



CONSOLIDATED FINANCIAL STATEMENTS

**Period finished by
December 31st, 2010**

Reasoned Analysis

REASONED ANALYSIS

AGUAS ANDINAS CONSOLIDADO

December - 2010

I GENERAL ASPECTS

Share composition

Aguas Andinas's capital constitutes 6.118.965.160 shares, without nominal value. By March 31st, 2010, our largest shareholders are Inversiones Aguas Metropolitanas S.A. with 50.1% and CORFO with 35.0% of shares.

Revenue for ordinary activities

Our revenue is derived mainly from the regulated services that we provide and which relate to: production and distribution of drinkable water; collection, treatment and sewage disposal among other regulated services (which include revenue related to the charges for supply disconnection and reconnection, the monitoring of liquid industrial waste disposal and fixed charges).

The ordinary revenue for the 2010 period rose to Ch\$ 328,964 million, which is Ch\$846 million (0.3%) below the revenue for the previous period. Meanwhile, the net revenue for Aguas Andinas S.A. by December 31st, 2010 was Ch\$103,850 million, which is Ch\$19,198 million (-15.6%) below the previous period.

Operational costs and expenses

The operational costs and expenses are composed by the personnel costs, depreciations and amortizations, raw supply and secondary material consumption, other expenses by nature and losses from value impairment recognized in the term result. The most relevant items are: other expenses by nature 35.5%, associated with the outsourcing of certain services to contractors; the depreciation which represented 29.6%; expenses for employee benefits which represented 21.2%; the consumption of raw supplies and secondary materials, which represented 12.8% and losses for value impairment recognized in the term result, for 0.9% at the end of 2010.

Rates

The selected rates for our regulated sales and services are the most important factor in determining the results of our operations and financial situation. As a natural monopoly, we are regulated by the SISS (Superintendence of Sanitary Services, Chile) and our rates are fixed in conformity to the Rates Law for Sanitary Services D.F.L. N°70 of 1988.

Our rate levels are revised every five years and, during said period, they are subject to additional readjustments related to a polynomial indexation, which are applied when the accumulated variation since the previous adjustment is 3.0% or above, according to calculations based on various inflation indexes. Specifically, the readjustments are applied in accordance to a formula which includes the Consumer Price Index, the Wholesale Price Index for Imported Industrial Goods and the Wholesale Price Index for National Industrial Goods, all of which are measured by the Chilean National Statistics Institute. Also, the rates are subject to change in order to reflect additional services previously authorized by the SISS.

Aguas Andinas S.A., Aguas Cordillera S.A. and Aguas Manquehue S.A.'s rate negotiation processes for the 2010-2015 period ended in 2009. The new rates, approved by Decree number 60, dated February 2nd, 2010,



for Aguas Andinas S.A. from the Ministry of Economy, Development and Reconstruction started being enforced on March 1st, 2010, while the decrees for Aguas Cordillera and Aguas Manquehue S.A. are pending emission. Also, Empresa de Servicios Sanitarios de los Lagos S.A. (ESSAL) concluded its rate negotiation process in 2006, for the five year period between 2006 and 2011. These were approved by decree N° 265, dated September 12th, 2006.

Market Risk

Our company presents a favorable situation when it comes to risk, which is mainly due to the particular characteristics of the health sector. Our business is seasonal and the exploitation results may vary from one trimester to another. We tend to record higher levels of demand and revenue during the summer months (December through March) and the lowest levels of demand and revenue during the winter months (June through September). In general, demand for water is greater during the warmest months and not in the months with milder temperatures, due mainly to the additional water requirements generated by irrigation systems and other external uses of water.

Adverse climate conditions can eventually affect the optimal delivery of sanitary services because the catchment and water production processes for drinking water largely depend on the climate conditions that develop in hydrographic basins. Factors such as meteorological precipitations (snow, hail, rain, fog), temperature, humidity, sediment transport, as well as river flows and turbidity, determine the quantity, quality and continuity of raw water available at every intake, which can be treated at a drinking water treatment plant. In case of drought, we have large water reserves at the El Yeso reservoir, Laguna Negra and Lo Encañado, in addition to the contingency plans that we have developed, and that allow us to diminish the possible negative impacts that adverse weather conditions could cause for our operations.

Capital Investments

One of the variables that has the most incidence in our operations' results and financial standing is capital investments. There are two types:

Committed Investments. We have the obligation to agree on an investment plan with the SISS, where we describe the investments that we must make for the next 15 years till the date when the corresponding investment plan starts being enforced. Specifically, the investment plan reflects commitment on our part to undertake certain projects related to the maintenance of certain standards for quality and coverage. The aforementioned investment plan is subject to revising every five years, with the possibility of requests for change being made when certain relevant facts are verified.

Approval dates for updates in the development plans of Grupo Aguas.

Aguas Andinas S.A.

Gran Santiago: December 30th, 2010

Other Locations: December 22nd and 28th, 2010

Aguas Cordillera S.A.

Aguas Cordillera and Villa Los Dominicos: December 29th, 2010

Aguas Manquehue S.A.

Santa María and Los Trapenses: December 28th, 2010

Essal S.A.

X y XIV Regions: January 7th and June 10th, 2006



Non Committed investments.

Non committed investments are those which are not considered in the investment plan and which we voluntarily undertake with the objective of ensuring the quality of our services and replacing obsolete assets, acquiring water use rights and the investment in non -regulated businesses, among others.

In accordance to international financial information standards enforced in Chile, interests over capital investments in construction in progress are capitalized. In consequence, any changes in our capital investment plan affect the amount of expenses in paid interest in the revenue statements, consigned as construction in progress under "Properties, Plant and Equipment" in our financial statement.

II COMPARATIVE ANALYSIS AND EXPLANATION OF VARIATIONS

Consolidated statements of financial position

The composition of assets and liabilities is as follows:

Consolidated statements of financial position	December 2010	December 2009	Variation Dec 10 - Dec 09
	MMCh\$	MMCh\$	%
Current assests	75.708	91.397	-17,2%
Long-term assets	1.330.732	1.307.978	1,7%
Total Assets	1.406.440	1.399.375	0,5%
Current liabilities	92.932	115.614	-19,6%
Long-term liabilities	639.876	593.815	7,8%
Total liabilities	732.808	709.429	3,3%
Equity attributable to the parent owners	607.588	623.000	-2,5%
Non-controlling interests	66.044	66.946	-1,3%
Total Equity	673.632	689.946	-2,4%
Total Equity and Liabilities	1.406.440	1.399.375	0,5%

Assets

The total assets of Aguas Andinas S.A. and subsidiaries to December 31st, 2010 present a rise of 0.5% compared to December 31st, 2009, going from Ch\$1.399.375 million to Ch\$1.406.440 million. The following are the most relevant variations in each category.

Current Assets

When comparing the December 2010 values with December 2009, they present a lower value, of Ch\$15.689 million (17,2%) explained, mainly, to an decrease in cash and cash equivalents for Ch\$18.906 million, due to the payment of investments during 2010, partially compensated by an increase in the assets by current taxes for Ch\$2,704 million due to higher fiscal credit balance.

Long-term assets

They present an increase of Ch\$22,754 million (1.7%) which is explained mainly by an increase in properties, plants and equipment for Ch\$13.567 million due to the investments made by the Group and the acquisition of shares from Eléctrica Puntilla S.A. (EPSA) in November 2010, for Ch\$7,221 million.

The main investments made are reflected in the following table:



Investment Project	Acum Dec 2010 (MMCh\$)
Third STP Gran Santiago	18.752
Mapocho Sewage Interceptor	5.054
Farfana – Trebal Interceptor	4.190
Starters and Meters	653
North Zone Collector	1.314
Drinking Water North Zone	371

LIABILITIES AND EQUITY

Liabilities

The liabilities to December 2010 decreased 3.3% in comparison to December 2009, which translates into Ch\$23,379 million. The following shows the most relevant variations in each category.

Current Liabilities

When comparing the December 2010 values to those for December 2009, there is an decrease of Ch\$22,682 million (19.6%). The main variation corresponds to fewer current financial liabilities for Ch\$14,268 million (fewer bank loans and short term bonds, due to the prepayments of debt made during 2010), fewer trade and other accounts receivable for Ch\$18.144 million and fewer liability for current taxes for Ch\$4,287 million, partially compensated by the increase of accounts payable to related entities for Ch\$15.025 million.

Long-term Liabilities

They increased in Ch\$46.061 million (7,8%), when comparing the December 2010 values to those of December 2009. The main variation corresponds to an increase in other financial liabilities for Ch\$40,883 million, explained by the new issuing of Aguas Andinas S.A. bonds during April 2010 and greater deferred income for investment in companies for Ch\$7,221 million, for the acquiring of EPSA shares in November 2010.

Equity

When comparing the December 2010 values with those of December 2009 net equity decreased in Ch\$16.314 million, where the net equity attributable to parent instrument holders decreased in Ch\$15,412 million.

The decrease in equity described above is due to the distribution of definitive dividends for 2009, for Ch\$90,619 million (which include a Ch\$4,485 million portion, corresponding to the 30% difference of profit for the 2009 term over the provisional dividend paid during that same term, done on the November 23rd, 2009), partially compensated by the net profit of the 2010 term for Ch\$70,723 million (Ch\$103, 850 million in profit, minus Ch\$33,137 million for provisional dividends, paid on November 22nd, 2010).

FINANCIAL INDICATORS



INDICATOR		December 2010	December 2009	Variation Dec 10 - Dec 09
Liquidity				
Current liquidity	times	0,81	0,79	2,5%
Acid-Test Ratio	times	0,07	0,22	-69,4%
Debt				
Total debt	%	108,78	102,82	5,8%
Current debt	%	12,68	16,30	-22,2%
Long-term debt	%	87,32	83,70	4,3%
Financial expenses coverage	times	6,46	7,71	-16,2%
Profitability				
Parent equity profitability	%	16,88	20,01	-15,6%
Asset profitability	%	7,40	8,94	-17,2%
Profit per share	\$	16,97	20,11	-15,6%
Dividend return	%	8,25	8,25	0,0%

To December 2010, current liquidity increased in 2.5% due to the decrease of current liability for Ch\$22,681 million (-19.6%) and the current asset for Ch\$15,689 million (-17.2%), when compared to December 2009. The main variations for current assets and liabilities are correspondent with fewer current financial liabilities for Ch\$14,268 million, fewer accounts payable to suppliers for Ch\$3,119 million, less liability for current taxes for Ch\$4,287 million and a decrease in cash and cash equivalents, in Ch\$18,906 million compensated in part, by an increase in the assets by current taxes for Ch\$2,704 million.

The acid-test ratio decreases significantly, due to the aforementioned decrease in cash and cash equivalents caused by larger loan payments, dividends and lower Access to loans, compensated by a decrease in current liabilities, explained within the financial statement analysis.

The debt ratio had a 5.8% increase due basically to the increase in long –term liability, explained by the new issuing of Aguas Andinas S.A. bonds during April 2010 and greater differed income for investment in companies for Ch\$7,221, compensated by a decrease in current liability (explained earlier) and in equity, because of lower accumulated results for Ch\$16,314 million.

Equity profitability presents a 15.6% decrease, mainly due to the decrease of profit when compared to the 2009 term.

STATEMENTS OF INCOME BY NATURE

The following table shows the statements of income for the 2010 and 2009 terms:

Statements of income by nature	December 2010	December 2009	Variation Dec 10 - Dec 09
	MMCh\$	MMCh\$	%
Income for ordinary activities	328.964	328.118	0,3%
Consumption of raw and secondary materials	(23.024)	(27.837)	-17,3%
Losses for value impairment recognized in term result	(1.560)	0	100,0%
Expenses for employee benefits	(37.961)	(35.351)	7,4%
Expenses for depreciation and amortization	(53.012)	(50.579)	4,8%
Other Expenses by nature	(63.621)	(59.320)	7,3%
Exploitation Results	149.786	155.031	-3,4%
Financial Income	4.275	5.116	-16,4%
Financial Costs	(22.744)	(22.408)	1,5%
Exchange difference	(23)	42	-154,8%
Results of Indexation Units	(10.866)	8.730	-224,5%
Financial Results	(29.358)	(8.520)	244,6%
Other Income	3.802	3.776	0,7%
Results before Taxes	124.230	150.287	-17,3%
Income Tax	(19.277)	(25.731)	-25,1%
Minority Interest	(1.103)	(1.508)	-26,9%
Result for the term	103.850	123.048	-15,6%

- Ordinary Income:**

By the end of 2010, Aguas Andinas S.A. and subsidiaries had income for Ch\$328.964 million, which were Ch\$846 million (0.3%) higher than that obtained for the same period in 2009.

The aforementioned variation is calculated with the following income composition:



Ordinary Income	December 2010		December 2009		Variation Dec 10 - Dec 09	
	MMCh\$	%	MMCh\$	%	MMCh\$	%
Drinking Water	136.573	41,5%	145.617	44,4%	-9.044	-6,2%
Sewage	148.169	45,0%	139.298	42,5%	8.871	6,4%
Other Regulated Income	12.994	3,9%	11.157	3,4%	1.837	16,5%
Non Regulated Businesses	31.228	9,6%	32.046	9,7%	-818	-2,6%
Ordinary Income Total	328.964	100,0%	328.118	100,0%	846	0,3%

a) **Drinking Water:** Here, we consider the production and distribution of drinking water, which have seen a decrease of Ch\$9,044 million in comparison to the same period during the previous year. The main explanation for this lies in a lower average rate, compensated in part by a greater sales volume of 10 million m³. The variation in the average rate is explained by the accumulated effect of negative indexations during 2009 and January 2010. Also, from March 1st 2010, Aguas Andina's new rate decree began to be enforced, which implied a decrease in the rates of the current services. This is partially compensated by a positive indexation on June 15th 2010.

b) **Sewage:** Here we consider the collection, treatment, disposal and interconnection of sewage. The revenue from these services show an increase of Ch\$8.871 million (6.4%) caused by:

- A greater income for collection for Ch\$3.023 million (Ch\$74.534 million in 2010, compared to the Ch\$71.311 million in the previous year), due to a higher sales volume of 11.3 million m³ and to a higher applied average rate,
- Greater income for treatment in Ch\$4.566 million (Ch\$58.486 million in 2010, compared to the Ch\$53.920 from the previous year) due to a a greater sales volume of 10.3 million m³ and a higher applied average rate.
- A greater income for sewage interconnections Ch\$1,283 million (Ch\$15,149 million in 2010 compared to the Ch\$13,867 million from the previous year), due to a higher applied average rate, coupled with a greater sales volume of 2 million m³.

The variations in the average rates are produced by the accumulated effect of the negative indexations experienced during 2009 and January 2010. Also, from March 1st 2010, Aguas Andinas S.A.'s new rate decree began to be enforced, which implied a decrease in the rates of the current services. Nevertheless, this decrease is softened by the enforcing of the Mapocho interceptor collector rate, within the variable charge for sewerage, from April 1st 2010, along with a positive indexation on June 15th, 2010.

c) **Other Regulated Income:** Here we consider the fixed charge to our customers, the interruption and resuming of service and unbilled consumable stores. These revenues present an increase of Ch\$1.838 million explained by a greater provision of income for Ch\$2.849 million partially compensated by lower revenues for other distribution-related income for Ch\$449 million, lower fixed charge for Ch\$182 million and lower cut-off and resuming for Ch\$306 million.



d) **Non-regulated businesses:** present a decrease of Ch\$818 million (2.6%) in comparison to the same period for the previous year, explained, mainly, by the following businesses:

- **Sanitary:** Decrease of Ch\$502 million, associated, mainly, with fewer contracted agreements with real-estate development.
- **Non-Sanitary:** Decreased in Ch\$316 million, explained mainly by lower revenues in material sales by Gestión y Servicios for Ch\$2,657 million. This, partially compensated by greater income in Ecoriles for Ch\$2,092 million (operation of liquid residue treatment plants and treatment of excess industrial organic load) and by greater revenues for Ch\$249 million related to ANAM sales (laboratory sampling and analysis services).

Group Consolidate Values in MMCh\$	Real 2010	Real 2009	Real 2010 vs Real 2009	
			Abs.	%
Regulated Non-Sanitary Products	16.154	16.470	(316)	-1,9%
Ecoriles	9.178	7.086	2.092	29,5%
G y S	5.729	8.386	(2.657)	-31,7%
Anam	1.247	998	249	24,9%

- **Used Raw and Secondary Materials**

By the end of 2010, these costs rose to Ch\$23,024 million, which is Ch\$4,813 million beneath the amount obtained for 2009. This is explained by lower electric energy costs for Ch\$2,913 million, and fewer miscellaneous materials for Ch\$2,025 million.

- **Losses for value impairment recognized in the term result**

By the end of 2010, losses for asset impairment caused by the earthquake rose to Ch\$1,560 million, mainly in Aguas Manquehue S.A. for Ch\$1,120 million (North Zone Collector) and Aguas Andinas S.A. for Ch\$429 million.

- **Expenses for employee benefits**

By the end of 2010, these expenses rose to Ch\$37,961 million, which is Ch\$2,610 million above the amount obtained for the same period of the previous year, explained, mainly by greater compensations and bonds associated to the closing of the collective negotiation.

- **Expenses for depreciation and amortization**

By the end of 2010, these expenses rose to Ch\$53.012 million, which is Ch\$2.433 million above the amount obtained for the same period in 2009, explained by new investments executed by the Company.

- **Other income, by nature**

By the end of 2010, these expenses rose to Ch\$63.621 million, which is Ch\$4.301 million above the amount obtained in 2009, explained by greater expenses in operation of treatment plants Ch\$5,406 million, which is compensated by fewer consulting in Ch\$1,401 million.

- **Financial Income**



By the end of 2010, Aguas Andinas Consolidado obtained financial income for Ch\$4,275 million, which is Ch\$841 million under the amount reached during 2009, explained by lower interest in client debt and lower income in financial in financial assets.

- **Financial Costs**

By the end of 2010, these costs rose to Ch\$22,744 million, which is Ch\$336 million above the amount reached during 2009. This is explained by higher interests, given the new issuing of bonds in April 2010.

- **Results by Readjustment Units**

By the end of 2010, the results added up to Ch\$(10,866) million, which is Ch\$|9,596 million under the amount obtained during 2009, explained by a greater revaluation of debt, due to the cumulative effect of negative variation of the UF, experienced during 2010, in contrast to the negative variation of the UF in 2009.

- **Other Income**

Aguas Andinas Consolidada obtained results for Ch\$3,802 million, which is Ch\$26 million above the amount obtained for the same period in 2009 explained, mainly, by the advance obtained from the insurance companies as partial compensation for damages suffered by the earthquake that occurred in February for the 2010 term, compensated by lower asset sales.

- **Expense by Income Tax**

The income tax provision for the end of 2010 is Ch\$6,454 million lower when compared to the same previous period, explained by a lower result before taxes.

- **Income**

Due to the aforementioned factors, Aguas Andinas S.A. and subsidiaries' result for the end of 2010 rose to Ch\$103,850 million, which is Ch\$19,198 million (-15.6%) below the amount obtained by the end of the 2009 term.

CASH FLOW STATEMENT

The main categories for the cash flow statement are the following:

Consolidated Cash Flow Statements	December 2010	December 2009	Variation Dec 10 - Dec 09
	MM \$	MM\$	%
Operational flow	168.061	178.051	-5,6%
Investment flow	-70.151	-83.702	-16,2%
Financing flow	-116.816	-69.971	66,9%
Net Flow for the year	-18.906	24.378	-177,6%
Initial Cash Balance	24.996	619	3938,1%
Closing Cash Balance	6.090	24.996	-75,6%

The flow created by operation related activities decreased in Ch\$9,990 million (-5,6%) when comparing December 2010 with December 2009, with the main variations being the decrease in the amount charged to customers (Ch\$6,504 million); rise in the payment of other operation activities (mainly value added tax) for Ch\$4,560 million and rise in payment of income tax (Ch\$4,427 million) compensated in part by lower interest payments (Ch\$5,410 million) created by lower interests in bank loans in Chilean pesos.

The flow for investments fell Ch\$ 13,551 million (-16.2%) due to the decrease in disbursement for the incorporation of properties, plant and equipment for Ch\$17,774 million compensated by a lower collection of income from the sales of properties, plant and equipment for Ch\$3,768 million.

The financing flow increased in Ch\$46,845 million (66.9%) compared to the same previous term, due to the rise in loan payments for Ch\$17,284 million, greater paid dividends for Ch\$16,194 million and a decrease in income originated from long-term and short-term loans for Ch\$12,901 million.



Market Analysis

The Company does not present variations in the market it participates in, due to the nature of its services and the current legal framework, it is not possible for other providers to act in the concession area.

Aguas Andinas S.A. has 100% coverage in drinkable water, 98.5% in sewerage service and 98.67% in sewage treatment and 85.8% in sewage treatment.

Aguas Cordillera S.A. has 100% coverage in drinkable water and 98.8% in sewerage service.

Aguas Manquehue S.A. has 100.0% coverage in drinking water and 99.4% in sewage treatment and 65.2% in sewage treatment.

Essal has 100% coverage in drinkable water and 92.0% in sewerage service and 91.7% in sewage treatment.

Sales Volumes for the Group (Values in thousands of m³ billed)	December 2010	December 2009	Variation Dec 10 - Dec 09
Drinking Water	520.482	510.407	2,0%
Sewage Collection	507.229	495.945	2,3%
Sewage Treatment and Disposal	442.314	432.061	2,4%
Sewage Interconnection services	116.281	114.256	1,8%

Group Clients	December 2010	December 2009	Variation Dec 10 - Dec 09
Drinking Water	1.908.816	1.871.287	2,0%
Sewage Collection	1.865.772	1.828.606	2,0%



Financial Aspects

Currency Risks: Our revenues are mainly linked to the evolution of local currency. It is because of this that our debt is issued in this currency, reason for which we do not possess significant risk in foreign currency operations.

By December 31st, 2010 the risk of the interest rate kept by Aguas Andinas S.A. is composed by 81% fixed rate and a 19% variable rate. Fixed rate debt is composed by: the issuing of long and short term bonds (83%) and reimbursable financial contributions (17%), while the variable rate debt is related to loans by national banks.

By December 31st 2009 the risk for the interest rate kept by Aguas Andinas S.A., was composed by a 75% fixed rate and a 25% variable rate. Fixed rate debt is composed by: the issuing of long and short term bonds (83%) and reimbursable financial contributions (17%), while the variable rate debt is related to loans by national banks.

The Company maintains an interest rate management and monitoring policy which, with the objective of optimizing the financing cost, permanently evaluates the coverage instruments available in the financial market.

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