

# "The financial crisis and its implication for infrastructure in water production and sanitation, the case of Chile"



PECC General Assembly  
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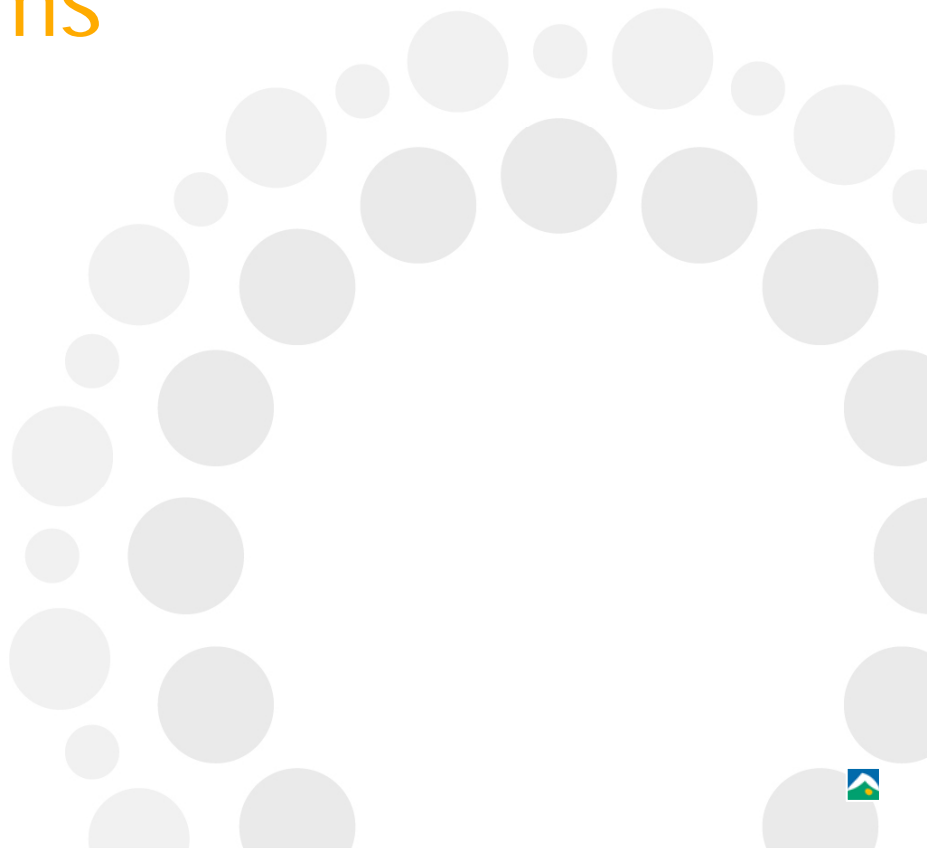
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# Chilean Water and Sanitation Sector

SECTION 01







- Privatization process began in 1998. Until then, all companies were State-owned
- The main objective was the development of sewage treatment infrastructure
- Two privatization schemes:
  - Unlimited period (full asset ownership)
  - 30 years concession
- Today: 95.3% of the customers in the country are served by privatized companies





## MAIN FIGURES OF THE CHILEAN WATER AND SANITATION SECTOR

- Total customers: **4.2 million**
- Total water volume: **965 million m<sup>3</sup>**
- Drinking water coverage: **99.8%**
- Sewage collection coverage: **95.2%**
- Sewage treatment coverage: **82.3%**





## EVOLUTION OF THE CHILEAN WATER AND SANITATION SECTOR



Coverage	Before (1999)	Current (2008)
Drinking water	99.3%	<b>99.8%</b>
Sewage collection	91.6%	<b>95.2%</b>
Sewage treatment	16.7%	<b>82.3%</b>

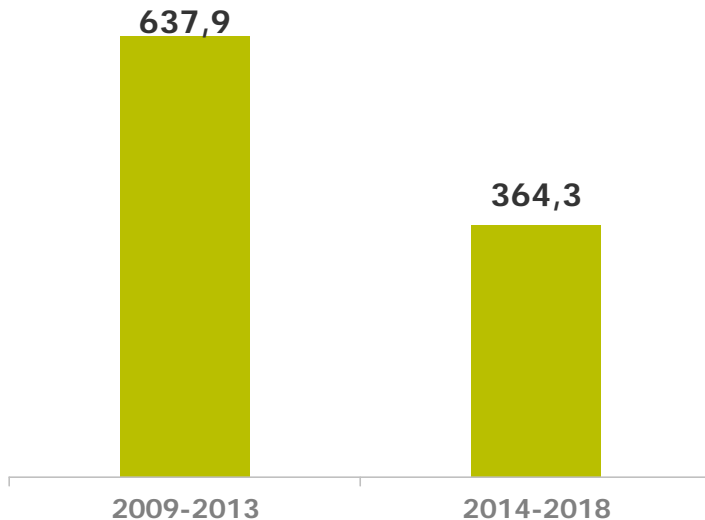
PRIVATIZATION

More than **US\$ 2,850 million** invested since privatization

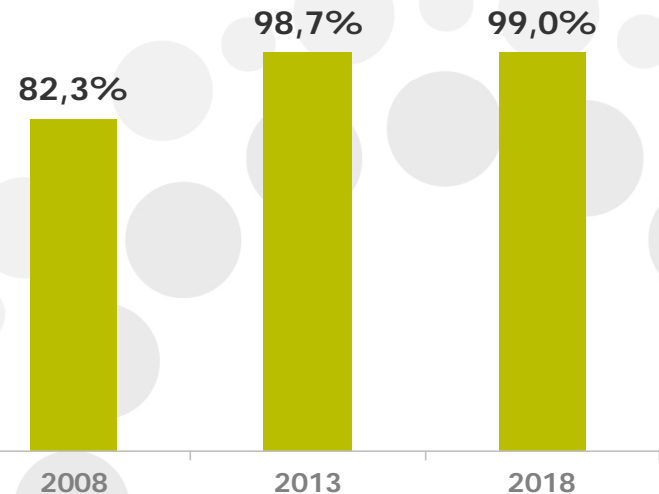


## FUTURE INVESTMENTS

Sector's total investments (US\$ million)



Sewage treatment coverage



Sector's main goal: **100% sewage treatment coverage**





## WELL-DESIGNED AND TIME-TESTED REGULATORY FRAMEWORK

### Main features:

- Regulator role separated from the service provider role
- Clear and transparent rules -same for all operators
- Government subsidies for low-income families
- Ability to disconnect non-payable customers
- Very low delinquency levels
- Private ownership of water rights

Regulatory framework **—set forth by Law—** has brought stability and transparency to the system during its **20 years operation**





## TARIFF-SETTING MECHANISM

### Main features:

- Tariffs reset every five years based on a model company
- Minimum return on capital of 7%
- Automatic interim adjustments linked to inflation

**Objective and technical**  
mechanism for tariff-setting

Model Company vs. Actual Company	
Model Company (new entrant)	Actual Company
▪ Greenfield operation	↔ ▪ Existing infrastructure
▪ Latest technology	↔ ▪ Combination of new and legacy technology
▪ Efficient costs	↔ ▪ Real costs
▪ Self-financing of investment through tariffs	↘
▪ Minimum return on capital	↔ ▪ Ability to use debt to finance Capex and enhance return on equity



# Financing Mechanisms

SECTION 02





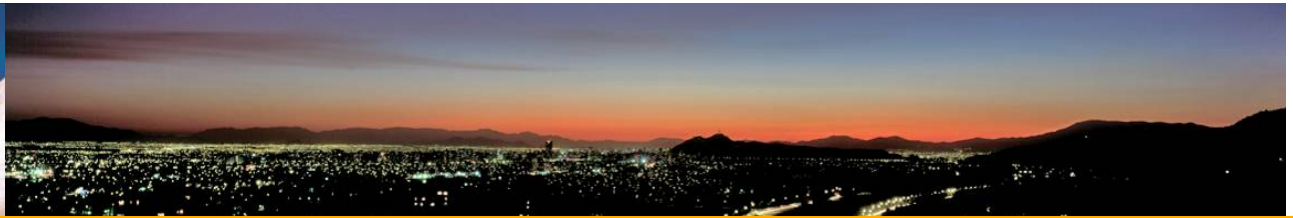
## LOCAL CORPORATE CREDIT RATING

**Water companies are among the highest-rated issuers due to:**

- The provision of a basic service of first priority
- A strong and stable regulatory framework
- A natural monopoly in the concession area
- Low sensibility to economic cycles
- Low level of non-payment

Issuer	Customers	Rating 1	Rating 2
Aguas Andinas	1,828,328	AA+	AA+
Essbio	631,109	AA	AA
Esval	509,443	A+	A
Aguas Nuevas	357,129	AA	AA
Aguas Nuevo Sur	205,552	AA	AA-

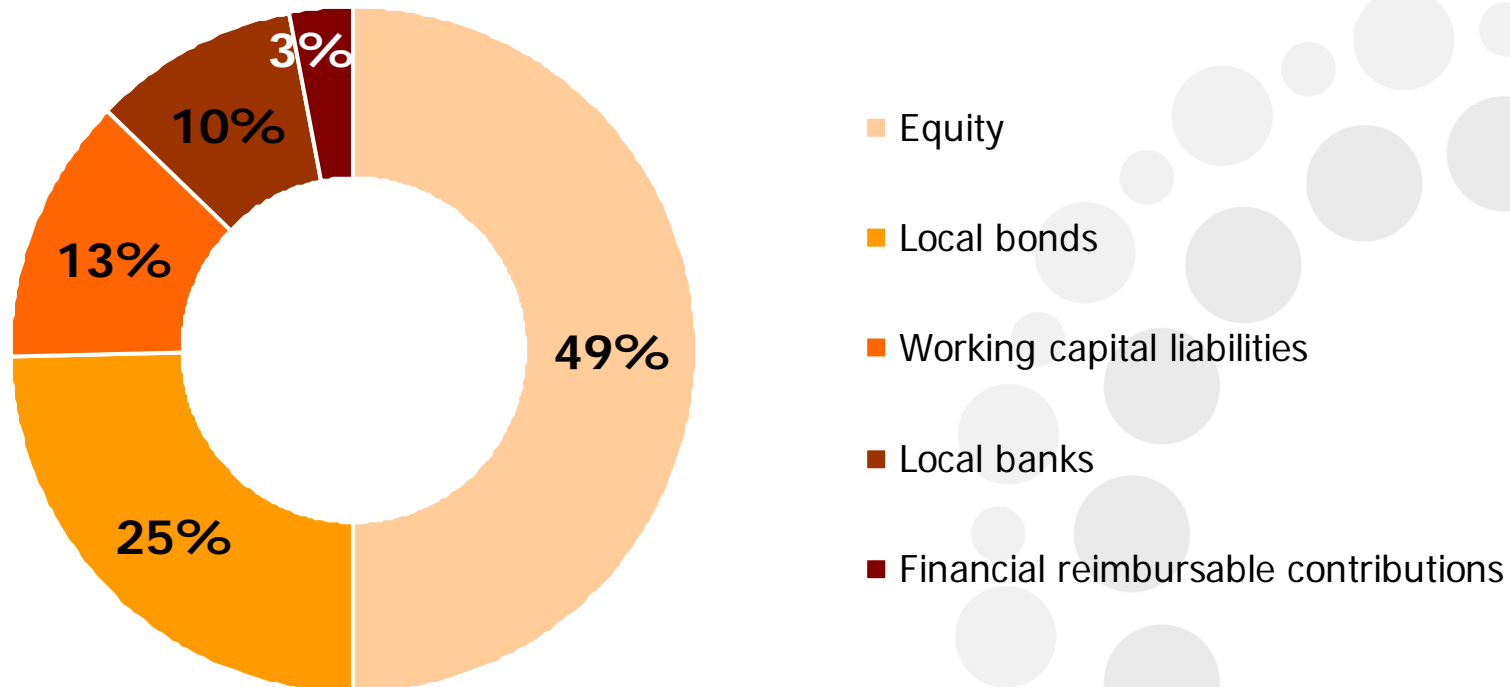
**High visibility into future cash flows**



## FINANCING MECHANISMS



**Local bond issuances and local bank loans are among the most used financing mechanisms**

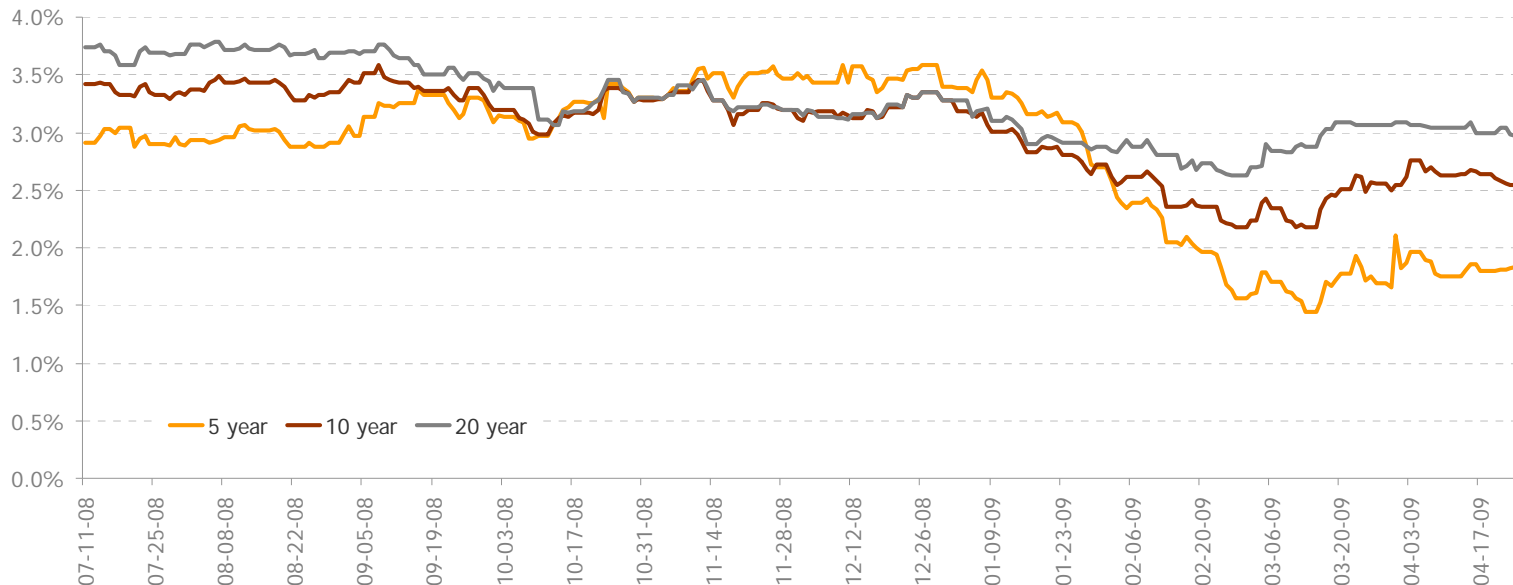






## CREDIT ACCESS AND FINANCING COSTS BEFORE AND AFTER THE CRISIS

- Financial market has reached a high level of development in Chile
- After the crisis issuers still have access to financing
- Issuers have experienced lower risk-free rates...

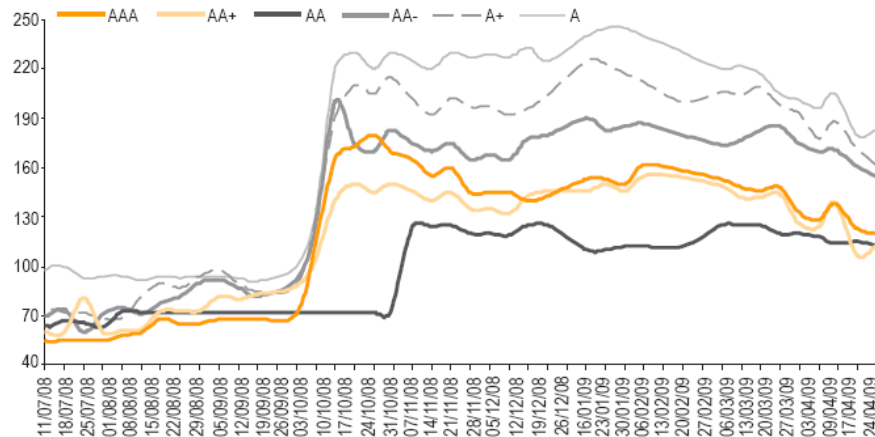




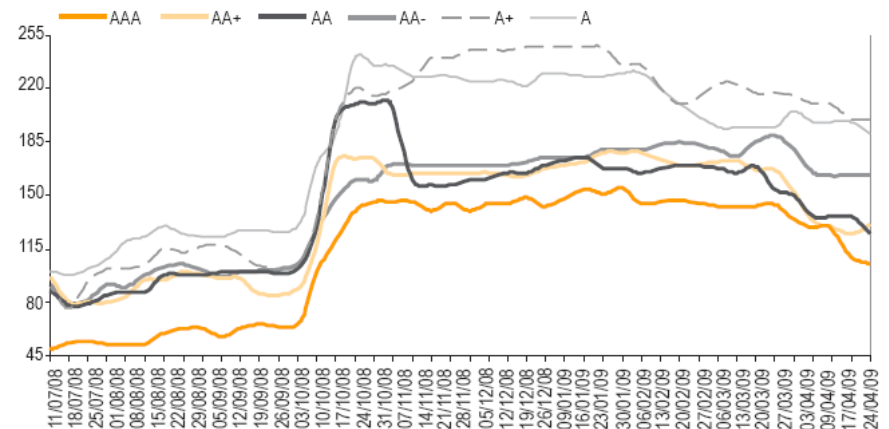
## CREDIT ACCESS AND FINANCING COSTS BEFORE AND AFTER THE CRISIS

- ... but higher spreads

Spreads over 5 year Chilean Central Bank Bond (bp)



Spreads over 20 year Chilean Central Bank Bond (bp)





# Aguas Andinas

SECTION 03



## MARKET LEADERSHIP IN CHILE

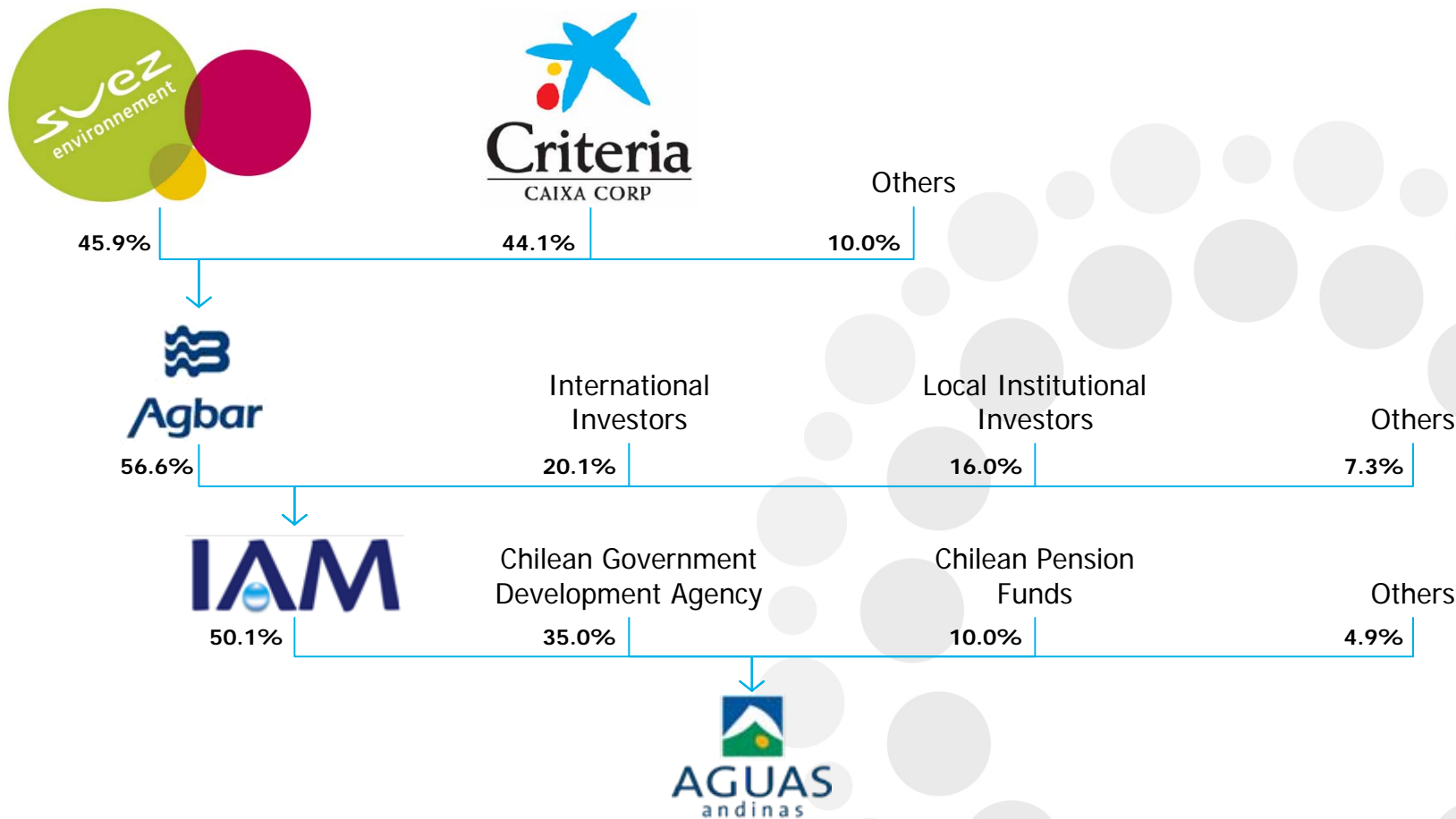
### Aguas Andinas Market Share (2008)



The Company operates in the largest market in Chile, and has **exclusive non-expiring concession rights**



## AGUAS ANDINAS' SHAREHOLDERS AND CONTROLLER





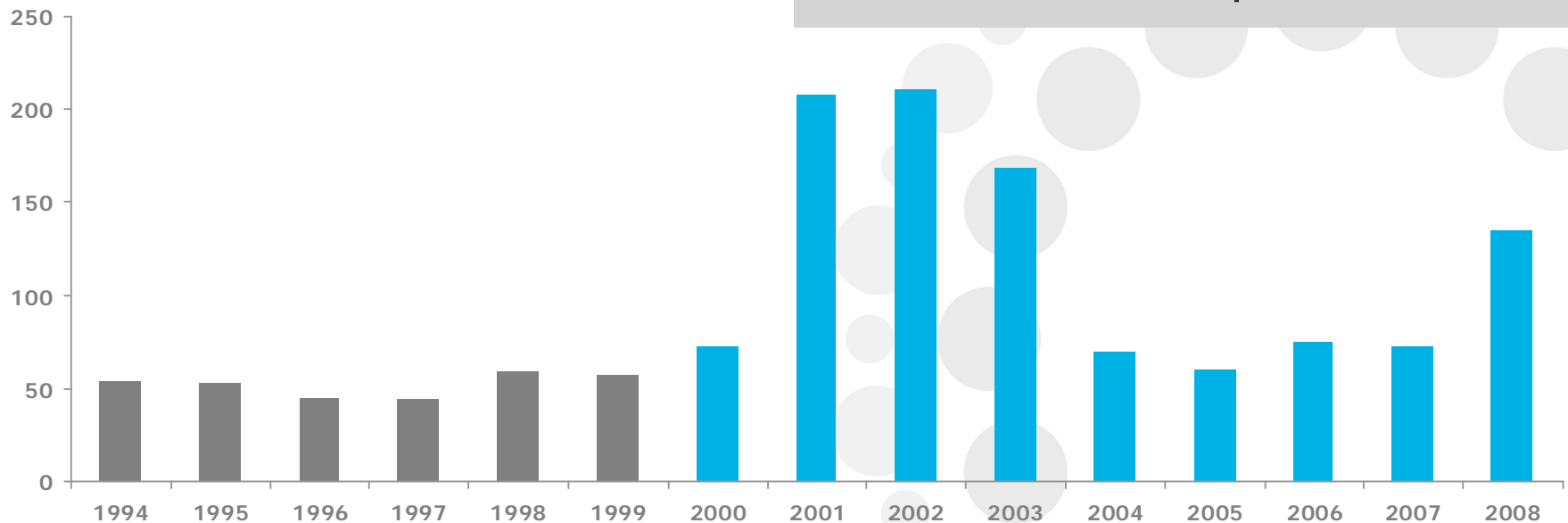
## INVESTMENTS SINCE PRIVATIZATION



### Main investments in sewage treatment plants:

- La Farfana Plant (8.8 m<sup>3</sup>/s)
- El Trebal Plant (4.4 m<sup>3</sup>/s)

More than **US\$ 1,070 million**  
invested since privatization



Financial figures converted to US Dollars as of March 31, 2009 exchange rate. Figures for prior periods were restated in constant Chilean Pesos as of March 31, 2009.





## FINANCIAL BACKGROUND

- More than **US\$ 790 million** in bonds issued
- More than **US\$ 200 million** in bank loans obtained
- Holding company IPO for **US\$ 400 million** in 2005
- **100%** dividend policy since privatization

The Company has had  
**permanent access to  
financial markets**



## FUTURE INVESTMENTS



### Urban Mapocho River Cleaning Project (2009)

- Total Investment: ~US\$ 113 million
- Sewage Treatment Coverage: 87%
- Take advantage of the existing spare capacity at current sewage treatment plants La Farfana and El Trebal



Local bond for **US\$ 110 million** in May 2009

### Mapocho Sewage Treatment Plant (2011-2012)

- Total Investment: ~US\$ 140 million
- Sewage Treatment Coverage: 100%



Local bond in 2010

Future investments will contribute to reach **100%** sewage treatment coverage



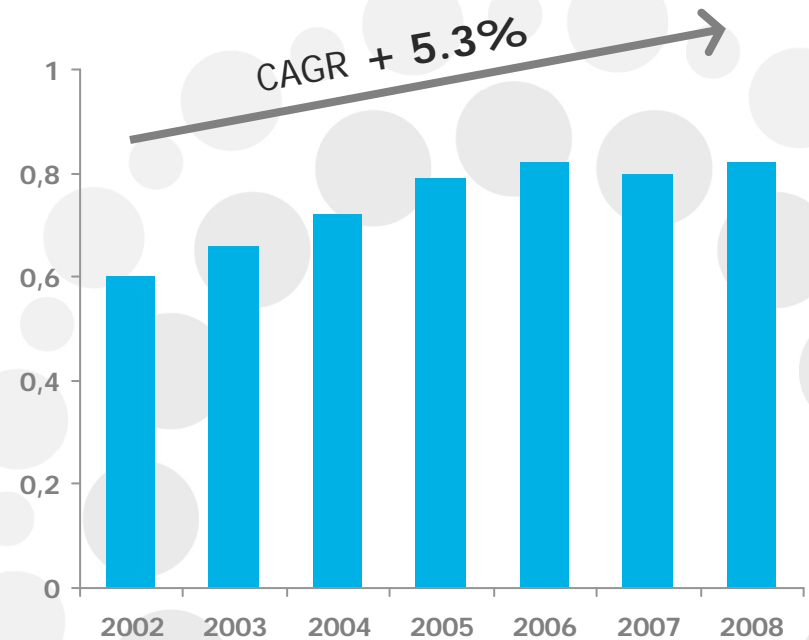


## WATER TARIFFS

**Average tariffs have increased due mainly to:**

- Star-up of new sewage treatment infrastructure
- New tariffs in force since March 1, 2005
- Tariff indexations due to inflation

**Average tariff (US\$/m<sup>3</sup>)**



Average yearly tariffs for Santiago Metropolitan Region excluding VAT. A new tariff period began in March 1, 2005.

Financial figures converted to US Dollars as of March 31, 2009 exchange rate. Figures for prior periods were restated in constant Chilean Pesos as of March 31, 2009.





## FOCUS ON CUSTOMER SERVICE AND SOCIAL RESPONSIBILITY

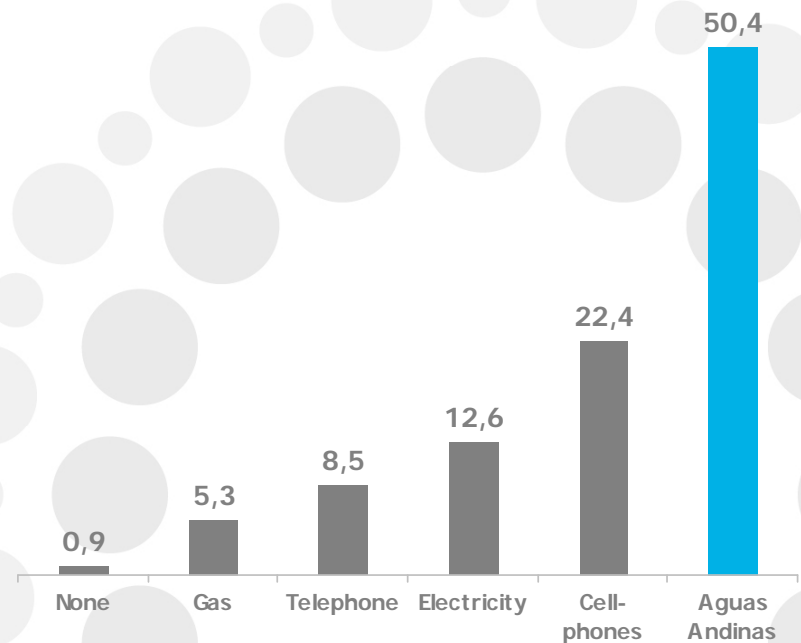
### Best public utility service company according to Adimark GFK opinion poll

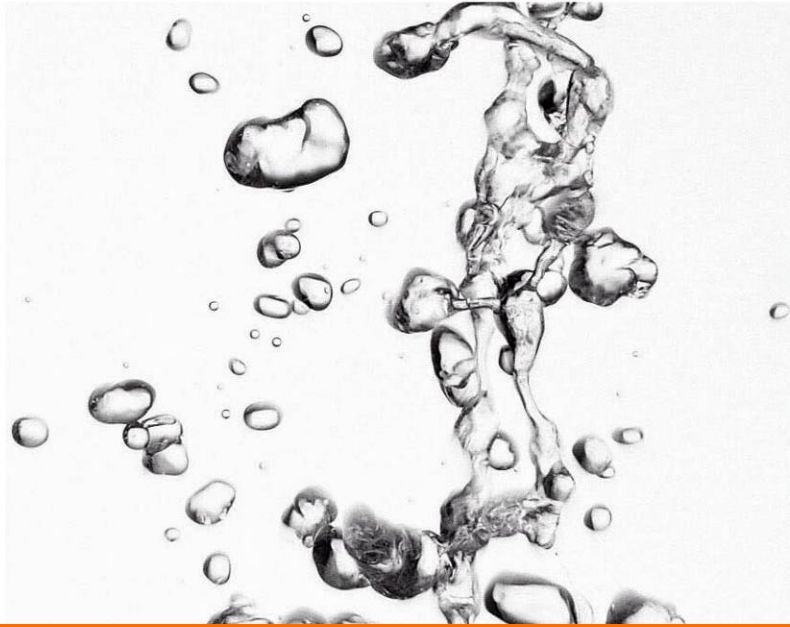
- Water distribution service continuity: 99.8%
- Sewage collection service continuity: 99.9%
- Average complaints solution: 0.5 days/complaint

### 2008 Social Responsibility Prize, in the Category of Large Companies

- Integral and permanent commitment to sustainable development.

### Which Of These Companies Do You Consider The Best? \*





# Highlights

SECTION 04







## HIGHLIGHTS



**The Chilean water and sanitation sector is characterized by:**

- Well-designed and time-tested regulatory framework
- Objective and technical mechanism for tariff-setting
- High visibility into future cash flows

**Chile has a developed financial market**

**Aguas Andinas has an active controlling shareholder with large experience in the business**

The Chilean water and sanitation sector has had **permanent access to financial markets**



