



INTERMEDIATE CONSOLIDATED FINANCIAL STATEMENTS

**Period finished by
June 30th, 2010**

Reasoned Analysis

REASONED ANALYSIS AGUAS ANDINAS CONSOLIDADO June - 2010

I GENERAL ASPECTS

Share composition

Aguas Andinas's capital constitutes 6.118.965.160 shares, without nominal value. By June 30th, 2010, our largest shareholders are Inversiones Aguas Metropolitanas S.A. with 50.1% and CORFO with 35.0% of shares.

Revenue

Our revenue is derived mainly from the regulated services that we provide and which relate to: production and distribution of drinkable water; sewage collection, treatment and 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 totaled Ch\$166,395 million, which is Ch\$6,469 million (-3.7%) below the amount for the previous period. Meanwhile, the net revenue of Aguas Andinas S.A. by June 2010 was Ch\$54,985 million, which is Ch\$14,695 million (-21.1%) below the previous period.

Operational costs and expenses

The operational costs and expenses are composed by the personnel costs, depreciations and amortizations, supply and material consumption, asset impairment and various other operational expenses. The most relevant items are: various other operational expenses 34.8%, associated with the outsourcing of certain services to contractors; the depreciation which represented 29.9%; personnel expense which represented 19.4% and the consumption of supplies and materials, which represented 20.4%, the consumption of supplies and materials which represented 13.1% and asset impairment which represented 1.8% till the first trimester 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, 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 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, and 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	May 23 rd , 2006 and February 19 th , 2007
Other locations	May through August, 2006

Aguas Cordillera S.A.



Las Condes	May 10 th , 2006
Los Dominicos	May 10 th , 2006

Aguas Manquehue S.A.	
Manquehue	May 12 th , 2006
Other locations	December 28 th , 2006

ESSAL S.A.	
X and XIV Regions	January 27 th and June 10 th , 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 (NIIFCH), 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 "Fixed Assets" of our balance.



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	June 2010	December 2009	Variation Jun 10 - Dec 09
	MMCh\$	MMCh\$	%
Current assests	90.327	91.358	-1,1%
Non-current	1.312.043	1.308.126	0,3%
Total Assets	1.402.370	1.399.484	0,2%
Current liabilities	107.369	115.575	-7,1%
Non-current liabilities	659.861	600.331	9,9%
Total liabilities	767.230	715.906	7,2%
Equity attributable to the parent owners	568.988	616.633	-7,7%
Non-controlling interests	66.152	66.945	-1,2%
Total Equity	635.140	683.578	-7,1%
Total Equity and Liabilities	1.402.370	1.399.484	0,2%

Assets

The total assets of Aguas Andinas Consolidado society to March 30th, 2010 present a rise of 0.2% compared to December 2009, going from Ch\$1.399.484 million to Ch\$1.402.370 million. The following are the most relevant variations in each category.

Current Assets

When comparing the June 2010 values with December 2009, they present a lower value, of Ch\$1.031 million (-1.1%) due, mainly to a decrease in trade and other receivables for Ch\$ 11.673 million (fewer unbillable debtors and debtors greater than 8 balances). Compensated, by the increase in cash and cash equivalents for Ch\$10,174 million, (greater long term deposits for the revenues during the peak period, mainly in Aguas Andinas).

Long-term assets

They present an increase of Ch\$3,917 million (0.3%) which is mainly explained by the increase in properties, plants and equipment for Ch\$1,475 million due to investments made by the Group and by higher differred taxes for Ch\$2.472 million.



The main investments made are reflected in the following table:

Compan	Investment	Acum to June 2010
Andina	Third STP Gran	4.24
Andina	Mapocho Sewage	2.58
Andina	Farfana – Trebal Interceptor	57
Cordiller	Starters and	26
Manquehu	North Zone	12
Manquehu	Drinking Water North	6

LIABILITIES AND EQUITY

Liabilities

The liabilities increased 7.2% in comparison to December 2009, which translates into Ch\$51,324 million. The following shows the most relevant variations in each category.

Current Liabilities

When comparing the June 2010 values to those for December 2009, there is a decrease of Ch\$8,206 million (-7.1%). The main variation corresponds to fewer commercial accounts payable and other accounts payable for Ch\$7,316 million.

Long-term Liabilities

They increased in Ch\$59,530 (9.9%), when comparing the June 2010 values to those of December 2009. The main variation corresponds to the increase of other financial liabilities for Ch\$53,448, explained by the issuing of Aguas Andinas K and M bonds during April 2010.

Equity

When comparing the June 2010 values with those of December 2009 the parent attributable equity decreased in Ch\$47,645 million, while the total equity fell in Ch\$48,438 million.

The equity movements to June 2010 basically correspond to the 2009 dividend distribution for Ch\$90,619 million, a minimum 2010 dividend of Ch\$16,495 and a profit to June 2010 for Ch\$54,985 million.

FINANCIAL INDICATORS



INDICATOR		June 2010	December 2009	Variation Jun 10 - Dec 09
Liquidity				
Current Liquidity	times	0,84	0,79	6,3%
Ratio	times	0,33	0,22	51,9%
Debt				
Total Debt	%	120,80	104,73	15,3%
Current Debt	%	13,99	16,14	-13,3%
Long-term debt	%	86,01	83,86	2,6%
Financial cost coverage	times	7,46	7,71	-3,2%
Profitability				
Parent equity profitability	%	9,28	20,12	-53,9%
Asset profitability	%	3,92	8,94	-56,2%
Parent income per share	\$	8,99	20,11	-55,3%
Dividend return	%	6,58	8,25	-20,2%

For June 2010, current liquidity increased in 6.3% mainly due to the decrease in current liabilities for Ch\$8,206 million (-7.1%), compared to December 2009. The main variation corresponds to fewer commercial accounts payable and other accounts payable for Ch\$7,316 million.

The debt ratio had a 15.3% increase due basically to the increase in long-term liabilities, explained by the issuing of Aguas Andinas K and M bonds during April 2010, and a decrease in equity as a product of lower accumulated results.

Equity profitability presents a 53.9% decrease due mainly to the decrease of income in relation to the January-December period in 2009 (55.3%), compensated in part by a decrease in the average equity (12.7%).

STATEMENTS OF INCOME BY NATURE

The following table shows the statements of income for the January-June period of 2010 and 2009:



Statement of Income by Nature	June 2010	June 2009	Variation Jun 10 - Jun 09
	MMCh\$	MMCh\$	%
Income for ordinary activities	166.395	172.864	-3,7%
Consumption of secondary and raw materials	(11.532)	(14.577)	-20,9%
Asset Impairment	(1.550)	0	100,0%
Expenses for employee benefits	(17.965)	(18.357)	-2,1%
Expenses for depreciation and amortization	(26.267)	(23.193)	13,3%
Other expenses, by nature	(30.538)	(31.132)	-1,9%
Exploitation Results	78.543	85.605	-8,2%
Financial Income	1.763	3.083	-42,8%
Financial Costs	(10.248)	(12.535)	-18,2%
Exchange difference	(19)	33	-157,6%
Results of Indexation Units	(5.454)	9.011	-160,5%
Financial Result	(13.958)	(408)	3321,1%
Other Income	1.611	2.169	-25,7%
Result before taxes	66.196	87.366	-24,2%
Income Tax	(10.388)	(15.418)	-32,6%
Minority Interest	(823)	(2.268)	-63,7%
Result for the period	54.985	69.680	-21,1%

• **Income for ordinary activities:**

By the first semester of 2010, Aguas Andinas Consolidado had income for Ch\$166,395 million, which was Ch\$6,478 million (-3.7%) lower than that obtained for the same period in 2009. The aforementioned variation is obtained from the following income composition:

Ordinary Income	June 2010		June 2009		Desviación	
	MMCh\$	%	MMCh\$	%	MMCh\$	%
Drinking Water	74.781	44,9%	82.088	47,5%	-7.307	-8,9%
Sewage	73.472	44,2%	75.173	43,5%	-1.701	-2,3%
Other Regulated income	2.304	1,4%	902	0,5%	1.402	155,4%
Non-regulated businesses	15.838	9,5%	14.701	8,5%	1.137	7,7%
Total ordinary income	166.395	100,0%	172.864	100,0%	-6.469	-3,7%

a) **Drinking Water:** Here, we consider the production and distribution of drinking water, which have seen a decrease of Ch\$7,307 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 3.4



million m³. The variation in the average rate is explained by the accumulated effect of negative indexations during 2009 and 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.

b) **Sewage:** Here we consider the collection, treatment, disposal and interconnection of sewage. The revenue from these services present a decrease of Ch\$1,701 million (-2.3%) caused by:

- A lower income for collection for Ch\$726 million (Ch\$37,801 million by June 2010, compared to the Ch\$38,527 million in June 2009), due to a lower applied average rate, compensated in part by a greater sales volumes for 4.5 million m³.
- Lower income for treatment in Ch\$307million (Ch\$28,588 million by June 2010, compared to the Ch\$28,895 by June 2009) due to a lower average rate, partly compensated by a greater sales volume of 4.1 million m³.
- A lower income for sewage interconnections for Ch\$668 million (Ch\$7,082 million by June 2010, compared to the Ch\$7,750 million by June 2009) due to a lower average rate applied, coupled with a lower sales volume of 3.5 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 Andina'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.

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\$1,402 million explained by a greater provision of income for Ch\$1,908 million partially compensated by lower revenues for fixed charges Ch\$126 million and interruption and resuming of service Ch\$191 million.

d) **Non-regulated businesses:** present an increase of Ch\$1,137 million (7.7%) in comparison to the same period for the previous year, explained, mainly, by the following businesses:

- **Sanitary:** a Ch\$1,670 million increase, associated mainly to greater income in contracted agreements with urban developers, greater income for sale of materials and greater income for services associated with the rural drinking water programs.
- **Non -Sanitary:** a Ch\$533 million decrease explained by lower income in materials sales by Gestión y Servicios in Ch\$1,160 million. This, compensated in part by greater income in EcoRiles, for Ch\$454 million (liquid residue treatment plants and treatment of excess industrial organic load), and by greater income associated to sales by ANAM (laboratory sampling and analysis services).



Group Consolidate Values in Millions of Ch\$	Real 2010	Real 2009	Real 2010 vs Real 2009	
			Abs.	%
Non-regulated non-sanitary products	7.485	8.018	(533)	-6,6%
Ecoriles	3.774	3.320	454	13,7%
G y S	3.000	4.160	(1.160)	-27,9%
Anam	711	538	173	32,2%

- **Raw and Secondary Material consumption**

For the first semester of 2010, these costs rose to Ch\$ 11,532 million, which is Ch\$3,045 million beneath the amount obtained for 2009. This is explained by lower electric energy expenses for Ch\$2,148 million, and lower general material purchases for Ch\$1,017 million.

- **Asset Impairment**

For the first semester of 2010, asset liability caused by the earthquake rises to Ch\$1,550 million, which happened in Aguas Manquehue for Ch\$1,121 million (North Zone Collector) and Aguas Andinas for Ch\$429 million.

- **Expenses for employee benefits**

For the first semester of 2010, these expenses rise to Ch\$17,965 million, which is Ch\$ 392 million beneath the amount obtained for the same period during the previous year, explained by a lower provision of vacation pay.

- **Expenses for depreciation y amortization**

For the first semester of 2010, these expenses rose to Ch\$26,267 million, amount which is Ch\$ 3,074 million higher than the amount obtained for the same period during 2009, explained by new investments executed by the Company, whose operations initiation happened in the period between July 2009 and June 2010.

- **Other expenses, by nature**

For the first semester of 2010, these expenses rose to Ch\$30,538 million, which is Ch\$594 million beneath the amount obtained for the same period during 2009, explained by fewer doubtful accounts for Ch\$931 million partially compensated by higher costs in the collection and disposal of residues and sludge from plants for Ch\$344 million.

- **Financial Income**

For the first semester of 2010, Aguas Andinas Consolidado obtained financial income for Ch\$ 1,763 million,



which is Ch\$1,320 million beneath the amount obtained during the same period for 2009, explained by lower income in debt pre-payment and lower income by interests for client debt.

- **Financial Costs**

During the first semester of 2010, these costs rose to Ch\$10,248 million, which is Ch\$2,287 million under the amount reached during the same period for 2009. This is explained by lower interests on bank loans in Chilean pesos

- **Results by Readjustment Units**

During the first semester of 2010, the results added up to (Ch\$5,454) million, which is Ch\$14,465 million under the amount obtained during the same period for 2009, explained by a greater revaluation of debt, due to the cumulative effect of positive variation of the UF in 2010, in contrast with the negative variation of the UF experienced during 2009.

- **Income other than operations**

Aguas Andinas Consolidada obtained results for Ch\$1,611 million, which is Ch\$ 558 million (-25.7%) to the amount obtained for the same period in 2009 explained, mainly, by a lower sales result of fixed assets for Ch\$573 million.

- **Expense (Income) by Income Tax**

The income tax provision for the first semester of 2010 is Ch\$5,030 million lower when compared to the same previous period, explained by a lower result before taxes.

- **Income (Loss)**

Due to the aforementioned factors, Aguas Andinas Consolidado's Net Income for the first semester of 2010 rose to Ch\$54,985 million, which is Ch\$14,696 million (-21.1%) under the amount obtained in June 2009.



CASH FLOW STATEMENT

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

Consolidated Cash Flows	June 2010	June 2009	Variation Jun 10 - Jun 09
	MM Ch \$	MMCh\$	%
Operational Flow	94.404	105.931	-10,9%
Investment Flow	-34.350	-41.404	-17,0%
Financing Flow	-49.880	-36.886	35,2%
Net flow for the year	10.174	27.641	-63,2%
Closing Cash Balance	35.170	28.260	24,5%

The flow created by operation related activities decreased in Ch\$11,527 million (-10.9%) when comparing June 2010 with June 2009, with the main variations being the decrease in the amount charged to customers by Ch\$15,578 million; explained by lower ordinary income, compensated in part by lower interest payments (Ch\$4,392 million), produced by lower interests in bank loans made in Chilean pesos.

The flow for investments fell by Ch\$ 7,054 million (-17.0%) due to the decrease in expenditures because of the incorporation of properties, plants and equipment for Ch\$12,177 million, compensated by a lower collection of income coming from the sales of properties, plants and equipment for Ch\$4,732 million.

The financing flow increased in Ch\$12,994 million compared to the same period for the previous year, with the main variation being an increase in paid dividends for \$Ch 15,078 million and a decrease in the amounts for long-term loans for Ch\$3,751, all of this, compensated with a lower loan payment for Ch\$6,900 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 does not have any competition in its concession area.

Aguas Andinas S.A. has 100% coverage in drinkable water, 98.5% in sewerage service 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 sewerage service and 66.9% 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

	2010	2009	Var (%)
(Values in thousands of m³ billed)			
Drinking Water	275.913	272.543	(+1,2%)
Sewage Collection	266.722	262.332	(+1,7%)
Sewage Treatment and Disposal	231.109	226.961	(+1,8%)
Sewage Interconnection services	58.731	62.196	(-5,6%)

Group Clients

	2010	2009	Var (%)
(Amount till March 31st)			
Drinking Water	1.886.894	1.849.800	(+2,0%)
Sewage Collection	1.846.372	1.806.461	(+2,2%)

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 debt in foreign currency.

To June 30th, 2010 the risk of the interest rate kept by Aguas Andinas S.A. is composed by a 78% fixed rate and a 22% variable rate. Fixed rate debt is composed by: the issuing of long and short term bonds (84%) and reimbursable financial contributions (16%), while the variable rate debt is related to loans by national banks.

To 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 assigned us a first class level 3 classification, while ICR gave us a first class level 2 classification.

