



REASONED ANALYSIS

**Period finished by
June 30th 2011**

REASONED ANALYSIS

AGUAS ANDINAS S.A. AND SUBSIDIARIES

June - 2011

I GENERAL ASPECTS

Share composition

Aguas Andinas's capital constitutes 6.118.965.160 shares, without nominal value. By June 30th, 2011, our largest shareholder is Inversiones Aguas Metropolitanas S.A. with 50.1%.

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 2011 period rose to Ch\$ 185,019 million, which is Ch\$18,652 million (11.2%) above the revenue for the previous period. Meanwhile, the net revenue for Aguas Andinas S.A. by June 2011 was Ch\$59,152 million, which is Ch\$4,167 million (7.6%) above the previous period.

Operational costs and expenses

The operational costs and expenses are composed by the costs of raw materials and used consumables, expenses for employee benefits, expenses for depreciation and amortization, losses from value impairment and other expenses, by nature. The most relevant items are: other expenses, by nature 37.4%, associated to the outsourcing of certain services with contractors; the expense for depreciation and amortization which represented a 28.0%; the expense for employee benefits which represented a 20.0%; and raw materials and used consumables which represented 13.8%, all this to the second trimester of 2011.

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. correspond to N°176 dated June 8th, 2010 and N° 170 dated May 20th, 2010 respectively. 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. Currently, the rate assignment process for the 2011-2016 period has concluded, and the emission of the new decree is pending.

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 16th, 2011

Other Locations: December 22nd and 28th, 2010 and August 7th, 2006

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

Chicureo, Chamisero and Valle Grande III: December 28th,2006 and July 14th,2009

Essal S.A.

X and 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" of 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	June 2011	December 2010	Variation Jun 11 - Dec 10	
	MMCh\$	MMCh\$	MMCh\$	%
Current assets	114.093	75.792	38.301	50,5%
Long-term assets	1.367.860	1.330.647	37.213	2,8%
Total Assets	1.481.953	1.406.439	75.514	5,4%
Current liabilities	154.601	92.931	61.670	66,4%
Long-term liabilities	666.129	639.876	26.253	4,1%
Total Liabilities	820.730	732.807	87.923	12,0%
Equity attributable to the parent owners	596.018	607.588	(11.570)	-1,9%
Non-Controlling interests	65.205	66.044	(839)	-1,3%
Total Equity	661.223	673.632	(12.409)	-1,8%
Total Equity and Liabilities	1.481.953	1.406.439	75.514	5,4%



Assets

The total assets of Aguas Andinas Consolidado to June 30th, 2011 present a rise of 5.4% compared to December 31st 2010, going from Ch\$1,406,439 million to Ch\$1,481,953 million. The following are the most relevant variations in each category.

Current Assets

When comparing the June 2011 values with December 2010, they present a greater value, of Ch\$38,301 million (50,5%), due to an increase in cash and cash equivalents for Ch\$43,404 million, partially compensated by fewer commercial debtors for Ch\$3.983 million.

Long-term assets

They present an increase of Ch\$37,213million (2.8%) which is mainly explained by the increase in properties, plants and equipment for Ch\$30,883 million and in intangibles other than goodwill (software) for Ch\$3,593 million due to the investments made during the first semester, by the Group.

The main investments made are reflected in the following table:

Investment Projects	Acum Jun 2011 (MMCh\$)
Farfana - Trebal Interceptor	15.865
Third STP Gran Santiago	31.114
Sewage Networks	1.913
Starters and Meters	1.741

LIABILITIES AND EQUITY

Liabilities

The liabilities to June 2011 increased 12.0% in comparison to December 2010, which translates into Ch\$87,923 million. The following shows the most relevant variations in each category.

Current Liabilities

When comparing the June 2011 values to those for December 2010, there is an increase of Ch\$61,670 million (66,4%). The main variation corresponds to short term bond obligations for Ch\$38,368 million, more accounts payable to related companies for Ch\$13,604 million, and more commercial accounts payable for Ch\$10,347 million explained by the executed investments.



Long-term Liabilities

They increased in Ch\$26.253 million (4,1%), when comparing the June 2011 values with those of December 2010. The main variation corresponds to the rise in other long-term financial liabilities for Ch\$27,854 million, explained by issuing of bonds in April 2011. This, partially compensated by lower differed taxes to be paid for Ch\$1,022 million.

Equity

When comparing the June 2011 values to those for December 2010, the net equity decreased in Ch\$12,409 million, where the equity attributable to parent instrument holders decreased in Ch\$11,570 million, explained by the distribution of the final dividends corresponding to the 2010 term, which is compensated partially by the revenue generated during the 2011 term.

FINANCIAL INDICATORS

Indicator		June 2011	December 2010	Variation Jun 11 - Dec 10
Liquidity				
Current Liquidity	times	0,74	0,82	-9,8%
Acid-Test Ratio	times	0,32	0,07	384,8%
Debt				
Total Debt	%	124,12	108,78	14,1%
Current Debt	%	18,84	12,68	48,6%
Long-term Debt	%	81,16	87,32	-7,1%
Financial expenses coverage	times	6,72	6,46	4,0%
Profitability				
Annualized Parent equity profitability	%	18,54	16,88	9,8%
Annualized Asset Profitability	%	7,49	7,40	1,2%
Annualized profit per share	\$	17,65	16,97	4,0%
Dividend return	%	6,69	8,25	-18,9%

To June 2011, current liquidity decreased 9.8% due to the fact that the increase in the current assets, for Ch\$38.301 million (50.5%), is beneath the increase of the current liabilities by Ch\$61,670 million (66.4%), when compared to December 2010. The main variations in the assets as well as the current liabilities are: increase cash and cash equivalents for Ch\$43,404 million, partially compensated by fewer commercial debtors for Ch\$ 3,983 million, short-term bonds obligations for Ch\$38,368 million, greater accounts payable to related companies for Ch\$ 13,604 million and greater commercial accounts payable for Ch\$10,347 million.



The acid-test ratio rises significantly, mainly due to the aforementioned increase of cash and cash equivalents, compensated partially by the increase in current liabilities, which was previously explained.

The debt ratio rose 14.1%, due basically to the decrease in equity, produced by lower accumulated results for Ch\$11,570 million, explained by the distribution of the final dividends for the 2010 term and an increase in the current liabilities.

Annualized Parent equity profitability rose 9.8% mainly due to the decrease in average equity during the mobile period to June 2011, compared to December 2010.

STATEMENTS OF INCOME BY NATURE

The following table shows the statements of income for the 2011 and 2010 periods:

Statement of Income by nature	Jun 2011	June 2010	Variation Jun 11 - Jun 10	
	MMCh\$	MMCh\$	MMCh\$	%
Total income for ordinary activities	185.019	166.367	18.652	11,2%
Raw materiales and consumables used	(13.027)	(11.532)	(1.495)	13,0%
Expenses for employee benefits	(18.816)	(17.965)	(851)	4,7%
Depreciation and amortization costs	(26.407)	(26.268)	(139)	0,5%
Losses for value impairment recognized in term result	(720)	(1.550)	830	-53,5%
Other expenses by nature	(35.284)	(30.538)	(4.746)	15,5%
Exploitation result	90.765	78.514	12.251	15,6%
Financial Income	4.132	1.763	2.369	134,4%
Financial costs	(12.654)	(10.248)	(2.406)	23,5%
Exchange difference	(10)	(19)	9	-47,4%
Results by Indexation Units	(10.094)	(5.454)	(4.640)	85,1%
Financial Result	(18.626)	(13.958)	(4.668)	33,4%
Other income	227	1.640	(1.413)	-86,2%
Results before taxes	72.366	66.196	6.170	9,3%
Income tax expenses	(13.111)	(10.388)	(2.723)	26,2%
Income attributable to non-controlling interests	(103)	(823)	720	-87,5%
Income attributable to parent owners	59.152	54.985	4.167	7,6%

• Ordinary Income:

By the second trimester of 2011, Aguas Andinas S.A. obtained income for Ch\$185,019 million, which is Ch\$18,652 million (11,2%) above the amount obtained during the same period for 2010.



The aforementioned variation is obtained from the following income composition:

Ordinary Income	June 2011		June 2010		Variation Jun 11 - Jun 10	
	MMCh\$	%	MMCh\$	%	MMCh\$	%
Drinking water	78.938	42,7%	74.781	44,9%	4.157	5,6%
Sewage	84.848	45,9%	73.472	44,2%	11.376	15,5%
Other regulated income	3.757	2,0%	2.304	1,4%	1.453	63,1%
Non-regulated businesses	17.476	9,4%	15.810	9,5%	1.666	10,5%
Ordinary income Total	185.019	100,0%	166.367	100,0%	18.652	11,2%

a) **Drinking Water:** Here, we consider the production and distribution of drinking water. These services show an increase of Ch\$4,157 million when compared to the same period for the previous year. The main explanation lies in a greater average rate, which increased because of the positive indexations experienced in June 2010, January 2011, as an effect of the tax rate, and in April 2011. This, added to a greater sales volumen, which increased in 4.5 million m³, compared to 2010, explained by an increase in clients.

b) **Sewage:** Here we consider the collection, treatment, disposal and interconnection of sewage. The revenue from these services increased in Ch\$11,376 million (15.5%) as a product of:

- Greater income in collection for Ch\$3,953 million (Ch\$41,754 million from 2011, compared to Ch\$37,801 million for the previous year), explained, mainly, by a greater average rate. Also, due to a greater accrued sales volume of 3.8 million m³.
- Greater income in treatment for Ch\$5.385 million (Ch\$33,974 from 2011, compared to the Ch\$28,588 million of the previous year) explained, mainly, by a greater average rate. Also, by a greater accrued sales volume of 3.7 million m³.
- Greater income from sewage interconnections Ch\$2,038 million (Ch\$9,120 million from 2011 compared to the Ch\$7,082 million from the previous year), explained, mainly, by a greater average rate. Also, by a greater accrued sales volume of 4.3 million m³.

The variations in the average rates are produced by the accumulated effect of the indexations experienced during 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 for drinking water and an increase in those of sewerage. Additionally, the Mapocho interceptor collector rate, within the variable charge for sewerage, started being enforced on April 1st 2010. Finally in June 2010, there was a positive indexation, affecting the rates of drinking water and sewerage. On the other hand in 2011 also saw positive indexations. Starting on January 1st, 2011 new rates



began to be used, triggered by a rise in the tax rate which affected every rate group. Also, on February 15th 2011 Aguas Manquehue S.A. was indexed; Aguas Andinas was on April 15th, 2011: ESSAL was on April 15th, 2011 and Aguas Cordillera S.A. on May 15th, 2011

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 increased in Ch\$1,453 million explained, mainly by a greater provision for uncharged consumption for Ch\$663 million.

d) **Non-regulated businesses:** present an increase of Ch\$1,666 million (10,5%) compared to the same period of the previous year. Mainly explained by the following businesses:

➤ Sanitary: Increased in Ch\$258 million associated mainly with greater easements, partially compensated by fewer property development agreements..

➤ Non- Sanitary: increased in Ch\$1,408 million, explained, firstly, by a greater level of activities in Ecoriles S.A. (operation of liquid residue treatment plants and treatment of excess industrial organic load), followed by greater materials sales in Gestión y Servicios S.A. and, to a lesser degree, by Análisis Ambientales S.A. (laboratory services; sampling and analysis).

Group Consolidate	June 2011 MMCh\$	June 2010 MMCh\$	Variation Jun 11 - Jun 10	
			MMCh\$	%
Non-Sanitary non-regulated products	8.894	7.486	1.408	18,8%
Ecoriles S.A.	4.829	3.775	1.054	27,9%
Gestión y Servicios S.A.	3.248	3.000	248	8,3%
Anam S.A.	817	711	106	14,9%

- **Raw materials and consumables used**

To the second trimester of 2011, these costs rose to Ch\$13,027 million, which is Ch\$1,495 million greater than the amount obtained in 2010. This, mainly explained by a higher cost in electric energy.

- **Losses for impairment value recognized in the period results**

To the second trimester of 2011, there have been losses for asset impairment for Ch\$720 million, which is Ch\$830 million below the amount to the second trimester of 2010. This is explained by the effects of the 2010 earthquake, compensated, partially, by the downturns of the Aguas Manquehue S.A. plants in 2011.

- **Expenses for employee benefits**

To the second trimester of 2011, these expenses rose to Ch\$18,816 million, which is Ch\$851 million above the amount obtained during the same period the previous year, mainly explained by greater employee income and benefits, both associated to adjustments due to the Consumer Price Index.

- **Expenses for depreciation and amortization**

To the second trimester of 2011, these expenses rose to Ch\$26,407 million, which is Ch\$139 million above the amount obtained during the same period for the previous year, explained, mainly, by the depreciation generated by the new investments executed by the company.



- **Other expenses, by nature**

To the second trimester of 2011, these expenses rose to Ch\$35,284 million, which is Ch\$4,746 million above the amount obtained for the same period of 2010, mainly explained by greater operational expenses in treatment plants for 2,748 million and in the collection and disposal of residues and sludge from plants for Ch\$1,887 million. This increase is associated to a greater volume of treated water caused when the Mapocho interceptor collector went online.

- **Financial Income**

To the second trimester of 2011, Aguas Andinas Consolidado obtained financial income for Ch\$4,132 million which is Ch\$2,309 million above the amount obtained during the same period of the year 2010, explained by greater financial interest and greater repurchase of refundable financial contributions.

- **Financial Costs**

To the second trimester of 2011, these costs rose to Ch\$12,654 million, which is Ch\$2,406 million above the amount obtained for the same period of the previous year. This is explained by greater interests compared to the previous year, caused by greater bank loans and issuing of bonds.

- **Results by Indexation Units**

To the second trimester of 2011, negative results for Ch\$10,094 million were obtained, which are Ch\$4,640 million above the amount obtained during the same period for 2010, explained mainly by a greater revaluation of debt, due to a greater variation of the UF for the second trimester, compared to the same period for 2010.

- **Other income**

Aguas Andinas Consolidada obtained results for Ch\$227 million, which is Ch\$1,413 million beneath the amount obtained during for the same period of 2010, explained by insurance refunds during 2010, caused by the damages in the Chaiten incident, in Essal S.A.

- **Expenses for income tax**

Income tax provision for the second trimester of 2011 is Ch\$2,723 million higher when compared to the same period for the previous year, explained by lower result before taxes, together with the effect of the transitory increase of the tax rate.

- **Income**

Due to the aforementioned factors, income attributable to the parent owners to the second trimester of 2011 rose to Ch\$59,152 million which is Ch\$4,167 million (7.6%) above the amount obtained to June 2010.

CONSOLIDATED CASH FLOW STATEMENT

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

Direct Consolidated Cash Flow Statements	June 2011	June 2010	Variation Jun 11 - Jun 10
	MMCh\$	MMCh\$	%
Net Cash flows from operation activities	97.171	91.650	6,0%
Net Cash Flows used in investment activities	-38.975	-34.350	13,5%
Net cash flows used in financing activities	-14.792	-47.126	-68,6%
Net increase in cash and cash equivalentes	43.404	10.174	326,6%
Cash and cash equivalentes at the beginning of the period.	6.090	24.996	-75,6%
Cash and cash equivalentes at the end of the period	49.494	35.170	40,7%

The flow created by operation related activities experienced a variation of Ch\$5,521 million (6,0%) when comparing June 2011 with June 2010, with the main variations being the increase in the charges coming from the sale of services for (Ch\$16,980 million), coming from greater billing when the Mapocho Collector Interceptor went online, positive rate indexation and to the coming online of new waste treatment plants of a subsidiary; this effect is partially compensated with: an increase in payments to providers, for the outsourcing of the operation services of the El Trebal Sewage Treatment Plant, increase in inputs from the operation of new liquid waste treatment plants, an increase in purchases for the Collector Renewal Project Ch\$5,960 million, an increase in other payments for operation related activities, for greater Value Added Tax payment given the increase of sales and provisional monthly payments due to a transitory change in the first category tax rate (Ch\$ 2,613 million), increase of interest payments in bonds and an increase in the interest rates for bank loans in Ch\$ 2,256 million.

The negative flow for investment activities generated a variation for Ch\$4,624 million (13.5%), due mainly to the increase in the incorporation of Properties, Plants and Equipment for Ch\$5,696 million, being the construction of the Mapocho Sewage Treatment Plant, La Farfana-El Trebal Interceptor representing said variation, among others, compensated by a decrease in the incorporation of intangible assets for Ch\$303 million.

The negative financing flow had a variation for Ch\$32,334 million (68.6%), mainly due to the decrease in dividends paid for Ch\$20,029 million, derived from a lower profit for the 2010 term, compared to the 2009 term and by an increase in the income from short and long term loans for Ch\$11,582 million, variation which can be explained mainly by the issuing of bonds (N and P series) for the amount of Ch\$4,800 million and AFR for Ch\$2,200 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 drinking water, del 98.7% in sewerage service and 85.8% in sewage treatment

Aguas Cordillera S.A. has 100% in drinking water and 98.9% in sewerage service.

Aguas Manquehue S.A. has 100,0% in drinking water, 99.4% in sewerage service and 94.6% in sewage treatment.

Group Sales Volumes (Values in thousands of m3 billed)	June 2011	June 2010	Variation Jun 11 - Jun 10
Drinking Water	280.394	275.913	1,6%
Sewage Collection	270.530	266.722	1,4%
Sewage Treatment and Disposal	234.779	231.109	1,6%
Sewage Interconnection services	62.991	58.731	7,3%

Group Clients	June 2011	June 2010	Variation Jun 11 - Jun 10
Drinking Water	1.924.899	1.886.894	2,0%
Sewage Collection	1.882.256	1.846.372	1,9%



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, 2011 the risk of the interest rate kept by Aguas Andinas S.A. is composed by an 83% fixed rate and a 17% 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, 2010, the risk for the interest rate kept by Aguas Andinas S.A., was 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 (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.