expenses		97,336	126,313
Deferred taxes		473,840	469,890
Other current assets		20,634,123	1,756,248
Total current assets		56,238,551	66,460,350
PROPERTY, PLANT and EQUIPMENT:			
Land		27,329,304	27,103,290
Buildings and infrastructure		877,932,540	870,056,828
Machinery and equipment		100,652,429	99,792,780
Other fixed assets		18,230,111	17,294,259
Accumulated depreciation		(510,037,399)	(492,372,697)
Total property, plant and equipment		514,106,985	521,874,460
OTHER ASSETS			
Investments in related companies		76,721,483	68,288,188
Goodwill		58,013,668	61,982,209
Long-term debtors		6,414,063	8,152,801
Long-term deferred taxes		1,426,982	358,096
Intangible assets		17,005,127	16,599,987
Amortization		(2,180,266)	(1,759,082)
Others		8,838,820	9,751,363
Total other assets		166,239,877	163,373,562
TOTAL ASSETS		736,585,413	751,708,372

The accompanying notes 1 to 31 form and integral part of these financial statements.

Liabilities & Shareholder's equity	2005 ThCh\$	2004 ThCh\$
CURRENT:		
Borrowings from banks at short term	20,246,232	-
Borrowings from banks at long term - current portion	6,266,229	193,000
Bonds payable - current portion	99,536,427	31,603,848
Accounts payable	13,434,572	12,744,275
Notes payable	8,071	8,032
Sundry creditors	80,617	74,285
Notes and accounts payable to related companies	3,215,431	9,918,614
Provisions	13,704,647	13,482,259
Withholdings	5,571,909	4,502,710
Income taxes	1,178,756	-
Unearned income	430,562	401,599
Total current liabilities	163,673,453	72,928,622
LONG TERM :		
Borrowings from banks	62,166,667	70,551,600
Bonds payable	109,945,915	199,737,167
Notes payable	11,830,942	9,995,335
Sundry creditors	29,312	-
Provisions	6,734,222	5,448,710
Other long-term liabilities	162,970	182,992
Total long-term liabilities	190,870,028	285,915,804
SHAREHOLDERS' EQUITY :		
Paid-in capital	130,274,844	130,274,844
Share premium	197,208,178	197,208,178
Reserve for future dividends	501,766	627,345
Net income for the year	75,944,683	64,753,579
Interim dividends	(21,887,539)	-
Total shareholders' equity	382,041,932	392,863,946
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	736,585,413	751,708,372

The accompanying notes 1 to 31 form and integral part of these financial statements.

STATEMENTS OF INCOME		2005 ThCh\$	2004 ThCh\$
OPERATING INCOME			
Sales		181,615,288	164,590,656
Cost of sales		(71,728,154)	(70,122,226)
Operating margin		109,887,134	94,468,430
Administrative and selling expenses		(23,696,566)	(22,940,228)
Operating income		86,190,568	71,528,202
NON-OPERATING RESULTS			
Financial income		4,276,524	3,886,215
Equity in investments in related companies		14,633,536	13,924,652
Other non-operating income		2,673,045	4,411,129
Amortization goodwill		(3,968,542)	(3,968,542)
Financial expenses		(16,043,918)	(15,287,186)
Other non-operating expenses		(445,600)	(365,143)
Price-level restatement		1,995,760	1,600,229
Exchange differences		(3,207)	2,706
Non-operating results		3,117,598	4,204,060
Income before income tax and extraordinary items		89,308,166	75,732,262
Income tax		(13,363,483)	(10,978,683)
NET INCOME FOR THE YEAR		75,944,683	64,753,579

The accompanying notes 1 to 31 form and integral part of these financial statements.

Net cash flow from operating activities



2005
ThCh\$

2004
ThCh\$

NET CASH FLOW FROM OPERATING ACTIVITIES

Collection of trade accounts receivables	217,584,756	202,707,466
Financial income received	709,216	390,513
Dividends and other distributions received	6,138,005	10,192,697
Other income received	871,568	566,665
Payments to suppliers and personnel	(74,531,629)	(77,490,580)
Interest paid	(13,318,231)	(12,700,489)
Income tax paid	(11,793,719)	(13,464,462)
Other expenses paid	(401,054)	(1,175,200)
VAT and similar payments	(22,204,478)	(20,326,526)

Total net cash flow from operating activities

103,054,434

88,700,084

NET CASH FLOW FROM FINANCIANG ACTIVITIES

Loans drawn	73,096,460	16,428,005
Bonds issued	28,869,483	-
Other loans from related companies	13,201,676	-
Other sources of financing	12,409,238	14,454,960
Dividend payments	(85,996,044)	(42,954,386)
Loan repayments	(52,841,558)	(16,729)
Bond repayments	(51,383,048)	-
Pagment of other loans from related companies	(13,201,773)	-
Other financing disbursements	(8,264,531)	(8,546,483)

Total net cash flow from financing activties

(84,110,097)

(20,634,633)

NET CASH FLOW FROM INVESTMENT ACTIVITIES :

Sales of property, plant and equipment	87,620	1,971,946
Collection of other loans to related companies	1,190,678	2,554,412
Acquisition of property, plant and equipment	(28,289,469)	(38,950,227)
Payment of capitalized interest	(627,212)	(436,920)
Other loans to related companies	(4,105,651)	(2,313,096)
Other investment disbursements	(589,959)	(426,468)

Total Net cash flow from investmednt activities

(32,333,993)

(37,600,353)

TOTAL NET CASH FLOW FOR THE YEAR

(13,389,656)

30,465,098

Effect of inflation on cash and cash equivalents

(710,825)

(483,412)

NET CHANGE IN CASH AND CASH EQUIVALENTS

(14,100,481)

29,981,686

Opening balance of cash and cash equivalents

33,693,229

3,711,543

CLOSING BALANCE OF CASH AND CASH EQUIVALENTS

19,592,748

33,693,229

The accompanying notes 1 to 31 form and integral part of these financial statements.

Reconciliation of the net cash flow from operating activities and net income for the year

	2005 ThCh\$	2004 ThCh\$
Net income for the year	75,944,683	64,753,579
Result of asset sales	(14,297)	(844,672)
Gain on sale of fixed assets	(14,297)	(844,672)
Charges (credits) to income not representing cash flows	17,949,554	20,195,495
Depreciation for the year	29,310,068	29,692,960
Amortization of intangible assets	421,096	414,831
Write-offs and provisions	1,039,230	2,634,439
Accrued equity in investments in related companies	(14,633,536)	(13,924,652)
Amortization - goodwill	3,968,542	3,968,542
Net price-level restatements, net	(1,995,760)	(1,600,229)
Exchange differences, net	3,207	(2,706)
Other credits to income not representing cash flows	(2,644,078)	(2,628,965)
Other charges to income not representing cash flows	2,480,785	1,641,275
Change in assets affecting operating cash flow (increases) decreases:	2,885,838	9,416,042
Trade account receivables	(3,714,050)	(1,741,637)
Inventories	(15,158)	783,079
Other assets	6,615,046	10,374,600
Change in liabilities affecting operating cash flow - increase decreases	6,288,656	(4,820,360)
Accounts payable related to operating	(3,175,270)	(1,623,415)
Interest payable	(97,270)	345,846
Income tax payable	1,569,766	(2,485,777)
Other accounts payable related to the non-operating income (expense)	3,247,129	(3,194,592)
VAT and similar payables (net)	4,744,301	2,137,578
NET CASH FLOW FROM OPERATING ACTIVITIES	103,054,434	88,700,084

The accompanying notes 1 to 31 form and integral part of these financial statements.

1.- Registration in the Securities Register

Aguas Andinas S.A. is registered under number 0346 in the Securities Register of the Superintendency of Securities and Insurance and is subject to the regulatory authority of that Superintendency.

2.- Accounting principles applied

a) Accounting period

These unconsolidated financial statements relate to the years between January 1 and December 31, 2005 and 2004 respectively.

b) Preparation

These unconsolidated 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 investment in subsidiaries which are shown on just one line in the balance sheet at their proportional equity value, and have therefore not been consolidated line by line. This treatment does not alter the net result for the year or the equity.

In the event of differences between generally accepted accounting principles, as published by the Chilean Institute of Accountants, and the instructions of the Superintendency of Securities and Insurance, the instructions of the Superintendency of Securities and Insurance prevail.

These financial statements have been issued only for the purposes of an individual analysis of the company and should therefore be read and 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, 2004 and their respective notes have been price-level restated by 3.6%. This percentage corresponds to the variation in the Consumer Price Index during the last twelve months, with a one-month time lag.

For comparison purposes, re-classifications were made to the financial statements of 2004.

d) Price-level restatements

The financial statements have been restated by 3.6% in 2005 and 2.5% in 2004 to reflect the effects of variations in the purchasing power of the local currency during each year, in accordance with accounting principles generally accepted in Chile.

Income statement balances were also restated to express them at year-end values.

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 each year end, at the following rates:

	2005	2004
	Ch\$	Ch\$
United States dollar	512.50	557.40
Unidad de Fomento	17,974.81	17,317.05
Euro	606.08	760.13

f) Time deposits

Time deposits are shown at their investment value plus indexation adjustments and accrued interest to the end of the year.

g) Marketable securities

Marketable securities reflect the investments in units in mutual funds units made by the Company. These are presented at their redemption value as at the closing date of these financial statements.

h) Inventories

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

There is an allowance for obsolescence for slow moving items remaining in inventory for more than one year.

i) Estimate of doubtful accounts

The estimate of doubtful accounts depends on the age of the accounts receivable and its history of collectibility, as follows:

- A 100% provision is established for customers with debts post-dure for over eight months.
- A provision of 20% of the consumer debts changed into repayment plans is established for cases classified as "non-government subsidized clients". For cases classified as "government subsidized" clients, a provision of 40% of the agreed upon repayment amount plus interest if applicable, is established.
- A 100% allowance is made for past-due notes receivable.

j) Fixed assets

Fixed assets transferred by the predecessor entity are shown at their restated appraisal values determined by independent consultants in a technical study made in 1977 and restated for inflation. Acquisitions after 1977 are shown at their restated cost.

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

Furthermore direct remunerations, consultancy costs and other inherent and identifiable expenses are also included in the cost of some works.

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 respective assets.

l) Leased assets

Leasing contracts classified as capital leases are recorded in accordance with Technical Bulletin No.22 of the Chilean Institute of Accountants.

Leased assets are valued and depreciated according to the same norms indicate for the remainder of the fixed assets.

The assets acquired in this way are not legally owned by the Company until it has exercised its purchase option, furthermore the Company may not freely dispose of them.

m) Intangible assets

Water rights, rights of way and other rights are shown at their restated cost of acquisition 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 when the literature pertaining to intangible assets was effective, as it is believed that they will provide benefits during that period.

n) Investments in related companies

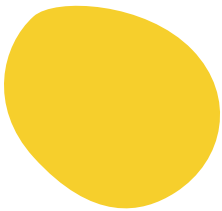
Investment in related companies, with the ability to exercise a significant influence over the company invested in, are shown at their proportional equity value, determined on the basis of the respective financial statements of the company in question at December 31, 2005 and 2004. The participation in the results for each year is shown on an accrued basis.

o) Goodwill

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

p) operations under resale agreements.

The acquisitions of securities under resale agreements are valued as fixed-income investments and are 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, shown at their nominal value plus indexation adjustments and interest accrued at the year-end. The discount incurred on the placement of the bonds is deferred over the bond term, in accordance with Circular 1,370 of the Superintendency of Securities and Insurance.

r) Income tax and deferred taxes

The Company has provided for income tax on the basis of its net taxable income determined in accordance with the conditions established in of the Income Tax Law. According to Technical Bulletin No.60 and other instructions from the Chilean Institute of Accountants in and Circular 1,466 of the Superintendency of Securities and Insurance, the Company record the effects of deferred taxes resulting from timing differences, tax benefits related to tax loss carry-forwards and other events that create differences between the book and tax treatment.

s) Severance payments

In August 2002, a new collective contract came into force whose clause referring to severance payments stated that this will be paid as indicated in the Labor Code, while the amount accrued by the workers to those dates remained fixed and is adjusted quarterly in line with the Consumer Price Index. It also established that workers who retire from the company, within 120 days of having reached the legal retirement age, will continue to accrue this benefit after August 2002.

The Company's obligation for the accrued indemnity for workers up to August 2002 is shown at its present value, and the obligation for the additional indemnity that it is estimated will accrue to the workers who retire from the company is provided for at its present value, calculated according to the accrued cost of the benefit method and at an annual discount rate of 4.8%.

There are also individual contracts which are shown at the present value according to their terms.

Advances granted to personnel against such funds are shown as long-term

debtors. These, restated, will be deducted from the final settlement, as stated in the respective contracts.

t) Sales

The income from sales are recorded on the basis of the consumption read and billed to each customer, in accordance with the tariff fixed by the Superintendency of Sanitation Services (SISS) for five-year period.

Consumption read and not invoiced is also recorded valued at the average tariff charge of each invoicing group.

u) Computer software

The computer software was acquired as computer packages and is shown in Other Fixed Assets, in accordance with Circular 981 of the Superintendency of Securities and Insurance.

v) Research and development costs

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

w) Statement of cash flows

The Company considers as cash and cash equivalents the following: its balances in cash, in unrestricted bank checking accounts, time deposits, marketable securities and repurchase sale agreements whose redemption will take place within 90 days from the date the investment was made and that have no risk of significant loss at the time of redemption.

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

3.- Accounting changes

The following changes in accounting estimates were made during 2005:

The Company has collective labor contracts with its employees which provide for indemnities in accordance with the Labor Code and an additional indemnity if they retire while being employed.

To calculate this additional indemnity, the Company uses the present value of such obligations based on the accrued cost method for those who are covered by the collective contract and who it believes will remain employed until retirement age. The discount rate used for this calculation has been changed from 6.5% at December 2004 to 4.8% at December 2005, in accordance with study made by the company.

The effect of this change on the results for 2005 amounts to a greater charge of ThCh\$56,524.

There have been no other accounting changes that should be mentioned during the period ended December 31, 2005.

4.- Short and long-term debtors

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

The balance of trade accounts receivable includes a provision for revenue accrued as at December 31, 2005 and 2004 of ThCh\$11,630,048 and ThCh\$10,784,271 respectively, on unbilled meter cubic readings at the end of each year.

The debtors balance at December 31, 2005 is split into Residential 80.13%, Commercial 16.72%, Industrial and others 3.15%. At December 31, 2004, the split was Residential 78.93%, Commercial 17.64%, Industrial and others 3.43%.


Allowances have been made for doubtful accounts as follows:

a) An allowance for doubtful accounts has been made as explained in Note 2 i), amounting to ThCh\$11,511,694 and ThCh\$11,621,630 respectively at December 31, 2005 and 2004. ThCh\$371,269 and ThCh\$753,064 respectively were charged to income for the years 2005 and 2004. Of the allowance at December 31, 2005 and 2004, debts of ThCh\$12,117 and ThCh\$7,469 respectively were written off.

b) Allowances for repayment agreements relate to agreements for the repayment of debts signed with customers by which they can obtain a commercial discount if they fully comply with the agreement. This allowance amounts to ThCh\$2,311,686 and ThCh\$1,881,376 at December 31, 2005 and 2004 and the charge to income in 2005 and 2004 was ThCh\$495,686 and ThCh\$1,881,376 respectively.

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

Short and long-term debtors.

Rubro		Current					Total Current (net)		Long term	
		Up to 90 days		90 days to 1 year		Subtotal 2005 ThCh\$	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
		2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$					
Trade account receivables		27,720,598	24,531,645	2,534,663	1,952,507	30,255,261	28,771,328	25,031,126	798,331	1,895,811
Estimate of doubtful accounts		-	-	-	-	1,483,933	-	-	-	-
Notes receivable		159,057	131,273	127,058	98,560	286,115	222,109	164,937	170,102	189,659
Estimate of doubtful accounts		-	-	-	-	64,006	-	-	-	-
Sundry debtors		274,316	318,704	59,522	39,642	333,838	321,604	345,671	5,445,630	6,067,331
Estimate of doubtful accounts		-	-	-	-	12,234	-	-	-	-
Total long-term debtors									6,414,063	8,152,801

5.- Balances and transactions with related entities

Transactions with companies in the Aguas group

* Notes and accounts receivable

The transactions with Aguas Cordillera S.A. relate to drinking water and sewage interconnections agreed under contracts, whose payment is made against presentation of the services provided at 30 days without interest, except for the interconnection granted to Aguas Cordillera S.A. whose tariff is set by decree and includes an indexation clause but no interest.

Materials sales have been made to Gestión y Servicios S.A. and Aguas Cordillera S.A., while the balance receivable from Aguas Manquehue S.A. relates to the sale of services with payment terms of between 30 and 90 days.

There is a contract with Ecoriles S.A. for sewage treatment services, with payments at 60 days without interest.

Loans in Unidades de Fomento have been made to Comercial Orbi II S.A. and Aguas Cordillera S.A. at an interest rate calculated at the average TAB rate for 90 days for the previous month, plus 2%. Interest is payable semi-annually and the maturity of the loans does not exceed one year.

There are property rental agreements denominated in Unidades de Fomento with Aguas Cordillera S.A., Gestión y Servicios S.A., Aguas Los Dominicos S.A., Aguas Manquehue S.A., Ecoriles S.A. and Análisis Ambientales S.A., which use the premises of Aguas Andinas S.A.; payments are made at 30 days.

The debts of Aguas Cordillera S.A., Aguas Los Dominicos S.A. and Aguas Manquehue S.A. relate to collections.

* Notes and accounts payable

Property rental guarantees are owed to Aguas Cordillera S.A., Aguas Los Dominicos S.A., Aguas Manquehue S.A., Gestión y Servicios S.A., Ecoriles S.A. and Análisis Ambientales S.A.

There is a drinking water and sewage interconnection contract with Aguas Cordillera S.A., with payments at 30 days with no interest.

Análisis Ambientales S.A. provides chemical and bacteriological analysis services, whose payment terms are 30 days with no interest.

The debt with Gestión y Servicios S.A. related to purchases of materials, payable at 30 days with no interest.

The debt with Aguas Cordillera S.A., Aguas Los Dominicos S.A. and Aguas Manquehue S.A. relates to collections.

Transactions with the parent

* Notes and accounts receivable

There is a property rental agreement in Unidades de Fomento with Inversiones Aguas Metropolitanas S.A. which uses the premises of Aguas Andinas S.A., with payments due at 30 days.

* Notes and accounts payable

There is a services contract in Unidades de Fomento signed in 2001 with Inversiones Aguas Metropolitanas S.A., which has a 5-year term with monthly invoicing of services provided, and payable at 60 days.

Transactions with indirectly related companies

* Accounts receivable

The receivable from of Aguas Argentinas and Aguas de Saltillo shown in 2004 related to the reimbursements of expenses.

* Accounts payable

The contract for the construction La Farfana Sewage Treatment Plant was awarded in a tender to Degremont S.A. Agencia en Chile. This is a turnkey contract with a results guarantee. Payments are expressed in Unidades de Fomento. Construction was completed in September 2003 and payments have been made for the plant operation since October 2003.

The accounts payables Aguas de Levante S.A. relates to the purchase of materials at a term of 30 days, with no interest.

The debt with Acsa Agbar Construcción S.A. relates to a retention stipulated in a tube renewal contract.

The debt with Omnilogic Telecomunicaciones Chile relates to radio-communications and transmission network maintenance services, with payments at 30 days.

In 2004, there was debt in favor of Clavegueram de Barcelona S.A. for expense reimbursements.

Notes and accounts receivable

Tax No.	Company		Short term		Long term	
			2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
80.311.300-9	Aguas Cordillera S.A.		5,075,941	1,440,113	-	-
96.828.120-8	Gestión y Servicios S.A.		9,432	593,454	-	-
96.945.210-3	Ecoriles S.A.		36,947	63,095	-	-
96.967.550-1	Análisis Ambientales S.A.		2,453	2,130	-	-
89.221.000-4	Aguas Manquehue S.A.		1,244	265,956	-	-
96.809.310-K	Comercial Orbi II S.A.		35,143	33,678	-	-
96.568.220-1	Aguas Los Dominicos S.A.		3,550	878	-	-
77.274.820-5	Inversiones Aguas Metropolitanas S.A.		1,237	-	-	-
1-9	Aguas Argentinas		-	14,582	-	-
1-9	Aguas de Saltillo		-	6,094	-	-
	Total		5,165,947	2,419,980	-	-

Notes and accounts payable

Tax No.	Company		Short term		Long term	
			2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
80.311.300-9	Aguas Cordillera S.A.		5,966	9,705	-	-
96.828.120-8	Gestión y Servicios S.A.		4,376	6,841	-	-
96.967.550-1	Análisis Ambientales S.A.		121,465	181,713	-	-
77.274.820-5	Inversiones Aguas Metropolitanas S.A.		1,330,438	1,446,733	-	-
59.066.560-6	Degrémont S.A. Agencia en Chile		1,736,195	8,248,263	-	-
92.108.000-K	Aguas Los Dominicos S.A.		230	68	-	-
89.221.000-4	Aguas Manquehue S.A.		491	873	-	-
59.094.680-K	Aguas de Levante S.A.		30	5,891	-	-
59.096.940-0	Acsa Agbar Construcción S.A.		14,064	14,570	-	-
96.945.210-3	Ecoriles S.A.		1,349	-	-	-
96.847.530-4	Omnilogic Telecomunicaciones Chile		827	-	-	-
1-9	Clavegueram de Barcelona S.A.		-	3,957	-	-
Total			3,215,431	9,918,614		

Transactions

Company		Tax No.	Relationship	Transaction	2005		2004	
					Amount ThCh\$	Effect on results (charge)/credit ThCh\$	Amount ThCh\$	Effect on results (charge)/credit ThCh\$
Aguas Cordillera S.A.	80.311.300-9	Subsidiary		Sewage interconnection	5,079,513	5,079,513	5,848,218	5,848,218
				Drinking water interconnection	103,042	103,042	103,555	103,555
				Dividends received	5,474,695	-	8,721,636	-
				Loans received	10,825,000	-	-	-
				Loan repayments and interest	10,860,576	(22,470)	-	-
				Loans granted	3,678,000	1,497	-	-
Gestión y Servicios S.A.	96.828.120-8	Subsidiary		Loans granted	196,667	196,667	566,708	566,708
				Collection of loans and interest	416,000	-	1,175,860	-
				Sale of materials	899,652	50,373	1,400,672	52,186
Ecoriles S.A.	96.945.210-3	Subsidiary		Loans granted	-	-	415,436	-
				Collection of loans and interest	-	-	682,634	16,343
Análisis Ambientales S.A.	96.967.550-1	Subsidiary		Sewage treatment	213,712	(213,712)	127,083	(127,083)
				Loans granted	-	-	310,800	-
				Collection of loans and interest	-	-	311,663	725
Aguas Manquehue S.A.	89.221.000-4	Subsidiary		Laboratory services	684,585	(570,572)	903,467	(868,929)
				Loans granted	-	-	379,176	-
				Loans received	891,000	-	-	-
				Loan repayments and interest	894,179	(2,041)	-	-
Comercial Orbi II S.A.	96.809.310-K	Subsidiary		Collection of loans and interest	254,124	419	116,063	218
Aguas Los Dominicos S.A.	92.108.000-K	Subsidiary		Dividends received	498,562	-	1,279,184	-
				Loans received	1,320,000	-	-	-
Inversiones Aguas Metropolitanas S.A.	77.274.820-5	Parent		Loan repayments and interest	1,322,842	(2,842)	-	-
				Consultancy services	4,738,663	(4,738,663)	5,340,757	(5,340,757)
				Dividends paid	42,969,197	-	21,548,892	-
Aguas de Levante S.A.	59.094.680-K	Related		Purchase of materials	63,598	-	330,232	-
Degrémont S.A. Agencia en Chile	59.066.560-6	Related		Payment of construction debt	5,545,847	-	11,951,462	-
				Plant operation	2,671,605	(2,671,605)	6,528,534	(6,528,534)
Acsa Agbar Construcción S.A.	59.096.940-0	Related		Tube replacement contract	-	-	1,447,232	-
CORFO	60.706.000-2	Related		Dividends paid	29,356,363	-	14,722,122	-

6.- Deferred taxes and income tax

At December 31, 2005 and 2004, the detail of taxable income and other concepts is as follows:

	2005 ThCh\$	2004 ThCh\$
a) Taxable income	84,660,164	67,350,215
b) Balance of taxed earnings	57,615,247	64,412,500
b) 17% credit for shareholders	9,951,854	10,847,874
TOTAL	152,227,265	142,610,589


The detail of timing differences is as follows:

Concepto	2005				2004			
	Deferred tax assets		Deferred tax liabilities		Deferred tax assets		Deferred tax 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\$
Allowance for doubtful accounts	265,229	1,691,759	-	-	260,201	1,715,476	-	-
Unearned income	24,586	27,705	-	-	113,338	31,109	-	-
Provision for vacations	107,576	107,576	-	-	102,524	102,526	-	-
Leased assets	-	-	52,299	4,983	-	-	58,151	-
Depreciation property, plant and equipment	-	300,121	-	-	-	-	-	-
Severance payments	83,754	-	-	-	39,452	-	-	-
Other events	-	90,499	-	-	-	104,006	-	-
Litigation	-	659,208	-	-	-	164,395	-	-
Investment expenses in related companies	-	-	-	90,629	-	-	-	100,344
Software	-	-	-	128,271	-	-	-	155,396
Obsolescence fixed assets	-	9,977	-	-	-	10,336	-	-
Deferred charges	-	-	11,684	88,529	-	-	10,499	88,364
Bond placement discount	-	-	186,126	1,297,634	-	-	296,809	1,425,648
Provision for creditor agreements	242,804	150,183	-	-	319,834	-	-	-
TOTAL	723,949	3,037,028	250,109	1,610,046	835,349	2,127,848	365,459	1,769,752

	2005 ThCh\$	2004 ThCh\$
Income tax		
Current tax charge (provision for tax)	(14,392,228)	(11,449,537)
Tax charge adjustment (previous year)	(18,501)	(186,505)
Effect on assets or liabilities of deferred taxes for the year	1,072,834	686,650
Other charges to the account	(25,588)	(29,291)
TOTAL	(13,363,483)	(10,978,683)



7.- Other current assets

The detail of this item is as follows:

Other current assets		2005 ThCh\$	2004 ThCh\$
Instruments of Central Bank of Chile		19,513,649	-
Bond placement discount		1,094,860	1,745,937
Creditor agreements receivable		-	7,423
Paving right guarantees		1,891	2,242
Others		23,723	646
TOTAL		20,634,123	1,756,248

8.- Information on purchase and sale commitments, and repurchase and resale agreements, covering securities

Details of the agreements at December 31, 2005 is as follows:

Code	Dates		Counterparty	Original currency	Initial value ThCh\$	Rate	Final value ThCh\$	Instrument ThCh\$	Market value ThCh\$	 	
	Start	Maturity									
CRV	29/12/05	05/01/06	Banco Santander	Pesos	8,571,000	4.20% p.a.	8,578,000	BCD	8,573,000		
CRV	29/12/05	05/01/06	Banco BBVA	Pesos	10,000,000	4.20% p.a.	10,008,167	PDBC	10,002,333		
CRV	30/12/05	05/01/06	Banco de Chile	Pesos	938,200	4.44% p.a.	938,894	PDBC	938,316		

CRV : Purchase under resale agreement.

BCD : Central Bank of Chile bonds denominated in dollars.

PDBC : Discountable Central Bank of Chile notes.

9.- Fixed assets

The composition of these is as follows:

Item	2005 ThCh\$	2004 ThCh\$
Land	27,329,304	27,103,290
Land	27,329,304	27,103,290
Buildings and infrastructure	425,544,772	426,166,238
Gross value	877,932,540	870,056,828
Accumulated depreciation	(452,387,768)	(443,890,590)
Machinery and equipment	56,803,214	64,075,154
Gross value	100,652,429	99,792,780
Accumulated depreciation	(43,849,215)	(35,717,626)
Other fixed assets	4,429,695	4,529,778
Gross value	18,230,111	17,294,259
Accumulated depreciation	(13,800,416)	(12,764,481)
Total net fixed assets	514,106,985	521,874,460

Depreciation for the year

The charge to income for depreciation at December 31, 2005 and 2004 is as follows:

Depreciation in :	2005 ThCh\$	2004 ThCh\$
Cost of sales	27,085,024	27,325,907
Administrative and selling expenses	2,225,044	2,367,053
TOTAL	29,310,068	29,692,960

The Company has seventy-five plots of land that were transferred free of charge by the Chilean State and are booked at a value of Ch\$1 each. There are also fixed assets with an expired accounting useful life and are therefore shown valued at Ch\$1 even though they are still in operation.

There are also amounts which are contributions from third parties and these are governed by Decree Law 70 of 1988 of the Ministry of Public Works and by the provisions of article No 36 of D.S. MINECON Regulation 453 of 1989. These are explained in Note 30.

Leasing

Assets acquired under financial leases, shown in Other Fixed Assets, are as follows

Supplier	Purchase date		Gross value ThCh\$	Accumulated value ThCh\$	Depreciation ThCh\$	Net value ThCh\$	Instalments
GTD TELESAT S.A.	17/01/05		61,182	56,166	7,558	48,608	37
Total			61,182	56,166	7,558	48,608	1,146

10.- Investments in related companies.

These comprise the following investments at December 31, 2005 and 2004:

Tax No.	Company	Country origin	Investment currency	No. of shares	Percentage holding		Company equity		Result of the year		Accrued results		Proportional equity value		Book value	
					2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
80.311.300-9	Aguas Cordillera S.A.	Chile	Pesos	137,999,999	99,99999	99,99999	61,279,969	54,913,938	12,048,764	11,343,657	12,048,763	11,343,656	61,279,962	54,913,933	61,279,962	54,913,933
96.809.310-K	Comercial Orbi II S.A.	Chile	Pesos	999	99,90000	99,90000	12,958,860	11,638,251	1,838,634	1,723,423	1,836,795	1,721,699	12,945,902	11,626,612	12,945,902	11,626,612
96.945.210-3	Ecoriles S.A.	Chile	Pesos	2,575	99,03846	99,03846	1,493,360	970,234	523,036	523,168	518,007	518,137	1,479,000	960,994	1,479,000	960,994
96.967.550-1	Análisis Ambientales S.A.	Chile	Pesos	990	99,00000	99,00000	1,009,264	784,747	224,517	339,813	222,272	336,415	999,172	776,901	999,172	776,901
96.828.120-8	Gestión y Servicios S.A.	Chile	Pesos	1,000	1,000	1,000	1,744,659	974,727	769,932	474,468	7,699	4,745	17,447	9,748	17,447	9,748
Totales													76,721,483	68,288,188	76,721,483	68,288,188

11.- Goodwill

As at December 31, 2005 and 2004, the balances of this account represent the difference between the acquisition value and the proportional equity value of the acquired company at the time of purchase, as follows:

Tax No.	Company	2005		2004	
		Amortization in the year ThCh\$	Balance goodwill ThCh\$	Amortization in the year ThCh\$	Balance goodwill ThCh\$
80.311.300-9	Aguas Cordillera S.A.	3,755,892	54,773,424	3,755,892	58,529,315
96.809.310-K	Comercial Orbi II S.A.	212,650	3,240,244	212,650	3,452,894
Total		3,968,542	58,013,668	3,968,542	61,982,209

12.- Intangible assets

The balances as at December 31, 2005 and 2004 of the restated costs of intangible assets (Note 2 m) are:

Item	2005 ThCh\$	2004 ThCh\$
Water rights	4,099,459	3,725,267
Easements	6,161,266	6,130,318
Other rights (1)	6,744,402	6,744,402
Sub total	17,005,127	16,599,987
Accumulated amortization water rights	(620,149)	(524,069)
Accumulated amortization easements	(969,982)	(815,992)
Amortization other rights (1)	(590,135)	(419,021)
Sub total	(2,180,266)	(1,759,082)
TOTAL NET INTANGIBLE ASSETS	14,824,861	14,840,905
Amortization for the year shown in cost of sales:		
Water rights	96,079	93,150
Easements	153,990	153,071
Other rights (1)	171,027	168,610
TOTAL AMORTIZATION	421,096	414,831

The Company has water rights to various natural sources, including Laguna Negra, Laguna Lo Encañado and Quebrada de Ramón, which were acquired gratuitously and have no value on the books.


The production of water supply from various wells located in the Metropolitan Region, for which Aguas Andinas S.A. has the water rights concessions, were granted to it gratuitously by the Water Department of the Ministry of Public Works.

(1) Relate to the purchase of gratuitous rights to the consumption of drinking water to the Municipality of Santiago, which are being amortized over 40 years.



13.- Borrowings from banks at short term.

Included in this section are the loans that mature during the next twelve months and the provision for accrued interest on bank borrowings classified as short term:

Tax No.	Bank		UF		Non-Indexed Ch\$		Total	
			2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
a) Short term								
97.036.000-K	Banco Santander - Santiago		-	-	16,170	-	16,170	-
97.004.000-5	Banco de Chile		10,181,495	-	10,048,567	-	20,230,062	-
	Total		10,181,495	-	10,064,737	-	20,246,232	-
	Principal outstanding		10,155,767	-	10,000,000	-	20,155,767	-
Average annual interest rate			0.95%		5.64%			
b) Long term								
97.004.000-5	Banco de Chile		-	-	1,951,556	30,894	1,951,556	30,894
97.036.000-K	Banco Santander - Santiago		-	-	91,007	53,987	91,007	53,987
97.032.000-8	Banco BBVA		-	-	4,223,666	108,119	4,223,666	108,119
	Total		-	-	6,266,229	193,000	6,266,229	193,000
	Principal outstanding		-	-	5,933,333	193,000	5,933,333	193,000
Average annual interest rate					7.29%		4.17%	
Percentage in local currency 100%								

14.- Obligaciones con bancos e instituciones financieras a largo plazo

Se presentan en este rubro las cuentas de préstamos con bancos cuyo vencimiento es a más de un año.

Tax No.	Bank	Currency/ Indexation unit	Years to maturity				End 2005	End 2004	
			1 to 2 ThCh\$	2 to 3 ThCh\$	3 to 5 ThCh\$	More than 10 ThCh\$	Total long term ThCh\$	Annual interest rate average	Total long term ThCh\$
97.004.000-5	Banco de Chile	Non-indexed Ch\$	1,900,000	1,900,000	3,800,000	1,900,000	9,500,000	7.26%	11,810,400
97.036.000-K	Banco Santander - Santiago	Non-indexed Ch\$	4,080,000	4,080,000	12,240,000	-	20,400,000	7.30%	21,134,400
97.032.000-8	Banco BBVA	Non-indexed Ch\$	8,066,667	8,066,667	16,133,333	-	32,266,667	7.40%	37,606,800
Total			14,046,667	14,046,667	32,173,333	1,900,000	62,166,667		70,551,600

Percentage in local currency 100%

15.- Bonds payable (short and long term)

This heading covers the amounts owing under bond issues made by the Company in September 2001, December 2002, May 2003 and December 2005 on the domestic market.

In September 2001, two series of bonds were issued: Series A for U.F.1.2 million fully repayable in September 2005 and Series B for U.F.1.8 million for a 21-year term with repayments commencing 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 extending through December 2010.

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


On December 23, 2005, the Series E bonds were placed for U.F. 1.65 million, with repayment in June 2012.

The respective accrued interest is shown in current liabilities.

The bond issues carry no special collateral except for the general pledge over the Company's assets.


On December 9, 2005, the Superintendency of Securities and Insurance approved a new bond issue totaling U.F. 5.0 million, in order to finance the prepayment of the Series D bonds and refinance other obligations of Aguas Andinas S.A.



Inscription No. or instrument identification	 Series	Nominal amount placed outstanding	Indexation unit	Interest rate %	Final maturity	Payment dates of		Par value		Placement in Chile or abroad
						Interest	Principal	2005 ThCh\$	2004 ThCh\$	
Long-term bonds current portion										
266	BEMOS A1	-	UF	6.00%	01/09/2006	01.09.2005	01/09/2005	-	132,594	Chile
266	BEMOS A2	-	UF	6.00%	01/09/2006	01.09.2005	01/09/2005	-	291,705	Chile
266	BEMOS B1	-	UF	6.25%	01/09/2022	Semi-annual	2008 Semi-annual	258,160	257,667	Chile
266	BEMOS B2	-	UF	6.25%	01/09/2022	Semi-annual	2008 Semi-annual	405,680	404,905	Chile
305	BAGUA C1	166,667	UF	4.25%	01/12/2010	Semi-annual	2005 Semi-annual	3,048,303	3,052,957	Chile
305	BAGUA C2	500,000	UF	4.25%	01/12/2010	Semi-annual	2005 Semi-annual	9,144,902	9,158,868	Chile
305	BAGUA D1	1,655,173	UF	4.25%	01/06/2009	04.01.2006	04/01/2006	29,855,691	6,312,117	Chile
305	BAGUA D2	3,144,827	UF	4.25%	01/06/2009	04.01.2006	04/01/2006	56,725,798	11,993,035	Chile
305	BAGUA E1	-	UF	4.00%	01/06/2012	Semi-annual	at Maturity	97,893	-	Chile
Total short-term portion								99.536.427	31.603.848	
Long-term bonds										
266	BEMOS A1	-	UF	6.00%	01/09/2006	Semi-annual	at Maturity	-	6,727,674	Chile
266	BEMOS A2	-	UF	6.00%	01/09/2006	Semi-annual	at Maturity	-	14,800,882	Chile
266	BEMOS B1	700,000	UF	6.25%	01/09/2022	Semi-annual	2008 Semi-annual	12,582,367	12,558,325	Chile
266	BEMOS B2	1,100,000	UF	6.25%	01/09/2022	Semi-annual	2008 Semi-annual	19,772,291	19,734,510	Chile
305	BAGUA C1	666,666	UF	4.25%	01/12/2010	Semi-annual	2005 Semi-annual	11,983,200	14,950,384	Chile
305	BAGUA C2	2,000,000	UF	4.25%	01/12/2010	Semi-annual	2005 Semi-annual	35,949,620	44,851,159	Chile
305	BAGUA D1	-	UF	4.25%	01/06/2009	Semi-annual	2005 Semi-annual	-	29,694,568	Chile
305	BAGUA D2	-	UF	4.25%	01/06/2009	Semi-annual	2005 Semi-annual	-	56,419,665	Chile
305	BAGUA E1	1,650,000	UF	4.00%	01/06/2012	Semi-annual	at Maturity	29,658,437	-	Chile
Total long term								109.945.915	199.737.167	

16.- Provisions and write-offs.

The detail of provisions as at December 31, 2005 and 2004 is as follows:

	Current liabilities		Long-term liabilities	
	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
Severance payments (Note 17)	1,000,000	2,590,000	6,734,222	5,448,710
Bonus (1) and profit sharing	2,786,394	2,864,600	-	-
Services accrued	7,774,966	5,854,455	-	-
Vacations accrued	1,265,594	1,206,176	-	-
Litigation pending	877,693	967,028	-	-
Total	13,704,647	13,482,259	6,734,222	5,448,710


(1) These are shown net of advances made during the years ended December 31, 2005 and 2004 for ThCh\$224,693 and ThCh\$201,155 respectively.

The amounts of write-offs are shown in Note 4 (Short and long term receivables).

17. Severance payments.

At December 31, 2005 and 2004, the movement in the provisions for severance indemnities (including the short-term portion) is as follows:

The severance indemnity has been calculated in accordance with the explanation in Note 2 s).

	2005 ThCh\$	2004 ThCh\$
Opening balance	7,759,373	8,402,722
Increase in provision	1,461,629	245,273
Payments during the year	(1,795,261)	(839,303)
Price-level restatement	308,481	230,018
Total	7,734,222	8,038,710

The charge to income for these items, including the indemnities related to clause 161 of the Labor Code, at December 31, 2005 and 2004 amounts to ThCh\$1,654,245 and ThCh\$749,133 respectively.



18.- Movement in equity accounts.

The ordinary shareholders' meeting held on April 21, 2005 resolved to distribute 100% of the Company's net income for 2004. The dividend amounted to ThCh\$62,504,005 (historic pesos), equivalent to Ch\$10.2148 per share. The payment was made on May 5, 2005.


A board meeting held on July 19, 2005 agreed to pay an interim dividend of ThCh\$21,416,378 (historic pesos), equivalent to Ch\$3.5 per share, against the net income for 2005. This payment was made on September 27, 2005.

In 2004, 100% of the net income for 2003 was distributed, after deducting the interim dividend paid in December 2003. The dividend amounted to ThCh\$40,623,320 (historic pesos), equivalent to Ch\$6.6389 per share. This payment was made on May 14, 2004.


As established in clause 10 of the Corporations Law 18,046, the proportional amount pf the restatement of capital was added to capital, this being divided at December 31, 2005 into 6,118,965,160 subscribed and paid shares.

Item		Paid Capital ThCh\$	Share premium ThCh\$	Reserve future dividends ThCh\$	Interim dividends ThCh\$	Net income of the year ThCh\$
2005						
Opening balance		125,747,919	190,355,384	605,545	-	62,503,455
Distribution previous year's results		-	-	62,503,455	-	(62,503,455)
Final dividend previous year		-	-	(62,504,005)	-	-
Restatement of capital		4,526,925	6,852,794	(103,229)	(471,161)	-
Net income for the year		-	-	-	-	75,944,683
Interim dividends		-	-	-	(21,416,378)	-
Closing balances		130,274,844	197,208,178	501,766	(21,887,539)	75,944,683
						
2004						
Opening balance		122,680,896	185,712,570	630,388	(19,035,815)	59,659,155
Distribution previous year's results		-	-	40,623,340	19,035,815	(59,659,155)
Final dividend previous year		-	-	(40,623,320)	-	-
Restatement of capital		3,067,023	4,642,814	(24,863)	-	-
Net income for the year		-	-	-	-	62,503,455
Closing balances		125,747,919	190,355,384	605,545	0	62,503,455
Restated balances		130,274,844	197,208,178	627,345	0	64,753,579

Number of Shares


Series		Nº Suscribed shares	Nº Paid shares	Nº Shares with voting right
A		3,975,643,019	3,975,643,019	3,975,643,019
B		2,143,322,141	2,143,322,141	2,143,322,141


Capital (amount - ThCh\$)

Series	Suscribed capital		Paid Capital
A	84,642,789		84,642,789
B	45,632,055		45,632,055

19.- Other non-operating income and expenses.

The detail of other non-operating income and expense these at December 31, 2005 and 2004 is as follows:

Other non-operating income		2005 ThCh\$	2004 ThCh\$
Fines and indemnities from suppliers and contractors (1)		1,071,371	566,420
Services to third parties (2)		974,964	1,104,906
Services to customers		259,493	396,770
Rental of premises		181,757	158,851
Income from agreements and others (3)		132,383	1,144,126
Refund of social-security payments		24,825	71,253
Sales of fixed assets		14,297	844,672
Insurance claim		8,380	27,112
Others		5,575	97,019
Total		2,673,045	4,411,129

Other non-operating expenses		2005 ThCh\$	2004 ThCh\$
Obsolete materials		146,247	76,207
Asset shortfalls		106,726	11,843
Donations		101,962	100,124
Rejected projects		29,649	39,700
Sale of materials		21,917	132,266
Others		39,099	5,003
Total		445,600	365,143


(1) Includes a transaction with Degremont for discrepancies in the application and interpretation of the La Farfana treatment plant construction contract.

(2) Services for third parties relates to those services associated with the business, mainly engineering services.

(3) Mainly relate to agreements signed with real-state developers under which the Company is obliged to add certain areas to their concession zones and to provide the public sanitation services in these indefinitely.

20.- Price-level restatements

The detail of price-level restatements, calculated as stated in Note 2 d), is the following:

	Indexation unit	2005 ThCh\$	2004 ThCh\$
Assets			
Inventories	CPI	25,191	27,705
Property, plant and equipment	CPI	18,015,191	12,886,494
Investments in related companies	CPI	2,145,965	1,316,183
Goodwill (net)	CPI	2,153,822	1,608,555
Intangible assets	CPI	518,912	436,601
Other monetary assets	CPI	516,057	371,234
Other monetary assets	UF	12,273	19,892
Other non-monetary assets	UF	3,680	3,546
Other non-monetary assets	CPI	481,768	383,980
Expense and cost accounts	CPI	1,684,217	1,114,202
Total credits		25,557,076	18,168,392
Liabilities			
Shareholders' equity	CPI	(10,805,329)	(7,961,633)
Bonds payable	UF	(7,550,669)	(5,265,201)
Monetary liabilities	UF	(393,355)	(237,596)
Monetary liabilities	CPI	(481,256)	(231,829)
Non-monetary liabilities	CPI	(2,386)	(1,348)
Non-monetary liabilities	UF	(81,424)	(74,494)
Income accounts	CPI	(4,246,897)	(2,796,062)
Total charges		(23,561,316)	(16,568,163)
Gain from price-level restatements		1,995,760	1,600,229

21.- Exchange differences

Exchange differences during the years ended December 31, 2005 and 2004 were as follows:

Item	Currency	2005 ThCh\$	2004 ThCh\$
Assets			
Cash and banks	Dollar	(799)	410
Cash and banks	Euros	32	(457)
Other assets	Dollar	(2,969)	(468)
Other assets	Euros	(316)	149
Total (charges)		(4,052)	(366)
Liabilities			
Accounts payable	Dollar	393	3,246
Accounts payable	Euros	(3,037)	(2,132)
Other liabilities	Dollar	337	1,169
Other liabilities	Euros	3,152	789
Total credits		845	3,072
(Loss) Gain from exchange differences		(3,207)	2,706

22.- Share and bond issue and placement costs.

During the months of September 2001, December 2002, May 2003 and December 2005, the Company issued and placed bonds on the domestic market. In accordance with Circular 1,370 of the Superintendency of Securities and Insurance, the issue the related costs that correspond to payments to the risk rating agencies, stamp tax and other general expenses were referred.

These expenses are recorded in Other Assets and are broken down as follows:

Bonds	Gross capitalized costs		
	2005 ThCh\$	2004 ThCh\$	Years of amortization
Series A	-	354,513	5,0
Series B	531,769	531,769	21,0
Series C	1,258,333	1,258,333	8,0
Series D	2,600,393	2,600,393	6,0
Series E	117,657	-	6,5
Total	4,508,152	4,745,008	

The Series A bonds were prepaid during September 2005, so the balance of the capitalized costs at that date was charged to income for 2005.

23.- Statement of cash flows.

In the Statement of cash flows, cash equivalents consist of financial investments, including time deposits, marketable securities and resale agreements with terms of less than 90 days from their investment dates. The detail of the balance of cash and cash equivalents is as follows:

	2005 ThCh\$	2004 ThCh\$
Cash and banks	79,099	65,031
Time deposits	-	32,930,293
Marketable securities (mutual funds)		697,905
Other current assets (Note 7) (Instrumentos of Central Bank of Chile)	19,513,649	-
Balance of cash and cash equivalents	19,592,748	33,693,229

The financing cash flows generated in 2005 and 2004 under the heading of Other sources of finance, represent the collection of reimbursable financing contributions from customers, according to current legislation (Decree Law N° 70 of 1988).

Investment activities committing future cash flows relate to construction works whose amounts at December 31, 2005 and 2004 were ThCh\$11,285,708 and ThCh\$17,001,461 respectively.

24.- Contingencies and Restrictions

a) Direct guarantees

Guarantee policies have been given to the Superintendency of Sanitation Services to guarantee the conditions for the provision of services and development programs in the Company's concession areas. Performance bonds have also been given to SERVIU Metropolitan Area for the replacement of paving, and to other institutions, for the sum of ThCh\$10,159,074 and ThCh\$7,894,535 at December 31, 2005 and 2004 respectively.

b) Lawsuits pending

The following are the Company's principal lawsuits outstanding:

· Court: 15th Civil Court of Santiago; Case file: 1337-1996
Aguas Andinas S.A. was sued by a private 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 as this was transferred to it in 1990. The amount is not determined. Judgment in the first instance ordered the Treasury to indemnify the plaintiff and the demand against Aguas Andinas S.A. was dismissed. The Treasury has appealed against this decision.

Court: 11th Civil Court of Santiago; Case file: 5716-1999
Aguas Andinas S.A. was sued severally by a gas company for damages to a pipeline made by a construction company. Aguas Andinas S.A. alleges that it has no responsibility in this incident as it has no relationship whatsoever with the cause of the damage. The amount demanded is ThCh\$85,816, plus indexation and interest. Sentence has been passed at the first instance rejecting the suit against Aguas Andinas S.A. accepting only a part of the suit against the construction company for a far lower figure. The gas company has appealed and asked that the suit be entirely accepted, also against Aguas Andinas S.A.

Court: 4th Civil Court of Santiago; Case file: 2235-2001
A company sued Aguas Andinas S.A. alleging that it had occupied its property without authorization for the construction of the El Trebal Treatment Plant. Aguas Andinas S.A. alleges that it obtained the easements 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 suit and with costs. The plaintiff has appealed against this judgment.

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

An individual sued Aguas Andinas S.A. alleging having suffered enormous damage on the sale of 8.1 hectares of land for the construction of part of the El Trebal Plant. Aguas Andinas S.A. claims to have paid a fair price. The amount sought is approximately ThCh\$120,000.

Judgment in the first instance rejected the suit. The plaintiff has appealed.

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

A company sued Aguas Andinas S.A. seeking the absolute nullity of Sociedad Gestión y Servicios S.A. in which Aguas Andinas S.A. has a 1% shareholding.

Final sentence was given on March 2, 2005 denying the suit and condemning the plaintiff to pay the costs. The plaintiff has appealed.

Court: 11th Civil Court of Santiago; Case file: 3541-2004

Aguas Andinas S.A. was sued for the payment of an indemnity for extra-contractual liability for environmental damage in breach of Law 19,300. It is claimed that the failure to arrive at a prompt and adequate solution to the emission of bad odors from the Santiago Poniente Plant and subsequently from the La Farfana Plant, caused the prolonged suffering or moral damage to the neighbors, in addition to enormous financial damage as a result of the drop in the value of their properties. Amount involved: U.F. 506,594. Current status: First instance – discussion period. Exceptions were presented in order to correct irregularities in the suit and in the procedure that led to the damages under Law 19,300.

There is a moderate possibility of success in this case as the suit lacks a solid foundation. In any case, the result will depend on the proof of damages submitted. The process has not yet commenced.

· Court: 19th Civil Court of Santiago; Case file: 2632-2004

A private individual is requesting the reversal of the sale of some water rights to Aguas Andinas S.A. through a third party, sustaining that this has violated his rights. He is demanding the restitution of the water rights that were acquired for U.F. 5,525. The evidence stage is pending. According to information at hand, this suit will not be successful.

11th Civil Court of Santiago; Case No.13.214 - 2004

Aguas Andinas S.A. was sued for damages and extra-contractual liability for environmental damage, an offense under Law 19,300. It is claimed that the failure to arrive at a prompt and adequate solution to the emission of bad odors from the Santiago Poniente Plants and subsequently from the La Farfana Plant, caused the prolonged suffering or moral damage to the neighbors, in addition to an enormous financial damage as a result of the drop in the value of their properties.

Amount demanded: U.F. 492,607 plus indexation and interest. Current status: First instance - discussion period. Exceptions were presented in order to correct irregularities in the suit and in the procedure that led to the damages under Law 19,300. There is a moderate possibility of success; the result will depend on the proof of damages submitted. The court process has not yet commenced.

18th Civil Court of Santiago; Case No. 322-2005

Aguas Andinas S.A. was sued for technical faults and defects at the La Farfana Sewage Plant, causing bad odors that have affected the physical and psychological health of the neighbors.

Amount demanded: ThCh\$3,890,000 plus indexation and interest. It is believed that it is improbable that damage can be shown to have affected or put at risk the psychological or physical health of the plaintiffs from the bad odors. Even so, the success of the demand will depend on the evidence. The proceedings have not yet begun.

Court: 1st Labor Court of Santiago; Case No. 5901-2005

Aguas Andinas S.A. was sued subsidiarily for damages as a result of an accident and the death of 4 workers.

Amount demanded: ThCh\$2,400,000 (contingency covered by insurance)

State of the case: Discussion period.

Estimated outcome: Impossible to determine.

The Company is party to other more minor lawsuits brought by and against it.

The management, together with their legal advisers, considers that the above lawsuits will have no material effect on the financial statements. Nevertheless, provisions have been made, as shown in Note 16.

c) Bond issue covenants

The Company has the following restrictions and obligations arising from the issuance of bonds on the domestic market:

1.- Send to the representative bond-holders' of a copy of the quarterly and annually audited unconsolidated and consolidated financial statements and of the subsidiaries registered with the Superintendency of Securities and Insurance, within the same time limits set by the Superintendency of Securities and Insurance together with all the public information reported to that Superintendency.

2.- Record in its books any provisions for adverse contingencies that may arise and which, in management's opinion, should be reflected in its own and/or its subsidiaries' financial statements

3.- Maintain insurance coverage that reasonably protects its assets including its main offices, buildings, plants, office furniture and equipment and vehicles, in accordance with normal practices for similar businesses.

4.- The Company promises to ensure that its transactions with its subsidiaries and other related parties are carried out in equitable conditions similar to those normally prevailing in the market.

5.- Maintain a debt ratio no greater than 1.5:1, calculated on the figures in the consolidated and unconsolidated balance sheets, defined as the ratio of liabilities to shareholders' equity.

6.- The Company may 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 subsidiary companies.

e) Bank loan restrictions

The Company has the following obligations and restrictions contained in loan agreements with several local banks:

1.- A debt ratio not greater than 1.5:1, calculated on the figures in the consolidated and unconsolidated balance sheets, defined as the ratio of liabilities to shareholders' equity.

2.- Prohibition on the disposal or loss of title over essential assets except for contributions or transfers of essential assets to subsidiaries.

3.- Send to the different banks with which the Company has credit facilities, a copy of its quarterly and audited annual unconsolidated and consolidated financial statements within a maximum of five days from the time they are sent to the Superintendency of Securities and Insurance.

4.- Record in its books any provisions for adverse contingencies that might arise and which, in the management's opinion, should be reflected in the Company's 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 similar businesses.

6.- Send a certificate issued by the general manager of the Company confirming compliance with the obligations assumed in the loan agreement.


7.- Prohibition on the payment of dividends if there is a case of past due payments or delays in the payment of some loan instalment, except for the obligatory minimum dividend.

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

9.- Prohibition on the liquidation or dissolution of the Company, its operations or the business in which it engages; or to participate in any action or contract with the purpose of creating a merger or a consolidation, except in the case of a merger with its present subsidiaries.

10.- The Company to ensure that its transactions with its subsidiaries and other related parties are carried out in equitable conditions similar to those normally prevailing in the market.

Direct guarantees

Creditor		Debtor	Type of guarantee	Balance pending at date of the financial statements	
				2005 ThCh\$	2004 ThCh\$
S.I.S.S.		Aguas Andinas S.A.	Policy	7,848,688	7,101,424
Empresa Ferrocarriles		Aguas Andinas S.A.	Performance bond	2,373	2,368
Enersis S.A.		Aguas Andinas S.A.	Performance bond	8,987	8,970
Municipalidad de Providencia		Aguas Andinas S.A.	Performance bond	20,258	33,262
Municipalidad Las Condes		Aguas Andinas S.A.	Performance bond	1,000	1,036
Municipalidad de Santiago		Aguas Andinas S.A.	Performance bond	16,709	16,676
Municipalidad de Peñaflor		Aguas Andinas S.A.	Performance bond	-	60
Municipalidad de Macul		Aguas Andinas S.A.	Performance bond	937	-
Dirección Regional Vialidad		Aguas Andinas S.A.	Performance bond	2,218	8,605
Serviu Metropolitano		Aguas Andinas S.A.	Performance bond	1,801,305	-
Direcc Obras Hidráulicas		Aguas Andinas S.A.	Performance bond	6,778	5,180
Constructora Norte Sur S.A.		Aguas Andinas S.A.	Performance bond	441,515	716,954
Direcc. Nacional de Obras		Aguas Andinas S.A.	Performance bond	8,306	-
Total				10,159,074	7,894,535

25.- Guarantees received from third parties.

At December 31, 2005 and 2004, the Company has received documents in guarantee for ThCh\$15,165,499 and ThCh\$18,598,172 respectively, arising principally from works contracts with construction companies to guarantee full compliance with their conditions. There are also other guarantees to ensure the compliance of service and materials supply contracts to ensure their prompt provision or delivery.


The following is a detail of the more significant bank guarantees received as at December 31, 2005:

Contractor or Supplier	 Amount ThCh\$	Maturity
Navarrete y Díaz Cumsille Ing Civ S.A.	97,468	31/03/2006
Jara Gumucio S.A.	100,000	10/02/2006
Renta Equipos Leasing	100,138	11/07/2006
Constructora Belfi-Bcf Ltda.	107,849	28/02/2007
Ing. y Const. Vial y Vives Ltda.	116,393	30/06/2006
Constructora CBA Ltda.	118,634	31/12/2006
Ing. y Const. INCOLUR Ltda.	120,000	15/03/2006
Degrémont S.A. Banque francaise du cemme	120,000	15/03/2006
Gtech Corporation Chile	122,229	27/10/2006
Cía. Americana de Multiservicios S.A.	136,964	31/05/2006
Cía. Americana de Multiservicios S.A.	179,748	03/05/2007
Chilectra S.A.	179,748	01/08/2006
Constructora Vespucio Norte S.A.	215,698	30/06/2006
Constructora Norte Sur S.A.	216,219	30/08/2006
ITT Sanitaire	224,541	30/10/2007
ITT Sanitaire	224,541	28/02/2006
Claro, Vicuña Valenzuela S.A.	233,424	15/02/2007
Claro, Vicuña Valenzuela S.A.	254,053	30/06/2006
KDM S.A.	269,622	10/01/2007
Jara Gumucio S.A.	289,394	20/07/2006
Compañía de Petróleo de Chile S.A.	302,243	22/03/2006
Constructora Con-Pax S.A.	314,020	08/09/2006
Sacyr Chile S.A.	321,012	23/01/2006
Necso entrecanales C. Chile S.A.	321,012	23/01/2006
Cadagua S.A.	1,158,171	11/02/2007
Degrémont S.A. Agencia en Chile	2,193,631	30/08/2007
Total	8,036,752	


26.- Local and Foreign Currencies

The Company shows the following assets and liabilities in local and foreign currency as at December 31, 2005 and 2004:

Assets

Item	Currency	 2005 ThCh\$	2004 ThCh\$
Current Assets			
Cash and banks	Non-indexed Ch\$	75,833	60,682
Cash and banks	Dollar	3,266	4,349
Time deposits	Non-indexed Ch\$	-	32,930,293
Marketable securities	Non-indexed Ch\$	-	697,905
Trade accounts receivable	Non-indexed Ch\$	28,771,328	25,031,126
Sundry debtors	Dollar	1,174	2,118
Sundry debtors	Euros	1,291	2,299
Sundry debtors	Indexed Ch\$	48,728	44,054
Sundry debtors	Non-indexed Ch\$	270,411	297,200
Notes receivable	Non-indexed Ch\$	70,306	84,907
Notes receivable	Indexed Ch\$	151,803	80,030
Notes receivable related companies	Non-indexed Ch\$	1,426,252	1,547,593
Notes receivable related companies	Indexed Ch\$	3,739,695	872,387
Inventories	Indexed Ch\$	278,273	439,890
Recoverable taxes	Indexed Ch\$	194,892	2,013,066
Prepaid expenses	Indexed Ch\$	97,336	126,313
Deferred taxes	Indexed Ch\$	473,840	469,890
Other current assets	Non-indexed Ch\$	19,539,263	10,311
Other current assets	Indexed Ch\$	1,094,860	1,745,937
Property, plant and equipment			
Property, plant and equipment	Indexed Ch\$	514,106,985	521,874,460
Other Assets			
Investment in related companies	Indexed Ch\$	76,721,483	68,288,188
Goodwill	Indexed Ch\$	58,013,668	61,982,209
Long-term debtors	Non-indexed Ch\$	800,580	1,910,007
Long-term debtors	Indexed Ch\$	5,613,483	6,242,794
Deferred taxes	Indexed Ch\$	1,426,982	358,096
Intangible assets (net)	Indexed Ch\$	14,824,861	14,840,905
Others	Indexed Ch\$	8,218,889	8,989,220
Others	Non-indexed Ch\$	619,931	762,143
Total assets			
	Non-indexed Ch\$	51,573,904	63,332,167
	Dollar	4,440	6,467
	Euros	1,291	2,299
	Indexed Ch\$	685,005,778	688,367,439

Current liabilities

Account		Currency	Up to 90 days				90 days to 1 year			
			2005		2004		2005		2004	
			Amount ThCh\$	Average annual interest %	Amount ThCh\$	Average annual interest rate %	Amount ThCh\$	Average annual interest rate %	Amount ThCh\$	Average annual interest rate %
Borrowings from banks										
short term		Indexed Ch\$	10,181,495	0.95%	-	-	-	-	-	-
Borrowings from banks										
short term		Non-indexed Ch\$	10,064,737	5.64%	-	-	-	-	193,000	4.17%
Borrowings from banks										
current portion long term		\$ no reajutable	-	-	-	-	6,266,229	7.29%	-	-
Bonds payable										
current portion		Indexed Ch\$	87,553,217	4.25%	1,086,871	4.70%	11,983,210	4.25%	30,516,977	4.25%
Accounts payable		Dollar	109,558	-	129,053	-	-	-	-	-
Accounts payable		Euros	2,861	-	50,547	-	-	-	-	-
Accounts payable		Non-indexed Ch\$	13,300,905	-	12,382,418	-	-	-	-	-
Accounts payable		Indexed Ch\$	21,248	-	182,257	-	-	-	-	-
Notes payable		Indexed Ch\$	2,018	2.57%	2,008	2.57%	6,053	2.57%	6,024	2.57%
Sundry creditors		Indexed Ch\$	3,756	4.34%	-	-	11,271	4.34%	-	-
Sundry creditors		Non-indexed Ch\$	65,590	-	74,285	-	-	-	-	-
Notes and accounts payable to related companies		Euros	-	-	4,105	-	-	-	-	-
Notes and accounts payable to related companies		Indexed Ch\$	7,073	-	5,204	-	-	-	-	-
Notes and accounts payable to related companies		Non-indexed Ch\$	1,472,163	-	2,541,082	-	1,736,195	-	7,368,223	-
Provisions		Non-indexed Ch\$	9,826,954	-	9,650,632	-	3,877,693	-	3,831,627	-
Withholdings		Non-indexed Ch\$	5,571,909	-	4,502,710	-	-	-	-	-
Income tax		Non-indexed Ch\$	1,178,756	-	-	-	-	-	-	-
Unearned income		Non-indexed Ch\$	410,190	-	381,266	-	-	-	-	-
Unearned income		Indexed Ch\$	-	-	-	-	20,372	-	20,333	-
Total current liabilities		Indexed Ch\$	97,768,807	-	1,276,340		12,020,906		30,543,334	-
		Non-indexed Ch\$	41,891,204	-	29,532,393		11,880,117		11,392,850	-
		Dollar	109,558	-	129,053		-		-	-
		Euros	2,861	-	54,652		-		-	-

Long-term liabilities 2005

Account	Currency	1 to 3 years		3 to 5 years		5 to 10 years		More than 10 years	
		Amount ThCh\$	Average interest rate %	Amount ThCh\$	Average interest rate %	Amount ThCh\$	Average interest rate %	Amount ThCh\$	Average interest rate %
Borrowings from banks	Non-indexed Ch\$	28,093,334	7.29%	32,173,333	7.29%	1,900,000	7.40%	-	-
Bonds payable	Indexed Ch\$	24,175,158	4.27%	25,218,832	4.35%	37,660,077	4.48%	22,891,848	6.25%
Notes payable	Indexed Ch\$	16,143	2.57%	16,143	2.57%	4,878,089	2.79%	6,920,567	3.47%
Sundry creditors	Indexed Ch\$	29,312	4.34%	-	-	-	-	-	-
Indemnity	Indexed Ch\$	-	-	-	-	-	-	6,734,222	-
Other long-term liabilities	Indexed Ch\$	40,743	-	40,743	-	81,484	-	-	-
Total long-term liabilities									
	Non-indexed Ch\$	28,093,334	-	32,173,333	-	1,900,000	-	-	-
	Indexed Ch\$	24,261,356	-	25,275,718	-	42,619,650	-	36,546,637	-

Long-term liabilities 2004

Account	Currency	1 to 3 years		3 to 5 years		5 to 10 years		More than 10 years	
		Amount ThCh\$	Average interest rate %	Amount ThCh\$	Average interest rate %	Amount ThCh\$	Average interest rate %	Amount ThCh\$	Average interest rate %
Borrowings from banks	Non-indexed Ch\$	20,699,280	4.17%	29,104,693	4.17%	20,747,627	4.18%	-	-
Bonds payable	Indexed Ch\$	81,330,096	4.71%	74,848,408	4.27%	18,557,714	4.96%	25,000,949	6.25%
Notes payable	Indexed Ch\$	16,112	2.57%	16,112	2.57%	4,315,092	2.59%	5,648,019	3.58%
Sundry creditors	Indexed Ch\$	-	-	-	-	-	-	5,448,710	-
Indemnity	Indexed Ch\$	40,665	-	40,665	-	101,662	-	-	-
Other long-term liabilities	Indexed Ch\$	-	-	-	-	-	-	-	-
Total long-term liabilities									
	Non-indexed Ch\$	20,699,280	-	29,104,693	-	20,747,627	-	-	-
	Indexed Ch\$	81,386,873	-	74,905,185	-	22,974,468	-	36,097,678	-

27.- Sanctions

a) Superintendency of Securities and Insurance:

Neither the Company nor its directors or executives, were sanctioned during the years 2005 and 2004.

b) Other administrative authorities.

2005

i) The Superintendency of Sanitation Services (SISS) applied the following fines:

By Resolution SISS 2807-2005, it applied a fine of 25 UTA, paid on December 30, 2005, for the non-compliance with number 6 of Chapter VII of the Invoicing Manual.

By Resolution SISS 710-2005, it applied a fine for non-compliance with written instructions given by the Superintendency in its Official Letter No.1908 and in Chapter XI of the Invoicing Manual. Amount payable 40 "UTA" ("Annual Tax Units" - an official monetary unit). State of the case: awaiting judgment. Estimated result: it is intended to obtain a reduction in the fine.

ii) The COREMA RM (regional environmental authority) applies a fine of 300 UTM (monthly tax units) by its Resolution 069/2005 of February 17, 2005, as a result of bad odors emanating from the La Farfana treatment plant. 10% of the fine was paid to initiate an appeal in the courts. The summary judgment of the fine appeal was made before the 27th Civil Court of Santiago, case No. 6857-2005, which is at the evidence stage.

2004

i) The Superintendency of Sanitation Services (SISS) applied the following fines:

Their Resolution 415 dated February 9, 2004, the SISS fined the Company for not complying with written orders and instructions to remit, within the established term, information for the "Cover of the treatment of sewage" and "Production of drinking water" processes. A summary complaint judgment took place in the 29th Civil Court of Santiago (case file No.1189-2004). State of the case: demand rejected in the first instance. Appeal made. The amount of the sanction is 30 Annual Taxation Units (UTA).

The Company was sanctioned when the SISS detected a failure to comply with the parameters established on fecal coliforms during a self-evaluation carried out during the second quarter of the year 2003 at the Paine sewage treatment plant. A summary complaint judgment took place in the 29th Civil Court of Santiago (case file: 1434-2004). In the second instance stage, the appeal

against the sanction is pending. The amount of the sanction is 26 Annual Taxation Units (UTA).

By SISS Resolution 2796, the Company was fined for not complying with written orders and instructions issued by the SISS under Official Memoranda Nos. 1207 and 1456. A summary complaint judgment took place in the 29th Civil Court of Santiago (Case file: 11263-2004). The amount of the sanction is 100 Annual Taxation Units (UTA). Judgment has been given and the SISS has withdrawn the fine.

By SISS Resolution 2858, the Company was fined for not complying with written orders and instructions issued by the SISS under Official Memorandum 2774 and included in the development plan for Curacaví. A summary complaint judgment took place in the 29th Civil Court of Santiago (Case file: 11711-2004). The case is in the sentencing period. The amount of the sanction is 51 Annual Taxation Units (UTA).

On October 20, 2004, the SISS instructed Aguas Andinas S.A. to suspend customer billings for sewage treatment at the La Farfana Plant due to an alleged breach of compliance with the Environmental Rating Resolution for that plant and in accordance with SISS Ordinance 690/04 on the handling of sludge. The impact of this suspension covered the period between October 20 and November 20, which resulted in a loss of revenues amounting to approximately Ch\$2,325 million.

ii) SESMA applied the following fines:

By its Resolution 5180 of December 15, 2003, a fine of 1,000 UTM (Monthly Taxation Units) was applied due to bad odors emanating from the La Farfana plant. The fine was paid in order to be able to bring a claim before the courts. This was presented to the 17th Civil Court of Santiago (Case No.2999-2004). State of the case: awaiting start of evidence stage.

By its Resolution 4838 of October 19, 2004, confirmed by Resolution 782 of February 2, 2005, SESMA, the national environmental authority, fined the Company with 2,000 Monthly Taxation Units (UTM) for breach of Law 144/61 issued by the Ministry of Health, which sets standards for avoiding atmospheric emanations or contaminants of any kind. The fine was paid in order to bring a claim before the court. This was presented to the 17th Civil Court of Santiago (Case No.4566-2005). State of the case: evidence stage pending.

iii) The COREMA RM (regional environmental authority) fined the Company on May 28, 2004 (Resolution 177) with 1,000 Monthly Taxation Units (UTM) for bad odors emanating from the La Farfana Plant. 5% of the fine was duly paid in order to commence an appeal through the law courts (28th Civil Court of Santiago - Case No.6593-2004). State of the case: in the evidence stage.

28.- Subsequent events.

On December 9, 2005, the Company inscribed with the Superintendency of Securities and Insurance (Ord. No.12,877) a new bond issue under the line inscribed with the Superintendency under the No.305 on October 10, 2002.

This bond issue corresponds to the Series F for U.F.5,000,000, with a nominal interest rate of 4.15% and a term of 21 years. Equal repayments will be due from June 1, 2008 to December 1, 2026.

These bonds were placed on January 3 and 4, 2006, for a total amount of U.F. 5,000,000.

The board meeting held on february 28, 2006 agreed to call ordinary shareholder's meeting for april 26, 2006.

At the date of issue of these financial statements, the management of the Company is unaware of any other subsequent events that might significantly affect the financial position and/or results of the Company at December 31, 2005.

29.- The environment

The principal disbursements in projects for improving the environment made by the Company during 2005 and 2004 refer to the construction of sewage treatment plants, as follows:

Works	2005 ThCh\$	2004 ThCh\$
La Farfana treatment plant	5,860,983	12,087,105
Talagante treatment plant	5,358,736	2,376,293
Curacavi treatment plant	942,752	121,798
El Monte treatment plant	225,281	730,546
Esmeralda Melipilla treatment plant (improvement)	215,327	61,055
Cexas and Esmeralda treatment plants remote control	40,560	23,687
El Trebal treatment plant	38,608	44,951
Quality and Environmental Plan	22,255	-
Los Nogales treatment plant	22,159	2,655,352
Buin Maipo treatment plant	7,142	1,706
Repair of mixed mud chambers	6,697	-
Treatment plant muds management	3,509	147,711
Valdivia de Paine treatment plant	44	64,122
Prevention and neutralization plant chlorine leakages	-	36,708
Total	12,744,053	18,351,034

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 sanitation works constructed or acquired with resources of the National Regional Development Fund was transferred to the company. The assets transferred under this agreement, which constitute contributions from third parties, are governed by Decree Law 70 issued by the Ministry of Public Works in 1988 and the provisions of clause 36 of the respective MINECON Law 453 of 1989.

At December 31, 1998, these assets were incorporated into the Company's fixed assets at a nominal value of Ch\$1 for each one, as there is a prohibition on considering these assets transferred by the regional government as an investment for purposes of tariff setting, so the Company cannot earn a return on them and they do not represent any additional operating profit-generating operations for the Company in addition to those already obtained since they started operations.

Furthermore, the income-cost benefit is not altered with respect to previous years as the Company made no disbursements.

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

According to the instructions of the Superintendency of Securities and Insurance, in its Resolution 01489 of March 22, 2000, the estimated technical value of these works was determined for information purposes. This now amounts to ThCh\$1,601,098 and its depreciation, determined on the basis of its time in use, amounts to ThCh\$531,862.

The principal criteria used in the valuation of these works include earth movement, supply pipes, drinking water and sewage chambers and labor costs, all as at December 2005. The average useful life of these assets is 406 months and their remaining average useful life as at December 2005 is 292 months.

31.- Long-term notes payable.

Clause 14 of Decree Law 70 published in the Official Gazette on March 30, 1988 and clause 42 of Supreme Decree 453 set the regulations for demanding reimbursable financing contributions for capacity and or extensions of the corresponding service to those requesting to be added as customers or require an expansion of the service.

The debt for reimbursable contributions is shown in Long-term notes payable, for ThCh\$11,830,942 and ThCh\$9,995,335 at December 2005 and 2004 respectively.

Material information

· At a board meeting held on March 22, 2005, the resignation was noted of Roque Gistau Gistau as a director of the Company.

· The ordinary shareholders' meeting of Aguas Andinas S.A. held on April 21, 2005 revoked the board of directors and elected, for the fully statutory period, the following persons as directors and alternate directors:

DIRECTORS

Alfredo Noman Serrano
Josep Bagué Prats
Fernando Rayón Martín
Alain Chaigneau
Carlos Mladinic Alonso
Daniel Albarrán Ruiz Clavijo
Bernardo Espinosa Bancalari

ALTERNATE DIRECTORS

Angel Simón Grimaldos
José Vila Bassas
Lluís María Puiggari Lanza
Jean Michel Desloges
Jorge Bande Bruck
Claudio Maggi Campos
Roberto Hempel Holzapfel

· On July 14, 2005, INVERSIONES AGUAS METROPOLITANAS LIMITADA, controlling shareholder in AGUAS ANDINAS S.A., the holder of 3.133.053.126 Series A shares issued by AGUAS ANDINAS S.A., advised that its partners, ONDEO SERVICES CHILE S.A. and INVERSIONES AGUAS DEL GRAN SANTIAGO S.A., had agreed to transform INVERSIONES AGUAS METROPOLITANAS LIMITADA into a corporation governed by the regulations applicable to open corporations, preserving the joint control over it under a shareholders' agreement, following the transaction.

It was also advised that they agreed to request the inscription of the transformed company and its shares in the Securities Register of the SVS which, according to the correspondence, would prepare them for placing the shares on the market should conditions be suitable.

· On July 19, 2005, the board of the Company agreed to prepay all the bonds of Series A, sub-series A1 and A2, whose issue is inscribed in the Securities Register of the SVS with the number 266 on August 13, 2001, in accordance with clauses 104 d) and 130 of the Securities Market Law, and the clause 3, 13 of the bond issue indenture recorded in public deed dated June 19, 2001, before the Santiago notary Iván Torrealba Acevedo, modified by public deed dated August 2, 2001 before the Santiago notary Juan Ricardo San Martín Urrejola.

Accordingly, the prepayment was made on September 1, 2005. The bonds were redeemed at their nominal value plus accrued interest to the date of their redemption.

The board expressly authorized the chief executive officer, Felipe Larrain Aspillaga, to follow all the procedures required by law and the contract that are necessary for the redemption and prepayment of these bonds.

· On July 19, 2005, the board of the Company agreed to distribute Ch\$21,416,378,060 as an interim dividend against the net income for 2005. The Company's dividend No.41 amounts to Ch\$3.5 per share and is payable from September 27, 2005.

. The board of the Company on August 30, 2005 agreed to the issue of two new series of bonds against the line of bonds issue contract registered with the SVS under No.305 on October 10, 2002. Both series together will not exceed 5,200,000 Unidades de Fomento. The purpose of these new series of bonds will be the refinancing of the company's liabilities.

· On November 23, 2005, the company reported that: Regarding the secondary common share offering of its parent, Inversiones Aguas Metropolitanas S.A. (IAM) that its shareholders are carrying out in Chile and abroad, Aguas Andinas S.A. has been informed by IAM that today the transaction referred to has been legally finalized, and consequently:

(i) Ondeo Services Chile S.A. has ceased to be a shareholder of IAM;

(ii) Inversiones Aguas del Gran Santiago S.A. maintains a 56.6% shareholding in IAM, which holding could reduce to 50.1% should UBS Securities LLC exercise the whole of its purchase option set out in the respective share purchase agreement, for which it has a term until December 18, 2005;

(iii) The shareholders' agreement between Inversiones Aguas del Gran Santiago S.A. and Ondeo Services Chile S.A. has been terminated as the latter is no longer a shareholder in IAM;

(iv) Inversiones Aguas del Gran Santiago S.A. therefore remains as the sole controller of IAM, and thus of Aguas Andinas S.A.;

(v) Inversiones Aguas del Gran Santiago S.A. is controlled by Agbar Chile S.A., which in turn is controlled by Sociedad General de Aguas de Barcelona S.A. ("Agbar"). Agbar is a Spanish company whose largest shareholder is Hisusa, Holding de Infraestructuras y Servicios Urbanos, S.A. ("Hisusa"), with a holding of 47.197% of the share capital of Agbar; and

(vi) The shareholders of Hisusa are the French company Suez, S.A. (through a subsidiary), with 51%, and Caixa d'Estalvis i Pensions de Barcelona (through a subsidiary), with 49%. Suez, S.A. also, through a subsidiary, has a 1.449% shareholding in Agbar.

· The board meeting held on November 29, 2005 agreed the following.

i. To complement and modify the board resolutions of August 30, 2005 when the issue of the Series E y F bonds was authorized against the line of bonds registered with the SVS under No.305 of October 10, 2002. Among other matters, it was agreed to extend the maturity date of the Series F to a maximum of 21 years and eliminate the limitation, with respect to the placement of the Series E and F bonds, that they should jointly not exceed 5,200,000 Unidades de Fomento.

ii. To proceed with the prepayment of all the Series D bonds as established in the respective issue indenture, delegating on certain persons the determination of the date on which this will be carried out.

Reasoned Analysis Aguas Andinas

I.- General aspects

The capital of Aguas Andinas is divided into 6,118,965,160 share of no par value. At December 31, 2005, our principal shareholders are Inversiones Aguas Metropolitanas S.A. and CORFO, with 51.2% and 35% shareholdings respectively.

Sales

Our sales derive principally from the regulated services we provide related to the production and distribution of drinking water, the collection, treatment and disposal of sewage, other regulated services (which include income related to the cutting off and re-connection of supplies and charges relating to certain liquid industrial waste discharge monitoring activities) and fixed charges. Sales for 2005 amounted to Ch\$181,615 million, 10.3% (Ch\$17,025 million) higher than in 2004. The net income of Aguas Andinas S.A. at December 31, 2005 was Ch\$75,945 million, Ch\$11,191 million (17.3%) more than in 2004.

The EBITDA (operating income plus depreciation and amortization) as a percentage of sales was 63.8% in 2005 (61.8% in 2004).

Costs and operating expenses

Our costs and operating expenses are composed of the cost of sales and administration and selling expenses. The most important items in the cost of sales are depreciation, which represented 38%; the outsourcing of certain services to contractors, which represented 32%; and personnel, which represented 16% in 2005. The most important items of administration and selling expenses is personnel, which represented 46%; outsourced services, which represented 31%; and general expenses, which represented 11%, in 2005.

The cost of sales and administration and selling expenses increased by Ch\$1,606 million (2.3%) and Ch\$757 million (3.3%) respectively.

Tariffs

The most important factor in determining the results of our business and our financial situation is the tariffs set for our regulated sales and services. As a natural

monopoly, we are regulated by the SISS and our tariffs are set in accordance with the Sanitation Services Tariffs Law D.F.L. N°70 de 1988.

Our tariff levels are reviewed every five years and, during that time, are subject to additional adjustments linked to polynomial of indexation if the accumulated change since the previous adjustment is 3% or more, according to calculations made as a function of various inflation indices. The adjustments are specifically applied as a function of a formula that includes the Chilean Consumer Price Index, the Wholesale Price Index for Imported Industrial Goods and the Wholesale Price Index for National Industrial Goods, all measured by the Chilean National Institute of Statistics. Tariffs are also subject to adjustment to reflect additional services previously authorized by the SISS.

During 2005, the tariff negotiation process was concluded for the period 2005-2010. The tariff increases approved by Decree 100 of the Ministry of the Economy came into effect on March 1, 2005.

Market Risk

Our Company shows a favorable situation in terms of risk, mainly due to the special characteristics of the sanitation sector, but our business is seasonal and our operating results can fluctuate from one quarter to another. We tend to see the greatest demand and sales during the Chilean summer months (December to March) and the weakest demand and sales in the winter (June to September). In general, demand for water is greater in the warmer months than in the more temperate ones mainly due to the additional water needs for watering systems and other outside uses of water.

Adverse weather conditions can eventually affect the optimum delivery of sanitation services because the processes of capturing and producing drinking water depend to a large degree on weather conditions in the water basins. Factors like rainfall (snow, sleet, rain and fog), temperature, humidity, the flow of sediments, river flows and transparency, determine the quality and continuity of crude water available at each sluiceway that is capable of being treated at the drinking water plant. In the event of drought, we have large water reserves held in the El Yeso, Laguna Negra and Lo Encañado reservoirs, apart from the

contingency plans we have developed, which enable us to reduce the eventual negative impacts that might be caused by adverse weather conditions for our operations.

Capital investments

One of the variables that most affects the result of our business and financial situation is capital investments. These are of two types:

Committed investments: We have to agree an investment plan with the SISS which states the investments we have to make during the following 15 years. The investment plan specifically reflects a commitment on our part to carry out certain projects related to the maintenance of certain quality standards and coverage. This investment plan is revised every five years, and Aguas Andinas can request modifications to it when certain relevant facts are ascertained.


Un-committed investments: These are investments that are not contemplated in the investment plan and which we make voluntarily to ensure the quality of our services and replace obsolete assets. These generally relate to the replacement of network infrastructure and other assets, the acquisition of water rights and investments in non-regulated businesses.

As required by Chilean regulations, interest on capital investments in works in progress is capitalized. Changes to our capital investment plan therefore affect the interest credited in our income statement and consigned as works in progress in Fixed assets in the balance sheet.

II.- Comparative analysis of explanation of changes

Balance Sheet

The composition of assets and liabilities at December 31, 2005 y 2004 is as follows:

Assets		2005 Ch\$ millions	2004 Ch\$ millions	Change %
Current assets		56,238	66,460	(15.38)
Fixed assets (net)		514,107	521,874	(1.49)
Other assets		166,240	163,374	1.75
Total		736,585	751,708	(2.01)

Current assets are Ch\$10,222 million lower than the year before, mainly due to a decrease in financial investments of Ch\$14,114 million and recoverable taxes of Ch\$1,818 million, compensated by an increase in trade accounts receivable of Ch\$3,740 million and notes and accounts receivable from related companies of Ch\$2,746 million.

The Company's fixed assets increased by 1.0% (Ch\$9,897 million) in gross terms compared to the year before, from Ch\$1,014,247 to Ch\$1,024,144 million. The most important increase was in Buildings and infrastructure of Ch\$7,876 million, machinery and equipment of Ch\$860 million and Other fixed assets of Ch\$936 million, due to investments being made in sanitation and support infrastructure.

The charge for depreciation at December 2005 amounts to Ch\$29,310 million, 1.3% below the level of 2004 (Ch\$29,693 million). This is mainly due to the

end of the useful life of operating assets during this year. Also, because of works that have come into operation during the last year and were carried out in previous years, accumulated depreciation increased by Ch\$17,665 million, 3.6% higher than the previous year.

Including the above effects, fixed assets in net terms declined by Ch\$7,767 million compared to December 2004.

Other assets increased by Ch\$2,866 million, the principal changes being an increase in investment in related companies of Ch\$8,433 million, offset by goodwill of Ch\$3,968 million and long-term debtors of Ch\$1,739 million.

Liabilities	2005 Ch\$ millions	2004 Ch\$ millions	Change %
Current liabilities	163,673	72,928	124.43
Long-term liabilities	190,870	285,916	(33.24)
Total liabilities	354,543	358,844	(1.20)
Shareholders' equity	382,042	392,864	(2.75)


The changes in the composition of total liabilities between short and long term are mainly explained by Company's decision to prepay the Series D bonds, which was done on January 9, 2006. This means that this is shown in current liabilities as Bonds payable – current portion for Ch\$68,276 million at December 31, 2005.

Current liabilities increased by Ch\$90,745 million due to the following factors: i) increase in bonds payable (current portion) of Ch\$67,932 million and bank borrowings of Ch\$6,073 million, mainly explained by the transfer from long term of these obligations; and ii) an increase in short-term bank borrowings of Ch\$20,246 million relating to bank loans drawn during the second half of 2005. This was partially offset by the decrease in notes and accounts payable to related companies of Ch\$6,704 million.

Long-term liabilities declined by Ch\$95,046 million because of the following: i) a reduction in bonds payable of Ch\$89,971 million mainly due to the transfer to short term of the Series D bonds (prepayment), the annual amortization of the Series C bonds and the prepayment of the Series A bonds in September 2005, partly compensated by the issue of Series E bonds in December 2005; and ii) a reduction in bank borrowings of Ch\$8,385 million following the transfer to short term of bank loan maturities.

Shareholders' equity compared to 2004 fell by Ch\$10,822 million following the payment in September 2005 of interim dividends of Ch\$21,888 million, partially offset by the Ch\$11,191 million increase in net income for the year.

Financial Indicators

Indicator		Unit	2005	2004	Change %
Liquidity					
Current ratio		(times)	0.34	0.91	(62.64)
Acid test		(times)	0.12	0.46	(73.91)
Debt					
Debt ratio		(%)	92.80	91.34	1.60
Short-term debt		(%)	46.16	20.32	127.17
Long-term debt		(%)	53.84	79.68	(32.43)
Financial expense coverage		(times)	6.57	5.95	10.42
Activity					
Inventory turnover		(times)	199.75	173.62	15.05
Permanence of inventories		(days)	1.80	2.07	(13.04)
Profitability					
Return on equity (average)		(%)	19.60	16.95	15.63
Return on assets (average)		(%)	10.21	8.76	16.55
Earnings per share		(\$)	12.41	10.58	17.30
Dividend yield		(%)	7.60	4.00	90.00
Return on operating assets		(%)	16.18	13.31	21.56

Current liabilities increased by 124.43% and current assets decreased by 15.38%, so the Company's liquidity fell by 62.64% compared to 2004. Current liabilities mainly increased in the headings of bank borrowings and bonds payable.

In net terms, the debt level improved slightly by 1.60% due to new short-term borrowings from domestic banks, the new bond issue in December and the reduction in equity, due to the combined effect of interim dividend payments and a higher net income for the year, compensated by the reduction in bonds payable, due to the repayment of instalments of the Series C and D bonds and the prepayment of the Series A bonds.

For the calculation of the return on operating assets, the operating income is divided by the sum of fixed assets (average) and net intangible assets (average). This ratio improved by 21.56% following the 20.50% improvement in operating income.

The return on average equity shows a 15.63% increase, mainly because of the increase in profits compared to the previous year.

Statement of income

The following table shows the most important items of the statement of income for the years ended December 31, 2005 and 2004:

Statements of income	2005 Ch\$ millions	2004 Ch\$ millions	Change %
Sales	181,615	164,590	10.34
Cost of sales (less)	71,728	70,122	2.29
Administrative and selling expenses (less)	23,697	22,940	3.30
Operating income	86,190	71,528	20.50
Non-operating income	3,118	4,204	(25.83)
Net income for the year	75,945	64,754	17.28
Financial expenses (less)	16,044	15,287	4.95
EBITDA	135,083	121,126	11.52

(EBITDA is income before taxes, depreciation, amortization & interest)

Sales

Aguas Andinas produced consolidated sales of Ch\$181,615 million in 2005, 10.3% more than the Ch\$17,025 million in 2004. This variation is explained as follows:

Concept	2005 Sales Ch\$ millions	Share %	2004 Sales Ch\$ millions	Share %
Drinking water	83,369	45.9	81,391	49.4
Sewage	85,170	46.9	72,176	43.9
Other regulated income	7,925	4.4	6,514	4.0
Non-regulated business	5,151	2.8	4,509	2.7
Total	181,615	100	164,590	100

Under the heading of regulated services, the main variations are:

Drinking water: this covers drinking water production and distribution services. These show an increase of Ch\$1,978 million (2.4%) as a result of 2.5 million m³ of greater volumes and a higher average tariff applied. The higher sales volume is explained by the combination of a growth in customers of 2.1% and a reduction in unit consumption by -1.4%; while the higher average tariff followed the accumulated effect of indexation adjustments and the application of the new tariff decree (2005-2010).

Sewage: this covers the collection, treatment and disposal sewage and inter-connection of sewage systems. These show an increase of Ch\$12,944 (18.0%) as a result of:

i) higher collection revenues of Ch\$10,596 million following the higher average tariff applied and a higher sales volume of 2.2 million m³.

ii) higher treatment revenues of Ch\$2,785 million due to the increased average tariff applied and a greater sales volume of 2.2 million m³.

iii) less income from sewage interconnections of Ch\$387 million due to a reduced average tariff applied and a higher sales volume of 1.2 million m³.

The changes in the average tariffs are explained by the accumulated effect of indexation adjustments and the application of the new tariff decree (2005-2010).

Other regulated income: this includes customers' fixed charges, supply cutting off and re-connection services, the control of liquid industrial waste discharges and provisions for non-billed consumption and discounts granted on payment agreements. These revenues show an increase of Ch\$1,411 million, basically explained by a lower provision for discounts on repayment agreements.

In the case of non-regulated services, the principal variations are:

Sanitation services: increase of Ch\$642 million, related to the growth of domicile

connection installations services, repairs, calibrations and other service.

Operating costs and expenses:

The cost of sales of Aguas Andinas S.A. were Ch\$95,425 million, Ch\$2,363 million (2.5%) more than the year before. This increase is mainly explained by the following:

Operating costs increased by Ch\$1,606 million (2.3%) to Ch\$71,728 million, compared to Ch\$70,122 the previous year. This is mainly explained by:

i. Increase of Ch\$1,488 million in sludge removal, basically explained by the total removal of the sludge produced at the La Farfana plant and its transportation and disposal at a sanitary land-fill.

ii. Increase of Ch\$471 million in severance payments, principally the result of dismissals that were part of a restructuring program in May.

Administrative and selling expenses increased by Ch\$757 million, equivalent to 3.3%, to reach Ch\$23,697 million, compared to Ch\$22,940 million the year before. This was due basically to higher severance payments and to commercial and administrative services.

Opetating income

Because of the factors mentioned above, the operating income of Aguas Ansinas S.A. for 2005 was Ch\$86,190 million, Ch\$14,662 million more than that obtained in 2004. As a percentage of net sales, the margin increased from 43.5% in 2004 to 47.5% in 2005.

Non-operating income

The non-operating result of Aguas Andinas S.A. amounted to Ch\$3,118 million,

Ch\$1,086 million less than in 2004.

The principal variations are explained in Other net non-operating income (expenses) which reduced by Ch\$1,819.

Income tax

The provision for income tax for 2005 is Ch\$2,384 million higher than the previous year, related to the better pre-tax income.

Net income for the year

As a result of the factors indicated above, the net income of Aguas Andinas S.A. for 2005 amounted to Ch\$75,945 million, Ch\$11,191 million greater than for 2004.

Statement of cash flows

The principal items of the statement of cash flows at December 31, 2005 and 2004 are:

Statement of cash flows	2005 Ch\$ millions	2004 Ch\$ millions	Change %
Operating activities	103,054	88,700	16.18
Financing activities	(84,110)	(20,635)	(307.61)
Investment activities	(32,334)	(37,600)	14.01
Net cash flor for the year	(13,390)	30,465	(143.95)
Closing cash balance	19,593	33,693	(41.85)

The positive operating cash flow in 2005 was Ch\$14,354 million greater than the previous year, the principal variations being the increase in the collection of trade accounts receivable of Ch\$14,877 million due to the higher sales in 2005, principally reductions in payments to suppliers and personnel increased by Ch\$2,959 million and income tax by Ch\$1,671 million (as a result of the refund of income tax for the tax year 2005). These increases were offset by lower dividends received of Ch\$4,055 million and larger payment of value added tax of Ch\$1,878 million.

Final dividends for the year 2004 were paid during 2005 plus interim dividends paid against the net income for 2005. The Series A bonds were prepaid in September and repayments of installments of principal were made on the Series C and D bonds. In addition some bank loans drawn during the year were repaid. The financing cash flow therefore reduced by Ch\$119,077 million. Cash flow from financing therefore declined by Ch\$63,475 million. These payments were financed by the increase in bank borrowings, the placement of a new bond issue (Series E) at a 6.5-year term in December 2005 and part of cash flow balance from 2004.

The investment cash flow increased by Ch\$5,266 million over 2004 due mainly to smaller payments to contractors for the acquisition of assets during 2005, compensated partly by reduced income from sales of fixed assets.

Difference between the book and economic values of the principal assets

The fixed assets are shown valued in accordance with generally accepted accounting principles and regulations and the instructions of the Superintendency of Securities and Insurance. It is therefore believed that there should not be 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) of the financial statements at December 31, 2005.

However, Aguas Andinas S.A. has seventy plots of land recorded that were

transferred to it gratuitously by the Chilean Treasury and are booked at Ch\$1. There are also fixed assets with an exhausted accounting useful life but which are still in operation.

There are also transfers constituting third-party contributions covered by Decree Law 70 of the Ministry of Public Works of 1988 and the provisions of clause 36 of the respective regulations (MINECON 453 of 1989) which are explained in Note 30.

The Company has water rights to various natural sources including Laguna Negra, Laguna Lo Encañado and Quebrada de Ramón. These rights were acquired gratuitously and no value has been assigned to them in the accounts.

The production of underground streams are fed by various wells located in the Metropolitan Region, for which Aguas Andinas S.A. has the water rights concessions that were granted to it gratuitously by the Water Authority as part of the Ministry of Public Works.

In summary, and as indicated above, Aguas Andinas S.A. and its subsidiaries have no significant differences between the economic or market value and the book value of their assets, except the items mentioned in the preceding paragraphs. The principal assets of the Company relate to sanitation infrastructure works which have an exclusive use and are shown in accordance with generally accepted accounting principles in Chile.

Market analysis

The Company shows no change in the market in which it participates as, due to the nature of its services and the current legislation, it has no competition in its concession area.

Aguas Andinas S.A. currently has a 100% coverage in drinking water, 98.3% in sewage services and close to 70% in sewage treatment.

Customers and volumes invoiced

	Customer		Thousands of m ³ Invoiced	
	2005	2004	2005	2004
Drinking water	1,387,016	1,357,778	395,699	393,222
Sewage	1,360,635	1,330,745	395,716	393,513

Financial aspects

Currency risks: our revenues are largely linked to the local currency. Our debt therefore is mainly denominated in that same currency so we do not have significant debt in foreign currency.

The Company follows a policy of monitoring and managing interest rates in order to optimize financing costs and of constantly evaluating hedging instruments available in the financial market.

Interest rates

At December 31, 2005, Aguas Andinas had 78% of its debt at fixed rates and 22% at variable rates. The fixed-rate debt is comprised of bonds payable (87%), local bank loans (8%) and reimbursable financial contributions, while the variable-rate debt is with local banks

This favorable situation has led the credit-rating agencies to assign a credit rating of AA+ to our long-term debt. In the case of the shares, Feller Rate granted us a rating of First class Level 3, while Humphreys gave a rating of First class Level 2.

At December 30, 2004, 77% of the debt was at fixed rates, comprising bonds payable (74%) and reimbursable financial contributions (3%). The remaining 23% related to loans from local banks





Resumed

Financial statements

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AGUAS CORDILLERA S.A. AND SUBSIDIARIES

General information

Name	: Aguas Cordillera S.A.
Kind of entity	: Corporation, subject to the regulations for open corporations in accordance with clause 8 of Public Works Decree 382 of 1988.
Address	: Avda. Presidente Balmaceda 1398, Santiago
Telephon	: (56 2) 496 25 00
Fax	: (56 2) 494 25 09
PO Box	: 1818 Santiago – Centro
Tax No.	: 80.311.300-9
External Auditors	: Deloitte and Touche Sociedad de Auditores y Consultores Ltda.
Securities Register No.	: 0369
Subscribed and paid capital	: Ch\$ 39,015,204,764

Corporate Objects

The objects of the company are to establish, construct and exploit public services in the production and distribution of drinking water, the collection and disposal of sewage and other services related to those activities in Vitacura, Las Condes and Lo Barnechea, its concession zone.

Constitution Documents

A. The company was constituted as a corporation with the name of Empresa de Agua Potable Lo Castillo S.A. by public deed dated September 20, 1989 before the Santiago notary, Raúl Undurraga Laso; its extract was inscribed in folio 25.604, No.12,970 in the Trade register of 1989, rectified by inscriptions in folios 29,359, No.15,866 and folios 30,720, No.16,574, both in the Santiago Trade Register for 1989, and published in the Official Gazette of September 30, 1989. In May 1997, the name was changed to its present Aguas Cordillera S.A.

Board of Directors

Chairman	Felipe Larrain Aspillaga (Chief executive Aguas Andinas S.A.)
Vice Chairman	Joaquín Villarino Herrera (Senior executive Aguas Andinas S.A.)
Directors	Ignacio Escudero García (Senior executive Aguas Andinas S.A.) Luis Manuel Rodríguez Cuevas Igor Garafulic Olivares
Chief Executive	Víctor de la Barra Fuenzalida (Senior executive Aguas Andinas S.A.)
Parent company's shareholding	99.9999%
Investment as percentage of Parent company's assets	8.32%
Trading Relationship with the Parent	During the year ended December 31, 2005, the company had a sewage interconnection contract, rental contracts and a drinking water and sewage interconnection and materials sale contract with its Parent. It is expected to maintain similar trading relations in the future.

Aguas Cordillera S.A. and Subsidiaries

Consolidated Balance Sheets

Assets	2005 ThCh\$	2004 ThCh\$
Current Assets	16,408,550	14,523,067
Fixed Assets, net	66,222,842	63,723,449
Other Assets	18,856,807	18,728,870
Total Assets	101,488,199	96,975,386
Liabilities	2005 ThCh\$	2004 ThCh\$
Current Liabilities	20,848,097	15,959,161
Long-Term Liabilities	19,339,218	26,089,206
Minority Interest	20,915	13,081
Shareholders' Equity	61,279,969	54,913,938
Total Liabilities and Shareholders' Equity	101,488,199	96,975,386

Statement of income

	2005 ThCh\$	2004 ThCh\$
Sales	32.180.551	31.416.728
Cost of sales	(19.579.169)	(18.688.476)
Operating income	12.601.382	12.728.252
Non-operating Result	1.928.610	815.623
Income Tax	(2.473.250)	(2.195.121)
Minority Interest	(8.045)	(5.164)
Amortization negative goodwill	67	67
Net income for the year	12.048.764	11.343.657

Statement of cash flows

	2005 ThCh\$	2004 ThCh\$
Net Cash Flow from Operating Activities	13.405.592	15.138.805
Net Cash Flow from Financing Activities	(15.269.358)	(9.646.603)
Net Cash Flow from Investment Activities	(2.445.104)	(2.865.947)
Net total Cash Flow for the Year	(4.308.870)	2.626.255
Effect of Inflation on Cash	(214.950)	(133.141)
Net Change in Cash	(4.523.820)	2.493.114
Opening Balance of Cash	6.377.757	3.884.643
Closing Balance of Cash	1.853.937	6.377.757

Reconciliation of net operating cash flow with net income for the year

	2005 ThCh\$	2004 ThCh\$
Net Income for the Year	12.048.764	11.343.657
Gain on sale of assets	(1.571.656)	1.428
Charges (credits) to income not representing cash flows	3.937.924	3.968.266
	(525.982)	3.407.740
Change in assets affecting operating cash flows	(491.503)	(3.587.450)
Change in liabilities affecting operating cash flows	8.045	5.164
Profit of the minority interest		
Net operating cash flow	13.405.592	15.138.805

ANÁLISIS AMBIENTALES S.A.

General information

Name	: Análisis Ambientales S.A.
Kind of entity	: Closely-held corporation subject to its bylaws and applicable legislation.
Address	: Avda. Camilo Henríquez 540, Puente Alto
Telephone	: (56-2) 694 32 71
Fax	: (56-2) 694 32 79
Tax No.	: 96.967.550-1
External Auditors	: Deloitte and Touche Sociedad de Auditores y ConsultoresLtda.
Subscribed and paid capital	: Ch\$ 219,785,080

Corporate Objects

The objects of the company are to carry out all kinds of physical, chemical and biological analyses of water, air and solids, including soils, sludge and waste, and any other element that is directly or indirectly related to the environment.

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 on September 20, 2001, with the trading name of ANAM S.A.

Board of Directors


Directors	Felipe Larrain Aspillaga (Chief executive Aguas Andinas S.A.) Joaquín Villarino Herrera (Senior executive Aguas Andinas S.A.) Salvador Villarino Krumm (Senior executive Aguas Andinas S.A.)
Chief Executive	Claudio Mujica Escudero
Parent company's shareholding	99.00%
Investment as percentage of Parent company's assets	0.14%
Trading Relationship with the Parent	During the year eneded December 31, 2005, the company had a laboratory services contract and rental agreement with the Parent. It is expected to maintain similar trading relations in the future.

Análisis Ambientales S.A.

Balance Sheet

Assets	2005 ThCh\$	2004 ThCh\$
Current Assets	686.447	520.073
Fixed Assets, net	537.954	432.080
Other assets, net	8.090	-
Total Assets	1.232.491	952.153
Liabilities	2005 ThCh\$	2004 ThCh\$
Current Liabilities	223.226	167.405
Long-Term Liabilities	-	-
Shareholders' Equity	1.009.265	784.748
Total Liabilities and Shareholders' Equity	1.232.491	952.153

Statement of income

	2005 ThCh\$	2004 ThCh\$
Sales	1.437.859	1.318.891
Cost of sales	(1.156.657)	(897.019)
Operating income	281.202	421.872
Non-operating result	(8.025)	(10.358)
Income tax	(48.660)	(71.701)
Net income for the year	224.517	339.813

Statement of cash flows

	2005 ThCh\$	2004 ThCh\$
Net Cash Flow from Operating Activities	153.355	292.053
Net Cash Flow from Financing Activities	-	(399)
Net Cash Flow from Investment Activities	(41.034)	(78.889)
Net Total Cash Flow for the Year	112.321	212.765
Effect of Inflation on Cash	(11.180)	(1.160)
Net Change in Cash	101.141	211.605
Opening Balance of Cash	215.876	4.271
Closing Balance of Cash	317.017	215.876

Reconciliation of net operating cash flow with net income for the year

	2005 ThCh\$	2004 ThCh\$
Net income for the year	224.517	339.813
Loss on sale of assets	-	4.214
Charges (credits) to income not representing cash flows	134.999	123.996
Change in assets affecting operating cash flows	(45.373)	(22.547)
Change in liabilities affecting operating cash flows	(160.788)	(153.423)
Net operating cash flow	153.355	292.053

ECORILES S.A.

General information

Name	: Ecoriles S.A.
Kind of entity	: Closely-held corporation subject to its bylaws and applicable legislation.
Address	: Avda. Presidente Balmaceda 1398, Santiago
Telephone	: (56-2) 496 22 29
Fax	: (56-2) 496 22 44
Tax No.	: 96.945.210-3
External Auditors	: Deloitte and Touche Sociedad de Auditores y Consultores Ltda.
Subscribed and paid capital	: Ch\$ 279,519,151

Corporate Objects

The objects of the company are to treat liquid waste and any business associated or linked to the treatment of sewage and waste through the provision of technical advice and development of training, design, construction, equipment sales, maintenance and operating services of all kinds of installations.

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 dated January 16, 2001.


Board of directors

Chairman	Felipe Larrain Aspillaga (Chief executive Aguas Andinas S.A.)
Directors	Joaquín Villarino Herrera (Senior executive Aguas Andinas S.A.) Ivan Yarur Saifari (Senior executive Aguas Andinas S.A.)
Chief Executive Lionel Quezada Miranda	
Parent company's shareholding	99.03846%
Investment as percentage of Parent company's assets	0.20%
Trading Relationship with the Parent	During the year ended December 31, 2005, the company had service contracts for the treatment of excess load and premises rentals. It is expected to maintain similar trading relations in the future.


Ecoriles S.A.

Balance Sheet

Assets 	2005 ThCh\$	2004 ThCh\$
Current Assets	1.424.336	871.752
Fixed Assets net	378.140	429.544
Other Assets	10.093	7.848
Total Assets	1.812.569	1.309.144

Liabilities 	2005 ThCh\$	2004 ThCh\$
Current Liabilities	319.209	338.820
Long-Term Liabilities	-	-
Shareholders' Equity	1.493.360	970.324
Total Liabilities and Shareholders' Equity	1.812.569	1.309.144

Statement of income

	2005 ThCh\$	2004 ThCh\$
Sales	2.855.136	2.477.700
Cost of sales	(2.207.376)	(1.847.989)
Operating income	647.760	629.711
Non-operating result	(15.281)	1.949
Income tax	(109.443)	(108.492)
Net income for the year	523.036	523.168

Statement of cash flows

	2005 ThCh\$	2004 ThCh\$
Net Cash flow from Operating Activities	544.726	440.893
Net Cash Flow from Financing Activities	-	(271.960)
Net Cash Flow from Investment Activities	(2.028)	(9.210)
Total Net Cash Flow for the Year	542.698	159.723
Effect of Inflation on Cash	(16.724)	(715)
Net Change in Cash	525.974	159.008
Opening Cash Balance	159.750	742
Closing Cash Balance	685.724	159.750

Reconciliation of net operating cash flow with net income for the year

	2005 ThCh\$	2004 ThCh\$
Net income for the year	523.036	523.168
Charges (credits) to income not representing cash flows	110.203	77.145
Changes in assets affecting operating cash flows	(80.265)	(92.639)
Change in liabilities affecting operating cash flows	(8.248)	(66.781)
Net operating cash flow	544.726	440.893

COMERCIAL ORBI II S.A. and Subsidiaries

General information

Name	: Comercial Orbi II S.A.
Kind of entity	: Closely-held corporation, subject to the provisions of the Corporations Law 18,046.
Address	: Avda. Presidente Balmaceda 1398, Santiago
Telephone	: (56-2) 496 20 01
Fax	: (56-2) 496 20 09
Tax No.	: 96.809.310-K
External Auditors	: Deloitte and Touche Sociedad de Auditores y Consultores Ltda.
Subscribed and paid capital	: Ch\$ 2,559,693,090

Corporate Objects

The objects of the company are to invest in all kinds of assets, including the acquisition of shares in companies, rights in partnerships, debentures, bonds, commercial paper and all kinds of securities in investment instruments, and their management; participation as investor or adviser in all kinds of projects and their development for its own or third parties' account.

Constitution Documents

The company was constituted under public deed dated April 22, 1996 before the notary René Benavente Cash, through the division of Comercial ORBI S.A., as agreed by its extraordinary shareholders' meeting.

Board of Directors


Chairman	Joaquín Villarino Herrera (Senior executive of Aguas Andinas S.A.)
Directors	Felipe Larrain Aspillaga (Chief executive of Aguas Andinas S.A.)
	Iván Yarur Sairafi (Senior executive of Aguas Andinas S.A.)
	Víctor de la Barra Fuenzalida (Senior executive of Aguas Andinas S.A.)
	Camilo Larraín Sánchez (Senior executive of Aguas Andinas S.A.)
	Carlos Alberto Rabat Vilaplana
	Luis Manuel Rodríguez Cuevas
	Igor Garafulic Olivares
Chief Executive	Felipe Larrain Aspillaga (Chief executive of Aguas Andinas S.A.)
Parent company's shareholding	99.90%
Investment as percentage of Parent company's assets	1.76%
Trading Relationship with the Parent	During the year ended December 31, 2005, the company, through its subsidiary Aguas Manquehue S.A., has a contract for meter reading and billing distribution, and a rental agreement, with its Parent. It is expected to maintain similar trading relations in the future.

Comercial Orbi II S.A. and Subsidiaries

Balance Sheet

Assets	2005 ThCh\$	2004 ThCh\$
Current Assets	1.314.973	1.197.962
Fixed Assets, net	10.184.444	9.428.509
Other Assets	5.248.209	5.644.017
Total Assets	16.747.626	16.270.488
Liabilities	2005 ThCh\$	2004 ThCh\$
Current Liabilities	2.090.792	2.204.997
Long-Term Liabilities	1.695.137	2.424.411
Minority Interest	2.837	2.829
Shareholders' Equity	12.958.860	11.638.251
Total Liabilities and Shareholders' Equity	16.747.626	16.270.488

Statement of income

	2005 ThCh\$	2004 ThCh\$
 Sales	3.818.176	3.309.939
Cost of sales	(2.138.809)	(2.088.829)
Operating income	1.679.367	1.221.110
Non-operating result	585.068	834.066
Income tax	(425.794)	(331.777)
Minority interest	(7)	24
Net income for the year	1.838.634	1.723.423

Statement of cash flows

	2005 ThCh\$	2004 ThCh\$
Net Cash Flow from Operating Activities	2.174.551	2.171.244
Net Cash Flow from Financing Activities	(1.165.927)	(1.744.059)
Net Cash Flow from Investment Activities	(873.181)	(920.947)
Net Total Cash Flow for the Year	135.443	(493.762)
Effect of Inflation on Cash	(29.109)	(31.886)
Net Change in Cash	106.334	(525.648)
Opening Balance of Cash	17.590	543.238
Closing Balance of Cash	123.924	17.590

Conciliation of the net operating cash flow with net income for the year

	2005 ThCh\$	2004 ThCh\$
Net income for the year	1.838.634	1.723.423
(Gain) loss on sale of assets	1.429	(2.448)
Charges (credits) to income not representing cash flows	575.209	596.806
Change in assets affecting operating cash flows	(211.437)	25.662
Change in liabilities affecting operating cash flows	(29.291)	(172.176)
Profit (loss) of the minority interest	7	(24)
Net operating cash flow	2.174.551	2.171.243

Note: The complete financial statements of the subsidiaries are publicly available in the offices of the reporting entity and of the S.V.S (Superintendency of Securities and Insurance)

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Comité Memoria Aguas Andinas

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2005

