

Annual
Report
2006





Pure and crystalline

Just like the water we produce, Aguas Andinas moves forward, day after day, to establish transparent and reliable relations with the people in its surroundings.

With our clients... we seek closeness and satisfaction.

With our workers... we seek pride and commitment.

With the community... we seek confidence and responsibility.

With the authorities... we seek transparency and alliance.

And with our shareholders ... we seek growth and yield

And that begins with us, with our commitment and our disposition.
With the new AURA we are building.

Because everything rotates around people.



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Highlights

Financial Summary ⁽¹⁾

As of December 31	2002	2003	2004	2005	2006
Water revenues	98,521	103,366	101,594	104,241	107,436
Sewerage revenues	53,683	61,526	77,548	91,239	98,274
Other regulated businesses revenues	7,126	9,082	7,571	9,254	9,366
Other non-regulated businesses revenues	5,877	8,645	12,868	14,890	17,068
Operating income	72,627	81,231	88,453	103,632	112,869
Net income for the period	59,253	64,670	66,128	77,540	84,622
Total assets	779,054	789,138	812,351	790,550	770,401
Current liabilities	79,681	68,494	90,690	185,584	91,826
Long-term liabilities	173,391	341,618	320,452	214,897	287,561
Minority interest	9	9	3	4	10
Shareholders' equity	525,973	379,017	401,206	390,065	391,004

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Operations

As of December 31	2002	2003	2004	2005	2006
Water clients	1,401,325	1,435,723	1,467,114	1,502,634	1,550,008
Sewage clients	1,371,525	1,404,739	1,437,806	1,474,391	1,520,662
Water invoiced (million m ³)	464.9	469.0	460.2	463.1	477.4
Sewage collection invoiced (million m ³)	463.4	465.4	457.4	460.3	471.3
Sewage treatment and disposal invoiced (million m ³)	403.1	403.5	396.9	399.9	407.3
Sewage interconnections invoiced (million m ³)	107.3	109.6	108.6	109.8	112.4
Water coverage	100.00%	100.00%	100.00%	100.00%	100.00%
Sewage collection coverage	98.00%	98.00%	98.30%	98.30%	- ⁽²⁾
Sewage treatment coverage	28.40%	62.90%	67.10%	69.10%	- ⁽²⁾
Total employees	1,444	1,476	1,450	1,397	1,440

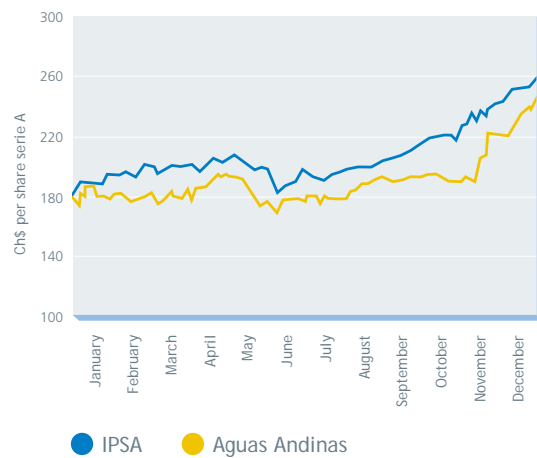
(1): Figures in million Chilean Pesos as of December 31, 2006.

(2): Estimate made by the Superintendency of Sanitation Services which is due to be published during 2007.

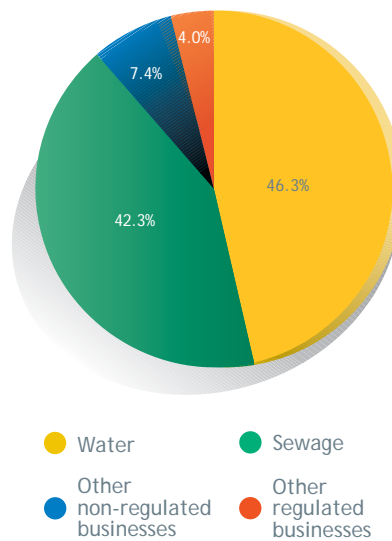




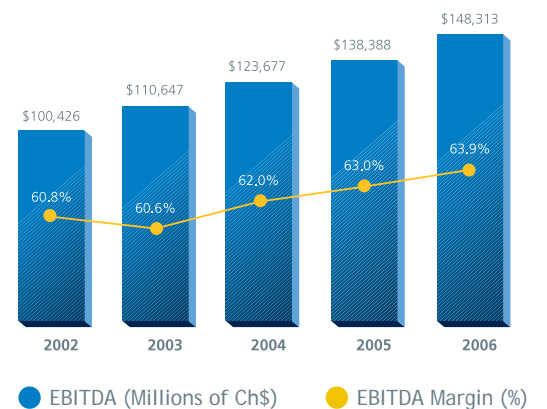
Stock Market Performance 2006 ⁽¹⁾



Revenue breakdown 2006



EBITDA - EBITDA Margin ⁽²⁾



(1) Source: Santiago Stock Exchange.

(2) EBITDA = Earnings before Interest, Tax, Depreciation and Amortization of Intangibles.

1861

Our history commences with the foundation of Empresa de Agua Potable de Santiago and the first study on improving collection at the Quebrada de Ramón.

1865 We constructed the first reservoirs for storing water.

1894 We initiated a program of works with the construction of drains in Vitacura for collecting filtered water from the Mapocho River and of a 20-thousand cubic meter tank on Antonio Varas St.

1903 The Sewage and Paving of Santiago Law was enacted and this boosted the construction of mains for potable water and sewage in the city.

1909 We installed 1,112 domestic connections and the first hydrants in Santiago.

1917 We inaugurated the Laguna Negra Aqueduct, which transports water from the mountains through its 87-kilometer extension.

1946 We put into operation the Las Vizcachas Plant with the purpose of producing potable water for Santiago.

1969 We inaugurated the Las Vizcachitas Plant together with the Paralelo Aqueduct.

1977 Our Company changed its name to Empresa Metropolitana de Obras Sanitarias (EMOS).

1984 We inaugurated the Ingeniero Antonio Tagle Water Production Plant.

1989 EMOS was transformed into a corporation, subsidiary of Corporación de Fomento de la Producción (CORFO), the Chilean State Development Corporation.

1990 We initiated the construction of the first water treatment projects in the region such as the Zanjón Collector - Interceptor and the piping of the A-H Canal.

1993 We inaugurated the West Santiago Sewage Treatment Plant.

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

1999 Through a privatization process, 51.2% of the ownership of the Company was acquired by Inversiones Aguas Metropolitanas Ltda., owned by the Agbar Group (50%) and Suez (50%). Furthermore, we inaugurated the La Florida Water Production Plant.

2000 We initiated the construction of the El Trebal Sewage Treatment Plant. The Company acquired 100% of Aguas Cordillera and 50% of Aguas Manquehue. We began to apply the Vita Plan to direct the organization towards an excellent service and to improving the efficiency and quality of the product.

2001 Change of name: The Company's name changed to Aguas Andinas S.A. We initiated the operations of the El Trebal Sewage Treatment Plant and started work on the construction of the La Farfana Sewage Treatment Plant. We established our subsidiaries, Anam and EcoRiles, and Aguas Maipo S.A. changed its name to Gestión y Servicios S.A.

2002 We inaugurated the most advanced Operations Control System in Latin America. We acquired the other 50% of Aguas Manquehue. We initiated the Eureka Plan in order to consolidate an organization network. In addition, we inaugurated new Sewage Treatment Plants in San José de Maipo and Paine.

2003 The La Farfana Sewage Treatment Plant commenced operations. This is the largest of its type in Latin America. We obtained an ISO 9000 on customer service.

2004 The Valdivia de Paine and El Monte Sewage Treatment Plants commenced operations in localities. Furthermore, we implemented a new organization model based on the SAP platform.

2005 We obtained the OHSAS certification in occupational health and safety. The Sewage Treatment Plants at Talagante and Curacaví commenced their start-up stage.

2006

The Aura Plan was initiated. This gives a new view of the Company and within it, we started the ADN focus on the customer program established to improve the quality of our attention. We inaugurated the Aguas de Ramón Nature Park and began the construction of the Sewage Treatment Plant in Melipilla. We obtained an ISO 9001 on the new customers in inclusion process.



145 years

Throughout our history we have developed a solid base for providing the best service and for improving the quality of life of the inhabitants of the Santiago Basin.



Facing the future

As Chairman of the Board of Aguas Andinas, I am honored to present you with the Annual Report and Financial Statements of the Company for the 2006 period.

During the 2006 Shareholders Meeting I had the opportunity of giving a presentation on the new strategic plan for the Company, the Aura Plan, with its fundamental axis being the people. Through this plan, with achievable objectives, from 2006 to the end of 2008, we seek to consolidate a close, prosperous, leading and everlasting organization. We are working with decision and commitment for our Customers, Shareholders, Employees, Authorities and the Community as whole to look upon us as the company we wish for.

As the central project of the Aura Plan, during the 2006 period, we initiated a program of focus on the customer, which has implied the implementation of projects that cut transversally across the organization in order to advance towards our goal of improving our service, attention and the satisfaction of our clients.

Also in the customer service area, we initiated the steps to acquire new technological platforms to support the improvements and projects of the commercial activity that we shall be executing in the medium term.

In April, we inaugurated the new building in the Maipo Zone which has permitted us to provide a better attention and in greater comfort to our clients in the Province of Talagante. Furthermore, we achieved important agreements with entities such as the Housing and Urban Planning Service (SERVIU), the Regional Government, the Chile Barrio Program and various municipalities in order to further facilitate the access to our services for new low-cost housing projects.

Our concern for service and our customers has also been made evident in our operations area in which we carried out numerous projects to renew water mains and we incorporated six modern trucks for the hydro-cleaning of sewage networks that will boost our preventative maintenance of the mains.

We have continued to consolidate the Santiago Basin Sanitation Plan. In this regard, during the period we submitted to the National Environmental Commission (CONAMA), the environmental impact study for the Mapocho Urban Cleaning project, which will permit the decontamination of the urban course of this river and increase our sewage treatment coverage to over 80%.

Our line of action on the defense and protection of the environment has achieved a significant milestone this year. In the month of December, we inaugurated the Aguas de Ramón Nature Park, the largest park in the Metropolitan Region, with an area of 3,300 hectares, equipped with modern installations for environmental education.

The training and motivation of our employees was also one of our principal centers of attention. For this reason we increased the coverage of our Performance Evaluation System, enabling us to cover two thirds of the organization. We developed a first training program that involved more than 12 thousand hours of training and in order to encourage our service culture, we implemented the "Outstanding Employee" acknowledgement program, that selects and awards the employees that show an outstanding attitude in their human and work performance.

The projects described above form part of a continuous process of improving our performance and have had a bearing on the financial statements to which I shall now refer.

Total investments during the year 2006 amounted to Ch\$37,889 million. Of this figure, 51% corresponded to works related to the production and distribution of drinkable water; 36% to the collection and disposal of sewage and the remaining 13% to other activities.





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The Company's operating income was Ch\$112,869 million, an increase of 8.9% with respect of the previous year. This increase is explained mainly by the growth in physical water sales, the increase in sewage treatment coverage and by a greater result contributed by the non-sanitation subsidiaries. Furthermore, the net income amounted to Ch\$84,622 million, a 9.1% increase over the previous period.

In the first half of the year, the process of restructuring our borrowings was concluded. Some 36% of the debt was refinanced, reducing our financial costs and substantially improving our maturity curve over the forthcoming years. Furthermore, as a result of our Company's performance, the price of Aguas Andinas' shares rose significantly, providing a greater value and yield for our shareholders.

The great effort on everyone's part has made it possible for 2006 to be a favorable year for the Company. The maintenance of this same effort, together with the ideas and projects mentioned, represent the best guarantee with which to face with utter confidence the challenges that will allow us to make Aguas Andinas the great company we all desire.

Yours sincerely,

Alfredo Noman S.
Chairman of the Board



Looking ahead

CHAIRMAN
Alfredo Noman S.
Industrial Engineer

VICE-CHAIRMAN
Pedro Butazzoni A.
Attorney

DIRECTOR
Alain Chaigneau
Economist

DIRECTOR
Antoni Siurana
Economist



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DIRECTOR
Mónica Singer G.
Commercial Engineer



DIRECTOR
Jaime Arellano Q.
Attorney



DIRECTOR
Carlos Mladinic A.
Commercial Engineer



ALTERNATE
DIRECTORS

José Vila B.
Industrial Engineer

Fernando Rayón M.
Roads, Canals and
Ports Engineer

Xavier Amorós C.
Attorney

Ramón Figueroa G.
Commercial Engineer

Mario Castillo A.
Civil and Industrial
Engineer

Jorge Bande B.
Economist

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Strong support

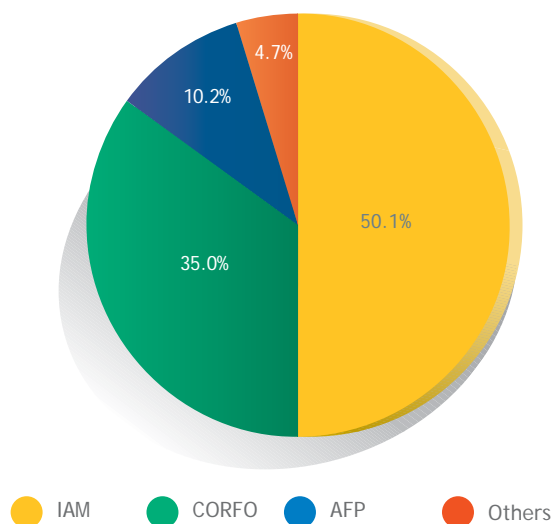
The capital of Aguas Andinas as of December 31, 2006 is comprised of 6,118,965,160 shares, fully subscribed and paid in, distributed among 1,631 shareholders.

Distribution by type of shareholder

Shareholder	Shares	%
IAM	3,065,744,510	50.1%
CORFO	2,140,487,777	35.0%
Chilean Pension Funds	618,617,899	10.2%
Others	294,114,974	4.7%
Total	6.118.965,160	100.0%

Distribution by type of shareholder of Aguas Andinas

As of December 31, 2006



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Principal shareholders

As of December 31, 2006 the twelve principal shareholders of Aguas Andinas are the following:

Shareholder	Tax I.D.	Shares	Series	%
Inversiones Aguas Metropolitanas S.A.	77,274,820-5	3.065.744.510	A	50,1%
Corporación de Fomento de la Producción	60,706,000-2	2,140,487,777	B	35.0%
AFP Provida S.A.	98,000,400-7	245,707,846	A	4.0%
AFP Habitat S.A.	98,000,100-8	163,380,770	A	2.7%
AFP Cuprum S.A.	98,001,000-7	89,289,601	A	1.5%
AFP Santa María S.A.	98,000,000-1	54,162,844	A	0.9%
AFP Bansander S.A.	98,000,600-K	46,730,418	A	0.8%
AFP Planvital S.A.	98,001,200-K	19,346,420	A	0.3%
Larraín Vial S.A. Corredora de Bolsa	80,537,000-9	11,307,626	A	0.2%
Celfin Capital S.A. Corredores de Bolsa	84,177,300-4	8,723,493	A	0.1%
Banchile Corredores de Bolsa S.A.	96,571,220-8	8,635,966	A	0.1%
Bice Vida Compañía de Seguros S.A.	96,656,410-5	7,582,259	A	0.1%
Others Series A (1,575 Shareholders)		255,361,266	A	4.2%
Others Series B (44 Shareholders)		2,504,364	B	0.0%
Total		6,118,965,160		100.0%





Strategic partner

Inversiones Aguas Metropolitanas S.A., IAM, is the controller of Aguas Andinas, with 50.1% of its shares. Sociedad General de Aguas de Barcelona, **Agbar**, owns 56.6% of IAM's equity, which makes it the sole controlling partner of our Company.



With a track record spanning 140 years, Agbar is the principal private company that supplies domestic potable water in Spain. Currently, the company provides services to close to 13 million people distributed over some one thousand Iberian towns, which have between one thousand and three million inhabitants. Acknowledged as one of the world's leaders in the sanitation sector, Agbar Agua also has an international presence, offering a reliable and secure service to more than 8 million people in the world.

Furthermore, the Agbar Group is an important Spanish business conglomerate, comprising more than 230 companies in diverse areas of industrial services such as the integral water cycle management, health, installations and transport, amongst others. Its international expansion permits it to have a presence in all five continents and provide employment to over 27 thousand workers all over the globe.

Through our controlling partner,
we form part of a conglomerate
that provides sanitation services
to more than 21 million people
in the world.

A great team

GENERAL MANAGER
Felipe Larrain A.
Civil Engineer



GENERAL SECRETARY
Joaquín Villarino H.
Attorney



CHIEF FINANCIAL
AND MANAGEMENT
CONTROL OFFICER
Iván Yarur S.
Civil and Industrial Engineer



CORPORATE CUSTOMER
SERVICE MANAGER
Víctor de la Barra F.
Civil and Industrial Engineer



CORPORATE
OPERATIONS MANAGER
Narciso Berberana S.
Industrial Engineer



CORPORATE SANITATION
MANAGER
Enrique Donoso M.
Civil Engineer



CORPORATE
COMMUNICATIONS AND
ORGANIZATION
DEVELOPMENT MANAGER
Jonás de Miguel G.
Industrial Engineer



CORPORATE INVESTMENTS
AND LOGISTICS MANAGER
Alberto Martínez L.
Economist



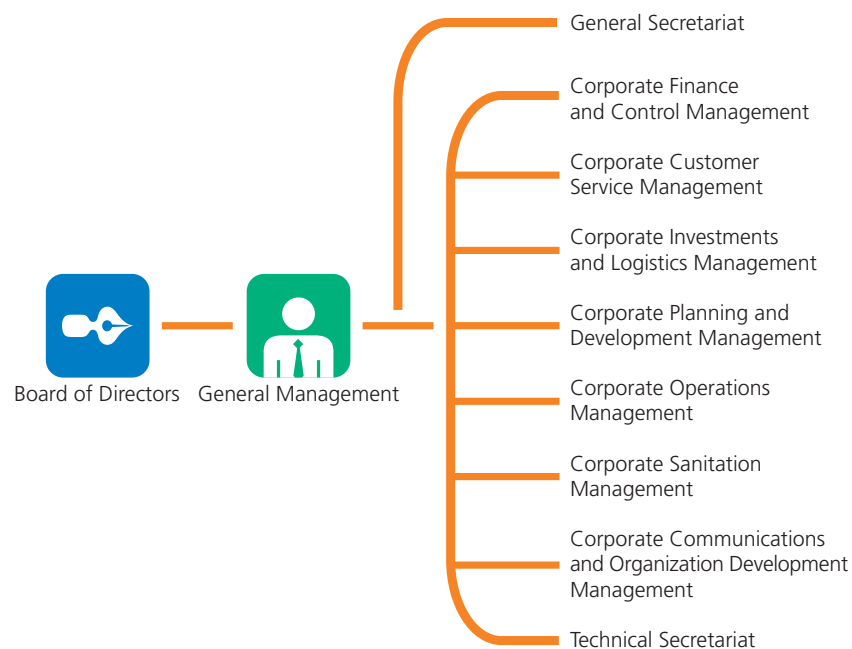
CORPORATE PLANNING
AND DEVELOPMENT
MANAGER
Josep Maria Verdejo R.
Computer Sciences
Graduate



TECHNICAL SECRETARY
Joaquim Martí M.
Roads, Canals and
Ports Engineer



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Broad coverage

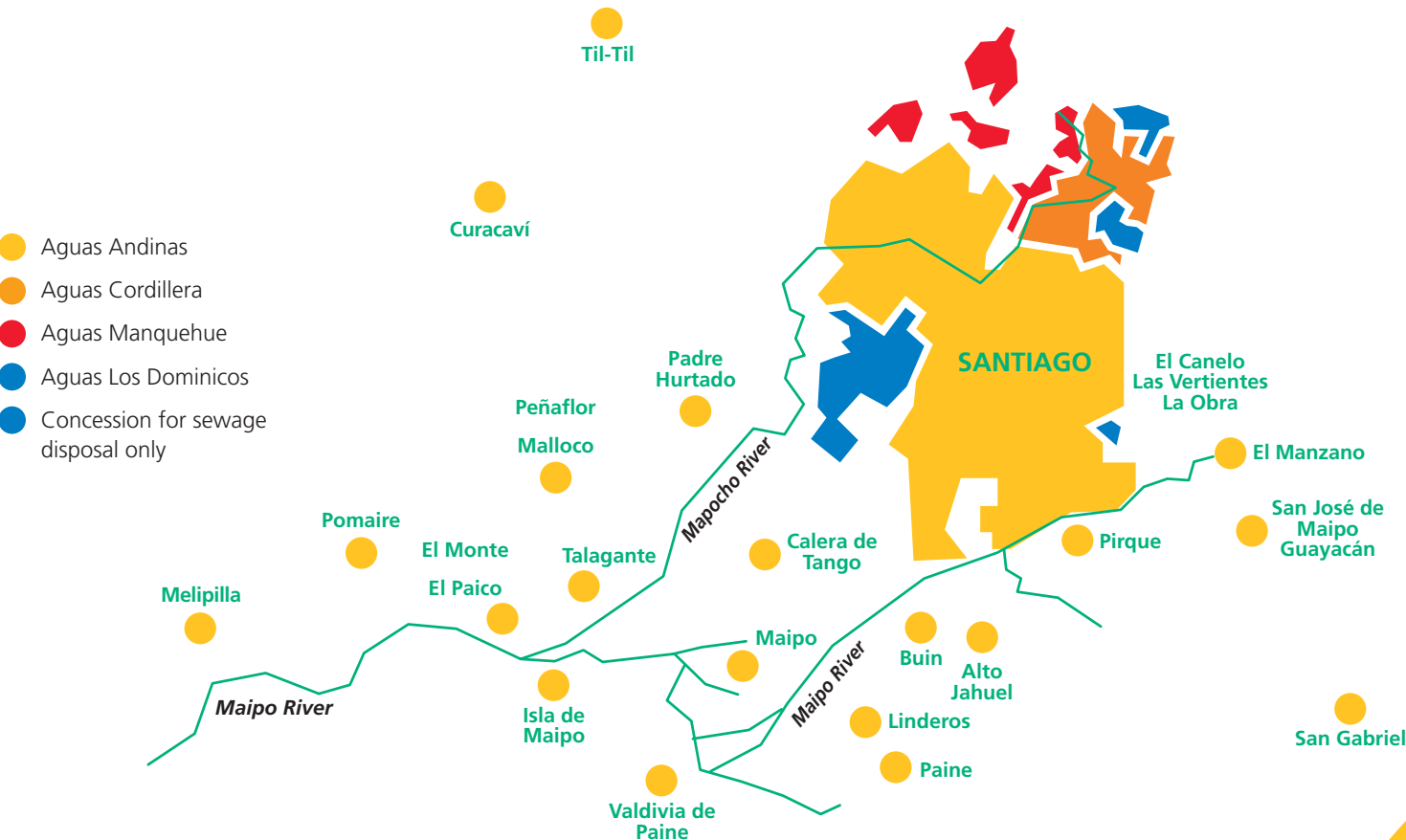
In our zone under concession, we attend more than 1.5 million residential, commercial and industrial clients.

The zone under concession to Aguas Andinas and its subsidiaries covers approximately 70 thousand hectares in the Santiago Basin.

In this territory, which lies on the intermediate depression of Central Chile, we supply sanitation services to close on 6 million people that inhabit Greater Santiago and peripheral townships, making us the principal sanitation company in the country and one of the largest in Latin America.

We supply Sanitation Services to almost 6 million people in Greater Santiago and peripheral localities.

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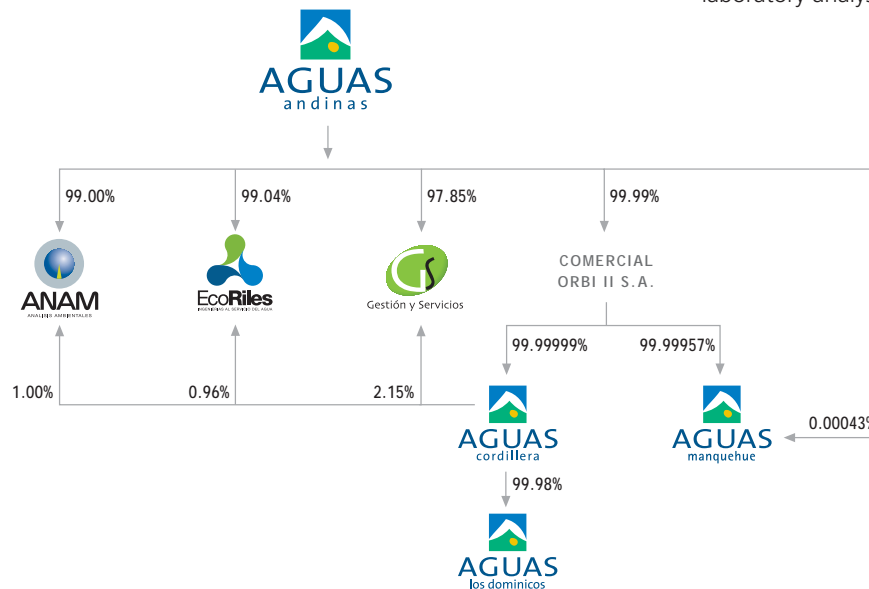
Companies that comprise the Group

Aguas Andinas forms part of the Aguas Group, a group of related companies that provides an integral service within the sanitation industry.

Through the sanitation companies, **Aguas Andinas, Aguas Cordillera, Aguas Manquehue and Aguas Los Dominicos**,

services are provided in the production and distribution of water and the collection, treatment and disposal of sewage.

Through the non-regulated subsidiaries, **-EcoRiles, Gestión y Servicios and Anam-**, it provides services related to the treatment of industrial waste, sales of equipment and laboratory analyses, respectively.



A vital service

We provide a service that is basic for life and its evolution.

A key and vital element on which we work day and night, focusing our efforts on improving the relationship with our environment, on improving the aura of the Company.

The year 2006 marked the initiation of a new course to be followed by Aguas Andinas, a vision that crosses each one of the areas and individuals, which is inserted in our very essence, in short, a project that will change our **Aura**.

In order to do this, the **Aura Plan** defines the objectives of the Company for the forthcoming years –from 2006 to the end of 2008– in relation to our immediate environment: our clients, the community, our shareholders and the authorities.

With everyone of them our goal is to build a relationship based on confidence, responsibility, efficiency, profitability and transparency.

We look forward to improve the **Aura** we project, a challenge we undertake facing the future.

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- 100% of the supply of water in our zone under concession.
 - 98% coverage in sewage collection.
 - Close to 70% in sewage treatment.
- 1,550,008 water clients, the equivalent to nearly 40% of the total clients in the country.



Customer service

We want the best for our customers. That is why our objective is to optimize the quality of our service and attention.

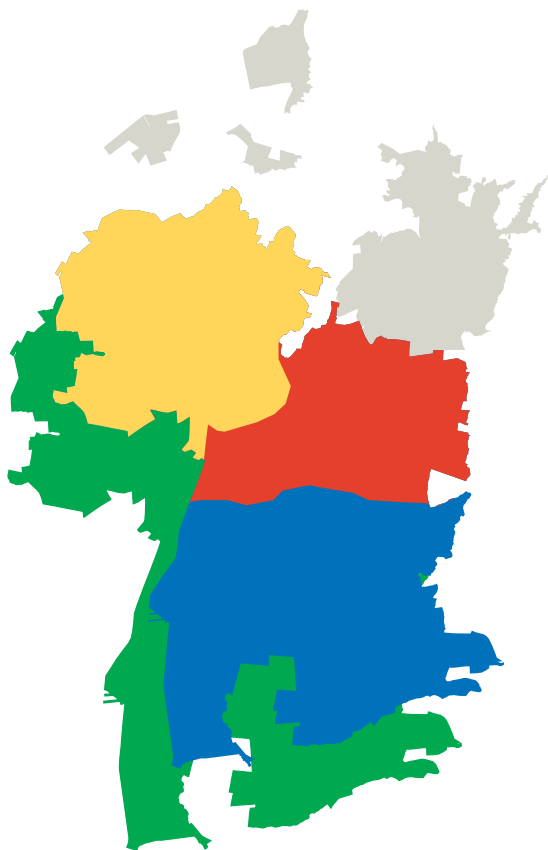
We are creating a new service culture, our own style of attention that will distinguish and characterize us as a company with a genuine vocation for service. For this, we place customer satisfaction in the focal point of all the organization's tasks, transmitting confidence and projecting transparency.

Consistent with this, during the period we implemented our new **ADN** project, which calls us to listen to the customers, boost our contact channels and increase the effectiveness of our solutions.

We have developed a new model for attending enquiries that will allow us to provide more precise and immediate replies. Furthermore, we inaugurated a new building for the management of the Maipo Zone and the commercial agency in Talagante, permitting us to improve the quality of our attention. And in other projects, we relaunched our Web Page, now with a capacity to perform transactions on line, making things easier for our customers. All this is aimed at achieving our goal to be the leading sanitation company in customer satisfaction.



Division by zones



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Division by zones	Clients *
Antilco	495,443
Cordillera	122,077
Mapocho	467,016
Mapu�	363,873
Maipo	101,599
Total	1,550,008

Note: * The term "client" or "customer" corresponds to a person or institution resident and/or domiciled in the property that receives the public service of water distribution, collection of sewage, or both.

Attitude to give service

Increase our closeness and the satisfaction of the customers is one of the objectives sought by the Aura Plan, the Company's strategic program that we have been carrying out since the first half of 2006. And within this framework, we have initiated the **ADN** Project for the ultimate purpose of improving the quality of service and attention of our customers.

The three pillars on which the **ADN** project is based and which gave rise to its name are: Close and cordial **A**ttitude, **D**etermination to do things right first time and **N**ever leave a problem unresolved.

In order to achieve its objective, **ADN** created several projects that crossed various areas of the Company. The first axis for action was to listen to the voice of the customer, for which a new model was introduced to measure customer satisfaction, comprised of monthly controls and half-yearly consolidations that have permitted us to direct the corrective measures towards what the clients really want. Another axis was the alignment of the operating, commercial and contact channel processes, restructuring each model towards the objective sought, i.e. a service of excellence to our clients.

In the operations area we have incorporated technological tools to provide a greater efficiency to the on-site works.

In the commercial area we have developed projects to increase customer confidence in the charges for services, provide effective solutions to problems of increases in the invoices and reduce the negative impact from cuts in supply due to unpaid invoices.

With respect to the contact channels, we have boosted our remote attention by incorporating 26 new self-service terminals in the commercial agencies and in September we launched the Company's new Web Site, with the capacity to undertake on-line transactions that will permit our customers, from any point in the world, to pay their invoices, check their balance and their history of consumption, amongst other important advances. Furthermore, for attention by telephone, we implemented a new model for integral attention that includes a greater number of solutions in the first line in the segment on enquiries and its closure with the client.





With respect to communications with customers, plasma screens have been introduced in the commercial agencies opening a new channel of corporate information and announcements. Furthermore, we have improved the format and size of the invoice, making it more amicable and comfortable.

Finally, in April, we inaugurated the new Maipo Zone building that has permitted us to attend the clients located in the Province of Talagante in a more expedite and comfortable manner. This modern building, with a surface area of 685 square meters, involved an investment of Ch\$300 million, houses both the commercial agency and the offices of the zone management, achieving the centralization of their activities in one single place.

Close and cordial Attitude,
Determination to do it well first
time and Never leave a problem
unresolved, are the three pillars
of our project aimed at the
customer, ADN.



Our customers

As of December 31, 2006 the number of clients of Aguas Andinas with water services reached a total of 1,427,931, reflecting an increase of 2.95% with respect to the previous period. In the sewage collection service, the clients rose to 1,400,427, which indicates an increase of 2.92% with respect of 2005.

The total number of clients of the water service of the Aguas Group was 1,550,008 and for sewage, 1,520,662. Of the total number of water clients, 6.9% or 106,674 corresponded to clients with a subsidy, a factor that favors a conduct of stable payments and a lower level of bad debts for the Company.

Consolidated number of Clients

	2002	2003	2004	2005	2006
Water	1,401,325	1,435,723	1,467,114	1,502,634	1,550,008
Sewage	1,371,525	1,404,739	1,437,806	1,474,391	1,520,662

Number of Clients Year 2006

	Aguas Andinas	Aguas Cordillera (*)	Aguas Manquehue	Total
Water	1,427,931	116,591	5,486	1,550,008
Sewage	1,400,427	114,877	5,358	1,520,662

(*) Includes Aguas Los Dominicos.

Evolution of the Consolidated average consumption (m³/month /client)

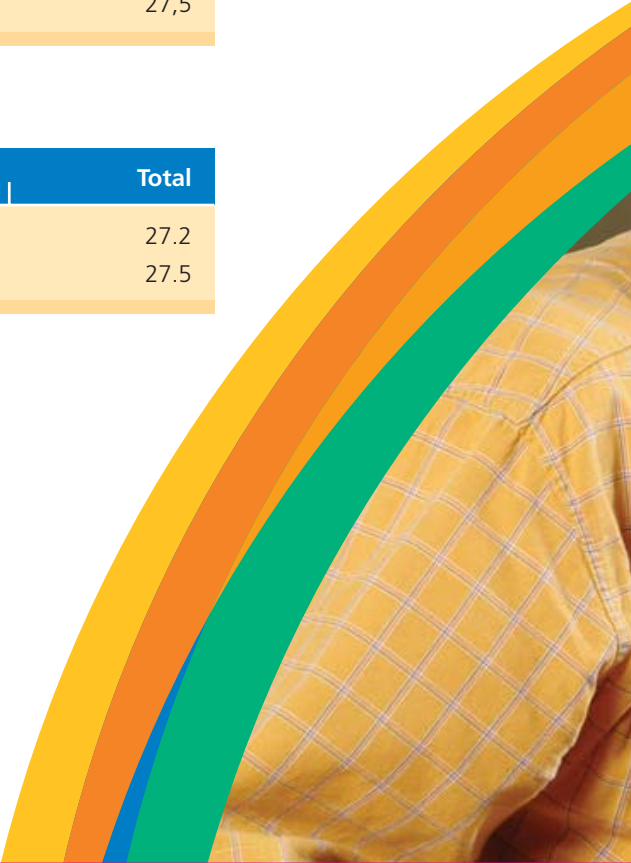
	2002	2003	2004	2005	2006
Water	29.2	28.7	27.6	27.2	27,2
Sewage	29.9	29.3	28.1	27.7	27,5

Average consumption Year 2006 (m³/month /client)

	Aguas Andinas	Aguas Cordillera (*)	Aguas Manquehue	Total
Water	25.0	48.8	121.6	27.2
Sewage	25.4	48.3	115.8	27.5

(*) Includes Aguas Los Dominicos.

Note: Average consumption determined by the number of clients invoiced.



New concessions

During 2006, our Company obtained the approval of the authorities on three requests for increases to its concessions.

The first, located in El Trébol in the municipal district of Padre Hurtado, has an area of 6.9 hectares and has 400 new clients. The second, located in Vizcachas III in the municipal district of Puente Alto, has an area of 5.6 hectares and has 153 new clients. The third, located in Bosques de San Luis, municipal district of Quilicura, has an area of 5.9 hectares and has 485 new clients.

In addition, there are requests in process for increases in the municipal districts of Quilicura, Peñaflor, Paine, Melipilla and Til Til, with a total area of 48.2 hectares and 2,020 new clients.

Furthermore, Aguas Manquehue submitted a request for an increase in Alto Lampa, municipal district of Lampa, with an area of 324 hectares and 7,797 new clients.

Due to the demographic growth of Santiago and its surroundings, we are making regular investments in order to supply new demands for sanitation services.

New customers

Faithful to our concerns for improving our service to all our customers, during the year 2006 we obtained an ISO 9001 Certification on the process for incorporating new clients into our water mains. This is an important step in the quality of service that we provide day to day to real estate developers and construction companies with which we maintain a relationship of mutual cooperation. Throughout the year, 9,400 water and sewage projects were carried out with the incorporation of more than 47 thousand new clients.

Furthermore, we achieved important agreements with the Housing and Urban Planning Service (SERVIU), the Regional Government, the Chile Barrio Program and various municipalities in order to increase our area of attention into new sectors where social housing is to be constructed for over 10 thousand low-income families.





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Rural potable water

Our job is not limited only to urban areas as we also collaborate with the Rural Water Plan in accordance with the agreements signed with the Directorate of Hydraulic Works of the Ministry of Public Works.

As part of this plan, we carry out training and consultancy services on maintenance and the execution of works in remote locations where water mains do not exist, acting as a technical unit, carrying out studies and projects.

The Rural Water Plan is currently benefiting 40,062 homes with an estimated population of 240,300 inhabitants, achieving coverage of 100% of the concentrated rural locations.

In 2006 investments totaling Ch\$66.6 million were made, principally in contracts for the construction of wells and in projects for improving services.


Sanitation regulations

The providers of sanitation services are subject to the supervision of the Superintendency of Sanitation Services (SISS), as established in the current legislation on these matters. The SISS is a decentralized service, with its own legal and equity structure, and is subject to the supervision of the President of the Republic of Chile, through the Ministry of Public Works.

Sanitation services companies such as Aguas Andinas are ruled by the provisions of a collection of laws and regulations that control the functions of the sector.

- **General Law on Sanitation Services (Decree Law N° 382 of 1988).** This contains the principal provisions that regulate the treatment of concessions and the activities of the providers of sanitation services.





- **Regulation of the General Law on Sanitation Services (Decree N° 1,199/2004, published in November, 2005).** This establishes the norms that permit the application of the General Law on Sanitation Services.

- **Law on Tariffs for Sanitation Services (Decree Law N° 70 de 1988).** This establishes the main provisions that rule the setting of tariffs for potable water and sewerage and the reimbursable financing contributions.

- **Regulation of the Law on Tariffs for Sanitation Services (Decree N° 453 of 1990).** This contains the norms that permit the application of the Law on Tariffs for Sanitation Services.

- **Services (Law N° 18,902 of 1990).** This establishes the functions of the SISS.

- **Law on the Subsidies of the payment of the consumption of potable water and sewerage services (Law N° 18,778 of 1989).** This establishes a subsidy on the payment of the consumption of potable water and sewerage for low-income clients.

- **Regulation of the Law on the Subsidies (Decree N° 195 de 1998).** This contains the provisions for the application of the Law on Subsidies.



The tariffs permit us to provide a quality service and to assure the supply to satisfy a growing demand from the clients in the Santiago Basin.

Tariffs

During the year 2006, the tariffs for our sanitation companies were updated with the application of the indexation mechanism established in each one of the respective tariff decrees.

Together with this, the tariffs for Aguas Andinas in localities (Group 2) increased with the start-up of operations at the Talagante and Curacaví sewage treatment plants and the improvements to the plant in Pomaire.

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Average tariff Year 2006 (without VAT, in Ch\$/m³)

	Aguas Andinas	Aguas Cordillera	Aguas Los Dominicos	Aguas Manquehue
Water	238.44	284.79	292.64	400.62
Sewage	204.36	149.65	177.42	98.52

Note: The average tariffs were calculated on the basis of the cubic meters invoiced to the clients of each company. In water we have included the fixed charge and the other costs associated with other charges such as cuts in supply and reconnections.



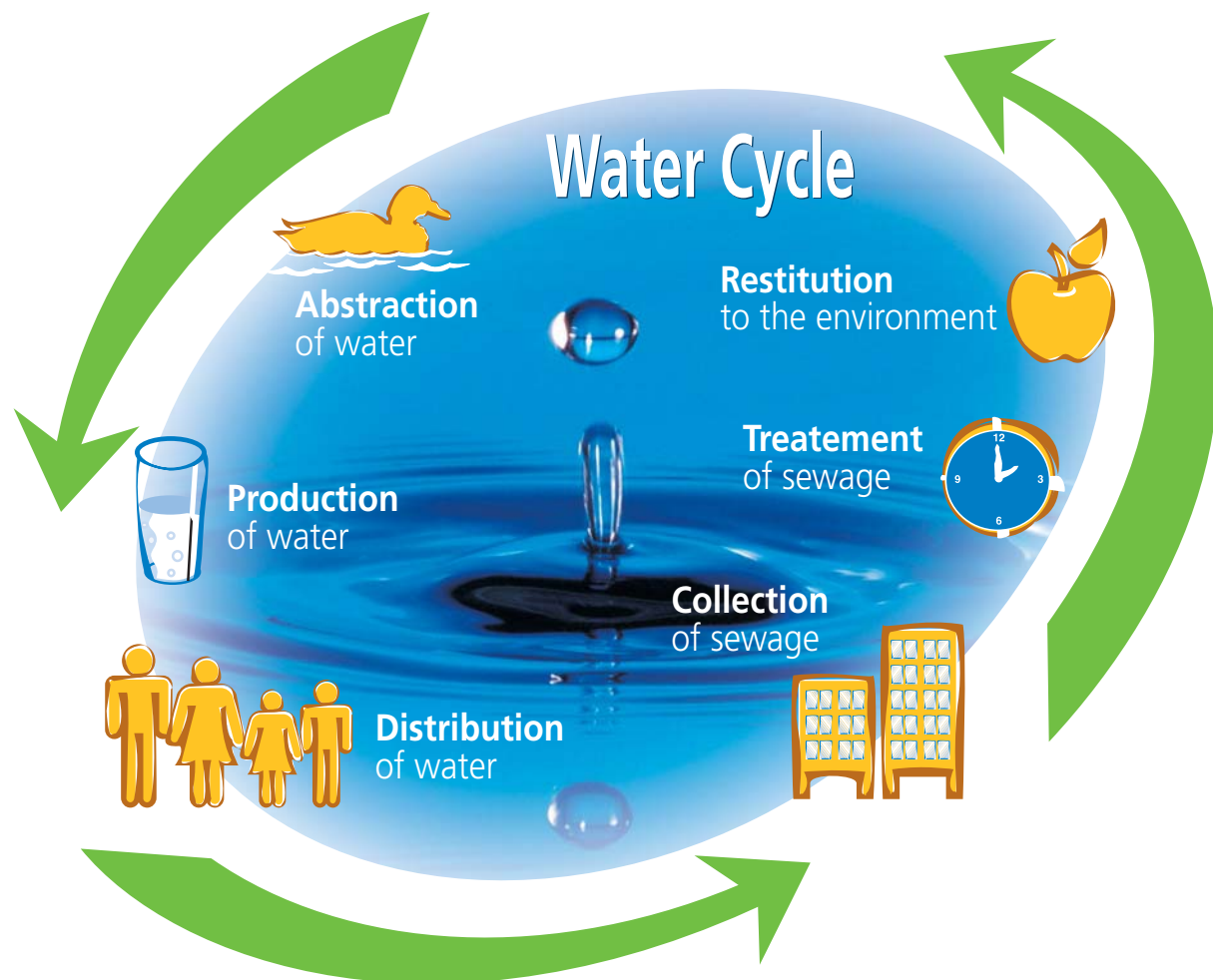


Water cycle, life cycle

Our integral management of the water cycle commits us to provide a continuous and secure service of the very best quality.

We collect raw water in its original state in order to produce potable water and distribute it to each home, business or industry in the Santiago Basin. Then we collect the sewage to undertake its treatment and finally, once clean, to release it back to the environment. This integral process of the water cycle obliges us to maintain an efficient operation with the utmost security that guarantees a continuous and uninterrupted supply.

This confidence displayed in our work is what moves us to do things well first time round; to work with sophisticated technology and trained staff to be able to satisfy the daily demand from some 6 million people.





More coverage with the OCC

The Operations Control Center (OCC) is a technological tool that permits the operations of our installations, controlling the processes in real time, especially those involving the water cycle.

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During 2006, the OCC surpassed 23 thousand variables, after absorbing Aguas Cordillera's Control and Acquisition of Data software and incorporating the first installations of water corresponding to localities. With this, it became one of the world's largest applications in the public services sector.

In the area of telecontrol, the Corporate Communications System extended its coverage, incorporating the Chicureo, Chamisero and Valle Grande sectors.

Furthermore, in 2006, the telecontrolled installations were enlarged. In Production, the well systems were incorporated in Huechuraba and Chicureo. In Transport, new infrastructure was added and improvements were made to several of its Water Elevating Plants. In Distribution, we possess the equipment to measure flows and volumes. In Sanitation, we began the supervision of the treatment plants in Paine, San José, El Monte, Polo de Manquehue and Trapenses and the Atalaya, Remanso de la Villa and La Ermita Sewage Elevating Plants that correspond to Aguas Cordillera.

In addition, we implemented a meteorological station at the El Yeso reservoir with real time reporting to the OCC, together with the integration of the stations located in the El Trebal, La Farfana, Trapenses and Talagante Plants.

Geographic Information System

The Geographic Information System (GIS) is the register and descriptive data base of our infrastructure. This modern system manages the geographic location of the water mains, the sewage mains and clients, illustrated on an urban plan. Furthermore, it is one of the main sources of information for the operation, customer attention, planning and the regulatory entity.

With the GIS we have developed a series of process applications, particularly the one for cuts and faults in the supply of water, maintenance of fire hydrants, cleanliness of the collectors and crisis management.

The latest developments consider the incorporation of high resolution satellite images, aerial photographs with laser technology, AVL-GPS technology for monitoring the fleet for the attention of domestic pipes and industrial Tablet PCs for the operation of large water mains.



Thanks to the investments in state-of-the-art technology, we manage our operations with efficiency and safety.

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Security of computer information

During 2006, we undertook a project on the security of computer information with the aim of protecting corporate information, safeguarding its confidentiality, integrity and availability.

The security system will permit us to establish a collection of practices, procedures and policies on security in order to comply with the ISO 27001 norm that establishes a level of business risk and at the same time it intends to implement, review, maintain and improve the security of information.

Research and development

During the course of the period, Aguas Andinas, together with the participation of the Federico Santa María Technical University, submitted to CORFO's Innova Fund, a project to create the International Water Technology Institute (I2TA).

The idea was approved in its stage 1 at a profile level and financing was obtained to prepare the definite project, which was submitted in August 2006. The final resolution of its adjudication is still in process.

Amongst the principal objectives of the I2TA is for it to become a national, independent referent, of the highest scientific-technological level on the resource, water. Furthermore, it seeks to unite and boost the university and business capabilities, together with the development effort of the Chilean government.

General plans for Aguas Andinas

During the course of the year, we continued with the preparation of the General Plans for Aguas Andinas with the aim of detecting possible deficiencies in the Company's structure and functions, and proposing possible solutions.

Within this framework, in 2006 we developed the **General Purification Plan** that establishes the medium and long-term planning of the works required to comply with the treatment of the sewage from Santiago and its localities, in accordance with our commitment with the SISS and Decree Law 90.

Furthermore, we produced the **Guidelines Plan of Water Resources** that provides the valuation of the superficial and underground water resources available to the Company, covering aspects such as water rights, collection infrastructure, sustainability of the resources at source, in addition to providing guidelines on maximizing the tapping of these resources and ensuring their availability in situations of scarcity and in the long term.

Also, modifications were made to the chronograms of investments of the **Development Plans**, which were approved by the SISS.

New investments

Our investments plan involved a total of Ch\$37,889 million during the year 2006. Of this figure, Ch\$36,842 million corresponded to investments in sanitation subsidiaries and Ch\$1,047 million in non-sanitation subsidiaries.

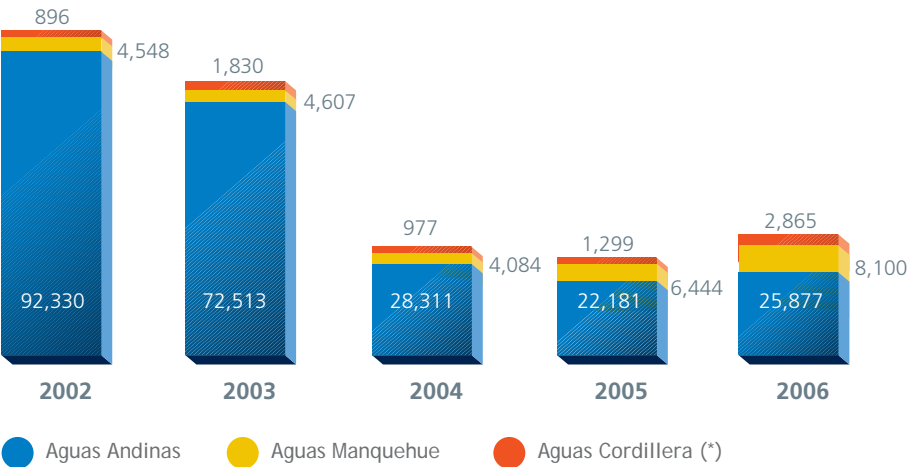
Most of the resources were used in installations of water, an investment that amounted to Ch\$19,194 million. Of this amount, Ch\$15,480 million went to distribution works, especially to the permanent renewal of water mains –with a total of Ch\$5,919 million– and to the construction of the semi-buried tank in La Dehesa, which implied some Ch\$2,971 million. In production and transmission of water, the most important projects were the Melipilla-Huechun production works, which implied an investment of Ch\$1,043 million.

In collection and disposal of sewage we invested Ch\$13,882 million, of which Ch\$7,458 million were assigned to sanitation works. Amongst these, the most important was the Melipilla Sewagw Treatment Plant that implied an investment of some Ch\$2,328 million.

Only on collection works we assigned Ch\$6,423 million, the most important being the projects for the permanent renewal of sewage infrastructure that implied an investment of Ch\$3,451 million; the transmission works between Cexas and the Esmeralda Sewage Treatment Plant with an investment of Ch\$600 million, with 30% completion; and the Norte collector, with an investment of Ch\$485 million, with 5% completion.

Finally, of the total of our consolidated investments, 64% corresponded to investments in expansion, involving resources amounting to approximately Ch\$24,110 million.

Investments (Million Ch\$)

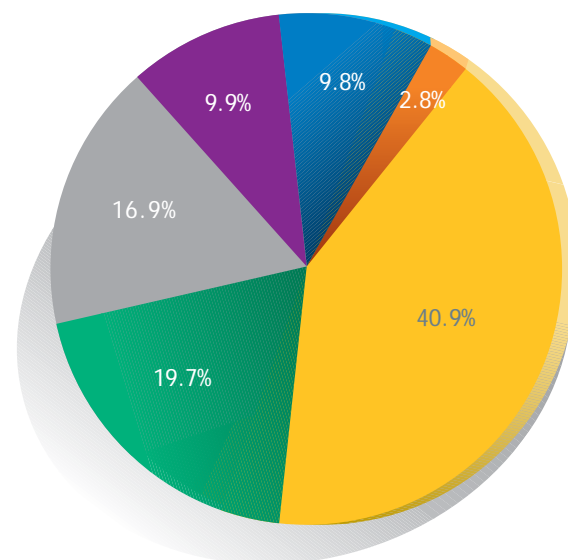


Note: The figures shown are in local currency as of December 31 of each year.
(*) Includes Aguas Los Dominicos



Investment breakdown 2006

CONCESSION	2006 INVESTMENT Million Ch\$
Water production	3,713.6
Water distribution	15,480.3
Sewage collection	6,423.1
Sewage disposal	7,458.5
Other activities	3,766.1
Non-sanitation subsidiaries	1,047.4
Total	37,889.0



- Water production
- Water distribution
- Sewage collection
- Sewage disposal
- Other activities
- Non-sanitation subsidiaries

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Abstraction and production

The production of water implies a series of physical and chemical processes that permit raw water to become apt for human consumption.

Sources, reserves and plants

Our principal **sources of raw water** are the Maipo and Mapocho rivers, from which we collect the water resources required for the production of water. Our secondary sources are the natural aquifers that cross the Company's area under concession.

For greater security, Aguas Andinas possesses important **reserves of water**, which provide the additional water resources when the water from the collecting source turns scarce. Our three major reserves are: The El Yeso reservoir, with a capacity of 250 million m³; Laguna Negra, with 600 million m³; and the Lo Encañado lake, with 50 million m³.

Subsequently, the water collected passes to the production plants where it is submitted to a process of purification. Our principal **production plants** are: The Las Vizcachas Complex and the La Florida Plant. The former has a maximum production capacity of 15 m³/s, which corresponds to more than 50% of our total production.

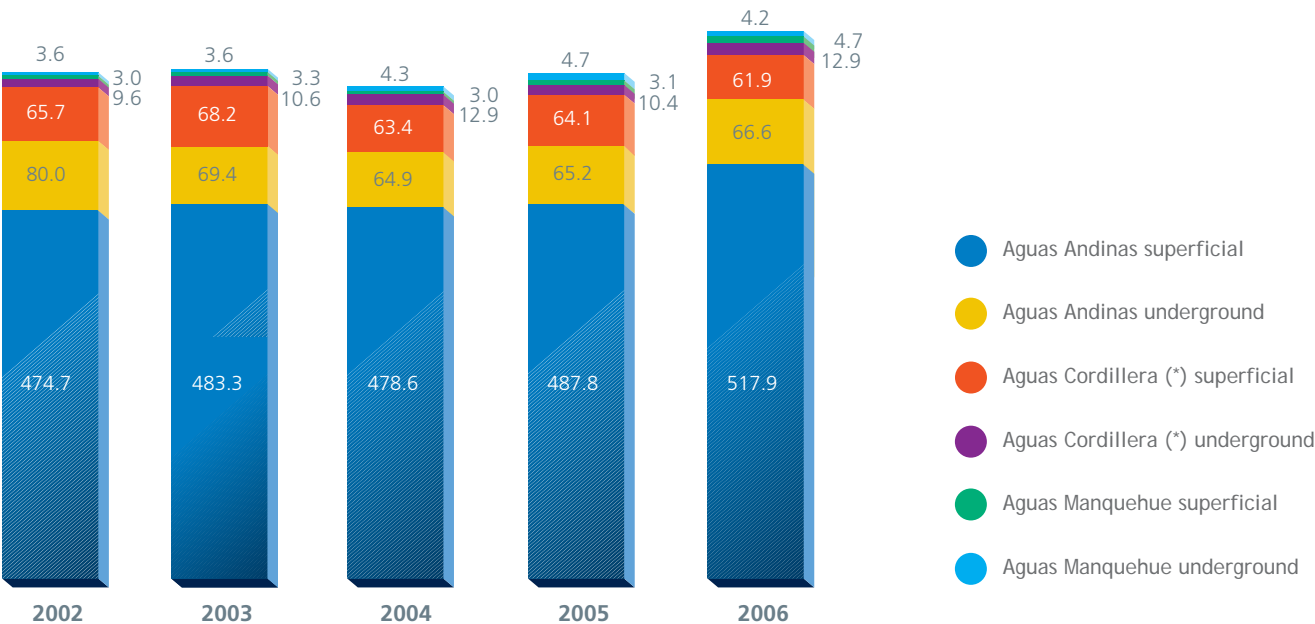
The La Florida Plant, in turn, produces some 4 m³/s, which represents close to 18% of the total production. In addition, we have a further 12 installations of a smaller size, with the main ones being the Padre Hurtado, Lo Gallo, San Enrique and El Sendero plants.

Production by type of source (million m³)

In 2006 our total production of potable water, measured on leaving the plant, was over 668.2 million m³; of those, 584.5 million m³ correspond to superficial waters and 83.7 million m³ to underground waters.

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Production by type of source (million m³)



(*) Includes Aguas Los Dominicos.





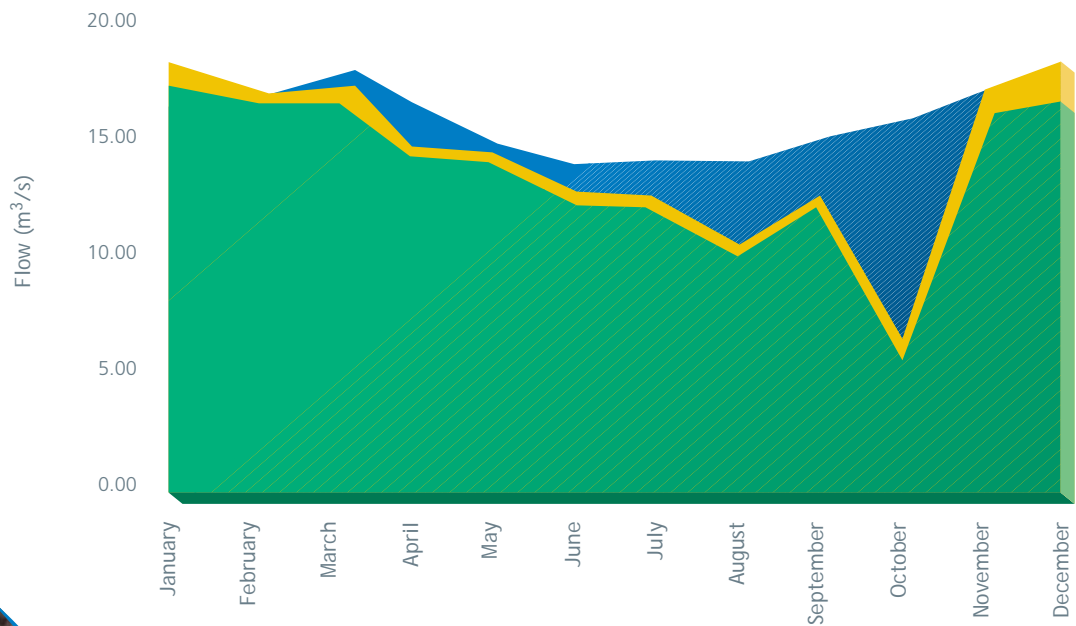
El Yeso Reservoir, a key reserve

With a capacity of 250 million cubic meters, the El Yeso reservoir plays an important role in supporting the Company's production of water as it permits us to regulate the contribution from the superficial sources, even in times of drought.

Thus, this great work of infrastructure transforms into a key reserve that ensures the supply of water to our customers. In view of this, the Company makes regular investments to maintain its installations in good shape and to preserve its useful life and capacity.



Contribution from El Yeso reservoir to the production of Greater Santiago
(Year 2006)



- Contribution from El Yeso Reservoir
- Underground production
- Superficial production without reservoir

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Improving our installations

Throughout the year 2006, we concluded important projects involving improvements to our water treatment plants (WTP). Amongst these we would highlight the improvement of the flocculation stage at our Vizcachas WTP, which has permitted this complex to increase its production capacity by 1.5 m³/s.

We also finished the project to improve the filtration stage at the La Dehesa WTP, which meant replacing its five filters, achieving an increase in its production capacity by 15%, and adjusting the parameters of the quality on leaving the plant in order to comply with the new norms that came into effect on January 1, 2007.



Distribution

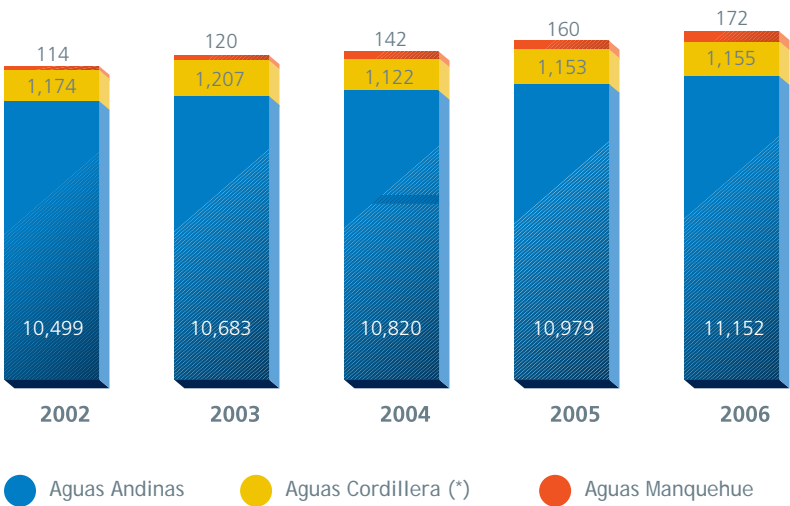
Our distribution network permit the continuous supply of potable water at an adequate pressure to all our customers.

The water moves through our distribution network until it reaches all the Company's clients. This large structure of underground piping, with its route coinciding with that of the streets, is constantly monitored by the Operations Control Center to ensure its correct functioning and to guarantee the distribution of the supply.

Furthermore, the Company periodically carries out a Program of Preventative Maintenance, which implies the renewal of infrastructure and the replacement of ducts with high density polyethylene piping.

During 2006, the length of the distribution network of Aguas Andinas grew by 1.5%, which implies 187 kilometers, in line with the demand from our customers. Thus, on a consolidated basis, the network rose to a general total of 12,480 kilometers.

Length of distribution network (kms)



(*) Includes Aguas Los Dominicos.
Note: Data according to SISS criteria.







Sewage collection

Our sewage collection network is comprised of more than 10 thousand kilometers of pipes.





The purpose of the sewage collection network that comprises the sewerage system is to collect and withdraw the residual waters and send them to the treatment plants or points of final disposal.

This underground network is of vital importance for the health of the public, as it avoids any direct contact with the sewage, avoiding infections or problems of contamination.

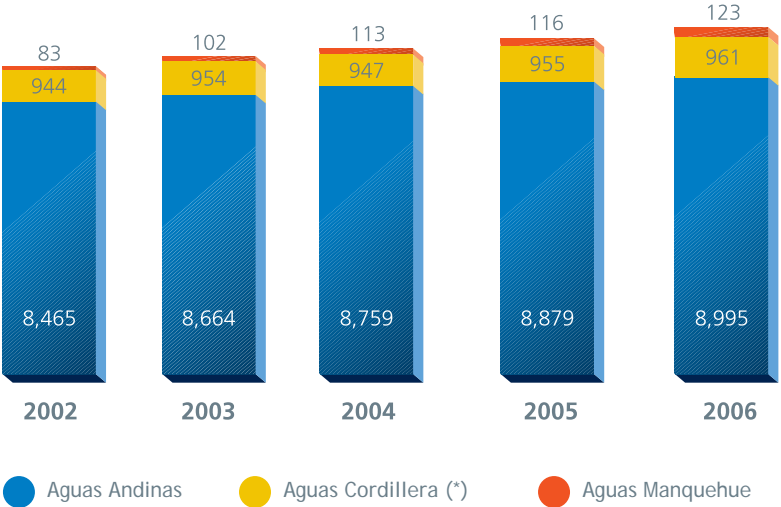
In order to ensure an adequate function and operation, we periodically carry out programs to improve the network, renewing different sectors of the sewerage. Furthermore, with the Preventative Maintenance Program, we clean more than 705 kilometers of collectors with highly technical equipment.

In order to improve the performance of this function, in 2006 we incorporated six modern trucks for hydrocleaning the sewerage, which implied an investment of USD 1.5 million. This project falls within the framework of our commitment to utilize the very best technology, jointly with a better administration of the collecting mains in order to anticipate the requirements of our customers.

During the 2006 period, Aguas Andinas increased its sewage collecting network by 126.7 kilometers. Meantime, on a consolidated basis, the total length of the mains rose to 10,077 kilometers.

Length of sewage collection network (kms)

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(*) Includes Aguas Los Dominicos.

Note: Data according to SISS criteria.



Sewage treatment

In 1999, we only had 3% of the sewage treatment in the Metropolitan Region. Today, following a significant investment plan implemented by Aguas Andinas, we purify out over 70%.

Thanks to the technology incorporated into our sewage treatment plants, it is possible de purify the residual waters permitting their return to the environment in optimum conditions for irrigation.

Thanks to the functioning of two large treatment plans - El Trebal and La Farfana – plus 9 local installations and 3 in the northeastern zone of Greater Santiago, the Aguas Group currently performs the treatment of over 70% of the sewage generated in the Santiago Basin.

During 2006, the La Farfana Sewage Treatment Plant, which has a purifying capacity of 8.8 m³/s, decontaminated a total of 228.3 million m³ corresponding to sewage generated by some 3.3 million inhabitants. El Trebal, which has a capacity of 4.4 m³/s, purified a total of 107 million m³ corresponding to an estimated population of 1.7 million people in the southern and southwestern areas of Santiago.

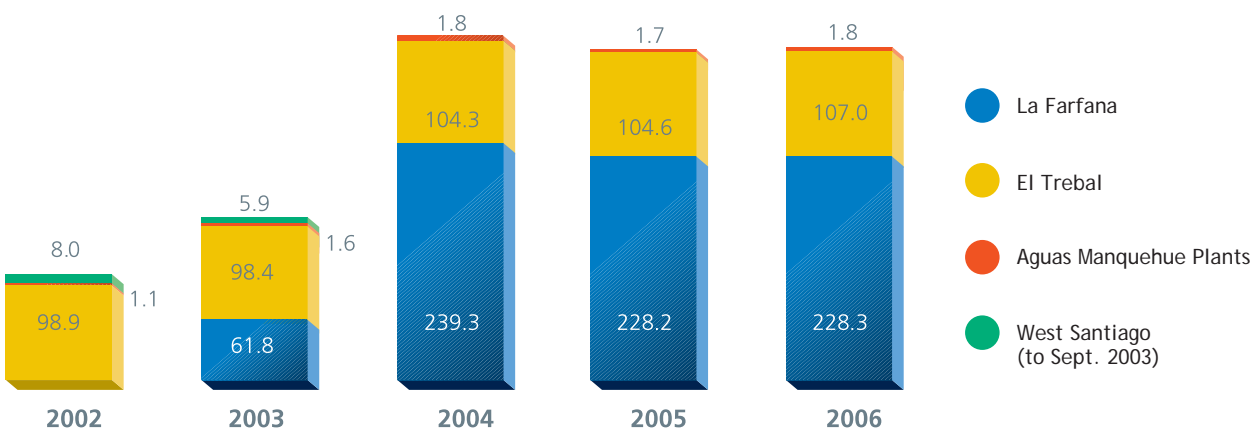
In this way, the total volume of sewage treated in Greater Santiago during the year 2006 amounted to 362.4 million cubic meters.

In localities

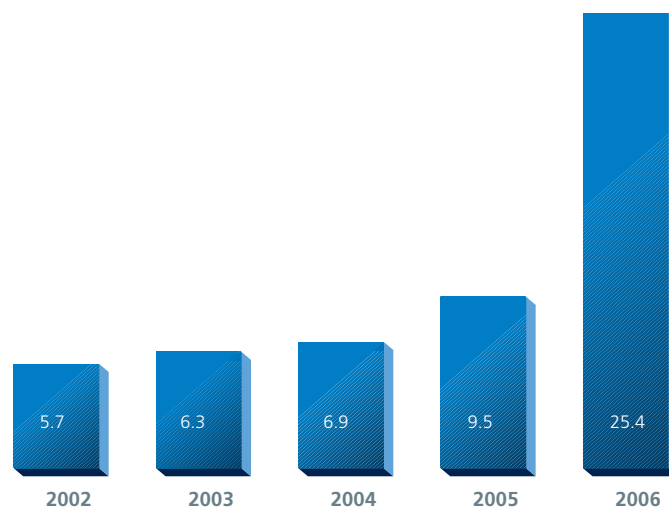
There are currently 9 treatment plans functioning normally in localities, with a joint purifying capacity of more than 750 liters per second. During 2006, the volume of sewage decontaminated in localities amounted to 25.4 million cubic meters.

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Sewage treatment in Greater Santiago (million m³)



Sewage treatment in Peripheral Localities (million m³)



● Localities



Continuation of the Sanitation Plan

As part of the compliance with our Sanitation Plan, during the 2006 period, we initiated the construction of the Melipilla Sewage Treatment Plant, which will have a treatment capacity of 192 liters per second and will permit a better quality of water in the La Línea and Puangue brooks and in the Maipo river. Its operations are expected to commence in January 2008 and it will replace the operations of the Cexas and Esmeralda Plants.

During the year we obtained the approval of the environmental impact studies for the new Til Til, Buin-Maipo and Melipilla Plants. Furthermore, we submitted to the National Environmental Commission (CONAMA), the environmental impact study for the Mapocho Urban Cleaning project, which will permit us, in the medium term, to increase our treatment coverage to over 80%.

In addition, we acquired a 1,800 hectare plot of land, located in the northern part of the capital, to construct the Sludge Platform in order to comply with the last Environmental Classification Resolution for La Farfana.

Technological advances in sanitation

During the course of the year, we carried out projects to maintain high standards in our treatment service, which involved pioneer applications for sewage purifying companies.

One of these was the incorporation of leading-edge predictive maintenance techniques such as symptomatic of vibrations, laser alignment, oil dialysis and thermography. Furthermore, jointly with the Catholic University of Valparaíso, we designed scale models of three reactors to analyze and take decisions on a real scale on the influence of the sludge and the possible inhibitors, or operating changes in the digestion stage.

Added to this, we prepared a model of the process of digestion as a tool to support the operation, control and planning of the digesters. This work was done with the support of the Federico Santa María Technical University and the Catholic University of Valparaíso together with expert local consultants.



We advance in harmony

Because it is not only a matter of advancing, but also of growing sustainably, always in harmony with the development of our employees, the community and the environment.

To be a socially responsible company is a commitment we have acquired in Aguas Andinas. This commitment is reflected in our permanent concern for delivering a quality product and service through our daily activities.

In order to boost this spirit even further, we have prepared the Aura Plan that calls on us to change perceptions and attitudes, to have better relations with our surroundings and to get involved in a sustainable manner with clients, employees and the community, amongst other players.

In short, to establish relationships based on confidence, responsibility, pride, commitment and transparency; and in this way, become the Company we want it to be: a close, admired, prosperous and long-lasting organization.

And, during this 2006 period, we have gained a strong motivation that shows us that we are doing things right. Aguas Andinas received an important acknowledgement on being considered one of the 25 companies with the best corporate reputation in the country. This qualification, granted by more than 3,500 consumers according to a study carried out by Hill & Knowlton Captiva and the La Tercera newspaper, is the result of the work done by all and of our activities performed as a company.

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The key, our people

The people that work in Aguas Andinas are a key part and fundamental for the project on the company we wish to be.

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Our workers form part of the culture and style of the Company, of the aura we project as a corporation. As a team, we wish to arrive at a relationship of pride and commitment, on the basis of excellent and professional work.

Consistent with this, we ensure they develop their capabilities and boost their skills. And, at the same time, we provide a good working atmosphere, comfortable, safe and pleasant, supplying the tools necessary for them to carry out their work.

For an all-embracing development

During the year 2006, we consolidated and expanded the coverage of our **Performance Evaluation System "Crecer"** incorporating technical staff and reaching a total of 800 workers inside our Company. Furthermore, the subsidiaries Anam and EcoRiles launched Crecer for its entire staff with the participation of 109 workers.

Within the ADN Program we initiated a project to acknowledge the **"outstanding worker"** in which prizes were awarded for people's attitudes. Under this program, 731 people were nominated, 48 workers received prizes and finally, three were nominated as the outstanding workers for the year.

During the year 2006, we continued providing support to people that seek to perfect their academic record. In this way, 50 workers signed up for pre- and/or postgraduate courses.

Finally, for the sake of a better professional development, we installed electronic mail for 100% of the production operators, which reflects the Company's will to improve the channels of communication.

Development and training

During the course of the period, 1,133 people participated in different development programs, completing 51,686 hours of training, which involved both workers and subcontracted personnel.

The emphasis was on the Crecer Development Program with 7,278 hours of training for 303 people. In addition, we continued with the Diploma in Maintenance and the application of Technical Modules for the Operations and Purification areas with the participation of 148 workers, reaching a total of 12,700 hours of training.





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Furthermore, 1,294 participants attended the ADN Training Program of which, 753 were employees of subcontractors. On this occasion, transversal training was given with the object of making the attendants aware of the basic concepts of the service culture, in addition to specific training on internal processes.

Improvement of the premises

Concerned with the quality of life and safety of our workers, this year we made important investments in renewing and improving the work premises.

In this area, we constructed a new 685 square meter building for the Maipo Zone, which houses the offices of the zone's management and the commercial agency of Talagante. In this way, we achieved the centralization of the activities as well as providing greater comfort to the workers of this zone.

We created the Punto Café coffee shop in the Corporate Building. And in November, we inaugurated new offices in the Lira and Pintor Cicarelli premises, together with a branch of the coffee shop.



Collective agreements

During 2006, we signed collective agreements with the workers of Aguas Andinas, Aguas Cordillera and Aguas Manquehue for the years 2006 through to 2010.

The negotiations took place in a highly mature working atmosphere, which demonstrates the strength of the organization and the interaction between the different levels within the Company.

Staff complement

As of December 31, 2006, the staff complement of Aguas Andinas was 1,091 employees. On a consolidated level, the complement amounted to 1,440 workers.

A total of 1,133 people received training thanks to our development and training plans.

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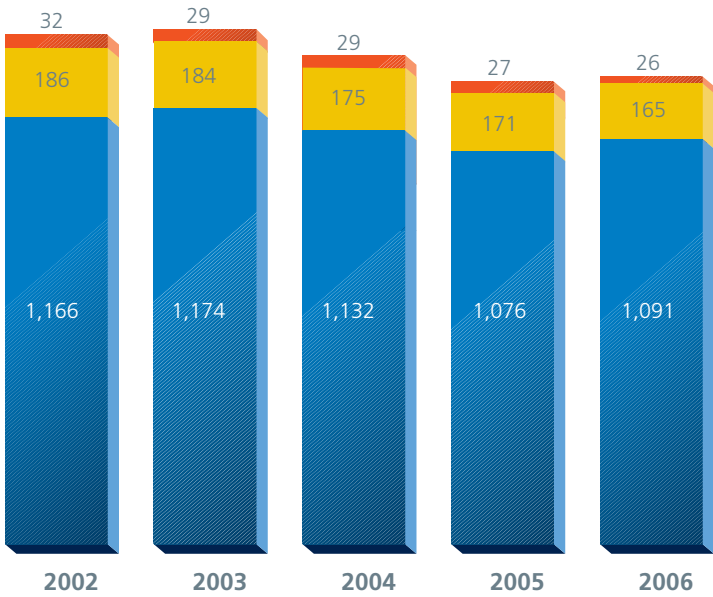
Total complement

	Aguas Andinas	Aguas Cordillera ⁽¹⁾	Aguas Manquehue	Others ⁽²⁾	Consolidated
Managers and senior executives	62	1	1	3	67
Professionals and technicians	646	87	10	88	831
Workers	383	77	15	67	542
Total	1,091	165	26	158	1,440

(1) Includes Aguas Los Dominicos.
(2) Corresponds to ANAM, EcoRiles and Gestión y Servicios.



Total personnel



We are 1,440 people working professionally and efficiently to deliver a better service each day.

Aguas Andinas Aguas Cordillera (*) Aguas Manquehue

(*) Includes Aguas Los Dominicos.



With the community

We carry out concrete actions that strengthen the relationship with our neighbors and the community, establishing ties of confidence and responsibility.

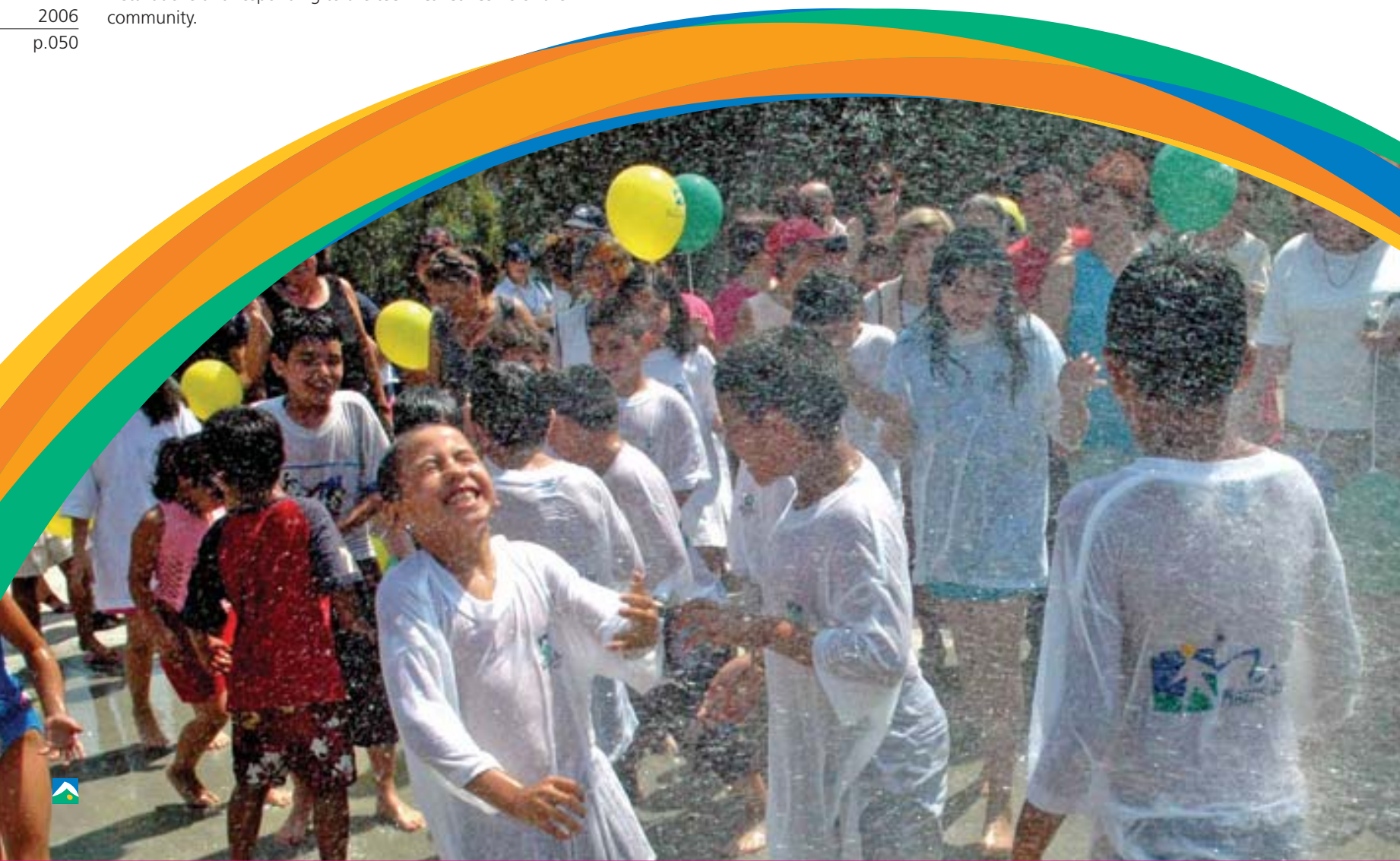
Good Neighbor Policy

The Good Neighbor Policy, initiated in 2005, has permitted us to have a channel of communications directly with those that live close to our sewage treatment plants, promptly identifying their possible concerns, applying the logic of a sustainable coexistence.

In this context, during 2006 we continued with a series of projects with the communities and townships near our installations. One of these was the work tables that were held with neighborhood associations in the municipal districts of Pudahuel, Maipú, Montenegro and Padre Hurtado. These occasions permitted us to get closer to the people in these zones and establish relations based on confidence and cooperation.

Furthermore, we held technical tables with the object of analyzing the processes and functions of the treatment installations and responding to the technical concerns of the community.

To collaborate with the
quality of life of our customers is
one the goals that we have set
ourselves as Company



“Neighborhood Dreams” Fund

Also, as a part of the Good Neighbor Policy, we created “Neighborhood Dreams”, a participative charitable fund aimed at the communities close to the La Farfana Plant with the purpose of contributing funds for projects to improve the environmental, social and cultural surroundings and in this way, cooperate with their quality of life.

For this, we invited social organizations from the municipal districts of Pudahuel y Maipú to participate and these submitted a total of 28 projects of which 15 were selected.

The winning projects are related to environmental matters, the installation of parks, sports facilities and repairs to social centers.

Pro Til Til Corporation

During the year, the Business Sector Corporation for the Development of Til Til, “Pro Til Til” came to life. This organization was created for the purpose of contributing to the sustainable development of this municipal district, promoting and boosting the generation of projects from the community, in the areas of education, environment, development of small businesses, health and culture.

Just in 2006, more than 35 thousand people, between neighbors and students, visited our sewage treatment and water production plants.

We created the “Neighborhood Dreams” participative fund, which financed 15 social projects that will improve the quality of life in the municipal districts of Pudahuel and Maipú.

The founding of Pro Til Til was the initiative of seven companies located in the area through their respective businesses, one of them being Aguas Andinas. In this way, we shall have the possibility of actively helping in the development of this locality.

Waters Parks

As part of its policy on Social Responsibility, Aguas Andinas, jointly with municipal authorities and neighbors, continued with the Water Parks project, which transforms uncultivated plots of land into green areas for the recreation of the inhabitants of the nearby sectors.

The Water Parks contain a playground, trees and a waterspout as its central feature, for refreshment on summer days. With this initiative, in place since 2004, Aguas Andinas has implemented a total of 13 thousand square meters of green areas in direct benefit of more than 20 thousand people from different sectors of the Metropolitan Region. During the year 2006, three new water parks were constructed. These are located in the municipal districts of La Granja, La Pintana and Pudahuel.

During autumn, winter and spring, the spaces are open to be used for all types of activities in benefit of the community. For this, in 2006 Aguas Andinas developed a project to bring life and use to these spaces in which each district chooses the activities to be carried out, such as flea markets and entertaining gymnastics.



Programs for the community

During the period, Aguas Andinas relaunched two programs aimed at the community, Acuaciclo and Acuayuda (Aquacycle and Aquahelp), for the purpose of promoting conduct and values that contribute to improving the quality of life with respect to water and the environment.

In 2006 and as part of **Aquacycle**, a program for schoolchildren, we continued with “The Water Adventure” puppet shows which were attended by more than 25,245 children, mainly from the municipal districts of Maipú and Pudahuel. The itinerant show “The Water Adventure” was put on at 37 educational establishments and the guided tours for students to the plants were attended by over 11,600 participants who were able to see, on site, the processes of water production and sewage treatment.

All the activities, especially those linked to the visits to the plants, contribute to the Environmental Certification of Schools Program headed by the National Environmental Commission (CONAMA), providing information related to the resource, water.

Meanwhile, **Aquahelp** was also present with a new image and offer of activities to continue with the education on the value of water and to strengthen ties with the neighbors. The “Aguas Andinas in your neighborhood” program, that promotes the responsible use of water and sewage system in low-income areas, was focused on the municipal districts of Quilicura and Puente Alto, supplying 1,000 and 2,800 homes, respectively, and directly benefiting 16 thousand people. Furthermore, the plumbing workshops permitted us to train 2,176 housewives and household heads, just during this year.

Finally, in the second half of 2006, we opened the doors to our La Farfana plant during the weekends, inviting families and neighbors from Pudahuel and Maipú to participate in the visit named “The Crossing of the Water”. In this family and educational panorama, more than 12 thousand people –between children and adults– got to know the processes of decontamination of the wastewaters, the value of the water cycle and learned, in an entertaining way, how to take care of and respect the environment.

The puppet show “La Aventura del Agua” (“The Water Adventure”) has allowed more than 30 thousand children to learn, in a playful and entertaining way, the value of water and the different stages of its cycle.



ISO 26000

During the year 2006, we took an active participation in the process of conforming to ISO 26000 in respect to corporate social responsibility (CSR), as part of the Mirror of Chile Committee, an institution that gathers together social, private and governmental players that are interested in sustainable development.

In this way, Aguas Andinas became the first basic services company to participate in this work group.

International Seminar on CSR

During the celebration of the 2006 Spain Week, Aguas Andinas formed part of the first bilateral forum on Corporate Social Responsibility (CSR). The main objective of the meeting was to provide a vision on the advances made on this subject in Chile and in the world and to discuss the challenges facing the planet in the next decade.

The seminar permitted us to discover the local reality with respect to three specific and important matters for social responsibility: ethics, the workers and the community.



Environment

The quality of life is intimately linked to a setting free of contamination, with a healthy environment that permits development and evolution as a society.

Mapocho Urban Cleaning

The Mapocho Urban Cleaning project consists of the constructing and operation of a 28.5-kilometer collector-interceptor that will permit the elimination of a total of 21 discharges of sewage that are currently released into the Mapocho River by the city of Santiago.

Thanks to the construction of the collector, these discharges of sewage will be diverted towards the La Farfana and El Trebal treatment plants, which will permit us, among other benefits, to increase our sewage treatment coverage to over 80%.

To make this project a reality, during the second half of 2006 we prepared an environmental impact study that was submitted to the Metropolitan Environmental Authority. According to current legislation, a process of civic participation was instituted in the nine municipal districts affected by this project, in order to provide information on the scope of the project and for the public to make enquiries and submit proposals.

Construction work on Mapocho Urban Cleaning is expected to commence during 2007.

Aguas de Ramón Nature Park

In the month of December, we officially inaugurated the Aguas de Ramón Nature Park in the foothills of the Andes on an area of 3,300 hectares that will permit the preservation of nature and environmental education, becoming the largest park in the Metropolitan Region.

In this area, ceded under commodatum by CORFO, the Chilean State Development Corporation, Aguas Andinas jointly with the “Protege” Association of Municipalities and CONAF, the State Forestry Corporation, have installed an Andean foothills educational and information center, permitting visitors to get to know virtually all the Ramón Basin, its ecological processes and its importance for the environmental equilibrium of Santiago. Together with this, a circuit of paths was made to enable visitors to explore the zone with the help of guides trained in flora and fauna.

The Aguas de Ramón Nature Park is thus becoming a new green lung for the capital and a place to foment the values of life in the open and respect for the ecosystem.

Overall management of biosolids

The overall management of biosolids generated in our sewage treatment plants is one of the important concerns for Aguas Andinas and forms part of our strategic objectives. We are seeking to optimize the operation and control of the process at the drying field and the subsequent disposal at the El Trebal landfill.

Within this same theme, the Company has developed the process of biological drying of biosolids called “biodrying”. This system employs the biological action of the bacteria present in the mixture with structuring material to generate heat and, with it, evaporate part of the water and reduce its moisture, regardless of the atmospheric conditions.

For this purpose, we acquired a new leading-edge biosolids drying equipment that permits us to carry out this process more effectively through turning over and aeration.





Strengthening development

Our non-sanitation subsidiaries provide an overall service, supporting the activities of the sanitation companies of the Group and, at the same time, contributing to the development of different industries in the country.

EcoRiles

Provides complete and overall advice to all types of industries on the development of their projects involving liquid industrial residues, which includes an initial diagnostic, stages of controlling effluents, design, engineering and construction, and the operation of their treatment systems. The Company has the capacity and flexibility to enter at any of these stages of the cycle.

Thanks to its performance, EcoRiles has consolidated its position as the principal operator of residual water plants in the country, with a great capacity to penetrate the agro, food and beverage, beef and pork processing, dairy, yeast, fishing and mining industries.

During 2006, the Company's revenues increased by 22.2%, amounting to Ch\$3,562 million, providing services to 99 industries, with operations in the Metropolitan, V, VI and X Regions.

Gestión y Servicios

Sells all types of materials and overall solutions for the sanitation industry on construction, renovation and maintenance of water mains and sewage networks.

It offers a wide range of products, which are constantly being updated in accordance with the development of new technologies in the sector and backed by its rigorous selection processes.

During the 2006 period, Gestión y Servicios has maintained its leadership of the supply of materials for the Chilean sanitation sector, achieving revenues of Ch\$6,712 million, which implies an increase of over 18.2% in sales with respect to the previous year.

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Anam

A laboratory involved in taking samples and the analyses of water, sludge and soil, duly accredited under local requirements and the demands of the Agbar Group's network of laboratories.

In March 2006, it became the first laboratory in Chile to be certified by the NCh 411 norm, thanks to its modern logistics and sample operating center. Anam has a fleet of vehicles for analyses, performed on-line, through a GPS satellite system.

As part of its development, it has updated its equipment for the instrumental analysis of chromatography and atomic absorption, managing to have the highest level of detection and quantification for organic compounds and metals in water in the country and part of South America. This has permitted it to commence a stage of expansion of its services, carrying out the key analyses for Coca Cola, not only in Chile but also in Argentina, Bolivia, Perú, Uruguay and Paraguay.

In this way, ANAM has consolidated its place as the principal water laboratory in the market, which has enabled it to grow constantly, achieving revenues during the 2006 period of Ch\$1,855 million, which implies an increase of 26.4% with respect to the previous year.



Strength and efficiency

During the year 2006, we consolidated our financial situation after successfully concluding the process of refinancing the Group's debts.

During this period we continued with the process of restructuring our debts that commenced at the beginning of the second half of 2005 and which implied refinancing 58% of our bond obligations, equivalent to 36% of the total financial debt of the Company, substantially improving the maturity curve for the forthcoming years and reducing our financial costs.

As part of this process, during the first quarter of 2006 we carried out a bond swap operation for 5 million Unidades de Fomento (UF 5 million) which involved swapping Series D Bonds maturing in 2009 with an average term of 2.3 years for Series F Bonds maturing in 2026 with an average term of 8.7 years.

Furthermore, during the course of the year, we obtained reimbursable financial contributions for Ch\$13,926 million, expressed in UF plus a fixed rate, with maturities at between 10 and 15 years. In addition, we utilized lines of credit with banks to finance our temporary cash requirements.

This combination of sources of finance provided support for our operations and our investment plan and permitted us to maintain a dividend policy of 100% of net earnings, significantly reduce our financial expenses and improve the Company's financial ratios.

In this way, the low operating risk of the industry and our solid financial profile, permitted the rating agencies to ratify our favorable rating of AA+ that represents one of the best rates assigned to a private company on the local market.

Finally, during the period, the Company took several actions to boost its contacts with investors, both local and international. These included the distribution of quarterly earnings releases, attending conferences and strengthening the Investor Relations area. These steps, added to the Company's performance, helped us to achieve an annual return per share of 39.2% and to maintain the rating of our shares at the investment grade level.

Risk factors

The Company shows a favorable situation in terms of risk, mainly due to the particular characteristics of the sanitation sector and to a proactive policy on the control of risks, in which we have applied the ample experience of our controlling shareholder.

Operations

• New investments

Our Company has to face an important investment plan in line with the development program to which it is committed with the Superintendency of Sanitation Services (SISS). This involves a significant effort in financial, administrative and technical resources in order to implement and control these investments. Nevertheless, the tariffs include the cost of the new investments ensuring a minimum return.

• Regulated market

Due to its monopolistic nature, the sanitation industry is highly regulated by the State and is exposed to changes in the established norms. The current legal framework regulates the operation of the concessions as well as the tariffs that are charged to customers, which are set every 5 years. The current tariff period runs from March 2005 to February 2010 for Aguas Andinas, and to May and June 2010 for its sanitation subsidiaries.

• Weather conditions

The collection of raw water and the production of water depend to a large extent on the weather conditions reigning in the hydrographic basins. Rainfall, flows of sediment, the volume of water in the rivers and cloudiness determine the quantity, quality and continuity of the raw water available for the production of drinkable water.

We currently hold sufficient water rights to ensure an adequate production of water, even in adverse weather conditions. Also, we have the technical and human capacity to overcome critical situations.





- **Customers**

We supply 1,550,008 clients in our area under concession and who have Aguas Andinas and its subsidiaries as their principal suppliers. The 100 most important customers represented only 5.3% of the total sales for the year 2006.

Finance

- **Exchange risk**

Our revenues are expressed in local currency. Therefore, the Company's borrowings are mainly in this currency, with only an insignificant amount in foreign currency.

- **Interest rate risk**

Of the total the Company's debt, 80% is at a fixed rate. This is comprised of approximately 80% in short and long-term bonds, 13% in reimbursable financial contributions and 7% in bank credits. The other 20% of the debt is at a variable rate and corresponds to credits from local banks.

The situation described is such that the credit rating agencies have assigned a rating of AA+ on the long-term debt. In the case of shares, Feller Rate has assigned us a rate of First Class Level 3, whilst Humphreys assigned a rate of First Class Level 1.





Investments policy

In order to comply with our long term development plan, 63.6% of the investments made during the period corresponded to expansion works. The rest of the investments were assigned to renewing existing operating assets and, to a lesser degree, to the implementation of technological development and to the non-sanitation subsidiaries.

Financing

Having concluded our financial restructuring process, at the beginning of 2006 we redeemed Series D Bonds with a new issue of Series F Bonds.

The refinancing was done through a swap operation in which we announced the obligatory redemption of the Series D Bonds that took place on January 9, 2006. Alternatively, the Company made an offer to swap Series D Bonds for new Series F Bonds which took place on January 3, 2006. The swap ratio offered was 0.867034 Series D Bonds for each Series F Bond. The new Series F issue corresponded to UF 5,000,000 at a term of 21 years, at a fixed rate of 4.15% per annum, with interest paid half-yearly with coupons and amortization as of 2008.

The Series F issue was assigned a risk rating of AA+ by Humphreys and Feller Rate.

Furthermore, on January 2, 2006 Aguas Cordillera made an anticipated redemption of Series B and E Bonds. The total amount of this redemption was based on the current nominal value plus the interest accrued to that date.

Also, during the period, Aguas Andinas obtained financing through reimbursable financial contributions of Ch\$13,926 million, issued at a fixed rate.

Distributable net income

	ThCh\$
Net income for the period 2006 (*)	84,622,017
Reserve for future dividend payments	111,378
Interim dividends on account of net income for 2006	(28,095,596)
Remaining distributable net income	56,637,799
Dividends paid as a % of the distributable net income	33.20%

(*) Net income for the period adjusted to reflect the negative goodwill generated by the subsidiary, Gestión y Servicios S.A., equivalent to ThCh\$69.





Dividend policy

At the fifteenth Ordinary Shareholders Meeting, the Board of directors agreed on a dividend policy consisting of paying 100% of the net income, with 30% corresponding to the net income for the period as an obligatory dividend and the other 70% as an additional dividend.

This policy shall remain in force whilst it continues to be compatible with the policies on investments and financing determined for each period.

Dividends paid per share

Ch\$ per share	2003	2004	2005	2006
Book value	57.14	61.97	62.44	63.90
Return	9.75	10.21	12.41	13.83
Dividends paid	9.18021 ⁽¹⁾	6.63892 ⁽²⁾	13.7148 ⁽³⁾	13.526 ⁽⁴⁾

(Figures expressed in local currency as of the date of payment).

(1) Includes two items: a dividend of Ch\$6.0599 per share –corresponding to a distribution of the net earnings for the year 2002 paid on May 7, 2003– and an interim dividend of Ch\$3.12031 per share on account of the net earnings for the year 2003, paid on December 10, 2003.

(2) Includes a dividend of Ch\$6.63892 per share, corresponding to the distribution of the net earnings for the year 2003, paid on May 15, 2004.

(3) Includes two items: a dividend of Ch\$10.2148 per share –corresponding to a distribution of the net earnings for the year 2004 paid on May 5, 2005– and an interim dividend of Ch\$3.5 per share on account of the net earnings for the year 2005, paid on September 27 of the same year.

(4) Includes two items: a dividend of Ch\$8.9160 per share paid on May 25, 2006; and an interim dividend of Ch\$4.61 per share, on account of the net earnings for the year 2006, paid on October 26, 2006.

Capital stock

The registered capital of Aguas Andinas is divided into 6,118,965,160 shares, fully subscribed and paid in.

As of December 31, 2006, 65% corresponded to Series "A", equivalent to 3,975,973,019 shares; and 35% corresponded to Series "B", equivalent to 2,142,992,141 shares.

Stock transactions made by majority shareholders

In April 2006, Inversiones Aguas Metropolitanas S.A., the Company's controlling shareholder, sold 67,308,616 Series "A" shares on the stock market, representing 1.1% of the subscribed capital.

Quaterly statistics Aguas-B 2004 (1)

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

(1) During 2004, CORFO carried out minor transactions that amounted to ThCh\$52 at a price of Ch\$15.89.



Quaterly statistics Aguas-B 2005 (2)

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

(2) During 2005, CORFO carried out minor transactions that amounted to ThCh\$11, at a price of Ch\$15.89.

Transactions on secondary market Aguas-A

Santiago Stock Exchange

2004	Average price (Ch\$)	Units	Amount (Ch\$)
Total 1 st quarter	Ch\$157.16	20,467,844	3,216,695,749
Total 2 nd quarter	Ch\$153.79	31,535,071	4,849,627,156
Total 3 rd quarter	Ch\$164.57	23,260,462	3,828,073,732
Total 4 th quarter	Ch\$168.51	24,616,616	4,148,203,544
Year 2004	Ch\$160.62	99,879,993	16,042,600,181

2005	Average price (Ch\$)	Units	Amount (Ch\$)
Total 1 st quarter	Ch\$167.71	18,034,975	3,024,680,836
Total 2 nd quarter	Ch\$180.32	86,581,539	15,612,200,079
Total 3 rd quarter	Ch\$194.72	24,925,553	4,853,431,586
Total 4 th quarter	Ch\$180.39	27,769,195	5,009,287,001
Year 2005	Ch\$181.17	157,311,262	28,499,599,502

2006	Average price (Ch\$)	Units	Amount (Ch\$)
Total 1 st quarter	Ch\$185.92	10,854,818	2,018,170,513
Total 2 nd quarter	Ch\$186.60	128,160,683	23,914,899,145
Total 3 rd quarter	Ch\$193.27	34,229,306	6,615,619,224
Total 4 th quarter	Ch\$213.40	32,530,794	6,942.102,174
Year 2006	Ch\$191.91	205,775,601	39,490,791,056





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Brokers Market-Stock Market

2004	Average price (Ch\$)	Units	Amount (Ch\$)
Total 1 st quarter	Ch\$178.52	3,194,688	570,316,952
Total 2 nd quarter	Ch\$148.57	119,145	17,701,892
Total 3 rd quarter	Ch\$163.19	88,088	14,375,047
Total 4 th quarter	Ch\$171.73	277,491	47,652,929
Year 2004	Ch\$176.67	3,679,412	650,046,820

2005	Average price (Ch\$)	Units	Amount (Ch\$)
Total 1 st quarter	Ch\$167.05	210,321	35,134,449
Total 2 nd quarter	Ch\$186.19	639,997	119,166,504
Total 3 rd quarter	Ch\$195.05	327,047	63,791,365
Total 4 th quarter	Ch\$181.64	165,181	30,004,895
Year 2005	Ch\$184.80	1,342,546	248,097,213

2006	Average price (Ch\$)	Units	Amount (Ch\$)
Total 1 st quarter	Ch\$186.14	448,064	83,402,779
Total 2 nd quarter	Ch\$193.07	173,535	33,504,545
Total 3 rd quarter	Ch\$187.87	451,528	84,803,910
Total 4 th quarter	Ch\$214.50	569,534	122,167,526
Year 2006	Ch\$197.17	1,642,661	323,878,760





Chilean Electronic Stock Exchange-Stock Exchange

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2004	Average price (Ch\$)	Units	Amount (Ch\$)
Total 1 st quarter	Ch\$167.04	240,137	40,111,415
Total 2 nd quarter	Ch\$155.44	2,688,111	417,828,628
Total 3 rd quarter	Ch\$164.01	52,529	8,615,521
Total 4 th quarter	Ch\$165.51	5,033,038	833,011,250
Year 2004	Ch\$162.17	8,013,815	1,299,566,814

2005	Average price (Ch\$)	Units	Amount (Ch\$)
Total 1 st quarter	Ch\$165.17	52,393	8,653,780
Total 2 nd quarter	Ch\$180.90	11,590,851	2,148,414,236
Total 3 rd quarter	Ch\$198.72	4,233,858	815,436,414
Total 4 th quarter	Ch\$185.58	2,007,387	376,145,625
Year 2005	Ch\$187.24	17,884,489	3,348,650,055

2006	Average price (Ch\$)	Units	Amount (Ch\$)
Total 1 st quarter	Ch\$182.89	709,434	129,751,549
Total 2 nd quarter	Ch\$189.41	8,575,702	1,624,294,517
Total 3 rd quarter	Ch\$193.29	644,893	124,653,355
Total 4 th quarter	Ch\$210.20	1,047,489	220,180,042
Year 2006	Ch\$191.20	10,977,518	2,098,879,463



Material information

- On March 1, 2006 we advised the Superintendency of Insurance and Securities that at a meeting held on February 28, 2006, the Company's Board agreed to call an Ordinary Shareholders Meeting of to be held on April 26, 2006 at 11:00 hours, at Av. Presidente Balmaceda N° 1398, 10th Floor, Santiago. The subjects to be discussed at the meeting shall be those normally covered in an ordinary meeting.
- On April 25, 2006 we advised the Superintendency of Insurance and Securities that at a meeting of the Board of directors held on April 25, 2006 the following resigned from the Board: Bernardo Espinosa B., Director and Roberto Hempel H., his Alternate Director.

In accordance with Article 32 of the Law on Corporations, the entire Board of directors will be renewed at the next Ordinary Shareholders Meeting to be held on April 26, 2006.

- On April 26, 2006 we informed the Superintendency of Insurance and Securities that the Company's new Board of directors is now comprised of the following members:

Directors	Alternate directors
Alfredo Noman S.	José Vila B.
Alain Chaigneau	Fernando Rayón M.
Pedro Butazzoni A.	Xavier Amorós C.
Josep Bagué P.	Lluís Ma. Puiggari L.
Mónica Singer G.	Ramón Figueroa G.
Jaime Arellano Q.	Mario Castillo A.
Carlos Mladinic A.	Jorge Bande B.

- On September 20, 2006, we informed the Superintendency of Insurance and Securities that at a meeting held on September 19, 2006, the Company's Board of directors agreed to pay an interim dividend of ThCh\$28,208,429, on account of the net earnings for the year 2006. As a result, dividend N° 43 of the Company will amount to Ch\$4.61 per share and may be claimed as of October 26, 2006.





Board of directors and senior management

Directors' remunerations

In accordance with Law N° 18,046, the Ordinary Shareholder Meeting held on April 26, 2006 approved the remuneration for the Board of Directors, the Committee of Directors and their budgets for expenses for the 2006 period.

The remuneration for the Board is divided into two types: one fixed per month of UF100 for the Chairman, UF75 for the Vice-Chairman and UF50 for the directors and the alternate directors; and a variable remuneration that is paid according to the attendance at each meeting, of UF80 for

the Chairman, UF60 for the Vice-Chairman, UF40 for the directors and UF40 for the alternate directors only when they replace the Director.

The remuneration for the Committee of Directors for the year 2006 was set at: a fixed monthly remuneration of UF25 for each member and alternate and a variable remuneration for the attendance at each meeting of UF20.

Furthermore, a budget for expenses was approved for a total of UF2,700.

Directors' remunerations (Ch\$ thousands)

Directors	Position	Remuneration		Session	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
Alfredo Noman S.	Chairman	21,993	21,916	17,604	17,569
Carlos Mladinic A.	Director	10,997	10,958	8,802	8,785
Jaime Arellano Q.	Director	7,326	0	5,864	0
Mónica Singer G.	Director	7,326	0	5,864	0
Pedro Buttazzoni A.	Director	7,326	0	5,864	0
Bernardo Espinoza B.	Director	3,670	10,958	2,938	8,785
Daniel Albarrán R.	Director	3,670	10,958	2,938	8,785
Manlio Alessi R.	Director	0	3,668	0	1,469
Roque Gistau G.	Director	0	2,758	0	735
Jorge Bande B.	Alternate director	10,997	10,958	0	0
Mario Castillo A.	Alternate director	7,326	0	0	0
Ramón Figueroa G.	Alternate director	7,326	0	0	0
Claudio Maggi C.	Alternate director	3,670	7,290	0	0
Roberto Hempel H.	Alternate director	3,670	10,958	0	0
Jean Duhart S.	Alternate director	0	3,668	0	0
Total		95,297	94,090	49,874	46,128

Note: Directors' expenses during the period amounted to Ch\$76.7 million.





Committee's remunerations (Ch\$ thousands)

Directors	Position	Remuneration	
		2006 ThCh\$	2005 ThCh\$
Alfredo Noman S.	Chairman	9,811	10,239
Carlos Mladinic A.	Director	9,811	10,239
Mónica Singer G.	Director	6,507	0
Daniel Albarrán R.	Director	3,304	9,870
Total		29,433	30,348



Report of the Committee of Directors

In accordance with Article N° 50 bis, Point Ten, of Law 18,046 on Corporations, this report provides information on the Committee's activities during the year ended on December 31, 2006 together with the expenses incurred.

I. Composition of the Committee

During the year 2006, the members of the Committee of Directors of Aguas Andinas S.A. were the directors independent of the controlling shareholder, Carlos Mladinic and Daniel Albarrán and the director related to the controller and Chairman of the Board of the Company, Alfredo Noman.

After the Ordinary Shareholders Meeting held in 2006 that completely renewed the Board of Directors, the latter appointed as members of the Committee of Directors, the directors independent of the controlling shareholder, Carlos Mladinic and Mónica Singer, and the director related to the controller and Chairman of the Board of the Company, Alfredo Noman.

The Committee appointed Carlos Mladinic as its Chairman.

Since it was founded, the Committee has held ordinary meetings once a month to discuss matters delegated to them in Article N° 50 bis of Law 18,046.



II. Principal activities during the year

The principal activities carried out by the Committee during the year ended on December 31, 2006 were the following:

1. Examine the remunerations systems and compensation plans for the managers and senior executives of Aguas Andinas S.A.
2. Examine the information and the report submitted to the Board of Directors on the public tender for the construction of the Melipilla Sewage Treatment Plant.
3. Examine the reports of the independent auditors, the balance sheet and the other financial statements of Aguas Andinas S.A., corresponding to the year ended on December 31, 2005 and presented by the Company's management to the shareholders and comment on these before their presentation to the shareholders for their approval.
4. Selection by the Committee of Directors and proposal to the Board on the appointment of the independent auditors and the private rating agencies for Aguas Andinas S.A. that were suggested at the Ordinary Shareholders Meeting for the year 2006.
5. Examine the information and the report to the Board on the following direct contracting of services from related companies:
 - The related company, APPLUS, a contract for a period of three months as a pilot project for outsourcing the inspection and certification of domestic connections and joints with the prior authorization of the Superintendency of Sanitations Services (SISS) and for the subsequent public tender for this service.
 - Approve the sale of a Suzuki Grand Nomade vehicle, License Plate XD 5941, owned by Aguas Andinas S.A., to the related company, Inversiones Aguas Metropolitanas S.A., at a market price of Ch\$ 8,000,000.
6. Examine the annual report on the contract to incorporate advanced control and operating systems and procedures (technological contribution), signed by Aguas Andinas S.A. and the parent company, Inversiones Aguas Metropolitanas S.A.
7. Evaluation of the need and convenience of a Phase II of a contract to incorporate advanced control and operating systems and procedures (technological contribution) and the method for contracting them, as well as the principal areas or projects to be considered in the proposal.
8. Examine the information and the report to the Board on the contents and conditions of the agreements between Aguas Andinas S.A. and Degremont S.A., Agency in Chile, to modify and extend the contract for the operation and maintenance of the La Farfana Sewage Treatment Plant, PLF-01, to the related company, Degremont S.A., Agency in Chile.
9. Examine the information and the report to the Board on the public tender named "Service of detecting unregistered connections and irregular use of potable water facilities and sewerage for Aguas Andinas S.A. and related companies", partially awarded, specifically in the Maipo operating zone, to the related company, Norcontrol S.A. Agency in Chile, part of the AGBAR Group.
10. Examine the information and the report to the Board on the contract of the related company Aguas Manquehue S.A. for the disposal of biological sludge from Aguas Andina's El Trebal Plant.
11. Examine the information and the report to the Board on the tender, award and contract of the related company, Degremont Ltda. for the automation of the loading of sludge and liming system at the La Farfana Plant.
12. Examine the information and report to the Board on the managements' proposal to award the public tender for the audit and certification services of ISO 9001, ISO 14001 and OHSAS 18001 norms to the related company, LGAI Chile S.A.



13. Examine the information and the report to the Board on the proposal of a corporate reorganization and simplification of the Aguas Group and, in particular, on Aguas Andinas S.A.'s direct operations with subsidiaries and related companies in order to carry out this corporate reorganization.
14. Examine the information and report to the Board on the remunerated contract for Aguas Andinas S.A.'s permanent technical assistance to Aguas de Córdoba and to its new controlling shareholder, Benito Roggio, who will acquire the control of this company previously held by the related company, Aguas de Barcelona.
15. Take charge and examine the report of a study by CADE IDEPE Ingenieros Consultores de Benchmarking on the international costs of technological consultancy and on the return of specific projects performed within the bounds of the contract for the incorporation of advanced control and operating systems and procedures (technological contribution) in its Phase I, signed with the parent company, Aguas Metropolitanas S.A.
16. Examine the need and convenience of developing a new marketing and sales system (Algol Project) for Aguas Andinas, by means of a joint venture contract or an alliance between the related company, Aguas de Barcelona and Aguas Andinas S.A.

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III. Committee of Directors' budget and expenses

At the meeting held in April, 2006 the Ordinary Shareholders Meeting set an annual budget of UF2,700 for the Committee of Directors. This was only partially used.

The only expenses of the Committee during the year 2006 were the fees of the legal advisor and secretary of the Committee that amounted to Ch\$1 million gross per month and the fees paid to CADE IDEPE Ingenieros Consultores, which amounted to Ch\$20,7 million and corresponded to the study and report on benchmarking of international costs of technological consultancy services and on the return of specific projects carried out within the contract for the incorporation of advanced control and operating systems and procedures (technological contribution) in its Phase I.





Managers and senior executives

The list of managers and senior executives of Aguas Andinas total 62 professionals as of December, 2006. Their total remunerations for the year came to Ch\$4,354 million and the indemnities for years' service amounted to Ch\$23 million.

The policy on incentives for executives is focused on the achievement of the Company's general targets and on individual performance.

Name	I.D. N°	Position	Degree
Larrain Aspillaga, Felipe	6,922,002-9	Chief Executive Officer	Civil Engineer
Villarino Herrera, Joaquín	9,669,100-9	General Secretary	Attorney
Berberana Sáenz, Narciso	9,669,100-9	Corporate Manager	Industrial Engineer
De la Barra Fuenzalida, Víctor	4,778,218-K	Corporate Manager	Civil and Industrial Engineer
De Miguel Gómez, Jonás	21,857,732-6	Corporate Manager	Industrial Engineer
Donoso Moscoso, Enrique	7,082,548-1	Corporate Manager	Civil Engineer
Martínez Lacambra, Alberto	48,098,679-5	Corporate Manager	Diploma in Economic and Business Sciences
Verdejo Rabassó, Josep María	48,100,117-K	Corporate Manager	Diploma in IT
Yarur Sairafi, Iván	8,534,007-7	Corporate Manager	Civil and Industrial Engineer
Martí Marques, Joaquim	21,176,172-4	Technical Secretary	Civil Engineer, specialist in Roads, Canals and Ports
Auger Hernández, Mario Alejandro	7,746,808-0	Manager	Civil Engineer
Alarcón Araya, Carlos Ernesto	6,441,640-5	Manager	Construction Engineer
Cruzat Torres, Enrique Alberto	8,548,720-5	Manager	Civil Engineer
Estay Caballero, Ricardo	6,027,966-7	Manager	Civil Engineer
Figueroa Ramírez, Sergio Martín	6,449,688-3	Manager	Construction Engineer
Fredes Echeverría, Santiago	12,462,702-8	Manager	Civil and Industrial Engineer
Fuentes Contreras, Luis	6,190,810-2	Manager	Civil Engineer
Juanmartí Balust, Antoni	21,850,134-6	Manager	Civil Engineer, specialist in Roads, Canals and Ports
Kent Geell, Natalia	8,668,841-6	Manager	Civil and Industrial Engineer
Larraín Sánchez, Camilo	10,436,775-5	Manager	Attorney
Lesty, Yves	14,709,240-7	Manager	Sanitation Engineer
Ocariz Martín, Hernán Alfonso	6,613,091-6	Manager	Civil Engineer
Rodríguez Mingo, Eugenio	6,379,051-6	Manager	Business Administration
Romero Arriaza, Alejandro	4,432,604-3	Manager	Civil Engineer
Scholem Appel, Renée	14,728,449-7	Manager	Psychologist
Segovia Pastor, Javier	21,887,638-6	Manager	Diploma in Chemistry
Soto Perretta, Pedro Andrés	7,117,991-5	Manager	Civil Engineer
Vidal Capiccelli, Gonzalo	9,945,314-1	Manager	Journalist
Witto Arentsen, Reinaldo Javier	8,796,191-5	Manager	IT Engineer
Acevedo Torre, Jorge Fernando	6,084,916-1	Assistant Manager	Mechanical Engineer
Acevedo Walker, Sebastián	6,639,714-9	Assistant Manager	Civil Engineer
Brzovic Cordero, Paula Andrea	9,871,863-K	Assistant Manager	Chemist
Claret Arias, Johnny	6,460,447-3	Assistant Manager	Civil Engineer
Commentz Carrasco, Eduardo	14,243,656-6	Assistant Manager	Civil and Industrial Engineer





Name	I.D. N°	Position	Degree
Concha Mathiesen, Mariana	10,835,135-7	Assistant Manager	Civil Engineer
Domínguez Risopatrón Juan	8,809,358-5	Assistant Manager	Construction Engineer
Dupré Silva, Víctor	6,816,920-8	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 Engineer
Garcés Durán, Christian Raúl	8,153,554-K	Assistant Manager	Business Administration
García Sanhueza, Rodrigo	8,992,522-3	Assistant Manager	Civil Engineer, Specialist in Hydraulics
Grau Mascayano, Francisco	5,868,028-1	Assistant Manager	Civil Engineer
Guidugli Marchant, Francesca	10,911,214-3	Assistant Manager	Business Administration
Hernández Sotomayor, José	8,395,229-6	Assistant Manager	Civil Engineer
Jopia Palacios, Carlos David	10,077,119-5	Assistant Manager	Civil Engineer
Köning Besa, Hernán Vicente	9,656,371-K	Assistant Manager	Civil Engineer
Lartundo Pavez, Rafael	10,912,542-3	Assistant Manager	Public Administration
López Del Campo, Verónica	7,061,767-6	Assistant Manager	Civil Engineer
Luci Ghiardo, Bruno Antonio	7,044,631-6	Assistant Manager	Construction Engineer
Martínez Solari, Oscar Luis	11,829,094-1	Assistant Manager	Civil and Industrial Engineer
Meyer Briceño, Adolfo	5,159,829-6	Assistant Manager	Construction Engineer
Muñoz Anrique, Julio Raúl	6,364,977-5	Assistant Manager	Civil and Industrial 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
Riquelme Hernández, Alejandro	10,200,262-8	Assistant Manager	Chartered Accountant
Ruz Gálvez, Enrique Andrés	12,570,985-0	Assistant Manager	IT Engineer
Salazar Muñoz, Cristián Andrés	10,753,300-1	Assistant Manager	Civil and Industrial Engineer
Salazar Villalobos, Víctor	10,380,974-6	Assistant Manager	Civil and Industrial Engineer
Sanhueza Navarrete, Juan Carlos	8,641,413-9	Assistant Manager	Civil Engineer
Schwerter Loyola, Cristián	12,343,884-1	Assistant Manager	Civil Engineer
Tapia Donoso, Juan Luis	6,669,733-9	Assistant Manager	Civil Engineer
Torres Rojas, Cristián Patricio	12,867,840-9	Assistant Manager	Business Administration



Clients and suppliers

Water and sewage customers

- Administradora Centro Comercial Alto Las Condes Ltda.
- Agrícola Industrial Lo Valledor S.A.
- Cervecera CCU Chile Ltda.
- Dirección de Gendarmería de Chile
- Embotelladoras Chilenas Unidas S.A.
- Ilustre Municipalidad de Santiago
- Industrial Ochagavía Ltda.
- Pontificia Universidad Católica de Chile
- Soprole S.A.
- Universidad de Chile

Suppliers

- Cadagua Agencia en Chile
- Captagua Ingeniería S.A.
- Constructora Pérez y Gómez Ltda.
- Chilectra S.A.
- Degremont S.A. Agencia en Chile (*)
- Ecosan Ltda.
- Ingeniería y Construcción M.S.T. S.A.
- Inversiones Aguas Metropolitanas S.A. (**)
- Jara Gumucio S.A.
- KDM S.A.

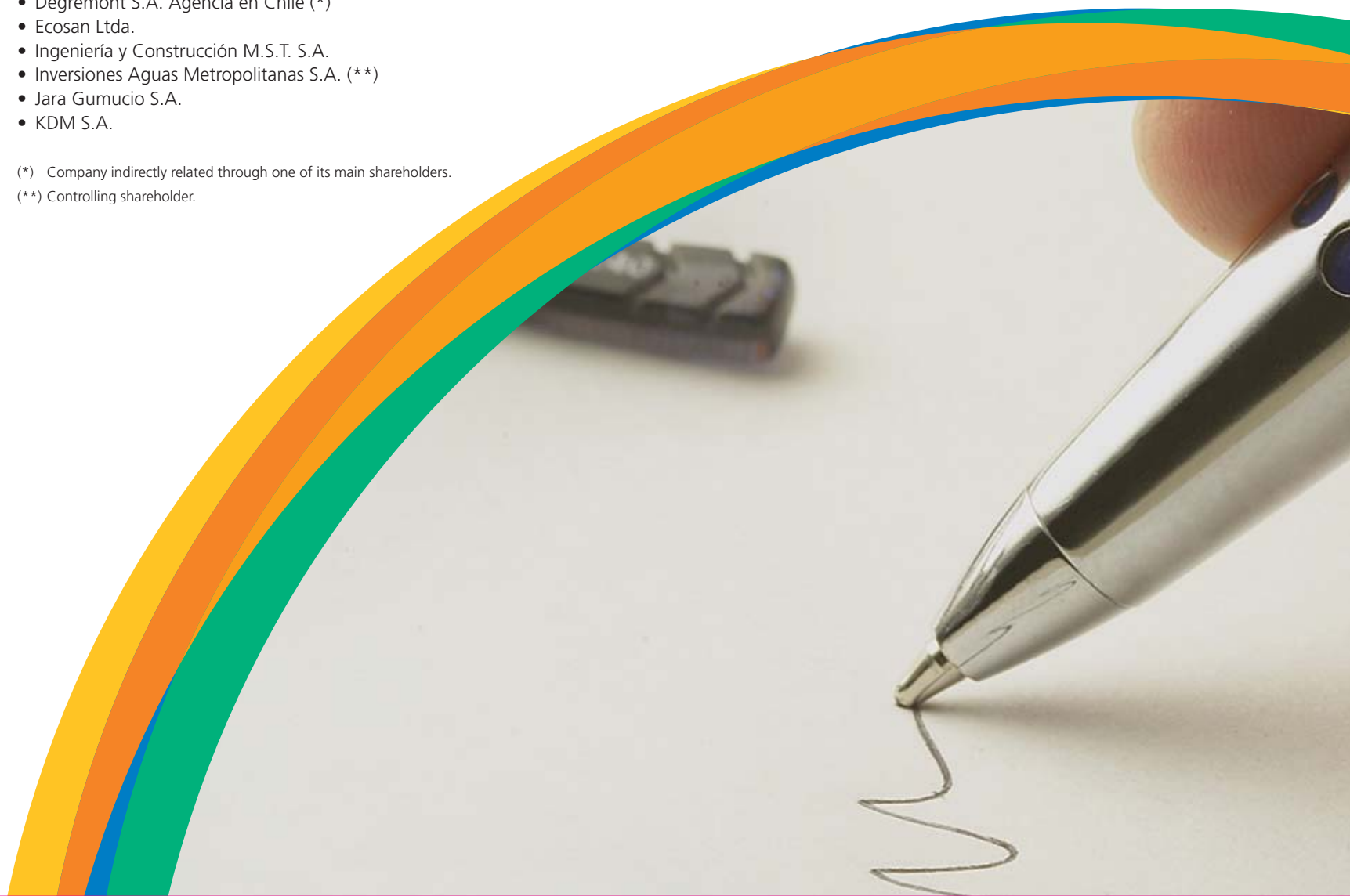
(*) Company indirectly related through one of its main shareholders.

(**) Controlling shareholder.

Properties, equipment and insurance

The main properties and equipment used to provide the services of production and distribution of water and the collection and treatment of sewage are owned by the Company and are in good working order.

Our Company has insurance cover in force for all its assets –infrastructure, buildings and contents– that include its installations for the production and distribution of water, collection and treatment of sewage and warehouses. Insurance covers mainly the risks from natural causes and fire.



Statement of liability

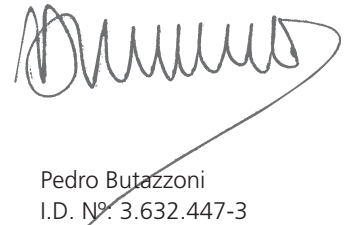
The Directors and the Chief Executive Officer of Aguas Andinas S.A., signatories to this declaration, hereby take full responsibility under oath for the reliability of the information provided in this Annual Report, in accordance with the provisions of General Norm N° 30 of the Superintendency of Securities and Insurance.



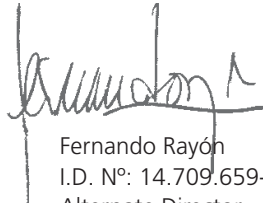
Jaime Arellano
I.D. N°: 6.941.061-8
Director



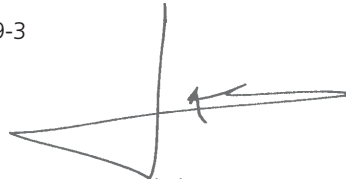
Alfredo Noman
I.D. N°: 21.663.123-4
Chairman



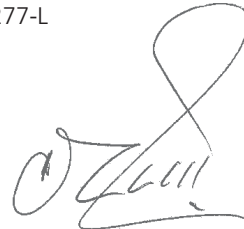
Pedro Butazzoni
I.D. N°: 3.632.447-3
Vice-Chairman



Fernando Rayón
I.D. N°: 14.709.659-3
Alternate Director



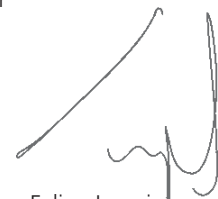
Antoni Siurana
Passaport: 40789277-L
Director



Carlos Mladinic
I.D. N°: 6.100.558-7
Director



Mónica Singer
I.D. N°: 7.700.329-0
Director



Felipe Larrain
I.D. N°: 6.922.002-9
Chief Executive Officer



Aguas Andinas S.A.

Name	: Aguas Andinas S.A.
Address	: Av. Presidente Balmaceda N° 1398, Santiago, Chile
Tax I.D.	: 61,808,000-5
Telephone	: (56-2) 688 10 00
Fax	: (56-2) 694 27 77
E-Mail	: comunicaciones@aguasandinas.cl
Management P.O. Box	: 1537 Santiago
Business	: Abstraction, purification and distribution of drinkable water, and collection and disposal of sewage.
Call centre	: (56-2) 731 24 82
Record in the Securities Register	: N° 0346
Web Site	: www.aguasandinas.cl

Stock Exchange information

- **Reference Name on Chilean Stock Markets**

Series A: "Aguas-A"

Series B: "Aguas-B"

Contacts for information to shareholders and investors

- **Information for shareholders**

- **Central Securities Deposit**

Address	: Huérfanos N° 770, 22 nd Floor, Santiago, Chile
Telephone	: (56-2) 393 90 03
Fax	: (56-2) 393 91 01

- **Investor relations**

Address	: Av. Presidente Balmaceda N° 1398, 3 rd Floor, Santiago, Chile
Telephone	: (56-2) 496 23 06 (56-2) 496 27 32
Fax	: (56-2) 496 23 09
E-Mail	: inversionistas@aguasandinas.cl

Incorporation of the Company

Aguas Andinas S.A. was incorporated as a corporation by public on May 31, 1989 before Notary Public Raúl Undurraga. An extract of its by-Laws was published in the Official Gazette on June 10, 1989 with a copy inscribed in the Business Register Page 13,981, N° 7,040 of the year 1989 of the Property Register of Santiago.

Legal information

The Company is recorded in the Securities Register of the Superintendency of Securities and Insurance under N° 0346 as required by Law N° 18,777. As a company in the sanitation sector it is regulated by the Superintendency of Sanitation Services in accordance with Law N° 18,902 and Decree Laws N° 382 and N° 70, both of the year 1988.

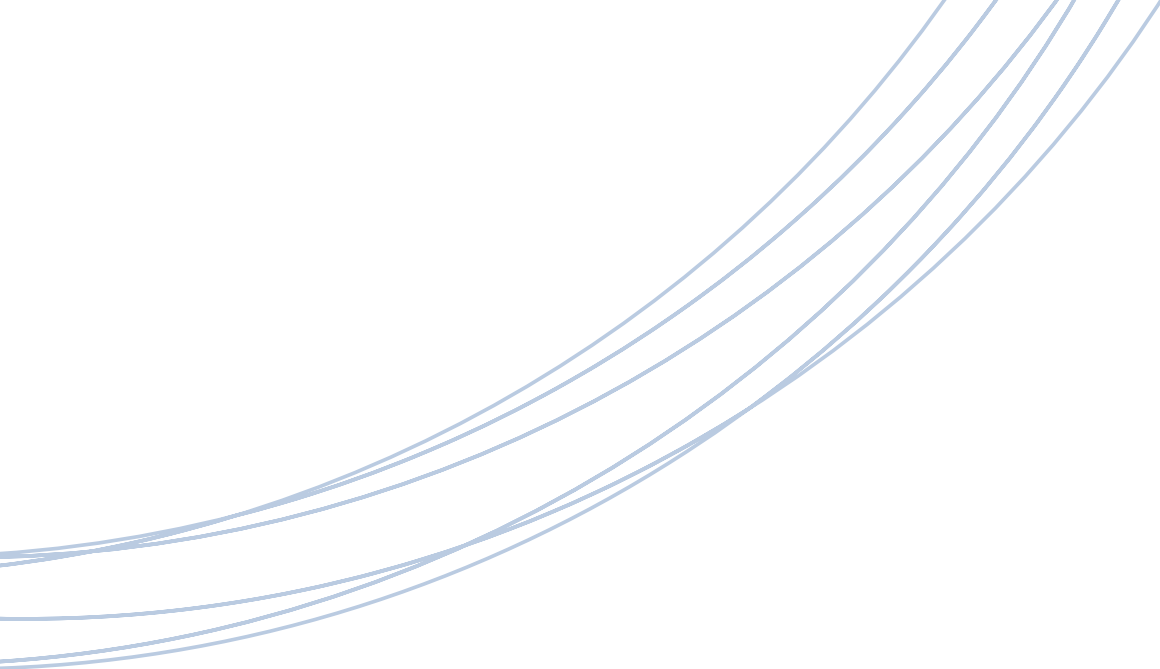


Consolidated financial statements

As of December 31, 2006 and 2005

Report of Independent Accountants	Consolidated Balance Sheets	Consolidated Statement of Income	Consolidated Statements of Cash Flows	Notes to the Consolidated Financial Statements	Management Analysis
p.081	p.082	p.084	p.085	p.087	p.131





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

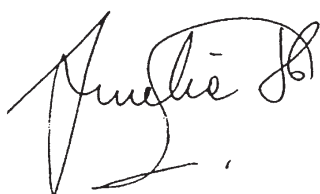
We have audited the accompanying consolidated balance sheets of Aguas Andinas S.A. and Subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of income and of cash flows for the years then ended. These consolidated financial statements (including the notes thereto) are 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, so this report does not cover these.

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

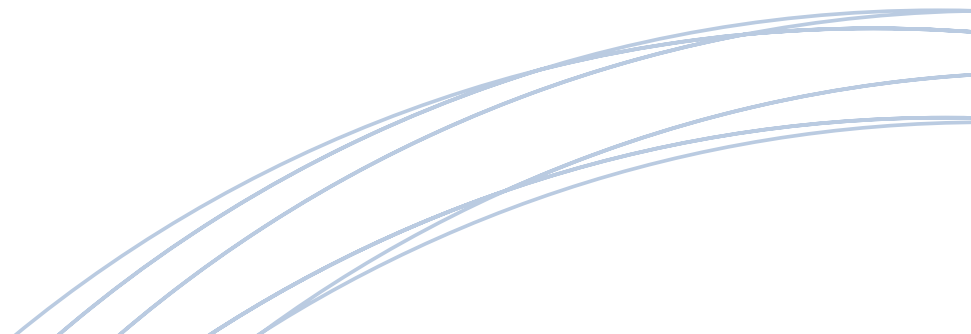
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aguas Andinas S.A. and Subsidiaries as of December 31, 2006 and 2005 and the results of their operations and cash flows for the years then ended, in accordance with the accounting principles generally accepted in Chile.

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January 30, 2007



Amelia Hernández H.
Tax No. 7.015.085-9



Consolidated balance sheets

As of December 31, 2006 and 2005

ASSETS	2006 ThCh\$	2005 ThCh\$
Current assets		
Cash and banks	124,718	169,321
Time deposits	-	409,249
Marketable securities (net)	416,380	1,485,292
Trade accounts receivable (net)	42,903,319	37,288,201
Notes receivable (net)	3,572,551	1,622,341
Sundry debtors (net)	189,981	6,480,472
Notes and accounts receivable from related companies	40,642	23,650
Inventories (net)	1,664,009	952,257
Recoverable taxes	236,721	371,925
Prepaid expenses	276,044	480,009
Deferred taxes	1,071,894	814,424
Other current assets	1,333,081	22,129,575
Total current assets	51,829,340	72,226,716
Fixed assets		
Land	35,790,440	34,064,587
Buildings and infrastructure	999,585,748	983,601,218
Machinery and equipment	117,753,471	112,216,081
Other fixed assets	20,387,275	20,099,281
Incremental value fixed assets appraisal	4,893,914	4,918,576
Accumulated depreciation	(574,303,532)	(551,049,340)
Total fixed assets	604,107,316	603,850,403
Other assets		
Goodwill	55,184,737	59,235,741
Negative goodwill	(1,033)	(1,102)
Long-term debtors	8,640,240	8,561,464
Intangible assets	43,809,400	43,425,671
Accumulated amortization	(7,662,525)	(6,556,154)
Others	14,493,305	9,806,795
Total other assets	114,464,124	114,472,415
Total assets	770,400,780	790,549,534

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

LIABILITIES AND SHAREHOLDERS' EQUITY	2006 ThCh\$	2005 ThCh\$
Current liabilities		
Borrowings from banks, short term	18,031,799	20,671,402
Borrowings from banks, current portion of long term	14,317,270	6,609,601
Bonds payable, current portion	13,486,530	107,715,756
Accounts payable	14,980,995	18,329,874
Notes payable	438,138	1,259,642
Sundry creditors	1,242,092	1,313,548
Notes and accounts payable to related companies	1,797,248	3,803,671
Accruals	17,869,841	15,893,505
Withholdings	7,414,547	6,787,902
Income taxes	213,021	1,708,585
Unearned income	2,034,599	1,490,264
Total current liabilities	91,826,080	185,583,750
Long term liabilities		
Borrowings from banks and financial institutions	50,020,000	63,472,167
Bonds payable	191,615,161	112,254,779
Notes payable	31,675,436	25,995,941
Sundry creditors	1,060,746	1,630,705
Accruals	8,931,381	8,038,017
Deferred taxes	3,517,237	2,696,352
Other long-term liabilities	740,775	809,462
Total long-term liabilities	287,560,736	214,897,423
Minority interest	9,887	3,548
Shareholders' equity		
Paid-in capital	133,010,616	133,010,616
Share premium	201,349,550	201,349,550
Other reserves	6,044	-
Reserve for future dividends	111,377	512,303
Net income for the year	84,622,086	77,539,521
Interim dividends	(28,095,596)	(22,347,177)
Total shareholders' equity net	391,004,077	390,064,813
Total liabilities and shareholders' equity	770,400,780	790,549,534

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

Consolidated statement of income

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Operating income		
Sales	232,143,012	219,623,370
Cost of sales	(91,868,760)	(88,489,369)
Operating margin	140,274,252	131,134,001
Administrative and selling expenses	(27,405,587)	(27,501,730)
Total operating income	112,868,665	103,632,271
Non-operating income (expenses)		
Financial income	4,790,474	5,582,001
Other non-operating income	6,041,732	5,993,396
Amortization of goodwill	(4,052,336)	(4,052,117)
Financial expenses	(16,564,437)	(18,112,315)
Other non-operating expenses	(1,875,501)	(570,402)
Price-level restatements	1,511,588	1,810,138
Exchange gain	12,979	22,297
Total non-operating income (expenses)	(10,135,501)	(9,327,002)
Income before income taxes and extraordinary items	102,733,164	94,305,269
Income taxes	(18,110,712)	(16,765,462)
Minority interest	(435)	(355)
Amortization negative goodwill	69	69
Net income for the year	84,622,086	77,539,521

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

Consolidated statements of cash flows

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Net cash flows from operating activities		
Collection of trade accounts receivable	274,583,240	261,720,237
Financial income received	741,511	1,028,814
Other income received	2,332,920	2,773,006
Payments to suppliers and personnel	(96,507,984)	(94,912,279)
Interest paid	(13,948,273)	(14,168,047)
Income tax paid	(18,128,922)	(14,342,746)
Other expenses paid	(652,962)	(472,863)
V.A.T. & other similar payments	(28,473,757)	(26,054,381)
Total net cash flows provided by operating activities	119,945,773	115,571,741
Net cash flows used in financing activities		
Proceeds from loans	94,076,470	74,631,486
Bonds issued	4,451,906	29,475,742
Other sources of financing	16,451,226	16,101,560
Dividends paid	(83,322,013)	(87,802,173)
Repayment of loans	(101,002,716)	(54,374,360)
Repayment of bonds	(16,988,282)	(61,879,894)
Payment of bond issue and placement expenses	(358,026)	-
Other financing disbursements	(9,885,167)	(15,518,381)
Total net cash flows used in financing activities	(96,576,602)	(99,366,020)
Net cash flows used in investment activities		
Sales of fixed assets	119,868	1,719,667
Proceed from sales of permanent investments	1,444	-
Purchase of fixed assets	(44,771,240)	(33,509,205)
Payment of capitalized interest	(830,097)	(699,108)
Permanent investments	(3,980)	-
Other disbursements	(28,598)	(980,207)
Total net cash flows used in investment activities	(45,512,603)	(33,468,853)
Total net cash flows for the year	(22,143,432)	(17,263,132)
Effect of inflation on cash and cash equivalents	(362,859)	(1,003,428)
Net change in cash and cash equivalents	(22,506,291)	(18,266,560)
Opening balance of cash and cash equivalents	23,047,389	41,313,949
Closing balance of cash and cash equivalents	541,098	23,047,389

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

Consolidated statements of cash flows

As of December 31, 2006 and 2005

Reconciliation of net income for the year to net cash flows provided by operating activities	2006 ThCh\$	2005 ThCh\$
Net income for the year	84,622,086	77,539,521
Result of asset sales	(1,177,968)	(1,617,799)
Gain on sale of fixed assets	(1,177,968)	(1,617,799)
Charges (credits) to income not representing cash flows		
Depreciation for the year	34,352,726	33,679,191
Amortization of intangible assets	1,091,584	1,076,982
Write-offs and provisions	1,280,966	1,391,068
Amortization of goodwill	4,052,336	4,052,117
Amortization of negative goodwill	(69)	(69)
Price-level restatement, net	(1,511,588)	(1,810,138)
Exchange differences, net	(12,979)	(22,297)
Other credits to income not that represent cash flows	(3,234,476)	(2,943,248)
Other charges to income not that representing cash flows	2,491,847	2,707,859
Total charges (credits) to income not representing cash flows	38,510,347	38,131,465
Changes in assets affecting operating cash flows (increases) decreases		
Trade accounts receivable	(6,402,427)	(3,158,289)
Inventories	(623,742)	348,401
Other assets	(1,190,821)	(1,391,755)
Total changes in assets affecting operating cash flows (increases) decreases	(8,216,990)	(4,201,643)
Changes in liabilities affecting operating cash flow increases (decreases)		
Accounts payable related to operating income	(458,046)	(5,255,837)
Interest payable	1,202,130	948,213
Income tax payable (net)	(699,224)	2,153,658
Other accounts payable related to non-operating result	2,439,631	3,356,152
V.A.T. and similar payments (net)	3,723,372	4,517,656
Changes in liabilities affecting operating cash flows increases (decreases)	6,207,863	5,719,842
Income of the minority interest	435	355
Net cash flows provided by operating activities	119,945,773	115,571,741

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

Notes to the consolidated financial statements

As of December 31, 2006 and 2005

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 0402 respectively, in the Securities Register in the Superintendency of Securities and Insurance. Consequently, these Companies are subject to the regulatory authority of that Superintendency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Accounting period

These financial statements cover the years between January 1 and December 31, 2006 and 2005 respectively.

b) Basis of preparation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Chile, issued by the Chilean Institute of Accountants and with standards of the Superintendency of Securities and Insurance.

In the event of differences between the two, the standards of the Superintendency of Securities and Insurance prevail.

c) Basis of presentation

For comparison purposes, the financial statements at December 31, 2005 and their respective notes have been restated by 2.1%. This percentage corresponds to the variation in the consumer price index during the last twelve months of 2006, with a one-month time lag.

For comparison purposes, re-classifications were made to some items of the financial statements of 2005.

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d) Basis of consolidation

The consolidated financial statements comprise the assets, liabilities, results and cash flows of the Parent company and its subsidiaries. Balances and transactions made between the consolidated companies have been eliminated and the participation of the minority investors has been recognized as Minority Interest.

The followings are companies included in the consolidation

Tax ID	Company name	Interest			
		Direct %	2006 Indirect %	Total %	2005 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	100.0000	100.0000
96,828,120-8	Gestión y Servicios S.A.	97.8478	2.1522	100.0000	100.0000
96,568,220-1	Agua Los Dominicos S.A.	0.0000	99.9871	99.9871	99.9497
96,967,550-1	Análisis Ambientales S.A.	99.0000	1.0000	100.0000	100.0000
96,809,310-K	Comercial Orbi II S.A.	99.9900	0.0000	99.9900	100.0000
89,221,000-4	Aguas Manquehue S.A.	0.0000	100.0000	100.0000	100.0000
87,538,200-4	Hidráulica Manquehue Ltda.	0.0000	0.0000	0.0000	100.0000

Notes to the consolidated financial statements

e) Price-level restatement

The consolidated financial statements have been restated by 2.1% in 2006 and 3.6% in 2005 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.

f) Basis of translation

Assets and liabilities in Unidades de Fomento and/or foreign currencies are shown at their respective values and/or exchange rates prevailing at each year-end, which are as follows:

	2006 Ch\$	2005 Ch\$
United States dollar	532.39	512.50
Unidad de fomento	18,336.38	17,974.81
Euro	702.08	606.08

g) Time deposits

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

h) Marketable securities

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

i) Inventories

Materials are shown at their restated cost which does not exceed their respective replacement costs at each year-end. There is an allowance for obsolescence for disposable items remaining in stock for more than one year without movement.

j) Estimate of doubtful accounts

The estimate of doubtful accounts depends on the age of the accounts receivable and the recovery record, as follows:

For Aguas Andinas S.A., Aguas Cordillera S.A., Aguas Los Dominicos S.A. and Aguas Manquehue S.A., a 100% provision is made for customers with debts past-due for over 8 months.

For Aguas Andinas S.A. and Aguas Cordillera S.A., a provision 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, a provision of 40% is made. In the case of the other subsidiaries, a provision of 20% of the agreed repayment is made.

For the subsidiaries Gestión y Servicios S.A., Anam S.A. and Ecoriles S.A., a 100% provision is made for customer debts with more than 120 days past due.

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

k) Fixed assets

For the Parent company, the 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. 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 performed in 1977, both restated.

The other subsidiaries record their fixed assets at 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.

Work in progress include financing costs incurred until the assets are in a condition to be used, in accordance with Technical Bulletin N° 31 of the Chilean Institute of Accountants. 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 N° 22 of the Chilean Institute of Accountants.

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

Assets acquired under lease agreements are not legally owned by the Company until it has exercised its purchase option, and meanwhile the Company can 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 N° 55 of the Chilean Institute of Accountants.

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

o) Goodwill and negative goodwill

Goodwill represents the excess paid over the proportional investment equity value in Aguas Cordillera S.A., Comercial Orbi II S.A. and Aguas Los Domínicos S.A. Negative goodwill represents the deficit between the price paid and the proportional investment equity value on the purchase of shares in Hidráulica Manquehue Ltda. Negative goodwill and goodwill are amortized over a period of 20 years from the date of acquisition the estimated period of return on the investment.

p) Operation under resale agreements.

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

The obligation for the placement of bonds issued by the companies on 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, except as stated in the following paragraph, are deferred and amortized over their term, in accordance with Circular 1,370 of the Superintendency of Securities and Insurance.

Notes to the consolidated financial statements

The costs of the placement of 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 income in the respective years.

r) Income and deferred taxes

The Company has provided for income taxes on the basis of their net taxable income determined in accordance with the provisions of the Income Tax Law. According to Technical Bulletin N° 60 and other instructions issued 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 losses carried-forward and other events that create differences between the financial and tax basis.

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 period, 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 2006, and Aguas Cordillera S.A. and Aguas Los Dominicos S.A. in December 2006 and January 2007, 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 July 2002, December 2002 and January 2003 respectively remained fixed and is adjusted quarterly in line with the consumer price index. The contract for Aguas Andinas S.A. 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 July 2002, while for Aguas Cordillera S.A. and Aguas Los Dominicos S.A., the contracts mentioned state that workers who retire from the company on reaching the retirement age, shall continue to accrue this benefit from November and December 2002 respectively.

The obligation of the Company for the accrued indemnity for workers up to July 2002 for Aguas Andinas S.A. and November and December 2002 for Aguas Cordillera S.A. and Aguas Los Dominicos 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 their 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 Company's business sales 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

It corresponds to software acquired as computer packages and is shown in Other fixed assets. Computers software is amortized in accordance with Circular 981 of the Superintendency of Securities and Insurance.

v) Research and development expenses

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

w) Statement of cash flows

The Company considers as cash and cash equivalents the balances held 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 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.

3. ACCOUNTING CHANGES

There have been no accounting changes that should be mentioned during the period ended December 31, 2006.

4. SHORT AND LONG-TERM DEBTORS

Trade accounts receivable relate to the billings for consumption of 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, 2006 and 2005 of ThCh\$13,980,580 and ThCh\$13,811,405 respectively, corresponding to unbilled meter readings at the end of each year.

The debtors balance at December 31, 2006 of Aguas Andinas S.A. is split into residential 80.40%, commercial 16.43%, industrial and others 3.17%, compared to residential 80.13%, commercial 16.72%, industrial and others 3.15% at December 31, 2005. For Aguas Cordillera S.A. the split is residential 81.48%, commercial 18.25%, industrial and others 0.27%, compared to residential 82.38%, commercial 17.33%, industrial and others 0.29% at December 2005.

For Aguas Los Dominicos S.A., the split is residential 88.43%, commercial 11.53%, industrial and others 0.04%, compared to residential 87.42%, commercial 12.54%, industrial and others 0.04% in 2005.

For Aguas Manquehue S.A., the split is residential 71.10%, commercial 28.47%, industrial and others 0.43%, compared to residential 69.76%, commercial 30.23%, industrial and others 0.01% in 2005.

The subsidiaries have set up allowances for doubtful accounts as follows:

a) An allowance for doubtful accounts, as explained in Note 2 j), amounting to ThCh\$12,073,946 and ThCh\$12,124,173 respectively as at December 31, 2006 and 2005. Of these allowances at December 31, 2006 and 2005, ThCh\$929,061 and ThCh\$453,623 respectively were charged to income for the year, and debts of ThCh\$214,947 and ThCh\$12,371 respectively were written off.

b) Allowances for repayment plans 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\$2,825,858 and the credit to income at December 31, 2006 was ThCh\$482,308 (ThCh\$2,396,116 at December 31, 2005 and a charge to income for that year of ThCh\$541,980).

Notes receivable is comprised mainly of promissory notes signed by customers as a result of agreements with property developers. The balance of short-term sundry debtors relates mainly to agreements for collections to made against credit cards and receivables from personnel as of December 31, 2006; also, as of December 31, 2005, these were mainly funds accumulated to meet the advanced redemption of all bonds Series B and E and the payment at maturity of the bonds Series C.

Notes to the consolidated financial statements

The long-term debtors correspond to agreements signed with property developers and advances against severance payments, as indicated in Note 2 s), and trade accounts receivable net of their allowances.

	Current					Total current (net)		Long term	
	Up to 90 days		90 days to 1 year		Sub total	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$					
Trade accounts receivable	42,340,036	36,433,862	3,169,785	2,699,555	45,509,821	42,903,319	37,288,201	898,720	815,096
Estimate of doubtful accounts	-	-	-	-	2,606,502	-	-	-	-
Notes receivable	2,627,486	1,168,128	1,224,625	643,424	3,852,111	3,572,551	1,622,341	310,775	173,674
Estimate of doubtful accounts	-	-	-	-	279,560	-	-	-	-
Sundry debtors	145,616	6,441,927	82,744	87,277	228,360	189,981	6,480,472	7,430,745	7,572,694
Estimate of doubtful accounts	-	-	-	-	38,379	-	-	-	-
Total long-term debtors	-	-	-	-	-			8.640.240	8.561.464

5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Notes and accounts receivable

Tax number	Company	Short term		Long term	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
77,030,800-3	Constructora ACSA Ltda.	637	650	-	-
96,703,230-1	Aguas Décima S.A.	-	6,133	-	-
59,066,560-6	Degrémont S.A. Agencia en Chile	37,489	12,977	-	-
96,864,190-5	Brisaguas S.A.	449	517	-	-
59,094,680-K	Aguas de Levante S.A.	2,067	2,111	-	-
77,274,820-5	Inversiones Aguas Metropolitanas S.A.	-	1,262	-	-
Total		40,642	23,650	-	-

Parent companies transactions

There is a rental agreement in Unidades de Fomento with Inversiones Aguas Metropolitanas S.A. for the use of premises of Aguas Andinas S.A., with payments due within the first five business days of each month.

Accounts receivable

The accounts receivable from Degrémont S.A. Agencia en Chile and Brisaguas S.A. correspond to chemical and bacteriological analysis laboratory service contracts, payable at 30 days without interest.

The accounts receivable from Constructora ACSA Ltda. and Aguas de Levante S.A. relate to sales of material, payable at 30 days without interest.

The account receivable from Aguas Décima S.A. relates to a contract for chemical and bacteriological laboratory services, payable at 30 days without interest.

Notes and accounts payable

Tax number	Company	Short term		Long term	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
59,066,560-6	Degrémont S.A., Agencia en Chile	636,420	1,772,655	-	-
77,274,820-5	Inversiones Aguas Metropolitanas S.A.	1,067,238	1.358,377	-	-
59,094,680-K	Aguas de Levante S.A.	70,039	587,244	-	-
59,096,940-0	Acsa Agbar Construcción S.A.	-	66,467	-	-
96,864,190-5	Brisaguas S.A.	15,245	18,083	-	-
96,847,530-4	Omnilogic Telecomunicaciones Chile S.A.	5,343	845	-	-
59,109,940-K	Norcontrol S.A., Agencia en Chile	2,963	-	-	-
Total		1,797,248	3,803,671	-	-

Parent companies transactions

In December 2001, a technical services agreement was signed with Inversiones Aguas Metropolitanas S.A. The agreement is expressed in U.F. and has a term of 5 years, with monthly invoicing for the services actually provided.

Accounts payable

The contract for the construction of the La Farfana sewage treatment plant and its operation until July 2005 was awarded under a public tender to Degrémont S.A. Agency in Chile. This is a turnkey construction contract with a performance guarantee and payments under this contract are expressed in Unidades de Fomento. The construction was concluded in September 2003 and the Company is being charged for operating the plant from October 2003.

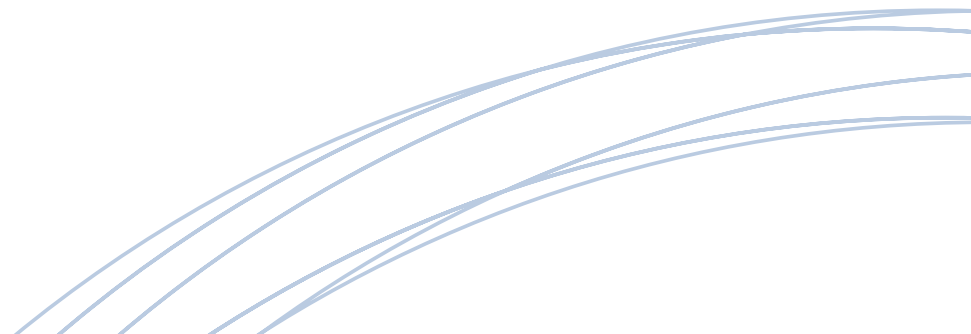
The debt with Aguas de Levante S.A. relates to the purchase of materials, with payments at 30 days.

The debt with Omnilogic Telecomunicaciones Chile S.A. relates to maintenance services for radio-communication and transmission networks, payable at 30 days.

The debt with Norcontrol S.A. Agencia Chile relates to quality-control services, payable at 30 days.

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

The debt with Acsa Agbar Construcción S.A. relates to withholdings made from payments under a tube renewal contract.



Notes to the consolidated financial statements

Transactions

Company	Tax N°	Relationship	Transaction	2006		2005	
				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	Consultancy	3,468,403	(3,468,403)	4,838,175	(4,838,175)
			Dividends paid	41,467,260	-	43,871,550	-
Aguas de Levante S.A.	59.094.680-K	Related	Purchase of materials	1,307,869	(1,244,902)	1,992,468	(1,927,535)
Degrémont S.A. Agencia en Chile	59.066.560-6	Related	Plant operation	4,402,633	(4,402,633)	2,727,709	(2,727,709)
			Plant construction	1,528,361	-	5,662,310	-
			Laboratory service	49,050	49,050	-	-
Corfo	60.706.000-2	Related	Dividends paid	28,952,238	-	29,972,847	-
Omnilogic Telecomunicaciones Chile S.A.	96.847.530-4	Related	Network maintenance	69,955	(69,955)	-	-
Degrémont Ltda.	77.441.870-9	Related	Sludge automation	775,997	-	-	-

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6. DEFERRED TAXES AND INCOME TAX

At December 31, 2006 and 2005, the detail of taxable income and other concepts is as follows:

	2006 ThCh\$	2005 ThCh\$
a) Net taxable income	102,931,487	102,378,697
b) Tax loss	(13,178)	-
c) FUT balance unremitted earnings	82,244,884	80,141,047
d) 15% credit for shareholders	247,929	249,422
16% credit for shareholders	289,104	353,475
16.5% credit for shareholders	813,433	808,942
17% credit for shareholders	11,741,302	11,599,165

*The tax loss relates to the subsidiary Comercial Orbi II S.A.

Deferred taxes 2006

Concept	Deferred tax assets		Deferred tax liabilities	
	Short term ThCh\$	Long term ThCh\$	Short term ThCh\$	Long term ThCh\$
Allowance doubtful accounts	497,156	1,555,416	-	-
Unearned income	300,662	24,730	-	-
Provision for vacations	149,903	106,457	-	-
Leased assets	-	-	43,989	51,925
Depreciation fixed assets	-	453,868	-	5,448,897
Severance indemnities	27,752	157,527	-	-
Other events		676,505	2,507	22,631
Provision profit sharing	6,012	-	-	-
Investment expenses on related companies	-	-	-	84,401
Software	-	-	-	95,739
Discount on placement of bonds	-	-	226,031	1,854,813
Litigation	13,095	470,887	-	-
Obsolescence fixed assets	-	9,977	-	-
Deferred expenses	-	-	21,934	68,754
Water rights	-	37,990	-	-
AFR KWH	3,016	-	-	-
Allowance payment plans	332,392	148,004	-	-
Tax loss	2,240	-	-	-
Loss on disposal of assets	36,367	-	-	-
Others				
Complementary accounts-net of amortization	-	-	-	(468,562)
Provision for valuation	2,240	-	-	-
Total	1,366,355	3,641,361	294,461	7,158,598

Notes to the consolidated financial statements

Deferred taxes 2005

Concept	Deferred tax assets		Deferred tax liabilities	
	Short term ThCh\$	Long term ThCh\$	Short term ThCh\$	Long term ThCh\$
Allowance doubtful accounts	354,137	1,727,373	-	-
Unearned income	220,245	74,660	-	-
Provision for vacations	157,636	109,835	-	-
Leased assets	-	-	99,099	5,088
Depreciation fixed assets	-	306,424	-	4,763,998
Severance indemnities	85,513	17,469	-	-
Other events	2,543	92,399	10,869	-
Provision profit sharing	-	-	21	-
Investment expenses related companies	-	-	-	92,532
Software	-	-	-	130,965
Discount on placement of bonds	-	-	190,035	1,324,884
Litigation	12,089	673,051	-	-
Obsolescence fixed assets	-	10,187	-	-
Deferred expenses	-	-	11,929	90,388
Water rights	-	37,990	-	-
AFR KWH	3,081	-	-	-
Allowance payment plans	254,003	153,337	-	-
Tax loss	-	-	-	-
Loss on disposal of assets	37,130	-	-	-
Others				
Complementary accounts-net of amortization	-	-	-	(508,778)
Provision for valuation	-	-	-	-
Total	1,126,377	3,202,725	311,953	5,899,077

Income tax

	2006 ThCh\$	2005 ThCh\$
Current tax charge (tax provision)	(17,498,353)	(17,404,378)
Adjustment from prior year	(11,437)	(46,726)
Deferred taxes for year	(523,199)	752,344
Tax benefits from tax losses	2,240	-
Effect of amortization of complementary defrred tax asset & liability accounts	(40,216)	(39,429)
Effect on assets or liabilities of deferred tax due to changes in valuation provision	(2,240)	625
Other charges or credits	(37,507)	(27,898)
Total	(18,110,712)	(16,765,462)

7. OTHER CURRENT ASSETS

The detail is as follows:

	2006 ThCh\$	2005 ThCh\$
Securities under resale agreements - Instruments of Central Bank of Chile (note 23)	-	20,983,527
Discount on bond placement	1,329,593	1,117,852
Others	3,488	28,196
Total	1,333,081	22,129,575

Notes to the consolidated financial statements

8. FIXED ASSETS

The composition is as follows:

	2006 ThCh\$	2005 ThCh\$
Land		
Land	35,790,440	34,064,587
Sub total land	35,790,440	34,064,587
Buildings and infrastructure		
Gross value	999,585,748	983,601,218
Accumulated depreciation	(501,201,661)	(486,259,629)
Sub total buildings and infrastructure	498,384,087	497,341,589
Machinery and equipment		
Gross value	117,753,471	112,216,081
Accumulated depreciation	(56,924,370)	(47,273,026)
Sub total machinery and equipment	60,829,101	64,943,055
Other fixed assets		
Gross value	20,387,275	20,099,281
Accumulated depreciation	(15,799,521)	(17,060,825)
Sub total other fixed assets	4,587,754	3,038,456
Incremental value technical appraisal, net		
Land	5,517,498	5,517,498
Distribution networks	1,463,588	1,494,124
Accumulated depreciation	(1,459,566)	(1,489,851)
Collector drains	(372,386)	(372,386)
Accumulated depreciation	263,497	252,167
Civil works	(1,274,632)	(1,275,050)
Accumulated depreciation	419,147	399,379
Machinery and equipment	(440,154)	(445,610)
Accumulated depreciation	398,942	382,445
Sub total incremental value technical appraisal, net	4,515,934	4,462,716
Total fixed assets, net	604,107,316	603,850,403

The charge for depreciation of fixed assets as of December 31, 2006 and 2005 is as follows:

	2006 ThCh\$	2005 ThCh\$
Depreciation in		
Cost of sales	31,815,243	30,974,755
Administrative and selling expenses	2,537,483	2,704,436
Total	34,352,726	33,679,191

Aguas Andinas S.A. has seventy 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.

Furthermore, there are amounts which are contributions from third parties and these are governed under 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 31.

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 but the calculation of the price-level restatements 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.

Leasing contracts

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 for an amount of ThCh\$57,345.

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

9. GOODWILL AND NEGATIVE GOODWILL

The extraordinary shareholders meeting of Aguas Manquehue S.A., held on November 10, 2006, agreed to the merger by incorporation of Hidráulica Manquehue Ltda.

As of December 31, 2006 and 2005, the balances of this account represents the difference between the acquisition value and the proportional investment equity value as follows:

Notes to the consolidated financial statements

Goodwill

Tax number	Company	2006		2005	
		Amortization for the year ThCh\$	Goodwill balance ThCh\$	Amortization for the year ThCh\$	Goodwill balance ThCh\$
80,311,300-9	Aguas Cordillera S.A.	3,834,766	52,088,900	3,834,766	55,923,666
96,809,310-K	Comercial Orbi II S.A.	217,352	3,094,722	217,351	3,312,075
96,568,220-1	Aguas Los Dominicos S.A.	218	1,115	-	
Total		4,052,336	55,184,737	4,052,117	59,235,741

Negative goodwill

Tax number	Company	2006		2005	
		Amortization for the year ThCh\$	Negative goodwill balance ThCh\$	Amortization for the year ThCh\$	Negative goodwill balance ThCh\$
89,221,000-4	Aguas Manquehue S.A.	69	1,033	69	1,102
Total		69	1,033	69	1,102

10. INTANGIBLE ASSETS

The balances as of December 31, 2006 and 2005 of the restated costs of intangible assets (Note 2 n) are follows:

	2006 ThCh\$	2005 ThCh\$
Water rights	20,882,671	20,726,627
Leased water rights (1)	539,849	539,849
Rights of way	15,487,307	15,273,161
Other rights (2)	6,886,034	6,886,034
Usufruct rights (3)	13,539	-
Sub total	43,809,400	43,425,671
Accumulated amortization water rights	(4,003,261)	(3,468,561)
Accumulated amortization leasing	(39,053)	(25,270)
Accumulated amortization easements	(2,845,532)	(2,459,795)
Accumulated amortization other rights	(774,679)	(602,528)
Sub total	(7,662,525)	(6,556,154)
Total net intangible assets	36,146,875	36,869,517
Amortization for the year charged to cost of sales		
Water rights	519,914	507,143
Leased water rights	13,783	13,784
Rights of way	385,736	381,436
Other rights	172,151	174,619
Total amortization	1,091,584	1,076,982

(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 registered as Intangible assets.

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

(3) In October 2006 Aguas Andinas S.A. acquired 1 share in Comercial Orbi II S.A. from Aguas Cordillera S.A., in usufruct.

Aguas Andinas S.A. 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 groundwater supplies from various wells located in the Metropolitan Region for which Aguas Andinas S.A. and its subsidiaries have the water rights concessions were granted to it gratuitously by the Water Department of the Ministry of Public Works.

Notes to the consolidated financial statements

11. OTHER ASSETS

The detail of these is as follows:

	2006 ThCh\$	2005 ThCh\$
Discount on bonds placement and issuance costs	10,910,664	7,793,439
Advances purchases fixed and intangible assets	1,012,023	844,810
Prepaid expenses	407,234	467,868
Deferred charges	740,658	93,162
Refund reimbursable KW/H contributions	262,358	303,150
Unused assets	954,719	167,246
Others	205,649	137,120
Total	14,493,305	9,806,795

12. 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:

Short-term

Tax number	Bank	U.F.		Non-indexed Ch\$		Total	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
97,004,000-5	Banco de Chile	-	10,395,306	1,838,745	10,259,586	1,838,745	20,654,892
97,036,000-K	Banco Santander - Santiago	-	-	-	16,510	-	16,510
97,032,000-8	Banco BBVA	-	-	7,718,820	-	7,718,820	-
97,023,000-9	Banco Corpbanca	-	-	4,469,014	-	4,469,014	-
97,006,000-6	Banco Crédito e Inversiones	-	4,005,220	-	4,005,220	-	-
Total		-	10,395,306	18,031,799	10,276,096	18,031,799	20,671,402
Principal outstanding		-	10,369,038	17,971,553	10,210,000	17,971,553	20,579,038
Average annual interest rate			0.95%	5.37%	5.64%		

Long-term-current portion

Tax number	Bank	U.F.		Non-indexed Ch\$		Total	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
97,004,000-5	Banco de Chile	-	-	1,943,066	1,992,539	1,943,066	1,992,539
97,036,000-K	Banco Santander - Santiago	-	-	4,163,528	92,918	4,163,528	92,918
97,032,000-8	Banco BBVA	-	-	8,210,676	4,312,363	8,210,676	4,312,363
97,006,000-6	Banco Crédito e Inversiones	-	211,781	-	-	-	211,781
Total		-	211,781	14,317,270	6,397,820	14,317,270	6,609,601
Principal outstanding		-	211.739	14.046.667	6.057.933	14.046.667	6.269.672
Average annual interest rate			7.03%	6.72%	7.29%		
Percentage in local currency: 100%							

13. BORROWINGS FROM BANKS AT LONG-TERM

bank loans classified as long-term are as follows.

Tax number	Bank	Currency/ indexation unit	Years to maturity				Closing date current year		Closing date previous year
							Total long term at year end M\$	Average anual interest %	Total long term at year end M\$
			1 to 2 M\$	2 to 3 M\$	3 to 5 M\$	5 to 10 M\$			
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	6.80	9,699,500
97,036,000-K	Banco Santander - Santiago	Non-indexed Ch\$	4,080,000	4,080,000	8,160,000	-	16,320,000	6.70	20,828,400
97,032,000-8	Banco BBVA	Non-indexed Ch\$	8,066,667	8,066,666	8,066,667	-	24,200,000	6.66	32,944,267
Total			14,046,667	14,046,666	20,026,667	1,900,000	50,020,000		63,472,167
Percentage in local currency: 100%									

Notes to the consolidated financial statements

14. BONDS PAYABLE (SHORT AND LONG TERM)

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

Aguas Andinas S.A.

In September 2001, the bonds Series B were issued for U.F. 1.8 million, with a 21-year term with repayments starting in 2008. On October 10, 2002, the Superintendency of Securities and Insurance certified the registration of bonds for up to U.F.10 million. Of this amount, Series C bonds were issued with a nominal value of U.F.4.2 million and Series D with a nominal value of U.F.5.8 million.

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

On May 7, 2003, the Company placed Series D bonds on the domestic market and these were fully subscribed. On January 3 and 9, 2006, these bonds were exchanged for Series F bonds or repaid in advance (94.6% and 5.4% respectively). The placement of this series was for U.F.5.0 million, repayable semi-annually starting on June 1, 2008 and ending on December 1, 2026.

On December 9, 2005, the Superintendency of Securities and Insurance registered a new issue of Series F bonds, with the number 305 of October 10, 2002, for U.F.5 million, to finance the advanced redemption of the Series D bonds and other refinancings of Aguas Andinas S.A. in January 2006.

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

Aguas Cordillera S.A.

On January 2, 2006, the bonds Series B and E were redeemed in advance. The balances shown under this heading therefore, relating to the debt outstanding as of December 31, 2005, include the corresponding amount of the maturity of the Series C.

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

The bond issues 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:

Number of inscription or identification of instrument	Series	Nominal amount placed outstanding	Indexation unit	Interest rate %	Final maturity	Payments of		Par value		Placement in Chile or abroad
						Interest	Principal	2006 ThCh\$	2005 ThCh\$	
Long-term bonds - current portion										
266	BEMOS B1	-	U.F.	6.25	01.09.2022	Semi-annual	2008 semi-annual	263,353	263,581	Chile
266	BEMOS B2	-	U.F.	6.25	01.09.2022	Semi-annual	2008 semi-annual	413,840	414,199	Chile
305	BAGUA C1	166.667	U.F.	4.25	01.12.2010	Semi-annual	Semi-annual	3,098,910	3.112,317	Chile
305	BAGUA C2	500.000	U.F.	4.25	01.12.2010	Semi-annual	Semi-annual	9,296,723	9.336,945	Chile
305	BAGUA D1	-	U.F.	4.25	04.01.2006	-	-	-	30.482,661	Chile
305	BAGUA D2	-	U.F.	4.25	04.01.2006	-	-	-	57.917,040	Chile
305	BAGUA E	-	U.F.	4.00	01.06.2012	Semi-annual	At maturity	99,862	99,949	Chile
305	BAGUA F	-	U.F.	4.15	01.12.2026	Semi-annual	2008 SEM	313,842	-	Chile
154	SERIE B	-	U.F.	7.00	02.01.2006	-	-	-	114,065	Chile
163	SERIE C	-	U.F.	6.00	02.01.2006	-	-	-	404,623	Chile
187	SERIE E	-	U.F.	6.50	02.01.2006	-	-	-	5,570,376	Chile
Total current portion								13,486,530	107,715,756	
Long-term bonds										
266	BEMOS B1	700.000	U.F.	6.25	01.09.2022	Semi-annual	Semi-annual	12,835,466	12,846,597	Chile
266	BEMOS B2	1.100.000	U.F.	6.25	01.09.2022	Semi-annual	Semi-annual	20,170,018	20,187,509	Chile
305	BAGUA C1	500.000	U.F.	4.25	01.12.2010	Semi-annual	Semi-annual	9,168.183	12,234,847	Chile
305	BAGUA C2	1.500.000	U.F.	4.25	01.12.2010	Semi-annual	Semi-annual	27,504,568	36,704,562	Chile
305	BAGUA E	1.650.000	U.F.	4.00	01.06.2012	Semi-annual	At maturity	30,255,026	30,281,264	Chile
305	BAGUA F	5.000.000	U.F.	4.15	01.12.2026	Semi-annual	Semi-annual	91,681,900	-	Chile
Total long term								191,615,161	112,254,779	

Notes to the consolidated financial statements

15. PROVISIONS AND WRITE-OFFS

The detail of provisions as at December 31, 2006 and 2005 is as follows:

	Current liabilities		Long-term liabilities	
	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
Accrued services	11,218,203	8,667,098	-	-
Bonus (1) and profit-sharing	2,531,610	3,111,296	-	-
Severance payments (note 16)	962,749	1,144,553	8,892,441	7,987,616
Vacations accrued	1,507,990	1,573,359	-	-
Litigation pending	1,236,951	967,232	-	-
Provisions for losses on disposal of assets	213,922	218,414	-	-
Projects discarded	162,377	165,787	-	-
Others	36,039	45,766	38,940	50,401
Total	17,869,841	15,893,505	8,931,381	8,038,017

(1) In Aguas Andinas S.A., these are shown net of advances made during the years ended December 31, 2006 and 2005 for ThCh\$888,750 and ThCh\$229,411 respectively.

The amounts of write-offs are shown in Note 4 (Short and long-term receivables).

16. SEVERANCE PAYMENTS

As of December 31, 2006 and 2005, the provision for severance payments (including the portion classified as short-term) showed the following activity:

	2006 ThCh\$	2005 ThCh\$
Initial balance	8,944,339	9,004,741
Increase in provision	1,530,840	1,643,329
Payments in the year	(859,296)	(1,878,807)
Price-level restatement	239,307	362,906
Total	9,855,190	9,132,169

The severance indemnity has been calculated in accordance with the accounting practice explained in Note 2 s).

The charge to income for these items, including the indemnities related to clause 161 of the Labor Code, at December 31, 2006 and 2005 amounts to ThCh\$1,613,365 and ThCh\$1,854,398 respectively.

17. MINORITY INTEREST

The Minority interest is as follows:

Company name	Minority interest		Minority interest liability		Minority interest income statement	
	2006 %	2005 %	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
Aguas Los Dominicos S.A.	0.01292	0.05038	931	3,542	(122)	(354)
Aguas Cordillera S.A.	0.00001	0.00001	7	6	(1)	(1)
Comercial Orbi II S.A.	0.00997	0.00000	8,949	0	(312)	0
Total			9,887	3,548	(435)	(355)

In January 2006, Aguas Cordillera S.A. acquired 28 shares in its subsidiary Aguas Los Dominicos S.A., equivalent to 0.03617% of the total share capital.

In October 2006, Aguas Cordillera S.A. acquired 1 share in the subsidiary Aguas Los Dominicos S.A., equivalent to 0.00129% of the total share capital.

In October 2006, Aguas Cordillera S.A. sold 1 share in Comercial Orbi II S.A.

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18. CHANGES IN SHAREHOLDERS' EQUITY

2006

The ordinary shareholders meeting held on April 26, 2006 agreed to distribute 100% of the Company's net income for 2005 plus the distribution of ThCh\$499,684 (historic) corresponding to the reserve for future dividends, after deducting the interim dividend paid in September 2005. The amount of the dividend was ThCh\$54,556,693 (historic), equivalent to Ch\$8.9160 per share, and was paid on May 25, 2006.

The Board meeting held on September 19, 2006 agreed to distribute ThCh\$28,208,429 (historic), equivalent to Ch\$4.61 per share, as an interim dividend against 2006 the net income. The payment was made on October 26, 2006.

As established in clause 10 of the Corporations Law 18,046, the proportional amount of the restatement of capital has been added to paid capital, this being divided at December 31, 2006 into 6,118,965,160 subscribed and paid shares.

Other reserves

As established in Technical Bulletin 72 of the Chilean Institute of Accountants, paragraph 29, business combinations of companies under common are accounted for as a pooling interests, the changes produced due to the increase in the investments of Aguas Andinas S.A. in Gestión y Servicios S.A., Comercial ORBI II S.A. and Aguas Manquehue S.A. are shown in Other reserves; on the other hand, the holding in Aguas Cordillera S.A. was reduced with the disposal of 100% of the shares.

2005

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

Notes to the consolidated financial statements

The Board meeting held on July 19, 2005 agreed to distribute ThCh\$21,416,378 (historic), equivalent to Ch\$3.5 per share, as an interim dividend against the 2005 net income. The payment was made on September 27, 2005.

2006

	Paid in capital ThCh\$	Share premium ThCh\$	Other Reserves ThCh\$	Reserve for future dividends ThCh\$	Interim dividends ThCh\$	Net income for year ThCh\$
Initial balance	130,274,844	197,208,178	-	501,766	(21,887,539)	75,944,683
Distribution previous year net income	-	-	-	54,057,144	21,887,539	(75,944,683)
Final dividend previous year	-	-	-	(54,556,693)	-	-
Reserve Technical Bulletin 72	--	-	6,056	-	-	-
Restatement of capital	2,735,772	4,141,372	(12)	109,160	112,833	-
Result for the year	-	-	-	-	-	84,622,086
Interim dividends	-	-	-	-	(28,208,429)	-
Closing balances	133,010,616	201,349,550	6,044	111,377	(28,095,596)	84,622,086

2005

	Paid in capital ThCh\$	Share premium ThCh\$	Reserve for future dividends ThCh\$	Interim dividends ThCh\$	Net income for year ThCh\$
Initial balance	125,747,919	190,355,384	605,545	-	62,503,455
Distribution previous year net income	-	-	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)	-
Result 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
Balances restated	133,010,616	201,349,550	512,303	(22,347,177)	77,539,521

Number of shares

Series	N° Shares subscribed	N° Shares paid	N° Shares with voting rights
A	3,975,973,019	3,975,973,019	3,975,973,019
B	2,142,992,141	2,142,992,141	2,142,992,141

Capital (amount - ThCh\$)

Series	Subscribed capital ThCh\$	Paid capital ThCh\$
A	86,427,461	86,427,461
B	46,583,155	46,583,155

19. OTHER NON-OPERATING INCOME AND EXPENSES

The detail of other non-operating income and expenses as of December 31, 2006 and 2005 is as follows:

	2006 ThCh\$	2005 ThCh\$
Other non-operating income		
Repayment plans and others (1)	1,574,536	885,444
Services to third parties (2)	1,591,559	1,587,668
Gain on sale of fixed assets	1,177,968	1,617,799
Fines and indemnities from suppliers and contractors (3)	746,697	1,156,950
Services to customers	312,925	298,382
Property rentals	243,169	259,060
Recognitions of past-due obligations	33,892	20,015
Insurance refund	70,298	8,556
Sale of materials	82,439	-
Others	208,249	159,522
Total	6,041,732	5,993,396
Other non-operating expenses		
Donations	144,103	104,103
Projects discarded and studies	763,904	181,593
Asset shortages	266,183	58,768
Fines	5,269	976
Materials shortgaes	480,138	109,059
Irrecoverables property developer agreements	128,391	-
Legal expenses	43,134	6,128
Sale of materials	-	22,377
Obsolete materials	6,356	43,352
Others	38,023	44,046
Total	1,875,501	570,402

Notes to the consolidated financial statements

(1) Mainly relate to agreements signed with property 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 in these indefinitely.

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

(3) In 2005, includes a transaction with Degremont for discrepancies in the application and interpretation of the La Farfana treatment plant construction contract.

20. PRICE-LEVEL RESTATEMENT

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

	Indexation unit	2006 ThCh\$	2005 ThCh\$
Assets			
Inventories	I.P.C.	95,991	49,968
Fixed assets	I.P.C.	12,427,855	21,064,090
Other non-monetary assets	I.P.C.	433,005	522,202
Goodwill (net)	I.P.C.	1,218,287	2,199,052
Other monetary assets	I.P.C.	275,002	600,981
Other monetary assets	U.F.	122,518	203,189
Intangible assets	I.P.C.	771,188	1,314,873
Other non-monetary assets	U.F.	77,960	94,898
Expense and cost accounts	I.P.C.	893,013	2,221,294
Total credits		16,314,819	28,270,547
Liabilities			
Shareholders' equity	I.P.C.	(7,099,125)	(11,032,241)
Minority interest	I.P.C.	(30)	(110)
Bonds payable	U.F.	(4,193,841)	(7,965,052)
Notes payable	U.F.	(294,666)	(677,432)
Borrowings from banks	U.F.	(2,037)	(17,455)
Monetary liabilities	U.F.	(277,448)	(458,391)
Non-monetary liabilities	U.F.	(100,623)	(166,889)
Monetary liabilities	I.P.C.	(322,577)	(611,678)
Non-monetary liabilities	I.P.C.	(107,760)	(162,773)
Revenue accounts	I.P.C.	(2,405,124)	(5,368,388)
Total charges		(14,803,231)	(26,460,409)
Gain from price-level restatement		1,511,588	1,810,138

21. FOREIGN EXCHANGE DIFFERENCES

Foreign exchange differences during the years ended December 31, 2006 and 2005 were as follows:

	Currency	2006 ThCh\$	2005 ThCh\$
Assets			
Cash and banks	Dólar	189	(816)
Other assets	Dólar	(67)	(3,031)
Other assets	Euros	473	(323)
Inventories	Dólar	27,737	17,348
Inventories	Euros	-	5,657
Cash & banks	Euros	-	33
Total credits (charges)		28,332	18.868
Liabilities			
Accounts payable	Dólar	(8,014)	2,903
Accounts payable	Euros	(6,146)	(3,036)
Other liabilities	Dólar	-	344
Other liabilities	Euros	(1,193)	3,218
Total (charges) credits		(15,353)	3,429
Gain from exchange differences			
		12.,979	22,297

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22. BOND ISSUANCE AND PLACEMENT COSTS

During the months of September 2001, December 2002, May 2003, December 2005 and January 2006, 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 and placement costs 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	Period of amortization Years	Gross capitalized expenses 2006 ThCh\$	2005 ThCh\$
Series B	21.0	542,936	542,936
Series C	8.0	1,284,758	1,284,758
Series D	6.0	-	2,655,001
Series E	6.5	124,968	120,128
Series F	21.0	2,020,621	-
Total		3,973,283	4,602,823

The Series D bonds were exchanged in January 2006 and the capitalized cost were transferred to the Series F bonds according to the percentage of acceptance. The balance of thr non-acceptance was charged to income.

Notes to the consolidated financial statements

23. STATEMENT OF CASH FLOWS

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

Activities	2006 ThCh\$	2005 ThCh\$
Cash and banks	124,718	169,321
Time deposits	-	409,249
Marketable securities	416,380	1,485,292
Other current assets (Note 7) (Instruments of Central Bank of Chile)	-	20,983.527
Balance of cash and cash equivalents	541,098	23,047,389

Financing activities cash flows

The financing cash flows generated in 2006 and 2005 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).

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The item Other financing disbursements shows the payments and prepayments of promissory notes issued for reimbursable financing contributions.

Investment activities cash flows

Investment activities committing future cash flows for Aguas Andinas S.A. and subsidiaries relate to construction works whose amounts at December 31, 2006 and 2005 were ThCh\$8,048,981 and ThCh\$14,828,373 respectively. In January, the proceeds of assets sales were received amounting to ThCh\$1,574,286.

Other investment disbursements represent purchases of water rights on the first section of the Mapocho and Maipo rivers.

24. CONTINGENCIES AND RESTRICTIONS

a) Direct guarantees

Performance bonds and guarantee policies have been given to third parties for ThCh\$16,812,688 and ThCh\$14,005,148 at December 31, 2006 and 2005 respectively, as shown in the table.

Direct collateral

Creditor of collateral	Debtor	Relation	Type of collateral	Balances outstanding at close of financial statements	
				2006 ThCh\$	2005 ThCh\$
Superintendencia de Servicios Sanitarios	Aguas Andinas S.A.	Parent	Guarantee policy	7,047,669	8,013,510
Empresa de Ferrocarriles	Aguas Andinas S.A.	Parent	Performance bond	2,420	2,423
Enersis S.A.	Aguas Andinas S.A.	Parent	Performance bond	-	9,176
I. Municipalidad de Providencia	Aguas Andinas S.A.	Parent	Performance bond	20,648	20,684
I. Municipalidad de Las Condes	Aguas Andinas S.A.	Parent	Performance bond	1,000	1,021
I. Municipalidad de Santiago	Aguas Andinas S.A.	Parent	Performance bond	17,057	17,060
I. Municipalidad de Maipú	Aguas Andinas S.A.	Parent	Performance bond	-	957
Serviu Metropolitano	Aguas Andinas S.A.	Parent	Performance bond	1,251,994	1,839,132
Dirección Regional de Vialidad	Aguas Andinas S.A.	Parent	Performance bond	-	2,265
I. Municipalidad de Vitacura	Aguas Cordillera S.A.	Subsidiary	Performance bond	36,673	36,179
I. Municipalidad de Lo Barnechea	Aguas Cordillera S.A.	Subsidiary	Performance bond	9,168	6,564
Chilectra S.A.	Aguas Cordillera S.A.	Subsidiary	Performance bond	1,100	1,085
Superintendencia de Servicios Sanitarios	Aguas Cordillera S.A.	Subsidiary	Performance bond	1,510,883	1,691,151
Superintendencia de Servicios Sanitarios	Aguas Cordillera S.A.	Subsidiary	Guarantee policy	630,493	657,175
Superintendencia de Servicios Sanitarios	Aguas Los Dominicos S.A.	Subsidiary	Performance bond	109,560	258,820
Constructora Norte Sur S.A.	Aguas Andinas S.A.	Parent	Performance bond	-	450,787
I. Municipalidad de Las Condes	Aguas Cordillera S.A.	Subsidiary	Performance bond	2,500	1,532
Superintendencia de Servicios Sanitarios	Aguas Manquehue S.A.	Subsidiary	Performance bond	544,645	379,911
Superintendencia de Servicios Sanitarios	Aguas Manquehue S.A.	Subsidiary	Guarantee policy	440,623	485,050
Conama	Anam S.A.	Subsidiary	Performance bond	-	54,739
Dirección Obras Hidráulicas	Aguas Andinas S.A.	Parent	Performance bond	11,335	6,920
Serviu Metropolitano	Aguas Cordillera S.A.	Subsidiary	Performance bond	27,505	60,527
I. Municipalidad de San Bernardo	Aguas Andinas S.A.	Parent	Performance bond	5,501	-
Ministerio de Obras Públicas	Aguas Cordillera S.A.	Subsidiary	Performance bond	272,882	-
Dirección General de Obras	Aguas Andinas S.A.	Parent	Performance bond	-	8,480
Superintendencia de Servicios Sanitarios	Aguas Andinas S.A.	Parent	Performance bond	4,136,730	-
I. Municipalidad de Renca	Aguas Andinas S.A.	Parent	Performance bond	6,500	-
I. Municipalidad de La Granja	Aguas Andinas S.A.	Parent	Performance bond	1,100	-
Chilectra S.A.	Aguas Andinas S.A.	Parent	Performance bond	9,168	-
I. Municipalidad de Lo Barnechea	Aguas Manquehue S.A.	Subsidiary	Performance bond	1,149	-
Serviu Metropolitano	Aguas Manquehue S.A.	Subsidiary	Performance bond	301,702	-
I. Municipalidad de Lo Barnechea	Aguas Manquehue S.A.	Subsidiary	Guarantee policy	412,683	-

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b) Lawsuits pending

- 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. The appeals court confirmed the judgment in the first instance which rejected the demand against Aguas Andinas S.A. and revoked the sentence against the Treasury, dismissing the demand against it. The plaintiff presented an appeal for reversal which remains pending.
- 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: 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.
Sentence was given in the first instance rejecting the demand in all its parts. 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. had a 1% shareholding at the time of the demand.
Final sentence was given in the first instance 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. State of the case: Sentence accepted the demand; an appeal will be made.
- Court: 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. There is a moderate possibility of success; the result will depend on the proof of damages submitted. The process has not yet commenced.

- Court: 18th Civil Court of Santiago; Case N° 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: 5th Civil Court of Santiago; Case: 10852-2005
Aguas Andinas S.A was demanded for its civil liability for the accidental death of Mario Cañete Muñoz, a worker at the Kennedy-Estoril works. Amount demanded: ThCh\$110,000 approximately, plus indexation, interest and costs. Present position: Evidence period. Expected result: the demand should be rejected with Aguas Andinas as the company was not responsible for the works.
- Court: 19th Civil Court of Santiago; Case: 1105-2006
Aguas Andinas S.A was sued for damages and extra-contractual liability for environmental damage under Law 19,300. The absence of a timely and suitable solution to the bad odors from the West Santiago plants and later the La Farfana plant are alleged to have caused prolonged suffering or moral damage to residents and an enormous patrimonial damage affecting the value of their properties. State of the case: first instance, discussion period. Exceptions have been presented to correct mistakes in the demand. Amount demanded: ThCh\$940,000 plus indexation and interest. Expected result: success will depend on the evidence of damage; the process stage has not yet begun.
- Court: 24th Civil Court of Santiago; Case: 6539-2006
A company is suing Corfo for the restitution of reappraisal of land at a property in Avenida Andrés Bello, Las Condes, Santiago. This land was acquired by Corfo through a sale by Aguas Andinas S.A. in September 1999. Amount demanded: undetermined. State of the case: discussion period. Estimated result: the demand should be rejected.
- Case N° 4693-99, 11th Civil Court of Santiago
Demand for damages made by 79 residents 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 N° 1158-2002, 8th Civil Court of Santiago
Demand for moral damages following dismissal for dishonesty of 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: approximately UF30,000. State: sentence given favorable to the Company.
- Arbitration
Arbitration proceedings concerning the agreement signed on November 10, 1980 before the notary Raúl Undurraga Laso. Such ineffectiveness occurred through force of law following the coming into force of the laws and regulations covering the sanitation business. The obligations arising under the agreement and their amendments are non-existent. Amount: 583,983.89 Unidades de Fomento. State: discussion period finished. The result should be favorable to the Company.
- Case N° 1189-2004, 19th Civil Court of Santiago
Claim against fine for non-compliance with the written orders and instruction of the SISS by not sending on time information for the "sewage treatment coverage" and "water production" process.
Resolution 426 of February 9, 2004 for 10 UTA. State: Sentence unfavorable; appeal made; it is probable the fine will be reduced.

Notes to the consolidated financial statements

- Case N° 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 legally permitted limit.
State: Appeal allowed against the sentence rejecting the demand. Result: little possibility of appeal being accepted. The fine applied will remain.
- Case N° 1134-2004, 7th Civil Court of Santiago
Claim against fine of 15 UTA for 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. State: Sentence unfavorable. Appealed. Result: it is probable the sentence will be confirmed.
- Case N° 15.178-2006, 27th Civil Court of Santiago
Claim against Resolution 554 which applied a fine of 30 UTA for non-compliance with written instructions of the SISS with respect to providing information on costs and expenses for the year 2004. State: claim presented. Result: it is probable that a reduced fine will be rejected.
- The Company is party to other more minor lawsuits brought by and against it.
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 15.

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 bond-holders' representative 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.

d) Bank loan covenants

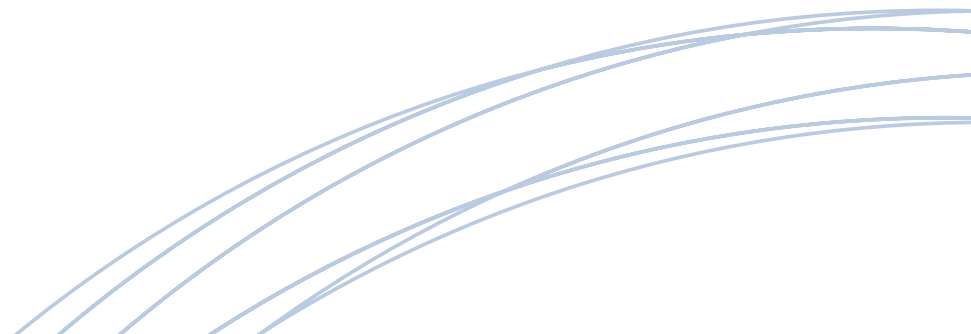
The Company has the following obligations and restrictions contained in loan agreements with several local banks:

- 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 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.

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25. GUARANTEES RECEIVED FROM THIRD PARTIES

At December 31, 2006 and 2005, the Company has received documents in guarantee for ThCh\$20,465,463 and ThCh\$17,396,747 respectively, arising principally from works contracts with construction companies to guarantee full performance of their contracts. There are also other guarantees covering service and materials supply contracts to ensure their prompt provision or delivery.



Notes to the consolidated financial statements

The following is a detail of the more significant bank guarantees received as at December 31, 2006:

Aguas Andinas S.A.

Contractor	Amount ThCh\$	Due date
Constructora Aconcagua S.A.	99,016	31-01-07
Necso Entrecanales C. Chile S.A.	109,156	31-01-07
Necso Entrecanales C. Chile S.A.	109,156	31-01-07
Necso Entrecanales C. Chile S.A.	109,156	31-01-07
Sacyr Chile S.A.	109,156	31-01-07
Sacyr Chile S.A.	109,156	31-01-07
Sacyr Chile S.A.	109,156	31-01-07
Constructora Belfi-BCF Ltda.	110,018	28-02-07
Constructora Acsa Ltda.	120,604	25-09-07
Captagua Ingeniería S.A.	147,941	16-03-08
Ingeniería y Construcción M.S.T. S.A.	148,739	09-11-09
Ingeniería y Construcción M.S.T. S.A.	148,739	31-01-08
Inmobiliaria Conpaces S.A	157,574	12-10-08
GTECH Corporation Chile	179,513	24-10-07
Compañía Americana de Multiservicios S.A.	183,364	03-05-07
Chilectra S.A.	183,364	01-08-07
Jara Gumucio	207,000	02-01-07
Constructora Vespucio Norte S.A.	220,037	05-09-07
Constructora Norte Sur S.A.	220,568	28-02-07
ITT Sanitaire	224,542	30-10-07
Sociedad General de Montajes	227,332	31-01-08
Claro, Vicuña Valenzuela S.A.	233,424	15-02-07
KDM S.A.	275,046	10-01-08
Degremont S.A. - Banque Francaise du Cemme	280,547	25-04-09
Compañía de Petróleos de Chile	308,323	22-03-07
Ingeniería y Construcción M.S.T. S.A.	347,058	09-11-09
Ingeniería y Construcción M.S.T. S.A.	347,058	31-01-08
Cadagua S.A.	1,181,468	11-02-07
Degrémont S.A. - Banque Francaise du Cemme	2,237,758	30-08-07
Degrémont S.A. - Banque Francaise du Cemme	2,237,758	15-11-07
Total	10,681,727	

Aguas Cordillera S.A.

Contractor	Amount ThCh\$	Due date
Socovesa Ingeniería y Construcción S.A.	350,359	02-04-08
Icafal Ingeniería y Construcción S.A.	256,400	30-09-07
Captagua Ingeniería. S.A.	133,232	20-05-08
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
Captagua Ingeniería. S.A.	55,826	17-12-07
ICM S.A.	53,143	24-07-08
Inmobiliaría Manquehue Oriente S.A.	52,369	03-04-07
Degrémont Ltda.	48,351	09-01-07
Marcelino Carrasco Bahamondes y Cía.	45,841	03-05-07
INLAC S.A.	40,621	30-06-08
Sociedad General de Montajes S.A.	40,082	20-11-07
Captagua Ingeniería. S.A.	38,547	20-08-07
Sociedad Constructora Rupanco S.A.	33,770	31-07-07
Inmobiliaria y Constructora Nueva Pacífico Sur Ltda.	32,716	17-08-07
Captagua Ingeniería. S.A.	31,770	26-03-07
Dalco Ingeniería S.A.	29,707	11-09-07
Jara Gumucio S.A.	22,214	30-05-07
Constructora y Comercial El Alba S.A.	21,454	30-01-07
Total	1,472,616	

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Aguas Los Dominicos S.A.

Contractor	Amount ThCh\$	Due date
Empresa Constructora Vicam Ltda.	381	30-10-07
Inmobiliaria Los Quillayes de Apoquindo S.A.	11,002	14-09-07
Captagua Ingeniería S. A.	2,946	20-08-07
Servicios y Asesorías Profesionales. S. A.	3,000	30-06-08
ICM S. A.	2.599	08-06-08
Constructora Olbertz Ltda.	3.000	31-01-07
Total	22,928	

Notes to the consolidated financial statements

Aguas Manquehue S.A.

Contractor	Amount ThCh\$	Maturity date
Inmobiliaria San José de La Dehesa S.A.	162,665	14-01-07
Sociedad Constructora Rupanco	142,212	31-07-08
Ecopreneur Chile S.A.	65,416	10-02-07
Ecopreneur Chile S.A.	65,416	17-04-08
Ingeniería y Construcción Eugenio Díaz	59,681	07-09-08
Arauco S.A.	33,238	10-10-07
Ingeniería y Construcción Eugenio Díaz	27,552	25-03-07
Constructora Olbertz Ltda.	24,524	10-07-07
Dalco Ingeniería Ltda.	21,150	02-01-07
Total	601,854	

Ecoriles S.A.

As of December 31, 2006, the company has received no third-party guarantees.

Anam S.A.

As of December 31, 2006, the company has received no third-party performance bonds.

Gestión y Servicios S.A.

As of December 31, 2006, the company has received no third-party performance bonds.

26. LOCAL AND FOREIGN CURRENCIES

The Company shows the following assets and liabilities in local and foreign currency as at December 31, 2006 and 2005:

Assets

Heading	Currency	2006 ThCh\$	2005 ThCh\$
Current Assets			
Cash and banks	Non-indexed Ch\$	121,296	165,986
Cash and banks	Dollar	3,422	3,335
Marketable securities	Non-indexed Ch\$	416,380	1,485,292
Trade accounts receivable	Non-indexed Ch\$	42,903,319	37,288,201
Notes receivable	Non-indexed Ch\$	2,148,312	952,410
Notes receivable	Indexed Ch\$	1,424,239	669,931
Sundry debtors	Indexed Ch\$	58,790	75,576
Notes receivable related company	Non-indexed Ch\$	40,642	23,650
Inventories	Indexed Ch\$	1,664,009	952,257
Recoverable taxes	Indexed Ch\$	205,951	371,925
Sundry debtors	Euro	-	1,318
Prepaid expenses	Indexed Ch\$	276,025	474,243
Deferred taxes	Indexed Ch\$	1,071,894	814,424
Other current assets	Non-indexed Ch\$	3,488	21,011,722
Sundry debtors	Dollar	-	1,199
Sundry debtors	Non-indexed Ch\$	131,191	6,402,379
Time deposits	Non-indexed Ch\$	-	409,249
Recoverable taxes	Non-indexed Ch\$	30,770	-
Other current assets	Indexed Ch\$	1,329,593	1,117,853
Prepaid expenses	Non-indexed Ch\$	19	5,766
Fixed assets			
Fixed assets	Indexed Ch\$	604,107,316	603,850,403
Other assets			
Goodwill	Indexed Ch\$	55,184,737	59,235,741
Negative goodwill	Indexed Ch\$	(1,033)	(1,102)
Long-term debtors	Non-indexed Ch\$	1,139,164	1,062,888
Long-term debtors	Indexed Ch\$	7,501,076	7,498,576
Intangible assets	Indexed Ch\$	36,146,875	36,869,517
Other long-term assets	Indexed Ch\$	12,934,737	9,105,072
Other long-term assets	Non-indexed Ch\$	1,558,568	701,723
Total Assets			
	Non-indexed Ch\$	48,493,149	69,509,266
	Dollar	3,422	4,534
	Indexed Ch\$	721,904,209	721,034,416
	Euro	-	1,318

Notes to the consolidated financial statements

Current liabilities

	Currency	Up to 90 days				90 days to 1 year			
		2006		2005		2006		2005	
		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 - current portion	Indexed Ch\$	1,262,274	4.25	95,480,899	4.39	12,224,256	4.25	12,234,857	4.25
Bank borrowings - short term	Non-indexed Ch\$	18,031,799	5.70	10,276,096	5.64	-	-	-	-
Accounts payable	Non-indexed Ch\$	14,832,196	-	18,166,050	-	-	-	-	-
Accounts payable	Indexed Ch\$	46,798	-	21,694	-	-	-	-	-
Accounts payable	Euro	3,347	-	7,586	-	-	-	-	-
Accounts payable	Dollar	98,654	-	134,544	-	-	-	-	-
Sundry creditors	Non-indexed Ch\$	51,037	-	66,967	-	-	-	-	-
Sundry creditors	Indexed Ch\$	1,077,684	4.34	1,004,900	4.34	113,371	4.34	241,681	4.34
Provisions	Non-indexed Ch\$	11,853,401	-	11,695,610	-	5,932,299	-	4,124,911	-
Withholdings	Non-indexed Ch\$	7,414,547	-	6,787,902	-	-	-	-	-
Income tax	Non-indexed Ch\$	76.918	-	1,294,257	-	136,103	-	414,328	-
Notes and accounts payable related companies	Non-indexed Ch\$	1,797,248	-	3,803,671	-	-	-	-	-
Unearned income	Indexed Ch\$	762,951	-	827,474	-	1,044,117	-	243,985	-
Unearned income	Non-indexed Ch\$	227,531	-	418,805	-	-	-	-	-
Provisions	Indexed Ch\$	84,141	-	69,128	-	-	-	3,856	-
Notes payable	Non-indexed Ch\$	85,779	-	12,927	-	37,912	-	59,466	-
Bank borrowings - current portion long term	Indexed Ch\$	-	-	-	-	-	-	211,781	7.03
Bank borrowings - current portion long term	Non-indexed Ch\$	270,603	6.69	-	-	14,046,667	6.69	6,397,820	7.29
Notes payable	Indexed Ch\$	50,904	6.17	873,676	8.00	263,543	6.64	313,573	5.09
Withholdings	Indexed Ch\$	-	-	-	-	-	-	-	-
Bank borrowings - short term	Indexed Ch\$	-	-	10,395,306	0.95	-	-	-	-
Total current liabilities	Indexed Ch\$	3,284,752	-	108,673,077	-	13,645,287	-	13,249,733	-
	Non-indexed Ch\$	54,641,059	-	52,522,285	-	20,152,981	-	10,996,525	-
	Euro	3,347	-	7,586	-	-	-	-	-
	Dollar	98,654	-	134,544	-	-	-	-	-

Long-term liabilities 2006

		1 to 3 years		3 to 5 years		5 to 10 years		Over 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 %
			Currency						
Bonds payable	Indexed Ch\$	34,809,034	4.27	23,720,424	4.34	61,551,348	5.39	71,534,355	4.76
Notes payable	Indexed Ch\$	576,665	7.50	255,566	7.10	18,571,166	5.56	12,272,039	3.69
Sundry creditors	Indexed Ch\$	303,204	-	754,542	-	-	-	-	-
Accruals	Indexed Ch\$	395,770	-	395,770	-	357,273	-	7,782,568	-
Deferred taxes	Indexed Ch\$	502,418	-	502,418	-	1,238,969	-	1,273,432	-
Bank borrowings	Non-indexed Ch\$	28,093,333	6.69	20,026,667	6.70	1,900,000	6.80	-	-
Other liabilities	Indexed Ch\$	60,322	8.89	117,293	8.73	-	-	-	-
Other liabilities	Indexed Ch\$	376,305	-	97,569	-	62,344	-	-	-
Other liabilities	Non-indexed Ch\$	26,942	-	-	-	-	-	-	-
Sundry creditors	Non-indexed Ch\$	3,000	-	-	-	-	-	-	-
Total long-term liabilities	Indexed Ch\$	37,023,718		25,843,582		81,781,100		92,862,394	-
	Non-indexed Ch\$	28,123,275		20,026,667		1,900,000		-	-

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Long-term liabilities 2005

		1 to 3 years		3 to 5 years		5 to 10 years		Over 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 %
			Currency						
Bonds payable	Indexed Ch\$	24,682,836	4.27	25,748,427	4.35	38,450,939	4.48	23,372,577	6.25
Notes payable	Indexed Ch\$	483,453	6.92	431,921	6.92	12,299,559	5.79	12,781,008	3.91
Long-term creditors	Indexed Ch\$	594,770	4.34	507,390	-	528,545	-	-	-
Accruals	Indexed Ch\$	247,107	-	247,107	-	617,763	-	6,926,040	-
Deferred taxes	Indexed Ch\$	407,780	-	407,780	-	1,019,450	-	861,342	-
Other long-term liabilities	Indexed Ch\$	439,328	8.28	114,982	8.6	255,152	9.09	-	-
Bank borrowings	Non-indexed Ch\$	28,683,295	7.29	32,848,972	7.29	1,939,900	7.40	-	-
Total long-term liabilities	Indexed Ch\$	26,855,274	-	27,457,607	-	53,171,408	-	43,940,967	-
	Non-indexed Ch\$	28,683,295	-	32,848,972	-	1,939,900	-	-	-

Notes to the consolidated financial statements

27. SANCTIONS

a) Superintendency of Securities and Insurance (SVS)

Aguas Cordillera S.A.

On December 12, 2006, the SVS applied a censure sanction, by its Resolution 574, for breach of clauses 30 e), 40 and 27 of Law 3,538 and Section III of Circular 1,481, relating to the obligation to send a list of the principal shareholders in October 2006.

Aguas Los Dominicos S.A.

On December 12, 2006, the SVS applied a censure sanction, by its Resolution 570, for breach of clauses 30 e), 40 and 27 of Law 3,538 and Section III of Circular 1,481, relating to the obligation to send a list of the principal shareholders in October 2006.

Aguas Manquehue S.A.

On December 12, 2006, the SVS applied a censure sanction, by its Resolution 569, for breach of clauses 30 e), 40 and 27 of Law 3,538 and Section III of Circular 1,481, relating to the obligation to send a list of the principal shareholders in October 2006.

No other sanctions have been applied to the Company or its directors and executives as of December 31, 2006 and 2005.

b) Other administrative authorities

Aguas Andinas S.A.

2006

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

By Resolution SISS 553 of February 8, 2006, a fine of 50 UTA was applied for non-compliance with written instructions of the SISS on various occasions, in not providing information on expenses and costs for the year 2004. Claim against the fine presented to the 26th Civil Court of Santiago (Case 15200-2006), intending to obtain a reduction in the fine: currently at the evidence stage.

By Resolution SISS 1389 of April 21, 2006, a fine of 5 UTA was applied for sending the PRO017 4 (PROCOF) process with mistakes and validations. The fine was paid in May 2006.

By Resolution SISS N° 1454 of April 28, 2006, a fine of 20 UTA was made for sewage quality defects in the Quilicura district. Proceedings were brought appealing against the fine, before the 29th Civil Court of Santiago (Case 6509-2006). It is intended to obtain a reduction in the fine; currently in the evidence stage.

ii) The Regional Secretary of the Ministry of Health, Metropolitan Region, applied a fine of 100 UTM for non-compliance with clauses 3, 33 and 66 of the regulations governing basic sanitation and environmental conditions in work places and non-compliance with clauses 9 and 161 to 174 of the Sanitation Code. The fine was paid in June 2006.

iii) The National Economic Inspector proposed to the Free Competition Defense Tribunal the application of a fine on Aguas Andinas S.A. for 50,000 U.T.M. because of the following conducts: 1) abusive demands and charges for new services in urbana reas outside the concession area, 2) abusive demands and charges for services in rural zone outside the concession area, and 3) abusive application of Reimbursable Financial Contributions (AFR) (the requirement proposes eliminating the AFR). State of the case: discussion period.

iv) The National Labor authority applied a fine of 60 U.T.M. "for not effectively protecting the health of workers". The facts relate to the death of four workers of a contractor firm working on the Dagoberto Godoy sewage drain. There are possibilities of the fine being annulled: currently in the evidence stage. One third of the fine was paid. Ordinary labor lawsuit brought before the 8th Labor Court of Santiago (Case 2449-2006). State: in the evidence stage.

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). Fine reclassification proceedings brought before the 29th civil court of Santiago, Case 4779-2005. State of the case: unfavorable judgment, appealed, intending to obtain a reduction in the fine.

- ii) The COREMA RM (regional environmental authority) applied 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 N° 6857-2005, which is at the evidence stage.

2004

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

By 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 N° 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 rejection of the demand is pending. The amount of the sanction is 26 Annual Taxation Units (UTA).

By SISS Resolution 2858, the Company was fined for not complying with written instructions issued by the SISS under Official Memorandum 2774 and included in the development plan for Curacavi. A summary complaint judgment took place in the 29th Civil Court of Santiago. The sentence accepted the demand and annulled the fine, proceedings emend in 2006.

- 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 N° 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 25th Civil Court of Santiago (Case N° 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 N° 6593-2004). State of the case: in the evidence stage.

Notes to the consolidated financial statements

Aguas Cordillera S.A.

By 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 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 instructions 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 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 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.

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 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.

Case N° 15.178-2006, 27th Civil Court of Santiago. Claim against Resolution 554 that applied a fine of 30 UTA for non-compliance with written instruction of the SISS to provide information on expenses and costs for 2004. State: Demand presented. Result: it is probable that a reduction in the fine will be rejected.

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

28. SUBSEQUENT EVENTS

At the date of issue of these consolidated financial statements, the management of the Company and its subsidiaries is unaware of any subsequent events that might significantly affect the financial position and/or results of the Company and its subsidiaries at December 31, 2006.

29. THE ENVIRONMENT

Aguas Andinas S.A. and Subsidiaries
The principal disbursements in projects for improving the environment made by the Company during 2006 y 2005 refer to the construction of sewage treatment plants, as follows:

Name	2006 ThCh\$	2005 ThCh\$
Talagante, treatment plant	2,637,509	5,471,269
La Farfana, treatment plant	1,434,754	5,984,064
Melipilla, treatment plant	1,121,195	219,849
Sludge management platform	1,168,746	-
Curacaví, treatment plant	772,461	962,550
El Chamisero, treatment plant	341,236	-
Bio-drying equipment	175,205	-
El Trebal, treatment plant	136,053	39,419
Sludge raising chamber	97,305	-
Greater Santiago, treatment plant	62,005	-
Mapocho cleaning environmental impact assessment	54,863	-
Treatment plants sludge management	36,200	3,583
Mobile centrifugal	34,216	-
Repair of mixed sludge chambers	31,258	6,838
Valdivia de Paine, treatment plant	27,723	45
Los Nogales, treatment plant	-	22,624
Renovación y mejoramiento instalaciones	22,071	-
Los Trapenses, treatment plant	15,871	-
Cexas-Melipilla, treatment plant	9,399	-
Isla de Maipo, treatment plant	8,399	-
Pomaire, treatment plant	5,542	-
Til-Til, treatment plant	5,246	-
Cexas & Esmeralda treatment plants remote controls	4,736	41,412
Total	8,201,993	12,751,653

Notes to the consolidated financial statements

30. 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\$31,675,436 and ThCh\$25,995,941 at December 2006 and 2005, respectively.

31. 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\$1,635,088 and its depreciation, determined on the basis of its time in use, amounts to ThCh\$604,105.

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 of December 2006. The average useful life of these assets is 406 months and their remaining average useful life as at December 2006 is 279 months.

Significant events

As of December 31, 2006 and 2005

Aguas Andinas S.A.

The Board meeting held on February 28, 2006 agreed to call the Company's ordinary shareholders meeting for April 26, 2006, at 11 a.m. at Avda. Presidente Balmaceda 1398, 10th floor, Santiago. The agenda for the meeting was to consider matters reserved for the ordinary meeting.

On April 25, 2006 the board received the resignations of the director Bernardo Espinosa Bancalari and his alternate director Roberto Hempel Holzapfel.

In accordance with clause 32 of the Corporations Law, the total renewal of the Board would be decided at the next ordinary shareholders meeting to be held on April 26, 2006.

On April 26, 2006 the Superintendency of Securities and Insurance was informed that the Company's new board of directors comprised the following members:

Directors	Alternate directors
Alfredo Noman Serrano	José Vila Bassas
Alain Chaigneau	Fernando Rayón Martin
Pedro Butazzoni Alvarez	Xavier Amorós Corbella
Josep Bagué Prats	Lluís M Puiggari Lanza
Mónica Singer González	Ramón Figueroa González
Jaime Arellano Quintana	Mario Castillo Astudillo
Carlos Mladinic Alonso	Jorge Bande Bruck

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On September 20, 2006, the Superintendency of Securities and Insurance was informed that at the Board meeting held on September 29, 2006, it agreed to distribute an interim dividend for the sum of ThCh\$28,208,429 against the net income of 2006. The Company's dividend number 43 therefore would amount to Ch\$4.61 per share and be payable from October 26, 2006.

Aguas Cordillera S.A.

Aguas Cordillera S.A. reported on March 1, 2006 that its Board at its meeting held on February 28, 2006, agreed to call the company's ordinary shareholders meeting for April 25, 2006, at Avda. Presidente Balmaceda 1398, 17th floor, Santiago.

On November 30, 2006, it informed that the extraordinary shareholders meeting of the closed corporation Comercial Orbi II S.A., held on that same date, agreed among other matters to the contribution in ownership of 137,999,999 shares of Aguas Cordillera S.A., representing 99.9999% of the share capital of Aguas Cordillera S.A.

Later, on December 1, 2006, and complementing the material information reported on November 30, 2006, the following was informed:

- a) That the extraordinary shareholders meeting of Comercial Orbi II S.A. held on November 30, 2006 agreed among other things to increase the Company's capital.
- b) The shareholders agreed that part of the new shares of the capital increase would be paid through the contribution by Aguas Andinas S.A. of 137,999,999 shares in Aguas Cordillera S.A., representing 99.9999% of the shares issued by that company; the contribution was made that same day.

Significant events

Aguas Los Dominicos S.A.

On February 28, 2006, the board of the company agreed to call the company's ordinary shareholders meeting for April 25, 2006, at 4.30 p.m. at Avda. Presidente Balmaceda 1398, Santiago. The agenda for the meeting was to consider matters reserved for the ordinary meeting.

Aguas Manquehue S.A.

On February 28, 2006, the board of the company agreed to call the company's ordinary shareholders meeting for April 25, 2006, at 5.00 p.m. at Avda. Presidente Balmaceda 1398, 17th floor, Santiago. The agenda for the meeting was to consider matters reserved for the ordinary meeting.

On July 14, 2006, Aguas Manquehue S.A. informed that in accordance with a board resolution of November 30, 2005, the company signed, by public deed dated June 28, 2006, a contract expanding the sanitation concession area with the company Agrícola Santa Teresa S.A.

On November 10, 2006, it informed that the extraordinary shareholders meeting held that day had agreed the following:

a. The merger by incorporation of Hidráulica Manquehue Limitada into Aguas Manquehue S.A, based on the balance sheets of these companies as of September 30, 2006 and the experts report sent at the time to the Superintendency of Securities and Insurance.

b. The capital increase of the absorbing company by Ch\$9,900,000 through the issue of 4,505 new shares to be distributed to the partners in the absorbed company in the agreed proportions. Consequently, the capital of Aguas Manquehue S.A. amounts to Ch\$7,558,390,878, divided into 233,249 common nominative shares of equal and no par value.

c. The amendment of clauses 50 and 10th transitory of the bylaws of Aguas Manquehue S.A.

At the close of the financial statements as of December 31, 2006, Aguas Andinas S.A. and subsidiaries show no other material information.

Management analysis

As of December 31, 2006 and 2005

I. GENERAL ASPECTS

SHARE OWNERSHIP

The capital of Aguas Andinas is divided into 6,118,965,160 share of no par value. As of December 31, 2006, our principal shareholders are Inversiones Aguas Metropolitanas S.A., with 50.1%, and CORFO with 34.98% holdings.

SALES

Our sales derive mainly from the regulated services we provide related to the production and distribution of 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 2006 amounted to Ch\$232,143 million, 5.7% (Ch\$12,520 million) more than in 2005. The net income of Aguas Andinas S.A. as of December 31, 2006 was Ch\$84,622 million, Ch\$7,083 million (9.13%) more than in 2005.

COSTS AND OPERATING EXPENSES

Our costs and operating expenses are composed of the cost of sales and administrative and selling expenses. The most important items in the cost of sales are depreciation, which represented 35.8%; the outsourcing of certain services to contractors, which represented 32.5%; and personnel, which represented 15.8% in 2006. The most important items of administrative and selling expenses is personnel, which represented 46.9%; outsourced services, which represented 26.8%; and general expenses, which represented 13.5%, in 2006.

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 N° 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 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.

The tariff negotiation processes concluded in 2005 to cover the period 2005-2010. The new tariffs approved by Decree 100 for Aguas Andinas S.A., Decree 149 for Aguas Manquehue S.A., Decree 179 for Aguas Cordillera S.A. and Decree 178 for Aguas Los Dominicos S.A. of the Ministry of the Economy, became effective on March 1, 2005, May 19, 2005, September 30, 2005 and September 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.

Management analysis

Adverse weather conditions can eventually affect the optimum delivery of sanitation services because the processes of abstracting and producing 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 raw water available at each sluiceway that is capable of being treated at the 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.

Approval dates of development plan updates of the Aguas Group:

- **Aguas Andinas S.A.**
Greater Santiago May 23, 2006
Outside locations December 2005 – first half 2006
- **Aguas Cordillera S.A.**
Las Condes May 10, 2006
- **Aguas Los Dominicos S.A.**
Los Dominicos May 12, 2006
- **Aguas Manquehue S.A.**
Manquehue May 12, 2006
Outside locations November 1999 - June 2001

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 to 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 the assets and liabilities is as follows:

Assets	2006 Ch\$ millions	2005 Ch\$ millions	Changes %
Current assets	51,829	72,227	(28.24)
Net fixed assets	604,107	603,850	0.04
Other assets	114,465	114,473	(0.01)
Total assets	770,401	790,550	(2.55)

Current assets are Ch\$20,398 million lower than the year before, mainly due to a decrease in financial investments of Ch\$22,462 million and sundry debtors of Ch\$6,290 million, compensated by an increase in trade accounts receivable of Ch\$5,615 million and notes receivable of Ch\$1,951 million. The reduction in financial investments is basically because in 2005 there were temporary funds available from the debt restructuring carried out at that time.

The gross fixed assets increased by 2.04% compared to the year before, from Ch\$1,154,899 to Ch\$1,178,410 million. The most important increase was in buildings and infrastructure of Ch\$ 15,984 million, machinery and equipment of Ch\$5,537 million and land of Ch\$1,726 million, due to investments being made in operating equipment, and sanitation and support infrastructure.

The charge for depreciation at December 2006 amounts to Ch\$34,353 million, 2% higher than the level of 2005 (Ch\$33,679 million). This is mainly due to assets that started operating during the year, in particular the start-up of the Talagante and Curacavi sewage treatment plants. 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\$23,254 million, 4.22% more than the previous year.

Including the above effects, fixed assets in net terms increased by 0.04% (Ch\$257 million) compared to December 2005.

Other assets decreased by Ch\$8 million, the principal changes being a reduction in goodwill of Ch\$4,050 million and in intangible assets of Ch\$723 million, both due to amortization for the year, partly offset an increase in the discount of the placement of bonds of Ch\$3,117 million, in deferred expenses of Ch\$647 million, in non-operating assets of Ch\$787 million and in advances on fixed and intangible asset purchases of Ch\$167 million.

Liabilities	2006 Ch\$ millions	2005 Ch\$ millions	Changes %
Current liabilities	91,826	185,584	(50.52)
Long-term liabilities	287,561	214,897	33.81
Minority interest	10	4	150.00
Shareholders' equity	391,004	390,065	0.24
Total liabilities	770,401	790,550	(2.55)

The changes in the composition of liabilities between short and long term are mainly explained by the application of the Company's refinancing plan (in January 2006, Series D bonds were exchanged for Series F bonds for U.F.5,000,000, maturing in the year 2026).

Management analysis

Current liabilities decreased by Ch\$ 93,758 million due to falls in bonds payable of Ch\$94,229 million (exchange of bonds), accounts payable of Ch\$3,349 million and bank borrowings at short term of Ch\$2,640 million. This was partially compensated by the increase in bank borrowings transferred from long term of Ch\$7,707 million and notes payable of Ch\$821 million.

Long-term liabilities increased by Ch\$72,664 million compared to 2005, due to the increase in Bonds payable (Series F bonds) of Ch\$79,360 million and in Notes payable of Ch\$5,679 million, partly compensated by a reduction in Bank borrowings of Ch\$13,452 million.

Shareholders' equity compared to 2005 increased slightly by Ch\$939 million following the increase of Ch\$7,083 million in net income for the year, offset by the payment of interim dividends of Ch\$5,748 million.

FINANCIAL INDICATORS

Indicators	Unit	2006	2005	Change %
Liquidity				
Current ratio	Times	0.56	0.39	43.59
Acid test	Times	0.01	0.12	(91.67)
Debt				
Debt ratio	(%)	97.03	102.67	(5.49)
Short-term debt	(%)	24.20	46.34	(47.78)
Long-term debt	(%)	75.80	53.66	41.26
Financial expense coverage	Times	7.20	6.21	15.94
Activity				
Inventory turnover	Times	70.23	74.93	(6.27)
Inventory permanence	Days	5.13	4.80	6.88
Profitability				
Return on equity (average)	(%)	21.67	19.60	10.56
Return on assets (average)	(%)	10.84	9.81	10.52
Earnings per share	(\$)	13.83	12.67	9.15
Dividend yield	(%)	5.68	7.60	(25.40)
Return on operating assets	(%)	17.62	16.12	9.31

As of December 2006, the current ratio improved by 43.59%, mainly due to the reduction in current liabilities of 50.52% compared to 2005, principally due to bonds payable – short-term portion, following the exchange of bonds made in January 2006.

In net terms, the debt level declined by 5.49% due to the fall in total liabilities, mainly the debt refinancing and the scheduled repayments of bank debt and 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 9.31% following the 8.91% improvement in operating income.

The return on average equity shows a 10.56% increase, mainly because of the 9.13% 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 following years:

Statement of Income	2006 Ch\$ millions	2005 Ch\$ millions	Change %
Sales	232,143	219,623	5.70
Cost of sales (less)	91,869	88,489	3.82
Admin. & selling expenses (less)	27,406	27,502	(0.35)
Operating income	112,869	103,632	8.91
Non-operating result	(10,136)	(9,327)	8.67
Net income for the year	84,622	77,540	9.13
Financial expenses (less)	16,564	18,113	(8.55)
EBITDA	154,742	147,174	5.14

(EBITDA = income before tax, depreciation, amortization and interest).

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Sales

Aguas Andinas produced consolidated sales of Ch\$232,143 million in 2006, Ch\$12,520 (5.7%) more than in 2005. This variation is explained as follows:

Concept	Ch\$ millions	2006 %	Ch\$ millions	2005 %
Water	107,436	46.3	104,241	47.5
Sewage	98,274	42.3	91,239	41.5
Other regulated income	9,366	4.0	9,254	4.2
Non-regulated business	17,068	7.4	14,890	6.8
Total	232,143	100.0	219,623	100.0

(Figures in millions of Ch\$ of Dec.-06.)

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

a) Water: this covers water production and distribution services. These show an increase of Ch\$3,195 million (3.1%) as a result of 14.3 million m³ of greater volumes and a lower average tariff applied. The higher sales volume is explained by an average growth in customers of 2.8% and an increase in unit consumption by 0.3%; while the lower average tariff followed the accumulated effect of indexation adjustments and the application of the new tariff decree (2005-2010).

Management analysis

b) Sewage: this covers the collection, treatment and disposal sewage and interconnection of sewage systems. These show an increase of Ch\$7,035 (7.7%) as a result of i) higher collection revenues of Ch\$4,283 million (Ch\$45,180 in 2005) following the higher average tariff applied and a higher sales volume of 11 million m³; ii) higher treatment income of Ch\$2,027 million (Ch\$35,811 million in 2005) due to the higher average tariff and a larger sales volume of 7.4 million m³, and iii) higher income from sewage interconnections of Ch\$725 million (Ch\$10,248 in 2005) due to a higher average tariff and a greater sales volume of 2.6 million m³. The changes in average tariffs are explained by the accumulated effect of indexation adjustments and the application of the new tariff decree (2005-2010).

c) 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 repayment plans.

These revenues show an increase of Ch\$112 million, basically explained by higher income from fixed charges.

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

a. Sanitation services: increase of Ch\$437 million, related to the growth of domicile connection installation services, repairs, calibrations and service regulations.

b. Non-sanitation services: increase of Ch\$51 million in sales of laboratory services (sampling and analysis, Análisis Ambiental S.A.), of Ch\$618 million in liquid waste treatment plant operation and treatment of organic load excesses for industry (EcoRiles, under new contracts) and Ch\$1,072 million in sales of water network materials (Gestión y Servicios S.A.).

Operating costs

The consolidated operating costs of Aguas Andinas S.A. was Ch\$119,274 million, Ch\$3,283 million (2.8%) more than the year before. This increase is mainly explained by the following:

The cost of sales increased by Ch\$3.379 million (3.8%) to Ch\$91,869 million, compared to Ch\$88,489 the previous year. This is mainly explained by higher costs related to greater activity in the non-sanitation subsidiaries, higher costs due to the increase in sewage treatment coverage associated with the start-up of the Talagante and Curacaví treatment plants and an increase in personnel costs following the collective bargaining process that took place in the second half of 2006.

Administrative and selling expenses declined slightly by Ch\$96 million (0.3%) to Ch\$27,406 million, compared to Ch\$27,502 million the year before. This was due basically to lower tariff study expenses.

Operating income

Because of the factors mentioned above, the consolidated operating income of Aguas Andinas S.A. for 2006 was Ch\$112,869 million, Ch\$9,236 million more than that obtained in 2005. As a percentage of net sales, the margin increased from 47.2% in 2005 to 48.6% in 2006.

Non-operating result

The consolidated non-operating result of Aguas Andinas S.A. amounted to Ch\$ (10,135) million, Ch\$808 million less than in 2005.

The principal variations are explained by a combination of higher non-operating expenses, where there was an increase of Ch\$1,305 million (basically due to asset shortages and obsolescence and higher charges for discarded projects and studies), partially compensated by an improved financial result of Ch\$756 million (mainly the debt restructuring through the issue of bonds made in early 2006).

Income tax

The provision for income tax for 2006 is Ch\$1,345 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 2006 amounted to Ch\$84,622 million, Ch\$7,083 million greater than for 2005.

STATEMENT OF CASH FLOW

The principal items of the statement of cash flows at December 31, 2006 and 2005 are:

Statement of cash flows	2006 Ch\$ millions	2005 Ch\$ millions	Change %
Operating activities	119,946	115,572	3.78
Financing activities	(96,577)	(99,366)	(2.81)
Investment activities	(45,513)	(33,469)	35.98
Net cash flow for year	(22,143)	(17,263)	28.27
Closing balance of cash	541	23,047	(97.65)

The operating cash flow was Ch\$4,374 million greater than the previous year, the principal variations being the increase in the collection of trade accounts receivable of Ch\$12,863, partly offset by larger payments to suppliers and personnel of Ch\$1,595 million, income tax of Ch\$3,786 million and of value added tax of Ch\$2,419 million.

The financing cash flow declined by Ch\$2,789 million compared to 2005, mainly related to the fall in bonds issued of Ch\$25,024 million and larger repayments of bank borrowings of Ch\$46,628 million, compensated by the increase in loans drawn of Ch\$19,445 million, a reduction in dividend payments of Ch\$4,480 million and in obligations of Ch\$44,892 million.

The investment cash increased by Ch\$12,044 million, mainly due the acquisition of fixed assets of Ch\$11,262 million, compensated by lower sales of fixed assets of Ch\$1,600 million, and other investment disbursements in purchases of water rights in 2005.

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, 2006.

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, which are shown at Ch\$1, 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 (Ministry of Economy Decree 453 of 1989) which are explained in Note 31.

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.

Management analysis

The production of groundwater flows 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. has no significant differences between the economic or market value and the book value of its 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 current legislation, it has no competition in its concession area.

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

Aguas Cordillera S.A. has a 100% coverage in water and 98.5% in sewage services.

Aguas Dominicos S.A. has a 99.9% coverage in water and 97.3% in sewage services.

Aguas Manquehue S.A. has a 100% coverage in water and 99.4% in sewage services.

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Sales volumes

(Figures in thousands of m³ invoiced)	2006	2005	Change (%)
Water	477,394	463,070	3.1%
Sewage collection	471,328	460,319	2.4%
Sewage treatment & disposal	407,255	399,859	1.8%
Sewage interconnection services	112,433	109,793	2.4%

Customers (*)

(Figures in thousands of m³ invoiced)	2006	2005	Change (%)
Water	1,550,008	1,502,634	3.2%
Sewage collection	1,520,662	1,474,391	3.1%

(*) Relates to individuals or entities who receive sanitation services associated with water or sewage.

FINANCIAL ASPECTS

Currency risks: our revenues are largely linked to the local currency. Our debt therefore is denominated mainly in that same currency so we have no significant debt in foreign currency.

Interest rates: As of December 31, 2006, Aguas Andinas had 80% of its consolidated debt at fixed rates and 20% at variable rates. The fixed-rate debt is comprised of bonds payable (80%), local bank loans (7%) and reimbursable financial contributions (13%), while the variable-rate debt is with local banks

As of December 31, 2005, 79% of the consolidated debt was at fixed rates and 21% at variable rates. The fixed-rate debt comprised bonds payable (82%), bank loans (8%) and reimbursable financial contributions (10%). The variable-rate debt was all with local banks.

The Company follows a policy of monitoring and managing interest rates in order to optimize financing costs and is constantly evaluating the 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 1.

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Financial statements

As of December 31, 2006 and 2005

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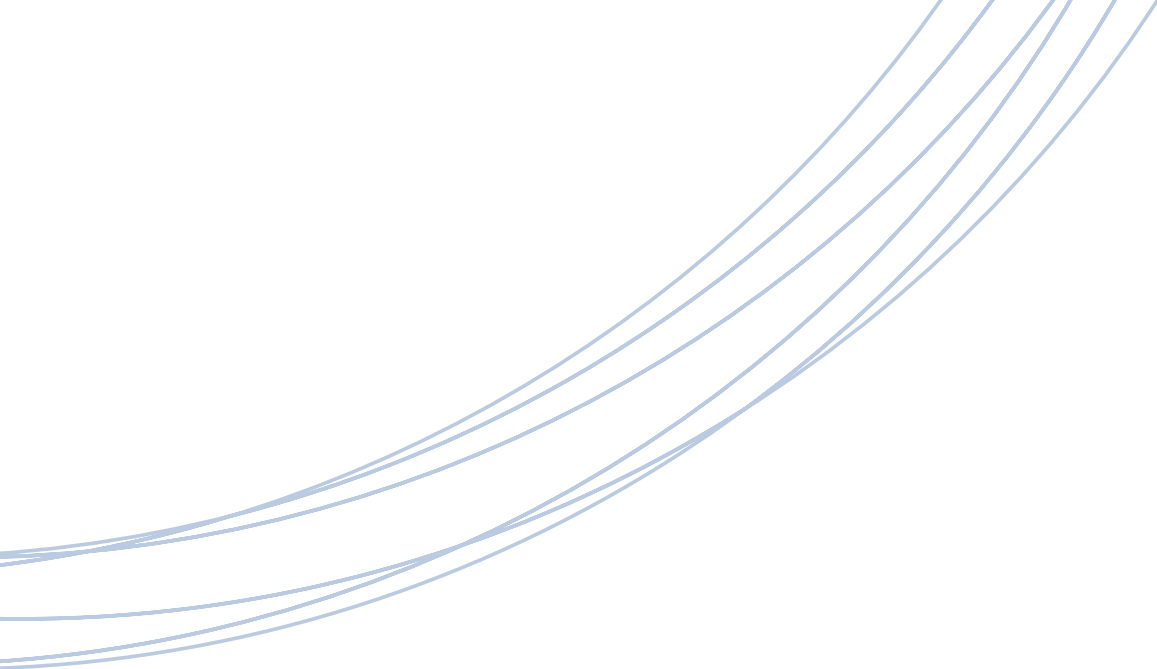
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**To the Shareholders and Directors,
Aguas Andinas S.A.**

We have audited the accompanying balance sheets of Aguas Andinas S.A. as of December 31, 2006 and 2005 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, so this report does not cover these.

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

These financial statements have been prepared to 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 9. 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.

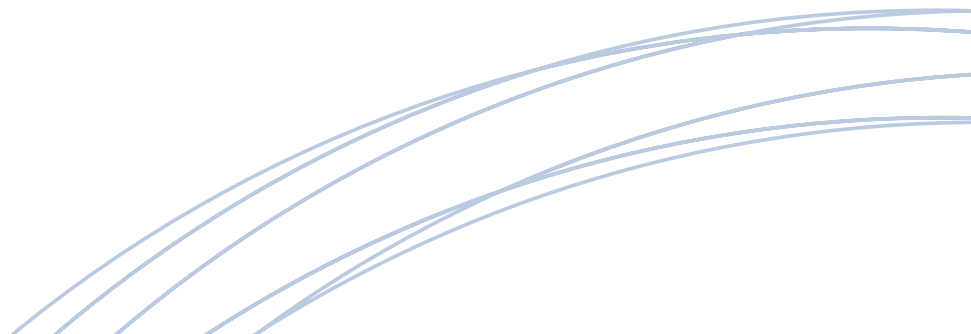
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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aguas Andinas S.A. as of December 31, 2006 and 2005 and the results of its operations and cash flows for the years then ended, in accordance with the principles described in Note 2.

January 30, 2007



Amelia Hernández H.
Tax No.7.015.085-9



Balance sheets

As of December 31, 2006 and 2005

ASSETS	2006 ThCh\$	2005 ThCh\$
Current assets		
Cash and banks	23,586	80,760
Marketable securities (net)	355,656	-
Trade accounts receivable (net)	34,362,126	29,375,526
Notes receivable (net)	1,981,806	226,773
Sundry debtors (net)	93,463	328,358
Notes and accounts receivable from related companies	3,024,075	5,274,432
Inventories (net)	552,669	284,117
Recoverable taxes	130,437	198,985
Prepaid expenses	125,416	99,380
Deferred taxes	706,011	483,791
Other current assets	1,331,581	21,067,440
Total current assets	42,686,826	57,419,562
Fixed assets		
Land	29,645,222	27,903,219
Buildings and infrastructure	902,897,074	896,369,123
Machinery and equipment	107,418,527	102,766,130
Other fixed assets	18,894,321	18,612,943
Accumulated depreciation	(540,483,342)	(520,748,184)
Total fixed assets	518,371,802	524,903,231
Other assets		
Investments in related companies	94,358,392	78,332,634
Goodwill	55,180,073	59,231,955
Long-term debtors	6,556,206	6,548,758
Long-term deferred taxes	1,406,272	1,456,949
Intangible assets	17,624,003	17,362,235
Amortization accumulated	(2,663,871)	(2,226,052)
Others	12,692,103	9,024,435
Total other assets	185,153,178	169,730,914
Total assets	746,211,806	752,053,707

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The accompanying Notes 1 to 30 form an integral part of these unconsolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	2006 ThCh\$	2005 ThCh\$
Current liabilities		
Borrowings from banks current portion of long term	14,317,270	6,397,820
Borrowings from banks	18,031,799	20,671,402
Bond payable - current portion	13,486,530	101,626,692
Accounts payable	10,981,391	13,716,698
Notes payable	34,798	8,240
Sundry creditors	66,973	82,310
Notes and accounts payable to related companies	9,736,619	3,282,955
Accruals	15,440,377	13,992,445
Withholdings	6,261,567	5,688,919
Income taxes	20,836	1,203,510
Unearned income	451,657	439,604
Total current liabilities	88,829,817	167,110,595
Long term liabilities		
Borrowings from banks and financial institutions	50,020,000	63,472,167
Bonds payable	191,615,161	112,254,779
Notes payable	16,481,299	12,079,392
Sundry creditors	18,268	29,928
Accruals	7,782,568	6,875,641
Other long-term liabilities	460,616	166,392
Total long-term liabilities	266,377,912	194,878,299
Shareholders' equity		
Paid-in capital	133,010,616	133,010,616
Share premium	201,349,550	201,349,550
Other reserves	6,044	-
Reserve for future dividends	111,377	512,303
Net income for the year	84,622,086	77,539,521
Interim dividends	(28,095,596)	(22,347,177)
Total net shareholders' equity	391,004,077	390,064,813
Total liabilities and shareholders' equity	746,211,806	752,053,707

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The accompanying Notes 1 to 30 form an integral part of these unconsolidated financial statements.

Statement of income

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Operating income		
Sales	194,507,686	185,429,209
Cost of sales	(75,016,619)	(73,234,445)
Operating margin	119,491,067	112,194,764
Administrative and selling expenses	(24,374,468)	(24,194,194)
Total operating income	95,116,599	88,000,570
Non-operating income (expenses)		
Financial income	4,019,656	4,366,330
Equity in income of investments in related companies	15,291,187	14,940,840
Other non-operating income	4,502,244	2,729,178
Amortization of goodwill	(4,051,881)	(4,051,881)
Financial expenses	(15,933,348)	(16,380,840)
Other non-operating expenses	(1,447,744)	(454,957)
Price-level restatements	1,683,944	2,037,671
Foreign exchange loss	(4,065)	(3,274)
Total non-operating income (expenses)	4,059,993	3,183,067
Income before income taxes	99,176,592	91,183,637
Income taxes	(14,554,506)	(13,644,116)
Net income for the year	84,622,086	77,539,521

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The accompanying Notes 1 to 30 form an integral part of these unconsolidated financial statements.

Statement of cash flows

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Net cash flows provided by operating activities		
Collection of trade accounts receivable	228,764,241	222,154,036
Financial income received	595,103	724,109
Dividends and other distributions received	25,056	6,266,903
Other income received	229,035	889,871
Payments to suppliers and personnel	(74,650,304)	(76,096,793)
Interest paid	(13,844,066)	(13,597,914)
Income tax paid	(15,099,726)	(12,041,387)
Other expenses paid	(473,091)	(409,476)
V.A.T. and similar payments	(25,742,049)	(22,670,772)
Total net cash flows provided by operating activities	99,804,199	105,218,577
Net cash flows from financing activities		
Loans obtained	94,076,470	74,631,486
Bonds issued	4,451,906	29,475,742
Other loans received from related companies	7,588,480	-
Other sources of financing	13,481,400	12,669,832
Dividends paid	(83,321,915)	(87,801,961)
Payment of loans	(100,783,640)	(53,951,231)
Payment of bonds	(16,988,282)	(52,462,092)
Repayment of other loans from related companies	-	(99)
Payment of bond issue and placement expenses	(358,026)	-
Other financing disbursements	(7,196,287)	(8,438,086)
Total net cash flows from financing activities	(89,049,894)	(85,876,409)
Net cash flows used in investment activities		
Proceeds from sales of fixed assets	118,639	89,460
Collection of other loans to related companies	2,310,975	-
Purchases of fixed assets	(31,038,635)	(28,883,548)
Payment of capitalized interest	(830,097)	(640,383)
Permanent investments	(595,532)	-
Other loans to related companies	-	(2,976,188)
Other investment disbursements	(41,808)	(602,348)
Total net cash flows used in investment activities	(30,076,458)	(33,013,007)
Total net negative cash flows for the year	(19,322,153)	(13,670,839)
Effect of inflation on cash and cash equivalents	(302,801)	(725,752)
Net change in cash and cash equivalents	(19,624,954)	(14,396,591)
Opening balance of cash and cash equivalents at beginning of the year	20,004,196	34,400,787
Cash and cash equivalents at end of the year	379,242	20,004,196

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The accompanying Notes 1 to 30 form an integral part of these unconsolidated financial statements.

Statement of cash flows

As of December 31, 2006 and 2005

Reconciliation of net income for the year to net cash flows provided by operating activities	2006 ThCh\$	2005 ThCh\$
Net income for the year	84,622,086	77,539,521
Result of asset sales	(1,177,386)	(14,597)
Gain on sale of fixed assets	(1,177,386)	(14,597)
Charges (credits) to income not representing cash flows		
Depreciation for the year	30,553,384	29,925,579
Amortization of intangible assets	437,820	429,940
Write-offs and provisions	471,693	1,061,054
Equity in income of related companies	(15,291,187)	(14,940,840)
Amortization of goodwill	4,051,881	4,051,881
Price-level restatements, net	(1,683,944)	(2,037,671)
Foreign exchange differences, net	4,065	3,274
Other credits to income not representing cash flows	(2,842,820)	(2,699,604)
Other charges to income that not representing cash flows	2,006,484	2,532,882
Total charges (credits) to income not representing cash flows	17,707,376	18,326,495
Changes in assets affecting operating cash flows (increases) decreases		
Trade accounts receivable	(6,878,307)	(3,792,045)
Inventories	(167,620)	(15,476)
Other assets	(570)	6,753,962
Total changes in assets affecting operating cash flows (increases) decreases	(7,046,497)	2,946,441
Changes in liabilities affecting operating cash flows increases (decreases)		
Accounts payable related to operating income	(977,466)	(3,241,951)
Interest payable	592,766	(99,313)
Income tax payable (net)	(545,220)	1,602,731
Other accounts payable related to the non-operating result	2,089,391	3,315,319
V.A.T. and similar payables (net)	4,539,149	4,843,931
Total changes in liabilities affecting operating cash flows increases (decreases)	5,698,620	6,420,717
Net cash flow provided by operating activities	99,804,199	105,218,577

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The accompanying Notes 1 to 30 form an integral part of these unconsolidated financial statements.

Notes to the financial statements

As of December 31, 2006 and 2005

1. REGISTRATION IN THE SECURITIES REGISTER

The Company 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Accounting period

These unconsolidated financial statements relate to the years between January 1 and December 31, 2006 and 2005 respectively.

b) Basis of preparation

These unconsolidated financial statements have been prepared in accordance with accounting principles generally accepted in Chile, issued by the Chilean Institute of Accountant will and will standards the Superintendency of Securities and Insurance, except for the investments in subsidiaries, which are stated using the equity method of accounting and therefore not been consolidated. This treatment does not alter the net result for the year or shareholder's equity.

In the event of differences between generally accepted accounting principles, as issued 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 together with the consolidated financial statements, which are required by accounting principles generally accepted in Chile.

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c) Basis of presentation

For comparison purposes, the financial statements at December 31, 2005 and their respective notes have been restated by 2.1%.

This percentage corresponds to the variation in the Consumer Price Index during the last twelve months, with a one-month time lag.

d) Price-level restatements

The financial statements have been restated by the application of monetary correction regulations, in accordance with accounting principles generally accepted in Chile, to reflect the effects of variations in the purchasing power of the currency during each year. This corresponded to 2.1% and 3.6% respectively for the years 2006 and 2005.

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

e) Basis of currency translation

Assets and liabilities in Unidades de Fomento and/or foreign currencies are shown at their respective values and/or exchange rates prevailing at each year-end, at which areas follows:

	2006 Ch\$	2005 Ch\$
United States dollar	532,39	512,50
Euro	702,08	606,08
Unidad de fomento	18,336.38	17,974.81

Notes to the financial statements

f) Marketable securities

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

g) Inventories

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

There is an allowance for obsolescence for disposable items remaining in stock for more than one year without movement.

h) Estimate of doubtful accounts

The estimate of doubtful accounts depends on the age of the accounts receivable and the recovery record, as follows:

- A 100% allowance is made for customers with debts overdue for over 8 months.
- 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.
- A 100% allowance is made for past-due notes receivable.

i) 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. 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 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 N° 31 of the Chilean Institute of Accountants.

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

j) 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.

k) Leased assets

Leasing agreements classified as financial leases are recorded in accordance with Technical Bulletin N° 22 of the Chilean Institute of Accountants.

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

Assets acquired when lease agreements are not legally owned by the Company until it has exercised its purchase option, and meanwhile the Company can not freely dispose of them.

l) Intangible assets

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

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

m) Investments in related companies

Investment in related companies, with the ability to exercise a significant influence over the company, are shown at the equity method of accounting, determined on the basis of the respective financial statements of the company in question at December 31, 2006 and 2005 equity in. Earnings or loss of such companies is recognized on an accrual basis.

n) Goodwill

Goodwill represents the excess paid over the investment equity value 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 as it is estimated period of return on the investment.

o) Operations under resale agreements

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.

p) Bonds payable

This is the obligation for the placement of bonds issued by the Company on 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.

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q) Income and deferred taxes

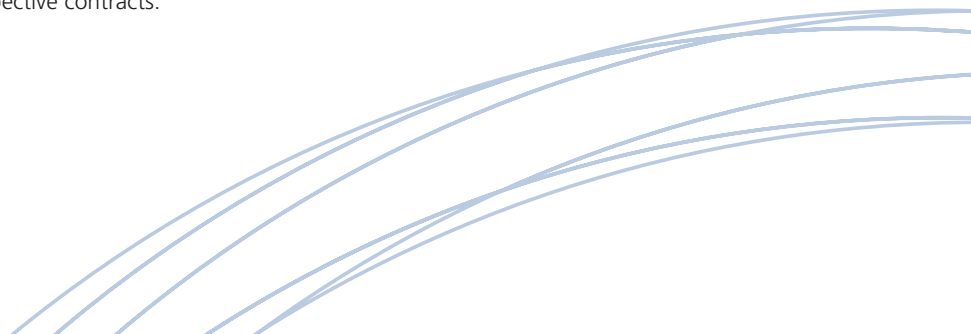
The Company has provided for income taxes on the basis of its net taxable income determined in accordance with the provisions of the Income Tax Law. According to Technical Bulletin No.60 and other instructions issued by the Chilean Institute of Accountants and Circular 1,466 of the Superintendency of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

r) Severance payments

Severance payments will be paid in accordance with the Labor Code except for the amount of accumulated indemnities at July 31, 2002 for employees who are party to current collective contracts and those to whom the same benefit applies under their individual work contracts. The accumulated amount at that date is adjusted quarterly according to changes in the consumer price index. The collective work contract mentioned 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 July 2002.

The Company's obligation for the accrued indemnity for workers up to July 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.



Notes to the financial statements

s) Sales

The Company's sales 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 periods.

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

t) Computer software

It correspond to software was acquired as computer packages and is shown in Other fixed assets. computer software is amortized in accordance with Circular 981 of the Superintendency of Securities and Insurance.

u) Research and development expenses

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

v) Statement of cash flows

The Company considers as cash and cash equivalents its balances held 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 the revenues and expenses of the Company and all other income and expenses that are treated as non-operating in the Statement of Income.

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3. ACCOUNTING CHANGES

There were no accounting changes that need be revealed during the year ended December 31, 2006.

4. SHORT AND LONG-TERM DEBTORS

Trade accounts receivable relate to billings for 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, 2006 and 2005 of ThCh\$12,081,431 and ThCh\$11,874,279 respectively, corresponding to unbilled meter readings at the end of each year.

The balance of debtors at December 31, 2006 is split into Residential 80.40%, Commercial 16.43%, Industrial and others 3.17%. At December 31, 2005, the split was Residential 80.13%, Commercial 16.72%, Industrial and others 3.15%.

An allowance has been made for doubtful accounts, as follows:

a) An allowance for doubtful accounts has been made as explained in Note 2h), amounting to ThCh\$11,315,702 and ThCh\$11,753,440 respectively at December 31, 2006 and 2005. ThCh\$762,342 and ThCh\$379,066 respectively were charged to income for the years 2006 and 2005. Of the allowance at December 31, 2006 and 2005, debts of ThCh\$192,394 and ThCh\$12,371 respectively were written off.

b) Allowances for repayment plans 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\$2,783,794 and ThCh\$2,360,231 at December 2006 and 2005 and the charge to income in 2006 and 2005 was ThCh\$475,290 and ThCh\$506,095 respectively.

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

	Current					Total current (net)		Long term	
	Up to 90 days		90 days to 1 year		Sub total	2006	2005	2006	2005
	2006	2005	2006	2005					
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Trade accounts receivable	33,435,178	28,302,731	3,041,878	2,587,891	36,477,056	34,362,126	29,375,526	898,720	815,096
Estimate of doubtful accounts	-	-	-	-	2,114,930	-	-	-	-
Notes receivable	1,977,530	162,397	44,114	129,726	2,021,644	1,981,806	226,773	310,775	173,674
Estimate of doubtful accounts	-	-	-	-	39,838	-	-	-	-
Sundry debtors	43,146	280,076	62,551	60,772	105,697	93,463	328,358	5,346,711	5,559,988
Estimate of doubtful accounts	-	-	-	-	12,234	-	-	-	-
Total long-term debtors								6,556,206	6,548,758

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 water and sewage interconnections agreed under contracts, whose payment is made against presentation of the invoice for 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., Aguas Cordillera S.A. and Análisis Ambientales S.A., while the balance receivable from Aguas Manquehue S.A. relates to the sale of services with payment terms varying 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 Aguas Cordillera S.A., Gestión y Servicios S.A., Aguas Manquehue S.A. and Comercial Orbi II S.A., at an interest rate calculated at the average TAB rate for 90 days recorded the previous month, plus 1%. 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.

There are minor debts with Aguas Manquehue S.A. with respect to collections.

Notes to the financial statements

- **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 water and sewage interconnection contract with Aguas Cordillera S.A., with payments at 30 days without interest.

Análisis Ambientales S.A. provides chemical and bacteriological analysis services, whose payment terms are 30 days without interest.

The debt with Gestión y Servicios S.A. relates to purchases of materials, payable at 30 days without interest.

Aguas Cordillera S.A., Gestión y Servicios S.A., Análisis Ambientales S.A., Ecoriles S.A., Aguas Los Dominicos and Aguas Manquehue S.A. have granted loans in Unidades de Fomento at an interest rate calculated based on the average monthly TAB rate for 90 days for the previous month, plus 1%. Payments of interest are semi-annual and the loans do not exceed a term of one year.

The debt with Aguas Cordillera S.A., Aguas Los Dominicos S.A. and Aguas Manquehue S.A. relates to collections.

Transactions with the parent company

- **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., payable within the first five business days of each month.

- **Notes and accounts payable**

There is a services contract in Unidades de Fomento signed in December 2001 with Inversiones Aguas Metropolitanas S.A., which has a 5-year term with monthly invoicing of services provided.

Transactions with indirectly related companies

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

The debt with Norcontrol S.A. Agency in Chile, relates to quality control services, payable at 30 days.

The debt with Acsa Agbar Construcción S.A. relates to a withholding stipulated in the pipe renovation contract. The debt remains in 2006 but Acsa Agbar Construcción ceased to be an indirectly related company.

Notes and accounts receivable

Tax number	Company	Short term		Long term	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
80,311,300-9	Aguas Cordillera S.A.	1,483,230	5,182,536	-	-
96,828,120-8	Gestión y Servicios S.A.	1,344,975	9,629	-	-
89,221,000-4	Aguas Manquehue S.A.	99.937	1,270	-	-
96,945,210-3	Ecoriles S.A.	48,591	37,723	-	-
96,809,310-K	Comercial Orbi II S.A.	37,623	35,881	-	-
96,967,550-1	Análisis Ambientales S.A.	9,499	2,506	-	-
96,568,220-1	Aguas Los Dominicos S.A.	220	3,625	-	-
77,274,820-5	Inversión Aguas Metropolitanas S.A.	-	1,262	-	-
Total		3,024,075	5,274,432	-	-

Notes and accounts payable

Tax number	Company	Short term		Long term	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
80,311,300-9	Aguas Cordillera S.A.	4,694,264	6,091	-	-
92,108,000-K	Aguas Los Dominicos S.A.	1,302,998	235	-	-
77,274,820-5	Inversiones Aguas Metropolitanas S.A.	1,067,238	1,358,377	-	-
96,967,550-1	Análisis Ambientales S.A.	779.789	124,016	-	-
96,945,210-3	Ecoriles S.A.	769,950	1,377	-	-
59,066,560-6	Degrémont S.A. Agencia en Chile	636,420	1,772,655	-	-
96,828,120-8	Gestión y Servicios S.A.	475,919	4,468	-	-
96,847,530-4	Omnilogic Telecomunicaciones Chile	5,343	844	-	-
59,109,940-K	Norcontrol S.A., Agencia en Chile	2,963	-	-	-
89,221,000-4	Aguas Manquehue S.A.	1,538	502	-	-
59,094,680-K	Aguas de Levante S.A.	197	31	-	-
59,096,940-0	Acsa Agbar Construcción S.A.	-	14,359	-	-
Total		9,736,619	3,282,955	-	-

Notes to the financial statements

Transactions

Company	Tax N°	Relationship	Transaction	2006		2005	
				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	5,409,336	5,409,336	5,186,183	5,186,183
			Drinking water interconnection	107,230	107,230	105,206	105,206
			Loans	14,034,451	-	11,052,325	-
			Dividends received	-	-	5,589,664	-
			Payment of loans & interest	9,421,069	(14,389)	11,088,648	(22,942)
			Loans granted	7,447,008	-	3,755,238	1,528
			Collection of loans granted	11,196,838	61,051	-	-
			Rentals	40,945	40,945	-	-
Gestión y Servicios S.A.	96,828,120-8	Subsidiary	Sale of materials	42,815	-	200,797	-
			Dividends received	25,106	-	-	-
			Payment of loans & interest	1,497,513	(5,411)	918,545	(51,431)
			Loans	1,966,000	-	-	16,343
			Collection of loans & interest	598,085	349	-	-
			Loans granted	1,933,994	-	424,736	-
Ecoriles S.A.	96,945,210-3	Subsidiary	Waste water treatment	317,419	(317,419)	218,200	(218,200)
			Loans	2,082,000	-	-	-
			Payment of loans & interest	1,342,300	(7,324)	-	-
Análisis Ambientales S.A.	96,967,550-1	Subsidiary	Laboratory service	974,233	(933,584)	698,961	(582,554)
			Payment of loans & interest	604,291	(3,032)	-	-
			Collection of loans granted	1,045,000	-	-	-
Aguas Manquehue S.A.	89,221,000-4	Subsidiary	Loans granted	98,770	-	-	-
			Loans	2,321,724	-	909,711	(2,084)
			Payment of loans & interest	2,349,349	(14,387)	912,957	-
			Collection of loans granted	-	-	259,461	(428)
Comercial Orbi II S.A.	96,809,310-K	Subsidiary	Dividends received	-	-	509,032	-
Aguas Los Dominicos S.A.	92,108,000-K	Subsidiary	Loans	1,355,000	-	1,347,720	-
			Payment of loans & interest	62,500	-	1,350,622	(2,882)
Inversiones Aguas Metropolitanas S.A.	77,274,820-5	Parent	Consultancies	3,468,403	(3,468,403)	4,838,175	(4,838,175)
			Dividends paid	41,467,260	-	43,871,550	-
Aguas de Levante S.A.	59,094,680-K	Related	Purchase of materials	4,329	-	64,934	-
Degrémont S.A. Agencia en Chile	59,066,560-6	Related	Payment of plant construction	-	-	-	-
			debt	1,528,361	-	5,662,310	-
			Plant operation	4,402,633	(4,402,633)	2,727,709	(2,727,709)
Degrémont L.tda.	59,096,940-0	Related	Automation of sludge	775,997	-	-	-
CORFO	60,706,000-2	Related	Dividends paid	28,952,238	-	29,972,847	-
Omnilogic Telecomunicaciones	96,847,530-4	Related	Network maintenance service	69,955	(69,955)	-	-

6. INCOME TAX AND DEFERRED TAXES

At December 31, 2006 and 2005, the detail of taxable income and other concepts is as follows:

	2006 ThCh\$	2005 ThCh\$
a) Taxable income	86,382,255	86,438,027
b) FUT balance (Unremitted earnings)	47,072,599	58,825,167
c) 17% credit for shareholders	6,633,616	10,160,842

The detail of timing differences is as follows:

Deferred taxes 2006

Concept	Deferred tax assets		Deferred tax liabilities	
	Short term ThCh\$	Long term ThCh\$	Short term ThCh\$	Long term ThCh\$
Allowance for doubtful accounts	368,390	1,555,279	-	-
Unearned income	120,030	24,730	-	-
Provision for vacations	106,457	106,457	-	-
Leased assets	-	-	2,709	51,925
Depreciation fixed assets	-	453,868	-	-
Severance indemnities	27,752	138,828	-	-
Other events	-	676,505	2,404	22,631
Litigation	-	470,887	-	-
Investment expenses on related companies	-	-	-	84,401
Software	-	-	-	95,739
Deferred expenses	-	-	10,715	68,754
Discount on bonds placement	-	-	226,031	1,854,813
Allowance for payment agreements	325,241	148,004	-	-
Obsolescence fixed assets	-	9,977	-	-
Total	947,870	3,584,535	241,859	2,178,263

Notes to the financial statements

Deferred taxes 2005

Concept	Deferred tax assets		Deferred tax liabilities	
	Short term ThCh\$	Long term ThCh\$	Short term ThCh\$	Long term ThCh\$
Allowance for doubtful accounts	270,799	1,727,286	-	-
Unearned income	25,102	28,287	-	-
Provision for vacations	109,835	109,835	-	-
Leased assets	-	-	53,397	5,088
Depreciation fixed assets	-	306,423	-	-
Severance indemnities	85,513	-	-	-
Other events	-	92,399	-	-
Litigation	-	673,052	-	-
Investment expenses in related companies	-	-	-	92,532
Software	-	-	-	130,965
Deferred expenses	-	-	11,929	90,388
Discount on bonds placement	-	-	190,035	1,324,884
Allowance for payment agreements	247,903	153,337	-	-
Obsolescence fixed assets	-	10,187	-	-
Total	739,152	3,100,806	255,361	1,643,857

Income tax

	2006 ThCh\$	2005 ThCh\$
Current tax charge (tax provision)	(14,684,983)	(14,694,465)
Adjustment from prior year	(6,753)	(18,890)
Deferred taxes for the year	171,543	1,095,364
Other charges or credits	(34,313)	(26,125)
Total	(14,554,506)	(13,644,116)

7. OTHER CURRENT ASSETS

The detail of this item is as follows:

Other current assets	2006 ThCh\$	2005 ThCh\$
Instruments of Central Bank of Chile (Note 22)	-	19,923,436
Discount on bonds placement	1,329,593	1,117,852
Guarantees for paving rights	1,891	1,931
Others	97	24,221
Total	1,331,581	21,067,440

8. FIXED ASSETS

The composition of these is as follows:

	2006 ThCh\$	2005 ThCh\$
Land		
Land	29,645,222	27,903,219
Sub total land	29,645,222	27,903,219
Buildings and infrastructure		
Gross value	902,897,074	896,369,123
Accumulated depreciation	(474,026,065)	(461,887,911)
Sub total buildings and infrastructure	428,871,009	434,481,212
Machinery and equipment		
Gross value	107,418,527	102,766,130
Accumulated depreciation	(51,807,266)	(44,770,049)
Sub total machinery and equipment	55,611,261	57,996,081
Other fixed assets		
Gross value	18,894,321	18,612,943
Accumulated depreciation	(14,650,011)	(14,090,224)
Sub total other fixed assets	4,244,310	4,522,719
Total net fixed assets	518,371,802	524,903,231

Notes to the financial statements

Depreciation for the year

The charge to income for depreciation at December 31, 2006 and 2005 is as follows:

	2006 ThCh\$	2005 ThCh\$
Depreciation in:		
Cost of sales	28,295,573	27,653,809
Administrative and selling expenses	2,257,811	2,271,770
Total	30,553,384	29,925,579

The Company has seventy 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 Ministry of the Economy Regulation 453 of 1989. These are explained in Note 29.

Leasing

Assets acquired under financial leases, shown in Other fixed assets, are as follows.

	Purchase date	Gross value ThCh\$	Depreciation ThCh\$	Net value ThCh\$	Instalments
Telephonic digital link and accessories services	17-01-05	57,345	15,434	41,911	48
Total		57,345	15,434	41,911	

9. INVESTMENTS IN RELATED COMPANIES

The extraordinary shareholders meeting of Comercial Orbi II S.A., held in October 2006, agreed to a capital increase of Ch\$118,341,203,847, equivalent to 49,127 shares for payment. This capital increase was fully subscribed and paid by the shareholder Aguas Andinas S.A., and the other shareholder renounced their pre-emptive subscription rights. The same extraordinary meeting accepted that Aguas Andinas S.A. could pay for the increase by contributing shares in Aguas Cordillera S.A. which were valued at Ch\$118,339,453,286, with the balance in cash.

On November 29, 2006, Gestión y Servicios S.A. held an extraordinary shareholders meeting that approved a capital increase from Ch\$13,220,228 divided into 100,000 fully paid common shares of no par value to Ch\$608,130,488 divided into 4,600,000 shares of the same characteristics. The capital increase of Ch\$594,910,260 was made with the issue of 4,500,000 shares for payment. The shares corresponding to this new issue were fully subscribed and paid by Aguas Andinas S.A., for which Aguas Cordillera S.A. renounced their pre-emptive subscription rights.

A share sale agreement was signed on November 30, 2006 between Aguas Andinas S.A. and Aguas Manquehue S.A., whereby the latter sold to the former one share in Aguas Manquehue S.A. for Ch\$64,379. This transaction was carried out within the terms of clause 27 of the Corporations Law which states, in the pertinent part, that corporations may only acquire their own shares when the acquisition results in the merger with another company that is shareholder in the absorbing company, which situation occurred with the merger of Aguas Manquehue S.A. with Hidráulica Manquehue Ltda.

The following shows the investments at December 31, 2006 and 2005:

Tax number	Company	Country of origin	Control currency	Number of shares	Percentage interest		Equity of company		Result for year		Accrued result		Proportional equity value		Book value of investmet	
					2006 %	2005 %	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
96.809.310-K	Comercial Orbi II S.A.	Chile	Pesos	50,122	99.99003	99.90000	89,754,704	13,230,996	3,556,843	1,877,245	3,555,104	1,875,367	89,745,755	13,217,766	89,745,755	13,217,766
96.945.210-3	Ecoriles S.A.	Chile	Pesos	2,575	99.03846	99.03846	2,363,937	1,524,721	839,217	534,020	831,148	528,885	2,341,207	1,510,059	2,341,207	1,510,059
96.967.550-1	Análisis Ambientales S.A.	Chile	Pesos	990	99.00000	99.00000	1,518,256	1,030,459	487,797	229,232	482,919	226,940	1,503,073	1,020,155	1,503,073	1,020,155
96.828.120-8	Gestión y Servicios S.A.	Chile	Pesos	4,501,000	97.84783	1.000000	785,189	1,781,297	75,863	786,101	75,863	7,861	768,290	17,813	768,290	17,813
89.221.000-4	Aguas Manquehue S.A.	Chile	Pesos	1	0.00043	-	15,491,112	-	1,954,264	-	2	-	67	-	67	-
80.311.300-9	Aguas Cordillera S.A.	Chile	Pesos	-	-	99.99999	-	62,566,848	12,114,481	12,301,788	10,346,151	12,301,787	-	62,566.841	-	62,566,841
Total													94,358,392	78,332,634	94,358,392	78,332,634

10. GOODWILL

As of December 31, 2006 and 2005, the balances of this account represent the difference between the acquisition value and the proportional investment equity value of the acquired company at the time of purchase, as follows:

Tax number	Company	2006		2005	
		Amortization for the year ThCh\$	Goodwill balance ThCh\$	Amortization for the year ThCh\$	Goodwill balance ThCh\$
80.311.300-9	Aguas Cordillera S.A.	3,834,766	52,088,900	3,834,766	55,923,666
96.809.310-K	Comercial Orbi II S.A.	217,115	3,091,173	217,115	3,308,289
Total		4,051,881	55,180,073	4,051,881	59,231,955

Notes to the financial statements

11. INTANGIBLE ASSETS

The balances as at December 31, 2006 and 2005 of the restated costs of intangible assets (Note 2 I) are:

	2006 ThCh\$	2005 ThCh\$
Water rights	4,290,488	4,185,548
Rights of way	6,433,942	6,290,653
Other rights (1)	6,886,034	6,886,034
Usufruct rights (2)	13,539	-
Sub total	17,624,003	17,362,235
Accumulated amortization water rights	(738,846)	(633,172)
Accumulated amortization easements	(1,150,346)	(990,352)
Amortization other rights (1)	(774,679)	(602,528)
Sub total	(2,663,871)	(2,226,052)
Total intangible assets	14,960,132	15,136,183
Amortization for the year shown in cost of sales		
Water rights	105,675	98,097
Rights of way	159,994	157,224
Other rights (1)	172,151	174,619
Total amortization	437,820	429,940

(1) Relate to the purchase of gratuitous rights to the consumption of water to the Municipality of Santiago, which are being amortized over 40 years.

(2) In October 2006, Aguas Andinas S.A. acquired 1 share in Comercial Orbi II S.A. from Aguas Cordillera S.A., in usufruct.

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 groundwater wells in the Metropolitan Region, for which Aguas Andinas S.A. has the water rights concessions, was granted to it gratuitously by the Water Department of the Ministry of Public Works.

12. BORROWINGS FROM BANKS AT SHORT-TERM

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

a) Short term

Tax number	Bank	U.F.		Non-indexed Ch\$		Total	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
97.004.000-5	Banco de Chile	-	10,395,306	1,838,745	10,259,586	1,838,745	20,654,892
97.036.000-K	Banco Santander - Santiago	-	-		16,510	-	16,510
97.032.000-8	Banco BBVA	-	-	7,718,820	-	7,718,820	-
97.023.000-9	Banco Corpbanca	-	-	4,469,014	-	4,469,014	-
97.006.000-6	Banco Crédito e Inversiones	-	4,005,220	-	4,005,220	-	-
Total		-	10,395,306	18,031,799	10,276,096	18,031,799	20,671,402
Principal outstanding		-	10,369,038	17,971,553	10,210,000	17,971,553	20,579,038
Average annual interest rate			0.95%	5.37%	5.64%		

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b) Long term - current portion

Tax number	Bank	U.F.		Non-indexed Ch\$		Total	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
97.004.000-5	Banco de Chile	-	-	1.943,066	1,992,539	1,943,066	1,992,539
97.036.000-K	Banco Santander - Santiago	-	-	4.163,528	92,918	4,163,528	92,918
97.032.000-8	Banco BBVA	-	-	8,210,676	4,312,363	8,210,676	4,312,363
Total		-	-	14,317,270	6,397,820	14,317,270	6,397,820
Principal outstanding		-	-	14,046,667	6,057,933	14,046,667	6,057,933
Average annual interest rate				6.72%	7.29%		
Percentage of debt in local currency 100%							

Notes to the financial statements

13. BORROWINGS FROM BANKS AT LONG-TERM

Includes bank loans with maturities of over one year.

Tax number	Bank	Currency/ indexation unit	Years to maturity				Closing date current year		Closing date previous year
			1 to 2	2 to 3	3 to 5	5 to 10	Total long term at year end	Average annual interest	Total long term at year end
			ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	%	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	6.80	9,699,500
97,036,000-K	Banco Santander - Santiago	Non-indexed Ch\$	4,080,000	4,080,000	8,160,000	-	16,320,000	6.70	20,828,400
97,032,000-8	Banco BBVA	Non-indexed Ch\$	8,066,667	8,066,666	8,066,667	-	24,200,000	6.66	32,944,267
Total			14,046,667	14,046,666	20,026,667	1,900,000	50,020,000		63,472,167
Percentage in local currency: 100%									

14. 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, December 2005 and January 2006 on the domestic market.

In September 2001, Series B bonds were issued 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 repayments starting 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. On January 3 and 9, 2006, these bonds were exchanged and paid in advance with bonds of the Series F (94.6% and 5.4% respectively). The placement of this series was for an amount of U.F. 5.0 million, with semi-annual repayments from June 1, 2008 to December 1, 2026.

On December 9, 2005, the Superintendency of Securities and Insurance registered a new bond issue (Series F) against the line registered by that authority under N° 305 on October 10, 2002, for a total of U.F. 5.0 million, in order to finance the prepayment of the Series D bonds and other refinancings of Aguas Andinas S.A. in January 2006.

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 short-term liabilities.

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

Number of inscription or identification of instrument	Series	Nominal amount placed outstanding	Indexation unit	Interest rate %	Final maturity	Payments of		Par value		Placement in Chile or abroad
						Interest	Principal	2006 ThCh\$	2005 ThCh\$	
Long-term bonds - current portion										
266	BEMOS B1	-	U.F.	6.25	01.09.2022	Semi-annual	2008 sem-ann	263,353	263,581	Chile
266	BEMOS B2	-	U.F.	6.25	01.09.2022	Semi-annual	2008 sem-ann	413,840	414,199	Chile
305	BAGUA C1	166.667	U.F.	4.25	01.12.2010	Semi-annual	Semi-annual	3,098,910	3,112,317	Chile
305	BAGUA C2	500.000	U.F.	4.25	01.12.2010	Semi-annual	Semi-annual	9,296,723	9,336,945	Chile
305	BAGUA D1	-	U.F.	4.25	04.01.2006	-	-	-	30,482,661	Chile
305	BAGUA D2	-	U.F.	4.25	04.01.2006	-	-	-	57,917,040	Chile
305	BAGUA E	-	U.F.	4.00	01.06.2012	Semi-annual	Maturity	99,862	99,949	Chile
305	BAGUA F	-	U.F.	4.15	01.12.2026	Semi-annual	2008 SEM	313,842	-	Chile
Total short-term portion								13,486,530	101,626,692	
Long-term bonds										
266	BEMOS B1	700.000	U.F.	6.25	01.09.2022	Semi-annual	Semi-annual	12,835,466	12,846,597	Chile
266	BEMOS B2	1.100.000	U.F.	6.25	01.09.2022	Semi-annual	Semi-annual	20,170,018	20,187,509	Chile
305	BAGUA C1	500.000	U.F.	4.25	01.12.2010	Semi-annual	Semi-annual	9,168,183	12,234,847	Chile
305	BAGUA C2	1.500.000	U.F.	4.25	01.12.2010	Semi-annual	Semi-annual	27,504,568	36,704,562	Chile
305	BAGUA E	1.650.000	U.F.	4.00	01.06.2012	Semi-annual	Maturity	30,255,026	30,281,264	Chile
305	BAGUA F	5.000.000	U.F.	4.15	01.12.2026	Semi-annual	Semi-annual	91,681,900	-	Chile
Total long term								191,615,161	112,254,779	

Notes to the financial statements

15. PROVISIONS AND WRITE-OFFS

The detail of provisions as at December 31, 2006 and 2005 is as follows:

	Current liabilities		Long-term liabilities	
	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
Severance indemnities (note 16)	764,864	1,021,000	7,782,568	6,875,641
Bonuses and profit sharing (1)	2,241,628	2,844,908	-	-
Accrued services	10,021,532	7,938,240	-	-
Accrued vacations	1,252,431	1,292,171	-	-
Litigation pending	1,159,922	896,126	-	-
Total	15,440,377	13,992,445	7,782,568	6,875,641

(1) Shown net of advances paid during the years 2006 and 2005 of ThCh\$888,750 and ThCh\$229,411 respectively.

The amounts of write-offs are shown in Note 4 (Short and long-term receivables).

16. SEVERANCE PAYMENTS

At December 31, 2006 and 2005, the movement in the provisions for severance indemnities (including the short-term portion) is as follows:

	2006 ThCh\$	2005 ThCh\$
Initial balance	7,734,222	7,922,320
Increase in provision	1,412,877	1,492,323
Payments in the year	(814,346)	(1,832,961)
Price-level restatement	214,679	314,959
Total	8,547,432	7,896,641

The severance indemnity has been calculated in accordance with the accounting practice explained in Note 2 r).

The charge to income for these items, including the indemnities related to clause 161 of the Labor Code, at December 31, 2006 and 2005 amounts to ThCh\$1,488,009 and ThCh\$1,688,984 respectively.

17. CHANGES IN SHAREHOLDERS' EQUITY

2006

The ordinary shareholders meeting held on April 26, 2006 agreed to distribute all the Company's net income for the year 2005 plus ThCh\$499,684 (historic) of reserves for future dividends, after deducting the interim dividend paid in September 2005. The amount of the dividend was ThCh\$54,556,693 (historic), equivalent to Ch\$8.9160 per share and was paid on May 25, 2006.

The Board meeting held on September 19, 2006 agreed to distribute ThCh\$28,208,429 (historic) as an interim dividend, equivalent to Ch\$4.61 per share, against the net income for 2006. This was paid on October 26, 2006.

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, 2006 into 6,118,965,160 subscribed and paid shares.

Other reserves

As required by Technical Bulletin N° 72 of the Chilean Institute of Accountants, paragraph 29, groups of companies under common control are accounted for as a pooling of interests methodology show in Other reserves the variations produced due to the increase in investments by Aguas Andinas S.A. through the purchase of shares in Gestión y Servicios S.A., Comercial ORBI II S.A. and Aguas Manquehue S.A., and the reduction in its holding in Aguas Cordillera S.A. through the disposal of all the shares (Note 9).

2005

The ordinary shareholders' meeting held on April 21, 2005 agreed to distribute 100% of the Company's net income for 2004. The dividend amounted to ThCh\$62,504,005 (historic), 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 2005 net income. This payment was made on September 27, 2005.

2006

	Paid in capital ThCh\$	Share premium ThCh\$	Other reserves ThCh\$	Reserve for future dividends ThCh\$	Interim dividends ThCh\$	Net income for year ThCh\$
Initial balance	130,274,844	197,208,178	-	501,766	(21,887,539)	75,944,683
Distribution previous year net income	-	-	-	54,057,144	21,887,539	(75,944,683)
Final dividend previous year			-	(54,556,693)	-	-
Reserve Technical Bulletin 72	--	-	6,056	-	-	-
Restatement of capital	2,735,772	4,141,372	(12)	109,160	112,833	
Result for the year	-	-	-	-	-	84,622,086
Interim dividends	-	-	-	-	(28,208,429)	-
Closing balances	133,010,616	201,349,550	6,044	111,377	(28,095,596)	84,622,086

Notes to the financial statements

2005

	Paid in capital ThCh\$	Share premium ThCh\$	Reserve for future dividends ThCh\$	Interim dividends ThCh\$	Net income for year ThCh\$
Initial balance	125,747,919	190,355,384	605,545	-	62,503,455
Distribution previous year net income	-	-	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)	-
Result 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
Balances restated	133,010,616	201,349,550	512,303	(22,347,177)	77,539,521

Number of shares

Series	N° Shares subscribed	N° Shares paid	N° Shares with voting rights
A	3,975,973,019	3,975,973,019	3,975,973,019
B	2,142,992,141	2,142,992,141	2,142,992,141
Total	6,118,965,160	6,118,965,160	6,118,965,160

Capital (amount - ThCh\$)

Series	Subscribed capital ThCh\$	Paid capital ThCh\$
A	86,427,461	86,427,461
B	46,583,155	46,583,155
Total	133,010,616	133,010,616

18. OTHER NON-OPERATING INCOME AND EXPENSES

The detail of these at December 31, 2006 and 2005 is as follows:

	2006 ThCh\$	2005 ThCh\$
Other non-operating income		
Sale of fixed assets	1,177,386	14,597
Income from payment agreements and others (1)	1,122,733	135,163
Services to third parties (2)	932,110	995,438
Fines and indemnities from suppliers and contractors (3)	564,960	1,093,870
Services to customers	280,576	264,942
Property rentals	178,515	185,574
Sale of materials	82,439	-
Insurance refund	70,298	8,556
Others	93,227	31,038
Total	4,502,244	2,729,178
Other non-operating expenses		
Projects discarded and research	763,904	179,590
Asset shortages	479,239	108,967
Donations	144,103	104,103
Legal costs	43,134	6,128
Others	17,364	33,792
Sale of materials	-	22,377
Total	1,447,744	454,957

(1) Mainly relate to agreements signed with property 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

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

(3) In 2005, includes a transaction with Degremont for discrepancies in the application and interpretation of the La Farfana treatment plant construction contract.

Notes to the financial statements

19. PRICE-LEVEL RESTATEMENT

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

	Indexation unit	2006 ThCh\$	2005 ThCh\$
Assets			
Inventories	I.P.C.	29,342	25,720
Fixed assets	I.P.C.	10,739,568	18,393,510
Investments in related companies	I.P.C.	1,768,046	2,191,030
Goodwill (net)	I.P.C.	1,218,287	2,199,052
Intangible assets	I.P.C.	313,823	529,809
Other monetary assets	I.P.C.	271,221	526,894
Other monetary assets	U.F.	22,899	12,531
Other non-monetary assets	U.F.	2,122	3,757
Other non-monetary assets	I.P.C.	406,928	491,885
Expense and cost accounts	I.P.C.	678,774	1,719,586
Total credits		15,451,010	26,093,774
Liabilities			
Shareholders' equity	I.P.C.	(7,099,125)	(11,032,241)
Bonds payable	U.F.	(4,193,841)	(7,709,233)
Monetary liabilities	U.F.	(279,307)	(401,615)
Monetary liabilities	I.P.C.	(223,081)	(491,362)
Non-monetary liabilities	I.P.C.	(3,697)	(2,436)
Non-monetary liabilities	U.F.	(44,977)	(83,134)
Expense accounts	I.P.C.	(1,923,038)	(4,336,082)
Total (charges)		(13,767,066)	(24,056,103)
Gain from price-level restatements			
		1,683,944	2,037,671

20. EXCHANGE DIFFERENCES

Exchange differences during the years ended December 31, 2006 and 2005 were as follows:

	Currency	2006 ThCh\$	2005 ThCh\$
Assets			
Cash and banks	Dollar	189	(816)
Cash and banks	Euros	-	33
Other assets	Dollar	(264)	(3,031)
Other assets	Euros	473	(323)
Total (charges) credits		398	(4,137)
Liabilities			
Accounts payable	Dollar	2,834	401
Accounts payable	Euros	(6,104)	(3,101)
Other liabilities	Dollar	-	344
Other liabilities	Euros	(1,193)	3,219
Total credits (charges)		(4,463)	863
Loss on exchange differences			
		(4,065)	(3,274)

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21. BOND ISSUE AND PLACEMENT COSTS

During the months of September 2001, December 2002, May 2003, December 2005 and January 2006, 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 and placement costs 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	Period of amortization Years	Gross capitalized expenses 2006 ThCh\$	2005 ThCh\$
Series B	21.0	542,936	542,936
Series C	8.0	1,284,758	1,284,758
Series D	6.0	-	2,655,001
Series E	6.5	124,968	120,128
Series F	21.0	2,020,621	-
Total		3,973,283	4,602,823

The Series D bonds were exchanged in January 2006 and the capitalized costs were transferred to the Series F bonds according to the percentage of acceptance. The balance of the non-acceptances was charged to income.

Notes to the financial statements

22. 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:

	2006 ThCh\$	2005 ThCh\$
Cash and banks	23,586	80,760
Marketable securities (mutual funds)	355,656	-
Other current assets (Note 7) (Instruments of Central Bank of Chile)	-	19,923,436
Balance cash and cash equivalents	379,242	20,004,196

The activity of financing cash flows generated in 2006 and 2005 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). The other financing disbursements relate to the prepayment of notes for responsible financial contributions.

Investment activities committing future cash flows relate to construction works whose amounting as of December 31, 2006 and 2005 to ThCh\$6,264,598 and ThCh\$11,522,708 respectively. In January, an amount of ThCh\$1,574,286 was received relating to the sale of fixed assets.

23. CONTINGENCIES AND RESTRICTIONS

a) Direct guarantees

Guarantee policies and performance bonds 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\$12,511,122 and ThCh\$10,372,415 at December 31, 2006 and 2005 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. The appeals court confirmed the judgment in the first instance which rejected the demand against Aguas Andinas S.A. and revoked the sentence against the Treasury, dismissing the demand against it. The plaintiff presented an appeal for reversal which remains pending.

- 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: 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.
Sentence was given in the first instance rejecting the demand in all its parts. 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. had a 1% shareholding at the time of the demand.
Final sentence was given in the first instance 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. State of the case: Sentence accepted the demanda; an appeal will be made.
- Court: 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. There is a moderate possibility of success; the result will depend on the proof of damages submitted. The process has not yet commenced.
- Court: 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.

Notes to the financial statements

- Court: 5th Civil Court of Santiago; Case: 10852-2005
Aguas Andinas S.A was demanded for its civil liability for the accidental death of Mario Cañete Muñoz, a worker at the Kennedy-Estoriil works. Amount demanded: ThCh\$110,000 approximately, plus indexation, interest and costs. Present position: Evidence period. Expected result: the demand should be rejected with Aguas Andinas as the company was not responsible for the works.
- Court: 19th Civil Court of Santiago - Case: 1105-2006
Aguas Andinas S.A was sued for damages and extra-contractual liability for environmental damage under Law 19,300. The absence of a timely and suitable solution to the bad odors from the West Santiago plants and later the La Farfana plant are alleged to have caused prolonged suffering or moral damage to residents and an enormous patrimonial damage affecting the value of their properties. State of the case: first instance, discussion period. Exceptions have been presented to correct mistakes in the demand. Amount demanded: ThCh\$940,000 plus indexation and interest. Expected result: success will depend on the evidence of damage; the process stage has not yet begun.
- Court: 24th Civil Court of Santiago. Case: 6539-2006
A company is suing CORFO for the restitution of reappraisal of land at a property in Avenida Andrés Bello, Las Condes, Santiago. This land was acquired by Corfo through a sale by Aguas Andinas S.A. in September 1999. Amount demanded: undetermined. State of the case: discussion period. Estimated result: the demand should be rejected.
- 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 15.

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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 bond-holders' representative a copy of its 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 and 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.

d) Bank loan restrictions

The Company has the following covenants 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 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 of operating income plus depreciation and amortization of intangible assets for the year, to 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.

Notes to the financial statements

Direct collaterals

Creditor of collateral	Debtor	Kind of guarantee	Balances pending outstanding at of close of financial statements	
			2006 M\$	2005 M\$
S.I.S.S.	Aguas Andinas S.A.	Guarantee policy	7,047,669	8,013,510
S.I.S.S.	Aguas Andinas S.A.	Performance bond	4,136,730	-
Serviu Metropolitano	Aguas Andinas S.A.	Performance bond	1,251,994	1.839,132
I. Municipalidad de Providencia	Aguas Andinas S.A.	Performance bond	20,648	20.684
I. Municipalidad de Santiago	Aguas Andinas S.A.	Performance bond	17,057	17,060
Dirección de Obras Hidráulicas	Aguas Andinas S.A.	Performance bond	11,335	6,920
Chilectra	Aguas Andinas S.A.	Performance bond	9,168	-
I. Municipalidad de Renca	Aguas Andinas S.A.	Performance bond	6,500	-
I. Municipalidad de San Bernardo	Aguas Andinas S.A.	Performance bond	5,501	-
Empresa de Ferrocarriles	Aguas Andinas S.A.	Performance bond	2,420	2,423
I. Municipalidad de La Granja	Aguas Andinas S.A.	Performance bond	1,100	-
I. Municipalidad de Las Condes	Aguas Andinas S.A.	Performance bond	1,000	1,021
Enersis S.A.	Aguas Andinas S.A.	Performance bond	-	9,176
I. Municipalidad de Macul	Aguas Andinas S.A.	Performance bond	-	957
Dirección Regional de Vialidad	Aguas Andinas S.A.	Performance bond	-	2,265
Constructora Norte Sur S.A.	Aguas Andinas S.A.	Performance bond	-	450,787
Dirección Nacional de Obras	Aguas Andinas S.A.	Performance bond	-	8,480
Total			12,511,122	10,372,415

24. GUARANTEES RECEIVED FROM THIRD PARTIES

At December 31, 2006 and 2005, the Company has received documents in guarantee for ThCh\$17,971,838 and ThCh\$15,483,975 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, 2006:

Contractor or supplier	Amount ThCh\$	Expiry date
Constructora Aconcagua S.A.	99,016	31/01/07
Necso Entrecanales C. Chile S.A.	109,156	31/01/07
Necso Entrecanales C. Chile S.A.	109,156	31/01/07
Necso Entrecanales C. Chile S.A.	109,156	31/01/07
Sacyr Chile S.A.	109,156	31/01/07
Sacyr Chile S.A.	109,156	31/01/07
Sacyr Chile S.A.	109,156	31/01/07
Constructora Belfi-BCF Ltda.	110,018	28/02/07
Constructora Acsa Ltda.	120,604	25/09/07
Captagua Ingeniería S.A.	147,941	16/03/08
Ingeniería y Construcción M.S.T. S.A.	148,739	09/11/09
Ingeniería y Construcción M.S.T. S.A.	148,739	31/01/08
Inmobiliaria Conpaces S.A.	157,574	12/10/08
GTECH Corporation Chile	179,513	24/10/07
Compañía Americana de Multiservicios S.A.	183,364	03/05/07
Chilectra S.A.	183,364	01/08/07
Jara Gumucio	207,000	02/01/07
Constructora Vespucio Norte S.A.	220,037	05/09/07
Constructora Norte Sur S.A.	220,568	28/02/07
ITT Sanitaire	224,542	30/10/07
Sociedad General de Montajes	227,332	31/01/08
Claro, Vicuña Valenzuela S.A.	233,424	15/02/07
KDM S.A.	275,046	10/01/08
Degremont S.A.- Banque Francaise du Cemme	280,547	25/04/09
Compañía de Petróleos de Chile	308,323	22/03/07
Ingeniería y Construcción M.S.T. S.A.	347,058	09/11/09
Ingeniería y Construcción M.S.T. S.A.	347,058	31/01/08
Cadagua S.A.	1,181,468	11/02/07
Degrémont S.A.- Banque Francaise du Cemme	2,237,758	30/08/07
Degrémont S.A.- Banque Francaise du Cemme	2,237,758	15/11/07
Total	10,681,727	

Notes to the financial statements

25. LOCAL AND FOREIGN CURRENCIES

The Company shows the following assets and liabilities in local and foreign currency as at December 31, 2006 and 2005:

Assets

	Currency	2006 ThCh\$	2005 ThCh\$
Current assets			
Cash and banks	Non-indexed Ch\$	20,164	77,425
Cash and banks	Dollar	3,422	3,335
Marketable securities	Non-indexed Ch\$	355,656	-
Trade accounts receivable	Non-indexed Ch\$	34,362,126	29,375,526
Notes receivable	Non-indexed Ch\$	1,801,646	71,782
Notes receivable	Indexed Ch\$	180,160	154,991
Sundry debtors	Dollar	-	1,199
Sundry debtors	Euro	-	1,318
Sundry debtors	Indexed Ch\$	25,041	49,751
Sundry debtors	Non-indexed Ch\$	68,422	276,090
Notes receivable from related companies	Non-indexed Ch\$	1,543,240	1,456,203
Notes receivable from related companies	Indexed Ch\$	1,480,835	3,818,229
Inventories	Indexed Ch\$	552,669	284,117
Recoverable taxes	Indexed Ch\$	130,437	198,985
Prepaid expenses	Indexed Ch\$	125,416	99,380
Deferred taxes	Indexed Ch\$	706,011	483,791
Other current assets	Non-indexed Ch\$	1,988	19,949,588
Other current assets	Indexed Ch\$	1,329,593	1,117,852
Fixed assets			
Fixed assets	Indexed Ch\$	518,371,802	524,903,231
Other assets			
Investments in related companies	Indexed Ch\$	94,358,392	78,332,634
Goodwill	Indexed Ch\$	55,180,073	59,231,955
Long-term debtors	Non-indexed Ch\$	898,719	817,392
Long-term debtors	Indexed Ch\$	5,657,487	5,731,366
Deferred taxes	Indexed Ch\$	1,406,272	1,456,949
Intangible assets (net)	Indexed Ch\$	14,960,132	15,136,183
Others	Indexed Ch\$	12,274,209	8,391,485
Others	Non-indexed Ch\$	417,894	632,950
Total assets	Non-indexed Ch\$	39,469,855	52,656,956
	Dollar	3,422	4,534
	Euro	-	1,318
	Indexed Ch\$	706,738,529	699,390,899

Current liabilities

		Up to 90 days				90 days to 1 year			
		2006		2005		2006		2005	
		Average annual		Average annual		Average annual		Average annual	
		Currency	Amount ThCh\$	interest rate %	Amount ThCh\$	interest rate %	Amount ThCh\$	interest rate %	Amount ThCh\$
Borrowings from banks short term	Non-indexed Ch\$	18,031,799	5.70	10,395,306	0.95	-	-	-	-
Borrowings from banks short term	Indexed Ch\$	-	-	10,276,096	5.64	-	-	-	-
Borrowings from banks current portion of long term	Non-indexed Ch\$	270,603	6.69	-	-	14,046,667	6.69	6,397,820	7.29
Bonds payable current portion	Indexed Ch\$	1,262,274	4.25	89,391,835	4.25	12,224,256	4.25	12,234,857	4.25
Accounts payable	Dollar	93,173	-	111,859	-	-	-	-	-
Accounts payable	Euro	111	-	2,921	-	-	-	-	-
Accounts payable	Non-indexed Ch\$	10,841,309	-	13,580,224	-	-	-	-	-
Accounts payable	Indexed Ch\$	46,798	-	21,694	-	-	-	-	-
Notes payable	Indexed Ch\$	2,195	3.07	2,060	2.57	6,552	3.07	6,180	2.57
Notes payable	Non-indexed Ch\$	10,420	-	-	-	15,631	-	-	-
Sundry creditors	Indexed Ch\$	3,984	4.34	3,835	4.34	11,952	4.34	11,508	4.34
Sundry creditors	Non-indexed Ch\$	51,037	-	66,967	-	-	-	-	-
Notes and accounts payable to related companies	Indexed Ch\$	7,682,858	-	7,222	-	-	-	1,772,655	-
Notes and accounts payable to related companies	Non-indexed Ch\$	2,053,761	-	1,503,078	-	-	-	-	-
Accruals	Non-indexed Ch\$	9,670,455	-	10,033,320	-	5,769,922	-	3,959,125	-
Withholdings	Non-indexed Ch\$	6,261,567	-	5,688,919	-	-	-	-	-
Income tax	Non-indexed Ch\$	20,836	-	1,203,510	-	-	-	-	-
Unearned income	Non-indexed Ch\$	130,599	-	418,804	-	-	-	-	-
Unearned income	Indexed Ch\$	257,351	-	-	-	63,707	-	20,800	-
Total pasivos circulantes	Non-indexed Ch\$	47,342,386	-	42,890,128	-	19,832,220	-	10,356,945	-
	Indexed Ch\$	9,255,460	-	99,702,742	-	12,306,467	-	14,046,000	-
	Dollar	93,173	-	111,859	-	-	-	-	-
	Euro	111	-	2,921	-	-	-	-	-

Notes to the financial statements

Long-term liabilities 2006

		1 to 3 years		3 to 5 years		5 to 10 years		Over 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 %
Currency									
Borrowings from banks	Non-indexed Ch\$	28,093,333	6.69	20,026,667	6.70	1,900,000	6.80	-	-
Bonds payable	Indexed Ch\$	34,809,034	4.27	23,720,424	4.34	61,551,348	5.39	71,534,355	4.76
Notes payable	Indexed Ch\$	17,471	3.07	17,491	3.07	8,467,989	3.46	7,978,348	3.57
Sundry creditors	Indexed Ch\$	15,268	-	-	-	-	-	-	-
Sundry creditors	Non-indexed Ch\$	3,000	-	-	-	-	-	-	-
Severance indemnities	Indexed Ch\$	-	-	-	-	-	-	7,782,568	-
Other long-term liabilities	Indexed Ch\$	356,710	-	41,562	-	62,344	-	-	-
Total long-term liabilities	Non-indexed Ch\$	28,096,333	-	20,026,667	-	1,900,000	-	-	-
	Indexed Ch\$	35,198,483	-	23,779,477	-	70,081,681	-	87,295,271	-

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Long-term liabilities 2005

		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years	
		Average annual		Average annual		Average annual		Average annual	
		Amount	interest rate	Amount	interest rate	Amount	interest rate	Amount	interest rate
	Currency	ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Borrowings from banks	Non-indexed Ch\$	28,683,294	7.29	32,848,973	7.29	1,939,900	7.40	-	-
Bonds payable	Indexed Ch\$	24,682,836	4.27	25,748,427	4.35	38,450,939	4.48	23,372,577	6.25
Notes payable	Indexed Ch\$	16,482	2.57	16,482	2.57	4,980,529	2.79	7,065,899	3.58
Sundry creditors	Indexed Ch\$	29,928	4.34	-	-	-	-	-	-
Severance indemnities	Indexed Ch\$	-	-	-	-	-	-	6,875,641	-
Other long-term liabilities	Indexed Ch\$	41,599	-	41,599	-	83,194	-	-	-
Total long-term liabilities	Non-indexed Ch\$	28,683,294	-	32,848,973	-	1,939,900	-	-	-
	Indexed Ch\$	24,770,845	-	25,806,508	-	43,514,662	-	37,314,117	-

26. SANCTIONS

a) Superintendency of Securities and Insurance

Neither the Company nor its directors or executives, were sanctioned during the years 2006 and 2005.

b) Other administrative authorities

Year 2006

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

By Resolution SISS N° 553 of February 8, 2006, it applied a fine of 50 UTA for non-compliance with written instructions from the Superintendency to provide information on expenses and costs for the year 2004, made in various notifications. Proceedings were brought appealing against the fine before the 26th Civil Court of Santiago (Case 15200-2006), intending to obtain a reduction in the fine; currently in the evidence stage.

By Resolution SISS N° 1389 of April 21, 2006, a fine of 5 UTA was made for sending the PRO017 4 (PROCOF) process with mistakes in load and validations. The fine was paid in May 2006.

By Resolution SISS N° 1454 of April 28, 2006, a fine of 20 UTA was made for sewage quality defects in the Quilicura district.

Proceedings were brought appealing against the fine, before the 29th Civil Court of Santiago (Case 6509-2006). It is intended to obtain a reduction in the fine; currently in the evidence stage.

ii) The Regional Secretary of the Ministry of Health, Metropolitan Region, applied a fine of 100 UTM for non-compliance with clauses 3, 33 and 66 of the regulations governing basic sanitation and environmental conditions in work places and non-compliance with clauses 9 and 161 to 174 of the Sanitation Code. The fine was paid in June 2006.

iii) The National Economic Inspector proponed to the Free Competition Defense Tribunal the application of a fine on Aguas Andinas S.A. for 50,000 U.T.M. because of the following conducts: 1) abusive demands and charges for new services in urbana reas outside the concession area, 2) abusive demands and charges for services in rural zone outside the concession area, and 3) abusive application of Reimbursable Financial Contributions (AFR) (the requirement proposes eliminating the AFR). State of the case: discussion period.

iv) The National Labor authority applied a fine of 60 U.T.M. "for not effectively protecting the health of workers". The facts relate to the death of four workers of a contractor firm working on the Dagoberto Godoy sewage drain. There are possibilities of the fine being annulled: currently in the evidence stage. One third of the fine was paid. Ordinary labor lawsuit broght before the 8th Labor Court of Santiago (Case 2449-2006).

Year 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 N° 1908 and in Chapter XI of the Invoicing Manual. Amount payable 40 "UTA" ("Annual Tax Units" - an official monetary unit). Fine reclassification proceedings brought before the 29th civil court of Santiago, Case 4779-2005. State of the case: unfavorable judgment, appealed, intending to obtain a reduction in the fine.

ii) The COREMA RM (regional environmental authority) applied 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 pant. 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 N° 6857-2005, which is at the evidence stage.

Notes to the financial statements

Year 2004

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

By 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 N° 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 rejection of the demand is pending. The amount of the sanction is 26 Annual Taxation Units (UTA).

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. The sentence accepted the demand and annulled the fine, proceedings emend in 2006.

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 N° 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 25th Civil Court of Santiago (Case N° 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 N° 6593-2004). State of the case: in the evidence stage.

27. SUBSEQUENT EVENTS

At the date of issue of these financial statements, the management of the Company is unaware of any subsequent events that might significantly affect the financial position and/or results of the Company at December 31, 2006.

28. THE ENVIRONMENT

The principal disbursements in projects for improving the environment made by the Company during 2006 and 2005 refer to the construction of sewage treatment plants, as follows:

Works	2006 ThCh\$	2005 ThCh\$
Talagante treatment plant	2,637,509	5,471,269
La Farfana treatment plant	1,434,754	5,984,064
Melipilla treatment plant	1,121,195	219,849
Sludge management platform	1,168,746	-
Curacaví treatment plant	772,461	962,550
Bio-drying equipment	175,205	-
El Trebal treatment plant	136,053	39,419
Sludge raising chamber	97,305	-
Greater Santiago treatment plant	62,005	-
Mapocho cleaning environmental impact assessment	54,863	-
Treatment plants sludge management	36,200	3,583
Mobile centrifugal	34,216	-
Repair of mixed sludge chambers	31,258	6,838
Valdivia de Paine treatment plant	27,723	45
Los Nogales treatment plant	-	22,624
Renovation & improvement of installations	22,071	-
Cexas-Melipilla treatment plant	9,399	-
Isla de Maipo treatment plant	8,399	-
Pomaire treatment plant	5,542	-
Til-Til treatment plant	5,246	-
Cexas & Esmeralda treatment plants remote controls	4,736	41,412
Total	7,844,886	12,751,653

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29. 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.

Notes to the financial statements

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\$ 1,635,088 and its depreciation, determined on the basis of its time in use, amounts to ThCh\$604,105.

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 of December 2006. The average useful life of these assets is 406 months and their remaining average useful life as at December 2006 is 279 months.

30. 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\$16,481,299 and ThCh\$12,079,392 at December 2006 and 2005 respectively.

Significant events

As of December 31, 2006 and 2005

The board meeting held on February 28, 2006 agreed to call the Company's ordinary shareholders meeting for April 26, 2006, at 11 a.m. at Avda. Presidente Balmaceda 1398, 10th floor, Santiago. The agenda for the meeting was to consider matters reserved for the ordinary meeting.

On April 25, 2006 the board received the resignations of the director Bernardo Espinosa Bancalari and his alternate director Roberto Hempel Holzapfel.

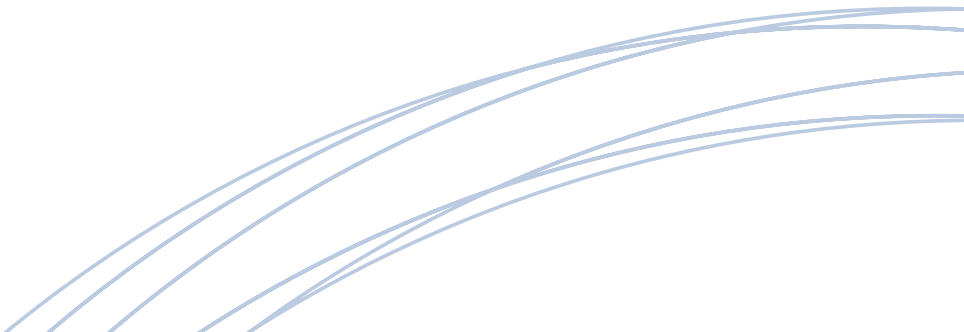
In accordance with clause 32 of the Corporations Law, the total renewal of the board would be decided at the next ordinary shareholders meeting to be held on April 26, 2006.

On April 26, 2006 the Superintendency of Securities and Insurance was informed that the Company's new board of directors comprised the following members:

Directors	Alternate directors
Alfredo Noman Serrano	José Vila Bassas
Alain Chaigneau	Fernando Rayón Martin
Pedro Butazzoni Alvarez	Xavier Amorós Corbella
Josep Bagué Prats	Lluis M Puiggari Lalanza
Mónica Singer González	Ramón Figueroa González
Jaime Arellano Quintana	Mario Castillo Astudillo
Carlos Mladinic Alonso	Jorge Bande Bruck

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On September 20, 2006, the Superintendency of Securities and Insurance was informed that at the board meeting held on September 29, 2006, it agreed to distribute an interim dividend for the sum of ThCh\$28,208,429 against the net income of 2006. The Company's dividend number 43 therefore would amount to Ch\$4.61 per share and be payable from October 26, 2006.



Management analysis

As of December 31, 2006 and 2005

I. GENERAL ASPECTS

SHARE COMPOSITION

The capital of Aguas Andinas is divided into 6,118,965,160 shares of no par value. At December 31, 2006, our principal shareholders are Inversiones Aguas Metropolitanas S.A., with 50.1%, and CORFO, with 34.98% shareholdings.

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 2006 amounted to Ch\$194,508 million, 4.9% (Ch\$9,079 million) higher than in 2005. The net income of Aguas Andinas S.A. at December 31, 2006 was Ch\$84,622 million, Ch\$7,083 million (9.1%) more than in 2005.

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 38.3%; the outsourcing of certain services to contractors, which represented 30.4%; and personnel, which represented 15.5% in 2006. The most important items of administration and selling expenses is personnel, which represented 47.5%; outsourced services, which represented 27%; and general expenses, which represented 13%, in 2006.

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.

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 potentially affect the optimum delivery of sanitation services because the processes of abstraction and producing 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 volume, quality and continuity of raw water available at each sluiceway that is capable of being treated at the 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. The dates of approval of development paln updates of Aguas Andinas S.A. were May 23, 2006 for Greater Santiago and December 2005 and during the first half of 2006 for outlying districts.

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 included as works in progress in Fixed assets in the balance sheet.

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II. COMPARATIVE ANALYSIS AND EXPLANATION OF CHANGES

BALANCE SHEET

The composition of assets and liabilities is as follows:

Assets	2006 Ch\$ millions	2005 Ch\$ millions	Changes %
Current assets	42,687	57,420	-25.66
Fixed assets (net)	518,372	524,903	-1.24
Other assets	185,153	169,731	9.09
Total	746,212	752,054	-0.78

Current assets are Ch\$14,733 million lower than the year before, mainly due to a decrease in financial investments of Ch\$ 19,567 million and notes and accounts receivable from related companies of Ch\$2,250 million, compensated by an increase in trade accounts receivable of Ch\$4,987 million and notes receivable of Ch\$1,755 million. The reduction in financial investments is basically explained by the fact that at the end of 2005 there were temporary funds deriving from the debt restructuring being carried out at that time.

Management analysis

The Company's gross fixed assets increased by 1.26% compared to the year before, from Ch\$1,045,651 to Ch\$1,058,855 million. The most important increases were in Buildings and infrastructure of Ch\$6,528 million, Machinery and equipment of Ch\$4,652 million and Land of Ch\$1,742 million, due to investments made in operating equipment, and sanitation and support infrastructure.

The charge for depreciation at December 2006 amounts to Ch\$30,553 million, 2.1% (Ch\$629 million) more than the level of 2005 (Ch\$29,926 million), basically because of assets that have started operating during last year, particularly the Talagante and Curacavi sewage treatment plants. Also, and because of works that have come into operation during last year and were carried out in previous years, accumulated depreciation increased by Ch\$19,735 million, 3.8% higher than the previous year. Including the above effects, fixed assets in net terms declined by 1.24% (Ch\$6,531 million) compared to December 2005.

Other assets increased by Ch\$15,422 million, the principal changes being an increase in Investments in related companies of Ch\$16,026 million (mainly due to the recognition of income in related companies of Ch\$15,291 million and the purchase of a holding in Gestión y Servicios S.A. for Ch\$594 million), and Other assets of Ch\$3,668 million, partly compensated by the fall in Goodwill of Ch\$4,052 million.

Liabilities		2006 Ch\$ millions	2005 Ch\$ millions	Changes %
Current liabilities		88,830	167,111	(46.84)
Long term liabilities		266,378	194,878	36.69
Total liabilities		355,208	361,989	(1.87)
Shareholders' equity		391,004	390,065	0.24

The change in the composition of short and long-term liabilities is mainly explained by the Company's refinancing policy (the exchange in January 2006 of Series D bonds for Series F bonds for U.F.5,000,000 with maturity in 2026).

Current liabilities fell by Ch\$78,281 million due to the reduction in Bonds payable of Ch\$88,140 million (following the exchange of bonds), Notes and accounts payable of Ch\$2,749 million and Bank borrowings at short term of Ch\$2,640 million. These were partially offset by the increase in Bank borrowings transferred from long term of Ch\$7,919 million and Notes and accounts payable to related companies of Ch\$6,454 million.

Long-term liabilities increased by Ch\$71,500 million over the year before due to the rise in Bonds payable (Series F bonds exchanged for the Series D) for Ch\$79,360 million and Notes payable for Ch\$4,402 million, partly compensated by reductions in Bank borrowings of Ch\$13,452 million.

Shareholders' equity compared to 2005 rose slightly by Ch\$939 million, the principal changes being the increase in net income of Ch\$7,083 million offset by the higher interim dividend payment of Ch\$5,748 million.

FINANCIAL INDICATORS

Indicators	Unit	2006	2005	Change %
Liquidity				
Current ratio	(times)	0.48	0.34	41.18
Acid test	(times)	0.004	0.119	-96.64
Debt				
Debt ratio	(%)	90.85	92.80	-2.10
Short-term debt	(%)	25.01	46.16	-45.82
Long-term debt	(%)	74.99	53.84	39.28
Financial expense coverage	(Times)	7.22	6.57	9.89
Activity				
Inventory turnover	(Times)	179.30	199.75	-10.15
Inventory permanence	(Days)	2.01	1.80	11.11
Profitability				
Return on equity (average)	(%)	21.67	19.60	10.56
Return on assets (average)	(%)	11.30	10.21	10.68
Earnings per share	(Ch\$)	13.83	12.67	9.15
Dividend yield	(%)	5.68	7.60	-25.40
Return on operating assets	(%)	17.72	16.18	9.52

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The current ratio in 2006 rose by 41.18%, mainly due to the fall in current liabilities (46.84%), compared to 2005. Current liabilities declined mainly due to Bonds payable at short term, because of the exchange of bonds made in January 2006. In net terms, the debt level fell slightly by 2.10% due to the fall in current liabilities, mainly debt refinancing, the payment of bank loan instalments.

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 9.52% following the 8.09% improvement in operating income. The return on average equity shows a 10.56% increase, mainly because of the 9.13% increase in profits compared to the previous year.

Management analysis

STATEMENT OF INCOME

The following table shows the most important items of the statement of income for the years ended December 31, 2006 and 2005:

Statement of Income	2006 Ch\$ millions	2005 Ch\$ millions	Change %
Sales	194,508	185,429	4.90
Cost of sales (less)	75,017	73,234	2.43
Administrative & selling expenses (less)	24,374	24,194	0.74
Operating income	95,117	88,001	8.09
Non-operating result	4,060	3,183	27.55
Net income for the year	84,622	77,540	9.13
Financial expenses (less)	15,933	16,381	-2.73
EBITDA	146,101	137,920	5.93

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

Sales

Aguas Andinas produced sales of Ch\$194,508 million in 2006, 4.9% (Ch\$9,079 million) more than 2005. This variation is explained as follows:

Concept	Sales 2006 Ch\$ millions	Contribution 2006 %	Sales 2005 Ch\$ millions	Contribution 2005 %
Water	86,779	44.6	85,120	45.9
Sewage	93,396	48.0	86,958	46.9
Other regulated revenues	8,602	4.4	8,091	4.4
Non-regulated businesses	5,731	2.9	5,260	2.8
Total	194,508	100.0	185,429	100.0

Under the heading or regulated servives, the main changes are:

a) Water: this covers water production and distribution services. These show an increase of Ch\$1,659 million (1.9%) as a result of 9.5 million m³ of greater volume and a lower average tariff applied. The higher sales volume is explained by the combination of a growth in customers of 2.6% and a reduction in unit consumption by -0.2%; while the lower average tariff reflects 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 of sewage and the interconnection of sewage systems. These show an increase of Ch\$6,438 million (7.4%) as a result of i) higher collection revenues of Ch\$3,729 million following the higher average tariff applied and a higher sales volume of 6.5 million m³, ii) higher treatment revenues of Ch\$2,036 million due to the increased average tariff applied and a greater sales volume of 6.5 million m³, and iii) higher income from sewage interconnections of Ch\$672 million due to a reduced average tariff applied and a higher sales volume of 2.6 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 cutting off and re-connection services, the control of liquid industrial waste discharges and provisions for non-billed consumption and discounts granted on repayment plans. These revenues show an increase of Ch\$511 million, basically explained by higher fixed charge income and a smaller provision for discounts on repayment plans.

d) Non-regulated business: increased by Ch\$471 million (9.0%), related to the growth in domicile connection installations services, repairs, calibrations and other services.

Operating cost

Operating costs were Ch\$99,391 million in 2006, Ch\$1,963 million (2.0%) more than the year before. This increase is mainly explained by the following:

The cost of sales increased by Ch\$1,783 million (2.4%) to Ch\$75,017 million, compared to Ch\$73,234 million the previous year. This is mainly explained by higher costs related to the increase in sewage treatment coverage following the start-up of the Talagante and Curacaví treatment plants, plus the increase in personnel costs related to the collective bargaining process carried out in the second half of 2006.

Administrative and selling expenses increased by Ch\$180 million to Ch\$24,374 million, compared to Ch\$24,194 million the year before. This is basically explained by higher personnel costs following the collective bargaining process, partially compensated by reduced tariff studies costs.

Operating income

Due to the factors mentioned above, the operating income of Aguas Andinas S.A. for 2006 was Ch\$95,117 million, Ch\$7,116 million (8.1%) more than that obtained in 2005. As a percentage of net sales, the margin increased from 41.8% in 2005 to 43.5% in 2006.

Non-operating result

The non-operating result of Aguas Andinas S.A. amounted to Ch\$4,060 million, Ch\$877 million more than in 2005.

The principal changes are explained by higher income from related companies (Ch\$350 million) and an increase in Other non-operating income (net) of Ch\$780 million, mainly due to higher revenues under agreements with property developers a better result from sales of fixed assets, partially offset by higher costs in shortages and obsolescence of fixed assets and projects discarded and studies.

Income tax

The provision for income tax for 2006 is Ch\$910 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 2006 amounted to Ch\$84,622 million, Ch\$7,082 million greater than in 2005.

Management analysis

STATEMENT OF CASH LOWS

The principal items in the cash-flow statement are as followsw:

Statement of cash flows	2006 Ch\$ millions	2005 Ch\$ millions	Change %
Operating activities	99,804	105,218	-5.15
Financing activities	(89,050)	(85,876)	-3.70
Investment activities	(30,076)	(33,013)	8.90
Net cash flow for year	(19,322)	(13,671)	41.34
Closing cash balance	379	20,004	-98.11

The cash flow from operating activities declined by Ch\$5,414 million compared to the previous year, the main changes being the reduction in Dividends received of Ch\$6,242 million, the higher payments of income tax and value-added tax of Ch\$3,059 million and Ch\$3,071 million respectively, partly offset by reduced payments to suppliers and personnel of Ch\$1,447 million and greater income from debtor collections of Ch\$6,610 million.

The financing cash flow reduced by Ch\$3,174 million compared to 2005, the main changes being the reduction in bonds issued of Ch\$25,024 million and higher repayments of bank loans of Ch\$46,833 million, compensated by the increase in loans drawn of Ch\$19,445 million, other loans received from related companies of Ch\$7,588 million and a reduction in the repayment of bonds and payment of dividend for Ch\$35,474 and Ch\$4,480 million respectively.

Investment cash flow showed a slight fall of Ch\$2,937 million, mainly due to a greater collection of loans to related companies of Ch\$2,311 million and a reduction in other loans to related companies of Ch\$2,976 million offset by higher acquisitions of fixed assets of Ch\$2,155 million.

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 i) of the financial statements at December 31, 2006.

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 (Ministry of Economy Decree 453 of 1989) which are explained in Note 29.

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 groundwater flows are supplied 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, part of the Ministry of Public Works.

In summary, and as indicated above, Aguas Andinas S.A. has no significant differences between the economic or market value and the book value of its 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 water, 98.3% in sewage services and close to 70% in sewage treatment.

Customers and volumes invoiced

	Customers			Thousand m³ invoiced *		
	2006	2005	Change %	2006	2005	Change %
Water	1,427,931	1,387,016	2.9	405,175	395,699	2.4
Sewage	1,400,427	1,360,635	2.9	402,189	395,716	1.6

* Relates to services units (properties) that receive sanitation services related to water or sewage.

FINANCIAL ASPECTS

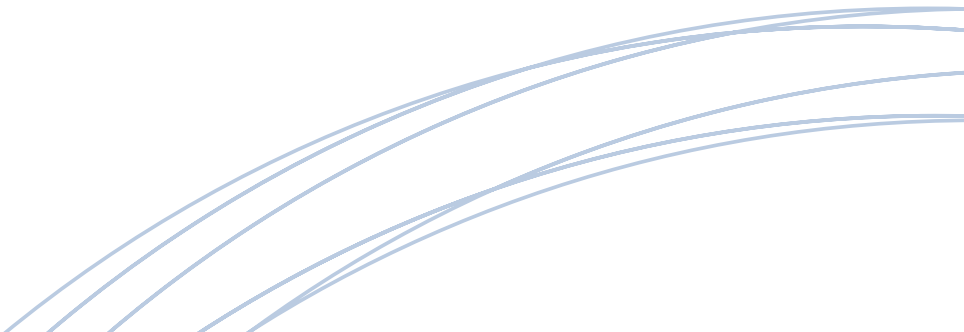
Currency risks: our revenues are largely linked to the local currency. Our debt therefore is mainly denominated in that currency so we do not have any significant debt in foreign currency.

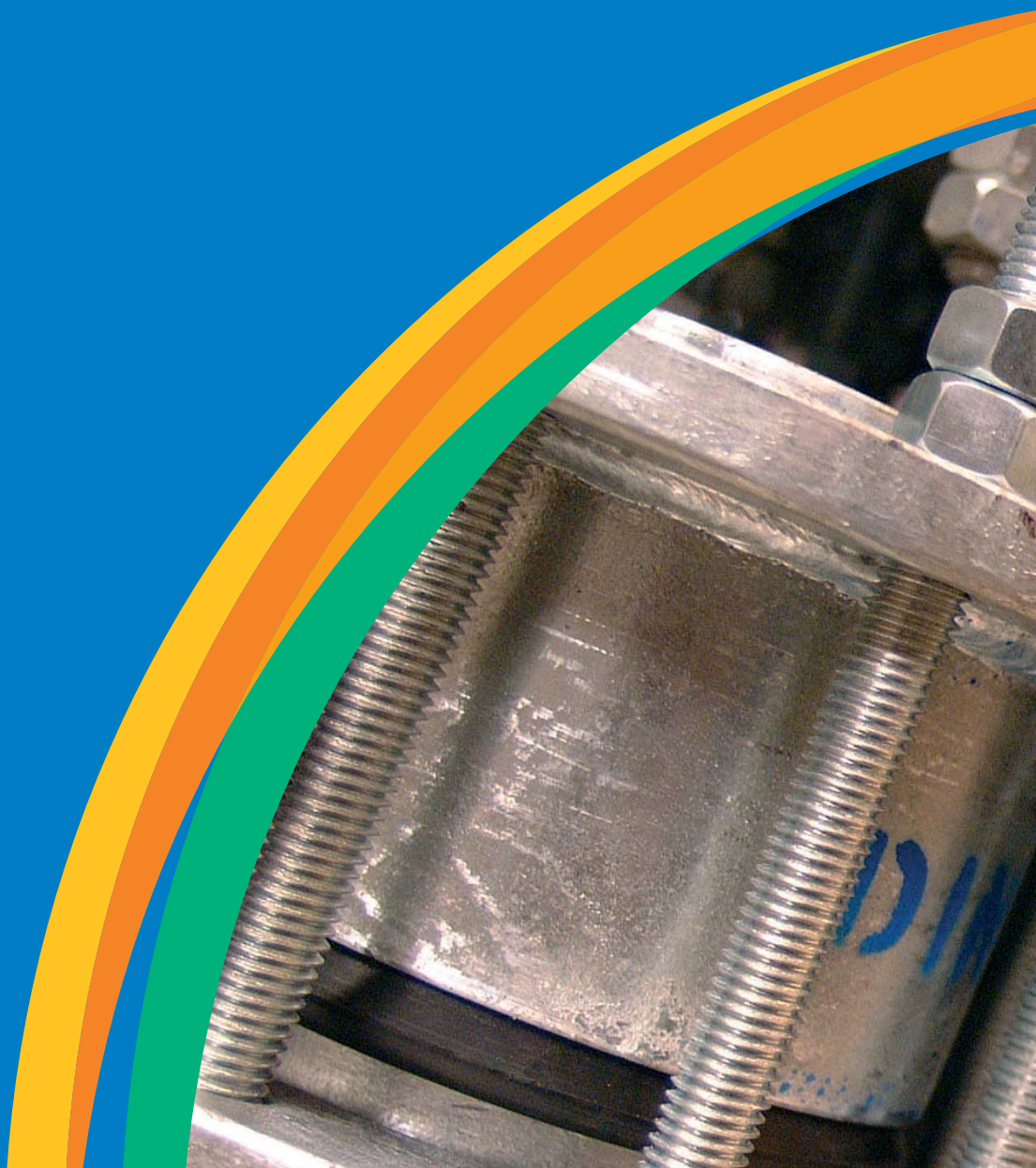
At December 31, 2006, Aguas Andinas had 79% of its debt at fixed rates and 21% at variable rates. The fixed-rate debt is comprised of bonds payable (86%), local bank loans (7%) and reimbursable financial contributions (7%), while the variable-rate debt is local bank loans.

At December 30, 2005, 78% of the debt was at fixed rates and 22% at variable rates. The fixed-rate debt comprised bonds payable (87%), local bank loans (8%) and reimbursable financial contributions (5%). The variable-rate debt comprised 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 1.





Financial statements subsidiaries summarized

As of December 31, 2006 and 2005

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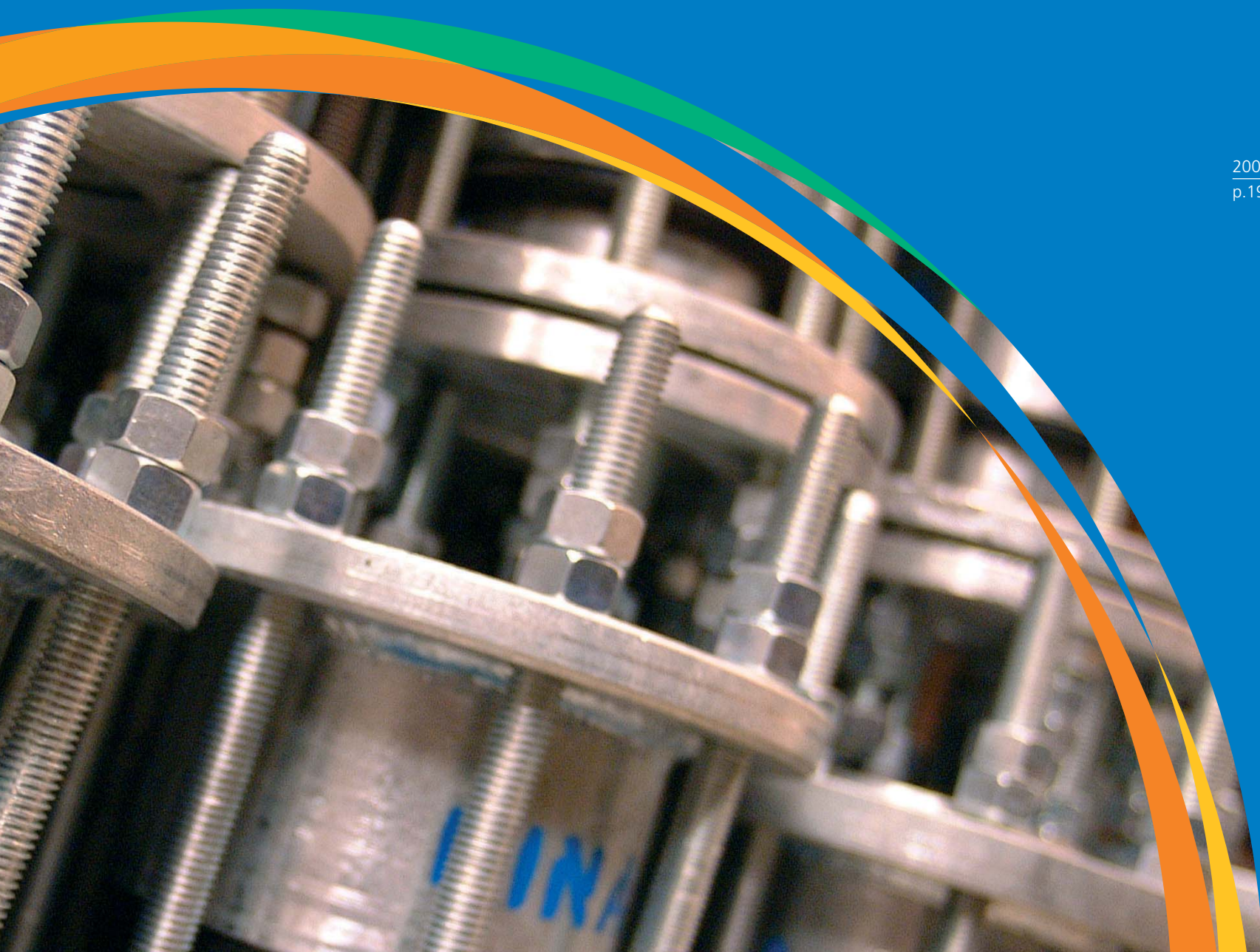
Gestión
y Servicios
S.A.

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Comercial
Orbi II S.A.
and Subsidiaries

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Análisis Ambientales S.A.

As of December 31, 2006 and 2005

GENERAL INFORMATION

Name : Análisis Ambientales S.A.
Kind of entity : Closely-held corporation subject to its bylaws and applicable legislation.
Address : Av. Camilo Henríquez 540, Puente Alto
Telephone : (56-2) 496 32 71
Fax : (56-2) 496 32 79
Tax N° : 96.967.550-1
External Auditors : Deloitte & Touche Sociedad de Auditores y Consultores Ltda.

Subscribed and paid capital : Ch\$224,400,567

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.)
	: Albert Martínez Lacambra	(Senior executive Aguas Andinas S.A.)

Chief Executive : Claudio Mujica Escudero

Parent company's shareholding : 99.00%

PERCENTAGE OF THE PARENT'S ASSETS REPRESENTED BY THE INVESTMENT

Investment as percentage of Parent company's assets 0.20%

TRADING RELATIONSHIP WITH THE PARENT

During the year ended December 31, 2006, the company maintained its laboratory services contract and rental agreement with the Parent. It is expected to maintain similar trading relations in the future.

Balance sheets summarized

As of December 31, 2006 and 2005

Assets	2006 ThCh\$	2005 ThCh\$
Current assets	1,073,987	700,862
Net fixed assets	714,773	549,250
Other assets	6,459	8,259
Total assets	1,795,219	1,258,371

Liabilities and shareholders' equity	2006 ThCh\$	2005 ThCh\$
Current liabilities	276,963	227,912
Shareholders' equity	1,518,256	1,030,459
Total liabilities and shareholders' equity	1,795,219	1,258,371

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Statement of income summarized

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Sales	1,855,349	1,468,054
Cost of sales	(1,268,424)	(1,180,947)
Operating income	586,925	287,107
Non-operating result	5,281	(8,193)
Income taxes	(104,409)	(49,682)
Net income for the year	487,797	229,232

Análisis Ambientales S.A.

Statement of cash flows summarized

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Net cash flow from operating activities	441,412	156,577
Net cash flow from investment activities	(723,525)	(41,896)
Net total cash flow for the year	(282,113)	114,681
Effect of inflation on cash	(4,911)	(11,415)
Net change in cash	(287,024)	103,266
Opening balance of cash	323,675	220,409
Closing balance of cash	36,651	323,675

Reconciliation of net income for the year to net cash flows provided by operating activities

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Net income for the year	487,797	229,232
(Gain) loss on asset sales	(582)	-
Charges (credits) to income not representing cash flows	146,101	137,833
Change in assets affecting operating cash flow	(267,410)	(46,326)
Change in liabilities affecting operating cash flow	75,506	(164,162)
Net cash flows provided by operating activities	441,412	156,577

Ecoriles S.A.

As of December 31, 2006 and 2005

GENERAL INFORMATION

Name	: Ecoriles S.A.
Kind of entity	: Closely held corporation, governed by its constitution bylaws and applicable legislation.
Address	: Av. Presidente Balmaceda N° 1398, Santiago
Telephone	: (56-2) 496 22 29
Fax	: (56-2) 496 22 44
Tax N°	: 96.945.210-3
External auditors	: Deloitte & Touche Sociedad de Auditores y Consultores Ltda.
Subscribed and paid capital	: Ch\$285,389,053

Objects

The Company's objects are the treatment of liquid waste and all activities associated or related to the treatment of sewage and waste, through the provision of technical assistance and training services, and the design, construction, equipment trading, maintenance and operation 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 on January 16, 2001.

Board of Directors

Directors	: Felipe Larrain Aspillaga Joaquín Villarino Herrera Iván Yarur Sairafi	(Chief Executive of Aguas Andinas S. A.) (Senior executive of Aguas Andinas S.A.) (Senior executive of Aguas Andinas S.A.)
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Chief Executive : Lionel Quezada Miranda

Shareholding of the Parent company : 99.03846%

PERCENTAGE OF THE PARENT'S ASSETS REPRESENTED BY THE INVESTMENT

The investment represents 0.31% of its assets.

TRADING RELATIONSHIP WITH PARENT

During the year ended December 31, 2006, the Company maintained its services contract for the treatment of excess load, and its rental agreements. It is expected to maintain a similar trading relationship in the future.

Ecoriles S.A.

Balance sheets summarized

As of December 31, 2006 and 2005

Assets	2006 ThCh\$	2005 ThCh\$
Current assets	1,955,380	1,454,247
Net fixed assets	375,223	386,081
Other assets	682,538	10,305
Total assets	3,013,141	1,850,633

Liabilities and shareholders' equity	2006 ThCh\$	2005 ThCh\$
Current liabilities	649,204	325,912
Long-term liabilities	-	-
Shareholders' equity	2,363,937	1,524,721
Total liabilities and shareholders' equity	3,013,141	1,850,633

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Statement of income summarized

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Sales	3,561,503	2,915,094
Cost of sales	(2,560,629)	(2,253,731)
Operating income	1,000,874	661,363
Non-operating result	14,576	(15,602)
Income tax	(176,233)	(111,741)
Net income for the year	839,217	534,020

Statement of cash flows summarized

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Net cash flow from operating activities	944,124	556,165
Net cash flow from financing activities	-	-
Net cash flow from investment activities	(1,626,393)	(2,071)
Net total cash flow for the year	(682,269)	554,094
Effect of inflation on cash	(6,748)	(17,075)
Net change in cash	(689,017)	537,019
Opening balance of cash	700,124	163,105
Closing balance of cash	11,107	700,124

Reconciliation of net income for the year to net cash flows provided by operating activities

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Net income for year	839,217	534,020
charges to income not representing cash flows	69,497	112,517
change in assets affecting operating cash flow	(319,577)	(81,950)
change in liabilities affecting operating cash flow	354,987	(8,422)
Net cash flows provided by operating activities	944,124	556,165

Gestión y Servicios S.A.

As of December 31, 2006 and 2005

GENERAL INFORMATION

Name	: Gestión y Servicios S.A.
Kind of entity	: Closely held corporation
Address	: Av. Presidente Balmaceda N° 1398, Santiago
Telephone	: (56 2) 496 23 42
Fax	: (56 2) 496 23 98
Tax N°	: 96.828.120-8
External Auditors	: Deloitte & Touche Sociedad de Auditores y Consultores Ltda.
Subscribed and paid capital	: Ch\$607,218,292

OBJECTS

The Company's object is to trade in materials, urbanizations, plots, consultancy and other services.

CONSTITUTION DOCUMENTS

The Company was constituted as a corporation with the name of Aguas del Maipo S.A., by public deed dated June 6, 1997 signed before the Santiago notary, Patricio Zaldivar Mackenna. The bylaws were later amended by public deed dated November 10, 2000, before the notary Patricio Zaldivar Mackenna, changing its name to Gestión y Servicios S.A.

BOARD OF DIRECTORS

Chairman	: Felipe Larrain Aspillaga	(Chief Executive of Aguas Andinas S. A.)
Directors	: Joaquim Martí Marqués Joaquín Villarino Herrera Luis Andrés Rengifo Briceño Luis Eduardo Jiménez López	(Senior executive of Aguas Andinas S.A.) (Senior executive of Aguas Andinas S.A.)
Chief Executive	: Jorge Olivero Aliaga	

Shareholding of the Parent company : 97.84783%

PERCENTAGE OF THE PARENT'S ASSETS REPRESENTED BY THE INVESTMENT

The investment represents 0.103% of its assets.

TRADING RELATIONSHIP WITH PARENT:

During the year ended December 31, 2006, the Company bought and sold materials and rental agreements with its Parent. It is expected to maintain a similar trading relationship in the future.

Balance sheets summarized

As of December 31, 2006 and 2005

Assets	2006 ThCh\$	2005 ThCh\$
Current assets	3,088,020	2,922,593
Net fixed assets	864	565
Other assets	(1,033)	1,794

Liabilities and shareholders' equity	2006 ThCh\$	2005 ThCh\$
Current liabilities	2,302,662	1,143,655
Long-term liabilities	-	-
Shareholders' equity	785,189	1,781,297
Total liabilities and shareholders' equity	3,087,851	2,924,952

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Statement of income summarized

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Sales	6,711,549	5,678,442
Cost of sales	(5,683,574)	(4,703,903)
Operating income	1,027,975	974,539
Non-operating result	74,152	(24,379)
Income tax	(187,917)	(164,129)
Minority interest	69	69
Net income for the year	914,279	787,100

Gestión y Servicios S.A.

Statement of cash flows summarized

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Net cash flow from operating activities	569,019	1,047,314
Net cash flow from financing activities	(578,132)	(509,211)
Net cash flow from investment activities	(472,142)	-
Net total cash flow for year	(481,255)	538,103
Effect of inflation on cash	(17,464)	(687)
Net change in cash	(498,719)	537,416
Opening balance of cash	543,082	5,666
Closing balance of cash	44,363	543,082

Reconciliation of net income for the year to net cash flows provided by operating activities

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Net income for the year	914,279	786,100
Charges to income not representing cash flows	75,875	38,820
Change in assets affecting operating cash flow	(149,279)	(84,144)
Change in liabilities affecting operating cash flow	(271,856)	306,538
Net cash flows provided by operating activities	569,019	1,047,314

Comercial Orbi II S.A. and subsidiaries

As of December 31, 2006 and 2005

GENERAL INFORMATION

Name	: Comercial Orbi II S.A.
Kind of entity	: Closely - held Corporation, subject to law 18.046.
Address	: Av. Presidente Balmaceda N° 1398, Santiago
Telephone	: (56-2) 496 20 01
Fax	: (56-2) 496 20 09
Tax N°	: 96.809.310-K
External auditors	: Deloitte & Touche Sociedad de Auditores y Consultores Ltda.
Subscribed and paid capital	: Ch\$131,335,517,911

OBJECTS

The objects of the Company are to invest in all kinds of assets and real estate, corporeal and incorporeal, including the acquisition of shares in companies, rights in partnerships, debentures, bonds, trade paper and all kinds of securities in investment instruments and the management of these investments and their returns; participation as investor or adviser in all kinds of projects and their development for own or third party's account or in association with others.

CONSTITUTION DOCUMENTS

The Company was constituted by 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.

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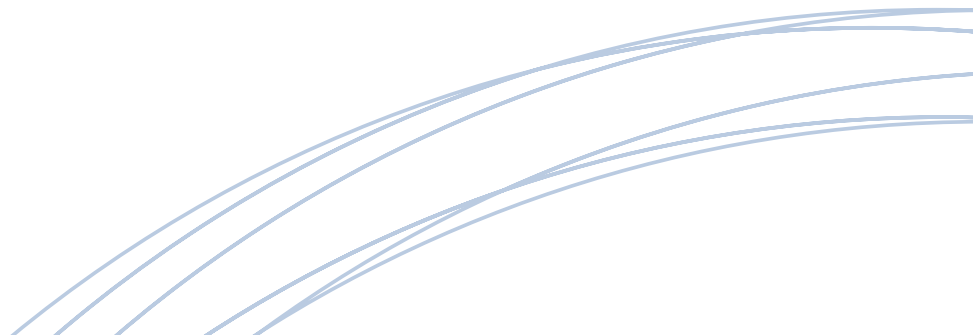
BOARD OF DIRECTORS

Chairman	: Joaquín Villarino Herrera	(Senior executive Aguas Andinas S.A.)
Directors	: Felipe Larrain Aspillaga Iván Yarur Sairafi Víctor de la Barra Fuenzalida Camilo Larraín Sánchez Carlos Alberto Rabat Vilaplana Luis Andrés Rengifo Briceño Luis Eduardo Jiménez López	(Chief Executive Aguas Andinas S.A.) (Senior executive Aguas Andinas S.A.) (Senior executive Aguas Andinas S.A.) (Senior executive Aguas Andinas S.A.)
Chief Executive	: Felipe Larrain Aspillaga	(Chief Executive Aguas Andinas S.A.)

Shareholding of the Parent company : 99.99003%

PERCENTAGE OF THE PARENT'S ASSETS REPRESENTED BY THE INVESTMENT

The investment represents 12.027% of its assets.



Comercial Orbi II S.A. and subsidiaries

TRADING RELATIONSHIP WITH PARENT:

During the year ended December 31, 2006, the Company, through its subsidiaries Aguas Cordillera S.A. and Aguas Manquehue S.A., had rental agreements, water and sewage interconnections, and the reading and delivery of customer bills, with its Parent.

It is expected to maintain a similar trading relationship in the future.

Consolidated balance sheets summarized

As of December 31, 2006 and 2005

Assets	2006 ThCh\$	2005 ThCh\$
Current assets	14,136,450	1,342,587
Net fixed assets	84,644,655	10,398,317
Other assets	24,442,458	5,358,422
Total assets	123,223,563	17,099,326

Liabilities and shareholders' equity	2006 ThCh\$	2005 ThCh\$
Current liabilities	10,878,760	2,134,699
Long-term liabilities	22,589,094	1,730,734
Minority interest	1,005	2,897
Shareholders' equity	89,754,704	13,230,996
Total liabilities and shareholders' equity	123,223,563	17,099,326

Statement of income summarized

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Sales	10,185,705	3,898,358
Cost of sales	(5,453,532)	(2,183,724)
Operating income	4,732,173	1,714,634
Non-operating result	(43,758)	597,354
Income tax	(1,131,543)	(434,736)
Minority interest	(29)	(7)
Net income for the year	3,556,843	1,877,245

Statement of cash flows summarized

As of December 31, 2006 and 2005

	2006 ThCh\$	2005 ThCh\$
Net cash flow from operating activities	7,542,507	2,220,217
Net cash flow from financing activities	63,974	(1,190,412)
Net cash flow from investment activities	(7,647,479)	(891,518)
Net total cash flow for year	(40,998)	138,287
Effect of inflation on cash	(15,793)	(29,720)
Net change in cash	(56,791)	108,567
Opening balance of cash	126,526	17,959
Closing balance of cash	69,735	126,526

Reconciliation of net income for the year to net cash flows provided by operating activities

As of December 31, 2006 and 2005

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	2006 ThCh\$	2005 ThCh\$
Net income for year	3,556,843	1,877,245
Loss on asset sales	-	1,459
Charges to income not representing cash flows	2,129,323	587,289
Change in assets affecting operating cash flow	1,568,258	(215,877)
Change in liabilities affecting operating cash flow	288,054	(29,906)
Gain of the minority interest	29	7
Net cash flows provided by operating activities	7,542,507	2,220,217

Note: The complete financial statements of subsidiaries are publicly available in the offices of the reporting entity and the S.V.S. (Superintendency of Securities and Insurance).



Summarized financial statements of subsidiaries

As of December 31, 2006 and 2005

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Summarized financial statements of subsidiaries

As of December 31, 2006 and 2005

Balance sheets

	Aguas Cordillera S,A,		Aguas Manquehue S,A,	
	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
Assets				
Current assets	11,024,229	12,671,417	1,555,871	1,393,546
Fixed assets (net)	66,741,846	61,888,993	12,270,450	10,398,317
Other assets	24,321,312	26,444,732	6,014,770	5,549,922
Total assets	102,087,387	101,005,142	19,841,091	17,341,785
Liabilities and shareholders' equity				
Current liabilities	7,558,980	19,762,918	2,982,145	2,074,268
Long term liabilities	19,954,940	18,675,376	1,367,834	1,730,734
Shareholders' equity	74,573,467	62,566,848	15,491,112	13,536,783
Total liabilities and shareholders' equity	102,087,387	101,005,142	19,841,091	17,341,785

Statement of income

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Revenues from operations	27,084,610	25,594,255	4,239,782	3,898,358
Cost of operations	(15,094,225)	(14,572,151)	(2,206,507)	(2,186,732)
Operating income	11,990,385	11,022,104	2,033,275	1,711,626
Non-operating income	2,551,887	3,498,647	355,001	596,378
Income taxes	(2,427,791)	(2,218,963)	(434,012)	(434,449)
Amortization of negative goodwill	-	-	-	-
Net income for the year	12,114,481	12,301,788	1,954,264	1,873,555

Statement of cash flows

Net cash flow from operating activities	17,925,301	12,179,901	2,388,056	2,222,931
Net cash flow from financing activities	(3,611,040)	(15,047,795)	(149,785)	(1,190,076)
Net cash flow from investment activities	(14,787,257)	(2,118,501)	(2,297,363)	(891,517)
Total net cash flow for the year	(472,996)	(4,986,395)	(59,092)	141,338
Effect of inflation on cash and cash equivalents	(1,155)	(192,652)	(16,032)	(29,638)
Net change in cash and cash equivalent	(474,151)	(5,179,047)	(75,124)	111,700
Opening balance of cash and cash equivalent	490,206	5,669,253	124,915	13,215
Closing balance of cash and cash equivalent	16,055	490,206	49,791	124,915

Reconciliation of net income for the year to net cash flows provided by operating activities

Net income for the year	12,114,481	12,301,788	1,954,264	1,873,555
(Gain) on sale of fixed assets	-	(1,604,661)	-	1,459
Charges (credits) to income not representing cash flow	2,335,972	2,200,297	741,766	591,211
Changes in assets affecting operating cash flow (increase) decrease	3,233,548	(66,852)	(307,025)	(179,609)
Changes in liabilities affecting operating cash flow increase (decrease)	241,300	(650,671)	(949)	(63,685)
Net cash flows provided by operating activities	17,925,301	12,179,901	2,388,056	2,222,931

Aguas Los Dominicos S,A,		Ecoriles S,A,		Gestión y Servicios S,A,		Análisis Ambientales S,A,	
2006	2005	2006	2005	2006	2005	2006	2005
ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
1,789,260	1,287,198	1,955,380	1,454,247	3,088,020	2,922,593	1,073,987	700,862
5,632,359	5,723,963	375,223	386,081	864	565	714,773	549,250
1,554,452	1,595,504	682,538	10,305	(1,033)	1,794	6,459	8,259
8,976,071	8,606,665	3,013,141	1,850,633	3,087,851	2,924,952	1,795,219	1,258,371
505,353	507,411	649,203	325,912	2,302,662	1,143,654	276,963	227,912
1,266,323	1,069,965	-	-	-	-	-	-
7,204,395	7,029,289	2,363,938	1,524,721	785,189	1,781,298	1,518,256	1,030,459
8,976,071	8,606,665	3,013,141	1,850,633	3,087,851	2,924,952	1,795,219	1,258,371

2,221,319	1,992,226	3,561,503	2,915,094	6,711,549	5,678,442	1,855,349	1,468,054
(1,197,841)	(1,122,859)	(2,560,629)	(2,253,731)	(5,683,574)	(4,703,903)	(1,268,424)	(1,180,947)
1,023,478	869,367	1,000,874	661,363	1,027,975	974,539	586,925	287,107
76,962	(26,411)	14,576	(15,602)	74,152	(24,378)	5,281	(8,193)
(225,845)	(142,096)	(176,233)	(111,741)	(187,917)	(164,129)	(104,409)	(49,682)
-	-	-	-	69	69	-	-
874,595	700,860	839,217	534,020	914,279	786,101	487,797	229,232

1,085,321	882,609	944,124	556,165	569,019	1,047,315	441,412	156,577
(518,713)	(744,901)	-	-	(578,132)	(509,211)	-	-
(1,411,296)	(88,774)	(1,626,393)	(2,071)	(472,142)	-	(723,525)	(41,896)
(844,688)	48,934	(682,269)	554,094	(481,255)	538,104	(282,113)	114,681
(13,762)	(26,125)	(6,748)	(17,075)	(17,464)	(688)	(4,911)	(11,415)
(858,450)	22,809	(689,017)	537,019	(498,719)	537,416	(287,024)	103,266
859,581	836,772	700,124	163,105	543,082	5,666	323,675	220,409
1,131	859,581	11,107	700,124	44,363	543,082	36,651	323,675

874,595	700,860	839,217	534,020	914,279	786,101	487,797	229,232
-	-	-	-	-	-	(582)	-
262,901	302,755	69,497	112,517	75,875	38,820	146,101	137,833
(124,792)	(122,099)	(319,577)	(81,950)	(149,279)	(84,144)	(267,410)	(46,326)
72,617	1,093	354,987	(8,422)	(271,856)	306,538	75,506	(164,162)
1,085,321	882,609	944,124	556,165	569,019	1,047,315	441,412	156,577

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Direction and Edition

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