



INTERMEDIATE CONSOLIDATED FINANCIAL STATEMENTS

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

Reasoned Analysis

**REASONED ANALYSIS
AGUAS ANDINAS CONSOLIDATED
September - 2010**

I GENERAL ASPECTS

Share composition

Aguas Andinas's capital constitutes 6.118.965.160 shares, without nominal value. By September 30th, 2010, our largest shareholders are Inversiones Aguas Metropolitanas S.A. with 50.1% and CORFO with 35.0% of total 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; 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\$238,405 million, which is Ch\$2,667 million (-1.1%) below the amount for the previous period. Meanwhile, the net revenue of Aguas Andinas S.A. by September 30th 2010 was Ch\$73,352 million, which is Ch\$15,830 million (-17.8%) 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 34.5%, associated with the outsourcing of certain services to contractors; the depreciation which represented 30.6%; personnel expense which represented 20.8% and the consumption of supplies and materials, which represented 12.9%, the consumption of supplies and materials which represented 12.9% and asset impairment which represented 1.2% during the third 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, 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, 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 to August 2006

Aguas Cordillera S.A.

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

Aguas Manquehue S.A.

Manquehue May 12th, 2006

Other Locations December 28th, 2006 and July 14th, 2009

Essal S.A.

X and XIV Regions January 27th 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 (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 "Property, plant and equipment" of 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	September 2010	December 2009	Variation Sep 10 - Dec 09
	MM Ch\$	MM Ch\$	%
Current assets	94.242	91.358	3,2%
Long-term assets	1.317.133	1.308.126	0,7%
Total Assets	1.411.375	1.399.484	0,8%
Current liabilities	107.904	115.575	-6,6%
Long-term liabilities	655.662	600.331	9,2%
Total Liabilities	763.566	715.906	6,7%
Equity attributable to the parent owners	581.845	616.633	-5,6%
Non-controlling interests	65.964	66.945	-1,5%
Total Equity	647.809	683.578	-5,2%
Total Equity and Liabilities	1.411.375	1.399.484	0,8%

Assets

The total assets of Aguas Andinas Consolidado society to September 30th, 2010 present a rise of 0.8% compared to December 2009, going from Ch\$1.399.484 million to Ch\$1.411.375 million. The following are the most relevant variations in each category.

Current Assets

When comparing the September 2010 values with December 2009, they present a greater value, of Ch\$2.884 million (3.2%) due, mainly to an increase in cash and cash equivalents for Ch\$ 11.159 million (more long-term deposits because of the revenue for the peak period months), coupled with an increase in assets of current taxes for Ch\$971 million. These effects were compensated by a decrease in trade and other receivables for Ch\$9,703 million, (fewer unbillable debtors and debtors greater than 8 balances).

Long-term assets

They present an increase of Ch\$9,007 million (0.7%) which is mainly explained by the increase in properties, plants and equipment for Ch\$4,535 million due to investments made by the Group along with higher deferred taxes for Ch\$4,900 million (mainly originating from the monetary correction of taxes paid for fixed assets).



The main investments made are reflected in the following table:

LIABILITIES AND EQUITY Investment Projects	Acum September 2010 (MMCh\$)
Liabilities	
Third STP Gran Santiago	5.137
Mapocho Sewage interceptor	4.787
Lessal Investments	4.127
Starters and Meters	3.366
Sewage Networks	2.478
IT developments	2.444

The liabilities to September 2010 increased 6.7% in comparison to December 2009, which translates into Ch\$47,660 million. The following shows the most relevant variations in each category.

Current Liabilities

When comparing the September 2010 values to those for December 2009, there is a decrease of Ch\$7,671 million (-6.6%). The main variation corresponds to fewer current financial liabilities for Ch\$8,714 million (payment of bank loans), which is compensated with greater anticipated income for Ch\$820 million.

Long-term Liabilities

They increased in Ch\$55,331 (9,2%), when comparing the September 2010 values to those of December 2009. The main variation corresponds to the increase of other financial liabilities for por Ch\$43,446, explained by the issuing of Aguas Andinas bonds during April 2010 and greater differed income for contributions from third parties, for Ch\$11,491 million.

Equity

When comparing the September 2010 values with those of December 2009 the net equity decreased in Ch\$35,769 million, where the equity attributable to parent instrument holders decreased in Ch\$34,788 million.

The aforementioned decrease in equity is due to the definitive dividend distribution for 2009, for Ch\$90,619 million (which include a Ch\$4,485 million portion corresponding to a 30% difference from the profits of the previous term on the provisional dividend paid during 2009), compensated in part by the net profit of the term for Ch\$51,346 million (Ch\$73,352 million in profit and Ch\$22,006 million in dividend provision).

FINANCIAL INDICATORS



INDICATOR		September 2010	December 2009	Variation Sep 10 - Dec 09
Liquidity				
Current Liquidity	times	0,87	0,79	10,1%
Acid-Test Ratio	times	0,34	0,22	55,1%
Debt				
Total Debt	%	117,87	104,73	12,5%
Current Debt	%	14,13	16,14	-12,5%
Long-term Debt	%	85,87	83,86	2,4%
Financial expenses coverage	times	6,40	7,71	-17,0%
Profitability				
Parent equity profitability	%	12,24	20,12	-39,2%
Asset profitability	%	5,22	8,94	-41,6%
Income per share	\$	11,99	20,11	-40,4%
Dividend return	%	8,34	8,25	1,1%

For September 2010, current liquidity increased in 10.1% mainly due to the decrease in current liabilities for Ch\$8,206 million (-6.6%), compared to December 2009. The main variation corresponds to fewer current financial liabilities for Ch\$8,714 million, which is compensated with greater anticipated income for Ch\$820 million.

The debt ratio had a 12.5% 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 39.2% decrease due mainly to the decrease of income in relation to the January-December period in 2009 (40.4%).



STATEMENTS OF INCOME BY NATURE

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

Statement of Income by Nature	September 2010	September 2009	Variation Sep 10 - Sep 09
	MMCh\$	MMCh\$	%
Income for ordinary activities	238.405	241.072	-1,1%
Consumption of secondary and raw materials	(16.789)	(21.413)	-21,6%
Asset Impairment	(1.555)	0	100,0%
Expenses for employee benefits	(27.164)	(26.654)	1,9%
Expenses for depreciation and amortization	(39.830)	(37.671)	5,7%
Other expenses, by nature	(44.987)	(45.625)	-1,4%
Exploitation Results	108.080	109.709	-1,5%
Financial Income	2.766	4.164	-33,6%
Financial Costs	(16.246)	(17.303)	-6,1%
Exchange difference	(17)	34	-150,0%
Results of Indexation Units	(8.431)	10.950	-177,0%
Financial Result	(21.928)	(2.155)	917,5%
Other Income	1.649	2.266	-27,2%
Result before taxes	87.801	109.820	-20,1%
Income Tax	(13.678)	(19.345)	-29,3%
Minority Interest	(771)	(1.293)	-40,4%
Result for the period	73.352	89.182	-17,8%

- Ordinary Income:**

By the end of the third trimester of 2010. Aguas Andinas S.A. had income for Ch\$238,405 million, which was Ch\$2,668 (1.1%) lower than that obtained for the same period in 2009.

The aforementioned variation is obtained from the following income composition:



Ordinary Income	September 2010		September 2009		Deviation	
	MMCh\$	%	MMCh\$	%	MMCh\$	%
Drinking Water	102.033	42,8%	110.244	45,7%	-8.211	-7,4%
Sewage	108.119	45,4%	104.612	43,4%	3.507	3,4%
Other Regulated income	5.472	2,2%	4.415	1,9%	1.057	23,9%
Non-regulated businesses	22.781	9,6%	21.801	9,0%	980	4,5%
Total ordinary income	238.405	100,0%	241.072	100,0%	-2.667	-1,1%

a) **Drinking Water:** Here, we consider the production and distribution of drinking water. These services show a decrease of Ch\$8,211 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 7 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. 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 present an increase of Ch\$3,507 million (3.4%) caused by:

- A higher income for collection for Ch\$1.101 million (Ch\$54.773 million in 2010, compared to the Ch\$53.672 million during the previous year), due to a greater sales volume of Ch\$8.8 million m³ compensated in part by a lower average applied rate.
- Higher income for treatment in Ch\$2,019million (Ch\$42,412 million for 2010, compared to the Ch\$40,393 for the previous year) due to a higher sales volume of 8.2 million m³, coupled with a higher average applied rate, due to the enforcing of the Mapocho interceptor collector rate.
- Higher income for sewage interconnections Ch\$387 million (Ch\$10,934 million by 2010, compared to the Ch\$10,547 million from the previous year) due to a higher average rate applied, coupled with a lower sales volume of 0.8 million m³.

The variations in the average rates are produced by the accumulated effect of the negative indexations experienced during 2009 and 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.

- c) **Other Regulated Income:** Here we consider the fixed charge to our customers, the interruption and resuming of service and provisions for uncharged consumption. These revenues present an increase of Ch\$1,057 million explained by a greater provision of income for Ch\$1.242 million partially compensated by higher provision of income for Ch\$1,742 million, partially compensated by lower revenues for fixed charges Ch\$126 million and interruption and resuming of service Ch\$230 million.



a) **Non-regulated businesses:** present an increase of Ch\$980 million (4.5%) in comparison to the same period for the previous year, explained, mainly, by the following businesses:

- **Sanitary:** a Ch\$1,566 million increase, associated mainly to greater income in contracted agreements with urban developers, greater income for rural water and greater income from materials sales.
- **Non -Sanitary:** a Ch\$586 million decrease explained by lower income in materials sales by Gestión y Servicios in Ch\$1,967 million. This compensated in part by greater income in EcoRiles, for Ch\$1,209 million (operation of liquid residue treatment plants and treatment of excess industrial organic load), and by greater income for Ch\$172 million associated to sales by ANAM (laboratory sampling and analysis services).

Group Consolidate Values in Millions of	Real 2010	Real 2009	Real 2010 vs Real 2009	
			Abs.	%
Non-regulated non-sanitary products	11.632	12.218	(586)	-4,8%
Ecoriles	6.632	5.423	1.209	22,3%
G y S	4.046	6.013	(1.967)	-32,7%
Anam	954	782	172	22,0%

- **Raw and Secondary Material consumption**

For the third trimester of 2010, these costs rose to Ch\$ 16,789 million, which is Ch\$4,624 million beneath the amount obtained for 2009. This is explained by lower electric energy for Ch\$2,966 million, and lower general material for Ch\$1,721 million.

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

For the third trimester of 2010, the loss for asset impairment as a product of the earthquake rose to Ch\$1,555 million, mainly in Aguas Manquehue, fir Ch\$1,121 million (North Zone Collector) and Aguas Andinas for Ch\$429 million.

- **Gastos por beneficios a los empleados**

By the third trimester of 2010, these expenses rise to Ch\$27,164 million, which is Ch\$510 million above the amount obtained to the same period of the previous year, explained mainly by the bonuses associated to the conclusion of the collective negotiation.



- **Expenses for depreciation y amortization**

For the third trimester of 2010, these expenses rose to Ch\$39,830 million, amount which is Ch\$ 2,159 million higher than the amount obtained for the same period during 2009, explained by new investments executed by the Company.

- **Other expenses, by nature**

For the third trimester of 2010, these expenses rose to Ch\$44,987 million, which is Ch\$638 million beneath the amount obtained for the same period during 2009, explained by fewer doubtful accounts for Ch\$1,760 million partially compensated by higher costs in the collection and disposal of residues and sludge from plants for Ch\$401 million.

- **Financial Income**

For the first trimester of 2010, Aguas Andinas Consolidado obtained financial income for Ch\$ 2,766 million, which is Ch\$1,398 million beneath the amount obtained during the same period for 2009, explained by lower income in financial assets.

- **Financial Costs**

During the third trimester of 2010, these costs rose to Ch\$16,246 million, which is Ch\$1,057 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 third trimester of 2010, the results added up to Ch\$8,431 million, which is Ch\$19,281 million under the amount obtained during the same period for 2009, explained by a greater revaluation of debt, due to the accumulated effect of positive variation of the UF in 2010, in contrast to the negative variation of the UF in 2009.

- **Other Income**

Aguas Andinas Consolidada obtained results for Ch\$1,649 million, which is Ch\$617 million beneath the amount obtained for the same period in 2009 explained, mainly, by lower income from land sales originated last year by the Aguas Cordilleras S.A. subsidiary.

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- **Expense for Income Tax**

Income tax provision for the third trimester of 2010 is Ch\$5,667 million lower when compared to the same previous period, explained by a lower result before taxes.

- **Income**

Due to the aforementioned factors, Aguas Andinas Consolidado's Net Result for the third trimester of 2010 rose to Ch\$73,352 million, which is Ch\$15,830 million (-17.8%) under the amount obtained to September 2009.



CONSOLIDATED CASH FLOW STATEMENT

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

Consolidated Cash Flows	September 2010	September 2009	Variation Sep 10 - Sep 09
	MMCh\$	MMCh\$	%
Operational Flow	129.505	140.023	-7,5%
Investment Flow	-46.544	-63.882	-27,1%
Financing Flow	-71.803	-27.593	160,2%
Net flow for the year	11.158	48.548	-77,0%
Closing Cash Balance	36.155	49.168	-26,5%

The flow created by operation related activities decreased in Ch\$10,518 million (-7.5%) when comparing September 2010 with September 2009, with the main variations being the decrease in the amount charged to customers (Ch\$9,349 million), explained by lower ordinary income; increase in the payment of income tax (Ch\$3,161) among others; compensated in part by lower interest payments (Ch\$5,037 million), produced by lower interests in bank loans made in Chilean pesos.

The flow for investments fell by Ch\$ 17,338 million (-27.1%) due to the decrease in expenditures because of the incorporation of properties, plants and equipment for Ch\$21,500 million, compensated by a lower collection of income coming from the sales of properties, plants and equipment for Ch\$3,796 million.

The financing flow increased in Ch\$44,2010 million (160.2%) compared to the same period for the previous year, due to the payment of loans for Ch\$16,530, greater dividends paid for Ch\$15,038 million and a decrease in the amounts for short and long-term loans for Ch\$12,176 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, 98.6% 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, 99.4% in sewerage service and 65.2% in sewage treatment.

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



Group Sales Volume (Values in thousands de m3)	September 2010	September 2009	Variation Sep 10 - Sep 09
Drinking Water	385.889	378.815	1,9%
Sewage Collection	376.410	367.594	2,4%
Sewage Treatment and Disposal	328.556	320.322	2,6%
Sewage Interconnection services	86.731	85.894	1,0%

Group Clients	September 2010	September 2009	Variation Sep 10 - Sep 09
Drinking Water	1.899.623	1.860.865	2,1%
Sewage Collection	1.855.915	1.817.716	2,1%



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 September 30th, 2010 the risk of the interest rate kept by Aguas Andinas S.A. is composed by an 81% fixed rate and a 19% 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.

