

Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the

ANNUAL REPORT 2007 ~ AGUAS ANDINAS



greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the greatest clarity and



ANNUAL REPORT 2007 ~ AGUAS ANDINAS

A close-up, profile view of a woman with dark hair drinking water from a public fountain. A clear stream of water is captured mid-pour, falling from her mouth into her cupped hands. The background is dark with out-of-focus blue and green bokeh lights, suggesting an outdoor night setting.

# GENERAL INTRODUCTION CLOSER TO YOU

Every morning, every afternoon  
and every night.  
Water is always there to accompany  
you, helping you to live your life,  
to make your dreams come true,  
to care for your family and to  
help us develop as a society.  
Every day and at each moment.  
Because water is always close to you,  
with the greatest clarity and safety.  
For this reason we work with  
dedication and professionalism.







# INDEX

## CHAPTER 1 OUR COMPANY

## CHAPTER 2 YEAR 2007

## CHAPTER 3 FINANCIAL STATEMENTS





10  
HIGHLIGHTS

12  
HISTORY

14  
CHAIRMAN'S  
LETTER

16  
BOARD OF  
DIRECTORS

18  
COMPANY'S  
OWNERSHIP

20  
MANAGEMENT

22  
MAP OF  
COVERAGE

24  
COMPANIES  
IN THE GROUP

28  
YEAR 2007

74  
FINANCIAL  
INFORMATION

82  
MATERIAL  
INFORMATION

84  
BOARD OF  
DIRECTORS  
AND SENIOR  
MANAGEMENT

90  
CLIENTS AND  
SUPPLIERS

92  
PROPERTIES,  
EQUIPMENT AND  
INSURANCES

94  
STATEMENT OF  
LIABILITY

96  
COMPANY  
INFORMATION

100  
CONSOLIDATED  
FINANCIAL  
STATEMENTS

156  
UNCONSOLIDATED  
FINANCIAL  
STATEMENTS

208  
FINANCIAL  
STATEMENTS OF  
SUBSIDIARIES

218  
SUMMARIZED  
FINANCIAL  
STATEMENTS OF  
SUBSIDIARIES

01





OUR COMPANY

# HIGHLIGHTS

## FINANCIAL SUMMARY <sup>(1)</sup>

<sup>(1)</sup> Figures in million Chilean Pesos as of December 31, 2007.

AS OF DECEMBER 31	2003	2004	2005	2006	2007
Water revenues	111,015	109,112	111,955	115,386	115,886
Sewerage revenues	66,079	83,287	97,991	105,546	106,032
Other regulated businesses revenues	9,754	8,131	9,939	10,059	8,007
Other non-regulated businesses revenues	9,285	13,821	15,992	18,331	23,831
Operating income	87,242	94,999	111,301	121,221	121,314
Net income for the period	69,456	71,022	83,278	90,884	97,059
Total assets	847,534	872,465	849,051	827,411	838,832
Current liabilities	73,562	97,401	199,317	98,621	77,641
Long-term liabilities	366,898	344,166	230,799	308,841	328,361
Minority interest	9	3	4	11	12
Shareholders' equity	407,065	430,896	418,930	419,938	432,818

## OPERATIONS

AS OF DECEMBER 31	2003	2004	2005	2006	2007
Water clients	1,435,723	1,467,114	1,502,634	1,550,008	1,597,537
Sewage clients	1,404,739	1,437,806	1,474,391	1,520,662	1,569,392
Water invoiced (million m <sup>3</sup> )	469.0	460.2	463.1	477.4	479.3
Sewage collection invoiced (million m <sup>3</sup> )	465.4	457.4	460.3	471.3	471.9
Sewage treatment and disposal invoiced (million m <sup>3</sup> )	403.5	396.9	399.9	407.3	407.0
Sewerage interconnections invoiced (million m <sup>3</sup> )	109.6	108.6	109.8	112.4	114.1
Water coverage	100.00%	100.00%	100.00%	100.00%	100.00%
Sewage collection coverage	98.00%	98.30%	98.30%	98.41%	– <sup>(2)</sup>
Sewage treatment coverage	62.90%	67.10%	69.10%	72.02%	– <sup>(2)</sup>
Total employees	1,476	1,450	1,397	1,440	1,480

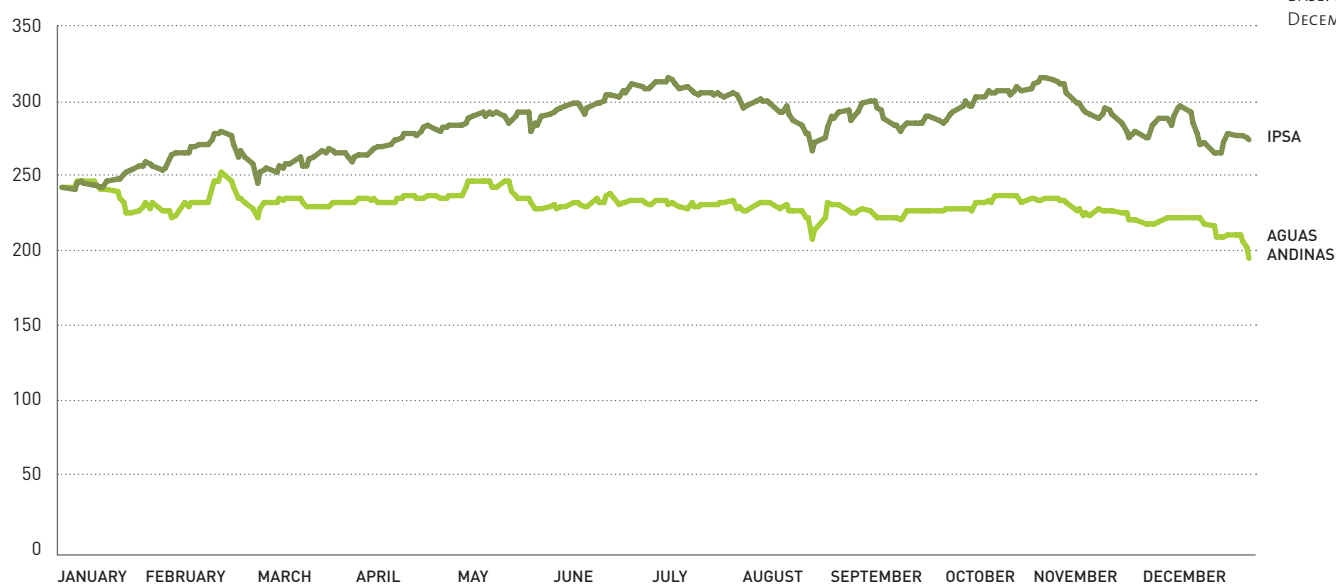
<sup>(2)</sup> Estimate made by the Superintendence of Sanitation Services which is due to be published during the year 2008.





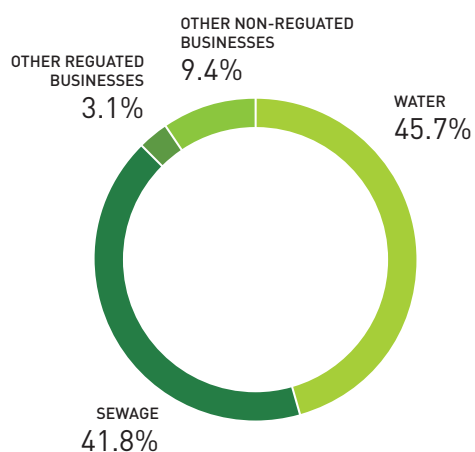
## STOCK PERFORMANCE <sup>(1)</sup>

CHILEAN PESOS PER SERIES A SHARES.

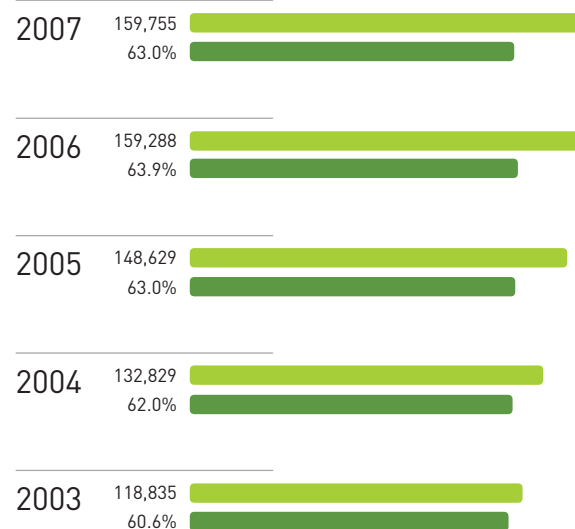


<sup>(1)</sup> SOURCE: SANTIAGO STOCK EXCHANGE; IPSA  
BASE: CH\$ 240 AS OF  
DECEMBER 29, 2006.

## REVENUE BREAKDOWN 2007



## EBITDA <sup>(2)</sup>



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

EBITDA (MILLION CHILEAN PESOS)

EBITDA MARGIN (%)



# HISTORY IN CONSTANT EVOLUTION

Each year begins a new period of work and progress in which we continue along the path of service and quality.

**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 Calle Antonio Varas.

**1903** The Sewerage and Paving of Santiago Law was enacted and this boosted the construction of mains for potable water and sewerage 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 Potable 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 commune 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 Potable Water 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 the 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 Plant commenced operations in localities. Furthermore, we implemented a new organization model on the SAP platform. We obtained the ISO 9001 certification on invoicing and collections.

**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 the ISO 9001 certification on the process of incorporating new clients into our network.

**2007** We initiated the construction works on the Clean Urban Mapocho Project on the approval of the Environmental Impact Study. We renewed the ISO 9000, ISO 14000 and OHSAS 18000 for all the sanitation plants and all the scope of their activities, becoming the first sanitation company in the country to receive, jointly, all three certifications on its installations. We carried out the merger of Comercial Orbi II S.A. and Aguas Cordillera S.A., taking a further step in the corporate simplification of the Group.



# CHAIRMAN'S LETTER

## WATER, A VITAL RESOURCE FOR LIFE

On closing the year 2007, I have the honor of submitting for your consideration the Company's Annual Report and Financial Statements corresponding to that period.

Once more we are able to witness that this was a favorable year for the Company. The serious, committed and professional work again proved to be the key to success in our performance.

Just over eight years ago, Aguas Andinas commenced an important modernization process which has become a path towards continuous growth and improvement. Thanks to this, our Company presents a clear orientation to the clients, with a permanent concern for its employees, seeking transparent relations with the authorities, closeness to the community and an improved yield for its shareholders.

In terms of Customer Service, we have achieved important goals. During the period we placed our efforts on the quality of the solutions to requirements and on improved customer attention. For this, we incorporated new tools to the Contact Center, the Web site, the commercial agencies and the operations on-site. With respect to the latter, I would highlight the implementation of the Teseo Project, a process model that has permitted us to raise the productivity of the teams on-site as a result of a more efficient use of resources and a better assignment of the tasks.

With respect to Operations, we raised even further our standards of quality and continuity in the supply of potable water in addition to optimizing our performance. In this way, we reduced the breakage and leaks in our distribution network by 28% in less than 2 years.

As a sanitation company and with a social responsibility, one of our principal focuses is on the environment. Currently we can say, with great satisfaction, that we undertake the treatment of 72% of the sewage generated in the Metropolitan Region, while in 1999 only 3% was purified. This significant increase in coverage has brought clear environmental, sanitary and financial benefits to the country and is part of the Sanitation Plan that we are carrying out.

Thus, the target of treating 100% of our city's sewage becomes increasingly close. During 2007 and once the Environmental Impact Study was approved, we initiated the construction of the Clean Urban Mapocho Project. With this project, we shall give Santiago a face-lift by decontaminating the Mapocho riverbed passing through the capital, just as we did before with the Zanjón de la Aguada and the Maipo River.

Another milestone we must highlight is the ISO 9001, ISO 14001 and OHSAS 18001 international certifications on our sewage treatment plants. This means that all the processes in our sanitation installations are controlled, reducing operating risks to a minimum, caring for the environment and protecting the personal safety of the workers and sub-contractors. In this way, we have taken a further step forward, becoming the first sanitation company to

obtain all three certifications.

Throughout 2007 our non-regulated subsidiaries have played a leading role in terms of growth. EcoRiles achieved an increase of 50% in its income; Anam has tripled its contribution to the Group's results in just two years; and Gestión y Servicios has exceeded its sales target and has signed an agreement with Metrogas to reutilize the biogas generated in the La Farfana Treatment Plant. This is one of the first non-conventional renewable energy projects in the country and becomes an important effort in the development and progress of Chile.

All these actions form part of a continuous improvement in performance and have had a bearing on the Financial Statements for the year 2007, to which I shall now refer.

Total investments for the period amounted to Ch\$39,740 million. Of this amount, 44% corresponded to works related to distribution and production of potable water; 46% to the collection and disposal of sewage; and the other 10% to other activities.

In addition, we closed the period having achieved net earnings of Ch\$97,059 million, representing an increase of 6.8% in relation to the previous period.

In order to consolidate our financial strength, during the first half of the year we carried out another restructuring of our borrowings, improving the maturity curve for the forthcoming years, increasing the duration of the consolidated debt and reducing the Company's financial expenses.

Furthermore, along the lines of optimization, during the period we concluded the various stages of the corporate simplification project.

On closing, I wish to express my gratitude to the Board, the Management, the Shareholders and to our employees for their commitment and dedication. We have all, together, assumed the challenge and objectives of this Company, which are set in our mission to achieve an environment free of contamination and contribute towards improving the quality of life of the inhabitants of Greater Santiago.

I invite you to join this effort to make Aguas Andinas a model of operating efficiency, quality of service and sustainable development.

Yours sincerely,

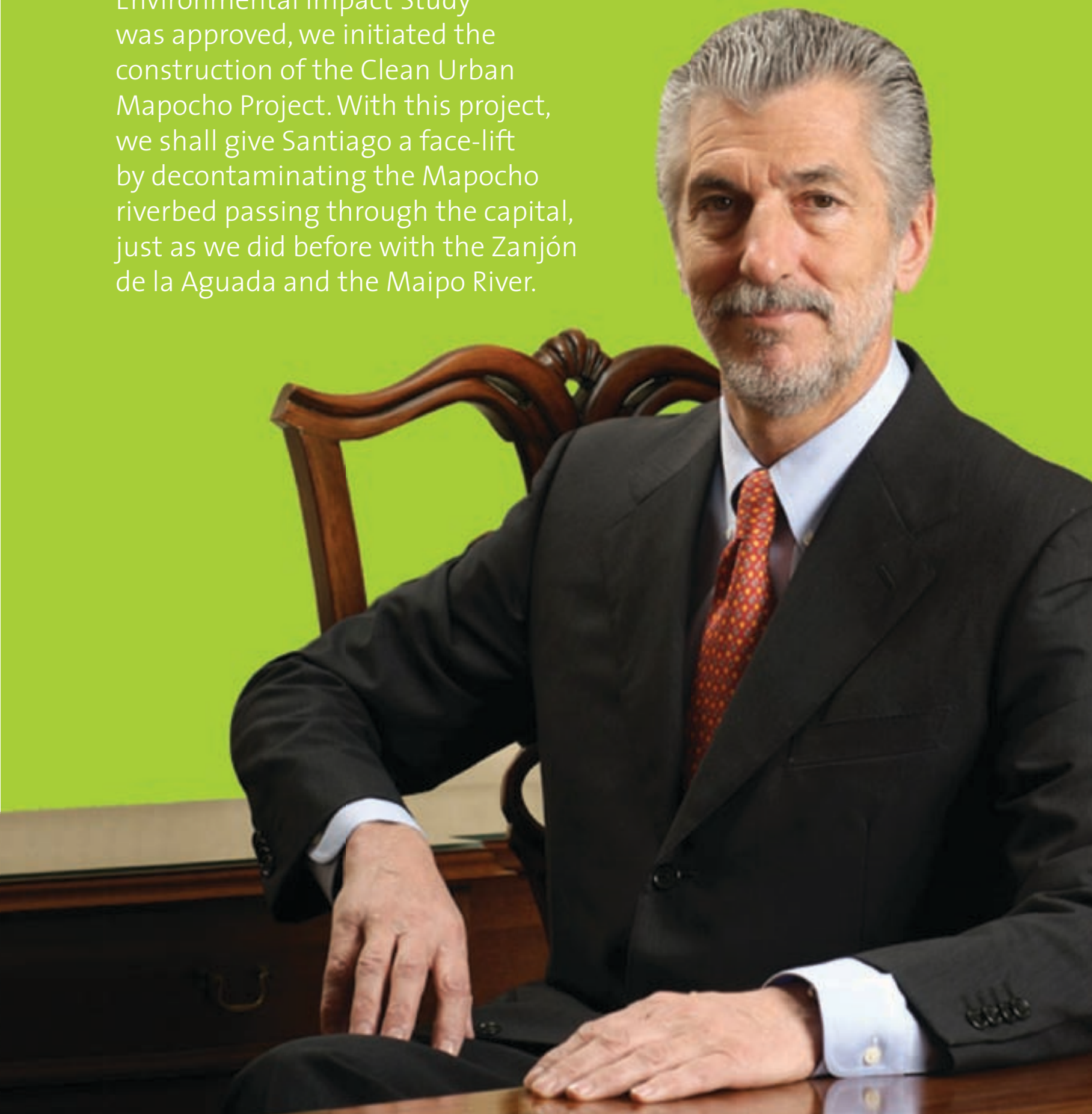


**Alfredo Nomán Serrano**  
CHAIRMAN OF THE BOARD





During 2007 and once the Environmental Impact Study was approved, we initiated the construction of the Clean Urban Mapocho Project. With this project, we shall give Santiago a face-lift by decontaminating the Mapocho riverbed passing through the capital, just as we did before with the Zanjón de la Aguada and the Maipo River.



# BOARD OF DIRECTORS LOOKING AT THE FUTURE

**DIRECTOR**

Carlos Mladinic Alonso  
*Business Administration*

**CHAIRMAN**

Alfredo Noman Serrano  
*Industrial Engineer*

**DIRECTOR**

Arturo Vergara del Río  
*Attorney*

**DIRECTOR**

Mónica Singer González  
*Business Administration*





**DIRECTOR**

Jaime Arellano Quintana  
*Attorney*

**VICE-CHAIRMAN**

Joaquín Villarino Herrera  
*Attorney*

**DIRECTOR**

José Vila Bassas  
*Industrial Engineer*

**ALTERNATE DIRECTORS**

Juan Antonio Guijarro Ferrer  
*Economist*

Antoni Siurana Zaragoza  
*Economist*

Marta Colet Gonzalo  
*Economist*

Diane D'arras  
*Engineer, Bridges and Roads.*

Ramón Figueroa González  
*Business Administration*

Mario Castillo Astudillo  
*Industrial and Civil Engineer*

Jorge Bande Bruck  
*Economist*

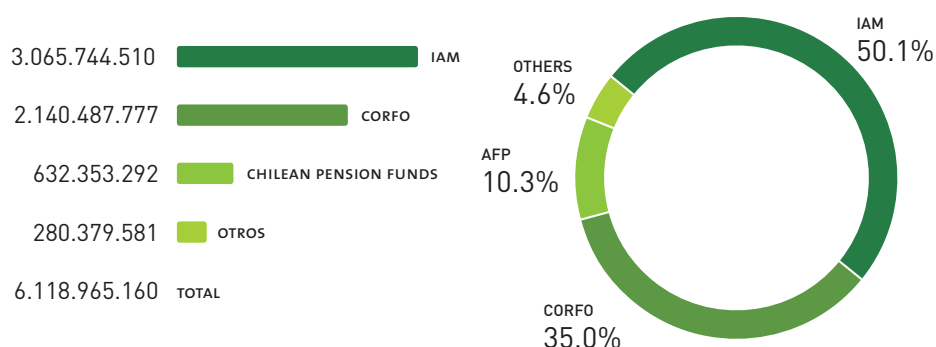


# COMPANY'S OWNERSHIP

## A SUPPORT FOR THE OPERATION

The capital of Aguas Andinas as of December 31, 2007 was comprised of 6,118,965,160 shares, fully subscribed and paid in, distributed among 1,561 shareholders.

### DISTRIBUTION BY TYPE OF SHAREHOLDER



### PRINCIPAL SHAREHOLDERS

As of the close of the period, our twelve principal shareholders are the following:

SHAREHOLDER	TAX I.D.	SHARE	SERIES	%
Inversiones Aguas Metropolitanas S.A.	77,274,820-5	3,065,744,510	A	50.10%
Corporación de Fomento de la Producción	60,706,000-2	2,140,487,777	B	34.98%
AFP Provida S.A.	98,000,400-7	229,258,212	A	3.75%
AFP Habitat S.A.	98,000,100-8	161,410,270	A	2.64%
AFP Cuprum S.A.	98,001,000-7	119,657,137	A	1.96%
AFP Santa María S.A.	98,000,000-1	51,170,613	A	0.84%
AFP Bansander S.A.	98,000,600-K	49,167,716	A	0.80%
AFP Planvital S.A.	98,001,200-k	21,689,344	A	0.35%
Banchile Corredores de Bolsa S.A.	96,571,220-8	10,831,657	A	0.18%
Larraín Vial S.A. Corredora de Bolsa	80,537,000-9	10,554,181	A	0.17%
Celfin Capital S.A. Corredores de Bolsa	84,177,300-4	9,546,744	A	0.16%
Citibank Chile a/c Third Parties Chap. XIV	97,008,000-7	3,702,943	A	0.06%
Others Series A (1,506 shareholders)	-	243,241,692	A	3.98%
Others Series B (43 shareholders)	-	2,502,364	B	0.04%
<b>TOTAL</b>		<b>6,118,965,160</b>		<b>100%</b>





## STRATEGIC PARTNER

Sociedad General de Aguas de Barcelona, Agbar, is the controlling and strategic partner of our Company through its participation of 56.6% of the equity of Inversiones Aguas Metropolitanas S.A., IAM.

In addition, IAM holds a participation of 50.1% of the shares in Aguas Andinas and subsidiaries.

Agbar is the holding company of a business conglomerate with a history of over 140 years. It is comprised of some 230 companies and 25 thousand employees and provides services to approximately 37 million inhabitants in the world, distributed over the five continents.

The Agbar Group is the world leader in the integral management of the water cycle. Its permanent investment in research and the extensive experience of its workers in the operation in Spain and at an international level, have permitted it to become one of the principal suppliers in the world of know how and new technologies related to the integral water cycle activity.

The Agbar Group contributes, as a corporate philosophy, a determined commitment to the continuous improvement in its processes, excellence in quality, technological innovation, capacity to adapt to society's new demands and to a solid and efficient financial management, which creates value for its customers and shareholders.





# ORGANIZATION AND MANAGEMENT COMMITMENT TO EXCELLENCE

**CORPORATE OPERATIONS  
MANAGER**

Narciso Berberana Sáenz  
*Industrial Engineer*

**CORPORATE SANITATION  
MANAGER**

Salvador Villarino Krumm  
*Civil Engineer*

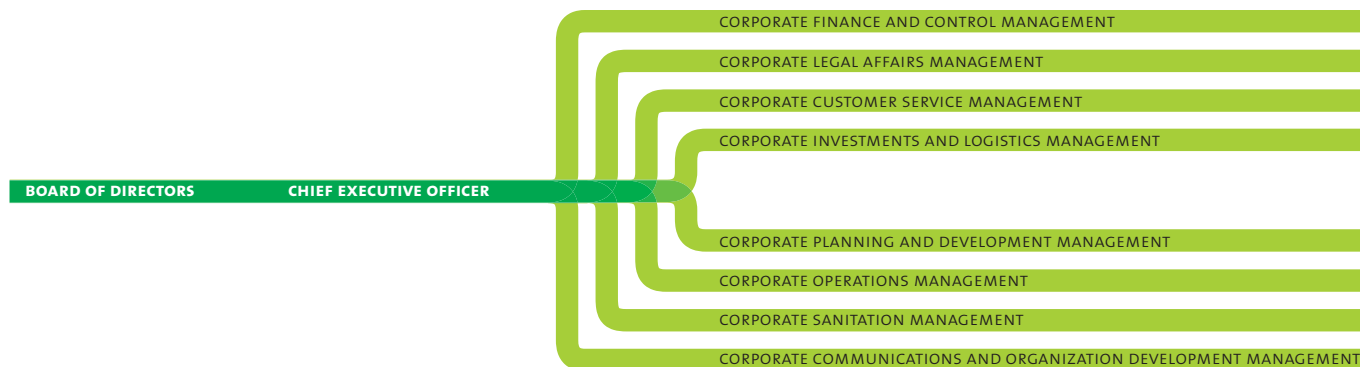
**CHIEF FINANCIAL AND  
MANAGEMENT CONTROL  
OFFICER**

Iván Yarur Sairafi  
*Civil and Industrial  
Engineer*

**CHIEF EXECUTIVE  
OFFICER**

Felipe Larrain Aspillaga  
*Civil Engineer*





**CORPORATE CUSTOMER SERVICE MANAGER**

Víctor de la Barra  
Fuenzalida  
*Civil Engineer*

**CORPORATE COMMUNICATIONS AND ORGANIZATION DEVELOPMENT MANAGER**

Francesc Mayné Llobet  
*Economist*

**CORPORATE PLANNING AND DEVELOPMENT MANAGER**

Josep Maria Verdejo Rabassó  
*Computer Sciences*

**CORPORATE LEGAL AFFAIRS MANAGER**

Camilo Larraín Sánchez  
*Attorney*

**CORPORATE INVESTMENTS AND LOGISTICS MANAGER**

Joaquim Martí Marques  
*Engineer, Roads, Canals and Ports*

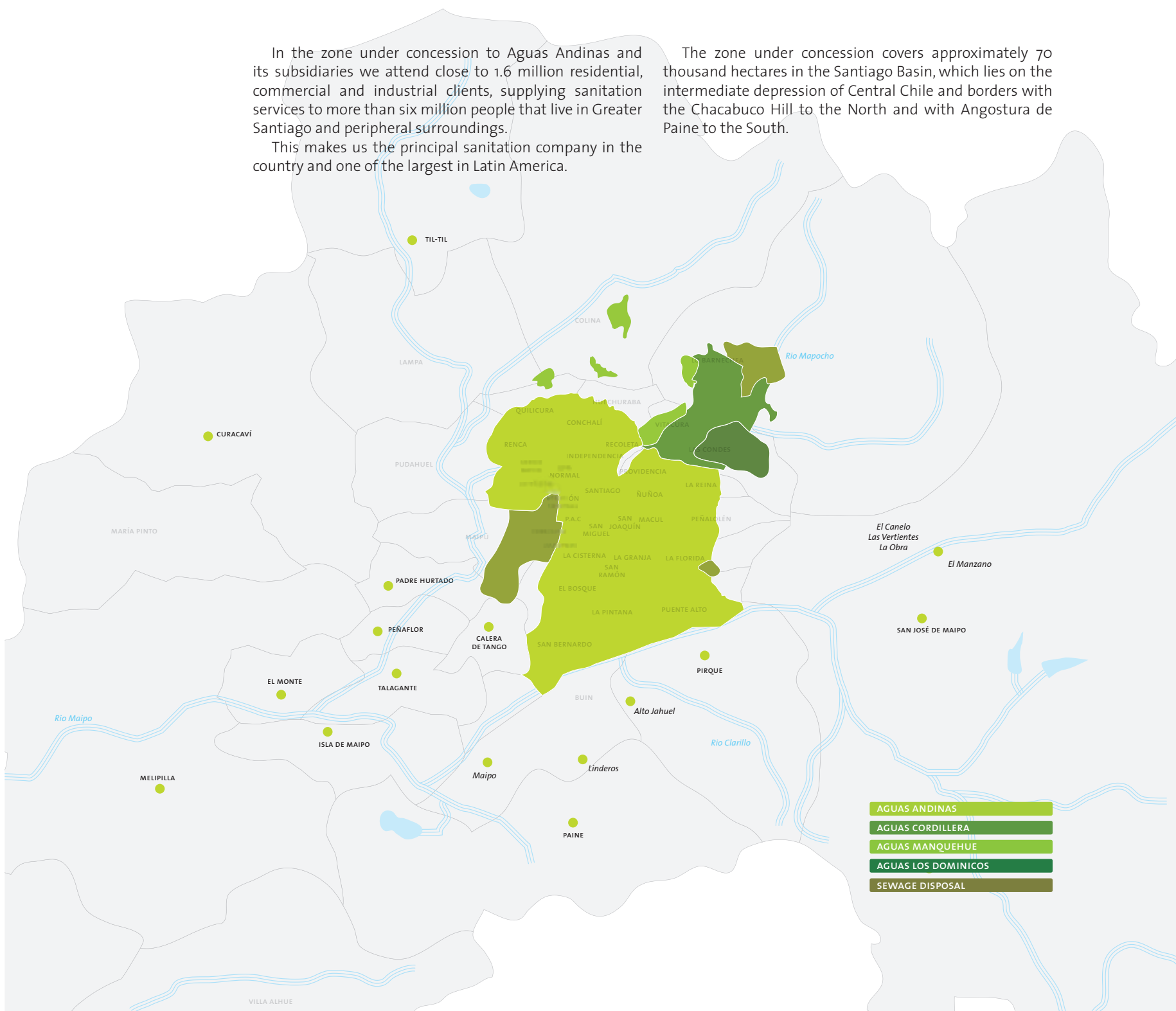


# MAP OF COVERAGE IN SANTIAGO AND SURROUNDINGS

In the zone under concession to Aguas Andinas and its subsidiaries we attend close to 1.6 million residential, commercial and industrial clients, supplying sanitation services to more than six million people that live in Greater Santiago and peripheral surroundings.

This makes us the principal sanitation company in the country and one of the largest in Latin America.

The zone under concession covers approximately 70 thousand hectares in the Santiago Basin, which lies on the intermediate depression of Central Chile and borders with the Chacabuco Hill to the North and with Angostura de Paine to the South.





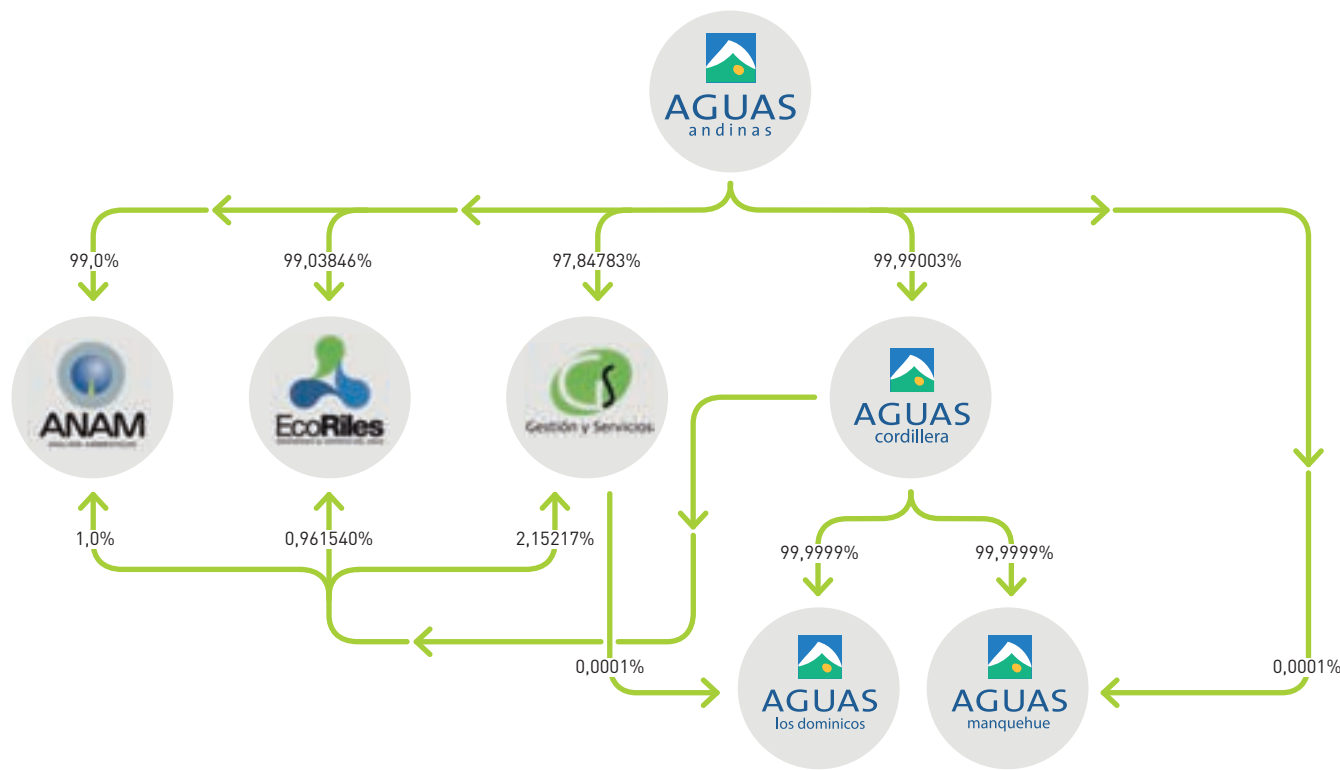
WE SUPPLY  
SANITATION  
SERVICES TO MORE  
THAN 6 MILLION  
PEOPLE IN THE  
GREATER SANTIAGO  
AND PERIPHERAL  
SURROUNDINGS

# COMPANIES IN THE GROUP FOR AN INTEGRAL SERVICE

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

The regulated subsidiaries are: *Aguas Andinas*, *Aguas Cordillera*, *Aguas Manquehue* and *Aguas Los Dominicos*. Through these sanitation companies, services are provided in the production and distribution of potable water and the collection, treatment and final disposal of sewage.

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





12



A close-up photograph of a young girl with light brown hair, wearing a small pearl earring, drinking from a clear glass. The glass has the word 'AQUASU' printed on it. The background is a solid green color.

YEAR 2007



## YEAR 2007: A FURTHER STEP TOWARDS EXCELLENCE

During the period we have advanced along our path towards providing a faster and better quality of service to our clients, with greater efficiency in the operations, always in tune with a sustainable development.

During 2007 the customer service activities were focused on seeking efficiency and speed in resolving their concerns, incorporating new applications in the channels of communications and operations on-site. Along these lines we implemented the Teseo Project, which permits the optimization of the assignment of on-site tasks required by the clients.

Continuing with the Sanitation Plan to which the Company is committed, during the period the construction of the Melipilla Sewage Treatment Plant was concluded. This project, which implied an investment of Ch\$2,434 million,

has a capacity of 192 l/s. Furthermore, the Environmental Impact Study was approved for the Clean Urban Mapocho Project. This project will raise our sanitation coverage to 84% by the year 2009 and will become an environmental milestone in Santiago and the country.

Through our subsidiary, Gestión y Servicios, we participated in a project to supply biogas from the La Farfana Plant to Metrogas, contributing in this way to Chile's energy needs.





100% COVERAGE IN POTABLE WATER AND 98.4% IN SEWERAGE

- MORE THAN 72% OF SEWAGE TREATED IN 2007.
- THE COMPANY'S INVESTMENT PLAN ROSE BEYOND CH\$39,740 MILLION DURING THE PERIOD
- ISO 9000, ISO 14000 AND OSHAS 18000 INTERNATIONAL CERTIFICATIONS FOR ALL OUR TREATMENT PLANTS
- TRAINING COVERED 85% OF THE EMPLOYEES OF THE COMPANY INVOLVING MORE THAN 40 THOUSAND HOURS.

# CUSTOMER SERVICE OUR FOCUS, OUR ORIENTATION

We always seek to be close to our customers, satisfying their needs with quality, speed and efficiency.



## DIVISION BY ZONES

WATER CLIENTS <sup>(1)</sup>

ANTILCO

504,104

MAPOCHO

487,728

MAPUÉ

375,478

CORDILLERA

125,789

MAIPO

104,438

TOTAL

1,597,537

<sup>(1)</sup> The term "client" or "customer" corresponds to a person or institution resident and/or domiciled in the property that receives the public service of potable water distribution, collection of sewage, or both.





## CUSTOMER SERVICE

During the year 2007 the focus of customer service was placed on the quality of the solutions to the concerns of our consumers, avoiding repetitions and preferably giving the solution in the first line. In fact, during the period, 8.7% of the solutions were given during the first contact.

Furthermore, we incorporated new applications to the commercial agencies, the Contact Center, the Web site and to the operations on-site, with the aim of giving a speedier and more efficient attention. In this way, more than 80% of the transactions carried out in the commercial agencies were automated.

The Web page increased its services and capabilities with the entry of facts and meter readings, permitting clients to know the state of their projects, print certificates and enter meter readings. Furthermore, an original format of a water bill was uploaded to the Web site in order to improve the perception of trust and clarity in the charges for services. Also, information is given on programmed emergency water cuts.

With respect to Fonoservicio, we increased the capability of our telephone operators to provide solutions on commercial matters, permitting them to resolve directly complaints related to consumption and invoicing problems. In order to improve the satisfaction of our customers and to expand the resolution of their concerns, during the first half of 2007 we implemented a new model of a telephone platform that permitted our Contact Center to be placed among the best in the country in terms of efficiency in its

attention. The implementation of opinion polls allowed us to divide the attention into segments, improving considerably our first line resolutions and granting a specialized attention, depending on the type of complaint.

These improvements, centered on human resources and on the attention model, shall be complemented during 2008 with the technological modernization of the Fonoservicio, converting the Call Center into a virtual office with a high problem-solving capability and excellence in its service.

In the collections area, we facilitated the payment of overdue bills through the external network of collectors –with the same payment conditions as in our own agencies– improving the perception of ease and speed in the payment of bills.

With regard to operations on-site, during the period we implemented the Teseo Project, a process model based on the incorporation of modern technologies and optimization criteria that permit an increase in the productivity of the teams on-site by means of improving the assignment of the tasks and a more efficient use of resources. Furthermore, we designed a new model for the attention of requirements from sewage, aimed at speed of attention through a better diagnosis and with more powers to resolve for our operators on-site and agency personnel.



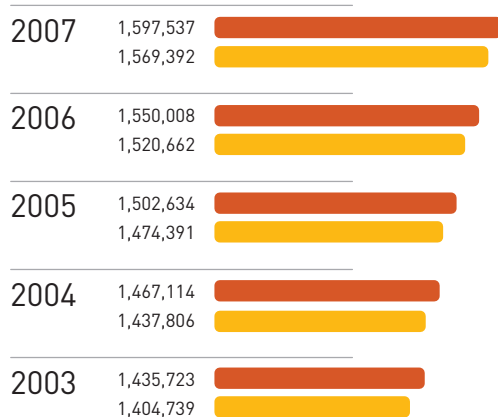
# NUMBER OF CLIENTS

As of December 31, 2007 the number of clients of Aguas Andinas with potable water services reached a total of 1,471,748, reflecting an increase of 3.1% with respect to the previous year. In the sewage collection service, the clients rose to 1,445,385, which indicates an increase of 3.2% with respect to 2006.

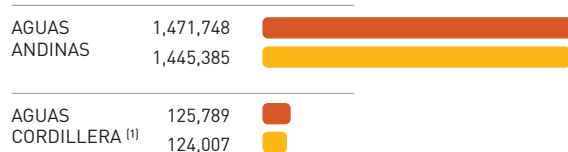
On a consolidated basis, the total number of clients of potable water was 1,597,537 and of sewerage 1,569,392.

Of the total number of potable water clients, 6.8% or 108,674 corresponded to clients with a subsidy, a fact that favors a pattern of stable payments and a lower level of bad debts for the Company.

## CONSOLIDATED NUMBER OF CLIENTS



## NUMBER OF CLIENTS YEAR 2007

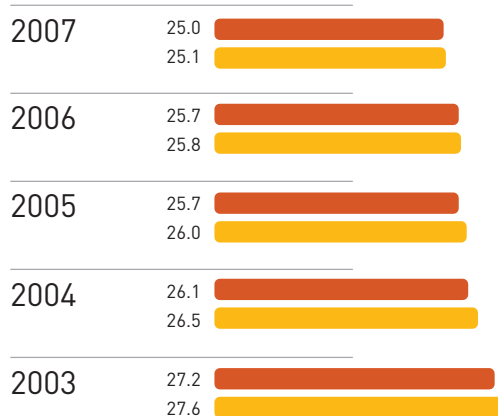


■ WATER  
■ SEWERAGE

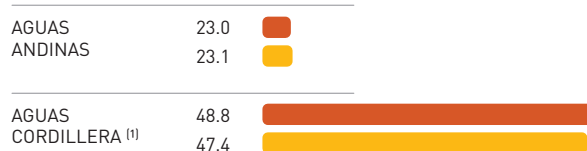
<sup>(1)</sup> Aguas Cordillera includes Aguas Manquehue and Aguas Los Dominicos.

<sup>(2)</sup> Ratio calculated on the basis of the criteria utilized by the Superintendence of Sanitation Services.

## EVOLUTION OF THE CONSOLIDATED AVERAGE CONSUMPTION <sup>(2)</sup> (M<sup>3</sup>/MONTH/CLIENT)



## AVERAGE CONSUMPTION YEAR 2007 (M<sup>3</sup>/MONTH /CLIENT)<sup>(2)</sup>



## NEW CONCESSIONS



During 2007, our Company had six requests for increasing its concession approved.

The first, called Las Casas de Quilicura III, is located in the municipal commune of Quilicura and has a surface of up to 2 hectares with 70 new clients. The second, named San Javier de la Manana, is located in the municipal commune of Peñaflor and comprises an area of 18.53 hectares with 556 clients. The third, called El Alfalfal, is in the municipal community of Paine and covers an area of 19.84 hectares with 1,006 new clients. The fourth, called Alto del Parque, is located in the municipal commune of Melipilla, with an area of 4.2 hectares and 158 new clients. The fifth, named Villa Hermosa, is located in the municipal commune of Til-Til, with a totals area of 3.1 hectares and 214 new clients. The

sixth, called Los Castaños de Malloco, is in the municipal commune of Peñaflor, with an area of 0.5 hectares and 16 new clients.

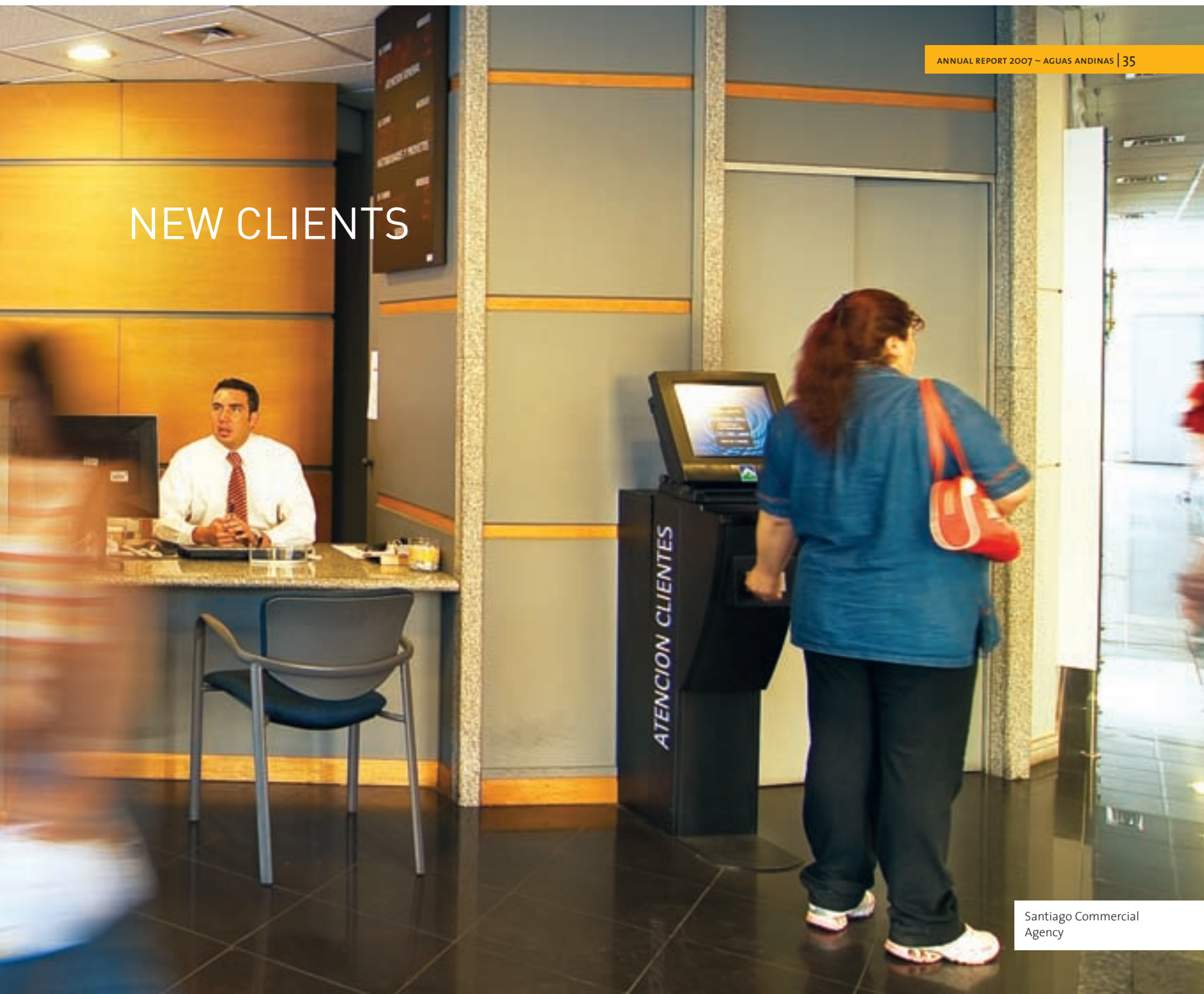
Furthermore, still in process are the requests for the enlargement of the concessions in Padre Hurtado, Quilicura, Talagante, Puente Alto and Pudahuel, which jointly comprise a surface area of 163.56 hectares and 7,169 new clients.

In turn, since 2006, Aguas Manquehue has processing a request for the enlargement of the Alto Lamp concession in the municipal commune of Lampa with a surface area of 324 hectares and with 7,797 new services.





# NEW CLIENTS



Santiago Commercial  
Agency

Throughout 2007, we have strengthened our relationships with real estate and construction companies and private individuals and potential new clients that require a connection to our networks.

Along these lines, and thanks to the evaluation of the Processes of Aguas Andinas' New Services undertaken by the DICTUC, we developed a model of integral attention that permits us to attend, in a centralized manner, the ten largest real estate companies in Santiago, from the feasibility study to the delivery of the final installation.

During the year, 8,475 water and sewerage projects were processed with the incorporation of 47,529 new clients. Furthermore, 25,491 new sanitation services feasibility certificates were issued.







## RURAL POTABLE WATER

In virtue of the agreements signed with the Hydraulic Works Directorate of the Ministry of Public Works, Aguas Andinas participates in a Plan for Rural Potable Water, through training and consultancy on the maintenance and execution of works in remote areas where potable water networks are inexistent.

Thanks to the Plan for Rural Potable Water, 41,485 homes have benefited. These homes comprise an estimated population of 248,910 inhabitants reaching a coverage of 100% of the concentrated rural localities.

In 2007 investments of close to Ch\$ 1,110 million were arranged, principally in contracts to construct improvements or enlargements of services and in carrying out new projects to improve services.

NUMBER OF  
PROJECTS

**34**

NUMBER OF  
WORKS

**1.075**

TOTAL INVESTMENTS  
(MILLION CHILEAN PESOS)

**1.110**







## SANITATION REGULATIONS

In Chile, the current legislation establishes that the providers of sanitation services are subject to the supervision of the Superintendence of Sanitation Services (SISS). This entity is a decentralized service, with autonomy and its own equity, subject to the supervision of the President of the Republic through the Ministry of Public Works.

Furthermore, there are several regulations and laws that regulate the sector and the sanitation companies.

The principal applicable laws are:

**General Law on Sanitation Services (Decree Law MOP No. 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 MOP No. 1199/2004, 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 MOP No. 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 MINECON No. 453 of 1990).** This contains the norms that permit the application of the Law on Tariffs for Sanitation Services.

**Law that creates the Superintendence of Sanitation Services (Law No. 18.902 of 1990).** This establishes the functions of the SISS.

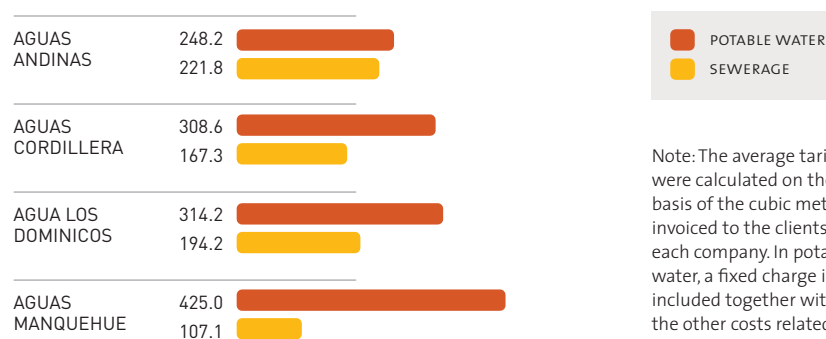
**Law on the Subsidies of the payment of the consumption of potable water and sewerage services (Law No. 18.778 of 1989).** This establishes a subsidy on the payment of the consumption of potable water and sewerage for low-income clients.

**Regulation of the Law on Subsidies (Decree HACIENDA No. 195 de 1998).** This contains the provisions for the application of the Law on Subsidies.

## TARIFFS

During the year 2007, the prices charged for products on providing regulated services to our customers were updated in accordance with the procedure established in the respective tariff decrees.

### AVERAGE TARIFF YEAR 2007 (WITHOUT VAT, IN CH\$/M<sup>3</sup>)



Note: The average tariffs were calculated on the basis of the cubic meters invoiced to the clients of each company. In potable water, a fixed charge is included together with the other costs related to other charges such as cuts and reconnections.



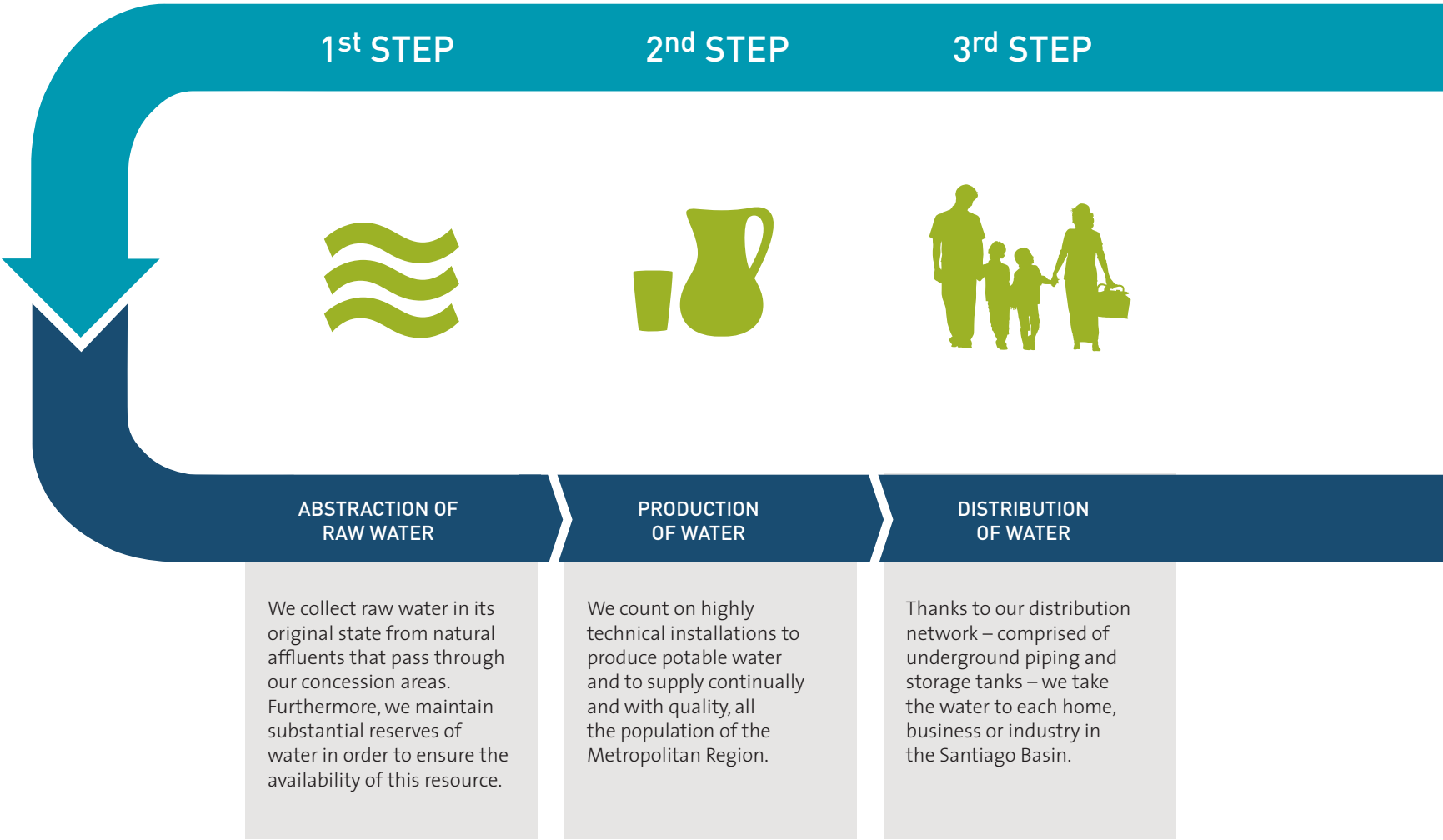
# WATER CYCLE



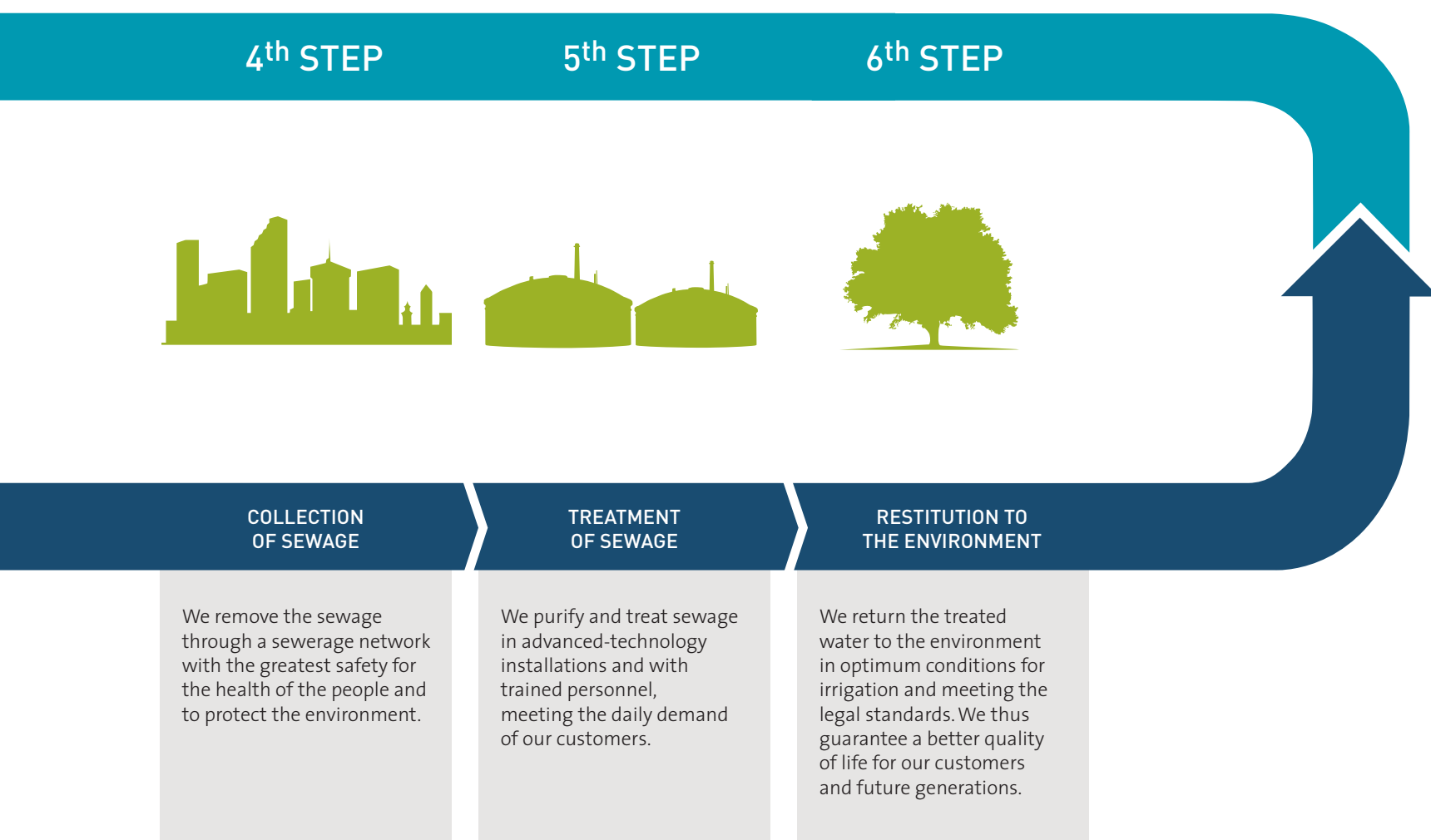


# WATER CYCLE

## AN INTEGRAL MANAGEMENT

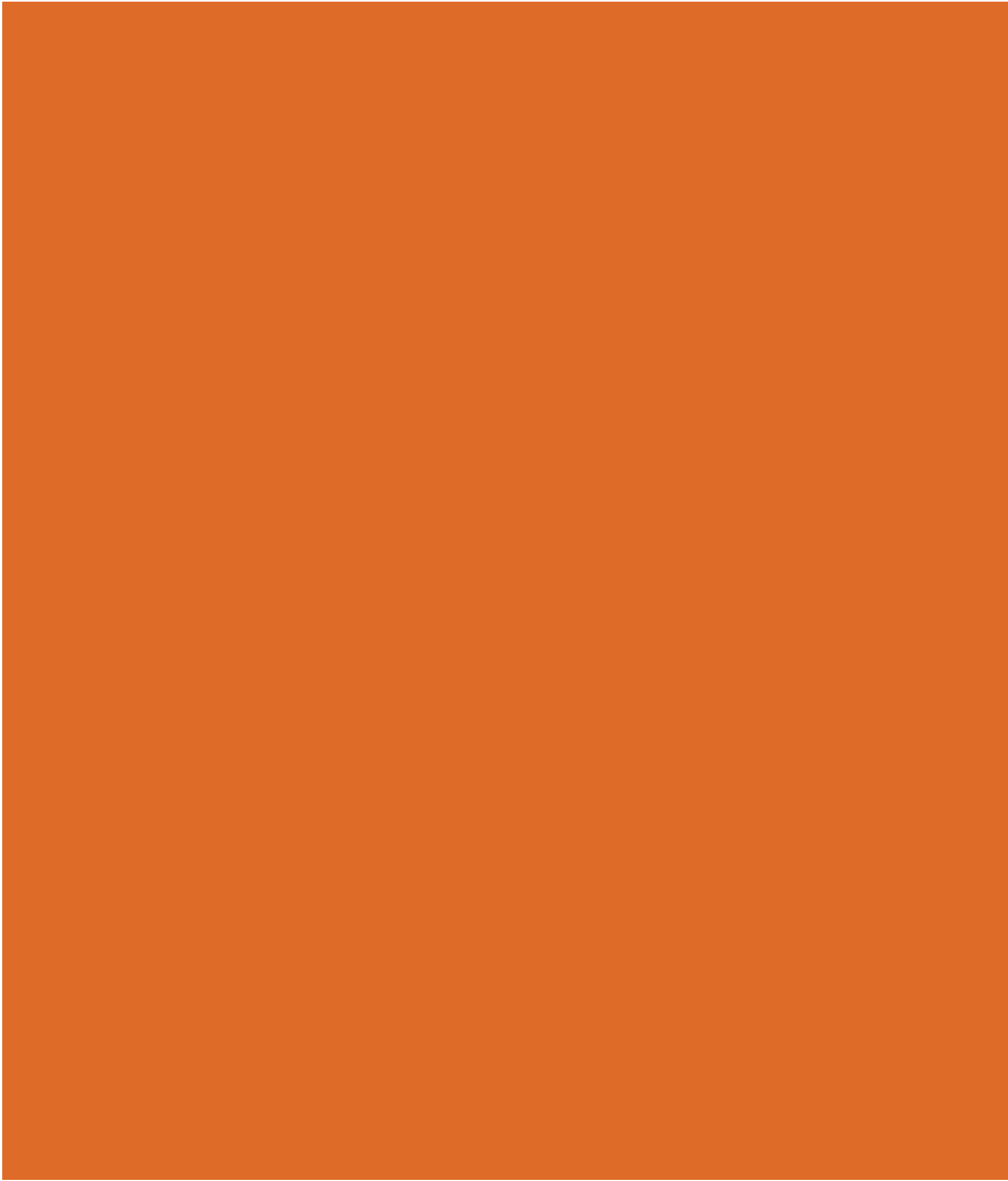


In Aguas Andinas we carry out the entire water cycle, which implies executing a correct and efficient operation of all the processes related to the sanitation services. To achieve this commitment we are backed by our professionalism and track record.













Centro de Control  
de Operativo



## OCC IN PERMANENT GROWTH

The Operations Control Center (OCC) is the hub of the Company's operations. This tool, with the latest technology, operates 24 hours a day, 365 days a year, gathering in real time information on the operations, centralizing decision taking and optimizing the control of the water cycle.

In this way, we are able to guarantee and provide a quality service to more than 6 million inhabitants, managing a 23,500-kilometer network, distributed over an area of 650 square kilometers.

During the year 2007 the coverage of the Operations Control Center continued to expand, incorporating 8 thousand new variables to its Software for the Control and Acquisition of Data (SCADA), one of the large applications in the world in the public services sector.

The growth of OCC involved all the concessions. In Production and Distribution, the tele-controlled operation for underground water infrastructures, such as the new wells in Trapenses and Quilicura was implemented; we continued to improve the Potable Water Elevating Plants; and we incorporated new pumping stations such as the one in San Carlos Centro in the eastern sector and Quilín 3 in the southern sector of Greater Santiago.

In Sewage Collection, we added Aguas Manquehue's Piedra Roja and Aguas Andina's El Maitén Elevating Plants. In Treatment and Disposal we incorporated the supervision of the Curacavi, Talagante and Chamisero treatment installations.

Due to the current size of the OCC and its importance in the operations of the Company, we have started working on the design of an Alternative Control Center that will permit us to face contingencies in the event of a failure of the principal Control Center. This project is expected to be ready during 2008.



## GEOGRAPHIC INFORMATION SYSTEM

Aguas Andinas has a modern database with a register and description of its infrastructure. This is called the Geographic Information System (GIS). This system controls the geographic positioning of all our potable water, sewage and client networks located on the basis of an urban map covering the whole of the Company's area under concession. Thus, this has become one of our principal sources of information for our daily operations, customer attention, planning, engineering and regulatory authorities.

A series of process modules have been developed on its platform. Among them: cuts and failures in the supply of potable water, fire hydrant maintenance, cleaning collectors, crisis management and Teseo for improved customer attention. GIS's other functions include the incorporation of high-resolution satellite images, aerial photography with laser technology, AVL-GPS technology for monitoring the fleet attending the domestic potable water networks and industrial Tablet PC for the operation of the large potable water networks

The efforts made in 2007 were focused mainly on improving the database in order to have more and better information in time for the next tariff process.









## IMPROVEMENTS TO THE SYSTEMS AND TELE- CONTROL

In the Systems and Tele-control area we carried out the Teseo Project that permits us to optimize the assignment of the tasks on-site required by the clients. This system integrates the geographic information of the requirements with the availability and position of the teams and, according to a model of optimization, assigns the tasks. Furthermore, it permits the registration from the site of the work performed, leaving this information available on the central system, thus giving a better service to the clients.

Furthermore, we developed a project to provide on-site, information on the Company's networks on the Geographic Information System. For this we have supplied the staff on-site with robust computers that are on line to the central system via wireless Internet.

Continuing along the lines of modernization and efficiency, during the period we introduced more automated enquiry terminals in the commercial agencies, permitting our clients to rapidly obtain a copy of their bills and/or to arrange payment terms. Furthermore, we introduced supervision via Internet of the automatic system of control of the potable water network and of the register of operations. We increased the Wi-Fi network in various operating and production installations in our Company, enabling our operators and personnel to connect directly through their personal computers in different working areas. Also, we changed the corporate electronic mail platform.

Furthermore, in 2007 we participated in the IFRS Project, which, as of 2008 will generate from the SAP the information required for the financial statements under the new regulations.

## RESEARCH AND DEVELOPMENT

With respect to the sewage treatment plants, we finalized the model of anaerobic digestion initiated in the year 2006, which has become a tool to support the operation and control of the digesters in the sewage treatment plants.

In addition, we concluded the construction of three scale-model reactors which have permitted us to carry out numerous experiments, achieving greater know how on the functions of the digesters and contributing valuable information when taking decisions on the influence of biosolids and of possible inhibitors or operating changes at the digestive stage.

These works, which have been carried out with the support of the Universidad Católica de Valparaíso and which have permitted us to be present in important local and international seminars, reflect the commitment of Aguas Andinas to research and development, fundamental pillars for the comprehensive water cycle activity and to guarantee the service provided to our customers.







## GENERAL PLANS FOR AGUAS ANDINAS

## NEW INVESTMENTS

During 2007 we continued with the development of the General Plans for Aguas Andinas, the principal purpose of which is to detect possible structural and functional deficiencies in order to, subsequently, propose solutions in advance.

During this period we updated the General Plan of Networks, which establishes the medium and long-term planning of the works required in order to adequately distribute the potable water in the Santiago Basin.

Furthermore, we prepared Hydrogeological Studies in the Quilicura and Los Trapenses zones with the purpose of establishing exploitation limits and projections of quality of underground waters which present a greater vulnerability in quantity and quality, respectively.

Also, we made modifications to the investment chronograms in the Development Plans which were approved by the Superintendence of Sanitation Services (SISS).

During 2007 the Company's plan of investments amounted to a total of Ch\$39,740 million, with Ch\$39,087 million corresponding to investments in sanitation subsidiaries and Ch\$653 million corresponding to investments in non-sanitation subsidiaries.

The majority of the resources were directed at potable water installations, an amount of Ch\$17,454 million. Of these, Ch\$11,805 million were invested in distribution works, particularly in the permanent renewal of potable water networks, with a total of Ch\$5,943 million. In production and transport, the more significant projects were the works for the supply of potable water to the northern zone of Santiago which implied Ch\$1,784 million; and the change of decantation modules in the Antonio Tagle Sewage Treatment Plant at the Vizcachas Complex, with an investment of Ch\$886 million.

The works on the disposal and collection of sewage involved Ch\$18,113 million, with Ch\$9,183 million invested in sanitation, in particular, the conclusion of the Melipilla Sewage Treatment Plant that implied Ch\$2,434 million, and the Til Til Sewage Treatment Plant, with Ch\$1,135 million.

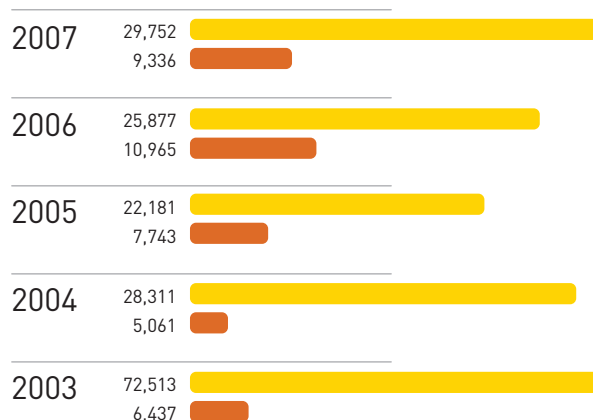
A total of Ch\$8,929 million were invested in sewage collection installations and directed at projects involving the permanent renewal of sewage works that implied Ch\$3,595 million; works on the North collector with an investment of Ch\$1,488 million; piping works from Cexas to the Esmeralda Sewage Treatment Plant for Ch\$1,348 million; and the Mapocho Interceptor, with an investment of Ch\$1,135 million.

On a consolidated level, 65.1% of the investment plan of the Company corresponded to an investment in expansion involving resources for Ch\$25,883 million.





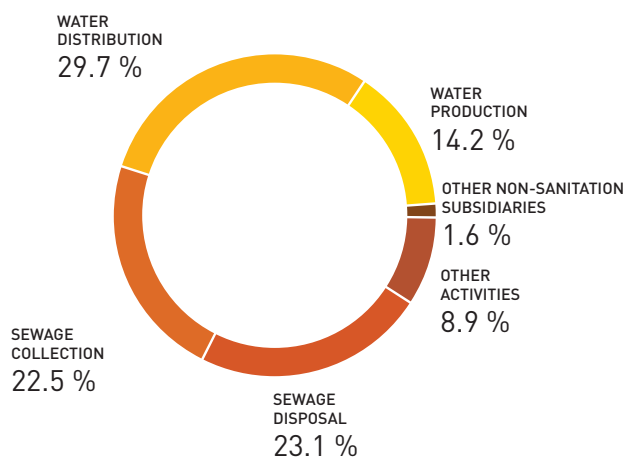
## INVESTMENTS (CH\$MM)



■ AGUAS ANDINAS  
■ AGUAS CORDILLERA <sup>(1)</sup>

<sup>(1)</sup> Aguas Cordillera includes Aguas Manquehue y Aguas Los Dominicos.

## INVESTMENTS BY CONCESSION YEAR 2007



## DETAILS OF CHART BY CONCESSION (MILLION CHILEAN PESOS AS OF DECEMBER 2007)

WATER PRODUCTION	5,649.4
WATER DISTRIBUTION	11,804.9
SEWAGE COLLECTION	8,929.5
SEWAGE DISPOSAL	9,183.2
OTHER ACTIVITIES	3,520.5
OTHER NON-SANITATION SUBSIDIARIES	652.7
TOTAL INVESTMENTS AGUAS GROUP	39,740

# ABSTRACTION AND PRODUCTION

We collect water resources to produce sufficient potable water and to satisfy the demand of nearly six million people in the Metropolitan Region.

## SOURCES, RESERVES AND PLANTS

The Maipo and Mapocho rivers are the principal sources of raw water for Aguas Andinas, while the natural aquifers that cross our concession area comprise the secondary source.

As a way of ensuring supply when water becomes scarce, the Company maintains important reserves that provide additional water resources. Among these, the more important ones are: The El Yeso reservoir, with an operational capacity of 232 million m<sup>3</sup>; Laguna Negra, with 600 million m<sup>3</sup>; and the Lo Encañado Lake, with 50 million m<sup>3</sup>.

The potable water production plants have the task of purifying this essential resource. In order to carry out this mission, the Company possesses the Las Vizcachas Complex with a maximum production capacity of 15 m<sup>3</sup>/s which represents over 50% of our total production. The second largest installation is the La Florida Potable Water Production Plant which has a capacity of 4 m<sup>3</sup>/s, producing close to 18% of the total.

In addition, there are a further 12 installations of a smaller size, with the main ones being: Padre Hurtado, Lo Gallo, San Enrique and El Sendero Plants.

## PRODUCTION BY TYPE OF SOURCE

During the period, the Company's total production of potable water, measured on leaving the plant, was 671.6 million m<sup>3</sup>; with 583.6 million m<sup>3</sup> corresponding to surface waters and 87.9 million m<sup>3</sup> to groundwaters.

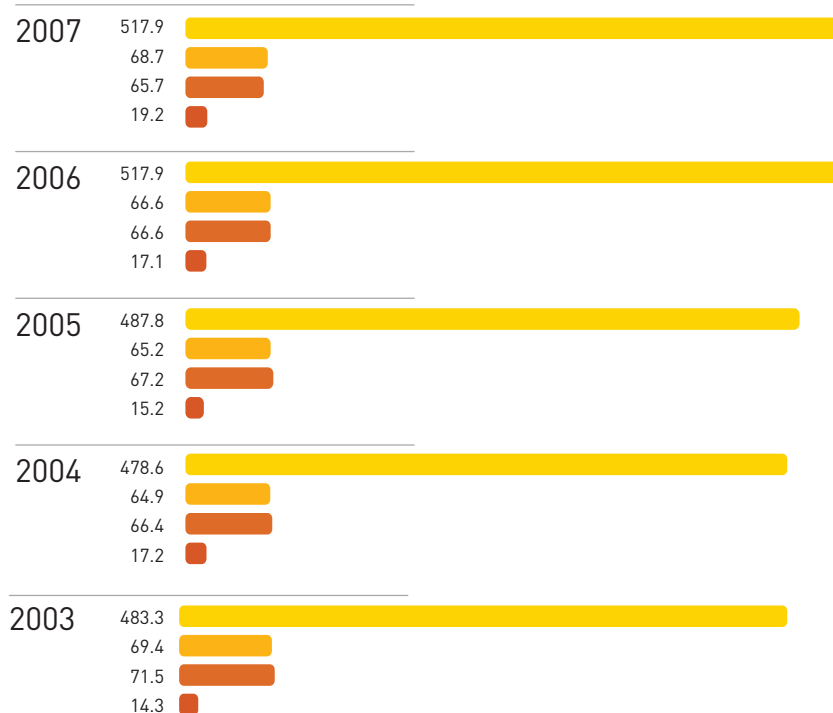




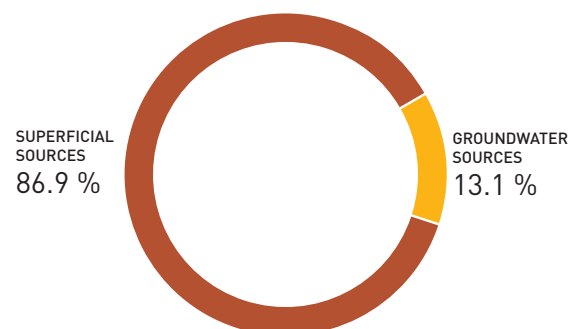


Air view of Las  
Vizcachas Plant

#### PRODUCTION BY SOURCE TYPE (MILLION M<sup>3</sup>)



#### WATER PRODUCTION COMPOSITION YEAR 2007



- AGUAS ANDINAS SUPERFICIAL
- AGUAS ANDINAS GROUNDWATER
- AGUAS CORDILLERA<sup>(1)</sup> SUPERFICIAL
- AGUAS CORDILLERA<sup>(1)</sup> GROUNDWATER

<sup>(1)</sup> Aguas Cordillera includes Aguas Manquehue and Aguas Los Dominicos.







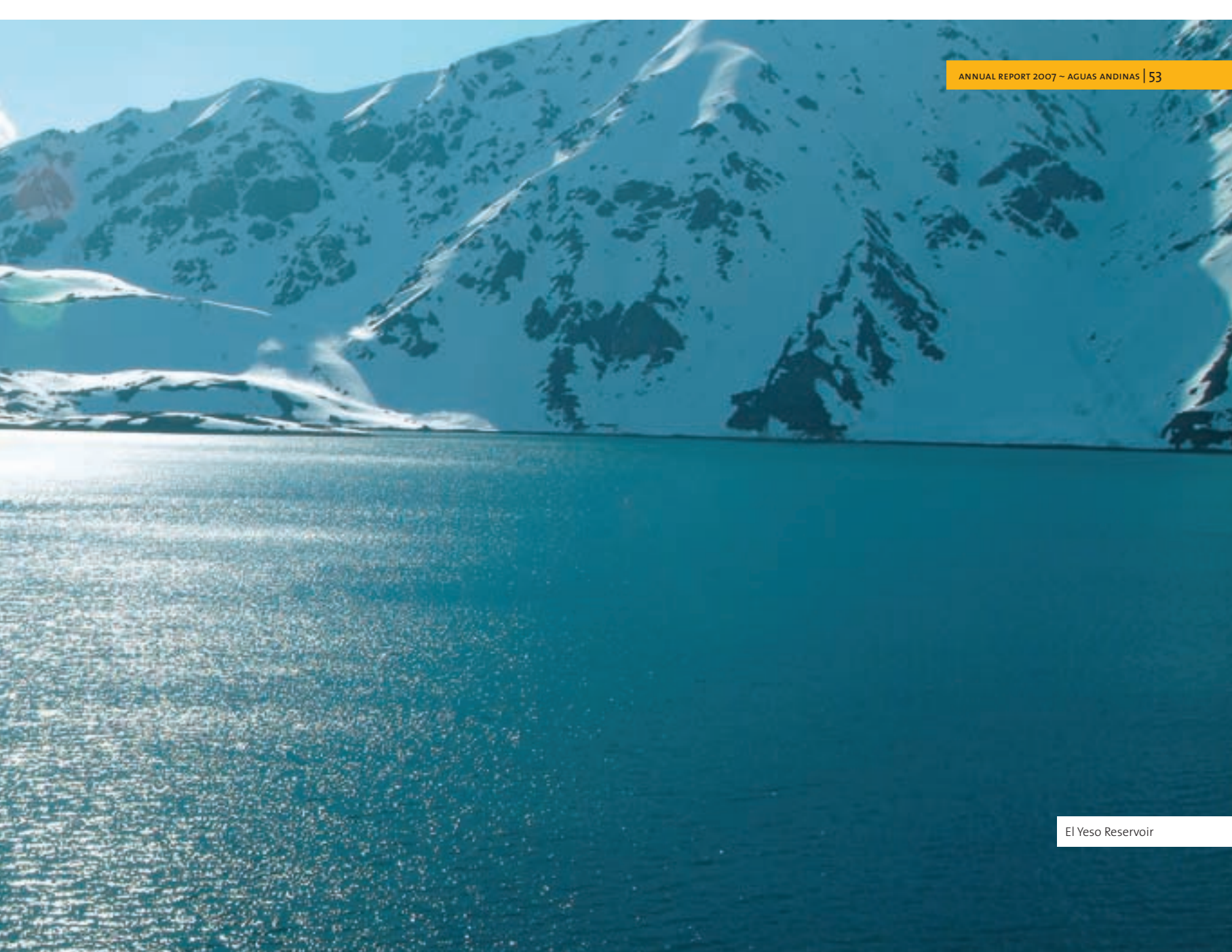
## EL YESO RESERVOIR

Aguas Andinas' production of potable water counts on an important support, the El Yeso Reservoir. This great work of infrastructure has a capacity to reserve 232 million cubic meters, which allows us to regulate the contributions coming from the surface sources, even in times of drought, ensuring supply.

In order to maintain its installations in good shape and protect its useful life and reserve capacity, the Company makes regular investments in its infrastructure.



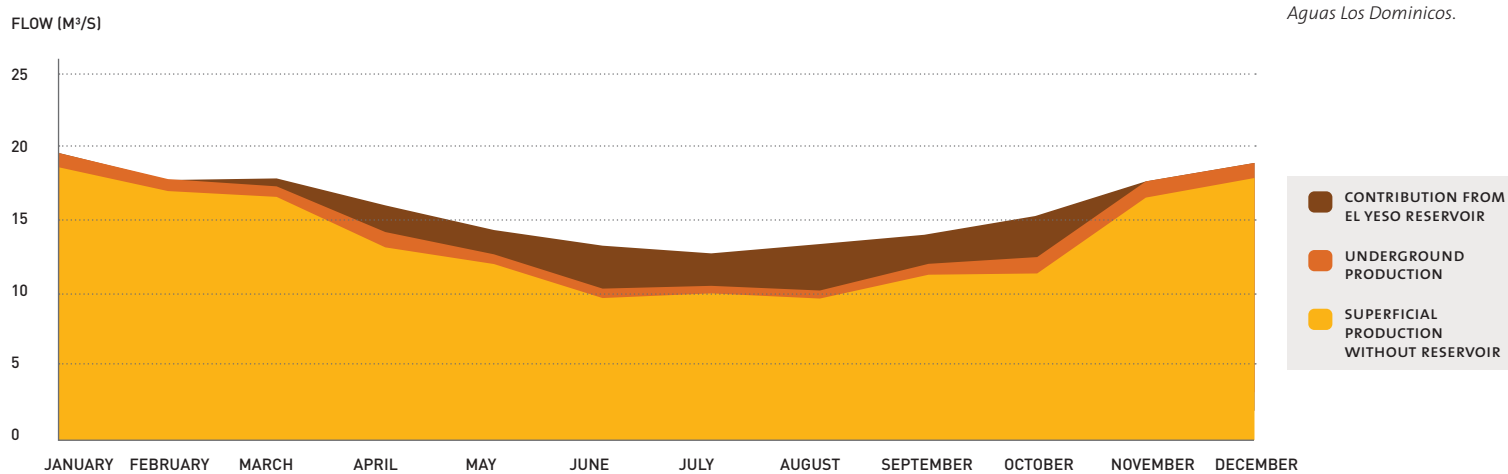




El Yeso Reservoir

### CONTRIBUTION FROM EL YESO RESERVOIR TO THE PRODUCTION OF GREATER SANTIAGO<sup>(1)</sup>

<sup>(1)</sup> Includes *Aguas Cordillera*, *Aguas Manquehue* y *Aguas Los Dominicos*.





## TRANSPORT AND DISTRIBUTION

More than 12,500 kilometers of underground piping allow us to provide a continuous service to all our clients.

Our large potable water distribution network has the mission of providing a continuous supply, with the necessary precision, to the nearly six million inhabitants of the Santiago Basin.

This mass of piping, with its route coinciding with that of the streets, is permanently monitored by the Operations Control Center to ensure its correct functioning and to guarantee the distribution of the supply.

During 2007, the length of the distribution network grew by 1.3%, or 163 kilometers, reaching a total of 12,596 kilometers.

### POTABLE WATER OPERATION

The potable water operation is carried out through a comprehensive function supported by a coordinated job and with centralized information. The objectives are to optimize the global operation, maintain an efficient control over costs and give priority to investments from the technical and financial viewpoint.

By virtue of the compliance with these guidelines, we have adequately confronted the crisis provoked by external events and we have improved the financial and technical efficiency of the Company, guaranteeing the supply with continuity and quality.

### NEW NORMS ON QUALITY

The ever increasingly demanding international norms on the quality of drinking water have been reflected by the new norms on quality for the supply of drinking water in Chile, NCh 409. Our Company has successfully exceeded their





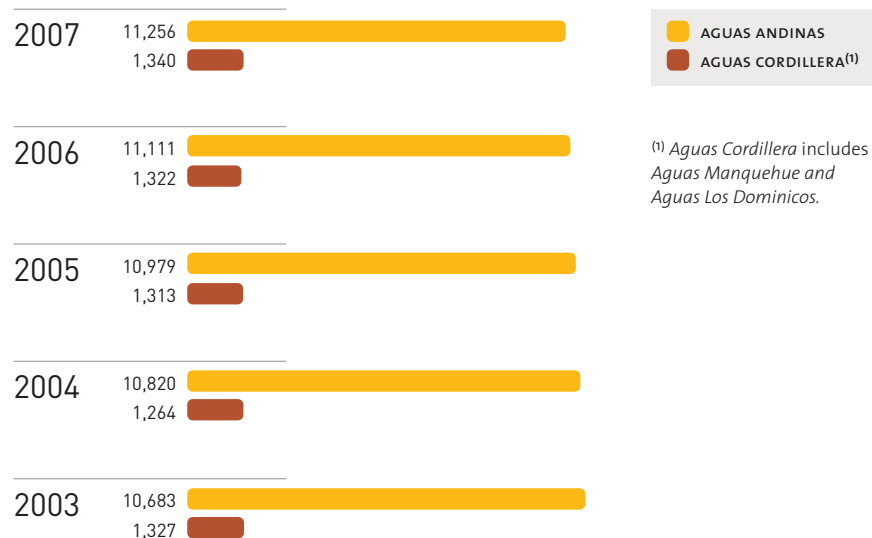
implementation as we have the structure and procedures necessary to reach the indexes stipulated in the norm.

## WATER INFRASTRUCTURE AND NETWORKS

Year 2007 meant the definite consolidation of our Model for Managing Infrastructure and Networks. The information from empirical data on the state of the network issued by the Network Laboratory, together with complying with the policies on investments and renewal, have produced such results as minimal breakages in our general distribution network.

Thanks to the model we have evidenced a drastic reduction in failures to levels below 0.1 faults/km, an index well below those accepted as excellent by the large sanitation companies in the world. In particular, the reduction in breakages, a figure that has fallen some 27% with respect to the year 2005.

### LENGTH OF DISTRIBUTION NETWORK (KMS.)



# SEWAGE COLLECTION

We transport the sewage to the treatment or final disposal facilities using a network of more than 10 thousand kilometers.

One of the functions of the underground collection network is to avoid any direct contact between people and the sewage, preventing contagion and problems with contamination.

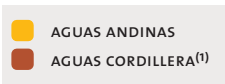
In order to keep up its correct operation and functioning, in the year 2007 we carried out periodic programs of improving the network, renewing or restoring 9 thousand meters of ducts in different sectors of the sewerage. Furthermore, we inspected the quality and quantity of the sewage in the various river basins by implementing a measuring network.

Thanks to the Program of Preventative Maintenance, we cleaned more than 1,167 kilometers of collectors utilizing high technology hydrocleaning trucks. This activity was complemented with the execution of an inspection of a total of 125 kilometers of ducts, utilizing a television camera and, in this way, being able to count on a diagnosis complementary to the operations and maintenance activities.

Another important aspect to consider was the application of the entire Norm on Emission of Discharges to the sewerage system (D.S. MOP 609/98), for which we intensified our controls over industrial waste, carrying out more than 2,940 monitoring exercises and 210 inspections.

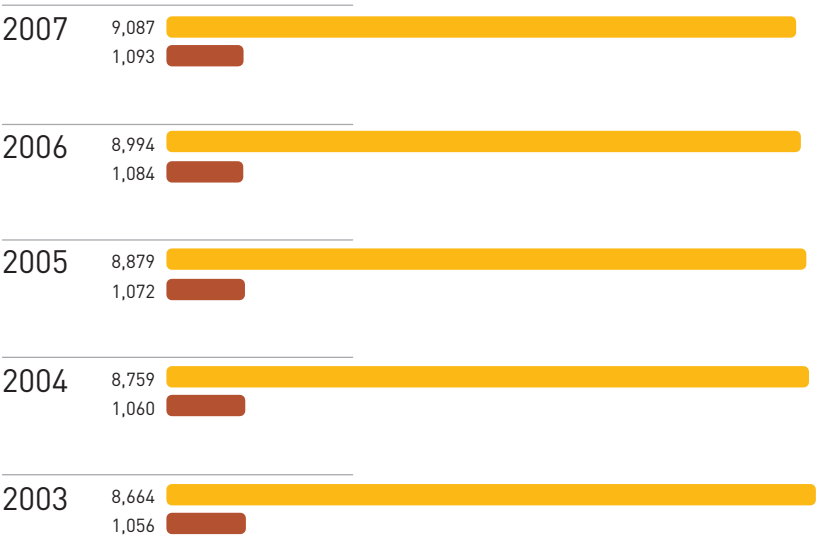
These programs fall within our commitment to have a complete sewage collection network in anticipation of our customer's requirements and to safeguard our infrastructure.

During the year 2007, the sewage collection network of Aguas Andinas grew by 102 kilometers, now totaling, on a consolidated basis, a length of 10,180 kilometers.



<sup>(1)</sup> Aguas Cordillera includes Aguas Manquehue and Aguas Los Dominicos.

LENGTH OF THE SEWAGE COLLECTION NETWORK (KMS)







# SEWAGE TREATMENT

In 1999, only 3% of the sewage of the Metropolitan Region was treated. Following an important plan of investments undertaken by Aguas Andinas, we are currently treating over 72%.

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

Currently, and thanks to the functioning of two large treatment plants - El Trebal and La Farfana – plus another 9 installations in the surroundings and 3 belonging to the north-eastern zone of Greater Santiago, the Aguas Group treats more than 72% of the sewage generated in the Santiago Basin.

During 2007, the La Farfana Sewage Treatment Plant, which has a purifying capacity of 8.8 m<sup>3</sup>/s, decontaminated 219.7 million m<sup>3</sup>, corresponding to sewage generated by close to 3.3 million inhabitants. El Trebal, which has a purifying capacity of 4.4 m<sup>3</sup>/s, decontaminated a total of 106.2 million m<sup>3</sup>, corresponding to a population estimated to be 1.7 million people in the south, southwest area of Santiago.

Thus, during the period, a total volume of 355.5 million m<sup>3</sup> of sewage was treated.

## IN SUBURBS

There are currently 9 treatment plants operating normally in suburbs, with a joint purifying capacity of over 750 liters per second. During 2007, the volume of sewage decontaminated in these localities exceeded 27 million cubic meters, thanks to our permanent commitment to sanitation coverage in the entire Santiago Basin.

## PROGRESS ON THE SANITATION PLAN

During the course of 2007 significant progress was made on Aguas Andinas' Sanitation Plan. Among the advances made we would highlight the construction of the Melipilla treatment installations – with a capacity of 192 l/s and that of Til Til which has a capacity of 11 l/s. Both plants initiated their start-up during the first months of 2008, replacing the operations of the old Cexas, Esmeralda and Los Olivos treatment plants. Also during the period, the Buin Maipo Sewage Treatment Plant came into operation with a purifying capacity of 137 l/s.

Furthermore, we carried out projects on improvements in the La Farfana Sewage Treatment Plant which included sifting sludge, deodorization, automatic loading and installation of neutralization of chlorine gas. The aim of all these improvements is to comply with Resolution on Environmental Rating 130/06 and, in addition, optimize the security conditions in the plant.

During 2007, the Environmental Impact Study of the Clean Urban Mapocho Project was approved. This project, which represents an investment of around 92 million Dollars and includes the closure of the 21 pipes that currently pour sewage into the Mapocho River's bed, will permit us to raise our sanitation coverage to 84% in the year 2009.

Finally, we obtained the approval of the Declaration of the Environmental Impact of the Project to Optimize and Improve the Operations in the El Trebal Sewage Treatment Plant.

## TREATMENT OF BIOSOLIDS

Conscious of the importance of a correct handling of biosolids, the Company is permanently exploring alternatives for their reutilization and beneficial use. Thus, during 2007 Aguas Andinas developed a line of action in order to optimize the use and procedures of the drying field in the El Trebal Sewage Treatment Plant by means of the implementation, on an industrial scale, of a novel process of biodrying. This process permits the complementation of solar drying during the months of low temperatures, improving the evaporation capacity and minimizing the emissions around the plant.

Furthermore, we continue studying and promoting the agricultural use of biosolids and we continued with the





El Trebal Sewage  
Treatment Plant





El Trebal Sewage  
Treatment Plant





Environmental Impact Study and the Master Plan of the El Rital Comprehensive Use of Biosolids Center.

### OTHER ACHIEVEMENTS IN TREATMENT

During the period we carried out a series of plans to maintain our high standards of quality in providing our treatment services, which represent pioneer applications in companies in the sanitation sector. Among these we would mention the renewal of the certifications on quality (ISO 9000), environmental protection (ISO 14000) and prevention of occupational risks (OHSAS 18000) for all the sewage treatment plants and for the entire scope of their activities. This makes us the first sanitation company in the country to have received, jointly, all three certifications for its purifying plants.

In addition, we incorporated the certification for quality in maintenance in the treatment process and we broadened the scope of the three certifications to cover the new installations in Talagante and Curacavi.

In research, we undertook projects related to the process of anaerobic digestion of sludge with the cooperation of the Universidad Católica de Valparaíso. These lines of research have allowed us to be present and to share experiences at important local and international conventions.

Finally, we implemented non-invasive tools and practices for maintenance at the plants which have permitted the optimization of the availability of their equipment, increasing their operating reliability. Among these new practices we would point out the determination of hot points through thermography, measurement of the conditions of oil and the analysis of vibrations in principal equipment.



We continue studying and promoting the agricultural use of biosolids



La Farfana Sewage Treatment Plant



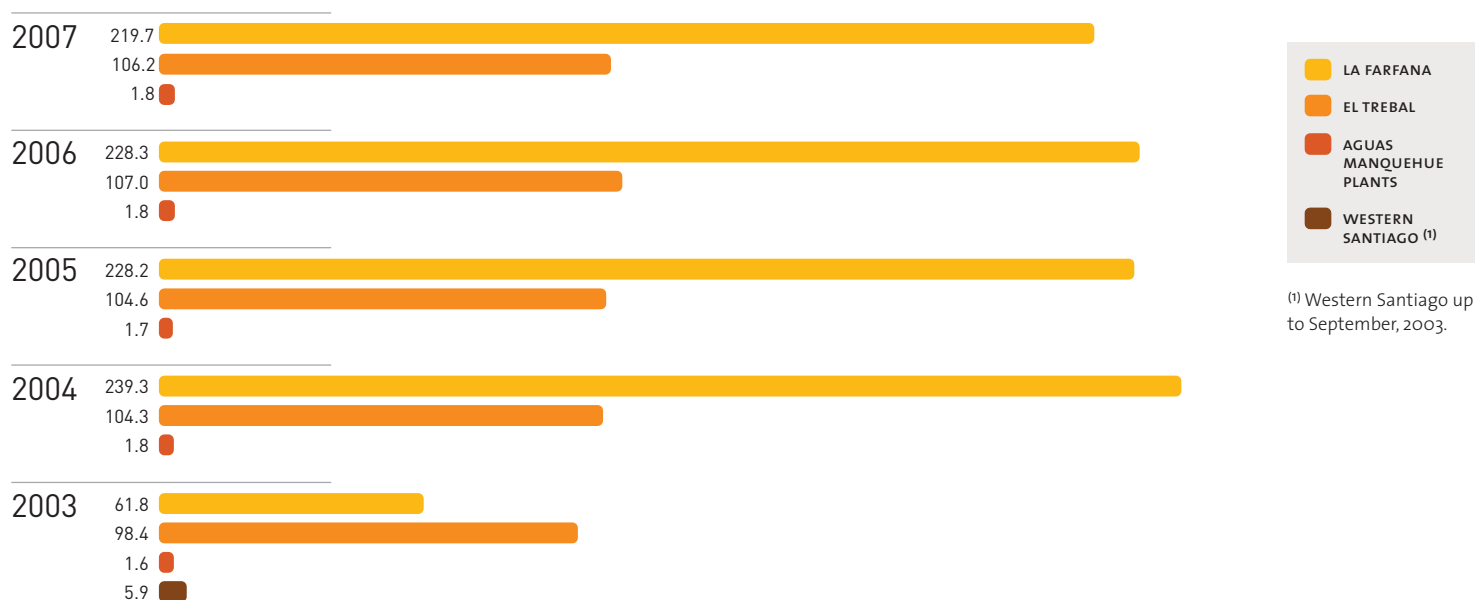


La Farfana Sewage  
Treatment Plant

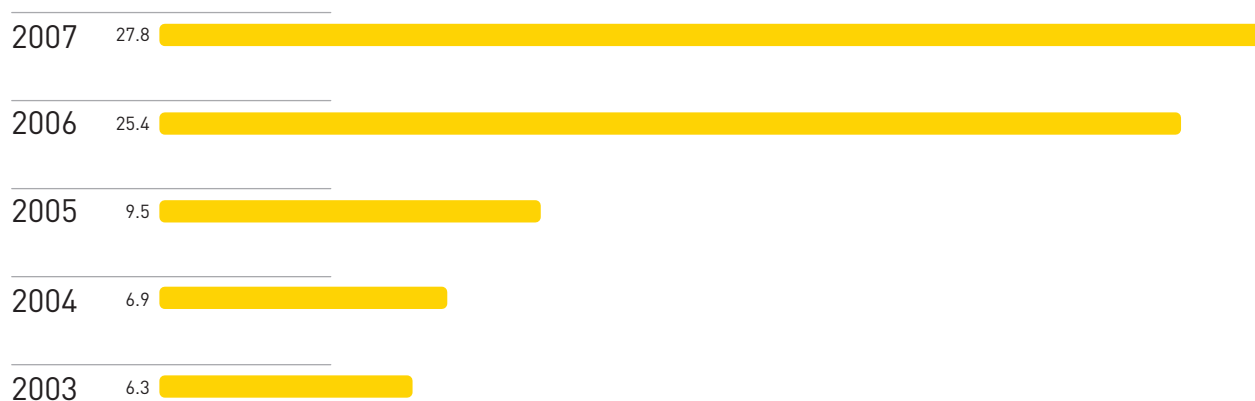


To be purifying 100% of the sewage of the Metropolitan Region by the year 2010, Chile's Bicentenary, is the target for Aguas Andinas.

#### TREATMENT OF SEWAGE - GREATER SANTIAGO - (MILLION M<sup>3</sup>)



#### TREATMENT OF SEWAGE - PERIPHERAL SURROUNDINGS (MILLION M<sup>3</sup>)



# SUSTAINABLE DEVELOPMENT A RESPONSIBLE DEVELOPMENT

For Aguas Andinas, growth should go in-hand with the development of its employees, the progress and welfare of the community and, of course, with a profound respect for the environment.







## HUMAN RESOURCES THE KEY IN OUR ORGANIZATION

The professional and personal development of our workers is one of our principal concerns as a Company.

During the year 2007, we took important steps for the welfare and health of our workers. Among these, we would highlight the Plan for the Improvement of Safety, Order and Image in the Company's water and sewage operating premises. We also undertook a self-care campaign called "Wake your senses" and we carried out a program for knowledge, dissemination, training and control of the application of Law N° 20,123 on Sub-contractors in all our Company's contracts.

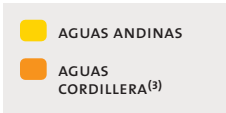
### FORMATION, DEVELOPMENT AND TRAINING

Throughout this period, the development of our human capital was strongly orientated towards fomenting relationships with our workers. Thus, we implemented a program called "Focus Workers" which covered the entire organization in different training processes: leadership skills for the executive level; effective communications and development of people for sub-managers; training and specialization programs for skilled workers; and the inclusion in the Performance Evaluation system of all the administrative staff and operators. In this way, we trained 85% of the workers in an effort that implied more than 40 thousand hours of training.

The "Crece" Development Program system covered all the different levels in the organization, including 12 administrative staff and 275 operators. Furthermore, we managed to consolidate our policy of internal mobility with 46% vacancies occupied with our own staff.

We also went ahead with a plan to renegotiate personal debts called "Personal Finances", offering all our employees a bank agreement at preferential interest rates, which 50% accepted. During the year we also renegotiated a health plan with the Health Plan Provider with most members from our organization which included all the employees.





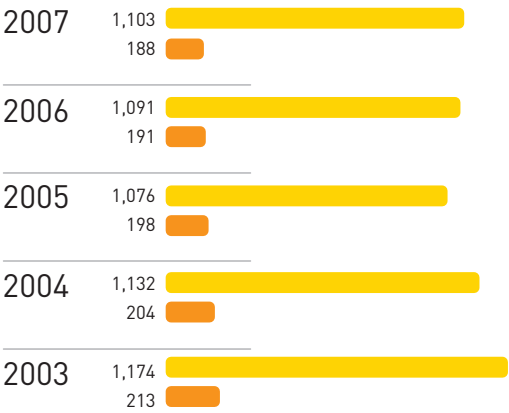
<sup>(3)</sup> Aguas Cordillera includes Aguas Manquehue and Aguas Los Dominicos.

Towards the end of 2007 and for the second consecutive year the Company offered a program for early retirement which included monetary and health benefits.

STAFF COMPLEMENT

As of December 31, 2007 the staff complement of Aguas Andinas was 1,103 employees. On a consolidated level, the complement amounted to 1,480 workers.

STAFF COMPLEMENT

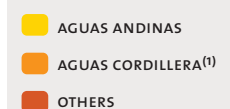






La Farfana Sewage  
Treatment Plant

## STAFF COMPLEMENT



<sup>(1)</sup> Aguas Cordillera includes Aguas Manquehue and Aguas Los Dominicos.

Note: Víctor de la Barra, an executive of Aguas Andinas, was also shown as the General Manager of the sanitation subsidiaries (Aguas Cordillera, Aguas Los Dominicos and Aguas Manquehue).



# COMMUNITY WALKING TOGETHER

For Aguas Andinas, social responsibility is backed by actions that permit the generation of value and progress for the community in which we are inserted and for society in general.

## GOOD NEIGHBOR POLICY

The Good Neighbor Policy was initiated in 2005 in order to establish a channel of communications directly between Aguas Andinas and the residents close to its sewage treatment plants, mainly the neighbors of La Farfana, El Trebal and Montenegro (Til Til).

In this way, we have been able to incorporate the communities in the search for environmental and social solutions. Furthermore, we have strengthened relationships of confidence and collaboration based on knowing each other, the development of capabilities and strengthened leadership. In addition, we have provided special training to workers and sub-contractors in order to teach them to relate in a better fashion to the community.

One of the activities carried out during the year under the Good Neighbor Policy was the Working Tables with the object of detecting the principal concerns and problems of the neighbors of our installations – generally of the treatment plants – in order to be able to solve them through intervention plans and common development projects. The Working Tables count on the participation of neighborhood associations, community organizations, representatives of the municipal district, the Company and the Casa de la Paz and the Corporación para el Desarrollo Sustentable organizations.

The Working Tables held in the municipal communes of Pudahuel, Maipú, Til Til and Padre Hurtado, permitted the analysis of impacts, definition of responsibilities in common and the development of mutual collaboration projects such as educational programs related to the water cycle.

## “NEIGHBORHOOD DREAMS” FUND

This entity, which organized the event for the second consecutive year, provides social funds which are bid for, to the communities close to the main purifying installation, La Farfana.

Its aim is to contribute resources for environmental, social and cultural projects with the object of improving the quality of life of the neighbors, strengthen citizen participation in local environmental matters and promote territorial projects for the management and conservation of the environment.

Those that have benefited from this are various neighborhood associations, women's, sports, youth and cultural organizations, among others – which were invited to participate directly by the Company.

During the year 2007, 36 projects were submitted from which 16 were selected, four from Maipú and 12 from Pudahuel.

## PRO TIL TIL CORPORATION

Another activity within the Good Neighbor Policy was the creation of the Business Sector Corporation for the Development of Til Til, known as “Pro Til Til”. The object of this corporation is to contribute to the sustainable development of this municipal commune, promoting the generation of projects related to education, the environment, the development of small businesses, health and culture.

The organization was created by seven leading companies in the area, among which is Aguas Andinas.

## COMMUNITY PROGRAMS

More than 75 participants were present at the water cycle educational programs and some 17 thousand people benefited from our getting closer to the low-income zones, thanks to a joint work with municipal communes and neighborhood organizations. This has permitted, with a focus on efficiency, 88% attendance by the neighbors from key zones.







### GUIDED TOURS TO THE AGUAS DE RAMÓN NATURE PARK

During 2007 we initiated the program of guided tours to the Aguas de Ramón Nature Park, inaugurated in December 2006, permitting more than 1,000 people to visit the park and walk along its pathways, receiving on-site education on the environment, inique in this region.

The Aguas de Ramón Nature Park, is an area of 3,300 hectares of Andean foothills, located between the municipal communes of Las Condes and La Reina. The aim of this park is to foment the conservation of nature, scientific research and environmental education of the current and future generations.

On the site, ceded in commodatum by CORFO (The Chilean State Development Corporation), Aguas Andinas jointly with the Protege Association of Municipalities, set up a modern Center for Environmental Education and Information that will permit people to have a virtual view of the river bed, the ecological processes and their importance for the equilibrium of the surroundings of Santiago.



## ENVIRONMENT IN TUNING IN WITH NATURE

The respect for the environment and its conservation for future generations of the Santiago basin is an essential part of our work.

### CLEAN URBAN MAPOCHO

To be able to see and enjoy a clean Mapocho River, along its urban stretch, is only steps from becoming reality, thanks to the approval of the Environmental Impact Study by the Metropolitan Region's Regional Environmental Commission and the subsequent initiation of the construction works at the end of 2007, which will extend over the next 18 months.

The Clean Urban Mapocho Project seeks to eliminate 21 sewage discharge points that currently pour their contents into the Mapocho River during its flow through the city of Santiago, from the Municipal Commune of Las Condes to Maipú, permitting the decontamination of the Mapocho River in its stretch that crosses the city. For this, the project considers the construction and operation of an interceptor collector 28 kilometers long, which will permit these discharges to be diverted towards the La Farfana and El Trebal treatment plants.

Among the benefits of this project are the improvement of the quality of the river's water, the elimination of unpleasant odors, the decontamination of the La Punta, La Pólvara and Casas de Pudahuel irrigation canals and the recovery of riverside areas, among others.

### MAPOCHO SEWAGE TREATMENT PLANT

The Mapocho Plant project consists of the construction of a new sewage treatment plant located close to the current El Trebal installations.

The future Mapocho Plant is designed for a treatment capacity of 4.4 cubic meters per second. With its operation,

the proportion of the sewage generated in the Santiago Basin that will be treated is expected to reach 100%, converting our capital into a city free of contaminated waters.

During the year 2007, the engineering studies commenced jointly with the environmental analyses. Furthermore, within the framework of our policy on social responsibility, we organized something never seen before which involved the voluntary and prior participation of the public which, during 10 months, informed the communities and the authorities of the zone of the characteristics of the project and took note of their principal worries and concerns.

In the month of November, the Environmental Impact Study was submitted to the Metropolitan Region's National Environmental Commission for its approval.

### OVERALL TREATMENT OF BIOSOLIDS

As a result of the process of treating sewage, three products favorable to the environment are obtained: treated and clean water, which can be returned to the natural river beds or be used for irrigating crops; natural gas, to be utilized as a non-conventional renewable energy and contribute to the energy effort the country so needs; and biosolids, which contain nutrients and organic matter, reusable in agricultural activities.

Agua Andinas fomenta an overall treatment of biosolids in order to generate sustainable solutions in time and to maximize the beneficial use of this product. For this, during the year 2007, various research experiments were carried out, utilizing 11 thousand tons of biosolids on rundown agricultural land and forest plantations.

Along these same lines, in mid-2007, the Company received the environmental authorization to implement a new process of biological drying of the biosolids, known as "biodrying". This process has permitted a very significant change in the operation of the El Trebal drying field, avoiding the accumulation of biosolids in winter and improving substantially the environmental conditions of the surroundings.







Aguas de Ramón  
Nature Park





## NON-REGULATED COMPANIES A CONTRIBUTION TO PROGRESS

The non-regulated subsidiaries of the Aguas Group have the role of supporting the activities of our sanitation companies and, thus, contribute towards the sustainable development and progress of the country's industrial sector.

### ECORILES

Provides consultancy and management services on liquid industrial residues to various industries in this country, operating the processes and the environmental problems associated with liquid or solid industrial waste.

During 2007, EcoRiles achieved revenues of USD 10 million, with a return on sales of over 20%, becoming the most important company in the country in outsourcing industrial waste plants by means of their comprehensive management. Currently, this subsidiary of Aguas Andinas operates 20 industrial waste plants, with over 100 employees.

At the beginning of the year, the liquid residue treatment plant at Agrícola Ariztía's processing plant located in El Paico started operations. This installation was financed and constructed by EcoRiles for the client and today it is complying fully with the DSGO, which regulates the discharge of industrial residues to surface beds.

During the period, the company started operating the industrial residue plant at Soprole, one of the most important plants in the Metropolitan Region. Furthermore, it successfully started its expansion in the southern area of the country on incorporating the operations of the Pesquera San José plant in Coronel and the Watt's plant in Osorno.

During the 2007 period, EcoRiles obtained the ISO 9,001-2000 certification, thanks to the joint work of its personnel with the people from support on matters of quality from the Aguas Group.





## GESTIÓN Y SERVICIOS

Sells mainly materials for the sanitation industry and its principal clients are construction companies, property developers and installers of sanitary services.

In 2006 it started offering global solutions related to road projects and, as of 2007, it initiated a new stage of growth through the development of new businesses. Among these are the study of new technologies for restoring collectors – to be launched onto the Chilean market – and the participation in the development of the project for supply of biogas from the La Farfana Plant to Metrogas, where it is expected to invest the sum of USD 2.5 million in order to enter into the business during the second half of 2008.

During the current period, Gestión y Servicios showed a significant growth that permitted it to consolidate its leadership in the supply of materials for the sanitary industry. It achieved sales of Ch\$ 9,796 million with an operating income of Ch\$ 1,616 million, which reflects increases of 36% and 47%, respectively.

## 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.

As part of its strategy, it has continued with the development of leading edge analytic techniques, permitting the achievement of the highest level of detection and quantification for organic compounds and metals present in water.

Currently, Anam has become a referent to both the local potable water market, operating with 9 sanitation companies, and the bottled water market in which it operates with the principal international brands with a presence in Chile, Argentina, Bolivia, Peru, Uruguay and Paraguay. In the same way, in the market of industrial waste and sewage, it provides services to the principal industries in the country, mainly in the food and agroindustrial sector.

In this way Anam has consolidated its position as the principal water laboratory on the local market, with its outstanding commercial development and care for its workers. During the 2007 period, revenues came to Ch\$ 2,586 million, an increase of 39% with respect to the previous year, and it showed an increase in net earnings of 52% in respect of the previous period.

# FINANCIAL INFORMATION

## EFFICIENT MANAGEMENT

Taking advantage of market conditions, during 2007 we carried out a restructuring of our borrowings which permitted us to improve our maturity curve and reduce the Company's financial costs.

Market conditions permitted us to carry out a restructuring of our borrowings during the first half of 2007, which implied the financing of 100% of our obligations with banks and, in addition, the negotiation of fresh bank financing to cover cash requirements for the period. Both operations contributed to the reduction in our financial costs.

This combination of sources of finance permitted us to support the operations and comply with our plan of investments, reduce our financial expenses and improve the liquidity ratios of the Company. The above, added to the low operational risk of the industry and our solid financial profile, ratified our risk rating of AA+ granted by the risk rating agencies, one of the best categories assigned to a private company on the local market.

As part of the plans to optimize the corporate structure of the Group, during the period we arranged the merger of companies, the elimination of investment companies and a tidying up of the companies in a sector of regulated businesses and another with non-regulated businesses, concluding various stages of the corporate simplification project.

We also worked on the analysis of the adoption of the international financial reporting standards (IFRS) which will permit us to issue our financial statements as of the year 2009 in accordance with the norms demanded by the Superintendence of Securities and Insurance.

In order to strengthen the relationship with our suppliers, we implemented a space in our web page that allows them to consult, on-line, the statement and history of payments of their invoices, having quick access to quality information.





# RISK FACTORS

The Company shows a favorable situation in terms of risk. This is 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

Aguas Andinas is carrying out a plan of investments in accordance with the development programs to which it is committed with the Superintendence of Sanitation Services (SISS), which involve a significant effort in terms of financial, administrative and technical resources for their implementation and control. Nevertheless, tariffs incorporate the cost of these new investments, ensuring a minimum yield.

### REGULATED MARKET

Due to its monopolistic nature, the sanitation services industry is highly regulated by the State and is exposed to possible changes in the norms established. 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 weather conditions in the hydrographic basins determine, to a great extent, the quantity, quality and continuity of the raw waters available for the processes of abstracting and producing potable water.

Currently, Aguas Andinas holds sufficient water rights to ensure an adequate production of potable water, even in

adverse climatic conditions. Also, in the Company we have the technical and human capacities to overcome critical situations.

### CLIENTS

The Company currently attends 1,597,537 potable water clients located in our area under concession and who have Aguas Andinas and its subsidiaries as their supplier. The principal 100 clients represent only 6.78% of the total sales for the year 2007.

## FINANCE

### EXCHANGE RISK

Aguas Andinas' revenues are tied to the local currency and therefore, the Company's borrowings are in this same currency with no debt in foreign currency.

### INTEREST RATE RISK

As of December 31, 2007, Aguas Andinas had 75% of its debt at a fixed rate, comprised as follows: approximately 82% in short and long-term bonds and 18% in reimbursable financial contributions. The other 25% of the debt is at a variable rate and corresponds to credits from local banks.

The situations described have determined that the risk rating agencies have assigned the Company a rating of AA+ on the long-term debt. In the case of shares, Feller Rate has assigned a rate of First Class Level 3, whilst ICR assigned a rate of First Class Level 2.



# INVESTMENTS AND FINANCING POLICY

## INVESTMENTS

Of the total investments made during the period, 65.1% corresponded to expansion works, thus complying with the Company's long-term development plan.

The rest of the resources invested were assigned mainly to renewing existing operating assets and, to a lesser degree, to the implementation of technological development and to investments in the non-sanitation subsidiaries.

## FINANCING

During the first half of 2007 we carried out a restructuring of our borrowings which implied refinancing 100% of our obligations with banks, equivalent to 22% of the financial debt of the Company as of April, 2007 substantially improving the maturity curve for the forthcoming years and increasing the duration of the bank debt from 1.8 to 4.5 years.

Furthermore, we obtained a new bank credit to cover cash requirements during the period. This credit was for Ch\$20,000 million, matures in 2013 and has an average duration of 4.5 years. Both operations permitted us to reduce our financial expenses.

During the period, we obtained financing through reimbursable financial contributions of Ch\$16,645 million, issued in UFs plus a fixed rate, with maturities between 10 and 15 years. In addition, we utilize bank credit lines to finance our temporary need of funds.

In December the Company informed the Superintendence of Securities and Insurance (SVS) of its intention of undertaking a bond issue for up to UF2.5 million in order to finance investment projects for the year 2008.

## DISTRIBUTABLE NET EARNINGS (THCH\$)

NET EARNINGS FOR THE PERIOD 2007 <sup>(1)</sup>	97,057,889
---	------------

RESERVE FOR FUTURE DIVIDEND PAYMENTS	436,414
--------------------------------------	---------

INTERIM DIVIDENDS ON ACCOUNT OF NET EARNINGS FOR 2006	(30,660,064)
---	--------------

REMAINING DISTRIBUTABLE NET EARNINGS	66,834,349
--------------------------------------	------------

DIVIDENDS PAID AS A % OF THE DISTRIBUTABLE NET EARNINGS	31.6%
---	-------

<sup>(1)</sup> Net earnings for the period adjusted to reflect the negative goodwill generated by the subsidiary, Gestión y Servicios S.A., equivalent to ThCh\$ 1,109.







El Trebal Sewage  
Treatment Plant





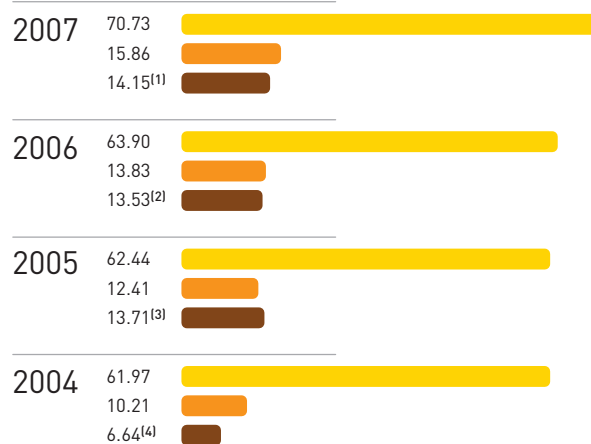


# DIVIDEND POLICY

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

This policy shall remain in force whilst the Company maintains the current level of capitalization and that it continues to be compatible with the policies on investments and financing determined for each period.

## DIVIDENDS PAID PER SHARE (CH\$ PER SHARE)



<sup>(1)</sup> 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.

<sup>(2)</sup> Includes two items: a dividend of Ch\$ 10.2148 per share – corresponding to the 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 that same year.

<sup>(3)</sup> 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 of that same year.

<sup>(4)</sup> Includes two items: a dividend of Ch\$ 9.25 per share paid on May 22, 2007; and an interim dividend of Ch\$ 4.9028 per share on account of the net earnings for the year 2007, paid on October 24, 2007.

BOOK VALUE  
 RETURN  
 DIVIDENDS PAID

# 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, 2007, 65% corresponded to Series “A”, equivalent to 3,975,973,019 shares; and 35% corresponded to Series “B” shares, equivalent to 2,142,990,141 shares.

## TRANSACTIONS ON SECONDARY MARKET

	AVERAGE PRICE (CH\$)	UNITS	AMOUNTS (CH\$)
SANTIAGO STOCK EXCHANGE			
2005			
Total 1 <sup>st</sup> Quarter	167.71	18,034,975	3,024,680,836
Total 2 <sup>nd</sup> Quarter	180.32	86,581,539	15,612,200,079
Total 3 <sup>rd</sup> Quarter	194.72	24,925,553	4,853,431,586
Total 4 <sup>th</sup> Quarter	180.39	27,769,195	5,009,287,001
YEAR 2005	181.17	157,311,262	28,499,599,502
2006			
Total 1 <sup>st</sup> Quarter	185.92	10,854,818	2,018,170,513
Total 2 <sup>nd</sup> Quarter	186.60	128,160,683	23,914,899,145
Total 3 <sup>rd</sup> Quarter	193.27	34,229,306	6,615,619,224
Total 4 <sup>th</sup> Quarter	213.40	32,530,794	6,942,102,174
YEAR 2006	191.91	205,775,601	39,490,791,056
2007			
Total 1 <sup>st</sup> Quarter	231.61	45,050,802	10,434,152,110
Total 2 <sup>nd</sup> Quarter	235.69	39,924,150	9,409,775,990
Total 3 <sup>rd</sup> Quarter	226.11	27,536,171	6,226,290,426
Total 4 <sup>th</sup> Quarter	227.80	32,141,488	7,321,900,595
YEAR 2007	230.84	144,652,611	33,392,119,121
BROKERS MARKET – STOCK MARKET			
2005			
Total 1 <sup>st</sup> Quarter	167.05	210,321	35,134,449
Total 2 <sup>nd</sup> Quarter	186.19	639,997	119,166,504
Total 3 <sup>rd</sup> Quarter	195.05	327,047	63,791,365
Total 4 <sup>th</sup> Quarter	181.64	165,181	30,004,895
YEAR 2005	184.80	1,342,546	248,097,213





	AVERAGE PRICE (CH\$)	UNITS	AMOUNTS (CH\$)
<b>2006</b>			
Total 1 <sup>st</sup> Quarter	186.14	448,064	83,402,779
Total 2 <sup>nd</sup> Quarter	193.07	173,535	33,504,545
Total 3 <sup>rd</sup> Quarter	187.87	451,528	84,803,910
Total 4 <sup>th</sup> Quarter	214.50	569,534	122,167,526
<b>YEAR 2006</b>	<b>197.17</b>	<b>1,642,661</b>	<b>323,878,760</b>

<b>2007</b>			
Total 1 <sup>st</sup> Quarter	237.93	232,028	55,207,855
Total 2 <sup>nd</sup> Quarter	233.74	165,927	38,784,271
Total 3 <sup>rd</sup> Quarter	224.39	543,468	121,950,853
Total 4 <sup>th</sup> Quarter	226.36	76,472	17,310,834
<b>YEAR 2007</b>	<b>229.15</b>	<b>1,017,895</b>	<b>233,253,813</b>

<b>CHILEAN ELECTRONIC STOCK EXCHANGE-STOCK EXCHANGE</b>			
<b>2005</b>			
Total 1 <sup>st</sup> Quarter	165.17	52,393	8,653,780
Total 2 <sup>nd</sup> Quarter	180.90	11,590,851	2,148,414,236
Total 3 <sup>rd</sup> Quarter	198.72	4,233,858	815,436,414
Total 4 <sup>th</sup> Quarter	185.58	2,007,387	376,145,625
<b>YEAR 2005</b>	<b>187.24</b>	<b>17,884,489</b>	<b>3,348,650,055</b>

<b>2006</b>			
Total 1 <sup>st</sup> Quarter	182.89	709,434	129,751,549
Total 2 <sup>nd</sup> Quarter	189.41	8,575,702	1,624,294,517
Total 3 <sup>rd</sup> Quarter	193.29	644,893	124,653,355
Total 4 <sup>th</sup> Quarter	210.20	1,047,489	220,180,042
<b>YEAR 2006</b>	<b>191.20</b>	<b>10,977,518</b>	<b>2,098,879,463</b>

<b>2007</b>			
Total 1 <sup>st</sup> Quarter	230.87	154,527	35,675,844
Total 2 <sup>nd</sup> Quarter	234.90	4,435,941	1,055,648,970
Total 3 <sup>rd</sup> Quarter	229.94	1,418,914	326,268,479
Total 4 <sup>th</sup> Quarter	225.15	1,673,933	370,704,022
<b>YEAR 2007</b>	<b>232.75</b>	<b>7,683,315</b>	<b>1,788,297,315</b>

## STOCK TRANSACTIONS

### QUARTERLY STATISTICS AGUAS – A 2007

INFORMANT	MONTH	AVERAGE PRICE (CH\$)	UNITS	AMOUNT (CH\$)	RELACIÓN
Inversiones y Asesorías Iculpe Ltda.	December 2007	220	250,000	55,000,000	Alternate Director of the Parent Company

### QUARTERLY STATISTICS AGUAS – B 2005 <sup>(1)</sup>

INFORMANT	MONTH	AVERAGE PRICE (CH\$)	UNITS	VENTA (\$)
CORFO	April 2005	15.89	698	11,091

<sup>(1)</sup> During 2005, CORFO carried out minor transactions that amounted to ThCh\$ 11, at a price of Ch\$15.89.



# MATERIAL INFORMATION

## MILESTONES IN 2007

*On April 24, 2007* we informed the Superintendence of Securities and Insurance of the following:

- a) That the Ordinary Meeting of Shareholders of Aguas Andinas S.A. held on April 23, 2007 proceeded to renew the Board of Directors and elected the following for a full statutory period (2 years) as Directors and Alternate Directors:

DIRECTORS	ALTERNATE DIRECTORS
Alfredo Noman Serrano	Juan Antonio Guijarro
Joaquín Villarino Herrera	Antoni Siurana Zaragoza
José Vila Bassas	Marta Colet Gonzalo
Arturo Vergara del Río	Diane D'Arras
Mónica Singer González	Ramón Figueroa González
Jaime Arellano Quintana	Mario Castillo Astudillo
Carlos Mladinic Alonso	Jorge Bande Bruck

- b) That at the meeting of the Board of Directors held on April 24, 2007 the Board was declared as established and Alfredo Norman was elected Chairman and Joaquín Villarino, Vice-Chairman.
- c) That at the same meeting of the Board of Directors held on April 24, 2007, the Committee of Directors of the Company was established and was made up of Mónica Singer, Carlos Mladinic and Joaquín Villarino.

*On September 25, 2007* we informed the Superintendence of Securities and Insurance that the Board of Directors of the Company had agreed to distribute an interim dividend of Ch\$M 30,000,062 on account of the net earnings for the year 2007. As a result of this, the Company's dividend number 45 amounted to Ch\$ 4.9028 per share and was payable as of October 24, 2007.

*On September 28, 2007* we informed the Superintendence of Securities and Insurance that the Board of Directors of the Company, at its meeting held on August 28, 2007, in accordance with the provisions of Article 44 of Law N° 18,046 and considering that the Directors Joaquín Villarino and Marta Colet are, in turn, Directors of Empresa Depuradora de Aguas Servidas Ltda., agreed to inform that Superintendence that a Contract had been signed between the two companies for the Operation and Maintenance of

the La Farfana Sewage Treatment Plant.

*On October 3, 2007* we informed the Superintendence of Securities and Insurance that with communication ORD. SVS N° 11602 of October 2 the Company was required to inform on specific aspects of the Contract for the Operation and Maintenance of the La Farfana Sewage Treatment Plant signed between Aguas Andinas S.A. and Empresa Depuradora de Aguas Servidas Ltda.

With respect to this, we reported the following:

The contract in question originated from an international public tender, as established in Article 67 of Decree Law MOP N° 382/88, General Law on Sanitation Services which was announced for by Aguas Andinas on May 12, 2007.

Nine companies acquired the bidding conditions and the following submitted their offers: Cadagua S.A., Omnium de Traitment et de Valorisation S.A. (OTV) and the consortium formed by Degrémont S.A. and Sociedad General de Aguas de Barcelona S.A. (Agbar), the latter two being companies related to Aguas Andinas S.A. The Minutes of the Opening of the Financial Offers was attached.

On August 2, 2007 Aguas Andinas informed the consortium referred to above, which obtained the highest points in their technical and financial bid, that it had been awarded the contract. This took place after a favorable agreement of the Committee of Directors of Aguas Andinas, adopted in its meeting held on July 23, 2007 and by its Board of Directors in its Ordinary Meeting N° 351 held on July 24, 2007. The agreements mentioned were adopted unanimously by the members present declaring that they carried conditions of fairness similar to those that habitually prevail on the market.

In order to attend the signing of the contract, and in line with the Tender Conditions, Degrémont and Agbar, through their subsidiary in Chile, Agbar Conosur Ltda., created a company named Empresa Depuradora de Aguas Servidas Ltda. (EDAS), and designated as Board Members were the Directors of Aguas Andinas, Joaquín Villarino and Marta Colet.

With respect to the above, the contract signed with EDAS is one of those operations contemplated in Article 44 of Law N° 18,046 on corporations. Left on record was the fact that the signature of the contract with EDAS was approved by the Committee of Directors of Aguas Andinas in its meeting held on August 27, 2007 and by its Board of







La Farfana Sewage  
Treatment Plant

Directors at its Ordinary Meeting N° 352 held on August 28, 2007. These agreements were also adopted unanimously by the Directors present, with the abstention of the Directors, Villarino and Colet.

The contract was signed utilizing the series of unit prices system for an estimated value of UF 2,774,994.4 (two million seven hundred and seventy four thousand nine hundred and ninety four point four Unidades de Fomento) plus VAT, with a duration of 60 months from October 1, 2007 renewable for a consecutive period of 60 months in the terms established in the contract.

Finally, we pointed out that the purpose of the contract is to operate and maintain the La Farfana Sewage Treatment Plant, owned by Aguas Andinas S.A., including the entire scope of a correct management of the operation and maintenance of the plant, considering among others, the supply of personnel, electricity costs, provision of chemicals, spare parts, etc., in the terms contemplated in the Tender Conditions and other documents pertaining to the contract.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT





# DIRECTORS' REMUNERATIONS

In accordance with Law No.18.046, the Ordinary General Meeting of Shareholder held on April 23, 2007 approved the remuneration for the Board of Directors, the Committee of Directors and their budgets for expenses for the 2007 period.

The remuneration for the Board is divided into two types: one fixed per month of UF 100 for the Chairman, UF 75 for the Vice-Chairman and UF 50 for the directors and the alternate directors; and a variable remuneration that is paid according to the attendance at each meeting, of UF

80 for the Chairman, UF 60 for the Vice-Chairman, UF 40 for the directors and UF 40 for the alternate directors only when they replace the director.

The remuneration for the Committee of Directors for the year 2007 was set at: a fixed monthly remuneration of UF 25 for each member and alternate and a variable remuneration for the attendance at each meeting of UF 20.

Furthermore, a budget for expenses was approved for a total of UF 3,000.

DIRECTOR	POSITION	REMUNERATIONS		SESSIONS	
		2007	2006	2007	2006
DIRECTORS' REMUNERATIONS (CH\$ THOUSANDS)					
Alfredo Noman	Chairman	23,568	23,620	18,854	18,907
Joaquín Villarino	Vice-Chairman	12,167	0	10,598	0
Arturo Vergara	Director	8,112	0	7,066	0
Carlos Mladinic	Director	11,784	11,811	9,427	9,453
Mónica Singer	Director	11,784	7,868	9,427	6,298
Jaime Arellano	Director	11,784	7,868	9,427	6,298
Ramón Figueroa	Alternate director	11,784	7,868	0	0
Mario Castillo	Alternate director	11,784	7,868	0	0
Jorge Bande	Alternate director	11,784	11,811	0	0
Antoni Siurana	Alternate director	12,751	0	2,362	0
Pedro Buttazzoni	Vice-Chairman	5,902	7,868	4,035	6,298
Claudio Maggi	Alternate director	0	3,942	0	0
Bernardo Espinoza	Director	0	3,942	0	3,155
Daniel Albarrán	Director	0	3,942	0	3,155
Roberto Hempel	Alternate director	0	3,942	0	0
TOTALES		133,204	102,350	71,196	53,564
COMMITTEE'S REMUNERATIONS (CH\$ THOUSANDS)					
Alfredo Noman	Chairman	3,410	10,537		
Joaquin Villarino	Vice-Chairman	7,196	0		
Carlos Mladinic	Director	10,998	10,537		
Mónica Singer	Director	10,998	6,989		
Daniel Albarrán	Director	0	3,548		
TOTALES		32,602	31,611		

Note: The Board expenses for the period amounted to Ch\$21.8 million.



# 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, 2007 together with the expenses incurred, including those of its consultants. The main activities of the Committee during the year ended on December 31, 2007 were the following:

## COMPOSITION OF THE COMMITTEE

The members of the Committee of Directors of Aguas Andinas S.A., as referred to in Article N° 50 bis, Point Ten, of Law 18,046 on Corporations, during the year 2007 were 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 Norman.

After the Ordinary Meeting of Shareholders held in 2007 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, Joaquín Villarino.

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 it in Article N° 50 bis of Law 18,046.

## PRINCIPAL ACTIVITIES DURING THE YEAR

- 1) Examine the remunerations systems and compensation plans for the managers and senior executives of Aguas Andinas S.A.
- 2) 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, 2006 and presented by the Company's management to the shareholders and comment on these before their presentation to the shareholders for their approval.
- 3) Selection by the Committee of Directors and proposal to the Board on the appointment of the independent auditors and the private risk rating agencies for Aguas Andinas S.A. that were suggested at the Ordinary Meeting

of Shareholders for the year 2007.

- 4) Follow-up the state of the approval of the Superintendence of Sanitation Services (SISS) of the request for authorization to modify the contract on the operations and maintenance of the La Farfana Sewage Treatment Plant with related company, Degremont S.A.

- 5) Analysis of the various alternatives proposed by management for the international tender for a new Contract for Technological Contributions to Aguas Andinas S.A.

- 6) Analysis of the various alternatives proposed by management for the possible contract with related company AGBAR to develop a System of Information for the New Commercial Activity of Aguas Andinas S.A. (ALGOL Project).

- 7) Examine the information and report to the Board on the following public tenders, award of bids and contracts carried out for related companies:

- a) Extension of the contract that was still in force for the operation and maintenance of the La Farfana Sewage Treatment Plant signed between Aguas Andinas S.A. and related company, Degremont S.A., up to the month of September, 2007 and the preparation of a new public tender for similar services, as required by the General Law on Sanitation Services in its Article 67.

- b) Examine and approve the awards proposed by management on the international public tender for the Supply of Piping, Valves, Joints and Accessories for Potable Water and Sewerage Networks, including 12 lines to related company, Agbar Servicios Compartidos S.A. (ASERCO), of the 18 lines awarded, considering that these are cheaper offers for the respective line, in a competitive public tender that guarantees to be an operation carried out on conditions of fairness similar to those prevailing on the market.

- c) Examine and approve the rental contracts proposed by Aguas Andinas S.A.'s management to its subsidiary, ANALISIS AMBIENTALES SA., on a 180-square meter property on Calle Lira N° 2370, with a rent of 0.15 UF/square meter/month with a total per month of UF 27; and of 40 square meters on the 6th floor of the corporate building, with a rent of 0.37 UF/square meter/month, equivalent to a UF 14.8 per month, that correspond to conditions of fairness similar to those prevailing on the market.

- d) Examine and approve the award proposed by management on the public tender labeled "Service of Operating the Laboratory at the Talagante Sewage





Treatment Plant” to ANALISIS AMBIENTALES S.A., ANAM S.A., a company related to Aguas Andinas S.A. considering that it is the only offer received through a public tender, in an operation carried out in conditions of fairness similar to those prevailing on the market and that in no way could such an operation have a detrimental effect on the company or its shareholders, given that this subsidiary is 100% consolidated with Aguas Andinas S.A. which is the direct or indirect owner of 100% of its shares.

**e)** Examine and approve the award proposed by management on the public tender labeled “Service of Certifying the Works of Installing Domestic Potable Water and Sewage Connections for Aguas Andinas S.A. and related companies” to the related company, NORCONTROL S.A. AGENCIA en CHILE for all the sectors tendered, at a price for the three zones of Ch\$ 138,186,230 considering that it is the cheapest offer received in a public tender, in an operation carried out in conditions of fairness similar to those prevailing on the market.

**f)** Examine and approve the award proposed by the management of the Company on the international public tender labeled “Operation and maintenance of the La Farfana Sewage Treatment Plant, to the Consortium being created and comprising the companies related to the controlling shareholder, Aguas de Barcelona S.A (AGBAR) and DEGREMONT S.A., for a referential value of UF 2,774,994.7 plus VAT, considering that it is the offer best evaluated in terms of technology and cost of all the ones received in an international and competitive public tender, for which we feel that it is in a condition of fairness similar to that prevailing on the market.

**g)** Examine and approve the modification to the PLE-01 contract still in force with Degremont S.A., Agency in Chile, to put an end to the service of operating and maintaining the La Farfana Sewage Treatment Plant by Degremont S.A., Agency in Chile and to regulate the obligations still in force between the parties, considering that this falls within the contract in force and within habitual fairness conditions equivalent to those prevailing on the market.

**h)** Examine and approve the contracts on the sale of unprocessed biogas from the La Farfana Plant for 6 years and on the rental of a surface area of approximately 600 square meters in the La Farfana Plant to a subsidiary company of Aguas Andinas S.A., Gestión y Servicios S.A., along the pricing, terms and conditions proposed by the management, considering that they are conditions of

fairness similar to those prevailing on the market.

**i)** Examine and approve the public tender and proposed award to a company related to the controlling shareholder, Agbar Servicios Compartidos S.A., for the supply of Domestic Cold Water Meters and union parts for Aguas Andinas S.A. and related companies, for a period of 12 months, considering that this tender was carried out in a well informed, accessible, open and competitive manner in which 7 interested companies participated and 5 submitted offers, that ensures that the best offers are in conditions of fairness similar to those prevailing on the market, and that the offers from the company related to the controlling shareholder, in all the lines in which management proposed to the Committee they be awarded, is the cheapest and most convenient for the interests of Aguas Andinas S.A., under the system of unit prices and on consignment.

## COMMITTEE OF DIRECTORS' BUDGET AND EXPENSES

At the Ordinary Meeting of Shareholders held in April, 2007 an annual budget of UF 2,700 was set for the Committee of Directors and this was only partly utilized. The only expenses incurred by the Committee during the year 2007 were the fees paid to the legal adviser and secretary of the Committee amounting to Ch\$1 million gross per month.



# MANAGERS AND SENIOR EXECUTIVES

As of December 2007, the list of managers and senior executives of Aguas Andinas totaled 56 professionals. Their total remunerations for the year came to Ch\$4,622 million and the indemnities for years' service amounted to Ch\$156 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. Nº	POSITION	DEGREE
Larrain Aspillaga, Felipe	6,922,002-9	Chief Executive Officer	Civil Engineer
Berberana Sáenz, Narciso	22,105,171-8	Corporate Manager	Industrial Engineer
De la Barra Fuenzalida, Victor	4,778,218-K	Corporate Manager	Civil and Industrial Engineer
Larraín Sánchez, Camilo	10,436,775-5	Corporate Manager	Attorney
Martí Marques, Joaquim	21,176,172-4	Corporate Manager	Engineer – Roads, Canals and Ports
Mayné Llobet, Francesc Xavier	22,421,366-2	Corporate Manager	Economist
Verdejo Rabassó, Josep María	48,100,117-K	Corporate Manager	Diploma in Information Technology
Villarino Krumm, Salvador	10,331,997-8	Corporate Manager	Civil Engineer
Yarur Sairafi, Iván	8,534,007-7	Corporate Manager	Civil and Industrial Engineer





NAME	I.D. Nº	POSITION	DEGREE
Alarcón Araya, Carlos	6,441,640-5	Manager	Construction Engineer
Auger Hernández, Mario	7,746,808-0	Manager	Civil Engineer
Cruzat Torres, Enrique	8,548,720-5	Manager	Civil Engineer
Estay Caballero, Ricardo	6,027,966-7	Manager	Civil Engineer
Figueroa Ramírez, Sergio	6,449,688-3	Manager	Construction Engineer
Fuentes Contreras, Luis	6,190,810-2	Manager	Civil Engineer
Juanmarti, Antoni	48,096,749-6	Manager	Engineer – Roads, Canals and Ports
Kent Geell, Natalia	8,668,841-6	Manager	Civil and Industrial Engineer
Lesty, Yves	14,709,240-7	Manager	Sanitation Engineer
Ocariz Martín, Hernán	6,613,091-6	Manager	Civil Engineer
Riquelme Hernández, Alejandro	10,200,262-8	Manager	Chartered Accountant
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 Chemical Sciences
Soto Perretta, Pedro	7,117,991-5	Manager	Civil Engineer
Witto Arentsen, Reinaldo	8,796,191-5	Manager	Engineer (Info. Tech.)
Acevedo Torre, Jorge	6,084,916-1	Sub manager	Mechanical Engineer
Acevedo Walker, Sebastián	6,639,714-9	Sub manager	Civil Engineer
Arellano Maira, Juliete	12,044,242-2	Sub manager	Business Administration
Brzovic Cordero, Paula	9,871,863-K	Sub manager	Chemical Engineer
Claret Arias, Johnny	6,460,447-3	Sub manager	Civil Engineer
Concha Mathiesen, Mariana	10,835,135-7	Sub manager	Civil Engineer
Dupré Silva, Víctor	6,816,920-8	Sub manager	Civil Engineer
Faúndez Pérez, Luis	8,043,598-3	Sub manager	Civil Engineer
Ferruz Brunster, Carlos	8,671,225-3	Sub manager	Electrical Engineer
Garcés Durán, Christian	8,153,554-K	Sub manager	Business Administration
Grau Mascayano, Francisco	5,868,028-1	Sub manager	Civil Engineer
Guidugli Marchant, Francesca	10,911,214-3	Sub manager	Business Administration
Jopia Palacios, Carlos	10,077,119-5	Sub manager	Civil Engineer
Köning Besa, Hernán	9,656,371-K	Sub manager	Civil Engineer
Lartundo Pavez, Rafael	10,912,542-3	Sub manager	Public Administration
López del Campo, Verónica	7,061,767-6	Sub manager	Civil Engineer
Luci Ghiardo, Bruno	7,044,631-6	Sub manager	Civil Constructor
Meyer Briceño, Adolfo	5,159,829-6	Sub manager	Construction Engineer
Muñoz Anrique, Julio	6,364,977-5	Sub manager	Civil and Industrial Engineer
Norambuena Duncan, Patricio	6,640,538-9	Sub manager	Construction Engineer
Ortega Zamorano, América	7,493,606-7	Sub manager	Civil Engineer
Reyes Cea, Rodrigo	12,087,571-K	Sub manager	Chartered Accountant
Reyes Miranda, Christian	10,201,064-7	Sub manager	Business Administration
Ruz Galvez, Enrique	12,570,985-0	Sub manager	Civil Engineer (Info. Tech.)
Salazar Muñoz, Cristián	10,753,300-1	Sub manager	Civil and Industrial Engineer
Salazar Villalobos, Víctor	10,380,974-6	Sub manager	Civil and Industrial Engineer
Sanhueza Navarrete, Juan Carlos	8,641,413-9	Sub manager	Civil Engineer
Schwerter Loyola, Cristián	12,343,884-1	Sub manager	Civil Engineer
Tapia Donoso, Juan Luis	6,669,733-9	Sub manager	Civil Engineer
Young Prieto, Fernando	12,622,327-7	Sub manager	Civil Engineer





# PRINCIPAL CLIENTS AND SUPPLIERS





## WATER AND SEWERAGE CLIENTS

CERVECERA  
CCU CHILE LTDA.

EMBOTELLADORAS  
CHILENAS UNIDAS  
S.A.

GENDARMERÍA  
DE CHILE

HOSPITAL R.  
BARROS LUCO

MUNICIPALITY OF  
SANTIAGO

INDUSTRIAL  
OCHAGAVÍA LTDA.

PONTIFICIA  
UNIVERSIDAD  
CATÓLICA DE CHILE

SOC.  
CONCESIONARIA  
AUTOPISTA  
CENTRAL S.A.

SOPROLE S.A.

UNIVERSIDAD  
DE CHILE

## SUPPLIERS

CAPTAGUA  
INGENIERÍA S.A.

CONSTRUCTORA  
PÉREZ Y GÓMEZ  
LTDA.

CONSTRUCCIONES Y  
MONTAJES COM S.A.

CHILECTRA S.A.

DEGRÉMONT LTDA.<sup>(1)</sup>

DEGRÉMONT S.A.  
AGENCIA EN CHILE<sup>(1)</sup>

EMPRESA  
DEPURADORA DE  
AGUAS SERVIDAS  
LTDA.<sup>(1)</sup>

INGENIERÍA Y  
CONSTRUCCIÓN  
M.S.T. S.A.

JARA  
GUMUCIO S.A.

KDM S.A.

SOCIEDAD GENERAL  
DE MONTAJE S.A.

<sup>(1)</sup> Companies indirectly  
related through one of its  
principal shareholders.



# PROPERTIES, EQUIPMENT AND INSURANCE

The main properties and equipment used to provide the services of production and distribution of potable 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 potable water, collection and treatment of sewage and warehouses. Insurance covers mainly the risks from natural causes and fire.








El Trebal Sewage  
Treatment Plant

# STATEMENT OF LIABILITY

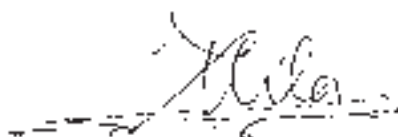
The Directors of Aguas Andinas S.A. and the General Manager, signatories to this declaration, hereby take full responsibility under oath for the reliability of the information provided in this Annual Report, in accordance with the provisions of General Norm N° 30 of the Superintendence of Securities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



**Alfredo Noman Serrano**  
I.D.N° 21,663,123-4  
*Chairman*



**Joaquín Villarino Herrera**  
I.D.N° 9,669,100-9  
*Vice-Chairman*



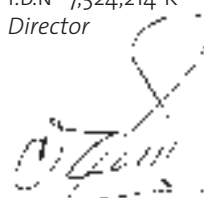
**José Vila Bassas**  
PASSPORT 37245794  
*Director*



**Arturo Vergara del Río**  
I.D.N° 7,524,214-K  
*Director*



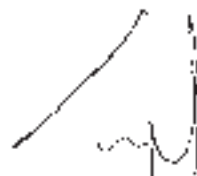
**Jaime Arellano Quintana**  
I.D.N° 6,941,061-8  
*Director*



**Carlos Mladinic Alonso**  
I.D.N° 6,100,558-7  
*Director*



**Marta Colet Gonzalo**  
I.D.N° 22,390,117-4  
*Alternate Director*



**Felipe Larrain Aspíllaga**  
I.D.N° 6,922,002-9  
*Chief Executive Officer*







# COMPANY INFORMATION

## AGUAS ANDINAS S.A.

### NAME

Aguas Andinas S.A.

### ADDRESS

Avenida Presidente Balmaceda  
No.1398, Santiago, Chile

### TAX I.D. N°

61,808,000 – 5

### TELEPHONE

(56-2) 688 10 00

### FAX

(56-2) 496 27 77

### E-MAIL

comunicaciones@aguasandinas.cl

### MANAGEMENT P.O. BOX

1537 Santiago, Chile

### BUSINESS

Abstraction, purification and  
distribution of drinking water and  
collection and disposal of sewage.

### SERVICE TELEPHONE

(56-2) 731 24 82

Inscription in the  
securities REGISTER  
No. 0346

### WEB SITE

www.aguasandinas.cl

## STOCK EXCHANGE INFORMATION

### TRADING NAMES 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 770 22<sup>nd</sup> Floor Santiago, Chile

TELEPHONE (56-2) 393 90 03

FAX (56-2) 393 91 01

### INVESTOR RELATIONS

ADDRESS Avenida Presidente  
Balmaceda N° 1398, 3<sup>rd</sup> Floor

TELEPHONE (56-2) 496 23 06

(56-2) 496 27 32

FAX: (56-2) 496 23 09

E-MAIL inversionista@aguasandinas.cl

## INCORPORATION OF THE COMPANY

Aguas Andinas S.A. was incorporated as a corporation by public deed on May 31, 1989 in Santiago before Notary Public Raúl Undurraga. An extract of the statutes 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 inscribed in the Securities Register of the Superintendence of Securities and Insurance under N° 0346 as required by Law No. 18,777. As a company in the sanitation sector it is regulated by the Superintendence of Sanitation Services in accordance with Law N° 18,902 and Decree Laws No. 382 and No. 70, both of the year 1988.







Corporate Building



ur



A close-up, high-speed photograph of a pair of hands cupped together, splashing water. The water is captured in mid-air, creating a dynamic and energetic scene. The background is a soft, out-of-focus blue, suggesting a pool or a large body of water. The text 'FINANCIAL STATEMENTS' is overlaid in a clean, white, sans-serif font, positioned in the upper right quadrant of the image.

# FINANCIAL STATEMENTS

# CONSOLIDATED FINANCIAL STATEMENTS

102	103	105	106	108	148
INDEPENDENT AUDITORS' REPORT	CONSOLIDATED BALANCE SHEETS	CONSOLIDATED STATEMENTS OF INCOME	CONSOLIDATED STATEMENTS OF CASH FLOWS	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	REASONED ANALYSIS





# Deloitte.

## INDEPENDENT AUDITORS' REPORT

Deloitte  
Auditores y Consultores Ltda.  
Rut: 80.276.200-3  
1760 Providencia Avenue, floor 6,7,8,9 and 13<sup>th</sup>  
Pisos 6, 7, 8, 9 y 13  
Providencia, Santiago  
Chile  
Telephone: (56-2) 729 7000  
Fax: (56-2) 374 9177  
e-mail: deloittechile@deloitte.com  
www.deloitte.cl

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

We have audited the accompanying consolidated balance sheets of Aguas Andinas S.A. and subsidiaries (the "Company") as of December 31, 2007 and 2006 and the related consolidated statements of income and of cash flows for the years then ended. These consolidated financial statements (including the related notes) 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 Reasoned Analysis and Significant Events do not form an integral part of these financial statements, therefore, our report does not cover them.

We conducted our audits in accordance with auditing standards generally accepted 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 includes 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, such consolidated financial statements present fairly, in all material respects, the financial position of Aguas Andinas S.A. and subsidiaries as of December 31, 2007 and 2006 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Chile.

The accompanying financial statements have been translated into English for the convenience of readers outside Chile.

*Deloitte*  
JANUARY 29, 2008

Refers to one or more of Deloitte Touch Tohmatsu, a souses verein, and its network of member firms, each of which a legally separate and independent entity. Please see [www.deloitte.cl/about](http://www.deloitte.cl/about) for a detailed description of the legal structure of Deloitte Touch tohmatsu and its member firms.

A member firm of  
**Deloitte Touche Tohmatsu**





# CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2006

ASSETS	2007 ThCh\$	2006 ThCh\$
<b>CURRENT ASSETS:</b>		
Cash and banks	194,101	133,947
Marketable securities, net (Note 4)	9,773,715	447,192
Trade accounts receivable, net (Note 5)	48,493,065	46,078,165
Notes receivable, net (Note 5)	1,724,461	3,836,920
Miscellaneous accounts receivable (Note 5)	365,835	204,040
Accounts receivable and notes from related companies (Note 6)	85,417	43,650
Inventories, net	2,172,423	1,787,146
Recoverable taxes	348,796	254,238
Prepaid expenses	273,957	296,469
Deferred taxes (Note 7)	1,589,286	1,151,215
Other current assets	2,222,062	1,431,730
<b>TOTAL CURRENT ASSETS</b>	<b>67,243,118</b>	<b>55,664,712</b>
<b>PROPERTY, PLANT AND EQUIPMENT (NOTE 8):</b>		
Land	38,819,148	38,438,934
Construction and infrastructure	1,086,362,319	1,073,555,093
Machinery and equipment	126,845,756	126,467,228
Other property, plant and equipment	12,661,456	12,637,934
Technical revaluation	5,225,658	5,256,064
Accumulated depreciation	(621,947,974)	(609,604,276)
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>647,966,363</b>	<b>646,750,977</b>
<b>OTHER NON - CURRENT ASSETS:</b>		
Goodwill (Note 9)	54,911,679	59,268,407
Negative goodwill (Note 9)	-	(1,109)
Long-term debtors (Note 5)	9,853,951	9,279,617
Deferred taxes (Note 7)	3,256,329	-
Intangibles (Note 10)	57,030,788	56,309,294
Accumulated amortization of intangibles	(17,403,693)	(15,427,269)
Other (Note 11)	15,973,291	15,565,810
<b>TOTAL OTHER NON-CURRENT ASSETS</b>	<b>123,622,345</b>	<b>124,994,750</b>
<b>TOTAL ASSETS</b>	<b>838,831,826</b>	<b>827,410,439</b>

The accompanying notes 1 to 32 are an integral part of these consolidated financial statements.



# CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2006

The accompanying notes 1 to 32 are an integral part of these consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	2007 ThCh\$	2006 ThCh\$
<b>CURRENT LIABILITIES:</b>		
Short term bank liabilities (Note 12)	798	19,366,152
Short term portion of long term bank liabilities (Note 12)	1,964,585	15,376,748
Bonds payable (Note 13)	19,778,482	14,484,533
Trade accounts payable	17,539,973	16,089,589
Notes payable (Note 31)	591,565	470,561
Sundry creditors	1,254,096	1,334,008
Accounts payable and notes to related companies (Note 6)	2,505,434	1,930,244
Provisions (Note 15)	18,730,936	19,192,208
Withholdings	9,035,579	7,963,222
Income taxes (Note 7)	1,892,636	228,785
Unearned income	4,333,346	2,185,161
Other	13,808	–
<b>TOTAL CURRENT LIABILITIES</b>	<b>77,641,238</b>	<b>98,621,211</b>
<b>LONG-TERM LIABILITIES:</b>		
Long term bank liabilities (Note 13)	84,066,667	53,721,480
Bonds payable (Note 13)	186,583,275	205,794,683
Notes payable (Note 31)	44,406,775	34,019,419
Sundry creditors	871,600	1,139,241
Provisions (Note 15)	11,963,353	9,592,304
Deferred taxes (Note 7)	–	3,777,512
Other	469,498	795,593
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>328,361,168</b>	<b>308,840,232</b>
Minority interest (note 17)	11,550	10,619
<b>SHAREHOLDERS' EQUITY (NOTE 18):</b>		
Paid-in capital	142,853,401	142,853,401
Share premium	216,249,416	216,249,416
Other reserve	6,879,704	6,491
Future dividends reserves	436,414	119,619
Net income for the year	97,058,999	90,884,120
Interim dividends	(30,660,064)	(30,174,670)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>432,817,870</b>	<b>419,938,377</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>838,831,826</b>	<b>827,410,439</b>





# CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007 ThCh\$	2006 ThCh\$
<b>OPERATING INCOME</b>		
Operating revenues	253,755,843	249,321,595
Operating expenses	(98,494,814)	(98,667,048)
<b>GROSS PROFIT</b>	<b>155,261,029</b>	<b>150,654,547</b>
Administrative and sales cost	(33,947,307)	(29,433,600)
<b>OPERATING INCOME</b>	<b>121,313,722</b>	<b>121,220,947</b>
<b>NON-OPERATING RESULT</b>		
Financial income	4,614,781	5,144,967
Other non-operating income (Note 19)	8,258,059	6,488,820
Amortization of goodwill (Note 9)	(4,364,975)	(4,352,209)
Financial expenses	(17,761,182)	(17,790,205)
Other non-operating expenses (Note 19)	(1,000,387)	(2,014,288)
Price-level restatement (Note 20)	6,137,416	1,623,446
Foreign exchange (loss) gain (Note 21)	(1,523)	13,939
<b>NON-OPERATING LOSS, NET</b>	<b>(4,117,811)</b>	<b>(10,885,530)</b>
Income before income taxes and minority interest	117,195,911	110,335,417
income taxes (note 7)	(1,632)	(467)
Minority interest (note 17)	(20,136,389)	(19,450,905)
Amortization of negative goodwill	1,109	75
<b>NET INCOME</b>	<b>97,058,999</b>	<b>90,884,120</b>

The accompanying notes 1 to 32 are an integral part of these consolidated financial statements.



# CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

The accompanying notes 1 to 32 are an integral part of these consolidated financial statements.

	2007 ThCh\$	2006 ThCh\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Collection of trade account receivables	298,373,654	294,902,400
Financial income received	440,162	799,531
Other income received	2,663,131	2,505,556
Payments to suppliers and personnel	(99,985,737)	(103,649,643)
Payment of interest	(11,593,840)	(14,980,445)
Payment for income tax	(19,079,143)	(19,470,462)
Other expenses	(866,793)	(701,281)
VAT AND SIMILAR ITEMS PAID	(31,555,247)	(30,580,815)
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>138,396,187</b>	<b>128,824,841</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of shares	–	639,532
Borrowings from banks	67,834,099	101,038,129
Proceeds from issuance of bonds	–	4,781,347
Proceeds from other loans of related companies	–	–
Other sources of financing	20,237,284	17,668,617
Dividend paid	(90,297,701)	(89,487,842)
Repayments of loan	(67,046,660)	(108,476,917)
Repayments of bond	(13,101,222)	(18,245,415)
Payment of cost associated with issuance of bonds	–	(384,520)
Other financing activities	(8,943,784)	(10,616,669)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(91,317,984)</b>	<b>(103,083,738)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of property, plant and equipment	5,585,225	128,738
Proceeds from sales of permanent investments	–	29,601
Purchases of property, plant and equipment	(40,446,554)	(48,084,312)
Payment of capitalized interest	(588,890)	(905,583)
Permanent investments	(4,032)	(646,679)
Other investing activities	(1,431,872)	(44,907)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(36,886,123)</b>	<b>(49,523,142)</b>
<b>NET INCREASE (DECREASE) IN CASH FLOWS FOR THE YEAR</b>	<b>10,192,080</b>	<b>(23,782,039)</b>
Price level restatement of cash and cash equivalents	(537,283)	(389,718)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>9,654,797</b>	<b>(24,171,757)</b>
cash and cash equivalents at beginning of the year	581,139	24,752,896
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 23)</b>	<b>10,235,936</b>	<b>581,139</b>





	2007 ThCh\$	2006 ThCh\$
<b>RECONCILIATION BETWEEN NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES AND NET INCOME FOR THE YEAR:</b>		
Net income	97.058.999	90.884.120
<b>GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT</b>	<b>(3.464.665)</b>	<b>(1.265.138)</b>
Gain on sale of property, plant and equipment	(3.464.665)	(1.265.138)
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	<b>40.543.476</b>	<b>41.360.113</b>
Depreciation	36.111.490	35.854.820
Amortization of intangibles	2.329.472	2.212.369
Provisions and write-offs	4.484.277	1.375.757
Amortization of goodwill	4.364.975	4.352.209
Amortization of negative goodwill	(1.109)	(75)
Net price-level restatement	(6.137.416)	(1.623.446)
Net foreign exchange differences	1.523	(13.939)
Other credits to income that do not represent cash flow	(3.661.119)	(3.473.827)
Other charges to income that do not represent cash flow	3.051.383	2.676.245
<b>CHANGES IN OPERATING ASSETS (INCREASES) DECREASES:</b>	<b>(5.447.207)</b>	<b>(8.825.011)</b>
Trade account receivables	(6.123.996)	(6.876.207)
Inventories	(473.977)	(669.863)
Other assets	1.150.766	(1.278.941)
<b>CHANGE IN OPERATING LIABILITIES INCREASES (DECREASES):</b>	<b>9.703.952</b>	<b>6.670.290</b>
Accounts payable related to operating income	302.507	(492.046)
Interest payable	3.413.205	1.294.236
Income taxes payable	741.796	(750.967)
Other accounts payable	869.872	2.620.164
VAT AND SIMILAR PAYABLES	4.376.572	3.998.903
<b>MINORITY INTEREST OF NET INCOME</b>	<b>1.632</b>	<b>467</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>138.396.187</b>	<b>128.824.841</b>

The accompanying notes 1 to 32 are an integral part of these consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF CHILEAN PESOS - THCH\$)

## 01. REGISTRATION IN THE SECURITIES REGISTER

*Aguas Andinas S.A., Aguas Cordillera S.A., Aguas Los Dominicos S.A. and Aguas Manquehue S.A. are registered in the Securities Register of the Superintendency of Securities and Insurance under numbers 0346, 0975, 0389 and 0402; respectively. As a result, such companies are regulated by such Superintendency.*

## 02. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Accounting period

These consolidated financial statements relate to the years between January 1 and December 31, 2007 and 2006, 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 the instructions of the Superintendency of Securities and Insurance.

In the event of differences between accounting principles generally accepted, 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 will prevail.

### c) Basis of presentation

For comparison purposes, the consolidated financial statements at December 31, 2006 and their respective notes have been restated off the books by 7.4%. This percentage corresponds to the variation in the Consumer Price Index during the last twelve months, with a one-month time lag.

For comparison purposes, some items of the 2006 consolidated financial statements have been reclassified.

### d) Basis of consolidation

The consolidated financial statements include the assets, liabilities, results and cash flows of the Parent company and its subsidiaries. Transactions between the consolidated companies have been eliminated and the participation of minority investors has been recognized under Minority interest.

### e) Price-level restatement

The consolidated financial statements have been restated by 7.4% in 2007 and 2.1% in 2006 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 currency translation

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

	2007 Ch\$	2006 Ch\$
United States dollar	496,89	532,39
Unidad de Fomento (index - linked units of account)	19.622,66	18.336,38
Euro	730,94	702,08

### g) Marketable securities

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

### h) Inventories

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

There is an allowance for obsolescence for disposable items remaining in stock for more than one year with no activity.

### i) Allowance for doubtful accounts

The allowance for doubtful accounts depends on the aging of the accounts receivable and the historical recovery, as follows:

For Aguas Andinas S.A. and the subsidiaries Aguas Cordillera S.A., Aguas Los Dominicos S.A. and Aguas Manquehue S.A., a 100% allowance is provided for customers with debts overdue for over 8 months.

For Aguas Andinas S.A. and its subsidiary Aguas Cordillera S.A., an allowance of 100% of accounts receivables converted





into repayment plans is established for cases classified as “non-government subsidized”. For cases classified as “government subsidized” customers, an allowance of 55% is made and the remaining 45% is accrued as a commercial discount.

For the subsidiaries Gestión y Servicios S.A., Anam S.A. and Ecoriles S.A., allowances are provided for 100% of all customers debts more than 120 days past due.

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

#### **j) Property, plant and equipment**

Property, plant and equipment 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 or discounted value resulting from technical appraisal performed in 1977, both restated.

The other subsidiaries show their property, plant and equipment at restated cost.

The property, plant and equipment include the main renewals and improvements. Maintenance costs or minor repair expenses 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 No.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 work in progress.

#### **k) Depreciation of property, plant and equipment**

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

#### **l) Leased assets**

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

Leased assets are valued and its depreciation is calculated according to the accounting principle generally accepted

for the property, plant and equipment.

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

#### **m) Intangibles**

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

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

Software is amortized over a period of 4 years from the acquisition date, as it is believed they will provide benefits in such period.

#### **n) Goodwill and negative goodwill**

Goodwill represents the excess paid over the proportional equity value on the purchase date of the shares in Aguas Cordillera S.A. Negative goodwill represents the discount obtained as compare with the proportional equity value on the purchase date of the shares in Aguas Manquehue S.A. Goodwill and negative goodwill are being amortized over a maximum period of 20 years from the date of acquisition as this is the estimated period of return on the investment.

#### **o) Transactions 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 No. 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 and shown at their nominal value plus indexation adjustments and interest accrued at each year-end. The discount incurred and the issuance costs on the placement of the bonds are deferred and amortized over their respective terms, in accordance with Circular 1,370 of the Superintendency of Securities and Insurance.

#### **q) Income tax and deferred taxes**

The Company has provided for income tax on the



basis of its net taxable income determined in accordance with the provisions of the Income Tax Law. According to Technical Bulletin No.60 and other instructions from the Chilean Institute of Accountants and Circular 1,466 of the Superintendency of Securities and Insurance, the Company records the effects of deferred taxes resulting from temporary differences, tax benefits related to tax loss carry-forward and other events that create differences between the financial and tax basis of assets and liabilities.

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

#### **r) Severance payments**

Severance payments will be paid in accordance with the Labor Code, except for the amount of accumulated indemnities in Aguas Andinas S.A., Aguas Cordillera S.A. and Aguas Los Dominicos S.A. at July, November and December 2002, respectively, for employees included in the respective union labor agreement and those to whom the same benefits apply in accordance with their individual labor contracts. The accumulated amount at that date is adjusted quarterly according to changes in the consumer price index. The union labor agreement contract also established that employees who retire from the company within 120 days of having reached the legal retirement age, will continue to accrue this benefit after July 2002, until their retirement date, while, for Aguas Cordillera S.A. and Aguas Los Dominicos S.A., the mentioned agreements

state that employees who retire from the company on having reached the legal retirement age, will continue to accrue this benefit after November and December 2002, respectively, until their retirement date.

The Company's obligation for the accrued indemnity for employees up to July 2002 for Aguas Andinas S.A. and up to November and December 2002 for Aguas Cordillera S.A. and Aguas Los Dominicos S.A. is accounted for at its current value, and the obligation for the additional indemnity that is estimated the employees who retire from the company will accrue' is accounted for at its present value, calculated according to the accrued cost of the benefit method and at an annual discount rate of 4.1% in 2007 and 4.8% in 2006.

There are also individual contracts which are accounted for by the current value according to their terms.

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

#### **s) Revenue recognition**

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 recorded at the tariff defined for each invoicing group.

#### **t) Research and development costs**

Expenses in research and development studies which are not related to any project, are charged to income in the year in which they are incurred. Otherwise, they form part of the costs of the corresponding work in progress.

#### **u) Statement of cash flows**

The Company considers as cash and cash equivalents its





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

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

#### v) *Derivative contracts*

The subsidiary Gestión y Servicios S.A. has signed a currency hedge agreement with a financial institution. This contract has been designated as a hedge of an existing item and has been assigned as a financial hedge against foreign exchange variations. The contract is accounted for as indicated in Technical Bulletin No. 57 of the Chilean Institute of Accountants.

#### COMPANIES INCLUDED IN THE CONSOLIDATION

TAX I.D.	NAME OF THE COMPANY	OWNERSHIP PERCENTAGE			
		2007		TOTAL	2006
		DIRECT	INDIRECT		TOTAL
96,945,210-3	Ecoriles S.A.	99,0385	0,9615	100,0000	100,0000
96,828,120-8	Gestion y Servicios S.A.	97,8478	2,1522	100,0000	100,0000
96,568,220-1	Aguas Los Dominicos S.A.	0,0000	100,0000	100,0000	99,9871
96,967,550-1	Analisis Ambientales S.A.	99,0000	1,0000	100,0000	100,0000
96,809,310-k	Aguas Cordillera S.A.	99,9900	0,0000	99,9900	99,9999
89,221,000-4	Aguas Manquehue S.A.	0,0004	99,9996	100,0000	100,0000



03. ACCOUNTING CHANGES

On August 31, 2007, the subsidiary Aguas Cordillera S.A. was dissolved, tax identification number 80.311.300-9, recorded in the Securities Record of the Superintendency of Securities and Insurance under No. 0369, due to acquisition of all the shares by Aguas Cordillera S.A., tax identification number 96.809.310-K, company that previously operated under the name of Comercial Orbi II S.A., recorded under No. 0975, as the Securities Record of the Superintendency of Securities and Insurance.

The merger took effect on September 1, 2007. This transaction was recorded in according with the established in Technical Bulletin No. 72 of the Chilean Institute of Accountants, combinations of business under common control based on the methodology of pooling of interest.

Due to the change in the reporting entity, the financial statements of prior years presented for comparison were restated retroactively, in order to present the financial information corresponding to the new reporting entity (paragraph 20, Technical Bulletin No.15).

In addition, the subsidiaries made the following changes in accounting estimates during 2007:

Aguas Andinas S.A. and the subsidiaries Aguas Cordillera S.A. and Aguas Los Dominicos S.A. have collective labor agreements with their employees which provide for indemnities in accordance with the Labor Code and an additional indemnity if they retire while being employed by the Company.

To calculate this additional indemnity, the companies used the present value of such obligations based on the accrued cost method for those who are covered by the union labor agreements and who are believed will remain employed until their retirement age. The discount rate used for this calculation has been changed from 4.8% at December 2006 to 4.1% at December 2007, in accordance with a study performed by the Company.

The effect of this change on income for 2007 amounts to a greater charge of ThCh\$68,875.

The Subsidiaries have agreed to deferred payments, for the past due accounts receivable from clients, through payment agreements which are collectible upon maturity of each of the installments. The accounts receivable with payment agreements are classified as “government subsidized”, in

the case of special agreements with customers of a lower socio-economic level and as “non-government subsidized” for the other payment agreements.

During 2007 the companies increased the allowance of agreements classified as non-government subsidized from 20% to 100%; and in the case of the government subsidized agreements, it increased the allowance for doubtful accounts from 40% to 55%, accruing the remaining 45% as a commercial discount. In both cases, due to the low recovery of the verified debts in the previous year.

The effect of this change on the income for 2007 amounts to a greater charge of ThCh\$2,761,344.

There have been no other accounting changes that could affect the comparison of those financial statements.

04. MARKETABLE SECURITIES

Marketable securities are stated as indicated in Note 2g), according to the following.

INSTITUTION	FUNDS	UNIT VALUE	2007 ThCh\$
BCI	Competitivo Gamma	1,096.4868	5,034,760
Scotiabank	Clipper serie B	19,739.0891	4,738,955
		TOTAL	9,773,715

INSTRUMENTS	ACCOUNTING VALUE	
	2007 ThCh\$	2006 ThCh\$
Units of Mutual Funds	9,773,715	447,192
TOTAL MARKETABLE SECURITIES	9,773,715	447,192





## 05. SHORT- AND LONG-TERM DEBTORS

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

The balance of trade accounts receivable includes an allowance for revenues accrued as at December 31, 2007 and 2006 of ThCh\$13,677,484 and ThCh\$15,015,143, respectively, corresponding to unbilled meter readings at each year-end.

For Aguas Andinas S.A. the balance of debtors at December 31, 2007 is divided into Residential 80.65%, Commercial 16.71%, Industrial and others 2.64%. The balance of debtors at December 31, 2006 was divided into Residential 80.40%, Commercial 16.43%, Industrial and others 3.17%.

For Aguas Cordillera S.A. the balance of debtors at December 31, 2007 is divided into Residential 81.81%, Commercial 17.99%, Industrial and others 0.20%. The balance at December 31, 2006 was divided into Residential 81.48%, Commercial 18.25%, Industrial and others 0.27%.

For Aguas Los Dominicos S.A. the balance of debtors at December 31, 2007 is divided into Residential 88.88%, Commercial 11.11%, Industrial and others 0.01%. The balance at December 31, 2006 was divided into Residential 88.43%, Commercial 11.53%, Industrial and others 0.04%.

For Aguas Manquehue S.A. the balance of debtors at December 31, 2007 is divided into Residential 71.53%, Commercial 28.63%, Industrial and others 0.11%. The balance at December 31, 2006 was divided into Residential 71.10%, Commercial 28.47%, Industrial and others 0.43%.

Allowances for doubtful accounts have been recorded, as follows:

a) An allowance for doubtful accounts has been provided as explained in Note 2i), amounting to ThCh\$15,167,199 and ThCh\$12,967,418 as of December 31, 2007 and 2006, respectively. The charge to income for the years 2007 and 2006 were ThCh\$3,199,314 and ThCh\$997,812, respectively. In addition, at December 31, 2007 and 2006, debts of ThCh\$137,375 and ThCh\$230,853, respectively, were written off.

b) Provision for payment agreements. Provision for commercial discounts relate to payment agreements of debts signed by customers of Aguas Andinas S.A. and Aguas Cordillera S.A. through which they can obtain a commercial discount if they fully comply with such agreement. This allowance amounts to ThCh\$3,755,528 and ThCh\$3,034,971 at December 31, 2007 and 2006, respectively. The charge to income at December 31, 2007 and 2006 amounted to ThCh\$953,336 and ThCh\$517,999, respectively. Out of these provisions commercial discounts amount to ThCh\$26,780 and ThCh\$0 as of December 31, 2007 and 2006, respectively.

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 as at December 31, 2007 and 2006 relates mainly to collection agreements through credit cards and accounts receivable from personnel.

The main component of long-term debtors relates to agreements signed with property developers and advances against severance payments, as indicated in Note 2r) and to trade accounts receivables net of their corresponding allowance.



## SHORT- AND LONG-TERM DEBTORS THCH\$

ITEM	CURRENT							LONG-TERM	
	UP TO 90 DAYS		90 DAYS TO 1 YEAR		SUBTOTAL 2007 THCH\$	TOTAL CURRENT (NET)		2007 THCH\$	2006 THCH\$
	2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$		2007 THCH\$	2006 THCH\$		
Trade account receivables	50,708,875	45,473,199	3,430,503	3,404,349	54,139,378	48,493,065	46,078,165	945,265	965,225
Estimate of doubtful accounts	-	-	-	-	5,646,313	-	-	-	-
Notes receivable	1,593,810	2,821,920	616,725	1,315,247	2,210,535	1,724,461	3,836,920	334,209	333,772
Estimate of doubtful accounts	-	-	-	-	486,074	-	-	-	-
Sundry debtors	284,658	156,392	106,590	88,867	391,248	365,835	204,040	8,574,477	7,980,620
Estimate of doubtful accounts	-	-	-	-	25,413	-	-	-	-
<b>TOTAL LONG-TERM DEBTORS</b>								<b>9,853,951</b>	<b>9,279,617</b>

## 06. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

## TRANSACTIONS WITH PARENT COMPANY

## Notes and accounts payable

As of December 31, 2006 ended a technical services contract signed with Inversiones Aguas Metropolitanas S.A., these payments were performed at 90 days.

## TRANSACTIONS WITH INDIRECTLY RELATED COMPANIES

## Accounts payable

With Degrémont S.A. Agencia en Chile there was a construction and operations contract for the La Farfana Sewage Treatment Plant, its billing was performed on a monthly basis and payable on the last day of the following month after the issuance of the payment statement. The pending balance corresponds to the withholding that will be paid once the contractual relationship has terminated (once all contract terms have been complied with).

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

The debt with Nortcontrol S.A., Chilean Agency, corresponds to quality control services. The debt is still maintained, but Nortcontrol S.A., Chilean Agency, is no longer a related company as of 2007.

The debt with Agbar Servicios Compartidos S.A.

corresponds to the purchase of piping, and its payment is at 60 days.

The debt with Acsa Agbar Construcción S.A., corresponding to a withholding indicated in the contract for the renewal of piping.

The debt with Brisaguas S.A., corresponds to collections payable, according to the contract.

With Empresa Depuradora de Aguas Servidas Ltda., exists an operations and maintenance contract of the La Farfana Sewage Treatment Plant, its invoicing is upon expired month, and is paid at 30 days after the approval of the payment statement.

## Accounts receivable

Empresa Depuradora de Aguas Servidas Ltda. has purchased material and spare parts and has a pending balance, with maturity on January 31, 2008.

The accounts receivable from Degrémont S.A., Chilean Agency and Brisaguas S.A. relate to chemical and bacteriological laboratory analysis services, payable at 30 days without interests.

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

The materiality criterion to inform the transactions with related parties relates to amounts in excess of ThCh\$100,000.



TAX ID	COMPANY	SHORT-TERM		LONG-TERM	
		2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$
NOTES AND ACCOUNTS RECEIVABLE					
59,127,140-7	Constructora ACSA Ltda.	637	684	-	-
59,066,560-6	Degremont S.A. Agencia en Chile S.A.	14,858	40,264	-	-
96,864,190-5	Brisaguas S.A.	1,172	482	-	-
59,094,680-K	Aguas de Levante S.A.	2,067	2,220	-	-
76,938,110-4	Emp. Depuradora de Aguas Servidas Ltda.	66,683	0	-	-
	TOTAL	85,417	43,650	-	-
NOTES AND ACCOUNTS PAYABLE					
59,066,560-6	Degremont S.A. Agencia en Chile S.A.	588,933	683,515	-	-
77,274,820-5	Inversiones Aguas Metropolitanas S.A.	-	1,146,214	-	-
59,094,680-K	Aguas de Levante S.A.	55,425	75,222	-	-
59,096,940-0	Acsa Agbar Construcción S.A.	65,388	-	-	-
96,864,190-5	Brisaguas S.A.	17,853	16,373	-	-
59,109,940-k	Norcontrol S.A. Agencia en Chile	-	3,182	-	-
52,127,140-k	Agbar servicios compartidos S.A.	665	-	-	-
76,938,110-4	Emp. Depuradora de Aguas Servidas Ltda.	1,771,827	-	-	-
96,847,530-4	Omnilogic Telecomunicaciones Chile	5,343	5,738	-	-
	TOTAL	2,505,434	1,930,244	-	-





TRANSACTIONS WITH RELATED COMPANIES

COMPANY	TAX I,D,	RELATIONSHIP	TRANSACTION	2007		2006	
				AMOUNT	EFFECT ON RESULTS (CHARGE/CREDIT)	AMOUNT	EFFECT ON RESULTS (CHARGE/CREDIT)
				ThCh\$	ThCh\$	ThCh\$	ThCh\$
Inversiones Aguas Metropolitanas S.A.	77,274,820-5	Parent	Advisories and services	15,767	(15,767)	3,738,876	(3,273,601)
			Dividends paid	45,284,053	-	44,827,405	-
Degrémont S.A. Agencia en Chile	59,066,560-6	Subsidiary	Plant operation	7,723,207	(7,723,207)	4,728,428	(4,728,428)
			Payment of debt for construction of plant	-	-	1,641,460	-
			Purchase of material	210,350	(210,350)	-	-
			Services	122,889	-	-	-
CORFO	60,706,000-2	Subsidiary	Dividends paid	33,003,820	-	31,298,274	-
Degrémont Ltda.	77,441,870-9	Subsidiary	Automation Mud Loading	1,419,673	-	833,421	-
Empresa Depuradora de Aguas Servidas Ltda.	76,938,110-4	Subsidiary	Plant operation	2,526,150	(2,523,150)	-	-
			Sale of material	169,454	169,454	-	-
Aguas de Levante S.A.	59,094,680-K	Subsidiary	Purchase of material	485,265	(485,265)	1,368,513	(1,368,513)

07. DEFERRED TAXES AND INCOME TAXES

At December 31, 2007 and 2006, the detail of taxable income and other concepts for Aguas Andinas S.A. and its subsidiaries, is as follows:

The detail of timing differences is as follows:

	2007 ThCh\$	2006 ThCh\$
a) Taxable income	121,670,567	110,548,417
b) Balance of taxed earnings	88,331,005	84,301,160
c) Tax (15%) credit for shareholders	266,276	262,370
Tax (16%) credit for shareholders	310,498	371,824
Tax (16,5%) credit for shareholders	873,627	850,934
Tax (17%) credit for shareholders	12,610,158	12,201,277



## THE DETAIL OF THE DEFERRED TAXES FOR 2007 AND 2006 IS AS FOLLOWS:

ITEM	2007				2006			
	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES		DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
	SHORT TERM ThCh\$	LONG TERM ThCh\$	SHORT TERM ThCh\$	LONG TERM ThCh\$	SHORT TERM ThCh\$	LONG TERM ThCh\$	SHORT TERM ThCh\$	LONG TERM ThCh\$
Allowance for doubtful accounts	1,046,827	1,531,631	-	-	533,946	1,670,517	-	-
Unearned income	131,523	22,684	-	-	322,911	26,560	-	-
Provision for vacations	148,926	106,965	-	-	160,996	114,335	-	-
Leased assets	-	-	64,360	42,352	-	-	47,244	55,767
Depreciation	-	590,557	-	6,225,570	-	487,454	-	5,852,115
Severance payments	105,476	507,363	-	-	29,806	169,184	-	-
Other events	5,119	945,918	333	39,865	-	737,282	2,693	24,306
Provision for bonuses	5,303	-	-	-	6,457	-	-	-
Investment expenses in related companies	-	-	-	78,173	-	-	-	90,647
Software	-	-	-	47,571	-	-	-	102,824
Bond placement discounts	-	-	235,459	1,817,563	-	-	242,757	1,992,069
Litigation	11,966	192,281	-	-	14,064	505,733	-	-
Deferred charges	-	-	26,374	62,352	-	-	23,557	73,842
Water rights	-	40,801	-	-	-	40,801	-	-
AFR KWH	-	-	-	-	3,239	-	-	-
Provision for payment agreements	419,391	219,048	-	-	356,989	158,956	-	-
Provision for disposal of assets	12,704	-	-	-	-	-	-	-
Provision for moveable assets	20,035	-	-	-	39,058	-	-	-
Good Will	8,542	6,773,945	-	-	-	-	-	-
Transactions Tranque La Dehesa	-	174,376	-	-	-	-	-	-
Complementary accounts - net of amortization	-	-	-	(464,206)	-	-	-	(503,236)
<b>TOTAL</b>	<b>1,915,812</b>	<b>11,105,569</b>	<b>326,526</b>	<b>7,849,240</b>	<b>1,467,466</b>	<b>3,910,822</b>	<b>316,251</b>	<b>7,688,334</b>



ITEM	2007 ThCh\$	2006 ThCh\$
Current income tax (provision for income taxes)	(20,683,996)	(18,793,231)
Income tax adjustment (previous year)	(4,494)	(12,283)
Effect on assets or liabilities due to deferred taxes	637,046	(559,510)
Effect for amortization of complementary accounts of deferred assets and liabilities	(39,034)	(43,192)
Effect in assets and liabilities for deferred taxes due to changes in the valuation provision	-	(2,406)
Other charges	(45,911)	(40,283)
<b>TOTALS</b>	<b>(20,136,389)</b>	<b>(19,450,905)</b>

## 08. PROPERTY, PLANT AND EQUIPMENT

The composition of the property, plant and equipment is as follows:

ITEM	2007 THCH\$	2006 THCH\$
<b>LAND</b>	<b>38,819,148</b>	<b>38,438,934</b>
Land	38,819,148	38,438,934
<b>CONSTRUCTION AND INFRASTRUCTURE</b>	<b>544,491,292</b>	<b>535,264,509</b>
Gross value	1,086,362,319	1,073,555,093
Accumulated depreciation	(541,871,027)	(538,290,584)
<b>MACHINERY AND EQUIPMENT</b>	<b>57,449,171</b>	<b>65,330,455</b>
Gross value	126,845,756	126,467,228
Accumulated depreciation	(69,396,585)	(61,136,773)
<b>OTHER PROPERTY, PLANT AND EQUIPMENT</b>	<b>2,266,601</b>	<b>2,866,965</b>
Gross value	12,661,456	12,637,934
Accumulated depreciation	(10,394,855)	(9,770,969)
<b>TECHNICAL REVALUATION, NET</b>	<b>4,940,151</b>	<b>4,850,116</b>
Technical revaluation of land	5,925,794	5,925,794
Technical revaluation of distribution network	1,464,289	1,571,894
Accumulated depreciation	(1,460,242)	(1,567,574)
Technical revaluation of sewage drains	(399,942)	(399,942)
Accumulated depreciation	295,251	282,996
Technical revaluation of civil works	(1,297,788)	(1,368,955)
Accumulated depreciation	449,404	450,164
Technical revaluation of machinery and equipment	(466,695)	(472,727)
Accumulated depreciation	430,080	428,466
<b>TOTAL NET PROPERTY, PLANT AND EQUIPMENT</b>	<b>647,966,363</b>	<b>646,750,979</b>





## Depreciation for the year

	2007 THCH\$	2006 THCH\$
<b>DEPRECIATION IN:</b>		
Cost of sales	34,294,218	34,169,571
Administrative and selling expenses	1,817,272	1,685,249
<b>TOTAL</b>	<b>36,111,490</b>	<b>35,854,820</b>

The Company has sixty eight plots of land that were transferred free of charge by the Chilean State and are booked at a value of Ch\$1 each. There are also fixed assets with an expired accounting useful life and are therefore shown valued at Ch\$1 even though, they are still in operation.

There are also amounts which are contributions from third parties and these are governed by Decree Law 70 of 1988 of the Ministry of Public Works and by the provisions of clause 36 of D.S. MINECON Regulation 453 of 1989. These are explained in Note 32.

In 1989 and in accordance with Transitory Clause 3 of

Decree Law 382 of 1988, the General Law on Sanitation Services, Aguas Cordillera S.A. removed from its accounts all assets financed by third parties and Chilean state assets.

As a result of the application of this regulation, the Company maintains an off-balance sheet physical control over those assets, but the calculations of the price-level restatement and depreciation of these assets do not affect its financial statements in any way. As these assets form part of the sanitation infrastructure that it has to operate and maintain, the mentioned off-balance sheet control is performed.

**LEASING**

For Aguas Andinas S.A., assets under financial leases were acquired from GTD Telesat S.A. and shown in Other fixed assets, under an agreement for a 48-month term and an amount of ThCh\$56,166.

For Aguas Cordillera S.A., the assets under financial leases were acquired from Teletronic S.A. and shown in Other fixed assets, under an agreement for a 48-month term and an amount of ThCh\$11,236.

**09. GOODWILL AND NEGATIVE GOODWILL**

At the Extraordinary Shareholders' Meeting of Aguas Manquehue S.A. held on November 10, 2006, was agreed the merger with Hidráulica Manquehue Ltda in Aguas Manquehue S.A., therefore the negative goodwill in Hidráulica Manquehue Ltda. became a negative goodwill in Aguas Manquehue S.A.

As at December 31, 2007 and 2006, 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 NO,	COMPANY	2007		2006	
		AMORTIZATION FOR THE YEAR	BALANCE GOODWILL	AMORTIZATION FOR THE YEAR	BALANCE GOODWILL
		THCH\$	THCH\$	THCH\$	THCH\$
GOODWILL:					
96,809,310-K	Aguas Cordillera S.A.	4,352,201	54,911,679	4,351,975	59,267,209
96,568,220-1	Aguas Los Dominicos S.A.	12,774	-	234	1,198
TOTAL		4,364,975	54,911,679	4,352,209	59,268,407
NEGATIVE GOODWILL:					
89,221,000-4	Aguas Manquehue S.A.	1,109	-	75	1,109
TOTAL		1,109	-	75	1,109



10. INTANGIBLES

The balances as at December 31, 2007 and 2006 of the restated costs of intangible assets (Note 2m) are as follows:

<sup>(1)</sup> The water rights purchased under financial lease agreements were recorded in the item Intangible assets; purchased through the agreement dated March 14, 2003.

<sup>(2)</sup> Relate to the purchase of the gratuitous rights to the consumption of drinking water to the Municipality of Santiago, which are being amortized over 40 years.

<sup>(3)</sup> In October 2006 Aguas Andinas S.A. purchased one share issued by Aguas Cordillera S.A.: (Formerly Comercial ORBI II S.A.) to Aguas Cordillera in usufruct.

ITEM	2007 THCH\$	2006 THCH\$
Water rights	22,453,752	22,427,989
Leased water rights <sup>(1)</sup>	579,798	579,798
Rights-of-ways	16,900,070	16,633,368
Software	9,685,775	9,257,997
Other rights <sup>(2)</sup>	7,395,600	7,395,601
Usage rights <sup>(3)</sup>	15,793	14,541
<b>SUBTOTAL</b>	<b>57,030,788</b>	<b>56,309,294</b>
Accumulated amortization water rights	(4,868,270)	(4,299,502)
Accumulated amortization leasing <sup>(1)</sup>	(56,746)	(41,943)
Accumulated amortization rights-of-way	(3,477,271)	(3,056,101)
Accumulated amortization software	(7,984,511)	(7,197,718)
Amortization other rights <sup>(2)</sup>	(1,016,895)	(832,005)
<b>SUBTOTAL</b>	<b>(17,403,693)</b>	<b>(15,427,269)</b>
<b>TOTAL NET INTANGIBLE ASSETS</b>	<b>39,627,095</b>	<b>40,882,025</b>
<b>AMORTIZATION FOR THE YEAR SHOWN IN COST OF SALES</b>		
Water rights	560,835	558,388
Leased water rights	14,803	14,803
Rights-of-ways	421,168	414,279
Computer software	1,147,776	1,040,009
Other rights <sup>(2)</sup>	184,890	184,890
<b>TOTAL AMORTIZATION</b>	<b>2,329,472</b>	<b>2,212,369</b>

*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 book value.

The production of water supplies from various wells located 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.



## 11. OTHER (NON-CURRENT ASSETS)

At each year-end, this caption is detailed as follows:

	2007 ThCh\$	2006 ThCh\$
Bond placement discount and issuance costs	10,691,548	11,718,053
Advance payment for purchase of property, plant and equipment and intangibles	3,062,543	1,086,913
Non-operating assets	349,235	1,025,368
Prepaid expenses	1,230,351	1,232,836
Return of reimbursable contribution KW/H	309,566	281,773
Others	330,048	220,867
<b>TOTAL</b>	<b>15,973,291</b>	<b>15,565,810</b>

## 12. BORROWINGS FROM BANKS, 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<sup>(1)</sup>

<sup>(1)</sup> Percentage in local currency: 100%

TAX I.D.	BANK OR FINANCIAL INSTITUTION	(In pesos) Ch\$		TOTAL	
		2007 ThCh\$	2006 ThCh\$	2007 ThCh\$	2006 ThCh\$
97,004,000-5	Banco de Chile	-	1,974,812	-	1,974,812
97,032,000-8	Banco BBVA	-	8,290,013	-	8,290,013
97,023,000-9	Banco Corpbanca	798	4,799,721	798	4,799,721
97,006,000-6	Banco BCI	-	4,301,606	-	4,301,606
<b>TOTAL</b>		<b>798</b>	<b>19,366,152</b>	<b>798</b>	<b>19,366,152</b>
<b>PRINCIPAL OUTSTANDING</b>		<b>-</b>	<b>19,301,448</b>	<b>-</b>	<b>19,301,448</b>
Average annual interest rate		7.00%	6.72%	-	-

### LONG TERM<sup>(1)</sup>

<sup>(1)</sup> Percentage in local currency: 100%

TAX I.D.	BANK OR FINANCIAL INSTITUTION	(in pesos) Ch\$		TOTAL	
		2007 ThCh\$	2006 ThCh\$	2007 ThCh\$	2006 ThCh\$
97,004,000-5	Banco de Chile	254,885	2,086,853	254,885	2,086,853
97,036,000-K	Banco Santander Santiago	497,250	4,471,629	497,250	4,471,629
97,023,000-9	Banco BBVA	786,500	8,818,266	786,500	8,818,266
97,032,000-8	Banco Corpbanca	425,950	-	425,950	-
<b>TOTAL</b>		<b>1,964,585</b>	<b>15,376,748</b>	<b>1,964,585</b>	<b>15,376,748</b>
<b>PRINCIPAL OUTSTANDING</b>		<b>-</b>	<b>15,086,120</b>	<b>-</b>	<b>15,086,120</b>
Average annual interest rate		7.00%	6.72%	-	-





### 13. BORROWINGS FROM BANKS, LONG-TERM

This caption covers bank loans with maturities of over one year:

TAX I.D.	BANK	CURRENCY/ INDEXATION UNIT	YEARS TO MATURITY			2007		2006
			2 TO 3	3 TO 5	5 TO 10	TOTAL LONG TERM	ANNUAL INTEREST RATE AVERAGE	LONG TERM
			THCH\$	THCH\$	THCH\$	THCH\$	THCH\$	THCH\$
97,004,000-5	Banco de Chile	In pesos Ch\$	1,482,000	3,078,000	6,840,000	11,400,000	7.02%	10,203,000
97,036,000-K	Banco Santander Santiago	In pesos Ch\$	2,652,000	5,508,000	12,240,000	20,400,000	7.02%	17,527,680
97,032,000-8	Banco BBVA	In pesos Ch\$	4,194,667	8,712,000	19,360,000	32,266,667	7.02%	25,990,800
97,023,000-9	Banco Corpbanca	In pesos Ch\$	2,600,000	5,400,000	12,000,000	20,000,000	6.93%	–
<b>TOTAL</b>			<b>10,928,667</b>	<b>22,698,000</b>	<b>50,440,000</b>	<b>84,066,667</b>	<b>–</b>	<b>53,721,480</b>

Percentage in local currency 100%

### 14. BONDS PAYABLE (SHORT- AND LONG-TERM)

This heading covers the amounts owed to the public due to the issuance of bonds by the Company in September 2001, December 2002, December 2005 and January 2006 on the domestic market.

In September 2001, Series bond B were issued for U.F.1.8 million for a 21-year term with repayments beginning 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 December 9, 2005, the Superintendency of Securities and Insurance approved a new bond issue totaling U.F.

5.0 million (Serie F), in order to finance the prepayment of the Series D bonds and refinance other obligations of Aguas Andinas S.A. in January 2006. The repayment will be performed quarterly starting June 1, 2008 through to December 1, 2026.

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

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

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



INSCRIPTION NO. OR INSTRUMENT IDENTIFICATION	SERIES	NOMINAL AMOUNT PLACED OUTSTANDING	INDEXATION UNIT	INTEREST RATE %	FINAL MATURITY	PAYMENT DATES OF		PAR VALUE		PLACEMENT IN CHILE OR ABROAD
						INTEREST	PRINCIPAL	2007 THCH\$	2006 THCH\$	
LONG-TERM BONDS CURRENT PORTION										
266	BEMOS B1	4,516	UF	6.25%	09.01.2022	Semi-annual	Semi-annual	370,444	282,841	Chile
266	BEMOS B2	7,097	UF	6.25%	09.01.2022	Semi-annual	Semi-annual	582,128	444,464	Chile
305	BAGUA C1	166,667	UF	4.25%	12.01.2010	Semi-annual	Semi-annual	3,304,833	3,328,229	Chile
305	BAGUA C2	500,000	UF	4.25%	12.01.2010	Semi-annual	Semi-annual	9,914,492	9,984,681	Chile
305	BAGUA E	-	UF	4.00%	06.02.2012	Semi-annual	At maturity	106,867	107,252	Chile
305	BAGUA F	263,158	UF	4.15%	01.06.2026	Semi-annual	Semi-annual	5,499,718	337,066	Chile
TOTAL CURRENT PORTION								19,778,482	14,484,533	
LONG-TERM BONDS										
266	BEMOS B1	695,484	UF	6.25%	09.01.2022	Semi-annual	Semi-annual	13,647,246	13,785,290	Chile
266	BEMOS B2	1,092,903	UF	6.25%	09.01.2022	Semi-annual	Semi-annual	21,445,664	21,662,599	Chile
305	BAGUA C1	333,333	UF	4.25%	12.01.2010	Semi-annual	Semi-annual	6,540,874	9,846,629	Chile
305	BAGUA C2	1,000,000	UF	4.25%	12.01.2010	Semi-annual	Semi-annual	19,622,662	29,539,906	Chile
305	BAGUA E	1,650,000	UF	4.00%	06.02.2012	Semi-annual	At maturity	32,377,389	32,493,898	Chile
305	BAGUA F	4,736,842	UF	4.15%	01.06.2026	Semi-annual	Semi-annual	92,949,440	98,466,361	Chile
TOTAL LONG-TERM								186,583,275	205,794,683	



15. PROVISIONS AND WRITE-OFFS

The detail of provisions as at December 31, 2007 and 2006 is as follows:

<sup>(1)</sup> These are shown net of advances made during the years ended December 31, 2007 and 2006 for ThCh\$1,072,118 and ThCh\$954,518, respectively.

<sup>(2)</sup> Corresponds to a transaction dated July 1, 2007, signed at the office of the Notary Public Mrs. María Gloria Acharan Toledo, between Aguas Cordillera S.A. and property developers, which states that in case Aguas Cordillera S.A. in the future reverses and sells the transferred properties, it shall pay at least UF52,271.29. Such amount will be charged to the existing amount receivable from the property developers.

	CURRENT LIABILITIES		LONG-TERM LIABILITIES	
	2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$
Services accrued	11,132,862	12,048,350	–	–
Bonus <sup>(1)</sup> & profit sharing	3,015,763	2,718,949	–	–
Severance payments (Note 16)	1,579,213	1,033,992	10,906,836	9,550,482
Vacations accrued	1,505,242	1,619,581	–	–
Pending litigations	1,201,461	1,328,485	–	–
Prov. loss in disposal of assets	117,852	229,752	–	–
Discontinued projects (Pt. De Aguila)	162,377	174,393	–	–
Transaction Tranque La Dehesa <sup>(2)</sup>	–	–	1,025,741	–
Others	16,166	38,706	30,776	41,822
<b>TOTAL</b>	<b>18,730,936</b>	<b>19,192,208</b>	<b>11,963,353</b>	<b>9,592,304</b>

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

16. SEVERANCE PAYMENTS

At December 31, 2007 and 2006, the movement in the provisions for severance indemnities (including the short-term portion) is as follows:

	2007 THCH\$	2006 THCH\$
Opening balance	9,855,190	9,606,220
Increase in provision	2,603,107	1,644,122
Payments during the year	(590,314)	(922,884)
Price-level restatement	618,066	257,016
<b>TOTAL</b>	<b>12,486,049</b>	<b>10,584,474</b>

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

The charge to income for these items, including the indemnities related to clause 161 of the Labor Code, at December 31, 2007 and 2006 amounts to ThCh\$3,043,354 and ThCh\$1,732,754, respectively.

The increase is generated by the change of the discount rate from 4.8% to 4.1%, the effect in net income of this change amounted to ThCh\$68,875. During 2007, a provision was established for the voluntary retirement program which included 39 employees; its effect in net income was of ThCh\$1,126,689.





## 17. MINORITY INTEREST

As of December 31, 2007 and 2006, this caption is detailed as follows:

NAME	PERCENTAGE OF MINORITY INTEREST		MINORITY INTEREST IN EQUITY		MINORITY INTEREST IN INCOME	
	2007	2006	2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$
Aguas Los Dominicos S.A.	0.00000	0.01292	-	1,000	-	(131)
Aguas Cordillera S.A.	0.00997	0.00001	11,550	9,619	(1,632)	(336)
<b>TOTAL</b>			<b>11,550</b>	<b>10,619</b>	<b>(1,632)</b>	<b>(467)</b>

In November 2007, Aguas Cordillera S.A. acquired 2 shares of its subsidiary Aguas Los Dominicos S.A., equivalent to 0.00259% of the tales issued shares.

In December 2007, Aguas Cordillera S.A. acquired 7 shares of its subsidiary Aguas Los Dominicos S.A., equivalent to 0.00904% of the tales issued shares.

In December 2007, Gestión y Servicios. acquired 1 share of Aguas Los Dominicos S.A., equivalent to 0.00129% of the tales issued shares.

Bulletin No. 72 of the Chilean Institute of Accountants, combinations of business under common control based on the interest unification methodology, recording an equity of ThCh\$6,725,927 of which, Aguas Andinas recognized it held 99.99003% in the item Other reserves, equivalent to the participation it has in Aguas Cordillera S.A. (Note 9).

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, 2007 into 6,118,965,160 subscribed and paid shares.

## 18. CHANGES IN SHAREHOLDERS' EQUITY

### 2007

The Ordinary Shareholders' Meeting held on April 23, 2007 resolved to distribute 100% of the Company's net income for 2006 and the distribution of ThCh\$73,938 (historic pesos) of the reserves for future dividends, discounting the provisory dividend paid in October 2006. The dividend amounted to ThCh\$56,600,428 (historic pesos), equivalent to Ch\$9.25 per share. The payment was made on May 22, 2007.

The Board Meeting held on September 25, 2007, agreed to distribute ThCh\$30,000,062 (historic) as interim dividend, equivalent to Ch\$4.9028 per share, against net income for 2007. This payment was made on October 24, 2007.

**Other reserves** On August 31, 2007, Aguas Cordillera S.A. was dissolved, as Aguas Cordillera S.A., (ex Comercial Orbi II. S.A.), had bought all shares of this company. On September 1, 2007 both companies merged, as established in Technical

### 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\$499,549 (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) an interim dividend, equivalent to Ch\$4.61 per share, against the income for 2006. This payment was made on October 26, 2006.

**Other reserves** As required by Technical Bulletin No.72 of the Chilean Institute of Accountants, paragraph 29, groups of companies under common control based on the methodology of pooling of interests the Company recorded under the caption Other reserves the variations generated by the increase in investments by Aguas Andinas S.A. through the purchases of shares in Gestión y Servicios S.A.,



Aguas Cordillera S.A., ex Comercial ORBI II S.A. and Aguas Manquehue S.A., and the reduction in its participation in Aguas Cordillera S.A. through the disposal of 100% of the shares (Note 9).

2007

	PAID CAPITAL	SHARE PREMIUM	OTHER RESERVES	RESERVE FUTURE DIVIDENDS	INTERIM DIVIDENDS	ACCUMULATED RESULTS	NET INCOME FOR THE YEAR
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance	133,010,616	201,349,550	6,044	111,377	(28,095,596)	–	84,622,086
Previous year's net income distribution	–	–	–	–	28,095,596	56,526,490	(84,622,086)
Final dividend distribution	–	–	–	(73,938)	–	(56,526,490)	–
Reserve Technical Bulletin 72	–	–	6,725,257	–	–	–	–
Price level restatement	9,842,785	14,899,866	148,403	398,975	(660,002)	–	–
Net income for the year	–	–	–	–	–	–	97,058,999
Interim dividends	–	–	–	–	(30,000,062)	–	–
CLOSING BALANCES	142,853,401	216,249,416	6,879,704	436,414	(30,660,064)	–	97,058,999

2006

	PAID CAPITAL	SHARE PREMIUM	OTHER RESERVES	RESERVE FUTURE DIVIDENDS	INTERIM DIVIDENDS	NET INCOME FOR THE YEAR
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance	130,274,844	197,208,178	–	501,766	(21,887,539)	75,944,683
Previous year's net income distribution	–	–	–	54,057,144	21,887,539	(75,944,683)
Final dividend distribution	–	–	–	(54,556,693)	–	–
Reserve Technical Bulletin 72	–	–	6,056	–	–	–
Price level restatement	2,735,772	4,141,372	(12)	109,160	112,833	–
Net income 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
RESTATED BALANCES	142,853,401	216,249,416	6,491	119,619	(30,174,670)	90,884,120

interim  
dividends

NUMBER OF SHARES

SERIES	SUBSCRIBED SHARES	PAID SHARES	SHARES WITH VOTING RIGHTS
A	3,975,975,019	3,975,975,019	3,975,975,019
B	2,142,990,141	2,142,990,141	2,142,990,141
TOTAL	6,118,965,160	6,118,965,160	6,118,965,160

CAPITAL

SERIES	SUBSCRIBED CAPITAL	PAID - IN CAPITAL
A	92,823,139	92,823,139
B	50,030,262	50,030,262
TOTAL	142,853,401	142,853,401



## 19. OTHER NON-OPERATING INCOME AND EXPENSES.

As at December 31, 2007 and 2006 this caption is comprised as follows:

	2007 THCH\$	2006 THCH\$
<b>OTHER NON-OPERATING INCOME</b>		
Sale of property, plant and equipment <sup>(3)</sup>	3,464,665	1,265,138
Income from agreements and others <sup>(1)</sup>	1,253,640	1,691,052
Services to third parties <sup>(2)</sup>	1,411,702	1,709,334
Fines and indemnities from suppliers & contractors	944,722	685,826
Indemnity for damages	-	116,127
Services to customers	269,242	336,081
Rental of premises	251,043	261,164
Recognition of matured obligations	100,255	36,401
Sale of material	158,066	88,539
Others	404,724	299,158
<b>TOTAL</b>	<b>8,258,059</b>	<b>6,488,820</b>
<b>OTHER NON-OPERATING EXPENSE</b>		
Donations	224,566	154,767
Discontinued projects and studies	659,216	291,049
New projects	-	680,704
Asset shortfalls	10,195	691,616
Material shortfalls	-	109,933
Legal expenses	29,631	52,454
Loss in sale of property, plant and equipment	1,997	-
Services to clients	8,953	-
Obsolete material	103	(142,492)
Doubtful accounts agreement property developers	9,077	137,892
Others	56,649	38,365
<b>TOTAL</b>	<b>1,000,387</b>	<b>2,014,288</b>

<sup>(1)</sup> Mainly relates 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.

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

<sup>(3)</sup> Includes revenues from expropriation of land.





## 20. PRICE-LEVEL RESTATEMENT

The detail of price - level restatement, calculated as stated in note 20, is the following:

	INDEXATION UNIT	2007 ThCh\$	2006 ThCh\$
<b>ASSETS</b>			
Inventories	IPC	187,639	103,094
Property, plant & equipment	IPC	45,490,925	13,347,516
Goodwill (net)	IPC	4,083,326	1,308,440
Intangible assets	IPC	2,721,173	828,256
Accounts receivable from related entities	UF	80,961	–
Other monetary assets	IPC	1,135,281	295,352
Other monetary assets	UF	907,131	131,584
Other non-monetary assets	UF	11,714	83,729
Other non-monetary assets	IPC	1,641,315	465,047
Expense and cost accounts	IPC	4,533,616	959,097
<b>TOTAL CREDITS</b>		<b>60,793,081</b>	<b>17,522,115</b>
<b>LIABILITIES</b>			
Shareholders' equity	IPC	(24,630,027)	(7,624,460)
Minority interest	IPC	(653)	(32)
Bonds payable	UF	(11,661,579)	(4,504,185)
Notes payable	UF	(1,184,449)	(316,471)
Bank obligations	UF	–	(2,188)
Monetary liabilities	UF	(3,878,993)	(297,979)
Monetary liabilities	IPC	(1,234,643)	(346,448)
Non-monetary liabilities	IPC	(444,821)	(115,734)
Non-monetary liabilities	UF	(275,062)	(108,069)
Revenue accounts	IPC	(11,345,438)	(2,583,103)
<b>TOTAL CHARGES</b>		<b>(54,655,665)</b>	<b>(15,898,669)</b>
<b>GAIN FROM PRICE-LEVEL RESTATEMENT</b>		<b>6,137,416</b>	<b>1,623,446</b>



## 21. FOREIGN EXCHANGE DIFFERENCES

Exchange differences during the years ended December 31, 2007 and 2006 were as follows:

ITEM	CURRENCY	2007 ThCh\$	2006 ThCh\$
<b>ASSETS</b>			
Cash & banks	Dollar	(85)	203
Cash & banks	Euros	(126)	508
Other assets	Dollar	(168)	(72)
Inventories	Dollar	-	29,790
<b>TOTAL CHARGES</b>		<b>(379)</b>	<b>30,429</b>
<b>LIABILITIES</b>			
Accounts payable	Dollar	696	(8,607)
Accounts payable	Euros	(265)	(6,601)
Other liabilities	Dollar	43	-
Other liabilities	Euros	(1,618)	(1,282)
<b>TOTAL CHARGES</b>		<b>(1,144)</b>	<b>(16,490)</b>
<b>(LOSS) INCOME FROM EXCHANGE DIFFERENCES</b>		<b>(1,523)</b>	<b>13,939</b>

## 22. SHARE AND BOND ISSUANCE AND PLACEMENT COSTS

During the months of September 2001, December 2002, 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 issuance and placement costs relating to credit-rating agencies, stamp tax and other general expenses were capitalized.

These expenses are recorded in Other long-term assets and are broken down as follows:

BONDS	GROSS CAPITALIZED COSTS		AMORTIZATION PERIOD (YEARS)
	2007 ThCh\$	2006 ThCh\$	
Serie B	583,113	583,113	21
Serie C	1,379,830	1,379,830	8
Serie E	134,216	134,216	6.5
Serie F	2,170,147	2,170,147	21
<b>TOTAL</b>	<b>4,267,306</b>	<b>4,267,306</b>	



23. STATEMENT OF CASH FLOWS

In the Statement of cash flows, cash equivalents consist of financial investments, including 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:

	2007 ThCh\$	2006 ThCh\$
Cash & banks	194,101	133,947
Marketable securities (mutual funds)	9,773,715	447,192
Other current assets (repurchase agreement)	268,120	-
<b>BALANCE OF CASH AND CASH EQUIVALENT</b>	<b>10,235,936</b>	<b>581,139</b>

24. DERIVATIVE CONTRACTS

This item comprises the following:

TYPE OF CONTRACT	AMOUNT OF CONTRACT  ThCh\$	EXPIRATION OF CONTRACT	DESCRIPTION OF CONTRACTS				VALUE OF PROTECTED AMOUNT  ThCh\$	ASSET/LIABILITY		EFFECT IN NET INCOME
			SPECIFIC ITEM	PURCHASE/SALE	NAME	AMOUNT  ThCh\$		NAME	AMOUNT  ThCh\$	UNREALIZED  ThCh\$
CCPE	433.350	I QUARTER	EXCHANGE RATE	P	Unearned income	430.208	418.294	Other current liabilities	13.808	12.618

25. CONTINGENCIES AND RESTRICTIONS

DIRECT GUARANTEES

Guarantee policies and performance bonds have been submitted to the Superintendency of Sanitation Services to guarantee the conditions for the rendering of services and development programs in the Company's concession areas. Performance bonds have also been submitted to SERVIU Metropolitan Area for the replacement of paving, and to other institutions, in the amount of ThCh\$11,635,775 and ThCh\$18,056,826 at December 31, 2007 and 2006,

respectively.

PENDING LAWSUITS

The following are the main outstanding lawsuits:

**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:** 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% participation at the time of the demand.

The first instance final sentence was given rejecting the demand in all its parts and condemning the plaintiff to pay the costs. The plaintiff has appealed.

**Court:** 5th Civil Court of Santiago; Case file: 3684-2001. 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.81,848. Current status: Discussion period has concluded, and the judge has requested the parties to provide evidence, as of December 31, 2007 the parties had not been notified. Sentence estimation: There is a moderate possibility of success in this case as the suit lacks a solid foundation. Current status: Sentence is pending on the provision of evidence.

There is a second lawsuit presented at the 11th Civil Court of Santiago, Case file 3541-2004 for U.F.506,594. Two other lawsuits have been presented which were requested to be added to this case: 20th Civil Court of Santiago, Case file: 7900-2046 for U.F.81,848 and 25th Civil Court of Santiago, Case file: 8305-2006, for U.F.42,161, plus indexation and interests.

**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. Current status: Sentence has been passed, notification not yet executed. Estimation: an appeal has been filed against second instance sentence, its admission is still pending.

**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. 410,759 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 court 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, at the most the damage could be related to nuisances to the neighborhood. Current status: Sentence has not yet been passed.

A second lawsuit filed at the 19th Civil Court of Santiago (Case file 1105-2006) for ThCh\$940,000 was added to this case.

**Court:** 5th Civil Court of Santiago; Case No. 10852-2005. Aguas Andinas S.A. was sued for its civil liability for the accidental death of Mario Cañete Muñoz, a worker at the Kennedy-Estoral works. Amount demanded ThCh\$110,000, approximately, plus indexation, interests and costs.



Current status: Evidence period. Expected result: the claim should be rejected as Aguas Andinas had not requested the execution of these works.

**Court:** 24th Civil Court of Santiago; Case No. 6539-2006. A company is suing CORFO for the restitution of land at a property in Avenida Andrés Bello, Las Condes. Such land was acquired by CORFO from Aguas Andinas S.A. in September 1999.

Amount claimed: undetermined. Current status: Evidence period. Expected result: The claim should be rejected.

**Court:** 27th Civil Court of Santiago; Case No. 552-2007. Aguas Andinas S.A. was sued, as well as other entities, by a private individual who pretends the nullity of the DGA Resolution 3268, which approved the works of the emissary El Trebal, Supreme Decrees No. 76 and No. 100 of the Economy Ministry which establish the tariff formulas for the periods between 200-2005 and 2005-2010, respectively.

Amount claimed: undetermined. Current status: Discussion period. Expected result: The claim should be rejected.

**Court:** Arbitrage Center of the Chamber of Commerce; Case file: 744-2007. A contractor sued Aguas Andinas S.A. for the payment of additional costs incurred in the works related to the renewal of networks in the areas of Yarur II and Sewage drain Arturo Prat.

Amount claimed: ThCh\$170,000, plus indexation and interests. Current status: Evidence period. Expected result: A favorable result for Aguas Andinas S.A. is expected.

Aguas Andinas S.A. is also a party in other lawsuits of lower amounts (in favor or against):

The amounts involved in lawsuits with favorable outcome go back to 2002 and amount to ThCh\$111,000, plus indexation and interests.

The lawsuits that could be unfavorable for the Company correspond to:

Nine labor lawsuits in which the Company was sued solidarily for ThCh\$52,100, between 2003-2007.

Three sued related to the Company's line of business, which are covered by hired insurances, the amounts involved amount to ThCh\$164,000.

#### **Aguas Cordillera S.A.**

Case No. 4693-99, 11th Civil Court of Santiago. Demand for damages file by 79 neighbours of the district of Lo Barnechea concerning supply problems on October and November 1996. The demand is for ThCh\$728,626. The discussion period has finished. There are good probabilities that the Company will win the case.

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

The other lawsuits of lower amounts that could be unfavorable for Aguas Cordillera S.A. correspond to:

Two claims for activities related to the line of business, which have been accrued at the closing of the financial statements in the amount of ThCh\$49,280.

#### **Aguas los Dominicos S.A.**

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

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

Resolution 426 of February 9, 2004 for 10 UTA. State: Sentence unfavorable; appeal has been presented, there is a probability that the fine will be reduced.

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.

The Company complies with all provisions established by DFL No. 382 of the General Law on Sanitary Services, of 1988, as well as its Regulations (D.S. MOP No. 1199/2004, published in November 2005).

As the Company has no public shares as of December 31, 2007 it is not subject to any restriction.

As of December 31, 2007 and 2006 there are no mortgages, pledges or interdictions that affect the ownership titles on any asset of the Company.

#### **AGUAS MANQUEHUE S.A.**

1) Case No. 2829-2003, 7th Civil Court of Santiago. Claim against Resolution 1194 of May 19, 2003 that applied a fine



of 26 UTM concerning discharges from the Los Trapenses sewage treatment plant on July 16, 2002 that exceeding the legally allowed limit.

Current status: Appeal has been conceded to sentence rejecting the claim. Expected result: Low probabilities of success; the applied fine will probably be maintained.

2) Case No. 1134-2004, 7th Civil Court of Santiago. Claim of fine for non-compliance of the written orders and instruction of the SISS by not sending on time information for the "sewage treatment coverage" and "drinking water production" process. Current status: Unfavorable sentence. Appeal has been presented. Expected result: It is probable that the sentence will be confirmed.

3) Case No. 15.178-2006, 27th Civil Court of Santiago. Claim against Resolution No. 554 that applied a fine of 30 UTA, due to the non-compliance of the written orders and instruction of the SISS by not sending on information on costs and expenses for 2004. Current status: Claim has been presented. Expected result: Low probabilities that the fine will be reduced.

4) Case No. 764-2003, Lower Court of Colina. The Owners' Community of the Condominium Los Algarrobos IVA and IVB, filed a lawsuit due to noise coming from the discharge of water to the Quebrada Las Nipas, coming from the sewage water treatment plant located in the Condominio Polo de Manquehue, and has requested its closing. In addition they request the withdrawal of all piping installed at that location. Current status: Sentence should be passed. Expected result: According to the documents of the lawsuit, the claim should not be accepted. Amount: Undetermined.

The Company is also a party in other lawsuits of lower amounts (in favor or against).

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 recorded, as indicated in Note 15.

#### BOND ISSUANCE 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 provision 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 ensures 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.

#### BANK LOAN RESTRICTIONS

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

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

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





assets to subsidiaries.

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

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

5) Maintain insurance cover that reasonably protects its assets including its main offices, buildings, plants, inventories, office furniture and equipment and vehicles, in accordance with normal practices for similar businesses.

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

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

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

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

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

The Company complies with all provisions established by DFL No. 382 of the General Law on Sanitary Services, of 1988, as well as its Regulations (D.S. MOP No. 1199/2004, published in November 2005).



## DIRECT GUARANTEES

CREDITOR	DEBTOR	TYPE OF GUARANTEE	BALANCE PENDING AT DATE OF THE FINANCIAL STATEMENTS	
			2007 ThCh\$	2006 ThCh\$
Superintendencia de Servicios Sanitarios	Aguas Andinas S.A.	Policy	341,827	7,569,197
Superintendencia de Servicios Sanitarios	Aguas Andinas S.A.	Performance bond	4,732,027	4,442,848
Empresa Ferrocarriles	Aguas Andinas S.A.	Performance bond	2,590	2,599
I. Municipalidad de Providencia	Aguas Andinas S.A.	Performance bond	22,097	22,176
I. Municipalidad de Las Condes	Aguas Andinas S.A.	Performance bond	3,000	1,074
I. Municipalidad de Santiago	Aguas Andinas S.A.	Performance bond	18,233	18,319
I. Municipalidad de La Granja	Aguas Andinas S.A.	Performance bond	1,177	1,181
I. Municipalidad de San Bernardo	Aguas Andinas S.A.	Performance bond	5,887	-
I. Municipalidad de Peñalolen	Aguas Andinas S.A.	Performance bond	5,887	5,908
I. Municipalidad de Renca	Aguas Andinas S.A.	Performance bond	6,000	6,981
Serviu Metropolitano	Aguas Andinas S.A.	Performance bond	2,225,686	1,344,642
Direcc. Obras Hidraulica	Aguas Andinas S.A.	Performance bond	10,911	12,174
Director de Vialidad	Aguas Andinas S.A.	Performance bond	70,347	-
Secretaria Regional Ministerial	Aguas Andinas S.A.	Performance bond	3,545	-
Chilectra S.A	Aguas Andinas S.A.	Performance bond	9,811	9,846
Ministerio de Obras Publicas Direcc. Reg.	Aguas Andinas S.A.	Performance bond	173,366	-
Ministerio de Obras Publicas	Aguas Andinas S.A.	Performance bond	15,104	-
I. Municipalidad de Las Condes	Aguas Cordillera S.A.	Performance bond	5,500	2,685
I. Municipalidad de Vitacura	Aguas Cordillera S.A.	Performance bond	39,245	39,387
I. Municipalidad de Lo Barnechea	Aguas Cordillera S.A.	Performance bond	9,811	9,846
Superintendencia de Servicios Sanitarios	Aguas Cordillera S.A.	Performance bond	699,155	1,622,688
Superintendencia de Servicios Sanitarios	Aguas Cordillera S.A.	Policy	674,721	677,149
Serviu Metropolitano	Aguas Cordillera S.A.	Performance bond	95,318	29,542
Chilectra S.A	Aguas Cordillera S.A.	Performance bond	1,177	1,181
Ministerio de Obras Públicas	Aguas Cordillera S.A.	Performance bond	292,024	293,075
Superintendencia de Servicios Sanitarios	Aguas Los Dominicos S.A.	Performance bond	117,245	117,667
Ferrovial	Gestión y Servicios S.A.	Performance bond	72,525	-
Superintendencia de Servicios Sanitarios	Aguas Manquehue S.A.	Performance bond	1,428,432	584,949
Superintendencia de Servicios Sanitarios	Aguas Manquehue S.A.	Policy	471,533	473,229
I. Municipalidad de Lo Barnechea	Aguas Manquehue S.A.	Performance bond	-	1,234
I. Municipalidad de Lo Barnechea	Aguas Manquehue S.A.	Policy	-	443,221
Serviu Región Metropolitana	Aguas Manquehue S.A.	Performance bond	-	324,028
Soc. Consecionaria Auopista Nororiente	Aguas Manquehue S.A.	Performance bond	39,245	-
Condominio Polo de Manquehue I	Aguas Manquehue S.A.	Performance bond	39,245	-
Tesorero Maipu	ANAM S.A.	Performance bond	642	-
Aguas del Altiplano	ANAM S.A.	Performance bond	500	-
Codelco	ANAM S.A.	Performance bond	1,962	-
TOTAL			11,635,775	18,056,826



## 26. GUARANTEES RECEIVED FROM THIRD PARTIES

At December 31, 2007 and 2006, the Company has received documents in guarantee for ThCh\$27,133,529 and ThCh\$21,979,908, respectively, arising mainly from work

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 timely provision or delivery.

AGUAS ANDINAS S.A.	AMOUNT thch\$	MATURITY
<b>CONTRACTOR OR SUPPLIER</b>		
Chilectra S.A.	196,227	08.01.2008
Jara Gumucio S.A.	207,000	01.02.2008
Soc. General de Montajes S.A.	227,332	01.31.2008
Arauco S.A.	250,000	03.28.2008
Constructora Con-Pax S.A.	250,000	03.28.2008
KDM S.A.	294,340	12.31.2008
Acciona Infraestructura S.A.	300,000	03.12.2008
Acciona Infraestructura S.A.	300,000	03.12.2008
Constructora OAS Ltda.	300,000	03.12.2008
Constructora OAS Ltda.	300,000	03.12.2008
Dragados S.A.	300,000	03.15.2008
Dragados S.A.	300,000	03.15.2008
Tejofran de Saneamiento e Servicios Ltda.	300,000	03.20.2008
Tejofran De Saneamiento e Servicios Ltda.	300,000	03.20.2008
Obrascon Huarte Lain S.A.	300,000	03.31.2008
Obrascon Huarte Lain S.A.	300,000	03.31.2008
Degremont Ltda.	300,227	04.25.2009
C. de Petroleos de Chile Copec S.A.	329,952	03.20.2008
Ing. y Construccion MST S.A.	371,404	01.31.2008
Ing. y Construccion MST S.A.	371,404	11.09.2009
Acciona Infraestructura S.A.	500,000	03.12.2008
Constructora OAS Ltda.	500,000	03.12.2008
Dragados S.A.	500,000	03.15.2008
Obrascon Huarte Lain S.A.	500,000	03.31.2008
Cadagua Agencia en Chile	1,264,346	03.31.2008
Degremont S.A.	2,394,734	10.31.2008
Emp. Depuradora de Aguas Servidas Ltda.	3,811,694	12.31.2012
<b>TOTAL</b>	<b>15,268,660</b>	
<b>AGUAS LOS DOMINICOS S.A.</b>		
Constructora Olbertz Ltda.	15,466	01.10.2008
ICM S.A.	1,084	12.08.2008
Servicios y Asesorías Profesionales S.A.	3,000	06.30.2008
Inmobiliaria Los Quiyalles de Apoquindo S.A.	2,943	01.24.2008
Inmobiliaria Los Quiyalles de Apoquindo S.A.	2,943	01.24.2008
Inmobiliaria Los Quiyalles de Apoquindo S.A.	2,943	01.24.2008
<b>TOTAL</b>	<b>28,379</b>	

AGUAS CORDILLERA S.A.	AMOUNT thch\$	MATURITY
<b>CONTRACTOR OR SUPPLIER</b>		
Icafal Ingeniería y Construcción S.A.	256,400	02.02.08
Socovesa Ingeniería y Construcción S.A.	145,983	05.30.08
ICM S.A.	144,748	11.14.08
Captagua Ingeniería S.A.	133,232	05.20.08
Captagua Ingeniería S.A.	69,021	04.08.09
Inmobiliaria Manquehue Oriente S.A.	56,042	04.03.09
ICM S.A.	53,143	07.24.08
Marcelino Carrasco Bahamondes y Cia.	49,057	05.03.09
Ing. y Const. Eugenio Diaz S.A.	33,452	05.09.08
Dalco Ingeniería S.A.	29,707	01.11.08
Sondajes Ltda.	25,972	12.10.08
Captagua Ingeniería S.A.	23,261	06.15.08
Constructora Trébol Ltda.	22,959	01.15.08
<b>TOTAL</b>	<b>1,042,977</b>	
<b>AGUAS MANQUEHUE S.A.</b>		
Luis Eduardo Perez Castro	144,530	09.10.2008
Sociedad Constructora Rupanco S.A.	142,212	07.31.2008
Ingenieria y Constructora M.S.T. S.A.	95,842	01.08.2009
Ingenieria y Constructora M.S.T. S.A.	84,228	09.06.2009
Ecopreneur Chile S.A.	69,758	04.17.2008
Ecosan Ltda.	54,558	09.30.2008
Arauco S.A.	33,238	09.01.2008
Ingenieria y Construcción Eugenio Diaz S.A.	24,867	10.30.2008
Ingeniería y Construccion MST S.A.	22,395	03.15.2009
Dalco Ingeniería Ltda.	21,015	09.15.2009
<b>TOTAL</b>	<b>692,643</b>	
<b>GESTIÓN Y SERVICIOS S.A.</b>		
SubCentro Las Condes S.A.	14,128	01.15.2008
SubCentro Las Condes S.A.	14,128	02.15.2008
Constructora Herrera y Asociados Ltda.	5,736	02.21.2008
SubCentro Las Condes S.A.	14,128	03.17.2008
Dalco Ingeniería Ltda.	37,677	03.18.2008
SubCentro Las Condes S.A.	14,128	04.15.2008
Empresa Constructora Cota Mil Ltda.	1,079	04.15.2008
Panques B.V.	93,107	04.15.2008
<b>TOTAL</b>	<b>194,111</b>	

The subsidiaries Anam S.A. and Ecorriles S.A. have not received any third - party guarantees.





## 27. LOCAL AND FOREIGN CURRENCIES

The Company shows the following assets and liabilities in local and foreign currency as at December 31, 2007 and 2006:

### ASSETS

ACCOUNT	CURRENCY	2007 ThCh\$	2006 ThCh\$
<b>CURRENT ASSETS</b>			
Cash and banks	In pesos Ch\$	194,101	130,272
Cash and banks	Dollar	0	3,675
Marketable securities	In pesos Ch\$	9,773,715	447,192
Trade accounts receivable	In pesos Ch\$	48,493,065	46,078,165
Notes receivable	In pesos Ch\$	792,447	2,307,287
Notes receivable	Indexed Ch\$	932,014	1,529,633
Miscellaneous accounts receivables	Indexed Ch\$	54,430	63,141
Miscellaneous accounts receivables	Indexed Ch\$	273,957	43,650
Miscellaneous accounts receivables	Dollar	699	1,787,146
Miscellaneous accounts receivables	In pesos Ch\$	309,969	221,191
Accounts receivables and notes	In pesos Ch\$	737	0
from related companies	Indexed Ch\$	273,957	296,449
Inventories	Indexed Ch\$	1,589,286	1,151,215
Recoverable taxes	Euros	835,121	3,746
Deferred taxes	Indexed Ch\$	699	0
Other current assets	In pesos Ch\$	309,969	140,899
Recoverable taxes	In pesos Ch\$	0	33,047
Other current assets	Indexed Ch\$	1,386,941	1,427,984
Prepaid expenses	In pesos Ch\$	0	20
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>			
Property, plant & equipment	Indexed Ch\$	647,966,363	646,750,977
<b>OTHER NON-CURRENT ASSETS</b>			
Goodwill	Indexed Ch\$	54,911,679	59,268,407
Negative goodwill	Indexed Ch\$	-	(1,109)
Long-term debtors	In pesos Ch\$	1,190,743	1,223,461
Long-term debtors	Indexed Ch\$	8,663,208	8,056,156
Intangibles (net)	Indexed Ch\$	39,627,095	40,882,025
Others	Indexed Ch\$	12,891,336	13,891,908
Others	In pesos Ch\$	3,081,955	1,673,902
Long term deferred taxes	Indexed Ch\$	3,256,329	-
<b>TOTAL ASSETS</b>	<b>IN PESOS CH\$</b>	<b>64,756,533</b>	<b>52,081,641</b>
	<b>DOLLAR</b>	<b>699</b>	<b>3,675</b>
	<b>INDEXED CH\$</b>	<b>774,073,857</b>	<b>775,325,123</b>
	<b>EUROS</b>	<b>737</b>	<b>0</b>



## CURRENT LIABILITIES

ACCOUNT	CURRENCY	UP TO 90 DAYS				90 DAYS TO 1 YEAR			
		2007		2006		2007		2006	
		AMOUNT	AVERAGE ANNUAL INTEREST RATE	AMOUNT	AVERAGE ANNUAL INTEREST RATE	AMOUNT	AVERAGE ANNUAL INTEREST RATE	AMOUNT	AVERAGE ANNUAL INTEREST RATE
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Bonds payable current portion	Indexed Ch\$	724,698	4.25%	1,355,682	4.25%	19,053,784	4.26%	13,128,851	4.25%
Short term banks liabilities	In pesos Ch\$	798	–	19,366,152	5.64%	–	–	–	–
Accounts payable	In pesos Ch\$	16,696,084	–	15,929,779	–	–	–	–	–
Accounts payable	Indexed Ch\$	377,457	–	50,261	–	330,844	–	–	–
Accounts payable	Euros	1,383	–	3,595	–	–	–	–	–
Accounts payable	Dollar	134,205	–	105,954	–	–	–	–	–
Sundry creditors	In pesos Ch\$	133,550	–	54,814	–	–	–	–	–
Sundry creditors	Indexed Ch\$	1,107,247	4.34%	1,157,433	4.34%	13,299	4.34%	121,761	4.34%
Provisions	In pesos Ch\$	12,587,156	–	12,730,553	–	6,036,322	–	6,371,288	–
Withholdings	In pesos Ch\$	9,035,579	–	7,963,222	–	–	–	–	–
Income tax	In pesos Ch\$	–	–	82,610	–	1,892,636	–	146,175	–
Notes & accounts payable to related companies	In pesos Ch\$	2,505,434	–	1,930,244	–	–	–	–	–
Unearned income	Indexed Ch\$	814,410	–	819,409	–	1,891,406	–	1,121,383	–
Unearned income	In pesos Ch\$	140,865	–	244,369	–	1,486,665	–	–	–
Provisions	Indexed Ch\$	107,458	–	90,367	–	–	–	–	–
Notes payable	In pesos Ch\$	33,454	–	92,127	–	11,349	–	40,718	–
Short term portion of long term liabilities	In pesos Ch\$	1,964,585	6.99%	290,628	6.64%	–	–	15,086,120	7.29%
Notes payable	Indexed Ch\$	89,219	6.67%	50,394	6.17%	421,276	7.30%	270,216	5.09%
Notes payable	Indexed Ch\$	21,680	–	4,277	–	14,587	–	12,829	–
Other liabilities	Dollar	13,808	–	–	–	–	–	–	–
TOTAL CURRENT LIABILITIES	INDEXED CH\$	3,242,169	–	3,527,823	–	21,725,196	–	14,655,040	–
	IN PESOS CH\$	43,097,505	–	58,684,498	–	9,426,972	–	21,644,301	–
	EUROS	1,383	–	3,595	–	–	–	–	–
	DOLLAR	148,013	–	105,954	–	–	–	–	–



## LONG-TERM LIABILITIES 2007

ACCOUNT	CURRENCY	1 TO 3 YEARS		3 TO 5 YEARS		5 TO 10 YEARS		MORE THAN 10 YEARS	
		AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Long-term banks liabilities	In pesos Ch\$	10,928,667	6.99%	22,698,000	6.99%	50,440,000	6.99%	-	-
Bonds payable	Indexed Ch\$	37,858,501	4.29%	45,287,688	4.17%	37,592,823	4.81%	65,844,263	4.74%
Notes payable	Indexed Ch\$	430,468	7.52%	240,524	6.93%	32,571,168	5.36%	11,164,615	3.38%
Sundry creditors	Indexed Ch\$	871,600	-	-	-	-	-	-	-
Provisions	Indexed Ch\$	242,952	-	242,952	-	607,380	-	10,870,069	-
Other long-term liabilities	Indexed Ch\$	32,287	8.62%	37,864	8.85%	-	-	-	-
Other long-term liabilities	Indexed Ch\$	263,495	-	79,161	-	44,480	-	-	-
Other long-term liabilities	In pesos Ch\$	12,211	-	-	-	-	-	-	-
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>IN PESOS CH\$</b>	<b>10,940,878</b>	<b>-</b>	<b>22,698,000</b>	<b>-</b>	<b>50,440,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>INDEXED CH\$</b>	<b>39,699,303</b>	<b>-</b>	<b>45,888,189</b>	<b>-</b>	<b>70,815,851</b>	<b>-</b>	<b>87,878,947</b>	<b>-</b>





LONG - TERM HABILITIES 2006

ACCOUNT	CURRENCY	1 TO 3 YEARS		3 TO 5 YEARS		5 TO 10 YEARS		MORE THAN 10 YEARS	
		AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Bonds payable	Indexed Ch\$	37,384,903	4.27%	25,475,735	4.34%	66,106,148	5.39%	76,827,897	4.76%
Notes payable	Indexed Ch\$	619,338	7.50%	274,478	7.10%	19,945,432	5.56%	13,180,170	3.69%
Long-term creditors	Indexed Ch\$	325,641	-	810,378	-	-	-	-	-
Provisions	Indexed Ch\$	425,057	-	425,057	-	383,711	-	8,358,478	-
Deferred taxes	Indexed Ch\$	539,597	-	539,597	-	1,330,653	-	1,367,666	-
Oblig with banks and fin instit	In pesos Ch\$	30,172,240	6.69%	21,508,640	6.70%	2,040,600	6.80%	-	-
Other long-term liabilities	Indexed Ch\$	64,786	8.89%	125,973	8.73%	-	-	-	-
Other long-term liabilities	Indexed Ch\$	404,152	-	104,789	-	66,957	-	-	-
Other long-term liabilities	In pesos Ch\$	28,936	-	-	-	-	-	-	-
Sundry creditors	In pesos Ch\$	3,220	-	-	-	-	-	-	-
TOTAL LONG-TERM LIABILITIES	Indexed Ch\$	39,763,474	-	27,756,007	-	87,832,901	-	99,734,211	-
	In pesos Ch\$	30,204,396	-	21,508,640	-	2,040,600	-	-	-



## 28. SANCTIONS

### AGUAS ANDINAS S.A.

#### a) Superintendency of Securities and Insurance:

Neither the Company nor its directors or executives, were sanctioned during the years 2007 and 2006.

#### b) Other administrative authorities.

### 2007

The Secretaria Regional Ministerial de Salud applied a fine of 10 UTM due to the existence of a generator which was operating without the accreditation of the isokinetic sampling, which constitutes an infringement of the indicated in article 4 of D.S. No. 4 of 1992, MINSAL. The fine was paid in December 2007.

By Resolution No. 2195 dated July 20, 2007, the Superintendency of Sanitation Services (SISS) applied a fine of 6 UTA due to the non-compliance in the services provided in the Sewage Water Treatment Plant of Curacaví, as established in the self-evaluation report of the first quarter of 2007. The fine was paid in August of the same year.

At December 31, 2007 no other sanctions were applied to the Company by other administrative authorities.

### 2006

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

By Resolution SISS No. 553 of February 8, 2006, it applied a fine of 50 UTA for non-compliance of written instructions from the Superintendency to provide information on expenses and costs for the year 2004, requested in several notifications. Proceedings were started to appeal against such fine at the 26th Civil Court of Santiago (Case file 15200-2006), intending to obtain a reduction in the fine. Current status: Unfavorable first instance sentence, appeal has been presented.

By Resolution SISS No. 1454 of April 28, 2006, the SISS applied a fine of 20 UTA for deficiencies in the quality of the sewer system in the Quilicura district. Proceedings were started to appeal against such fine at the 29th Civil Court of Santiago (Case file 6509-2006), intending to obtain a reduction in the fine. Current status: Unfavorable first instance sentence, appeal has been presented.

2) The National Economic Inspector proposed to the Free Competition Defense Tribunal the application of a fine to Aguas Andinas S.A. for 50,000 UTM due to the following 1) situations: abusive demands and charges for new services in urban areas outside the concession area; 2) abusive demands and charges for services in rural areas outside the concession area, and 3) abusive application of Reimbursable Financial Contributions (AFR). Current status: Evidence period. The Company expects it will be absolved from the claims against it.

3) The National Labor authority applied a fine of 60 UTM "for not effectively protecting the health of employees". The facts relate to the death of four employees of a contractor firm working on the Dagoberto Godoy sewage drain. There are possibilities of the fine being annulled. One third of the fine was paid. Ordinary labor lawsuit filed at the 8th Labor Court of Santiago (Case file: 2449-2006). Currently in evidence period, there are possibilities of annulling the fine.

### 2005

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

By Resolution SISS 710-2005, it applied a fine for non-compliance of 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). An appeal to this fine was filed at the 29th Civil Court of Santiago, Case file 4779-2005. Current status: unfavorable outcome, appeal was presented in order to obtain a reduction in the fine.

2) The COREMA RM (regional environmental authority) applied a fine of 300 UTM (monthly tax units) through 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. An appeal to this fine was presented at the 27th Civil Court of Santiago, case No. 6857-2005, which is at the evidence stage.



**2004**

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

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

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

**2)** SESMA applied the following fines:

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

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

**3)** The COREMA RM (regional environmental authority) fined the Company on May 28, 2004 (Resolution 177) with 1,000 Monthly Taxation Units (UTM) for bad odors emanating from the La Farfana Plant. 5% of the fine was

duly paid in order to commence an appeal through the law courts (28th Civil Court of Santiago - Case No.6593-2004). State of the case: in the evidence stage.

**AGUAS CORDILLERA S.A.**

**a)** Superintendency of Securities and Insurance:

Neither the Company nor its directors or executives, were sanctioned during the years 2007 and 2006.

**b)** Other administrative authorities.

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 drinking water” processes.

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

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

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

**AGUAS LOS DOMINICOS S.A.**

**a)** Superintendency of Securities and Insurance:

Neither the Company nor its directors or executives, were sanctioned during the years 2007 and 2006.

**b)** Other administrative authorities.

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

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





**AGUAS MANQUEHUE S.A.****a) Superintendency of Securities and Insurance:**

Neither the Company nor its directors or executives, were sanctioned during the years 2007 and 2006.

**b) Other administrative authorities.**

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

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

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

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

Case file No. 15.178-2006, 27th Civil Court of Santiago. Proceedings against Resolution SISS No. 554, which applied a fine of 30 UTA for non-compliance of written instructions from the Superintendency to provide information on expenses and costs for the year 2004.. Current status: Claim has been presented. Expected result: It is probable that the fine will not be reduced.

At December 31, 2007 and 2006, no other sanctions were applied to the Company or its Subsidiaries, its Directors or Executives.

**29. SUBSEQUENT EVENTS**

At the issuance date of these financial statements, Company management is not aware of any subsequent events that might significantly affect the financial position and/or results of the Company at December 31, 2007.



### 30. THE ENVIRONMENT

The main disbursements in projects for improving the environment made by the Company during 2007 and 2006 refer to the construction of sewage treatment plants, as follows:

NAME OF THE PROJECT	2007 ThCh\$	2006 ThCh\$
La Farfana treatment plant	1,996,315	1,540,926
Esmeralda Melipilla treatment plant (improvement)	1,984,532	1,204,163
Gran Santiago treatment plant	1,124,880	66,593
Til-Til treatment plant	715,522	5,634
El Trebal treatment plant	522,939	146,121
Talagante treatment plant	322,888	2,832,685
Curacavi treatment plant	225,856	829,623
El Chamisero treatment plant	225,323	366,487
Los Trapenses treatment plant	136,671	17,045
External platform for handling and disposal of sludges	108,250	1,255,233
Buin Maipo treatment plant	59,780	-
Maintenance treatment plants	54,600	-
Mobile Centrifuge	43,178	36,748
Compliance with Decree 90 Pomaire Plant	43,028	5,952
Works at plants in locations	64,575	-
Polo Manquehue treatment plant	21,167	-
Installation of withholding flow meter and other	12,216	-
Environmental Impact Study Mapocho Limpio	10,075	58,923
San José de Maipo treatment plant	6,291	-
El Monte treatment plant	4,567	-
Weather stations	3,505	-
Machinery for bio-drying	-	188,170
Elevation chamber of mud and transport	-	104,506
Treatment plant muds management	-	38,879
Repair of mixed mud chambers	-	33,571
Renewal and improvement of facilities	-	23,704
Operation improvement Paine plant	-	29,775
Cexas Melipilla treatment plant (extension)	-	10,095
Telecontrol Isla de Maipo treatment plant	-	9,021
Cexas & Esmeralda treatment plants remote control	-	5,086
<b>TOTAL</b>	<b>7,686,158</b>	<b>8,808,940</b>



### 31. NOTES PAYABLE AT LONG TERM

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

The debt for reimbursable contributions is shown in Long-term notes payable for ThCh\$44,406,775 and ThCh\$34,019,419 at December 31, 2007 and 2006, respectively.

### 32. TRANSFER OF OWNERSHIP OF SANITATION WORKS

Under an agreement signed on June 30, 1998 between the metropolitan regional government and Aguas Andinas S.A., ownership of the sanitation works constructed or acquired with resources of the National Regional Development Fund was transferred to the company. The assets transferred under this agreement, which constitute contributions from third parties, are governed by Decree Law 70 issued by the Ministry of Public Works in 1988 and the provisions of clause 36 of the respective MINECON Law 453 of 1989.

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

Furthermore, the 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\$1,756,689 and its depreciation, determined on the basis of its time in use, amounts to ThCh\$712,605.

The main criteria used in the valuation of these works include: earth movement, supply pipes, drinking water and sewage chambers and labor costs, all as at December 2007. The average useful life of these assets is 406 months and their remaining average useful life as at December 2007 is 267 months.

### SIGNIFICANTS EVENTS

#### AGUAS ANDINAS S.A.

During the Ordinary Shareholders' Meeting of Aguas Andinas S.A. held on April 23, 2007 the Board of Directors was renewed and it elected, for the fully statutory period (two years), the following persons as directors and alternate directors:

DIRECTORS	ALTERNATE DIRECTORS
Alfredo Noman Serrano	Juan Antonio Guijarro
Joaquín Villarino Herrera	Antoni Siurana Zaragoza
José Vila Bassas	Marta Colet Gonzalo
Arturo Vergara del Río	Diane D'Arras
Mónica Singer González	Ramón Figueroa González
Jaime Arellano Quintana	Mario Castillo Astudillo
Carlos Mladinic Alonso	Jorge Bande Bruck

At the Meeting of the Board of Directors, held on April 24, 2007, the Board was constituted and as Chairman was chosen Mr. Alfredo Noman Serrano and as VP Mr. Joaquín Villarino Herrera.

At the Meeting of the Board of Directors, held on April 24, 2007, the Directors' Committee was constituted with its members Mrs. Mónica Singer González, Mr. Carlos Mladinic Alonso and Mr. Joaquín Villarino Herrera.

**On September 25, 2007** The following was informed to the superintendency of sanities and insurance (SVS).

**On September 25, 2007** On September 25, 2007 the





Board of Directors of the Company agreed to distribute ThCh\$30,000,062, as interim dividend. Therefore, dividend No. 45 of the Company, will amount to Ch\$4.9028 per share and will be paid as of October 24, 2007.

**On September 28, 2007** the following was informed to the Superintendency of Securities and Insurance (SVS):

The Board of Directors of the Company, during its Meeting of August 28, 2007, and in compliance with Clause 44 of Law 18,046, considering that the Directors Mr. Joaquín Villarino Herrera and Mrs. Marta Colet Gonzalo are also Directors of Empresa Depuradora de Aguas Servidas Ltda. (EDAS), has agreed to inform the SVS regarding the signing between both companies, on September 27, 2007, of the Operations and Maintenance Contract of the Sewage Water Treatment Plant La Farfana.

**On October 3, 2007** the following was informed to the Superintendency of Securities and Insurance (SVS):

By Ord. SVS No. 11602 dated October 2, the Company was requested to report on certain aspects related to the Operations and Maintenance Contract of the Sewage Water Treatment Plant La Farfana signed between Aguas Andinas S.A. and Empresa Depuradora de Aguas Servidas Ltda., as follow:

The mentioned Contract had its origin in the international public bid, as established in Clause 67 of DFL MOP No. 382/88, General Law of Sanitation Services, which was called by Aguas Andinas S.A. on May 12, 2007.

Nine companies purchased the corresponding Bid bases, and the following companies presented an offer: Cadagua S.A., Omnium de Traitment et de Valorisation S.A. (OTV) and the consortium made up by the companies Degremont S.A. and Sociedad General de Aguas de Barcelona S.A. (Agbar), being the latter companies related to Aguas Andinas S.A..

Subsequently, on August 2, 2007, Aguas Andinas informed the above mentioned consortium, which had the highest technical and economical qualifications, that it had been awarded the bid. The aforementioned was performed after a favorable agreement of the Directors' Committee of Aguas Andinas adopted on July 23, 2007, and by its Board of Directors, in Ordinary Meeting No. 351, held on July 24, 2007. The mentioned agreements were adopted unanimously by the assisting members, stating that is was an operation that is adjusted to equity conditions similar to those that usually prevail in the market.

In order to concur to the celebration of the agreement, and in conformity with the bid bases, Degremont and Agbar through its subsidiary in Chile, Agbar Conosur Ltda., constituted a company called Empresa Depuradora de Aguas Servidas Ltda. (EDAS), in which the Directors of Aguas Andinas Mr. Joaquín Villarino and Mrs. Marta Colet were assigned as Directors.

According to the stated above, the celebration of the contract with EDAS is an operation contemplated in Clause 44 of Law No18,046, on Public Companies.

Note that the signing of the contract with EDAS was approved by the Directors' Committee of Aguas Andinas during the Meeting held on August 27, 2007 and by its Board of Directors during the Ordinary Meeting No. 352 held on August 28, 2007. The mentioned agreements were approved unanimously by the assisting Directors, with the abstention of Mr. Villarino and Mrs. Colet.

The Contract was celebrated under the method of series of unit prices, in the amount of UF2,774,994.4 (two million seven hundred and seventy four thousand nine hundred and ninety four point 4 Unidades de Fomento) plus VAT and it will have a validity period of 60 months, with the possibility of renewal for another period of 60 months, according to the terms and conditions established in the contract.

Finally, note that the purpose of the Contract is to develop the operations and maintenance services of the Sewage Water Treatment Plant La Farfana, owned by Aguas Andinas S.A., including all the scopes of an adequate operations and maintenance management of the Plant, considering among other: the supply of personnel, the expenses of electric power, supply of chemical material, spare parts, etc., as established in the Bid bases and all other documents of the Contract.

**On December 11, 2007** the following was informed to the Superintendency of Securities and Insurance (SVS):

Aguas Andinas S.A., company registered in the Securities Register under No. 346, in accordance with the established in Clause 9 and chapter two of Clause 10 of Law No. 18,045 and the General Standard No. 30 of the SVS, communicates hereby the essential issue of the Company, of its business, of its public offer securities or their offers, according to the following:



- 1) Maximum amount of issuance: A maximum no par value amount will be issued of 2,500,000 Unidades de fomento.
- 2) Maximum expiration of the bonds: The bonds will expire in the period of 25 years as of the date of the public deed related to the issuance.
- 3) Use of the funds: Financing of investments.
- 4) Other general conditions: The bonds could be placed in the general market within the period of 36 months after the issuance registration at the SVS. These will be issued to the bearer, with no special warranties, they will not become shares of the Company and will be payable in local currency.

#### **AGUAS CORDILLERA S.A.**

*On August 31, 2007*, the SVS was informed regarding the dissolution of Aguas Cordillera S.A., tax identification number 80.311.300-9, recorded in the Securities Record of the Superintendency of Securities and Insurance under No. 0369, due to acquisition of all shares by Aguas Cordillera S.A., tax identification number 96.809.310-K, company that previously operated under the name of Comercial Orbi II S.A. Note that at the Meeting of the Board of Directors of Aguas Cordillera S.A. (ex Comercial Orbi II S.A.) held on March 5, 2007 due to the dissolution of the absorbed company, Aguas Cordillera S.A. (ex Comercial Orbi II S.A.) is constituted irrevocably as the only responsible for the payment of every direct or indirect obligation that the absorbed company could have, with any natural or legal person. Furthermore, in relation to the clauses 69 and 71 of the Tax Code, it will be responsible for all taxes, burdens, levies, contributions and other tax obligations.



# REASONED ANALYSIS

AS OF DECEMBER 31, 2007 AND 2006

## GENERAL

The capital of Aguas Andinas is divided into 6,118,965,160 shares of no par value. At December 31, 2007, our principal shareholders are Inversiones Aguas Metropolitanas S.A. and CORFO, with 50.1% and 35% shareholdings, respectively.

## REVENUES

Our revenues derive mainly from the regulated services we provide related to the production and distribution of drinking water, the collection, treatment and disposal of sewage water, other regulated services (which include revenues 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 2007 amounted to Ch\$253,756 million, amount which is Ch\$4,434 million higher (1.8%) than the one obtained in 2006. The net income of Aguas Andinas S.A. at December 31, 2007 was Ch\$97,059, Ch\$6,175 million (6.8%) more than in 2006.

## COSTS AND OPERATING EXPENSES

Our costs and operating expenses are composed of the operating cost and administration and sales expenses. The most important items in the operating cost are depreciation, which represented 36.2%; the outsourcing of certain services to contractors, which represented 33.1%; and personnel, which represented 16.3% in 2007. The most important items of administration and sales expenses is personnel, which represented 43.2%; outsourced services, which represented 26.7%; and general expenses, which represented 11.9%, in 2007.

## TARIFFS

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

Our tariff levels are reviewed every five years and, during that time, are subject to additional adjustments linked to polynomial of indexation if the accumulated change since the previous adjustment is 3 % or more, according to calculations made as a function of various inflation indices. The adjustments are specifically applied as a function of a formula that includes the Chilean Consumer Price Index,

the Wholesale Price Index for Imported Industrial Goods and the Wholesale Price Index for National Industrial Goods, all measured by the Chilean National Institute of Statistics. Tariffs are also subject to adjustment to reflect additional services previously authorized by the SISS.

During 2005, the tariff negotiation process was concluded for the period 2005-2010. The new tariffs approved by Decree No. 100 for Aguas Andinas S.A., Decree No. 149 for Aguas Manquehue S.A., Decree No. 179 for Aguas Cordillera S.A. and Decree No. 178 for Aguas Los Dominicos S.A. of the Ministry of the Economy came into effect on March 1, May, 19, and June 30, 2005 for the last two companies, 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 outdoor uses of water.

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

## CAPITAL INVESTMENTS

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





**Committed investments:** We have to agree an investment plan with the SISS which states the investments we have to make during the following 15 years. The investment plan specifically reflects a commitment on our part to carry out certain projects related to the maintenance of certain quality standards and coverage. This investment plan is reviewed every five years, and Aguas Andinas can request modifications to it when certain relevant facts are ascertained.

The approval dates for the update of the development plans for the Aguas Group are:

**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, among other.

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.

<b>AGUAS ANDINAS S.A.</b>	
Greter Santiago	May 23, 2006 and February 19, 2007
Other areas	May to August 2006
<b>AGUAS CORDILLERA S.A.</b>	
Las Condes	May 10, 2006
<b>AGUAS LOS DOMINICOS S.A.</b>	
Los Dominicos	May 10, 2006
<b>AGUAS MANQUEHUE S.A.</b>	
Manquehue	May 12, 2006
Other areas	December 28, 2006



COMPARATIVE ANALYSIS AND EXPLANATION OF CHANGES

BALANCE SHEET

The composition of assets and liabilities is as follows:

ASSETS	2007 mThCh\$	2006 mThCh\$	CHANGE %
Current assets	67,243	55,664	20.80%
Property, plant and equipment (net)	647,966	646,751	0.19%
Other non - current assets	123,622	124,995	(1.1%)
TOTAL ASSETS	838,832	827,410	1.38%
Current liabilities	77,641	98,621	(21.27%)
Long term liabilities	328,361	308,840	6.32%
TOTAL LIABILITIES	406,003	407,461	(0.36%)
Minority interest	12	11	8.77%
Shareholders' equity	432,818	419,938	3.07%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	838,832	827,410	1.38%

Assets

Current assets are Ch\$11,758 million higher than the year before, mainly due to a decrease in Marketable securities for Ch\$9,327, explained basically by funds held in some subsidiaries, and the increase in trade accounts receivable of Ch\$2,415.

The Company's property, plant and equipment increased in 0.19% in comparison to prior year, from Ch\$646,751 million to Ch\$647,966 million. This variation is explained by more investments and the corresponding increases in depreciations, as explained next.

The main increases of property, plant and equipment are in the item Constructions and Infrastructure in Ch\$12,807 million and Machinery and equipment for Ch\$379, due to investments performed in operating equipment, sanitation infrastructure and supporting equipment.

The charge for depreciation at December 2007 amounts to Ch\$36,111 million, 0.72% higher than in 2006 (Ch\$35,855

million). This is mainly explained by plants and equipment that have come into operation during 2007. Due to this reason, and due to plants and equipment performed in previous years, accumulated depreciation increased by Ch\$12,344 million, in comparison to the previous year (2.0%).

Other assets decreased by Ch\$1,372 million, explained mainly by the decrease of goodwill by Ch\$4,357, offset by the increase in deferred taxes (Ch\$3,256 million) due to the reorganization of the company, which implied the merger between the companies Aguas Cordillera S.A. and Orbi II.

Liabilities

Current liabilities decreased by Ch\$20,980 million, in comparison to prior year, mainly due to the decrease in Short-term borrowings from banks of Ch\$19,365 million, Long-term bank obligations, current portion of Ch\$13,412 million, due to the refinancing of the bank debt performed in the first quarter of the year; offset partially with the increase of bonds payable, short term portion, of Ch\$5,294 million, increase in unearned income (Ch\$2,148 million), corresponding to advanced income from property developers, higher income taxes of Ch\$1,664 and the higher amounts of accounts payable of Ch\$1,450 million.

Long-term liabilities increased by Ch\$19,521 million compared to prior year. The main change is the item long-term bank liabilities of Ch\$30,345 million, due to the refinancing of the bank debt, and the increase in notes payable by Ch\$10,387 million, corresponding to reimbursable financial contributions, offset partially by the bonds payable by Ch\$19,211 million due to the transfer of installments to the short-term in the period and the decrease of deferred taxes by Ch\$3,778 million (due to the merger effects of the subsidiaries).

Shareholders' equity compared to 2006 increased by Ch\$12,879 million. The main changes are the increase of net Income for the year by Ch\$6,175 million and the increase of Other reserves in Ch\$6,873, due to the merger of both subsidiaries.



## FINANCIAL INDICATORS

INDICATOR	UNIT	2007	2006	CHANGE %
<b>LIQUIDITY</b>				
Current ratio	(times)	0.87	0.56	53.40%
Acid test ratio	(times)	0.132	0.006	2137.31%
<b>DEBT</b>				
Debt ratio	(%)	93.80	97.03	(3.32%)
Short-term debt	(%)	19.12	24.20	(20.99%)
Long-term debt	(%)	80.88	75.80	6.70%
Financial expense coverage	(times)	7.60	7.20	5.50%
<b>ACTIVITY</b>				
Inventory turnover	(times)	49.75	70.23	(29.16%)
Permanence of inventories	(days)	7.24	5.13	41.16%
<b>PROFITABILITY</b>				
Return on equity (average)	(%)	22.76	21.67	5.03%
Return on assets (average)	(%)	11.65	10.84	11.48%
Earnings per share	(\$)	17.64	17.62	0.12%
Dividend yield	(%)	15.86	14.85	6.79%
Return on operating assets	(%)	6.51	5.67	14.81%

As of December 2007 the current ration increased by 53.4%, in comparison to prior year, mainly due to the increase of current assets in 20.8% and to the decrease of the current liabilities in 21.17%; both items are specified in the balance sheet analysis.

The debt ration decreased in 3.32%, due to the amortization of installments of the debt in bonds and to the increase of equity (Ch\$12,880 million), which is offset partially through the new loans obtained.

For the calculation of the return on operating assets, the operating income is divided by the sum of the fixed assets

(average) and the intangible assets (average). This indicator increased by 0.12%, due to the variations in the operating income (0.08%) and the average assets (-0.4%).

The return on average equity shows a 5.03% increase, mainly because of the increase in profits and an increase in the average equity.

The return on dividends increased in 14.81% in 2007, as a higher dividend was paid (1.05%), and the price of the share decreased in 11.93%.





### STATEMENT OF INCOME

The following table shows the most important items of the statement of income for the years ended December 31, 2007 and 2006:

STATEMENTS OF INCOME	2007 mCh\$	2006 mCh\$	CHANGE %
Operating revenues	253,756	249,322	1.78%
Operating expenses	(98,495)	(98,667)	(0.17%)
Administrative & selling expenses	(33,947)	(29,434)	15.34%
EBITDA	173,398	166,193	4.34%
Operating income	121,314	121,221	0.08%
Financial expenses	(17,761)	(17,790)	(0.16%)
Non-operating results	(4,118)	(10,886)	(62.17%)
<b>NET INCOME</b>	<b>97,059</b>	<b>90,884</b>	<b>6.79%</b>

(EBITDA is earnings before interests, taxes, depreciation and amortization)

#### Revenues:

The Aguas Group generated consolidated sales of Ch\$253,756 million in 2007, Ch\$4,434 million more (1.8%) than in 2006. This variation is explained as follows:

CONCEPT	2007		2006	
	sales Ch\$ millions	%	sales Ch\$ millions	%
Water	115,886	45.7%	115,386	46.3%
Sewage	106,032	41.7%	105,546	42.3%
Other regulated revenues	8,007	3.2%	10,059	4.0%
Non-regulated businesses	23,831	9.4%	18,331	7.4%
<b>TOTAL</b>	<b>253,756</b>	<b>100.0%</b>	<b>249,322</b>	<b>100.0%</b>

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

**Water:** this covers water production and distribution services. These show an increase of Ch\$500 million as a result of 2.0 million m<sup>3</sup> higher sales volumes. This sales volume is explained by the combination of a growth in

customers of 2.8% and a reduction in unit consumption by -2.3%.

**Sewage:** this covers the collection, treatment, disposal and interconnection of sewage water. These show an increase of Ch\$485 (0.5%) as a result of:

a) higher treatment revenues of Ch\$529 million (41,167 million in 2007, in comparison to Ch\$40,638 million in 2006), due to a higher average tariff applied (1.4%);

b) higher collection revenues of Ch\$208 million due to the increased average tariff applied, and a higher sales volume of 0.6 million m<sup>3</sup>; and;

c) less income from sewage interconnections of Ch\$251 million (Ch\$11,534 million in 2007, compared to Ch\$11,785 million in 2006) due to a lower average tariff applied (3.5%), offset partially by a higher sales volume of 1.6 million m<sup>3</sup>. The variations in the average tariffs are explained by the accumulated effect of indexation during 2006 and 2007.

**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 payment agreements. These revenues show a decrease of Ch\$2,052.

The non-regulated services present an increase of Ch\$5,500, due to:

**Sanitation services:** increase of Ch\$1,229, related to the growth of domicile connection installations services, repairs, calibrations and other services.

**Non-sanitation services:** increase of Ch\$2,620 due to sales of material of water networks (Gestión y Servicios); increase of Ch\$1,470 million in operation services of the treatment plants of liquid industrial waste discharges and the treatment of excess of organic loads (Ecoriles, through new contracts) and Ch\$181 million in sales of laboratory services (sampling and analysis, ANAM).

#### Operating costs and expenses:

At year-end 2007, the consolidated costs amount to Ch\$132,442 million, which is Ch\$4,341 million higher (3.4%) in comparison to 2006. This increase is mainly explained by the following:



Operating costs decreased in Ch\$172 million (0.2%) to Ch\$98,495 million, compared to Ch\$98,667 million at year-end 2006. This is mainly explained by higher costs of non-regulated products offset by lower costs in services for regulated activities.

Administrative and selling expenses increased by Ch\$4,514 million (15.3%) to Ch\$33,947 million, compared to Ch\$29,434 million the year before. This was due basically to a higher allowance for doubtful accounts, explained in note 3, and higher severance payments programs.

#### Operating income

Because of the factors mentioned above, the consolidated operating income of Aguas Andinas for 2007 was Ch\$121,314 million, Ch\$93 million more in comparison to 2006. As a percentage of net sales, the margin decreased from 48.6% in 2006 to 47.8% in 2007.

#### Non-operating results

The consolidated non-operating result of Aguas Andinas increased by Ch\$6,768 million reaching Ch\$4,118 million in comparison to Ch\$10,886 million of 2006.

The main variations are explained by the increase in price-level restatement in Ch\$4,514 million, in addition to better results in other non-operating income/expense of Ch\$2,783 million, offset partially by a lower financial result of Ch\$501 million.

#### Income tax

The provision for income tax for 2007 is Ch\$685 million higher than the one recorded in the previous year, related to the better pre-tax income.

#### Net income

As a result of the factors indicated above, the consolidated net income of Aguas Andinas for 2007 amounted to Ch\$97,059 million, Ch\$6,175 million more than in 2006.

#### ANALYSIS OF THE STATEMENT OF CASH FLOWS

The principal items of the statement of cash flows at December 31, 2007 and 2006 are:

STATEMENT OF CASH FLOWS	2007 Ch\$ MILLIONS	2006 Ch\$ MILLIONS	CHANGE%
Operating activities	138,396	128,824	7.43%
Financing activities	(91,318)	(103,084)	(11.41%)
Investing activities	(36,886)	(49,523)	(25.52%)
<b>NET CASH FLOW FOR THE YEAR</b>	<b>10,192</b>	<b>(23,782)</b>	<b>142.86%</b>
Effect of inflation on cash	(537)	(390)	37.86%
Net change in cash	9,655	(24,172)	139.94%
Opening cash balance	581	24,753	(97.65%)
<b>CLOSING CASH BALANCE</b>	<b>10,236</b>	<b>581</b>	<b>1661.79%</b>

The positive operating cash flows in 2007 increased in Ch\$9,571 million, compared to the previous year, and the main variations relate to the increase of the collection of trade accounts receivable of Ch\$3,471 million, the decrease in payment to suppliers and personnel of Ch\$3,664 million and a lower payment of interests of Ch\$3,387 million, offset partially by an increase in VAT and other similar taxes of Ch\$974 million.

The financing flows decreased in Ch\$11,766 million compared to the year-end 2006, the main variation corresponds to the obtaining of loans (net increase of Ch\$8,226 million) and other financing sources of Ch\$2,569 million.

The investing cash flows decreased by Ch\$12,637 million due to the decrease of the addition of property, plant and equipment by Ch\$7,638 million, and by higher proceeds from sales of property, plant and equipment of Ch\$5,456 million.

#### DIFFERENCE BETWEEN THE BOOK AND ECONOMIC VALUES OF THE PRINCIPAL ASSETS

The property, plant and equipment are shown valued in accordance with accounting principles generally accepted 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 the stated in Note 2j)



of the financial statements at December 31, 2007.

However, Aguas Andinas S.A. has sixty eight 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 booked 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 (MINECON 453 of 1989) which are explained in Note 31.

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

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

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

In summary, and as indicated above, Aguas Andinas S.A. and its Subsidiaries have no significant differences between the economic or market value and the book value of 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 accounting principles generally accepted in Chile.





## MARKET ANALYSIS

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

Aguas Andinas S.A. currently has a 100% coverage in drinking water, 98.4% in sewage services and approximately 72% in sewage water treatment.

Aguas Cordillera S.A. currently has a 100% coverage in drinking water and 98.6% in sewage services.

Aguas Los Dominicos S.A. currently has a 99.9% coverage in drinking water and 97.6% in sewage services.

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

## Sales Volumes

	(VALUES IN THOUSANDS OF M3 INVOICED)		
	2007	2006	CHANGE (%)
Drinking water	479,345	477,394	0.4%
Sewage collection	471,896	471,328	0.1%
Sewage treatment & disposal	407,029	407,255	(0.1%)
Sewage interconnection services	114,053	112,433	1.4%

## Customers <sup>(1)</sup>

FIGURES AT DEC. 31	2007	2006	CHANGE (%)
Drinking water	1,597,537	1,550,008	3.1%
Sewage collection	1,569,392	1,520,662	3.2%

## FINANCIAL ASPECTS

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

At December 31, 2007, Aguas Andinas had 75% of its debt at fixed rates and 25% at variable rates. The fixed-rate debt is comprised of bonds payable (82%) and reimbursable financial contributions (18%), while the variable-rate debt is with local banks.

At December 30, 2006, 80% of the debt was at fixed rates and 20% at variable rates. The fixed-rate debt was comprised of short- and long-term bonds payable (80%); loans from local banks (7%) and reimbursable financial contributions (13%), while the variable-rate debt is with 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 ICR granted us a rating of First class Level 2.

<sup>(1)</sup> Corresponds to natural or legal persons who receive sanitation services associated to water or sewage.



# UNCONSOLIDATED FINANCIAL STATEMENTS

158  
INDEPENDENT  
AUDITOR'S  
REPORT

159  
BALANCE  
SHEETS

161  
STATEMENTS  
OF INCOME

162  
STATEMENT  
OF CASH  
FLOWS

164  
NOTES TO THE  
FINANCIAL  
STATEMENTS

200  
REASONED  
ANALYSIS







# Deloitte.

## INDEPENDENT AUDITOR'S REPORT

Deloitte  
Auditores y Consultores Ltda.  
Rut: 80.276.200-3  
1760 Providencia Avenue, floor 6,7,8,9 and 13<sup>th</sup>  
Pisos 6, 7, 8, 9 y 13  
Providencia, Santiago  
Chile  
Telephone: (56-2) 729 7000  
Fax: (56-2) 374 9177  
e-mail: [deloittechile@deloitte.com](mailto:deloittechile@deloitte.com)  
[www.deloitte.cl](http://www.deloitte.cl)

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

We have audited the accompanying balance sheets of Aguas Andinas S.A. (the "Company") as of December 31, 2007 and 2006 and the related statements of income and of cash flows for the years then ended. These financial statements (including the related notes) 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 Reasoned Analysis and Significant Events do not form an integral part of these financial statements, therefore, this report does not cover them.

We conducted our audits in accordance with auditing standards generally accepted 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 includes 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.

The financial statements referred to above have been prepared to reflect the unconsolidated financial situation of Aguas Andinas S.A., based on the criteria described in Note 2, before consolidating line-by-line the financial statements of the subsidiaries listed in Note 8. Therefore for an adequate interpretation, these financial statements, should be read and analyzed in conjunction with the consolidated financial statements of Aguas Andinas S.A. and Subsidiaries, which are required by the accounting principles generally accepted in Chile.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Aguas Andinas S.A. as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with the accounting principles described in Note 2.

The accompanying financial statements have been translated into English for the convenience of readers outside Chile.

*Deloitte*  
JANUARY 29, 2008

Deloitte® Refers to one or more of Deloitte Touch Tohmatsu, a souses verein, and its network of member firms, each of which a legally separate and independent entity. Please see [www.deloitte.cl/about](http://www.deloitte.cl/about) for a detailed description of the legal structure of Deloitte Touch tohmatsu and its member firms.

A member firm of  
**Deloitte Touche Tohmatsu**



# BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2006  
(IN THOUSANDS OF CHILEAN PESOS-THCH\$)

ASSETS	2007 ThCh\$	2006 ThCh\$
<b>CURRENT ASSETS:</b>		
Cash and banks	104,581	25,331
Marketable securities (net)	79,215	381,975
Trade accounts receivable (net) (Note 4)	37,589,799	36,904,923
Notes receivable (net) (Note 4)	932,589	2,128,460
Miscellaneous account receivables (net) (Note 4)	250,437	100,379
Accounts receivable and notes from related companies (Note 5)	3,621,319	3,247,857
Inventories (net)	953,089	593,567
Recoverable taxes	1,717	140,089
Prepaid expenses	108,201	134,697
Deferred taxes (Note 6)	1,351,682	758,256
Other current assets	2,222,061	1,430,118
<b>TOTAL CURRENT ASSETS</b>	<b>47,214,690</b>	<b>45,845,652</b>
<b>PROPERTY, PLANT AND EQUIPMENT (NOTE 7):</b>		
Land	32,020,256	31,838,968
Construction and infrastructure	974,911,416	969,711,457
Machinery and equipment	114,774,681	115,367,498
Other property, plant and equipment	11,843,887	11,815,798
Accumulated depreciation	(582,819,012)	(573,925,504)
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>550,731,228</b>	<b>554,808,217</b>
<b>OTHER NON-CURRENT ASSETS:</b>		
Investments in related companies (Note 8)	123,173,980	101,340,912
Goodwill (Note 9)	54,911,679	59,263,398
Long-term debtors (Note 4)	6,769,925	7,041,365
Long-term deferred taxes (Note 6)	1,987,522	1,510,336
Intangibles (Note 10)	28,067,497	27,404,882
Accumulated amortization	(10,626,706)	(9,414,602)
Other	13,568,891	13,631,319
<b>TOTAL OTHER NON-CURRENT ASSETS</b>	<b>217,852,788</b>	<b>200,777,610</b>
<b>TOTAL ASSETS</b>	<b>815,798,706</b>	<b>801,431,479</b>

The accompanying notes 1 to 29 are an integral part of these unconsolidated financial statements



# BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2006  
(IN THOUSANDS OF CHILEAN PESOS-THCH\$)

The accompanying notes 1 to 29 are an integral part of these unconsolidated financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY	2007 ThCh\$	2006 ThCh\$
<b>CURRENT LIABILITIES:</b>		
Short-term banks liabilities (Note 11)	798	19,366,152
Short term portion of long term bank liabilities (Note 11)	1,964,585	15,376,748
Bonds payable - current portion	19,778,482	14,484,533
Accounts payable	12,381,899	11,794,014
Notes payable	26,761	37,373
Sundry creditors	151,282	71,929
Notes and accounts payable to related companies	13,688,972	10,457,129
Provisions (Note 14)	16,231,287	16,582,965
Withholdings	7,666,275	6,724,923
Income taxes (Note 6)	1,377,773	22,378
Unearned income	3,083,964	485,080
<b>TOTAL CURRENT LIABILITIES</b>	<b>76,352,078</b>	<b>95,403,224</b>
<b>LONG-TERM LIABILITIES:</b>		
Long term bank liabilities (Note 12)	84,066,667	53,721,480
Bonds payable (Note 13)	186,583,275	205,794,683
Notes payable	25,882,309	17,700,915
Sundry creditors	600	19,620
Accruals	9,770,466	8,358,478
Other long-term liabilities	325,441	494,702
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>306,628,758</b>	<b>286,089,878</b>
<b>SHAREHOLDERS' EQUITY (NOTE 16):</b>		
Paid-in capital	142,853,401	142,853,401
Share premiums	216,249,416	216,249,416
Other reserves	6,879,704	6,491
Reserves for future dividends	436,414	119,619
Net income for the year	97,058,999	90,884,120
Interim dividends	(30,660,064)	(30,174,670)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>432,817,870</b>	<b>419,938,377</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>815,798,706</b>	<b>801,431,479</b>





# STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(IN THOUSANDS OF CHILEAN PESOS-THCH\$)

	2007 ThCh\$	2006 ThCh\$
<b>OPERATING INCOME</b>		
Operating revenues	208,538,778	208,901,255
Operating expenses	(77,522,499)	(80,567,849)
<b>GROSS PROFIT</b>	<b>131,016,279</b>	<b>128,333,406</b>
Administrative and sales cost	(29,928,521)	(26,178,179)
<b>OPERATING INCOME</b>	<b>101,087,758</b>	<b>102,155,227</b>
<b>NON-OPERATING RESULTS:</b>		
Financial income	3,833,802	4,317,110
Equity in earnings of related companies (Note 8)	19,483,484	16,422,735
Other non-operating income (Note 17)	5,235,944	4,835,410
Amortization of goodwill	(4,351,720)	(4,351,720)
Financial expenses	(17,105,297)	(17,112,416)
Other non-operating expenses (Note 17)	(961,552)	(1,554,877)
Price-level restatement (Note 18)	6,467,751	1,808,556
Foreign exchange (loss) (Note 19)	(504)	(4,366)
<b>NON-OPERATING INCOME</b>	<b>12,601,908</b>	<b>4,360,432</b>
Income before income taxes	113,689,666	106,515,659
Income taxes (note 6)	(16,630,667)	(15,631,539)
<b>NET INCOME</b>	<b>97,058,999</b>	<b>90,884,120</b>

The accompanying notes  
1 to 29 are an integral part  
of these unconsolidated  
financial statements



# STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(IN THOUSANDS OF CHILEAN PESOS-THCH\$)

The accompanying notes  
1 to 29 are an integral part  
of these unconsolidated  
financial statements

	2007 ThCh\$	2006 ThCh\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Collection of trade account receivables	249,489,119	245,692,795
Financial income received	256,809	639,141
Dividends and other distributions received	4,502,668	26,910
Other income received	722,891	245,984
Payments to suppliers and personnel	(80,565,260)	(80,174,426)
Payment of interest	(11,896,241)	(14,868,527)
Payment for income tax	(16,240,265)	(16,217,106)
Other expenses	(794,242)	(508,100)
VAT AND SIMILAR ITEMS PAID	(27,130,860)	(27,646,961)
<b>TOTAL NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>118,344,619</b>	<b>107,189,710</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Loans drawn	67,834,099	101,038,129
Bonds issued	-	4,781,347
Other loans from related companies	2,724,565	8,150,028
Other sources of financing	17,530,162	14,479,023
Dividend payments	(90,297,581)	(89,487,737)
Loan repayments	(67,046,660)	(108,241,629)
Bond repayments	(13,101,222)	(18,245,415)
Payment of other loans from related companies	-	(384,520)
Other financing disbursements	(7,731,383)	(7,728,812)
<b>TOTAL NET CASH FLOW USED IN FINANCING ACTIVITIES</b>	<b>(90,088,020)</b>	<b>(95,639,586)</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>		
Sales of property, plant and equipment	3,929,608	127,418
Collection of other loans to related companies	-	2,481,987
Purchases of fixed assets	(30,570,195)	(33,335,494)
Payment of capitalized interest	(588,890)	(891,524)
Permanent investments	-	(639,601)
Other loans to related companies	(290,706)	-
Other investment disbursements	(493,021)	(44,902)
<b>TOTAL NET CASH FLOW USED IN INVESTMENT ACTIVITIES</b>	<b>(28,013,204)</b>	<b>(32,302,116)</b>
<b>NET INCREASE (DECREASE) IN CASH FLOWS FOR THE YEAR</b>	<b>243,395</b>	<b>(20,751,992)</b>
Price level restatement of cash and cash equivalents	(198,784)	(325,208)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>44,611</b>	<b>(21,077,200)</b>
Cash and cash equivalents at beginning of the year	407,306	21,484,506
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 21)</b>	<b>451,917</b>	<b>407,306</b>



RECONCILIATION BETWEEN NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES AND NET INCOME FOR THE YEAR:	2007 ThCh\$	2006 ThCh\$
Net income	97,058,999	90,884,120
Gain on sale of fixed assets	(1,810,928)	(1,264,513)
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Depreciation	31,858,018	31,868,877
Amortization of intangibles	1,541,452	1,415,676
Write-offs and provisions	3,926,254	506,598
Accrued equity in investments in related companies	(19,483,484)	(16,422,735)
Amortization of goodwill	4,351,720	4,351,720
Net price-level restatements	(6,467,751)	(1,808,556)
Net foreign exchange differences	504	4,366
Other credits to income not representing cash flow	(2,312,609)	(3,053,189)
Other charges to income not representing cash flow	1,875,455	2,154,965
<b>CHANGE IN OPERATING ASSETS (INCREASES) DECREASES:</b>		
Trade account receivables	(3,952,916)	(7,387,302)
Inventories	(390,848)	(180,024)
Other assets	4,829,088	(612)
<b>CHANGE IN OPERATING LIABILITIES INCREASES (DECREASES):</b>		
Accounts payable related to operating income	(1,058,627)	(1,049,798)
Interest payable	2,809,545	636,631
Income taxes payable	390,402	(585,566)
Other accounts payable	853,356	2,244,006
VAT AND SIMILAR PAYABLES	4,326,989	4,875,046
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>118,344,619</b>	<b>107,189,710</b>

The accompanying notes  
1 to 29 are an integral part  
of these unconsolidated  
financial statements





# NOTES TO THE FINANCIAL STATEMENTS

(IN THOUSANDS OF CHILEAN PESOS-THCH\$)

## 1. REGISTRATION IN THE SECURITIES REGISTER

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Accounting period

These unconsolidated financial statements relate to the years between January 1 and December 31, 2007 and 2006, 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 Accountants, and the instructions of the Superintendency of Securities and Insurance, except for investment in subsidiaries which are stated using the equity method of accounting and have therefore not been consolidated. This treatment does not alter the net result for the year or the net shareholders' equity.

In the event of differences between the accounting principles generally accepted, 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 will prevail.

These financial statements have been issued only for the purposes of an individual analysis of the company and should therefore be read and together with the consolidated financial statements, which are required by accounting principles generally accepted in Chile.

### c) Basis of presentation

For comparison purposes, the financial statements at December 31, 2006 and their respective notes have been restated of the books by 7.4%. This percentage corresponds to the variation in the Consumer Price Index during the last twelve months, with a one-month time lag.

For comparison purposes, some items of the 2006 financial statements have been reclassified.

### d) Price-level restatement

The financial statements have been restated by 7.4% in 2007 and 2.1% in 2006, to reflect the effects of variations in the purchasing power of the local currency during each year in accordance with accounting principles generally accepted in Chile.

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

### e) 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 at each year end, at the following rates:

	2007 Ch\$	2006 Ch\$
United States dollar	496,89	532,39
Euro	730,94	702,08
Unidad de Fomento (index - linked units of account)	19.622,66	18.336,38

### f) Marketable securities

Marketable securities relate to investments in mutual funds units. 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 with no activity. The company uses the system of weighed average cost, to value its inventories.

### h) Allowance for doubtful accounts

The allowance for doubtful accounts depends on the aging of the accounts receivable and the historical recovery, as follows:

- A 100% allowance is provided for customers with debts overdue for over 8 months.
- The accounts receivable converted into repayment plans are classified in:
  - "non-government subsidized", which are accrued as bad debts in 100%, of the agreed amount, in 2007. In 2006



an allowance of 20% was accrued for these amounts.

- “government subsidized”, with an allowance for doubtful accounts of 55% of the agreed amount, and 45% is accrued as a commercial discount, in 2007. In 2006, the Company accrued as bad debts 40% of the total agreed amount and 45% as a commercial discount.

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

#### **i) Property, plant and equipment**

Property, plant and equipment 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 property, plant and equipment include the main renewals and improvements. Maintenance costs or minor repair expenses are charged to income in the year in which they are incurred.

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

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

#### **j) Depreciation of property, plant and equipment**

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**

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

Leased assets are valued and its depreciation is calculated according to the accounting principle generally accepted for the property, plant and equipment.

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

#### **l) Intangibles**

Water rights, rights of ways, software and other rights

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

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

Software is amortized over a period of 4 years from the acquisition date as it is believed they will provide benefit in such period.

#### **m) Investments in related companies**

Investment in related companies, with the ability to exercise a significant influence over the company, are accounted for using the equity method, determined on the basis of the respective financial statements of the company at December 31, 2007 and 2006. Equity in earnings or losses of such companies is recognized on an accrual basis.

#### **n) Goodwill**

Goodwill represents the excess paid over the proportional equity value on the purchase date of the shares in Aguas Cordillera S.A. This is being amortized over a period of 20 years from the date of acquisition as this is the estimated period of return on the investment.

#### **o) Transactions 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 No.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 and shown at their nominal value plus indexation adjustments and interest accrued at each year-end. The discount incurred and the issuance costs on the placement of the bonds are deferred and amortized over their respective terms, in accordance with Circular 1,370 of the Superintendency of Securities and Insurance.

#### **q) Income tax and deferred taxes**

The Company has provided for income tax on the basis of its net taxable income determined in accordance with the provisions of the Income Tax Law. According to Technical Bulletin No.60 and other instructions from



the Chilean Institute of Accountants and Circular 1,466 of the Superintendency of Securities and Insurance, the Company records the effects of deferred taxes resulting from temporary differences, tax benefits related to tax losses carry-forward and other events that create differences between the financial and tax basis of assets and liabilities.

**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 included in the respective union labor agreement and those to whom the same benefits apply in accordance with their individual labor contracts. The accumulated amount at that date is adjusted quarterly according to changes in the consumer price index. The collective labor contract also established that employees who retire from the company within 120 days of having reached the legal retirement age, will continue to accrue this benefit after July 2002, until their retirement date.

The Company's obligation for the accrued indemnity for employees up to July 2002 is accounted for at its current value, and the obligation for the additional indemnity that is estimated the employees who retire from the company will accrue, is accounted for at its present value, calculated according to the accrued cost of the benefit method and at an annual discount rate of 4.1% in 2007 and 4.8% in 2006.

There are also individual contracts which are accounted for by the current value according to their terms.

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

**s) Revenue recognition**

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 recorded at the tariff defined for each invoicing group.

**t) Research and development costs**

Expenses in research and development studies which are not related to any project, are charged to income in the year in which they are incurred. Otherwise, they form part of the costs of the corresponding work in progress.

**u) Statement of cash flows**

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

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

### 3. ACCOUNTING CHANGES

The following changes in accounting estimates were made during 2007:

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

To calculate this additional indemnity, the Company uses the present value of such obligations based on the accrued cost method for those who are covered by the union labor agreement and who are believed will remain employed until their retirement age. The discount rate used for this calculation has been changed from 4.8% at December 2006 to 4.1% at December 2007, in accordance with a study performed by the Company.





The effect of this change on income for 2007 amounts to a greater charge of ThCh\$63,789.

The Company has agreed to deferred payments, for the past due accounts receivables from clients, through payment agreements which are collectible upon maturity of each of the installments. The accounts receivables from with payment agreements are classified as "government subsidized", in the case of special agreements with customers of a lower socio-economic level and as "non-government subsidized" for the other payment agreements.

During 2007 the Company increased the allowance of agreements classified as non-government subsidized from 20% to 100%; and in the case of the government subsidized agreements, it increased the allowance for doubtful accounts from 40% to 55%, accruing the remaining 45% as a commercial discount. In both cases, due to the low recovery of the verified debts in the previous year.

The effect of this change on income for 2007 amounts to a greater charge of ThCh\$2,706,346.

There have been no other accounting changes that could affect the comparative of those financial statements.

#### 4. SHORT AND LONG-TERM DEBTORS

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

The balance of trade accounts receivable includes an allowance for revenues accrued as at December 31, 2007 and 2006 of ThCh\$11,707,771 and ThCh\$12,975,457, respectively, corresponding to unbilled meter readings at each year-end.

The balance of debtors at December 31, 2007 is divided into Residential 80.65%, Commercial 16.71%, Industrial and others 2.64%. The balance of debtors at December 31, 2006 was divided into Residential 80.40%, Commercial 16.43%, Industrial and others 3.17%.

Allowances for doubtful accounts have been recorded, as follows:

a) An allowance for doubtful accounts has been provided as explained in Note 2h), amounting to ThCh\$14,181,875 and ThCh\$12,153,064 as of December 31, 2007 and 2006, respectively. The charge to income for the years 2007 and 2006 were ThCh\$2,995,843 and ThCh\$818,756, respectively. In addition, at December 31, 2007 and 2006, debts of ThCh\$129,670 and ThCh\$206,632, respectively, were written off.

b) Provisions for commercial discounts relate to payment agreements of debts signed by customers by which they can obtain a commercial discount if they fully comply with the agreement. This allowance amounts to ThCh\$3,689,090 and ThCh\$2,989,795 at December 31, 2007 and 2006, respectively. The charge to income at December 31, 2007 and 2006 amounted to ThCh\$932,076 and ThCh\$510,462, respectively. Out of the provisions commercial discounts to amount to ThCh\$26,780 and ThCh\$0 as of December 31, 2007 and 2006, respectively.

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



Short and long-term debtors

ITEM	CURRENT							LONG-TERM	
	90 DAYS TO 1 YEAR								
	UP TO 90 DAYS		90 DAYS TO 1 YEAR		SUB TOTAL	TOTAL CURRENT (NET)			
	2007 ThCh\$	2006 ThCh\$	2007 ThCh\$	2006 ThCh\$	ThCh\$	2007 ThCh\$	2006 ThCh\$	2007 ThCh\$	2006 ThCh\$
Trade account receivables	39,350,284	35,909,381	3,374,017	3,266,977	42,724,301	37,589,799	36,904,923	945,265	965,225
Estimate of doubtful accounts	-	-	-	-	5,134,502	-	-	-	-
Notes receivable	351,808	2,123,867	611,555	47,378	963,363	932,589	2,128,460	334,209	333,772
Estimate of doubtful accounts	-	-	-	-	30,774	-	-	-	-
Sundry debtors	194,022	46,339	68,649	67,180	262,671	250,437	100,379	5,490,451	5,742,368
Estimate of doubtful accounts	-	-	-	-	12,234	-	-	-	-
TOTAL LONG-TERM DEBTORS								6,769,925	7,041,365

5. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

TRANSACTIONS WITH COMPANIES OF THE AGUAS GROUP

Notes and accounts receivable

The transactions with Aguas Cordillera S.A. relate to drinking water interconnections agreed under contracts, whose payment is made against presentation of the invoice for rendered services at 30 days without interest, the sewage 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., and their payment period is of 30 days without interests, while the balance receivable from Aguas Manquehue S.A. relates to the meter reading services with payment terms varying from 30 to 90 days.

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

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.; payable within the first five working days of each month.

Notes and accounts payable

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

There is a drinking water and sewage interconnection contract with Aguas Cordillera S.A., with payments at 30 days 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. related to purchases of materials, payable at 30 days without interest.

#### Transactions

As at December 31, 2007 and 2006 short terms loans were granted to and/or received by Aguas Cordilleras S.A., Aguas Manquehue S.A., Gestión y Servicios S.A., Análisis Ambientales S.A., Aguas Los Dominicos S.A., Ecoriles S.A., with an annual interest of TAB UF at 90 days or more: 0.15% during 2007 and 1% during 2006.

#### TRANSACTIONS WITH 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 working days of each month.

##### Notes and accounts payable

As of December 31, 2006 ended a technical services contract signed with Inversiones Aguas Metropolitanas S.A., these payments were performed at 90 days.

#### TRANSACTIONS WITH INDIRECTLY RELATED COMPANIES

##### Accounts payable

With Degrémont S.A. Agencia en Chile existed a construction and operations contract for the La Farfana Sewage Treatment Plant, its billing was performed on a monthly basis and payable on the last day of the following month after the issuance of the payment statement. The pending balance corresponds to the withholding that will be paid once the contractual relationship has terminated (once all contract terms have been complied with).

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

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

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

The debt with Nortcontrol S.A., Chilean Agency, corresponds to quality control services. The debt is still

maintained, but Nortcontrol S.A., Chilean Agency, is no longer an indirectly related company at December 2007.

The debt with Agbar Servicios Compartidos S.A., corresponding to the purchase of piping, is payable at 60 days.

With Empresa Depuradora de Aguas Servidas Ltda., exists a operations and maintenance contract of the La Farfana Sewage Treatment Plant, its invoicing is upon expired month, and is paid at 30 days after the approval of the payment statement.

##### Accounts receivable

Empresa Depuradora de Aguas Servidas Ltda. has purchased material and spare parts and has a pending balance, with maturity on January 31, 2008.

The materiality criterion to inform the transactions with related parties relates to amounts in excess of ThCh\$100,000.

##### Notes and accounts receivable

TAX ID	COMPANY	SHORT TERM		LONG TERM	
		2007 ThCh\$	2006 ThCh\$	2007 ThCh\$	2006 ThCh\$
96,809,310-K	Aguas Cordillera S.A.	1,589,473	1,633,396	-	-
89,221,000-4	Aguas Manquehue S.A.	1,547,095	107,332	-	-
96,828,120-8	Gestión y Servicios S.A.	329,120	1,444,504	-	-
96,945,210-3	Ecoriles S.A.	88,639	52,187	-	-
76,938,110-4	Empresa Depuradora de Aguas Servidas Ltda.	66,683	-	-	-
96,568,220-1	Aguas Los Dominicos S.A.	309	236	-	-
96,967,550-1	Análisis Ambientales S.A.	-	10,202	-	-
<b>TOTAL</b>		<b>3,621,319</b>	<b>3,247,857</b>	<b>-</b>	<b>-</b>





Notes and accounts payable

TAX ID	COMPANY	SHORT TERM		LONG TERM	
		2007 ThCh\$	2006 ThCh\$	2007 ThCh\$	2006 ThCh\$
96,809,310-k	Aguas Cordillera S.A.	7,794,625	5,041,640	-	-
96,945,210-3	Ecoriles S.A.	2,002,788	826,926	-	-
76,938,110-4	Empresa Depuradora de Aguas Servidas Ltda.	1,771,827	-	-	-
96,568,220-1	Aguas Los Dominicos S.A.	1,195,887	1,399,420	-	-
59,066,560-6	Degrémont S.A. Agencia en Chile	588,933	683,515	-	-
96,967,550-1	Análisis Ambientales S.A.	311,839	837,493	-	-
96,828,120-8	Gestión y Servicios S.A.	14,925	511,137	-	-
96,847,530-4	Omnilogic Telecomunicaciones Chile	5,343	5,738	-	-
89,221,000-4	Aguas Manquehue S.A.	2,140	1,652	-	-
59,127,140-7	Agbar Servicios Compartidos S.A	665	-	-	-
77,274,820-5	Inversiones Aguas Metropolitanas S.A.	-	1,146,214	-	-
59,094,680-k	Aguas de Levante S.A.	-	212	-	-
59,109,940-k	Norcontrol S.A. Agencia en Chile	-	3,182	-	-
TOTAL		13,688,972	10,457,129	-	-



## Transactions

COMPANY	TAX I.D.	RELATIONSHIP	TRANSACTION	2007		2006	
				AMOUNT ThCh\$	EFFECT ON RESULTS (CHARGE/ CREDIT) ThCh\$	AMOUNT ThCh\$	EFFECT ON RESULTS (CHARGE/ CREDIT) ThCh\$
Aguas Cordillera S.A	96,809,310-k	Subsidiary	Sewage interconnection	5,952,109	5,952,109	5,838,342	5,838,342
			Drinking water interconnection	116,300	116,300	116,063	116,063
			Loans received	47,537,009	-	14,487,743	-
			Loan repayments	44,802,528	(184,499)	9,516,097	(14,966)
			Loans granted	-	-	8,011,955	-
			Collection of loans	33,848	242	12,032,453	66,356
			Dividends received	3,773,810	-	-	-
Gestión y Servicios S.A.	96,828,120-8	Subsidiary	Loans received	498,733	-	2,107,282	-
			Loan repayments	1,006,359	(12,715)	1,600,524	(6,276)
			Loans granted	2,220,427	-	2,074,608	-
			Collection of loans	3,326,359	45,233	642,197	298
Ecoriles S.A.	96,945,210-3	Subsidiary	Sewage treatment	378,033	(378,033)	314,176	(314,176)
			Loans received	4,021,619	-	2,241,945	-
			Loan repayments	2,848,510	(36,184)	1,431,594	(8,884)
			Loans granted	30,943	-	-	-
			Collection of loans	30,963	-	-	-
Análisis Ambientales S.A.	96,967,550-1	Subsidiary	Dividends received	728,858	-	-	-
			Laboratory services	1,514,226	(1,507,464)	1,053,520	(1,014,591)
			Loans received	2,143,985	-	1,124,285	-
			Loan repayments	2,623,348	(20,246)	644,569	(3,244)
			Loans granted	554,572	-	-	-
			Collection of loans	554,464	250	-	-
Aguas Manquehue S.A.	89,221,000-4	Subsidiary	Loans received	1,525,391	-	2,512,382	-
			Loan repayments	1,523,948	(4,063)	2,514,238	(15,179)
			Loans granted	2,179,633	-	106,100	-
			Collection of loans	749,146	1,011	-	-
Aguas Los Dominicos S.A.	96,568,220-1	Subsidiary	Loans received	2,742,093	-	1,450,783	-
			Loan repayments	2,939,572	(45,203)	67,000	-
			Loans granted	13,143	-	-	-
			Collection of loans	13,232	5	-	-
Inversiones Aguas Metropolitanas S.A.	77,274,820-5	Parent	Advisories	15,767	(15,767)	3,738,876	(3,273,601)
			Dividends paid	45,284,053	-	44,827,405	-
Degrémont S.A. Agencia en Chile	59,066,560-6	Related	Purchase of materials	210,350	(210,350)	-	-
			Plant operation services	7,723,207	(7,723,207)	4,618,044	(4,618,044)
				122,889	-	-	-
			loan repayments plant construction	-	-	1,810,006	-
Empresa Depuradora Aguas Servidas Ltda.	76,938,110-4	Related	Plant operation	2,526,150	(2,526,150)	-	-
			Sale of materials	169,454	169,454	-	-
Degrémont Ltda.	77,441,870-9	Related	Automatization loading of sludge	1,419,673	-	833,421	-
CORFO	60,706,000-2	Related	Dividends paid	33,003,820	-	31,298,274	-



## 6. DEFERRED TAXES AND INCOME TAXES

At December 31, 2007 and 2006, the detail of taxable income and other concepts is as follows:

	2007 ThCh\$	2006 ThCh\$
a) Taxable income	103,911,023	92,774,542
b) Balance of taxed earnings	52,514,449	50,555,971
c) Tax (17%) credit for shareholders	7,137,855	7,124,504

INCOME TAX	2007 ThCh\$	2006 ThCh\$
Current income tax (tax provision)	(17,664,874)	(15,771,672)
Income tax adjustment (previous year)	(95)	(7,253)
Effect on assets or liabilities due to deferred taxes	1,070,612	184,238
Other charges to the account	(36,310)	(36,852)
<b>TOTALS</b>	<b>(16,630,667)</b>	<b>(15,631,539)</b>

The detail of the deferred taxes for 2007 and 2006 is as follows:

Deferred taxes 2007:

ITEM	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
	SHORT TERM ThCh\$	LONG TERM ThCh\$	SHORT TERM ThCh\$	LONG TERM ThCh\$
Allowance for doubtful accounts	880,177	1,530,742	–	–
Provision for payment agreements	408,097	219,048	–	–
Unearned income	100,951	22,684	–	–
Provision for vacations	106,965	106,965	–	–
Depreciation	–	578,171	–	–
Litigation	–	192,281	–	–
Severance payments	105,476	479,589	–	–
Other events	–	945,918	–	39,865
Leased assets	–	–	3,014	42,352
Investment expenses in related companies	–	–	–	78,173
Software	–	–	–	47,571
Deferred charges	–	–	11,511	62,352
Bond placement discounts	–	–	235,459	1,817,563
<b>TOTAL</b>	<b>1,601,666</b>	<b>4,075,398</b>	<b>249,984</b>	<b>2,087,876</b>





## Deferred taxes 2006:

ITEM	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
	SHORT TERM ThCh\$	LONG TERM ThCh\$	SHORT TERM ThCh\$	LONG TERM ThCh\$
Allowance for doubtful accounts	395,651	1,670,370	-	-
Provision for payment agreements	349,309	158,956	-	-
Unearned income	128,913	26,560	-	-
Provision for vacations	114,335	114,335	-	-
Depreciation	-	487,453	-	-
Litigation	-	211,779	-	-
Severance payments	29,806	149,101	-	-
Other events	-	1,031,237	2,582	24,306
Leased assets	-	-	2,910	55,767
Investment expenses in related companies	-	-	-	90,647
Software	-	-	-	102,824
Deferred charges	-	-	11,508	73,842
Bond placement discounts	-	-	242,758	1,992,069
<b>TOTAL</b>	<b>1,018,014</b>	<b>3,849,791</b>	<b>259,758</b>	<b>2,339,455</b>



7. PROPERTY, PLANT AND EQUIPMENT

The composition of the property, plant and equipment is as follows:

ITEM	2007 ThCh\$	2006 ThCh\$
<b>LAND:</b>	<b>32,020,256</b>	<b>31,838,968</b>
Land	32,020,256	31,838,968
<b>CONSTRUCTION AND INFRASTRUCTURE:</b>	<b>465,190,642</b>	<b>460,607,463</b>
Gross value	974,911,416	969,711,457
Accumulated depreciation	(509,720,774)	(509,103,994)
<b>MACHINERY AND EQUIPMENT:</b>	<b>51,653,885</b>	<b>59,726,494</b>
Gross value	114,774,681	115,367,498
Accumulated depreciation	(63,120,796)	(55,641,004)
<b>OTHER PROPERTY, PLANT AND EQUIPMENT:</b>	<b>1,866,445</b>	<b>2,635,292</b>
Gross value	11,843,887	11,815,798
Accumulated depreciation	(9,977,442)	(9,180,506)
<b>TOTAL NET PROPERTY, PLANT AND EQUIPMENT</b>	<b>550,731,228</b>	<b>554,808,217</b>

Depreciation for the year

The charge to income for depreciation at December 31, 2007 and 2006 is as follows:

	2007 ThCh\$	2006 ThCh\$
<b>DEPRECIATION IN:</b>		
Cost of sales	30,244,162	30,362,470
Administrative and selling expenses	1,613,856	1,506,407
<b>TOTAL</b>	<b>31,858,018</b>	<b>31,868,877</b>

The Company has sixty eight plots of land that were transferred free of charge by the Chilean State and are booked at a value of Ch\$1 each. There are also fixed assets with an expired accounting useful life and are therefore shown valued at Ch\$1 even though, they are still in operation.

There are also amounts which are contributions from third parties and these are governed by Decree Law 70 of 1988 of the Ministry of Public Works and by the provisions of clause 36 of D.S. MINECON Regulation 453 of 1989. These are explained in Note 28.

Leasing

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

DESCRIPTION	PURCHASE DATE	PURCHASE VALUE ThCh\$	GROSS VALUE ThCh\$	DEPRECIATION ThCh\$	NET VALUE ThCh\$	INSTALLMENTS
Digital link services and telephone accessories	17/01/05	56.166	61.589	24.865	36.724	48
<b>TOTAL</b>		<b>56.166</b>	<b>61.589</b>	<b>24.865</b>	<b>36.724</b>	<b>-</b>

8. INVESTMENTS IN RELATED COMPANIES

The Extraordinary Shareholders' Meeting of Aguas Cordillera S.A. (formerly Commercial Orbi II S.A.), held in October 2006, agreed to a capital increase of Ch\$118,341,203.847 (historic pesos), 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 (historic pesos), with the balance in cash.



On November 29, 2006, Gestión y Servicios S.A. held an Extraordinary Shareholders' Meeting where it approved a capital increase from Ch\$13,220,228 (historic pesos) divided into 100,000 fully paid no par value common shares to Ch\$608,130,488 (historic pesos) divided into 4,600,000 shares of the same characteristics. The capital increase of Ch\$594,910,260 (historic pesos) was performed through the issuance of 4,500,000 shares for payment. The shares corresponding to this new issuance were fully subscribed and paid by Aguas Andinas S.A., for which Aguas Cordillera S.A. renounced to 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 (historic pesos). 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 a 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.

On August 31, 2007, Aguas Cordillera S.A. was dissolved, tax identification number 80.311.300-9, as Aguas Cordillera S.A., tax identification number 96.809.310-K, had bought all shares of this company, the company previously operated under the name Comercial Orbi II S.A.. The effects of this merger are generated starting September 1, 2007. This transaction was recorded in accordance with the established in Technical Bulletin No.72 of the Chilean Institute of Accountants, combinations of business under common control based on the methodology of pooling of interest.

The Company records under the equity method of accounting the investments in related parties whose percentage is lower than 20%, as it has significant influence in their decision making process, and belong to the same business group.

As of December 31, 2007 and 2006 are included the amounts detailed in the attached chart:

TAX ID	COMPANY	COUNTRY ORIGIN	INVESTMENT CURRENCY	N° OF SHARES	PERCENTAGE HOLDING		COMPANY EQUITY		RESULT FOR THE YEAR		EQUITY IN EARNINGS		PROPORTIONAL EQUITY VALUE		BOOK VALUE	
					2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$
96,809,310-K	Aguas Cordillera S.A.	Chile	Pesos	50,122	99,99003	99,99003	115,844,044	96,396,552	16,638,745	16,831,002	16,367,113	14,929,948	115,832,494	96,386,941	115,832,494	96,386,941
96,945,210-3	Ecoriles S.A.	Chile	Pesos	2,575	99,03846	99,03846	3,681,492	2,538,868	1,142,624	901,319	1,131,637	892,653	3,646,093	2,514,456	3,646,093	2,514,456
96,967,550-1	Análisis Ambientales S.A.	Chile	Pesos	990	99,00000	99,00000	1,634,908	1,630,607	740,522	523,894	733,116	518,655	1,618,559	1,614,300	1,618,559	1,614,300
96,828,120-8	Gestión y Servicios S.A.	Chile	Pesos	4,501,000	97,84783	97,84783	2,122,431	843,293	1,279,137	81,477	1,251,608	81,477	2,076,753	825,143	2,076,752	825,143
89,221,000-4	Aguas Manquehue S.A.	Chile	Pesos	1	0,00043	0,00043	18,874,133	16,637,454	2,236,679	2,098,880	10	2	81	72	82	72
<b>TOTAL</b>											<b>19,483,484</b>	<b>16,422,735</b>	<b>123,173,980</b>	<b>101,340,912</b>	<b>123,173,980</b>	<b>101,340,912</b>





## 9. GOODWILL

As at December 31, 2007 and 2006, 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 NO.	COMPANY	2007		2006	
		AMORTIZATION FOR THE YEAR ThCh\$	BALANCE GOODWILL ThCh\$	AMORTIZATION FOR THE YEAR ThCh\$	BALANCE GOODWILL ThCh\$
96,809,310-k	Aguas Cordillera S.A.	4,351,720	54,911,679	4,351,720	59,263,398
<b>TOTAL</b>		<b>4,351,720</b>	<b>54,911,679</b>	<b>4,351,720</b>	<b>59,263,398</b>

## 10. INTANGIBLES

The balances as at December 31, 2007 and 2006 of the restated costs of intangible assets (Note 2l) are as follows:

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

ITEM	2007 ThCh\$	2006 ThCh\$
Water rights	4,608,140	4,607,984
Rights-of-ways	7,142,239	6,910,054
Other rights (1)	7,395,601	7,395,601
Software	8,905,724	8,476,702
Usage rights	15,793	14,541
<b>SUBTOTAL</b>	<b>28,067,497</b>	<b>27,404,882</b>
Accumulated amortization water rights	(908,789)	(793,520)
Accumulated amortization rights-of-way	(1,412,840)	(1,235,472)
Amortization other rights (1)	(1,016,895)	(832,005)
Accumulated amortization software	(7,288,182)	(6,553,605)
<b>SUBTOTAL</b>	<b>(10,626,706)</b>	<b>(9,414,602)</b>
<b>TOTAL NET INTANGIBLE ASSETS</b>	<b>17,440,791</b>	<b>17,990,280</b>
<b>AMORTIZATION FOR THE YEAR</b>		
shown in cost of sales:		
Water rights	115,268	113,495
Rights-of-ways	177,368	171,834
Other rights (1)	184,890	184,890
Computer software	1,063,926	945,457
<b>TOTAL AMORTIZATION</b>	<b>1,541,452</b>	<b>1,415,676</b>

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 book value.

The production of water supplies from various wells located 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.



## 11. BORROWINGS FROM BANKS, 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 NO.	BANK OR FINANCIAL INSTITUTION	(in pesos) ch\$		TOTAL	
		2007 thch\$	2006 thch\$	2007 thch\$	2006 thch\$
97,004,000-5	Banco de Chile	-	1,974,812	-	1,974,812
97,032,000-8	Banco BBVA	-	8,290,013	-	8,290,013
97,023,000-9	Banco Corpbanca	798	4,799,721	798	4,799,721
97,006,000-6	Banco BCI	-	4,301,606	-	4,301,606
	<b>TOTAL</b>	<b>798</b>	<b>19,366,152</b>	<b>798</b>	<b>19,366,152</b>
	<b>PRINCIPAL OUTSTANDING</b>	<b>-</b>	<b>19,301,448</b>	<b>-</b>	<b>19,301,448</b>
Average annual interest rate		0.54%	6.72%	-	-

Percentage obligations  
local currency 100%

### Long-term, current portion

TAX NO	BANK OR FINANCIAL INSTITUTION	non-indexed ch\$		TOTAL	
		2007 ThCh\$	2006 ThCh\$	2007 ThCh\$	2006 ThCh\$
97,004,000-5	Banco de Chile	254,885	2,086,853	254,885	2,086,853
97,036,000-K	Banco Santander-Santiago	497,250	4,471,629	497,250	4,471,629
97,032,000-8	Banco BBVA	786,500	8,818,266	786,500	8,818,266
97,023,000-9	Banco Corpbanca	425,950	-	425,950	-
	<b>TOTAL</b>	<b>1,964,585</b>	<b>15,376,748</b>	<b>1,964,585</b>	<b>15,376,748</b>
	<b>PRINCIPAL OUTSTANDING</b>	<b>-</b>	<b>15,086,120</b>	<b>-</b>	<b>15,086,120</b>
Average annual interest rate		7.00%	6.72%	-	-



12. BORROWINGS FROM BANKS, LONG-TERM

This caption covers bank loans with maturities of over one year:

Percentage in local  
currency 100%

TAX NO.	BANK	CURRENCY/ INDEXATION UNIT CH\$	YEARS TO MATURITY			END 2007		END 2006
			2 TO 3	3 TO 5	5 TO 10	TOTAL LONG TERM	ANNUAL INTEREST RATE	TOTAL LONG TERM
			thch\$	thch\$	thch\$	thch\$	AVERAGE	thch\$
97,004,000-5	Banco de Chile	In pesos	1,482,000	3,078,000	6,840,000	11,400,000	7,02%	10,203,000
97,036,000-K	Banco Santander	In pesos	2,652,000	5,508,000	12,240,000	20,400,000	7,02%	17,527,680
97,032,000-8	Banco BBVA	In pesos	4,194,667	8,712,000	19,360,000	32,266,667	7,02%	25,990,800
97,023,000-9	Banco CorpBanca	In pesos	2,600,000	5,400,000	12,000,000	20,000,000	6,93%	–
TOTAL			10,928,667	22,698,000	50,440,000	84,066,667		53,721,480

13. BONDS PAYABLE (SHORT AN LONG-TERM)

This heading covers the amounts owed to the public due to the issuance of bonds by the Company in September 2001, December 2002, December 2005 and January 2006 on the domestic market.

In September 2001, Series bond B were issued for U.F.1.8 million for a 21-year term with repayments beginning 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 December 9, 2005, the Superintendency of Securities and Insurance approved a new bond issue totaling U.F. 5.0 million (Serie F), in order to finance the prepayment of the Series D bonds and refinance other obligations of Aguas Andinas S.A. in January 2006. The repayment will be performed quarterly starting June 1, 2008 through to December 1, 2026.

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

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

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





INSCRIPTION NO. OR INSTRUMENT IDENTIFICATION	SERIES	NOMINAL AMOUNT PLACED OUTSTANDING	INDEXATION UNIT	INTEREST RATE %	FINAL MATURITY	PAYMENT DATES OF		PAR VALUE		PLACEMENT IN CHILE OR ABROAD
						INTEREST	PRINCIPAL	2007 thch\$	2006 thch\$	
LONG-TERM BONDS - CURRENT PORTION										
266	BEMOS B1	4,516	UF	6.25%	09.01.2022	Semi-annual	2008 sem	370,444	282,841	Chile
266	BEMOS B2	7,097	UF	6.25%	09.01.2022	Semi-annual	2008 sem	582,128	444,464	Chile
305	BAGUA C1	166,667	UF	4.25%	12.01.2010	Semi-annual	Semi-annual	3,304,833	3,328,229	Chile
305	BAGUA C2	500,000	UF	4.25%	12.01.2010	Semi-annual	Semi-annual	9,914,492	9,984,681	Chile
305	BAGUA E	-	UF	4.00%	06.01.2012	Semi-annual	At maturity	106,867	107,252	Chile
305	BAGUA F	263,158	UF	4.15%	12.01.2026	Semi-annual	2008 SEM	5,499,718	337,066	Chile
TOTAL CURRENT PORTION								19,778,482	14,484,533	
LONG-TERM BONDS										
266	BEMOS B1	695,484	UF	6.25%	09.01.2022	Semi-annual	Semi-annual	13,647,246	13,785,290	Chile
266	BEMOS B2	1,092,903	UF	6.25%	09.01.2022	Semi-annual	Semi-annual	21,445,664	21,662,599	Chile
305	BAGUA C1	333,333	UF	4.25%	12.01.2010	Semi-annual	Semi-annual	6,540,874	9,846,629	Chile
305	BAGUA C2	1,000,000	UF	4.25%	12.01.2010	Semi-annual	Semi-annual	19,622,662	29,539,906	Chile
305	BAGUA E	1,650,000	UF	4.00%	06.01.2012	Semi-annual	At maturity	32,377,389	32,493,898	Chile
305	BAGUA F	4,736,842	UF	4.15%	12.01.2026	Semi-annual	Semi-annual	92,949,440	98,466,361	Chile
TOTAL LONG - TERM								186,583,275	205,794,683	



14. PROVISIONS AND WRITE-OFFS

The detail of provisions as at December 31, 2007 and 2006 is as follows:

	CURRENT LIABILITIES		LONG-TERM LIABILITIES	
	2007 ThCh\$	2006 ThCh\$	2007 ThCh\$	2006 ThCh\$
Severance payments (Note 15)	1,436,506	821,464	9,770,466	8,358,478
Bonus (1) & profit sharing	2,681,225	2,407,508	-	-
Services accrued	9,724,084	10,763,125	-	-
Vacations accrued	1,258,406	1,345,111	-	-
Pending litigation	1,131,066	1,245,757	-	-
TOTAL	16,231,287	16,582,965	9,770,466	8,358,478

(1) These are shown net of advances made during the years ended December 31, 2007 and 2006 for ThCh\$1,072,118 and ThCh\$954,518, respectively.

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

15. SEVERANCE PAYMENTS

At December 31, 2007 and 2006, the movement in the provisions for severance indemnities (including the short-term portion) is as follows:

	2007 ThCh\$	2006 ThCh\$
Opening balance	8,547,432	8,306,554
Increase in provision	2,513,493	1,517,431
Payments during the year	(413,315)	(874,608)
Price-level restatement	559,362	230,565
TOTAL	11,206,972	9,179,942

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

The charge to income for these items, including the indemnities related to clause 161 of the Labor Code, at December 31, 2007 and 2006 amounts to ThCh\$2,942,786 and ThCh\$1,598,122, respectively.

The increase is generated by the change of the discount rate from 4.8% to 4.1%, the effect in net income of this change amounted to ThCh\$63,789. During 2007, a provision was established for the voluntary retirement program which included 35 employees; its effect in net income was of ThCh\$1,069,650.

16. CHANGES IN SHAREHOLDERS' EQUITY

2007

The Ordinary Shareholders' Meeting held on April 23, 2007 resolved to distribute 100% of the Company's net income for 2006 and the distribution of ThCh\$73,938 (historic pesos) of the reserves for future dividends, discounting the provisory dividend paid in October 2006. The dividend amounted to ThCh\$56,600,428 (historic pesos), equivalent to Ch\$9.25 per share. The payment was made on May 22, 2007.

The Board Meeting held on September 25, 2007, agreed to distribute ThCh\$30,000,062 (historic) as interim dividend, equivalent to Ch\$4.9028 per share, against net income for 2007. This payment was made on October 24, 2007.

Other reserves

On August 31, 2007, Aguas Cordillera S.A. was dissolved, as Aguas Cordillera S.A., (ex Comercial Orbi II. S.A.), had bought all shares of this company. On September 1, 2007 both companies merged, as established in Technical Bulletin No. 72 of the Chilean Institute of Accountants, combinations of business under common control based on the interest unification methodology, recording an equity of ThCh\$6,725,927 of which, Aguas Andinas recognized it held 99.99003% in the item Other reserves, equivalent to the participation it has in Aguas Cordillera S.A. (Note 8).

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.



**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\$499,549 (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) an interim dividend, equivalent to Ch\$4,61 per share, against the income for 2006. This 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 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 No.72 of the Chilean Institute of Accountants, paragraph 29, groups of companies under common control based on the methodology of pooling of interests the Company recorded under the caption Other reserves the variations generated by the increase in investments by Aguas Andinas S.A. through the purchases of shares in Gestión y Servicios S.A., Aguas Cordillera S.A., (Ex - Comercial ORBI II S.A.) and Aguas Manquehue S.A., and the reduction in its participation in Aguas Cordillera S.A. through the disposal of 100% of the shares (Note 8).

**2007**

	PAID CAPITAL	SHARE PREMIUM	OTHER RESERVES	RESERVE FUTURE DIVIDENDS	INTERIM DIVIDENDS	ACCUMULATED INCOME	NET INCOME FOR THE YEAR
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance	133,010,616	201,349,550	6,044	111,377	(28,095,596)	-	84,622,086
Previous year's net income distribution	-	-	-	-	28,095,596	56,526,490	(84,622,086)
Final dividend distribution	-	-	-	(73,938)	-	(56,526,490)	-
Reserve Technical Bulletin 72	-	-	6,725,257	-	-	-	-
Price level restatement	9,842,785	14,899,866	148,403	398,975	(660,002)	-	-
Net income for the year	-	-	-	-	-	-	97,058,999
Interim dividends	-	-	-	-	(30,000,062)	-	-
<b>CLOSING BALANCES</b>	<b>142,853,401</b>	<b>216,249,416</b>	<b>6,879,704</b>	<b>436,414</b>	<b>(30,660,064)</b>	<b>-</b>	<b>97,058,999</b>





2006

	PAID CAPITAL	SHARE PREMIUM	OTHER RESERVES	RESERVE FUTURE DIVIDENDS	INTERIM DIVIDENDS	NET INCOME FOR THE YEAR
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance	130,274,844	197,208,178	–	501,766	(21,887,539)	75,944,683
Previous year's net income distribution	–	–	–	54,057,144	21,887,539	(75,944,683)
Final dividend distribution	–	–	–	(54,556,693)	–	–
Reserve Technical Bulletin 72	–	–	6,056	–	–	–
Price level restatement	2,735,772	4,141,372	(12)	109,160	112,833	–
Net income 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
RESTATED BALANCES	142,853,401	216,249,416	6,491	119,619	(30,174,670)	90,884,120

Number of Shares

SERIES	N° SUBSCRIBED SHARES	N° PAID SHARES	N° SHARES WITH VOTING RIGHTS
A	3,975,975,019	3,975,975,019	3,975,975,019
B	2,142,990,141	2,142,990,141	2,142,990,141
TOTAL	6,118,965,160	6,118,965,160	6,118,965,160

Capital

SERIES	SUBSCRIBED CAPITAL ThCh\$	PAID - IN CAPITAL ThCh\$
A	92,823,139	92,823,139
B	50,030,262	50,030,262
TOTAL	142,853,401	142,853,401



## 17. OTHER NON-OPERATING INCOME AND EXPENSES

As at December 31, 2007 and 2006 this caption is comprised as follows:

	2007 ThCh\$	2006 ThCh\$
<b>OTHER NON-OPERATING INCOME</b>		
Sale of property, plant and equipment	1,810,928	1,264,513
Services to third parties <sup>(1)</sup>	1,209,464	1,001,086
Fines and indemnities from suppliers & contractors <sup>(2)</sup>	870,306	606,767
Income from agreements and others <sup>(3)</sup>	608,472	1,205,815
Services to customers	283,924	301,339
Rental of premises	178,692	191,725
Sale of material	158,066	88,539
Insurance claim	22,561	75,500
Others	93,531	100,126
<b>TOTAL</b>	<b>5,235,944</b>	<b>4,835,410</b>
<b>OTHER NON-OPERATING EXPENSE</b>		
Discontinued projects and studies	656,972	820,433
Donations	224,566	154,766
Asset shortfalls	-	514,703
Legal expenses	29,631	46,326
Others	50,383	18,649
<b>TOTAL</b>	<b>961,552</b>	<b>1,554,877</b>

<sup>(1)</sup> Services for third parties relates to those services associated with the business, mainly engineering services

<sup>(2)</sup> It includes transactions with construction companies due to discrepancies in the application and interpretation of the corresponding agreements.

<sup>(3)</sup> Mainly relates 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.



### 18. PRICE-LEVEL RESTATEMENT

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

	INDEXATION UNIT	2007 ThCh\$	2006 ThCh\$
<b>ASSETS</b>			
Inventories	CPI	89,475	31,513
Property, plant & equipment	CPI	38,912,852	11,534,296
Investments in related companies	CPI	6,892,191	1,898,881
Goodwill (net)	CPI	4,083,326	1,308,440
Intangible assets	CPI	1,119,054	337,046
Other monetary assets	CPI	961,161	291,291
Other monetary assets	UF	128,027	24,594
Other non-monetary assets	UF	7,403	2,279
Other non-monetary assets	CPI	1,365,626	437,041
Expense and cost accounts	CPI	3,354,444	729,003
<b>TOTAL CREDITS</b>		<b>56,913,559</b>	<b>16,594,384</b>
<b>LIABILITIES</b>			
Shareholders' equity	CPI	(24,630,027)	(7,624,460)
Bonds payable	UF	(11,661,579)	(4,504,185)
Monetary liabilities	UF	(3,769,393)	(299,976)
Monetary liabilities	CPI	(1,101,121)	(239,589)
Non-monetary liabilities	CPI	(17,918)	(3,971)
Non-monetary liabilities	UF	(259,053)	(48,305)
Revenue accounts	CPI	(9,006,717)	(2,065,343)
<b>TOTAL CHARGES</b>		<b>(50,445,808)</b>	<b>(14,785,829)</b>
<b>GAIN FROM PRICE-LEVEL RESTATEMENT</b>		<b>6,467,751</b>	<b>1,808,556</b>



## 19. FOREIGN EXCHANGE DIFFERENCES

Exchange differences during the years ended December 31, 2007 and 2006 were as follows:

ITEM	CURRENCY	2007 ThCh\$	2006 ThCh\$
<b>ASSETS</b>			
Cash & banks	Dollar	(85)	203
Other assets	Dollar	(168)	(284)
Other assets	Euros	(78)	509
<b>TOTAL (CHARGE) CREDIT</b>		<b>(331)</b>	<b>428</b>
<b>LIABILITIES</b>			
Accounts payable	Dollar	1,677	3,044
Accounts payable	Euros	(275)	(6,556)
Other liabilities	Dollar	43	–
Other liabilities	Euros	(1,618)	(1,282)
<b>TOTAL CHARGES</b>		<b>(173)</b>	<b>(4,794)</b>
<b>(LOSS) FROM EXCHANGE DIFFERENCES</b>		<b>(504)</b>	<b>(4,366)</b>





20. SHARE AND BOND ISSUANCE AND PLACEMENT COSTS

During the months of September 2001, December 2002, 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 issuance and placement costs relating to credit-rating agencies, stamp tax and other general expenses were capitalized.

These expenses are recorded in Other long-term assets and are broken down as follows:

BONDS	GROSS CAPITALIZED COSTS		PERIOD OF AMORTIZATION (YEARS)
	2007 ThCh\$	2006 ThCh\$	
Series B	583,113	583,113	21
Series C	1,379,830	1,379,830	8
Series E	134,216	134,216	6,5
Series F	2,170,147	2,170,147	21
TOTAL	4,267,306	4,267,306	

21. STATEMENT OF CASH FLOWS

In the Statement of cash flows, cash equivalents consist of financial investments, including 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:

	2007 ThCh\$	2006 ThCh\$
Cash & banks	104,581	25,331
Marketable securities (mutual funds)	79,215	381,975
Other current assets (Instrumentos of Central Bank of Chile)	268,121	-
BALANCE OF CASH AND CASH EQUIVALENT	451,917	407,306

CASH FLOWS FROM FINANCIAL ACTIVITIES:

The financing activities that generated cash flows in 2007 and 2006 under the heading of Other sources of financing, represent the collection of Reimbursable financing contributions performed by the Company as established in current legislation (Decree Law N° 70 of 1988). The other disbursements for financing correspond to the prepayments of promissory notes for reimbursable financing contributions.

CASH FLOWS FROM INVESTING ACTIVITIES:

Investing activities committing future cash flows relate to accrued works progress whose amounts at December 31, 2007 and 2006 were ThCh\$8,629,434 and ThCh\$6,728,179, respectively.



## 22. CONTINGENCIES AND RESTRICTIONS

### a) *Direct guarantees*

Guarantee policies and performance bonds have been submitted to the Superintendency of Sanitation Services to guarantee the conditions for the rendering of services

and development programs in the Company's concession areas. Performance bonds have also been submitted to SERVIU Metropolitan Area for the replacement of paving, and to other institutions, in the amount of ThCh\$7,647,496 and ThCh\$13,436,945 at December 31, 2007 and 2006, respectively, according to the following detail

CREDITOR	DEBTOR	TYPE OF GUARANTEE	BALANCE PENDING AT DATE OF THE FINANCIAL STATEMENTS	
			2007 ThCh\$	2006 ThCh\$
SISS	Aguas Andinas S.A.	Performance bond	4,732,027	4,442,848
SISS	Aguas Andinas S.A.	Policy	341,827	7,569,197
Serviu Metropolitano	Aguas Andinas S.A.	Performance bond	2,225,686	1,344,642
MOP DIRECCIÓN GENERAL	Aguas Andinas S.A.	Performance bond	173,366	-
Director de Vialidad	Aguas Andinas S.A.	Performance bond	70,347	-
Municipalidad de Providencia	Aguas Andinas S.A.	Performance bond	22,097	22,176
Municipalidad de Santiago	Aguas Andinas S.A.	Performance bond	18,233	18,319
MOP	Aguas Andinas S.A.	Performance bond	15,104	-
Dirección Obras Hidráulicas	Aguas Andinas S.A.	Performance bond	10,911	12,174
Chilectra	Aguas Andinas S.A.	Performance bond	9,811	9,846
Municipalidad de Renca	Aguas Andinas S.A.	Performance bond	6,000	6,981
Municipalidad de Peñalolen	Aguas Andinas S.A.	Performance bond	5,887	-
Municipalidad de San Bernardo	Aguas Andinas S.A.	Performance bond	5,887	5,908
Secretaria Regional Ministerial	Aguas Andinas S.A.	Performance bond	3,546	-
Empresa Ferrocarriles	Aguas Andinas S.A.	Performance bond	2,590	2,599
Municipalidad de Las Condes	Aguas Andinas S.A.	Performance bond	3,000	1,074
Municipalidad de La Granja	Aguas Andinas S.A.	Performance bond	1,177	1,181
<b>TOTAL</b>			<b>7,647,496</b>	<b>13,436,945</b>



**b) Pending lawsuits**

The following are the Company's main outstanding lawsuits:

**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: 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% participation at the time of the demand.

The first instance final sentence was given rejecting the demand in all its parts and condemning the plaintiff to pay the costs. The plaintiff has appealed.

**Court: 5th Civil Court of Santiago;** Case file: 3684-2001

*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.81,848. Current status: Discussion period has concluded, and the judge has requested the parties to provide evidence, as of December 31, 2007 the parties had not been notified. Sentence estimation: There is a moderate possibility of success in this case as the suit lacks a solid foundation. Current status: Sentence is pending on the provision of evidence.

There is a second lawsuit presented at the 11th Civil Court of Santiago, Case file 3541-2004 for U.F.506,594. Two other lawsuits have been presented which were requested to be added to this case: 20th Civil Court of Santiago, Case file: 7900-2046 for U.F.81,848 and 25th Civil Court of Santiago, Case file: 8305-2006, for U.F.42,161, plus indexation and interests.

**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. Current status: Sentence has been passed, notification not yet executed. Estimation: an appeal has been filed against second instance sentence, its admission is still pending.

**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. 410,759 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 court process has not yet commenced.

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

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

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

It is believed that it is improbable that damage can be shown to have affected or put at risk the psychological or physical health of the plaintiffs from the bad odors, at the most the damage could be related to nuisances to the neighborhood. Current status: Sentence has not yet been passed.

A second lawsuit filed at the 19th Civil Court of Santiago (Case file 1105-2006) for ThCh\$940,000 was added to this case.



**5th Civil Court of Santiago;** Case No. 10852-2005 *Aguas Andinas S.A.* was sued 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, interests and costs. Current status: Evidence period. Expected result: the claim should be rejected as Aguas Andinas had not requested the execution of these works.

**24th Civil Court of Santiago;** Case No. 6539-2006

A company is suing CORFO for the restitution of land at a property in Avenida Andrés Bello, Las Condes. Such land was acquired by CORFO from *Aguas Andinas S.A.* in September 1999.

Amount claimed: undetermined. Current status: Evidence period. Expected result: The claim should be rejected.

**27th Civil Court of Santiago;** Case No. 552-2007

*Aguas Andinas S.A.*, was sued, as well as other entities, by a private individual who pretends the nullity of the DGA Resolution 3268, which approved the works of the emissary El Trebal, Supreme Decrees No. 76 and No. 100 of the Economy Ministry which establish the tariff formulas for the periods between 2000-2005 and 2005-2010, respectively.

Amount claimed: undetermined. Current status: Discussion period. Expected result: The claim should be rejected.

**Court:** Arbitrage Center of the Chamber of Commerce; Case file: 744-2007

A contractor sued *Aguas Andinas S.A.* for the payment of additional costs incurred in the works related to the renewal of networks in the areas of Yarur II and Colector Arturo Prat.

Amount claimed: ThCh\$170,000, plus indexation and interests. Current status: Evidence period. Expected result: A favorable result for *Aguas Andinas S.A.* is expected.

The Company is also a party in other lawsuits of lower amounts (in favor or against):

The amounts involved in lawsuits with favorable outcome go back to 2002 and amount to ThCh\$110,000, plus indexation and interests.

The lawsuits that could be unfavorable for the Company correspond to:

- Nine labor lawsuits in which the Company was sued solidarily for ThCh\$52,100, between 2003-2007.

- Three claims related to the Company's line of business, which are covered by hired insurances, the amounts involved amount to ThCh\$164,000.

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 recorded, as indicated in Note 14.

**c) Bond issuance 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 ensures 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 obligations and restrictions contained in loan agreements with several local banks:

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

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

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

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

5) Maintain insurance cover that reasonably protects its assets including its main offices, buildings, plants, inventories, office furniture and equipment and vehicles, in accordance with normal practices for similar businesses.

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

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

8) Maintain a financial expense coverage ratio of at least 3:1 calculated on the figures in the consolidated and unconsolidated balance sheets, defined as the ratio between operating income plus depreciation and

amortization of intangible assets for the year, divided by financial expenses.

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

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

The Company complies with all provisions established by DFL No.382 of the General Law on Sanitary Services, of 1988, as well as its Regulations (D.S. MOP No.1199/2004, published in November 2005).

## 23. GUARANTEES RECEIVED FROM THIRD PARTIES

At December 31, 2007 and 2006, the Company has received documents in guarantee for ThCh\$24,855,222 and ThCh\$19,301,754, respectively, arising mainly from work 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 timely provision or delivery.

The following is a detail of the more significant bank guarantees received as at December 31, 2007:



CONTRACTOR OR SUPPLIER	AMOUNT ThCh\$	MATURITY
Chilectra S. A.	196.227	08.01.2008
Jara Gumucio S. A.	207.000	01.02.2008
Sociedad General de Montajes S. A.	227.332	01.31.2008
Arauco S.A	250.000	03.28.2008
Constructora Con-Pax S. A.	250.000	03.28.2008
Kdm S.A	294.340	12.31.2008
Degremont Ltda.	300.227	04.25.2009
C. de Petróleos de Chile S.A. (Copec)	329.952	03.20.2008
Ingeniería y Construcción Mst S. A.	371.404	01.31.2008
Ingeniería y Construcción Mst S. A.	371.404	11.09.2009
Tejofran de Saneamiento e Servicios Ltda.	600.000	03.20.2008
Acciona Infrestructura S. A.	1.100.000	03.12.2008
Constructora Oas Ltda.	1.100.000	03.12.2008
Dragrados S. A.	1.100.000	03.15.2008
Obrascon Huarte Lain S. A.	1.000.000	03.31.2008
Cadagua Agencia en Chile	1.264.346	03.31.2008
Degremont S.A	2.394.734	10.31.2008
Emp. Depuradora de Aguas Servidas Ltda.	3.811.694	12.31.2012
<b>TOTAL</b>	<b>15.168.660</b>	



## 24. LOCAL AND FOREIGN CURRENCIES

The Company shows the following assets and liabilities in local and foreign currency as at December 31, 2007 and 2006:

### Assets

ACCOUNT	CURRENCY	2007 ThCh\$	2006 ThCh\$
<b>CURRENT ASSETS</b>			
Cash and banks	In pesos Ch\$	104,581	21,656
Cash and banks	Dollar	–	3,675
Marketable securities	In pesos Ch\$	79,215	381,975
Trade accounts receivable	In pesos Ch\$	37,589,799	36,904,923
Miscellaneous accounts receivables	Dollar	697	–
Miscellaneous accounts receivables	Euros	737	–
Miscellaneous accounts receivables	Indexed Ch\$	26,347	26,894
Miscellaneous accounts receivables	In pesos Ch\$	222,656	73,485
Notes receivable	In pesos Ch\$	208,487	1,934,968
Notes receivable	Indexed Ch\$	724,102	193,492
Accounts receivable and notes from related companies	In pesos Ch\$	1,754,644	1,657,440
Accounts receivable and notes from related companies	Indexed Ch\$	1,866,675	1,590,417
Inventories	Indexed Ch\$	953,089	593,567
Recoverable taxes	Indexed Ch\$	1,717	140,089
Prepaid expenses	Indexed Ch\$	108,201	134,697
Deferred taxes	Indexed Ch\$	1,351,682	758,256
Other current assets	In pesos Ch\$	835,120	2,135
Other current assets	Indexed Ch\$	1,386,941	1,427,983
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>			
Property, plant & equipment	Indexed Ch\$	550,731,228	554,808,217
<b>OTHER NON-CURRENT ASSETS</b>			
Investment in related companies	Indexed Ch\$	123,173,980	101,340,912
Goodwill	Indexed Ch\$	54,911,679	59,263,398
Long-term debtors	In pesos Ch\$	945,265	965,224
Long-term debtors	Indexed Ch\$	5,824,660	6,076,141
Long term deferred taxes	Indexed Ch\$	1,987,522	1,510,336
Intangibles (net)	Indexed Ch\$	17,440,791	17,990,280
Others	Indexed Ch\$	11,633,033	13,182,501
Others	In pesos Ch\$	1,935,858	448,818
<b>TOTAL ASSETS</b>	<b>IN PESOS CH\$</b>	<b>43,675,625</b>	<b>42,390,624</b>
	<b>DOLLAR</b>	<b>697</b>	<b>3,675</b>
	<b>EUROS</b>	<b>737</b>	<b>–</b>
	<b>INDEXED CH\$</b>	<b>772,121,647</b>	<b>759,037,180</b>



## Current liabilities:

ACCOUNT	CURRENCY	UP TO 90 DAYS				90 DAYS TO 1 YEAR			
		2007		2006		2007		2006	
		AMOUNT	AVERAGE ANNUAL INTEREST RATE	AMOUNT	AVERAGE ANNUAL INTEREST RATE	AMOUNT	AVERAGE ANNUAL INTEREST RATE	AMOUNT	AVERAGE ANNUAL INTEREST RATE
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Short term banks liabilities	In pesos Ch\$	798	0.54%	19,366,152	5.70%	-	-	-	-
Short term portion of long term banks liabilities	In pesos Ch\$	1,964,585	7.00%	290,628	-	-	-	15,086,120	6.69%
Bonds payable current portion	Indexed Ch\$	724,698	6.25%	1,355,682	4.25%	19,053,784	4.25%	13,128,851	4.25%
Accounts payable	Dollar	125,383	-	100,068	-	-	-	-	-
Accounts payable	Euros	1,049	-	119	-	-	-	-	-
Accounts payable	In pesos Ch\$	11,473,649	-	11,643,566	-	73,517	-	-	-
Accounts payable	Indexed Ch\$	377,457	-	50,261	-	330,844	-	-	-
Notes payable	Indexed Ch\$	6,690	3.60%	2,357	3.07%	20,071	3.60%	7,037	3.07%
Notes payable	In pesos Ch\$	-	-	11,191	-	-	-	16,788	-
Sundry creditors	Indexed Ch\$	4,433	4.34%	4,279	4.34%	13,299	4.34%	12,836	4.34%
Sundry creditors	In pesos Ch\$	133,550	-	54,814	-	-	-	-	-
Notes & accounts payable to related companies	Indexed Ch\$	10,976,240	1.97%	8,251,389	-	8,653	-	-	-
Notes & accounts payable to related companies	In pesos Ch\$	2,704,079	-	2,205,740	-	-	-	-	-
Provisions	In pesos Ch\$	10,242,995	-	10,386,069	-	5,988,292	-	6,196,896	-
Withholdings	In pesos Ch\$	7,666,275	-	6,724,923	-	-	-	-	-
Income tax	In pesos Ch\$	-	-	-	-	1,377,773	-	22,378	-
Unearned income	In pesos Ch\$	140,865	-	140,263	-	1,486,664	-	-	-
Unearned income	Indexed Ch\$	166,906	-	276,395	-	1,289,529	-	68,422	-
TOTAL CURRENT LIABILITIES	INDEXED CH\$	34,326,796	-	50,823,346	-	8,926,246	-	21,322,182	-
	IN PESOS CH\$	12,256,424	-	9,940,363	-	20,716,180	-	13,217,146	-
	DOLLAR	125,383	-	100,068	-	-	-	-	-
	EUROS	1,049	-	119	-	-	-	-	-





## Long-term liabilities 2007:

ACCOUNT	CURRENCY	1 TO 3 YEARS		3 TO 5 YEARS		5 TO 10 YEARS		MORE THAN 10 YEARS	
		AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Long term banks liabilities	In pesos Ch\$	10,928,667	7.0%	22,698,000	7.0%	50,440,000	7.0%	–	–
Bonds payable	Indexed Ch\$	37,858,501	4.3%	45,287,688	4.2%	37,592,823	4.8%	65,844,263	4.8%
Notes payable	Indexed Ch\$	53,520	3.6%	53,520	3.6%	17,230,760	3.8%	8,544,509	3.4%
Long-term provisions		–	–	–	–	–	–	9,770,466	–
Other long-term liabilities	Indexed Ch\$	236,485	–	44,478	–	44,478	–	–	–
Sundry creditors	Indexed Ch\$	600	–	–	–	–	–	–	–
TOTAL LONG-TERM LIABILITIES	IN PESOS CH\$	10,928,667	–	22,698,000	–	50,440,000	–	–	–
	INDEXED CH\$	38,149,106	–	45,385,686	–	54,868,061	–	84,159,238	–

## Long-term liabilities 2006:

ACCOUNT	CURRENCY	1 TO 3 YEARS		3 TO 5 YEARS		5 TO 10 YEARS		MORE THEN 10 YEARS	
		AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Long term banks liabilities	In pesos Ch\$	30,172,240	6.69%	21,508,640	6.7%	2,040,600	6.80%	–	–
Bonds payable	Indexed Ch\$	37,384,903	4.27%	25,475,735	4.34%	66,106,148	5.39%	76,827,897	4.76%
Notes payable	Indexed Ch\$	18,764	3.07%	18,785	3.07%	9,094,620	3.46%	8,568,746	3.57%
Sundry creditors	In pesos Ch\$	3,222	–	–	–	–	–	–	–
Sundry creditors	Indexed Ch\$	16,398	4.34%	–	–	–	–	–	–
Other long-term liabilities	Indexed Ch\$	383,106	–	44,638	–	66,958	–	–	–
Indemnity	Indexed Ch\$	–	–	–	–	–	–	8,358,478	–
TOTAL LONG-TERM LIABILITIES	IN PESOS CH\$	30,175,462	–	21,508,640	–	2,040,600	–	–	–
	INDEXED CH\$	37,803,171	–	25,539,158	–	75,267,726	–	93,755,121	–



## 25. SANCTIONS

a) Superintendency of Securities and Insurance: Neither the Company nor its directors or executives, were sanctioned during the years 2007 and 2006.

b) Other administrative authorities.

### 2007

The Secretaria Regional Ministerial de Salud applied a fine of 10 UTM ("Monthly Tax Units") due to the existence of a generator which was operating without the accreditation of the isokinetic sampling, which constitutes an infringement of the indicated in article 4 of D.S. No. 4 of 1992, MINSAL. The fine was paid in December 2007.

By Resolution No. 2195 dated July 20, 2007, the Superintendency of Sanitation Services (SISS) applied a fine of 6 UTA ("Annual Tax Units") due to the non-compliance in the services provided in the Sewage Water Treatment Plant of Curacaví, as established in the self-evaluation report of the first quarter of 2007. The fine was paid in August of the same year.

At December 31, 2007 no other sanctions were applied to the Company by other administrative authorities.

### 2006

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

By Resolution SISS No. 553 of February 8, 2006, it applied a fine of 50 UTA ("Annual Tax Units") for non-compliance of written instructions from the Superintendency to provide information on expenses and costs for the year 2004, requested in several notifications. Proceedings were started to appeal against such fine at the 26th Civil Court of Santiago (Case file 15,200-2006), intending to obtain a reduction in the fine. Current status: Unfavorable first instance sentence, appeal has been presented.

By Resolution SISS No. 1454 of April 28, 2006, it applied a fine of 20 UTA ("Annual Tax Units") for deficiencies in the quality of the sewer system in the Quilicura district. Proceedings were started to appeal against such fine at the 29th Civil Court of Santiago (Case file 6,509-2006), intending to obtain a reduction in the fine. Current status: Unfavorable first instance sentence, appeal has been presented.

2) The National Economic Inspector proposed to the Free Competition Defense Tribunal the application of a fine to Aguas Andinas S.A. for 50,000 UTM ("Monthly Tax Units") due to the following 1) situations: abusive demands and charges for new services in urban areas outside the concession area; 2) abusive demands and charges for services in rural areas outside the concession area, and 3) abusive application of Reimbursable Financial Contributions (AFR). Current status: Evidence period. The Company expects it will be absolved from the claims against it.

3) The National Labor authority applied a fine of 60 UTM ("Monthly Tax Units") "for not effectively protecting the health of employees". The facts relate to the death of four employees of a contractor firm working on the Dagoberto Godoy sewage drain. There are possibilities of the fine being annulled. One third of the fine was paid. Ordinary labor lawsuit filed at the 8th Labor Court of Santiago (Case file: 2449-2006). Currently in evidence period, there are possibilities of annulling the fine.

### 2005

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

By Resolution SISS 710-2005, it applied a fine for non-compliance of 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). An appeal to this fine was filed at the 29th Civil Court of Santiago, Case file 4779-2005. Current status: unfavorable outcome, appeal was presented in order to obtain a reduction in the fine.

2) The COREMA RM (regional environmental authority) applied a fine of 300 UTM (monthly tax units) through 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. An appeal to this fine was presented at the 27th Civil Court of Santiago, case No. 6857-2005, which is at the evidence stage.

### 2004

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



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

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

## 2) SESMA APPLIED THE FOLLOWING FINES:

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

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

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



## 26. SUBSEQUENT EVENTS

At the issuance date of these financial statements, Company management is not aware of any subsequent events that might significantly affect the financial position and/or results of the Company at December 31, 2007.

## 27. THE ENVIRONMENT

The main disbursements in projects for improving the environment made by the Company during 2007 and 2006 refer to the construction of sewage treatment plants, as follows:

NAME OF THE PROJECT	2007 ThCh\$	2006 ThCh\$
La Farfana treatment plant	1,996,315	1,540,926
Esmeralda Melipilla treatment plant (improvement)	1,984,532	1,204,163
Gran Santiago treatment plant	1,124,880	66,593
Til-Til treatment plant	715,522	5,634
El Trebal treatment plant	522,939	146,121
Talagante treatment plant	322,888	2,832,685
Curacavi treatment plant	225,856	829,623
External platform for handling and disposal of sludges	108,250	1,255,233
Buin Maipo treatment plant	59,780	-
Maintenance treatment plants	54,600	-
Mobile Centrifuge	43,178	36,748
Compliance with Decree 90 Pomaire Plant	43,028	5,952
Works at plants in locations	64,575	-
Installation of withholding flow meter and other	12,216	-
Environmental Impact Study Mapocho Limpio	10,075	58,923
San José de Maipo treatment plant	6,291	-
El Monte treatment plant	4,567	-
Weather stations	3,505	-
Machinery for bio-drying	-	188,170
Elevation chamber of mud and transport	-	104,506
Treatment plant muds management	-	38,879
Repair of mixed mud chambers	-	33,571
Renewal and improvement of facilities	-	23,704
Operation improvement Paine plant	-	29,775
Cexas Melipilla treatment plant (extension)	-	10,095
Telecontrol Isla de Maipo treatment plant	-	9,021
Cexas & Esmeralda treatment plants remote control	-	5,086
<b>TOTAL</b>	<b>7,302,997</b>	<b>8,425,408</b>





28. 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 No.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 No.01489 of March 22, 2000, the estimated technical value of these works was determined for information purposes. This now amounts to ThCh\$1,756,689 and its depreciation, determined on the basis of its time in use, amounts to ThCh\$712,605.

The main criteria used in the valuation of these works include: earth movement, supply pipes, drinking water and sewage chambers and labor costs, all as at December 2007. The average useful life of these assets is 406 months and their remaining average useful life as at December 2007 is 267 months.

29. LONG-TERM NOTES PAYABLE

Clause 14 of Decree Law No.70 published in the Official Gazette on March 30, 1988 and clause 42 of Supreme Decree No.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\$25,882,309 and ThCh\$17,700,915 at December 2007 and 2006, respectively.

SIGNIFICANT EVENTS

During the Ordinary Shareholders' Meeting of Aguas Andinas S.A. held on April 23, 2007 the Board of Directors was renewed and it elected, for the fully statutory period, the following persons as directors and alternate directors:

DIRECTORS	ALTERNATE DIRECTORS
Alfredo Noman Serrano	Juan Antonio Guijarro
Joaquín Villarino Herrera	Antoni Siurana
Arturo Vergara del Río	Marta Colet Gonzalo
José Vila Basas	Diana D'Arras
Jaime Arellano Quintana	Mario Castillo Astudillo
Mónica Singer González	Ramón Figueroa González
Carlos Mladinic Alonso	Jorge Bande Bruck

At the Meeting of the Board of Directors, held on April 24, 2007, the Board was constituted and as Chairman was chosen Mr. Alfredo Noman Serrano and as VP Mr. Joaquín Villarino Herrera.

At the Meeting of the Board of Directors, held on April 24, 2007, the Directors' Committee was constituted with its members Mrs. Mónica Singer González, Mr. Carlos Mladinic Alonso and Mr. Joaquín Villarino Herrera.

On September 25, 2007 the following was informed to the Superintendency of Securities and Insurance (SVS):

On September 25, 2007 the Board of Directors of the Company agreed to distribute ThCh\$30,000,062, as interim dividend. Therefore, dividend No. 45 of the Company, will amount to Ch\$4.9028 per share and will be paid as of October 24, 2007.

On September 28, 2007 the following was informed to the Superintendency of Securities and Insurance (SVS):

The Board of Directors of the Company, during its Meeting of August 28, 2007, and in compliance with Clause No.44 of Law 18,046, considering that the Directors Mr. Joaquín Villarino Herrera and Mrs. Marta Colet Gonzalo are also Directors of Empresa Depuradora de Aguas Servidas Ltda. (EDAS), has agreed to inform the SVS regarding the signing between both companies, on September 27, 2007, of the Operations and Maintenance Contract of the Sewage Water Treatment Plant La Farfana.

On October 3, 2007 the following was informed to the Superintendency of Securities and Insurance (SVS):

By Ord. SVS No. 11602 dated October 2, the Company was requested to report on certain aspects related to the Operations and Maintenance Contract of the Sewage Water Treatment Plant La Farfana signed between Aguas Andinas S.A. and Empresa Depuradora de Aguas Servidas Ltda.



In this regard, I would like to indicate the following:

The mentioned Contract had its origin in the international public bid, as established in Clause 67 of DFL MOP No. 382/88, General Law of Sanitation Services, which was called by Aguas Andinas S.A. on May 12, 2007.

9 companies purchased the corresponding Bid bases, and the following companies presented an offer: Cadagua S.A., Omnium de Traitment et de Valorisation S.A. (OTV) and the consortium made up by the companies Degremont S.A. and Sociedad General de Aguas de Barcelona S.A. (Agbar), being the latter companies related to Aguas Andinas S.A.. Please find attached the Opening Document of the Economic Bids.

Subsequently, on August 2, 2007, Aguas Andinas informed the above mentioned consortium, which had the highest technical and economical qualifications, that it had been awarded the bid. The aforementioned was performed after a favorable agreement of the Directors' Committee of Aguas Andinas adopted on July 23, 2007, and by its Board of Directors, in Ordinary Meeting No. 351, held on July 24, 2007. The mentioned agreements were adopted unanimously by the assisting members, stating that it was an operation that is adjusted to equity conditions similar to those that usually prevail in the market.

In order to concur to the celebration of the agreement, and in conformity with the bid bases, Degremont and Agbar through its subsidiary in Chile, Agbar Conosur Ltda., constituted a company called Empresa Depuradora de Aguas Servidas Ltda. (EDAS), in which the Directors of Aguas Andinas Mr. Joaquín Villarino and Mrs. Marta Colet were assigned as Directors.

According to the stated above, the celebration of the contract with EDAS is an operation contemplated in Clause No.44 of Law No.18,046, on Public Companies.

Note that the signing of the contract with EDAS was approved by the Directors' Committee of Aguas Andinas during the Meeting held on August 27, 2007 and by its Board of Directors during the Ordinary Meeting No. 352 held on August 28, 2007. The mentioned agreements were approved unanimously by the assisting Directors, with the abstention of Mr. Villarino and Mrs. Colet.

The Contract was celebrated under the method of series of unit prices, in the amount of UF2,774,994.4 (two million

seven hundred and seventy four thousand nine hundred and ninety four point 4 Unidades de Fomento) plus VAT and it will have a validity period of 60 months, with the possibility of renewal for another period of 60 months, according to the terms and conditions established in the contract.

Finally, note that the purpose of the Contract is to develop the operations and maintenance services of the Sewage Water Treatment Plant La Farfana, owned by Aguas Andinas S.A., including all the scopes of an adequate operations and maintenance management of the Plant, considering among other: the supply of personnel, the expenses of electric power, supply of chemical material, spare parts, etc., as established in the Bid bases and all other documents of the Contract.

On December 11, 2007 the following was informed to the Superintendency of Securities and Insurance (SVS):

Aguas Andinas S.A., company registered in the Securities Register under No. 346, in accordance with the established in Clause 9 and chapter two of Clause 10 of Law No. 18,046 and the General Standard No. 30 of the SVS, communicates hereby the essential issue of the Company, of its business, of its public offer securities or their offers, according to the following:

- 1) Maximum amount of issuance: A maximum no par value amount will be issued of 2,500,000 Unidades de fomento
  - 2) Maximum expiration of the bonds: The bonds will expire in the period of 25 years as of the date of the public deed related to the issuance.
  - 3) Use of the funds: Financing of investments.
  - 4) Other general conditions: The bonds could be placed in the general market within the period of 36 months after the issuance registration at the SVS. These will be issued to the bearer, with no special warranties, they will not become shares of the Company and will be payable in local currency.
- At the date of these financial statements, Company management is not aware of any other significant issue that could affect significantly the financial situation and/or results of the Company as at December 31, 2007.



# REASONED ANALYSIS

## GENERAL

The capital of Aguas Andinas is divided into 6,118,965,160 shares of no par value. At December 31, 2007, our principal shareholders are Inversiones Aguas Metropolitanas S.A. and CORFO, with 50.1% and 34.98% shareholdings, respectively.

## REVENUES

Our revenues derive mainly from the regulated services we provide related to the production and distribution of drinking water, the collection, treatment and disposal of sewage water, other regulated services (which include revenues 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 2007 amounted to Ch\$208,539 million, amount which is Ch\$362 million lower (0.17%) than the one obtained in 2006. The net income of Aguas Andinas S.A. at December 31, 2007 was Ch\$97,059, Ch\$6,175 million (6.8%) more than in 2006.

## COSTS AND OPERATING EXPENSES

Our costs and operating expenses are composed of the operating cost and administration and selling expenses. The most important items in the operating cost are depreciation, which represented 39.7%; the outsourcing of certain services to contractors, which represented 30.4%; and personnel, which represented 16.7% in 2007. The most important items of administration and sales expenses is personnel, which represented 43.5%; outsourced services, which represented 26.5%; and general expenses, which represented 11.1%, in 2007.

## TARIFFS

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

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

During 2005, the tariff negotiation process was concluded for the period 2005-2010. The tariff increases approved by Decree No.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 outdoor uses of water.

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



reduce the eventual negative impacts that might be caused by adverse weather conditions for our operations.

### CAPITAL INVESTMENTS

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

**Committed investments:** We have to agree an investment plan with the SISS which states the investments we have to make during the following 15 years. The investment plan specifically reflects a commitment on our part to carry out certain projects related to the maintenance of certain quality standards and coverage. This investment plan is reviewed every five years, and Aguas Andinas can request modifications to it when certain relevant facts are ascertained. The approval dates of the development plans of Aguas Andinas S.A. were May 23, 2006 and February 16, 2007 for the Greater Santiago and for other areas between May and August 2006.

**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, among other.

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.

### BALANCE SHEET

The composition of assets and liabilities is as follows:

ASSETS	2007 Ch\$ millions	2006 Ch\$ millions	CHANGE %
Current assets	47,215	45,846	2.99
Property, plant and equipment (net)	550,731	554,808	(0.73)
Other non - current assets	217,853	200,777	8.50
<b>TOTAL</b>	<b>815,799</b>	<b>801,431</b>	<b>1.79</b>

Current assets are Ch\$1,369 million higher than the year before, mainly due to a decrease in the following items:

- 1) Other current assets in Ch\$791 million (due to increase in investments in promissory notes for Ch\$268 million, and Advanced income for Ch\$567 million);
- 2) Trade accounts receivable for Ch\$685 million (due to the increase of net sales for Ch\$3,894 million);
- 3) Deferred taxes for Ch\$593 million (mainly due to the increase of the allowance for doubtful accounts)

These increases are offset, partially, by the decrease in Notes receivable of Ch\$1,196 million.

The Company's property, plant and equipment decreased in Ch\$4,077 million in comparison to prior year, mainly due to the increase of the accumulated depreciation in Ch\$8,893, million offset by the increase in the item Constructions and Infrastructure in Ch\$5,200 million, due to the investments performed in sanitation infrastructure and operating equipment.

Other non - current assets increased by Ch\$17,076 million, the main changes being the increase in investments in related companies of Ch\$21,833 million, due to the higher recognition of the larger equity in earnings of the related companies, offset by decrease of goodwill in Ch\$4,351 million.





Companies, offset by decrease of goodwill in ch\$4,351 million.

LIABILITIES	2007 Ch\$ millions	2006 Ch\$ millions	CHANGE %
Current liabilities	76,352	95,403	(19.97)
Long-term liabilities	306,629	286,090	7.18
Total liabilities	382,981	381,493	0.39
Shareholders' equity	432,818	419,938	3.07

Current liabilities decreased by Ch\$19,051 million, in comparison to prior year, mainly due to the decrease in Short-term borrowings from banks of Ch\$19,365 million, Long-term bank obligations, current portion of Ch\$13,412 million, due to a lower transfer from the long term of installments, due to the refinancing of the bank debt, changing the maturity periods of the amortization of loans, offset with the increase of bonds payable, short term portion, of Ch\$5,293 million, corresponding to installment of bonds series B and F, that start their amortization period, increase of the Accounts payable to related parties of Ch\$3,231 million (due to the obtaining of loans from related parties), and increase in Other income received in advance

of Ch\$2,599 million and Income taxes of Ch\$1,355 million.

Long-term liabilities increased by Ch\$20,539 million compared to prior year. The main change is the item long - term bank liabilities of Ch\$30,345 million, due to the refinancing of the bank debt, changing the maturity date from 3 to 6 years with a two year grace period, in addition to the obtaining of new bank loans in the amount of Ch\$25,000 million. The Notes payable (reimbursable financial contributions made by the Company as established in the current legal regulations DFL No. 70, 1988) increased in Ch\$8,181 million. On the other hand, the bonds payable decreased in Ch\$19,211 due to the transfer of installments, with expiration during January 2008, of the Bonds series B, C and F, in the short term.

Shareholders' equity compared to 2006 increased by Ch\$12,880 million, the main changes are the increase of Other reserves in Ch\$6,873 million, and the increase of net income for the year of Ch\$6,175 million. Reserves increased due to the recognition of the variation caused with the merger with Aguas Cordillera S.A. (Ex ORBI II ) with Aguas Cordillera S.A. This merger was performed in accordance with Technical Bulletin No. 72 of the Chilean Institute of Accountants Combination of Companies under Common Control based on the methodology of pooling of interest.



## FINANCIAL INDICATORS

INDICATOR	UNIT	2007	2006	CHANGE %
<b>LIQUIDITY</b>				
Current ratio	(times)	0.62	0.48	29.17
Acid test ratio	(times)	0.006	0.004	50.00
<b>DEBT</b>				
Debt ratio	(%)	88.49	90.85	(2.60)
Short-term debt	(%)	19.94	25.01	(20.27)
Long-term debt	(%)	80.06	74.99	6.76
Financial expense coverage	(times)	7.65	7.22	5.96
<b>ACTIVITY</b>				
Inventory turnover	(times)	100.25	179.30	(44.09)
Permanence of inventories	(days)	3.59	2.01	78.61
<b>PROFITABILITY</b>				
Return on equity (average)	(%)	22.76	21.67	5.03
Return on assets (average)	(%)	12.00	11.30	6.19
Earnings per share	(\$)	15.86	14.85	6.80
Dividend yield	(%)	6.51	5.67	14.81
Return on operating assets	(%)	17.72	17.72	0.00

As of December 2007 the current ration increased by 29.17%, in comparison to prior year due to the increase of current assets in 2.99% and to the decrease of the current liabilities in 19.97%. The decrease of current liabilities is mainly due to the extension of the amortization of installments of the Long term bank borrowings, current portion, as defined in the established refinancing, and to the decrease of Obligations with banks and financial institutions, short-term.

The debt ratio decreased in 2.60%, due to the decrease of short term liabilities (20.3%) of the debt in bonds and the increase in equity (3.07%).

The return on the average assets increased in 6.91% due to the increase of current assets and other assets in 2.99% and 8.50%, respectively, while the property, plant and equipment decreased in 0.73%.

The return on the average asset remained at 17.72%, as the operating income decreased in 1.04% and the average assets decreased in 1.03%. For the calculation of the return on operating assets, the operating income is divided by the sum of the average assets (as operating assets are considered the fixed and the intangible assets).

The return on average equity shows a 5.03% increase, mainly because of the increase in profits (6.79%) and an increase in the average equity (1.66%).

The return on dividends increased in 14.81% in 2007, as a higher dividend was paid (1.05%), and the price of the share decreased in 11.93%.



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

STATEMENT OF INCOME

The following table shows the most important items of the statement of income for the years ended December 31, 2007 and 2006:

STATEMENT OF INCOME	2007 sales Ch\$ millions	2006 sales Ch\$ millions	CHANGE %
Operating revenues	208,539	208,901	(0,17)
Operating expenses (less)	77,522	80,568	(3,78)
Administrative & selling expenses (less)	29,929	26,178	14,33
OPERATING INCOME	101,088	102,155	(1,04)
Non-operating results	12,602	4,360	189,04
NET INCOME	97,059	90,884	6,79
Financial expenses (less)	17,105	17,112	(0,04)
EBITDA	164,194	156,913	4,64

Revenues:

Aguas Andinas generated sales of Ch\$208,539 million in 2007, Ch\$362 million less than in 2006 (0.2%). This variation is explained as follows:

CONCEPT	2007		2006	
	sales Ch\$ millions	%	sales Ch\$ millions	%
Water	93,347	44.8	93,200	44.6
Sewage	100,622	48.3	100,308	48.0
Other regulated revenues	7,127	3.4	9,239	4.4
Non-regulated businesses	7,443	3.5	6,154	3.0
TOTAL	208,539	100.0	208,901	100.0

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\$147 million as a result of 0.5 million m3 of greater volumes and a higher average tariff applied. The higher sales volume is explained by the combination of a growth in customers of 2.7% and a reduction in unit consumption by -2.4%; while the higher average tariff followed the accumulated effect of indexation adjustments of 2007 and 2006.

b) Sewage: this covers the collection, treatment, disposal and interconnection of sewage water. These show an increase of Ch\$314 million(0.3%) as a result of:

- 1) higher collection revenues of Ch\$99 million.
- 2) higher treatment revenues of Ch\$505 million due to the increased average tariff applied.
- 3) less income from sewage interconnections of Ch\$290 million due to a lower average tariff applied, offset partially by a higher sales volume of 1.3 million m3.

The changes in the average tariffs are explained by the accumulated effect of indexation adjustments of 2007 and 2006.

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 payment agreements. These revenues show a decrease of Ch\$2,112 million.

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

Increase of Ch\$1,289 million related to the growth of domicile connection installations services, repairs, calibrations and other services.



### Operating costs and expenses:

At year-end 2007, the costs amount to Ch\$107,451 million, which is Ch\$705 million higher in comparison to 2006. This increase is mainly explained by the following:

Operating costs decreased in Ch\$3,046 million (3.8%) to Ch\$77,522 million, compared to Ch\$80,568 million at year-end 2006. This is mainly explained by lower costs in contractors.

Administrative and selling expenses increased by Ch\$3,751 million (14.3%) to Ch\$29,929 million, compared to Ch\$26,178 million the year before. This was due basically to a higher allowance for doubtful accounts, higher personnel expenses and severance payments programs.

### Operating income

Because of the factors mentioned above, the operating income of Aguas Andinas S.A. for 2007 was Ch\$101,088 million, Ch\$1,067 million less in comparison to 2006. As a percentage of net sales, the margin decreased from 48.9% in 2006 to 48.5% in 2007.

### Non-operating results

The non-operating result of Aguas Andinas S.A. amounted to Ch\$12,602 million, Ch\$8,242 million more than in 2006.

The main variations are explained by the price-level restatement in Ch\$4,659 million, in addition to better results in subsidiaries of Ch\$3,061 million and a higher result of Other non-operating income (expenses) of Ch\$994 million, offset by a lower financial result of Ch\$476 million.

### Income tax

The provision for income tax for 2007 is Ch\$999 million higher than the one recorded in the previous year, related to the better pre-tax income.

### Net income

As a result of the factors indicated above, the net income of Aguas Andinas S.A. for 2007 amounted to Ch\$97,059 million (6.8%), Ch\$6,175 million more than in 2006.

### ANALYSIS OF THE STATEMENT OF CASH FLOWS

The principal items of the statement of cash flows at December 31, 2007 and 2006 are:

STATEMENT OF CASH FLOWS	2007 Ch\$ millions	2006 Ch\$ millions	CHANGE %
Operating activities	118,344	107,190	10.41
Financing activities	(90,088)	(95,639)	5.80
Investing activities	(28,013)	(32,302)	13.28
<b>NET CASH FLOW FOR THE YEAR</b>	<b>243</b>	<b>(20,752)</b>	<b>101.17</b>
<b>CLOSING CASH BALANCE</b>	<b>452</b>	<b>407</b>	<b>11.06</b>

The positive operating cash flows in 2007 increased in Ch\$11,154 million, compared to the previous year, and the main variations relate to the increase of the dividends and other amounts received of Ch\$4,476 million, the collection of trade accounts receivable of Ch\$3,796 million, and a lower payment of interests of Ch\$2,972 million.

The financing flows increased in Ch\$5,551 million compared to the year-end 2006, the main increased correspond to the lower payments of bank borrowings and obligations with the public of Ch\$41,195 million and Ch\$5,144 million, respectively, and the higher obtaining of Other financing sources of Ch\$3,051 million, offset by the decreases in: Obtaining of borrowings of Ch\$33,204 million; Obtaining of other loans from related companies of Ch\$5,425 million and the Obligations with the public (bonds) of Ch\$4,781 million.

The investment cash flows decreased by Ch\$4,289 million due to the increase of the Disposal of property, plant and equipment of Ch\$3,802 million and less additions to property, plant and equipment of Ch\$2,765 million, offset by the decrease in the Collection of other loans to related parties of Ch\$2,482 million.





#### **DIFFERENCE BETWEEN THE BOOK AND ECONOMIC VALUES OF THE PRINCIPAL ASSETS**

The property, plant and equipment are shown valued in accordance with accounting principles generally accepted 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 2i) of the financial statements at December 31, 2007.

However, Aguas Andinas S.A. has sixty eight 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 booked at Ch\$1, but which are still in operation.

There are also transfers constituting third-party contributions covered by Decree Law No.70 of the Ministry of Public Works of 1988 and the provisions of clause No.36 of the respective regulations (MINECON No.453 of 1989) which are explained in Note 28.

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

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

In summary, and as indicated above, Aguas Andinas S.A. 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 accounting principles generally accepted in Chile.



### MARKET ANALYSIS

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

Aguas Andinas S.A. currently has a 100% coverage in drinking water, 98.4% in sewage services and approximately 70% in sewage water treatment.

### CUSTOMERS AND VOLUMES

	2007 CUSTOMERS	2006 INVOICED	CHANGE %
<b>CLIENTES <sup>(1)</sup></b>			
Water	1.471.748	1.427.931	3,1
Sewage	1.445.385	1.400.427	3,2
<b>THOUSANDS OF M<sup>3</sup> INVOICED</b>			
Water	405.636	405.175	0,1
Sewage	401.391	402.189	(0,2)

### FINANCIAL ASPECTS

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

At December 31, 2007, Aguas Andinas had 73% of its debt at fixed rates and 27% at variable rates. The fixed-rate debt is comprised of bonds payable (89%) and reimbursable

financial contributions (11%), while the variable-rate debt is with local banks.

At December 30, 2006, 79% of the debt was at fixed rates and 21% at variable rates. The fixed-rate debt was comprised of short- and long-term bonds payable (86%); loans from local banks (7%) and reimbursable financial contributions (7%), while the variable-rate debt is with 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 ICR Risk Rate granted us a rating of First class Level 2.

<sup>(1)</sup> Corresponds to natural or legal persons who receive sanitation services associated to water or sewage.



# FINANCIAL STATEMENTS OF SUBSIDIARIES

210	212	214	216
ANÁLISIS AMBIENTALES S.A.	ECORILES S.A.	GESTION Y SERVICIOS S.A.	AGUAS CORDILLERA S.A. AND SUBSIDIARIES







# ANÁLISIS AMBIENTALES S.A.

## GENERAL INFORMATION

**Name**  
Análisis Ambientales S.A.

**Type of entity**  
Closely held corporation, and is governed by the established in the constitution bylaws and by the applicable legal provisions.

**Address**  
Avda. Presidente Balmaceda  
N° 1398, Santiago

**Telephone**  
(56-2) 496 22 30

**Fax**  
(56-2) 496 22 97

**Tax I.D.**  
96.967.550-1

**External Auditors**  
Deloitte Auditores y  
Consultores Ltda.

**Paid in capital**  
Ch\$ 241,006,209

## CORPORATE PURPOSE

The purpose of the Company is the performing of all kinds of physical, chemical and biological analysis to the water, air and solids, including soils, mud, residues, as well any other element that is directly or indirectly related with the environment.

## INCORPORATION OF THE COMPANY

Análisis Ambientales S. A. was incorporated by public deed on August 20, 2001 at the office of the Notary Public Mr. Ivan Torrealba Acevedo and its extract was published in the Official Gazette on September 20, 2001. Its fantasy name is ANAM S.A.

## BOARD OF DIRECTORS

**Chairman**  
Felipe Larrain Aspillaga  
(General Manager of  
Aguas Andinas S.A.)

**Directors**  
Joaquín Villarino Herrera  
(Vice president of Aguas  
Andinas S.A.)

Marta Colet Gonzalo

**General Manager**  
Claudio Mujica Escudero

**Percentage of share  
holding of the Parent**  
99.00%

**Investment as percentage of  
Parent Company's assets**  
The investment in the  
company amounts to 0.20%.

**Commercial Relationship with the  
Parent Company**  
During the year-ended December  
31, 2007 the Company had  
a service contract for the  
laboratory analysis services,  
and a lease contract with its  
Parent Company. In the future it  
is expected to maintain similar  
commercial relationships.



## BALANCE SHEETS

	2007 THCH\$	2006 THCH\$
<b>ASSETS</b>		
Current assets	1,101,199	1,153,461
Property, plant and equipment, Net	822,642	697,171
Other non-current assets	61,093	77,432
<b>TOTAL ASSETS</b>	<b>1,984,934</b>	<b>1,928,064</b>
<b>LIABILITIES</b>		
Current liabilities	350,025	297,457
Long-term liabilities	-	-
Shareholders' equity	1,634,909	1,630,607
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,984,934</b>	<b>1,928,064</b>
<b>STATEMENTS OF INCOME</b>		
Operating revenues	2,586,165	1,992,645
Operating expenses and administrative and sales cost	(1,681,492)	(1,362,287)
Gross profit	904,673	630,358
Non-operating results	(16,742)	5,671
Income taxes	(147,409)	(112,135)
<b>NET INCOME</b>	<b>740,522</b>	<b>523,894</b>
<b>STATEMENTS OF CASH FLOWS</b>		
Cash Flows From Operating Activities	897,275	474,076
Cash flows from financing activities	(736,113)	-
Cash flows from investing activities	242,341	(777,066)
Net increase (Decrease) in cash flows for the year	403,503	(302,990)
Price-level restatement of cash and cash equivalents	(14,648)	(5,271)
Net increase (decrease) in cash and cash equivalents	388,855	(308,261)
Cash and cash equivalents at beginning of the year	39,363	347,624
<b>CASH AND CASH EQUILENTS AT THE END OF THE YEAR</b>	<b>428,218</b>	<b>39,363</b>
<b>RECONCILIATION BETWEEN NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES AND NET INCOME FOR THE YEAR</b>		
Net Income	740,522	523,894
(Gain) loss on sales of assets	1,440	(625)
Adjustments to reconcile net income to net cash provided by operating activities	211,473	156,912
Changes in operating assets - (increases)	(5,378)	(287,199)
Changes in operating liabilities - increases	(50,782)	81,094
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>897,275</b>	<b>474,076</b>



# ECORILES S.A.

## GENERAL INFORMATION

**Name**  
Ecoriles S.A.

**Type of entity**  
Closely held corporation, and is governed by the established in the constitution bylaws and by the applicable legal provisions.

**Address**  
Av. Presidente Balmaceda  
N° 1398 - Santiago

**Telephone**  
(56-2) 496 22 29

**Fax**  
(56-2) 496 22 44

**Tax I.D.**  
96.945.210-3

**External Auditors**  
Deloitte Auditores y Consultores Ltda.

**Paid-in capital**  
Ch\$ 306,507,843

## CORPORATE PURPOSE

The Company's corporate purpose is the treatment of liquid residues as well as activities related or linked to the treatment of sewage or residual water, through the rendering of technical advisories or the execution of services related to training, design, construction, sales of equipment, maintenance and operation of all kinds of facilities.

## INCORPORATION OF THE COMPANY

Ecoriles S. A. was incorporated by public deed on December 15, 2000 at the office of the Notary Public Mr. Juan Ricardo San Martín Urrejola and its extract was published in the Official Gazette on January 16, 2001.

## BOARD OF DIRECTORS

**Chairman**  
Felipe Larrain Aspillaga  
(General Manager of Aguas Andinas S.A.)

**Directors**  
Joaquín Villarino Herrera  
(Vice president of Aguas Andinas S.A.)

Marta Colet Gonzalo

**General Manager**  
Lionel Quezada Miranda

**Percentage shareholding of the Parent Company**  
99.03846%

**Investment as percentage of Parent Company's assets in the asset**  
The investment in the company amounts to 0.45%.

**Commercial Relationship with the Parent Company**  
During the year-ended December 31, 2007 the Company had a contract for the treatment services of excess of loads and a property lease contract. In the future it is expected to maintain similar commercial relationships.



## BALANCE SHEETS

	2007 THCH\$	2006 THCH\$
<b>ASSETS</b>		
Current assets	3,447,177	2,100,077
Property, plant and equipment, Net	329,783	402,578
Other non-current assets	686,720	733,458
<b>TOTAL ASSETS</b>	<b>4,463,680</b>	<b>3,236,113</b>
<b>LIABILITIES</b>		
Current liabilities	782,186	697,243
Long-term liabilities	-	-
Shareholders' equity	3,681,494	2,538,870
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>4,463,680</b>	<b>3,236,113</b>
<b>STATEMENTS OF INCOME</b>		
Operating revenues	5,261,380	3,825,054
Operating expenses and administrative and sales cost	(3,872,406)	(2,750,115)
Gross profit	1,388,974	1,074,939
Non-operating results	(13,259)	15,654
Income taxes	(233,091)	(189,274)
<b>NET INCOME</b>	<b>1,142,624</b>	<b>901,319</b>
<b>STATEMENTS OF CASH FLOWS</b>		
Cash Flows From Operating Activities	1,364,300	1,013,990
Cash flows from financing activities	(20)	-
Cash flows from investing activities	(1,209,311)	(1,746,746)
Net increase (Decrease) in cash flows for the year	154,969	(732,756)
Price-level restatement of cash and cash equivalents	(32,144)	(7,248)
Net increase (decrease) in cash and cash equivalents	122,825	(740,004)
Cash and cash equivalents at beginning of the year	11,929	751,933
<b>CASH AND CASH EQUILENTS AT THE END OF THE YEAR</b>	<b>134,754</b>	<b>11,929</b>
<b>RECONCILIATION BETWEEN NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES AND NET INCOME FOR THE YEAR</b>		
Net Income	1,142,624	901,319
Adjustments to reconcile net income to net cash provided by operating activities	218,281	74,640
Changes in operating assets - (increases)	(284,497)	(343,226)
Changes in operating liabilities - increases	287,892	381,257
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,364,300</b>	<b>1,013,990</b>





# GESTION Y SERVICIOS S.A.

## GENERAL INFORMATION

**Name**  
Gestión y Servicios S.A.

**Type of entity**  
Closely held corporation

**Address**  
Av. Presidente Balmaceda N° 1398

**Telephone**  
(56 2) 496 23 42

**Fax**  
(56 2) 496 23 98

**Tax I.D.**  
96.828.120-8

**External Auditors**  
Deloitte Auditores y  
Consultores Ltda.

**Paid-in capital**  
Ch\$ 652,152,446

## CORPORATE PURPOSE

The corporate purpose of the Company is the urbanization, purchase and sale of sanitation material, sale of biogas, building and advisory of special works.

## INCORPORATION OF THE COMPANY

The Company was incorporated as a closely held corporation under the name Aguas del Maipo S.A., as per public deed dated June 06, 1997 at the office of the Notary Public of Mr. Patricio Zaldivar Mackenna in Santiago; subsequently it changed its by-laws as stated in public deed dated November 10, 2000 at the Notary of Mr. Patricio Zaldivar Mackenna, changing its legal name to Gestión y Servicios S.A.

## BOARD OF DIRECTORS

**Chairman**  
Felipe Larrain Aspillaga  
(General Manager of  
Aguas Andinas S. A.)

**Directors**  
Joaquín Villarino Herrera  
(Vice-president of Aguas  
Andinas S.A.)

Marta Colet Gonzalo

Luis Andrés Rengifo Briceño

Luis Eduardo Jiménez López

**General Manager**  
Santiago Fredes Echeverría

**Ownership of percentage  
Parent Company**  
97.84783%

**Investment as percentage of  
parent Company's assets**  
The investment in the  
company amounts to 0.25%

**Commercial relationship  
with the Parent Company**  
During the year-ended as of  
December 31, 2007, the Company  
purchased and sold material and  
held lease agreements with its  
Parent Company. In the future it  
is expected to maintain similar  
commercial relationships.



## BALANCE SHEETS

	2007 THCH\$	2006 THCH\$
<b>ASSETS</b>		
Current assets	4,764,404	3,316,534
Property, plant and equipment, Net	366,171	874
Other non-current assets	131	(1,056)
<b>TOTAL ASSETS</b>	<b>5,130,706</b>	<b>3,316,352</b>
<b>LIABILITIES</b>		
Current liabilities	3,008,276	2,473,059
Long-term liabilities	-	-
Shareholders' equity	2,122,430	843,293
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5,130,706</b>	<b>3,316,352</b>
<b>STATEMENTS OF INCOME</b>		
Operating revenues	9,795,708	7,208,204
Operating expenses and administrative and sales cost	(8,174,980)	(6,104,159)
Gross profit	1,620,728	1,104,045
Non-operating results	(87,553)	79,640
Income taxes	(255,147)	(201,823)
<b>AMORTIZATION OF NEGATIVE GOODWILL</b>	<b>1,109</b>	<b>74</b>
<b>NET INCOME</b>	<b>1,279,137</b>	<b>981,936</b>
<b>STATEMENTS OF CASH FLOWS</b>		
Cash Flows From Operating Activities	1,190,336	611,126
Cash flows from financing activities	(1,105,930)	(620,913)
Cash flows from investing activities	480,801	(507,080)
Net increase (Decrease) in cash flows for the year	565,207	(516,867)
Price-level restatement of cash and cash equivalents	(3,167)	(18,757)
Net increase (decrease) in cash and cash equivalents	562,040	(535,624)
Cash and cash equivalents at beginning of the year	47,646	583,270
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>609,686</b>	<b>47,646</b>
<b>RECONCILIATION BETWEEN NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES AND NET INCOME FOR THE YEAR</b>		
Net Income	1,279,137	981,936
Adjustments to reconcile net income to net cash provided by operating activities	115,341	81,490
Changes in operating assets- (increases)	(661,337)	(160,325)
Changes in operating liabilities - increases	457,195	(291,975)
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,190,336</b>	<b>611,126</b>



# AGUAS CORDILLERA S.A. AND SUBSIDIARIES

## GENERAL INFORMATION

**Name**  
Aguas Cordillera S.A.

**Type of entity**  
Closely held corporation subject to the standards of public companies in conformity with the indicated in clause No. 8 of the DFL M.O.P. 382 of 1988.

**Address**  
Av. Presidente Balmaceda  
N° 1398, Santiago

**Telephone**  
(56 2) 496 25 00

**Fax**  
(56 2) 494 25 09

**P.O. Box**  
1818 Santiago – Centro

**Tax I.D.**  
96.809.310-K

**External Auditors**  
Deloitte Auditores y Consultores Ltda.

**Registered in Securities Record**  
N° 0975

**Paid-in capital**  
Ch\$141,054,346,236

## CORPORATE PURPOSE

The corporate purpose of the Company and its subsidiaries is establishing, building and exploiting the public services related to the production and distribution of drinking water, the recollection and disposal of sewage water and other service renderings related to such activities, developed in the concession areas of the districts of Vitacura, Las Condes, Lo Barnechea, Colina and Lampa.

## INCORPORATION OF THE COMPANY

The Company was incorporated on April 22, 1996, as per public deed issued at the office of the Notary Public Mr. René Benavente Cash in Santiago. An extract of the by-laws was registered at the Trade Record of the Real Estate Custodian of Santiago of the same year, under folio 14.143, number 8.258 and ratified under folio 11.059, number 8.996 both in 1996, and published in the Official Gazette on May 04, 1996, ratified on May 9, 1996.

At the Extraordinary Shareholders' Meeting held on March 6, 2007, the bylaws of the Company were modified, as per the established in the public deed dated March 8, 2007, issued at the office of the Notary Public Mr. Raúl Undurraga Laso in Santiago.

## BOARD OF DIRECTORS

**Chairman**  
Felipe Larrain Aspillaga  
(General Manager of Aguas Andinas S.A.)

**Vice president**  
Joaquín Villarino Herrera  
(Vice president of Aguas Andinas S.A.)

**Director**  
Marta Colet Gonzalo

Luis Andrés Rengifo Briceño

Luis Eduardo Jiménez López

**General Manager**  
Víctor de la Barra Fuenzalida  
(Main executive of Aguas Andinas S.A.)

**Ownership percentage Parent Company**  
99.99003%

**Investment as percentage of parent Company's assets**  
The investment in the company amounts to 14.20%

**Commercial Relationship with The Parent Company**  
During the year ended as of December 31, 2007, the Company had an interconnection contract for drinking and sewage water, lease contracts and sales contract for material with its Parent Company. In the future it is expected to maintain similar commercial relationships.



## CONSOLIDATED BALANCE SHEETS

	2007 THCH\$	2006 THCH\$
<b>ASSETS</b>		
Current assets	25,842,236	15,182,548
Property, plant and equipment, Net	95,716,537	90,842,135
Other non-current assets	28,118,744	26,580,139
<b>TOTAL ASSETS</b>	<b>149,677,517</b>	<b>132,604,822</b>
<b>LIABILITIES</b>		
Current liabilities	12,100,888	11,683,793
Long-term liabilities	21,732,405	24,260,691
Minority interest	180	263,786
Shareholders' equity	115,844,044	96,396,552
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>149,677,517</b>	<b>132,604,822</b>
<b>STATEMENTS OF INCOME</b>		
Operating revenues	36,005,053	41,609,392
Operating expenses and administrative and sales cost	(19,798,947)	(24,405,246)
Gross profit	16,206,106	17,204,146
Non-operating results	3,032,737	1,238,623
Income taxes	(2,870,075)	(3,501,826)
Loss of minority interest	(23)	(9,188)
Amortization of negative goodwill	-	62
<b>NET INCOME</b>	<b>16,368,745</b>	<b>14,931,817</b>
<b>STATEMENTS OF CASH FLOWS</b>		
Cash Flows From Operating Activities	21,109,687	22,865,117
Cash flows from financing activities	(882,658)	(3,846,380)
Cash flows from investing activities	(11,402,024)	(21,060,809)
Net increase (Decrease) in cash flows for the year	8,825,005	(2,042,072)
Price-level restatement of cash and cash equivalents	(288,539)	(51,865)
Net increase (decrease) in cash and cash equivalents	8,536,466	(2,093,937)
Cash and cash equivalents at beginning of the year	74,895	2,168,832
<b>CASH AND CASH EQUILENTS AT THE END OF THE YEAR</b>	<b>8,611,361</b>	<b>74,895</b>
<b>RECONCILIATION BETWEEN NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES AND NET INCOME FOR THE YEAR</b>		
Net income	16,368,745	14,931,817
Gain on sale of property, plant and equipment	(1,655,177)	-
Adjustments to reconcile net income to net cash provided by operating activities	5,179,403	5,581,243
Changes in operating assets affecting cash flows (increases) decreases:	(471,289)	1,597,156
Changes in operating liabilities increases:	1,687,982	745,713
Gain of minority interest	23	9,188
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>21,109,687</b>	<b>22,865,117</b>

Note: The complete financial statements of subsidiaries are publicly available in the offices of the reporting entity and the Superintendency of Securities and Insurance.





# SUMMARIZED FINANCIAL STATEMENTS OF SUBSIDIARIES



# SUMMARIZED FINANCIAL STATEMENTS OF SUBSIDIARES

AS OF DECEMBER 31, 2007 AND 2006

BALANCE SHEETS	AGUAS CORDILLERA S.A.		AGUAS MANQUEHUE S.A.		
	2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$	
<b>ASSETS</b>					
Current assets	22,426,479	11,843,221	1,458,270	1,671,005	
Property, plant and equipment, Net	72,612,136	71,617,410	17,048,833	13,176,872	
Other non-current assets	47,005,446	42,559,091	6,958,291	6,461,455	
<b>TOTAL ASSETS</b>	<b>142,044,061</b>	<b>126,019,722</b>	<b>25,465,394</b>	<b>21,309,332</b>	
<b>LIABILITIES</b>					
Current liabilities	7,184,175	8,191,564	4,498,890	3,202,824	
Long-term liabilities	19,015,842	21,431,606	2,092,371	1,469,054	
Minority interest	115,844,044	96,396,552	18,874,133	16,637,454	
<b>SHAREHOLDERS' EQUITY</b>	<b>142,044,061</b>	<b>126,019,722</b>	<b>25,465,394</b>	<b>21,309,332</b>	
<b>STATEMENTS OF INCOME</b>					
Operating revenues	29,509,734	29,088,871	4,780,204	4,553,526	
Operating expenses and administrative and sales cost	(16,768,971)	(16,222,429)	(2,546,064)	(2,369,789)	
Gross profit	12,740,763	12,866,442	2,234,140	2,183,737	
Non-operating results	5,778,351	4,672,823	494,961	381,272	
Income taxes	(2,150,369)	(2,607,448)	(492,422)	(466,129)	
Amortization of negative goodwill	-	-	-	-	
<b>NET INCOME</b>	<b>16,368,745</b>	<b>14,931,817</b>	<b>2,236,679</b>	<b>2,098,880</b>	
<b>STATEMENTS OF CASH FLOWS</b>					
Net Cash Flow from Operating Activities	17,160,689	19,282,468	3,621,934	2,556,511	
Net Cash Flow from Financing Activities	(2,626,629)	(3,907,724)	1,760,593	(160,869)	
Net Cash Flow from Investment Activities	(6,008,707)	(15,881,515)	(5,360,041)	(2,459,107)	
Total Net Cash Flow for the Year	8,525,353	(506,771)	22,486	(63,465)	
Effect of Inflation on Cash and Cash Equivalents	(238,410)	(1,237)	(15,670)	(17,218)	
Net Change in Cash and Cash Equivalent	8,286,943	(508,008)	6,816	(80,683)	
Opening Balance of Cash and Cash Equivalent	20,205	528,213	53,475	134,158	
<b>CLOSING BALANCE OF CASH AND CASH EQUIVALENT</b>	<b>8,307,148</b>	<b>20,205</b>	<b>60,291</b>	<b>53,475</b>	
<b>RECONCILIATION BETWEEN NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES AND NET INCOME FOR THE YEAR</b>					
Net income	16,368,745	14,931,817	2,236,679	2,098,880	
Gain on sale of property, plant and equipment	(1,655,621)	-	444	-	
Adjustments to reconcile net income to net cash provided by operating activities	808,290	573,630	816,918	796,655	
Changes in operating assets affecting cash flows (increases) decreases:	310,960	3,434,410	331,481	(329,744)	
Changes in operating liabilities increases:	1,328,315	342,611	236,412	(9,280)	
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>17,160,689</b>	<b>19,282,468</b>	<b>3,621,934</b>	<b>2,556,511</b>	





AGUAS LOS DOMINICOS S.A.		ECORILES S.A.		GESTIÓN Y SERVICIOS S.A.		ANÁLISIS AMBIENTALES S.A.	
2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$	2007 THCH\$	2006 THCH\$
1,995,027	1,921,666	3,447,177	2,100,077	4,764,404	3,316,534	1,101,199	1,153,461
6,055,568	6,047,854	329,783	402,578	366,171	874	822,642	697,171
1,623,414	1,670,782	686,720	733,458	131	(1,056)	61,093	77,432
9,674,009	9,640,302	4,463,680	3,236,113	5,130,706	3,316,352	1,984,934	1,928,064
629,732	542,748	782,186	697,243	3,008,276	2,473,059	350,025	297,457
1,190,850	1,360,031	-	-	-	-	-	-
7,853,427	7,737,523	3,681,494	2,538,870	2,122,430	843,293	1,634,909	1,630,607
9,674,009	9,640,302	4,463,680	3,236,113	5,130,706	3,316,352	1,984,934	1,928,064
2,468,475	2,385,697	5,261,380	3,825,054	9,795,708	7,208,204	2,586,165	1,992,645
(1,245,214)	(1,286,481)	(3,872,406)	(2,750,115)	(8,174,980)	(6,104,159)	(1,681,492)	(1,362,287)
1,223,261	1,099,216	1,388,974	1,074,939	1,620,728	1,104,045	904,673	630,358
53,120	82,657	(13,259)	15,654	(87,553)	79,640	(16,742)	5,671
(227,284)	(242,558)	(233,091)	(189,274)	(255,147)	(201,823)	(147,409)	(112,135)
-	-	-	-	1,109	74	-	-
1,049,097	939,315	1,142,624	901,319	1,279,137	981,936	740,522	523,894
1,254,889	1,134,589	1,364,300	1,013,990	1,190,336	611,126	897,275	474,076
(973,628)	(557,098)	(20)	-	(1,105,930)	(620,913)	(736,113)	-
(4,095)	(1,484,686)	(1,209,311)	(1,746,746)	480,801	(507,080)	242,341	(777,066)
277,166	(907,195)	154,969	(732,756)	565,207	(516,867)	403,503	(302,990)
(34,459)	(14,780)	(32,144)	(7,248)	(3,167)	(18,757)	(14,648)	(5,271)
242,707	(921,975)	122,825	(740,004)	562,040	(535,624)	388,855	(308,261)
1,215	923,190	11,929	751,933	47,646	583,270	39,363	347,624
243,922	1,215	134,754	11,929	609,686	47,646	428,218	39,363
1,049,097	939,315	1,142,624	901,319	1,279,137	981,936	740,522	523,894
-	-	-	-	-	-	1,440	(625)
268,443	282,356	218,281	74,640	115,341	81,490	211,473	156,912
(185,905)	(134,027)	(284,497)	(343,226)	(661,337)	(160,325)	(5,378)	(287,199)
123,254	46,945	287,892	381,257	457,195	(291,975)	(50,782)	81,094
1,254,889	1,134,589	1,364,300	1,013,990	1,190,336	611,126	897,275	474,076





## ANNUAL REPORT 2007 ~ AGUAS ANDINAS

### **DIRECTION AND EDITING**

*Aguas Andinas' annual report comitee*

### **DESIGN AND PRODUCTION**

*Magia Diseño*

### **PHOTOGRAPHY**

*Gerardo Álvarez Elfert*

*Photo banks*

*Aguas Andinas' register*

### **PHOTOGRAPHY LOCATIONS**

*Cruzeral de Pirque - C.C. Los Andes*



Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to



live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment

~ Because water is always close to you, with the greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~ Water is always there to accompany you, helping you to live your life, to make your dreams come true, to care for your family and to help us develop as a society ~ Every day and at each moment ~ Because water is always close to you, with the greatest clarity and safety ~ For this reason we work with dedication and professionalism ~ Every morning, every afternoon and every night ~