



# Inversiones Aguas Metropolitanas' Reasoned Analysis

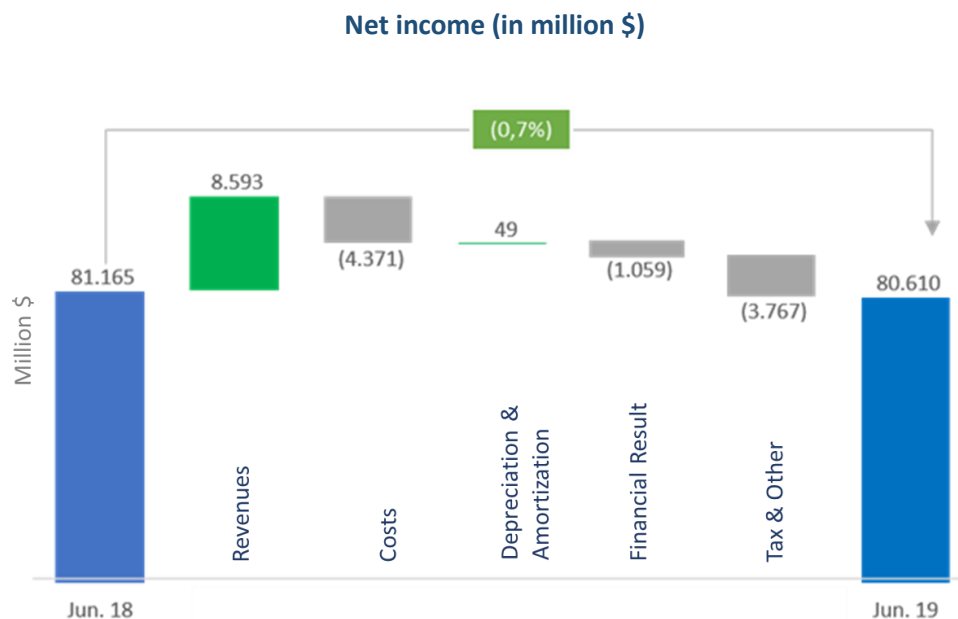
Period ending as of June 30, 2019



## 1. Period's summary

- 💧 The company held a sustained EBITDA growth during first half of 2019, managing a 2.7% increase, positively influenced by the larger volumes supplied and registered indexation during 2018, added to an active contention and cost reduction, which allowed partially offset the higher cost in water purchase and electric power related to a higher groundwater collection due to the drought intensification in Metropolitan Region.
- 💧 At the non-operating level, a lower result is presented in expendable assets sale of the Company together with a lower financial result, mainly related to higher bank and bond interest, due to an increased debt volume.

Net income as of June 30, 2019 amounted to \$40,037 million. The main variations compared to the previous half are presented in the following graph:



### Operating Income

- 💧 This period's EBITDA reached \$170,696 million, representing an increase of 2.7% over the previous half.
- 💧 Regulated revenue were higher by \$6,223 million (an increase of 2.5%) mainly due to registered tariff indexation during previous year, being the last one in September 2018 (*Aguas Andinas*), together with a higher provision of un-invoiced consumption to costumers.
- 💧 Non-regulated revenue increased by \$2,370 million during the first half of 2019 (increase of 9.9%). This variation was mainly explained by higher income in non-sanitary subsidiaries, technical advice to rural

drinking water and higher activity in sanitary infrastructure modifications requested by customers. This was partially offset by lower activity in home services requested by customers.

💧 Operating costs varied by 4.0% due mostly to:

📁 Cost related to drought: During the first half of 2019, the drought has maintained that affects central zone of the country, which involved expenses mainly in the following lines:

- *Purchase of raw water:* It has been necessary purchase more raw water to ensure the supply of our customers due to the low flow in *Maipo* River basin. This involved a higher cost of \$332 million.
- *Electric power:* An increase in net cost has presented by \$155 million, related to higher drinking water lifting together with higher groundwater collection, which is partially offset by the improvement in the average price due to entry into force of supply contracts for free customers to 52 facilities of the Company.

📁 *Efficiency improvement projects:* The development of process improvement projects and digital transformation has continued, that have allowed containing and reducing certain cost line items such as the following:

- *Biosolid management:* Savings of \$380 million were made from the beneficial use of sludge as fertilizer and soil recuperator.
- *Other projects:* Improvements in costs of general and management services for \$269 million.
- *Personnel costs:* At consolidated level an increase has presented by \$630 million, mainly due to higher costs originated by agreed readjustments for inflation and obtained benefits in collective bargaining process ended during 2018 and higher staffing in Group's subsidiaries. This is partially offset by the reorganization made in *Aguas Andinas* the previous year.

📁 *Raw materials and consumables:* A higher cost of materials has presented by \$2,091 million mainly related to higher cost of materials sale of subsidiary *Gestión y Servicios* and, in chemical inputs, due to higher consumption in plants operation of subsidiary *EcoRiles*.

📁 Finally, higher costs have been recognized mainly in consultancies and studies, higher facilities-equipment maintenance and costs for higher activity in sanitary infrastructure modification.






### **Non-operating income**


💧 The financial income showed a net expense of \$23,133 million, \$1,061 million higher than in the same half of previous year, as a consequence mainly of higher interests for higher debt level.

💧 In Other Profit/Loss line item presents a loss of \$1,249 million, \$3,825 lower than obtained in 2018, mainly because in first half of previous year were sold lands located in various municipalities of the Metropolitan Region.


## Investments

As of June 30, 2019, investments were implemented for \$60,635 million. The main projects developed are:

-  Construction of *Pirque* Tanks
-  Renewal of Wastewater and Drinking Water networks
-  Treatment of nitrates at *La Farfana and Mapocho-Trebal* Biofactories
-  Cogeneration of *Mapocho-Trebal* Biofactory
-  Asset replenishment at *La Farfana and Mapocho-Trebal* Biofactories


 *Advance in relevant investment projects* – The construction of *Pirque* Tanks shows a progress of 84%. This project will increase the autonomy of drinking water to the capital by 11 to 34 hours, in order to cope with the effects of climate change, and thereby avoid or minimize drinking water cuts caused by increase in turbidity level caused by rains in the high mountain range.


## OTHER HIGHLIGHTS

 In April 11, 2019, the Company successfully made the placement of the second **Green and Social Bond** issued in local market. *Aguas Andinas*, pioneer company in green and social bonds issuance, will allocate these funds to finance investment projects that has positive impact in environmental and social areas of the country. The bond feature was the following:

 Green and Social Bond AE series of UF 2.0 million, structured to a 25-year term at a 2.5% rate.

The spread accomplished by Green and Social Bond was the lower in the latest years for an issuance of equivalent terms and the request exceeded in 2.7 times the amount offered to the market.

 **New CEO of *Aguas Andinas*** – In April 17, 2019 Narciso Berberana Saénz presented his resignation before the Company's Board. In the same opportunity, the Board named **Marta Colet Gonzalo as new CEO**, who assumed her functions from this date.

 **Renewal of the Board in *Aguas Andinas*** – In Ordinary Shareholders' Meeting held in April 23, 2019, were treated subjects inherent of it, between them, the renewal of the Board, being elected the following people:

### **Regular Directors**

1. Guillermo Pickering de la Fuente
2. Loreto Silva Rojas
3. Giorgianna Cuneo Queirolo
4. Claudio Muñoz Zúñiga
5. Narciso Berberana Sáenz
6. Rodrigo Manubens Moltedo
7. Luis Mayol Bouchon

### **Alternate Directors**

Jorge Manent Codina  
Sonia Tschorne Berestesky  
Tomás Uauy Cuneo  
Cosme Sagnier Guimón  
Fernando Samaniego Sangroniz  
Gonzalo Rojas Vildósola  
Mauricio Rojas Mullor

The Board of the Company, at the meeting held on the same day, agreed unanimously named as Guillermo Pickering de la Fuente as a President. Likewise, agreed that the Board of Directors will be integrated by Rodrigo Manubens Moltedo, Luis Mayol Bouchon and Narciso Berberana Sáenz.

- 💧 **VII Tariff Process** – In November 30, 2018, started the tariff-setting process of companies *Aguas Andinas*, *Aguas Cordillera* and *Aguas Manquehue*. The Superintendence of Sanitary Services as of March 15, 2019, published Definitive Bases that govern this process. The new tariffs of *Aguas Andinas* will enter into force on March 1, 2020.

## **SUBSEQUENT EVENTS**

- 💧 **Renewal of the Board of Directors at IAM** - On July 24, 2019, the Eighth Extraordinary Shareholders Meeting of the Company was held, in which the Board of Directors was renewed by revoking it and electing a new Board, being elected the following people:

### **Directors**

1. Felipe Larrain Aspillaga
2. Alberto Muchnick Mlynarz
3. Herman Chadwick Piñera
4. Ignacio Guerrero Gutierrez
5. Rodrigo Azócar Hidalgo
6. Hernán Cheyre Valenzuela
7. Luis Enrique Alamos Olivos

### **Alternate Directors**

Albert Martinez Lacambra  
Andrés Muchnick Cruz  
Narciso Berberana Sáenz  
Rodrigo Castro Fernández  
Carlos Mladinic Alonso  
Hugo Silva Raveau  
María José Uauy Cúneo

- 💧 The Board of Directors of the Company, held a session on the same day, and agreed unanimously to appoint Mr. Felipe Larrain as Chairman of the Company and as Vice President Mr. Alberto Muchnick. Likewise, it was agreed that Mr. Luis Enrique Alamos, Herman Chadwick and Ignacio Guerrero and their respective alternates will integrate the Directors Committee.

On July 11, 2019, the subsidiary ESSAL S.A. had to interrupt the supply of the service in the city of Osorno, affecting 50 thousand customers, due to the presence of hydrocarbons in the productive systems of drinking water. The Company carried out the repairs at the processing plant, initiating the restitution of the service progressively from July 17, normalizing the supply for all Osorno customers on July 21.

Following this operational contingency, the Superintendence of Sanitation Services announced a research of the facts and assignment of responsibilities, in order to determine the sanctions or fines that correspond according to current regulations.

As a result of what happened, ESSAL S.A. is in current process of evaluating the eventual impact that Osorno's contingency could have on both its results and financial obligations.

Finally, it should be noted that there are committed insurances that have been activated with the respective insurance companies, whose scope of coverage is in the process of analysis and evaluation.

- 💧 **New CEO of ESSAL** - On July 30, 2019, Gustavo Gomez Jiménez submitted his resignation to the Board of Directors of the Company. In view of the above, the Board of Directors agreed to appoint José Sáez Albornoz as the new CEO, who assumed his duties as of that date.

- 💧 **New Chairman of ESSAL:** On August 6, 2019, in an extraordinary board session, Mr. Guillermo Pickering de la Fuente, resigned his position as president and director of the company. In his replacement **Mr. Victor de la Barra Fuenzalida** was appointed.
- 💧 **New CEO of ESSAL** - On July 30, 2019, Gustavo Gomez Jiménez submitted his resignation to the Board of Directors of the Company. In view of the above, the Board of Directors agreed to appoint José Sáez Alborno as the new CEO, who assumed his duties as of that date.
- 💧 **New Chairman of Aguas Andinas:** On August 6, 2019, Mr. Guillermo Pickering De La Fuente presented his resignation as Chairman and Director of the Company, which was effective as of that date. On August 8, the Board of Directors agreed to appoint **Mr. Claudio Muñoz Zúñiga** as the new Chairman.

## 2. Period's earnings

### 2.1. Accumulated earnings

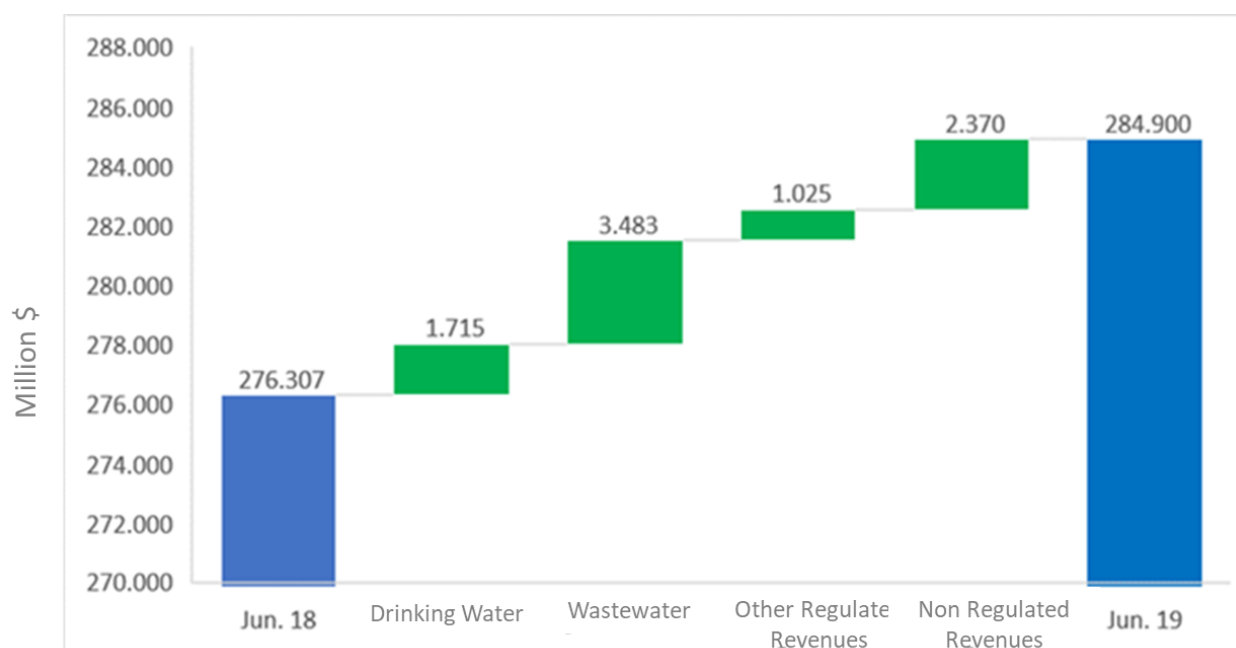
Income Statement (Th\$)	Jun. 19	Jun. 18	% Var.	2019 / 2018
Ordinary Revenues	284,897,779	276,304,885	3.1%	8,592,894
Operational Costs and Expenses	(114,201,427)	(110,100,073)	3.7%	(4,101,354)
<b>EBITDA</b>	<b>170,696,352</b>	<b>166,204,812</b>	<b>2.7%</b>	<b>4,491,540</b>
Depreciation and Amortization	(37,574,736)	(37,620,871)	(0.1%)	46,135
<b>Income From Operations</b>	<b>133,121,616</b>	<b>128,583,941</b>	<b>3.5%</b>	<b>4,537,675</b>
Other Earnings	(1,249,139)	2,575,582	(148.5%)	(3,824,721)
Financial Result*	(23,132,808)	(22,072,103)	4.8%	(1,060,705)
Tax expense	(26,890,181)	(27,230,395)	(1.2%)	340,214
<b>Net earnings</b>	<b>40,037,415</b>	<b>40,162,097</b>	<b>(0.3%)</b>	<b>(124,682)</b>

*\*Includes financial revenue, financial costs, exchange differences and incomes by readjustment units.*

## 2.2. Revenue analysis

	Jun. 19		Jun. 18	
	Sales	Participation	Sales	Participation
	Th\$		Th\$	
Drinking Water	117,870,542	41.4%	116,155,867	42.0%
Wastewater	135,577,780	47.6%	132,094,782	47.8%
Other Regulated Income	5,123,444	1.8%	4,098,534	1.5%
Non-Regulated Income	26,326,013	9.2%	23,955,702	8.7%
<b>Total</b>	<b>284,897,779</b>	<b>100.0%</b>	<b>276,304,885</b>	<b>100.0%</b>

The variation of income regarding to the half of previous year is presented in the following graphic:



Sales Volume (Thousands of m <sup>3</sup> )	Jun. 19	Jun. 18	% Var.	Difference
Drinking Water	316,220	317,538	(0.4%)	(1,318)
Wastewater Collection	300,661	301,765	(0.4%)	(1,104)
Wastewater Treatment and Disposal	259,747	260,017	(0.1%)	(270)
Interconnections*	69,751	70,318	(0.8%)	(567)
<b>Customers</b>	<b>Jun. 19</b>	<b>Jun. 18</b>	<b>% Var.</b>	<b>Difference</b>
Drinking Water	2,342,704	2,289,126	2.3%	53,578

Wastewater Collection	2,289,629	2,235,637	2.4%	53,992
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\* The interconnections include the Treatment and Disposal of Wastewater from other Water Utility Companies.

## Regulated Businesses

### a) Drinking water

Drinking water income at first half of 2019 reached Th\$117,870,542, showing an increase of 1.5%, regarding to same half of previous year. The Th\$1,714,675 increase was mainly due to the indexing of rates occurring during previous year, being the last one in September 2018 to company *Aguas Andinas*. The 0.4% decrease of the invoiced volume was due to the fact that in 2018, exceptionally high consumption was recorded in relation to the growth of last years.

### b) Wastewater

Wastewater income at first half of 2019 reached Th\$135,577,780, which meant an increase of Th\$3,482,998, regarding to previous year, product of the indexing of rates occurring during previous year. Aguas Andinas' latest indexing was recorded in September 2018.

### c) Other regulated income

This line item presented an increase of Th\$1,024,910, which was explained mainly by the variation of the provision of un-invoiced together with higher income associated with fixed charge to customers.

## Unregulated Income

### a) Sanitary services

An increase of Th\$975,437, mainly due to higher activity in sanitary infrastructure modifications requested by customers and higher activity in technical advice to rural drinking water. This is partially offset by lower home services requested by customers.

### b) Non-sanitary services

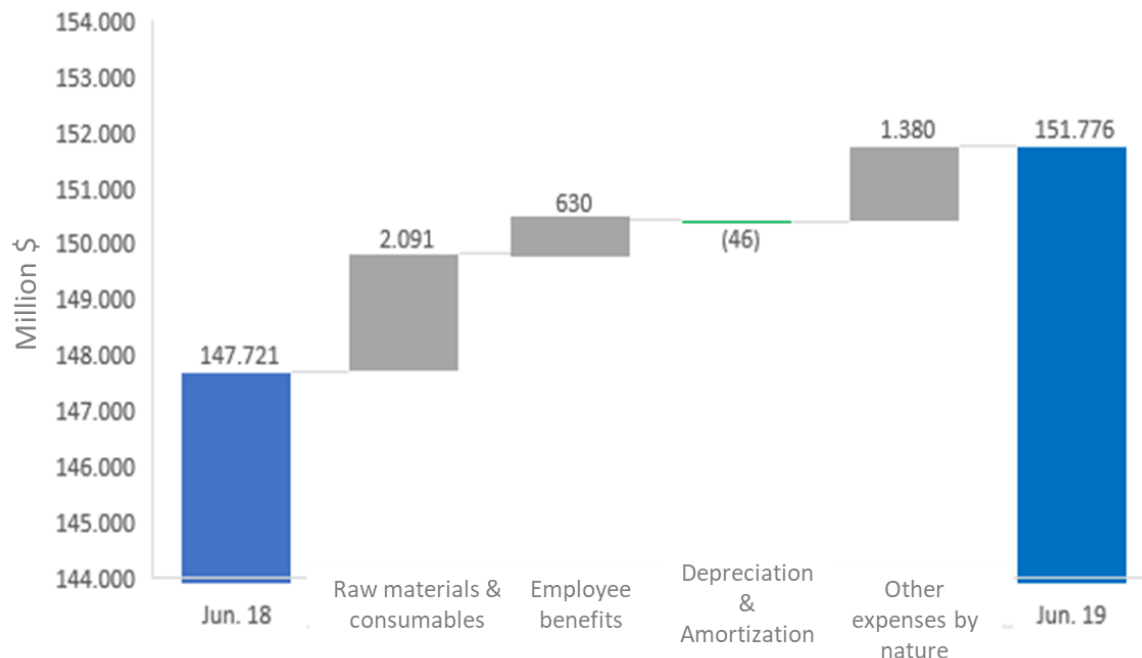
An increase of Th\$1,394,874 was mainly explained by higher materials sales in *Gestión y Servicios* together with higher plants operation income in *EcoRiles*.

(Th\$)	Jun. 19	Jun. 18	% Var.
Anam S.A.	2,153,041	2,217,950	(2.9%)
EcoRiles S.A.	6,741,141	6,475,436	4.1%
Gestión y Servicios S.A.	4,381,877	3,145,247	39.3%
Aguas del Maipo S.A.	489,249	531,801	(8.0%)
<b>Non-sanitary non-regulated products</b>	<b>13,765,308</b>	<b>12,370,434</b>	<b>11.3%</b>



### 2.3. Expense analysis

The variation of expenses regarding to the half of previous year is presented in the following graphic:



#### a) Raw materials and consumables

As of June 30, 2019, the costs of raw materials and consumables reached Th\$21,516,018, Th\$2,091,443 higher than obtained in the first half of 2018. This increase was mainly due to higher materials sale cost by subsidiary *Gestión y Servicios* by Th\$1,015,547, higher use of chemical inputs by Th\$590,347, due to higher consumption in plants operation of subsidiary *EcoRiles* and water purchase by Th\$331,611. Finally, higher cost of electric power by Th\$155,285, related to higher drinking water lifting together with higher groundwater collection, which is partially offset by the improvement in the average price due to entry into force of supply contracts for free customers to 52 facilities of the Company.

#### b) Employee benefits

At the end of first half of 2019, employee benefit expenses reached Th\$30,120,233, Th\$630,305 higher than obtained previous year, mainly due to the CPI readjustments and staffing increase in *Essal* and non-regulated subsidiaries. This is partially offset by reorganization made in *Aguas Andinas* during 2018.

#### c) Depreciation and amortization

At the end of first half of 2019, depreciation and amortization amounted to Th\$37,574,736, Th\$46,135 lower than obtained in the same period of previous year.

#### d) Other expenses by nature

As of June 30, 2019, these expenses amounted to Th\$62,565,176, Th\$1,379,606 higher than obtained in the same period of previous year, mainly due to:

- Efficiency projects and process improvements have been carried out that have allowed obtaining lower costs mainly in the management of biosolids by Th\$380,039, and other general and management services by M\$268,997.
- Higher costs of consultancies and studies have been recognized by Th\$1,006,838, equipment and facilities maintenance by Th\$767,233 and cost of sale related to higher activity in sanitary infrastructure modification by Th\$358,624.

## **2.4. Analysis of financial revenues and others**

### **a) Other earnings (losses)**

As of June 30, 2019, losses were incurred amounting to Th\$3,824,721, than obtained in 2018, mainly associated that in the first half of 2018 were sold expendable lands located in various municipalities of the Metropolitan Region.

### **b) Financial revenues**

At the end of first half of 2019, financial revenues were obtained by Th\$2,841,256, Th\$379,411 lower than obtained in 2018, mainly explained by lower interests for customers debt.

### **c) Financial costs**

As of June 30, 2019, financial costs reached Th\$15,362,934, which meant an increase of Th\$738,096 to those obtained in the same period of 2018. The foregoing is explained by higher bank interest and interest in bonds, mainly due to a greater volume of debt obtained in order to finance the Company's investment plan, together with lower financial activation.

### **d) Results by index unit**

At the end of first half of 2019, the results by index units were Th\$10,543,690, determined by a lower expense by th\$97,964 regarding to first half of 2018, mainly explained by a lower revaluation of the debt, due to lower variation of the UF (1.22% in 2019 versus 1.35% in 2018), partially offset by a higher level of indebtedness.

### **e) Income tax expense**

The income tax expense as of June 30, 2019 was Th\$26,890,181, Th\$340,214 lower than obtained the same period previous year. This variation was mainly explained by a lower income before taxes.

### **f) Earnings**

Net income as of June 30, 2019 amounted to Th\$40,037,415, Th\$124,682 lower than obtained previous year, which represent a decrease of 0.3%.

## 2.5. Income by segment

### a) Accumulated incomes, water segment

Income Statement (Th\$)	Jun. 19	Jun. 18	% Var.	2019 / 2018
External Revenue	271,085,617	263,888,026	2.7%	7,197,591
Revenues Segments	529,715	631,563	(16.1%)	(101,848)
Operating Costs and Expenses	(102,551,778)	(100,644,486)	1.9%	(1,907,292)
<b>EBITDA</b>	<b>169,063,554</b>	<b>163,875,103</b>	<b>3.2%</b>	<b>5,188,451</b>
Depreciation and Amortization	(36,734,482)	(37,088,165)	(1.0%)	353,683
<b>Income from Operations</b>	<b>132,329,072</b>	<b>126,786,938</b>	<b>4.4%</b>	<b>5,542,134</b>
Other Earnings (Losses)	(1,072,081)	2,573,987	(141.7%)	(3,646,068)
Financial Results*	(23,001,729)	(22,059,023)	4.3%	(942,706)
Tax Expense	(26,619,377)	(26,660,151)	(0.2%)	40,774
<b>Net Earnings</b>	<b>80,046,414</b>	<b>79,446,290</b>	<b>0.8%</b>	<b>600,124</b>

\*Includes financial revenue, financial costs, exchange differences and incomes by readjustment units.

Net income from this segment showed an increase of 0.8% regarding to the same half of previous period, mainly due to:

- An increase in external income, mainly associated with the positive variations in rates recorded over 2018. *Aguas Andinas'* last indexation was recorded in the month of September 2018 with a weighted average variation of 2.6%.
- Costs increased mainly due to higher expenses in consultancies and studies by Th\$946,492, equipment and facilities maintenance by Th\$797,257 and higher activity in sanitary infrastructure modifications by Th\$358,624, water purchase by Th\$331,611 and higher cost of electric power by Th\$155,285 related to drinking water lifting together with higher groundwater collection, which is partially offset by the improvement in the average price due to entry into force of supply contracts for free customers to 52 facilities of the Company.
- Additionally, it has generated projects that has allowed generate efficiency as biosolids management with saving in Th\$380,039 and other general and management services by Th\$166,924.
- In other earnings (losses) is presented a lower income by Th\$3,646,068 than obtained in 2018, mainly associated that in the first half of 2018 were sold expendable lands located in various municipalities of the Metropolitan Region.
- The financial result presented a net expense by Th\$23,001,729, Th\$942,706 higher than the same half of previous year, as a mainly consequence of a lower revaluation of the debt UF index unit (1.22 in 2019 versus 1.35 in 2018), partially offset by a higher level of indebtedness.

## b) Accumulated incomes, non-water segment

Income Statement (Th\$)	Jun. 19	Jun. 18	% Var.	2019 / 2018
External Revenue	13,816,760	12,418,975	11.3%	1,397,785
Revenues Segments	2,067,720	2,237,927	(7.6%)	(170,207)
Operating Costs and Expenses	(13,894,010)	(11,771,460)	18.0%	(2,122,550)
<b>EBITDA</b>	<b>1,990,470</b>	<b>2,885,442</b>	<b>(31.0%)</b>	<b>(894,972)</b>
Depreciation and Amortization	(919,264)	(543,766)	69.1%	(375,498)
<b>Income from Operations</b>	<b>1,071,206</b>	<b>2,341,676</b>	<b>(54.3%)</b>	<b>(1,270,470)</b>
Other Earnings (Losses)	(162,805)	8,476	(2020.8%)	(171,281)
Financial Results*	(147,947)	(30,427)	386.2%	(117,520)
Tax Expense	(196,672)	(600,953)	(67.3%)	404,281
<b>Net Earnings</b>	<b>563,782</b>	<b>1,718,772</b>	<b>(67.2%)</b>	<b>(1,154,990)</b>

\*Includes financial revenue, financial costs, exchange differences and incomes by readjustment units.

The incomes of the Non-Water segment showed a decrease of 67.2% regarding to the same period of previous year, mainly due to:

- An increase in income, which was mainly given by higher materials sales to third parties by company *Gestión y Servicios* and greater activity in *EcoRiles*.
- The costs increase by 18.0% is associated with the cost of materials sales of company *Gestión y Servicios*, higher personnel costs and higher bad debt provision of companies *Análisis Ambientales* and *EcoRiles*.
- An increase in the cost of depreciation and amortization, mainly due to new assets incorporated in the period, mainly in the methanization plant of *Aguas del Maipo*.
- The decrease in other earnings is mainly explained in *Gestión y Servicios*, due to a lower recovery of Performance Bond, which had been provisioned for being over 4 years old.
- A lower income tax expense as compared to the previous period, is mainly justified by lower income before taxes.

### 3. Quarterly results

Income Statement (Th\$)	2Q19	2Q18	% Var.	2Q19 - 2Q18
Ordinary Revenues	128,035,553	123,826,562	3.4%	4,208,991
Operational Costs and Expenses	(58,268,493)	(55,447,705)	5.1%	(2,820,788)
<b>EBITDA</b>	<b>69,767,060</b>	<b>68,378,857</b>	<b>2.0%</b>	<b>1,388,203</b>
Depreciation and Amortization	(18,788,702)	(18,763,218)	0.1%	(25,484)
<b>Income From Operations</b>	<b>50,978,358</b>	<b>49,615,639</b>	<b>2.7%</b>	<b>1,362,719</b>
Other (Loss) Earnings	(1,171,081)	553,993	<(200%)	(1,725,074)
Financial Result*	(17,031,066)	(11,870,055)	43.5%	(5,161,011)
Tax expense	(6,354,574)	(9,106,076)	(30.2%)	2,751,502
<b>Net earnings</b>	<b>12,915,472</b>	<b>14,337,172</b>	<b>(9.9%)</b>	<b>(1,421,700)</b>

\*Includes financial income, financial cost, exchange differences and income due to readjustment units.

#### 3.1 Revenue Analysis

##### a) Operating Revenues

Ordinary revenues of second quarter of 2019 amounted to Th\$128,035,553, Th\$4,208,991 (3.4%) higher than obtained in the same semester of previous year. This variation was mainly due to positive variations in rates recorded over 2018. Aguas Andinas' last indexation was recorded in the month of September 2018 with a weighted average variation of 2.6%.

#### 3.2 Expenses Analysis

##### a) Raw materials and consumables used

During the second quarter of 2019, raw materials and consumables costs amounted to Th\$11,048,340, Th\$1,513,625 higher than obtained in the same quarter of 2018, mainly related to cost of materials sale by subsidiary *Gestión y Servicios* by Th\$461,026, higher use of chemical inputs by Th\$246,127, water purchase by Th\$320,389 and higher cost of electric power by Th\$373,580.

##### b) Employee benefits

Expenses for employee benefits of second quarter reached Th\$15,657,579, Th\$656,602 higher than obtained in 2018, mainly related to the CPI readjustments and staffing increase in *Essal* and non-regulated subsidiaries. This is partially offset by reorganization made in *Aguas Andinas* during 2018.

##### c) Other expenses

In second quarter of 2019, other expenses amounted to Th\$31,562,574, Th\$650,561 higher than obtained in 2018, mainly explained by higher costs of consultancies and studies by Th\$278,789, equipment and facilities maintenance Th\$386,668 and higher activity in sanitary infrastructure modifications by Th\$155,824.

### 3.3 Analysis of Financial Results

#### a) Other earnings (losses)

At the end of second quarter of 2019, were obtained lower earnings by Th\$1,171,081 than obtained in the same quarter of 2018, mainly related to sales of expendable lands located in various municipalities of the Metropolitan Region.

#### b) Financial results

In the financial result of the second quarter of 2019 were obtained losses by Th\$17,031,066, Th\$5,161,011 higher regarding 2018, mainly explained by higher revaluation of the debt, due to higher variation of the UF compared with the same quarter of 2018.

#### c) Income tax expense

At the end of the second quarter of 2019, the income tax expense was Th\$6,354,574, Th\$2,751,502 lower regarding the same quarter of previous year. This variation was mainly explained by lower income before taxes.

#### d) Earnings

The net earnings of second quarter of 2019 amounted to Th\$12,915,472, Th\$1,421,700 (9.9%) lower than obtained the same quarter of 2018.

### 4. Balance sheet

	Jun. 19	Dec. 18	% Var.
	Th\$	Th\$	
<b>Assets</b>			
Current Assets	139,185,088	169,729,141	(18.0%)
Non-Current Assets	2,032,374,783	2,008,908,565	1.2%
<b>Total Assets</b>	<b>2,171,559,871</b>	<b>2,178,637,706</b>	<b>(0.3%)</b>
<b>Assets and Equity</b>			
Current Liabilities	176,407,936	242,927,687	(27.4%)
Non- Current Liabilities	1,046,580,113	977,008,960	7.1%
<b>Total Liabilities</b>	<b>1,222,988,049</b>	<b>1,219,936,647</b>	<b>0.3%</b>
Shareholders' Equity	587,845,376	591,673,561	(0.6%)
Minority Interest	360,726,446	367,027,498	(1.7%)
<b>Total Shareholders' Equity</b>	<b>948,571,822</b>	<b>958,701,059</b>	<b>(1.1%)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,171,559,871</b>	<b>2,178,637,706</b>	<b>(0.3%)</b>

#### 4.1 Asset Analysis

*Aguas Andinas'* total consolidated assets as of June 30, 2019 decreased by 0.3% regarding to December 31, 2018, from Th\$2,178,637,706 to Th\$2,171,559,871.

Current assets decreased by Th\$30,544,053, mainly due to the decrease of cash and cash equivalents in Th\$21,142,339 together with lower trade debtors and other accounts receivable in \$Th10,461,016, mainly explained by seasonality of sales cycle.

Non-current assets increased by M\$23,466,218 mainly explained by greater property, plant and equipment by Th\$21,301,813, associated to the investments materialized during the period. The main investment works are shown in the following table:

Investments (Th\$)	Jun. 19
<i>Pirque</i> Tank Construction	18,640,412
Renovation of Wastewater Networks	5,038,238
Cogeneration of <i>Mapocho-Trebal</i> Biofactory	4,095,834
Asset replenishment <i>La Farfana-Trebal</i> Biofactories	3,543,890
Renewal of wastewater networks	3,131,862
Treatment of nitrates <i>La Farfana-Trebal</i> Biofactories	2,543,613

#### 4.2 Liabilities and equity analysis

Current liabilities as of June 2019 increased by Th\$3,051,402 regarding to December 2018.

Current liabilities decreased by Th\$66,519,751. This variation was mostly attributable to the distribution of interim dividends made during the first quarter of 2019 together with lower payable accounts associated to investment providers, partially offset with an increase in financial liabilities, mainly associated to bank debt.

Non-current liabilities presented an increase of Th\$69,571,153 (7.1%). This variation mainly corresponds to an increase in bonds debt by Th\$63,072,444 associated to the issue of:

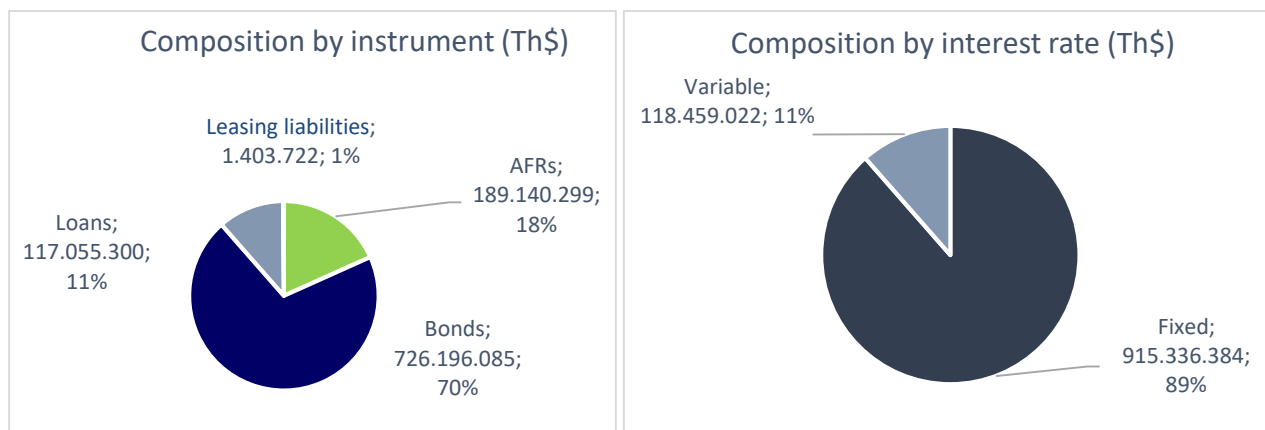
-  Green and Social Bond AE series of UF 2.0 million, structured to a 25-year term at a 2.5% rate.

Total equity decreased in Th\$10,129,237 and the net equity attributable to the owners of the controller decreased in Th\$3,828,185, essentially explained by the distribution of dividends corresponding to period 2018, which was partially offset by the income generated in the first semester of 2019.

The maturity profile of the financial debt as of June 30, 2019 is the following:

Financial debt Th\$	Currency	Total	12 months	1 to 3 years	3 to 5 years	More than 5 years
Bonds	\$	726,196,085	16,163,530	30,681,735	34,111,464	645,239,356
Loans	\$	117,055,300	20,432,837	50,073,120	37,699,562	8,849,781
Leasing liabilities	\$	1,403,722	813,042	555,566	35,114	-
<b>Total</b>		<b>1,033,795,406</b>	<b>50,526,476</b>	<b>118,615,735</b>	<b>117,210,471</b>	<b>747,442,724</b>

#### 4.3 Structure of financial liabilities



### 5. Cash flow statement

Cash Flow Statement (Th\$)	Jun. 19	Jun. 18	% Var.
Operating Activities	145,061,208	135,333,996	7.2%
Investment Activities	(104,624,013)	(57,647,593)	81.5%
Financing Activities	(61,579,534)	(57,275,863)	7.5%
<b>Net Cash Flow for the Period</b>	<b>(21,142,339)</b>	<b>20,410,540</b>	<b>(203.6%)</b>
<b>Final Cash Balance</b>	<b>19,944,937</b>	<b>40,213,748</b>	<b>(50.4%)</b>

The cash flow coming from operating activities increased by Th\$9,727,212, when comparing June 2019 with June 2018.

The main variations were the following:

- 💧 Increase collections from the sales of goods and delivery of services by Th\$2,830,748, mainly due to a higher volume of sales, together with the tariff indexation registered in previous year, being the last in September 2018.
- 💧 Decrease in benefit to employees payments by Th\$3,508,558, mainly due to the lower net staffing offset the higher costs originated by agreed readjustments for inflation and benefits obtained in collective bargaining process finalized during 2018.



- 💧 Decrease in income tax paid by Th\$4,423,836, this variation was mainly explained by a tax recuperation during the first quarter of 2019.
- 💧 Decrease in other payments for operating activities by Th\$365,425, due to a higher credit for value-added tax.

These variations were partially offset by the following concept:

- 💧 Increase in payments for premiums and services, annuities and other obligations derived from subscribed policies by Th\$1,727,018, associated to the payment of all-risk insurance for physical goods.

Disbursements for investment activities increased by Th\$46,976,420, associated to the investments materialized during the period.

Financing activities generated a net flow (increase) of Th\$4,303,671, this is mainly explained by a lower obtaining of loans and financing instruments.

## 6. Financial ratios

		Jun. 19	Dec. 18
<b>Liquidity</b>			
Current liquidity	times	0.79	0.70
Acid Test Ratio	times	0.11	0.17
<b>Leverage</b>			
Total Leverage	times	1.29	1.27
Current Leverage	times	0.14	0.20
Non-Current Leverage	times	0.86	0.80
Annualized Financial Expenses Coverage	times	6.91	7.33
<b>Profitability</b>			
Annualized equity profitability attributable to the controller's property owners	%	11.41	11.33
Annualized asset profitability	%	3.14	3.16
Annualized earnings per Share	\$	67.00	67.13
Dividend yield (*)	%	6.24	6.69

**Current Liquidity:** 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.

**Non-current Leverage:** Non-current Liabilities / Current Liabilities.

**Interest Rate Expense Coverage:** Income before Annualized Taxes and Interest / Annualized Financial Costs.

**Equity Profitability:** Annualized Period's Income / Average Equity Total of the Annualized Fiscal Year.

**Asset profitability:** Annualized Period's Income / Average Asset Total of the Annualized Fiscal Year.

**Earnings per Share:** Annualized Period's Income / Number of subscribed and Paid Shares.

**Dividend Yield:** Dividends Paid per Share / Share Price

(\*) The share price as of June 2019 was \$1050, whereas that of December 2018 was \$1012.80.

Current liquidity as of June 2019 increased by 12.9%, due to a decrease in current liability by Th\$66,519,751, product of the distribution of interim dividends made during the first quarter of 2019, together with lower

payable accounts associated to investment suppliers; partially offset with a decrease in the current asset by Th\$30,544,053, due to seasonality of sales cycle.

The debt ratio increased by 1.6%, due to a decrease of total equity by Th\$10,129,237, explained by the distribution of corresponding dividends as of 2018, which was partially offset by the income generated the first semester of 2019; and an increase in current liability by Th\$3,051,402.

The equity profitability attributable to the owners of the controller presented an increase by 0.7%, due to the decrease of average equity by Th\$5,187,964, partially offset by a lower annualized period income.

## **7. Other background information**

### **7.1 Tariffs**

The most important factor that determines the earnings of our operations and financial condition is the tariffs that are established for our regulated sales and services. As a water utility company we are regulated by the S.I.S.S. and our tariffs are established in accordance with the D.F.L. Sanitary Services Fee Act. N°70 of 1988.

Our tariff levels are reviewed every 5 years and, during this period they are subjected to additional readjustments associated to an indexation polynomial, which is applied when the cumulative variation since the previous adjustment is 3.0% or higher, based on various inflation index estimates. Specifically, inflation adjustments are applied according to a formula that includes the Consumer Price Index (IPC, in its Spanish acronym), the Imported Goods Price Index of the Manufacturing Sector and the Manufacture Producers Price

index, all of which are measured by Chile's National Institute of Statistics. The latest indexations made by each company in the group were applied on the following dates:

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

Group 1	September 2018
Group 2	September 2018
Rinconada de Maipú	January 2018 and May 2019

***Aguas Cordillera S.A.:*** June 2018 and November 2018

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

Santa María	February 2018 and November 2018
Los Trapenses	February 2018 and November 2018
Chamisero	May 2018 and November 2018
Chicureo	August 2018
Valle Grande 3	January 2018 and May 2019

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

Group 1	July 2018
Group 2	July 2018
Group 3	July 2018
Los Alerces	July 2018
Chiniquihue	July 2018

In addition, the tariffs are subject to adjustment to reflect additional services previously authorized by the S.I.S.S.

The current tariffs for the period 2015-2020 were approved by Decree No. 83 dated June 5, 2015, for *Aguas Andinas S.A.*, of the Ministry of Economy, Development and Reconstruction and entered into force on March 1, 2015 (published in the Official Gazette of September 3, 2015). *Aguas Cordillera S.A.*'s current tariffs for the same five-year period 2015-2020 were approved by Decree No. 152 dated October 19, 2015, and entered into force on June 30, 2015 (published in the Official Gazette of November 25, 2015) and *Aguas Manquehue S.A.*'s current tariffs for 2015-2020 were approved by Decree No. 139 dated September 16, 2015, and entered into force on May 19, 2015 (published in the Official Gazette of November 25, 2015).

On the other hand, the current tariffs for the subsidiary *Essal* for the period 2016-2021 were approved by Decree No. 143 dated August 25, 2016, published in the Official Gazette of January 21, 2017.

November 30, 2018, was started to tariff-setting process of companies *Aguas Andinas*, *Aguas Cordillera* and *Aguas Manquehue*. The Superintendence of Sanitary Services, dated March 15, 2019, published the Definitive Bases that rule this process. The new tariffs of *Aguas Andinas* will entered into force on March 1, 2020.

## **7.2 Market risk**

Our company has a favorable situation in terms of risk, which is mainly due to the particular characteristics of the water utility sector. Our business is seasonal and operating earnings may vary from one quarter to another. The highest levels of demand and income are recorded during the summer months (December to March) and the lowest levels of demand and income during the winter months (June to September). In general, the demand for water is higher in the warmer months than in the milder ones, mainly due to the additional water needs generated by irrigation systems and other external water uses.

Adverse climatic conditions can eventually affect the optimal delivery of water utility services, because the processes of collection and production of drinking water depend largely on the weather conditions in the river basins. Factors such as meteorological precipitation (snow, hail, rain, and fog), temperature, humidity, sediment carry-over, river flows and turbidity determine not only the volume, quality and continuity of raw water available in each intake, but also the possibility to be properly treated in drinking water treatment plants.

In the event of a drought, we have important water reserves that we maintain in *El Yeso*, *Laguna Negra* and *Lo Encañado* reservoirs, in addition to the contingency plans that we have developed, which allow us to reduce the possible negative impacts that adverse weather conditions could generate for our operations. In the current period, the drought that has existed since 2010 persists, which means applying contingency plans such as the purchase of raw water, intensive use of wells, leasing and purchase of water rights, among others. All this in order to reduce the impact of the drought and provide our services normally, both in terms of quality and continuity.

## **7.3 Market analysis**

The Company does not have any variation in the market in which it participates due to the nature of its services and the legal regulations in force, which mean that it has no competition in its area of concession.

*Aguas Andinas S.A.* has 100% coverage in drinking water, 98.8% in sewerage services and 100% in wastewater treatment in the Santiago basin.

*Aguas Cordillera S.A.* has 100% coverage in drinking water, 98.9% in sewerage services and 100% in wastewater treatment.

*Aguas Manquehue S.A.* has 100% coverage in drinking water, 99.4% in sewerage services and 100% in wastewater treatment.

*Essal S.A.* has 100% coverage in drinking water, 96.2% in the sewerage service in the X Region and 93.3% in the XIV Region; and 100% in wastewater treatment.

## **7.4 Capital investments**

One of the variables that most affects the earnings of our operations and our financial position is capital investments. These investments are of two kinds:

**Committed investments.** We are required to agree to an investment plan with the S.I.S.S., which describes the investments we are required to undertake during the 15 years following the date on which the investment plan enters in force. Specifically, the investment plan reflects a commitment on our side to carry out certain projects related to the maintenance of certain quality standards and service coverage. The aforementioned investment plan is subject to review every five years and amendments may be requested when certain relevant facts are verified.

Approvals dates and update of development plans of *Aguas Group*:

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

Greater Santiago: December 23, 2015

Locations: December 31, 2014, January 12, 2015, November 17, 2015, December 12, 2016 and April 6, 2018.

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

Aguas Cordillera and Villa Los Dominicos: December 21, 2015

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

Santa María and Los Trapenses: December 23, 2014

Chicureo, Chamisero and Valle Grande III: August 10, 2016

Alto Lampa: December 6, 2018.

***Essal S.A.***

Locations in the X and XIV Regions: June 1, 2016, June 14, 2016, August 12, 2016 and January 16, 2017.

**Uncommitted investments.** Uncommitted investments are those that are not covered by the investment plan and that we undertake voluntarily in order to ensure the quality of our services and replace obsolete assets. These are generally related to the replacement of network infrastructure and other assets, the acquisition of water rights and investments in non-regulated businesses, among others.

In accordance with international financial reporting standards in force in Chile, in particular IAS 23, interest on capital investments in work in progress is capitalized. IAS 23 establishes that when a company acquires debt to finance investments, the interest on that debt must be deducted from the interest expense and included in the construction work financed, up to the total amount of such interest, applying the respective rate to the disbursements made at the date of submission of the financial statements. Consequently, the financial costs associated with our capital investment plan affect the amount of interest expense recorded in the income statements, and these financial costs are recorded together with the work in progress under "property, plant and equipment" in our financial position statement.

## ***7.5 Financial aspects***

### **a) Currency risks**

Our revenue is largely linked to the evolution of the local currency. As a result, our debt is mainly issued in the same currency and, therefore, we do not have significant foreign currency risks.

### **b) Interest rate risks**

As of June 30, 2019, the interest rate risk held by *Inversiones Aguas Metropolitanas S.A.* was 88.7% at a fixed rate and 11.3% at a variable rate. Fixed-rate debt is composed of short-term and long-term

bond issuing (79.2%), reimbursable financial contributions (20.6%) and leasing liabilities (0.2%), while variable-rate debt corresponds to loans with domestic banks.

As of December 31, 2018, the interest rate risk that *Inversiones Aguas Metropolitanas S.A.* held is conformed by 89.8% at a fixed rate and 10.2% at a variable rate. Fixed-rate debt is composed of short-term and long-term bond issuing (77.8%) and reimbursable financial contributions (22.2%), while variable-rate debt corresponds to loans with domestic banks.

The company maintains a policy monitoring and management of interest rates, which, in order to optimize financing cost, it continuously evaluates the hedging instruments available in the financial market.

All this favorable situation has meant that the risk rating agencies ranked us with an AA+ risk rating for our long-term debt. In the case of the shares: Feller Rate assigned us a classification of first-class level 1 and Fitch Ratings assigned us a classification of first-class level 2.

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