

Santiago, June 2, 2008

Chile – Water Utilities

IAM

BUY

Mind the Gap; Upgrading to Buy and Introducing 2009YE Target Price

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(5/27/08)
CURRENT PRICE: US\$23.80/CH\$570
TARGET PRICE: US\$32.65/CH\$850

What's Changed	
Rating:	From Hold to Buy
Price Target	YE'09 of US\$32.65 per ADR
EBITDA Estimates (US\$ Million)	'08E from 321.3 to 377.6 '09E from 335.9 to 384.8 '10E Introducing 403.1

Company Statistics	
Bloomberg	IAM CI
52-Week Range (US\$)	20.24-28.17
2009E P/E Rel to the IPSA (x)	0.59
2009E P/E Rel to Water Util. (x)	NA
IPSA (Ch\$)	3,066.78
3-Yr EBITDA CAGR (07-10E)	8.6%
Market Capitalization (US\$ Mn)	1,190.09
Float (%)	49.9
3-Mth Avg Daily Vol (US\$000)	4,658.5
Shares Outst - Mn (ADR:20:1)	1,000.00
Net Debt/Equity (x)	0.52
Book Value per ADR (US\$)	20.28

Estimates and Valuation Ratios				
	2007	2008E	2009E	2010E
Net Earn (Ch\$ Mn)	24,702	54,202	45,519	38,457
Current EPS	24.7	54.2	45.5	38.5
Net Earn (US\$ Mn)	49.3	116.4	94.1	80.1
Current EPADR	0.99	2.33	1.88	1.60
P/E (x)	24.5	10.2	12.6	14.9
P/Sales (x)	2.4	2.0	1.9	1.8
P/CE (x)	9.9	5.8	6.4	6.7
FV/EBITDA (x)	7.3	6.3	6.4	6.3
FV/Sales (x)	4.5	3.9	3.9	3.9
FCF Yield (%)	7.6%	9.7%	7.8%	8.9%
Div per ADR (US\$)	1.79	3.20	2.09	2.18
Div Yield (%)	7.4%	13.5%	8.8%	9.2%

NA not available. Sources: Bloomberg, Company reports, and Santander estimates.

Investment Thesis: We are upgrading our rating on shares of Inversiones Aguas Metropolitanas (IAM) to Buy from Hold and introducing a year-end 2009 target price of US\$32.65/ADR (Ch\$850 per share), replacing our year-end 2008 target price of US\$26.85. Our more optimistic view on the stock is largely based on the following factors:

- **We regard the acquisition of ESSAL by Aguas Andinas (the holding company IAM's only asset) as positive, as it was one of the few opportunities for the company to grow inorganically at reasonable valuations.** We believe the recently acquired operations could help improve results, as ESSAL's concession area (located some 1,000 km south of Santiago) has higher expected growth in drinking water and sanitation services due to the significant potential increase in the urban population in this region of the country. According to our estimates, 69.5% of the population of ESSAL's concession region lives in urban areas, compared with 96.8% and 86.9% in Aguas Andinas's current concessions and the country average, respectively.
- **IAM is currently trading at a significant discount to its NAV, which we view as unjustified.** Year to date, Aguas Andinas's stock has increased 10.7%, compared with the 4.9% decline in IAM, and IAM is currently trading at a 13.1% holding discount, compared to the historical 10.0% average discount (since 2007). We believe the gap should narrow in the near future.
- **Change in Target Price and Estimates:** Our 2009 target price implies a 57.8% total return in local currency terms from current levels, compared with the 14.8% total return we forecast for the benchmark in Chilean peso terms over the same period. Therefore, we have raised our rating from Hold to Buy. We are increasing our EBITDA estimates from 2008 onward to reflect the acquisition of ESSAL, which we are consolidating into our model for Aguas Andinas starting in 2Q08. According to our estimates, the new operations should contribute 5.9% to EBITDA growth in 2008 and 9.9% in 2009.

Valuation and Risks: Our YE09 price target is based on a DCF valuation model, assuming a 10% holding discount. We have forecast IAM's FCF from 2009 (year one) to 2019, using a WACC of 8.9%. Risks include: (1) higher-than-expected cash flow from non-regulated business; (2) new acquisitions; (3) high energy costs; and (4) the likely entrance of the company into the rain water collection business.

Important disclosures/certifications are in the "Important Disclosures" section of this report.

U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629/ (212) 350-3918.

* Employed by a non-US affiliate of Santander Investment Securities Inc. and is not registered/qualified as a research analyst under NASD rules.

Inversiones Aguas Metropolitanas (IAM) is a holding company with a single asset: a 50.1% stake in Aguas Andinas, the largest water utility company in Chile and one of the largest private water and sewage companies in South America. The company provides water and basic sanitation services to residential, commercial, and industrial customers in most of Santiago, Chile's capital and largest city, as well as other locations in the metropolitan region. Aguas Andinas, which accounts for 40.1% of the water utilities industry in Chile, provides services to almost 5.62 million urban inhabitants. We estimate that in the near term (1Q09), the company will have coverage ratios of 100%, 98%, and 83% for water distribution, sewage, and treatment services, respectively.

ESSAL: A SOUND ACQUISITION

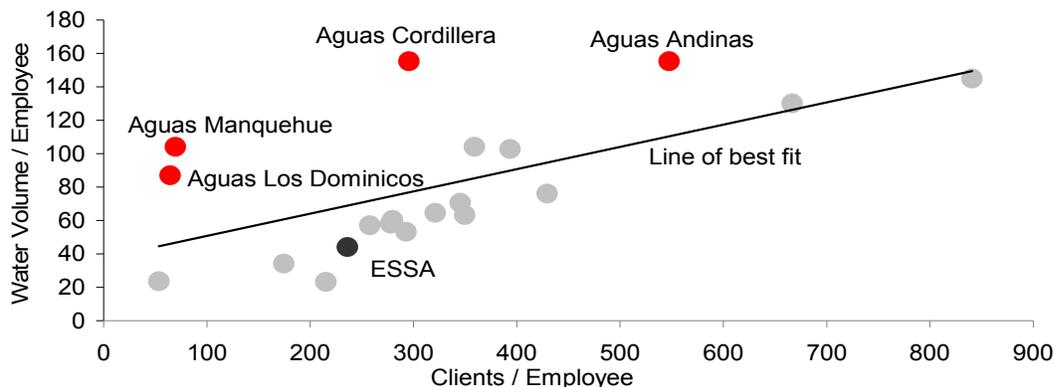
With the acquisition of ESSAL, we believe Aguas Andinas now has the opportunity to gain exposure to a growing region. On March 28, Aguas Andinas (IAM's underlying asset) informed the Chilean SEC that Iberdrola Energía Chile Ltda. accepted the offer for its controlling stake in Empresa de Servicios Sanitarios de Los Lagos S.A. (ESSAL). For this type of utility, the Chilean law allows a maximum market share of 50% the population nationwide. Therefore, we believe that this acquisition was probably one of the largest that Aguas Andinas could make. Moreover, in our view, the potential for growth for ESSAL's operations, which are located some 1,000 kilometers south of Santiago in the Los Lagos and Los Rios regions, is greater than for Aguas Andinas's current concession region, given the lower penetration of drinking water and sewage coverage in ESSAL's concession region.

We regard the ESSAL transaction as fairly priced. The amount paid was about US\$160 million, which corresponds to the sale and transfer of all the shares owned by Inversiones Iberaguas, the direct controller of ESSAL, with a 51% shareholding. (This transaction was subject to due diligence and other conditions that were all met by May 19.) According to our estimates and using financial information provided by ESSAL for 4Q07, the latest information available when the deal was announced on March 29, 2008, this transaction was carried an FV/EBITDA of 11.4 times (based on 2007 numbers) and a P/E ratio of 17.9 times, which compare positively with IAM's ratios (also based on 2007 numbers) of 7.3 times (FV/EBITDA) and 23.3 times (P/E). We are assuming that the P/E ratio is a better metric, due to the holding discount for IAM/Aguas Andinas, which currently is 13.1%.

In our view, ESSAL's operations and capex situation will improve, benefiting from the fact that it now is controlled indirectly by Agbar, a world-class Spanish water utility (see Appendix 2). ESSAL's operations are less efficient than the market average, measured in terms of water volume and clients per employee. If we exclude the operations related to IAM from the sample (Aguas Andinas, Aguas Cordillera, Agual Los Domínicos, and Aguas Manquehue), to isolate management effects and exclude a high density area, ESSAL's operations still underperform. However, these metrics have some drawbacks. In fact, ESSAL supplies sanitization services in regions of low population density, and its various facilities are at a sizeable distance from each other, which means that more employees are required to operate these facilities successfully.



Figure 1. Efficiency of Sanitary Companies (Water Volume in Cubic Meters)

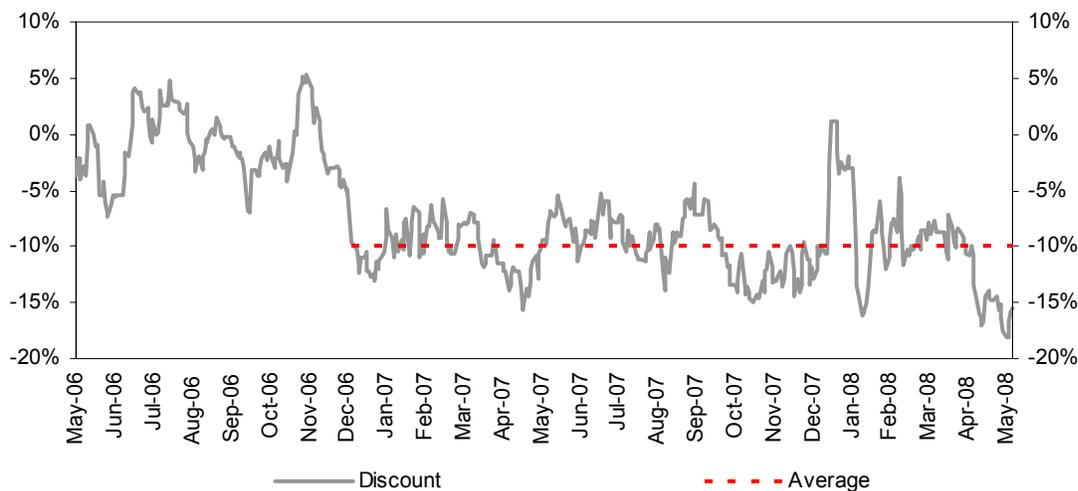


Sources: Company reports and Santander estimates.

MIND THE GAP: EXCESSIVE DISCOUNT

We estimate IAM is currently trading at a 13.1% discount to its net asset value, which is a steeper discount than the average since 2007 (10.0%). At current valuations, we prefer IAM to Aguas Andinas.

Figure 2. IAM – Historical Holding Discount, May 2006-May 2008



Sources: Company reports and Santander estimates.

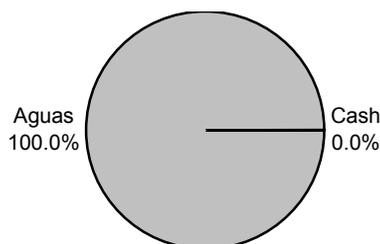
We point out that (1) the current discount is significantly higher than the historical discount, (2) Aguas Andinas is the only underlying asset of IAM (representing 99.97% of the total gross assets), and (3) the holding company has zero financial debt. Therefore, we believe the gap between the current and historical holding discount should narrow, suggesting a strategy of long IAM/short Aguas Andinas. However, even though there is a considerable gap between the current and historical discount, one restriction on implementing this strategy could be the low liquidity of Aguas Andinas’s shares: the local shares have an average daily traded volume of US\$97,180. In addition to the relative trade (long IAM/short Aguas Andinas), we believe that IAM could be an interesting long-only opportunity, based on the strong and stable cash flow at its underlying asset Aguas Andinas

Figure 3. IAM – NAV Calculation

Assets	Ownership	Value of Investment (In US\$ Mn)	Criteria Used
Cash and Equivalents		0.5	
Listed Subsidiaries:			
Aguas Andinas	50.10%	1,368.8	Market Cap
Total Gross Assets		1,369.3	
Bank Debt Corporate Level		-	
Total Net Assets		1,369.3	
IAM Market Cap		1,190.1	
Current Discount		-13.10%	
Historical Discount		-10.00%	

Sources: Company reports and Santander estimates.

Aguas Andinas, IAM's only investment, is the largest water utility in Chile. The company operates in the Santiago metropolitan region, with 5.62 million urban inhabitants, representing a 40.1% market share in the country (including Aguas Cordillera, Aguas Manquehue y Aguas Los Dominicos), and almost 1.49 million clients. Privatization took place in 1999, when Aguas de Barcelona and Suez Lyonnaise des Eaux acquired 51.2% of the company through Inverisones Aguas Metropolitanas for US\$1,125 million.

Figure 4. IAM – Contribution to the Asset Value

Sources: Company reports and Santander estimates.

POTENTIAL M&A ACTIVITY

With the acquisition of ESSAL, Aguas Andinas will have a 44.42% market share, close to the maximum concentration allowed under Chilean law (50%). In this regard, an investment that previously may have appeared more logical in terms of operating synergies, such as SMAPA (located in Aguas Andinas's current area operational area), is now less likely, given that this company provides 4.91% of the water consumed at national level. In fact, the joint venture of Aguas Andinas (including ESSAL) and SMAPA would have a 49.33% market share, technically the same as the aforementioned restriction on market share. Therefore, new acquisitions have to be limited in operating size, and we believe that consolidation within its geographical region is more likely before Aguas Andinas expansion into new areas.

Following the acquisition of ESSAL, we could see more aggressive consolidation among other relevant players in the water utilities sector, including ESSBIO and ESVAL with market shares of 20.2% and 13.9%, respectively. Operations located in the metropolitan region and in the south of Chile, now are potential M&A candidates. Geographical consolidation taking advantages of operating synergies could be a way to expand. Another approach could be to look at areas with coverage in sanitation services below country averages. In this regard, companies like SMAPA, Aguas Araucanía, and Aguas Décima have some interesting features. First, SMAPA is a



big operation inside the Aguas Andinas's coverage area. Aguas Araucanía, and Aguas Décima are medium-size operations near ESSAL's regions. Indeed, Aguas Décimas was spun-off from ESSAL in 1995. In a competitive scenario, we could see a ceiling for Aguas Andinas's expansion.

Figure 5. Potential Companies for Further Expansion

	Market Share	Treatment Upside ^a	IAM Operations		Expansion attractiveness	
			Actual	Potential	Geographical	Growth
Aguas Andinas	37.41	0.4	x			
SMAPA	4.91	0.1			x	
ESSAL	4.31	4.2		x		
Aguas Araucanía	4.08	3.9			x	x
Aguas Cordillera	2.39	0.5	x			
Aguas Décima	0.85	4.2			x	x
Servicomunal	0.51	0.3			x	
Aguas Manquehue	0.20	0.5	x			
SERVILAMPA	0.12	13.5			x	x
Aguas Santiago Poniente	0.11	0.1			x	
Aguas Los Domínicos	0.11	0.7	x			

^a Fraction of urban population next to sanitization grid, but without connection. Sources: SISS and Santander estimates.

REVISED ESTIMATES

We are increasing our estimates, mainly because the growth in EBITDA generation in the coming years should largely be driven by the increase in sewage treatment coverage and the expansion of non-regulated subsidiaries. Our new estimates imply EBITDA growth rates of 20.0% for 2008E due to the ESSAL consolidation, higher tariffs and volumes; 1.9% for 2009E, and 4.8% for 2010E came from an increase in sewage treatment coverage, as shown in Figure 6.

The main project schedule is now more concentrated in the next two years. This implies new and higher tariffs, due to an increase in coverage in sewage treatment. We anticipate a 3% increase on consolidated sales in 2008 and an additional 4% raise in 2010. However, future tariffs changes are associated with services accomplishment milestones, and then require approval from the regulatory entity (SISS for its acronym in Spanish).

Figure 6. IAM – Estimate Revisions 2008E-2010E (U.S. Dollars in Millions)

	2008E			2009E			2010E Introducing
	Previous	Current	Change	Previous	Current	Change	
Revenue	571.1	606.2	6.1%	566.2	620.3	9.5%	649.8
Op. Profit	283.8	289.7	2.1%	275.2	293.2	6.5%	304.3
Op. Margin	49.7%	47.8%	-3.8%	48.6%	47.3%	-2.7%	46.8%
EBITDA	363.8	377.6	3.8%	355.3	384.8	8.3%	403.1
Net Income	56.6	116.4	105.6%	53.1	94.1	77.3%	80.1

Sources: Company reports and Santander estimates.

STRONG AND STABLE CASH FLOW

Considering the nature of IAM's business, we expect the company's cash flow generation to be stable going forward. Since the company's sales are related to Aguas Andinas's client base, which in turn is largely dependent on the demographic expansion of the metropolitan region and on total water volumes consumed, we believe that IAM's cash flow will continue to be stable in the upcoming years. Given this situation, we are assuming a 2% average annual growth in total clients and a 0.5% average increase in total volumes sales per year in our model. However, we note that some specific issues, such as the significant level of capex in 2008 and 2009 in order to

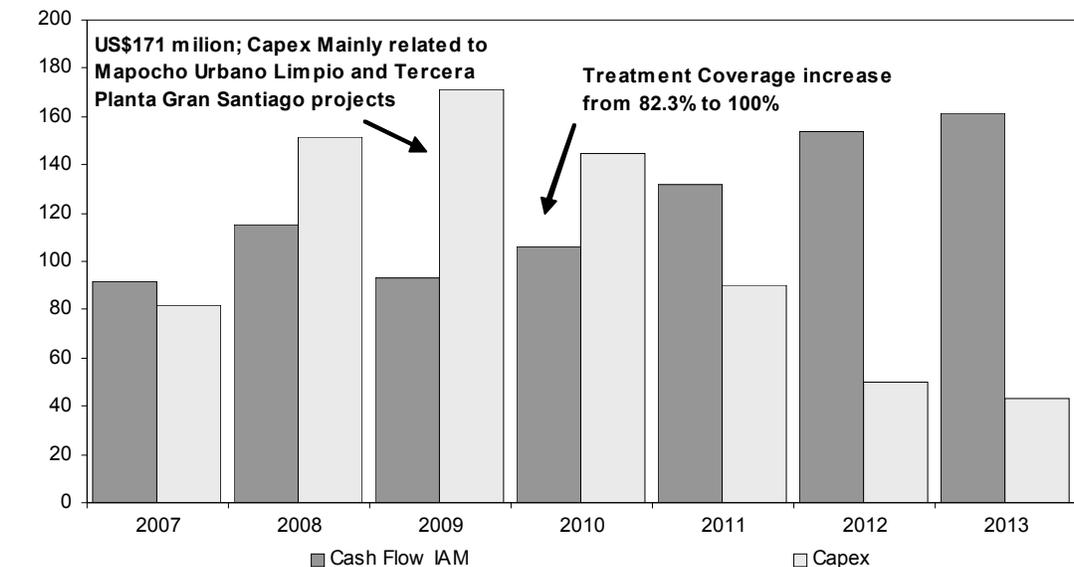
increase its sewage treatment coverage, will likely affect the company’s cash flow in these years. In addition, the company will be subject to the new tariff-setting process to be implemented in March 2010.

The above-mentioned expected cash flow stability should be evident in 2009, when we expect IAM’s EBITDA to reach US\$384.8 million for a 1.9% year-on-year growth. We expect IAM’s sales to reach US\$620.3 million in 2009, for a 2.3% growth. We note that in 2009 IAM will benefit from the full-year effect of the Aguas Andinas tariff increase implemented in 1Q08. Finally, looking at IAM’s bottom line, we expect the company to post a net income of US\$94.1 million in 2009, which implies a net margin of 15.2%.

In our view, IAM’s scheduled investment plan is likely to halt the stability of its cash flow in 2008 and 2009, although we believe the company’s cash distribution will remain stable. We expect IAM’s cash flow in 2009 to be significantly reduced as a result of the US\$171 million capex, mainly related to an initiative devoted to increasing its sewage treatment coverage from the current level of 82.3% to 100%. As a result of this investment, according to our estimates, the company’s cash flow should reach US\$93.2 million for an 18.9% decline compared with the previous year’s level of US\$115.0 million. However, in 2010 we expect a 14.1% expansion, with cash flow reaching US\$106.4 million, mainly due to by lower capex.

Another source of volatility related to IAM’s cash flow concerns the revision of tariffs to be implemented in 2010. Given the fact that Aguas Andinas participates in a regulated business, its tariffs are fixed under a maximum tariff system by the Superintendencia de Servicios Sanitarios (SISS). However, the nature of Aguas Andinas’s business and the fact that the regulatory framework for the water utility sector in Chile is the most modern among the regulated sectors in the country, and if there is any discrepancy between the company and the regulator the problem will be resolved by an expert committee, the risk of any significant decline in cash flow should be limited. Aguas Andinas is currently working with the tariffs fixed in 2005, which are valid for five years. Looking forward, we expect a 3% increase on consolidated sales in 2010.

Figure 7. IAM – Cash Flow Evolution, 2007-2013E (U.S. Dollars in Millions)





VALUATION

We are setting a year-end 2009 target price of US\$32.65 per ADR (Ch\$850 per share), representing a potential return of 55.8% at current levels in local currency terms. This includes an expected return of 8.8% from a 7.2% dividend yield and a 1.6% capital decrease expected before year-end 2009. This return compares with the 14.8% appreciation we expect for the local benchmark in Chilean peso terms in the same period. Therefore, we are upgrading our recommendation on IAM to Buy from Hold.

Our 2009 year-end target price for IAM was obtained using a DCF valuation model. We estimated and projected cash flows between 2009 and 2019, which were then discounted at a weighted average cost of capital (WACC) of 8.9%. The WACC considers a cost of equity of 10.8%, an after-tax cost of debt of 5.5%, and a long-term capitalization structure of 70%. The cost of equity was calculated using a 5.14% estimate for the YTM of the 10-year U.S Treasury bond and a country risk of 158 basis points. We also assumed an equity-risk premium of 5.5% and Aguas Andinas's beta of 0.75.

We used a 10% holding discount in our DCF valuation for IAM. Despite the fact that, according to our estimates, holding companies in Chile have traded at an average discount of 24.7% to their NAVs in the last two years, we decided to use a lower discount in IAM's valuation for two main reasons: (1) IAM is a mirror company of Aguas Andinas, which implies that it cannot have any interest in companies other than Aguas Andinas, and it has to distribute all its cash flow as dividends or capital reductions; and (2) IAM shares are more liquid than those in Aguas Andinas (the three-month average trading volume for shares in IAM was US\$4.66 million to May 27 versus US\$0.17 million for shares in Aguas Andinas).

Figure 8. IAM – Discounted Cash Flow Valuation, 2010E-2019E (U.S. Dollars in Millions)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Operating Income	304	317	339	364	389	414	441	462	484	497
Taxes on Op. Income	-53	-55	-59	-64	-68	-72	-77	-81	-85	-87
Depreciation	99	101	94	85	76	66	56	51	46	47
Capex	-141	-90	-50	-43	-45	-44	-45	-45	-46	-47
+/-Working Capital	0	0	0	0	0	0	0	0	0	0
Free Cash Flow	209	272	324	342	351	363	374	387	399	411
Discounted FCF	192	229	250	243	229	217	205	195	185	174
Residual Value	2,070									
NPV of Cash Flows	4,189									
Minus: Net Debt	527									
Minus: Minority Interest	1,733									
Target Market Cap	1,814									
Actual Market Cap	1,190									
Holding Discount	10%									
DCF Target Price 2009 per ADR (US\$)	32.65									
DCF Target Price 2009 per share (Ch\$)	850									
Actual Share Price (Ch\$)	570									
Expected Price Upside	37.2%									
Dividend Yield 09E (*)	8.8%									
Total Return	46.0%									

(*) Includes Dividend Yield and Capital Decreases. Sources: Company reports and Santander estimates.

In terms of valuations, IAM is currently trading at a 12-month forward FV/EBITDA of 6.4 times and at an 8.8% discount to its historical average of 7.0 times (since its IPO in November 2005). Although this represents a significant 31.9% discount to the Chilean market, we believe this is justified by IAM's lower growth outlook, which we believe is partially offset by its lower associated risk. In terms of cash flow and dividend yields, we estimate that the 12-month forward cash flow yield is currently 7.5%, above the historical average of 6.7%. On the other hand, in terms of dividend payments and capital decreases, we are looking for a 2009 12-month forward distribution yield (dividend payments plus capital decreases) of 8.4%, which is also above the company's historical average of 8.1% (since 2005).

RISKS

- **Non-regulated businesses.** In previous reports we looked at upside risk from non-regulated businesses. However, the relevant market is a competitive one, without ruling out the dominant position of IAM's related companies, especially Ecoriles and Anam. In addition, the fast growth of non-regulated businesses in the company's results hinges on new regulations about liquid industrial waste. Rigid monitoring is mandatory for the 85 waste sources in the metropolitan area, which implies limited sources of expansion for IAM's related companies.
- **New acquisitions.** Following the acquisition of ESSAL, we could see a more aggressive consolidation process including other relevant players in the water utilities sector (mainly ESSBIO and ESVAL). This could be a cap for Aguas Andinas's expansion.
- **Energy costs.** Besides the dry season, which implies less electricity generation from hydroelectric sources (the cheapest in a normal year), shortages of Argentinean natural gas and rising diesel prices for thermoelectric generation, explains the recent surge in energy costs in Chile. Owing to the geographical location of water reservoirs, the process of recollection and water distribution is gravitational, i.e., low energy intensive (less pumps = less costs). Besides, about 33% of electricity consumption (La Farfana) is under a long-term contract with Chilectra. However, rocketing energy costs could affect IAM's operating results.
- **Water collection business.** If the company enters the rain water collection business it could have a positive effect on IAM's results. Authorities have been studying various alternatives to address the problem of street flooding when it rains heavily in Santiago. And there is a possibility that authorities would allow Aguas Andinas to enter the rainwater collection business. However, we believe the chances of this project being approved in the short term are low, as a massive construction project to put such collectors in the streets would be required and legislative constraints in an election year are already evident.



Figure 9. IAM – Income Statement, Balance Sheet, and CF Statement, 2007-2010E
(U.S. Dollars in Millions)

Income Statement	2007		2008E		2009E		2010E	
Sales	510.7	100%	606.2	100%	620.3	100%	649.8	100%
Cost of Sales	-198.2	-39%	-238.0	-39%	-247.1	-40%	-262.7	-40%
Gross Profit	312.5	61%	368.2	61%	373.2	60%	387.0	60%
Oper. and Adm. Expenses	-70.6	-14%	-78.5	-13%	-80.0	-13%	-82.8	-13%
Operating Profit	241.9	47%	289.7	48%	293.2	47%	304.3	47%
Depreciation	-72.7	-14%	-87.9	-15%	-91.6	-15%	-98.9	-15%
EBITDA	314.6	62%	377.6	62%	384.8	62%	403.1	62%
Financing Costs	-13.7	-3%	22.2	4%	26.6	4%	0.4	0%
Interest Paid	-35.8	-7%	-43.5	-7%	-46.3	-7%	-53.9	-8%
Interest Earned	9.8	2%	52.1	9%	58.9	9%	41.5	6%
Monetary and FX Gain/Loss	12.3	2%	13.6	2%	14.0	2%	12.8	2%
Goodwill Amortization	-55.3	-11%	-59.5	-10%	-57.2	-9%	-57.6	-9%
Other Financial Operations	14.6	3%	17.0	3%	16.3	3%	16.4	3%
Profits Related Companies	-	0%	-	0%	-	0%	-	0%
Profit before Taxes	187.6	37%	269.2	44%	278.8	45%	263.4	41%
Tax Provision	-40.8	-8%	-44.8	-7%	-54.2	-9%	-53.8	-8%
Profit after Taxes	146.8	29%	224.4	37%	224.6	36%	209.6	32%
Extraordinary Items	-	0%	-	0%	-	0%	-	0%
Minority Interest	-97.5	-19%	-108.0	-18%	-130.5	-21%	-129.6	-20%
Net Income	49.3	10%	116.4	19%	94.1	15%	80.1	12%
Balance Sheet	2007		2008E		2009E		2010E	
Assets	2,236	100%	2,472	100%	2,405	100%	2,418	100%
Short-Term Assets	137	6%	210	8%	205	9%	218	9%
Cash and Equivalents	26	1%	127	5%	122	5%	134	6%
Accounts Receivable	102	5%	75	3%	75	3%	76	3%
Inventories	4	0%	3	0%	3	0%	3	0%
Other Short-Term Assets	4	0%	5	0%	5	0%	5	0%
Long-Term Assets	2,099	94%	2,263	92%	2,200	91%	2,200	91%
Fixed Assets	1,304	58%	1,467	59%	1,491	62%	1,544	64%
Other Assets	795	36%	796	32%	709	29%	656	27%
Liabilities	818	37%	883	36%	755	31%	656	27%
Current Liabilities	157	7%	258	10%	202	8%	148	6%
Financial Liabilities	44	2%	151	6%	98	4%	42	2%
Accounts Payable	44	2%	33	1%	32	1%	34	1%
Other Current Liabilities	69	3%	75	3%	72	3%	72	3%
L.T Financial Debt	545	24%	499	20%	432	18%	387	16%
Other Liabilities	116	5%	125	5%	120	5%	121	5%
Equity	983	44%	1,014	41%	966	40%	943	39%
Minority Interest	435	19%	576	23%	685	28%	819	34%
Cash Flow	2007		2008E		2009E		2010E	
Net Income	49.3		116.4		94.1		80.1	
Minority Interest	97.5		108.0		130.5		129.6	
Depreciation	72.7		87.9		91.6		98.9	
Capex	-81.4		-151.4		-170.9		-141.4	
Goodwill Amortization	55.3		59.5		57.2		57.6	
Changes in Working Capital	2.3		22.5		-2.6		0.4	
Other Non-Cash Items	-12.3		-13.4		-14.0		-12.8	
Total Cash Flow	183.3		229.5		186.1		212.3	
Cash Flow IAM (50.1%)	91.8		115.0		93.2		106.4	

Sources: Company reports and Santander estimates.

Figure 10. IAM – Income Statement, Balance Sheet, and CF Statement, 2007-2010E
(Nominal Chilean Pesos in Millions)

Income Statement	2007		2008E		2009E		2010E	
Sales	255,844	100%	282,160	100%	299,955	100%	312,139	100%
Cost of Sales	-99,305	-39%	-110,766	-39%	-119,481	-40%	-126,215	-40%
Gross Profit	156,539	61%	171,394	61%	180,474	60%	185,924	60%
SG&A Expenses	-35,350	-14%	-36,533	-13%	-38,685	-13%	-39,755	-13%
Operating Profit	121,189	47%	134,861	48%	141,789	47%	146,169	47%
Depreciation	-36,413	-14%	-40,920	-15%	-44,305	-15%	-47,487	-15%
EBITDA	157,602	62%	175,780	62%	186,095	62%	193,655	62%
Financing Costs	-6,856	-3%	10,315	4%	12,863	4%	173	0%
Interest Paid	-17,911	-7%	-20,255	-7%	-22,387	-7%	-25,915	-8%
Interest Earned	4,901	2%	24,240	9%	28,492	9%	19,945	6%
Monetary Gain/Loss	6,153	2%	6,329	2%	6,758	2%	6,144	2%
Goodwill Amortization	-27,684	-11%	-27,684	-10%	-27,684	-9%	-27,684	-9%
Other Financial Operations	7,322	3%	7,895	3%	7,860	3%	7,860	3%
Profits Related Companies	-	0%	-	0%	-	0%	-	0%
Profit before Taxes	93,976	37%	125,316	44%	134,825	45%	126,517	41%
Tax Provision	-20,444	-8%	-20,857	-7%	-26,187	-9%	-25,821	-8%
Profit after Taxes	73,532	29%	104,459	37%	108,638	36%	100,696	32%
Extraordinary Items	-	0%	-	0%	-	0%	-	0%
Minority Interest	-48,830	-19%	-50,257	-18%	-63,118	-21%	-62,239	-20%
Net Income	24,702	10%	54,202	19%	45,519	15%	38,457	12%
Balance Sheet	2007		2008E		2009E		2010E	
Assets	1,119,980	100%	1,150,869	100%	1,163,020	100%	1,161,354	100%
Current Assets	68,585	6%	97,595	8%	99,104	9%	104,701	9%
Cash and Equivalents	12,903	1%	59,063	5%	59,063	5%	64,259	6%
Accounts Receivable	51,256	5%	34,810	3%	36,271	3%	36,642	3%
Inventories	2,190	0%	1,487	0%	1,534	0%	1,566	0%
Other Short-Term Assets	2,235	0%	2,235	0%	2,235	0%	2,235	0%
Long-Term Assets	1,051,395	94%	1,053,274	92%	1,063,916	91%	1,056,653	91%
Fixed Assets	653,327	58%	682,889	59%	721,216	62%	741,637	64%
Other Assets	398,068	36%	370,385	32%	342,700	29%	315,016	27%
Liabilities	409,832	37%	410,806	36%	364,911	31%	314,899	27%
Current Liabilities	78,769	7%	120,304	10%	97,680	8%	70,939	6%
Financial Liabilities	21,923	2%	70,119	6%	47,252	4%	19,941	2%
Accounts Payable	22,076	2%	15,416	1%	15,659	1%	16,228	1%
Other Current Liabilities	34,769	3%	34,769	3%	34,769	3%	34,769	3%
L.T Financial Debt	272,878	24%	232,316	20%	209,045	18%	185,773	16%
Other Liabilities	58,186	5%	58,186	5%	58,186	5%	58,186	5%
Equity	492,392	44%	472,051	41%	466,979	40%	453,086	39%
Minority Interest	217,755	19%	268,012	23%	331,131	28%	393,370	34%
Cash Flow	2007		2008E		2009E		2010E	
Net Income	24,702		54,202		45,519		38,457	
Minority Interest	48,830		50,257		63,118		62,239	
Depreciation	36,413		40,920		44,305		47,487	
Capex	-40,802		-70,482		-82,632		-67,908	
Goodwill Amortization	27,684		27,684		27,684		27,684	
Changes in Working Capital	1,176		10,489		-1,266		169	
Other Non-Cash Items	-6,158		-6,259		-6,755		-6,143	
Total Cash Flow	91,845		106,811		89,975		101,984	
Cash Flow IAM (50.1%)	46,014		53,512		45,077		51,094	

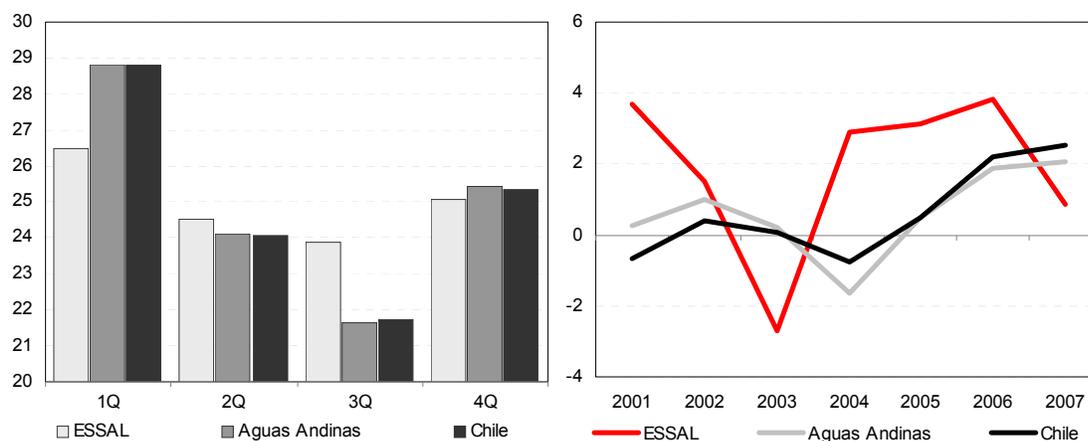
Sources: Company reports and Santander estimates.



APPENDIX 1. ESSAL – COMPANY PROFILE

Actually, the estimated urban population in ESSAL’s concession area reaches around 0.6 million inhabitants, with a 99.99% and 91.32% in drinking water and sewage coverage, respectively. Two important features about ESSAL operations are the growth rate in sold water and the seasonality. First, in the last seven years we can see volumes growing quickly than national average (1.9% vs 0.6%). This trend can be explaining by new clients in the relevant urban area. On the other hand, the drinking water consumption has less volatility in ESSAL operations, compare with the country quarterly pattern. As ESSAL’s operations are in the south of Chile, more frequent rainfall in the summer season provided somewhat of a buffer in terms of water needs during the dry season.

Figure 11. Annual Growth in Water Volumes Sold and Seasonality (%)



Sources: Company reports and Santander estimates.

Considering the figures for water consumption in 2007, ESSAL provided 3.3% of the total, while Aguas Andinas contribution is about 42.1%. In terms of operational income of ESSAL, 88.8% is due to regulated business, while the remaining 11.2% came from non-regulated business (technical and operatives services), similar to Aguas Andinas’s mix (90.6% and 9.4%).

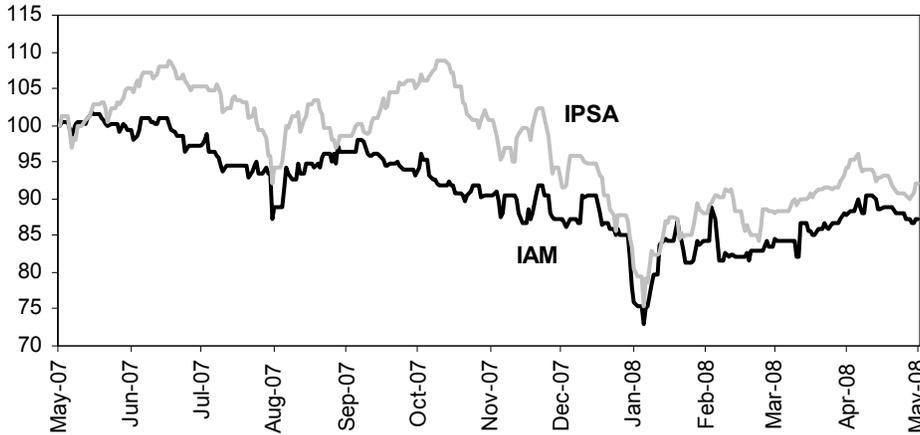
APPENDIX 2. CONTROLLING SHAREHOLDER

Sociedad General de Aguas de Barcelona, Agbar, is the strategic partner and controller of IAM through its 99.99% shareholding in Inversiones Aguas del Gran Santiago S.A., a company which in turn holds 56.6% of the capital stock of IAM.

With 140 years in the business, Agbar is the largest private-sector company in Spain supplying household water. The company currently provides service to more than 13 million people distributed among some thousand Iberian localities ranging from a thousand to three million inhabitants. Recognized as one of the world leaders in the sanitation sector, Agbar Agua also has an international presence, offering a reliable and safe service to more than 8.0 million people around the world. The Agbar Group is an important Spanish business group comprising more than 230 companies that operate in various service areas, its three principal activities being the integral water cycle management and private health insurance. Its international expansion has enabled it to have a presence in the five continents and provide work for more than 27,000 employees around the globe.

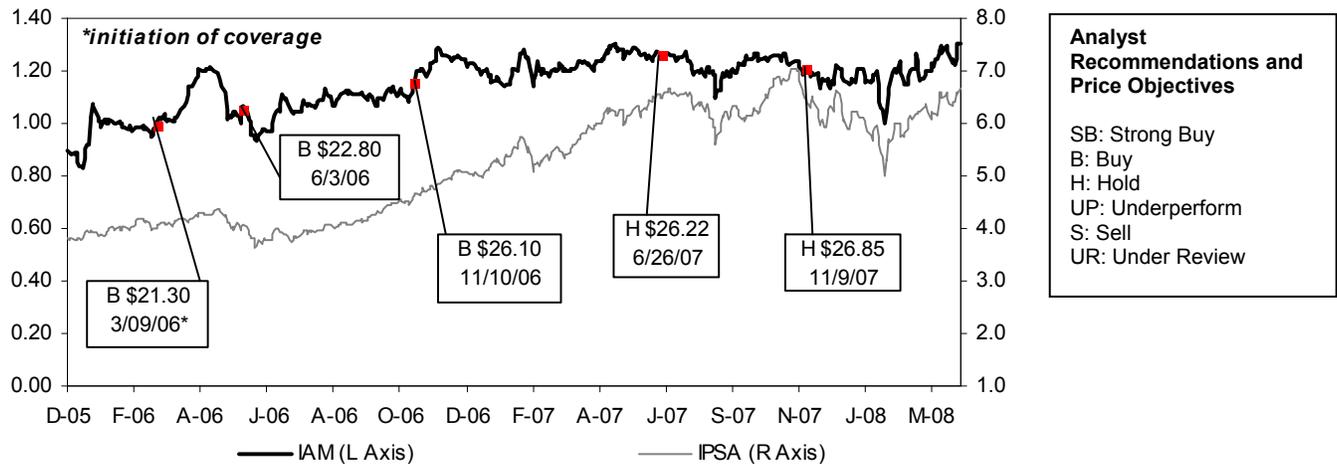
IMPORTANT DISCLOSURES

IAM – 12-Month Relative Performance (U.S. Dollars)



Sources: Bloomberg and Santander.

IAM – Three-Year Stock Performance (U.S. Dollars)



Source: Santander.

IMPORTANT DISCLOSURES (CONTINUED)

Key to Investment Codes

Rating	Definition	% of Companies Covered with This Rating	% of Companies Provided Investment Banking Services in the Past 12 Months
Buy	Expected to outperform the local market benchmark by more than 5.0%.	61.03%	70.59%
Hold	Expected to perform within a range of 5.0% above or below the local market benchmark.	33.85%	29.41%
Underperform/Sell	Expected to underperform the local market benchmark by more than 5.0%.	5.13%	–

The numbers above reflect our Latin American universe as of Friday, May 9, 2008.

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this report and the risks to achieving these targets, please refer to the latest published research on these stocks. Research is available through your sales representative and other electronic systems.

Target prices are 2008 year-end unless otherwise specified. Recommendations are based on a total return basis (expected share price appreciation + prospective dividend yield) unless otherwise specified.

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