



## **EARNINGS RELEASE**

**Period Ending  
December 31<sup>st</sup>, 2014**

## **Summary of 2014**

- The Company's results for 2014 were positively influenced with respect to 2013 due to the entry into operation of the Mapocho Sewage Treatment Plant, the entry into operation of potable water supply security works and due to the absence of the negative effects generated by the interruptions of potable water occurred during the summer of 2013. These interruptions happened after the summer rains and rockfalls in the Maipo River elevated the turbidity of the flow to extreme levels, preventing the production of water. It is worth noting that the drought persists in the country, situation that is reflected in a greater purchase of raw water with respect to the previous year. On the other hand, the Tax Reform increases the corporate tax provision due to a change in rate for this commercial year going from 20% to 21%.
- By the end of 2014, the Company's revenue rose to Ch\$440,856 million which is a Ch\$36,809 million (9.1%) increase over the revenue obtained in the same period of 2013. This increase was mainly due to greater sales volumes, the application of tariff increase associated to with the entry into operation of the Mapocho Sewage Treatment Plant and the increase in tariffs due to the entry into operation of new potable supply security works, together with tariff indexations registered in late September 2013, early April and October 2014. The Mapocho Sewage Treatment Plant allowed for the conclusion of the Sanitation plan for the Santiago Metropolitan Region treating 100% of sewage in the region.
- Costs increased by 7.5% due to higher employee benefits (Ch\$4,885 million) associated with the application of consumer price index adjustments and extraordinary benefits to personnel associated with the collective bargaining with the syndicates of Aguas Andinas which occurred in the month of July. Additionally, there was an increase in insolvency provision for Ch\$1,683 million, a greater purchase of raw water for Ch\$1.886 due to the effects of the drought, greater network maintenance costs for Ch\$1,170 million and greater expenses in customer service for Ch\$1,277 million. With this, the EBITDA for the period reached Ch\$272,701 million, exhibiting a 10.1% increase with respect to the same period in the previous year.
- The financial result originated a loss for Ch\$59,652 million, Ch\$24.865 above to the one obtained to December 2013, as a consequence mainly from a greater revaluation of debt, readjustable in Unidades de Fomento (indexation units).
- During the month of August, the W Bond Series was issued. Its purpose was to pre-pay the F Bond Series and achieve favorable conditions for the Company. The prepayment of the F Bond Series had a negative effect on results of Ch\$2,042 million due to the application of capitalized expenses on its issuance. In addition to this, it is worth highlighting that this placement allowed for the improvement of the debt structure going from a duration of 5.7 years to 16 years.
- By the end of the third quarter the Tax Reform was approved, which generated registries associated to the change in first category tax rates in the current year and following years. The Company operates under the Partially Integrated System until an extraordinary shareholders meeting agrees to opt for an alternative system. As a product of this, the rate change for the year (21%) has been included in the financial statements for effects of calculating the corporate tax provision with its corresponding impact on results for Ch\$1,800 million and the programming of increases up to 27% in 2018, for effects of determining deferred taxes. The impact of said change has been registered in Equity, without affecting the results for the period, in virtue of what is disposed in the instruction issued by the SVS.
- Net income as of December 31<sup>st</sup>, 2014 rose to Ch\$58,711 million, Ch\$1,063 (+1.8%) greater to the one obtained the previous year.

## **Events of the Quarter**

- The year 2014 was one with the highest temperatures in Chilean history and this has had effects on the drought that afflicts the country for the fifth consecutive year. To ensure the water supply for the inhabitants of the Metropolitan Region, Aguas Andinas has continued with the implementation of its drought plan. This plan includes enabling new tanks (finished during the first quarter of 2014), purchasing raw water (Ch\$858 in the last quarter of the year, Ch\$1,886 million total in 2014), renting water usage rights from other members of Canalistas del Río Maipo, agreements with user organizations, amongst others. The correct management of the company has allowed for the continuity of service in spite of the existent deficit.
- The efficient management of the company's infrastructure, which in 2014 includes new tanks and safety wells and the operation of project CAYA, conduction work which allows water to flow from the El Yeso reservoir to the Azulillo zone, has allowed the Company to overcome increased turbidity episodes at the end of a year and prevent service interruptions.

## 2. Results

Income Statement (Ch.\$ millions)	Dec. 14	Dec. 13	% Var.	2014 / 2013
Revenues	440,856	404,047	9.1%	36,809
Operational Costs and Expenses	(168,155)	(156,378)	7.5%	(11,777)
EBITDA	272,701	247,669	10.1%	25,032
Depreciation and Amortization	(66,241)	(64,721)	-2.3%	(1,520)
Operating Income	206,460	182,948	12.9%	23,512
Financial Result*	(59,652)	(34,787)	71.5%	(24,865)
Tax Expenses	(25,285)	(29,333)	-13.8%	4,048
Net Income	58,711	57,648	1.8%	1,063

\* Includes financial income, financial costs, exchange difference and results by indexation units.

### 2.1. Revenue Analysis

	Dec. 14		Dec. 13		Variation	
	Sales Ch.\$ millions	% of Rev.	Sales Ch.\$ millions	% of Rev.	Ch.\$ millions	%
Potable Water	171,488	38.9%	157,307	39.0%	14,181	9.0%
Sewage	202,001	45.8%	184,299	45.6%	17,702	9.6%
Other Regulated Revenue	20,282	4.6%	16,557	4.1%	3,725	22.5%
Non-Regulated Revenue	47,085	10.7%	45,884	11.3%	1,201	2.6%
<b>Total</b>	<b>440,856</b>	<b>100.0%</b>	<b>404,047</b>	<b>100.0%</b>	<b>36,809</b>	<b>9.1%</b>

Sales Volume (Thousands of m³)	Dec. 14	Dec. 13	% Var.	Difference
Potable Water	558,555	548,932	1.8%	9,623
Sewage Collection	540,463	534,066	1.2%	6,397
Sewage Treatment and Disposal	473,688	466,934	1.4%	6,754
Interconnections*	119,260	119,056	0.2%	204
<b>Clients</b>	<b>Dec. 14</b>	<b>Dec. 13</b>	<b>% Var.</b>	<b>Difference</b>
Potable Water	2,096,999	2,039,298	2.8%	57,701
Sewage Collection	2,045,634	1,999,419	2.3%	46,215

\* Interconnections include Sewage Treatment and Disposal from other sanitation companies

### Regulated Businesses

#### 1. Potable Water

Potable water revenues for 2014 reached Ch\$171,488 million, which meant an increase of Ch\$14,181 million with respect to the same period for the previous year. The increased revenue is due, in part, to a greater sales volume in potable water billed during 2014, which was 1.8% superior to the level registered

last year. In addition, there was a greater average tariff, given the application of new tariff rates. These new rates include new potable water supply safety works which came into effect in March 2014 and indexations registered at the end of September 2013, early April 2014, and October 2014. The latter adjusts tariffs in respect to the variations of the existing polynomial.

## 2. Sewage

Sewage revenue for 2014 reached Ch\$202,001 million, showing an increase of 9.6%, compared to the Ch\$184,299 million registered in 2013. The Ch\$17,702 increase was due to a greater sales volume of 6.4 million m<sup>3</sup> together with a greater average tariff, because of the tariff indexation registered in late September 2013, early April, and October 2014.

## 3. Other Regulated Revenue

This item presents a Ch\$3,725 million increase which was mainly explained by the greater income generated by the fixed rate charged to clients, as a product of indexations experienced during the period, and the increase in the number of served clients, together with a greater provision of income for unbilled consumption.

## Non-Regulated Revenue

Non-regulated revenue increased in Ch\$1.201 million by the end of 2014, compared to the same period of the previous year. This variation was explained by:

### 1. Sanitation Services

An increase of Ch\$1,066 million due mainly to greater agreements with developers and rural water income, compensated with lower revenue for modifications in sanitation infrastructure.

### 2. Non-Sanitation Services

The Ch\$135 million increase was explained mainly by greater services provided by Análisis Ambientales S.A. and to a greater level of activity in EcoRiles S.A., compensated with a decrease in the income of Inversiones Aguas Metropolitanas S.A.

(Ch\$ millions)	Dec. 14	Dec. 13	Var. %
Gestión y Servicios S.A.	8,488	9,558	-11.2%
EcoRiles S.A.	12,174	11,520	5.7%
Anam S.A.	2,700	2,114	27.7%
Aguas del Maipo S.A.	772	761	14%
Inversiones Aguas Metropolitanas S.A	126	172	-26.7%
<b>Non-regulated, non-sanitation products</b>	<b>24,260</b>	<b>24,125</b>	<b>0.6%</b>

## 2.2. Cost Analysis

### Raw Materials and Consumables Used

For the year ending December 31<sup>st</sup>, 2014, costs for raw materials and consumables used reached Ch\$30,183 million, which is Ch\$2,766 million above the amount obtained at the end of 2013. The increase in these costs is due, mainly to the purchase of raw water made throughout the year, electric energy and a greater consumption of chemical supplies, by the EcoRiles subsidiary as well as regulated companies associated to an increase in production volume.

This is compensated partially by the decrease in the cost of sales for Gestión y Servicios due to a lower level of activity, mainly because of the effect of winding up operations in the collective negotiation period.

### **Personnel Expenses**

By the end of the 2014 term, expenses for employee benefits reached Ch\$45,696 million, which is Ch\$4,885 million above the previous year. This is mainly explained due to higher personnel compensation linked to inflation adjustments and extraordinary benefits to personnel associated to the collective negotiation for Aguas Andinas in July and Aguas Cordillera at the end of the year.

### **Expenses for depreciation and amortization**

By the end of the 2014 term, depreciation and amortization increased to Ch\$66,241 million, which is Ch\$1,520 million above the amount obtained in 2013. This increase was due, mainly to new investments included in the period such as the security works, for example.

### **Other expenses**

By the end of the 2014 term, other expenses rose to Ch\$92,276 million, which is Ch\$4,126 million above the amount obtained for the same period in 2013. This is explained mainly by greater costs for Ch\$1,330 million in treatment plant operation, as a product of greater volume treated, an increase in insolvency provision for Ch\$1,683 million and Network Maintenance for Ch\$1,170 million. Additionally, there were greater costs in Customer Service for Ch\$1,277 million, greater costs in machinery and vehicle leasing for Ch\$872 million, greater costs in Insurance for Ch\$701 million, Municipal Licenses and Real Estate taxes for Ch\$281 million; this was compensated partially for Ch\$3,483 due to emergency episodes that occurred during January and February 2013.

## **2.3. Analysis of Financial Result and Other Results**

### **Financial Income**

By the end of 2014, financial income amounted to Ch\$5,376 million, which is Ch\$1,680 million under the amount obtained in 2013, explained mainly by lower financial interest produced by lower availability of temporary cash surpluses.

### **Financial Costs**

For the period ending December 31, 2014, financial costs reached Ch\$30,742 million, which meant an increase of these costs in Ch\$1,855 million in comparison to the ones obtained in the same period for 2013. This is explained mainly by the prepayment of the F Series Bond, which implied a charge to results for Ch\$2,042 million, corresponding to the application of the capitalized expenses, which was financed by the issuing of the W Series Bond for 2.3 million U.F. together with a bank loan.

### **Results from Indexation Units**

By the end of the 2014 term, results from indexation units reached Ch\$34,252 million, Ch\$21,298 million higher with respect to 2013, explained mainly by a greater revaluing of debt due to the greater variation of the UF compared to 2013.

### **Expense (Revenue) from Income Tax**

The provision for income taxes at the end of 2014 was of Ch\$25,285 million, which is Ch\$4,048 million lower compared to the same period for the previous year. This variation is justified in the effects that the greater inflation produces in the temporary differences between the financial and tax records, as well as a lower earnings before taxes for Ch\$1,010 million. This is compensated by the change in corporate tax rates from 20% to 21% due to the Tax Reform with its corresponding impact in results for Ch\$1,800 million.

### **Earnings**

Net earnings to December 31<sup>st</sup>, 2014 rose to Ch\$58,711 million, which is Ch\$1,063 (1.8%) above the amount obtained in 2013.

### 3. Quarterly Results

Income Statement (Ch.\$ millions)	Q414	Q413	% Var.	Q414 / Q413
Revenues	122,585	111,602	9.8%	10,985
Operation Costs and Expenses	- 42,724	- 39,409	8.4%	- 3,315
EBITDA	79,861	72,191	10.6%	7,670
Depreciation and Amortization	- 17,053	- 15,962	6.8%	- 1,091
Operating Income (EBIT)	62,809	56,227	11.7%	6,580
Financial Result *	- 17,403	- 11,631	49.6%	- 5,772
Tax Expenses	- 7,025	- 8,450	-16.9%	1,425
Net Income	18,697	17,561	6.5%	1,136

\* Includes financial income, financial costs, exchange differences and results by indexation units.

#### 3.1. Revenue Analysis

##### Operational Income

Ordinary income for the fourth quarter of 2014 rose to Ch\$122,585 million, which is Ch\$10,985 million (9.8%) above the amount obtained in the previous period. This variation was mainly due to greater average tariffs, due to new tariff rates, which came into effect with the entry into operation of works for the security of potable water supply, together with the indexation of the polynomial in April and October 2014.

#### 3.2. Cost Analysis

##### Raw Materials and Consumables Used

In the fourth quarter of 2014, costs of raw materials and consumables used reached Ch\$8,611 million, which is Ch\$1,687 million higher than during the same period in 2013. The increase was explained mainly by the purchase of raw water for Ch\$858 million, electric energy for Ch\$316 million and cost of materials sales in Gestión y Servicios for Ch\$467 million.

##### Personnel Expenses

During the fourth quarter of 2014, expenses for employee benefits reached Ch\$12,116 million, which is Ch\$903 million above the amount obtained for the same period during the previous year. This is due to higher personnel compensation linked to consumer price index adjustments together with greater compensations for years of service and extraordinary benefits to personnel associated to the collective negotiation of Aguas Cordillera.

##### Depreciation and Amortization

Depreciation and amortization for the fourth quarter of 2014 rose to Ch\$17,053 million, which is Ch\$1,091 million higher than in the same period in 2013. This increase was due mainly to new investments included in the period, such as security works, for example.



**Other expenses**

During the fourth quarter of 2014, other expenses rose to Ch\$21,997 million, which is Ch\$725 million higher than in the same quarter of 2013, explained mainly by greater treatment plant operation costs for Ch\$281 million associated with the greater volume treated and greater costs for Customer Service for Ch\$767 million.

### **3.3. Analysis of Financial Result and Other Results**

#### **Financial Income**

Financial income for the fourth quarter of 2014 reached Ch\$1,256 million, which is Ch\$17 million, slightly above the amount obtained in the same quarter for 2013.

#### **Financial Costs**

Financial costs for the fourth quarter of 2014 reached Ch\$7,214 million, which is Ch\$227 million higher than the amount obtained for the same period in 2013. Mainly greater bond interests explain this increase.

#### **Results by Indexation Units**

In the fourth quarter of 2014, losses were obtained for Ch\$11,437 million, which is Ch\$5,550 million greater compared to the fourth quarter of 2013, explained mainly by a greater revaluing of debt, due to a greater variation of the UF compared to the same quarter for 2013.

#### **Expense (Revenue) by Income Tax**

Income tax provision by the end of the fourth quarter of 2014 was Ch\$7,025 million, which is Ch\$1,424 million lower compared to the same period for the previous year. This variation is explained mainly by deferred taxes; the variation is justified by the effects that greater inflation produces in the temporary differences between financial and tax records, compensated partially by the increase of the tax rate from 20% to 21% and by a greater earnings before taxes.

#### **Earnings**

Net earnings for the fourth quarter of 2014 rose to Ch\$18,697 million, which is Ch\$1,136 million (6.5%) above the amount obtained for the same quarter in 2013.

#### 4. Balance Sheet

	Dec. 14	Dec. 13	
	Ch.\$ millions	Ch.\$ millions	% Var.
<b>Assets</b>			
Current Assets	128,642	134,623	-4.4%
Long-Term Assets	1,750,739	1,716,133	2.0%
<b>Total Assets</b>	<b>1,879,381</b>	<b>1,850,756</b>	<b>1.5%</b>
<b>Liabilities and Shareholder's Equity</b>			
Current Liabilities	177,518	221,033	-19.7%
Long-Term Liabilities	763,838	680,044	12.3%
<b>Total Liabilities</b>	<b>941,356</b>	<b>901,077</b>	<b>4.5%</b>
Shareholder's Equity	577,634	580,912	-0.6%
Minority Interest	360,391	368,767	-2.3%
<b>Total Shareholder's Equity</b>	<b>938,025</b>	<b>949,679</b>	<b>-1.2%</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>1,879,381</b>	<b>1,850,756</b>	<b>1.5%</b>

#### **Assets**

Total consolidated assets for Inversiones Aguas Metropolitanas S.A. to December 31<sup>st</sup>, 2014 presented a 1.5% increase with respect to December 2013, going from Ch\$1,850,756 million to Ch\$1,879,381 million.

Current assets decreased in Ch\$5,981 million, mainly due to the decrease in cash and cash equivalents for Ch\$12,579 million compensated with an increase of commercial debtors and other accounts receivable for Ch\$6,612 million, explained by the seasonality of the sales cycle.

Non-current assets increased Ch\$34,606 million, explained mainly by the increase of deferred taxes. This variation is produced mainly by the variation of rates and their effect on deferred taxes. In addition, there was an increase in Property, Plant and Equipment, mainly in Production Facilities, which is compensated by an increase in depreciations and a decrease in current asset under construction.

The following were the main investments during the period

<b>Investments (Ch.\$ millions)</b>	<b>Dec. 14</b>
Chamisero and Valle Grande Potable Water Works	7,350
Remedial Maintenance (Starters, DU, Valves, Others)	6,591
Preventive Renovation of Sewage	5,503

## Liabilities and Shareholder's Equity

Equity to December 2014 rose 4.5% (Ch\$40,279 million) compared to December 2013.

Current liabilities decreased Ch\$43,515 million. This variation was mainly due to a decrease in Other Financial Liabilities for Ch\$36,940 million associated to the payment of the G Series Bond for 2.5 million UF. Additionally, there was a decrease in Commercial Accounts and Other Accounts Payable for Ch\$6,314 million.

Non-current liabilities presented an increase of Ch\$83,794 million (12.3%). The main variations corresponded to the issuing of the V and W Series Bonds for 2.0 and 2.3 million UF respectively and to the contracting of a bank loan for Ch\$20,000 million, by the Aguas Cordillera S.A. subsidiary and a bank loan for Ch\$19,270 million by Aguas Andinas. Additionally, there exists a greater debt for Promissory Notes for Ch\$26,371 million. This is compensated partially by the prepayment of the F Series Bond for 3.3 million UF.

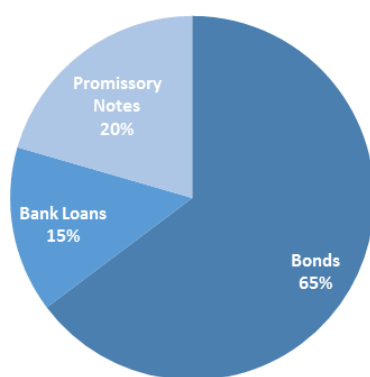
Total equity decreased Ch\$11,654 million, and net equity attributable to owners of the controller decreased \$3,278 million. This is explained by the distribution of dividends corresponding to the 2013 term, in addition to the change in deferred taxes caused by corporate tax rate change from 20% to 27% due to the Tax Reform. This is partially compensated by the earnings generated in the last quarter of 2014.

The table below outlines the amortization profile of consolidated debt as of December 31<sup>st</sup>, (figures include only capital in millions of Ch. \$):

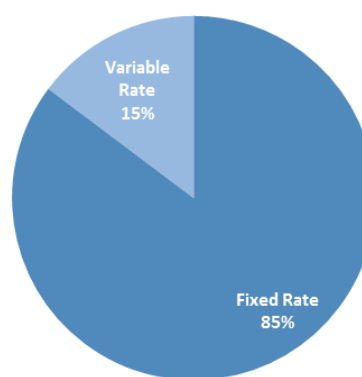
	Currency	Total	12 months	1 to 3 years	3 to 5 years	More than 5 years
Bond	UF	481,537	29,996	56,298	38,539	356,704
Bank loans	\$	109,774	19,251	51,253	20,000	19,270
Promissory Notes	UF	152,557	2,342	31,365	24,719	94,131
<b>Totals</b>		<b>743,868</b>	<b>51,589</b>	<b>138,916</b>	<b>83,258</b>	<b>470,105</b>

### Financial Liabilities Structure

Composition By Instrument



Composition by Rate



## 5. Consolidated Cash Flows

<b>Cash Flow Statement (Ch.\$ millions)</b>	<b>Dec. 14</b>	<b>Dec. 13</b>	<b>% Var.</b>
Net Cash Flow from Operating Activities	202,520	202,593	0.0%
Net Cash Flow from Investing Activities	-83,619	-119,029	-29.7%
Net Cash Flow from Financing Activities	-131,481	-80,471	63.4%
<b>Total Net Cash Flow for the Period</b>	<b>-12,580</b>	<b>3,093</b>	<b>-506.7%</b>
<b>Closing Balance of Cash &amp; Cash Equivalents</b>	<b>27,720</b>	<b>40,299</b>	<b>-31.2%</b>

The net cash flow from operating activities decreased by Ch\$73 million when comparing December 2014 to December 2013.

The main variations were the following:

- An increase in the charges proceeding from sales of goods and provision of services for Ch\$48,904 million due mainly to a greater sales volume and a greater average tariffs due to the entry into operation of the Mapocho Sewage Treatment Plant.

These variations were partially offset by:

- An increase in payment to suppliers for Ch\$28,617 million associated to the increase of costs originated in the cubic meters treated due to the entry into operation of the Mapocho Sewage Treatment Plant and repairs to the potable water network.
- An increase in other payments for operational activities for Ch\$8,391 million mainly due to a greater value-added tax payment, produced by a greater income level, compared to the quarter for the previous year and lower level of additions in properties, plant and equipment.
- An increase in the payment of employee benefits for Ch\$5,541 million due to higher wages and bonus payments associated to consumer price index readjustments.
- An increase in other cash outflows for Ch\$5,585 million for concepts of guarantee payments and severance payments for trials and consignment to the Ministry of Public Works.

Disbursement for investment activities decreased in Ch\$35,410 million, as a product of a lower addition of properties, plants and equipment which is mainly explained by the payments made in the previous period corresponding to the construction of the Mapocho Sewage Treatment Plant.

Financing activities generated a Ch\$51,010 million variation in the net flow (greater payments) mainly due to the payment of G and F Series Bonds for 2.5 and 3.3 million UF respectively, together with a greater dividend payment for Ch\$31,398 million, all partially compensated by an increase in financial debt of Ch\$137,956 million. The latter is mainly due to the issuance of V and W Series Bonds for 2.0 and 2.3 million UF respectively and to the acquisition of bank loans for Ch\$20.000 million in Aguas Cordillera and Ch\$19,270 in Aguas Andinas.

## 6. Financial Ratios

		Dec. 14	Dec. 13
<b>Liquidity</b>			
Current Ratio	times	0.72	0.61
Acid Test Ratio	times	0.16	0.18
<b>Leverage</b>			
Total Leverage	times	1.00	0.95
Current Leverage	times	0.19	0.25
Long-term Leverage	times	0.81	0.75
Interest Coverage Ratio	times	5.79	6.13
<b>Return</b>			
ROE	%	10.14	9.90
ROA	%	3.15	3.14
Earnings per share	\$	58.71	57.65
Dividend Yield (*)	%	6.23	6.81

**Current ratio:** *currents assets / current liabilities.*

**Acid test ratio:** *cash and cash equivalents / current liabilities.*

**Total leverage:** *total liabilities / total shareholders' equity.*

**Current leverage:** *current liabilities / total liabilities.*

**Long-term leverage:** *long-term liabilities / total liabilities.*

**Interest rate coverage:** *net income before taxes / financial costs.*

**ROE:** *net income / average assets.*

**ROA:** *net income / average assets.*

**Earnings per share:** *Net income / total shares.*

**Dividend Yield:** *Dividends paid / share price.*

(\*)Share price to December 2014 was Ch\$940.12, whilst in December 2013 the share price was Ch\$892.25.

To December 31 2014, the current ratio increased by 18.0% due to a decrease in current liabilities for Ch\$43,515 million (19.7%), compensated by a decrease in current assets for Ch\$5,981 million (4.4%), with respect to December 2013. The main variations in the current assets are due to the decrease in cash and cash equivalents for Ch\$12,579 million which has been compensated by an increase of commercial debtor and other accounts payable for Ch\$6,612 million. The latter is mainly explained due to the seasonality of the sales cycle, whilst current liabilities decreased as a product of the payment of the G Series Bond for 2.5 million UF and a decrease in commercial accounts and other accounts payable for Ch\$6,314 million.

Total leverage ratio increased 5.8% due to an increase in total liabilities for Ch\$40,279 million explained by the issuance of V and W Series Bonds for 2.0 and 2.3 million UF respectively and to the contracting of bank loans for Ch\$39,270 million. Additionally, there has been an increase in Promissory Notes of Ch\$26,371 million. This is partially compensated by the payments of the G and F Series Bonds for 2.5 and 3.3 million respectively. On the other hand, part of total equity decreased in Ch\$11,654 million, explained by the distribution of dividends corresponding to the 2013 term, in addition to the change in deferred taxes caused by corporate tax rate change from 20% to 27% due to the Tax Reform. This is partially compensated by the earnings generated in the last quarter of 2014.

Annualized return of equity attributable to the owners of the controller presented an increase of 2.4%, mainly due to a decrease in average annualized equity of Ch. \$ 3,077 million and an increase of Ch\$1,063 million in earnings for the 2014 term, compared to the 2013 term.

## 7. Other Information

The most important factor that determines the Company's results of operations and financial condition are the tariffs set for regulated services. As a water utility, the Company is regulated by the SISS, and our tariffs are set in accordance with the tariff law DFL No. 70 of 1988.

Tariffs are reviewed and set every five years and are adjusted in the interim period based on a polynomial index. The accumulated variation of the polynomial index must reach 3.0% or higher to produce a tariff adjustment. The polynomial index includes various inflation indices, specifically the Consumer Price Index (IPC), the Imported Goods of the Manufacturing Sector Price Index (IPBIM) and the Manufacturing Producers Price Index (IPPIM). The National Institute of Statistics (INE) publishes all these indices.

The latest adjustments for tariff indexations for each group/company were applied on the following dates:

### **Aguas Andinas S.A.:**

Group 1	September 2013, March 2014 (application of new tariffs for security works), April and October 2014.
Group 2	September 2013, April and October 2014
Rinconada de Maipú	July 2012 and March 2014

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

August 2013, April and October 2014

### **Aguas Manquehue S.A.:**

Santa María	July 2013, February 2014 and July 2014
Chicureo	August 2013, March 2014 and September 2014
Chamisero	July 2012 and March 2014
Valle Grande 3	July 2012 and March 2014

### **Essal S.A.:**

Group 1	December 2013, April and October 2014
Group 2	December 2013 April and October 2014
Group 3	December 2013, April and October 2014
Chinquihue	August 2013, February and September 2014
Los Alerces	April 2013, January and September 2014

In addition, tariffs may also be adjusted when additional services/investments become operational. These adjustments are previously authorized by the SISS. Tariffs may also be adjusted if changes in tax rates are made.

Current tariffs for Aguas Andinas S.A. for the 2010-2015 period were approved by Decree No. 60 dated February 2, 2010 by the Ministry of Economy, Development and Reconstruction and were applied beginning March 1, 2010. Decrees No. 176, on June 8, 2010, and No. 170 approved current tariffs for Aguas Cordillera S.A. and Aguas Manquehue S.A., on May 20, 2010, respectively. Essal S.A. concluded its last tariff negotiation process in 2011 for the 2011-2016 period, and Decree No. 116 approved new rates, on August 31, 2011.

To this date, the new tariff decrees for Aguas Andinas S.A., Aguas Cordillera S.A. y Aguas Manquehue S.A., for the 2015-2020 period are in the process of being published, after the respective agreements arrived at with the Superintendence of Sanitation Services, in their respective tariff setting processes.

## Market Risk

Our company presents a favorable situation when it comes to risk, which is mainly due to the particular characteristics of the sanitation sector. Our business is seasonal and the operational results may vary from one quarter to another. We tend to record higher levels of demand and revenue during the summer months (December through March) and lower 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, mainly due to the additional water requirements generated by irrigation systems and other external uses of water.

Adverse weather conditions could potentially affect optimal delivery of services, because the processes of extracting and producing drinking water depend largely on weather conditions that develop in watersheds. Climate factors such as rainfall, snow, hail, temperature and moisture as well as other factors such as sediment and water levels in rivers determine not only the quantity, quality and continuity of raw water available at each intake point, but also determine the probability that water is properly treated in the water treatment plants. During the months of January and February 2013, mudslides in the Cajón del Maipo area significantly increased the level of sediment in the Maipo river, forcing the Company to shut down its main water treatment plants which resulted in water stoppages for a significant number of customers.

In the event of prolonged drought, the Company has significant reserves of water that in the El Yeso, Laguna Negra and Lo Encañado reservoirs. Additionally the Company has developed contingency plans to mitigate the effects from adverse climate conditions that could affect our operations. In the current period the drought that has existed since 2010, still persists, which has led to the application of contingency plans such as the purchase of raw water, intensive use of wells, renting and purchase of water rights, among others. All of this with the objective of diminishing the impact of the drought and providing our services normally in terms of quality as well as continuity.

## Market Analysis

The market in which the Company participates has not varied given that by the nature of its services and under current legislation, it has no competition in its concession area.

Aguas Andinas S.A. has 100% service coverage in drinking water, 98.7% service coverage in sewage collection and 100% service coverage in sewage treatment.

Aguas Cordillera S.A. has 100% service coverage in drinking water, 98.7% service coverage in sewage collection and 100% service coverage in sewage treatment.

Aguas Manquehue S.A. has 100% service coverage in drinking water, 99.3% service coverage in sewage collection and 100% service coverage in sewage treatment.

Essal S.A. has 100% service coverage in drinking water, 95.4% service coverage in the X Region and 91.1% in the XIV Region of sewage collection and 100% service coverage in sewage treatment.



## Capital Investments

One of the variables that influence the results of the operations and the financial condition of the Company are capital investments. There are two types:

**Committed Investments:** The Company has the obligation to agree on an investment plan with the industry regulator (S.I.S.S). The investment plan outlines investments that will be made in the subsequent 15-year period. Specifically, the plan includes certain projects related to maintaining certain quality standards and service coverage. The investment plan is subject to review every five years, and amendments may be made given certain circumstances.

Committed investments include several projects related to sewage treatment such as the construction of the Mapocho Urban Treatment Plan (MUL), in operation since 2010, the Mapocho Sewage Treatment Plant and the La Farfana-El Trebal Connector. These investments were important milestones in achieving the goal of 100% sewage coverage treatment, which was reached in 2013. There are additional important committed investments developed to increase network autonomy such as: additional storage tanks, with the most relevant tank being one built at the Las Vizcachas plant which will have a capacity of 160,000 m<sup>3</sup>; the CAYA project which will connect the El Yeso reservoir with the Azulillos sector (capacity of 4.0 m<sup>3</sup>/s; length of connection is 5km); and additional drilling in the Cerro Negro area to increase capacity (500 l/s). These investments aimed to improve the quality and availability of water, especially in emergency situations.

Dates of approval and dates of updates to the investment plan for the Aguas Group:

### **Aguas Andinas S.A.**

Greater Santiago: May 16<sup>th</sup>, 2011

Other Locations: October 13<sup>th</sup>, 2011, September 12<sup>th</sup>, 2012, April 5<sup>th</sup>, 2013 and July 3<sup>rd</sup>, 2013.

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

Aguas Cordillera and Villa Los Dominicos: October 18<sup>th</sup>, 2011

### **Aguas Manquehue S.A.**

Santa María and Los Trapenses: December 28<sup>th</sup>, 2010

Chicureo, Chamisero and Valle Grande III: December 29<sup>th</sup>, 2011

Alto Lampa: November 22<sup>nd</sup>, 2013

### **Essal S.A.**

X y XIV Regions: December 30<sup>th</sup>, 2010

**Uncommitted Investments:** Uncommitted investments are those investments that are not included in the committed investment plan that the Company chooses to carry out voluntarily to ensure the quality of services and to replace obsolete assets. These investments are generally related to the replacement of network infrastructure and other assets, the acquisition of certain water rights and investments in unregulated businesses, among others.

According to IAS 23 of the International Financial Reporting Standards (IFRS), the current accounting standard in Chile, interest on capital investments is capitalized during the construction phase. IAS 23 outlines that when a company acquires debt in order to finance investments, the interest on that debt must be subtracted from financial expenses and incorporated into the financed construction project, for up to the full amount of interest. Consequently, the financial costs associated with our capital investment plan affects the amount of financial expenses recorded in the income statement. These financial costs are recorded along with ongoing works in the line item Property, Plant and Equipment of the balance sheet.

## Financial Aspects

### Currency risks:

Revenues are largely linked to the evolution of the local currency (Chilean peso). Because of this factor, the Company's debt is mainly denominated in Chilean pesos or financial instruments linked to the Chilean peso, specifically the UF. As a result, the Company does not significant risk of foreign currency transactions.

### Interest rate risk:

As of December 31<sup>st</sup>, 2014, the Company's interest rate profile consisted of 85.2% fixed rate and 14.8% variable rate. The fixed rate debt includes short-term and long-term bonds (75.9%) and promissory notes (24.1%), while the variable rate debt includes bank debt with local financial institutions.

As of December 31, 2013, the Company's interest rate profile consisted of 89.2% fixed rate and 10.8% variable rate. The fixed rate debt includes short-term and long-term bonds (79.8%) and promissory notes (20.2%), while the variable rate debt includes bank debt with local financial institutions.

The company has a policy of monitoring and managing its interest rate, with the aim of optimizing the cost of financing. It continuously evaluates available hedging instruments in the financial market.

This favourable situation has meant that the local rating agencies have assigned the Company a solvency rating of AA+. In the case of the shares, Fitch and ICR have assigned us a rating of first class Level 1.